

LETTER TO STAKEHOLDERS

Overview of Business Performance

During the consolidated fiscal year ended March 31, 2021, Japanese economy deteriorated rapidly due to the prolonged trade friction between the United States and China, as well as the stagnation and contraction of domestic and overseas economic activities caused by the spread of the Novel Coronavirus (COVID-19). The outlook remains uncertain due to the impact of travel restrictions and urban blockades implemented by various countries and the re-expansion of infections caused by viral variants.

In Japan, production activities by customers are on a recovery trend, but the mood of self-restraint is still lingering, and the overall recovery has not been satisfactory. Overseas, the global economy has been affected by COVID-19 since the beginning of 2020, resulting in a significant decrease in production by customers in various regions, a suspension of production, and stagnation of logistics functions due to lockdowns. Although there was a significant recovery at the end of the fiscal year, overall sales decreased.

Under these circumstances, our group has continued to develop high-quality, price-competitive products and to maintain and improve earnings through the acquisition of new customers and the creation of new applications.

As a result, net sales decreased to ¥29,605 million (down by 5.7% on a year-on-year basis), operating income decreased to ¥3,946 million (down by 17.0%), ordinary income decreased to ¥4,810 million (down by 11.7%), and net income attributable to owners of the parent decreased to ¥3,433 million (down by 11.7%).

Overview of Performance by Business Segment

Japan Segment

Segment sales decreased to ¥29,134 million (down by 5.1%) and

segment income (operating income) decreased to ¥3,896 million (down by 17.5%).

In the field of anionic surfactants, although production of domestic fibers has gradually resumed, it has not yet recovered sufficiently. Overseas, sales to external customers were ¥2,860 million (down by 9.9%), partly due to sluggish sales in the non-textile industry, while sales in the textile industry were strong.

In the field of nonionic surfactants, sales to the clothing sector in Japan declined while sales of automotive materials such as car seats recovered. In the non-textile industry, demand for detergents was strong. Overseas, although the textile industry performed well, net sales to external customers were ¥17,633 million (down by 1.9%).

In the field of cationic and zwitterionic surfactants, although sales of textiles and clothing processing agents in Japan decreased, sales to external customers increased to ¥982 million (up by 2.3%) due to growth in sales for household detergents.

In the field of polymers and inorganic products, the domestic textile industry has experienced a decline in clothing production since the beginning of the year and a significant decline after the Golden Week holidays. In the non-textile industry, sales were lower than the same period of the previous year, although demand in the automotive sector, which is the primary application, recovered from the fourth quarter. Sales of materials related to capital investment decreased due to the termination of some products. As a result, sales to external customers decreased to ¥7,660 million (down by 10.9%).

Indonesia Segment

Net sales to external customers for the fiscal year were ¥471 million yen (down by 32.6%) and segment profit (operating profit) was ¥44 million yen (up by 85.3%).

Due to the effect of COVID-19, large-scale social restrictions (PSBB)

have been imposed in Indonesia, and corporate activities have been declining.

In the polymer, inorganic products and other fields, shipments dropped significantly due to the fact that most of our customers were closed, while exports were almost the same as last year. As a result, sales to external customers decreased to ¥173 million (down by 42.8%).

In the field of non-ionic surfactants, production fell in most of our customers due to the impact of COVID-19, but oil products for industrial materials are on a recovery trend. As a result, sales to external customers decreased to ¥290 million (down by 24.7%).

In the field of anionic surfactants and cationic/anionic surfactants, sales to external customers were ¥6 million (down by 27.6%) and ¥2 million (down by 36.7%), respectively.

A Message from the Management

We focus on R & D, with 20% of our employees in the R & D division, supplying users in a variety of industries, especially the textile industry, with a wide range of products essential for improving quality and productivity. Our goal is to become a stronger, more profitable company that can respond to the global economy.

We have established its current position by continuing to develop unique technologies not only in the surfactant field but also in the polymer field. Our customer base spans a wide range of fields, and we are confident that by accurately grasping customer needs, we will be able to significantly expand our accumulated technological capabilities. In other words, we are deepening and expanding the chain of development from the development of oil for fibers to Polymer Matsumoto Microsphere, oil for DI cans of metal processing oil, and magnetic fluid.

Despite expectations of an economic recovery due to the effects of vaccination, the outlook for the global economy remains uncertain because

of the respread of COVID-19. As the infection continues to spread in Japan, it is expected that Japan will be forced to restrict economic activities to a certain extent, and there is concern that the economic environment, which had been on a recovery trend, will stagnate or deteriorate.

Under these circumstances, we will continue to work to strengthen our management foundation in anticipation of the post-corona era. In response to fluctuations in global demand in the textile and automotive industries, we will flexibly adjust production volumes, develop competitive new products, expand sales channels, maintain a stable product supply system, and rationalize our operations.

In addition, we have been working to strengthen our production facilities over the past few years, and we will continue to make effective use of these facilities.

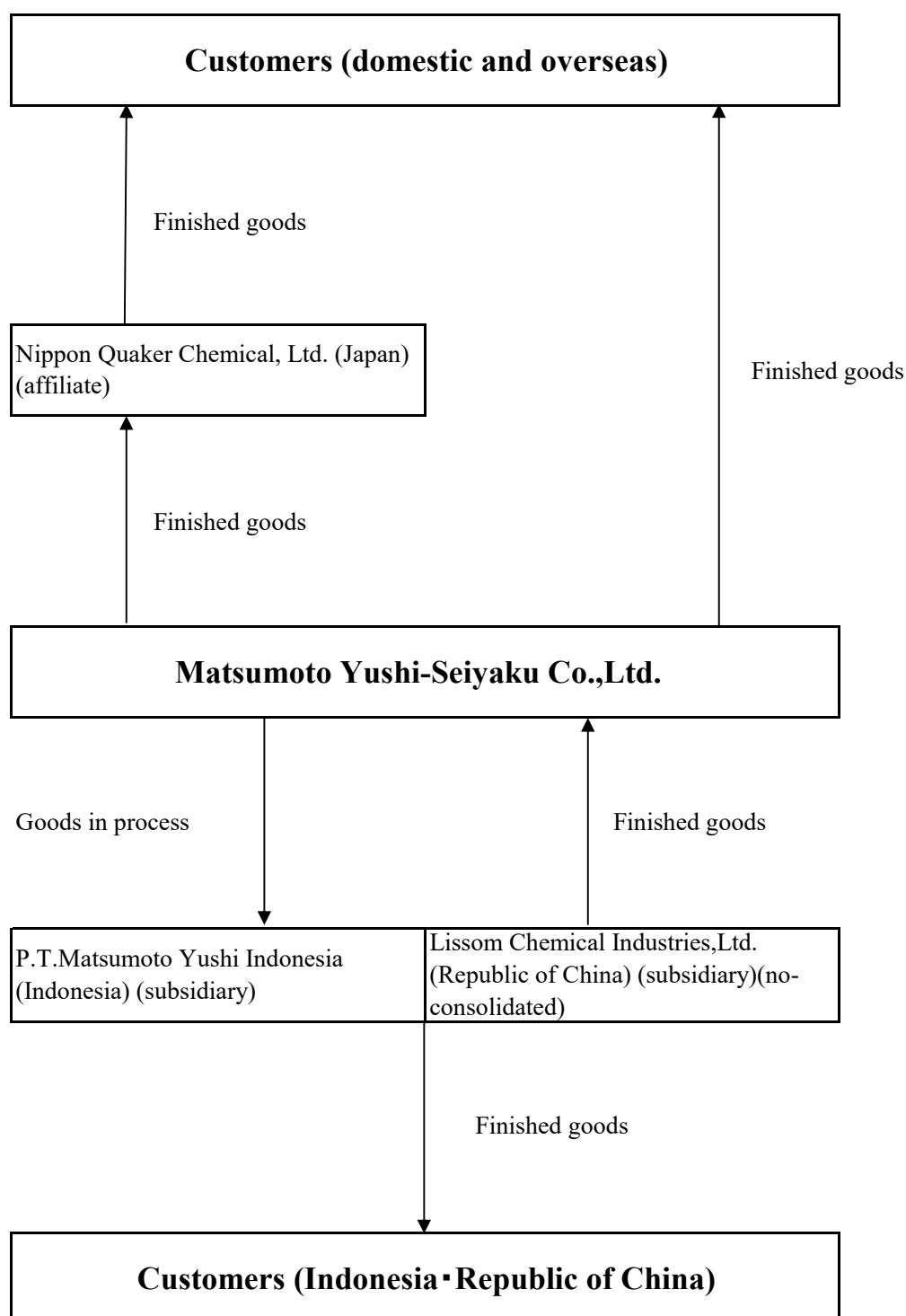
In R & D, we are developing new materials and applications with higher added value, and we intend to continue to flexibly operate our business by placing the right people in the right jobs in order to respond to changes in social conditions.

Sincerely,

NAOKI KIMURA

President and CEO

Holding Company Configuration and Highlights of Business



CORPORATE GOVERNANCE

We are working to achieve a highly transparent and sound system of corporate governance which enables us to realize stable and continuous improvement of enterprise value.

In addition to the regular monthly meetings of the board of directors, extraordinary meetings are held as necessary in order to make timely decisions. Directors, statutory auditors and the chiefs of department have a joint meeting once a week. They ensure legal compliance and the legitimate execution of business. The term of office of directors is one year in order to respond to the rapidly changing business environment.

We adopt a board of statutory auditor system. The board consists of four auditors, one of whom is a full-time auditor. They also attend the director meetings and join other significant discussions to observe the appropriateness of managerial business execution.

As for internal auditing, the Internal Auditing Department is working on the promotion and improvement of internal control and maintaining close coordination with the Board of Statutory Auditors and Accounting Auditor.

MATSUMOTO YUSHI-SEIYAKU CO., LTD. AND A SUBSIDIARY**Selected Financial Data****Years ended March 31**

| | <u>2021</u> | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Results for the year (millions of Yen): | | | | | |
| Net Sales | 29,605 | 31,393 | 32,803 | 32,113 | 31,377 |
| Cost of sales | 21,991 | 22,775 | 23,625 | 22,874 | 22,534 |
| Gross profit | 7,614 | 8,618 | 9,178 | 9,239 | 8,842 |
| Selling, general and administrative expenses | 3,668 | 3,867 | 3,923 | 3,952 | 4,034 |
| Operating income | 3,946 | 4,751 | 5,255 | 5,287 | 4,808 |
| Other income(expenses) | 858 | 709 | 1,156 | 119 | 884 |
| Income before income taxes and non-controlling interests | 4,804 | 5,460 | 6,411 | 5,405 | 5,692 |
| Income taxes | | | | | |
| current | 1,380 | 1,579 | 1,799 | 1,709 | 1,809 |
| deferred | (21) | (13) | 75 | (143) | (97) |
| Net income | 3,445 | 3,893 | 4,538 | 3,839 | 3,981 |
| Net income attributable to : | | | | | |
| non controlling interests in subsidiary | (12) | (5) | (3) | (9) | 20 |
| owners of parent | 3,433 | 3,888 | 4,535 | 3,830 | 3,961 |
| Acquisition of property, plant and equipment | 792 | 2,729 | 1,036 | 976 | 693 |
| Depreciation and amortization | 931 | 654 | 610 | 584 | 582 |
| Per share of common stock(Yen): | | | | | |
| Net income attributable to owners of parent | 1,060.99 | 1,201.59 | 1,401.19 | 1,183.38 | 1,213.38 |
| Cash dividends | 300.00 | 300.00 | 350.00 | 300.00 | 350.00 |
| Year-end financial position(millions of Yen): | | | | | |
| Total current assets | 53,079 | 49,667 | 49,690 | 46,879 | 44,378 |
| Total property, plant and equipment | 6,747 | 7,410 | 5,208 | 4,605 | 4,135 |
| Total investments and other assets | 8,824 | 7,630 | 8,172 | 8,609 | 8,641 |
| Total current liabilities | 9,057 | 8,518 | 9,078 | 8,694 | 8,526 |
| Total long-term liabilities | 1,250 | 1,178 | 1,125 | 1,722 | 1,593 |
| Non-controlling interests | 143 | 154 | 146 | 154 | 162 |
| Foreign currency translation adjustments | (165) | (154) | (168) | (116) | (128) |
| Total net assets | 58,344 | 55,010 | 52,867 | 49,677 | 47,036 |
| Other year-end data: | | | | | |
| Number of shares issued(thousands) | 4,513 | 4,513 | 4,513 | 4,513 | 4,513 |
| Number of shareholders | 694 | 648 | 638 | 688 | 597 |

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2021 and 2020

| | Millions of yen | | Thousands of U.S.dollars (Note 1) | |
|--|-----------------|----------|--------------------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| ASSETS | | | | |
| Current assets: | | | | |
| Cash and cash equivalents(Note 5) | ¥ 40,682 | ¥ 37,137 | \$ 366,502 | \$ 334,570 |
| Short-term investments (Note 5,6) | 510 | 510 | 4,595 | 4,595 |
| Notes and accounts receivable(Note 5): | | | | |
| Trade | 6,312 | 5,826 | 56,862 | 52,483 |
| Associates | 1,956 | 1,988 | 17,618 | 17,908 |
| Other | 54 | 161 | 490 | 1,454 |
| Electronically recorded monetary claims(Note 5): | 201 | 171 | 1,807 | 1,545 |
| Allowance for doubtful accounts | (4) | (4) | (35) | (33) |
| | 8,518 | 8,143 | 76,741 | 73,356 |
| Inventories (Note 7) | 3,319 | 3,834 | 29,899 | 34,536 |
| Other current assets | 50 | 43 | 453 | 391 |
| Total current assets | 53,079 | 49,667 | 478,190 | 447,448 |
| Property, plant and equipment(Note 9) : | | | | |
| Land | 529 | 530 | 4,763 | 4,773 |
| Building and structures | 8,468 | 7,676 | 76,288 | 69,151 |
| Machinery and equipment | 15,751 | 13,998 | 141,905 | 126,109 |
| Construction in progress | 25 | 2,531 | 225 | 22,798 |
| | 24,773 | 24,734 | 223,182 | 222,831 |
| Accumulated depreciation | (18,026) | (17,325) | (162,395) | (156,078) |
| Total property, plant and equipment | 6,747 | 7,410 | 60,787 | 66,753 |
| Investments and other assets: | | | | |
| Investments in affiliates(Note 8) | 1,492 | 1,384 | 13,442 | 12,469 |
| Investments in securities (Note 5,6) | 6,417 | 4,934 | 57,810 | 44,447 |
| Long-term loans(Note 5) | 201 | 185 | 1,812 | 1,669 |
| Deferred income taxes(Note 14) | 1 | 287 | 11 | 2,589 |
| Other | 719 | 847 | 6,479 | 7,627 |
| Allowance for doubtful accounts | (7) | (7) | (59) | (59) |
| Total investments and other assets | 8,824 | 7,630 | 79,496 | 68,742 |
| Total assets | ¥ 68,650 | ¥ 64,707 | \$ 618,472 | \$ 582,943 |

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|-----------------|----------|---------------------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| LIABILITIES AND SHAREHOLDERS' EQUITY | | | | |
| Current liabilities: | | | | |
| Accounts payable(Note 5): | | | | |
| Trade | ¥ 5,874 | ¥ 5,203 | \$ 52,921 | \$ 46,876 |
| Associates | 792 | 699 | 7,139 | 6,302 |
| Other | 1,285 | 1,536 | 11,580 | 13,835 |
| Accrued income taxes | 717 | 707 | 6,463 | 6,372 |
| Accrued bonuses to employees | 322 | 311 | 2,900 | 2,804 |
| Other current liabilities | 65 | 61 | 590 | 551 |
| Total current liabilities | 9,057 | 8,518 | 81,593 | 76,739 |
| Long-term liabilities | | | | |
| Retirement benefit liability(Note 10) | 973 | 1,003 | 8,770 | 9,033 |
| Asset retirement obligations(Note 19) | 110 | 109 | 995 | 983 |
| Deferred income taxes (Note 14) | 91 | — | 823 | — |
| Other liabilities | 75 | 66 | 671 | 599 |
| Total long-term liabilities | 1,250 | 1,178 | 11,258 | 10,616 |
| Total liabilities | 10,306 | 9,696 | 92,851 | 87,355 |
| Net assets: | | | | |
| Shareholders' equity | | | | |
| Common stock | | | | |
| Authorized 16,000,000 shares | | | | |
| Issued 2021- 4,512,651 shares (Note 11) | 6,090 | 6,090 | 54,865 | 54,865 |
| Capital surplus | 6,518 | 6,518 | 58,723 | 58,723 |
| Retained earnings | 51,529 | 49,067 | 464,226 | 442,042 |
| Less, treasury stock, at cost: (Note 11) | (7,323) | (7,322) | (65,972) | (65,961) |
| Total Shareholders' equity | 56,815 | 54,353 | 511,842 | 489,669 |
| Accumulated other comprehensive income | | | | |
| Unrealized gain (loss) on available-for-sale securities | 1,507 | 651 | 13,574 | 5,861 |
| Foreign currency translation adjustments | (165) | (154) | (1,482) | (1,389) |
| Remeasurements of defined benefit plans | 44 | 6 | 399 | 56 |
| Total accumulated other comprehensive income | 1,386 | 503 | 12,491 | 4,527 |
| Non-controlling interests | 143 | 154 | 1,288 | 1,392 |
| Total net assets | 58,344 | 55,010 | 525,621 | 495,587 |
| Total liabilities and net assets | ¥ 68,650 | ¥ 64,707 | \$ 618,472 | \$ 582,943 |

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2021 and 2020

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|---|-----------------|----------|---------------------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| Net sales(Note 16,17) | ¥ 29,605 | ¥ 31,393 | \$ 266,714 | \$ 282,821 |
| Cost of sales(Note 16,17) | 21,991 | 22,775 | 198,119 | 205,180 |
| Gross profit | 7,614 | 8,618 | 68,595 | 77,640 |
| Selling, general and administrative expenses (Note 12) | 3,668 | 3,867 | 33,049 | 34,838 |
| Operating income | 3,946 | 4,751 | 35,547 | 42,802 |
| Other income (expenses): | | | | |
| Interest and dividend income | 136 | 179 | 1,222 | 1,609 |
| Interest expenses | (0) | (0) | (1) | (1) |
| Investment profit (Loss) on equity method | 161 | 168 | 1,447 | 1,511 |
| Foreign exchange profit (Loss) | 331 | 224 | 2,979 | 2,020 |
| Gain (Loss) on sale of investment securities | — | 13 | — | 121 |
| Governmental subsidy | 191 | — | 1,720 | — |
| Loss on tax purpose reduction entry of non-current assets | (187) | — | (1,688) | — |
| Other, net | 228 | 125 | 2,050 | 1,125 |
| Income before income taxes and non-controlling interests | 4,804 | 5,460 | 43,276 | 49,187 |
| Income taxes (Note 14): | | | | |
| Current | 1,380 | 1,579 | 12,433 | 14,228 |
| Deferred | (21) | (13) | (191) | (116) |
| | 1,359 | 1,566 | 12,242 | 14,112 |
| Net income | 3,445 | 3,893 | 31,034 | 35,075 |
| Net income attributable to : | | | | |
| Non-controlling interests in subsidiary | (12) | (5) | (104) | (44) |
| Owners of parent | ¥ 3,433 | ¥ 3,888 | \$ 30,930 | \$ 35,031 |

| | Yen | | U.S. dollars (Note 1) | |
|-----------------------------------|------------|------------|--------------------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| Net income per share: | | | | |
| Basic(Note 18) | ¥ 1,060.99 | ¥ 1,201.59 | \$ 9.558 | \$ 10.825 |
| Cash dividends per share(Note 11) | 300.00 | 300.00 | 2.703 | 2.703 |

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED MARCH 31, 2021 and 2020

| | Millions of yen | | Thousands of U.S. dollars (Note 1) | |
|--|-----------------|---------|---------------------------------------|-----------|
| | 2021 | 2020 | 2021 | 2020 |
| Income before income taxes and non-controlling interests | ¥ 3,445 | ¥ 3,893 | \$ 31,034 | \$ 35,075 |
| Other comprehensive income(Note 15): | | | | |
| Unrealized gains (losses) on available-for-sale securities | 856 | (646) | 7,714 | (5,822) |
| Foreign currency translation adjustments | (27) | 11 | (243) | 97 |
| Remeasurement of defined benefit plans | 46 | 8 | 416 | 68 |
| Share of other comprehensive income of associates accounted for using equity method | (0) | 12 | (2) | 112 |
| Total other comprehensive income (loss) | 875 | (615) | 7,884 | (5,544) |
| Comprehensive income | ¥ 4,320 | ¥ 3,278 | \$ 38,918 | \$ 29,531 |
| Comprehensive income attributable to: | | | | |
| Owners of the parent company | 4,318 | 3,269 | 38,900 | 29,453 |
| Minority interests | 2 | 9 | 19 | 78 |

MATSUMOTO YUSHI-SEIYAKU CO.,LTD
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2021 and 2020

| | Millions of yen | | | | | | | | | | | |
|---|-------------------------------------|--------------|-----------------|-------------------|----------------|--|--|--|---|--|---------------------------|------------------|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | Total net assets |
| | Number of shares issued (thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock | Total Shareholders' equity | Unrealized gain (loss) on other securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total Accumulated other comprehensive income | Non-controlling interests | |
| Balance at March 31, 2019 | 4,513 | 6,090 | 6,518 | 46,311 | (7,320) | 51,599 | 1,297 | (168) | (7) | 1,122 | 146 | 52,867 |
| Cash dividends | | | | (1,133) | | (1,133) | | | | | | (1,133) |
| Net income attributable to owners of parent | | | | 3,888 | | 3,888 | | | | | | 3,888 |
| Purchase of treasury stock | | | | | (1) | (1) | | | | | | (1) |
| Net change of items other than shareholders' equity | | | | | | | (646) | 14 | 13 | (620) | 8 | (611) |
| Balance at March 31, 2020 | 4,513 | ¥ 6,090 | ¥ 6,518 | ¥ 49,067 | ¥ (7,322) | ¥ 54,353 | ¥ 651 | ¥ (154) | ¥ 6 | ¥ 503 | ¥ 154 | ¥ 55,010 |
| Cash dividends | | | | (971) | | (971) | | | | | | (971) |
| Net income attributable to owners of parent | | | | 3,433 | | 3,433 | | | | | | 3,433 |
| Purchase of treasury stock | | | | | (1) | (1) | | | | | | (1) |
| Net change of items other than shareholders' equity | | | | | | | 856 | (10) | 38 | 884 | (12) | 872 |
| Balance at March 31, 2021 | 4,513 | ¥ 6,090 | ¥ 6,518 | ¥ 51,529 | ¥ (7,323) | ¥ 56,815 | ¥ 1,507 | ¥ (165) | ¥ 44 | ¥ 1,386 | ¥ 143 | ¥ 58,344 |

| | Thousands of U.S. dollars (Note 1) | | | | | | | | | | | |
|---|-------------------------------------|--------------|-----------------|-------------------|----------------|--|--|--|---|--|---------------------------|------------------|
| | Shareholders' equity | | | | | Accumulated other comprehensive income | | | | | | Total net assets |
| | Number of shares issued (thousands) | Common stock | Capital surplus | Retained earnings | Treasury stock | Total Shareholders' equity | Unrealized gain (loss) on other securities | Foreign currency translation adjustments | Remeasurements of defined benefit plans | Total Accumulated other comprehensive income | Non-controlling interests | |
| Balance at March 31, 2019 | 4,513 | \$ 54,865 | \$ 58,723 | \$ 417,215 | \$ (65,949) | \$ 464,854 | \$ 11,683 | \$ (1,513) | (60) | \$ 10,110 | \$ 1,316 | \$ 476,280 |
| Cash dividends | | | | (10,204) | | (10,204) | | | | | | (10,204) |
| Net income attributable to owners of parent | | | | 35,031 | | 35,031 | | | | | | 35,031 |
| Purchase of treasury stock | | | | | (12) | (12) | | | | | | (12) |
| Net change of items other than shareholders' equity | | | | | | | (5,822) | 123 | 116 | (5,583) | 76 | (5,507) |
| Balance at March 31, 2020 | 4,513 | \$ 54,865 | \$ 58,723 | \$ 442,042 | \$ (65,961) | \$ 489,669 | \$ 5,861 | \$ (1,389) | \$ 56 | \$ 4,527 | \$ 1,392 | \$ 495,587 |
| Cash dividends | | | | (8,746) | | (8,746) | | | | | | (8,746) |
| Net income attributable to owners of parent | | | | 30,930 | | 30,930 | | | | | | 30,930 |
| Purchase of treasury stock | | | | | (11) | (11) | | | | | | (11) |
| Net change of items other than shareholders' equity | | | | | | | 7,713 | (93) | 343 | 7,964 | (104) | 7,860 |
| Balance at March 31, 2021 | 4,513 | \$ 54,865 | \$ 58,723 | \$ 464,226 | \$ (65,972) | \$ 511,842 | \$ 13,574 | \$ (1,482) | \$ 399 | \$ 12,491 | \$ 1,288 | \$ 525,621 |

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2021 and 2020

| | Millions of yen | | Thousands of U.S. dollars | |
|--|-----------------|----------|---------------------------|------------|
| | | | (Note 1) | |
| | 2021 | 2020 | 2021 | 2020 |
| Cash flows from operating activities: | | | | |
| Net income | ¥ 4,804 | ¥ 5,460 | \$ 43,276 | \$ 49,187 |
| Adjustments for: | | | | |
| Depreciation and amortization | 931 | 654 | 8,391 | 5,895 |
| Loss (gain) on sales and disposal of property, | 10 | 2 | 89 | 20 |
| Loss (gain) on sale of investment securities | — | (13) | — | (121) |
| Allowance for doubtful accounts | 0 | (1) | 3 | (6) |
| Investment (profit) loss on equity method | (164) | (171) | (1,476) | (1,544) |
| Increase (decrease) in retirement benefit liability | 38 | 79 | 346 | 709 |
| Increase (decrease) in provision for bonuses | 11 | 15 | 96 | 133 |
| Interest and dividend income | (136) | (179) | (1,222) | (1,609) |
| Interest expenses | 0 | 0 | 1 | 1 |
| Foreign exchange (profit) loss | (242) | (224) | (2,177) | (2,018) |
| Loss on tax purpose reduction entry of non-current assets | 187 | — | 1,688 | — |
| Subsidy income | (191) | — | (1,720) | — |
| Decrease (Increase) in notes and accounts receivable | (526) | 746 | (4,737) | 6,724 |
| Decrease (Increase) in inventories | 503 | (232) | 4,532 | (2,094) |
| Increase (Decrease) in accounts payable | 772 | (325) | 6,951 | (2,932) |
| Increase (Decrease) in accrued consumption tax | 350 | (46) | 3,149 | (415) |
| Other, net | (133) | (192) | (1,195) | (1,729) |
| Sub total | 6,216 | 5,572 | 55,996 | 50,201 |
| Interest and dividend income received | 191 | 215 | 1,723 | 1,933 |
| Interest expenses paid | (0) | (0) | (1) | (1) |
| Income taxes paid | (1,363) | (1,863) | (12,281) | (16,786) |
| Net cash provided by operating activities | 5,044 | 3,924 | 45,437 | 35,348 |
| Cash flows from investing activities: | | | | |
| Repayment of maturity of time deposits | (1,020) | (1,020) | (9,189) | (9,189) |
| Proceeds from maturity of time deposits | 1,020 | 1,020 | 9,189 | 9,189 |
| Receipt from redemption of investment securities | 7 | 1 | 65 | 5 |
| Payments for purchase of property, plant and equipment | (792) | (2,729) | (7,137) | (24,586) |
| Receipt from sale of investments in securities | — | 330 | — | 2,970 |
| Payments for purchase of investments in securities | (319) | (197) | (2,876) | (1,778) |
| Subsidies received | 191 | — | 1,720 | — |
| Other, net | 149 | (2) | 1,344 | (22) |
| Net cash provided by (used in) investing activities | (764) | (2,599) | (6,884) | (23,417) |
| Cash flows from financing activities: | | | | |
| Cash dividends paid | (971) | (1,132) | (8,748) | (10,202) |
| Cash dividends paid to non-controlling shareholders | (13) | — | (120) | — |
| Purchase of treasury stock | (1) | (1) | (11) | (12) |
| Repayments of lease obligations | (2) | — | (14) | — |
| Net cash used in financing activities | (987) | (1,134) | (8,892) | (10,215) |
| Effect of exchange rate changes on cash and cash equivalents | 252 | 132 | 2,271 | 1,193 |
| Net increase (decrease) in cash and cash equivalents | 3,544 | 323 | 31,932 | 2,910 |
| Cash and cash equivalents at beginning of year | 37,137 | 36,814 | 334,569 | 331,659 |
| Cash and cash equivalents at end of year (Note.5) | ¥ 40,682 | ¥ 37,137 | \$ 366,501 | \$ 334,569 |

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY

Notes to Financial Statements Years Ended March 31, 2021 and 2020

1. Basis of Presenting Consolidated Financial Statements

Matsumoto Yushi-Seiyaku Co.,Ltd.(the "Company") maintains its accounts and records in accordance with the provisions set forth in the Company Code of Japan (the "Code") and the Financial Instruments and Exchange Act and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The Company's overseas subsidiary maintains its accounts and records in conformity with generally accepted accounting principles and practices prevailing in its country of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiary (the "Group") which were filed with the Director of Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act.

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2021, which was ¥111 to U.S.\$1.00. These translations for convenience should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation Principles

The consolidated financial statements include the accounts of the Company's subsidiary. All significant inter-company transactions and accounts are eliminated.

Investments in affiliates are accounted for by the equity method whereby the group includes in net income its share of income or losses of these companies, and records its investments at cost adjusted for its share of income, losses or dividends received.

Generally, companies that are owned more than 50% fall under the category of subsidiaries and companies that are owned 20% or more but not more than 50% fall under the category of affiliates, respectively.

However, companies that are owned 40% to 50% may also fall under the category of subsidiaries and companies that are owned 15% or more but not more than 20% may also fall under the category of affiliates, respectively, if the Company substantially controls the investees' management or has significant influence and relationship with the investees.

(b) Translation of Foreign Currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates in effect on the balance sheet date, and translation gains or losses are charged to income in the year incurred.

Assets, liabilities, revenue and expenses of overseas subsidiary are translated into Japanese yen at the exchange rates in effect on balance sheet date and shareholders' equity is translated into Japanese yen at historical rates. Differences arising from translation are presented as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

(c) Consolidated Statement of Cash Flows

For the purposes of cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

(d) Short-term Investments and Investments in Securities

In accordance with the Financial Instruments and Exchange Act, securities should be classified into four categories: trading securities, held-to-maturities securities, equity investments in an affiliate and other securities. Equity and debt securities are classified as other securities.

Marketable equity and debt securities are stated at fair value with unrealized gains and losses, net of applicable income taxes, reported as a separate component of shareholders' equity. Gains and losses are credited or charged to income when realized, with cost determined by the weighted average method.

However, if the fair value falls below 50% of cost and if there is no prospect of recovery, the unrealized losses have to be charged to income.

(e) Inventories

Finished products, work in process, purchased merchandise and raw materials are stated at cost determined (net realized value method) by the weighted average method. Raw materials are stated at cost determined (net realized value method) by the weighted average method. Supplies and containers are stated at the most recent purchase prices.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment are as follows:

| | |
|-------------------------|--|
| Buildings | i Buildings acquired before March 31, 1998 Declining-balance method. |
| | ii Buildings acquired after April 1, 1998 Straight-line method. |
| Structures | i Structures acquired before March 31, 2016 Declining-balance method. |
| | ii Structures acquired after April 1, 2016 Straight-line method. |
| Machinery and Equipment | Declining-balance method. |
| Leased Assets | Straight-line method over the lease period assuming no residual value. |

(g) Intangible Assets

Amortization of intangible assets is computed by the straight-line method.

(h) Accrued Severance Indemnities

Accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the period.

Employees' retirement benefits, covering employees of the Company, are provided through unfunded lump-sum benefit plans and funded noncontributory pension plans. Under the plans, eligible employees are entitled, under most circumstances, to severance payments based on compensation at the time of severance and year of service.

Actuarial losses will be amortized over five years beginning with the next year and past service cost will be expensed in the fiscal year collectively.

(i)Research and Development and Computer Software

Research and development expenditure is charged to income when incurred.

Expenditure relating to computer software developed for internal use is charged to income when incurred. When it contributes to the generation of income or to future cost savings, such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life, namely, 5 years.

(j)Allowance for Doubtful Accounts

In accordance with the Accounting Standards for Financial Instruments, allowance for doubtful accounts is provided by actual bad debt expense ratio to normal receivables and by specific examination of collectability to bad debt.

(k)Consumption Tax

The consumption tax is imposed at the flat rate of 10% on the Company's sales to customers and purchases of goods and services. The consumption tax thus withheld on sales and paid on purchases by the Company is not included in the amounts of revenue and expense items.

Under the consumption tax law, the tax paid on purchases can generally be deducted from the tax withheld.

(l)Accrued Bonuses to Employees

As a general practice in Japan, bonuses are normally payable to employees in early summer and early winter covering the first and second half of the year, respectively. The Company records such accrued bonus liabilities at March 31.

(m)Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial statements and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be settled.

(n)Per Share Information

The computation of basic net income per share is based on net income available to common shareholders and the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 3,236 thousand and 3,236 thousand for the periods ended March 31, 2021 and 2020, respectively.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(o)Amortization Method of Goodwill and Period Thereof

Goodwill is mainly amortized on a straight-line basis over a period when the effect lasts to. Immaterial goodwill is amortized in full in the same fiscal year in which it is incurred.

3. Significant Accounting Estimates

Items whose amounts have been recorded in the consolidated financial statements for the current consolidated fiscal year based on accounting estimates that may have a material impact on the consolidated financial statements for the following consolidated fiscal year are as follows:

(1)Deferred tax assets ¥1 million and deferred tax liabilities ¥91 million

Deferred tax assets and liabilities are recorded to the extent considered to have the effect of reducing future tax burdens, based on the estimated future taxable income and feasible tax planning.

The estimated amount of future taxable income varies depending on the business environment and other factors at the time. Therefore, if factors that affect the estimated taxable income occur, the amount of deferred tax assets and deferred tax liabilities of our group may be significantly affected.

(2)Investment securities (unlisted stocks) 891 million yen

In the event that the real value of unlisted shares, whose market value is deemed extremely difficult to ascertain, declines significantly due to deterioration in the financial condition of the investee, it is determined whether to devalue the value following an assessment of the possibility of recovery,

If the performance of the investee declines significantly in the future and the appraised value of the investment securities is devalued, it may have a material impact on the business performance of our group in the following fiscal year and thereafter.

4.Unapplied Accounting Standards

Accounting standards for revenue recognition

- Accounting standard for Revenue Recognition (ASBJ Statement No.29, issued by the Accounting Standards Board of Japan on March 31, 2020)
- Implementation Guidance on Accounting Standards for Revenue Recognition (ASBJ Guidance No.30 issued by the Accounting Standards Board of Japan on March 26, 2021)

(1) Summary

These standards are comprehensive accounting standards for Revenue Recognition.

step1:Distinguish the contract with the customer.

step2:Distinguish the performance obligation in the contract.

step3:Calculating trade prices.

step4:Allocating trade prices to the performance obligation in the contract.

step5:Recognize revenue when the performance obligation is filled or as the performance obligation is filled.

(2)Planned Application

To be applied from the beginning of the fiscal year ending March 31, 2022.

(3)Effect of Accounting Standard Application

The Company is currently assessing the effects on the consolidated financial statements resulting from the application of this accounting standard for revenue.

Accounting standards for fair value measurement

- Accounting standard for Fair Value Measurement (ASBJ Statement No.30, issued by the Accounting Standards Board of Japan on July 4, 2019)
- Implementation Guidance on Accounting standard for Fair Value Measurement (ASBJ Guidance No.31, issued by the Accounting Standards Board of Japan on July 4, 2019)
- Accounting standard for Measurement of inventories (ASBJ Statement No.9, issued by the Accounting Standards Board of Japan on July 4, 2019)
- Accounting standard for Financial Instruments (ASBJ Statement No.10, issued by the Accounting Standards Board of Japan on July 4, 2019)
- Application Guidelines for Disclosure of Market Prices of Financial Products(ASBJ Implementation Guidance No.19, issued by the Accounting Standards Board of Japan on March 31, 2020)

(1) Summary

To improve the comparability with international accounting standards, "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value" (together, Accounting standards for fair value measurement) were developed and provide the guidance of fair value measurement.

The accounting standards for fair value measurement are applied to the fair value of followings.

- Financial instruments under "Accounting Standard for Financial Instruments".
- Inventories held for trading purposes under "Accounting Standard for Measurement of Inventories".

(2)Planned Application

To be applied from the beginning of the fiscal year ending March 31, 2022.

(3)Effect of Accounting Standard Application

The Company is currently assessing the effects on the consolidated financial statements resulting from the application of this accounting standard for revenue.

5.Changes In Presentation

- Application of “Accounting Standard for Disclosure of Accounting Estimates

The Company has applied the “Accounting Standard for Disclosure of Accounting Estimates” (ASBJ Statement No. 31, March 31, 2020) to consolidated financial statements relevant to the end of the fiscal year under review.

Notes concerning significant accounting estimates are listed in the consolidated financial statements.

However, in accordance with transitional procedures outlined in item 11 of the accounting standard, content pertaining to the previous fiscal year is not listed.

6.Additional Information

- Accounting Estimates on the Effects of the Spread of the Novel Coronavirus Infection

Although the future outlook of the Novel Coronavirus remains uncertain, it is assumed that there will be no significant impact on accounting estimates such as the impairment of fixed assets and the recoverability of deferred tax assets as of the date of preparation of the consolidated financial statements for the fiscal year.

Because there are many uncertainties regarding the impact of the Novel Coronavirus in the future, our group's financial position and operating results may be affected if the actual results differ from expectations.

5. Financial Instruments

(1) Circumstances on financial instruments

(a) Policy for financial instruments

The Company and its consolidated subsidiaries manage the temporary surplus funds by deposit and securities with banks that have a high level of safety. The Company and its consolidated subsidiaries raise funds for business operation with short-term bank loans.

(b) Details and risk of financial instruments and its risk management

Receivables such as notes and accounts receivable are exposed to customer's credit risk.

Receivables denominated in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

In order to reduce to the customer's credit risk, the Company monitors the dues and balances by customer.

Short-term investments and investments in securities are exposed to market fluctuation risk, but mainly consist of equity of the companies which conduct business with the Company. The Company periodically monitors the fair value of the security and the financial condition of the issuer.

Payables such as accounts payable are due within 6 months.

Payables denominated in foreign currency are exposed to the risk of fluctuation in foreign currency exchange rates.

(c) Supplemental information on fair values of financial instruments

Fair values of financial instruments include values based on market price and reasonably estimated values when market price is not available. Because variable factors are counted in the estimation, the estimated values may vary by adopting different assumptions.

(2) Fair value of financial instruments

Financial instruments at March 31, 2021 and 2020 consisted of the following:

| millions of yen | | | |
|--|------------|------------|-------------|
| 2021 | | | |
| | Book Value | Fair Value | Differences |
| Cash and cash equivalents | ¥ 40,682 | ¥ 40,682 | ¥ - |
| Notes and accounts receivable | 8,318 | 8,318 | - |
| Electronically recorded monetary claims | 201 | 201 | - |
| Short-term investments and investments in securities | 6,927 | 6,927 | - |
| Total assets | ¥ 56,127 | ¥ 56,127 | ¥ - |
| Accounts payable | 7,952 | 7,952 | - |
| Total liabilities | ¥ 7,952 | ¥ 7,952 | ¥ - |
| millions of yen | | | |
| 2020 | | | |
| | Book Value | Fair Value | Differences |
| Cash and cash equivalents | ¥ 37,137 | ¥ 37,137 | ¥ - |
| Notes and accounts receivable | 7,971 | 7,971 | - |
| Electronically recorded monetary claims | 171 | 171 | - |
| Short-term investments and investments in securities | 5,444 | 5,444 | - |
| Total assets | ¥ 50,723 | ¥ 50,723 | ¥ - |
| Accounts payable | 7,438 | 7,438 | - |
| Total liabilities | ¥ 7,438 | ¥ 7,438 | ¥ - |

| thousands of U.S.dollars(Note 1) | | | |
|--|-------------------|-------------------|-------------|
| 2021 | | | |
| | Book Value | Fair Value | Differences |
| Cash and cash equivalents | \$ 366,502 | \$ 366,502 | \$ - |
| Notes and accounts receivable | 74,935 | 74,935 | - |
| Electronically recorded monetary claims | 1,807 | 1,807 | - |
| Short-term investments and investments in securities | 62,405 | 62,405 | - |
| Total assets | <u>\$ 505,648</u> | <u>\$ 505,648</u> | <u>\$ -</u> |
| Accounts payable | 71,640 | 71,640 | - |
| Total liabilities | <u>\$ 71,640</u> | <u>\$ 71,640</u> | <u>\$ -</u> |

Repayment schedule of, cash and cash equivalents, notes and accounts receivable, short-term investments and investments in securities, long-term loans.

| millions of yen | | | | |
|--|-----------------|---------------------------------|----------------------------------|----------------|
| 2021 | | | | |
| | Within one year | Over one year within five years | Over five years within ten years | Over ten years |
| Cash and cash equivalents | ¥ 40,682 | ¥ - | ¥ - | ¥ - |
| Notes and accounts receivable | 8,318 | - | - | - |
| Electronically recorded monetary claims | 201 | - | - | - |
| Short-term investments and investments in securities | | | | |
| Other | - | 90 | 263 | - |
| Total assets | <u>¥ 49,200</u> | <u>¥ 90</u> | <u>¥ 263</u> | <u>¥ -</u> |

| millions of yen | | | | |
|--|-----------------|---------------------------------|----------------------------------|----------------|
| 2020 | | | | |
| | Within one year | Over one year within five years | Over five years within ten years | Over ten years |
| Cash and cash equivalents | ¥ 37,137 | ¥ - | ¥ - | ¥ - |
| Notes and accounts receivable | 7,971 | - | - | - |
| Electronically recorded monetary claims | 171 | - | - | - |
| Short-term investments and investments in securities | | | | |
| Other | - | 84 | 246 | - |
| Total assets | <u>¥ 45,280</u> | <u>¥ 84</u> | <u>¥ 246</u> | <u>¥ -</u> |

| thousands of U.S.dollars(Note 1) | | | | |
|--|-------------------|-------------------|-----------------|-------------|
| 2021 | | | | |
| | year | within five years | years within | years |
| Cash and cash equivalents | \$ 366,502 | \$ - | \$ - | \$ - |
| Notes and accounts receivable | 74,935 | - | - | - |
| Electronically recorded monetary claims | 1,807 | - | - | - |
| Short-term investments and investments in securities | | | | |
| Other | - | 813 | 2,366 | - |
| Total assets | <u>\$ 443,243</u> | <u>\$ 813</u> | <u>\$ 2,366</u> | <u>\$ -</u> |

6. Short-term Investments and Investments in Securities

Short-term investments at March 31, 2021 and 2020 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|----------------------|-----------------|--------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Bonds and debentures | ¥ - | ¥ - | \$ - |
| Time deposits | 510 | 510 | 4,595 |
| Other | 0 | 0 | 1 |
| | <u>¥ 510</u> | <u>¥ 510</u> | <u>\$ 4,595</u> |

The following is a summary of investments in securities at March 31, 2021 and 2020 respectively:

| | Millions of yen | | | |
|---|------------------|------------------------------|-------------------------------|---|
| | March 31, 2021 | | | |
| | Other securities | | | |
| | Cost | Gross unrealized gains | Gross unrealized losses | Book Value (Estimated fair value) |
| Equity securities | ¥ 2,401 | ¥ 2,048 | ¥ (2) | ¥ 4,447 |
| Other | 1,083 | 340 | - | 1,423 |
| | <u>¥ 3,484</u> | <u>¥ 2,388</u> | <u>¥ (2)</u> | <u>¥ 5,870</u> |
| Add: Securities without readily determinable fair value | | | | 547 |
| | | | | <u>¥ 6,417</u> |

| | Millions of yen | | | |
|---|------------------|------------------------------|-------------------------------|---|
| | March 31, 2020 | | | |
| | Other securities | | | |
| | Cost | Gross unrealized gains | Gross unrealized losses | Book Value (Estimated fair value) |
| Equity securities | ¥ 2,458 | ¥ 1,121 | ¥ (315) | ¥ 3,264 |
| Other | 820 | 258 | (5) | 1,072 |
| | <u>¥ 3,278</u> | <u>¥ 1,379</u> | <u>¥ (321)</u> | <u>¥ 4,336</u> |
| Add: Securities without readily determinable fair value | | | | 597 |
| | | | | <u>¥ 4,934</u> |

| | Thousands of U.S.dollars(Note 1) | | | |
|---|----------------------------------|------------------------------|-------------------------------|---|
| | March 31, 2021 | | | |
| | Other securities | | | |
| | Cost | Gross unrealized gains | Gross unrealized losses | Book Value (Estimated fair value) |
| Equity securities | \$ 21,632 | \$ 18,449 | \$ (15) | \$ 40,066 |
| Other | 9,753 | 3,067 | - | 12,820 |
| | <u>\$ 31,385</u> | <u>\$ 21,516</u> | <u>\$ (15)</u> | <u>\$ 52,885</u> |
| Add: Securities without readily determinable fair value | | | | 4,925 |
| | | | | <u>\$ 57,810</u> |

7. Inventories

Inventories at March 31, 2021 and 2020 comprise the following:

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|----------------------------|-----------------|----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Finished goods | ¥ 1,828 | ¥ 2,270 | \$ 16,464 |
| Work in process | 519 | 527 | 4,678 |
| Raw materials and supplies | 972 | 1,036 | 8,757 |
| | <u>¥ 3,319</u> | <u>¥ 3,834</u> | <u>\$ 29,899</u> |

Revaluation loss on inventories of ¥23 million (U.S.\$209 thousand) and ¥14 million based on the lower of cost or market method was deducted from the carrying amounts of inventories at March 31,2021 and 2020 , respectively.

8. Investments in Affiliates

Investments in affiliates as of March 31, 2021 and 2020 consisted of the following:

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|------------------------------------|-----------------|---------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Investments in securities (Stocks) | ¥ 1,492 | ¥ 1,384 | \$ 13,442 |

9. Property, Plant and Equipment

Accumulated reduction entry of property , plant and equipment purchased using funds from a government subsidy amounted to ¥224 million (U.S.\$2,015 thousand) and ¥36 million at March 31,2021 and 2020 , respectively.

10. Retirement and Pension Plans

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2021 and 2020 respectively:

(1) Changes in Benefit Obligations

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|---|-----------------|----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Beginning balance of benefit obligations | ¥ 2,081 | ¥ 1,973 | \$ 18,747 |
| Service costs | 142 | 135 | 1,282 |
| Interest costs | 23 | 22 | 206 |
| Actuarial differences arising during the year | 6 | (21) | 57 |
| Retirement benefits paid | (91) | (27) | (818) |
| Past service costs | - | - | - |
| Ending balance of benefit obligations | <u>¥ 2,162</u> | <u>¥ 2,081</u> | <u>\$ 19,474</u> |

(2) Changes in Pension Assets

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|---|-----------------|----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Beginning balance of pension assets | ¥ 1,078 | ¥ 1,040 | \$ 9,714 |
| Expected return on pension assets | 26 | 25 | 233 |
| Actuarial differences arising during the year | 56 | (32) | 506 |
| Contributions made by the Company and consolidated subsidiary | 61 | 59 | 552 |
| Retirement benefits paid | (33) | (14) | (300) |
| Ending balance of pension assets | <u>¥ 1,188</u> | <u>¥ 1,078</u> | <u>\$ 10,705</u> |

(3) 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(Note 1) |
|--|-----------------|----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Funded benefit obligations | ¥ 2,162 | ¥ 2,081 | \$ 19,474 |
| Pension assets | (1,188) | (1,078) | (10,705) |
| Net amount of liability and asset on Consolidated Balance Sheets | <u>¥ 973</u> | <u>¥ 1,003</u> | <u>\$ 8,770</u> |

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--|-----------------|----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Net defined benefit asset | ¥ - | ¥ - | \$ - |
| Net defined benefit liability | 973 | 1,003 | 8,770 |
| Net amount of liability and asset on Consolidated Balance Sheets | <u>¥ 973</u> | <u>¥ 1,003</u> | <u>\$ 8,770</u> |

(4) Retirement Benefit Expenses

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|---|-----------------|--------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Service costs | ¥ 142 | ¥ 135 | \$ 1,282 |
| Interest costs | 23 | 22 | 206 |
| Expected return on pension assets | (26) | (25) | (233) |
| Amortization of actuarial differences | 18 | 20 | 161 |
| Amortization of past service cost | - | - | - |
| Retirement benefit expenses for defined benefit pension plans | <u>¥ 157</u> | <u>¥ 151</u> | <u>\$ 1,416</u> |

**(5) Remeasurements of Defined Benefit Plans (Other Comprehensive Income)
Breakdown (before deduction of tax effects)**

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|-----------------------------|-----------------|-------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Actuarial differences, etc. | ¥ 67 | ¥ 11 | \$ 599 |
| Total | <u>¥ 67</u> | <u>¥ 11</u> | <u>\$ 599</u> |

**(6) Remeasurements of Defined Benefit Plans (Accumulated Other Comprehensive Income)
Breakdown (before deduction of tax effects)**

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--|-----------------|------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Unrecognized actuarial differences, etc. | ¥ 69 | ¥ 3 | \$ 625 |
| Total | <u>¥ 69</u> | <u>¥ 3</u> | <u>\$ 625</u> |

**(7) Pension Assets
Breakdown**

| | 2021 | 2020 |
|-----------------|---------------|---------------|
| Bonds | 17.3% | 18.9% |
| Stocks | 29.0% | 22.5% |
| General account | 44.2% | 48.1% |
| Other | 9.5% | 10.5% |
| Total | <u>100.0%</u> | <u>100.0%</u> |

Rate of expected return on pension assets

The expected return on pension assets is determined based on the current and estimated future rates of return on various pension assets.

(8) Basic Assumptions for Calculating Benefit Obligations

| | 2021 | 2020 |
|---|------|------|
| Discount rate | 1.0% | 1.0% |
| Expected rate of return on pension assets | 2.4% | 2.4% |
| Expected rate of salary increase | 2.6% | 2.6% |

11. Supplemental Information for Consolidated Statements of Changes in Net Assets

(a) Type and number of outstanding shares

| Thousand of shares | | | | |
|---------------------------|------------------------------|------------------------------------|------------------------------------|---------------------|
| Year ended March 31, 2021 | | | | |
| Types of shares | Balance at beginning of year | Increase in shares during the year | Decrease in shares during the year | Balance at year end |
| Issued stock: | | | | |
| Common stock | 4,513 | - | - | 4,513 |
| Treasury stock: | | | | |
| Common stock | 1,277 | 0 | - | 1,277 |

| Thousand of shares | | | | |
|---------------------------|------------------------------|------------------------------------|------------------------------------|---------------------|
| Year ended March 31, 2020 | | | | |
| Types of shares | Balance at beginning of year | Increase in shares during the year | Decrease in shares during the year | Balance at year end |
| Issued stock: | | | | |
| Common stock | 4,513 | - | - | 4,513 |
| Treasury stock: | | | | |
| Common stock | 1,277 | 0 | - | 1,277 |

(b)Dividends**(1)Dividends paid to shareholders**

| Year ended March 31,2021 | | | | | | | | |
|--------------------------|--|----------------|--------------------|---------------------------|------------------|---------------|----------------|----------------|
| Date of approval | Resolution approved by | Type of shares | Amount | | Amount per share | | Cut-off date | Effective date |
| | | | (Million s of yen) | (Thousand of U.S.dollars) | (Yen) | (U.S.dollars) | | |
| June 26, 2020 | Annual general meeting of shareholders | Common stock | ¥971 | \$8,746 | ¥300 | \$2.70 | March 31, 2020 | June 29, 2020 |

| Year ended March 31,2020 | | | | | | | | |
|--------------------------|--|----------------|-------------------|--|------------------|--|----------------|----------------|
| Date of approval | Resolution approved by | Type of shares | Amount | | Amount per share | | Cut-off date | Effective date |
| | | | (Millions of yen) | | (Yen) | | | |
| June 27, 2019 | Annual general meeting of shareholders | Common stock | ¥1,133 | | ¥350 | | March 31, 2019 | June 28, 2019 |

(2)Dividends with a cut-off date during the fiscal year but an effective date subsequent to the fiscal year

| Year ended March 31,2021 | | | | | | | | | |
|--------------------------|--|----------------|---------------------|--------------------|---------------------------|------------------|---------------|----------------|----------------|
| Date of approval | Resolution approved by | Type of shares | Source of dividends | Amount | | Amount per share | | Cut-off date | Effective date |
| | | | | (Million s of yen) | (Thousand of U.S.dollars) | (Yen) | (U.S.dollars) | | |
| June 29, 2021 | Annual general meeting of shareholders | Common stock | Retained earnings | ¥971 | \$8,746 | ¥300 | 2.70 | March 31, 2021 | June 29, 2021 |

| Year ended March 31,2020 | | | | | | | |
|--------------------------|--|----------------|---------------------|-------------------|------------------|----------------|----------------|
| Date of approval | Resolution approved by | Type of shares | Source of dividends | Amount | Amount per share | Cut-off date | Effective date |
| | | | | (Millions of yen) | (Yen) | | |
| June 26, 2020 | Annual general meeting of shareholders | Common stock | Retained earnings | ¥971 | ¥300 | March 31, 2020 | June 29, 2020 |

12. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2021 and 2020 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--|-----------------|-------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Packing and haulage expenses | ¥ 877 | ¥ 877 | \$ 7,905 |
| Employees' salaries and Bonuses | 536 | 542 | 4,826 |
| Provision for bonuses | 127 | 128 | 1,148 |
| Provision of allowance for doubtful accounts | (1) | (1) | (5) |
| Retirement benefit expenses | 44 | 42 | 399 |
| Research and development expenses | 784 | 781 | 7,059 |

13. Research and Development Expenses

Research and development expenditure charged to income was ¥784 million(U.S.\$7,059 thousand) and ¥781 million for the year ended March 31, 2021 and 2020, respectively.

14. Income Taxes

The Company is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 30.62% and 30.62% for the years ended March 31, 2021 and 2020.

Overseas subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2021 and 2020 differs from the Company's statutory tax rate for the following reasons:

| | 2021 | 2020 |
|--|--------|--------|
| Statutory tax rate | 30.62 | 30.62 |
| Permanently nondeductible expenses | 0.12 | 0.16 |
| Permanently nontaxable dividends received | (0.47) | (0.30) |
| Per capital levy of residents tax | 0.26 | 0.24 |
| Reserve for special depreciation | (1.28) | (1.12) |
| Difference of tax rates of overseas subsidiary | (0.06) | 0.06 |
| Elimination of intercompany dividend income | (0.16) | (0.03) |
| Other | (0.74) | (0.94) |
| Effective tax rate | 28.29 | 28.69 |

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2021 and 2020 are presented below:

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--|-----------------|-------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Deferred tax assets: | | | |
| Net defined benefit liability | ¥ 295 | ¥ 306 | \$ 2,662 |
| Net unrealized holding losses on securities | 66 | 135 | 598 |
| Accrued employee bonuses | 99 | 95 | 888 |
| Accrued enterprise tax payable | 52 | 44 | 465 |
| Loss on valuation of golf club membership | 41 | 40 | 371 |
| Depreciation | 25 | 25 | 230 |
| Loss on valuation of investment securities | 21 | 21 | 188 |
| Unrealized losses on inventories | 5 | 6 | 47 |
| Other | 36 | 37 | 328 |
| Gross deferred tax assets | 641 | 710 | 5,777 |
| Valuation allowance | - | - | - |
| Total deferred tax assets | 641 | 710 | 5,777 |
| Deferred tax liabilities: | | | |
| Net unrealized holding profits on securities | (731) | (422) | (6,588) |
| Total deferred tax liabilities | (731) | (422) | (6,588) |
| Net deferred tax assets | 1 | 287 | 11 |
| Net deferred tax liabilities | (91) | - | (823) |

15. Comprehensive Income

Reclassification adjustments and income tax effects attributable to other comprehensive income for the years ended March 31, 2021 and 2020 are as follows:

| | Millions of yen | | Thousands of U.S dollars |
|---|-----------------|---------|-----------------------------|
| | 2021 | 2020 | 2021 |
| Valuation difference on available-for-sale securities: | | | |
| Gains (losses) arising during the year | ¥ 1,234 | ¥ (918) | \$ 11,115 |
| Reclassification adjustments | 0 | (13) | 3 |
| Before income tax effects | 1,234 | (931) | 11,118 |
| Income tax effects | 378 | (285) | 3,404 |
| Total | 856 | (646) | 7,714 |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | (27) | 11 | (242) |
| Reclassification adjustments | - | - | - |
| Before income tax effects | (27) | 11 | (242) |
| Income tax effects | - | - | - |
| Total | (27) | 11 | (242) |
| Remeasurements of defined benefit plans: | | | |
| Adjustments arising during the year | 49 | (9) | 438 |
| Reclassification adjustments | 18 | 20 | 161 |
| Before income tax effects | 67 | 11 | 599 |
| Income tax effects | (20) | (3) | (184) |
| Total | 46 | 8 | 416 |
| Share of other comprehensive income of entities accounted for using equity method: | | | |
| Adjustments arising during the year | (2) | 15 | (19) |
| Reclassification adjustments | (1) | 0 | (13) |
| Before income tax effects | (3) | 15 | (31) |
| Income tax effects | 3 | (3) | 30 |
| Total | (0) | 12 | (2) |
| Total other comprehensive income | ¥ 875 | ¥ (615) | \$ 7,886 |

16. Segment and Related Information

Matsumoto Yushi-Seiyaku Co., Ltd. For Japan segment, and P.T. Matsumoto Yushi Indonesia for Indonesian segment, respectively, function as an independent business entity developing comprehensive strategies and promoting business operations.

The reported segments are individually accounted for, with separate financial data available, and are subject to periodical scrutiny by the Board of Directors for performance evaluation and resources assignment.

(1) Segment information

Segment information for the years ended March 31, 2021 and 2020 consisted of the following respectively:

| | Millions of yen | | |
|---------------------|-----------------|-----------|----------------|
| | 2021 | | |
| | Japan | Indonesia | Total segments |
| Sales | | | |
| External customers | ¥ 29,134 | ¥ 471 | ¥ 29,605 |
| Inter-segment | 178 | 20 | 198 |
| Total sales | ¥ 29,312 | ¥ 491 | ¥ 29,803 |
| Segment income | 3,896 | 44 | 3,940 |
| Total assets | 67,135 | 533 | 67,668 |
| Total liabilities | 10,348 | 127 | 10,474 |
| Other | | | |
| Depreciation | ¥ 926 | ¥ 5 | ¥ 931 |
| Capital expenditure | 478 | 6 | 483 |
| | | | |
| | Millions of yen | | |
| | 2020 | | |
| | Japan | Indonesia | Total segments |
| Sales | | | |
| External customers | ¥ 30,694 | ¥ 699 | ¥ 31,393 |
| Inter-segment | 226 | 20 | 246 |
| Total sales | ¥ 30,920 | ¥ 719 | ¥ 31,639 |
| Segment income | 4,724 | 24 | 4,748 |
| Total assets | 63,215 | 604 | 63,819 |
| Total liabilities | 9,640 | 164 | 9,804 |
| Other | | | |
| Depreciation | ¥ 652 | ¥ 2 | ¥ 654 |
| Capital expenditure | 2,851 | 7 | 2,858 |

| | Thousands of U.S.dollars | | |
|---------------------|--------------------------|-----------------|-------------------|
| | 2021 | | |
| | Japan | Indonesia | Total segments |
| Sales | | | |
| External customers | \$ 262,471 | \$ 4,243 | \$ 266,714 |
| Inter-segment | 1,605 | 179 | 1,784 |
| Total sales | <u>\$ 264,075</u> | <u>\$ 4,422</u> | <u>\$ 268,497</u> |
| Segment income | <u>35,103</u> | <u>396</u> | <u>35,499</u> |
| Total assets | <u>604,818</u> | <u>4,806</u> | <u>609,624</u> |
| Total liabilities | <u>93,222</u> | <u>1,140</u> | <u>94,362</u> |
| Other | | | |
| Depreciation | \$ 8,342 | \$ 49 | \$ 8,391 |
| Capital expenditure | <u>4,305</u> | <u>50</u> | <u>4,354</u> |

(2) Adjustments and eliminations

| Reconciliation of sales | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--|-----------------|-----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Segment sales | ¥ 29,803 | ¥ 31,639 | \$ 268,497 |
| Inter-segment transactions (elimination) | (198) | (246) | (1,784) |
| Group sales | <u>¥ 29,605</u> | <u>¥ 31,393</u> | <u>\$ 266,714</u> |

| Reconciliation of income | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--------------------------|-----------------|----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Segment income | ¥ 3,940 | ¥ 4,748 | \$ 35,499 |
| Adjustment of inventory | 5 | 3 | 48 |
| Group operating income | <u>¥ 3,946</u> | <u>¥ 4,751</u> | <u>\$ 35,547</u> |

| Reconciliation of assets | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--|-----------------|-----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Segment operating assets | ¥ 67,668 | ¥ 63,819 | \$ 609,624 |
| Inter-segment transactions (elimination) | (98) | (105) | (886) |
| Adjustment of inventory | (6) | (7) | (53) |
| Other adjustments | 1,086 | 1,000 | 9,787 |
| Group assets | <u>¥ 68,650</u> | <u>¥ 64,707</u> | <u>\$ 618,472</u> |

Reconciliation of liabilities

| | Millions of yen | | Thousands of U.S. dollars(Note 1) |
|--|-----------------|----------------|--------------------------------------|
| | 2021 | 2020 | 2021 |
| Segment operating liabilities | ¥ 10,474 | ¥ 9,804 | \$ 94,362 |
| Inter-segment transactions (elimination) | (98) | (105) | (886) |
| Other adjustments | (69) | (3) | (625) |
| Group liabilities | <u>¥ 10,306</u> | <u>¥ 9,696</u> | <u>\$ 92,851</u> |

(3) Related information**Products and Services information**

| | Millions of yen | Millions of yen | Thousands of U.S. dollars(Note 1) |
|--------------------------------------|-----------------|-----------------|--------------------------------------|
| Sales to external customers | 2021 | 2020 | 2021 |
| Surfactant | ¥ 21,773 | ¥ 22,496 | \$ 196,152 |
| High polymer and inorganic chemicals | 7,274 | 8,425 | 65,535 |
| Other | 558 | 472 | 5,027 |
| Total | <u>¥ 29,605</u> | <u>¥ 31,393</u> | <u>\$ 266,714</u> |

Geographic information

| | Millions of yen | Millions of yen | Thousands of U.S. dollars(Note 1) |
|-----------------------------|-----------------|-----------------|--------------------------------------|
| Sales to external customers | 2021 | 2020 | 2021 |
| Japan | ¥ 11,936 | ¥ 14,215 | \$ 107,533 |
| Asia | 15,936 | 15,076 | 143,565 |
| Other | 1,733 | 2,102 | 15,616 |
| Total | <u>¥ 29,605</u> | <u>¥ 31,393</u> | <u>\$ 266,714</u> |

Main customers information

| | Millions of yen | Millions of yen | Thousands of U.S. dollars(Note 1) |
|------------------------------|-----------------|-----------------|--------------------------------------|
| Sales | 2021 | 2020 | 2021 |
| Marubeni Chemix Corporation | ¥ 8,788 | ¥ 7,319 | \$ 79,169 |
| Nippon Quaker Chemical, Ltd. | 3,915 | 4,601 | 35,268 |

17. Related Party Transactions

Principal transactions between the Company and its affiliate for the years ended March 31, 2021 and 2020 are summarized as follows:

| | Millions of yen | | Thousands of U.S.dollars |
|--|-----------------|---------|--------------------------|
| | 2021 | 2020 | 2021 |
| Sales(Nippon Quaker Chemical, Ltd.) | ¥ 3,915 | ¥ 4,601 | \$ 35,268 |
| Purchase(Nippon Quaker Chemical, Ltd.) | 1,628 | 1,667 | 14,667 |

18. Per Share Data

| | yen | | U.S.dollars |
|----------------------|-------------|-------------|-------------|
| | 2021 | 2020 | 2021 |
| Net income per share | ¥ 1,060.99 | ¥ 1,201.59 | \$ 9.558 |
| Net assets per share | ¥ 17,986.18 | ¥ 16,951.76 | \$ 162.038 |

The bases for calculating net income per share are as follows:

| | Millions of yen | | Thousands of U.S dollars |
|--|-----------------|-----------|--------------------------|
| | 2021 | 2020 | 2021 |
| Profit attributable to owners of parent available for distribution to common shareholders | ¥ 3,433 | ¥ 3,888 | \$ 30,930 |
| | Shares | | |
| | 2021 | 2020 | |
| Weighted average number of shares for net income | 3,235,931 | 3,236,064 | |

The bases for calculating net assets per share are as follows:

| | Millions of yen | | Thousands of U.S dollars |
|---|-----------------|-----------|--------------------------|
| | 2021 | 2020 | 2021 |
| Total net assets | ¥ 58,344 | ¥ 55,010 | \$ 525,621 |
| Amounts deducted from total net assets | | | |
| Noncontrolling interests | (143) | (154) | (1,288) |
| Net assets attributable to shares of common stock | 58,201 | 54,856 | 524,229 |
| | Shares | | |
| | 2021 | 2020 | |
| Number of shares of common stock used in the calculation of net assets per share | 3,235,872 | 3,235,991 | |

19. Asset Retirement Obligations

Asset retirement obligations for the year ended March 31, 2021 and 2020 consisted of the following respectively:

| | Millions of yen | Millions of yen | Thousands of U.S. dollars(Note 1) |
|--|-----------------|-----------------|-----------------------------------|
| | 2021 | 2020 | 2021 |
| Balance at beginning of year | ¥ 109 | ¥ 108 | \$ 983 |
| Payments for purchase of property, plant and equipment | - | - | - |
| Interest cost | 1 | 1 | 11 |
| Balance at end of year | ¥ 110 | ¥ 109 | \$ 995 |

20. Subsidiaries

The Company's subsidiaries are as follows:

| Name | Ownership Interest | Country of Incorporation |
|-------------------------------|-----------------------|--------------------------|
| P.T.Matsumoto-Yushi Indonesia | 65% | Indonesia |