

# Consolidated Financial Statements

Sekisui Chemical Co., Ltd.

Year ended March 31, 2020 with Independent Auditor's Report

## Financial Highlights (6 years)

Millions of yen

	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
<b>Achievement Transition</b>						
Net Sales	1,112,748	1,096,317	1,065,776	1,107,429	1,142,713	1,129,254
Operating Income	85,764	89,823	96,476	99,231	95,686	87,768
Ordinary Income	87,978	81,213	91,513	93,929	93,146	86,996
Net Income Attributable to Owners of the Parent	52,995	56,653	60,850	63,459	66,093	58,931
Comprehensive Income	91,587	37,080	57,638	73,898	55,648	36,420
Operating Income Ratio (%)	7.7	8.2	9.1	9.0	8.4	7.8
<b>Assets, Liabilities and Net Assets</b>						
Total Assets	968,011	936,043	943,640	994,137	1,023,706	1,102,352
Net Assets	535,292	544,156	570,549	612,757	632,746	634,275
Equity	516,312	523,057	549,344	587,766	607,123	609,309
Equity to Total Assets (%)	53.3	55.9	58.2	59.1	59.3	55.3
Current Ratio (%)	139.8	138.0	160.7	153.6	151.0	147.2
Fixed Ratio (%)	97.2	95.9	86.9	91.0	91.2	100.2
Interest-bearing Debt	63,120	52,338	43,734	46,326	53,848	117,665
Debt/Equity Ratio (%)	12.2	10.0	8.0	7.9	8.9	19.3
Total Assets Turnover (Times)	1.15	1.15	1.13	1.14	1.13	1.06
Inventory Turnover (Times)	7.09	7.11	7.00	6.84	6.30	5.52
Tangible Fixed Assets Turnover (Times)	4.31	4.11	4.01	4.09	3.88	3.49
<b>Cash Flow</b>						
Net cash provided by operating activities	67,760	71,389	108,229	82,272	85,213	92,647
Net cash provided by (used in) investing activities	4,127	(23,715)	(44,057)	(60,881)	(62,553)	(100,562)
Net cash (used in) provided by financing activities	(63,856)	(41,726)	(39,633)	(35,981)	(31,539)	15,450
Free Cash Flow	58,810	33,375	48,107	2,325	2,043	(30,317)
<b>Capital Expenditures, Depreciation and R&amp;D Expenditures</b>						
Capital Expenditures	46,993	49,740	43,868	53,518	73,595	66,667
Depreciation and Amortization	31,203	34,735	34,843	36,016	38,789	42,209
Amortization of Goodwill	2,348	2,156	2,118	2,416	2,848	3,253
R&D Expenditures	29,452	31,693	34,169	36,974	38,838	37,146
R&D Expenditures to Revenues (%)	2.65	2.89	3.21	3.34	3.40	3.29
<b>Per Share Data</b>						
Net Assets per Share (Yen)	1,033.49	1,071.24	1,147.91	1,245.91	1,307.75	1,333.88
Net Income Attributable to Owners of the Parent per Share (Yen)	104.73	115.08	126.13	133.80	141.74	128.25
Dividends per Share (Yen)	27	30	35	40	44	46
Dividends Payout Ratio (%)	25.8	26.1	27.7	29.9	31.0	35.9
Dividend on Equity Ratio (%)	2.8	2.8	3.1	3.3	3.4	3.5
<b>Other Data</b>						
Return on Equity (%)	10.9	10.9	11.3	11.2	11.1	9.7
Return on Total Assets (%)	9.1	8.5	9.7	9.7	9.2	8.2
EBITDA	119,316	126,714	133,437	137,665	137,324	133,231
Interest Coverage Ratio (Times)	51.7	64.5	100.4	109.9	113.5	85.1
PER (Times)	14.89	12.04	14.83	13.87	12.55	11.17
Number of Employees	23,886	23,901	23,006	26,080	26,486	27,003
Net Sales per Employee (Ten thousands of yen)	4,744	4,588	4,544	4,512	4,347	4,222

Equity = Shareholders' Equity including Accumulated Other Comprehensive Income

Equity to Total Assets = Equity / Total Assets

Current Ratio = Current Assets / Current Liabilities

Fixed Ratio = Fixed Assets / Equity

Debt/Equity Ratio = Interest-bearing Debt / Equity

Total Assets Turnover = Net Sales / Average Total Assets

Inventory Turnover = Net Sales / Average Inventory

Tangible Fixed Assets Turnover = Net Sales / Average Tangible Fixed Assets

Free Cash Flow = CF Operating Activities + CF Investing Activities - Dividend Paid

R&D Expenditures to Revenues = R&D Expenditures / Net Sales

Dividend on Equity Ratio = Total Dividend Payment (full year) / Average Equity

Return on Equity = Net Income Attributable to Owners of the Parent / Average Equity

Return on Total Assets = Ordinary Income / Average Total Assets

EBITDA = Operating Income + Depreciation and Amortization + Amortization of Goodwill

Interest Coverage Ratio = (Operating Income + Interest and Dividends) / Interest Expense

PER = Stock Prices at the End of Fiscal Year / Net Income Attributable to Owners of the Parent per Share

Net Sales per Employee = Net Sales / Average Number of Employees

Note: "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28 issued on February 16, 2018) have been applied from the beginning of the fiscal year ended March 31, 2019 (FY2018). Major management indicators etc. for the previous fiscal year have been calculated by retrospectively applying the accounting standard.

# Consolidated Financial Statements

## Consolidated Balance Sheet

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
March 31, 2020 and 2019

	Millions of yen	
	FY2019	FY2018
<b>Assets</b>		
<b>Current assets:</b>		
Cash and deposits (Notes 18 and 20)	¥ 76,819	¥ 69,882
Notes receivable, trade (Notes 5 and 20)	39,436	44,624
Accounts receivable, trade (Note 20)	134,688	142,349
Marketable securities (Notes 6 and 20)	0	0
Merchandise and finished goods	73,744	66,516
Land for sale	50,580	38,266
Work in process	56,554	53,207
Raw materials and supplies	36,311	34,198
Advance payments	2,631	1,950
Prepaid expenses	5,237	4,323
Short-term loans receivable	1,466	2,095
Other current assets	15,789	14,015
Allowance for doubtful accounts	(1,377)	(1,394)
<b>Total current assets</b>	<b>491,883</b>	<b>470,037</b>
<b>Non-current assets:</b>		
<b>Property, plant and equipment, net (Notes 7, 8, 16 and 23):</b>		
Buildings and structures	104,206	101,189
Machinery, equipment and vehicles	84,284	82,923
Land	79,708	78,266
Leased assets	18,520	10,357
Construction in progress	38,905	25,400
Other	11,624	11,318
<b>Total property, plant and equipment, net</b>	<b>337,250</b>	<b>309,455</b>
<b>Intangible assets (Notes 8, 16 and 23):</b>		
Goodwill	57,346	16,953
Software	9,571	9,612
Leased assets	135	175
Other	34,015	24,034
<b>Total intangible assets</b>	<b>101,069</b>	<b>50,775</b>
<b>Investments and other assets:</b>		
Investments in securities (Notes 6 and 20)	140,862	163,334
Long-term loans receivable	1,379	2,281
Long-term prepaid expenses	1,394	1,487
Asset for retirement benefits (Note 10)	125	202
Deferred tax assets (Note 11)	16,536	12,797
Other	13,884	15,535
Allowance for doubtful accounts	(2,034)	(2,200)
<b>Total investments and other assets</b>	<b>172,148</b>	<b>193,438</b>
<b>Total non-current assets</b>	<b>610,468</b>	<b>553,669</b>
<b>Total assets (Note 23)</b>	<b>¥ 1,102,352</b>	<b>¥ 1,023,706</b>

	Millions of yen	
	FY2019	FY2018
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Notes payable, trade (Notes 5, 8 and 20)	¥ 3,002	¥ 4,268
Electronically recorded obligations (Note 20)	26,859	27,626
Accounts payable, trade (Notes 8,19 and 20)	101,914	98,546
Short-term debt and current portion of long-term debt (Notes 8 and 20)	8,446	7,685
Commercial paper (Notes 8 and 20)	28,000	17,000
Current portion of bonds (Notes 8 and 20)	19	16
Lease obligations (Note 9)	4,694	3,607
Accrued expenses (Note 19)	41,097	41,400
Accrued income taxes and other taxes (Note 11)	11,855	10,968
Allowance for bonuses to employees	18,162	17,918
Allowance for bonuses to directors and audit and supervisory board members	275	272
Provision for compensation for completed construction	1,382	1,311
Provision for stock-based compensation	166	133
Advances received	42,180	43,069
Other	46,155	37,356
Total current liabilities	334,212	311,180
<b>Long-term liabilities:</b>		
Bonds (Notes 8 and 20)	40,000	10,019
Long-term debt less current portion (Notes 8, 20 and 25)	22,368	8,603
Lease obligations (Note 9)	14,137	6,916
Deferred tax liabilities (Note 11)	4,291	3,860
Liability for retirement benefits (Note 10)	47,170	44,585
Provision for stock-based compensation	479	395
Other	5,416	5,398
Total long-term liabilities	133,864	79,779
<b>Total liabilities</b>	468,076	390,960
<b>Contingent liabilities (Note 14)</b>		
<b>Net assets (Notes 12 and 22)</b>		
<b>Shareholders' equity:</b>		
Common stock	100,002	100,002
Capital surplus	109,273	109,221
Retained earnings (Note 25)	433,017	408,008
Treasury stock, at cost (Note 25)	(44,139)	(44,337)
Total shareholders' equity	598,153	572,894
<b>Accumulated other comprehensive income:</b>		
Unrealized holding gain on securities	27,463	36,828
Deferred loss on hedges (Notes 20 and 21)	(16)	(32)
Unrealized gain on land revaluation (Note 13)	321	321
Translation adjustments	(8,193)	2,123
Retirement benefit adjustments (Note 10)	(8,419)	(5,011)
Total accumulated other comprehensive income	11,155	34,229
Stock acquisition rights (Notes 12 and 19)	64	156
Non-controlling interests	24,901	25,465
<b>Total net assets</b>	634,275	632,746
<b>Total liabilities and net assets</b>	¥ 1,102,352	¥ 1,023,706

*See accompanying notes to consolidated financial statements*

## Consolidated Statement of Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2020 and 2019

	Millions of yen			
	FY2019		FY2018	
	¥		¥	
Net sales (Notes 19 and 23)	1,129,254		1,142,713	
Cost of sales	766,551		774,647	
Gross profit	362,702		368,065	
Selling, general and administrative expenses (Note 15)	274,933		272,378	
Operating income (Note 23)	87,768		95,686	
Non-operating income:				
Interest income	957		1,072	
Dividends income	4,363		4,444	
Equity in earnings of affiliates	2,893		2,450	
Foreign exchange gain, net	178		1,018	
Miscellaneous income	3,417		2,958	
Total non-operating income	11,809		11,944	
Non-operating expenses:				
Interest expenses	695		480	
Sales discounts	399		411	
Inspection and maintenance expenses for external walls	2,694		5,138	
Miscellaneous expenses	8,793		8,454	
Total non-operating expenses	12,581		14,485	
Ordinary income	86,996		93,146	
Extraordinary income:				
Gain on sales of investments in securities (Note 6)	6,929		3,411	
Total extraordinary income	6,929		3,411	
Extraordinary loss:				
Loss on impairment of fixed assets and goodwill (Notes 16 and 23)	4,443		1,274	
Loss on revaluation of investments in securities (Note 6)	2,897		-	
Loss on sales of investments in securities (Note 6)	290		-	
Loss on sales or disposal of property, plant and equipment	2,713		1,373	
Total extraordinary loss	10,344		2,648	
Income before income taxes	83,581		93,908	
Income taxes (Note 11):				
Current	22,659		22,261	
Deferred	(39)		3,167	
Total income taxes	22,619		25,428	
Net income	60,962		68,480	
Net income attributable to:				
Non-controlling interests	2,030		2,386	
Owners of the parent (Note 22)	¥ 58,931	¥	66,093	

See accompanying notes to consolidated financial statements

## Consolidated Statement of Comprehensive Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2020 and 2019

	Millions of yen			
	FY2019		FY2018	
	¥		¥	
Net income		60,962		68,480
Other comprehensive loss (Note 17)				
Unrealized holding loss on securities		(9,448)		(9,052)
Deferred gain on hedges		31		16
Translation adjustments		(11,771)		(923)
Retirement benefit adjustments		(3,297)		(2,277)
Comprehensive loss of affiliates accounted for by the equity method attributable to the Company		(54)		(595)
Total other comprehensive loss		(24,541)		(12,832)
Comprehensive income	¥	36,420	¥	55,648
Comprehensive income attributable to:				
Owners of the parent	¥	35,857	¥	53,230
Non-controlling interests		562		2,417

*See accompanying notes to consolidated financial statements*

## Consolidated Statement of Changes in Net Assets

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2020 and 2019

	Millions of yen											
	Shareholders' equity				Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Deferred loss on hedges	Unrealized gain on land revaluation	Translation adjustments	Retirement benefit adjustments	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2018	¥ 100,002	¥ 109,031	¥ 374,101	¥ (42,461)	¥ 46,346	¥ (49)	¥ 321	¥ 3,116	¥ (2,643)	¥ 271	¥ 24,720	¥ 612,757
Cash dividends	—	—	(19,713)	—	—	—	—	—	—	—	—	(19,713)
Net income attributable to owners of the parent	—	—	66,093	—	—	—	—	—	—	—	—	66,093
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	—	—	(499)	—	—	—	—	—	—	—	—	(499)
Retirement of treasury stock	—	(11,945)	—	11,945	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	(14,571)	—	—	—	—	—	—	—	(14,571)
Disposal of treasury stock	—	(28)	—	750	—	—	—	—	—	—	—	721
Transfer from retained earnings to capital surplus	—	11,973	(11,973)	—	—	—	—	—	—	—	—	—
Change in shareholders' equity due to transactions with non-controlling interests	—	190	—	—	—	—	—	—	—	—	—	190
Net changes of items other than shareholders' equity	—	—	—	—	(9,518)	16	—	(993)	(2,368)	(114)	744	(12,232)
Total changes of items during the year	—	190	33,906	(1,875)	(9,518)	16	—	(993)	(2,368)	(114)	744	19,988
Balance at March 31, 2019	¥ 100,002	¥ 109,221	¥ 408,008	¥ (44,337)	¥ 36,828	¥ (32)	¥ 321	¥ 2,123	¥ (5,011)	¥ 156	¥ 25,465	¥ 632,746
Cash dividends	—	—	(21,261)	—	—	—	—	—	—	—	—	(21,261)
Net income attributable to owners of the parent	—	—	58,931	—	—	—	—	—	—	—	—	58,931
Increase in retained earnings resulting from inclusion of subsidiaries in consolidation	—	—	45	—	—	—	—	—	—	—	—	45
Increase in retained earnings resulting from exclusion of subsidiaries in consolidation	—	—	23	—	—	—	—	—	—	—	—	23
Retirement of treasury stock	—	(12,729)	—	12,729	—	—	—	—	—	—	—	—
Purchase of treasury stock	—	—	—	(13,291)	—	—	—	—	—	—	—	(13,291)
Disposal of treasury stock	—	46	—	760	—	—	—	—	—	—	—	806
Transfer from retained earnings to capital surplus	—	12,729	(12,729)	—	—	—	—	—	—	—	—	—
Change in shareholders' equity due to transactions with non-controlling interests	—	5	—	—	—	—	—	—	—	—	—	5
Net changes of items other than shareholders' equity	—	—	—	—	(9,365)	15	—	(10,316)	(3,407)	(92)	(564)	(23,730)
Total changes of items during the year	—	52	25,008	198	(9,365)	15	—	(10,316)	(3,407)	(92)	(564)	1,528
Balance at March 31, 2020	¥ 100,002	¥ 109,273	¥ 433,017	¥ (44,139)	¥ 27,463	¥ (16)	¥ 321	¥ (8,193)	¥ (8,419)	¥ 64	¥ 24,901	¥ 634,275

See accompanying notes to consolidated financial statements

## Consolidated Statement of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries  
Year ended March 31, 2020 and 2019

	Millions of yen			
	FY2019		FY2018	
Operating activities:				
Income before income taxes	¥	83,581	¥	93,908
Adjustments for:				
Depreciation and amortization		42,209		38,789
Amortization of goodwill		3,253		2,848
Loss on impairment of fixed assets and goodwill		4,443		1,274
Loss on disposal of property, plant and equipment		2,664		1,323
Loss on sales of property, plant and equipment, net		49		50
Decrease in liability for retirement benefits		(1,056)		(1,942)
Gain on sales of investments in securities, net		(6,639)		(3,411)
Loss on revaluation of investments in securities		2,897		-
Interest and dividends income		(5,320)		(5,517)
Interest expenses and sales discounts		1,094		892
Equity in earnings of affiliates		(2,893)		(2,450)
Decrease (increase) in notes and accounts receivable		9,644		(2,752)
Increase in inventories		(24,309)		(21,288)
Decrease in notes and accounts payable		(737)		(2,360)
(Decrease) increase in advances received		(1,004)		4,271
Increase (decrease) in deposits received		570		(3,475)
Other		1,237		1,549
Subtotal		109,685		101,709
Interest and dividends received		6,167		6,308
Interest paid		(1,133)		(879)
Income taxes paid		(22,071)		(21,925)
Net cash provided by operating activities		92,647		85,213
Investing activities:				
Purchases of property, plant and equipment		(52,683)		(60,082)
Proceeds from sales of property, plant and equipment		1,336		712
Payments into time deposits		(5,637)		(1,239)
Proceeds from withdrawal of time deposits		4,722		1,456
Purchases of investments in securities		(1,034)		(2,920)
Proceeds from sales or redemption of investments in securities		14,417		5,745
Acquisition of investments in subsidiaries resulting in change in scope of consolidation (Note 18)		(54,377)		-
Acquisition of investments in subsidiaries		(45)		(1,908)
Purchases of intangible assets		(4,544)		(6,111)
(Increase) decrease in short-term loans receivable		(5,277)		3,545
Other		2,560		(1,752)
Net cash used in investing activities	¥	(100,562)	¥	(62,553)



## Consolidated Statement of Cash Flows (continued)

Financing activities:

Decrease in short-term debt, net	¥	(318)	¥	(1,310)
Repayments of lease obligations		(5,073)		(3,858)
Increase in commercial paper		11,000		10,000
Proceeds from long-term debt		17,165		2,426
Repayment of long-term debt		(2,182)		(3,812)
Proceeds from issuance of bonds		30,000		-
Redemption of bonds		(19)		(16)
Cash dividends paid		(21,286)		(19,706)
Cash dividends paid to non-controlling interests		(1,114)		(909)
Purchase of treasury stock		(13,291)		(14,571)
Other		572		220
Net cash provided by (used in) financing activities		15,450		(31,539)
Effect of exchange rate change on cash and cash equivalents		(3,072)		365
Net increase (decrease) in cash and cash equivalents		4,462		(8,514)
Cash and cash equivalents at beginning of year		68,613		76,723
Increase in cash and cash equivalents from newly consolidated subsidiaries		1,646		403
Cash and cash equivalents at end of year (Note 18)	¥	74,721	¥	68,613

*See accompanying notes to consolidated financial statements*

## Notes to Consolidated Financial Statements

### 1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

### 2. Summary of Significant Accounting Policies

#### (1) Principles of Consolidation

The accompanying consolidated financial statements for the year ended March 31, 2020 include the accounts of the Company and its 163 significant subsidiaries.

The accounts of the other subsidiaries have not been consolidated with those of the Company at March 31, 2020, because their combined assets, retained earnings, net sales and net income (loss) in the aggregate were not material to the consolidated financial statements.

The fiscal year end of 28 overseas consolidated subsidiaries was December 31. These consolidated subsidiaries have been consolidated using provisional financial statements at March 31.

Unrealized intercompany profit and loss among the Company and its consolidated subsidiaries have been entirely eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

At March 31, 2020, the Company has applied the equity method to investments in 8 major affiliates, including Sekisui Plastics Co., Ltd. and Sekisui Jushi Co., Ltd. for the purpose of the consolidated financial statements for the year then ended since the investments in the other unconsolidated subsidiaries and affiliates were not material.

#### (2) Foreign Currency Transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which the gain or loss is recognized for financial reporting purposes.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and are reported as translation adjustments and non-controlling interests in the accompanying consolidated balance sheet and statement of comprehensive income.

## 2. Summary of Significant Accounting Policies (continued)

(3) Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash-on-hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(4) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the average method.

(5) Securities

Securities other than those of unconsolidated subsidiaries and affiliates are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.

(6) Property, Plant and Equipment and Depreciation (excluding leased assets)

Depreciation of property, plant and equipment is computed by the straight-line method based on the estimated useful lives of the respective assets.

The range of useful lives is principally from 3 to 60 years for buildings and structures and from 4 to 17 years for machinery, equipment and vehicles.

(7) Leased Assets

Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

(8) Goodwill

Goodwill is amortized by the straight-line method over a reasonable period not exceeding 20 years, with the exception of minor amounts, which are charged or credited to income in the year of acquisition.

(9) Allowance for Doubtful Accounts

The allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal accounts receivable, trade, allowance for doubtful accounts is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.

(10) Allowance for Bonuses to Employees

Allowance for bonuses to employees is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.

(11) Retirement Benefits

Asset for retirement benefits and liability for retirement benefits have been recorded mainly at the amount calculated based on the retirement benefit obligations and the fair value of the pension plan assets as of balance sheet date. The retirement benefit obligations are attributed to each period on a benefit formula basis over the estimated years of service of the eligible employees.

Prior service cost is amortized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense. Under this simplified method, retirement benefit obligations for employees are stated the amount which would be required to be paid if all eligible employees voluntarily retired at the balance sheet date.

Certain consolidated subsidiaries have retirement benefit plans for their officers which are stated at 100% of the estimated amount calculated in accordance with each subsidiary's internal rules. The related amount is included in liability for retirement benefits.

(12) Recognition of Revenue and Related Costs

Revenues and costs of construction contracts, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method, except for construction contracts with extremely short construction periods. To estimate the progress of such construction projects, the Company and certain consolidated subsidiaries measure the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). If a reliable estimate cannot be made, revenues and costs of construction contract are recognized by the completed-contract method.

## 2. Summary of Significant Accounting Policies (continued)

- (13) Research and Development Costs and Computer Software (excluding leased assets)  
Research and development costs are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income when incurred, unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

- (14) Income Taxes  
Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which are entered into the determination of taxable income in different periods. The Company and consolidated subsidiaries have recognized the tax effects of such temporary differences in the accompanying consolidated financial statements.

The Company and certain consolidated subsidiaries have applied the consolidated taxation system.

- (15) Consumption Taxes  
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid not offset by consumption taxes received in accordance with Consumption Tax Act of Japan that arise from the purchases of property, plant and equipment are charged to income when incurred.

- (16) Derivatives and Hedging Activities  
The Company and certain consolidated subsidiaries have entered into derivative transactions in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is reported as a component of accumulated other comprehensive income. Forward foreign exchange contracts and currency swap contracts which meet certain criteria are accounted for by allocation method, which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

If interest rates swap contracts meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

- (17) Accounting Standards Issued but Not Yet Effective

### Accounting Standard and Implementation Guidance on Revenue Recognition

On March 31, 2020, the Accounting Standards Board of Japan (the "ASBJ") issued revised "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29), "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19).

#### (a) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") of the U.S. have jointly developed a comprehensive accounting standard for revenue recognition. In May 2014, the IASB and the FASB each issued "Revenue from Contracts with Customers" (IASB: IFRS 15 and FASB: Topic 606). Considering that IFRS 15 has been applied from fiscal years beginning on or after January 1, 2018 and Topic 606 has been applied from fiscal years beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.

As a basic policy in developing the accounting standard for revenue recognition, the ASBJ has incorporated the basic principles of IFRS 15 from the viewpoint of comparability between financial statements, a factor essential for facilitating consistency with IFRS 15. In addition, if there are any business practices in Japan for which consideration is required, alternative accounting treatments shall be added to the accounting standard to the extent that they do not impair comparability.

#### (b) Scheduled date of adoption

The Companies expect to adopt the accounting standard and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.

#### (c) Impact of adoption of revised accounting standard and related implementation guidance

The Companies are currently evaluating the effect of the adoption of the accounting standard and related implementation guidance on the consolidated financial statements.

## 2. Summary of Significant Accounting Policies (continued)

### Accounting Standard for Fair Value Measurement and Related Implementation Guidance

On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), along with related updates to "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, revised 2019), "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, revised 2019), and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, revised 2020).

#### (a) Overview

The IASB and the FASB have provided almost identical detailed guidance for fair value measurement (IFRS 13 Fair Value Measurement under IFRS, and ASU 2018-13 Fair Value Measurement (Topic 820) under U.S. GAAP). As a result of initiatives mainly to promote consistency between Japanese and international accounting standards regarding guidance for fair value measurement and required disclosures, the ASBJ then issued "Accounting Standard for Fair Value Measurement," etc.

The basic objective of the ASBJ in developing the accounting standard for fair value measurement was to enhance comparability between financial statements of domestic and foreign entities, through a unified measurement method. Accordingly, the accounting standard fundamentally incorporates the basic policies of IFRS 13. Also, where there are items that should be considered to reflect the business practices in Japan, exceptional treatments have been established for certain items to the extent that comparability is not impaired.

#### (b) Scheduled date of adoption

The Companies expect to adopt the accounting standards and related implementation guidances from the beginning of the fiscal year ending March 31, 2022.

#### (c) Impact of adoption of revised accounting standard and related implementation guidance

The Companies are currently evaluating the effect of the adoption of the accounting standards and related implementation guidances on the consolidated financial statements.

## 3. Changes in Accounting Policies

### Adoption of IFRS 16 "Leases"

Effective from the fiscal year ended March 31, 2020, the overseas consolidated subsidiaries of the Company have adopted IFRS 16 "Leases" issued on January 13, 2016. In accordance with IFRS 16 "Leases", lessees, in principle, recognize and record all leases as assets and liabilities on the balance sheet. The impact of applying IFRS 16 "Leases" on the Company's consolidated financial statements is immaterial.

## 4. Additional Information

(Accounting estimates with respect to the impact of the spread of novel coronavirus disease (COVID-19))

The Companies make accounting estimates such as impairment accounting for fixed assets and the recoverability of deferred tax assets based on information known at the time of preparing the consolidated financial statements. The Companies assume that the impact of the spread of COVID-19 continues until June but the situation will gradually improve. The impact on the Companies' business and the degree of this impact differs by business, but the Companies have judged that it will not have a significant impact on the estimates as of March 31, 2020.

## 5. Notes Receivable, Trade and Notes Payable, Trade

The balance sheet date for the year ended March 31, 2019 fell on a bank holiday. Consequently, the following notes receivable, trade and notes payable, trade with the due date of March 31, 2019 were included in the respective balances and settled on the next business day.

	Millions of yen	
	FY2019	FY2018
Notes receivable, trade	¥ -	¥ 3,871
Notes payable, trade	-	413

## 6. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities at March 31, 2020 and 2019 are summarized as follows:

Millions of yen				
FY2019				
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss
Unlisted foreign debt securities	¥ 1	¥ 1	¥ -	¥ -
<b>Total</b>	<b>¥ 1</b>	<b>¥ 1</b>	<b>¥ -</b>	<b>¥ -</b>

Millions of yen				
FY2018				
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss
Unlisted foreign debt securities	¥ 2	¥ 2	¥ -	¥ -
<b>Total</b>	<b>¥ 2</b>	<b>¥ 2</b>	<b>¥ -</b>	<b>¥ -</b>

(2) Other securities with available fair market value at March 31, 2020 and 2019 are summarized as follows:

Millions of yen				
FY2019				
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities whose carrying value exceeds their acquisition cost	¥ 42,806	¥ 78,918	¥ 36,112	¥ -
Equity securities whose carrying value does not exceed their acquisition cost	4,599	4,325	-	(273)
<b>Total</b>	<b>¥ 47,405</b>	<b>¥ 83,243</b>	<b>¥ 36,112</b>	<b>¥ (273)</b>

Millions of yen				
FY2018				
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss
Equity securities whose carrying value exceeds their acquisition cost	¥ 52,792	¥ 101,599	¥ 48,806	¥ -
Equity securities whose carrying value does not exceed their acquisition cost	377	341	-	(36)
<b>Total</b>	<b>¥ 53,170</b>	<b>¥ 101,941</b>	<b>¥ 48,806</b>	<b>¥ (36)</b>

Because no quoted market prices are available and it is extremely difficult to determine the fair value, unlisted equity securities of ¥3,303 million and ¥5,065 million at March 31, 2020 and 2019 are not included in the above tables.

(3) The proceeds from sales of, gross realized gain on and loss on, other securities for the years ended March 31, 2020 and 2019 are summarized as follows:

Millions of yen			
	FY2019	FY2018	
Proceeds from sales	¥ 12,790	¥ 5,732	
Gross realized gain	6,875	3,411	
Gross realized loss	0	-	

(4) For the year ended March 31, 2020, the Companies recorded a loss on revaluation of investments in securities in the amount of ¥2,897 million (investments in affiliates of ¥2,851 million and equity securities classified as other securities of ¥45 million).

## 7. Accumulated Depreciation

Property, plant and equipment, net reflected in the accompanying consolidated balance sheet at March 31, 2020 and 2019 were stated at cost, less accumulated depreciation. Accumulated depreciation at March 31, 2020 and 2019 amounted to ¥577,906 million and ¥555,557 million, respectively.

## 8. Short-Term Debt, Bonds and Long-Term Debt

(1) Short-term debt

The average interest rates of short-term debt outstanding at March 31, 2020 and 2019 were 1.28% and 1.20%, respectively.

The average interest rates of commercial papers due within one year of ¥28,000 million and ¥17,000 million as at March 31, 2020 and 2019 were 0.01% and negative 0.00%, respectively.

(2) Bonds outstanding at March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
0.28% bonds due June 2026	¥ 10,000	¥ 10,000
0.20% bonds due September 2029	30,000	—
6 month JPY TIBOR bonds due March 2021	19	36
	40,019	10,036
Less current portion	(19)	(16)
	¥ 40,000	¥ 10,019

(3) Long-term debt at March 31, 2020 and 2019 was as follows:

	Millions of yen	
	FY2019	FY2018
Secured	¥ 35	¥ 38
Unsecured	25,917	10,550
	25,953	10,589
Less current portion	(3,584)	(1,985)
	¥ 22,368	¥ 8,603

As is customary in Japan, substantially all loans (including short-term loans) from banks are made under general agreements which provide that, at the request of the respective banks, the Company or the relevant consolidated subsidiaries be required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements be applicable to all present and future indebtedness to the banks concerned. The general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by reason of default, to offset deposits at such banks against any indebtedness due to the banks.

The annual maturities of bonds and long-term debt subsequent to March 31, 2020 are summarized below:

Year ending March 31,	Millions of yen	
	Bonds	Long-term debt
2021	¥ 19	¥ 3,584
2022	—	2,835
2023	—	1,800
2024	—	2,439
2025	—	292
2026 and thereafter	40,000	15,000

## 8. Short-Term Debt, Bonds and Long-Term Debt (continued)

(4) At March 31, 2020 and 2019, the following assets were pledged as collateral for notes and accounts payable, trade , short-term debt and long-term debt:

Assets	Millions of yen	
	FY2019	FY2018
Buildings and structures	¥ 1,827	¥ 1,917
Machinery	491	423
Land	1,300	1,328
Intangible assets	81	119
Other	2,043	2,414
<b>Total</b>	<b>¥ 5,743</b>	<b>¥ 6,203</b>

Liabilities	Millions of yen	
	FY2019	FY2018
Notes payable, trade	¥ 62	¥ 71
Accounts payable, trade	1,090	1,058
Short-term debt	980	1,060
Long-term debt	35	38
<b>Total</b>	<b>¥ 2,169</b>	<b>¥ 2,230</b>

## 9. Lease Obligations

The annual maturities of lease obligations subsequent to March 31, 2020 are summarized below:

Year ending March 31,	Millions of yen
2021	¥ 4,694
2022	3,929
2023	2,616
2024	1,728
2025	1,183
2026 and thereafter	4,678



## 10. Retirement Benefits

The Company and domestic consolidated subsidiaries have set up funded and unfunded defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Under the defined benefit pension plans, which are funded, lump-sum payments or pensions are provided mainly based on the salary amounts and service periods. Under the lump-sum payment plans, which are unfunded, lump-sum payments are provided mainly based on the merit points acquired by the time of retirement.

Certain overseas consolidated subsidiaries have defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Certain consolidated subsidiaries calculated liability for retirement benefits and retirement benefit expenses as for defined benefit pension plans and lump-sum payment plans, using the simplified method. In addition, certain consolidated subsidiaries participate in multi-employer pension plans. Contributions made by certain consolidated subsidiaries to the multi-employer pension plans are expensed when paid in the event that the plan assets attributable to each participant cannot be reasonably determined.

### Defined Benefit Plans

- (1) The changes in defined benefit obligation, excluding plans to which simplified methods are applied, for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
Retirement benefit obligations at the beginning of the year	¥ 150,679	¥ 149,595
Service cost	6,835	6,771
Interest cost	1,011	1,027
Actuarial loss	413	456
Retirement benefits paid	(7,761)	(7,440)
Prior service cost	(280)	-
Others	(134)	268
<b>Retirement benefit obligations at the end of the year</b>	<b>¥ 150,764</b>	<b>¥ 150,679</b>

Note: "Others" include principally foreign exchange translation adjustments.

- (2) The changes in plan assets, excluding plans to which simplified methods are applied, for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
Plan assets at the beginning of the year	¥ 114,911	¥ 111,640
Expected return on plan assets	2,443	2,801
Actuarial loss	(5,181)	(2,281)
Contributions by the employer	6,710	8,549
Retirement benefits paid	(6,047)	(5,744)
Others	(271)	(54)
<b>Plan assets at the end of the year</b>	<b>¥ 112,565</b>	<b>¥ 114,911</b>

Note: "Others" include principally foreign exchange translation adjustments.

- (3) The changes in liability for retirement benefits of the plans to which simplified methods are applied for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
Liability for retirement benefits at the beginning of the year	¥ 7,715	¥ 7,262
Retirement benefit expenses	3,314	3,092
Retirement benefits paid	(848)	(515)
Contributions to the plans	(2,153)	(2,124)
<b>Liability for retirement benefits at the end of the year</b>	<b>¥ 8,027</b>	<b>¥ 7,715</b>

## 10. Retirement Benefits (continued)

- (4) The balance of retirement benefit obligations and plan assets at fair value as of March 31, 2020 and 2019, liabilities and assets recognized in the consolidated balance sheet were as follows:

	Millions of yen	
	FY2019	FY2018
Funded retirement benefit obligations	¥ 127,667	¥ 127,549
Plan assets at fair value	117,755	120,054
	9,911	7,495
Unfunded retirement benefit obligations	36,315	35,989
Net liability recognized in the consolidated balance sheet	46,226	43,484
Liability for retirement benefits	46,352	43,686
Asset for retirement benefits	125	202
Net liability recognized in the consolidated balance sheet	¥ 46,226	¥ 43,484

Note: Plans to which simplified methods are applied are included. Liability for retirement benefits included retirement benefits for directors and audit and supervisory board members of ¥817 million and ¥899 million for the years ended March 31, 2020 and 2019, respectively.

- (5) The components of retirement benefit expenses for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
Service cost	¥ 6,835	¥ 6,771
Interest cost	1,011	1,027
Expected return on plan assets	(2,443)	(2,801)
Amortization of actuarial gain	927	(340)
Amortization of prior service cost	(278)	2
Retirement benefit expenses calculated by simplified methods	3,314	3,092
Retirement benefit expenses	¥ 9,367	¥ 7,751

- (6) The components of retirement benefit adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
Prior service cost	¥ (2)	¥ (2)
Actuarial loss	4,594	3,155
Total	¥ 4,592	¥ 3,153

## 10. Retirement Benefits (continued)

- (7) The components of retirement benefit adjustments in accumulated other comprehensive income (before tax effect) as of March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
Unrecognized prior service cost	¥ 1	¥ 3
Unrecognized actuarial loss	11,425	6,831
<b>Total</b>	<b>¥ 11,426</b>	<b>¥ 6,834</b>

- (8) Plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 were as follows:

	FY2019	FY2018
Debt securities	42%	45%
Equity securities	18%	22%
General accounts at life insurance companies	19%	18%
Cash and deposits	7%	5%
Others	13%	10%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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

- (9) The assumptions used in accounting for the above plans were as follows:

	FY2019	FY2018
Discount rates	0.2%-0.7%	0.2%-0.7%
Expected long-term rates of return on plan assets	1.5%-2.0%	1.5%-2.5%
Expected rate of salary increases	2.9%	2.9%

### Multi-employer Pension Plans

The contributions to the multi-employer pension plans, which were expensed when paid, were ¥1,543 million and ¥1,500 million for the years ended March 31, 2020 and 2019, respectively.

- (1) The most recent funded status related to multi-employer pension plans as of March 31, 2020 and 2019 was as follows:

	Millions of yen	
	FY2019	FY2018
Plan assets	¥ 123,296	¥ 123,062
Amount of actuarial obligations calculated under pension financing	112,299	110,638
<b>Difference</b>	<b>¥ 10,997</b>	<b>¥ 12,423</b>

- (2) Benefit obligations calculated under pension financing of the Companies accounted for approximately 15% of the multi-employer pension plans as of March 31, 2020 and 2019.

- (3) Supplementary explanation

The above information is obtained from the latest available information. (Data for the years ended March 31, 2020 and 2019 is based on the information as of March 31, 2019 and 2018, respectively.)

The ratio of benefit obligations noted in above (2) is not the same as the actual ratio of the Companies' obligation.

### Defined Contribution Plans

The amounts of the required contribution to the defined contribution plans of the Company and certain consolidated subsidiaries were ¥1,631 million and ¥1,471 million for the years ended March 31, 2020 and 2019, respectively.

## 11. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.5% for the years ended March 31, 2020 and 2019.

The effective tax rate reflected in the accompanying consolidated statement of income for the years ended March 31, 2020 and 2019 differs from the above statutory tax rate for the following reasons:

	FY2019	FY2018
Statutory tax rate	30.5%	30.5%
Income tax credit	(3.8)	(2.9)
Other	0.4	(0.5)
Effective tax rate	27.1%	27.1%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2020 and 2019 are summarized as follows:

	Millions of yen	
	FY2019	FY2018
Deferred tax assets:		
Liability for retirement benefits	¥ 13,455	¥ 12,973
Unrealized gain	6,151	6,395
Allowance for bonuses	5,294	5,268
Loss on impairment of fixed assets and goodwill	2,421	1,826
Tax loss carryforwards (Note)	1,208	1,018
Accrued business tax	942	863
Loss on revaluation of investments in securities	872	1,102
Asset adjustment account	504	1,168
Other	11,130	11,013
Total gross deferred tax assets	41,981	41,631
Valuation allowance for tax loss carryforwards (Note)	(1,208)	(1,018)
Valuation allowance for total future deductible temporary differences	(2,798)	(2,866)
Total valuation allowance	(4,006)	(3,885)
Total deferred tax assets	37,974	37,746
Deferred tax liabilities:		
Unrealized holding gain on securities	(10,897)	(14,076)
Temporary differences arising from consolidation without tax effect	(4,423)	(4,685)
Retained profit	(2,637)	(2,676)
Deferred capital gains on property	(2,338)	(2,367)
Accelerated depreciation of property, plant and equipment	(2,280)	(2,201)
Revaluation of investments in affiliates	(1,921)	(2,088)
Other	(1,230)	(727)
Total deferred tax liabilities	(25,729)	(28,825)
Net deferred tax assets	¥ 12,244	¥ 8,921

## 11. Income Taxes (continued)

Note: Tax loss carryforwards and their related deferred tax assets by expiry date at March 31, 2020 were as follows:

Year ending March 31	Millions of yen		
	Tax loss carryforwards*	Valuation allowance	Deferred tax assets
2021	¥ 44	¥ 44	¥ -
2022	505	505	-
2023	223	223	-
2024	204	204	-
2025	23	23	-
2026 and thereafter	207	207	-
<b>Total</b>	<b>¥ 1,208</b>	<b>¥ 1,208</b>	<b>¥ -</b>

\*The amount is determined by multiplying the corresponding tax loss carryforwards by the statutory tax rate.

## 12. Net Assets

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥10,363 million at March 31, 2020 and 2019.

### Stock-based compensation plan

In accordance with the Law, certain stock option plans (the 2014 and 2015 plans) for directors, executive officers and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates were approved at the annual general meetings of shareholders held on June 26, 2014 and June 25, 2015, respectively.

The stock option plans outlined above are summarized as follows:

	Number of stock options granted	Exercise price	Exercisable period
The 2014 plan	1,260,000	1,276	From July 1, 2016 up to and including June 30, 2019
The 2015 plan	1,270,000	1,542	From July 1, 2017 up to and including June 30, 2020

Information regarding the Company's stock option plans is summarized as follows:

	The 2014 plan	The 2015 plan
Number of stock options:		
Balance at March 31, 2018	608,000	942,000
Granted	-	-
Cancelled	6,000	10,000
Exercised	172,000	107,000
Balance at March 31, 2019	430,000	825,000
Granted	-	-
Cancelled	240,000	-
Exercised	190,000	182,000
Balance at March 31, 2020	-	643,000
Fair value of stock options as of the grant date	¥ 173	¥ 100

## 12. Net Assets (continued)

### Common stock and treasury stock

Movements in common stock in issue and treasury stock for the years ended March 31, 2020 and 2019 are summarized as follows:

	Number of shares			
	April 1, 2019	Increase	Decrease	March 31, 2020
Common stock	492,507,285	-	8,000,000	484,507,285
Treasury stock	28,256,059	8,571,343	9,114,879	27,712,523

  

	Number of shares			
	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	500,507,285	-	8,000,000	492,507,285
Treasury stock	28,750,482	8,001,461	8,495,884	28,256,059

Note: The number of treasury stock as of March 31, 2020 and 2019 included treasury stock of 916,700 shares and 516,200 shares held by an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust, respectively.

## 13. Land Revaluation

Sekisui Plastics Co., Ltd., which has been accounted for by the equity method, revalued its land held for business use in accordance with the "Land Revaluation Law" and the "Amended Land Revaluation Law." As a result of this revaluation by Sekisui Plastics Co., Ltd., the Companies recognized the portion attributable to the Companies' interest in the unrealized gain on land revaluation and this has been included in accumulated other comprehensive income as unrealized gain on land revaluation of ¥321 million in the accompanying consolidated balance sheets at March 31, 2020 and 2019.

## 14. Contingent Liabilities

Contingent liabilities at March 31, 2020 and 2019 were as follows:

	Millions of yen	
	FY2019	FY2018
Guaranteed obligations		
Housing loans of customers and employees	¥ 34,542	¥ 32,487
Other guaranteed obligations	9,310	8,615

  

	Millions of yen	
	FY2019	FY2018
Notes receivable, trade with recourse		
Notes receivable, trade endorsed	¥ 39	¥ 57

## 15. Research and Development Costs

Research and development costs included in selling, general and administrative expenses for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen	
	FY2019	FY2018
Research and development costs	¥ 37,146	¥ 38,838

## 16. Loss on Impairment of Fixed Assets and Goodwill

The Companies group their fixed assets and goodwill by cash-generating units (except for idle property which is grouped individually) and these are defined as the smallest identifiable groups of assets generating cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

For the year ended March 31, 2020, the Companies have written down goodwill recorded upon acquiring the nursing care business, to the recoverable amount as the income initially estimated in the business plan at the time of acquisition was no longer expected. As a result, the Companies recorded loss on impairment of goodwill under extraordinary loss in the amount of ¥1,905 million. The recoverable value was measured at value in use and the Company recorded the loss on impairment in the full amount of the balance of goodwill since there was considerable uncertainty about estimated amount of future cash flows.

Furthermore, the Companies have written down the amount of certain buildings and structures, for which there was a change in holding purpose from welfare facilities to assets for business use has been decided, to the recoverable amount. As a result, the Companies recorded loss on impairment of fixed assets under extraordinary loss in the amount of ¥1,736 million. The recoverable amount is calculated based on value in use, which was calculated by discounting future cash flows at a rate of 5%.

For the year ended March 31, 2019, the Companies have written down the amount of certain buildings and structures, which are not expected to be used in the future due to the restructuring of the production system in the injection molding business in Japan, to the recoverable amount. As a result, the Companies recorded loss on impairment of fixed assets under extraordinary loss in the amount of ¥806 million. The recoverable amount was measured at value in use and the Companies recorded the loss on impairment in the full amount since future cash flows from these properties were no longer expected.

## 17. Other Comprehensive Income

The reclassification adjustments and tax effects for components of other comprehensive income for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen	
	FY2019	FY2018
Unrealized holding loss on securities:		
Amount arising during the year	¥ (6,257)	¥ (9,779)
Reclassification adjustments for gains and losses realized in net income	(6,713)	(3,358)
Before tax effects	(12,970)	(13,138)
Tax effects	3,521	4,086
Unrealized holding loss on securities	(9,448)	(9,052)
Deferred gain on hedges:		
Amount arising during the year	31	16
Deferred gain on hedges	31	16
Translation adjustments:		
Amount arising during the year	(11,771)	(923)
Translation adjustments	(11,771)	(923)
Retirement benefit adjustments:		
Amount arising during the year	(5,323)	(2,773)
Reclassification adjustments for gains and losses realized in net income	731	(379)
Before tax effects	(4,592)	(3,153)
Tax effects	1,294	876
Retirement benefit adjustments	(3,297)	(2,277)
Comprehensive loss of affiliates accounted for by the equity method attributable to the Company:		
Amount arising during the year	(117)	(565)
Reclassification adjustments for gains and losses realized in net income	62	(29)
Comprehensive loss of affiliates accounted for by the equity method attributable to the Company	(54)	(595)
Total other comprehensive loss	¥ (24,541)	¥ (12,832)

## 18. Supplemental Information on Statement of Cash Flows

Reconciliations between cash and cash equivalents in the accompanying consolidated statement of cash flows and cash and deposits in the accompanying consolidated balance sheet at March 31, 2020 and 2019 are presented as follows:

	Millions of yen	
	FY2019	FY2018
Cash and deposits	¥ 76,819	¥ 69,882
Time deposits with maturities in excess of three months	(2,097)	(1,268)
<b>Cash and cash equivalents</b>	<b>¥ 74,721</b>	<b>¥ 68,613</b>

The breakdown of assets and liabilities when the consolidation of six companies started, including Sekisui Aerospace Corporation, through acquisition of shares and the relationship between acquisition cost and expenditure for the acquisition (net value) are as follows.

	Millions of yen
Current assets	¥ 5,994
Fixed assets	23,787
Goodwill	38,150
Current liabilities	(9,547)
<b>Long-term liabilities</b>	<b>(20,468)</b>
Acquisition cost of shares	37,916
Cash and cash equivalents	(1,158)
Loans to a new consolidated subsidiary	17,618
<b>Net balance: expenditure for the acquisition</b>	<b>54,377</b>

*Non cash financing activities*

Assets and liabilities related to finance lease transactions newly recognized were ¥11,172 million and ¥4,201 million during the years ended March 31, 2020 and 2019, respectively.

The overseas consolidated subsidiaries of the Company have adopted IFRS 16 "Leases" from the beginning of the fiscal year ended March 31, 2020 as stated in Note 3 "Changes in Accounting Policies", and lease transactions entered into by the relevant companies are included in assets and liabilities associated with finance lease transactions.

## 19. Related Party Transactions

Principal transactions between the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2020 and 2019 are summarized as follows:

FY2019							Millions of yen	
Name	Description/ Principal business	Paid-in capital (Millions of yen)	Transaction	Transaction amount	Account name	Ending balance		
Relative of Hitoshi Kobayashi	Relative of Executive Officer	-	Sales of residence (Notes 1 and 2)	¥ 33	-	¥ -	-	-
Relative of Akinori Kawase	Relative of Executive Officer	-	Sales of residence (Notes 1 and 2)	¥ 49	-	-	-	-
Musashi Kougyousha Co., Ltd.	Majority of voting rights of this company are owned by a director's relative/ Manufacturing	¥ 10	Processing of metal parts (Notes 1 and 2)	¥ 19	Accounts payable, trade	¥ 0		
					Accrued expenses	¥ 1		
Futoshi Kamiwaki	Director	-	Exercise of stock options (Note 3)	¥ 11	-	-	-	-
Kunio Ishizuka	Outside Director	-	Exercise of stock options (Note 3)	¥ 11	-	-	-	-
Toshiyuki Kamiyoshi	Director	-	Exercise of stock options (Notes 3 and 4)	¥ 10	-	-	-	-

Notes: 1. Above transaction amounts do not include consumption taxes but ending balances are inclusive of consumption taxes.

2. Conditions of transaction and policies for deciding conditions of transaction were determined based on the same terms as third party transactions.

3. Stock options that were granted based on the resolution at the Board of Directors meeting held on June 26, 2014 and exercised for the fiscal year ended March 31, 2020 are listed. The amount listed in the "transaction amount" section is calculated by multiplying the number of shares granted upon exercise of stock options for the fiscal year ended March 31, 2020 by the amount of payment upon exercise.

4. Stock options that were granted based on the resolution at the Board of Directors meeting held on June 25, 2015 and exercised for the fiscal year ended March 31, 2020 are listed. The amount listed in the "transaction amount" section is calculated by multiplying the number of shares granted upon exercise of stock options for the fiscal year ended March 31, 2020 by the amount of payment upon exercise.

FY2018							Millions of yen	
Name	Description/ Principal business	Paid-in capital (Millions of yen)	Transaction	Transaction amount	Account name	Ending balance		
Musashi Kougyousha Co., Ltd.	Majority of voting rights of this company are owned by a director's relative/ Manufacturing	¥ 10	Processing of metal parts (Notes 1 and 2)	¥ 42	Accrued expenses	¥ 0		

Notes: 1. Above transaction amounts do not include consumption taxes but ending balances are inclusive of consumption

2. Conditions of transaction and policies for deciding conditions of transaction were determined based on the same terms as third party transactions.



## 20. Financial Instruments

### Overview

(1) Policy for financial instruments

The Companies raise funds by bank borrowings and bonds, including short-term bonds. The Companies manage funds only through short-term deposits and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to notes and accounts receivable, trade and notes and accounts payable, trade and avoiding the risk of fluctuations of interest rates related to debt. The Companies do not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities—the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices.

Notes and accounts payable, trade and electronically recorded obligations mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk.

Short-term debt of bank loans and bonds is raised mainly in connection with business activities. Long-term debt and bonds are taken out principally for the purpose of acquiring the shares of subsidiaries. Long-term debt and bonds have maturity dates within 10 years, at the longest, subsequent to March 31, 2020. Debt with variable interest rates is exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for debt bearing interest at variable rates, the Companies undertake interest rate swap transactions as a hedging instrument for most long-term debt.

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitor due dates and outstanding balances by customer.

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

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

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

(c) Monitoring of liquidity risk for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

(4) Supplementary explanation of the estimated fair value of financial instruments

Regarding the amount recorded on consolidated balance sheets related to the following derivative transactions, the amounts themselves do not necessarily indicate the market risk relating to derivative transactions.

## 20. Financial Instruments (continued)

### Estimated Fair Value of Financial Instruments

The carrying value of the financial instruments on the consolidated balance sheet, fair value and the difference at March 31, 2020 and 2019 are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

Estimated fair value information at March 31, 2020:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 76,819	¥ 76,819	¥ -
Notes and accounts receivable, trade	174,124	174,124	-
Marketable securities and investments in securities	118,184	110,540	(7,643)
<b>Total assets</b>	<b>¥ 369,128</b>	<b>¥ 361,485</b>	<b>¥ (7,643)</b>
Notes and accounts payable, trade and electronically recorded obligations	¥ 131,777	¥ 131,777	¥ -
Short-term debt	4,862	4,862	-
Commercial paper	28,000	28,000	-
Long-term debt, including current portion	25,953	25,965	12
Bonds, including current portion	40,019	39,531	(488)
<b>Total liabilities</b>	<b>¥ 230,611</b>	<b>¥ 230,135</b>	<b>¥ (475)</b>
Derivative transactions (*):			
Derivatives for which hedge accounting is not applied	-	-	-
Derivatives for which hedge accounting is applied	¥ (16)	¥ (16)	-
<b>Total derivative transactions</b>	<b>¥ (16)</b>	<b>¥ (16)</b>	<b>-</b>

## 20. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Estimated fair value information at March 31, 2019:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 69,882	¥ 69,882	-
Notes and accounts receivable, trade	186,973	186,973	-
Marketable securities and investments in securities	134,865	131,307	(3,558)
<b>Total assets</b>	<b>¥ 391,721</b>	<b>¥ 388,162</b>	<b>(3,558)</b>
Notes and accounts payable, trade and electronically recorded obligations	¥ 130,441	¥ 130,441	-
Short-term debt	5,699	5,699	-
Commercial paper	17,000	17,000	-
Long-term debt, including current portion	10,589	10,593	4
Bonds, including current portion	10,036	10,113	77
<b>Total liabilities</b>	<b>¥ 173,766</b>	<b>¥ 173,848</b>	<b>82</b>
<b>Derivative transactions (*):</b>			
Derivatives for which hedge accounting is not applied	-	-	-
Derivatives for which hedge accounting is applied	¥ (32)	¥ (32)	-
<b>Total derivative transactions</b>	<b>¥ (32)</b>	<b>¥ (32)</b>	<b>-</b>

(\*): Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

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

*Cash and deposits and notes and accounts receivable, trade*

Since these items are settled in a short period, their carrying value approximates fair value.

*Marketable securities and investments in securities*

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 6 "Marketable Securities and Investments in Securities."

*Notes and accounts payable, trade, electronically recorded obligations, short-term debt and commercial paper*

Since these items are settled in a short period, their carrying value approximates fair value.

*Long-term debt, including current portion*

The fair value of long-term debt is based on the present value of the total amount including principal and interest, discounted by the expected interest rate to be applied if similar new loans with a similar remaining period were entered into. Variable interest rates for long-term debt are hedged by interest rate swap contracts and accounted for as debt with fixed interest rates. The fair value of long-term debt with variable interest is based on the present value of the total of principal, interest and net cash flow of interest rate swap contracts discounted by the reasonably estimated interest rate to be applied if similar new loans with a similar remaining period were entered into.

*Bonds, including current portion*

The fair value of bonds issued by the Companies is the quoted market price.

*Derivative transactions*

Please refer to Note 21 "Derivatives."

## 20. Financial Instruments (continued)

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

	Millions of yen	
	FY2019	FY2018
Unlisted equity securities	¥ 22,679	¥ 28,470

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

(3) Redemption schedule for cash and deposits, notes and accounts receivable, trade and marketable securities and investments in securities with maturities at March 31, 2020 and 2019:

Maturity analysis at March 31, 2020:

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 76,819	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	174,124	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	0	0	-	-
<b>Total</b>	<b>¥ 250,945</b>	<b>¥ 0</b>	<b>¥ -</b>	<b>¥ -</b>

Maturity analysis at March 31, 2019:

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 69,882	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	186,973	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	2	-	-	-
<b>Total</b>	<b>¥ 256,857</b>	<b>¥ -</b>	<b>¥ -</b>	<b>¥ -</b>

(4) The redemption schedule for long-term debt and bonds is disclosed in Note 8 "Short-Term Debt, Bonds and Long-Term Debt."

## 21. Derivatives

The Company and certain consolidated subsidiaries enter into currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. The Company and certain consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2020 and 2019 :

(1) Derivatives for which hedge accounting is not applied

There were no derivatives for which hedge accounting is not applied at March 31, 2020 and 2019.

(2) Derivatives for which hedge accounting is applied

(a) Currency-related transactions

		Millions of yen	
		FY2019	
	Hedged item	Notional amount	Fair value
Forward foreign exchange contracts:			
Buy: Australian dollars	Accounts payable	¥ -	¥ -
Foreign currency swaps:			
Receive fixed – U.S. dollars/ pay fixed – Indian rupees	Long-term debt	951	(16)
<b>Total</b>		¥ 951	¥ (16)

		Millions of yen	
		FY2018	
	Hedged item	Notional amount	Fair value
Forward foreign exchange contracts:			
Buy: Australian dollars	Accounts payable	¥ 4	¥ 0
Foreign currency swaps:			
Receive fixed – U.S. dollars/ pay fixed – Indian rupees	Long-term debt	842	(32)
<b>Total</b>		¥ 846	¥ (32)

The notional amount of foreign currency swaps of receive fixed – U.S. dollars / pay fixed – Indian rupees includes a portion over 1 year of ¥951 million and ¥842 million at March 31, 2020 and 2019, respectively. The notional amount of forward foreign exchange contracts of the buy position in Australian dollars does not include any portion over 1 year at March 31, 2019

## 22. Amounts per Share

	Yen	
	FY2019	FY2018
Net income attributable to owners of the parent:		
Basic	¥ 128,25	¥ 141,74
Diluted	128,23	141,64
Cash dividends	46,00	44,00
Net assets	1,333.88	1,307.75

Basic net income attributable to owners of the parent per share has been computed based on the net income attributable to owners of the parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income attributable to owners of the parent per share has been computed based on the net income attributable to owners of the parent available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of the shares of common stock issuable upon the exercise of stock options issued by the Company. The aggregate amounts of cash dividends include cash dividends of ¥28 million and ¥21 million for the shares of the Company held by the BIP Trust and ESOP Trust for the years ended March 31, 2020 and 2019, respectively. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at year end.

	Millions of yen	
	FY2019	FY2018
Net income attributable to owners of the parent	¥ 58,931	¥ 66,093

  

	Thousands of shares	
	FY2019	FY2018
Weighted-average number of shares of common stock outstanding	459,494	466,299
Increase in shares of common stock resulting from the exercise of stock acquisition rights	92	321

The financial data used in the computation of net assets per share as of March 31, 2020 and 2019 is summarized as follows:

	Millions of yen	
	FY2019	FY2018
Total net assets	¥ 634,275	¥ 632,746
Deduction from total net assets:		
Stock acquisition rights	(64)	(156)
Non-controlling interests	(24,901)	(25,465)
	(24,965)	(25,622)
Total net assets attributable to common shareholders	¥ 609,309	¥ 607,123

  

	Thousands of shares	
	FY2019	FY2018
Number of shares of common stock used in the calculation of net assets per share	456,794	464,251

## 22. Amounts per Share (continued)

The Company's own shares held in the ESOP trust and the BIP trust recorded as treasury stock under shareholders' equity are included in treasury stock to be deducted from the weighted-average number of shares of common stock during the year in computing net income attributable to owners of the parent per share and from the number of shares of common stock at year-end in computing net assets per share. The numbers of shares of treasury stock deducted from the weighted-average number of shares in computing net income attributable to owners of the parent per share were 581 thousand and 553 thousand shares for the years ended March 31, 2020 and 2019, respectively, and the numbers of shares of treasury stock deducted from the number of shares outstanding at year-end in computing net assets per share were 916 thousand and 516 thousand shares as of March 31, 2020 and 2019, respectively.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

## 23. Segment Information

### (1) Overview of the Reportable segments

The reportable segments of the Companies are determined on the basis that separate financial information of such segments is available and examined periodically by the Board of Directors of the Company to make decisions regarding the allocation of management resources and assess the business performances of such segments. The Companies have divided the business operations into the four segments of Housing, Urban Infrastructure and Environmental Products (UIEP), High Performance Plastics (HPP), and Medical based on manufacturing methods, products, sales channels, and other business similarities. Each business segment formulates comprehensive strategies and develops business activities for its products in Japan and overseas. The Housing business comprises manufacturing, construction, sales, refurbishing, and other operations related to unit housing, real estate, and residential service business. The UIEP business comprises manufacturing, sales, and construction operations related to PVC pipes and joints, polyethylene pipes and joints, pipe and drain renewal materials and construction methods, reinforced plastic pipe, construction materials, and FFU. The HPP business comprises manufacturing and sales of interlayer films for laminated glass, polyolefin foam, tape, LCD fine particles and photosensitive materials, functional resin for infrastructure, diagnostic drugs and other products. The Medical business comprises manufacturing and sales of diagnostic reagents, analyzers, pharmaceutical ingredients and intermediates. Effective from the fiscal year ended March 31, 2020, the main portion of the Life Science field previously included in the High Performance Plastics segment is reclassified as the Medical segment in an effort to accelerate its growth pace as a new divisional company candidate. The segment information for the previous fiscal year is prepared and disclosed based on the segmentation after such change.

### (2) Calculation methods used for sales, income, assets and the other items on each reportable segment

The accounting methods for the reportable segments are presented principally in accordance with the same accounting policies of the accompanying consolidated financial statements defined in Note 2 "Summary of Significant Accounting Policies." The amounts of segment income (loss) are calculated based on the same method as the calculation of operating income in the consolidated statement of income for the years ended March 31, 2020 and 2019. The figures of intersegment sales and transfers are presented based on the current market prices at the time of these transactions.

### 23. Segment Information (continued)

(3) Information as to sales, income, assets and other items on each reportable segment

Reportable segment information of the Companies for the years ended March 31, 2020 and 2019 is summarized as follows:

	Millions of yen							Consolidated
	FY2019							
	Reportable segments							
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Total	Other (*1)		
Sales:								
Sales to third parties	¥ 512,836	¥ 223,707	¥ 315,294	¥ 72,587	¥ 1,124,425	¥ 4,828	¥ 1,129,254	
Intersegment sales or transfers	101	13,672	7,126	0	20,901	141	21,043	
<b>Net sales</b>	<b>512,937</b>	<b>237,380</b>	<b>322,421</b>	<b>72,588</b>	<b>1,145,327</b>	<b>4,970</b>	<b>1,150,297</b>	
Segment								
income (loss)	¥ 37,792	¥ 15,480	¥ 37,169	¥ 9,204	¥ 99,646	¥ (9,721)	¥ 89,924	
Segment assets	¥ 331,761	¥ 216,898	¥ 373,054	¥ 120,420	¥ 1,042,133	¥ 21,820	¥ 1,063,954	
Other items:								
Depreciation and amortization	9,447	7,823	17,933	3,709	38,913	2,018	40,931	
Investments in affiliates accounted for by the equity method	9,985	-	2,750	-	12,735	-	12,735	
Increase in property, plant and equipment, and intangible assets	14,955	15,340	29,425	7,669	67,390	4,909	72,300	



### 23. Segment Information (continued)

(3) Information as to sales, income, assets and other items on each reportable segment (continued)

	Millions of yen							
	FY2018							
	Reportable segments							Consolidated
Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Total	Other (*1)			
Sales:								
Sales to third parties	¥ 506,614	¥ 226,112	¥ 333,413	¥ 70,721	¥ 1,136,861	¥ 5,851	¥ 1,142,713	
Intersegment sales or transfers	114	13,080	7,876	0	21,072	243	21,316	
<b>Net sales</b>	<b>506,729</b>	<b>239,193</b>	<b>341,290</b>	<b>70,721</b>	<b>1,157,934</b>	<b>6,095</b>	<b>1,164,029</b>	
Segment income (loss)	¥ 39,002	¥ 15,007	¥ 44,855	¥ 9,623	¥ 108,489	¥ (11,099)	¥ 97,389	
Segment assets	¥ 315,154	¥ 216,653	¥ 343,755	¥ 116,652	¥ 992,215	¥ 16,758	¥ 1,008,973	
Other items:								
Depreciation and amortization	9,351	6,983	16,139	3,064	35,539	2,271	37,811	
Investments in affiliates accounted for by the equity method	8,848	-	2,684	-	11,532	-	11,532	
Increase in property, plant and equipment, and intangible assets	17,759	13,870	32,905	4,375	68,910	3,718	72,629	

(\*1): Other represents segments other than the reportable segments, which includes provision of services and manufacturing and sales of film-type lithium-ion batteries and products not included in the Companies' reportable segments.

(4) Information on the difference between the total amount of the reportable segments in the above tables and the corresponding amount reported in the consolidated financial statements

Net sales and income for the years ended March 31, 2020 and 2019

	Millions of yen	
	FY2019	FY2018
Net sales:		
Total of reportable segments	¥ 1,145,327	¥ 1,157,934
Other net sales	4,970	6,095
Eliminations	(21,043)	(21,316)
<b>Net sales</b>	<b>¥ 1,129,254</b>	<b>¥ 1,142,713</b>

### 23. Segment Information (continued)

(4) Information on the difference between the total amount of the reportable segments in the above tables and the corresponding amount reported in the consolidated financial statements (continued)

	Millions of yen			
	FY2019		FY2018	
Income:				
Total of reportable segments	¥	99,646	¥	108,489
Other loss		(9,721)		(11,099)
Eliminations		637		(134)
Corporate expenses (*1)		(2,793)		(1,568)
Operating income	¥	87,768	¥	95,686

(\*1): Corporate expenses are mainly general administrative expenses not attributable to each reportable segment.

Assets at March 31, 2020 and 2019

	Millions of yen			
	FY2019		FY2018	
Assets:				
Total of reportable segments	¥	1,042,133	¥	992,215
Assets classified as "other"		21,820		16,758
Eliminations		(306,643)		(337,151)
Corporate assets (*1)		345,040		351,883
Total assets	¥	1,102,352	¥	1,023,706

(\*1): Corporate assets are assets not attributable to the reportable segments. The main items were cash and deposits, long-term investments (investments in securities), assets related to administrative operations and deferred tax assets, etc. of the Company.

Other items for the years ended March 31, 2020 and 2019

	Millions of yen							
	FY2019							
	Reporting Segments	Others	Adjustments (*1)	Consolidated				
Other items:								
Depreciation and amortization	¥	38,913	¥	2,018	¥	1,277	¥	42,209
Investments in affiliates accounted for by the equity method		12,735		-		32,813		45,549
Increase in property, plant and equipment, and intangible assets		67,390		4,909		2,081		74,381

  

	Millions of yen							
	FY2018							
	Reporting Segments	Others	Adjustments (*1)	Consolidated				
Other items:								
Depreciation and amortization	¥	35,539	¥	2,271	¥	978	¥	38,789
Investments in affiliates accounted for by the equity method		11,532		-		32,996		44,529
Increase in property, plant and equipment, and intangible assets		68,910		3,718		966		73,595

(\*1): Adjustment represents the amounts of investments in affiliates accounted for by the equity method, which are not attributable to the reportable segments.

## 23. Segment Information (continued)

(5) Related information

(a) Sales information by geographic area

Overseas net sales by geographical areas for the years ended March 31, 2020 and 2019 is as follows:

Millions of yen						
FY2019						
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 854,600	¥ 81,312	¥ 57,508	¥ 121,161	¥ 14,672	¥ 1,129,254

  

Millions of yen						
FY2018						
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 852,543	¥ 82,898	¥ 63,044	¥ 129,873	¥ 14,352	¥ 1,142,713

(b) Information of property, plant and equipment, net by geographic area

Information of property, plant and equipment, net by geographical areas as of March 31, 2020 and 2019 is as follows:

Millions of yen						
FY2019						
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 232,322	¥ 30,184	¥ 35,576	¥ 33,727	¥ 5,439	¥ 337,250

  

Millions of yen						
FY2018						
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 219,367	¥ 21,598	¥ 29,797	¥ 32,182	¥ 6,509	¥ 309,455

### 23. Segment Information (continued)

Information of loss on impairment of fixed assets and goodwill

Information on loss on impairment of fixed assets and goodwill for the years ended March 31, 2020 and 2019 is as follows:

	Millions of yen						
	FY2019						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥ 1,905	¥ 474	¥ 327	¥ -	¥ -	¥ 1,736	¥ 4,443

	Millions of yen						
	FY2018						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥ -	¥ 19	¥ 109	¥ 148	¥ -	¥ 997	¥ 1,274

Note: The amount of "Elimination or unallocable accounts" denotes loss on impairment of the corporate assets which do not belong to any reportable segment.

#### (7) Amortization and balance of goodwill

Information on amortization of goodwill by each segment and its remaining balance for the years ended March 31, 2020 and 2019 is summarized as follows:

	Millions of yen						
	FY2019						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥ 127	¥ 53	¥ 1,250	¥ 1,792	¥ 29	¥ -	¥ 3,253
Balance at March 31, 2020	-	-	49,227	8,085	34	-	57,346

	Millions of yen						
	FY2018						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥ 127	¥ 216	¥ 672	¥ 1,803	¥ 29	¥ -	¥ 2,848
Balance at March 31, 2019	2,033	53	4,778	10,024	63	-	16,953

## 24. Business Combinations

(Business combination through acquisition)

(1) Summary of the business combination

(a) Name and business description of the acquired company

Name of the acquired company: AIM Aerospace Corporation

Business description: Shareholdings in subsidiaries engaged in development, manufacturing and sale of composite mold materials such as carbon fiber reinforced plastics (CFRP) for aircraft and drones.

(b) Main reason for the business combination

To expand the business in the mobility materials domain and acquire advanced technologies.

(c) Date of the business combination

November 21, 2019 (share acquisition date)

December 31, 2019 (deemed acquisition date)

(d) Legal form of the business combination

Share acquisition

(e) Company name after the business combination

Sekisui Aerospace Corporation

(f) Percentage of shares with voting rights acquired

100%

(g) Major reason for determining the acquiring company

The acquisition was a share acquisition by Sekisui America Corporation for a cash consideration

(2) Period of the operating results of the acquired company included in the consolidated financial statements

From January 1, 2020 through March 31, 2020

(3) Acquisition cost and type of consideration for the acquired business

Consideration for acquisition Cash ¥37,916 million

Acquisition cost ¥37,916 million

In addition to paying ¥37,916 million in cash as consideration for acquisition, the Companies paid ¥17,618 million in loans to the acquiree as funds to repay the liabilities of the acquiree. The acquisition cost allocation is not finalized at this time as the price adjustment after the acquisition of shares has not been completed.

(4) Details on major acquisition-related costs

Compensation and fees for financial advisory services, etc.: ¥729 million

(5) Amount, reason for recognition, and amortization method and period for goodwill arising from the acquisition

(a) Amount of goodwill arising from the acquisition

¥38,150 million

The amount of goodwill is calculated on a provisional basis as the identification of identifiable assets and liabilities and the calculation of their fair value are incomplete, and the allocation of the acquisition cost has not been completed.

(b) Reason for recognition

As the net assets on the acquisition date were less than the acquisition cost, the difference was recognized as goodwill.

(c) Amortization method and period

Straight-line method over a period of 20 years

(6) The amounts and main components of assets acquired and liabilities assumed on the date of the business combination

Millions of yen

Current assets	¥	5,994
Fixed assets		23,787
Total assets	¥	29,781
Current liabilities		9,547
Long-term liabilities		20,468
Total liabilities	¥	30,016

## 25. Subsequent Events

### (Year-end cash dividends)

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2020, was proposed by the Board of Directors at the meeting held on May 15, 2020. The distribution proposed was approved by the shareholders at the meeting held on June 23, 2020.

	<u>Millions of yen</u>
Year-end cash dividends (¥23.00 per share)	¥ 10,535

The aggregate amount of cash dividends includes cash dividends of ¥21 million for the shares of the Company held by the BIP Trust and ESOP Trust.

### (Acquisition of treasury stock)

For the purpose of implementing flexible capital policy and as a way to provide returns to shareholders, the Company resolved at the Board of Directors' meeting held on April 27, 2020 to acquire 8,000,000 shares of treasury stock for a maximum total amount of ¥16,000 million through the market including advance notice type market buying system of ToSTNeT during the period from April 28, 2020 through March 31, 2021.

As of June 23, 2020, the status of the acquisition of treasury stock is as follows:

Type of shares acquired: Common stock

Total number of shares acquired: 2,092,600 shares

Total acquisition cost: ¥2,762 million

Acquisition date: May 15, 2020

Method of acquisition: Market purchases

## 25. Subsequent Events (continued)

### (Retirement of treasury stock)

For the purpose of strengthening measures to enhance capital efficiency and as a way to provide returns to shareholders, the Company resolved at the Board of Directors' meeting held on April 27, 2020 to retire 8,000,000 shares of treasury stock and executed the retirement on May 25, 2020. After the retirement, the total number of shares issued was 476,507,285 shares.

### (Significant amount of long-term borrowings)

The Company borrowed funds as working capital, etc. as follows.

- (1) (i) Name of lenders: MUFG Bank, Ltd. and three other banks  
(ii) Total loan amount: ¥20,000 million  
(iii) Loan interest rate: Base rate + spread  
(iv) Loan execution date: April 28 and 30, 2020  
(v) Loan period: Four years from the loan execution date  
(vi) Assets pledged as collateral or guarantee: None
  
- (2) (i) Name of lenders: MUFG Bank, Ltd. and four other banks  
(ii) Total loan amount: ¥30,000 million  
(iii) Loan interest rate: Base rate + spread  
(iv) Loan execution date: April 24, 28 and 30, 2020  
(v) Loan period: 10 years from the loan execution date  
(vi) Assets pledged as collateral or guarantee: None

## **Independent Auditor's Report**

The Board of Directors  
Sekisui Chemical Co., Ltd.

### **Opinion**

We have audited the accompanying consolidated financial statements of Sekisui Chemical Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

### **Basis for Opinion**

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

### **Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing 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. 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, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not 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 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 in accordance with accounting principles generally accepted in Japan.
- 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 Corporate Auditor and the Board of Corporate Auditors 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 Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

### **Conflicts of Interest**

We have no interest in the Group which should be disclosed in accordance with the Certified Public Accountants Act.

Ernst & Young ShinNihon LLC  
Osaka, Japan  
June 12, 2020

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Shunsuke Sakai  
Designated Engagement Partner  
Certified Public Accountant

押 谷 崇 雄 ㊞

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Takao Oshitani  
Designated Engagement Partner  
Certified Public Accountant