
TVE Co., Ltd. and Subsidiaries

*Consolidated Financial Statements and
Related Notes for the Year Ended September 30, 2021
and Independent Auditor's Report*

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of TVE Co., Ltd.:

Opinion

We have audited the consolidated financial statements of TVE Co., Ltd. and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheet as of September 30, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of September 30, 2021, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matter

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

| Appropriateness of total estimated costs when providing for losses on contracts | |
|--|--|
| Key Audit Matter Description | How the Key Audit Matter Was Addressed in the Audit |
| <p>The allowance for losses on contracts of ¥275 million was recognized on the consolidated balance sheet as of September 30, 2021. As described in Note 3 to the consolidated financial statements, the Group records expected losses on contracts if the amounts can be reasonably estimated at the end of the fiscal year.</p> <p>As described in Note 3 to the consolidated financial statements, allowance for losses on contracts is provided for the excess of the estimated costs of the projects over the contract prices. Therefore, the total estimated costs affect the amount of allowance for losses on contracts. The total estimated costs are determined based on order specifications from customers with reference to similar projects in the past in accordance with the Group's accounting policy for the estimation of the costs. The total estimated costs involve uncertainty, such as fluctuations in the estimated elements due to the impact of changes in order specifications from customers until the project is completed.</p> <p>We determined that the appropriateness of total estimated costs when providing for losses on contracts was a key audit matter because auditing the total estimated costs of projects for order received required consideration of various factors related to estimation for each project and involved high degree of uncertainty.</p> | <p>In examining the appropriateness of total estimated cost components of the allowance for losses on contracts, we performed the following audit procedures, among others:</p> <p>We obtained an understanding of the Group's monitoring activities for the project costs incurred against the budgets and estimating total projects costs, and evaluated the design and operating effectiveness of the relevant internal controls, including the approval of initial and revised total estimated costs.</p> <p>We performed the following procedures for projects selected considering the estimated losses exceeding certain threshold amounts and such qualitative risks such as delays in the progress of project.</p> <ul style="list-style-type: none"> • We identified the significant factors impacting total estimated costs and evaluated management's judgement on the impact of uncertainty in the estimated elements, including those related to customer specifications on goods and the timing of delivery, by making inquiries of management of sales division, technical division, maintenance division and accounting department and examining project budgets and cost accounting information. • We compared the estimated man-hours of each project with actual man-hours of similar projects in terms of each cost item. • We evaluated management's judgement in determining whether to revise total estimated costs, considering the facts and circumstances of each project based on our understanding obtained by inquiries of management and by examining project budgets and cost accounting information. • We assessed the accuracy of total estimated costs by comparing the total estimated costs in the initial estimates and subsequent updates at the prior period end with the actual total costs for the projects completed during the year. |

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

December 23, 2021

TVE Co., Ltd. and Subsidiaries

**Consolidated Balance Sheet
September 30, 2021**

| ASSETS | Millions of Yen | | Thousands of U.S. Dollars (Note 1) | LIABILITIES AND EQUITY | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|-----------------|--|--|-----------------|-----------------|--|
| | 2021 | 2020 | 2021 | | 2021 | 2020 | 2021 |
| CURRENT ASSETS: | | | | CURRENT LIABILITIES: | | | |
| Cash and cash equivalents (Note 12) | ¥ 5,055 | ¥ 3,004 | \$ 45,139 | Current portion of long-term debts (Notes 6, 11, and 12) | ¥ 96 | ¥ 103 | \$ 865 |
| Receivables (Note 12): | | | | Payables (Note 12): | | | |
| Trade notes | 215 | 338 | 1,921 | Trade notes | 185 | 252 | 1,658 |
| Electronically recorded claims | 500 | 212 | 4,471 | Electronically recorded obligations | 120 | 94 | 1,073 |
| Trade accounts | 1,840 | 2,573 | 16,436 | Trade accounts | 227 | 371 | 2,031 |
| Other | 6 | 5 | 59 | Other | 464 | 406 | 4,149 |
| Inventories (Note 5) | 1,547 | 2,962 | 13,821 | Income taxes payable (Note 12) | 153 | 151 | 1,370 |
| Prepaid expenses and other current assets | 96 | 204 | 860 | Allowance for losses on contracts (Note 3) | 275 | 335 | 2,464 |
| | | | | Accrued expenses | 486 | 555 | 4,348 |
| Total current assets | 9,263 | 9,301 | 82,707 | Other current liabilities | 111 | 72 | 999 |
| | | | | | | | |
| PROPERTY, PLANT, AND EQUIPMENT (Note 6): | | | | Total current liabilities | 2,123 | 2,343 | 18,957 |
| Land | 341 | 261 | 3,046 | | | | |
| Buildings and structures | 495 | 493 | 4,427 | LONG-TERM LIABILITIES: | | | |
| Machinery and equipment | 562 | 450 | 5,019 | Long-term debts (Notes 6, 11, and 12) | 162 | 249 | 1,448 |
| Furniture and fixtures | 44 | 48 | 396 | Liability for retirement benefits (Note 7) | 679 | 674 | 6,063 |
| Leased assets | 40 | 78 | 362 | Other long-term liabilities | 9 | 12 | 82 |
| Construction in progress | 30 | 12 | 268 | | | | |
| | | | | TOTAL LONG-TERM LIABILITIES | 850 | 936 | 7,593 |
| Total property, plant, and equipment | 1,514 | 1,343 | 13,518 | | | | |
| | | | | COMMITMENTS AND CONTINGENT LIABILITIES (Note 11) | | | |
| INVESTMENTS AND OTHER ASSETS: | | | | | | | |
| Investment securities (Notes 4 and 12) | 1,067 | 794 | 9,527 | EQUITY (Note 8): | | | |
| Software | 177 | 179 | 1,587 | Common stock – authorized, 10,040,000 shares; issued, 2,678,600 shares in 2021 and 2020 | 1,739 | 1,739 | 15,532 |
| Leased assets | 64 | 61 | 578 | Capital surplus | 2,015 | 2,012 | 17,992 |
| Deferred tax assets (Note 9) | 99 | 250 | 891 | Retained earnings (Note 14) | 5,948 | 5,595 | 53,108 |
| Other assets | 161 | 163 | 1,439 | Treasury stock – at cost, 384,622 shares in 2021 and 389,218 shares in 2020 | (638) | (646) | (5,705) |
| Allowance for doubtful accounts | (7) | (9) | (67) | Accumulated other comprehensive income: | | | |
| | | | | Unrealized gain on available-for-sale securities | 284 | 95 | 2,537 |
| Total investments and other assets | 1,562 | 1,438 | 13,955 | Foreign currency translation adjustments | 18 | 2 | 161 |
| | | | | Defined retirement benefit plans | 0 | 5 | 3 |
| | | | | Total | 9,366 | 8,804 | 83,628 |
| | | | | Non-controlling interests | 0 | 0 | 2 |
| | | | | | | | |
| | | | | Total equity | 9,366 | 8,804 | 83,630 |
| TOTAL | ¥ 12,340 | ¥ 12,084 | \$ 110,180 | TOTAL | ¥ 12,340 | ¥ 12,084 | \$ 110,180 |

See notes to consolidated financial statements.

TVE Co., Ltd. and Subsidiaries

Consolidated Statement of Income Year Ended September 30, 2021

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|--------------|--|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| SALES | ¥ 10,451 | ¥ 8,824 | \$ 93,316 |
| COST OF SALES | <u>8,027</u> | <u>6,256</u> | <u>71,678</u> |
| Gross profit | 2,423 | 2,568 | 21,638 |
| SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES (Note 10) | <u>1,727</u> | <u>1,682</u> | <u>15,422</u> |
| Operating income | <u>696</u> | <u>885</u> | <u>6,216</u> |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | 32 | 37 | 290 |
| Interest expense | (2) | (2) | (22) |
| Loss on disposal of property, plant, and equipment | (7) | (13) | (65) |
| Other – net | <u>47</u> | <u>41</u> | <u>422</u> |
| Other income – net | <u>70</u> | <u>64</u> | <u>625</u> |
| INCOME BEFORE INCOME TAXES | <u>766</u> | <u>949</u> | <u>6,841</u> |
| INCOME TAXES (Note 9): | | | |
| Current | 241 | 223 | 2,159 |
| Deferred | <u>68</u> | <u>47</u> | <u>615</u> |
| Total income taxes | <u>310</u> | <u>271</u> | <u>2,774</u> |
| NET INCOME | <u>455</u> | <u>678</u> | <u>4,067</u> |
| NET INCOME (LOSS) ATTRIBUTABLE TO NON- CONTROLLING INTERESTS | <u>(0)</u> | <u>0</u> | <u>(1)</u> |
| NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | <u>¥ 455</u> | <u>¥ 678</u> | <u>\$ 4,068</u> |
| | Yen | | U.S. Dollars |
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| PER SHARE OF COMMON STOCK (Notes 2.p and 14): | | | |
| Basic net income | ¥198 | ¥296 | \$1.775 |
| Cash dividends applicable to the year | 40 | 45 | 0.357 |

See notes to consolidated financial statements.

TVE Co., Ltd. and Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended September 30, 2021

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|--------------|--|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| NET INCOME | ¥ 455 | ¥ 678 | \$ 4,067 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 13): | | | |
| Unrealized (loss) gain on available-for-sale securities | 188 | (98) | 1,687 |
| Foreign currency translation adjustments | 15 | 0 | 137 |
| Defined retirement benefit plans | <u>(4)</u> | <u>24</u> | <u>(42)</u> |
| Net other comprehensive (loss) income | <u>199</u> | <u>(73)</u> | <u>1,782</u> |
| COMPREHENSIVE INCOME | <u>¥ 655</u> | <u>¥ 605</u> | <u>\$ 5,849</u> |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥655 | ¥605 | \$5,850 |
| Non-controlling interests | (0) | 0 | (1) |

See notes to consolidated financial statements.

TVE Co., Ltd. and Subsidiaries
**Consolidated Statement of Changes in Equity
Year Ended September 30, 2021**

| | Shares/Millions of Yen | | | | Millions of Yen | | | | | | | Non-controlling Interests | Total Equity |
|--|------------------------|---------------|----------------|---------------|-----------------|-------------------|---|--|----------------------------------|---------------|-------------|---------------------------|--------------|
| | Common Stock Issued | | Treasury Stock | | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income | | | Total | | | |
| | Shares | Amount | Shares | Amount | | | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | | | | |
| BALANCE, OCTOBER 1, 2019 | 2,678,600 | ¥1,739 | 394,677 | ¥(655) | ¥2,012 | ¥5,019 | ¥193 | ¥1 | ¥(19) | ¥8,293 | ¥0 | ¥8,293 | |
| Net income attributable to owners of the parent | | | | | | 678 | | | | 678 | | 678 | |
| Cash dividends, ¥45 per share | | | | | | (102) | | | | (102) | | (102) | |
| Purchase of treasury stock | | | 43 | (0) | | | | | | (0) | | (0) | |
| Disposal of treasury stock | | | (5,502) | 9 | (0) | | | | | 8 | | 8 | |
| Change in unrealized loss on available-for-sale securities | | | | | | | (98) | | | (98) | | (98) | |
| Change in foreign currency translation adjustments | | | | | | | | 0 | | 0 | | 0 | |
| Change in defined retirement benefit plans | | | | | | | | | 24 | 24 | | 24 | |
| Change in non-controlling interests | | | | | | | | | | | 0 | 0 | |
| BALANCE, OCTOBER 1, 2020 | 2,678,600 | 1,739 | 389,218 | (646) | 2,012 | 5,595 | 95 | 2 | 5 | 8,804 | 0 | 8,804 | |
| Net income attributable to owners of the parent | | | | | | 455 | | | | 455 | | 455 | |
| Cash dividends, ¥40 per share | | | | | | (103) | | | | (103) | | (103) | |
| Purchase of treasury stock | | | 101 | (0) | | | | | | (0) | | (0) | |
| Disposal of treasury stock | | | (4,697) | 7 | 2 | | | | | 10 | | 10 | |
| Change in unrealized loss on available-for-sale securities | | | | | | | 188 | | | 188 | | 188 | |
| Change in foreign currency translation adjustments | | | | | | | | 15 | | 15 | | 15 | |
| Change in defined retirement benefit plans | | | | | | | | | (4) | (4) | | (4) | |
| Change in non-controlling interests | | | | | | | | | | | (0) | (0) | |
| BALANCE, SEPTEMBER 30, 2021 | <u>2,678,600</u> | <u>¥1,739</u> | <u>384,622</u> | <u>¥(638)</u> | <u>¥2,015</u> | <u>¥5,948</u> | <u>¥284</u> | <u>¥18</u> | <u>¥0</u> | <u>¥9,366</u> | <u>¥(0)</u> | <u>¥9,366</u> | |

Thousands of U.S. Dollars (Note 1)

| | Common Stock Issued | | Treasury Stock | | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Income | | | Non-controlling Interests | Total Equity | |
|--|--------------------------|----------|------------------|-----------|-----------------|-------------------|---|--|----------------------------------|---------------------------|--------------|-----------------|
| | Amount | | Amount | | | | Unrealized Gain (Loss) on Available-for-Sale Securities | Foreign Currency Translation Adjustments | Defined Retirement Benefit Plans | | | Total |
| | BALANCE, OCTOBER 1, 2020 | \$15,532 | | \$(5,773) | | \$17,969 | \$49,960 | \$850 | \$24 | \$45 | \$78,607 | \$3 |
| Net income attributable to owners of the parent | | | | | | 4,068 | | | | 4,068 | | 4,068 |
| Cash dividends, \$0.357 per share | | | | | | (920) | | | | (920) | | (920) |
| Purchase of treasury stock | | | (2) | | | | | | | (2) | | (2) |
| Disposal of treasury stock | | | 70 | | 23 | | | | | 93 | | 93 |
| Change in unrealized loss on available-for-sale securities | | | | | | | 1,687 | | | 1,687 | | 1,687 |
| Change in foreign currency translation adjustments | | | | | | | | 137 | | 137 | | 137 |
| Change in defined retirement benefit plans | | | | | | | | | (42) | (42) | | (42) |
| Change in non-controlling interests | | | | | | | | | | | (1) | (1) |
| BALANCE, SEPTEMBER 30, 2021 | <u>\$15,532</u> | | <u>\$(5,705)</u> | | <u>\$17,992</u> | <u>\$53,108</u> | <u>\$2,537</u> | <u>\$161</u> | <u>\$3</u> | <u>\$83,628</u> | <u>\$2</u> | <u>\$83,630</u> |

See notes to consolidated financial statements.

TVE Co., Ltd. and Subsidiaries

Consolidated Statement of Cash Flows Year Ended September 30, 2021

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|----------------------|----------------------|--|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes | ¥ 766 | ¥ 949 | \$ 6,841 |
| Adjustments for: | | | |
| Income taxes – paid | (239) | (240) | (2,139) |
| Depreciation and amortization | 320 | 308 | 2,861 |
| Changes in assets and liabilities: | | | |
| Decrease in trade receivables | 568 | 95 | 5,074 |
| Decrease (increase) in inventories | 1,414 | (751) | 12,625 |
| Decrease (increase) in advance payments | 121 | (121) | 1,087 |
| Decrease in trade payables | (184) | (107) | (1,650) |
| Decrease in allowance for losses on contracts | (59) | (115) | (533) |
| Decrease in liability for retirement benefits | (0) | (27) | (3) |
| Increase in advances received | 38 | 14 | 342 |
| Other – net | 43 | 186 | 391 |
| Net cash provided by operating activities | <u>2,788</u> | <u>188</u> | <u>24,896</u> |
| INVESTING ACTIVITIES: | | | |
| Payments for purchases of property, plant, and equipment | (460) | (178) | (4,112) |
| Payments for purchases of intangible assets | (75) | (40) | (670) |
| Other | (1) | (84) | (10) |
| Net cash used in investing activities | <u>(536)</u> | <u>(303)</u> | <u>(4,792)</u> |
| FINANCING ACTIVITIES: | | | |
| Repayments of long-term debt | (60) | (72) | (536) |
| Dividends paid | (102) | (102) | (918) |
| Purchase of treasury stock | (0) | (0) | (2) |
| Other | (42) | (35) | (381) |
| Net cash used in financing activities | <u>(205)</u> | <u>(211)</u> | <u>(1,837)</u> |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | | | |
| | <u>5</u> | <u>0</u> | <u>47</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 2,051 | (325) | 18,314 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>3,004</u> | <u>3,330</u> | <u>26,825</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>¥5,055</u> | <u>¥3,004</u> | <u>\$ 45,139</u> |

See notes to consolidated financial statements.

TVE Co., Ltd. and Subsidiaries

Notes to Consolidated Financial Statements

As of and for the Years Ended September 30, 2021 and 2020

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made to the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the functional and presentation currency of TVE Co., Ltd. (the "Company"). The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥112 to \$1, the approximate rate of exchange at September 30, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Japanese yen figures less than a million yen are rounded down to the nearest million yen, except for per share data.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation** – The consolidated financial statements as of September 30, 2021 and 2020, include the accounts of the Company and all of its subsidiaries (together, the "Group").

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

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

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

- c. Inventories** – Inventories are stated at the lower of cost or net selling value (see Note 5). Cost is determined by the specific identification method for finished products and work in process and by the average cost method for raw materials and supplies.

- d. Marketable and Investment Securities** – Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost and (2) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable available-for-sale securities are stated at cost, determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to the income statement.

- e. Property, Plant, and Equipment** – Property, plant, and equipment are stated at cost. Depreciation of property, plant, and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, except for a foreign subsidiary which uses the straight-line method. Additionally, the straight-line method is applied to buildings acquired after April 1, 1998, lease assets, and building improvements and structures acquired on or after April 1, 2016. The range of useful lives is principally from 28 to 45 years for buildings and structures, from 4 to 12 years for machinery and equipment, and from 2 to 20 years for furniture and fixtures. The useful lives for lease assets are the terms of the respective leases.
- f. Long-Lived Assets** – The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or cost generating unit ("CGU") may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or CGU exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposal of the asset or CGU. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposal of the asset or the net selling price at disposal.
- g. Retirement and Pension Plans** – The Company and certain consolidated subsidiaries have severance payment plans for employees. They are contributory funded defined benefit pension plans and defined contribution pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the consolidated balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated within other comprehensive income), after adjusting for tax effects, and are recognized in profit or loss over 10 years, no longer than the expected average remaining service period of the employees. The discount rate is determined using a single weighted-average discount rate reflecting the estimated timing and amount of benefit payment.

- h. Allowance for Losses on Contracts** – To account for losses on contracts for orders received, an amount is estimated equal to the amount of foreseeable losses that can be reasonably estimated at the end of the fiscal year.
- i. Asset Retirement Obligations** – Asset retirement obligations are recorded for future liabilities, of an uncertain timing or amount, which relate to legal or constructive obligations to decommission or retire an asset. Such obligations typically arise following the acquisition, construction, development, or normal operation of a tangible fixed asset. The valuation of the asset retirement obligation is calculated as the sum of the discounted cash flows required for completing future asset retirement activities and is first recognized in the period in which the obligation arises, provided that a reasonable estimate can be made. If a reasonable estimate of the timing and amount of the asset retirement obligation cannot be made in the same period it arises, the liability is recognized in the first period in which a reliable estimate can be made. Upon initial recognition of an asset retirement obligation, the income statement expense is capitalized, thereby increasing the value of the underlying fixed asset. The capitalized expense is subsequently charged to the income statement via depreciation, thereby matching the useful economic life of the asset. Over time, the liability is accreted to its present value each period, with a finance cost recognized in the income statement. Any subsequent revisions to the timing or amount of the cash flows are recorded as adjustments to the book value of the asset retirement liability and the corresponding asset.
- j. Research and Development Costs** – Research and development costs are charged to the income statement as they are incurred.
- k. Leases** – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet.
- l. Bonuses to Directors** – Bonuses to directors are accrued for at the end of the year to which the Directors' services relate.

- m. Income Taxes** – The provision for income taxes is calculated based on the 'income before taxes' included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.
- n. Foreign Currency Transactions** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of income to the extent that they are not hedged by forward exchange contracts.
- o. Foreign Currency Financial Statements** – The balance sheet accounts of the consolidated foreign subsidiary are translated into Japanese yen at the prevailing exchange rate at the balance sheet date, except for equity accounts, which are translated at the historical rate. Differences arising on translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Income and expense accounts of the foreign subsidiary are translated into yen at the average exchange rate during the year.
- p. Per Share Information** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

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

The weighted-average number of common shares outstanding for the years ended September 30, 2021 and 2020, were 2,292,575, and 2,287,709, respectively.

- q. Accounting Changes and Error Corrections** – Under Accounting Standards Board of Japan ("ASBJ") Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively, unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions. (2) Changes in Presentation – When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation. (3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only and is accounted for prospectively if the change affects both the period of the change and future periods. (4) Corrections of Prior-Period Errors – When an error in prior-period financial statements is discovered, those statements are restated.
- r. Additional Information** – Accounting estimates associated with novel coronavirus disease (COVID-19).

The Group is making accounting estimates for recoverability of deferred tax assets, etc. based on the assumption that the impact of COVID-19 will continue for fiscal year ending September 30, 2022.

s. New Accounting Pronouncements –

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

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

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

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

Accounting Standard for Fair Value Measurement – On July 4, 2019, the ASBJ issued ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the current accounting standards, nonmarketable available-for-sale securities are stated at cost. The New Accounting Standards are effective for the annual periods beginning on or after October 1, 2021.

3. SIGNIFICANT ACCOUNTING ESTIMATE

Allowance for Losses on Contracts

(1) *Carrying amounts*

| | Millions of Yen | Thousands of U.S. Dollars |
|-----------------------------------|--------------------|------------------------------|
| | <u>2021</u> | <u>2021</u> |
| Allowance for losses on contracts | ¥275 | \$2,464 |

(2) *Information on the significant accounting estimate*

Calculation method of estimation

The Group records allowance for losses on contracts if the future losses are expected and the amounts can be reasonably estimated at the end of the fiscal year. Losses on contracts provided for the excess of the estimated costs of the projects over the contract prices.

Key assumptions for the estimation

The total estimated costs are calculated based on order specifications from customers with reference to similar projects in the past in accordance with the Company's accounting policy for the estimation of the costs.

Impact on the next fiscal year's consolidated financial statements

The total estimated costs involve uncertainty, such as fluctuations in the estimated elements due to the impact of changes in order specifications from customers until the project is completed.

4. MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of September 30, 2021 and 2020, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------------|-----------------|-------------|---------------------------|
| | 2021 | 2020 | 2021 |
| Non-current: | | | |
| Equity securities | ¥1,034 | ¥764 | \$9,234 |
| Trust fund investments and other | 32 | 29 | 293 |
| Total | <u>¥1,067</u> | <u>¥794</u> | <u>\$9,527</u> |

The costs and aggregate fair values of marketable and investment securities at September 30, 2021 and 2020, were as follows:

| | Millions of Yen | | | |
|---------------------------|---------------------------|------------------|-------------------|------------|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| <u>September 30, 2021</u> | | | | |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥632 | ¥444 | ¥(45) | ¥1,031 |
| Other | 26 | 6 | (0) | 32 |
| | | | | |
| | Millions of Yen | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| <u>September 30, 2020</u> | | | | |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | ¥632 | ¥278 | ¥(148) | ¥762 |
| Other | 24 | 5 | (0) | 29 |
| | | | | |
| | Thousands of U.S. Dollars | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| <u>September 30, 2021</u> | | | | |
| Securities classified as: | | | | |
| Available-for-sale: | | | | |
| Equity securities | \$5,651 | \$3,965 | \$(404) | \$9,212 |
| Other | 234 | 62 | (4) | 293 |

Investments in equity instruments that do not have a quoted market price were ¥2 million (\$22 thousand) and ¥2 million as of September 30, 2021 and 2020, respectively.

5. INVENTORIES

Inventories at September 30, 2021 and 2020, consisted of the following:

| | <u>Millions of Yen</u> | | <u>Thousands of</u> |
|----------------------------|------------------------|---------------|---------------------|
| | <u>2021</u> | <u>2020</u> | <u>U.S. Dollars</u> |
| Finished products | ¥ 166 | ¥ 237 | \$ 1,483 |
| Work in process | 937 | 2,238 | 8,374 |
| Raw materials and supplies | <u>443</u> | <u>485</u> | <u>3,964</u> |
| Total | <u>¥1,547</u> | <u>¥2,962</u> | <u>\$ 13,821</u> |

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

Long-term debt at September 30, 2021 and 2020, consisted of the following:

| | <u>Millions of Yen</u> | | <u>Thousands of</u> |
|---|------------------------|--------------|---------------------|
| | <u>2021</u> | <u>2020</u> | <u>U.S. Dollars</u> |
| Loans from banks and other financial institutions, due serially to 2025 with interest rates of 0.8%: | | | |
| Collateralized | ¥ 150 | ¥ 210 | \$ 1,339 |
| Lease obligations | <u>109</u> | <u>143</u> | <u>974</u> |
| Total | 259 | 353 | 2,313 |
| Less current portion | <u>(96)</u> | <u>(103)</u> | <u>(865)</u> |
| Long-term debt, less current portion | <u>¥ 162</u> | <u>¥ 249</u> | <u>\$ 1,448</u> |

Annual maturities of long-term debt at September 30, 2021, were as follows:

| <u>Years Ending September 30</u> | <u>Millions of</u> | <u>Thousands of</u> |
|----------------------------------|--------------------|---------------------|
| | <u>Yen</u> | <u>U.S. Dollars</u> |
| 2022 | ¥ 96 | \$ 865 |
| 2023 | 92 | 828 |
| 2024 | 64 | 574 |
| 2025 | <u>5</u> | <u>46</u> |
| Total | <u>¥ 259</u> | <u>\$ 2,313</u> |

The carrying amounts of assets pledged as collateral for the collateralized long-term debt at September 30, 2021, were as follows:

| | <u>Millions of</u> | <u>Thousands of</u> |
|--|--------------------|---------------------|
| | <u>Yen</u> | <u>U.S. Dollars</u> |
| Property, plant, and equipment – net of accumulated depreciation | ¥529 | \$4,726 |

General agreements with respective banks provide, as is customary in Japan, that additional collateral must be provided under certain circumstances if requested by such banks and that certain banks have the right to offset cash deposited with them against any long-term or short-term debt or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks. The Company has never been requested to provide any additional collateral.

7. RETIREMENT AND PENSION PLANS

The Company and certain consolidated subsidiaries have severance payment plans for employees. They are contributory funded defined benefit pension plans and defined contribution pension plans.

Under most circumstances, employees of the Company terminating their employment are entitled to retirement benefits determined based on post, grade, years of service, and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company and a lump-sum severance payment or annuity payments from a trustee and specified retirement allowance mutual aid.

Employees of certain consolidated subsidiaries are also entitled to retirement benefits under most circumstances. Such retirement benefits are made in the form of a lump-sum severance payment from the subsidiaries and a lump-sum severance payment or annuity payments from smaller enterprise retirement allowance mutual aid.

Years Ended September 30, 2021 and 2020

- (1) The changes in defined benefit obligation for the years ended September 30, 2021 and 2020 were as follows:

| | Millions of Yen | | Thousands of |
|--|-----------------|----------------|------------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>U.S. Dollars</u> <u>2021</u> |
| Balance at beginning of year (as restated) | ¥ 1,716 | ¥ 1,821 | \$ 15,325 |
| Current service cost | 89 | 94 | 800 |
| Interest cost | 10 | 11 | 94 |
| Actuarial losses | 16 | (24) | 150 |
| Benefits paid | <u>(108)</u> | <u>(185)</u> | <u>(968)</u> |
| Balance at end of year | <u>¥ 1,724</u> | <u>¥ 1,716</u> | <u>\$ 15,401</u> |

- (2) The changes in plan assets for the years ended September 30, 2021 and 2020 were as follows:

| | Millions of Yen | | Thousands of |
|---------------------------------|-----------------|----------------|------------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>U.S. Dollars</u> <u>2021</u> |
| Balance at beginning of year | ¥ 1,041 | ¥ 1,094 | \$ 9,302 |
| Expected return on plan assets | 15 | 16 | 140 |
| Actuarial losses | 1 | (8) | 16 |
| Contributions from the employer | 53 | 52 | 474 |
| Benefits paid | <u>(66)</u> | <u>(113)</u> | <u>(593)</u> |
| Balance at end of year | <u>¥ 1,045</u> | <u>¥ 1,041</u> | <u>\$ 9,338</u> |

- (3) Reconciliation between the liability recorded in the consolidated balance sheets and the balances of defined benefit obligation and plan assets was as follows:

| | Millions of Yen | | Thousands of |
|---|-----------------|----------------|------------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>U.S. Dollars</u> <u>2021</u> |
| Defined benefit obligation | ¥ 1,122 | ¥ 1,116 | \$ 10,020 |
| Plan assets | <u>(1,045)</u> | <u>(1,041)</u> | <u>(9,338)</u> |
| Total | 76 | 75 | 681 |
| Unfunded defined benefit obligation | <u>602</u> | <u>599</u> | <u>5,382</u> |
| Net liability arising from defined benefit obligation | <u>¥ 679</u> | <u>¥ 674</u> | <u>\$ 6,063</u> |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|--------------|------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Liability for retirement benefits | <u>¥ 679</u> | <u>¥ 674</u> | <u>\$ 6,063</u> |
| Net liability arising from defined benefit obligation | <u>¥ 679</u> | <u>¥ 674</u> | <u>\$ 6,063</u> |

- (4) The components of net periodic benefit costs for the years ended September 30, 2021 and 2020 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------------|-----------------|-------------|------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Service cost | ¥ 89 | ¥ 94 | \$ 800 |
| Interest cost | 10 | 11 | 95 |
| Expected return on plan assets | (15) | (16) | (140) |
| Recognized actuarial losses | <u>10</u> | <u>8</u> | <u>92</u> |
| Net periodic benefit costs | <u>¥ 94</u> | <u>¥ 97</u> | <u>\$ 847</u> |

- (5) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended September 30, 2021 and 2020, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------|-----------------|-------------|------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Actuarial (gains) losses | <u>¥(4)</u> | <u>¥24</u> | <u>\$(42)</u> |
| Total | <u>¥(4)</u> | <u>¥24</u> | <u>\$(42)</u> |

- (6) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of September 30, 2021 and 2020, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------------------|-----------------|-------------|------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Unrecognized actuarial losses | <u>¥(0)</u> | <u>¥(5)</u> | <u>\$(3)</u> |
| Total | <u>¥(0)</u> | <u>¥(5)</u> | <u>\$(3)</u> |

- (7) Plan assets

a. *Components of plan assets*

Plan assets as of September 30, 2021 and 2020, consisted of the following:

| | <u>2021</u> | <u>2020</u> |
|------------------|-------------|-------------|
| General account | 70% | 71% |
| Special account: | | |
| Domestic bonds | 25 | 25 |
| Domestic stocks | <u>5</u> | <u>4</u> |
| Total | <u>100%</u> | <u>100%</u> |

b. Method of determining the expected rate of return on plan assets

The expected rate of return on plan assets is determined considering the long-term rates of return, which are expected currently and in the future from various components of the plan assets.

(8) Assumptions used for the years ended September 30, 2021 and 2020, were as follows:

| | <u>2021</u> | <u>2020</u> |
|--|-------------|-------------|
| Discount rate | 0.6% | 0.6% |
| Expected rate of return on plan assets | 1.5% | 1.5% |

(9) Defined contribution pension plan

Required contributions to the defined contribution pension plan of the Company and certain consolidated subsidiaries were ¥21 million (\$195 thousand) and ¥21 million as at September 30, 2021 and 2020, respectively.

8. EQUITY

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

a. *Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally, for companies that meet certain criteria including (1) having a board of directors, (2) having independent auditors, (3) having an audit and supervisory board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by their articles of incorporation, the board of directors may declare dividends (except for dividends in kind) at any time during the fiscal year if a company has prescribed so in its articles of incorporation. With respect to the third condition above, the board of directors of companies with (a) board committees (namely, appointment committee, compensation committee, and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company was organized as a company with an audit and supervisory committee effective December 22, 2016, however, the Company cannot do so because it does not meet the above criteria.

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the board of directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

9. INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to Japanese national and local income taxes, which, in the aggregate, resulted in normal effective statutory tax rate of approximately 30.6% for the years ended September 30, 2021 and 2020.

The tax effects of significant temporary differences and tax losses carried forward, which resulted in deferred tax assets and liabilities at September 30, 2021 and 2020, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|--------------|------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Deferred tax assets: | | | |
| Accrued bonuses | ¥ 103 | ¥ 114 | \$ 927 |
| Allowance for losses on contracts | 84 | 102 | 754 |
| Liability for retirement benefits | 207 | 207 | 1,855 |
| Property, plant, and equipment | 140 | 147 | 1,257 |
| Inventories | 62 | 79 | 559 |
| Tax loss carryforwards | 56 | 25 | 504 |
| Other | <u>53</u> | <u>51</u> | <u>477</u> |
| Total of tax loss carryforwards and temporary difference | 709 | 728 | 6,333 |
| Less valuation allowance for tax loss carryforwards | (56) | (25) | (504) |
| Less valuation allowance for temporary differences | <u>(431)</u> | <u>(413)</u> | <u>(3,856)</u> |
| Total valuation allowance | <u>(488)</u> | <u>(438)</u> | <u>(4,360)</u> |
| Deferred tax assets | <u>220</u> | <u>289</u> | <u>1,973</u> |
| Deferred tax liabilities: | | | |
| Unrealized gain on available-for-sale securities | <u>(121)</u> | <u>(39)</u> | <u>(1,082)</u> |
| Total | <u>(121)</u> | <u>(39)</u> | <u>(1,082)</u> |
| Net deferred tax assets | <u>¥ 99</u> | <u>¥ 250</u> | <u>\$ 891</u> |

The expiration of tax losses carried forward, the related valuation allowances and the resulting net deferred tax assets as of September 30, 2021 and 2020, were as follows:

| | Millions of Yen | | | | | | Total |
|--|-------------------|---------------------------------------|--|--|--|------------------|-------|
| | 1 Year or Less | After 1 Year through 2 Years | After 2 Years through 3 Years | After 3 Years through 4 Years | After 4 Years through 5 Years | After 5 Years | |
| <u>September 30, 2021</u> | | | | | | | |
| Deferred tax assets relating to tax loss carryforwards | | | | ¥ 2 | ¥ 2 | ¥ 51 | ¥ 56 |
| Less valuation allowances for tax loss carryforwards | | | | (2) | (2) | (51) | (56) |
| Net deferred tax assets relating to tax loss carryforwards | | | | | | | |
| <u>September 30, 2020</u> | | | | | | | |
| Deferred tax assets relating to tax loss carryforwards | ¥ 3 | | | | ¥ 2 | ¥ 19 | ¥ 25 |
| Less valuation allowances for tax loss carryforwards | (3) | | | | (2) | (19) | (25) |
| Net deferred tax assets relating to tax loss carryforwards | | | | | | | |

| | Thousands of U.S. Dollars | | | | | | Total |
|--|---------------------------|---------------------------------------|--|--|--|------------------|--------|
| | 1 Year or Less | After 1 Year through 2 Years | After 2 Years through 3 Years | After 3 Years through 4 Years | After 4 Years through 5 Years | After 5 Years | |
| <u>September 30, 2021</u> | | | | | | | |
| Deferred tax assets relating to tax loss carryforwards | | | | \$ 22 | \$ 21 | \$ 461 | \$ 504 |
| Less valuation allowances for tax loss carryforwards | | | | (22) | (21) | (461) | (504) |
| Net deferred tax assets relating to tax loss carryforwards | | | | | | | |

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the consolidated income statement for the year ended September 30, 2021, with the corresponding figures for 2020, is as follows:

| | <u>2021</u> | <u>2020</u> |
|---|--------------|--------------|
| Normal effective statutory tax rate | 30.6% | 30.6% |
| Expenses not deductible for income tax purposes | 2.4 | 2.2 |
| Change in valuation allowance for deferred tax assets | 8.7 | (8.2) |
| Inhabitant tax on per capita basis | 1.9 | 1.6 |
| Difference in tax rates between foreign subsidiaries | (0.9) | (0.4) |
| Other – net | <u>(2.1)</u> | <u>2.7</u> |
| Actual effective tax rate | <u>40.6%</u> | <u>28.5%</u> |

10. RESEARCH AND DEVELOPMENT COSTS

Research and development costs expensed to the income statement were ¥99 million (\$884 thousand) and ¥123 million for the years ended September 30, 2021 and 2020, respectively.

11. LEASES

The Group leases certain computer equipment and software.

Total lease payments under finance leases for the years ended September 30, 2021 and 2020, were ¥41 million (\$372 thousand) and ¥35 million, respectively.

12. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) *Group Policy for Financial Instruments*

The Group mainly consists of two businesses. One area is the maintenance of valves, for which the average receivable collection period is a few months. The other area of business is the manufacture and sale of valves, for which the average receivable collection period is comparatively longer than for valve maintenance revenue. The Group's investment and financing operations are governed by the board ratified business plans.

Cash surpluses, if any, are invested in low-risk and highly liquid financial assets. Short-term bank loans are used to finance current operations. Long-term bank loans and leases are used for both current operations and capital investment. The Group sometimes hedges the risk of floating interest rates of long-term bank loans via interest rate swaps.

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

Trade notes and trade accounts receivable are exposed to customer credit risk. However, the Group trades almost half of its products and services through Japanese major 'sōgō shōsha' (approximate translation is a 'general trading company') which are diversified, stable and are easily able to trade on credit. The group trades the other half of its products and services with financially stable, non-sōgō shōsha companies, such as Japanese plant makers.

Most of the companies the Group trades with are long-term customers whom the Group have established as having relatively low credit risk. The Group conducts effective credit exposure management with a focus on newer customers. Furthermore, the Group frequently makes use of letters of credit when trading with customers based outside of Japan.

Marketable and investment securities are exposed to market price fluctuations. Marketable securities are low-risk and highly liquid money market funds and corporate bonds which will be redeemed in less than one year. Investment securities consist mainly of equity securities of companies related to the Group's business.

Payment terms of trade notes payable, trade accounts payable, and income taxes payable are less than one year. Short-term bank loans are used to fund current operations and the interest rate is fixed. Long-term bank loans are used for current operations and equipment investment, and interest rates are fixed and floating. Payables, short-term bank loans, and long-term bank loans with fixed interest rates are exposed to liquidity risk, which the Group manages by making monthly collection forecasts and holding a cash surplus.

(3) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

| <u>September 30, 2021</u> | Millions of Yen | | |
|---|------------------------|-------------------|-----------------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Unrealized Gain/Loss</u> |
| Cash and cash equivalents | ¥5,055 | ¥5,055 | |
| Receivables: | | | |
| Trade notes | 215 | 215 | |
| Electronically recorded monetary claims | 500 | 500 | |
| Trade accounts | 1,840 | 1,840 | |
| Investment securities | <u>1,064</u> | <u>1,064</u> | — |
| Total | <u>¥8,676</u> | <u>¥8,676</u> | — |
| Short-term bank loans | | | |
| Payables: | | | |
| Trade notes | ¥ 185 | ¥ 185 | |
| Electronically recorded obligations | 120 | 120 | |
| Trade accounts | 227 | 227 | |
| Income taxes payable | 153 | 153 | |
| Lease obligations | 109 | 109 | ¥ 0 |
| Long-term debt | <u>150</u> | <u>149</u> | <u>(0)</u> |
| Total | <u>¥ 945</u> | <u>¥ 945</u> | <u>¥(0)</u> |

| <u>September 30, 2020</u> | Millions of Yen | | |
|---|------------------------|-------------------|-----------------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Unrealized Gain/Loss</u> |
| Cash and cash equivalents | ¥3,004 | ¥3,004 | |
| Receivables: | | | |
| Trade notes | 338 | 338 | |
| Electronically recorded monetary claims | 212 | 212 | |
| Trade accounts | 2,573 | 2,573 | |
| Investment securities | <u>791</u> | <u>791</u> | — |
| Total | <u>¥6,921</u> | <u>¥6,921</u> | — |
| Short-term bank loans | | | |
| Payables: | | | |
| Trade notes | ¥ 252 | ¥ 252 | |
| Electronically recorded obligations | 94 | 94 | |
| Trade accounts | 371 | 371 | |
| Income taxes payable | 151 | 151 | |
| Lease obligations | 143 | 139 | ¥(3) |
| Long-term debt | <u>210</u> | <u>210</u> | — |
| Total | <u>¥1,223</u> | <u>¥1,219</u> | <u>¥(3)</u> |

| <u>September 30, 2021</u> | Thousands of U.S. Dollars | | |
|---|----------------------------|-----------------------|---------------------------------|
| | <u>Carrying Amount</u> | <u>Fair Value</u> | <u>Unrealized Gain/Loss</u> |
| Cash and cash equivalents | \$ 45,139 | \$ 45,139 | |
| Receivables: | | | |
| Trade notes | 1,921 | 1,921 | |
| Electronically recorded monetary claims | 4,471 | 4,471 | |
| Trade accounts | 16,436 | 16,436 | |
| Investment securities | <u>9,504</u> | <u>9,504</u> | — |
| Total | <u>\$ 77,471</u> | <u>\$ 77,471</u> | — |
| Short-term bank loans | | | |
| Payables: | | | |
| Trade notes | \$ 1,658 | \$ 1,658 | |
| Electronically recorded obligations | 1,073 | 1,073 | |
| Trade accounts | 2,031 | 2,031 | |
| Income taxes payable | 1,370 | 1,370 | |
| Lease obligations | 974 | 974 | \$ 1 |
| Long-term debt | <u>1,339</u> | <u>1,335</u> | <u>(4)</u> |
| Total | <u>\$ 8,445</u> | <u>\$ 8,441</u> | <u>\$(3)</u> |

Cash, Cash Equivalents, and Receivables

The carrying amounts of cash, cash equivalents, and receivables approximate to their fair value because of their short maturities.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 4.

Short-Term Bank Loans, Payables, and Income Taxes Payable

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

Long-Term Debt and Lease Obligations

The fair values of long-term debt and lease obligations are determined by discounting the cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended September 30, 2021.

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|-------------|------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥2 | ¥2 | \$23 |

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

| | Millions of Yen | | | |
|--|-----------------------------|---|---|-----------------------|
| | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| <u>September 30, 2021</u> | | | | |
| Cash and cash equivalents | ¥3,655 | ¥ | ¥ | ¥ |
| Receivables: | | | | |
| Trade notes | 215 | | | |
| Electronically recorded monetary claims | 500 | | | |
| Trade accounts | <u>1,840</u> | _____ | _____ | _____ |
| Total | <u>¥6,212</u> | <u>¥</u> | <u>¥</u> | <u>¥</u> |

| | Millions of Yen | | | |
|--|-----------------------------|---|---|-----------------------|
| | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| <u>September 30, 2020</u> | | | | |
| Cash and cash equivalents | ¥1,804 | ¥ | ¥ | ¥ |
| Receivables: | | | | |
| Trade notes | 338 | | | |
| Electronically recorded monetary claims | 212 | | | |
| Trade accounts | <u>2,573</u> | _____ | _____ | _____ |
| Total | <u>¥4,929</u> | <u>¥</u> | <u>¥</u> | <u>¥</u> |

| | Thousands of U.S. Dollars | | | |
|--|-----------------------------|---|---|-----------------------|
| | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years | Due after 10 Years |
| <u>September 30, 2021</u> | | | | |
| Cash and cash equivalents | \$ 32,639 | \$ | \$ | \$ |
| Receivables: | | | | |
| Trade notes | 1,921 | | | |
| Electronically recorded monetary claims | 4,471 | | | |
| Trade accounts | <u>16,436</u> | _____ | _____ | _____ |
| Total | <u>\$ 55,467</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |

Please see Note 6 for annual maturities of long-term debt.

13. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended September 30, 2021 and 2020, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------------|------------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Unrealized (loss) gain on available-for-sale securities: | | | |
| (Losses) gains arising during the year | ¥ 270 | ¥ (141) | \$ 2,419 |
| Recycling | <u>0</u> | <u>0</u> | <u>0</u> |
| Amount before income tax effect | 270 | (140) | 2,419 |
| Income tax effect | <u>(81)</u> | <u>42</u> | <u>(732)</u> |
| Total | <u>188</u> | <u>(98)</u> | <u>1,687</u> |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | <u>15</u> | <u>0</u> | <u>137</u> |
| Defined retirement benefit plans: | | | |
| Adjustments arising during the year | (15) | 16 | (134) |
| Reclassification adjustments to profit or loss | <u>10</u> | <u>8</u> | <u>92</u> |
| Amount before income tax effect | <u>(4)</u> | <u>24</u> | <u>(42)</u> |
| Total | <u>(4)</u> | <u>24</u> | <u>(42)</u> |
| Total other comprehensive income | <u>¥ 199</u> | <u>¥ (73)</u> | <u>\$ 1,782</u> |

14. SUBSEQUENT EVENTS

Proposed Appropriation of Retained Earnings

For the general shareholders' meeting held on December 24, 2021, the board of directors of the Company proposed the following appropriation of retained earnings:

| | Millions of Yen | Thousands of U.S. Dollars |
|--|--------------------|------------------------------|
| Cash dividends, ¥20 (\$0.18) per share | ¥45 | \$410 |

Cancellation of Treasury Stock

At the meeting of the Board of Directors held on November 12, 2021, the Company has resolved the cancellation of treasury stock pursuant to the provisions of Article 178 of the Companies Act, as described below.

1. Reasons for the cancellation of treasury stock

To improve capital efficiency and enable the Company to flexibly exercise its capital policy in response to the changing managerial environment

2. Details of matters pertaining to the cancellation of treasury stock

- | | |
|--|---|
| ① Types of shares to be cancelled | Shares of common stock |
| ② Total number of shares to be cancelled | 217,000 shares (Ratio to total number of issued shares (including treasury stock) 8.10%) |
| ③ Schedule date of cancellation | November 26, 2021 |

Acquisition

The Company resolved to perform the subsidiary acquisition at the meeting of the Board of Directors November 24, 2021.

1. Name of acquired company and its business outline

Name of acquired company: Taiyo Dengyo Co., Ltd.

Business outline: Electric construction, tubing, machine setting construction

2. Major reason for the business combination

The Group has developed its Global Niche Top strategy in its Medium-Term Management Plan 2019 (revised in August 2020) and is in the process of implementing the plan. The Group has advocated that complementing and expansion of business areas through mergers and acquisitions is one of the ways to achieve this goal.

Until now, the radiation measurement equipment management, electricity, and instrumentation business by Taiyo Dengyo Co., Ltd. in the East Japan region has not been sufficiently covered due mainly to differences in the reactor types of nuclear power generation and in consideration of expecting a new business in the electricity market in the East Japan region, it was resolved the expansion of electricity market.

We will demonstrate various synergies by collaborating our know-how and resources the Group has and aim to achieve further enhancement of corporate value.

3. Date of business combination

January 1, 2022

4. Legal form of business combination

Share acquisition in consideration for cash

15. SEGMENT INFORMATION

(1) *Description of Reportable Segments*

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group.

The main business of the Group is to manufacture and sell valves and their parts, to repair and maintain valves, and to manufacture and sell cast metal. The manufacture and sale of valves and their parts and repair and maintenance of valves are closely related. The Group administers these businesses and plots strategies for them as a whole.

Therefore, the Group consists of Business A, Business B, Business C and other businesses. Business A consists of the valve business. Business B consists of the cast metal business. Business C consists of the decontamination business. Other businesses include the decommissioning of nuclear power plants, metal recycling, and other businesses.

The cast metal manufacturing division of the Company deals in the manufacture and sale of cast metal parts for valves in the Group and the manufacture and sale of cast metal mainly for construction machinery outside of the Group.

Segment amounts for Business B relate only to the manufacture and sale of cast metal to external customers. Amounts related to the manufacture of cast metal for the manufacture of valves within the Group are aggregated to Business A.

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

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies." The components of segment profit are consistent with the components of operating income in the consolidated statement of income.

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

| Millions of Yen | | | | | | | |
|--|---------------------|----------|----------|-----------|----------|-----------------|--------------|
| 2021 | | | | | | | |
| | Reportable Segments | | | | Other | Reconciliations | Consolidated |
| | A | B | C | Total | | | |
| Sales: | | | | | | | |
| Sales to external customers | ¥9,015 | ¥ 900 | ¥314 | ¥ 10,229 | ¥221 | | ¥ 10,451 |
| Intersegment sales or transfers | 26 | 13 | 0 | 40 | 112 | ¥ (152) | 0 |
| Total | 9,041 | 913 | 314 | 10,269 | 333 | (152) | 10,451 |
| Segment profit or (loss) | 1,788 | (231) | (47) | 1,508 | (52) | (759) | 696 |
| Segment assets | 5,201 | 784 | 219 | 6,205 | 57 | 6,077 | 12,340 |
| Other: | | | | | | | |
| Depreciation | 255 | 38 | 0 | 293 | 1 | 25 | 320 |
| Increase in property, plant, and equipment and intangible assets | 505 | 0 | 0 | 505 | 19 | 59 | 585 |
| 2020 | | | | | | | |
| | Reportable Segments | | | | Other | Reconciliations | Consolidated |
| | A | B | C | Total | | | |
| Sales: | | | | | | | |
| Sales to external customers | ¥7,035 | ¥ 1,164 | ¥596 | ¥8,796 | ¥ 28 | | ¥ 8,824 |
| Intersegment sales or transfers | 1 | | | 1 | 4 | ¥ (5) | |
| Total | 7,037 | 1,164 | 596 | 8,798 | 32 | (5) | 8,824 |
| Segment profit or (loss) | 1,858 | (148) | 26 | 1,736 | (28) | (821) | 885 |
| Segment assets | 6,766 | 851 | 208 | 7,826 | 129 | 4,128 | 12,084 |
| Other: | | | | | | | |
| Depreciation | 258 | 27 | | 285 | 0 | 22 | 308 |
| Increase in property, plant, and equipment and intangible assets | 353 | | | 353 | 0 | 14 | 367 |
| Thousands of U.S. Dollars | | | | | | | |
| 2021 | | | | | | | |
| | Reportable Segments | | | | Other | Reconciliations | Consolidated |
| | A | B | C | Total | | | |
| Sales: | | | | | | | |
| Sales to external customers | \$ 80,492 | \$ 8,039 | \$ 2,805 | \$ 91,336 | \$ 1,980 | | \$ 93,316 |
| Intersegment sales or transfers | 239 | 119 | 0 | 358 | 1,001 | \$ (1,359) | |
| Total | 80,731 | 8,158 | 2,805 | 91,694 | 2,981 | (1,359) | 93,316 |
| Segment profit or (loss) | 15,967 | (2,071) | (427) | 13,469 | (472) | (6,781) | 6,216 |
| Segment assets | 46,438 | 7,007 | 1,958 | 55,403 | 511 | 54,266 | 110,180 |
| Other: | | | | | | | |
| Depreciation | 2,277 | 341 | 0 | 2,618 | 13 | 229 | 2,860 |
| Increase in property, plant, and equipment and intangible assets | 4,518 | 0 | 0 | 4,518 | 177 | 532 | 5,227 |

Associated Information

1. Information about Products and Services

| Millions of Yen | | | | | | |
|-----------------------------|----------------|---------------|---|---------------------------------------|--------|---------|
| 2021 | | | | | | |
| | Sale of Valves | Sale of Parts | Maintenance of Valves in Nuclear Power Plants | Maintenance of Valves in Other Plants | Other | Total |
| Sales to external customers | ¥2,272 | ¥1,179 | ¥1,724 | ¥3,865 | ¥1,409 | ¥10,451 |

| Millions of Yen | | | | | | |
|-----------------------------|----------------|---------------|---|---------------------------------------|--------|--------|
| 2020 | | | | | | |
| | Sale of Valves | Sale of Parts | Maintenance of Valves in Nuclear Power Plants | Maintenance of Valves in Other Plants | Other | Total |
| Sales to external customers | ¥2,414 | ¥1,314 | ¥1,031 | ¥2,276 | ¥1,787 | ¥8,824 |

| Thousands of U.S. Dollars | | | | | | |
|-----------------------------|----------------|---------------|---|---------------------------------------|----------|----------|
| 2021 | | | | | | |
| | Sale of Valves | Sale of Parts | Maintenance of Valves in Nuclear Power Plants | Maintenance of Valves in Other Plants | Other | Total |
| Sales to external customers | \$20,293 | \$10,533 | \$15,393 | \$34,512 | \$12,585 | \$93,316 |

2. Information about Geographical Areas

(1) Sales

Geographical sales information for the years ended September 30, 2021 and 2020, is not shown since sales to overseas customers are not material in the context of the consolidated financial statements.

(2) Property, plant, and equipment

Geographical property, plant, and equipment information is not shown since overseas property, plant, and equipment is not material in the context of the consolidated financial statements.

3. Information about Major Customers

| Name of Customer | 2021 | | Related Segment Name |
|--|-----------------|---------------------------|----------------------|
| | Sales | | |
| | Millions of Yen | Thousands of U.S. Dollars | |
| Mitsubishi Corporation Power Systems, Inc. | ¥4,666 | \$41,664 | Business A |
| Mitsubishi Heavy Industries, Ltd. | 1,642 | 14,666 | Business A |

| Name of Customer | 2020 | | Related Segment Name |
|--|-----------------|--|----------------------|
| | Sales | | |
| | Millions of Yen | | |
| Mitsubishi Corporation Power Systems, Inc. | ¥3,110 | | Business A |
| Seika Corporation | 899 | | Business A |

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