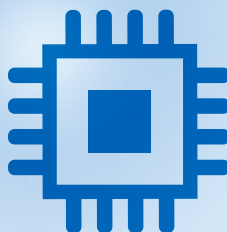




FINANCIAL REPORT

For the year ended December 31, 2022



Nippon Electric Glass Co., Ltd.

Consolidated Balance Sheets

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
December 31, 2021 and 2022

ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2021	December 31, 2022	December 31, 2022
Current assets:			
Cash and time deposits (Note 9)	¥ 134,975	¥ 107,152	\$ 805,654
Notes and accounts receivable - trade	59,580	-	-
Notes and accounts receivable - trade and contract assets (Note 19)	-	52,438	394,270
Electronically recorded monetary claims - operating	1,034	1,331	10,008
Allowance for doubtful receivables	(178)	(163)	(1,226)
Inventories (Note 10)	62,100	102,371	769,707
Other current assets (Notes 6 and 8)	7,001	8,551	64,293
Total current assets	264,512	271,680	2,042,706
Property, plant and equipment (Note 11):			
Land	11,582	11,723	88,143
Building and structures	176,477	186,582	1,402,872
Machinery and equipment	737,932	804,705	6,050,414
Construction in progress	25,260	28,301	212,789
Total property, plant and equipment	951,251	1,031,311	7,754,218
Accumulated depreciation	(570,970)	(605,681)	(4,553,992)
Net property, plant and equipment	380,281	425,630	3,200,226
Intangible assets (Note 11):			
Intangible assets	4,959	5,341	40,158
Investments and other assets:			
Investment securities (Notes 6 and 7)	40,519	35,852	269,564
Investment in affiliates (Note 7)	4,439	4,954	37,248
Deferred tax assets (Note 13)	1,896	1,784	13,414
Other assets	1,524	2,666	20,045
Total investments and other assets	48,378	45,256	340,271
Total assets	¥ 698,130	¥ 747,907	\$ 5,623,361

The accompanying notes to the consolidated financial statements are an integral part of these statements.

LIABILITIES AND NET ASSETS

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2021	December 31, 2022	December 31, 2022
Current liabilities:			
Short-term debt, including current portion of long-term debt (Notes 6 and 12)	¥ 36,911	¥ 42,879	\$ 322,398
Notes and accounts payable:			
Trade	42,539	52,102	391,744
Construction and other	11,306	15,366	115,534
Accrued expenses	13,784	13,916	104,632
Accrued income taxes	8,705	1,372	10,316
Reserve for loss on plant closing	14	29	218
Other reserves	267	185	1,391
Other current liabilities (Notes 6 and 8)	4,409	5,816	43,729
Total current liabilities	117,935	131,665	989,962
Long-term liabilities:			
Long-term debt (Notes 6 and 12)	59,912	62,647	471,030
Deferred tax liabilities (Note 13)	7,575	9,696	72,902
Reserve for special repairs	8,671	8,665	65,150
Reserve for loss on plant closing	294	256	1,925
Other reserves	19	19	143
Net liabilities for severance and retirement benefits (Note 16)	1,213	1,254	9,429
Other long-term liabilities (Note 14)	2,768	4,793	36,038
Total long-term liabilities	80,452	87,330	656,617
Net assets (Note 17):			
Shareholders' equity:			
Common stock			
Authorized - 240,000,000 shares in Dec. 2021 and Dec. 2022			
Issued - 99,523,246 shares in Dec. 2021 and Dec. 2022	32,156	32,156	241,774
Capital surplus	34,295	34,278	257,729
Retained earnings	429,355	446,359	3,356,083
Treasury stock at cost			
6,495,982 shares in Dec. 2021			
6,480,511 shares in Dec. 2022	(20,121)	(20,072)	(150,917)
Total shareholders' equity	475,685	492,721	3,704,669
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	17,105	14,207	106,820
Deferred gains on hedges	172	443	3,331
Foreign currency translation adjustments	2,108	16,973	127,616
Total accumulated other comprehensive income	19,385	31,623	237,767
Noncontrolling interests	4,673	4,568	34,346
Total net assets	499,743	528,912	3,976,782
Contingent liabilities (Note 18)			
Total liabilities and net assets	¥ 698,130	¥ 747,907	\$ 5,623,361

Consolidated Statements of Income

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2021	December 31, 2022	December 31, 2022
Net sales (Note 19)	¥ 292,034	¥ 324,635	\$ 2,440,865
Cost of sales	209,781	239,066	1,797,489
Gross profit	82,253	85,569	643,376
Selling, general and administrative expenses	49,473	59,385	446,504
Operating profit	32,780	26,184	196,872
Other income (expenses):			
Interest and dividend income	2,011	2,038	15,323
Interest expense	(504)	(925)	(6,955)
Depreciation of idle property, plant and equipment	(357)	(854)	(6,421)
Loss on disposal of fixed assets	(2,100)	(1,844)	(13,865)
Subsidy income	887	1,544	11,609
Loss on impairment (Note 11)	(1,132)	(831)	(6,248)
Reversal of reserve for special repairs	–	814	6,120
Gain on sales of investment securities (Note 7)	1,994	1,185	8,910
Foreign exchange gains	9,339	6,334	47,624
Insurance claim income	1,422	4,857	36,519
Loss on accident	(6,999)	–	–
Other, net	1,798	1,016	7,640
Total other income	6,359	13,334	100,256
Profit before income taxes	39,139	39,518	297,128
Income taxes (Note 13):			
Current	12,203	8,112	60,992
Deferred	(1,299)	2,910	21,880
Total income taxes	10,904	11,022	82,872
Profit	28,235	28,496	214,256
Profit attributable to noncontrolling interests	330	328	2,466
Profit attributable to owners of the parent	¥ 27,905	¥ 28,168	\$ 211,790
	Yen		U.S. dollars (Note 1)
Amount per share of common stock:			
Profit attributable to owners of the parent (Note 2)	¥ 290.98	¥ 302.76	\$ 2.28
Diluted profit attributable to owners of the parent (Note 2)	–	–	–
Cash dividends applicable to the year (Note 17)	110.00	120.00	0.90

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Comprehensive Income

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2021	December 31, 2022	December 31, 2022
Profit	¥ 28,235	¥ 28,496	\$ 214,256
Other comprehensive income (Note 5)			
Valuation difference on available-for-sale securities	(1,671)	(2,898)	(21,789)
Deferred gains on hedges	74	271	2,038
Foreign currency translation adjustments	15,853	14,688	110,436
Share of other comprehensive income of associates accounted for using equity method	356	177	1,330
Total other comprehensive income	14,612	12,238	92,015
Comprehensive income	¥ 42,847	¥ 40,734	\$ 306,271
Comprehensive income attributable to:			
Owners of the parent	¥ 42,517	¥ 40,406	\$ 303,805
Noncontrolling interests	330	328	2,466

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Changes in Net Assets

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2021 and 2022

	Thousands of shares	Millions of yen								
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments	Non-controlling interests	Total net assets
Balance at January 1, 2021	99,523	¥ 32,156	¥ 34,311	¥ 411,137	¥ (10,178)	¥ 18,776	¥ 98	¥(14,101)	¥ 4,721	¥ 476,920
Profit attributable to owners of the parent	—	—	—	27,905	—	—	—	—	—	27,905
Cash dividends paid	—	—	—	(9,665)	—	—	—	—	—	(9,665)
Acquisition of treasury stock	—	—	—	—	(10,002)	—	—	—	—	(10,002)
Disposition of treasury stock	—	—	(16)	—	59	—	—	—	—	43
Other	—	—	—	(22)	—	—	—	—	—	(22)
Net changes in items other than shareholders' equity	—	—	—	—	—	(1,671)	74	16,209	(48)	14,564
Balance at January 1, 2022	99,523	¥ 32,156	¥ 34,295	¥ 429,355	¥ (20,121)	¥ 17,105	¥ 172	¥ 2,108	¥ 4,673	¥ 499,743
Cumulative effects of changes in accounting policies	—	—	—	0	—	—	—	—	—	0
Restated balance at beginning of year	—	32,156	34,295	429,355	(20,121)	17,105	172	2,108	4,673	499,743
Profit attributable to owners of the parent	—	—	—	28,168	—	—	—	—	—	28,168
Cash dividends paid	—	—	—	(11,164)	—	—	—	—	—	(11,164)
Acquisition of treasury stock	—	—	—	—	(1)	—	—	—	—	(1)
Disposition of treasury stock	—	—	(17)	—	50	—	—	—	—	33
Other	—	—	—	—	—	—	—	—	—	—
Net changes in items other than shareholders' equity	—	—	—	—	—	(2,898)	271	14,865	(105)	12,133
Balance at December 31, 2022	99,523	¥ 32,156	¥ 34,278	¥ 446,359	¥ (20,072)	¥ 14,207	¥ 443	¥ 16,973	¥ 4,568	¥ 528,912

	Thousands of U.S. dollars (Note 1)									
	Common stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains on hedges	Foreign currency translation adjustments	Non-controlling interests	Total net assets	
Balance at January 1, 2022	\$ 241,774	\$ 257,857	\$ 3,228,234	\$ (151,285)	\$ 128,609	\$ 1,293	\$ 15,850	\$ 35,135	\$ 3,757,467	
Cumulative effects of changes in accounting policies	—	—	0	—	—	—	—	—	0	
Restated balance at beginning of year	241,774	257,857	3,228,234	(151,285)	128,609	1,293	15,850	35,135	3,757,467	
Profit attributable to owners of the parent	—	—	211,789	—	—	—	—	—	211,789	
Cash dividends paid	—	—	(83,940)	—	—	—	—	—	(83,940)	
Acquisition of treasury stock	—	—	—	(8)	—	—	—	—	(8)	
Disposition of treasury stock	—	(128)	—	376	—	—	—	—	248	
Other	—	—	—	—	—	—	—	—	—	
Net changes in items other than shareholders' equity	—	—	—	—	(21,789)	2,038	111,766	(789)	91,226	
Balance at December 31, 2022	\$ 241,774	\$ 257,729	\$ 3,356,083	\$ (150,917)	\$ 106,820	\$ 3,331	\$ 127,616	\$ 34,346	\$ 3,976,782	

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Consolidated Statements of Cash Flows

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries
Years Ended December 31, 2021 and 2022

	Millions of yen		Thousands of U.S. dollars (Note 1)
	December 31, 2021	December 31, 2022	December 31, 2022
Cash flows from operating activities:			
Profit before income taxes	¥ 39,139	¥ 39,518	\$ 297,128
Depreciation and amortization	26,721	28,962	217,759
Loss on impairment	1,132	831	6,248
Insurance claim income	(1,422)	(4,857)	(36,519)
Gain on sales of investment securities	(1,994)	(1,185)	(8,910)
Decrease in reserve for special repairs	(671)	(6)	(45)
Interest and dividend income	(2,011)	(2,038)	(15,323)
Interest expense	504	925	6,955
Foreign exchange gains	(7,581)	(4,222)	(31,744)
Decrease in notes and accounts receivable, trade	4,731	-	-
Decrease in notes and accounts receivable- trade and contract assets	-	10,762	80,917
Decrease (increase) in inventories	1,324	(37,317)	(280,579)
Increase in notes and accounts payable, trade	13,334	7,163	53,857
Other, net	(1,089)	3,015	22,670
Subtotal	72,117	41,551	312,414
Interest and dividends received	1,926	2,043	15,361
Interest paid	(515)	(788)	(5,925)
Proceeds from insurance claim income	1,422	4,857	36,519
Income taxes paid	(5,068)	(16,100)	(121,053)
Net cash provided by operating activities	69,882	31,563	237,316
Cash flows from investing activities:			
Proceeds from sales of marketable and investment securities	2,878	1,773	13,330
Purchases of property, plant and equipment	(35,058)	(60,003)	(451,150)
Other, net	425	1,075	8,083
Net cash used in investing activities	(31,755)	(57,155)	(429,737)
Cash flows from financing activities:			
Increase (decrease) in short-term debt, net	(1,531)	374	2,812
Proceeds from long-term borrowings	9,831	22,807	171,481
Repayment of long-term borrowings	(26,370)	(5,972)	(44,902)
Proceeds from issuance of unsecured bonds	10,000	-	-
Redemption of unsecured bonds	-	(10,000)	(75,188)
Cash dividends paid	(9,663)	(11,159)	(83,902)
Cash dividends paid to noncontrolling interests	(353)	(433)	(3,256)
Other, net	(11,092)	(1,491)	(11,211)
Net cash used in financing activities	(29,178)	(5,874)	(44,166)
Effect of exchange rate changes on cash and cash equivalents	4,559	3,606	27,113
Net increase (decrease) in cash and cash equivalents	13,508	(27,860)	(209,474)
Cash and cash equivalents at beginning of year	121,215	134,723	1,012,955
Cash and cash equivalents at end of year (Note 9)	¥ 134,723	¥ 106,863	\$ 803,481

The accompanying notes to the consolidated financial statements are an integral part of these statements.

Notes to Consolidated Financial Statements

Nippon Electric Glass Co., Ltd. and Consolidated Subsidiaries

1. Basis of presenting consolidated financial statements

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

The accompanying consolidated financial statements have been restructured and translated into English with certain expanded disclosures from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Japanese Financial Instruments and Exchange Law. Certain supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of the readers outside Japan, using the prevailing exchange rate at December 31, 2022, which was ¥133 to U.S. \$1.00. The translations, provided for convenience, should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

2. Significant accounting policies

(a) Consolidation policies

Under Japanese GAAP, companies are required to consolidate all significant equity investments over which they have the power of control through a majority of voting rights or the existence of certain other conditions evidencing control.

The accompanying consolidated financial statements include the accounts of the Company and substantially all of its subsidiaries. All significant intercompany transactions and account balances are eliminated upon consolidation.

Investments in unconsolidated subsidiaries and affiliates are accounted for by the equity method or by cost. If the equity method of accounting had been applied to the investments in the companies accounted for by cost, the effect on the accompanying consolidated financial statements would not have been material.

(b) Translation of foreign currencies

All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the relevant exchange rates at the balance sheet date.

The financial statements of the Company's overseas consolidated subsidiaries are translated into Japanese yen at the current rates for assets and liabilities and at historical rates for shareholders' equity accounts. Average yearly rates are used for the translation of income and expense amounts. Foreign currency translation adjustments are recorded in net assets.

(c) Cash and cash equivalents

In preparing the consolidated statements of cash flows, cash on hand, deposits placed with banks on demand and short-term highly liquid investments with maturities of three months or less when deposited or purchased are considered to be cash and cash equivalents.

(d) Marketable and investment securities

Available-for-sale securities with observable fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are calculated using moving average cost.

(e) Allowance for doubtful receivables

Allowance for doubtful receivables is provided in an amount sufficient to cover possible losses on collection. For regular receivables, it consists of an estimated amount based on the historical ratio of bad debt losses. For receivables from customers in financial difficulty, it consists of the estimated uncollectable amounts of specific doubtful receivables.

(f) Inventories

Inventories are stated principally at the lower of cost or net realized value, with cost determined by the moving average method.

(g) Property, plant and equipment (except for leased property)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment of the Company and its domestic consolidated subsidiaries is calculated by the declining balance method at rates based on the estimated useful life of the assets. Buildings, excluding facilities attached to buildings, acquired after March 31, 1998, are depreciated using the straight-line method. Facilities attached to buildings and structures acquired after March 31, 2016 are also depreciated using the straight-line method. Depreciation of property, plant and equipment of overseas consolidated subsidiaries is calculated principally by the straight-line method based on the estimated useful life of the assets. The estimated useful life of machinery and equipment is generally from 6 to 9 years.

(h) Intangible assets (except for leased property)

Intangible assets are amortized by the straight-line method.

(i) Severance and retirement benefits

The Company and its consolidated subsidiaries, excluding certain consolidated subsidiaries, principally use a simplified method for calculating projected benefit obligation which provides for accrued retirement benefits for voluntary retirement at the end of the fiscal year because few employees have applied for the defined benefit pension plans.

In certain consolidated subsidiaries, the allowance for employees' severance and retirement benefits is recognized in an amount after deducting plan assets from retirement benefits for the net defined benefit liability. Calculation methods for net defined benefit liability and retirement benefit costs are as follows:

(1) Allocation of projected retirement benefit obligation

In calculating the retirement benefit obligation, the benefit formula method is used to allocate the projected retirement benefit obligation to the estimated years of service of the eligible employees.

(2) Method for amortizing actuarial gain or loss

Depending on each company's situation, actuarial gain or loss is amortized at the time of occurrence.

(j) Reserve for special repairs

To prepare for the significant recurring repairs required of glass-melting furnaces, estimated costs for the next repairs are accrued within the period between the previous repair and the next envisioned repair.

(k) Reserve for loss on plant closing

To provide for loss on plant closing, the Company recorded the estimated cost of closing the plant.

(l) Income taxes

The tax effects of loss carryforwards and temporary differences between the financial statement basis and the tax basis of assets and liabilities are recognized as deferred tax assets and liabilities. The provision for income taxes is computed based on the pretax income included in the consolidated statements of income.

(m) Research and development

Costs related to research and development activities are charged to income as incurred and amounted to ¥6,599 million and ¥7,266 million (\$54,632 thousand) for the fiscal years ended December 31, 2021 and 2022, respectively.

(n) Profit attributable to owners of the parent per share

The computations of profit attributable to the owners of the parent per share are based on the average number of shares of common stock outstanding during each year. Diluted profit attributable to the owners of the parent per share of common stock is computed based on the average number of shares outstanding increased by the number of shares that would be outstanding assuming all dilutive convertible bonds were converted at the beginning of the year at the current conversion price.

Diluted profit attributable to the owners of the parent per share has not been presented for the years ended December 31, 2021 and 2022 because there were no potentially dilutive shares of common stock.

(o) Revenue recognition

The Company and its consolidated subsidiaries primarily manufacture and sell special glass products. As a general rule, the Company and its consolidated subsidiaries recognize

revenue from the sales of their products at the time of delivery to the customers when they satisfy their performance obligations. Regarding export sales, the Company and its consolidated subsidiaries recognize revenue at the time the control and risks related to the products have been transferred to the customer pursuant to the terms and conditions of trade set forth by the relevant Incoterms. However, regarding domestic sales, the Company and its consolidated subsidiaries recognize revenue at the time of shipment when control of the products is transferred to the customers in a normal period after the shipment.

Revenue is measured at the amount of consideration set forth in the contract, from which discounts, rebates, etc., are deducted. The consideration received under the terms of a contract is collected primarily within one year from the delivery date and does not include significant financial factors.

(p) Derivatives and hedge accounting

The Company and its consolidated subsidiaries state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss, unless the derivative financial instruments are used for hedging purposes.

Forward foreign exchange contracts that meet the criteria for hedge accounting as provided in the "Accounting Standard for Financial Instruments" are accounted for using deferral hedge accounting, which requires unrealized gain or loss to be deferred as net unrealized gain or loss on the contract as a component of net assets until the loss or gain related to the hedged item is actually recognized.

The Company and its consolidated subsidiaries enter into forward foreign exchange contracts to hedge the risk of exchange rate fluctuations in forecasted foreign currency transactions. For forecasted foreign currency transactions, the suitability for hedging is confirmed by pre-testing and post-testing with consideration for whether the execution of the transaction is highly likely. The Company and its consolidated subsidiaries use derivative transactions solely for the purpose of managing risks and not for speculation. The counterparties are major financial institutions. Therefore, the Company and its consolidated subsidiaries consider the credit risk to be minimal. The derivative transactions are entered into by each company in accordance with accounting policies and decisions made by each company's management.

(q) Reclassification

Certain prior period amounts have been reclassified to conform to the current year presentation. These reclassifications had no significant impact on the previously reported results of operations or retained earnings.

3. Significant accounting estimates

Recoverability of deferred tax assets

(1) Amount recorded on the consolidated financial statements for the current consolidated fiscal year

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Deferred tax assets	¥ 1,896	¥ 1,784	\$ 13,414
Deferred tax liabilities	¥ 7,575	¥ 9,696	\$ 72,902

(2) Other information for assisting users of consolidated financial statements in understanding the content of significant accounting estimates

The Company and its consolidated subsidiaries recognize deferred tax assets expected to be recoverable considering future taxable income that excludes tax deductions resulting from the reversal of deductible temporary differences based on future profitability and tax planning in accordance with the schedule for reversal of taxable/deductible temporary differences.

Future taxable income is estimated based on business plans prepared by management and may be affected by future changes in economic conditions. If the actual amounts of taxable income differ from the estimates, it may have a material impact on the amounts of deferred tax assets in the consolidated financial statements in the following fiscal years.

4. Changes in accounting policies

(1) Application of Accounting Standard for Revenue Recognition, etc.

The Company and its consolidated domestic subsidiaries have applied the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29, March 31, 2020) and the relevant revised ASBJ regulations since the beginning of the current fiscal year. Under this new accounting standard, the Company and its consolidated subsidiaries recognize revenue at the time the control of the goods or services they promise to provide is transferred to the customer, and at the amount of consideration expected to be received. In accordance with the new accounting standards revenue from export sales is recognized at the time the control and risk related to the products have been transferred to the customer pursuant to the terms and conditions of trade set forth by the relevant Incoterms. Previously, such revenue was recognized on a shipping basis. For certain consolidated domestic subsidiaries, revenue from construction contracts under which the performance obligation is satisfied over time is recognized over time in accordance with the progress in satisfying the performance obligation based on the degree of completion of construction. Previously, such revenue was recognized at the time the performance obligation was completed.

The application of these changes in accounting policies follows the transitional treatment stipulated in the proviso of Paragraph 84 of the Accounting Standard for Revenue Recognition such that the new accounting policy was applied from the beginning balance of retained earnings of the current consolidated fiscal year to add to or deduct from the amount of beginning balance of retained earnings of the current consolidated fiscal year the cumulative effects of applying retrospectively the new accounting policy prior to the beginning of the current consolidated fiscal year. Moreover, the Company and its consolidated domestic subsidiaries have applied the method stipulated in Paragraph 86 of the Accounting Standard for Revenue Recognition and have not retrospectively applied the new accounting policy to contracts in which almost all the revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the said current fiscal year.

The application of the new accounting standards has had no

material impact on the consolidated financial statements.

"Notes and accounts receivable - trade" under "current assets" on the consolidated balance sheet for the previous fiscal year has been included in "Notes and accounts receivable - trade and contract assets" in the current fiscal year. "Decrease (increase) in notes and accounts receivable, trade" under "cash flows from operating activities" on the consolidated statements of Cash Flows for the previous fiscal year has been included in "Decrease (increase) in notes and accounts receivable - trade and contract assets" in the current fiscal year. However, in accordance with the transitional treatment set forth in Paragraph 89-2 of the Accounting Standard for Revenue Recognition, the consolidated financial statements for the previous fiscal year have not been reclassified using the new presentation method. In accordance with the transitional treatment provision set out in Paragraph 89-3 of the Accounting Standard for Revenue Recognition, relevant information for the previous fiscal year is not provided in the Note "Revenue recognition."

(2) Application of Accounting Standard for Fair Value Measurement, etc.

The Company and its consolidated domestic subsidiaries have applied the Accounting Standard for Fair Value Measurement (ASBJ Statement No. 30, July 4, 2019) and relevant revised ASBJ regulations from the beginning of the current fiscal year and have prospectively applied the new accounting policies under ASBJ Statement No. 30 in accordance with the transitional treatment set out in Paragraph 19 of the standard and Paragraph 44-2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019). The application of the above standards has had no impact on the consolidated financial statements.

In addition, within the Notes for "Financial instruments," disclosure is made by level of the fair values of financial instruments. However, in accordance with the transitional treatment set out in Paragraph 7-4 of the Implementation Guidance on Disclosures about Fair Value of Financial Instruments (ASBJ Guidance No. 19, July 4, 2019), related notes for the previous fiscal year are not provided.

(3) Adoption of the ASU Accounting Standards Updates No. 2016-02 "Lease"

The Company's consolidated subsidiaries in the United States adopted the ASU No. 2016-02, "Lease," from the beginning of the current fiscal year. Accordingly, lessees recognize all lease items as assets and liabilities, in principle. The Company adopted this standard with the transitional treatment and the method of recognizing amounts of accumulated impact from the change of accounting principle on the starting date of adoption. The application of the above standards has had no material impact on the consolidated financial statements.

5. Accounting standards for presentation of comprehensive income

The components of other comprehensive income for the fiscal years ended December 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Valuation difference on available-for-sale securities			
Decrease during the year	¥ (436)	¥ (2,892)	\$ (21,744)
Reclassification adjustments	(1,994)	(1,186)	(8,917)
Subtotal, before tax	(2,430)	(4,078)	(30,661)
Tax benefit	759	1,180	8,872
Subtotal, net of tax	(1,671)	(2,898)	(21,789)
Deferred gains on hedges			
Increase during the year	258	601	4,519
Reclassification adjustments	(146)	(258)	(1,940)
Subtotal, before tax	112	343	2,579
Tax expense	(38)	(72)	(541)
Subtotal, net of tax	74	271	2,038
Foreign currency translation adjustments			
Increase during the year	15,853	14,688	110,436
Share of other comprehensive income of entities accounted for using equity method			
Increase during the year	356	177	1,330
Total other comprehensive income	¥ 14,612	¥ 12,238	\$ 92,015

6. Financial instruments

(a) Status of financial instruments

(1) Policy on financial instruments

As a Group policy, the Company and its consolidated subsidiaries restrict investments of surplus cash, if any, to safe financial assets such as bank deposits. Funds required by the Company are obtained mainly through borrowing from bank and the issuance of bonds. Derivatives are used to manage the risks described below and are not entered into for speculative purposes.

(2) Details of financial instruments, associated risks and risk management structure

Notes and accounts receivable - trade, which are operating receivables, are exposed to customer credit risk. The Company, pursuant to the Company's Credit Control Regulations, manages credit risk by managing the due dates and outstanding balances of each counterparty and by monitoring the credit status of major counterparties. Consolidated subsidiaries perform similar procedures in conformity with the Company's Credit Control Regulations.

Operating receivables denominated in foreign currencies, which arise from the Company's global business development, are exposed to foreign exchange fluctuation risk. The Company and its consolidated subsidiaries enter into forward foreign exchange contracts mainly for accounts receivable associated with export transactions of finished goods to manage fluctuations in future foreign exchange rates.

Investment securities consist mainly of equity securities of companies with which the Company and its consolidated subsidiaries have business relationships and are exposed to market price fluctuation risk. The Company, pursuant to the Company's Shareholding Regulations, monitors the fair values

of such securities and regularly reviews its holdings.

Notes and accounts payable - trade, which are operating debt, are settled within one year.

Regarding borrowings, short-term debt is issued mainly to obtain funds for operating transactions, and bonds and long-term debt are issued mainly for capital expenditures.

For details regarding hedge accounting of derivatives, such as hedging instruments, hedged items and hedging policy, refer to Note 2(p), "Significant accounting policies - Derivatives and hedge accounting."

Matters regarding derivative transactions are determined by executives in charge of accounting at each consolidated Group company in accordance with the regulations of each company. Approval for transactions that exceed a certain scope is granted by the Company's management committee. Operations and management pertaining to the execution of derivative transactions are carried out by each company's accounting department, and such operations are managed through a check and balance system. With derivative transactions, the Company enters into contracts only with financial institutions with high ratings to reduce credit risk.

Operating debt and borrowings are exposed to liquidity risks. The Company and its consolidated subsidiaries manage such risks by cash management forecasting at each Group company.

(3) Supplementary explanation for fair values of financial instruments

The notional amounts of derivatives in Note 8, "Derivatives," does not indicate the market risks pertaining to the derivatives themselves.

(b) Fair values of financial instruments

The tables below show the book values of financial instruments recorded in the consolidated balance sheet, their fair values and any differences between the book value and fair value as of December 31, 2021 and 2022.

2021/12	Millions of yen		
	Book value	Fair value	Difference
(1) Investment securities:			
Other securities	¥ 40,517	¥ 40,517	–
Total assets	40,517	40,517	–
(2) Long-term debt:			
Unsecured bonds	30,000	30,105	\$ 105
Long-term borrowings	45,098	45,364	266
Total liabilities	75,098	75,469	371
(3) Derivatives			
Derivatives	294	294	–

Notes: Fair value measurements of financial instruments and matters regarding marketable securities and derivatives

1. “Cash and time deposits,” “Notes and accounts receivable - trade,” “Notes and accounts payable trade” and “short-term debt” are omitted because they are in cash and due within one year, and their fair value approximates their book value.
2. Investment securities
For information on investment securities, refer to Note 7, “Marketable and investment securities.”
3. Derivatives
Net receivables and payables arising from derivative transactions are shown as net amounts, and items that are net liabilities are shown in parentheses.
For information related to derivatives, refer to Note 8, “Derivatives.”
4. Non-marketable securities
The following financial instruments are not included in “(1) Investment securities” because they do not have market prices and it is extremely difficult to determine their fair value.
For information related to these securities, refer to Note 7, “Marketable and investment securities.”

2021/12	Millions of yen
	Unlisted shares
Investments in capital	2,755
Total	¥ 4,441

2022/12	Millions of yen		
	Book value	Fair value	Difference
(1) Investment securities:			
Other securities	¥ 35,852	¥ 35,852	–
Total assets	35,852	35,852	–
(2) Long-term debt:			
Unsecured bonds	20,000	19,740	¥ (260)
Long-term borrowings	62,765	62,353	(412)
Total liabilities	82,765	82,093	(672)
(3) Derivatives			
Derivatives	730	730	–

2022/12	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(1) Investment securities:			
Other securities	\$ 269,564	\$ 269,564	–
Total assets	269,564	269,564	–
(2) Long-term debt:			
Unsecured bonds	150,376	148,421	\$ (1,955)
Long-term borrowings	471,917	466,820	(3,097)
Total liabilities	622,293	617,241	(5,052)
(3) Derivatives			
Derivatives	5,489	5,489	–

Notes: Fair value measurements of financial instruments and matters regarding marketable securities and derivatives

1. "Cash and time deposits," "Notes and accounts receivable - trade and contract assets," "Notes and accounts payable trade" and "short-term debt" are omitted because they are in cash and due within one year, and their fair value approximates their book value.
2. Investment securities
For information on investment securities, refer to Note 7, "Marketable and investment securities."
3. Derivatives
Net receivables and payables arising from derivative transactions are shown as net amounts, and items that are net liabilities are shown in parentheses.
For information related to derivatives, refer to Note 8, "Derivatives."
4. Non-marketable securities
Equity securities without market prices are not included in "(1) Investment securities." The amount recorded on the consolidated balance sheets of the relevant financial instrument is as follows.
For information related to these securities, refer to Note 7, "Marketable and investment securities."

2022/12	Millions of yen	Thousands of U.S. dollars
Unlisted shares	¥ 1,684	\$ 12,662
Investments in capital	3,270	24,586
Total	¥ 4,954	\$ 37,248

(c) Breakdown of the fair value of financial instruments by asset level

The fair values of financial instruments are classified into the following three levels based on the observability and materiality of the inputs used in determining the fair value.

Level 1: Fair value based on the observable inputs, such as quoted prices in active markets for identical assets or liabilities

Level 2: Fair value based on observable inputs other than level 1 input

Level 3: Fair value based on unobservable inputs

When multiple inputs that have a significant impact on the determination of fair value are used and those inputs are from different levels of the fair value hierarchy, the fair value is classified by the lowest level from which inputs were used.

(1) Financial instruments recorded at fair value on the Consolidated Balance Sheets

2022/12	Fair value (Millions of yen)			Total
	Level 1	Level 2	Level 3	
Investment securities	-	-	-	-
Other securities	-	-	-	-
Equity securities	¥ 35,852	-	-	¥ 35,852
Total	35,852	-	-	35,852
Derivatives	-	-	-	-
Currency related	-	¥ 730	-	730

2022/12	Fair value (Thousands of U.S. dollars)			Total
	Level 1	Level 2	Level 3	
Investment securities	-	-	-	-
Other securities	-	-	-	-
Equity securities	\$ 269,564	-	-	\$ 269,564
Total	269,564	-	-	269,564
Derivatives	-	-	-	-
Currency related	-	\$ 5,489	-	5,489

Net receivables and payables arising from derivative transactions are shown as net amounts, and items that are net liabilities in total are shown in parentheses.

(2) Financial instruments not recorded at fair value on the Consolidated Balance Sheets

2022/12	Fair value (Millions of yen)			Total
	Level 1	Level 2	Level 3	
Long-term borrowings	–	¥ (19,740)	–	¥ (19,740)
Unsecured bonds	–	(62,353)	–	(62,353)
Total	–	¥ (82,093)	–	¥ (82,093)

2022/12	Fair value (Thousands of U.S. dollars)			Total
	Level 1	Level 2	Level 3	
Long-term borrowings	–	\$ (148,421)	–	\$ (148,421)
Unsecured bonds	–	(468,820)	–	(468,820)
Total	–	\$ (617,241)	–	(617,241)

Explanation of valuation method used to determine fair value and inputs used in the determination.

(1) Investment securities

The fair value of listed equity securities is estimated using quoted market prices. Since listed equity securities are traded in active markets, their fair values are classified as Level 1.

(2) Derivatives

The fair value of exchange forward contracts is determined using the discounted present value method with observable inputs such as exchange rates and is classified as Level 2.

(3) Unsecured bonds

The fair value of unsecured bonds is based on Reference Statistical Prices for OTC Bond Transactions and is classified as Level 2.

(4) Long-term borrowings

The fair value of long-term borrowings is calculated by discounting the total amount of principal and interest at the interest rate that would be applicable if similar new borrowings were arranged and is classified as Level 2.

7. Marketable and investment securities

(a) Acquisition cost and book value of securities with observable market values at December 31, 2021 and 2022 were as follows:

2021/12	Millions of yen		
	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book value exceeding acquisition cost: Equity securities	¥ 15,976	¥ 39,087	¥ 23,111
Securities with book value not exceeding acquisition cost: Equity securities	1,483	1,430	(53)
	¥ 17,459	¥ 40,517	¥ 23,058

2022/12	Millions of yen		
	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book value exceeding acquisition cost: Equity securities	¥ 16,872	¥ 35,852	¥ 18,980
Securities with book value not exceeding acquisition cost: Equity securities	–	–	–
	¥ 16,872	¥ 35,852	¥ 18,980

2022/12	Thousands of U.S. dollars		
	Acquisition cost	Book value	Difference
Available-for-sale securities:			
Securities with book value exceeding acquisition cost: Equity securities	\$ 126,857	\$ 269,564	\$ 142,707
Securities with book value not exceeding acquisition cost: Equity securities	–	–	–
	\$ 126,857	\$ 269,564	\$ 142,707

(b) Sales of available-for-sale securities sold in the years ended December 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Total sales amounts	¥ 2,878	¥ 1,773	\$ 13,330
Gains on sales	1,994	1,185	8,910

(c) Impairment loss on investment securities

There was no impairment loss on investment securities in the year ended December 31, 2021. The Company recognized impairment loss of ¥1 million on investment securities for the year ended December 31, 2022.

If the fair market value as of the end of each financial quarter has declined by more than 30% from the acquisition cost, impairment loss on investment securities is recognized.

8. Derivatives

(a) Derivative transactions not accounted for under hedge accounting

(1) Currency related transactions

There were no derivative transactions not accounted for under the hedge accounting for the year ended December 31, 2021.

2022/12		Millions of yen			
Classification	Type of transaction	Notional amount	Portion due after 1 year	Fair value	Unrealized gain
Non-market transactions	Currency swap	¥ 19,000	¥ 19,000	¥ 428	¥ 428
		¥ 19,000	¥ 19,000	¥ 428	¥ 428

2022/12		Thousands of U.S. dollars			
Classification	Type of transaction	Notional amount	Portion due after 1 year	Fair value	Unrealized gain
Non-market transactions	Currency swap	\$ 142,857	\$ 142,857	\$ 3,218	\$ 3,218
		\$ 142,857	\$ 142,857	\$ 3,218	\$ 3,218

(b) Derivative transactions to which hedge accounting has been applied

(1) Currency related transactions

2021/12		Millions of yen			
Method of hedge accounting	Type of transaction	Hedged item	Notional amount	Portion due after 1 year	Fair value
Deferral hedge accounting	Forward foreign exchange				
	Sell	Forecasted transactions for accounts receivable denominated in foreign currencies	¥ 45,924	¥ 9,512	¥ 294
			¥ 45,924	¥ 9,512	¥ 294

2022/12		Millions of yen			
Method of hedge accounting	Type of transaction	Hedged item	Notional amount	Portion due after 1 year	Fair value
Deferral hedge accounting	Forward foreign exchange				
	Sell	Forecasted transactions for accounts receivable denominated in foreign currencies	¥ 40,969	¥ 8,526	¥ 302
			¥ 40,969	¥ 8,526	¥ 302

2022/12		Thousands of U.S. dollars			
Method of hedge accounting	Type of transaction	Hedged item	Notional amount	Portion due after 1 year	Fair value
Deferral hedge accounting	Forward foreign exchange				
	Sell	Forecasted transactions for accounts receivable denominated in foreign currencies	\$ 308,038	\$ 64,105	\$ 2,271
			\$ 308,038	\$ 64,105	\$ 2,271

Note: The fair value of exchange forward contracts is determined using the discounted present value method with observable inputs such as exchange rates.

9. Cash and cash equivalents

Cash and cash equivalents at December 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Cash and time deposits on consolidated balance sheets	¥ 134,975	¥ 107,152	\$ 805,654
Time deposits due over three months	(252)	(289)	(2,173)
Cash and cash equivalents in consolidated statements of cash flows	¥ 134,723	¥ 106,863	\$ 803,481

10. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Finished and purchased goods	¥ 32,045	¥ 53,378	\$ 401,338
Work-in-process	1,341	2,345	17,632
Raw materials and others	28,714	46,648	350,737
	¥ 62,100	¥ 102,371	\$ 769,707

11. Loss on impairment

(a) Grouping

The Company and its consolidated subsidiaries group operating assets by business unit for which the profit or loss is continually controlled to measure the impairment of the assets. Important idle assets which are not used for business are grouped by project.

(b) Details of loss on impairment by fiscal year

(1) Fiscal year ended December 31, 2021

Use	Location	Type	Loss on impairment
			Millions of yen
			2021/12
Business assets for glass fiber	Electric Glass Fiber America, LLC	Machinery and equipment	¥ 629
		Building and structures	457
		Land	43
		Others	3
		Subtotal	1,132
Total			¥ 1,132

i. Business assets for glass fiber

1. Reason to recognize impairment

EGFA, the Company's subsidiary in the U.S. operating a glass fiber business, incurred an operating loss related to decreased profitability due to delays in recovery of production capacity resulting from a shortage of workers, as well as soaring logistics costs caused by global supply chain disruption. Accordingly, a recoverability test based on the U.S. generally accepted accounting standards was performed for its fixed assets in the current fiscal year. As a result, the difference between the carrying amount and the fair value was recognized as an impairment loss since it was determined that the fair value of fixed assets was below the carrying value.

2. Assessment of recoverable values

The fair values of certain business assets for the glass fiber business were based on the replacement cost with consideration of depreciation factors.

(2) Fiscal year ended December 31, 2022

Use	Location	Type	Loss on impairment	
			Millions of yen	Thousands of U.S. dollars
			2022/12	2022/12
Significant idle assets	Shiga-Takatsuki plant	Machinery and equipment	¥ 732	\$ 5,504
		Others	1	7
		Subtotal	733	5,511
	Electric Glass Fiber UK, Ltd.	Construction in progress	98	737
		Subtotal	98	737
Total			¥ 831	\$ 6,248

i Significant idle assets

1. Reason to recognize impairment

Since there was no plan to use the idle assets, the book values of the assets were written down to their recoverable values.

2. Assessment of recoverable values

The recoverable values of significant idle assets were based on net selling price. No recoverable values were expected for those idle assets due to the low probability of future diversion and sales.

12. Short-term and long-term debt

Short-term debt, including the current portion of long-term debt, at December 31, 2021 and 2022 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Short-term bank borrowings, average interest rate 0.9% per annum	¥ 19,725	¥ 20,761	\$ 156,097
Commercial paper, average interest rate 0.0% per annum	2,000	2,000	15,038
Current portion of long-term borrowings, average interest rate 0.7% per annum	5,186	20,118	151,263
Current portion of unsecured bonds, average interest rate 0.6% per annum	10,000	—	—
	¥ 36,911	¥ 42,879	\$ 322,398

Average interest rate is the weighted average interest rate for amounts outstanding as of the fiscal year end.

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

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Borrowings, principally from banks and insurance companies due from 2023 through 2027, average interest rate 0.7% per annum	¥ 45,098	¥ 62,765	\$ 471,917
0.6% unsecured bonds, due in 2022	10,000	—	—
0.3% unsecured bonds, due in 2026	10,000	10,000	75,188
0.3% unsecured bonds, due in 2028	10,000	10,000	75,188
	75,098	82,765	622,293
Less current portion of long-term borrowings	(5,186)	(20,118)	(151,263)
Less current portion of unsecured bonds	(10,000)	—	—
	¥ 59,912	¥ 62,647	\$ 471,030

The aggregate annual maturities of long-term debt at December 31, 2022 were as follows:

	Millions of yen	Thousands of U.S. dollars
2023	¥ 20,118	\$ 151,263
2024	8,792	66,105
2025	23,835	179,211
2026	10,010	75,263
2027	10,010	75,263
2028 and thereafter	10,000	75,188
	¥ 82,765	\$ 622,293

13. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 30.5% for each of the fiscal years ended December 31, 2021 and 2022.

The significant differences between the statutory tax rate in Japan and the effective tax rate of the Company and its consolidated subsidiaries for financial statement purposes for the fiscal year ended December 31, 2021 and 2022 were as follows:

	2021/12	2022/12
Statutory tax rate in Japan	30.5%	30.5%
Dividend income, other nontaxable income and expenses	(3.8)	(2.5)
Difference in tax rates for overseas consolidated subsidiaries	(2.8)	(3.7)
Undistributed profit of overseas consolidated subsidiaries	2.6	1.2
Effect of elimination of dividend income	3.7	3.6
Overseas withholding tax	(1.2)	0.2
Effect of elimination of unrealized gains	2.0	(0.2)
Movement of valuation allowance	(1.4)	0.8
Tax credits for experimentation and research expenses	(0.7)	(0.6)
Others	(1.0)	(1.4)
Effective tax rate	27.9%	27.9%

Significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities as of December 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Deferred tax assets:			
Tax losses carried forward	¥ 8,973	¥ 9,344	\$ 70,256
Depreciation in excess of tax limit	5,494	5,391	40,534
Unrealized gain on property, plant and equipment	3,357	4,415	33,195
Goodwill	3,669	3,858	29,008
Capital allowances	3,773	2,876	21,624
Reserve for special repairs	2,645	2,643	19,872
Loss on devaluation of inventories	2,384	2,564	19,278
Loss on valuation of investment securities	1,118	1,118	8,406
Unrealized gain on inventories	990	325	2,444
Others	4,931	6,495	48,834
Subtotal deferred tax assets	37,334	39,029	293,451
Valuation allowance for tax loss carried forward	(8,375)	(8,785)	(66,053)
Valuation allowance for deductible temporary differences	(13,802)	(15,766)	(118,541)
Total valuation allowance	(22,177)	(24,551)	(184,594)
Total deferred tax assets	15,157	14,478	108,857
Deferred tax liabilities:			
Depreciation of overseas consolidated subsidiaries	(9,629)	(11,408)	(85,774)
Valuation difference on available-for-sale securities	(5,953)	(4,773)	(35,887)
Undistributed profit of overseas consolidated subsidiaries	(4,135)	(4,595)	(34,549)
Others	(1,119)	(1,614)	(12,135)
Total deferred tax liabilities	(20,836)	(22,390)	(168,345)
Net deferred tax assets (liabilities)	¥ (5,679)	¥ (7,912)	\$ (59,488)

Notes:

Tax losses carried forward and their deferred tax assets by expiration period as of December 31, 2021 and 2022 were as follows:

2021/12

	Millions of yen		
	Tax losses carried forward	Valuation allowance for tax losses carried forward	Deferred tax assets
2022	¥ –	¥ –	¥ –
2023	–	–	–
2024	324	(324)	–
2025	387	(33)	354
2026	167	(167)	–
2027 and thereafter	8,095	(7,851)	244
Total	¥ 8,973	¥ (8,375)	¥ 598

2022/12

	Millions of yen		
	Tax losses carried forward	Valuation allowance for tax losses carried forward	Deferred tax assets
2023	¥ –	¥ –	¥ –
2024	374	(374)	–
2025	38	(38)	–
2026	192	(192)	–
2027	22	(22)	–
2028 and thereafter	8,718	(8,159)	559
Total	¥ 9,344	¥ (8,785)	¥ 559

	Thousands of U.S. dollars		
	Tax losses carried forward	Valuation allowance for tax losses carried forward	Deferred tax assets
2023	\$ –	\$ –	\$ –
2024	2,812	(2,812)	–
2025	286	(286)	–
2026	1,444	(1,444)	–
2027	165	(165)	–
2028 and thereafter	65,549	(61,346)	4,203
Total	\$ 70,256	\$ (66,503)	\$ 4,203

The amount of tax losses carried forward in the above table is after multiplying by the statutory tax rate.

14. Asset retirement obligations

(a) Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of asset retirement obligations

Recorded asset retirement obligations are expenses, such as the costs for the disposal of machinery and equipment owned by the Company that contain PCB (polychlorinated biphenyl) and the costs for the removal of asbestos from buildings owned by the Company when they are demolished.

(2) Basis for calculating asset retirement obligations

Asset retirement obligations are based on estimates provided by specialty companies such as construction companies.

(3) Changes in the total amount of asset retirement obligations during the fiscal years ended December 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Beginning balance	¥ 254	¥ 256	\$ 1,925
Decrease due to the fulfillment of asset retirement obligations	–	(4)	(30)
Change in estimated asset retirement obligations	2	–	–
Ending balance	¥ 256	¥ 252	\$ 1,895

(b) Asset retirement obligations not recorded on the consolidated balance sheets

Regarding some plant sites and other properties used under real estate leasing agreements, the Company and its consolidated subsidiaries have obligations related to the cost of restoring such properties to their original state at the time of business termination or moving out. However, since there are uncertainties regarding the lease periods of the properties to which such obligations apply because there are no plans to terminate or move out at this time, it is impossible to reasonably estimate the related asset retirement obligations. Therefore, no asset retirement obligations are recorded in connection with such obligations.

15. Severance and retirement benefits

The Company and its domestic consolidated subsidiaries provide mainly defined contribution pension plans. However, certain employees are provided unfunded lump-sum payment plans. The overseas consolidated subsidiaries provide funded lump-sum payment plans, defined contribution pension plans and defined benefit pension plans.

For defined benefit pension plans, the reconciliation of opening and ending balances for projected benefit obligation for the fiscal years ended December 31, 2021 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Projected benefit obligation at beginning of year	¥ (1,065)	¥ (1,247)	\$ (9,376)
Service cost	(87)	(94)	(707)
Interest cost	(15)	(19)	(143)
Actuarial differences	(27)	49	369
Benefits paid	58	74	556
Others	(111)	(56)	(421)
Projected benefit obligation at end of year	¥ (1,247)	¥ (1,293)	\$ (9,722)

For defined benefit pension plans, the reconciliation of opening and ending balances for plan assets for the fiscal years ended December 31, 2021 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Plan assets at beginning of year	¥ 29	¥ 34	\$ 256
Expected return on pension assets	0	0	0
Actuarial differences	0	3	22
Contributions paid by employer	1	1	8
Benefits paid	(1)	—	—
Others	5	1	7
Plan assets at end of year	¥ 34	¥ 39	\$ 293

For defined benefit pension plans, the reconciliation of ending balances for projected benefit obligations and plan assets and the balances for net defined benefit liability recognized in the consolidated balance sheets for the fiscal years ended December 31, 2021 and 2022 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Projected benefit obligations of funded plans	¥ (894)	¥ (900)	\$ (6,767)
Plan assets	34	39	293
Projected benefit obligation of unfunded plans	(860)	(861)	(6,474)
Net liabilities for severance and retirement benefits recognized in the consolidated balance sheets	(1,213)	(1,254)	(9,429)
Net defined benefit liability	(1,213)	(1,254)	(9,429)
Net liabilities for severance and retirement benefits recognized in the consolidated balance sheets	¥ (1,213)	¥ (1,254)	\$ (9,429)

For defined benefit pension plans, components of severance and retirement benefit expense for the fiscal years ended December 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Service cost	¥ 87	¥ 94	\$ 707
Interest cost	15	19	143
Expected return on plan assets	(0)	(0)	(0)
Amortization of actuarial differences	26	(52)	(391)
Others	(6)	(5)	(38)
Severance and retirement benefit expenses for defined benefit pension plans	¥ 122	¥ 56	\$ 421

For defined benefit pension plans, the percentage composition by asset class of total plan assets for the fiscal years ended December 31, 2021 and 2022 was as follows:

	2021/12	2022/12
Equity securities	43%	47%
Bonds	11%	11%
Others	46%	42%
Total	100%	100%

The current and expected allocation of plan assets as well as the current and expected long-term rates of return for the various assets that constitute the plan assets are considered when determining the long-term expected rate of return on plan assets.

For defined benefit pension plans, principal actuarial assumptions for the fiscal years ended December 31, 2021 and 2022 were as follows:

	2021/12	2022/12
Discount rates	0.5–4.5%	1.5–1.9%
Long-term expected rates of return on plan assets	0.5%	0.5%
Expected rates of pay raises	2.0–5.0%	2.5–5.1%

The total amounts that the Company and its consolidated subsidiaries needed to contribute to the defined contribution pension plans were ¥1,801 million and ¥1,796 million (\$13,504 thousand) for the fiscal years ended December 31, 2021 and 2022, respectively.

16. Stock options

Outline of compensation paid to the Company's directors based on the Company's restricted share-based compensation plan

(a) Details of restricted stock

	Restricted stock issued in 2022
Title and number of grantees	6 directors of the Company (Excluding independent outside directors)
Number of shares	16,000 common shares
Grant date	March 30, 2022
Vesting conditions	Remain in the position of director from the date of annual shareholders' meeting immediately preceding the allotment date to the date of annual shareholders' meeting for the following fiscal year
Service period	From March 30, 2022 to March 29, 2023

(b) Size and changes in the Company's restricted share-based compensation plan

(1) Cost and presentation in the consolidated statements of income

	Millions of yen	Thousands of U.S. dollars
	2022/12	2022/12
Selling, general and administrative expenses	¥ 33	\$ 248

(2) Number of shares

	Restricted stock issued in 2022
End of the previous consolidated fiscal year (shares)	–
Granted (shares)	16,000
Forfeited (shares)	–
Vested (shares)	–
Unvested (shares)	16,000

(3) Price information

	Yen
Fair value at the grant date	¥ 2,756

(c) Valuation method for estimating fair value of per share of restricted stock

The estimated fair value is the closing stock price of the Company's common stock on the Tokyo Stock Exchange on the immediately preceding business day of the grant date (March 29, 2022).

(d) Method for estimating vested number of shares

Because it is difficult to accurately estimate the number of shares that will be forfeited in the future, only the actual number of forfeitures is reflected in the estimate of the vested number of shares.

17. Net assets

Under Japanese laws and regulations, the entire amount paid for new shares is required to be designated as common shares. However, a company may, by a resolution of the Board of Directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

Under the Japanese Corporate Law ("the Law"), in cases in which a dividend distribution of surplus takes place, the smaller of an amount equal to 10% of the dividend or the excess, if any, of 25% of common shares over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. The legal earnings reserve is included in retained earnings in the accompanying consolidated balance sheets. Under the Law, both of these appropriations generally require a resolution of the shareholders' meeting.

Additional paid-in capital and legal earnings reserve may not be distributed as dividends. Under the Law, all additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, which are potentially available for dividends, by a resolution of a shareholders' meeting.

The maximum amount that the Company can distribute as dividends is calculated based on the nonconsolidated financial statements of the Company in accordance with the Law.

At the annual shareholders' meeting held on March 30, 2023, the shareholders approved cash dividends amounting to ¥5,583 million (\$41,977 thousand), or ¥60.00 per share. In addition, the Company paid interim cash dividends of ¥5,583 million (\$41,977 thousand), or ¥60.00 per share, on August 31, 2022.

18. Contingent liabilities

Contingent liabilities at December 31, 2021 and 2022 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021/12	2022/12	2022/12
Notes receivable discounted	¥ 280	¥ 531	\$ 3,992
Guarantees of employees' housing loans	52	26	195
Guarantees of bank loans for affiliated company accounted for by the equity method	2,140	1,665	12,519

19. Revenue recognition

(a) Disaggregation of revenue from contracts with customers

(1) Geographical information

2022/12	Millions of yen	Thousands of U.S. dollars
Japan	¥ 42,920	\$ 322,707
Asia	163,794	1,231,534
Europe, North America and others	117,921	886,624
Revenue from contracts with customers	324,635	2,440,865
Other revenues	0	0
Revenues from external customers	¥ 324,635	\$ 2,440,865

(2) Business field information

2022/12	Millions of yen	Thousands of U.S. dollars
Electronics and Information Technology	¥ 148,764	\$ 1,118,526
Performance Materials and Others	175,871	1,322,339
Revenue from contracts with customers	324,635	2,440,865
Other revenues	0	0
Revenues from external customers	¥ 324,635	\$ 2,440,865

(b) Revenue from contracts with customer

For a fundamental understanding of revenue, see: Note 2(o), "Revenue Recognition."

(c) Revenue in the current and subsequent fiscal years

(1) Contract assets and liabilities

Millions of yen	2022/1	2022/12
Receivables from contracts with customers	¥ 60,614	¥ 53,756
Contract assets	¥ 10	¥ 13
Contract liabilities	¥ 2,303	¥ 1,010

Thousands of U.S. dollars	2022/1	2022/12
Receivables from contracts with customers	\$ 455,744	\$ 404,180
Contract assets	\$ 75	\$ 98
Contract liabilities	\$ 17,316	\$ 7,594

Contract assets relate mainly to rights to consideration for which revenue has been recognized but for which an invoice has not been issued in contracts for which performance obligations are satisfied over time. Contract assets are transferred to receivables arising from contracts with customers when the rights of the Company and its consolidated subsidiaries to the related consideration become unconditional.

Contract liabilities consist mainly of consideration received from customers before the delivery of products or the completion of services. Contract liabilities are reversed upon the recognition of revenue.

The amount of revenue recognized in the current fiscal year that was included in the balance of contract liability at the beginning of the fiscal year was ¥1,473 million (\$11,075 thousand). The amount of revenue recognized in the current fiscal year from performance obligations that were satisfied (or partially satisfied) in prior periods was immaterial.

(2) Transaction price allocated to remaining performance obligations

Information related to remaining performance obligations is omitted because there were no significant transactions in which the originally expected contract period exceeded one year.

In addition, any consideration from contracts with customers does not include any material amount which was not included in the transaction price.

20. Segment information

Information by segment for the fiscal years ended December 31, 2021 and 2022 was as follows:

(a) Segment information (by management approach)

Outline of reportable segment

The Company has adopted a business division system in which each business division develops a comprehensive strategy for the products it handles and conducts business activities based on such strategy. The Board of Directors periodically reviews decisions regarding the allocation of management resources to each business division and evaluates business performance.

Although the Company and its consolidated subsidiaries may be considered to consist of multiple business segments that are handled by various business divisions, in general the “glass products” made by the Company and its consolidated subsidiaries are similar in terms of product characteristics, manufacturing methods, market and industry, customer type and marketing factors. Therefore, the Company and its consolidated subsidiaries have consolidated these segments into a single “Glass Business” segment. Accordingly, except for information given in the “Outline of reportable segment,” information for other segments has been omitted.

(b) Related information

(1) Information by products and services

2021/12		Millions of yen	
Sales to external customers	Glass Business		Total
	Electronics and Information Technology	Performance Materials and Others	
	¥ 154,557	¥ 137,477	¥ 292,034
2022/12		Millions of yen	
Sales to external customers	Glass Business		Total
	Electronics and Information Technology	Performance Materials and Others	
	¥ 148,764	¥ 175,871	¥ 324,635
2022/12		Thousands of U.S. dollars	
Sales to external customers	Glass Business		Total
	Electronics and Information Technology	Performance Materials and Others	
	\$ 1,118,526	\$ 1,322,339	\$ 2,440,865

(c) Geographical information

Net sales

2021/12							Millions of yen
Japan	China	South Korea	U.S.	Europe	Other areas	Total	
¥ 42,535	¥ 86,606	¥ 48,461	¥ 38,017	¥ 43,022	¥ 33,393	¥ 292,034	

2022/12							Millions of yen
Japan	China	South Korea	U.S.	Europe	Other areas	Total	
¥ 42,920	¥ 94,039	¥ 38,416	¥ 62,961	¥ 51,975	¥ 34,324	¥ 324,635	

2022/12							Thousands of U.S. dollars
Japan	China	South Korea	U.S.	Europe	Other areas	Total	
\$ 322,707	\$ 707,060	\$ 288,842	\$ 473,391	\$ 390,790	\$ 258,075	\$ 2,440,865	

Notes: 1. The classifications of countries and areas are based on the location of customers.
2. The main country classified as "Other areas" is Taiwan.

Property, plant and equipment

2021/12					Millions of yen
Japan	China	Malaysia	Other areas	Total	
¥ 185,343	¥ 88,061	¥ 44,617	¥ 62,260	¥ 380,281	

2022/12					Millions of yen
Japan	China	Malaysia	Other areas	Total	
¥ 192,208	¥ 100,534	¥ 69,739	¥ 63,149	¥ 425,630	

2022/12					Thousands of U.S. dollars
Japan	China	Malaysia	Other areas	Total	
\$ 1,445,173	\$ 755,895	\$ 524,353	\$ 474,805	\$ 3,200,226	

Notes: 1. The classifications of countries and areas are based on the location of property, plant and equipment.
2. The main countries classified as "Other areas" are South Korea and the U.S.

(d) Information by major customers

Sales

2021/12			Millions of yen	Related segment
LG Display Co., Ltd.	¥ 41,898	Glass Business		

Information for the year ended December 31, 2022, is omitted as no single customer accounted for more than 10% of consolidated net sales as reported in the consolidated statements of income.

(e) Information on impairment

2021/12			Millions of yen
	Glass Business	Total	
Loss on impairment	¥ 1,132	¥ 1,132	

2022/12			Millions of yen
	Glass Business	Total	
Loss on impairment	¥ 831	¥ 831	

2022/12			Thousands of U.S. dollars
	Glass Business	Total	
Loss on impairment	\$ 6,248	\$ 6,248	

21. Related party transactions

Transactions of the Company with related companies and others

(a) Transactions with corporate officers and major shareholders (individual shareholders only)

The following related party transactions took place in the year ended December 31, 2021

Type of related party	Corporate officer	Corporate officer
Name of the company or individual	Masayuki Arioka	Motoharu Matsumoto
Address	–	–
Capital	–	–
Type of business or occupation	Chairman of the Board (Nippon Electric Glass Co., Ltd.)	President (Nippon Electric Glass Co., Ltd.)
Voting right share owing (percent of shares owned)	Direct 0.0%	Direct 0.0%
Business relationship	–	–
Description of transactions	In-kind contribution of monetary remuneration claims	In-kind contribution of monetary remuneration claims
Amount of transactions	¥11 million	¥10 million
Account	–	–
Year-end balance	–	–

This refers to contributions in kind for monetary compensation claims based on the Restricted Stock Compensation plan.

There were no related party transactions for the year ended December 31, 2022.



Independent auditor's report

To the Board of Directors of Nippon Electric Glass Co., Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of Nippon Electric Glass ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2022 and 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in 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 ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 these matters.

Appropriateness of the Company's determination of the accounting period in which revenue was recognized from sales of special glass products

The key audit matter	How the matter was addressed in our audit
<p>The Group mainly sell special glass products to customers in Japan and overseas. Net sales recognized in the Consolidated Statement of Income amounted to ¥324,634 million, and the Company's net sales of special glass</p>	<p>The primary procedures we performed to assess whether revenue from sales of the special glass products was recognized in the appropriate accounting period included the following:</p> <p>(1) Internal control testing</p>

<p>products accounted for a significant portion of total revenue.</p> <p>As described in the Notes to Consolidated Financial Statements - Notes 2 (o), “Significant accounting policies - Revenue recognition,” the Company recognizes revenue at the time of delivery to the customer when it satisfies the performance obligation. However, regarding domestic sales, the Company recognizes revenue at the time of shipment, when control of the product is transferred to the customer in a normal period after shipment.</p> <p>In this regard, there is a potential risk that revenue from sales may be recognized by the Company at a time when performance obligations are not yet satisfied for the following reasons:</p> <ul style="list-style-type: none"> ● The Company has diverse customers ranging from domestic to overseas operating companies. Accordingly, there are various types of sales contracts; and ● To achieve the Medium-term Business Plan, “EGP2026,” covering the periods through the fiscal year ending December 31, 2026, a certain degree of pressure is placed on the Company in relation to a significant portion of total revenue. <p>We, therefore, determined that our assessment of the appropriateness of the Company’s determination of an accounting period in which revenue is recognized from sales of special glass products was the most significant matter in our audit of the consolidated financial statements for the current fiscal year and, accordingly, a key audit matter.</p>	<p>We tested the design and operating effectiveness of certain of the Company’s internal controls relevant to the process of recognizing revenue from sales of the special glass products. In this assessment, we focused our testing on controls to ensure that revenue was recognized for each transaction based on relevant documents evidencing that the performance obligation was satisfied.</p> <p>(2) Assessment of whether revenue was recognized in the appropriate accounting period</p> <p>In order to assess whether revenue was recognized in the appropriate accounting period, we performed the following procedures among others:</p> <ul style="list-style-type: none"> ● We identified sales transactions that had a higher risk of exception in view of the status of the achievement in accordance with the sales budget by business department and any increase in sales by customer in the closing month and traced the identified transactions to the relevant documents evidencing that the performance obligation for the transaction was satisfied; and ● We analyzed sales transactions for any unusual items in which revenue was recognized before the year-end but subsequently reversed after the end of the current fiscal year.
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Other Information

The other information comprises the information included in the disclosure documents that contain or accompany the audited consolidated financial statements, but does not include the consolidated financial statements and our auditor’s report thereon.

We do not perform any work on the other information as we determine such information does not exist.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors 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.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties with regard to the design, implementation and maintenance of 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 our 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, and 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express 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 presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, 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 corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors 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 corporate auditors and the board of corporate auditors, 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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2022 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We 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.

Sung-Jung Hong

Designated Engagement Partner

Certified Public Accountant

Johta Mizo

Designated Engagement Partner

Certified Public Accountant

Yohei Onishi

Designated Engagement Partner

Certified Public Accountant

KPMG AZSA LLC

Kyoto Office, Japan

April 17, 2023

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.



Nippon Electric Glass

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