Annual Report 2021

Year ended March 31, 2021

TERAOKA SEISAKUSHO CO., LTD.

PROFILE

Since its establishment as a comprehensive manufacturer of adhesive tape in 1921, Teraoka Seisakusho Co., Ltd. has remained an industry leader in driving development of original and advanced technology, continuing to provide customers with a diverse lineup of adhesive tapes that extend to packing, electrical insulation, electronic equipment, other industrial and general home-use adhesive tapes.

On February 11, 2021, Teraoka celebrated its 100 year anniversary. This is entirely thanks to all of you and we would like to express our deep gratitude for your support and kindness.

As we prepare for this “new century,” we begin formulation of our new tertiary medium-term business plan, corporate philosophy and ideal standards that will last over five years, ending in the 2025 fiscal year (lasting from April 2021 to March 2026). We will achieve this through putting to use our reflections on Phase 2 of the secondary medium-term business plan and expectations of rapid technological innovations with the potential to shape an ideal society.

- Corporate Philosophy -

Embrace change, value the process and endeavor to create “New Century” value that pursuits harmonization of people, nature and technology.

- Ideal Standards - Creativity, Thought, Distinction

Creativity	Regularly rouse innovation in creative ways, take on challenges
Thought	Ideas, conviction, pride and confidence, diligent analysis and reflection
Distinction	Different from the norm, Differentiate from the rest, Full of individuality, Dig deep

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Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED FINANCIAL HIGHLIGHTS

For the years ended March 31,

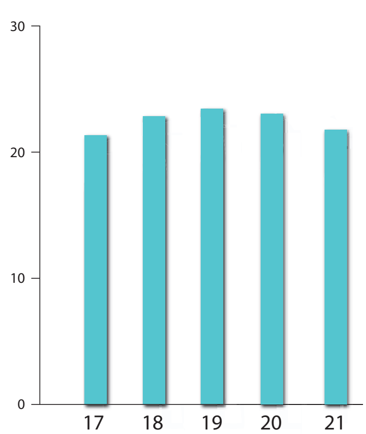
	Millions of yen		Thosands of U.S. dollars
	2021	2020	2021
Net Sales	¥21,662	¥22,895	$195,648
Operating Income	129	104	1,164
Income before Income Taxes	302	317	2,729
Net Income	91	149	822
Total Assets	37,033	35,140	334,477
Net Assets	29,046	27,939	262,341

Ratio (%)		
Operating Income to Net Sales	0.6	0.5
Equity Ratio	78.4	79.5
Return on Average Assets (ROA)	0.3	0.4
Return on Average Stockholders' Equity (ROE)	0.3	0.5

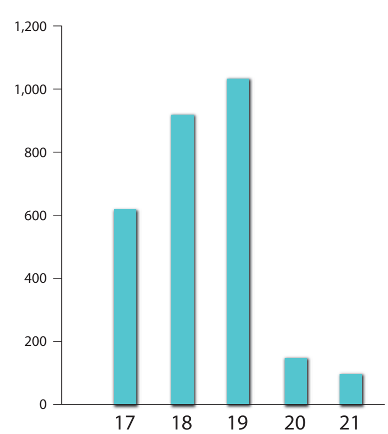
Per Share	Yen		U.S. dollars
Net Income	¥ 3.59	¥ 5.90	$0.03
Cash Dividends	12	10.00	0.11

The U.S. dollar amounts in this annual report are translated from yen, for convenience only, at the rate of ¥110.72 = US$1, the rate prevailing on March 31, 2021.

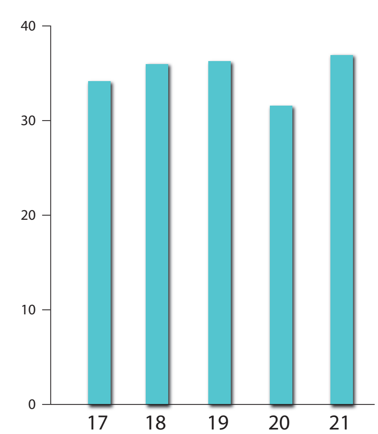
Net Sales
(¥ billions)



Net Income
(¥ millions)



Total Assets
(¥ billions)



TO OUR STOCKHOLDERS

Result for FY 2021

Fiscal year 2021, the year ended March 31, 2021 marks the 111th business term for the Company Group.

There was a significant decrease in income due to the influence of extended trade friction between the U.S. and China and the COVID-19 pandemic. Despite this, we were able to recover from significant deficit early in the year and achieve surplus in all profit items thanks to various measures to reduce fixed costs as much as possible, and securing profitable tendencies from September onward.

Each department made efforts to achieve this. The sales division focused on recovery and expansion of orders for tapes for vehicles, electronics and acquiring new commercial rights. At the same time they worked on reviewing unprofitable transactions and starting business for new models while promoting improved productivity through a new way of working, utilizing teleworking. The technology division tackled launching of new products supported by new technology and investment in new large-scale equipment with an eye on medium-term business development. Administrative division worked to improve productivity through zero-base review of conventional operations and to make improvements through operational reforms.

As a result, net sales for the consolidated fiscal year were ¥21,662 million (US$195,648 thousand), decreasing 5.4% from the same term the previous year. The operating income was ¥129 million (US$1,164 thousand). This is a 24.2% increase from the same term the previous year. Income before income taxes was ¥302 million (US$2,729 thousand), a 4.8% decrease from the previous term. Net income for the parent company was ¥91 million (US$822 thousand), a 39.1% decrease below the previous term.

The end of term regular dividend was set at ¥5.00 (US$0.05) per share, and combined with the commemorative dividend of ¥4.00 (US$0.04) for the 100 year anniversary, ¥9.00 (US$0.08) per share was distributed. The preceding mid-term dividend was ¥3.00 (US$0.03) per share for a total of ¥12.00 (US$0.11) per share in annual dividends.

We would like to take this opportunity to express our sincere gratitude to our shareholders for their continued patronage and support.

June 22, 2021

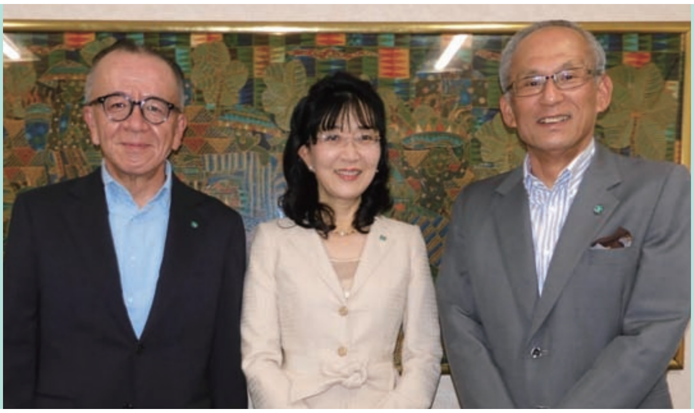
K. Teraoka

Keishiro Teraoka, Chairman

Kenichi Tsuji, President

Special Issue 100 Year Anniversary Interview

Looking Ahead to the Next 100 Years



Right: Keishiro Teraoka, Chairman
Left: Kenichi Tsuji, President
Center: Keiko Hatta, Director

February 11, 2021 marked the 100 year anniversary of the founding of Teraoka. To commemorate the occasion, Chairman Keishiro Teraoka, President Kenichi Tsuji and Outside Director Keiko Hatta discussed the past and future of the Company.

Director Hatta
Congratulations on 100 years. I'm sure there were many ups and downs, but how does it feel now, to finally be at 100?

Chairman Teraoka
Thank you very much. We have always worked in development, production and sales of adhesive tapes since the founding of the Company, in this very spot in Shinagawa, in 1921. However our main products have changed with the times. When we first started out, the main product was Black Tape, used for electrical insulation, but by around 1950 packing tapes, especially tapes made from fabric, became the backbone of the Company. The most well-known of these is Olive Tape. After that we created a system of "listening to the customer and adapting quickly," which led to focus on development of electrical insulation and electronic equipment tapes. We worked hard to develop and diversify vinyl tapes, polyester tapes, acetate tapes, etc. These products are now used internally in electronic devices such as smartphones and tablets and account for more than half of the Company's sales. It has been 100 years of adapting to the times and answering our customers' needs one at a time.

Director Hatta
When I took the position of outside director last year, the first thing I did was look at the company creed and financial statements. The company creed first created by the president two generations ago has continued to be prevalent for 59 years in the emphasis on quality, selflessness when it concerns stakeholders, contributions to society and considerations for the lives of employees. It was also clear from the financial statements that the business has been operating extremely soundly and safely. Why do you think the Company has survived for 100 years and what are the strengths?

Mr. Tsuji, what are your thoughts on this, as the first Company president from outside the family of the founder.

President Tsuji
The reason the Company has survived 100 years is first of all, is because at the core of the company, it is serious and sincere about all matters. The agents and customers understand and appreciate this sincerity. As a result, I believe we are blessed to have had the support of our agents and customers, and in response our employees and directors have worked hard, which has built up over time.

Also, although the Company tragically suffered factory fires twice during the Showa era, we were able to bounce back from that adversity, and all employees rallied together at a scale that we were able to all aim for together, extremely casually. I think that is another reason.

Chairman Teraoka
Not long after the Company's founding the president and employees ate rice out of the same pan. After the war, the president and several employees operated the Company as a technical corps with far more unity than when they started, cultivating a familial corporate culture.

It's now been 100 years since the founding and I believe we can keep the good points while improving on what needs it and reviewing the points that should be adapted to the times.

Director Hatta
The Company has caused tape to evolve with the development of technology. As we head forward in a future where we must coexist with the earth's environment, it is likely the automobile industry and communications industry technology will change greatly. Please tell us about how this relates to the Company and the future of adhesive tape.

President Tsuji
The good things about adhesive tape are that it is light, it is highly accurate, it can be adapted to the shape of what it will stick to, and it can contribute to improvement of the customer's productivity. Therefore, adhesive tape can respond flexibly to changes in the world. Our mission is to discover what solutions we can provide to our customers using adhesive tape. Our strength is that we deal in products with flexibility that allow us to respond in that way.

Chairman Teraoka
The distinguishing characteristic of our Company is our R&D system in which our technicians meet with the customers, ask for their demands and create order-made products according to the customers' uses. This system that we have cultivated, shall continue to be the foundation of our research and development.

Director Hatta
This year you have formulated a new 5-year medium-term plan, which also serves as the first step toward the next 100 years. Please give us some insight into the problems and goals you plan to tackle as well as your resolutions.

President Tsuji
The reason that we went with a 5-year medium-term plan is that the world is currently in the middle of the fourth industrial revolution, and we believe there are certain possibilities, such as the defacto standard, being determined sometime in the next five years. It is an extremely significant time, in that, how we deal this revolutionary period may determine our future 30 or 50 years from now.

This year, we decided on, “Embrace change, value the process and endeavor to create “New Century” value that pursuits harmonization of people, nature and technology,” as our first corporate philosophy. The human race has been destroying the earth’s nature, but the age of mass production and mass consumption is coming to an end. We believe that we need to create a foundation in the form of pursuit of qualitative repletion and expansion by effective use of precious resources. Our vision five years down the road is to come a “Smart Convenience Producer.” We aim to become an integrated manufacturer that rather than just selling products, sells convenience and instead of just providing products and services, we hope to be providing added value.

We aim to become a group that is capable of integrated production, encompassing the fact that we must pursuit technology in which people, nature and technology are harmonized, without providing the sort of convenience that destroys the environment.

Chairman Teraoka
In addition, I believe that the Company must remain a corporation that continues to reward stockholders, clients and vendors, employees, the local society etc., for the next 100 years as well.

President Tsuji
As the chairman said, I believe that our mission is to reward all those involved. Therefore we must become a corporation that is recognized by all those involved as having value and importance through developing product technology for customers that reduces their burden on the environment, eliminating loss even at the product manufacturing stage, reduce waste and using energy effectively so that our customers can use products perfect for them, creating a virtuous circle. We are steadfast in becoming this sort of Company as we embark upon the next 100 years.

Director Hatta
Thank you for powerful determination in facing the next 100 years. This concludes today’s discussion.

REVIEW OF OPERATIONS

Safety, hygiene and health are always the top priorities of the Company Group R&D, which is held up by the pillars of both short-term and medium to long-term perspectives, developing new products, materials with new function and new manufacturing methods, introduction of new technology thanks to external alliances, improved quality and stability in production. This is all based on adhesive tapes and resin sheets produced with consciousness of sustainability such as global environmental protection providing value to customers and solving problems. For the past several years especially, we have focused on development of environmentally friendly products and related technology, and since the COVID-19 pandemic starting plaguing us last year, we have also focused on initiatives geared toward eliminating risk of viral infection.

The market accomplished dramatic reforms with the permeation of SDGs, global trends toward achieving carbon neutrality and decarbonization, the new CASE automobile concept born through a collaboration of the automobile and communications industries, augmented communication speed and volume through 5G and changes in industrial structure and the way we work through AI and DX. The COVID-19 pandemic that started in 2020 has triggered a paradigm shift on a global scale, spurring reforms in the medical systems, services, human logistics, production activities, individual consumption trends, etc.

With this, the needs of the Company Group's customers have also become more diverse and sophisticated. The appeal for carbon neutrality and viral infection risk response on a global scale have especially important values to the Company Group. It has been determined that a research and development system that can provide stable products, supply value and solutions to the market is extremely important in a changing environment with such a massive impact both on society and on the economy. In addition to taking our current technologies to the next level in response to these trends, we are also tackling development of new technology and capital investment.

New achievements in this consolidated fiscal year include advanced-fixation heat-resistant tape, tape for various parts in manufacturing processes with heat-resistance and added cost competitiveness, heat management tape, new flame-resisting tape that is also environmentally friendly, etc.

Also, many new technological developments expected to be launched in the medium to long-term saw progress, and we are always expanding our R&D system, including actively investing in equipment and drafting technical strategies that span from the short to medium-terms.

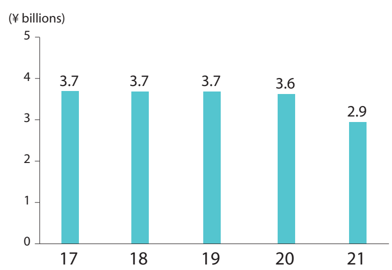
Total R&D costs in this consolidated accounting period were ¥944 million (US$8,526 thousand), decreasing 11.5% compared to the previous term. Furthermore, R&D accounted for 4.4% of consolidated sales, which was a 0.3 point decrease below the previous term.

Individual initiatives by department this fiscal year saw the sales department focus on recovery and expansion of orders for tapes for vehicles and electronics and acquiring new commercial rights while at the same time starting business for new models. The technology department tackled launching of new products supported by new technology, new large-scale equipment, etc. At the management level, managers worked to improve productivity through zero-base review of conventional operations and to make improvements through operational reforms.

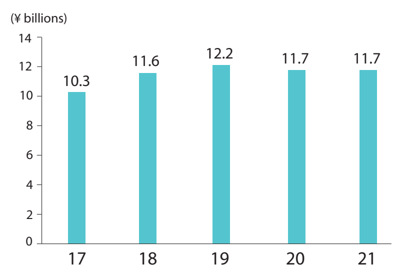
The result was that consolidated net sales for the consolidated fiscal year decreased by 5.4% for the same term the previous year to ¥21,662 million (US$195,648 thousand). Operating income were ¥129 million (US$1,164 thousand). This is a 24.2% increase from the same term the previous year. Consolidated income before income taxes was ¥302 million (US$2,729 thousand), a 4.8% decrease from the previous term. Consolidated net income attributable to the parent company was ¥91 million (US$822 thousand), a 39.1% decrease below the previous term.

The Company Group business consists of a single segment, manufacture and sale of adhesive tape. However, the following is an explanation of the state of sales by product division.

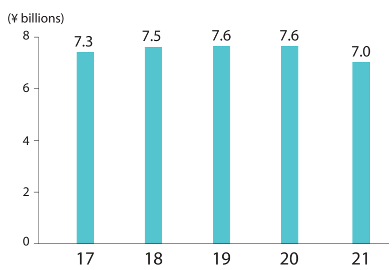
Sales of Packing Tapes



Sales of Electrical Insulation and Electronic Equipment Tapes



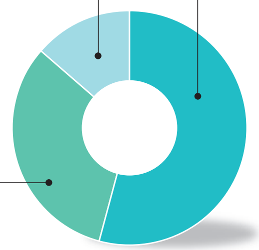
Sales of Other Industrial Tapes



BREAKDOWN OF SALES BY CATEGORY

13.5% **Packing Tapes**
- Olive cloth tapes
- Kraft paper tapes
- Polypropylene film adhesive tapes

32.3% **Other Industrial Tapes**
- Double-coated adhesive tapes
- Corrosion-proof tapes
- Masking cloth tapes
- Surface protection tapes



54.2% **Electrical Insulation and Electronic Equipment Tapes**
- Polyester film adhesive tapes
- Acetate cloth adhesive tapes
- Combination adhesive tapes
- Kapton® film adhesive tapes
- Nomex® adhesive tapes
- Glass cloth adhesive tapes
- EMI/RFI shielding tapes
- Silicone rubber adhesive tapes

Packing Tapes

While demand for home centers was steady due to the increase of people working at home and staying at home, there was a decrease in corporate tape demand, and sales this term for the Packing Tapes division dropped 19.6% compared to the same term the previous year, attributed to review of unprofitable transactions. Consolidated sales for this product segment were ¥2,914 million (US$26,318 thousand). This segment accounted for 13.5% of total consolidated sales and has dropped 2.3 points from the previous term.

Electrical Insulation and Electronic Equipment Tapes

Sales for the Electrical Insulation and Electronic Equipment Tapes division were ¥11,748 million (US$106,101 thousand), on par with the previous term. This is attributed to low numbers in the first half of the term with decrease in demand due to people's lives being put on hold, but thanks to recovery of orders for vehicle and electronic parts tapes in the second half of the term and new model business. This is a 0.4% increase over the same term the previous year. This segment accounts for 54.2% of total consolidated sales and has increased 3.1 points over the previous term.

Other Industrial Tapes

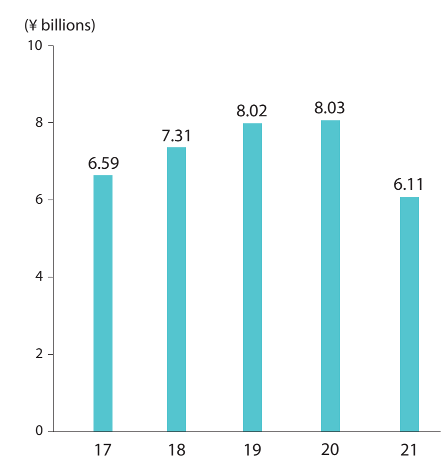
While demand for tape for vehicles started to recover late in the year, due to sluggish demand for tapes related to offices, events and construction, sales for the Other Industrial Tapes division were ¥7,000 million (US$63,229), which was a 7.6% decrease from the same term the previous year. This segment accounted for 32.3% of total consolidated sales and has decreased by 0.8 points from the previous term.

Overseas Sales

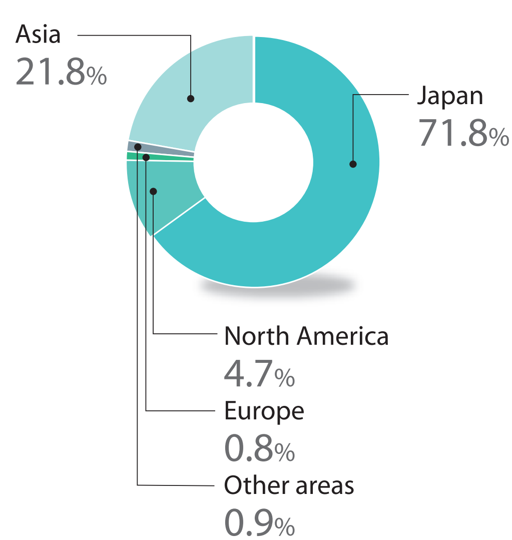
The Company Group has expanded activities overseas by establishing corporate bodies and bases in Hong Kong SAR, Shanghai, Shenzhen, Indonesia, as well as Taiwan.

Looking at overseas sales for the current consolidated fiscal year by segment, Packing Tapes were ¥136 million (US$1,233 thousand), a decrease of 44.9% while Electrical Insulation and Electronic Equipment Tapes sales were ¥5,751 million (US$51,945 thousand), decreasing by 23.4% from the previous term's sales. Other Industrial Tapes sales were ¥224 million (US$2,019 thousand), which was a 17.8% decrease below the previous term. The result of this was overseas sales of ¥6,111 million (US$55,197 thousand), dropping by 23.9% compared to the same term the previous year. This accounted for 28.2% of consolidated sales which was a 6.9-point decrease from the same term the previous year.

CHANGES IN OVERSEAS SALES



GEOGRAPHICAL SALES MARKETS



CONSOLIDATED FIVE-YEAR SUMMARY

	Millions of yen					Thousands of U.S. dollars
Years ended March 31	2017	2018	2019	2020	**2021**	**2021**
Net Sales	¥21,262	¥22,816	¥23,558	¥22,895	**¥21,662**	**$195,648**
Operating Income	1,039	1,319	1,144	104	**129**	**1,164**
Income before Income Taxes	768	1,291	1,366	317	**302**	**2,729**
Net Income	616	921	1,034	149	**91**	**822**
Total Assets	34,640	35,575	35,854	35,140	**37,033**	**334,477**
Net Assets	27,994	28,686	28,978	27,939	**29,046**	**262,341**
Ratio (%)						
Operating Income to Net Sales	4.9	5.8	4.9	0.5	**0.6**	
Equity Ratio	80.8	80.6	80.8	79.5	**78.4**	
Return on Average Assets (ROA)	1.8	2.6	2.9	0.4	**0.3**	
Return on Average Stockholders' Equity (ROE)	2.2	3.3	3.6	0.5	**0.3**	
Per Share	Yen					U.S. dollars
Net Income	¥23.96	¥36.37	¥40.84	¥ 5.90	**¥ 3.59**	**$0.03**
Cash Dividends	11.00	12.00	14.00	10.00	**12.00**	**0.11**

The U.S. dollars are translated at the rate of ¥110.72 per US$1, prevailing on March 31, 2021.

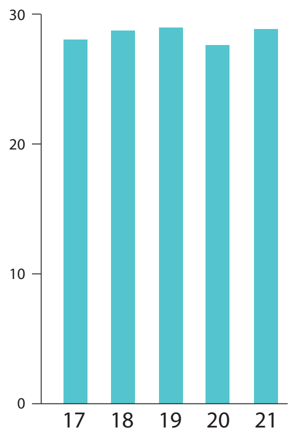
CONSOLIDATED FINANCIAL STATEMENTS

Fiscal Year 2021

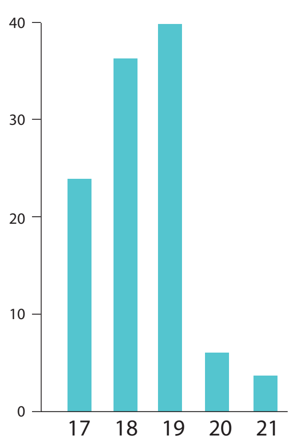
Year ended March 31, 2021

FINANCIAL REVIEW

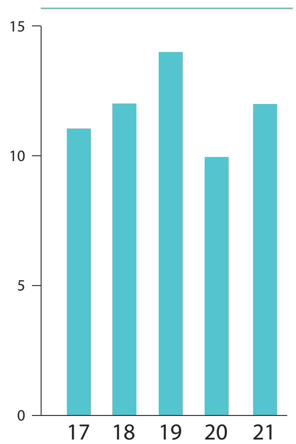
Net Assets
(¥ billions)



Net Income
per Share (Yen)



Cash Dividends
per Share (Yen)



Business Performance

In this consolidated fiscal year, economic activities in Japan have been restricted due to declarations of state of emergency because of the spread of COVID-19, creating a rough economic situation in Japan, but starting late in the year there were signs of recovery mainly from export of products for vehicles and electronic parts such as semi-conductors to China. Looking at the world economy, China returned to its pre-COVID economic standards relatively quickly and the U.S. is seeing signs of recovery from resuming economic activity in stages and the effects of economic measures, but the future remains unclear.

Amidst this economic environment, the Company Group income was lower than normal years due to the influence of extended trade friction between the U.S. and China and the COVID-19 pandemic. Despite this, we were able to recover from significant deficit early in the year and achieve surplus in all profit items thanks to various measures to reduce fixed costs as much as possible, and securing profitable tendencies from September onward.

Each department made efforts to achieve this. The sales department focused on recovery and expansion of orders for tapes for vehicles and electronics and acquiring new commercial rights. At the same time they worked on reviewing unprofitable transactions and starting business for new models while promoting improved productivity through a new way of working, utilizing teleworking. The technology department tackled launching of new products supported by new technology and investment in new large-scale equipment with an eye on medium-term business development. At the management level, managers worked to improve productivity through zero-base review of conventional operations and to make improvements through operational reforms.

As a result, net sales for the consolidated fiscal year were ¥21,662 million (US$195,648 thousand), decreasing 5.4% from the same period the previous year. The operating income was ¥129 million (US$1,164 thousand). This is a 24.2% increase from the same term the previous year. Income before income taxes was ¥302 million (US$2,729 thousand), a 4.8% decrease from the previous term. Net income for the parent company was ¥91 million (US$822 thousand), a 39.1% decrease below the previous term.

Segment Information

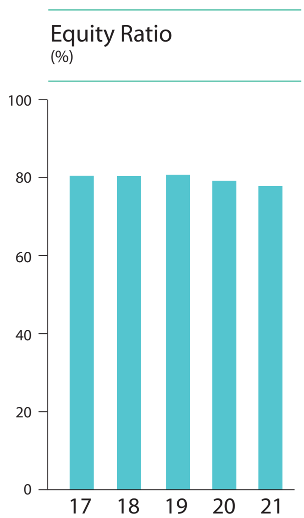
The Company Group business consists of a single segment, manufacture and sale of adhesive tape. However, the following is an explanation of the state of sales by product division.

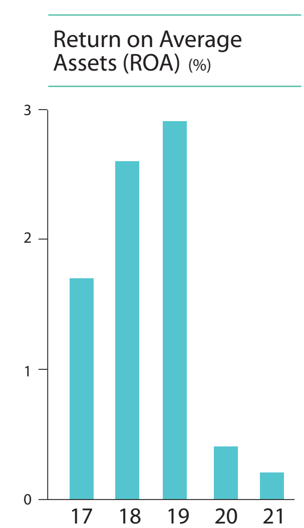
In the Packing Tapes segment this term, while demand for home centers was steady due to the increase of people working at home and staying at home, there was a decrease in corporate tape demand, sales for this division dropped 19.6% compared to the same term the previous year to ¥2,914 million (US$26,318 thousand), attributed to review of unprofitable transactions. This segment accounts for 13.5% of total consolidated sales and has dropped by 2.3 points below the previous term.

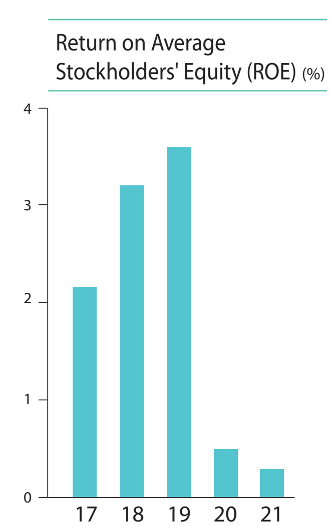
Sales for the Electrical Insulation and Electronic Equipment Tapes segment were ¥11,748 million (US$106,101 thousand), which is attributed to low numbers in the first half of the term with decrease in demand due to people's lives being put on hold, but thanks to recovery of orders for vehicle and electronic parts tapes in the second half of the term and new model business. This is a 0.4% increase over the same term the previous year. This segment accounts for 54.2% of total consolidated sales, an increase of 3.1 points over the previous term.

In the Other Industrial Tapes segment, while demand for tape for vehicles started to recover late in the year, due to sluggish demand for tapes related to offices, events and construction, sales this segment were ¥7,000 million (US$63,229 thousand), which was a 7.6% decrease below the same term the previous year. This segment accounts for 32.3% of consolidated sales and dropped 0.8 points below the previous term.

On the other hand, looking at results for the Overseas Sales segment, overseas sales for this accounting period were ¥6,111 million (US$55,197 thousand) which was a 23.9% decrease from the previous term.







Breaking down overseas sales by division, Packing Tapes sales decreased by 44.9%. Electrical Insulation and Electronic Equipment Tapes decreased by 23.4% and Other Industrial Tapes decreased by 17.8%. Overseas Sales accounts for 28.2% of consolidated sales and shrunk by 6.9 points compared to the previous year.

Financial Position

Total assets for the end of year consolidated accounting increased by 5.4% over the previous end of year consolidated accounting to ¥37,033 million (US$334,477 thousand).

Total current assets for the end of year decreased by 2.7% from the previous end of year consolidated accounting to ¥20,282 million (US$183,179 thousand). This was mainly attributed to a decrease in cash and deposits due to capital investment.

Total fixed assets for the end of year consolidated accounting grew 17.2% from the previous end of year consolidated accounting to ¥16,751 million (US$151,298 thousand). This was mainly due to an increase in construction in process.

Total liabilities for the end of year consolidated accounting increased 10.9% over the previous end of year consolidated accounting to ¥7,986 million (US$72,136 thousand). Out of this, total current liabilities increased 4.3% over the previous end of term to ¥6,381 million (US$57,636 thousand). This was mainly due to liabilities related to equipment accompanying an increase in capital investment.

Furthermore, total long-term liabilities increased 48.6% over the previous end of year consolidated accounting to ¥1,605 million (US$14,500 thousand). This was mainly due to an increase in long-term borrowing and asset retirement obligation.

Total net assets for the end of year consolidated accounting increased 4.0% over the previous end of year consolidated accounting to ¥29,046 million (US$262,341 thousand). This is mainly due to an increase in adjusted cumulative total for retirement benefits.

The result of these figures is a capital-to-asset ratio of 78.4%, a decrease of 1.1 points from the previous term.

Cash Flows

Increase in capital from operating activities was ¥3 million (US$27 thousand). This increase on the previous year's consolidated accounting was ¥1,458 million. This was mainly due to an increase in trade receivables and inventories.

Cash flow used for investment activities was ¥1,536 million (US$13,876 thousand). Even in the activities of the previous consolidated accounting term, ¥912 million was used for investment. This was mainly due to expenditures for acquisition of tangible fixed assets.

Increase of capital from financial activities was ¥78 million (US$703 thousand). Decrease in capital for the previous consolidated accounting year was ¥272 million. The reason for the increase this term was mainly income from borrowing.

From these activities, consolidated cash and cash equivalents for end of year consolidated accounting were ¥7,781 million (US$70,274 thousand), a decrease of ¥1,411 million compared to the previous year end consolidated accounting.

Dividends

TERAOKA considers the payment of dividends to its shareholders as one of our most important business issues, and we operate according to a basic policy of continuing to issue stable dividend payments.

Regarding dividends, in addition to elements affecting the amount, such as business results, current financial state, cash flow, dividend payout ratio, etc., dividends were determined based overall considerations of future business strategy, business development policies and projections, including considerations for ensuring a certain level of flexibility, as well as ensuring capital for reinvestment.

According to our basic stance on this type of dividend, the end of term dividend was ¥9.00 (US$0.08) and combined with the previously distributed interim dividend of ¥3.00 (US$0.03) per share, the total annual dividends were ¥12.00 (US$0.11) per share. The payout ratio for this term was 64.6%.

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
ASSETS			
Current Assets:			
Cash and time deposits	¥ 8,467	¥ 9,807	$ 76,469
Notes and accounts receivable – trade	5,891	5,708	53,207
Electronically recorded monetary claims – operating	1,166	1,035	10,531
Merchandise and finished goods (Note 2-c)	2,362	1,813	21,331
Work in process (Note 2-c)	1,076	1,121	9,719
Raw materials and supplies (Note 2-c)	845	912	7,631
Other	484	458	4,372
Less: Allowance for doubtful accounts (Note 2-h)	(9)	(8)	(81)
Total current assets	20,282	20,846	183,179
Property, Plant and Equipment (Notes 2-d and 2-f):			
Buildings and structures	12,237	11,940	110,521
Machinery, equipment and vehicles	20,448	22,335	184,684
Land	4,040	4,034	36,485
Leased assets	269	269	2,434
Construction in progress	1,997	893	18,034
Other	2,345	2,248	21,183
	41,336	41,719	373,341
Less: Accumulated depreciation	(28,807)	(30,396)	(260,182)
Property, plant and equipment, net	12,529	11,323	113,159
Intangible Assets	114	111	1,027
Investments and Other Assets:			
Investments in securities (Notes 2-b and 5)	2,956	2,600	26,702
Deferred income taxes (Note 2-g)	18	97	164
Net defined benefit asset	940	—	8,486
Other	194	166	1,760
Less: Allowance for doubtful accounts (Note 2-h)	—	(3)	—
Total investments and other assets	4,108	2,860	37,112
Total assets	¥ 37,033	¥ 35,140	$ 334,477

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current Liabilities:			
Notes and accounts payable – trade	¥ 1,427	¥ 1,298	$ 12,884
Electronically recorded obligations – operating	2,319	2,583	20,948
Short-term loans payable	121	—	1,092
Lease obligations	19	19	175
Accrued income taxes	93	53	838
Accrued expenses	556	508	5,025
Other	1,846	1,659	16,674
Total current liabilities	6,381	6,120	57,636
Long-term Liabilities:			
Long-term loans payable	179	—	1,618
Lease obligations	191	211	1,723
Deferred liabilities taxes (Note 2-g)	465	38	4,197
Provision for environmental measures	74	316	672
Net defined benefit liability	76	104	686
Asset retirement obligations	504	304	4,553
Long-term accounts payable - other	57	57	512
Other	59	51	539
Total long-term liabilities	1,605	1,081	14,500
Total liabilities	7,986	7,201	72,136
NET ASSETS			
Stockholders' Equity:			
Common stock	5,057	5,057	45,675
Authorized: 80,000,000 shares			
Issued: 26,687,955 shares as of March 31, 2021 and 26,687,955 shares as of March 31, 2020, respectively			
Additional paid-in capital	4,644	4,644	41,944
Retained earnings	17,824	17,935	160,984
Less: Treasury stock, at cost	(462)	(462)	(4,180)
Total Stockholders' equity	27,063	27,174	244,423
Accumulated other comprehensive income			
Unrealized gains on securities (Notes 2-b and 5)	1,140	764	10,298
Foreign currency translation adjustments (Note 2-j)	262	137	2,371
Remeasurements of defined benefit plans	582	(136)	5,249
Total accumulated other comprehensive income	1,984	765	17,918
Total net assets	29,047	27,939	262,341
Total liabilities and net assets	¥37,033	¥35,140	$334,477

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF INCOME

For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net Sales	¥21,662	¥22,895	$195,648
Cost of Sales	16,734	17,411	151,135
Gross Profit	4,928	5,484	44,513
Selling, General and Administrative Expenses	4,799	5,380	43,349
Operating income	129	104	1,164
Other Income and Expenses:			
Interest income	10	14	86
Dividend income	81	93	737
Insurance income	18	22	163
Foreign exchange gains (losses), net	83	(135)	753
Loss on retirement of non-current assets	(140)	(4)	(1,270)
Interest paid	(0)	—	(4)
Commission paid	(68)	(53)	(610)
100th Anniversary project expenses	(14)	—	(122)
Gain on sales of investment securities	175	247	1,579
Gain on sales of fixed assets	—	22	—
Other, net	28	7	253
	173	213	1,565
Income before income taxes	302	317	2,729
Income taxes:			
Current	140	162	1,261
Deferred	71	6	646
Total income taxes	211	168	1,907
Net income	¥ 91	¥ 149	$ 822
Profit attributable to non-controlling interests	—	—	—
Profit attributable to owners of parent	91	149	822

Per Share	Yen		U.S. dollars
Per share of common stock			
Net income	¥ 3.59	¥ 5.90	$0.03
Cash dividends	12.00	10.00	0.11

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Net income	¥ 91	¥ 149	$ 822
Other Comprehensive Income			
Unrealized gains on securities	376	(681)	3,399
Foreign currency translation adjustments	125	(126)	1,128
Remeasurements of defied benefit plans	718	(128)	6,482
Total other comprehensive income	1,219	(935)	11,009
Comprehensive Income	¥1,310	¥(786)	$11,831
Total comprehensive income attributable to:			
Comprehensive income attributable to owners of parent	1,310	(786)	11,831
Comprehensive income attributable to non-controlling interests	—	—	—

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

For the years ended March 31, 2021 and 2020

	Millions of yen									
	Stockholders' Equity					Accumulated Other Comprehensive Income				
	Common Stock:	Additional Paid in Capital	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity	Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumu-lated Other Comprehen-sive Income	Total Net Assets
Balance at April 1, 2019	¥5,057	¥4,644	¥18,039	¥(462)	¥27,278	¥1,445	¥ 263	¥ (8)	¥1,700	¥28,978
Cash dividends paid	—	—	(253)	—	(253)	—	—	—	—	(253)
Net income	—	—	149	—	149	—	—	—	—	149
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	(681)	(126)	(128)	(935)	(935)
Total changes of items during the period	—	—	(104)	(0)	(104)	(681)	(126)	(128)	(935)	(1,039)
Balance at March 31, 2020	¥5,057	¥4,644	¥17,935	¥(462)	¥27,174	¥ 764	¥ 137	¥(136)	¥ 765	¥27,939
Balance at April 1, 2020	¥5,057	¥4,644	¥17,935	¥(462)	¥27,174	¥ 764	¥ 137	¥(136)	¥ 765	¥27,939
Cash dividends paid	—	—	(202)	—	(202)	—	—	—	—	(202)
Net income	—	—	91	—	91	—	—	—	—	91
Purchase of treasury stock	—	—	—	(0)	(0)	—	—	—	—	(0)
Net changes of items other than Stockholders' equity	—	—	—	—	—	376	125	718	1,219	1,219
Total changes of items during the period	—	—	(111)	—	(111)	376	125	718	1,219	1,108
Balance at March 31, 2021	¥5,057	¥4,644	¥17,824	¥(462)	¥27,063	¥1,140	¥ 262	¥ 582	¥1,984	¥29,047

	Thousands of U.S. dollars									
	Stockholders' Equity					Accumulated Other Comprehensive Income				
	Common Stock	Additional Paid in Capital	Retained Earnings	Treasury Stock, at Cost	Total Stockholders' Equity	Unrealized Gains on Securities	Foreign Currency Translation Adjustments	Remeasure-ments of Defined Benefit Plans	Total Accumu-lated Other Comprehen-sive Income	Total Net Assets
Balance at April 1, 2020	$45,675	$41,944	$161,992	$(4,179)	$245,432	$6,899	$1,243	$(1,233)	$ 6,909	$252,341
Cash dividends paid	—	—	(1,830)	—	(1,830)	—	—	—	—	(1,830)
Net income	—	—	822	—	822	—	—	—	—	822
Purchase of treasury stock	—	—	—	(1)	(1)	—	—	—	—	(1)
Net changes of items other than Stockholders' equity	—	—	—	—	—	3,399	1,128	6,482	11,009	11,009
Total changes of items during the period	—	—	(1,008)	(1)	(1,009)	3,399	1,128	6,482	11,009	10,000
Balance at March 31, 2021	$45,675	$41,944	$160,984	$(4,180)	$244,423	$10,298	$2,371	$ 5,249	$17,918	$262,341

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

Teraoka Seisakusho Co., Ltd. and Consolidated Subsidiaries

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Operating Activities			
Income before income taxes	¥ 302	¥ 317	$ 2,729
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	838	1,001	7,571
Asset retirement cost	195	—	1,766
Loss on retirement of non-current assets	143	4	1,294
Gain on sales of investment securities	(175)	(247)	(1,579)
Gain on sales of fixed assets	—	(22)	—
Increase (decrease) in allowance for doubtful accounts	(2)	3	(17)
Increase (decrease) in provision for environmental measures	(241)	—	(2,178)
Increase (decrease) in net defied benefit liability	66	(4)	598
Interest and dividends income	(91)	(107)	(823)
Interest expenses	0	—	4
Foreign exchange losses (gains)	(43)	55	(393)
Changes in assets and liabilities:			
(Increase) decrease in notes and accounts receivable	(303)	212	(2,740)
(Increase) decrease in inventories	(430)	348	(3,888)
Increase (decrease) in notes and accounts payable	(142)	20	(1,286)
Other, net	(106)	83	(955)
Subtotal	11	1,663	103
Interest and dividends income received	91	107	823
Interest expenses paid	(0)	—	(4)
Income taxes (paid) refund	(99)	(312)	(895)
Net cash provided by operating activities	3	1,458	27
Investing Activities:			
Payment for purchases of property, plant and equipment	(1,734)	(1,030)	(15,658)
Payments for retirement of property, plant and equipment	(10)	—	(94)
Proceeds from sales of property, plant and equipment	3	29	28
Payment for purchases of intangible assets	(52)	(36)	(474)
Payment for purchases of investment in securities	(3)	(3)	(26)
Proceeds from sales of investment securities	315	286	2,847
Payments for asset retirement obligations	—	(3)	—
Decrease (increase) in time deposits	(55)	(155)	(499)
Net cash used in investing activities	(1,536)	(912)	(13,876)
Financing Activities:			
Increase in short-term loans payable	120	—	1,084
Proceeds from long-term loans payable	180	—	1,626
Dividends paid	(203)	(253)	(1,830)
Payment for acquisition of treasury stock	(0)	(0)	(1)
Other, net	(19)	(19)	(176)
Net cash used in financing activities	78	(272)	703
Effect of Exchange Rate Changes on Cash and Cash Equivalents	44	(41)	399
Net Increase (Decrease) in Cash and Cash Equivalents	(1,411)	233	(12,747)
Cash and Cash Equivalents at Beginning of Period	9,192	8,959	83,021
Cash and Cash Equivalents at End of Period	¥ 7,781	¥ 9,192	$ 70,274

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the years ended March 31, 2021 and 2020

1. Basis of Presenting Financial Statements

The accompanying consolidated financial statements of TERAOKA SEISAKUSHO CO., LTD. (the "Company") and its subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company, as required by the Financial Instruments and Exchange Law of Japan. However, certain account balances, as disclosed in the basic consolidated financial statements in Japan, have been reclassified to the extent deemed necessary to enable presentation in a form which is more familiar to readers outside Japan.

The accounts of overseas consolidated subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

For the convenience of readers, the accompanying consolidated financial statements are presented in U.S. dollars by translating yen amounts at the rate of ¥110.72= US$1, the prevailing exchange rate on March 31, 2021.

2. Summary of Significant Accounting Policies

a. *Consolidation*

The accompanying consolidated financial statements include the accounts of the Company and five subsidiaries, TERAOKA SEISAKUSHO (Hong Kong) CO., LTD., TERAOKA SEISAKUSHO (Shanghai) CO., LTD., TERAOKA SEISAKUSHO (Shenzhen) CO., LTD., SHIN-EI SHOJI CO., LTD. and PT. TERAOKA SEISAKUSHO INDONESIA.

Significant inter-company balances, unrealized inter-company profits and losses among the companies are entirely eliminated. The assets and liabilities of the consolidated subsidiaries are incorporated into the financial statements at fair value and the difference between net assets at fair value and investment amounts are amortized by the straight-line method over a period of five years.

The fiscal years of overseas subsidiaries end December 31. Overseas subsidiaries' financial statements are based on temporary settlement dates of March 31, 2021 and 2020 and are used for the consolidation of the Company.

b. *Investments in securities*

Debt securities that are intended to be held to maturity ("held-to maturity debt securities") are measured at amortized cost in the balance sheet. Securities other than held-to maturity debt securities ("other securities") are measured at fair value.

Other Securities that have fair values are stated at fair value, with unrealized gains and losses included in the net assets, net of applicable income taxes. Realized gains and losses on sales of securities are based on the moving average cost of the securities. Other securities that do not have fair values are stated at cost determined by the moving average method. For other than temporary declines in fair value, other securities are reduced to net realizable value by a charge to income.

c. *Inventories*

The Company mainly applies the cost method based on the periodic average method which determines the amount of the inventories shown on the balance sheet by writing them down based on the decrease in their profitability.

d. *Property, plant and equipment and depreciation*

The straight line method is used for depreciation of tangible fixed assets (excluding leased assets). The straight line method is used for depreciation of intangible fixed assets (excluding leased assets). The straight line method is used based on period that the software can be used within the Company (5 years).

Depreciation of leased assets related to financial leases other than transfer of ownership, shall be calculated using the straight line method with the lease period as the service life and 0 as the salvage value.

e. *Impairment of assets*

Assets are reviewed 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 an asset or asset group exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or asset group, or the net selling price at disposition.

f. *Leased assets*
Under accounting standards generally accepted in Japan, leased assets related to finance leases that do not transfer ownership of the leased property to the lessee are depreciated on a straight-line basis, with lease period used as their useful lives and no residual value.

g. *Income taxes*
Income taxes are provided based on amounts required by the tax return for the period.

The Company has adopted the asset-liability method of tax effect accounting to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purpose, and the amounts used for income tax purposes.

h. *Allowance for doubtful accounts*
Allowance for doubtful accounts provides for possible losses on the uncollectability of receivables at the amount of estimated uncollectability, based on past experience of doubtful receivables and individual evaluation of collectability of the receivables.

i. *Accrued retirement benefits*
(1) The method of attributing expected retirement benefit to periods
The Company applies the benefit formula basis to measure the pension obligation. The expected retirement benefit attributed to periods of service under the plan's benefit formula is deemed as arising in each period.
(2) Differences in actuarial valuation and cost processing method for past service costs
Differences in actuarial valuation are processed so that the amount distributed according to the straight line method using a certain number of years within the average remaining period of employment (5 years) of employees when the difference occurred in each consolidated accounting period to remove them from the following consolidated accounting period.

Past service costs are processed according to the straight line method using a certain number of years within the average remaining period of employment (10 years) of employees when the service occurred.

j. *Foreign currency translation*
All receivables and payables denominated in foreign currencies at the balance sheet date are translated into yen at current exchange rates. The resulting exchange gains or losses are charged to income.

Balance sheets of consolidated overseas subsidiaries are translated into yen at the year-end rates except for stockholders' equity accounts, which are translated at the historical rates. Income statements of consolidated overseas subsidiaries are translated at average rates. Translation differences are presented as "foreign currency translation adjustments" in the accompanying consolidated financial statements.

k. *Derivatives and hedge accounting*
Derivative financial instruments are stated at fair value unless they are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related losses or gains on the hedged items are recognized.

However, in cases where forward foreign exchange contracts are used as hedges and meet certain hedging criteria, forward foreign exchange contracts and hedged items are accounted for in the following manner:

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gains or losses on the forward foreign exchange contract are recognized.

l. *Cash and cash equivalents*
Cash and cash equivalents in the consolidated statements of cash flows include all highly liquid investments, generally with original maturities of three months or less, that are readily convertible to known amounts of cash and are so near maturity that they present insignificant risk of changes in value.

(Not used accounting standards, etc.)

- "Accounting standards related to revenue recognition" (Corporate Accounting Standards #29, March 31, 2020)
- "Policy for application of accounting standards related to revenue recognition" (Corporate Accounting Standards #30, March 26, 2021)

(Changes in accounting estimates)

(1) Reserve fund for environmental measures

Conventionally, a reserve fund for environmental measures was accounted for in order to be prepared for expenses to dispose of PCB waste. However, in this consolidated accounting period, the revision of the "Ordinance for Enforcement of the Act on Special Measures for Promotion of Proper Disposal of Polychlorinated Biphenyl Waste" served as an opportunity to change estimates. Inspection of actual contents for disposal made it possible to produce even more detailed estimates and the differences from the former estimates were accounted for as extraordinary profit.

This increases Income before income taxes for this consolidated accounting period by ¥217 million.

(2) Asset retirement obligation

Conventionally, asset retirement obligations were accounted for in order to be prepared for expenses to eliminate asbestos in buildings used by the company. However, in this consolidated accounting period, the revision of the "Air Pollution Control Law" served as an opportunity to change estimates. Inspection of actual contents made it possible to produce even more detailed estimates and the differences from the former estimates were accounted for as extraordinary loss.

Due to this change, the current net profit prior to adjustment for taxes, etc., in this consolidated accounting period decreased by ¥195 million.

(Changes in accounting policy that are difficult to distinguish from changes in accounting estimates)

Change to depreciation method for tangible fixed assets

In the past, the Company and consolidated subsidiaries in Japan used the fixed percentage method (however, the straight line method was used for buildings acquired from April 1, 1998, and later (excluding equipment belonging to buildings), equipment belonging to buildings from April 1, 2016, and later, and structures) for tangible fixed assets (excluding leased assets), but this has been changed to the straight line method starting this consolidated accounting period. These changes were made because it was decided that distributing costs evenly over the period of service life using the straight line method was appropriate for reflecting the actual status of use of tangible fixed assets due to expected stable operation of equipment as a result of inspecting the usage situation at the time of new capital investment.

Compared to the conventional method, operating profit, ordinary profit and net profit before income tax adjustments each increased by ¥106 million for this consolidated fiscal period.

(Additional information)

(1) Accounting estimates having to do with COVID-19

The Company Group (company and subsidiaries) has been affected by the global COVID-19 pandemic and accounting estimates of fixed asset values assume gradual recovery going forward. Due to uncertainties in estimates of the spread and settling of the COVID-19 pandemic, actual results may differ from these assumptions.

(2) Accounting standards applied from this consolidated accounting period

- "Accounting standards related to accounting estimates" (Corporate Accounting Standards #31, March 31, 2020)
- "Accounting standards related to disclosure of accounting policy, accounting changes and correcting mistakes" (Corporate Accounting Standards #24, March 31, 2020)

3. Contingent Liabilities

Contingent Liabilities in respect of trade notes and export bills discounted with banks with recourse in the ordinary course of business amounted to ¥7 million at March 31, 2020, and to ¥10 million at March 31, 2021.

4. Financial Instruments

Overview

(1) Policy for financial instruments

The Company raises the funds by bank borrowings, and manages funds only through short-term time deposit and others. The Company uses derivatives for the purposes of managing foreign currency exchange risk related to trading receivables and payables, and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk
Trade receivables – notes receivable and accounts receivable, and electronically recorded monetary claims – are exposed to credit risk in relation to customers. In addition, the Company is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities – the Company holds equity securities, which are mainly issued by company who have business relationships with the Company, and these securities are exposed to the risk of fluctuation in market prices. Trade payables – notes payable and accounts payable, and electronically recorded obligations – mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk. Long-term debt is taken out principally for the purpose of capital expenditure. Long-term debt with interest rate fluctuation risks is carried out on fixed rate loans. Debt is exposed to liquidity risk relating to the funding as described below.

(3) Risk management for financial instruments

(a) *Monitoring of credit risk (the risk that customers may default)*
In accordance with the internal policies for managing credit risk of the Company, the Company monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

(b) *Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)*
For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirm the effectiveness of hedging and obtain approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instruments.

(c) *Monitoring of liquidity risk for financing (the risk that the Company may not be able to meet its obligations on the scheduled due dates)*
The Company manages the liquidity risk mainly through the monthly cash-flow plans, prepared by the Company.

(4) Supplementary explanation of the estimated fair value of financial instruments
The notional amounts of derivatives listed below are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated fair value of financial instruments

The carrying value of the financial instruments on the consolidated balance sheet as of March 31, 2021 and unrealized gain (loss) are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

	Millions of yen		
Financial Instruments	Carrying	Estimate fair value	Difference
(1) Cash and deposits	¥ 8,467	¥ 8,467	¥ —
(2) Notes and accounts receivable	5,891	5,891	—
(3) Electronically recorded monetary claims	1,166	1,166	—
(4) Marketable securities and investments in securities	2,937	2,937	—
(5) Notes and accounts payable	(1,427)	(1,427)	—
(6) Electronically recorded obligations	(2,319)	(2,319)	—
(7) Short-term loans payable	(120)	(120)	—
(8) Long-term loans payable *1	(180)	(180)	—

*1: Including current maturities of long-term loans payable

(1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

Cash and deposits, Notes and accounts receivable, and Electronically recorded monetary claims
Since these items are settled in a short period, their carrying value approximates fair value.

Investment in securities
The fair value of equity securities is based on quoted market prices.

Notes and accounts payable, Electronically recorded obligations, and short-term debt
Since these items are settled in a short period of time, their carrying value approximates fair value.

Long-term loans payable
Since these items are based on a floating interest rate, the market interest rate is reflected in a short period of time and the market value is almost equal to the carrying value, so it is based on the carrying value.

(2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

As of March 31, 2021	Millions of yen
Unlisted equity securities	¥19

The above financial instruments are not included in the preceding table, because no quoted market prices are available and it is extremely difficult to determine the fair value.

(3) Redemption schedule for receivables and marketable securities with maturities at March 31, 2021

	Millions of yen
	Due in One Year or Less
Cash and deposits	¥ 8,467
Notes and accounts receivable - trade	5,891
Electronically recorded monetary claims - operating	1,166
Marketable securities and investments in securities	—
Total	¥15,524

(4) The redemption schedule for short-term loans payable and long-term loans payable at March 31, 2021 was as follows.

	Millions of yen	Average interest rates (%)
	2021	
Short-term loans payable	¥121	0.87
Long-term loans payable	179	0.57
Total	¥300	

The annual maturities of long-term loans payable for 5 years subsequent to March 31, 2021 are summarized below:

Year ending March 31,	Millions of yen
2022	¥0
2023	5
2024	5
2025	5
2026	5

5. Securities

Historical costs, fair value and gross unrealized gains and losses for marketable securities as of March 31, 2021 and 2020 are as follows:

	Millions of yen				
	2021				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	¥1,045	¥2,621	¥1,576	¥1,576	¥ —
Other	293	316	23	23	—
Total	¥1,338	¥2,937	¥1,599	¥1,599	¥ —

	Millions of yen				
	2020				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	¥1,183	¥2,280	¥1,097	¥1,138	¥(41)
Other	293	301	8	8	—
Total	¥1,476	¥2,581	¥1,105	¥1,146	¥(41)

	Thousands of U.S. dollars				
	2021				
	Historical costs	Fair value	Net differences	Gross gains	Gross losses
Other Securities:					
Equity securities	$ 9,442	$23,674	$14,232	$14,232	$ —
Other	2,644	2,857	213	213	—
Total	$12,086	$26,531	$14,445	$14,445	$ —

Securities that do not have fair values are as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Equity securities	¥19	¥19	$171
Other	—	—	—
Total	¥19	¥19	$171

6. Retirement and Pension Plans

The Company has a defined benefit pension plan. Our domestic consolidated subsidiary and one of overseas consolidated subsidiaries have retirement lump-sum plans. In addition, when an employee retires, an employee may be paid additional retirement benefits that are not part of retirement benefit obligations. In lump-sum benefit plans offered by domestic consolidated subsidiary etc. the retirement benefits and liabilities relating to the retirement benefits are calculated using the simplified method.

Please note, as of February 1, 2021, the Company reformed the retirement benefits system from a portion of the final salary to a point system.

The detailed notes relating to defined benefit pension plans for the fiscal year ended March 31, 2021 and 2020 were as follows:

(1) Changes in defined benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Beginning balance of benefit obligations	¥4,964	¥4,840	$44,839
Service costs	262	260	2,365
Interest costs	25	20	223
Actuarial gains and losses	(68)	(61)	(613)
Benefits paid	(436)	(95)	(3,937)
Past service costs	(526)	—	(4,753)
Ending balance of benefit obligations	¥4,221	¥4,964	$38,124

(2) Changes in pension assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Beginning balance of pension assets	¥4,916	¥4,959	$44,402
Expected return on pension assets	98	99	888
Actuarial gains and losses	376	(250)	3,399
Contributions by the employer	206	203	1,858
Benefits paid	(435)	(95)	(3,937)
Ending balance of pension assets	¥5,161	¥4,916	$46,610

(3) Reconciliation of retirement benefit liabilities using the simplified method

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Beginning balance of retirement benefit liabilities	¥56	¥43	$506
Benefits expenses	21	14	186
Benefits paid	(1)	(1)	(6)
Ending balance of retirement benefit liabilities	¥76	¥56	$686

(4) Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded defined benefit obligations	¥ 4,221	¥ 4,964	$ 38,124
Pension assets	(5,161)	(4,916)	(46,610)
Subtotal	(940)	48	(8,486)
Unfunded defined benefit obligations	76	56	686
Net amount of liabilities and assets recognized in consolidated balance sheet	(864)	104	(7,800)
Liabilities (net defined benefit liability)	76	104	686
Assets (net defined benefit assets)	(940)	—	(8,486)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (864)	¥ 104	$ (7,800)

Note: This includes plans using the simplified method.

(5) Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service costs	¥262	¥260	$2,365
Interest costs	25	20	223
Expected return on pension assets	(98)	(99)	(888)
Recognition of actuarial gains and losses	72	4	655
Amortization of past service costs	(9)	—	(79)
Benefits expenses calculated on the simplified method	21	14	186
Total	¥273	¥199	$2,462

(6) Remeasurements of defined benefit plans (Other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actual differences	¥ 517	¥(185)	$4,668
Past service costs	517	—	4,674
Total	¥1,034	¥(185)	$9,342

(7) Remeasurements of defined benefit plans (Accumulated other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial gains and losses	¥320	¥(197)	$2,890
Unrecognized past service costs	517	—	4,674
Total	¥837	¥(197)	$7,564

(8) Pension Assets

① Breakdown of pension assets

	2021	2020
Debt securities	67%	71%
Equity securities	26%	20%
Cash and deposits	3%	4%
Other	4%	5%
Total	100%	100%

② Rate of expected return on pension assets

Expected return rate on plan assets is determined by considering the current and anticipated future portfolio of pension assets and current and anticipated future long-term performance of individual asset classes that comprise the funds' asset mix.

(9) Basic assumptions for calculating benefit obligations

	2021	2020
Discount rate	0.5%	0.4%
Expected return rate on plan assets	2.0%	2.0%
Salary Increase Rate	—	2.8%

Note: Starting this consolidated accounting period, calculation of Projected Benefit Obligation will use a method that does not include future point totals based on the benefit calculation standards, so projected raise rate is not included in this consolidated accounting period.

7. Income Taxes

Deferred income tax assets and liabilities as of March 31, 2021 and 2020 were composed of the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred tax assets:			
Allowance for doubtful accounts	¥ 3	¥ 3	$ 25
Accrued bonus to employees	137	125	1,234
Accrued enterprise tax	12	13	110
Unrealized intercompany profits	55	47	500
Loss on valuation of inventories	60	81	541
Depreciation	1	2	13
Long-term accounts payable - other	17	17	157
Loss on valuation of investment securities	80	80	726
Loss on valuation of golf club membership	2	2	20
Net defined benefit liability	21	16	187
Impairment loss	192	209	1,731
Asset retirement obligations	157	94	1,420
Tax loss carryforward	74	37	671
Provision for environmental measures	23	97	206
Other	88	112	788
Subtotal	922	935	8,329
Valuation allowance for tax loss carried forward (Note 2)	(55)	(37)	(496)
Valuation allowance for deductible temporary difference	(415)	(357)	(3,744)
Total valuation allowance (Note 1)	(470)	(394)	(4,240)
Total deferred tax assets	¥ 452	¥ 541	$ 4,089
Deferred tax liabilities:			
Reserve for advanced depreciation of noncurrent assets	(34)	(6)	(310)
Unrealized gains on other securities	(459)	(342)	(4,146)
Net defined benefit asset	(31)	(45)	(282)
Other	(375)	(89)	(3,384)
Total deferred tax liabilities	¥(899)	¥(482)	$(8,122)
Net deferred tax assets (liabilities)	¥(447)	¥ 59	$(4,033)

Notes: 1. The total valuation allowance increased by ¥75 million. This increase is due to increase of the valuation allowance for tax loss carryforwards in consolidated subsidiaries.

2. The tax loss carryforwards amount and the amount of deferred tax assets by the carryforwards maturity date

Previous Consolidated Fiscal Year (March 31, 2020)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Tax loss carryforwards [(a)]	—	—	—	—	37	—	¥37 million
Valuation allowance	—	—	—	—	37	—	¥37 million
Deferred tax assets	—	—	—	—	—	—	—

(a) The amount of tax loss carryforwards is the amount multiplied by the statutory tax rate.

Current Consolidated Fiscal Year (March 31, 2021)

	Within 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	More than 5 years	Total
Tax loss carryforwards [(b)]	—	—	—	12	61	1	¥74 million
Valuation allowance	—	—	—	—	55	—	¥55 million
Deferred tax assets	—	—	—	12	6	1	[(c)] ¥19 million

(b) The amount of tax loss carryforwards is the amount multiplied by the statutory tax rate.

(c) The result of considering prospective taxable earnings based on future earning power of the consolidated subsidiaries, we have determined that the deferred tax assets pertaining to tax loss carryforwards can be recovered.

A reconciliation on the difference between the statutory tax rate and effective rate on taxable income for the fiscal years ended March 31, 2021 and 2020 is as follows:

	2021	2020
Statutory tax rate	30.6%	30.6%
Entertainment and other non-deductible expenses	4.4	1.9
Dividend and other non-taxable income	(1.7)	(1.8)
Per capita levy of inhabitant taxes	6.4	6.1
Increase in valuation allowance	24.8	13.6
Tax deduction for research expenses	(9.2)	(8.5)
Rate difference from foreign subsidiaries	6.5	0.0
Consolidated adjustment	8.0	10.6
Other, net	0.1	0.6
Effective tax rate	69.9%	52.9%

8. Subsequent Event

Appropriation of retained earnings

Subsequent to March 31, 2021, the Company's Board of Directors, with the approval of stockholders on June 22, 2021 declared a cash dividend of ¥228 million (US$2,059 thousand) equal to ¥9.00 (US$0.08) per share, applicable to earnings of the year ended March 31, 2021 and payable to stockholders on the stockholders' register on March 31, 2021.

REPORT OF INDEPENDENT AUDITORS

Independent Auditor's Report

To the Board of Directors of Teraoka Seisakusho Co., Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Teraoka Seisakusho Co., Ltd., which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and basis of presenting consolidated financial statements, other notes and consolidated supplemental schedules.

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Teraoka Seisakusho Co., Ltd. and its consolidated subsidiaries (the "Group") as of March 31, 2021, and their consolidated financial performance and cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Audit 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 Company and its consolidated subsidiaries in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

As described in Note 2 "(Changes in Accounting Estimates)" to the consolidated financial statements, the Company changes estimate method of a provision for environmental measures and an asset retirement obligations from the end of the current consolidated fiscal year.

As described in Note 2 "(Changes in accounting policy that are difficult to distinguish from changes in accounting estimates)" to the consolidated financial statements, the Company and its domestic consolidated subsidiary change to the depreciation of property, plant and equipment, which used to be the declining-balance method, to the straight-line method from the current consolidated fiscal year.

Our opinion is not qualified in respect of these matters.

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

Management is responsible for the preparation and fair presentation of these 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 whether it is appropriate to prepare the consolidated financial statements with the assumption of a going concern, and in accordance with accounting principles generally accepted in Japan, for disclosing, as necessary, matters related to going concern.

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the directors' performance of duties within the maintenance and operation of the financial reporting process.

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

Our responsibilities 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 on the consolidated financial statements based on our audit from an independent point of view. 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 decisions of users of these consolidated financial statements. 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, and design and perform audit procedures responsive to those risks. Selecting audit procedures to be applied is at the discretion of the auditor. Obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

- When auditing the consolidated financial statements, obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances in making risk assessments, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used by management and their method of application, as well as the reasonableness of accounting estimates made by management and related notes thereto.
- Conclude on the appropriateness of management's use of the going concern basis for preparing the consolidated financial statements 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 notes to the consolidated financial statements or, if the notes to the consolidated financial statements on material uncertainty are inadequate, to express a qualified opinion with exceptions on the consolidated financial statements. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate whether the presentation of the consolidated financial statements and notes to the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, as well as evaluate the overall presentation, structure, and content of the consolidated financial statements, including the related notes thereto, and whether the consolidated financial statements fairly represent the underlying transactions and accounting events.
- Obtain sufficient appropriate audit evidence regarding the financial information of the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the audit of the consolidated financial statements. We remain solely responsible for our audit opinion.

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

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

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.

Designated Engagement Partner,
Certified Public Accountant:

Hideo, Kayashima

Designated Engagement Partner,
Certified Public Accountant:

Masami, Hiramatsu

Designated Engagement Partner,
Certified Public Accountant:

Yoshiharu Tsukamoto

INOUE AUDIT CORPORATION
Tokyo, Japan

November 19, 2021

COMPANY DATA

Company Outline (as of March 31, 2021)

Company Name	TERAOKA SEISAKUSHO CO., LTD.
Head Office	4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Tel: 81-3-3491-1141 Fax: 81-3-3491-1143
Founded	February 11, 1921
Incorporated	May 5, 1943
Paid-in Capital	¥5,057 million
Employees	521 (714 consolidated)

Board of Directors and Auditors (as of June 22, 2021)

President	Kenichi Tsuji
Chairman	Keishiro Teraoka
Managing Director	Masakazu Naitou
Directors	Taiji Namekawa Nobuhisa Ishizaki Tatsuya Kubo Shinji Asakura Tatsuya Kamikawa Keiko Hatta Katsunori Furuichi
Audit & Supervisory Board Members	Yutaka Nomiyama Jun Watanabe Masaki Miyake Harushige Sakai
Operating Officers	Mitsuhiro Takano Satoshi Hironaka Hideyuki Suzuki

Consolidated Subsidiaries

Shin-ei Shoji Co., Ltd.	Tokyo, Japan
Teraoka Seisakusho (Hong Kong) Co., Ltd.	Hong Kong, China
Teraoka Seisakusho (Shanghai) Co., Ltd.	Shanghai, China
Teraoka Seisakusho (Shenzhen) Co., Ltd.	Shenzhen, China
PT. Teraoka Seisakusho Indonesia	Karawang, Indonesia

R&D Center, Factories and Offices

R&D Center	Shinagawa-ku, Tokyo
Factories	
Ibaraki Factory	Kitaibaraki, Ibaraki Prefecture
Sano Factory	Sano, Tochigi Prefecture
Kannami Factory	Kannami-cho, Shizuoka Prefecture
Branch Offices	Tokyo, Osaka, Nagoya and Seoul
Representative Office	Taipei

INVESTOR INFORMATION

Investor Information

(as of March 31, 2021)

Head Office	Teraoka Seisakusho Co., Ltd. 4-22, Hiromachi 1-chome, Shinagawa-ku, Tokyo 140-8711, Japan Telephone: 81-3-3491-1141 Facsimile: 81-3-3491-1143
Financial Year	April 1 to March 31
Common Stocks	Authorized Shares 80,000,000 Issued Shares 26,687,955
Stockholders	3,848
Stock Listing	Tokyo Stock Exchange, Second Section (Code: 4987)
Transfer Agency	Mitsubishi UFJ Trust and Banking Corporation 4-5, Marunouchi 1-chome, Chiyoda-ku, Tokyo 100-8212, Japan

Major Stockholders

(as of March 31, 2021)

Stockholders	Number of shares (thousand shares)	Ratio of share holding (%)
ITOCHU Corporation	6,672.0	26.34
Customers' Stockholding Group	3,044.0	12.02
Custody Bank of Japan, Ltd. (Trust Account)	990.1	3.91
MUFG Bank, Ltd.	818.8	3.23
BNP PARIBAS SECURITIES SERVICES LUXEMBOURG/JASDEC/FIM/LUXEMBOURG FUNDS/UCITS ASSETS	780.0	3.08
Keishiro Teraoka	773.6	3.05
Resona Bank, Ltd.	678.8	2.68
Kuniko Teraoka	526.0	2.08
Employees' Stockholding Group	401.3	1.58
Yasuhara Chemical Co., Ltd.	250.0	0.99

TERAOKA

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