# *Fuji Seal International, Inc. and Subsidiaries*

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

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1 Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp/en

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Fuji Seal International, Inc.:

## Opinion

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

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

## Convenience Translation

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

## Basis for Opinion

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

## Key Audit Matter

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

<table>
<tr><td colspan="2">Revenue recognition of machinery sales</td></tr>
<tr><td>Key Audit Matter Description</td><td>How the Key Audit Matter Was Addressed in the Audit</td></tr>
<tr><td>The Group reported machinery sales of ¥12,559 million ($113,441 thousand), which was a part of net sales of ¥163,636 million ($1,478,060 thousand), in the consolidated statement of income for the year ended March 31, 2021.<br><br>The Group sells made-to-order packaging machinery and normally recognizes the revenue when a customer completes an acceptance inspection in accordance with the terms and conditions of an agreement with the customer. The customer performs the required acceptance inspection after the ordered machinery is carried into the customer's site and the installment and test run of the machinery are completed.<br><br>Since the amount of machinery sales and profits per transaction are relatively higher than label sales, etc., completion of the acceptance inspection as scheduled is an important factor. In achieving the performance targets, it is very important for the acceptance inspection to be completed as scheduled, which is monitored from both inside and outside of the Group.<br><br>Due to this nature of machinery sales, we considered the cut-off assertion related to the revenue recognition of machinery sales as a key audit matter.</td><td>Our audit procedures related to the cut-off assertion for the revenue recognition of machinery sales included the following, among others:<br><br>• We evaluated the design and operating effectiveness of internal controls over the machinery sales process, which is from the receipt of the order through the acceptance inspection.<br><br>• In order to make a risk assessment on the appropriateness of the cut-off assertion for revenue recognition, we compared the order backlog information with the actual timing of machinery sales. Then, if we identified an order that indicated the machinery might have been sold earlier than the due date in the order or an order that indicated the machinery might have been sold earlier than the normal expected period from order to delivery, we performed detailed testing on the order, including inquiries to the sales managers and inspections of the production records of the machinery and the records of communication with the customers, to determine whether there were any inconsistencies or contradictions between the timing of machinery sales and the evidence we obtained through the audit procedures.<br><br>• In order to determine that the cut off of revenue was proper, based on the fact of acceptance inspection by the customer, we selected a samples of transactions from sales records from around the end of the year, taking into consideration the duration normally required from the delivery of machinery to the acceptance inspection. We matched the samples with the documents, such as contracts with customers, evidence of the shipment of machinery from the Group, original acceptance inspection certificates obtained from customers, daily work reports and the results of the acceptance inspections evidencing the completion of the installation. We then determined whether there were any inconsistencies or contradictions between the Group's recognition of machinery sales revenue and the audit evidence obtained.</td></tr>
</table>

**Responsibilities of Management and the Audit Committee for the Consolidated Financial Statements**

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

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

The Audit Committee is responsible for overseeing the Officers and Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

June 18, 2021

**Fuji Seal International, Inc. and Consolidated Subsidiaries**

**Consolidated Balance Sheet**
**March 31, 2021**

| ASSETS | Millions of Yen 2021 | Millions of Yen 2020 | Thousands of U.S. Dollars (Note 1) 2021 |
|---|---|---|---|
| CURRENT ASSETS: | | | |
| Cash and bank deposits (Notes 17 and 22) | ¥ 21,688 | ¥ 11,832 | $ 195,899 |
| Receivables (Note 18): | | | |
| Notes and accounts receivable – trade | 40,974 | 41,510 | 370,102 |
| Electronically recorded monetary claims – trade | 8,687 | 8,452 | 78,466 |
| Other | 2,891 | 2,987 | 26,113 |
| Allowance for doubtful receivables | (211) | (270) | (1,906) |
| Inventories (Note 5) | 18,758 | 19,783 | 169,434 |
| Other current assets | 947 | 970 | 8,554 |
| Total current assets | 93,734 | 85,264 | 846,662 |
| PROPERTY, PLANT AND EQUIPMENT: | | | |
| Land | 6,257 | 6,204 | 56,517 |
| Buildings and structures (Note 6) | 46,448 | 45,328 | 419,547 |
| Machinery and equipment (Note 6) | 87,959 | 88,328 | 794,499 |
| Furniture and fixtures | 8,548 | 8,051 | 77,211 |
| Lease assets (Note 16) | 561 | 665 | 5,067 |
| Others | 1,462 | 1,278 | 13,206 |
| Construction in progress | 3,113 | 2,929 | 28,118 |
| Total | 154,348 | 152,783 | 1,394,165 |
| Accumulated depreciation | (99,466) | (94,930) | (898,437) |
| Net property, plant and equipment | 54,882 | 57,853 | 495,728 |
| INVESTMENTS AND OTHER ASSETS: | | | |
| Investment securities (Notes 4 and 17) | 3,830 | 3,825 | 34,595 |
| Goodwill (Note 24) | 160 | 203 | 1,445 |
| Software | 909 | 1,109 | 8,211 |
| Deferred tax assets (Note 14) | 2,109 | 1,774 | 19,050 |
| Asset for retirement benefits (Note 12) | 2,811 | 1,954 | 25,391 |
| Other assets | 932 | 712 | 8,418 |
| Total investments and other assets | 10,751 | 9,577 | 97,110 |
| TOTAL | ¥ 159,367 | ¥ 152,694 | $ 1,439,500 |

| LIABILITIES AND EQUITY | Millions of Yen 2021 | Millions of Yen 2020 | Thousands of U.S. Dollars (Note 1) 2021 |
|---|---|---|---|
| CURRENT LIABILITIES: | | | |
| Short-term bank loans (Notes 11 and 17) | ¥ 5,416 | ¥ 7,192 | $ 48,921 |
| Current portion of long-term debt (Notes 11 and 17) | 1,085 | 2,428 | 9,800 |
| Current portion of long-term lease obligations (Note 16) | 79 | 92 | 714 |
| Payables (Note 17): | | | |
| Notes and accounts payable – trade | 13,104 | 12,308 | 118,363 |
| Electronically recorded obligations – trade | 11,655 | 13,321 | 105,275 |
| Other | 5,557 | 5,500 | 50,194 |
| Income taxes payable (Note 17) | 992 | 759 | 8,960 |
| Accrued expenses | 3,464 | 3,059 | 31,289 |
| Other current liabilities (Notes 14 and 17) | 5,123 | 4,504 | 46,275 |
| Total current liabilities | 46,475 | 49,163 | 419,791 |
| LONG-TERM LIABILITIES: | | | |
| Long-term debt (Notes 11 and 17) | 5,115 | 1,208 | 46,202 |
| Long-term lease obligations (Note 16) | 135 | 161 | 1,219 |
| Liability for retirement benefits (Note 12) | 2,594 | 2,461 | 23,431 |
| Deferred tax liabilities (Note 14) | 1,153 | 1,365 | 10,415 |
| Other long-term liabilities | 814 | 697 | 7,352 |
| Total long-term liabilities | 9,811 | 5,892 | 88,619 |
| COMMITMENTS AND CONTINGENT LIABILITIES (Notes 16 and 18) | | | |
| EQUITY (Notes 13 and 23): | | | |
| Common stock, authorized, 200,000,000 shares; issued, 60,161,956 shares in 2021 and 2020 | 5,990 | 5,990 | 54,105 |
| Capital surplus | 6,585 | 6,572 | 59,480 |
| Retained earnings | 93,373 | 86,776 | 843,402 |
| Treasury stock – at cost: 5,026,153 shares in 2021 and 4,597,169 shares in 2020 | (7,537) | (6,587) | (68,079) |
| Accumulated other comprehensive income (Note 19): | | | |
| Unrealized gain on available-for-sale securities | 1,318 | 1,362 | 11,905 |
| Deferred gain on derivatives under hedge accounting (Note 18) | | 0 | |
| Foreign currency translation adjustments | 1,816 | 2,604 | 16,403 |
| Adjustment for defined retirement benefit plans (Note 12) | 1,536 | 922 | 13,874 |
| Subtotal | 4,670 | 4,888 | 42,182 |
| Total equity | 103,081 | 97,639 | 931,090 |
| TOTAL | ¥ 159,367 | ¥ 152,694 | $ 1,439,500 |

See notes to consolidated financial statements.

## Fuji Seal International, Inc. and Consolidated Subsidiaries

**Consolidated Statement of Income**
**Year Ended March 31, 2021**

| | Millions of Yen 2021 | Millions of Yen 2020 | Thousands of U.S. Dollars (Note 1) 2021 |
|---|---|---|---|
| NET SALES | ¥ 163,636 | ¥ 160,925 | $ 1,478,060 |
| COST OF SALES (Note 15) | 132,338 | 129,635 | 1,195,357 |
| Gross profit | 31,298 | 31,290 | 282,703 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 15 and 21) | 18,869 | 18,655 | 170,437 |
| Operating income | 12,429 | 12,635 | 112,266 |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | 78 | 86 | 705 |
| Interest expense | (67) | (63) | (605) |
| Foreign exchange gain (loss) – net | (390) | 17 | (3,523) |
| Equity in earnings of associated company | | 200 | |
| Gain on sales of property, plant and equipment | 19 | 26 | 172 |
| Loss on sales and disposals of property, plant and equipment | (354) | (205) | (3,198) |
| Gain on sales of investment securities | 69 | | 623 |
| Reorganization expenses (Note 10) | (146) | (40) | (1,319) |
| Subsidies income | 43 | 200 | 388 |
| Gain on step acquisitions (Note 24) | | 551 | |
| Impairment losses (Note 6) | (57) | (717) | (515) |
| Loss from a fire accident (Note 7) | | (76) | |
| Claim settlement (Note 8) | (300) | | (2,710) |
| Insurance income (Note 9) | 1,101 | | 9,945 |
| Advanced deduction for assets acquired by insurance income (Note 6) | (849) | | (7,669) |
| Other – net | 54 | (41) | 489 |
| Other expenses – net | (799) | (62) | (7,217) |
| INCOME BEFORE INCOME TAXES | 11,630 | 12,573 | 105,049 |
| INCOME TAXES (Note 14): | | | |
| Current | (3,889) | (3,744) | (35,128) |
| Deferred | 634 | (21) | 5,727 |
| Total income taxes | (3,255) | (3,765) | (29,401) |
| NET INCOME | 8,375 | 8,808 | 75,648 |
| NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | ¥ 8,375 | ¥ 8,808 | $ 75,648 |

| | Yen 2021 | Yen 2020 | U.S. Dollars 2021 |
|---|---|---|---|
| PER SHARE OF COMMON STOCK (Notes 2.u and 20): | | | |
| Basic net income | ¥150.93 | ¥155.51 | $1.36 |
| Cash dividends applicable to the year | 32.00 | 32.00 | 0.29 |

See notes to consolidated financial statements.

## Fuji Seal International, Inc. and Consolidated Subsidiaries

**Consolidated Statement of Comprehensive Income**
**Year Ended March 31, 2021**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| NET INCOME | ¥8,375 | ¥ 8,808 | $75,648 |
| OTHER COMPREHENSIVE (LOSS) INCOME (Note 19): | | | |
| Unrealized gain on available-for-sale securities | (44) | (268) | (397) |
| Deferred (loss) gain on derivatives under hedge accounting | (0) | 6 | (0) |
| Foreign currency translation adjustments | (788) | (899) | (7,118) |
| Share of other comprehensive income in associated company | | (445) | |
| Adjustment for defined retirement benefit plans | 614 | (185) | 5,546 |
| Total other comprehensive (loss) income | (218) | (1,791) | (1,969) |
| COMPREHENSIVE INCOME (Note 19) | ¥8,157 | ¥ 7,017 | $73,679 |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 19): | | | |
| Owners of the parent | ¥8,157 | ¥7,017 | $73,679 |

See notes to consolidated financial statements.

**Fuji Seal International, Inc. and Consolidated Subsidiaries**

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

| | | Millions of Yen | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Accumulated Other Comprehensive Income (Loss) | | | | |
| | Number of Shares of Common Stock Outstanding | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-Sale Securities | Deferred (Loss) Gain on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Adjustment for Defined Retirement Benefit Plans | Total Equity |
| BALANCE, APRIL 1, 2019 | 57,047,383 | ¥5,990 | ¥6,525 | ¥79,786 | ¥(3,084) | ¥1,630 | ¥ (6) | ¥ 3,948 | ¥1,107 | ¥ 95,896 |
| Net income attributable to owners of the parent | | | | 8,808 | | | | | | 8,808 |
| Cash dividends, ¥32 per share | | | | (1,818) | | | | | | (1,818) |
| Purchase of treasury stock | (1,503,296) | | | | (3,523) | | | | | (3,523) |
| Disposal of treasury stock (include the disposal as restricted share compensation) | 20,700 | | 47 | | 20 | | | | | 67 |
| Net change in the year | (1,482,596) | | | | | (268) | 6 | (1,344) | (185) | (1,791) |
| BALANCE, MARCH 31, 2020 | 55,564,787 | 5,990 | 6,572 | 86,776 | (6,587) | 1,362 | 0 | 2,604 | 922 | 97,639 |
| Net income attributable to owners of the parent | | | | 8,375 | | | | | | 8,375 |
| Cash dividends, ¥32 per share | | | | (1,778) | | | | | | (1,778) |
| Purchase of treasury stock | (449,284) | | | | (979) | | | | | (979) |
| Disposal of treasury stock (include the disposal as restricted share compensation) | 20,300 | | 13 | | 29 | | | | | 42 |
| Net change in the year | (428,984) | | | | | (44) | (0) | (788) | 614 | (218) |
| BALANCE, MARCH 31, 2021 | 55,135,803 | ¥5,990 | ¥6,585 | ¥93,373 | ¥(7,537) | ¥1,318 | ¥ | ¥ 1,816 | ¥1,536 | ¥103,081 |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | Accumulated Other Comprehensive Income (Loss) | | | | |
| | Common Stock | Capital Surplus | Retained Earnings | Treasury Stock | Unrealized Gain on Available-for-Sale Securities | Deferred (Loss) Gain on Derivatives under Hedge Accounting | Foreign Currency Translation Adjustments | Adjustment for Defined Retirement Benefit Plans | Total Equity |
| BALANCE, MARCH 31, 2020 | $54,105 | $59,363 | $783,814 | $(59,498) | $12,302 | $ 0 | $23,521 | $ 8,328 | $881,935 |
| Net income attributable to owners of the parent | | | 75,648 | | | | | | 75,648 |
| Cash dividends, $0.29 per share | | | (16,060) | | | | | | (16,060) |
| Purchase of treasury stock | | | | (8,843) | | | | | (8,843) |
| Disposal of treasury stock (include the disposal as restricted share compensation) | | 117 | | 262 | | | | | 379 |
| Net change in the year | | | | | (397) | (0) | (7,118) | 5,546 | (1,969) |
| BALANCE, MARCH 31, 2021 | $54,105 | $59,480 | $843,402 | $(68,079) | $11,905 | $ | $16,403 | $13,874 | $931,090 |

See notes to consolidated financial statements.

## Fuji Seal International, Inc. and Consolidated Subsidiaries

### Consolidated Statement of Cash Flows
### Year Ended March 31, 2021

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes | ¥11,630 | ¥12,573 | $ 105,049 |
| Adjustments for: | | | |
| Income taxes – paid | (3,146) | (3,951) | (28,417) |
| Depreciation and amortization | 8,056 | 8,161 | 72,767 |
| Impairment losses (Note 6) | 57 | 717 | 515 |
| Subsidies income | (43) | (200) | (388) |
| Gain on sales of property, plant and equipment | (19) | (26) | (172) |
| Loss on sales and disposals of property, plant and equipment | 354 | 205 | 3,198 |
| Gain on sales of investment securities | (69) | | (623) |
| Equity in earnings of associated company | | (200) | |
| Advanced deduction for assets acquired by insurance income (Note 6) | 849 | | 7,669 |
| Changes in assets and liabilities: | | | |
| Receivables | 48 | 568 | 434 |
| Inventories | 844 | 1,259 | 7,624 |
| Payables | (871) | (135) | (7,868) |
| Liability for retirement benefits | (89) | 7 | (804) |
| Others – net | 1,246 | 108 | 11,254 |
| Total adjustments | 7,217 | 6,513 | 65,189 |
| Net cash provided by operating activities | 18,847 | 19,086 | 170,238 |
| INVESTING ACTIVITIES: | | | |
| Purchases of property, plant and equipment | (6,409) | (6,421) | (57,890) |
| Purchases of software and other assets | (345) | (371) | (3,116) |
| Purchases of investment securities | (82) | (279) | (741) |
| Cash paid to acquire additional shares of entity, net of cash and cash equivalents acquired (Note 24) | | (2,589) | |
| Others – net | 254 | 343 | 2,294 |
| Net cash used in investing activities | (6,582) | (9,317) | (59,453) |
| FINANCING ACTIVITIES: | | | |
| (Decrease) increase in short-term bank loans – net | (1,553) | 933 | (14,028) |
| Proceeds from long-term debt | 5,000 | 186 | 45,163 |
| Repayments of long-term debt | (2,427) | (1,850) | (21,922) |
| Purchases of treasury stock | (979) | (3,524) | (8,843) |
| Dividends paid | (1,778) | (1,818) | (16,060) |
| Others – net | (351) | (328) | (3,170) |
| Net cash used in financing activities | (2,088) | (6,401) | (18,860) |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | 30 | 8 | 271 |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 10,207 | 3,376 | 92,196 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF THE YEAR | 11,343 | 7,967 | 102,457 |
| CASH AND CASH EQUIVALENTS, END OF THE YEAR (Note 22) | ¥21,550 | ¥11,343 | $ 194,653 |

See notes to consolidated financial statements.

### 1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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. In addition, certain reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which Fuji Seal International, Inc. (the "Company") is incorporated and operates. The translations of Japanese yen amount into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.71 to $1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***a.*** ***Consolidation*** – The consolidated financial statements as of March 31, 2021, include the accounts of the Company and its 26 (26 in 2020) subsidiaries (collectively, 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.

Investment in one associated company was accounted for by the equity method during 2020. The associated company became a consolidated subsidiary due to additional acquisition of shares in 2020 (see Note 24).

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

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – In accordance with Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items, that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Unification of Accounting Policies Applied to a Foreign-Associated Company for the Equity Method*** – In accordance with ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by a foreign-associated company in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

d. ***Business Combinations*** – Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statement's provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interests is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interests is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

*e.* ***Cash Equivalents*** – Cash equivalents presented in the consolidated statement of cash flows are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include deposits in banks and other short-term investments which mature or become due within 12 months of the date of acquisition. In the consolidated statements of cash flows, the ending balance of bank overdraft is netted against cash equivalents (see Note 22).

*f.* ***Inventories*** – Inventories are stated at the lower of cost, determined by the moving-average cost method principally for finished products and work in process and by the most recent purchase price principally for raw materials and supplies, or net selling value.

*g.* ***Investment Securities*** – Available-for-sale securities, which are not classified as either trading securities or held-to-maturity debt securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

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

*h.* ***Allowance for Doubtful Receivables*** – The allowance for doubtful receivables is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

*i.* ***Property, Plant and Equipment*** – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its domestic subsidiaries is computed by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. Depreciation of property, plant and equipment of foreign subsidiaries is computed substantially by the straight-line method. The range of useful lives is from 2 to 50 years for buildings and structures, from 2 to 15 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures.

Equipment held under lease is depreciated by the straight-line method over the respective lease period.

Under certain conditions, such as the receipt of subsidy and insurance income, Japanese tax laws permit companies to defer the profit arising from such transactions by reducing the cost of the assets acquired.

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

*k.* ***Software*** – Software for internal use is amortized by the straight-line method over the estimated useful lives. The estimated useful life is five years.

*l.* ***Goodwill*** – Goodwill arises principally from business combinations. Goodwill represents the excess of the purchase price over the fair value of the identifiable net assets acquired. Goodwill is amortized over 5 years.

m. ***Retirement and Pension Plans*** – The Company and certain subsidiaries have defined contribution pension plans and defined benefit lump-sum payment plans for employees. The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss primarily over ten years but no longer than the expected average remaining service period of the employees.

n. ***Asset Retirement Obligations*** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and normal operation of a tangible fixed asset, and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement, and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

o. ***Research and Development Costs*** – Research and development costs are charged to income as incurred.

p. ***Leases*** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet. All other leases are accounted for as operating leases.

q. ***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 rates to the temporary differences.

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

With regard to the items for which a review of the non-consolidated taxation system was made in accordance with the transition to the group tax sharing system established under the "Act for Partial Revision of the Income Tax Act, etc." (Act No. 8 of 2020) and the transition to the group tax sharing system, pursuant to the treatment of Paragraph 3 of "Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System" (PITF No. 39, March 31, 2020), the provisions of Paragraph 44 of "Implementation Guidance on Tax Effect Accounting" (ASBJ Guidance No. 28, February 16, 2018) do not apply to the Company and some domestic subsidiaries, and the amounts of deferred tax assets and deferred tax liabilities are based on the provisions of the tax law before amendment.

r. ***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.

s. ***Foreign Currency Financial Statements*** – The balance sheet accounts of the foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date, except for equity, which is translated at the historical rate. Differences arising from such translation 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 foreign subsidiaries are translated into yen at the average exchange rate.

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

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: (a) all derivatives 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 and (b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense or income.

u. ***Per Share Information*** – Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period retroactively adjusted for stock splits.

Diluted net income per share is not presented because there are no securities with a dilutive effect upon exercise or conversion into common stock.

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

v. ***Accounting Changes and Error Corrections*** – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
(2) Changes in Presentation – When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
(3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
(4) Corrections of Prior-Period Errors – When an error in prior-period financial statements is discovered, those statements are restated.

### *w. New Accounting Pronouncements*

***Revenue Recognition*** – On March 30, 2018, the 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 adopt the accounting standard and guidance for annual periods beginning on or after April 1, 2021. The adoption of the new standard and guidance is not expected to have a material effect on the Company's financial statements dated at March 31, 2022.

***Fair Value Measurement*** – 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"). Under the New Accounting Standards, non-marketable available-for-sale equity securities are stated at fair value, while under the current accounting standards, non-marketable available-for-sale securities are stated at cost. The Group expects to apply the New Accounting Standards for annual periods beginning on April 1, 2021, and is in the process of measuring the effects of applying the Standards in future applicable periods.

## 3. SIGNIFICANT ACCOUNTING ESTIMATE

### *Recoverability of Deferred Tax Assets*

Deferred tax assets are recognized for the tax consequences of temporary differences between the financial reporting basis and the tax basis of existing assets and liabilities, as well as operating loss carryforwards. Recoverability of deferred tax assets is mainly based on estimated future taxable income. Changes in the economic environment and other factors may affect these estimates. If actual taxable income would differ from its estimate in timing and amount, it could have a material impact on deferred tax assets for the fiscal year ending March 31, 2022.

Deferred tax assets as of March 31, 2021 is as the following:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| | 2021 | 2021 |
| Deferred tax assets | ¥2,109 | $19,050 |

## 4. INVESTMENT SECURITIES

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Noncurrent: | | | |
| Marketable equity securities | ¥3,317 | ¥3,374 | $ 29,961 |
| Non-marketable equity securities | 513 | 451 | 4,634 |
| Total | ¥3,830 | ¥3,825 | $ 34,595 |

The costs and aggregate fair values of investment securities as of March 31, 2021 and 2020, were as follows:

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2021 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | ¥1,419 | ¥1,901 | ¥(3) | ¥3,317 |
| Total | ¥1,419 | ¥1,901 | ¥(3) | ¥3,317 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| | 2020 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | ¥1,426 | ¥1,966 | ¥(18) | ¥3,374 |
| Total | ¥1,426 | ¥1,966 | ¥(18) | ¥3,374 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| | 2021 | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Available-for-sale: | | | | |
| Equity securities | $ 12,817 | $ 17,171 | $(27) | $ 29,961 |
| Total | $ 12,817 | $ 17,171 | $(27) | $ 29,961 |

There were no sales of equity securities for the years ended March 31, 2021, and 2020.

With respect to impairing securities with a market value, if the market value at the end of the period has significantly declined compared to the acquisition cost, the Group recognizes impairment to the extent deemed necessary based on recoverability. The Company recognized impairment of nil and ¥14 million on investment securities for the years ended March 31, 2021 and 2020, respectively.

## 5. INVENTORIES

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Finished products | ¥ 8,537 | ¥ 9,155 | $ 77,111 |
| Work in process | 3,458 | 3,492 | 31,235 |
| Raw materials and supplies | 6,763 | 7,136 | 61,088 |
| Total | ¥18,758 | ¥19,783 | $169,434 |

## 6. LONG-LIVED ASSETS

(1) Impairment losses

**Year ended March 31, 2021**

The Group reviewed its long-lived assets for impairment as of March 31, 2021. As a result, Fuji Seal, Poland Sp. zo. o. recognized impairment losses on machinery of ¥57 million ($515 thousand). Some machinery was revalued at zero as a result of a reconsideration of business strategies.

**Year ended March 31, 2020**

The Group reviewed its long-lived assets for impairment as of March 31, 2020. As a result, Fuji Seal, Inc. Nara division recognized impairment losses of ¥384 million on buildings and land, and PAGO AG recognized impairment losses of ¥334 million on machinery and equipment, and the carrying amounts of the relevant assets were written down to the recoverable amounts for the year ended March 31, 2020. Both entities had continuing operating losses, which results in the indicators of impairment.

In addition, Fuji Seal, Inc. Tsukuba factory recognized impairment losses of ¥49 million on idle machinery and equipment due to a fire accident, and the carrying amounts of the relevant assets were written down to zero.

(2) Advanced deduction

The amount of advanced deduction directly from the acquisition cost of fixed assets as of March 31, 2021 and 2020, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Buildings and structures | ¥ 296 | | $ 2,674 |
| Machinery and equipment | 552 | | 4,986 |
| Land | 1,478 | ¥1,478 | 13,350 |
| Total | ¥2,326 | ¥1,478 | $21,010 |

The insurance income related to the fire at Fuji Seal, Inc. Tsukuba factory in November 2019 (Note 9) is deducted directly from the cost of fixed tangible assets acquired as replacement and the deduction is recorded as loss of ¥849 million ($7,669 thousand) under the account of Advanced deduction for assets acquired by insurance income for the year ended March 31, 2021. There was no loss of deduction for the year ended March, 31, 2020.

## 7. LOSS FROM A FIRE ACCIDENT

**Year ended March 31, 2021**

No loss on fire accident was recognized.

**Year ended March 31, 2020**

Loss from a fire accident consisted of the impairment losses on machinery and losses on inventories, both of which were caused by a fire accident at Fuji Seal, Inc. Tsukuba factory in November 2019.

## 8. CLAIM SETTLEMENT

**Year ended March 31, 2021**

The amount was paid to a customer to settle a claim on products.

**Year ended March 31, 2020**

No claim settlement was recognized.

## 9. INSURANCE INCOME

**Year ended March 31, 2021**

The Company received insurance amounting to ¥981 million ($8,861 thousand) related to the loss from the fire accident (Note 7) that occurred at the Fuji Seal, Inc. Tsukuba factory in November 2019 and ¥120 million ($1,084 thousand) related to the claim settlement (Note 8).

**Year ended March 31, 2020**

No insurance income was recognized.

## 10. REORGANIZATION EXPENSES

**Year ended March 31, 2021**

Pago AG's tack machinery business was integrated into Pago Etikettiersysteme GmbH, which resulted in restructuring expenses of ¥109 million ($985 thousand). The plant closure in PT. Fuji Seal Packaging Indonesia resulted in losses on disposal of inventories and other expenses of ¥37 million ($334 thousand).

**Year ended March 31, 2020**

Information is omitted because the amount is immaterial.

## 11. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of March 31, 2021 and 2020, consisted of bank loans and bank overdrafts. The weighted-average annual interest rate applicable to the short-term bank loans was 0.4% for the years ended March 31, 2021 and 2020.

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Loans from banks with weighted-average per annum interest rate of 0.3% for 2021 (0.2% for 2020) due serially to 2024 | ¥ 6,200 | ¥ 3,636 | $ 56,002 |
| Total | 6,200 | 3,636 | 56,002 |
| Less current portion | (1,085) | (2,428) | (9,800) |
| Long-term debt, less current portion | ¥ 5,115 | ¥ 1,208 | $ 46,202 |

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

| Years Ending March 31 | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2023 | ¥5,035 | $ 45,479 |
| 2024 | 35 | 316 |
| 2025 | 45 | 407 |
| 2026 | | |
| 2027 | | |
| Total | ¥5,115 | $ 46,202 |

## 12. RETIREMENT AND PENSION PLANS

The Company and certain subsidiaries have defined retirement benefit plans, such as a defined corporate pension plan and lump-sum pension plan, and also have defined contribution plans. Under most circumstances, employees terminating their employment are entitled to retirement benefits, determined based on the rate of pay at the time of termination, years of service, and certain other factors.

### Defined Retirement Benefit Plan

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Balance at beginning of the year | ¥13,847 | ¥12,824 | $ 125,075 |
| Current service cost | 359 | 314 | 3,243 |
| Interest cost | 36 | 98 | 325 |
| Actuarial (gains) losses | (102) | 1,026 | (921) |
| Benefits paid | (1,156) | (836) | (10,442) |
| Foreign currency transaction adjustments | 481 | (28) | 4,345 |
| Acquisition of consolidated subsidiary | | 343 | |
| Others | 112 | 106 | 1,011 |
| Balance at end of the year | ¥13,577 | ¥13,847 | $ 122,636 |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Balance at beginning of the year | ¥13,340 | ¥12,846 | $120,495 |
| Interest income | 32 | 110 | 289 |
| Actuarial gains | 724 | 950 | 6,540 |
| Contributions from the employer | 132 | 138 | 1,192 |
| Benefits paid | (1,069) | (777) | (9,656) |
| Foreign currency transaction adjustments | 538 | (27) | 4,860 |
| Others | 97 | 100 | 876 |
| Balance at end of the year | ¥13,794 | ¥13,340 | $124,596 |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Defined benefit obligations | ¥ 10,987 | ¥ 11,386 | $ 99,242 |
| Plan assets | (13,794) | (13,340) | (124,596) |
| Total | (2,807) | (1,954) | (25,354) |
| Unfunded defined benefit obligations | 2,590 | 2,461 | 23,394 |
| Net (asset) liability arising from defined benefit obligations | ¥ (217) | ¥ 507 | $ (1,960) |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Liability for retirement benefits | ¥ 2,594 | ¥ 2,461 | $ 23,431 |
| Asset for retirement benefits | (2,811) | (1,954) | (25,391) |
| Net (asset) liability arising from defined benefit obligation | ¥ (217) | ¥ 507 | $ (1,960) |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Service cost | ¥ 359 | ¥ 314 | $ 3,243 |
| Net interest cost | 4 | (12) | 36 |
| Recognized actuarial losses | (146) | (149) | (1,319) |
| Amortization of prior service cost | | 12 | |
| Others (including early retirement payment) | 6 | 6 | 54 |
| Net periodic benefit costs | ¥ 223 | ¥ 171 | $ 2,014 |
| Loss on settlement of retirement benefit plan | | 53 | |
| Total | ¥ 223 | ¥ 224 | $ 2,014 |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Prior service cost | ¥ 1 | ¥ 12 | $ 9 |
| Actuarial losses (gains) | 729 | (233) | 6,585 |
| Total | ¥730 | ¥(221) | $6,594 |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Unrecognized prior service cost | ¥ (2) | ¥ (3) | $ (18) |
| Unrecognized actuarial losses | 1,805 | 1,076 | 16,304 |
| Total | ¥1,803 | ¥1,073 | $16,286 |

(7) Plan assets as of March 31, 2021 and 2020

*a. Components of plan assets*

Plan assets consisted of the following:

| | 2021 | 2020 |
|---|---|---|
| Mutual fund | 38% | 37% |
| Debt investments | 33 | 36 |
| Equity investments | 27 | 27 |
| Others | 2 | 0 |
| Total | 100% | 100% |

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

| | 2021 | 2020 |
|---|---|---|
| Discount rate | Domestic: 0.1%<br>Foreign: 0.2-2.3% | Domestic: 0.1%<br>Foreign: 0.2-3.1% |
| Amortization period of prior service cost | Mainly 10 years | Mainly 10 years |
| Recognition period of actuarial gains/losses | Mainly 10 years | Mainly 10 years |
| Estimated rate of salary increase (*1) | Domestic: 4.0%<br>Foreign: 0.5% | Domestic: 4.0%<br>Foreign: 0.5% |

(*1) For the Company and domestic subsidiaries, the estimated rate of salary increase represented an estimated rate of increase in points, which is applied in calculating the retirement benefits.

**Defined Contribution Plan**

The amounts of required contribution for the years ended March 31, 2021 and 2020, were ¥500 million ($4,516 thousand) and ¥433 million, respectively.

## 13. EQUITY

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

(a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit 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. The Board of Directors of companies with board committees (namely appointment committee, compensation committee, and audit committee) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with board committees. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash assets) to shareholders subject to a certain limitation and additional requirements.

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

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

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon the payment of such dividends, until the aggregate amount of 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.

## 14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.59% for the years ended March 31, 2021 and 2020. The foreign subsidiaries are subject to income taxes of the countries in which they operate.

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Deferred tax assets: | | | |
| Accrued enterprise taxes | ¥ 86 | ¥ 91 | $ 777 |
| Accrued bonuses | 402 | 410 | 3,631 |
| Allowance for doubtful receivables | 38 | 35 | 343 |
| Liability for retirement benefits | 712 | 676 | 6,431 |
| Tax loss carryforwards | 4,350 | 3,676 | 39,292 |
| Depreciation | 669 | 410 | 6,043 |
| Impairment losses | 124 | 132 | 1,120 |
| Unrealized intercompany profits | 175 | 191 | 1,581 |
| Tax credits carryforwards for investment | 1,994 | 829 | 18,011 |
| Others | 1,273 | 882 | 11,498 |
| Total of tax loss carryforwards and temporary differences | 9,823 | 7,332 | 88,727 |
| Less valuation allowance for tax loss carryforwards | (4,327) | (3,622) | (39,084) |
| Less valuation allowance for temporary differences | (1,958) | (673) | (17,686) |
| Total valuation allowance | (6,285) | (4,295) | (56,770) |
| Deferred tax assets | ¥ 3,538 | ¥ 3,037 | $ 31,957 |
| Deferred tax liabilities: | | | |
| Reserve for advanced depreciation of property, plant and equipment | ¥ (340) | ¥ (362) | $ (3,071) |
| Net unrealized gains on available-for-sale securities | (579) | (600) | (5,230) |
| Depreciation | (848) | (1,068) | (7,660) |
| Fixed assets | (124) | (128) | (1,120) |
| Others | (691) | (470) | (6,241) |
| Deferred tax liabilities | ¥(2,582) | ¥(2,628) | $(23,322) |
| Net deferred tax liabilities | ¥ 956 | ¥ 409 | $ 8,635 |

The expiration of tax loss carryforwards, the related valuation allowances and the resulting net deferred tax assets as of March 31, 2021 was as follows:

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| March 31, 2021 | 1 Year or Less | After 1 Year through 2 Years | After 2 Years through 3 Years | After 3 Years through 4 Years | After 4 Years through 5 Years | After 5 Years | Total |
| Deferred tax assets relating to tax loss carryforwards | ¥ 121 | ¥ 88 | ¥ 439 | ¥ 486 | ¥ 3 | ¥ 3,213 | ¥ 4,350 |
| Less valuation allowances for tax loss carryforwards | (121) | (88) | (439) | (486) | (3) | (3,190) | (4,327) |
| Net deferred tax assets relating to tax loss carryforwards | | | | | | 23 | 23 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| March 31, 2021 | 1 Year or Less | After 1 Year through 2 Years | After 2 Years through 3 Years | After 3 Years through 4 Years | After 4 Years through 5 Years | After 5 Years | Total |
| Deferred tax assets relating to tax loss carryforwards | $ 1,093 | $ 795 | $ 3,965 | $ 4,390 | $ 27 | $ 29,022 | $ 39,292 |
| Less valuation allowances for tax loss carryforwards | (1,093) | (795) | (3,965) | (4,390) | (27) | (28,814) | (39,084) |
| Net deferred tax assets relating to tax loss carryforwards | | | | | | 208 | 208 |

Reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2021 is as follows:

| | 2021 |
|---|---|
| Normal effective statutory tax rate | 30.59% |
| Lower income tax rates applicable to income in certain foreign countries | (2.04) |
| Unrealized gains | 1.03 |
| Investments in subsidiaries | (1.32) |
| Other – net | (0.27) |
| Actual effective tax rate | 27.99% |

Reconciliation for the year ended March 31, 2020 is not presented because the difference between the normal effective statutory tax rate and the actual effective tax rate was less than 5% of the normal effective statutory tax rate, which is immaterial.

## 15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,395 million ($21,633 thousand) and ¥2,540 million for the years ended March 31, 2021 and 2020, respectively.

## 16. LEASES

The Group leases certain machinery, computer equipment, and other assets.

Total rental expenses, including lease payments under finance leases for the years ended March 31, 2021 and 2020, were ¥430 million ($3,884 thousand) and ¥395 million, respectively.

Obligations under finance leases and future minimum payments under noncancelable operating leases were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars | |
|---|---|---|---|---|
| | 2021 | | 2021 | |
| | Finance Leases | Operating Leases | Finance Leases | Operating Leases |
| Due within one year | ¥ 79 | ¥104 | $ 714 | $ 939 |
| Due after one year | 135 | 171 | 1,219 | 1,545 |
| Total | ¥214 | ¥275 | $1,933 | $2,484 |

## 17. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low-risk financial assets, mainly short-term deposits, and uses financial instruments, mainly short-term bank loans and bonds, for funding. The Company and its subsidiaries apply short-term deposits and short-term loans receivable among Group companies (cash management system). Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables for trade are exposed to customer credit risk. Receivables and payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates. Marketable and investment securities, mainly listed shares, are exposed to the risk of market price fluctuations. Payment terms of payables for trade are mostly less than six months.

Maturities of bank loans and bonds are less than five years from the balance sheet date. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using interest rate swaps.

Derivatives consist primarily of forward foreign currency contracts and interest rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans. Please see Notes 2.t and 19 for more details on 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 based on internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. The credit risk affecting subsidiaries is also managed in the same manner.

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

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

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loans.

*Liquidity risk management*

Liquidity risk includes the risk that the Group cannot meet its contractual obligations in full on its maturity dates. The Group manages its liquidity risk by holding adequate volume of liquid assets in view of business income and manages expenditures and equipment investment spending plans, along with adequate financial planning by the Corporate Treasury Department. Subsidiaries also report their financial plans to the Group. The Finance Department manages liquidity risk by obtaining information on cash flows of the whole Group.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. The valuation technique utilizes certain assumptions, and the fair values may change by adopting different assumptions. In addition, the contract amounts of derivatives in Note 19 do not directly indicate the market risk of derivatives.

(a) Fair value of financial instruments

The carrying amounts, fair values, and unrealized gain/loss as of March 31, 2021 and 2020, were as follows. Note that financial instruments whose fair value cannot be reliably determined are not included (see (b)).

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2021 | Carrying Amount | Fair Value | Unrealized Gain (Loss) |
| Cash and bank deposits | ¥21,688 | ¥21,688 | ¥ |
| Receivables: | | | |
| Notes and accounts receivable – trade | 40,974 | 40,974 | |
| Electronically recorded monetary claims – trade | 8,687 | 8,687 | |
| Investment securities: | | | |
| Available-for-sale securities | 3,317 | 3,317 | |
| Total | ¥74,666 | ¥74,666 | ¥ |
| Short-term bank loans | ¥ 5,416 | ¥ 5,416 | |
| Payables: | | | |
| Notes and accounts payable – trade | 13,104 | 13,104 | |
| Electronically recorded obligations – trade | 11,655 | 11,655 | |
| Others | 4,686 | 4,686 | |
| Income taxes payable | 992 | 992 | |
| Long-term debt | 6,200 | 6,197 | ¥ (3) |
| Total | ¥42,053 | ¥42,050 | ¥ (3) |
| Derivatives (*1) | ¥(43) | ¥(43) | ¥ |

| March 31, 2020 | Millions of Yen Carrying Amount | Fair Value | Unrealized Gain (Loss) |
|---|---|---|---|
| Cash and bank deposits | ¥11,832 | ¥11,832 | ¥ |
| Receivables: | | | |
| Notes and accounts receivable – trade | 41,510 | 41,510 | |
| Electronically recorded monetary claims – trade | 8,452 | 8,452 | |
| Investment securities: | | | |
| Available-for-sale securities | 3,374 | 3,374 | |
| Total | ¥65,168 | ¥65,168 | ¥ |
| Short-term bank loans | ¥ 7,192 | ¥ 7,192 | |
| Payables: | | | |
| Notes and accounts payable – trade | 13,321 | 13,321 | |
| Electronically recorded obligations – trade | 12,308 | 12,308 | |
| Others | 4,095 | 4,095 | |
| Income taxes payable | 759 | 759 | |
| Long-term debt | 3,636 | 3,617 | ¥(19) |
| Total | ¥41,311 | ¥41,292 | ¥(19) |
| Derivatives (*1) | ¥(20) | ¥(20) | ¥ |

| March 31, 2021 | Thousands of U.S. Dollars Carrying Amount | Fair Value | Unrealized Gain (Loss) |
|---|---|---|---|
| Cash and bank deposits | $ 195,899 | $ 195,899 | $ |
| Receivables: | | | |
| Notes and accounts receivable – trade | 370,102 | 370,102 | |
| Electronically recorded monetary claims – trade | 78,466 | 78,466 | |
| Investment securities: | | | |
| Available-for-sale securities | 29,961 | 29,961 | |
| Total | $ 674,428 | $ 674,428 | $ |
| Short-term bank loans | $ 48,921 | $ 48,921 | |
| Payables: | | | |
| Notes and accounts payable – trade | 118,363 | 118,363 | |
| Electronically recorded obligations – trade | 105,275 | 105,275 | |
| Others | 42,327 | 42,327 | |
| Income taxes payable | 8,960 | 8,960 | |
| Long-term debt | 56,002 | 55,975 | $(27) |
| Total | $ 379,848 | $ 379,821 | $(27) |
| Derivatives (*1) | $(388) | $(388) | $ |

(*1) Derivative assets and liabilities are presented on a net basis. Negative balances indicate derivative liabilities.

*Cash and bank deposits, receivables, payables, short-term bank loans, and income taxes payable*

The carrying values of cash and bank deposits, receivables, payables, short-term bank loans, and income taxes payable approximate fair value because of their short maturities.

*Investment securities*

The fair values of investment securities are measured at the quoted market price on the stock exchange for equity instruments. Fair value information for investment securities by classification is included in Note 4.

*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. The fair values of bonds are determined by the over-the-counter sale price published by Japan Securities Dealers Association.

*Derivatives*

Fair value information for derivatives is included in Note 18.

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

| | 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 | ¥513 | ¥451 | $4,634 |

(5) Maturity Analysis for Financial Assets with Contractual Maturities

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2021 | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| Cash and bank deposits | ¥21,688 | ¥ | ¥ | ¥ |
| Receivables: | | | | |
| Notes and accounts receivable – trade | 40,974 | | | |
| Electronically recorded monetary claims – trade | 8,687 | | | |
| Total | ¥71,349 | ¥ | ¥ | ¥ |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| March 31, 2021 | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| Cash and bank deposits | $ 195,899 | $ | $ | $ |
| Receivables: | | | | |
| Notes and accounts receivable – trade | 370,102 | | | |
| Electronically recorded monetary claims – trade | 78,466 | | | |
| Total | $ 644,467 | $ | $ | $ |

Please see Note 11 for annual maturities of long-term debt and Note 16 for obligations under finance leases.

## 18. DERIVATIVES

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

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are executed to hedge interest and foreign currency exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities. The Group does not hold or issue derivatives for trading or speculative purposes.

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

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

***Derivative Transactions to Which Hedge Accounting Is Not Applied***

| | Millions of Yen | | | |
|---|---|---|---|---|
| At March 31, 2021 | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | | |
| Buying EUR | ¥956 | ¥ | ¥(45) | ¥(45) |
| Selling JPY | 143 | | 2 | 2 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| At March 31, 2020 | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | | |
| Buying EUR | ¥1,359 | ¥ | ¥(13) | ¥(13) |
| Selling USD | 86 | | (2) | (2) |
| Selling JPY | 245 | | (6) | (6) |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| At March 31, 2021 | Contract Amount | Contract Amount Due after One Year | Fair Value | Unrealized Gain/Loss |
| Foreign currency forward contracts: | | | | |
| Buying EUR | $8,635 | $ | $(406) | $(406) |
| Selling JPY | 1,292 | | 18 | 18 |

***Derivative Transactions to Which Hedge Accounting Is Applied***

| At March 31, 2021 | Hedged Item | Contract Amount (Millions of Yen) | Contract Amount Due after One Year (Millions of Yen) | Fair Value (Millions of Yen) |
|---|---|---|---|---|
| Principal method: | | | | |
| Foreign currency forward contracts: | | | | |
| Buying EUR | Forecasted transactions | ¥ | ¥ | ¥ |
| Conventional method: | | | | |
| Foreign currency forward contracts: | | | | |
| Selling EUR | Receivables | ¥ | ¥ | (*1) |
| Selling USD | Receivables | ¥ | ¥ | (*1) |

| At March 31, 2020 | Hedged Item | Contract Amount (Millions of Yen) | Contract Amount Due after One Year (Millions of Yen) | Fair Value (Millions of Yen) |
|---|---|---|---|---|
| Principal method: | | | | |
| Foreign currency forward contracts: | | | | |
| Buying EUR | Forecasted transactions | ¥25 | ¥ | ¥ 0 |
| Conventional method: | | | | |
| Foreign currency forward contracts: | | | | |
| Selling EUR | Receivables | ¥ 1 | ¥ | (*1) |
| Selling USD | Receivables | ¥ 3 | ¥ | (*1) |

| At March 31, 2021 | Hedged Item | Contract Amount (Thousands of U.S. Dollars) | Contract Amount Due after One Year (Thousands of U.S. Dollars) | Fair Value (Thousands of U.S. Dollars) |
|---|---|---|---|---|
| Principal method: | | | | |
| Foreign currency forward contracts: | | | | |
| Buying EUR | Forecasted transactions | $ | $ | $ |
| Conventional method: | | | | |
| Foreign currency forward contracts: | | | | |
| Selling EUR | Receivables | $ | $ | (*1) |
| Selling USD | Receivables | $ | $ | (*1) |

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

(*1) The hedged items denominated in foreign currencies are translated at the contracted rates if the forward foreign currency contracts qualify for hedge accounting. The fair value of such forward foreign currency contracts in Note 17 are included in the hedged items.

## 19. OTHER COMPREHENSIVE (LOSS) INCOME

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Unrealized gain on available-for-sale securities: | | | |
| Gain (loss) arising during the year | ¥ 5 | ¥ (400) | $ 45 |
| Reclassification adjustments to profit or loss | (69) | 14 | (623) |
| Amount before income tax effect | (64) | (386) | (578) |
| Income tax effect | 20 | 118 | 181 |
| Total | ¥ (44) | ¥ (268) | $ (397) |
| Deferred gain on derivatives under hedge accounting: | | | |
| Loss arising during the year | | | |
| Reclassification adjustments to profit or loss | ¥ (0) | ¥ 9 | $ (0) |
| Amount before income tax effect | (0) | 9 | (0) |
| Income tax effect | 0 | (3) | 0 |
| Total | ¥ (0) | ¥ 6 | $ (0) |
| Foreign currency translation adjustments: | | | |
| Loss arising during the year | ¥(788) | ¥ (899) | $(7,118) |
| Total | ¥(788) | ¥ (899) | $(7,118) |
| Share of other comprehensive income in associated company: | | | |
| Loss arising during the year | ¥ | ¥ (199) | $ |
| Reclassification adjustments to profit or loss | | (246) | |
| Total | ¥ | ¥ (445) | $ |
| Adjustment for defined retirement benefit plan: | | | |
| Gain (loss) arising during the year | ¥ 875 | ¥ (84) | $ 7,904 |
| Reclassification adjustments to profit or loss | (145) | (137) | (1,310) |
| Amount before income tax effect | 730 | (221) | 6,594 |
| Income tax effect | (116) | 36 | (1,048) |
| Total | ¥ 614 | ¥ (185) | $ 5,546 |
| Total other comprehensive (loss) income | ¥(218) | ¥(1,791) | $(1,969) |

## 20. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2021 and 2020, is calculated as follows:

| | Millions of Yen | Thousands of Shares | Yen | Dollars |
|---|---|---|---|---|
| | Net Income Attributable to Owners of the Parent | Weighted-Average Shares | EPS | |
| For the year ended March 31, 2021 | | | | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥8,375 | 55,490 | ¥150.93 | $1.36 |
| For the year ended March 31, 2020 | | | | |
| Basic EPS | | | | |
| Net income available to common shareholders | ¥8,808 | 56,643 | ¥155.51 | |

Diluted net income per share is not disclosed because there are no dilutive shares.

## 21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The main components of selling, general and administrative expenses for the years ended March 31, 2021 and 2020, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Employees' salaries | ¥7,042 | ¥6,849 | $63,608 |
| Freight charges | 2,930 | 2,499 | 26,466 |

## 22. SUPPLEMENTARY INFORMATION TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Reconciliations between cash and cash equivalents on the consolidated statements of cash flows and cash and bank deposits on the consolidated balance sheets at March 31, 2021 and 2020, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2021 | 2020 | 2021 |
| Cash and bank deposits | ¥ 21,688 | ¥ 11,832 | $ 195,899 |
| Bank overdraft | (138) | (489) | (1,246) |
| Cash and cash equivalents | ¥ 21,550 | ¥ 11,343 | $ 194,653 |

## 23. SUBSEQUENT EVENT

### *Appropriations of Retained Earnings*

The following appropriation of retained earnings at March 31, 2021, was approved at the meeting of the Board of Directors of the Company held on May 20, 2021:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Year-end cash dividends, ¥16 ($0.14) per share | ¥882 | $7,967 |

## 24. BUSINESS COMBINATION

The Company acquired Fuji Seal Packaging (Thailand) Co., Ltd. on March 31, 2020 and used a provisional accounting treatment for the consolidated fiscal year ended March 31, 2020 as the initial accounting for the business combination was incomplete by the end of the period. The purchase price allocation was finalized during the fiscal year ended March 31, 2021. There were no retrospective adjustments necessary for the fiscal year ended March 31, 2020 as the previous provisional estimate was accurate.

## 25. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," 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 for which such information is evaluated regularly by the chief operating decisionmaker 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's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group. The Group conducts packaging business, which mainly consists of shrink labels and self-adhesive (tack) labels in Japan, Americas, Europe, PAGO, and ASEAN. Each of the regions are an independently managed unit that can conduct production and sales in their respective region. PAGO AG and its associated companies conduct their business mainly in Switzerland, Germany, and Italy. The Company defines the business area of PAGO AG and its associated companies as "PAGO."

(2) Methods of Measurement for the Amounts of Sales, Profit (Loss), Assets, Liabilities, and Other Items for Each Reportable Segment.

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

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

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | |
| Sales to external customers | ¥91,286 | ¥35,888 | ¥14,802 | ¥ 7,981 | ¥13,679 | ¥163,636 | | ¥163,636 |
| Intersegment sales or transfers | 1,705 | 11 | 3,958 | 221 | 2,467 | 8,362 | ¥(8,362) | |
| Total | ¥92,991 | ¥35,899 | ¥18,760 | ¥ 8,202 | ¥16,146 | ¥171,998 | ¥(8,362) | ¥163,636 |
| Segment profit (loss) | ¥ 8,146 | ¥ 3,651 | ¥ 767 | ¥ (495) | ¥ 643 | ¥ 12,712 | ¥ (283) | ¥ 12,429 |
| Segment assets | 79,160 | 33,674 | 18,080 | 13,316 | 16,569 | 160,799 | (1,432) | 159,367 |
| Segment liabilities | 36,110 | 6,366 | 9,575 | 2,612 | 4,937 | 59,600 | (3,314) | 56,286 |
| Other: | | | | | | | | |
| Depreciation | 3,997 | 2,030 | 941 | 395 | 886 | 8,249 | (193) | 8,056 |
| Increase in property, plant and equipment and intangible assets | 3,528 | 1,318 | 605 | 109 | 700 | 6,260 | (343) | 5,917 |

| | Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | |
| Sales to external customers | ¥97,455 | ¥34,075 | ¥15,627 | ¥ 9,298 | ¥ 4,470 | ¥160,925 | | ¥160,925 |
| Intersegment sales or transfers | 1,253 | 59 | 2,685 | 404 | 153 | 4,554 | ¥(4,554) | |
| Total | ¥98,708 | ¥34,134 | ¥18,312 | ¥ 9,702 | ¥ 4,623 | ¥165,479 | ¥(4,554) | ¥160,925 |
| Segment profit (loss) | ¥ 9,482 | ¥ 3,085 | ¥ 186 | ¥ (266) | ¥ 205 | ¥ 12,692 | ¥ (57) | ¥ 12,635 |
| Segment assets | 76,258 | 31,787 | 17,563 | 12,971 | 15,479 | 154,058 | (1,364) | 152,694 |
| Segment liabilities | 36,202 | 5,586 | 9,633 | 2,545 | 4,929 | 58,895 | (3,841) | 55,054 |
| Other: | | | | | | | | |
| Depreciation | 4,092 | 2,301 | 1,049 | 523 | 221 | 8,186 | (25) | 8,161 |
| Increase in property, plant and equipment and intangible assets | 4,840 | 626 | 1,434 | 430 | 488 | 7,818 | (46) | 7,772 |

| | Thousands of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | | |
| | Reportable Segment | | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | |
| Sales to external customers | $824,551 | $324,162 | $133,701 | $ 72,089 | $123,557 | $1,478,060 | | $1,478,060 |
| Intersegment sales or transfers | 15,400 | 100 | 35,751 | 1,996 | 22,283 | 75,530 | $(75,530) | |
| Total | $839,951 | $324,262 | $169,452 | $ 74,085 | $145,840 | $1,553,590 | $(75,530) | $1,478,060 |
| Segment profit (loss) | $ 73,580 | $ 32,978 | $ 6,928 | $ (4,471) | $ 5,808 | $ 114,823 | $ (2,557) | $ 112,266 |
| Segment assets | 715,021 | 304,164 | 163,310 | 120,278 | 149,661 | 1,452,434 | (12,934) | 1,439,500 |
| Segment liabilities | 326,167 | 57,502 | 86,487 | 23,593 | 44,594 | 538,343 | (29,933) | 508,410 |
| Other: | | | | | | | | |
| Depreciation | 36,103 | 18,336 | 8,500 | 3,568 | 8,003 | 74,510 | (1,743) | 72,767 |
| Increase in property, plant and equipment and intangible assets | 31,867 | 11,905 | 5,465 | 984 | 6,323 | 56,544 | (3,098) | 53,446 |

Notes: 1. The major countries or areas belonging to classifications other than Japan:

| | |
|---|---|
| Americas: | USA, Mexico |
| Europe: | United Kingdom, Netherlands, France, Spain, Poland |
| PAGO: | Switzerland, Germany, Italy |
| ASEAN: | Indonesia, Viet Nam, Thailand, India |

2. Reconciliations

Reconciliation of segment profit of ¥283 million ($2,557 thousand) and ¥57 million for the years ended March 31, 2021 and 2020, respectively, was mainly composed of elimination of the inter-segment transaction, including unrealized gains.

Reconciliation of segment assets of ¥1,432 million ($12,934 thousand) and ¥1,364 million for the years ended March 31, 2021 and 2020, respectively, was mainly composed of offsetting of the receivables and the payables, investment account, and the capital account.

Reconciliation of segment liabilities of ¥3,314 million ($29,933 thousand) and ¥3,841 million for the years ended March 31, 2021 and 2020, respectively, was mainly composed of offsetting of the receivables and the payables.

Reconciliation of depreciation of ¥193 million ($1,743 thousand) and ¥25 million for the years ended March 31, 2021 and 2020, respectively, was mainly composed of elimination of the inter-segment transaction, including unrealized gains.

Reconciliation of increase in property, plant and equipment and intangible assets of ¥343 million ($3,098 thousand) and ¥46 million for the years ended March 31, 2021 and 2020, respectively, was mainly composed of elimination of unrealized gains.

(4) Information about Products and Services

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Shrink Labels | Other Labels | Self-adhesive (Tack) Labels | Soft Pouches | Machinery | Others | Total |
| Sales to external customers | ¥92,672 | ¥1,390 | ¥21,073 | ¥22,906 | ¥12,559 | ¥13,036 | ¥163,636 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | |
| | Shrink Labels | Other Labels | Self-adhesive (Tack) Labels | Soft Pouches | Machinery | Others | Total |
| Sales to external customers | ¥90,582 | ¥1,200 | ¥23,035 | ¥18,492 | ¥14,543 | ¥13,073 | ¥160,925 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Shrink Labels | Other Labels | Self-adhesive (Tack) Labels | Soft Pouches | Machinery | Others | Total |
| Sales to external customers | $837,071 | $12,555 | $190,344 | $206,901 | $113,441 | $117,748 | $1,478,060 |

(5) Information about Geographical Areas

a. Sales

| Millions of Yen | | | | |
|---|---|---|---|---|
| 2021 | | | | |
| Japan | Americas | Europe | Others | Total |
| ¥90,967 | ¥35,997 | ¥21,991 | ¥14,681 | ¥163,636 |

| Millions of Yen | | | | |
|---|---|---|---|---|
| 2020 | | | | |
| Japan | Americas | Europe | Others | Total |
| ¥97,222 | ¥34,132 | ¥24,543 | ¥5,028 | ¥160,925 |

| Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|
| 2021 | | | | |
| Japan | Americas | Europe | Others | Total |
| $821,669 | $325,147 | $198,636 | $132,608 | $1,478,060 |

Note: Classification of countries or areas is based on a geographical adjacency.

The major countries or areas belonging to classifications other than Japan for the years ended March 31, 2021 and 2020 are:

| | |
|---|---|
| Americas: | USA, Canada, Mexico, Brazil, and other countries |
| Europe: | EU countries and Switzerland |
| Others: | ASEAN countries |

Sales in Americas and Europe are classified as one section respectively, because of the difficulty to identify these sales in each country.

b. Property, plant and equipment

| Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2021 | | | | | | | |
| | Americas | | | Europe | | | |
| Japan | Americas Total | United States | Mexico | Europe Total | Poland | Others | Total |
| ¥25,807 | ¥10,920 | ¥6,133 | ¥4,787 | ¥12,106 | ¥5,805 | ¥6,049 | ¥54,882 |

| Millions of Yen | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2020 | | | | | | | |
| | Americas | | | Europe | | | |
| Japan | Americas Total | United States | Mexico | Europe Total | Poland | Others | Total |
| ¥26,576 | ¥12,388 | ¥6,780 | ¥5,608 | ¥12,763 | ¥6,356 | ¥6,126 | ¥57,853 |

| Thousands of U.S. Dollars | | | | | | | |
|---|---|---|---|---|---|---|---|
| 2021 | | | | | | | |
| | Americas | | | Europe | | | |
| Japan | Americas Total | United States | Mexico | Europe Total | Poland | Others | Total |
| $233,105 | $98,636 | $55,397 | $43,239 | $109,349 | $52,434 | $54,638 | $495,728 |

(6) Information about Impairment Losses of Assets

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Others | Total |
| Impairment losses | ¥ | ¥ | ¥57 | ¥ | ¥ | ¥ | ¥57 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Others | Total |
| Impairment losses | ¥433 | ¥ | ¥ | ¥334 | ¥ | ¥ | ¥767 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Others | Total |
| Impairment losses | $ | $ | $515 | $ | $ | $ | $515 |

(7) Information about Amortization of Goodwill and the Remaining Balance by Reportable Segment

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Others | Total |
| Amortization of goodwill | ¥ | ¥ | ¥ | ¥ | ¥ 44 | ¥ | ¥ 44 |
| Remaining balance | ¥ | ¥ | ¥ | ¥ | ¥160 | ¥ | ¥160 |

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2020 | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Others | Total |
| Amortization of goodwill | ¥ | ¥ | ¥ | ¥ | ¥ | ¥ | ¥ |
| Remaining balance | ¥ | ¥ | ¥ | ¥ | ¥203 | ¥ | ¥203 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Japan | Americas | Europe | PAGO | ASEAN | Others | Total |
| Amortization of goodwill | $ | $ | $ | $ | $ 397 | $ | $ 397 |
| Remaining balance | $ | $ | $ | $ | $1,445 | $ | $1,445 |

(8) Information about Major Customers

Information about major customers is not disclosed because there is no customer who accounts for 10% or more of total sales to external customers in the consolidated statement of income.

## 26. ADDITIONAL INFORMATION

***Planned Change in Reportable Segments***

As part of new business plan, starting from April 1, 2021, the Company plans to reorganize the management structure of its Europe segment. PAGO will be integrated with Europe.

This is the segment information as of for the year ended March 31, 2021 which is prepared under the new operating segments.

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

| | Millions of Yen | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Reportable Segment | | | | | | |
| | Japan | Americas | Europe | ASEAN | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | ¥91,286 | ¥35,888 | ¥22,783 | ¥13,679 | ¥163,636 | | ¥163,636 |
| Intersegment sales or transfers | 1,705 | 11 | 3,740 | 2,467 | 7,923 | ¥(7,923) | |
| Total | ¥92,991 | ¥35,899 | ¥26,523 | ¥16,146 | ¥171,559 | ¥(7,923) | ¥163,636 |
| Segment profit (loss) | ¥ 8,146 | ¥ 3,651 | ¥ 279 | ¥ 643 | ¥ 12,719 | ¥ (290) | ¥ 12,429 |
| Segment assets | 79,160 | 33,674 | 30,541 | 16,569 | 159,944 | (577) | 159,367 |
| Segment liabilities | 36,110 | 6,366 | 11,340 | 4,937 | 58,753 | (2,467) | 56,286 |
| Other: | | | | | | | |
| Depreciation | 3,997 | 2,030 | 1,335 | 886 | 8,248 | (192) | 8,056 |
| Increase in property, plant and equipment and intangible assets | 3,528 | 1,318 | 709 | 700 | 6,255 | (338) | 5,917 |

| | Thousands of U.S. Dollars | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2021 | | | | | | |
| | Reportable Segment | | | | | | |
| | Japan | Americas | Europe | ASEAN | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | |
| Sales to external customers | $ 824,551 | $ 324,162 | $ 205,790 | $ 123,557 | $ 1,478,060 | | $ 1,478,060 |
| Intersegment sales or transfers | 15,400 | 100 | 33,782 | 22,283 | 71,565 | $ (71,565) | |
| Total | $ 839,951 | $ 324,262 | $ 239,572 | $ 145,840 | $ 1,549,625 | $ (71,565) | $ 1,478,060 |
| Segment profit (loss) | $ 73,580 | $ 32,978 | $ 2,520 | $ 5,808 | $ 114,886 | $ (2,620) | $ 112,266 |
| Segment assets | 715,021 | 304,164 | 275,865 | 149,661 | 1,444,711 | (5,211) | 1,439,500 |
| Segment liabilities | 326,167 | 57,502 | 102,430 | 44,594 | 530,693 | (22,283) | 508,410 |
| Other: | | | | | | | |
| Depreciation | 36,103 | 18,336 | 12,059 | 8,003 | 74,501 | (1,734) | 72,767 |
| Increase in property, plant and equipment and intangible assets | 31,867 | 11,905 | 6,404 | 6,323 | 56,499 | (3,053) | 53,446 |

Notes: 1. The major countries or areas belonging to classifications other than Japan:

Americas: USA, Mexico
Europe: United Kingdom, Netherlands, France, Spain, Poland
Switzerland, Germany, Italy
ASEAN: Indonesia, Viet Nam, Thailand, India

2. Reconciliations

Reconciliation of segment profit of ¥290 million ($2,620 thousand) was mainly composed of elimination of the inter-segment transaction, including unrealized gains.

Reconciliation of segment assets of ¥577 million ($5,211 thousand) was mainly composed of offsetting of the receivables and the payables, investment account, and the capital account.

Reconciliation of segment liabilities of ¥2,467 million ($22,283 thousand) was mainly composed of offsetting of the receivables and the payables.

Reconciliation of depreciation of ¥192 million ($1,734 thousand) was mainly composed of elimination of the inter-segment transaction, including unrealized gains.

Reconciliation of increase in property, plant and equipment and intangible assets of ¥338 million ($3,053 thousand) was mainly composed of elimination of unrealized gains.

* * * * * *