

TEIJIN LIMITED

**Consolidated Financial Statements
for the year ended March 31, 2020 and 2019
together with Independent Auditor's Report**

TEIJIN LIMITED
CONSOLIDATED BALANCE SHEETS
As of March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020	2019	2020	2020
ASSETS						
Current assets:						
Cash and time deposits (Notes 3 and 4)	¥ 100,592	¥ 113,500	\$ 1,042,911			
Receivables:						
Notes and accounts receivable—trade (Note 4):						
Unconsolidated subsidiaries and affiliates	403	414	3,804			
Other	193,839	166,780	1,532,482			
Short-term loans receivable (Note 4):						
Unconsolidated subsidiaries and affiliates	13,898	12,120	111,366			
Other	310	8	74			
Other	13,373	12,389	113,838			
Securities (Notes 4 and 5)	33,000	36,000	330,791			
Inventories (Note 7)	145,880	143,099	1,314,886			
Other current assets	23,141	21,537	197,896			
Allowance for doubtful accounts	(582)	(523)	(4,806)			
Total current assets	<u>523,854</u>	<u>505,323</u>	<u>4,643,233</u>			
Property, plant and equipment (Note 11):						
Land	43,334	43,174	396,710			
Buildings and structures	187,805	184,425	1,694,615			
Machinery, equipment and vehicles	572,988	547,279	5,028,751			
Tools	103,086	105,171	966,379			
Construction in progress	30,827	42,226	388,000			
Other	2,471	14,530	133,511			
Subtotal	940,511	936,805	8,607,967			
Accumulated depreciation	(672,624)	(640,724)	(5,887,384)			
Total property, plant and equipment	<u>267,887</u>	<u>296,081</u>	<u>2,720,583</u>			
Intangible assets:						
Goodwill	32,845	23,813	218,809			
Other	36,665	36,574	336,065			
Total intangible assets	<u>69,510</u>	<u>60,387</u>	<u>554,875</u>			
Investments and other assets:						
Investment securities (Notes 4 and 5):						
Unconsolidated subsidiaries and affiliates	26,771	24,321	223,477			
Other	69,408	52,312	480,676			
Long-term loans receivable (Note 4):						
Unconsolidated subsidiaries and affiliates	413	1,428	13,121			
Other	859	634	5,826			
Net defined benefit assets (Note 9)	31,382	31,388	288,413			
Deferred tax assets (Note 13)	7,521	9,578	88,009			
Other	24,719	24,373	223,955			
Allowance for doubtful accounts	(1,670)	(1,604)	(14,739)			
Total investments and other assets	<u>159,403</u>	<u>142,432</u>	<u>1,308,757</u>			
Total assets	<u>¥ 1,020,654</u>	<u>¥ 1,004,223</u>	<u>\$ 9,227,446</u>			
LIABILITIES AND NET ASSETS						
Current liabilities:						
Short-term loans payable (Notes 4 and 8)	¥ 104,265	¥ 98,372	\$ 903,905			
Current portion of long-term debt (Notes 4 and 8)	22,662	34,268	314,876			
Payables (Note 4):						
Notes and accounts payable—trade:						
Unconsolidated subsidiaries and affiliates	877	838	7,700			
Other	92,622	79,230	728,016			
Other	35,817	29,828	274,079			
Income taxes payable	6,879	5,464	50,207			
Provision for business structure improvement	81	1,089	10,006			
Accrued expenses	23,542	21,912	201,342			
Other current liabilities	13,460	16,639	152,890			
Total current liabilities	<u>300,205</u>	<u>287,640</u>	<u>2,643,021</u>			
Long-term liabilities:						
Long-term debt (Notes 4 and 8)	240,622	237,037	2,178,048			
Net defined benefit liabilities (Note 9)	37,553	39,464	362,621			
Asset retirement obligations (Note 18)	2,645	2,228	20,472			
Deferred tax liabilities (Note 13)	3,539	2,929	26,914			
Provision for business structure improvement	—	2,325	21,364			
Other long-term liabilities	8,878	21,191	194,717			
Total long-term liabilities	<u>293,237</u>	<u>305,174</u>	<u>2,804,135</u>			
Contingent liabilities (Note 17)						
Net assets (Note 10)						
Shareholders' equity:						
Common stock						
Authorized— 600,000,000 shares in 2019						
600,000,000 shares in 2020						
Issued— 197,953,707 shares in 2019						
197,953,707 shares in 2020	71,833	71,833	660,048			
Capital surplus	104,256	103,692	952,789			
Retained earnings	235,324	247,055	2,270,100			
Treasury stock, at cost: 6,141,576 shares in 2019						
6,013,284 shares in 2020	(13,413)	(13,131)	(120,656)			
Total shareholders' equity	<u>398,000</u>	<u>409,449</u>	<u>3,762,281</u>			
Accumulated other comprehensive income						
Valuation difference on available-for-sale securities	26,720	12,403	113,967			
Deferred gains or losses on hedges	(52)	(1,020)	(9,372)			
Foreign currency translation adjustments	(11,402)	(23,217)	(213,333)			
Remeasurements of defined benefit plans	(2,538)	(3,452)	(31,719)			
Total accumulated other comprehensive income	<u>12,728</u>	<u>(15,286)</u>	<u>(140,458)</u>			
Subscription rights to shares	889	772	7,094			
Non-controlling interests	15,595	16,475	151,383			
Total net assets	<u>427,212</u>	<u>411,409</u>	<u>3,780,290</u>			
Total liabilities and net assets	<u>¥ 1,020,654</u>	<u>¥ 1,004,223</u>	<u>\$ 9,227,446</u>			

See accompanying Notes to Consolidated Financial Statements.

TEIJIN LIMITED
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Net income	¥ 46,797	¥ 26,980	\$ 247,910
Other comprehensive income (Note 12):			
Valuation difference on available-for-sale securities	(1,412)	(14,656)	(134,669)
Deferred gains or losses on hedges	(956)	(967)	(8,885)
Foreign currency translation adjustments	4,382	(11,764)	(108,095)
Remeasurements of defined benefit plans, net of tax	(2,275)	(1,019)	(9,363)
Share of other comprehensive income of associates accounted for using the equity method	(913)	(11)	(101)
Total	(1,174)	(28,416)	(261,104)
Comprehensive income	¥ 45,623	¥ (1,436)	\$ (13,195)
Breakdown of comprehensive income:			
Comprehensive income attributable to owners of the parent	¥ 43,624	¥ (2,762)	\$ (25,379)
Comprehensive income attributable to non-controlling interests	¥ 1,999	¥ 1,325	\$ 12,175

See accompanying Notes to Consolidated Financial Statements.

TEIJIN LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
For the years ended March 31, 2019 and 2020

	Number of shares of common stock	Millions of yen				Total shareholders' equity
		Shareholders' equity				
		Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	
Balance at March 31, 2018	197,953,707	¥ 71,833	¥ 104,685	¥ 202,414	¥ (167)	¥ 378,765
Changes of items during the period:						
Dividends from surplus				(11,688)		(11,688)
Net income				45,057		45,057
Purchase of treasury stock					(20,039)	(20,039)
Disposal of treasury stock			(624)		6,793	6,169
Transfer of loss on disposal of treasury stock			459	(459)		—
Change in ownership interest of parent due to transactions with non-controlling interests			(264)			(264)
Net changes of items other than shareholders' equity						
Total		—	(429)	32,910	(13,246)	19,235
Balance at March 31, 2019	197,953,707	¥ 71,833	¥ 104,256	¥ 235,324	¥ (13,412)	¥ 398,000
Changes of items during the period:						
Dividends from surplus				(13,427)		(13,427)
Net income				25,252		25,252
Purchase of treasury stock					(12)	(12)
Disposal of treasury stock			(94)		293	199
Transfer of loss on disposal of treasury stock			94	(94)		—
Change in ownership interest of parent due to transactions with non-controlling interests			(564)			(564)
Net changes of items other than shareholders' equity						
Total		—	(564)	11,731	282	11,449
Balance at March 31, 2020	197,953,707	¥ 71,833	¥ 103,692	¥ 247,055	¥ (13,131)	¥ 409,449

	Thousands of U.S. dollars (Note 1)					
	Shareholders' equity					
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	
Balance at March 31, 2019	\$ 660,048	\$ 957,971	\$ 2,162,308	\$ (123,238)	\$ 3,657,089	
Changes of items during the period:						
Dividends from surplus			(123,376)		(123,376)	
Net income			232,032		232,032	
Purchase of treasury stock				(110)	(110)	
Disposal of treasury stock		(864)		2,692	1,829	
Transfer of loss on disposal of treasury stock		864	(864)		—	
Change in ownership interest of parent due to transactions with non-controlling interests		(5,182)			(5,182)	
Net changes of items other than shareholders' equity						
Total		—	(5,182)	107,792	2,591	105,201
Balance at March 31, 2020	\$ 660,048	\$ 952,789	\$ 2,270,100	\$ (120,656)	\$ 3,762,281	

See accompanying Notes to Consolidated Financial Statements.

TEIJIN LIMITED
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS (CONTINUED)
For the years ended March 31, 2019 and 2020

	Millions of yen							Total net assets
	Accumulated other comprehensive income				Total Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
Balance at March 31, 2018	¥ 28,377	¥ 903	¥ (14,815)	¥ (305)	¥ 14,160	¥ 860	¥ 14,453	¥ 408,238
Changes of items during the period:								
Dividends from surplus								(11,688)
Net income								45,057
Purchase of treasury stock								(20,039)
Disposal of treasury stock								6,169
Transfer of loss on disposal of treasury stock								—
Change in ownership interest of parent due to transactions with non-controlling interests								(264)
Net changes of items other than shareholders' equity	(1,657)	(955)	3,413	(2,233)	(1,432)	29	1,142	(261)
Total	<u>(1,657)</u>	<u>(955)</u>	<u>3,413</u>	<u>(2,233)</u>	<u>(1,432)</u>	<u>29</u>	<u>1,142</u>	<u>18,974</u>
Balance at March 31, 2019	¥ 26,720	¥ (52)	¥ (11,402)	¥ (2,538)	¥ 12,728	¥ 889	¥ 15,595	¥ 427,212
Changes of items during the period:								
Dividends from surplus								(13,427)
Net income								25,252
Purchase of treasury stock								(12)
Disposal of treasury stock								199
Transfer of loss on disposal of treasury stock								—
Change in ownership interest of parent due to transactions with non-controlling interests								(564)
Net changes of items other than shareholders' equity	(14,317)	(968)	(11,815)	(914)	(28,014)	(117)	880	(27,251)
Total	<u>(14,317)</u>	<u>(968)</u>	<u>(11,815)</u>	<u>(914)</u>	<u>(28,014)</u>	<u>(117)</u>	<u>880</u>	<u>(15,803)</u>
Balance at March 31, 2020	¥ 12,403	¥ (1,020)	¥ (23,217)	¥ (3,452)	¥ (15,286)	¥ 772	¥ 16,475	¥ 411,409

	Thousands of U.S. dollars (Note 1)							Total net assets
	Accumulated other comprehensive income				Total Accumulated other comprehensive income	Subscription rights to shares	Non-controlling interests	
	Valuation difference on available-for-sale securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
Balance at March 31, 2019	\$ 245,521	\$ (478)	\$ (104,769)	\$ (23,321)	\$ 116,953	\$ 8,169	\$ 143,297	\$ 3,925,508
Changes of items during the period:								
Dividends from surplus								(123,376)
Net income								232,032
Purchase of treasury stock								(110)
Disposal of treasury stock								1,829
Transfer of loss on disposal of treasury stock								—
Change in ownership interest of parent due to transactions with non-controlling interests								(5,182)
Net changes of items other than shareholders' equity	(131,554)	(8,895)	(108,564)	(8,398)	(257,411)	(1,075)	8,086	(250,400)
Total	<u>(131,554)</u>	<u>(8,895)</u>	<u>(108,564)</u>	<u>(8,398)</u>	<u>(257,411)</u>	<u>(1,075)</u>	<u>8,086</u>	<u>(145,207)</u>
Balance at March 31, 2020	\$ 113,967	\$ (9,372)	\$ (213,333)	\$ (31,719)	\$ (140,458)	\$ 7,094	\$ 151,383	\$ 3,780,290

See accompanying Notes to Consolidated Financial Statements.

TEIJIN LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the years ended March 31, 2019 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2020	2020
Cash flows from operating activities:			
Income before income taxes	¥ 60,360	¥ 41,557	\$ 381,852
Depreciation and amortization	47,551	50,950	468,161
Impairment loss	5,990	11,030	101,351
Increase (decrease) in net defined benefit liability	1,911	1,617	14,858
Decrease (increase) in net defined benefit asset	4,985	(665)	(6,110)
Increase in investment securities due to retirement benefit trust return	(6,099)	—	—
Increase (decrease) in allowance for doubtful accounts	(27)	(95)	(873)
Increase (decrease) in provision for business structure improvement	(1,202)	3,332	30,617
Interest and dividend income	(3,293)	(2,372)	(21,795)
Interest expenses	3,499	3,717	34,154
Equity in losses (earnings) of affiliates	(434)	(1,997)	(18,350)
Loss (gain) on sales and retirement of noncurrent assets	2,025	2,517	23,128
Loss (gain) on sales of investment securities	(4,845)	(5,986)	(55,003)
Loss (gain) on valuation of derivatives	(2,424)	2,161	19,857
Loss (gain) on valuation of investment securities	246	114	1,048
Settlement received	(4,500)	—	—
Decrease (increase) in notes and accounts receivable—trade	(13,751)	19,875	182,624
Decrease (increase) in inventories	(8,187)	(4,460)	(40,981)
Increase (decrease) in notes and accounts payable—trade	(1,343)	(9,465)	(86,971)
Other, net	723	(5,488)	(50,427)
Subtotal	81,185	106,342	977,139
Interest and dividend income received	7,751	6,575	60,415
Interest expenses paid	(3,493)	(3,745)	(34,411)
Settlement package received	4,500	—	—
Income taxes paid	(9,044)	(14,958)	(137,444)
Net cash and cash equivalents provided by operating activities	80,899	94,214	865,699
Cash flows from investing activities:			
Purchase of property, plant and equipment	(55,599)	(66,301)	(609,216)
Proceeds from sales of property, plant and equipment	310	261	2,398
Purchase of intangible assets	(3,328)	(4,020)	(36,938)
Purchase of investment securities	(3,620)	(5,700)	(52,375)
Proceeds from sales of investment securities	40,357	9,250	84,995
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(16,411)	(12,681)	(116,521)
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation (Note 3)	1,056	13,158	120,904
Payments for acquisition of businesses	—	(906)	(8,325)
Decrease (increase) in short-term loans receivable	(489)	1,147	10,539
Payments of long-term loans receivable	(532)	(1,277)	(11,734)
Collection of long-term loans receivable	93	1,273	11,697
Other, net	(3,125)	(2,127)	(19,544)
Net cash and cash equivalents used in investing activities	(41,288)	(67,922)	(624,111)
Cash flows from financing activities:			
Net increase (decrease) in short-term loans payable	31,433	(2,769)	(25,443)
Proceeds from long-term loans payable	25,918	16,675	153,221
Repayment of long-term loans payable	(27,858)	(6,735)	(61,886)
Purchase of treasury shares	(20,039)	(12)	(110)
Cash dividends paid	(11,688)	(13,427)	(123,376)
Cash dividends paid to non-controlling shareholders	(436)	(652)	(5,991)
Proceeds from share issuance to non-controlling shareholders	—	297	2,729
Proceeds from issuance of bonds	—	15,000	137,830
Redemption of bonds	(11,910)	(15,000)	(137,830)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(478)	—	—
Other, net	(295)	(1,437)	(13,204)
Net cash and cash equivalents used in financing activities	(15,353)	(8,059)	(74,051)
Effect of exchange rate changes on cash and cash equivalents	(184)	(2,438)	(22,402)
Net increase (decrease) in cash and cash equivalents	24,074	15,794	145,125
Cash and cash equivalents at beginning of year	116,158	140,434	1,290,398
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	202	—	—
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	—	62	570
Cash and cash equivalents at end of year (Note 3)	¥ 140,434	¥ 156,290	\$ 1,436,093

See accompanying Notes to Consolidated Financial Statements.

TEIJIN LIMITED
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1. Basis of presenting consolidated financial statements

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

The Company adopted the “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force (“PITF”) No. 18, issued by the Accounting Standards Board of Japan (“ASBJ”). In principle, the Company has unified the accounting standards for overseas subsidiaries and makes necessary adjustments upon consolidation. There were no material effects as a result of the adoption of PITF No. 18 on the consolidated financial statements for the years ended March 31, 2019 and 2020.

The accompanying consolidated financial statements have been reformatted and translated into English with some expanded descriptions from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Law. Certain supplementary information included in the statutory Japanese-language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translation of the Japanese yen amounts into U.S. dollar amounts is included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2020, which was ¥108.83 to U.S. \$1.00. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been or could in the future be converted into U.S. dollars at this or any other rate of exchange.

Effective from the year ended March 31, 2020, the Company has made the change to omit amounts of less than one million yen on the accompanying consolidated financial statements, as permitted by the Financial Instruments and Exchange Act of Japan.

As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) as of and for the year ended March 31, 2020 do not necessarily agree with the sums of the individual amounts.

Note 2. Summary of significant accounting policies

Consolidation

The consolidated financial statements include the accounts of the Company and 100 significant subsidiaries for the year ended March 31, 2020 (97 in 2019). Investments made in 74 (75 in 2019) unconsolidated subsidiaries and affiliates are, with minor exceptions, stated at cost, adjusted for equity in undistributed earnings and losses since acquisition.

Companies which are 40% or more owned and substantially controlled by the Company are considered subsidiaries for inclusion in the consolidation. Equity method accounting is applied to unconsolidated subsidiaries and affiliates which are substantially controlled or of which operating and financial policies are significantly influenced by the Company.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling interests, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Goodwill is usually amortized using the straight-line method over the estimated useful life from 5 to 20 years.

Of the Company's consolidated subsidiaries, 12 subsidiaries in 2020 (14 in 2019) did not change their fiscal year-end of December 31. These 12 subsidiaries prepared, for consolidation purposes, provisional financial statements for the period that correspond to the fiscal year of the Company.

Statements of cash flows

In preparing the consolidated statements of cash flows, cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Allowance for doubtful accounts

The allowance for doubtful accounts is provided in amounts sufficient to cover possible losses on collection. It is determined by adding the individually estimated uncollectible amounts of certain accounts to an amount calculated using the provision rate based on past experience.

Securities

Under the Japanese accounting standard for financial instruments, all companies are required to classify securities as (a) securities held for trading purposes ("trading securities"), (b) debt securities intended to be held to maturity ("held-to-maturity debt securities"), (c) equity securities issued by unconsolidated subsidiaries and affiliates, and (d) all other securities that are not classified in any of the above categories

("available-for-sale securities").

The Company and its consolidated subsidiaries (the "Companies") do not hold trading securities.

Equity securities issued by unconsolidated subsidiaries and affiliates, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on sales of such securities are computed using moving-average cost.

Debt securities with no available fair market value are stated at amortized cost, net of the amount considered not collectible. Other securities with no available fair market value are stated at moving-average cost.

If the market value of equity securities issued by unconsolidated subsidiaries and affiliates and available-for-sale securities declines significantly, such securities are stated at fair market value and the difference between fair market value and the book value is recognized as a loss in the period of the decline. If the fair market value of equity securities issued by unconsolidated subsidiaries and affiliates not accounted for using the equity method is not readily available, the securities will be written down to net asset value with a corresponding charge in the consolidated statements of income in the event net asset value declines significantly. In these cases, the fair market value or the net asset value will be used as the book value of the securities at the beginning of the following year.

Inventories

Inventories are stated at the lower of average cost or net realizable value.

Property, plant and equipment

Property, plant and equipment are amortized using the straight-line method over the estimated useful life of the asset.

Intangible assets

Goodwill, customer-related assets, technology-related assets and other intangible assets are amortized using the straight-line method over the estimated useful life of the asset.

Software for internal use is amortized using the straight-line method over the estimated useful life, i.e. , 5 to 10 years.

Research and development expenses

The Company charges research and development expenses to income as incurred.

Retirement benefits

Employees

The Company has an unfunded lump-sum benefit plan and a funded contributory pension plan, generally covering all employees. Certain consolidated subsidiaries have unfunded lump-sum benefit plans and non-contributory pension plans. Most overseas subsidiaries do not have pension plans.

Under the terms of the lump-sum benefit plans, eligible employees are, upon mandatory retirement at age 60 or voluntary termination before such age, entitled under most circumstances to a lump-sum payment based on their compensation at the time of severance and years of service.

The liabilities and expenses for severance and retirement benefits are determined based on the amounts actuarially calculated using certain assumptions. The Companies provided for employees' severance and retirement benefits at March 31, 2019 and 2020 based on the estimated amounts of projected benefit obligation and the fair value of the plan assets at those dates.

The method of attributing expected benefits to periods is based on the benefit formula. Prior service costs and actuarial gains and losses are recognized in expenses using the straight-line method over mainly 12 years, which is within the average of the estimated remaining service years of the employees, commencing with the current and the following period, respectively.

Liabilities arising from the application of the equity method

Liabilities arising from the application of the equity method have been provided with respect to losses that may arise from the Company's portion of the capital deficits of unconsolidated subsidiaries and affiliates that are accounted for by the equity method, after giving consideration to the Company's investments in, and guarantees for, such companies.

Provision for business structure improvement

The provision is provided in amounts sufficient to cover possible losses for business structure improvement.

Derivatives and hedge accounting

The Companies state derivative financial instruments at fair value and recognize changes in the fair value as gain or loss unless the derivative financial instruments are used for hedging purposes.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Companies defer recognition of the gain or loss resulting from a change in fair value of the derivative financial instrument until the related gain or loss on the hedged item is recognized.

If a forward foreign exchange contract is executed to hedge a future transaction denominated in a foreign currency, the forecast transaction will be recorded using the contracted forward rate on recognition, and no gains or losses on the forward foreign exchange contract are recognized (the “principle-based method”).

If interest rate swap contracts of the Company are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed (the “special method”).

Income taxes

The provision for income taxes is based on income for financial statement purposes. Income taxes comprise corporation tax, enterprise tax and prefectural and municipal inhabitants’ taxes. The assets and liabilities approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the book values of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company and its wholly owned domestic consolidated subsidiaries have adopted consolidated tax return filing under Japanese tax regulations.

Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

Application of tax effect accounting for the transition from the consolidated tax payment system to the group taxation system

Having regard to paragraph 3 of “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No.39, March 31, 2020), the Company and its domestic consolidated subsidiaries did not follow paragraph 44 of “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28, February 16, 2018) but applied provisions of pre-amended tax laws when calculating the amounts of deferred tax assets and liabilities that relate to transitioning to the group taxation system and related amendments of tax laws for transitioning to the single tax payment system.

Translation of foreign currency

Cash, receivables and payables denominated in foreign currencies are translated into Japanese yen at year-end exchange rates. All revenues and expenses in foreign currencies are translated at the exchange rates prevailing when such transactions are made. The resulting exchange loss or gain is charged or credited to income.

The balance sheet accounts of the overseas consolidated subsidiaries and foreign investments accounted for by the equity method are translated at the rates of exchange in effect at the balance sheet date, except for capital accounts and assets and liabilities

due to/from the Company, which are translated at historical rates. Accounts in the consolidated statements of income are translated at the average rates of exchange for the year. Differences arising from translations are presented as “Foreign currency translation adjustments” in the accompanying consolidated financial statements. The Companies report foreign currency translation adjustments in net assets.

Profit attributable to owners of parent per share

Computations of profit attributable to owners of parent per share of common stock are based on the weighted-average number of shares outstanding during each period. Diluted profit attributable to owners of parent per share is calculated based on the assumption that all dilutive shares were converted or exercised at the beginning of the year or at the time of issue.

Cash dividends per share represent amounts applicable for the respective years on an accrual basis.

Profit attributable to owners of parent per share for the years ended March 31, 2019 and 2020 is calculated based on the following factors:

Year ended March 31, 2019

(1) Profit per share

(a) Profit attributable to owners of parent:	¥	45,057 million
(b) Amount not attributable to common shareholders:	¥	— million
(c) Profit attributable to owners of parent related to common stock:	¥	45,057 million
(d) Average number of shares outstanding during the period:		193,885 thousand shares

(2) Diluted profit per share

(e) Profit adjustment attributable to owners of parent:	¥	(22) million
(f) Increase in number of common shares:		16,214 thousand shares
(g) Summary of outstanding potential shares excluded from the computation of diluted profit per share, since such potential shares do not have a dilutive effect:		—

Year ended March 31, 2020

(1) Profit per share

(a) Profit attributable to owners of parent:	¥	25,252 million	(\$	232,035 thousand)
(b) Amount not attributable to common shareholders:	¥	— million	(\$	— thousand)
(c) Profit attributable to owners of parent related to common stock:	¥	25,252 million	(\$	232,035 thousand)
(d) Average number of shares outstanding during the period:				191,837 thousand shares

(2) Diluted profit per share

(e) Profit adjustment attributable to owners of parent:	¥	(11) million	(\$	(101) thousand)
(f) Increase in number of common shares:				11,017 thousand shares
(g) Summary of outstanding potential shares excluded from the computation of diluted profit per share, since such potential shares do not have a dilutive effect:				—

(Changes in accounting policies)

Subsidiaries using International Financial Reporting Standards started to apply IFRS No.16 “Leases” from the current fiscal year. In accordance with this standard, lessees are required to recognize almost all leases as right-of-use assets or liabilities in the balance sheet and depreciation of right-of-use assets and interest expense on lease obligations are recorded. In applying this standard, the method of recognizing the cumulative effect of the application of the standard, which is recognized as a transitional treatment, is adopted at the date of initial application. As a result, Property, Plant and Equipment increased by ¥9,458 million (\$86,903 thousand), Other current liabilities increased by ¥847 million(\$7,780 thousand), and Other long-term liabilities increased by ¥8,611 million(\$79,123 thousand) at the beginning of the current consolidated fiscal year. The impact on profit and loss for the current consolidated fiscal year is immaterial.

(Standards and guidance not yet adopted)

The following standard and guidance were issued but not yet adopted.
“Accounting Standard for Revenue Recognition” (ASBJ Statement No.29, March 30, 2018)
“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No.30, March 30, 2018)

1. Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following five steps:

- Step1: Identify contract(s) with customers.
- Step2: Identify the performance obligations in the contract.
- Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.
Step5: Recognize revenue when (or as) the entity satisfies a performance obligation.

2. Effective date

Effective from the beginning of the year ending March 31, 2022.

3. Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

The following standards and guidance were issued but not yet adopted.

“Accounting Standard for Fair Value Measurement” (ASBJ Statement No. 30 , July 4, 2019)

“Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, July 4, 2019)

“Accounting Standard for Financial Instruments” (ASBJ Statement No. 10, July 4, 2019)

“Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Guidance No.31, July 4, 2019)

1. Overview

The above standards and guidance provide detailed guidance mainly on the fair value of financial instruments in order to ensure consistency with international accounting standards.

2. Effective date

Effective from the beginning of the year ending March 31, 2022.

3. Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

The following standards and guidance were issued but not yet adopted.

“Accounting Standards for Disclosure of Accounting Estimates” (ASBJ Statement No. 31 , March 31, 2020)

1. Overview

The purpose of the above accounting standard is to disclose information that contributes to the understanding of users of financial statements regarding the content of accounting estimates for items that have a risk of having a significant impact on the financial statements of the following year.

2. Effective date

Effective from the ending of the year March 31, 2021.

The following standards and guidance were issued but not yet adopted.
 “Accounting Standards for Disclosure of Accounting Policies, Changes in Accounting and Correction of Errors” (ASBJ Statement No. 24 , March 31, 2020)

1. Overview

The revised standard requires disclosure of accounting principles and procedures for disclosure when the provisions of related accounting standards are not clear.

2. Effective date

Effective from the ending of the year March 31, 2021.

(Additional Information)

Although there is uncertainty about the end of the COVID-19 infection, due to the spread of the COVID-19 infection, global consumption declined, and production activities stagnated. It is expected that revenue will decrease due to a decrease in sales volume in the next consolidated fiscal year. At present, it is expected that economic activity will gradually recover from the second quarter of the next consolidated fiscal year, but this may have a significant impact on the performance of the next consolidated fiscal year.

Note 3. Statements of cash flows

- (1) The reconciliations of cash and time deposits on the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows, as of March 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Cash and time deposits in the consolidated balance sheets	¥ 100,592	¥ 113,500	\$ 1,042,911
Securities	33,000	36,000	330,791
Money held in trust (Other current assets)	7,000	7,000	64,320
Time deposits with maturities exceeding three months	(158)	(210)	(1,930)
Cash and cash equivalents in the consolidated statements of cash flows	¥ 140,434	¥ 156,290	\$ 1,436,093

(2) Important non-cash transactions

The amounts recognized for important asset retirement obligations as of March 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Important asset retirement obligations recognized	¥ 1,702	¥ 93	\$ 855

Non-cash transactions resulting from an exercise of bonds with subscription rights to shares of common stock for the years ended March 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Decrease in capital surplus due to an exercise of bonds with subscription rights to shares	¥ (562)	¥ —	\$ —
Decrease in treasury stock due to an exercise of bonds with subscription rights to shares	(6,624)	—	—
Decrease in bonds with subscription rights to shares	(6,062)	—	—

The beginning of the fiscal year, the Company's IFRS-applied subsidiaries have applied IFRS No.16 “Leases”. As a result, the amount of lease liability newly recorded on the consolidated balance sheets at the beginning of the fiscal year is ¥9,458 million (\$86,906 thousand).

(3) Assets and liabilities of newly consolidated subsidiaries through acquisition of shares

Assets and liabilities of acquired companies (Brick Holding GmbH and its seven consolidated subsidiaries), acquisition cost of shares and net cash outflow for such acquisition for the year ended March 31, 2019 are as follows:

	Millions of yen		Thousands of
			U.S. dollars
Current assets	¥ 3,471	\$	31,273
Noncurrent assets	8,404		75,719
Goodwill	8,026		72,313
Current liabilities	(8,482)		(76,421)
Noncurrent liabilities	(1,614)		(14,542)
Foreign currency translation adjustments	(250)		(2,253)
Acquisition cost of shares	9,555		86,089
Cash and cash equivalents	(702)		(6,325)
Cash used for underwriting of debt	3,230		29,102
Net cash used for the acquisition	12,083		108,866

(4) Assets and liabilities of companies that have been excluded from the scope of consolidation due to the sales of their shares

Assets and liabilities related to the exclusion of Teijin Film Solutions and P.T. Indonesia Teijin Film Solutions from the scope of consolidation due to the sales of their shares and the relationship between the sales price of the shares and net payments for the sales of shares for the year ended March 31, 2020 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 13,656	\$ 125,480
Noncurrent assets	4,007	36,819
Current liabilities	(8,621)	(79,215)
Noncurrent liabilities	(297)	(2,729)
Foreign currency translation adjustments	(162)	(1,489)
Others	(17)	(156)
Gain on sales of shares of subsidiaries	1,098	10,089
Sales price of shares	9,663	88,790
Cash and cash equivalents	(187)	(1,718)
Collection of loans receivable	3,682	33,833
Net payments for sales of shares	13,158	120,904

Note 4. Fair value of financial instruments

(1) Qualitative information on financial instruments

(a) Policies for using financial instruments

The Companies' fund management policy is to put money into short-term deposits only and to raise money through loans payable, commercial paper and corporate bonds.

The Companies principally enter into derivative transactions in connection with managing their market risk and not for speculation or trading purposes.

(b) Details of financial instruments used and the exposure to risk and how it arises

Notes and accounts receivable-trade are exposed to customers' credit risk. To manage that risk, the Companies check the balance of the accounts and confirm the collection of money at the due date. The Companies also review the credit risk of their main customers periodically in accordance with the Company's credit management regulations.

Marketable securities are negotiable certificates of deposit subject to settlement in the short term. Securities are exposed to market price fluctuation risk; however, the Companies only hold shares in firms with which they have business relations and these are not held for speculation.

The due dates of notes and accounts payable-trade are mainly within one year.

Short-term loans receivable are used mainly for operating purposes, and funding through corporate bonds and long-term loans payable is mainly for capital investment. Debts with a floating rate are exposed to interest rate fluctuation risk,

but interest on some long-term loans payable is converted to a fixed rate through interest rate swap transactions.

The Companies use derivative transactions of, for example, foreign currency forward contract transactions and foreign currency swap. The transactions are used to hedge the risk of fluctuation in foreign currency exchange rates with respect to monetary receivables and payables denominated in foreign currencies resulting from import and export transactions.

With respect to other derivative transactions, interest rate swap transactions are used to hedge the risk of fluctuation in interest rates. The Companies evaluate hedge effectiveness by comparing the cumulative changes in cash flows from, or the changes in fair value of, hedged items with the corresponding changes in the hedging derivative instruments.

The Companies report periodically to the Chief Financial Officer and the Treasury Office on the actual results of derivative transactions. Furthermore, the Companies enter into contracts with banks and securities houses with high credit ratings to minimize credit risk exposure.

(c) Supplementary information on fair values

The fair value of financial instruments is calculated based on the quoted market price or, in cases where there is no market price, by making a reasonable estimation. Because the preconditions applied include a floating element, estimations of fair value may vary. The contracted amounts, as presented in Note 6, "Derivative transactions," do not reflect market risk.

(2) Fair values of financial instruments

The following tables summarize fair value and book value of the financial instruments, and the difference between them, as of March 31, 2019 and 2020. Items for which fair value is difficult to estimate are not included in the following tables.

Millions of yen			
2019			
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 100,592	¥ 100,592	¥ —
(2) Notes and accounts receivable-trade	194,242	194,242	—
(3) Short-term loans receivable	12,926	12,926	—
(4) Marketable securities and investment securities	95,732	95,732	—
(5) Long-term loans receivable	2,553		
Allowance for doubtful accounts*	(228)		
	<u>2,325</u>	<u>2,325</u>	<u>—</u>
Total	¥ 405,817	¥ 405,817	¥ —
(1) Notes and accounts payable-trade	¥ 93,499	¥ 93,499	¥ —
(2) Short-term loans payable	104,265	104,265	—
(3) Bonds	35,039	36,882	1,843
(4) Long-term loans payable	228,245	228,544	299
Total	<u>¥ 461,048</u>	<u>¥ 463,190</u>	<u>¥ 2,141</u>
Derivative transactions [†]			
(1) To which hedge accounting is not applied	¥ (1,081)	¥ (1,081)	¥ —
(2) To which hedge accounting is applied	(40)	(40)	—
Total	<u>¥ (1,121)</u>	<u>¥ (1,121)</u>	<u>¥ —</u>
Millions of yen			
2020			
	Book value	Fair value	Difference
(1) Cash and time deposits	¥ 113,500	¥ 113,500	¥ —
(2) Notes and accounts receivable-trade	167,194	167,194	—
(3) Short-term loans receivable	12,104	12,104	—
(4) Marketable securities and investment securities	78,429	78,429	—
(5) Long-term loans receivable	2,086		
Allowance for doubtful accounts*	(677)		
	<u>1,409</u>	<u>1,409</u>	<u>—</u>
Total	¥ 372,636	¥ 372,636	¥ —
(1) Notes and accounts payable-trade	¥ 80,068	¥ 80,068	¥ —
(2) Short-term loans payable	98,372	98,372	—
(3) Bonds	35,024	36,034	1,009
(4) Long-term loans payable	236,281	237,062	780
Total	<u>¥ 449,746</u>	<u>¥ 451,535</u>	<u>¥ 1,789</u>
Derivative transactions [†]			
(1) To which hedge accounting is not applied	¥ (3,134)	¥ (3,134)	¥ —
(2) To which hedge accounting is applied	(1,545)	(1,545)	—
Total	<u>¥ (4,679)</u>	<u>¥ (4,679)</u>	<u>¥ —</u>

Thousands of U.S. dollars			
2020			
	Book value	Fair value	Difference
(1) Cash and time deposits	\$ 1,042,911	\$ 1,042,911	\$ —
(2) Notes and accounts receivable-trade	1,536,286	1,536,286	—
(3) Short-term loans receivable	111,219	111,219	—
(4) Marketable securities and investment securities	720,656	720,656	—
(5) Long-term loans receivable	19,168		
Allowance for doubtful accounts*	(6,221)		
	<u>12,947</u>	<u>12,947</u>	<u>—</u>
Total	\$ 3,424,019	\$ 3,424,019	\$ —
(1) Notes and accounts payable-trade	\$ 735,716	\$ 735,716	\$ —
(2) Short-term loans payable	903,905	903,905	—
(3) Bonds	321,823	331,104	9,271
(4) Long-term loans payable	2,171,102	2,178,278	7,167
Total	\$ 4,132,555	\$ 4,148,994	\$ 16,438
Derivative transactions [†]			
(1) To which hedge accounting is not applied	\$ (28,797)	\$ (28,797)	\$ —
(2) To which hedge accounting is applied	(14,196)	(14,196)	—
Total	\$ (42,994)	\$ (42,994)	\$ —

* Allowance for doubtful accounts is estimated for each category and is deducted from long-term loans receivable.

† Derivative transactions are presented net of receivables and liabilities, and figures within parentheses indicate net liabilities.

(Note 1) The method of estimating the fair value for securities and derivative transactions is as follows:

Assets

(1) Cash and time deposits, (2) Notes and accounts receivable-trade and (3) Short-term loans receivable

The terms of all of the above are short term and the fair value thereof is nearly equal to book value, so the book value is used as fair value.

(4) Marketable securities and investment securities

The fair value of shares is the market price. The terms of negotiable certificates of deposit are short term and the fair value thereof is nearly equal to book value, so the book value is used as fair value. See Note 5, "Marketable securities and investment securities" for information on investment securities categorized by holding purpose.

(5) Long-term loans receivable

The fair value of long-term loans receivable, categorized by term, is discounted by the interest rate that is based on that of government bonds, to which a spread that reflects credit risk has been added.

Moreover, the fair value of long-term loans receivable that are doubtful is estimated in the same way or is provided in an amount sufficient to cover possible losses on collection.

Liabilities

(1) Notes and accounts payable-trade and (2) Short-term loans payable

The terms of all of the above are short term and the fair value thereof is nearly equal to book value, so the book value is used as fair value.

(3) Bonds

The fair value of corporate bonds is calculated based on market price. In cases where there is no market price, fair value is calculated by using the discounted cash flow based on the sum of the principal and total interest of the remaining period and credit risk.

(4) Long-term loans payable

The fair value of long-term loans payable is the sum of the principal and total interest discounted by the rate that is applied if a new loan is made. Certain long-term loans payable with floating rates are tied to interest rate swap transactions and subject to special method.

Derivative transactions

See Note 6, "Derivative transactions."

(Note 2) Financial instruments for which fair value is difficult to estimate:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
			2020
Unlisted shares	¥ 6,677	¥ 9,883	\$ 90,811
Shares in affiliated companies	26,771	24,321	223,477
Total	¥ 33,448	¥ 34,204	\$ 314,288

Market prices of the above shares are not available and the future cash flow cannot be estimated. Therefore, fair value is difficult to estimate. Accordingly, these are not included in "(4) Marketable securities and investment securities."

(Note 3) Expected repayment amounts of monetary assets and securities with maturity after the date of the accounting period are as follows:

	Millions of yen		
	2019		
	Within one year	One year to five years	Over five years
Cash and time deposits	¥ 100,592	¥ —	¥ —
Notes and accounts receivable-trade	194,242	—	—
Short-term loans receivable	12,926	—	—
Long-term loans receivable	1,281	1,272	—

	Millions of yen		
	2020		
	Within one year	One year to five years	Over five years
Cash and time deposits	¥ 113,500	¥ —	¥ —
Notes and accounts receivable-trade	167,194	—	—
Short-term loans receivable	12,104	—	—
Long-term loans receivable	23	2,063	—

	Thousands of U.S. dollars		
	2020		
	Within one year	One year to five years	Over five years
Cash and time deposits	\$ 1,042,911	\$ —	\$ —
Notes and accounts receivable-trade	1,536,286	—	—
Short-term loans receivable	111,219	—	—
Long-term loans receivable	211	18,956	—

(Note 4) Repayment schedule of bonds and long-term loans payable:

See Note 8, "Short-term loans payable, long-term debt and lease obligations."

Note 5. Marketable securities and investment securities

(1) Information on securities held by the Companies at March 31, 2019 is as follows:

(a) There were no held-to-maturity debt securities with fair values at March 31, 2019.

(b) The following table summarizes acquisition costs and book values of available-for-sale securities as of March 31, 2019.

	Millions of yen		
	2019		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Corporate shares	¥ 23,072	¥ 61,734	¥ 38,662
Securities with book values not exceeding acquisition costs:			
Corporate shares	7,802	7,676	(126)
Negotiable certificates of deposit	33,000	33,000	—
Total	¥ 63,874	¥ 102,410	¥ 38,536

(c) In the year ended March 31, 2019, total sales of available-for-sale securities amounted to ¥40,357 million, gains on the sales amounted to ¥4,849 million, and losses on the sales amounted to ¥3 million.

(d) Loss on valuation of investment securities of ¥246 million was recognized as of March 31, 2019.

(2) Information on securities held by the Companies at March 31, 2020 is as follows:

(a) There were no held-to-maturity debt securities with fair values at March 31, 2020.

(b) The following table summarizes acquisition costs and book values of available-for-sale securities as of March 31, 2020.

	Millions of yen		
	2020		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Corporate shares	¥ 18,345	¥ 37,291	¥ 18,946
Securities with book values not exceeding acquisition costs:			
Corporate shares	15,997	15,021	(976)
Negotiable certificates of deposit	36,000	36,000	—
Total	¥ 70,342	¥ 88,312	¥ 17,970

	Thousands of U.S. dollars		
	2020		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Corporate shares	\$ 168,566	\$ 342,654	\$ 174,088
Securities with book values not exceeding acquisition costs:			
Corporate shares	146,991	138,023	(8,968)
Negotiable certificates of deposit	330,791	330,791	—
Total	<u>\$ 646,348</u>	<u>\$ 811,467</u>	<u>\$ 165,120</u>

(c) In the year ended March 31, 2020, total sales of available-for-sale securities amounted to ¥4,816 million (\$44,253 thousand), gains on the sales amounted to ¥4,211 million (\$38,693 thousand), and losses on the sales amounted to ¥1 million (\$9 thousand).

(d) Loss on valuation of investment securities of ¥114 million (\$ 1,048 thousand) was recognized as of March 31, 2020.

Note 6. Derivative transactions

(1) The following tables summarize market value information of outstanding derivative transactions to which hedge accounting is not applied as of March 31, 2019.

Outstanding positions for which gains and losses were recognized in the consolidated financial statements as of March 31, 2019, were as follows:

Currency-related derivatives

	Millions of yen			
	2019			
	Contract amount	Amount of principal due over one year	Fair value	Recognized gain (loss)
Foreign currency swap transactions:				
U.S. dollars received for Euro	¥ 3,737	¥ 3,737	¥ (85)	¥ (85)
U.S. dollars received for Japanese yen	¥ 64,814	¥ 64,814	¥ (964)	¥ (964)
Foreign currency forward contract transactions:				
Sell: U.S. dollars	¥ 1,074	¥ —	¥ (11)	¥ (11)
Sell: Euro	¥ 19	¥ —	¥ 0	¥ 0
Sell: Japanese yen	¥ 57	¥ —	¥ 0	¥ 0
Buy: U.S. dollars	¥ 1,928	¥ —	¥ (17)	¥ (17)
Buy: Japanese yen	¥ 770	¥ —	¥ (4)	¥ (4)

(2) The following tables summarize market value information of outstanding derivative transactions to which hedge accounting is applied as of March 31, 2019.

Currency-related derivatives: Principle-based method

	Millions of yen		
	2019		
	Contract amount	Amount of principal due over one year	Fair value
Foreign currency forward contract transactions:			
Sell: U.S. dollars	¥ 22,443	¥ 6,516	¥ (219)
Sell: Euro	¥ 1,470	¥ —	¥ 9
Sell: Thai baht	¥ 2	¥ —	¥ 0
Sell: Japanese yen	¥ 823	¥ —	¥ 63
Buy: U.S. dollars	¥ 12,952	¥ —	¥ 133
Buy: Euro	¥ 67	¥ —	¥ (0)
Buy: British pounds	¥ 17	¥ —	¥ 0
Buy: Renminbi	¥ 93	¥ —	¥ (0)
Buy: Thai baht	¥ 404	¥ —	¥ (5)

Interest rate-related derivatives: Principle-based method

	Millions of yen		
	2019		
	Contract amount	Amount of principal due over one year	Fair value
Interest rate swap transactions:			
Receive variable rate in U.S. dollars, pay fixed rate in Euro	¥ 3,737	¥ 3,737	¥ (21)

Interest rate-related derivatives: Special method

	Millions of yen		
	2019		
	Contract amount	Amount of principal due over one year	Fair value
Interest rate swap transactions:			
Receive variable rate in Japanese yen, pay fixed rate in Japanese yen	¥ 40,070	¥ 40,070	¥ —

(3) The fair value of foreign currency forward contract transactions is based on the year-end forward rate. The fair value of foreign currency swap transactions and interest rate swap transactions is based on the prices presented by the counterpart financial

institutions.

(4) Interest rate swap transactions to which the special method has been applied are included in long-term loans payable. Therefore, the fair value of these interest rate swap transactions is included in the fair value of the hedged long-term loans payable.

(5) The following tables summarize market value information of outstanding derivative transactions to which hedge accounting is not applied as of March 31, 2020.

Outstanding positions for which gains and losses were recognized in the consolidated financial statements as of March 31, 2020 were as follows:

Currency-related derivatives

	Millions of yen			
	2020			
	Contract amount	Amount of principal due over one year	Fair value	Recognized gain (loss)
Foreign currency swap transactions:				
U.S. dollars received for Japanese yen	¥ 70,217	¥ 60,915	¥ (2,370)	¥ (2,370)
Japanese yen received for U.S. dollars	¥ 7,618	¥ 7,618	¥ (757)	¥ (757)
Foreign currency forward contract transactions:				
Sell: U.S. dollars	¥ 975	¥ —	¥ (17)	¥ (17)
Sell: Euro	¥ 35	¥ —	¥ (1)	¥ (1)
Sell: Japanese yen	¥ 271	¥ —	¥ 1	¥ 1
Buy: U.S. dollars	¥ 1,847	¥ —	¥ (3)	¥ (3)
Buy: Euro	¥ 102	¥ —	¥ 2	¥ 2
Buy: Japanese yen	¥ 413	¥ —	¥ 10	¥ 10
	Thousands of U.S. dollars			
	2020			
	Contract amount	Amount of principal due over one year	Fair value	Recognized gain (loss)
Foreign currency swap transactions:				
U.S. dollars received for Japanese yen	\$ 645,199	\$ 559,726	\$ (21,777)	\$ (21,777)
Japanese yen received for U.S. dollars	\$ 69,999	\$ 69,999	\$ (6,956)	\$ (6,956)
Foreign currency forward contract transactions:				
Sell: U.S. dollars	\$ 8,959	\$ —	\$ (156)	\$ (156)
Sell: Euro	\$ 322	\$ —	\$ (9)	\$ (9)
Sell: Japanese yen	\$ 2,490	\$ —	\$ 9	\$ 9
Buy: U.S. dollars	\$ 16,971	\$ —	\$ (28)	\$ (28)
Buy: Euro	\$ 937	\$ —	\$ 18	\$ 18
Buy: Japanese yen	\$ 3,795	\$ —	\$ 92	\$ 92

(6) The following tables summarize market value information of outstanding derivative transactions to which hedge accounting is applied as of March 31, 2020.

Currency-related derivatives: Principle-based method

	Millions of yen				
	2020				
	Contract amount	Amount of principal due over one year		Fair value	
Foreign currency forward contract transactions:					
Sell: U.S. dollars	¥ 44,573	¥ 26,800	¥	(1,777)	
Sell: Euro	¥ 1,176	¥ —	¥	7	
Sell: Thai baht	¥ 4	¥ —	¥	0	
Buy: U.S. dollars	¥ 14,556	¥ —	¥	227	
Buy: Euro	¥ 263	¥ —	¥	(1)	
Buy: British pounds	¥ 0	¥ —	¥	(0)	
Buy: Thai baht	¥ 34	¥ —	¥	(0)	
Buy: Renminbi	¥ 13	¥ —	¥	(0)	
	Thousands of U.S. dollars				
	2020				
	Contract amount	Amount of principal due over one year		Fair value	
Foreign currency forward contract transactions:					
Sell: U.S. dollars	\$ 409,565	\$ 246,256	\$	(16,328)	
Sell: Euro	\$ 10,806	\$ —	\$	64	
Sell: Thai baht	\$ 37	\$ —	\$	0	
Buy: U.S. dollars	\$ 133,750	\$ —	\$	2,086	
Buy: Euro	\$ 2,417	\$ —	\$	(9)	
Buy: British pounds	\$ 0	\$ —	\$	(0)	
Buy: Thai baht	\$ 312	\$ —	\$	(0)	
Buy: Renminbi	\$ 119	\$ —	\$	(0)	

Interest rate-related derivatives: Principle-based method

There were no interest rate-related derivatives under the Principle-based method at March 31, 2020.

Interest rate-related derivatives: Special method

		Millions of yen		
		2020		
	Contract amount		Amount of principal due over one year	Fair value
Interest rate swap transactions:				
Receive variable rate in Japanese yen, pay fixed rate in Japanese yen	¥ 40,000	¥	20,000	¥ —
Receive variable rate in U.S. dollars, pay fixed rate in U.S. dollars	¥ 7,618	¥	7,618	¥ —
		Thousands of U.S. dollars		
		2020		
	Contract amount		Amount of principal due over one year	Fair value
Interest rate swap transactions:				
Receive variable rate in Japanese yen, pay fixed rate in Japanese yen	\$ 367,546	\$	183,773	\$ —
Receive variable rate in U.S. dollars, pay fixed rate in U.S. dollars	\$ 69,999	\$	69,999	\$ —

(7) The fair value of foreign currency forward contract transactions is based on the year-end forward rate. The fair value of foreign currency swap transactions and interest rate swap transactions is based on the prices presented by the counterpart financial institutions.

(8) Interest rate swap transactions to which the special method has been applied are included in long-term loans payable. Therefore, the fair value of these interest rate swap transactions is included in the fair value of the hedged long-term loans payable.

Note 7. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Merchandise and finished goods	¥ 98,727	¥ 96,935	\$ 890,701
Work in process	11,556	11,735	107,829
Raw materials	29,936	29,183	268,152
Supplies	5,661	5,246	48,204
Total	¥ 145,880	¥ 143,099	\$ 1,314,886

Note 8. Short-term loans payable, long-term debt, and lease obligations

Short-term loans payable were represented by bank overdrafts and short-term notes with average annual interest rates of approximately 1.5% in 2019 and 1.3% in 2020.

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

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Unsecured:			2020
Banks and insurance companies at 0.0–0.7%, maturing serially through 2027	¥ 142,344	¥ 142,130	\$ 1,305,982
0.7% straight bonds, due 2019	15,000	-	-
0.3% straight bonds, due 2029	-	15,000	137,830
Convertible bond-type zero coupon bonds with subscription rights to shares, due 2021	20,039	20,024	183,993
Loans denominated in foreign currencies (principally U.S. dollars) at 0.0–4.3%, maturing serially through 2025	85,901	94,151	865,120
Lease obligations at 3.0%, maturing serially through 2049*	1,200	11,857	108,950
	<u>264,484</u>	<u>283,162</u>	<u>2,601,874</u>
Less amounts due within one year	22,916	35,361	324,920
Total	<u>¥ 241,568</u>	<u>¥ 247,801</u>	<u>\$ 2,276,955</u>

*From the beginning of the fiscal year, the Company's IFRS-applied subsidiaries have applied IFRS No.16 "Leases" and the balance of lease obligations at the end of the fiscal year includes the effect to which applied the accounting standard.

The aggregate annual maturities of long-term debt at March 31, 2020, were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2021	¥ 35,361	\$ 324,920
2022	35,910	329,964
2023	36,534	335,698
2024	61,399	564,173
2025 and thereafter	113,958	1,047,119

Note 9. Employees' retirement benefits

(1) Defined benefit pension plans as of March 31, 2019

(a) Projected benefit obligation at the beginning and the end of the fiscal year (excludes benefits of companies to which the simplified method is applied)

	Millions of yen	
	<u>2019</u>	
Balance at April 1, 2018	¥	61,576
Service cost		2,113
Interest cost		592
Actuarial gains and losses		84
Benefits paid		(4,516)
Change in scope of consolidation		298
Others		30
Balance at March 31, 2019	¥	<u>60,177</u>

(b) Fair value of plan assets at the beginning and the end of the fiscal year (excludes benefits of companies to which the simplified method is applied)

	Millions of yen	
	<u>2019</u>	
Balance at April 1, 2018	¥	67,136
Expected return on plan assets		581
Actuarial gains and losses		(3,025)
Contributions paid by the employer		145
Benefits paid		(3,129)
Change in scope of consolidation		26
Return of retirement benefit trust		(6,099)
Others		154
Balance at March 31, 2019	¥	<u>55,789</u>

(c) Projected benefit obligation at the beginning and the end of the fiscal year of the companies to which the simplified method is applied

	Millions of yen	
	<u>2019</u>	
Balance at April 1, 2018	¥	1,634
Retirement benefit costs		309
Benefits paid		(96)
Contributions paid by the employer		(138)
Others		74
Balance at March 31, 2019	¥	<u>1,783</u>

(d) Adjustments to reconcile the projected benefit obligation and the fair value of plan assets at the end of the year with the difference between net defined benefit liability and net defined benefit asset recognized on the consolidated balance sheets

	Millions of yen
	<u>2019</u>
Funded retirement benefit obligations	¥ 63,111
Plan assets	<u>(57,811)</u>
	5,300
Unfunded retirement benefit obligations	<u>871</u>
Total net liability (asset) for retirement benefits at March 31, 2019	¥ 6,171
Liability for retirement benefits	37,553
Asset for retirement benefits	<u>(31,382)</u>
Total net liability (asset) for retirement benefits at March 31, 2019	¥ 6,171

Note: This calculation includes benefits of companies to which the simplified method is applied.

(e) Severance and retirement benefit costs

	Millions of yen
	<u>2019</u>
Service cost	¥ 2,113
Interest cost	592
Expected return on plan assets	(581)
Amortization of actuarial gains and losses	(1,074)
Amortization of past service costs	7
Loss on return of retirement benefit trust	955
Total retirement benefit costs for the year ended March 31, 2019, based on the simplified method	<u>309</u>
Total retirement benefit costs for the year ended March 31, 2019	¥ 2,321

(f) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans, excluding the impact of tax effect accounting, and the value there of were as follows:

	Millions of yen
	<u>2019</u>
Past service costs	¥ 4
Actuarial gains and losses	<u>(3,105)</u>
Total balance at March 31, 2019	¥ (3,101)

(g) Accumulated remeasurements of defined benefit plans

Components of accumulated remeasurements of defined benefit plans, excluding the impact of tax effect accounting, and the value thereof were as follows:

	Millions of yen
	<u>2019</u>
Past service costs that are yet to be recognized	¥ (57)
Actuarial gains and losses that are yet to be recognized	(3,330)
Total balance at March 31, 2019	¥ (3,387)

(h) Composition of plan assets

The composition of plan assets was as follows:

	<u>2019</u>
Equity securities	9%
Debt securities	35%
General accounts	15%
Negotiable certificates of deposit	31%
Others	10%
Total	<u>100%</u>

(i) Determination of long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined by considering the current and projected future allocation of plan assets and present and future estimates for long-term investment returns calculated based on the diverse range of assets comprising plan assets.

(j) Actuarial assumptions

Actuarial assumptions used at March 31, 2019 were as follows:

	<u>2019</u>
Discount rate (defined benefit pension plans)	Mainly 0.1%
(lump-sum benefit plans)	Mainly 0.8%
Long-term expected rate of return on plan assets	Mainly 0.7%

(2) Defined contribution pension plans as of March 31, 2019

Contributions to the defined contribution pension plans of the Companies totaled ¥3,192 million.

(3) Multi-employer pension plans as of March 31, 2019

The Teijin Group's contributions to multi-employer pension plans, for which contributions are negotiated, as well as contributions to defined contribution plans, totaled ¥2,029 million.

The funded status of the multi-employer funded contributory pension plans at December 31, 2018 (based on information available as of March 31, 2019), for which contributions are recorded as net periodic retirement benefit costs by the Companies, is as follows:

	Millions of yen	
	<u>2019</u>	
Fair value of plan assets	¥	3,181,512
Benefit obligation in the calculation of pension financing		<u>(3,028,428)</u>
Difference	¥	153,084
 Companies' contribution percentage for multi-employer funded contributory pension plans*		 3.40%

* This percentage shows the Companies' portion of the total estimated annual contribution to the plans, which is not necessarily equal to the actual percentage of the Companies' portion against the funded status in the above table.

(4) Defined benefit pension plans as of March 31, 2020

(a) Projected benefit obligation at the beginning and the end of the fiscal year (excludes benefits of companies to which the simplified method is applied)

	Millions of yen		Thousands of U.S. dollars	
	<u>2020</u>			
Balance at April 1, 2019	¥	60,177	\$	552,945
Service cost		2,115		19,434
Interest cost		560		5,146
Actuarial gains and losses		485		4,456
Benefits paid		(4,358)		(40,044)
Change in scope of consolidation		(75)		(689)
Others		<u>(425)</u>		<u>(3,905)</u>
Balance at March 31, 2020	¥	58,479	\$	537,343

(b) Fair value of plan assets at the beginning and the end of the fiscal year (excludes benefits of companies to which the simplified method is applied)

	Millions of yen		Thousands of U.S. dollars	
	<u>2020</u>			
Balance at April 1, 2019	¥	55,789	\$	512,625
Expected return on plan assets		552		5,072
Actuarial gains and losses		(1,275)		(11,716)
Contributions paid by the employer		133		1,222
Benefits paid		(2,844)		(26,133)
Others		<u>(131)</u>		<u>(1,204)</u>
Balance at March 31, 2020	¥	52,225	\$	479,877

(c) Projected benefit obligation at the beginning and the end of the fiscal year of the companies to which the simplified method is applied

	Millions of yen	Thousands of U.S. dollars
	2020	
Balance at April 1, 2019	¥ 1,783	\$ 16,383
Retirement benefit costs	288	2,646
Benefits paid	(102)	(937)
Contributions paid by the employer	(145)	(1,332)
Others	(3)	(28)
Balance at March 31, 2020	¥ 1,821	\$ 16,733

(d) Adjustments to reconcile the projected benefit obligation and the fair value of plan assets at the end of the year with the difference between net defined benefit liability and net defined benefit asset recognized in the consolidated balance sheets

	Millions of yen	Thousands of U.S. dollars
	2020	
Funded retirement benefit obligations	¥ 59,764	\$ 549,150
Plan assets	(54,222)	(498,227)
	5,543	50,933
Unfunded retirement benefit obligations	2,533	23,275
Total net liability (asset) for retirement benefits at March 31, 2020	¥ 8,076	\$ 74,207
Liability for retirement benefits	39,464	362,621
Asset for retirement benefits	(31,388)	(288,413)
Total net liability (asset) for retirement benefits at March 31, 2020	¥ 8,076	\$ 74,207

Note: This calculation includes benefits of companies to which the simplified method is applied.

(e) Severance and retirement benefit costs

	Millions of yen	Thousands of U.S. dollars
	2020	
Service cost	¥ 2,115	\$ 19,434
Interest cost	560	5,146
Expected return on plan assets	(552)	(5,072)
Amortization of actuarial gains and losses	244	2,242
Amortization of past service costs	7	64
Total retirement benefit costs for the year ended March 31, 2020, based on the simplified method	288	2,647
Others	383	3,519
Total retirement benefit costs for the year ended March 31, 2020	¥ 3,045	\$ 27,979

Note: Other than the retirement benefit costs stated above, business structure improvement expenses

with the transfer of consolidated subsidiaries of the Films business, of which the amount recorded for retirement benefit costs of ¥3,411 million (\$ 31,342 thousand) was recorded.

(f) Remeasurements of defined benefit plans

Components of remeasurements of defined benefit plans, excluding the impact of tax effect accounting, and the value thereof were as follows:

	Millions of yen	Thousands of U.S. dollars
	<u>2020</u>	
Past service costs	¥ 4	\$ 37
Actuarial gains and losses	<u>(1,454)</u>	<u>(13,360)</u>
Total balance at March 31, 2020	¥ (1,450)	\$ (13,324)

(g) Accumulated remeasurements of defined benefit plans

Components of accumulated remeasurements of defined benefit plans, excluding the impact of tax effect accounting, and the value thereof were as follows:

	Millions of yen	Thousands of U.S. dollars
	<u>2020</u>	
Past service costs that are yet to be recognized	¥ (53)	\$ (487)
Actuarial gains and losses that are yet to be recognized	<u>(4,783)</u>	<u>(43,949)</u>
Total balance at March 31, 2020	¥ (4,836)	\$ (44,436)

(h) Composition of plan assets

The composition of plan assets was as follows:

	<u>2020</u>
Equity securities	8%
Debt securities	34%
General accounts	15%
Negotiable certificates of deposit	41%
Others	<u>2%</u>
Total	100%

(i) Determination of long-term expected rate of return on plan assets

The long-term expected rate of return on plan assets is determined by considering the current and projected future allocation of plan assets and present and future estimates for long-term investment returns calculated based on the diverse range of assets comprising plan assets.

(j) Actuarial assumptions

Actuarial assumptions used at March 31, 2020 were as follows:

	<u>2020</u>
Discount rate (defined benefit pension plans)	Mainly 0.1%
(lump-sum benefit plans)	Mainly 0.8%
Long-term expected rate of return on plan assets	Mainly 0.7%

(5) Defined contribution pension plans as of March 31, 2020

Contributions to the defined contribution pension plans of the Companies totaled ¥3,260 million (\$29,955 thousand).

(6) Multi-employer pension plans as of March 31, 2020

The Teijin Group's contributions to multi-employer pension plans, for which contributions are negotiated, as well as contributions to defined contribution pension plans, totaled ¥2,106 million (\$19,351 thousand).

The funded status of the multi-employer funded contributory pension plans at December 31, 2019 (based on information available as of March 31, 2020), for which contributions are recorded as net periodic retirement benefit costs by the Companies, is as follows:

	Millions of yen	Thousands of U.S. dollars
	2020	
Fair value of plan assets	¥ 3,585,185	\$ 32,942,984
Benefit obligation in the calculation of pension financing	(3,374,777)	(31,009,621)
Difference	¥ 210,408	\$ 1,933,364

Companies' contribution percentage for multi-employer funded contributory pension plans* 2.80%

* This percentage shows the Companies' portion of the total estimated annual contribution to the plans, which is not necessarily equal to the actual percentage of the Companies' portion against the funded status in the above table.

Note 10. Net assets

Under Japanese laws and regulations, the entire amount of the issue price of shares is required to be accounted for as common stock, although a company may, by resolution of its board of directors, account for an amount not exceeding one-half of the issue price of the new shares as additional paid-in capital.

Under the Companies Act of Japan, in cases where dividend distribution of surplus is made, the smaller of an amount equal to 10% of the dividend and excess, if any, of 25% of common stock over the total of additional paid-in capital and legal earnings reserve must be set aside as additional paid-in capital or legal earnings reserve. Additional paid-in capital is included in capital surplus and legal earnings reserve is included in retained earnings on the accompanying consolidated balance sheets.

Legal earnings reserve and additional paid-in capital may be used to eliminate or reduce a deficit or may be capitalized by a resolution of the shareholders' meeting. All additional paid-in capital and all legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends.

At the Board of Directors' meeting held on May 8, 2020, appropriations of retained earnings for year-end dividends applicable to the year ended March 31, 2020 were duly approved as follows:

	Millions of yen	Thousands of U.S. dollars
Cash dividends: ¥30.00 (\$0.28) per share	¥ 5,758	\$ 52,908

Note 11. Impairment loss

The Companies accounted for impairment losses for the year ended March 31, 2019, as follows:

Impairment loss

Location	Purpose of use	Type of assets	Millions of yen
South Korea	Material	Machinery, etc.	¥ 3,730
Ibaraki City in Osaka Prefecture and others	R&D facilities, etc.	Buildings, etc.	1,560
Others	—	—	700
		Total	¥ 5,990

The Companies set up asset groupings by business unit for which the profit or loss is continually monitored. Idle assets, which are not being used for business, are treated separately.

Among the assets used for business purposes, certain production facilities were devalued to the recoverable amount. The difference between book values and recoverable amounts was recorded as “Impairment loss” amounting to ¥5,990 million. The recoverable amount was measured at net sale value or value in use. Net sale value is calculated based on the current sales price of the asset and other factors. Value in use is assessed at zero because the future cash flows cannot be generated.

The Companies accounted for impairment losses for the year ended March 31, 2020 as follows:

Impairment loss

Location	Purpose of use	Type of assets	Millions of yen	Thousands of U.S. dollars
Germany	Material	Goodwill, etc.	¥ 6,878	\$ 63,199
China	Material	Machinery, etc.	1,421	13,057
Others	—	—	2,731	25,094
		Total	¥ 11,030	\$ 101,351

The Companies set up asset groupings by business unit for which the profit or loss is continually monitored. Idle assets, which are not being used for business, are treated separately.

Among the assets used for business purposes, certain production facilities were devalued to the recoverable amount. The difference between book values and recoverable amounts was recorded as "Impairment loss" amounting to ¥11,030 million (\$ 101,351 thousand). The recoverable amount was measured at net sale value or value in use. Net sale value is calculated based on the current sales price of the asset and other factors. Value in use is calculated based on the discounted future cash flow with a discount rate of mainly 11%.

Note 12. Consolidated statements of comprehensive income

Components of other comprehensive income for the years ended March 31, 2019 and 2020 consisted of the following:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Valuation difference on available-for-sale securities:			
Increase (decrease) during the year	¥ 2,225	¥ (16,685)	\$ (153,313)
Reclassification adjustments	(4,219)	(4,045)	(37,168)
Subtotal, before tax	(1,994)	(20,730)	(190,481)
Tax (expense) or benefit	582	6,074	55,812
Subtotal, net of tax	(1,412)	(14,656)	(134,669)
Deferred gains (losses) on hedges:			
Increase (decrease) during the year	(1,317)	(810)	(7,443)
Reclassification adjustments	79	(480)	(4,411)
Subtotal, before tax	(1,238)	(1,289)	(11,844)
Tax (expense) or benefit	282	323	2,968
Subtotal, net of tax	(956)	(967)	(8,885)
Foreign currency translation adjustments:			
Increase (decrease) during the year	4,323	(11,616)	(106,735)
Reclassification adjustments	59	(148)	(1,360)
Subtotal, before tax	4,382	(11,764)	(108,095)
Tax (expense) or benefit	—	—	—
Subtotal, net of tax	4,382	(11,764)	(108,095)
Remeasurements of defined benefit plans:			
Increase (decrease) during the year	(2,988)	(1,701)	(15,630)
Reclassification adjustments	(113)	251	2,306
Subtotal, before tax	(3,101)	(1,450)	(13,324)
Tax (expense) or benefit	826	431	3,960
Subtotal, net of tax	(2,275)	(1,019)	(9,363)
Share of other comprehensive income of associates accounted for using the equity method:			
Increase (decrease) during the year	(987)	(3,558)	(32,693)
Reclassification adjustments	74	3,548	32,601
Subtotal	(913)	(11)	(101)
Total other comprehensive income	¥ (1,174)	¥ (28,416)	\$ (261,104)

Note 13. Income taxes

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory rate in Japan of approximately 30.4% for the year ended March 31, 2020. The following table summarizes the significant differences between the Company's effective tax rate and the actual income tax rate for financial statement purposes for the year ended March 31, 2019 and 2020.

	2019	2020
Effective statutory tax rate	30.4%	30.4%
Non-deductible expenses	0.1	0.1
Per capita inhabitants' taxes	0.3	0.4
Difference in statutory tax rate between Japan and other countries	(0.2)	(0.9)
Equity in earnings of affiliates	(0.7)	(2.0)
Amortization of goodwill	1.8	8.4
Changes in valuation allowance	(4.7)	6.2
Tax credit	(5.5)	(9.1)
Others	1.0	1.6
Actual income tax rate	22.5%	35.1%

Significant components of the Companies' deferred tax assets and liabilities as of March 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Deferred tax assets:			
Excess bonuses accrued	¥ 4,000	¥ 3,785	\$ 34,779
Depreciation	3,844	3,626	33,318
Write-down of investment securities	1,867	1,770	16,264
Retirement benefits	8,657	8,461	77,745
Accumulated impairment loss	4,004	3,209	29,486
Net operating loss carryforward	37,884	27,379	251,576
Others	11,678	13,383	122,972
Total	¥ 71,934	¥ 61,612	\$ 566,131
Valuation allowance for net operating loss carryforward	(21,676)	(14,148)	(130,001)
Valuation allowance for deductible temporary differences	(6,869)	(6,746)	(61,987)
Valuation allowance	(28,545)	(20,895)	(191,997)
Total deferred tax assets	¥ 43,389	¥ 40,717	\$ 374,134
Offset with deferred tax liabilities	(35,868)	31,139	(286,125)
Net deferred tax assets	¥ 7,521	¥ 9,578	\$ 88,009
Deferred tax liabilities:			
Adjustments to fixed assets based on Corporation Tax Act	¥ (3,813)	¥ (3,562)	\$ (32,730)
Accelerated depreciation of foreign subsidiaries' fixed assets	(343)	(410)	(3,767)
Tax effect of foreign subsidiaries' undistributed earnings	(5,506)	(5,649)	(51,907)
Adjustment of carrying amount based on fair value	(14,793)	(16,230)	(149,132)
Valuation difference on available-for-sale securities	(11,950)	(5,867)	(53,910)
Others	(3,002)	(2,348)	(21,575)
Total deferred tax liabilities	¥ (39,407)	¥ (34,068)	\$ (313,039)
Offset with deferred tax assets	35,868	31,139	286,125
Net deferred tax liabilities	¥ (3,539)	¥ (2,929)	\$ (26,914)

(Note) Net operating loss carried forward and its deferred tax assets by expiration periods as of March 31, 2019 and 2020 are as follows:

Millions of yen							
2019							
	Within one year	One year to two years	Two years to three years	Three years to four years	Four years to five years	Over five years	Total
Net operating loss carryforward (a)	¥ 2,873	¥ 2,468	¥ 2,277	¥ 518	¥ 232	¥ 29,516	¥ 37,884
Valuation allowance	(2,691)	(2,002)	(2,005)	(418)	(138)	(14,422)	(21,676)
Net deferred tax assets	182	466	272	100	94	15,094	(b) 16,208

(a) Net operating loss carryforward is the amount obtained by multiplying by effective statutory tax rate.

For the net operating loss carryforward of ¥37,884 million (\$341,328 thousand) (the amount multiplied by the effective statutory tax rate), the Company recognized a deferred tax asset of ¥16,208 million (\$146,031 thousand). The deferred tax asset of ¥16,208 million (\$146,031 thousand) primarily comprises a deferred tax asset of ¥5,369 million (\$48,374 thousand) related to the net operating loss carried forward at Teijin Pharma Limited, which is part of the consolidated tax filing group of which the Company is the consolidated parent company, and a deferred tax asset of ¥8,060 million (\$72,619 thousand) related to the net operating loss carried forward at the consolidated tax filing group of which Teijin Holdings USA, Inc. (“THUS consolidated tax filing group”) is the consolidated parent company. For Teijin Pharma Limited, the net operating loss carryforward arose mainly due to the performance of debt guarantees for subsidiaries in the year ended March 31, 2018, while for the THUS consolidated tax filing group, it arose mainly because of the net losses before income taxes from the year ended March 31, 2013 to the year ended March 31, 2017. These net operating loss carryforwards are expected to be recovered as the Group is forecasting taxable income in the future.

Millions of yen							
2020							
	Within one year	One year to two years	Two years to three years	Three years to four years	Four years to five years	Over five years	Total
Net operating loss carryforward (a)	¥ 1,365	¥ 1,250	¥ 391	¥ 39	¥ 50	¥ 24,284	¥ 27,379
Valuation allowance	(1,287)	(1,065)	(288)	(27)	(36)	(11,447)	(14,148)
Net deferred tax assets	79	186	103	12	14	12,837	(b) 13,230

Thousands of U.S. dollars							
2020							
	Within one year	One year to two years	Two years to three years	Three years to four years	Four years to five years	Over five years	Total
Net operating loss carryforward (a)	\$ 12,542	\$ 11,486	\$ 3,593	\$ 358	\$ 459	\$ 223,137	\$ 251,576
Valuation allowance	(11,826)	(9,786)	(2,646)	(248)	(331)	(105,182)	(130,001)
Net deferred tax assets	726	1,709	946	110	129	117,955	(b) 121,566

(b) Net operating loss carryforward is the amount obtained by multiplying the effective statutory tax rate.

For the net operating loss carryforward of ¥27,379 million (\$251,576 thousand) (the amount multiplied by the effective statutory tax rate), the Company recognized a deferred tax asset of ¥13,230 million (\$121,566 thousand). The deferred tax asset of ¥13,230 million (\$121,566 thousand) primarily comprises a deferred tax asset of ¥3,273 million (\$30,074 thousand) related to the net operating loss carried forward at Teijin Pharma Limited, which is part of the consolidated tax filing group of which the Company is the consolidated parent company, and a deferred tax asset of ¥7,771 million (\$71,405 thousand) related to the net operating loss carried forward at the consolidated tax filing group of which Teijin Holdings USA, Inc. (“THUS consolidated tax filing group”) is the consolidated parent company. For Teijin Pharma Limited, the net operating loss carryforward arose mainly due to the performance of debt guarantees for subsidiaries in the year ended March 31, 2018, while for the THUS consolidated tax filing group, it arose mainly because of the net losses before income taxes from the year ended March 31, 2013 to the year ended March 31, 2017. These net operating loss carryforwards are expected to be recovered as the Group is forecasting taxable income in the future.

Note 14. Leases

Operating leases as lessee

Future minimum lease payments for the remaining lease periods as of March 31, 2019 and 2020 are as follows:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Due within one year	¥ 585	¥ 582	\$ 5,348
Due over one year	2,662	2,619	24,065
Total	¥ 3,247	¥ 3,202	\$ 29,422

Note 15. Stock option plans

Information on stock option plans at March 31, 2020 is as shown below.

Teijin Limited

The account and the amounts related to stock options in the years ended March 31, 2019 and 2020 are as follows:

Account	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Selling, general and administrative expenses	¥ 104	¥ 61	\$ 561

The following tables summarize the contents of stock options as of March 31, 2020.

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 54
Class and number of shares	Common Stock: 29,200
Date of issue	July 10, 2006
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From July 10, 2006 to July 9, 2026

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 55
Class and number of shares	Common Stock: 41,400
Date of issue	July 5, 2007
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From July 5, 2007 to July 4, 2027

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 57
Class and number of shares	Common Stock: 65,600
Date of issue	July 7, 2008
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From July 7, 2008 to July 6, 2028

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 57
Class and number of shares	Common Stock: 84,000
Date of issue	July 9, 2009
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From July 9, 2009 to July 8, 2029

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 55
Class and number of shares	Common Stock: 69,800
Date of issue	July 9, 2010
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From July 9, 2010 to July 8, 2030

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 47
Class and number of shares	Common Stock: 147,400
Date of issue	March 12, 2012
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 12, 2012 to March 11, 2032

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 38
Class and number of shares	Common Stock: 139,600
Date of issue	March 15, 2013
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 15, 2013 to March 14, 2033
Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 40
Class and number of shares	Common Stock: 123,600
Date of issue	March 14, 2014
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 14, 2014 to March 13, 2034
Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 32
Class and number of shares	Common Stock: 75,800
Date of issue	March 18, 2015
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 18, 2015 to March 17, 2035
Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 29
Class and number of shares	Common Stock: 54,800
Date of issue	March 16, 2016
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 16, 2016 to March 15, 2036
Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 31
Class and number of shares	Common Stock: 57,400
Date of issue	March 17, 2017
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 17, 2017 to March 16, 2037
Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 30
Class and number of shares	Common Stock: 58,800
Date of issue	March 16, 2018
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 16, 2018 to March 15, 2038

Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 26
Class and number of shares	Common Stock: 64,200
Date of issue	March 18, 2019
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 18, 2019 to March 17, 2039
Company name	Teijin Limited
Position and number of grantees	Directors and Corporate Officers: 27
Class and number of shares	Common Stock: 53,200
Date of issue	March 16, 2020
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From March 16, 2020 to March 15, 2040

The following table summarizes the numbers and movements of stock options as of March 31, 2020.

Non-exercisable stock options

Company name	Shares													
	Teijin Limited													
	2006	2007	2008	2009	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020
Stock options outstanding at April 1, 2019	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Stock options granted	–	–	–	–	–	–	–	–	–	–	–	–	–	53,200
Forfeitures	–	–	–	–	–	–	–	–	–	–	–	–	–	–
Conversion to exercisable stock options	–	–	–	–	–	–	–	–	–	–	–	–	–	53,200
Stock options outstanding at March 31, 2020	–	–	–	–	–	–	–	–	–	–	–	–	–	–

Exercisable stock options

Company name	Shares													
	2006	2007	2008	2009	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020
Teijin Limited														
Stock options outstanding at April 1, 2019	800	1,200	4,000	9,400	11,200	30,400	48,400	60,400	68,400	52,400	54,600	58,800	64,200	—
Conversion from non-exercisable stock options	—	—	—	—	—	—	—	—	—	—	—	—	—	53,200
Stock options exercised	800	1,200	4,000	7,400	7,200	14,800	23,800	20,200	25,600	14,200	10,400	4,200	—	—
Forfeitures	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Stock options outstanding at March 31, 2020	—	—	—	2,000	4,000	15,600	24,600	40,200	42,800	38,200	44,200	54,600	64,200	53,200

The following table summarizes value information of stock options as of March 31, 2020.

Company name	Yen													
	2006	2007	2008	2009	2010	2012	2013	2014	2015	2016	2017	2018	2019	2020
Teijin Limited														
Paid-in value	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Average market price of the stock at the time of exercise	¥ 1,938	¥ 1,938	¥ 1,941	¥ 1,928	¥ 1,930	¥ 1,942	¥ 1,944	¥ 1,927	¥ 1,928	¥ 1,924	¥ 1,942	¥ 1,938	—	—
Fair value at the date of grant	¥ 3,315	¥ 3,050	¥ 1,535	¥ 1,265	¥ 1,305	¥ 1,225	¥ 980	¥ 1,140	¥ 1,925	¥ 1,800	¥ 1,955	¥ 1,732	¥ 1,627	¥ 1,138

The method of estimation for the fair value of stock options granted in the year ended March 31, 2020 is as follows:

Method of valuation	Black-Scholes Model
Volatility	25%
Expected remaining period	5.5 years
Expected dividend	¥70.00 per share
Interest rate without any risks	(0.16%)

Infocom Corporation

The account and the amounts related to stock options in the years ended March 31, 2019 and 2020 are as follows:

Account	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Selling, general and administrative expenses	¥ 29	¥ 40	\$ 368

The following tables summarize the contents of stock options as of March 31, 2020.

Company name	Infocom Corporation
Position and number of grantees	Directors and Corporate Officers: 5
Class and number of shares	Common Stock: 72,400
Date of issue	May 31, 2013
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From June 1, 2013 to May 31, 2043

Company name	Infocom Corporation
Position and number of grantees	Directors and Corporate Officers: 6
Class and number of shares	Common Stock: 46,000
Date of issue	June 6, 2014
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From June 7, 2014 to June 6, 2044

Company name	Infocom Corporation
Position and number of grantees	Directors and Corporate Officers: 7
Class and number of shares	Common Stock: 53,600
Date of issue	June 9, 2015
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From June 10, 2015 to June 9, 2045

Company name	Infocom Corporation
Position and number of grantees	Directors and Corporate Officers: 8
Class and number of shares	Common Stock: 36,800
Date of issue	June 13, 2016
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From June 14, 2016 to June 13, 2046

Company name	Infocom Corporation
Position and number of grantees	Directors and Corporate Officers: 8
Class and number of shares	Common Stock: 34,800
Date of issue	June 12, 2017
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From June 13, 2017 to June 12, 2047

Company name	Infocom Corporation
Position and number of grantees	Directors and Corporate Officers: 7
Class and number of shares	Common Stock: 22,400
Date of issue	June 11, 2018
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From June 12, 2018 to June 11, 2048

Company name	Infocom Corporation
Position and number of grantees	Directors and Corporate Officers: 7
Class and number of shares	Common Stock: 17,600
Date of issue	June 11, 2019
Condition of settlement of rights	No provisions
Period grantees provide service in return for stock options	No provisions
Period subscription rights are to be exercised	From June 12, 2019 to June 11, 2049

***Note: The above number of shares of common stock reflects the 2 for 1 stock split effective March 1, 2019.**

The following table summarizes the numbers and movements of stock options as of March 31, 2020.

Non-exercisable stock options

Company name	Shares						
	Infocom Corporation						
	2014	2015	2016	2017	2018	2019	2020
Stock options outstanding at April 1, 2019	–	–	–	–	–	–	–
Stock options granted	–	–	–	–	–	–	17,600
Forfeitures	–	–	–	–	–	–	–
Conversion to exercisable stock options	–	–	–	–	–	–	17,600
Stock options outstanding at March 31, 2020	–	–	–	–	–	–	–

Company name	Shares						
	Infocom Corporation						
	2014	2015	2016	2017	2018	2019	2020
Stock options outstanding at April 1, 2019	55,200	46,000	53,600	36,800	34,800	22,400	–
Conversion from non-exercisable stock options	–	–	–	–	–	–	17,600
Stock options exercised	14,400	8,400	8,000	5,200	2,000	–	–
Forfeitures	–	–	–	–	–	–	–
Stock options outstanding at March 31, 2020	40,800	37,600	45,600	31,600	32,800	22,400	17,600

The following table summarizes value information of stock options as of March 31, 2020.

		Yen						
Company name	Infocom Corporation							
	2014	2015	2016	2017	2018	2019	2020	
Paid-in value	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	
Average market price of the stock at the time of exercise	¥ 2,405	¥ 2,554	¥ 2,333	¥ 2,333	¥ 2,333	-	-	
Fair value at the date of grant	¥ 143,839	¥ 144,800	¥ 227,000	¥ 300,000	¥ 391,600	¥ 521,000	¥ 915,600	

The method of estimation for the fair value of stock options granted in the year ended March 31, 2020 is as follows:

Method of valuation	Black-Scholes Model
Volatility	37.1%
Expected remaining period	8.2 years
Expected dividend rate	0.74%
Interest rate without any risks	(0.20%)

Note 16. Segment information

(1) Reportable operating segment information

The Company's reportable operating segments are components of an entity for which separate financial information is available and evaluated regularly by its chief decision-making authority in determining the allocation of management resources and in assessing performance.

The Company currently divides its operations into business fields, based on type of product, nature of business, and services provided.

The business fields formulate product and service strategies in a comprehensive manner in Japan and overseas. Accordingly, the Company divides its operations into reportable operating segments on the same basis as it uses internally.

The Materials Business involves the production and sale of aramid fibers, carbon fibers, polycarbonate resin, polyester films*, polyester fibers, fiber products, and composites, while the Healthcare Business includes the production and sale of pharmaceuticals and medical devices, as well as the production and rental of home healthcare devices and the provision of home healthcare services.

*The Company sold its entire equity interest in subsidiaries in the Films business on October 1, 2019.

As a result, these subsidiaries have been excluded from the scope of consolidation effective from the nine months ended December 31, 2019.

(2) Accounting methods used to calculate segment sales, segment income, segment assets and other items for reportable operating segments

The accounting policies for the reportable operating segments are the same as those described in Note 2. "Summary of significant accounting policies." Segment income for reportable operating segments is based on operating income. Amounts for intersegment transactions or transfers are calculated based on market prices or on

Thousands of U.S. dollars					
2020					
	Materials	Healthcare	Subtotal	Others	Total
Sales:					
1) External customers	\$ 5,824,166	\$ 1,414,518	\$ 7,238,684	\$ 606,074	\$ 7,844,767
2) Intersegment net sales and transfer	7,939	294	8,233	69,540	77,782
Total sales	<u>\$ 5,832,105</u>	<u>\$ 1,414,812</u>	<u>\$ 7,246,917</u>	<u>\$ 675,623</u>	<u>\$ 7,922,540</u>
Segment income	<u>\$ 195,700</u>	<u>\$ 299,090</u>	<u>\$ 494,799</u>	<u>\$ 73,472</u>	<u>\$ 568,272</u>
Segment assets	<u>\$ 6,111,908</u>	<u>\$ 1,162,060</u>	<u>\$ 7,273,959</u>	<u>\$ 864,458</u>	<u>\$ 8,138,418</u>
Other items:					
Depreciation	<u>\$ 281,044</u>	<u>\$ 107,939</u>	<u>\$ 388,983</u>	<u>\$ 16,310</u>	<u>\$ 405,293</u>
Amortization of goodwill	<u>\$ 49,683</u>	<u>\$ 2,398</u>	<u>\$ 52,081</u>	<u>\$ —</u>	<u>\$ 52,081</u>
Investments in associates accounted for using the equity method	<u>\$ 86,134</u>	<u>\$ 12,193</u>	<u>\$ 98,328</u>	<u>\$ 238,720</u>	<u>\$ 337,049</u>
Increase in tangible and intangible fixed assets	<u>\$ 493,586</u>	<u>\$ 114,353</u>	<u>\$ 607,939</u>	<u>\$ 18,137</u>	<u>\$ 626,077</u>

Notes:

1. "Others," which includes the IT business, does not qualify as a reportable operating segment.
2. "Depreciation" and "Increase in tangible and intangible fixed assets" include long-term prepaid expenses and their amortization.

Reconciliations of published figures and aggregates of reportable operating segments for the years ended March 31, 2019 and 2020 are as shown below:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Adjustment for net sales			
Reportable operating segments	¥ 829,920	¥ 788,682	\$ 7,246,917
Others	68,097	73,528	675,623
Elimination of intersegment transactions	<u>(9,428)</u>	<u>(8,465)</u>	<u>(77,782)</u>
Net sales	<u>¥ 888,589</u>	<u>¥ 853,746</u>	<u>\$ 7,844,767</u>
	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Adjustment for operating income			
Reportable operating segments	¥ 58,945	¥ 53,849	\$ 494,799
Others	7,163	7,996	73,472
Elimination of intersegment transactions	105	(63)	(579)
Corporate expenses*	<u>(6,213)</u>	<u>(5,576)</u>	<u>(51,236)</u>
Operating income	<u>¥ 60,000</u>	<u>¥ 56,205</u>	<u>\$ 516,448</u>

* Corporate expenses are expenses that cannot be allocated to individual reportable operating segments and are primarily related to head office administration.

Reconciliations of published figures and aggregates of reportable operating segments as of March 31, 2019 and 2020 are as shown below:

	Millions of yen		Thousands of U.S. dollars
	2019	2020	2020
Adjustment for assets			
Reportable operating segments	¥ 814,155	¥ 791,625	\$ 7,273,959
Others	95,760	94,079	864,458
Corporate assets*	180,280	179,832	1,652,412
Adjustment	(69,541)	(61,313)	(563,383)
Total assets	¥ 1,020,654	¥ 1,004,223	\$ 9,227,446

* Corporate assets are assets that cannot be allocated to individual reportable operating segments and are primarily related to investments of the parent company in "cash and time deposits," "investment securities," etc.

	Millions of yen			
	2019			
	Reportable operating segments	Others	Adjustment	Total
Other items				
Depreciation	¥ 39,737	¥ 1,733	¥ 1,098	¥ 42,568
Amortization of goodwill	¥ 4,983	—	—	¥ 4,983
Investments in associates accounted for using the equity method	¥ 13,555	¥ 24,394	—	¥ 37,949
Increase in tangible and intangible fixed assets	¥ 60,449	¥ 1,885	¥ 494	¥ 62,828

	Millions of yen			
	2020			
	Reportable operating segments	Others	Adjustment	Total
Other items				
Depreciation	¥ 42,333	¥ 1,775	¥ 1,174	¥ 45,282
Amortization of goodwill	¥ 5,668	—	—	¥ 5,668
Investments in associates accounted for using the equity method	¥ 10,701	¥ 25,980	—	¥ 36,681
Increase in tangible and intangible fixed assets	¥ 66,162	¥ 1,974	¥ 486	¥ 68,622

Thousands of U.S. dollars				
2020				
	Reportable operating segments	Others	Adjustment	Total
Other items				
Depreciation	\$ 388,983	\$ 16,310	\$ 10,787	\$ 416,080
Amortization of goodwill	\$ 52,081	—	—	\$ 52,081
Investments in associates accounted for using the equity method	\$ 98,328	\$ 238,720	—	\$ 337,049
Increase in tangible and intangible fixed assets	\$ 607,939	\$ 18,137	\$ 4,466	\$ 630,543

(4) Information by product/service

Sales to external customers by product/service category for the years ended March 31, 2019 and 2020 are as shown below:

Millions of yen					
2019					
Material	Polyester Fibers & Trading and Retail	Composites and Others	Healthcare	IT and Others	Total
¥ 263,932	¥ 318,271	¥ 89,356	¥ 157,510	¥ 59,520	¥ 888,589
2020					
Material	Polyester Fibers & Trading and Retail	Composites and Others	Healthcare	IT and Others	Total
¥ 230,312	¥ 306,312	¥ 97,220	¥ 153,942	¥ 65,959	¥ 853,746

Thousands of U.S. dollars					
2020					
Material	Polyester Fibers & Trading and Retail	Composites and Others	Healthcare	IT and Others	Total
\$ 2,116,251	\$ 2,814,596	\$ 893,320	\$ 1,414,519	\$ 606,077	\$ 7,844,763

Note

The Material Business is a reportable operating segment including the product/service categories of "Material," "Polyester Fibers & Trading and Retail," and "Composites and Others." The Material category consists of the production and sale of such high-functional materials as aramid fibers, carbon fibers, polycarbonate resin, and polyester films.

(5) Information by geographical segment

1. Net sales by region for the years ended March 31, 2019 and 2020 are as shown below:

Millions of yen						
2019						
Japan	China	Asia	U.S.	Americas (excl. U.S.)	Europe and others	Consolidated total
¥500,161	¥105,077	¥74,773	¥113,853	¥21,260	¥73,465	¥888,589
Millions of yen						
2020						
Japan	China	Asia	U.S.	Americas (excl. U.S.)	Europe and others	Consolidated total
¥477,528	¥100,833	¥72,589	¥109,914	¥20,259	¥72,623	¥853,746
Thousands of U.S. dollars						
2020						
Japan	China	Asia	U.S.	Americas (excl. U.S.)	Europe and others	Consolidated total
\$4,387,834	\$926,518	\$666,994	\$1,009,960	\$186,153	\$667,307	\$7,844,767

2. Tangible fixed assets by region as of March 31, 2019 and 2020 are as shown below:

Millions of yen							
2019							
Japan	China	Netherlands	Asia	U.S.	Europe	Americas (excl. U.S.)	Consolidated total
¥134,399	¥19,354	¥27,150	¥23,958	¥46,688	¥11,532	¥4,806	¥267,887
Millions of yen							
2020							
Japan	China	Netherlands	Asia	U.S.	Europe	Americas (excl. U.S.)	Consolidated total
¥130,099	¥16,779	¥35,182	¥22,597	¥69,934	¥17,711	¥3,779	¥296,081
Thousands of U.S. dollars							
2020							
Japan	China	Netherlands	Asia	U.S.	Europe	Americas (excl. U.S.)	Consolidated total
\$1,195,433	\$154,176	\$323,275	\$207,636	\$642,599	\$162,740	\$34,724	\$2,720,583

(6) Information by major customer

Information for the years ended March 31, 2019 and 2020 is omitted as no single customer accounted for more than 10% of consolidated net sales as reported in the consolidated statements of income.

(7) Impairment loss and goodwill by reportable operating segment

Impairment loss by reportable operating segment for the years ended March 31, 2019 and 2020 is as shown below:

Millions of yen						
2019						
	Materials	Healthcare	Others	Elimination and corporate	Consolidated total	
Impairment loss	¥ 4,272	¥ —	¥ 158	¥ 1,560	¥ 5,990	

Millions of yen						
2020						
	Materials	Healthcare	Others	Elimination and corporate	Consolidated total	
Impairment loss	¥ 9,618	¥ 567	¥ 94	¥ 751	¥ 11,030	

Thousands of U.S. dollars						
2020						
	Materials	Healthcare	Others	Elimination and corporate	Consolidated total	
Impairment loss	\$ 88,376	\$ 5,210	\$ 864	\$ 6,901	\$ 101,351	

Goodwill by reportable operating segment as of March 31, 2019 and 2020 is as shown below:

Millions of yen						
2019						
	Materials	Healthcare	Others	Elimination and corporate	Consolidated total	
Amortization of goodwill	¥ 4,721	¥ 262	¥ —	¥ —	¥ 4,983	
Balance as of March 31, 2019	¥ 32,230	¥ 615	¥ —	¥ —	¥ 32,845	

Millions of yen						
2020						
	Materials	Healthcare	Others	Elimination and corporate	Consolidated total	
Amortization of goodwill	¥ 5,407	¥ 261	¥ —	¥ —	¥ 5,668	
Balance as of March 31, 2020	¥ 23,459	¥ 354	¥ —	¥ —	¥ 23,813	

Thousands of U.S. dollars						
2020						
	Materials	Healthcare	Others	Elimination and corporate	Consolidated total	
Amortization of goodwill	\$ 49,683	\$ 2,398	\$ —	\$ —	\$ 52,081	
Balance as of March 31, 2020	\$ 215,556	\$ 3,253	\$ —	\$ —	\$ 218,809	

Note 17. Contingent liabilities

At March 31, 2019 and 2020, the Companies were contingently liable as follows:

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
(a) As endorser of notes discounted or endorsed	¥ —	¥ 75	\$ 689
(b) As guarantors of indebtedness of:			
Unconsolidated subsidiaries and affiliates	¥ 825	¥ 674	\$ 6,193
Others	1,878	1,715	15,759
	¥ 2,703	¥ 2,390	\$ 21,961
(c) As guarantor of accounts receivable negotiated to third parties	¥ 946	¥ 1,485	\$ 13,645

Note 18. Asset retirement obligations

Asset retirement obligations recorded on the consolidated balance sheets

(1) Outline of asset retirement obligations

Recorded asset retirement obligations are expenses such as costs for removal of asbestos from buildings owned by the Company when they are demolished and costs for restoration under the lease agreements of real estate.

(2) Calculation method of asset retirement obligations

The Companies estimate that the period of use is mainly from 1 to 50 years, and calculate the obligations using discount rates between 0.0% and 1.3%.

(3) Changes in the total amount of asset retirement obligations

In the year ended March 31, 2019, the estimated amount of obligation was changed to a more precise estimation, based on the Soil Contamination Countermeasures Act, as soil cleanup became possible.

	Millions of yen		Thousands of
	2019	2020	U.S. dollars
Beginning balance	¥ 1,672	¥ 2,845	\$ 26,142
Reconciliation associated with passage of time	11	10	92
Reconciliation associated with changes in accounting estimates	1,702	93	855
Decrease due to the fulfillment of asset retirement obligations	(538)	(297)	(2,729)
Others	(2)	(49)	(450)
Ending balance	¥ 2,845	¥ 2,603	\$ 23,918

Note: The ending balance of asset retirement obligation includes ¥375 million (\$3,446 thousand) classified as "Other current assets" for the year ended March 31, 2020.

Note 19. Subsequent events

(Introduction of Restricted Stock Compensation Plan)

Infocom Corporation, a consolidated subsidiary of the Company, reviewed its executive compensation plan at the Board of Directors meeting held on April 27, 2020, and introduced a restricted stock compensation plan (“the Compensation Plan”). This proposal regarding the Compensation Plan was submitted at the 38th Ordinary General Meeting of Shareholders held on June 16, 2020, and the Compensation Plan was approved there.

1. Reason for Introducing the Compensation Plan

Allocate restricted shares to their directors (excluding outside directors; “Eligible Directors”) to increase motivation for achieving the medium-term management plan, and to share the merits and risks of share price fluctuations with the stakeholders.

2. Overview of the Compensation Plan

(1) Director remuneration and number of shares delivered

The Compensation Plan grants monetary compensation claims to the Eligible Directors in order to allocate restricted stock, and Eligible Directors issue or dispose of common shares of them by investing the monetary compensation claims in kind.

At the 20th Ordinary General Meeting of Shareholders held on June 27, 2002, the amount of remuneration for directors of them shall be ¥300 million or less per year (however, salary for directors who concurrently serve as employees is not included). Approved at the 30th Ordinary General Meeting of Shareholders held on June 14, 2012, within the framework of the above-mentioned remuneration amount, it is possible to provide remuneration for granting stock acquisition rights as stock compensation-type stock options. However, in addition to this, they plan to issue a separate payment within the range of ¥150 million per year for the purpose of delivering restricted stock.

However, as a general rule, this remuneration is assumed to be paid in a lump sum in the first year of the three business years, which is the period covered by the medium-term management plan, in an amount equivalent to the compensation for the execution of duties over the three business years. They believe this will be equivalent to the annual payment within ¥50 million.

The specific timing and allocation of payment to each target director will be decided by their board of directors.

With the introduction of the Compensation Plan, they will abolish the above stock-based compensation stock option system for target directors, except for compensation already granted, and will no longer issue new stock acquisition rights as stock options to directors.

The total number of their common shares issued or disposed of under the Compensation Plan shall be 54,000 shares or less per year. (However, if there is a stock split of common stock of them [including free allocation of common stock of the company] that takes effect on or after the date on which this proposal is approved, the effect will be applicable. From the date of

occurrence, the total number will be adjusted within a reasonable range as necessary according to the split ratio, merger ratio, etc.)

However, as stated above, in principle, the monetary receivables related to the Compensation Plan shall be paid to the target directors in the amount equivalent to the compensation for the execution of duties over the three business years in the first year of the target period. It is assumed that it will be paid, and they believe that the actual number of shares will be within 18,000.

The amount paid per share shall be the closing price of their common stock on the Tokyo Stock Exchange on the business day preceding the resolution of each meeting of the Board of Directors (if the transaction is not closed on the same day, the closing price of the most recent trading day preceding it will be used).

(2) Stock allocation agreement with transfer restrictions

Upon issuing or disposing of their common stock under the Compensation Plan, they and the target directors will enter into a share allocation agreement with transfer restrictions. The main content of this contract is as follows.

- ① Target directors must not transfer, set mortgage rights, or otherwise dispose of the allocated shares for a certain period of time.
- ② They must acquire the shares free of charge if certain circumstances occur.

The common stock of them to which Eligible Directors have been allotted will not be able to be transferred, have mortgage rights set, or be otherwise disposed of during the transfer restriction period. During the transfer restriction period, this common stock will be managed by a dedicated account opened by Eligible Directors at a securities company.

After the conclusion of this Ordinary General Meeting of Shareholders, their plans to issue the restricted shares of stock to the executive officers of them by the resolution of the board of directors.

Independent Auditor's Report

To the Board of Directors of Teijin Limited:

Opinion

We have audited the accompanying consolidated financial statements of Teijin Limited (“the Company”) and its consolidated subsidiaries (collectively referred to as “the Group”), which comprise the consolidated balance sheets as at March 31, 2019 and 2020, the consolidated statements of income, statements of comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and notes to consolidated financial statements, comprising a summary of significant accounting policies, other explanatory information.

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

Basis for Opinion

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

Responsibilities of Management and Corporate auditors and the board of corporate auditors 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.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of 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 our audit in accordance with auditing standards generally accepted in Japan, we exercise

professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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 an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, while the objective of the audit is not to express 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 presentation and disclosures in the consolidated financial statements are in accordance with accounting standards generally accepted in Japan, 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 corporate auditors and the board of corporate auditors regarding, among other matters, the planned scope and timing of the audit, significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide corporate auditors and the board of corporate auditors 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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Interest required to be disclosed by the Certified Public Accountants Act of Japan

We 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.

Hidetoshi Fukuda
Designated Engagement Partner
Certified Public Accountant

Kiyoshi Hirai
Designated Engagement Partner
Certified Public Accountant

Takeharu Kirikae
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 19, 2020

Notes to the Reader of Independent Auditor's Report:

This is a copy of the Independent Auditor's Report and the original copies are kept separately by the Company and KPMG AZSA LLC.