Financial Section 2020

Contents

DAICEL

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2020	2020
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 120,016	¥ 80,674	$ 740,128
Marketable securities (Notes 3 and 15)	30	629	5,770
Receivables (Note 15):			
Trade notes	2,920	2,667	24,467
Trade accounts	86,259	76,318	700,165
Unconsolidated subsidiaries and associated companies	5,059	4,013	36,816
Allowance for doubtful receivables	(67)	(66)	(605)
Inventories (Note 4)	126,153	117,414	1,077,192
Other current assets	13,665	16,389	150,357
Total current assets	354,038	298,040	2,734,311
PROPERTY, PLANT AND EQUIPMENT (Notes 5 and 18):			
Land	26,931	30,132	276,440
Buildings and structures	168,530	169,092	1,551,302
Machinery and equipment	609,850	589,742	5,410,477
Construction in progress	31,630	42,354	388,568
Total	836,943	831,332	7,626,807
Accumulated depreciation	(639,511)	(626,975)	(5,752,064)
Net property, plant and equipment	197,432	204,346	1,874,733
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	64,002	57,992	532,036
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 15)	11,087	10,584	97,100
Deferred tax assets (Note 10)	2,701	3,444	31,596
Net defined benefit asset (Note 7)	6,110	6,235	57,201
Other assets	19,418	17,348	159,155
Total investments and other assets	103,320	95,605	877,110
TOTAL	¥ 654,791	¥ 597,992	$ 5,486,165

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2020	2020
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank loans (Notes 6 and 15)	¥ 9,965	¥ 6,902	$ 63,321
Current portion of long-term debt (Notes 6 and 15)	18,285	10,336	94,825
Payables (Notes 15 and 17):			
Trade notes	257	256	2,348
Trade accounts	50,852	43,462	398,733
Nontrade accounts	13,666	15,234	139,761
Construction	8,486	8,781	80,559
Unconsolidated subsidiaries and associated companies	2,898	1,599	14,669
Income taxes payable (Notes 10 and 15)	4,008	2,240	20,550
Provision for environmental measures		1,725	15,825
Other current liabilities (Note 8)	17,088	15,687	143,917
Total current liabilities	125,509	106,226	974,550
LONG-TERM LIABILITIES:			
Long-term debt (Notes 6 and 15)	76,043	72,200	662,385
Net defined benefit liability (Note 7)	12,485	11,055	101,422
Provision for environmental measures	5,265	547	5,018
Asset retirement obligations (Note 8)	1,256	1,229	11,275
Deferred tax liabilities (Note 10)	7,673	7,861	72,119
Other long-term liabilities	3,312	6,287	57,678
Total long-term liabilities	106,038	99,182	909,926
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 14, 16 and 22)			
EQUITY (Notes 9 and 25):			
Common stock, authorized, 1,450,000,000 shares in 2020 and 2019; issued, 315,942,682 shares in 2020 and 331,942,682 shares in 2019	36,275	36,275	332,798
Capital surplus	31,692	31,692	290,752
Retained earnings	294,149	271,762	2,493,229
Treasury stock - at cost, 5,160,966 shares in 2020 and 3,609,174 shares in 2019	(4,344)	(5,050)	(46,330)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	29,024	26,582	243,871
Deferred gain (loss) on derivatives under hedge accounting	13	(69)	(633)
Foreign currency translation adjustments	4,968	(656)	(6,018)
Defined retirement benefit plans	1,817	2,009	18,431
Total	393,597	362,545	3,326,100
Noncontrolling interests	29,645	30,038	275,577
Total equity	423,243	392,583	3,601,678
TOTAL	¥ 654,791	¥ 597,992	$ 5,486,165

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2020	2020
NET SALES	¥ 464,859	¥ 412,826	$ 3,787,394
COST OF SALES (Notes 11 and 17)	331,086	301,774	2,768,568
Gross profit	133,773	111,051	1,018,816
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 12)	82,602	81,406	746,844
Operating income	51,171	29,644	271,963
OTHER INCOME (EXPENSES):			
Interest and dividend income	2,266	1,932	17,724
Gain on sales of investment securities	5,767	2,616	24,000
Gain on sales of investments in capital of subsidiaries and associates	290		
Equity in earnings of unconsolidated subsidiaries and associated companies	1,762	1,772	16,256
Insurance income (Note 19)	2,005		
Interest expense	(1,185)	(1,173)	(10,761)
Foreign exchange gain (loss)	(73)	(802)	(7,357)
Loss on dispositions of property, plant and equipment	(1,715)	(3,098)	(28,422)
Impairment loss on fixed assets (Note 20)	(1,783)	(14,757)	(135,385)
Loss on disaster (Note 21)	(967)		
Loss on revision of retirement benefit plan (Note 7)	(3,308)		
Other – net	(496)	522	4,788
Other income (expenses) – net	2,563	(12,988)	(119,155)
INCOME BEFORE INCOME TAXES	53,734	16,656	152,807
INCOME TAXES (Note 10):			
Current	13,910	4,882	44,788
Deferred	(2,106)	333	3,055
Total income taxes	11,804	5,215	47,844
NET INCOME	41,930	11,440	104,954
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	6,628	6,462	59,284
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 35,301	¥ 4,978	$ 45,669

	Yen		U.S. Dollars (Note 1)
	2019	2020	2020
PER SHARE INFORMATION (Notes 2.s and 13):			
Basic net income	¥ 105.38	¥ 15.49	$ 0.14
Cash dividends applicable to the year	32.00	32.00	0.29

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2020	2020
NET INCOME	¥ 41,930	¥ 11,440	$ 104,954
OTHER COMPREHENSIVE INCOME (LOSS) (Note 23):			
Unrealized gain (loss) on available-for-sale securities	(4,439)	(2,528)	(23,192)
Deferred gain (loss) on derivatives under hedge accounting	(67)	(155)	(1,422)
Foreign currency translation adjustments	431	(6,089)	(55,862)
Defined retirement benefit plans	1,291	116	1,064
Share of other comprehensive income (loss) in associates	(178)	(484)	(4,440)
Total other comprehensive income (loss)	(2,961)	(9,141)	(83,862)
COMPREHENSIVE INCOME	¥ 38,968	¥ 2,299	$ 21,091
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 32,267	¥ (2,980)	$ (27,339)
Noncontrolling interests	6,700	5,280	48,440

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2020 and 2019

		Millions of Yen										
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2018	338,703,204	¥ 36,275	¥ 31,642	¥ 292,104	¥ (14,004)	¥ 33,410	¥ 58	¥ 4,805	¥ 583	¥ 384,876	¥ 28,665	¥ 413,541
Net income attributable to owners of the parent				35,301						35,301		35,301
Cash dividends, ¥32.00 per share				(10,781)						(10,781)		(10,781)
Restricted stock awards			(0)	(9)	192					182		182
Repurchase of treasury stock	(10,523,907)				(12,998)					(12,998)		(12,998)
Disposal of treasury stock					0					0		0
Retirement of treasury stock	154,211			(22,465)	22,465							
Change in the parent's ownership interest due to transactions with noncontrolling interests			50							50	(41)	8
Net change in the year						(4,385)	(44)	163	1,233	(3,033)	1,021	(2,012)
BALANCE, MARCH 31, 2019	328,333,508	36,275	31,692	294,149	(4,344)	29,024	13	4,968	1,817	393,597	29,645	423,243
Net income attributable to owners of the parent				4,978						4,978		4,978
Cash dividends, ¥32.00 per share				(10,414)						(10,414)		(10,414)
Restricted stock awards	160,049			(24)	181					157		157
Repurchase of treasury stock	(17,711,935)				(17,814)					(17,814)		(17,814)
Disposal of treasury stock				(0)	0					0		0
Retirement of treasury stock	94			(16,927)	16,927							
Net change in the year						(2,442)	(83)	(5,625)	192	(7,959)	392	(7,566)
BALANCE, MARCH 31, 2020	310,781,761	¥ 36,275	¥ 31,692	¥ 271,762	¥ (5,050)	¥ 26,582	¥ (69)	¥ (656)	¥ 2,009	¥ 362,545	¥ 30,038	¥ 392,583

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain (Loss) on Available-for-Sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2019	$ 332,798	$ 290,752	$ 2,698,614	$ (39,853)	$ 266,275	$ 119	$ 45,577	$ 16,669	$3,610,981	$ 271,972	$ 3,882,963
Net income attributable to owners of the parent			45,669						45,669		45,669
Cash dividends, $0.29 per share			(95,541)						(95,541)		(95,541)
Restricted stock awards			(220)	1,660					1,440		1,440
Repurchase of treasury stock				(163,431)					(163,431)		(163,431)
Disposal of treasury stock			(0)	0					0		0
Retirement of treasury stock			(155,293)	155,293							
Net change in the year					(22,403)	(761)	(51,605)	1,761	(73,018)	3,596	(69,412)
BALANCE, MARCH 31, 2020	$ 332,798	$ 290,752	$ 2,493,229	$ (46,330)	$243,871	$ (633)	$ (6,018)	$18,431	$3,326,100	$275,577	$ 3,601,678

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2020 and 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2020	2020
OPERATING ACTIVITIES:			
Income before income taxes	¥ 53,734	¥ 16,656	$ 152,807
Adjustments for:			
Income taxes - paid	(14,623)	(9,820)	(90,091)
Depreciation and amortization	30,442	29,396	269,688
Impairment loss on fixed assets	1,783	14,757	135,385
Amortization of goodwill	608	723	6,633
Loss on dispositions of property, plant and equipment	1,715	3,098	28,422
Provision for environmental measures	1,265	(2,992)	(27,499)
Gain on sales of investment securities	(5,767)	(2,616)	(24,000)
Gain on sales of investments in capital of subsidiaries and associates	(290)		
Equity in earnings of unconsolidated subsidiaries and associated companies	(1,762)	(1,772)	(16,256)
Changes in assets and liabilities:			
Decrease (increase) in notes and accounts receivable	4,140	8,699	79,807
Decrease (increase) in inventories	(16,149)	5,709	52,376
Increase (decrease) in notes and accounts payable	(3,049)	(7,885)	(72,339)
Other – net	6,476	3,239	29,715
Net cash provided by operating activities	58,523	57,193	524,706
INVESTING ACTIVITIES:			
Net decrease (increase) in time deposits	(157)	139	1,275
Net decrease (increase) in short-term investment securities	900		
Capital expenditures	(43,580)	(46,313)	(424,889)
Payment for purchases of investment securities	(167)	(266)	(2,440)
Proceeds from sales and redemption of investment securities	8,076	4,653	42,688
Proceeds from sales of property, plant and equipment	22	148	1,357
Payment for share of subsidiaries and associates		(1,760)	(16,146)
Payment for investments in capital of subsidiaries and associates	(4,103)		
Proceeds from sales of investments in capital of subsidiaries and associates	431		
Increase in finance receivables	(56)	(234)	(2,146)
Collection of finance receivables	127	217	1,990
Other – net	(2,587)	(2,448)	(22,458)
Net cash used in investing activities	(41,095)	(45,864)	(420,770)
FINANCING ACTIVITIES:			
Net change in short-term bank loans	(121)	(2,581)	(23,678)
Proceeds from issuance of long-term debt	17,755	7,231	66,339
Repayments of long-term debt	(13,809)	(18,537)	(170,064)
Proceeds from issuance of bond			
Dividends paid	(10,783)	(10,410)	(95,504)
Dividends paid to noncontrolling interests	(5,679)	(4,878)	(44,752)
Payment for purchases of treasury stock	(12,998)	(17,814)	(163,431)
Repayments of lease liabilities		(892)	(8,183)
Payment for acquisition of interests in a subsidiary from noncontrolling interests	(0)		
Net cash used in financing activities	(25,636)	(47,883)	(439,293)
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(64)	(2,787)	(25,568)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(8,273)	(39,342)	(360,935)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	128,290	120,016	1,101,064
CASH AND CASH EQUIVALENTS, END OF YEAR	¥120,016	¥ 80,674	$ 740,128

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daicel Corporation and Consolidated Subsidiaries

1.BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

In preparing the consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. Amounts less than one million yen and one thousand U.S. dollars are rounded down, except for per share data. Therefore, total amounts may not correspond with the aggregation of such account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥109 to $1, the approximate rate of exchange at March 31, 2020. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements as of March 31, 2020, include the accounts of the Company and its 60 significant (65 in 2019) subsidiaries (collectively, the "Companies").

Under the control and influence concepts, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Companies have the ability to exercise significant influence are accounted for by the equity method.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period not exceeding 10 years.

Investments in one (one in 2019) unconsolidated subsidiary and seven (seven in 2019) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies and associated companies accounted for by the equity method has been eliminated.

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

c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method – ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material:

(a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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

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

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

f. **Marketable and Investment Securities –** Marketable and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings; (2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and (3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

All of the Companies' securities are classified as available-for-sale securities.

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

g. **Inventories –** Inventories are stated at the lower of cost, determined by the moving-average method, or net selling value.

h. **Property, Plant and Equipment –** Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, and leased assets of the Company. Consolidated foreign subsidiaries primarily apply the straight-line method to property, plant and equipment.

The range of useful lives is principally from 3 to 75 years for buildings and structures and from 4 to 15 years for machinery and equipment. The useful lives for leased assets are the terms of the respective leases. Property, plant and equipment are carried at cost, less gains deferred on the sale and replacement of certain assets.

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

j. **Retirement and Pension Plans –** The Company has lump-sum severance payment and defined benefit plans. Certain consolidated subsidiaries have lump-sum severance payment plans, defined benefit plans and defined contribution plans for employees. Additionally, the Company has a "Retirement Benefit Trust."

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain subsidiaries account for the net defined benefit liability based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses are amortized on a straight-line basis over 10 years. Prior service cost is amortized on a straight-line basis over a period within the average remaining years of service of the employees (5 years).

Because certain subsidiaries are classified as small enterprises, the simplified method (the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) is applied for the calculation of the retirement benefit obligation of the subsidiaries.

Certain domestic subsidiaries record retirement allowances for directors and corporate auditors to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

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

l. **Foreign Currency Transactions –** All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

m. **Foreign Currency Financial Statements –** The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

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

o. **Research and Development Costs –** Research and development costs are charged to income as incurred and included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES."

p. **Income Taxes –** The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

q. **Derivatives and Hedging Activities –** The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps and foreign currency swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statements of income; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on those derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps are utilized to hedge interest rate exposures of long-term debt. Swaps that qualify for hedge accounting are measured at market value at the balance sheet date, and unrealized gains or losses are deferred until maturity and included in other liabilities or assets.

r. **Provision for Environmental Measures –** The provision for environmental measures is based on estimated future cost of environmental measures such as soil improvement work.

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

Diluted net income per share is not disclosed because the Company has no securities or warrants that may cause an additional issue of common shares.

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

t. **Accounting Changes and Error Corrections –** Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation – When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors – When an error in prior-period financial statements is discovered, those statements are restated.

u. **New Accounting Pronouncements**

– ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition"
– ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition"

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

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

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

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

– ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement"
– ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories"
– ASBJ Statement No. 10, "Accounting Standard for Financial Instruments"
– ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement"
– ASBJ Guidance No. 19, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments"

The ASBJ promoted an initiative to enhance comparability of the requirements between the Japanese generally accepted accounting standards and IFRS, primarily with regard to guidance on the fair values of financial instruments and their disclosures, and issued "Accounting Standard for Fair Value Measurement," etc., based on the fact that the International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") have prescribed almost the similar detailed guidance (IFRS 13, "Fair Value Measurement" issued by IASB and Accounting Standard Codification Topic 820, "Fair Value Measurement" issued by FASB).

The ASBJ's fundamental policies adopted for developing "Accounting Standard for Fair Value Measurement," etc. are, in principle, to implement all the requirements of IFRS 13 from the viewpoint of enhancing the comparability of the financial statements of domestic and overseas companies by prescribing unified measurement methods, but also to prescribe exceptional treatments for individual matters so that comparability would not be impaired in consideration of accounting practices that have conventionally been adopted in Japan.

The accounting standards will be applied from the beginning of the fiscal year ending March 31, 2022 and the effect of applying the accounting standards on the consolidated financial statements is currently being evaluated.

– ASBJ Statement No. 31, "Accounting Standard for Disclosure of Accounting Estimates"

The IASB issued International Accounting Standard 1 ("IAS 1"), "Presentation of Financial Statements," in 2003, and Paragraph 125 of this accounting standard requires disclosures of key sources of estimation uncertainty. As such information is required for the convenience of users of financial statements in Japan, the ASBJ issued "Accounting Standard for Disclosure of Accounting Estimates." The ASBJ presents the principles and the purposes of disclosure of key sources of estimation uncertainty, and the items to be disclosed should be determined by management in a way that helps users of the financial statements understand the judgements applied. The nature and extent of the information to be disclosed will vary according to the nature of the assumptions and the other circumstances. This accounting standard was developed based on Paragraph 125 of "Presentation of Financial Statements."

The accounting standard will be applied from the fiscal year ending March 31, 2021.

– ASBJ Statement No. 24, "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Correction"

The ASBJ has amended certain accounting standards, and issued "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Correction" to reflect recommendations for enhancing footnote information related to accounting principles and procedures if the related accounting standards are not definitive. In addition, Paragraph 1-2 of annotations on generally accepted accounting principles continue to be effective when enhancing footnote information in notes regarding accounting principles and procedures adopted if the related accounting standards are not definitive, in order not to conflict with current accounting practices where related accounting standards are definitive.

The accounting standard will be applied from the fiscal year ending March 31, 2021.

v. Changes in Presentation – "Provision for environmental measures," which was separately presented under "OTHER INCOME (EXPENSES)" in the Consolidated Statements of Income for the year ended March 31, 2019, is included in "Other – net" in the year ended March 31, 2020 because its quantitative materiality diminished. To reflect this change in presentation, the financial statements for the year ended March 31, 2019 have been restated. As a result, ¥1,298 million of the "Provision for environmental measures" has been reclassified as "Other – net" in the Consolidated Statements of Income for the year ended March 31, 2019.

w. Impact of COVID-19 on Accounting Estimates – The Companies are facing negative impact mainly of demand decrease for automobile airbag inflators and engineering plastics and other due to COVID-19. Under this circumstance, the Companies assessed the recoverability of deferred tax assets and made accounting estimates for tangible and intangible assets under the assumption which domestic and overseas economy will be significantly constrained in the first half of the fiscal year ending March 31, 2021, but will gradually recover in the second half. While prediction of infection spread and containment of COVID-19 is difficult, the estimates were carefully determined based on information currently available. Although, there may be an impact on the valuation of deferred tax assets and other assets, on the impairment of tangible and intangible assets and on other aspects due to excess of expectations of COVID-19 effect.

3.MARKETABLE AND INVESTMENT SECURITIES

Marketable and investment securities as of March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Current:			
Government and corporate bonds	¥ 30	¥ 629	$ 5,770
Non-current:			
Equity securities	¥ 59,839	¥ 54,794	$ 502,697
Government and corporate bonds	4,053	3,058	28,055
Other	109	138	1,266
Total	¥ 64,002	¥ 57,992	$ 532,036

The costs and aggregate fair values of marketable and investment securities at March 31, 2020 and 2019, were as follows:

	Millions of Yen			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 16,666	¥ 37,750	¥ (334)	¥ 54,082
Debt securities	3,709		(58)	3,651

	Millions of Yen			
	2019			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 17,633	¥ 41,238	¥ (319)	¥ 58,551
Debt securities	4,029	4	(16)	4,017

	Thousands of U.S. Dollars			
	2020			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 152,899	$ 346,330	$ (3,064)	$ 496,165
Debt securities	34,027		(532)	33,495

Securities whose fair values are not readily determinable as of March 31, 2020 and 2019, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Available-for-sale:			
Equity securities	¥ 1,287	¥ 712	$ 6,532
Debt securities	66	36	330
Other	109	138	1,266
Total	¥ 1,463	¥ 886	$ 8,128

Proceeds from sales of available-for-sale securities for the years ended March 31, 2020 and 2019, was ¥4,653 million ($42,688 thousand) and ¥8,083 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, were ¥2,616 million ($24,000 thousand) respectively, for the year ended March 31, 2020.

4.INVENTORIES

Inventories at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Finished products	¥ 64,703	¥ 59,254	$ 543,614
Semi-finished products and work in process	18,652	17,299	158,706
Raw materials and supplies	42,797	40,859	374,853
Total	¥ 126,153	¥ 117,414	$ 1,077,192

5.INVESTMENT PROPERTY

The Companies own certain rental properties such as land and buildings in Osaka and other areas. Rental income for the years ended March 31, 2020 and 2019 was ¥492 million ($4,513 thousand) and ¥500 million, respectively.

In addition, the carrying amounts, changes in such balances and market prices of such properties are as follows:

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2019	Increase/(Decrease)	March 31, 2020	March 31, 2020
¥ 2,713	¥ (23)	¥ 2,689	¥ 16,523

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2018	Increase/(Decrease)	March 31, 2019	March 31, 2019
¥ 3,039	¥ (325)	¥ 2,713	¥ 16,609

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2019	Increase/(Decrease)	March 31, 2020	March 31, 2020
$ 24,889	$ (211)	$ 24,669	$ 151,587

Notes:
1) Increase and decrease of items related to rental properties are not disclosed for these fiscal years ended March 31, 2020 and 2019 due to insignificance.
2) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
3) Fair values of properties as of March 31, 2020 and 2019, are measured by the Companies in accordance with the Real-Estate Appraisal Standard.

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

Short-term bank loans were principally represented by bank overdrafts. Weighted-average annual interest rate of short-term bank loans at March 31, 2020 and 2019, was 0.98% and 2.10%, respectively.

Long-term debt at March 31, 2020 and 2019, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
1.69% bonds due 2019	¥ 10,000		
1.05% bonds due 2023	10,000	¥ 10,000	$ 91,743
0.14% bonds due 2022	10,000	10,000	91,743
0.23% bonds due 2024	10,000	10,000	91,743
0.37% bonds due 2027	10,000	10,000	91,743
4.00% bonds due 2022		3	27
Unsecured loans from banks and other financial institutions, due through 2027, with interest rates ranging from 0.16% to 9.00% for 2020 (from 0.16% to 9.00% for 2019)	44,329	42,534	390,220
Total	94,329	82,537	757,220
Less current portion	(18,285)	(10,336)	(94,825)
Long-term debt, less current portion	¥ 76,043	¥ 72,200	$ 662,385

At March 31, 2020, annual maturities of long-term debt were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2021	¥10,336	$ 94,825
2022	3,950	36,238
2023	18,976	174,091
2024	19,441	178,357
2025	16,935	155,366
2026 and thereafter	12,897	118,321
Total	¥ 82,537	$ 757,220

7. RETIREMENT AND PENSION PLANS

Effective from April 1, 2019, the Company converted part of its defined benefit plans to a defined contribution plan. Due to the conversion, the Company applied "Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (Corporate Accounting Standards Implementation Guidelines No. 1) and the "Practical Treatment of Accounting Procedures for Conversion between Different Retirement Benefit Schemes" (PITF No. 2).

(1)The changes in defined benefit obligation (except for cases where the simplified method was applied) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Balance at beginning of year	¥ 35,770	¥ 38,178	$ 350,256
Current service cost	1,968	1,950	17,889
Interest cost	232	229	2,100
Actuarial (gains) losses	71	294	2,697
Benefits paid	(1,266)	(1,876)	(17,211)
Prior service cost	4,140		
Loss on revision of retirement benefit plan	(3,308)		
Gains due to new consolidation	644		
Others	(74)	49	449
Balance at end of year	¥ 38,178	¥ 38,826	$ 356,201

(2)The changes in plan assets (except for cases where the simplified method was applied) for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Balance at beginning of year	¥ 32,039	¥ 35,199	$ 322,926
Expected return on plan assets	369	400	3,688
Actuarial gains	2,465	881	8,082
Contributions from employer	1,010	1,785	16,376
Benefits paid	(661)	(797)	(7,311)
Others	(22)	0	0
Balance at end of year	¥ 35,199	¥ 37,470	$ 343,761

(3)The changes in defined benefit obligation as a result of applying the simplified method for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Balance at beginning of year	¥ 3,226	¥ 3,340	$ 30,642
Retirement benefit cost	376	402	3,669
Benefits paid	(200)	(203)	(1,862)
Contributions from employer	(47)	(26)	(238)
Others	(13)	(111)	(1,018)
Balance at end of year	¥ 3,340	¥ 3,401	$ 31,210

(4)Reconciliation between the net liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Funded defined benefit obligation	¥ 38,268	¥ 38,874	$ 356,642
Plan assets	(35,828)	(38,107)	(349,605)
	2,439	766	7,027
Unfunded defined benefit obligation	3,880	3,990	36,605
Net liability arising from defined benefit obligation	¥ 6,319	¥ 4,757	$ 43,642

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Net defined benefit liability	¥ 12,430	¥ 10,992	$ 100,844
Net defined benefit asset	(6,110)	(6,235)	(57,201)
Net liability arising from defined benefit obligation	¥ 6,319	¥ 4,757	$ 43,642

Note: Including defined benefit obligation under the simplified method.

(5)The components of net periodic benefit costs for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Service cost	¥ 1,968	¥ 1,950	$ 17,889
Interest cost	232	229	2,100
Expected return on plan assets	(369)	(440)	(3,669)
Recognized actuarial losses	300	(534)	(4,899)
Past service cost		166	1,522
Amortization of transitional obligation	369	397	3,642
Balance at end of year	¥ 2,502	¥ 1,808	$ 16,587
Loss on revision of retirement benefit plan (Note)	¥ (3,308)	¥	$

Note: Loss on revision of retirement benefit plan was recognized in other income (expenses) for the year ended March 31, 2019.

(6)Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Prior service cost	¥ (831)	¥ 166	$ 1,522
Actuarial losses	2,696	52	477
Total	¥ 1,865	¥ 218	$ 2,000

(7)Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Unrecognized prior service cost	¥ (831)	¥ (665)	$ (6,100)
Unrecognized actuarial losses	3,290	3,343	30,669
Total	¥ 2,459	¥ 2,677	$ 24,559

(8)Plan assets

a. Components of plan assets

Plan assets as of March 31, 2020 and 2019, consisted of the following:

	2019	2020
Debt investments	25%	22%
Equity investments	53	52
General accounts of insurance companies	8	8
Others	14	18
Total	100%	100%

Note:Total plan assets consisting of a Retirement Benefit Trust for the years ended March 31, 2020 and 2019, were 15% and 15%, respectively.

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

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

(9)Assumptions used for the years ended March 31, 2020 and 2019, were set forth as follows:

	2019	2020
Discount rate	0.6%	0.6%
Expected rate of return on plan assets	1.2%	1.1%
Lump-sum election rate	81.5%	81.5%

(10)The amount of contributions to defined contribution plans for subsidiaries for the years ended March 31, 2020 and 2019 was ¥721 million ($6,614 thousand) and ¥448 million, respectively.

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Net defined benefit liability" in the consolidated balance sheets. The amount was ¥62 million ($568 thousand) and ¥55 million at March 31, 2020 and 2019, respectively.

8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Balance at beginning of year	¥ 1,252	¥ 1,333	$ 12,229
Reconciliation associated with passage of time	13	12	110
Reduction associated with settlement of asset retirement obligations	(17)	(81)	(743)
Other	85	(28)	(256)
Balance at end of year	¥ 1,333	¥ 1,235	$ 11,330

9. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. Additionally for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. However, the Company does not meet all the above criteria.

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

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

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

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

10. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2020 and 2019. Foreign subsidiaries are subject to income tax of the countries in which they operate. Income taxes for prior periods are due to payments based on Advance Pricing Agreements of transfer pricing taxation for prior years.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019, was as follows:

	2019	2020
Normal effective statutory tax rate	31%	31%
Increase or decrease of valuation allowance	0	3
Different tax rate in foreign countries	(4)	(4)
Equity in earnings of associated companies	(1)	(3)
Amortization of goodwill	0	1
Tax credit primarily for research and development costs	(2)	(1)
Effect of transfer pricing taxation	(3)	
Credit for foreign tax		3
Other – net	1	1
Actual effective tax rate	22%	31%

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2020 and 2019, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Deferred tax assets:			
Accrued enterprise taxes	¥ 326	¥ 45	$ 412
Accrued bonuses	1,725	1,531	14,045
Net defined benefit liability	4,752	1,527	14,009
Provision for environmental measures	1,587	695	6,376
Amount transferred to defined contribution pension plan	1,011	750	6,880
Investment securities	83	41	376
Tax loss carryforwards	2,607	2,380	21,834
Intercompany profits	2,290	1,982	18,183
Other	7,274	8,706	79,871
Less valuation allowance	(2,818)	(3,267)	(29,972)
Deferred tax assets	¥ 18,842	¥ 14,394	$ 132,055
Deferred tax liabilities:			
Unrealized gain on available-for-sale securities	¥ 11,612	¥ 10,517	$ 96,486
Tax purpose reserves regulated by Japanese tax law	698	658	6,036
Undistributed earnings of foreign subsidiaries	6,892	6,904	63,339
Securities contributed to employees' retirement benefit trust	2,711		
Intangible fixed assets	658	429	3,935
Other	1,242	300	2,752
Deferred tax liabilities	¥ 23,814	¥ 18,811	$ 172,577
Net deferred tax liabilities	¥ (4,972)	¥ (4,417)	$ (40,522)

At March 31, 2020, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,380 million ($21,834 thousand), which are available to be offset against taxable income of such subsidiaries in future years.

11. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥21,295 million ($195,366 thousand) and ¥20,749 million for the years ended March 31, 2020 and 2019, respectively.

12. MAJOR ITEMS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

"SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" includes the following major items and amounts:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Freight and packing costs	¥ 17,249	¥ 16,601	$ 152,302
Salaries and allowances	19,102	18,322	168,091
Retirement benefit expense	1,061	428	3,926
Research and development costs	19,690	20,328	186,495

13. NET INCOME PER SHARE

The computation of net income per common share is based on the weighted-average number of shares outstanding. The weighted-average number of common shares in the computation was 321,385,570 and 334,988,060 for the years ended March 31, 2020 and 2019, respectively.

14. LEASES

The Companies lease certain machinery, computer equipment, office space and other assets.
Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases		
	Millions of Yen		Thousands of U.S. Dollars
	2019	2020	2020
Due within one year	¥ 1,246	¥ 608	$ 5,577
Due after one year	1,769	1,763	16,174
Total	¥ 3,016	¥ 2,371	$ 21,752

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1)Group Policy for Financial Instruments

The Companies use financial instruments, mainly long-term debt including bank loans and bonds, based on their capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term bank loans are used to fund ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Marketable and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Company, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

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

Derivatives consist primarily of forward foreign currency contracts and interest rate swaps which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans and convertible bonds. Please see Note 16 for more details on derivatives.

(3)Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company manages its credit risk from receivables based on internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to held-to-maturity financial investments, the Company manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines. Please see Note 16 for details regarding derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2020.

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

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, when foreign currency trade receivables and payables are expected from a forecasted transaction, a forward foreign currency contract may be used under the limited contract term of half year.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables and bond payables.

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

Basic principles of derivative transactions have been approved by management on a semiannual basis based on the internal guidelines which prescribe the authority and the limit for each transaction by the corporate treasury department. Transaction and balances with customers are reconciled, and the transaction data is reported to the chief financial officer and the management on a monthly basis.

Liquidity risk management

Liquidity risk includes the risk that the Company cannot meet its contractual obligations in full on maturity dates.

The Company manages its liquidity risk by holding an adequate volume of liquid assets, along with adequate financial planning by the corporate treasury department.

(4)Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Also, please see Note 16 for more detail about fair values of derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2020	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 80,674	¥ 80,674	¥
Marketable securities	629	629	
Receivables	82,998	82,998	
Investment securities	57,105	57,105	
Total	¥ 221,407	¥ 221,407	¥
Short-term bank loans	¥ 6,902	¥ 6,902	
Payables	69,334	69,334	
Income taxes payable	2,240	2,240	
Long-term debt	82,537	83,120	¥ (582)
Total	¥ 161,014	¥ 161,596	¥ (582)

	Millions of Yen		
March 31, 2019	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 120,016	¥ 120,016	¥
Marketable securities	30	30	
Receivables	94,239	94,239	
Investment securities	62,539	62,539	
Total	¥ 276,825	¥ 276,825	¥
Short-term bank loans	¥ 9,965	¥ 9,965	
Payables	76,160	76,160	
Income taxes payable	4,008	4,008	
Long-term debt	94,329	95,058	¥ (729)
Total	¥ 184,464	¥ 185,193	¥ (729)

	Thousands of U.S. Dollars		
March 31, 2020	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	$ 740,128	$ 740,128	$
Marketable securities	5,770	5,770	
Receivables	761,449	761,449	
Investment securities	523,899	523,899	
Total	$ 2,031,256	$ 2,031,256	$
Short-term bank loans	$ 63,321	$ 63,321	
Payables	636,091	636,091	
Income taxes payable	20,550	20,550	
Long-term debt	757,220	762,568	$ (5,339)
Total	$ 1,477,192	$ 1,482,532	$ (5,339)

Cash and Cash Equivalents

The carrying values of cash and cash equivalents approximate fair value because of their short maturities.

Marketable and Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. Fair value information for marketable and investment securities by classification is included in Note 3.

Receivables, Payables and Income Taxes Payable

The carrying values of receivables, payables and income taxes payable approximate fair value because of their short maturities.

Short-Term Bank Loans

The carrying values of short-term bank loans approximate fair value because of their short maturities.

Long-Term Debt

The fair values of long-term debt are determined by discounting the cash flows related to the debt at the Companies' assumed corporate borrowing rate.

Derivatives

Fair value information for derivatives is included in Note 16.

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

	Carrying Amount	
March 31, 2020	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 4,707	$ 43,183

	Carrying Amount
March 31, 2019	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥ 5,478

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

	Millions of Yen			
March 31, 2020	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 80,674			
Receivables	82,998			
Marketable securities and investment securities:				
Government bonds	27	¥ 8	¥	¥
Corporate bonds	600	3,100		
Total	¥ 164,300	¥ 3,108	¥	¥

	Millions of Yen			
March 31, 2019	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	¥ 120,016			
Receivables	94,239			
Marketable securities and investment securities:				
Government bonds	30	¥ 36	¥	¥
Corporate bonds	500	3,500		
Total	¥ 214,786	¥ 3,536	¥	¥

	Thousands of U.S. Dollars			
March 31, 2020	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	$ 740,128			
Receivables	761,449			
Marketable securities and investment securities:				
Government bonds	247	$ 73	$	$
Corporate bonds	5,504	28,440		
Total	$ 1,507,339	$ 28,513	$	$

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

16. DERIVATIVES

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage their interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Companies' businesses. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
March 31, 2020	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	**¥ 9,193**		**¥ (16)**	**¥ (16)**
Selling Euro	**2,274**		**31**	**31**
Buying U.S.$	**2,298**		**65**	**65**
Buying Ringgit	**455**		**(6)**	**(6)**
Buying Japanese yen	**554**		**(3)**	**(3)**

	Millions of Yen			
March 31, 2019	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	¥ 15,118		¥ (124)	¥ (124)
Selling Euro	1,162		18	18
Buying U.S.$	2,254		17	17
Buying Ringgit	136		0	0
Buying Japanese yen	652		(2)	(2)

	Thousands of U.S. Dollars			
March 31, 2020	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	**$ 84,339**		**$ (146)**	**$ (146)**
Selling Euro	**20,862**		**284**	**284**
Buying U.S.$	**21,082**		**596**	**596**
Buying Ringgit	**4,174**		**(55)**	**(55)**
Buying Japanese yen	**5,082**		**(27)**	**(27)**

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen		
March 31, 2020	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	**¥ 6,142**	**¥ 3,383**	**¥ (122)**

		Millions of Yen		
March 31, 2019	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	¥ 7,867	¥ 6,220	¥ 37

		Thousands of U.S. Dollars		
March 31, 2020	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term bank loan	**$ 56,348**	**$ 31,036**	**$ (1,119)**

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

The contract or notional amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Companies' exposure to credit or market risk.

17. RELATED PARTY DISCLOSURES

One of the Companies representative director and president who has served since June 2017 has close relatives who substantially preserve the majority of voting rights of SEIWA INDUSTRY CO., LTD.

The balance due to SEIWA INDUSTRY CO., LTD. at March 31, 2020 and 2019 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	**2020**	**2020**
Trade accounts payables	¥ 12	**¥ 14**	**$ 128**
Purchase	35	**91**	**834**

The transaction amount is determined on an arm's length basis.

18. MUNICIPAL GOVERNMENT SUBSIDIES

The Companies received various incentives from municipal governments in the form of subsidies for purchases of property, plant and equipment. Such subsidies were accounted for as income as received. Certain portion of the amount is charged to income and credited against the cost of property, plant and equipment when the property, plant and equipment subject to the subsidies are acquired.

19. INSURANCE INCOME

Insurance income for the year ended March 31, 2019 was due to the fire accident occurred at the Ohtake Plant on July 18, 2017 and natural disasters.

20. IMPAIRMENT LOSS ON FIXED ASSETS

The Companies has recognized impairments stated below for the year ended March 31, 2020.

The assets stated below at Harima Plant or in the United States of America were written down to the book value because it was considered difficult to recover the investment amounts due to the decline in the profitability of the automotive safety parts business. The business has decided to reorganize production area of some of the product made in Japan and the United States of America to Thailand and China where more competitive. This reorganization will lead to recover of profitability as a global. However, this reorganization will decline the profitability in Japan and the United States of America as result of cutback in production. Consequently, it was considered difficult to recover the investment amounts.

The assets stated below at Harima Plant or Aboshi Plant were written down to the book value because it was considered difficult to recover the investment amounts due to the decline in the profitability of the defense-related products business as result of changes in organizational structure.

Recoverable values were measured at the net selling price which was mainly based on the appraisal value of real estate.

Location	Use	Classification	Millions of Yen	Thousands of U.S. Dollars
Japan (Tatsuno-shi, Hyogo)	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	¥ 1,451	$ 13,311
		Machinery, equipment and vehicles	1,695	15,550
		Tools, furniture and fixtures	400	3,669
		Construction in progress	1,119	10,266
		Intangible assets and others	578	5,302
	Manufacturing facilities for defense-related products	Buildings and structures	307	2,816
		Machinery, equipment and vehicles	87	798
		Tools, furniture and fixtures	15	137
		Construction in progress	38	348
		Intangible assets and others	66	605
	Shared assets	Land	409	3,752
		Buildings and structures	437	4,009
		Machinery, equipment and vehicles	164	1,504
		Tools, furniture and fixtures	37	339
		Construction in progress	148	1,357
		Intangible assets and others	21	192
Japan (Himeji-shi, Hyogo)	Manufacturing facilities for defense-related products	Buildings and structures	58	532
		Machinery, equipment and vehicles	32	293
		Tools, furniture and fixtures	2	18
United States of America	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	1,830	16,788
		Machinery, equipment and vehicles	2,557	23,458
		Tools, furniture and fixtures	178	1,633
		Construction in progress	3,118	28,605
Total			¥ 14,757	$ 135,385

Daicel Safety Systems Korea, Inc. has recognized impairment to their automobile airbag inflators manufacturing machine and other related assets for the year ended March 31, 2019 (buildings and structures ¥488 million, machinery and equipment ¥1,227 million, construction in progress ¥65 million and other assets (investments and other assets) ¥2 million) because it was considered difficult to recover the investment amount. Recoverable values were measured at the net selling price which was based on the appraisal value of real estate.

21. LOSS ON DISASTER

Loss on disaster for the year ended March 31, 2019 relates to natural disasters.

22. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2020, for guaranteed loans amounted to ¥178 million ($1,633 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

23. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2020 and 2019, were as follows:

		Millions of Yen	Thousands of U.S. Dollars
	2018	2019	2019
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ (468)	¥ (887)	$ (8,137)
Reclassification adjustments to profit or loss	(5,906)	(2,660)	(24,403)
Amount before income tax effect	(6,374)	(3,548)	(32,550)
Income tax effect	1,935	1,019	9,348
Total	¥ (4,439)	¥ (2,528)	$ (23,192)
Deferred gain (loss) on derivatives under hedge accounting:			
Adjustments arising during the year	¥ (58)	¥ (151)	$ (1,385)
Reclassification adjustments to profit or loss	(9)	(8)	(73)
Amount before income tax effect	(68)	(159)	(1,458)
Income tax effect	1	4	36
Total	¥ (67)	¥ (155)	$ (1,422)
Foreign currency translation adjustments -			
Adjustments arising during the year	¥ 431	¥ (6,089)	$ (55,862)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 1,586	¥ 586	$ 5,376
Reclassification adjustments to profit or loss	279	(368)	(3,376)
Amount before income tax effect	1,865	218	2,000
Income tax effect	(574)	(101)	(926)
Total	¥ 1,291	¥ 116	$ 1,064
Share of other comprehensive income in associates - Gains arising during the year	¥ (178)	¥ (484)	$ (4,440)
Total other comprehensive income	¥ (2,961)	¥ (9,141)	$ (83,862)

24. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Operating segments are components of the entity for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker in determining how to allocate the entity's resources and evaluate its performance.

Segment Information

1.Description of Reportable Segments

The Companies engage in various fields of business and industries by providing products and services, which are categorized into the following segments: Cellulosic Derivatives, Organic Chemicals, Plastics, Pyrotechnic Devices and Others. The Cellulosic Derivatives segment manufactures and sells cellulose acetate and acetate tow for cigarette filters from cellulose as a key raw material. The Organic Chemicals segment manufactures and sells various organic chemical products and the relevant products, such as chiral columns used for separation of optical isomers. The Plastics segment manufactures and sells various resin materials, such as engineering plastics and other plastic products. The Pyrotechnic Devices segment manufactures and sells motor vehicle safety devices and products for aerospace and defense, based on pyrotechnology. The Others segment includes membrane, warehousing, and other businesses.

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

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

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

	Millions of Yen								
	Reportable Segment								
Year Ended March 31, 2020	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥ 75,744	¥ 80,142	¥ 165,779	¥ 81,276	¥ 402,942	¥ 9,884	¥ 412,826		¥ 412,826
Intersegment sales or transfers	2,582	15,019	5		17,608	10,874	28,482	¥ (28,482)	
Total sales	¥ 78,327	¥ 95,162	¥ 165,785	¥ 81,276	¥ 420,550	¥ 20,758	¥ 441,309	¥ (28,482)	¥ 412,826
Segment profit	¥ 11,471	¥ 10,100	¥ 20,109	¥ 3,471	¥ 45,153	¥ 370	¥ 45,523	¥ (15,878)	¥ 29,644
Segment assets	95,265	105,596	162,429	94,042	457,333	13,824	471,157	126,835	597,992
Depreciation	7,467	6,095	6,045	7,328	26,937	492	27,429	1,572	29,002
Investments in associated companies	7,111	165	2,577		9,854		9,854		9,854
Amortization of goodwill		47		484	532	191	723		723
Increase in property, plant and equipment	5,872	21,964	8,579	8,499	44,915	823	45,739	1,829	47,568

	Millions of Yen								
	Reportable Segment								
Year Ended March 31, 2019	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥ 83,241	¥ 89,515	¥ 175,855	¥ 107,882	¥ 456,494	¥ 8,364	¥ 464,859		¥ 464,859
Intersegment sales or transfers	2,726	19,873	15		22,616	11,031	33,647	¥ (33,647)	
Total sales	¥ 85,968	¥ 109,389	¥ 175,870	¥ 107,882	¥ 479,111	¥ 19,395	¥ 498,507	¥ (33,647)	¥ 464,859
Segment profit	¥ 16,006	¥ 14,391	¥ 20,622	¥ 15,593	¥ 66,612	¥ 589	¥ 67,202	¥ (16,031)	¥ 51,171
Segment assets	104,879	92,468	169,193	117,251	483,794	11,552	495,346	159,444	654,791
Depreciation	8,338	6,003	4,991	8,793	28,128	426	28,554	1,489	30,044
Investments in associated companies	7,282	144	2,793		10,220		10,220		10,220
Amortization of goodwill		12		494	506	101	608		608
Increase in property, plant and equipment	2,890	22,069	6,106	10,790	41,857	634	42,491	2,202	44,694

	Thousands of U.S. Dollars								
	Reportable Segment								
Year Ended March 31, 2020	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	$ 694,899	$ 735,247	$1,520,908	$ 745,651	$3,696,715	$ 90,678	$3,787,394		$3,787,394
Intersegment sales or transfers	23,688	137,788	45		161,541	99,761	261,302	$ (261,302)	
Total sales	$ 718,596	$ 873,045	$1,520,963	$ 745,651	$3,858,256	$ 190,440	$4,048,706	$ (261,302)	$3,787,394
Segment profit	$ 105,238	$ 92,660	$ 184,486	$ 31,844	$ 414,247	$ 3,394	$ 417,642	$ (145,669)	$ 271,963
Segment assets	873,990	968,770	1,490,174	862,770	4,195,715	126,825	4,322,541	1,163,623	5,486,165
Depreciation	68,504	55,917	55,458	67,229	247,128	4,513	251,642	14,422	266,073
Investments in associated companies	65,238	1,513	23,642		90,403		90,403		90,403
Amortization of goodwill		431		4,440	4,880	1,752	6,633		6,633
Increase in property, plant and equipment	53,871	201,504	78,706	77,972	412,064	7,550	419,623	16,779	436,403

(Notes)

1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥15,878 million ($145,669 thousand) and ¥16,031 million for the years ended March 31, 2020 and 2019, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.
   (2) The unallocated corporate assets included in "Reconciliations" amounted to ¥129,826 million ($1,191,064 thousand) and ¥162,664 million for the years ended March 31, 2020 and 2019, respectively, which consisted mainly of cash and cash equivalents, investment securities, and corporate properties held or used by the administrative departments, basic research departments and others. The elimination of intersegment transactions such as receivables also included in "Reconciliations" amounted to ¥2,991 million ($27,440 thousand) and ¥3,219 million for the years ended March 31, 2020 and 2019, respectively.
   (3) The unallocated depreciation and increase in property, plant and equipment were related to the administrative departments, basic research departments and others.
2. The aggregated amounts of operating income were equal to those in the consolidated statements of income.

Related Information

1.Information about Products and Services

Millions of Yen

	2020					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	¥ 75,744	¥ 80,142	¥ 165,779	¥ 81,276	¥ 9,884	¥ 412,826

Millions of Yen

	2019					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	¥ 83,241	¥ 89,515	¥ 175,855	¥ 107,882	¥ 8,364	¥ 464,859

Thousands of U.S. Dollars

	2020					
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Total
Sales to external customers	$ 694,899	$ 735,247	$ 1,520,908	$ 745,651	$ 90,678	$ 3,787,394

2.Information about Geographical Areas

(1) Sales

Millions of Yen

2020				
	Asia			
Japan	China	Other	Other	Total
¥ 190,041	¥ 67,360	¥ 83,292	¥ 72,132	¥ 412,826

Millions of Yen

2019				
	Asia			
Japan	China	Other	Other	Total
¥ 223,532	¥ 73,467	¥ 89,249	¥ 78,609	¥ 464,859

Thousands of U.S. Dollars

2020				
	Asia			
Japan	China	Other	Other	Total
$ 1,743,495	$ 617,981	$ 764,146	$ 661,761	$ 3,787,394

Note: Sales are classified by country or region based on the location of customers.

(2) Property, Plant and Equipment

Millions of Yen

2020					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 140,074	¥ 21,755	¥ 16,788	¥ 12,968	¥ 12,759	¥ 204,346

Millions of Yen

2019					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 129,800	¥ 21,784	¥ 15,282	¥ 12,683	¥ 17,881	¥ 197,432

Thousands of U.S. Dollars

2020					
	Asia				
Japan	China	Malaysia	Other	Other	Total
$ 1,285,082	$ 199,587	$ 154,018	$ 118,972	$ 117,055	$ 1,874,733

3.Information on Impairment Loss on Fixed Assets for Each Reportable Segment

Millions of Yen

	2020						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment loss on fixed assets	¥	¥	¥	¥ 14,757	¥	¥	¥ 14,757

Millions of Yen

	2019						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment loss on fixed assets	¥	¥	¥	¥ 1,783	¥	¥	¥ 1,783

Thousands of U.S. Dollars

	2020						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Impairment loss on fixed assets	$	$	$	$ 135,385	$	$	$ 135,385

4.Information on Amortization and Balance of Goodwill for Each Reportable Segment

	Millions of Yen						
	2020						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥ 47	¥	¥ 484	¥ 191	¥	¥ 723
Goodwill at March 31, 2020		419		969	3,805		5,194

	Millions of Yen						
	2019						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥	¥ 12	¥	¥ 494	¥ 101	¥	¥ 608
Goodwill at March 31, 2019		476		1,484	1,871		3,832

	Thousands of U.S. Dollars						
	2020						
	Cellulosic Derivatives	Organic Chemicals	Plastics	Pyrotechnic Devices	Others	Elimination Corporate	Total
Amortization of goodwill	$	$ 431	$	$ 4,440	$ 1,752	$	$ 6,633
Goodwill at March 31, 2020		3,844		8,889	34,908		47,651

25. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2020, was approved at the shareholders' general meeting of the Company held on June 19, 2020:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥18 ($0.17) per share	¥ 5,594	$ 51,321

Changes in Reportable Segments

In accordance with the shift to the organization based on "Strategic Business Units (SBUs)" as of April 1, 2020, the business segmentation have been revised from the previous reportable segments composed of "Cellulosic derivatives," "Organic chemicals," "Plastics," and "Pyrotechnic devices," to new reportable segments composed of "Medical/Healthcare," "Smart," "Safety," "Materials," and "Engineering Plastics." Main products and the net sales and operating profit for the year ended March 31, 2020 by new segment are as follows:

Medical/Healthcare	Cosmetic raw materials, Chiral columns, Nutritional supplements
Smart	TAC for optical films for LCD, Organic functional products for electronic materials, High-performance films
Safety	Automobile airbag inflators (gas generation devices)
Materials	Cigarette filter tow, Acetic acid and derivatives, Peracetic acid derivatives
Engineering Plastics	Polyacetal (POM), Polybutylene terephthalate (PBT), Liquid crystal polymer (LCP), AS resins, ABS resins
Others	Water treatment systems, Defense-related products

Millions of Yen

	2020							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Corporate and Eliminations	Total
Sales to external customers	¥ 15,088	¥ 25,349	¥ 74,806	¥ 109,377	¥ 176,123	¥ 12,081		¥ 412,826
Segment profit	1,339	3,350	3,302	15,817	20,898	814	¥ (15,878)	29,644

Thousands of U.S. Dollars

	2020							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Corporate and Eliminations	Total
Sales to external customers	$ 138,422	$ 232,559	$ 686,293	$ 1,003,458	$ 1,615,807	$ 110,834		$ 3,787,394
Segment profit	12,284	30,733	30,293	145,110	191,724	7,467	$ (145,669)	271,963

Additional Acquisition of Consolidated Subsidiaries' Stocks

On July 3, 2020, the Company's Board of Directors approved a resolution to purchase an additional 45% of the common stock of Polyplastics Co., Ltd., a consolidated subsidiary of the Company, to make it a wholly owned subsidiary, and the Company signed the transaction agreement on July 20, 2020.

(1)Summary of the acquisition

a. Name and business of combined entities
   Corporate name: Polyplastics Co., Ltd.
   Scope of business: Manufacturing and selling of various types of engineering plastics and polymers
b. Date of business combination
   The date of completion of the acquisitions is undetermined as the acquisition is subject to approval from the authority related to competition laws which may be required in relevant countries.
c. Legal form of business combination
   Acquisition of shares from noncontrolling shareholders.
d. Name of the entity after the business combination
   There is no change.
e. Other information
   The voting rights of the additional shares acquired are 45% of the total voting rights and the transaction will make Polyplastics Co., Ltd. a wholly owned subsidiary of the Company. This additional acquisition is intended to improve the efficiency of consolidated management and strengthen group management system.

(2)Outline of accounting procedure to be applied

In accordance with ASBJ Statement No. 21, "Accounting Standard for Business Combinations" and ASBJ Guidance No. 10, "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures," it will be treated as a transaction with a noncontrolling shareholder among the transactions under common control.

(3)Acquisition of additional common stock

Consideration for the acquisition: Cash and cash equivalents $1,575 million
Acquisition cost: $1,575 million

(4)Changes in transactions with noncontrolling shareholders

a. Major factor of changes in capital surplus and retained earnings
   Acquisition of common stock.
b. Decrease in capital surplus and retained earnings due to transactions with controlled shareholders
   Yet to be determined.

Fundraising by Borrowings

On July 3, 2020, the Company's Board of Directors approved a resolution to draw upon the uncommitted and revolving credit line agreement as follows for acquisition of additional common stock of Polyplastics Co., Ltd. and executed the approved agreement on July 20, 2020.

(1)Borrowing institution
Sumitomo Mitsui Banking Corporation
(2)Contract date
July 20, 2020
(3)Borrowing limit
¥2,000,000 million ($18,348,623 thousand)
(4)Contract term
Base rate + spread
(5)End of contract
March 31, 2021
(6)Collateral asset or content of guarantee
Not applicable

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daicel Corporation:

Opinion

We have audited the consolidated financial statements of Daicel Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheets as of March 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Emphasis of Matter

1. As discussed in Note 25 to the consolidated financial statements, on July 3, 2020, Daicel Corporation's Board of Directors approved a resolution to purchase an additional 45% of the common stock of Polyplastics Co., Ltd., a consolidated subsidiary of Daicel Corporation, to make it a wholly owned subsidiary, and Daicel Corporation signed this transaction agreement on July 20, 2020. Our opinion is not modified in respect of this matter.

2. As discussed in Note 25 to the consolidated financial statements, on July 3, 2020, Daicel Corporation's Board of Directors approved a resolution to draw upon the uncommitted and revolving credit line agreement with Sumitomo Mitsui Banking Corporation as necessary for the purchase of additional stocks of Polyplastics Co., Ltd. and executed the approved agreement on July 20, 2020. Our opinion is not modified in respect of this matter.

Member of
Deloitte Touche Tohmatsu Limited

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

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

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

Audit & Supervisory Board members and the Audit & Supervisory Board are responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

August 5, 2020

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