Financial Section 2021

Sustainable Value Together

Contents

DAICEL

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2021 and 2020

	Millions of Yen 2020/3	Millions of Yen 2021/3	Thousands of U.S. Dollars (Note 1) 2021/3
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 18)	¥ 80,674	¥ 90,747	$ 817,540
Securities (Notes 4 and 18)	629	709	6,387
Receivables (Note 18):			
Trade notes	2,667	3,906	35,189
Trade accounts	76,318	88,369	796,117
Unconsolidated subsidiaries and associated companies	4,013	3,526	31,765
Allowance for doubtful accounts	(66)	(31)	(279)
Inventories (Note 5)	117,414	108,659	978,909
Other current assets	16,389	16,637	149,882
Total current assets	298,040	312,524	2,815,531
PROPERTY, PLANT AND EQUIPMENT (Notes 6 and 21):			
Land	30,132	30,306	273,027
Buildings and structures	169,092	173,530	1,563,333
Machinery and equipment	589,742	600,575	5,410,585
Construction in progress	42,354	55,082	496,234
Total	831,332	859,496	7,743,207
Accumulated depreciation	(626,975)	(639,776)	(5,763,747)
Net property, plant and equipment	204,346	219,720	1,979,459
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 18)	57,992	71,562	644,702
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 18)	10,584	12,001	108,117
Deferred tax assets (Note 13)	3,444	1,522	13,711
Retirement benefit asset (Note 9)	6,235	7,781	70,099
Other assets	17,348	15,272	137,585
Total investments and other assets	95,605	108,140	974,234
TOTAL	¥ 597,992	¥ 640,385	$ 5,769,234

See notes to consolidated financial statements.

	Millions of Yen 2020/3	Millions of Yen 2021/3	Thousands of U.S. Dollars (Note 1) 2021/3
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank borrowings (Notes 7 and 18)	¥ 6,902	¥ 7,024	$ 63,279
Current portion of long-term borrowings (Notes 7, 8, 18 and 20)	10,336	5,003	45,072
Payables (Notes 18 and 20):			
Trade notes	256	168	1,513
Trade accounts	43,462	48,164	433,909
Nontrade accounts	15,234	13,375	120,495
Construction	8,781	10,849	97,738
Unconsolidated subsidiaries and associated companies	1,599	1,420	12,792
Income taxes payable (Notes 13 and 18)	2,240	4,582	41,279
Provision for environmental measures	1,725		
Other current liabilities	15,687	21,976	197,981
Total current liabilities	106,226	112,566	1,014,108
LONG-TERM LIABILITIES:			
Long-term borrowings (Notes 7, 8, 18 and 20)	72,200	255,572	2,302,450
Retirement benefit liability (Note 9)	11,055	8,003	72,099
Provision for environmental measures	547	195	1,756
Asset retirement obligations (Note 10)	1,229	1,268	11,423
Deferred tax liabilities (Note 13)	7,861	13,684	123,279
Other long-term liabilities	6,287	4,094	36,882
Total long-term liabilities	99,182	282,818	2,547,909
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 17, 19 and 23)			
EQUITY (Notes 11 and 26):			
Share capital			
Common stock, authorized, 1,450,000,000 shares in 2021 and 2020; issued, 302,942,682 shares in 2021 and 315,942,682 shares in 2020	36,275	36,275	326,801
Capital surplus	31,692		
Retained earnings	271,762	152,816	1,376,720
Treasury shares			
Treasury stock - at cost, 1,609,633 shares in 2021 and 5,160,966 shares in 2020	(5,050)	(1,446)	(13,027)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	26,582	36,884	332,288
Deferred gains or losses on hedges	(69)	(27)	(243)
Foreign currency translation adjustments	(656)	8,689	78,279
Remeasurements of defined benefit plans	2,009	4,660	41,981
Total	362,545	237,852	2,142,810
Non-controlling interests	30,038	7,148	64,396
Total equity	392,583	245,000	2,207,207
TOTAL	¥ 597,992	¥ 640,385	$ 5,769,234

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2021 and 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020/3	2021/3	2021/3
NET SALES	¥ 412,826	**¥ 393,568**	**$ 3,545,657**
COST OF SALES (Notes 14 and 20)	301,774	**282,136**	**2,541,765**
Gross profit	111,051	**111,431**	**1,003,882**
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 14 and 15)	81,406	**79,708**	**718,090**
Operating profit	29,644	**31,723**	**285,792**
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,932	**1,861**	**16,765**
Gain on sales of investment securities	2,616	**3,182**	**28,666**
Share of profit of entities accounted for using equity method	1,772	**1,785**	**16,081**
Interest expense (Note 20)	(1,173)	**(1,195)**	**(10,765)**
Foreign exchange gain (loss)	(802	**53**	**477**
Loss on retirement of non-current assets	(3,098)	**(1,099)**	**(9,900)**
Impairment loss (Note 22)	(14,757)	**(3,786)**	**(34,108)**
Other – net	522	**516**	**4,648**
Other income (expenses) – net	(12,988)	**1,317**	**11,864**
PROFIT BEFORE INCOME TAXES	16,656	**33,040**	**297,657**
INCOME TAXES (Note 13):			
Current	4,882	**8,272**	**74,522**
Deferred	333	**2,333**	**21,018**
Total income taxes	5,215	**10,605**	**95,540**
NET PROFIT	11,440	**22,435**	**202,117**
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	6,462	**2,722**	**24,522**
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 4,978	**¥ 19,713**	**$ 177,594**

	Yen		U.S. Dollars (Note 1)
	2020/3	2021/3	2021/3
PER SHARE INFORMATION (Notes 2.s and 16):			
Basic net profit	¥ 15.49	**¥ 65.18**	**$ 0.58**
Cash dividends applicable to the year	32.00	**34.00**	**0.30**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2021 and 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020/3	2021/3	2021/3
NET PROFIT	¥ 11,440	**¥ 22,435**	**$ 202,117**
OTHER COMPREHENSIVE INCOME (LOSS) (Note 24):			
Valuation difference on available-for-sale securities	(2,528)	**10,357**	**93,306**
Deferred gains or losses on hedges	(155)	**46**	**414**
Foreign currency translation adjustments	(6,089)	**8,826**	**79,513**
Remeasurements of defined benefit plans	116	**2,693**	**24,261**
Share of other comprehensive income (loss) of entities accounted for using equity method	(484)	**854**	**7,693**
Total other comprehensive income (loss)	(9,141)	**22,779**	**205,216**
COMPREHENSIVE INCOME	¥ 2,299	**¥ 45,214**	**$ 407,333**
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ (2,980)	**¥ 42,055**	**$ 378,873**
Non-controlling interests	5,280	**3,159**	**28,459**

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2021 and 2020

Millions of Yen

	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-controlling Interests	Total Equity
						Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans			
BALANCE, APRIL 1, 2019	328,333,508	¥ 36,275	¥ 31,692	¥ 294,149	¥ (4,344)	¥ 29,024	¥ 13	¥ 4,968	¥ 1,817	¥ 393,597	¥ 29,645	¥ 423,243
Net profit attributable to owners of the parent				4,978						4,978		4,978
Cash dividends, ¥32.00 per share				(10,414)						(10,414)		(10,414)
Restricted stock awards	160,049			(24)	181					157		157
Repurchase of treasury stock	(17,711,935)				(17,814)					(17,814)		(17,814)
Disposal of treasury stock				(0)	0					0		0
Retirement of treasury stock	94			(16,927)	16,927							
Net change in the year						(2,442)	(83)	(5,625)	192	(7,959)	392	(7,566)
BALANCE, MARCH 31, 2020	310,781,761	36,275	31,692	271,762	(5,050)	26,582	(69)	(656)	2,009	362,545	30,038	392,583
Net profit attributable to owners of the parent				19,713						19,713		19,713
Cash dividends, ¥34.00 per share				(10,415)						(10,415)		(10,415)
Restricted stock awards	232,604											
Repurchase of treasury stock	(9,681,271)				(8,286)					(8,286)		(8,286)
Disposal of treasury stock				(35)	209					173		173
Retirement of treasury stock				(11,681)	11,681							
Change in ownership interest of parent due to transactions with non-controlling interests (Note 12)			(31,692)	(116,527)						(148,220)	(19,110)	(167,330)
Net change in the year						10,301	42	9,346	2,651	22,341	(3,780)	18,561
BALANCE, MARCH 31, 2021	**301,333,049**	**¥ 36,275**		**¥ 152,816**	**¥ (1,446)**	**¥ 36,884**	**¥ (27)**	**¥ 8,689**	**¥ 4,660**	**¥ 237,852**	**¥ 7,148**	**¥ 245,000**

Thousands of U.S. Dollars (Note 1)

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income				Total	Non-controlling Interests	Total Equity
					Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans			
BALANCE, MARCH 31, 2020	$ 326,801	$ 285,513	$ 2,448,306	$ (45,495)	$ 239,477	$ (621)	$ (5,909)	$ 18,099	$ 3,266,171	$ 270,612	$ 3,536,783
Net profit attributable to owners of the parent			177,594						177,594		177,594
Cash dividends, $0.30 per share			(93,828)						(93,828)		(93,828)
Restricted stock awards											
Repurchase of treasury stock				(74,648)					(74,648)		(74,648)
Disposal of treasury stock			(315)	1,882					1,558		1,558
Retirement of treasury stock			(105,234)	105,234							
Change in ownership interest of parent due to transactions with non-controlling interests (Note 12)		(285,513)	(1,049,792)						(1,335,315)	(172,162)	(1,507,477)
Net change in the year					92,801	378	84,198	23,882	201,270	(34,054)	167,216
BALANCE, MARCH 31, 2021	**$ 326,801**		**$ 1,376,720**	**$ (13,027)**	**$ 332,288**	**$ (243)**	**$ 78,279**	**$ 41,981**	**$ 2,142,810**	**$ 64,396**	**$ 2,207,207**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2021 and 2020

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2020/3	2021/3	2021/3
OPERATING ACTIVITIES:			
Profit before income taxes	¥ 16,656	**¥ 33,040**	**$ 297,657**
Adjustments for:			
Income taxes paid	(10,459)	**(9,976)**	**(89,873)**
Income taxes refund	639	**3,385**	**30,495**
Depreciation	29,396	**26,323**	**237,144**
Impairment loss	14,757	**3,786**	**34,108**
Amortization of goodwill	723	**1,081**	**9,738**
Loss on retirement of non-current assets	3,098	**1,099**	**9,900**
Increase (decrease) in provision for environmental measures	(2,992)	**(2,077)**	**(18,711)**
Loss (gain) on sales of investment securities	(2,616)	**(3,182)**	**(28,666)**
Share of loss (profit) of entities accounted for using equity method	(1,772)	**(1,785)**	**(16,081)**
Changes in assets and liabilities:			
Decrease (increase) in trade receivable	8,699	**(10,846)**	**(97,711)**
Decrease (increase) in inventories	5,709	**11,091**	**99,918**
Increase (decrease) in trade payable	(7,885)	**2,183**	**19,666**
Other – net	3,239	**3,745**	**33,738**
Net cash provided by operating activities	57,193	**57,869**	**521,342**
INVESTING ACTIVITIES:			
Net decrease (increase) in time deposits	139	**1**	**9**
Capital expenditures	(46,313)	**(36,790)**	**(331,441)**
Purchase of investment securities	(266)	**(916)**	**(8,252)**
Proceeds from sales and redemption of investment securities	4,653	**5,048**	**45,477**
Proceeds from sales of property, plant and equipment	148	**74**	**666**
Purchase of shares of subsidiaries and associates	(1,760)		
Loan advances	(234)	**(18)**	**(162)**
Collection of finance receivables	217	**809**	**7,288**
Other – net	(2,448)	**(2,427)**	**(21,864)**
Net cash used in investing activities	(45,864)	**(34,220)**	**(308,288)**
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	(2,581)	**(238)**	**(2,144)**
Proceeds from long-term borrowings	7,231	**88,177**	**794,387**
Repayments of long-term borrowings	(18,537)	**(10,484)**	**(94,450)**
Proceeds from issuance of bonds		**99,542**	**896,774**
Dividends paid	(10,410)	**(10,415)**	**(93,828)**
Dividends paid to non-controlling interests	(4,878)	**(6,940)**	**(62,522)**
Purchase of treasury shares	(17,814)	**(8,286)**	**(74,648)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		**(167,330)**	**(1,507,477)**
Repayments of lease liabilities	(892)	**(1,076)**	**(9,693)**
Net cash used in financing activities	(47,883)	**(17,050)**	**(153,603)**
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	(2,787)	**3,475**	**31,306**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(39,342)	**10,073**	**90,747**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	120,016	**80,674**	**726,792**
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 80,674	**¥ 90,747**	**$ 817,540**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
Daicel Corporation and Consolidated Subsidiaries

1.BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥111 to $1, the approximate rate of exchange at March 31, 2021. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2.SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation –** The consolidated financial statements as of March 31, 2021, include the accounts of the Company and its 59 significant (60 in 2020) subsidiaries (collectively, the "Companies").

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

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

Investments in one (one in 2020) unconsolidated subsidiary and seven (seven in 2020) associated companies are accounted for by the equity method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

u. **New Accounting Pronouncements**

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

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

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

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

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

– ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement"
– ASBJ Statement No. 9, "Accounting Standard for Measurement of Inventories"
– ASBJ Statement No. 10, "Accounting Standard for

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

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

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

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

v. **Changes in Presentation –** "Income taxes refund" which was included in "Income taxes paid" under cash flows from operating activities in the year ended March 31, 2020, is separately presented under cash flows from operating activities in the year ended March 31, 2021, because its quantitative materiality increased. To reflect this change in presentation, the financial statements for the year ended March 31, 2020, have been restated. As a result, ¥(9,820) million of the "Income taxes paid" have been reclassified as "Income taxes paid" ¥(10,459) million and "Income taxes refund" ¥639 million under cash flows from operating activities in the Consolidated Statements of Cash Flows for the year ended March 31, 2020.

3.SIGNIFICANT ACCOUNTING ESTIMATE

Valuation of assets belonging to Healthcare business

(1)Carrying amounts

Property, plant and equipment ¥17,760 million ($160,000 thousand)

(2)Information on the significant accounting estimate

The Company owns assets of Healthcare business such as production facility to operate the related business.

Assets are grouped by the in-house company, SBU, or BU as a minimum unit. The sales plan which was planned as of establishing a new production facility for the cosmetic market is expected to be delayed due to the cosmetic market environment deteriorated on account of the impact of the COVID-19 in the year ended March 31, 2021.

Based on the expectation, the Company recognized that there is a possibility that the business environment may have deteriorated significantly and indicated an impairment. The Company has compared the total amount of undiscounted future cash flows with the carrying amount and decided not to recognize the impairment loss as the undiscounted future cash flows exceeded the carrying amount.

The undiscounted future cash flows were calculated under the following assumptions.

- The Company assumes the recovery of the market environment, which deteriorated by the effect of the COVID-19, from the year ending March 31, 2023, due to the progression of the vaccination, etc.
- The Company assumes the sales growth based on sales promotion strategies according to the market growth.

If the assumptions used for calculation needs to be revised due to such as the delay of the recovery of the market environment caused by the delay in vaccination of the COVID-19, the emergence of the COVID-19 variant, etc., the Company may recognize an impairment loss in the year ending March 31, 2022.

4.SECURITIES AND INVESTMENT SECURITIES

Securities and investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Current:			
Government and corporate bonds	¥ 629	¥ 709	$ 6,387
Non-current:			
Equity securities	¥ 54,794	¥ 68,811	$ 619,918
Government and corporate bonds	3,058	2,394	21,567
Other	138	356	3,207
Total	¥ 57,992	¥ 71,562	$ 644,702

The costs and aggregate fair values of securities and investment securities at March 31, 2021 and 2020, were as follows:

	Millions of Yen			
	2021			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 15,483	¥ 52,000	¥ (8)	¥ 67,475
Debt securities	3,102	1	(8)	3,095

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

	Thousands of U.S. Dollars			
	2021			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 139,486	$ 468,468	$ (72)	$ 607,882
Debt securities	27,945	9	(72)	27,882

Securities whose fair values are not readily determinable as of March 31, 2021 and 2020, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Available-for-sale:			
Equity securities	¥ 712	¥ 1,336	$ 12,036
Debt securities	36	8	72
Other	138	356	3,207
Total	¥ 886	¥ 1,701	$ 15,324

Proceeds from sales of available-for-sale securities for the years ended March 31, 2021 and 2020, was ¥5,048 million ($45,477 thousand) and ¥4,653 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, for the years ended March 31, 2021 and 2020 were ¥3,182 million ($28,666 thousand) and ¥2,616 million, respectively.

5.INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Finished products	¥ 59,254	¥ 50,579	$ 455,666
Semi-finished products and work in process	17,299	18,234	164,270
Raw materials and supplies	40,859	39,845	358,963
Total	¥ 117,414	¥ 108,659	$ 978,909

6.INVESTMENT PROPERTY

The Companies own certain rental properties such as land and buildings in Osaka and other areas. Rental income for the years ended March 31, 2021 and 2020 was ¥471 million ($4,243 thousand) and ¥492 million, respectively.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2020	Increase/(Decrease)	March 31, 2021	March 31, 2021
¥ 2,689	¥ (233)	¥ 2,455	¥ 18,172

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

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2020	Increase/(Decrease)	March 31, 2021	March 31, 2021
$ 24,225	$ (2,099)	$ 22,117	$ 163,711

Notes:
1) Increase and decrease of items related to rental properties are not disclosed for these fiscal years ended March 31, 2021 and 2020 due to insignificance.
2) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
3) Fair values of properties as of March 31, 2021 and 2020, are measured by the Companies in accordance with the Real-Estate Appraisal Standard.

7.SHORT-TERM BORROWINGS AND LONG-TERM BORROWINGS

Short-term borrowings were principally represented by bank overdrafts. Weighted-average annual interest rate of short-term borrowings at March 31, 2021 and 2020, was 0.81% and 0.98%, respectively.

Long-term borrowings at March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
1.05% bonds due 2023	¥ 10,000	¥ 10,000	$ 90,090
0.14% bonds due 2022	10,000	10,000	90,090
0.23% bonds due 2024	10,000	10,000	90,090
0.37% bonds due 2027	10,000	10,000	90,090
4.00% bonds due 2022	3	3	27
0.08% bonds due 2023		20,000	180,180
0.16% bonds due 2025		20,000	180,180
0.38% bonds due 2027		30,000	270,270
0.50% bonds due 2030		30,000	270,270
Unsecured loans from banks and other financial institutions, due through 2030, with interest rates ranging from 0.16% to 9.00% for 2021 (from 0.16% to 9.00% for 2020)	42,534	120,572	1,086,234
Total	82,537	260,575	2,347,522
Less current portion	(10,336)	(5,003)	(45,072)
Long-term debt, less current portion	¥ 72,200	¥255,572	$ 2,302,450

At March 31, 2021, annual maturities of long-term borrowings were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 5,003	$ 45,072
2023	21,497	193,666
2024	41,230	371,441
2025	19,973	179,936
2026	29,566	266,360
2027 and thereafter	143,305	1,291,036
Total	¥ 260,575	$ 2,347,522

8. FINANCIAL COVENANTS

The Company signed a syndicated loan agreement on February 22, 2021, with Sumitomo Mitsui Banking Corporation and MUFG Bank, Ltd. as the lead arrangers.
This agreement has following financial covenants.

(1)The total amount of the shareholders' equity stated in the consolidated balance sheets as of end of fiscal year ending March 31, 2022 and end of each fiscal year thereafter shall be maintained at least the amount equivalent to 75% of the total amount of the shareholders' equity stated in the consolidated balance sheets as of end of each previous fiscal year.

(2)No operating loss shall be recorded two consecutive years in the consolidated statements of income as of the end of each fiscal year.

The amount of borrowing as of the fiscal year ended March 31, 2021 is as follows. There are no current portion of long-term borrowings included as of March 31, 2021.

Long-term borrowings ¥50,000 million ($450,450 thousand)

9. RETIREMENT AND PENSION PLANS

(1)The changes in defined benefit obligation (except for cases where the simplified method was applied) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Balance at beginning of year	¥ 38,178	¥ 38,826	$ 349,783
Current service cost	1,950	1,943	17,504
Interest cost	229	218	1,963
Actuarial losses	294	210	1,891
Benefits paid	(1,876)	(1,915)	(17,252)
Others	49	174	1,567
Balance at end of year	¥ 38,826	¥ 39,458	$ 355,477

(2)The changes in plan assets (except for cases where the simplified method was applied) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Balance at beginning of year	¥ 35,199	¥ 37,470	$ 337,567
Expected return on plan assets	400	424	3,819
Actuarial gains	881	4,091	36,855
Contributions from employer	1,785	1,781	16,045
Benefits paid	(797)	(1,043)	(9,396)
Others	0	134	1,207
Balance at end of year	¥ 37,470	¥ 42,858	$ 386,108

(3)The changes in defined benefit obligation as a result of applying the simplified method for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Balance at beginning of year	¥ 3,340	¥ 3,401	$ 30,639
Retirement benefit cost	402	313	2,819
Benefits paid	(203)	(300)	(2,702)
Contributions from employer	(26)	(41)	(369)
Others	(111)	169	1,522
Balance at end of year	¥ 3,401	¥ 3,542	$ 31,909

(4)Reconciliation between the net liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Funded defined benefit obligation	¥ 38,874	¥ 39,483	$355,702
Plan assets	(38,107)	(43,516)	(392,036)
	766	(4,032)	(36,324)
Unfunded defined benefit obligation	3,990	4,175	37,612
Net liability arising from defined benefit obligation	¥ 4,757	¥ 142	$ 1,279

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Retirement benefit liability	¥ 10,992	¥ 7,923	$ 71,378
Retirement benefit asset	(6,235)	(7,781)	(70,099)
Net liability arising from defined benefit obligation	¥ 4,757	¥ 142	$ 1,279

Note: Including defined benefit obligation under the simplified method.

(5)The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Service cost	¥ 1,950	¥ 1,943	$ 17,504
Interest cost	229	218	1,963
Expected return on plan assets	(440)	(424)	(3,819)
Recognized actuarial losses	(534)	(170)	(1,531)
Past service cost	166	166	1,495
Amortization of transitional obligation	397	330	2,972
Balance at end of year	¥ 1,808	¥ 2,063	$ 18,585

(6)Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Prior service cost	¥ 166	¥ 166	$ 1,495
Actuarial losses	52	3,684	33,189
Total	¥ 218	¥ 3,850	$ 34,684

(7)Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Unrecognized prior service cost	¥ (665)	¥ (498)	$ (4,486)
Unrecognized actuarial losses	3,343	7,027	63,306
Total	¥ 2,677	¥ 6,528	$ 58,810

(8)Plan assets

a. Components of plan assets

Plan assets as of March 31, 2021 and 2020, consisted of the following:

	2020	2021
Debt investments	22%	21%
Equity investments	52	54
General accounts of insurance companies	8	8
Others	18	17
Total	100%	100%

Note:Total plan assets consisting of a Retirement Benefit Trust for the years ended March 31, 2021 and 2020, were 16% and 15%, respectively.

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

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

(9)Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	2020	2021
Discount rate	0.6%	**0.5%**
Expected rate of return on plan assets	1.1%	**1.1%**
Lump-sum election rate	81.5%	**79.9%**

(10)The amount of contributions to defined contribution plans for subsidiaries for the years ended March 31, 2021 and 2020 was ¥791 million ($7,126 thousand) and ¥721 million, respectively.

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Retirement benefit liability" in the consolidated balance sheets. The amount was ¥80 million ($720 thousand) and ¥62 million at March 31, 2021 and 2020, respectively.

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Balance at beginning of year	¥ 1,333	**¥ 1,235**	**$ 11,126**
Reconciliation associated with passage of time	12	**6**	**54**
Reduction associated with settlement of asset retirement obligations	(81)	**(51)**	**(459)**
Other	(28)	**78**	**702**
Balance at end of year	¥ 1,235	**¥ 1,268**	**$ 11,423**

11. EQUITY

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

a. Dividends

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

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

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

b. Increases/Decreases and Transfer of Share Capital, Reserve and Surplus

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

c. Treasury Stock and Treasury Stock Acquisition Rights

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

12. BUSINESS COMBINATION

(Transactions conducted by commonly controlled entities)
(Additional acquisition of consolidated subsidiaries' stocks)
The Company has concluded an agreement for the acquisition of all the issued shares of Polyplastics Co., Ltd. which was held by Celanese Corporation through its subsidiary and conducted the share acquisition on October 9, 2020.

(1)Summary of the acquisition

a. Name and business of combined entities
Corporate name: Polyplastics Co., Ltd.
Scope of business: Manufacturing and selling of various types of engineering plastics and polymers
b. Date of business combination
October 9, 2020
c. Legal form of business combination
Acquisition of shares from non-controlling shareholders.
d. Name of the entity after the business combination
There is no change.
e. Acquired voting rights ratio
Ratio of voting rights owned prior to the acquisition of shares: 55%
Ratio of voting rights after acquisition: 100%
f. Other information
The voting rights of the additional shares acquired was 45% of the total voting rights and the transaction made Polyplastics Co., Ltd. a wholly owned subsidiary of the Company. This additional acquisition is intended to improve the efficiency of consolidated management and strengthen group management system.

(2)Outline of accounting procedure to be applied

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

(3)Acquisition of additional common stock

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

(4)Changes in transactions with non-controlling shareholders

a. Major factor of changes in capital surplus and retained earnings
Additional acquisition of common stock.
b. Decrease in capital surplus and retained earnings due to transactions with non-controlling shareholders
Capital surplus: ¥31,572 million ($284,432 thousand)
Retained earnings: ¥116,527 million ($1,049,792 thousand)

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2021 and 2020. Foreign subsidiaries are subject to income tax of the countries in which they operate.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2021 and 2020, was as follows:

	2020	2021
Normal effective statutory tax rate	31%	**31%**
Increase or decrease of valuation allowance	3	**8**
Different tax rate in foreign countries	(4)	**(3)**
Equity in earnings of associated companies	(3)	**(2)**
Amortization of goodwill	1	**1**
Tax credit primarily for research and development costs	(1)	**(2)**
Credit for foreign tax	3	**(0)**
Other – net	1	**(0)**
Actual effective tax rate	31%	**32%**

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Deferred tax assets:			
Accrued enterprise taxes	¥ 45	**¥ 449**	**$ 4,045**
Accrued bonuses	1,531	**1,852**	**16,684**
Retirement benefit liability	1,527	**110**	**990**
Provision for environmental measures	695	**59**	**531**
Amount transferred to defined contribution pension plan	750	**493**	**4,441**
Investment securities	41	**129**	**1,162**
Tax loss carryforwards	2,380	**2,246**	**20,234**
Intercompany profits	1,982	**2,107**	**18,981**
Depreciation	4,429	**4,469**	**40,261**
Other	4,276	**6,629**	**59,720**
Less valuation allowance	(3,267)	**(6,039)**	**(54,405)**
Deferred tax assets	¥ 14,394	**¥ 12,508**	**$ 112,684**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥ 10,517	**¥ 14,658**	**$ 132,054**
Tax purpose reserves regulated by Japanese tax law	658	**619**	**5,576**
Undistributed earnings of foreign subsidiaries	6,904	**8,246**	**74,288**
Intangible fixed assets	429	**562**	**5,063**
Other	300	**584**	**5,261**
Deferred tax liabilities	¥ 18,811	**¥ 24,670**	**$ 222,252**
Net deferred tax liabilities	¥ (4,417)	**¥ (12,162)**	**$ (109,567)**

The main reason for the significant change in "Less valuation allowance" was due to the reassessment of the recoverability of deferred tax assets of consolidated subsidiaries.

At March 31, 2021, certain subsidiaries have tax loss carryforwards aggregating approximately ¥2,246 million ($20,234 thousand), which are available to be offset against taxable income of such subsidiaries in future years.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥19,540 million ($176,036 thousand) and ¥21,295 million for the years ended March 31, 2021 and 2020, respectively.

15. MAJOR ITEMS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Freight and packing costs	¥ 16,601	**¥ 16,322**	**$ 147,045**
Salaries and allowances	18,322	**19,473**	**175,432**
Retirement benefit expense	428	**970**	**8,738**
Research and development costs	20,328	**18,567**	**167,270**

16. NET PROFIT PER SHARE

The computation of net profit per common share is based on the weighted-average number of shares outstanding. The weighted-average number of common shares in the computation was 302,448,286 and 321,385,570 for the years ended March 31, 2021 and 2020, respectively.

17. LEASES

The Companies lease certain machinery, computer equipment, office space and other assets.

Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases		
	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Due within one year	¥ 608	**¥ 366**	**$ 3,297**
Due after one year	1,763	**1,760**	**15,855**
Total	¥ 2,371	**¥ 2,127**	**$ 19,162**

18. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1)Group Policy for Financial Instruments

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

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

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

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

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

Derivatives consist primarily of forward foreign currency contracts and interest rate swaps which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans and convertible bonds. Please see Note 19 for more details on derivatives.

(3)Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Company manages its credit risk from receivables based on internal guidelines, which include monitoring of payment term and balances of major customers by each business administration department to identify the default risk of customers at an early stage. With respect to held-to-maturity financial investments, the Company manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines. Please see Note 19 for details regarding derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2021.

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

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

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

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

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

Liquidity risk management

Liquidity risk includes the risk that the Company cannot meet its contractual obligations in full on maturity dates. The Company manages its liquidity risk by holding an adequate volume of liquid assets, along with adequate financial planning by the corporate treasury department.

(4)Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead. Also, please see Note 19 for more detail about fair values of derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Gain / (Loss)
Cash and cash equivalents	¥ 90,747	¥ 90,747	¥
Securities	709	709	
Receivables	95,802	95,802	
Investment securities	69,861	69,861	
Total	¥ 257,121	¥ 257,121	¥
Short-term borrowings	¥ 7,024	¥ 7,024	
Payables	73,979	73,979	
Income taxes payable	4,582	4,582	
Long-term borrowings	260,575	261,179	¥ (603)
Total	¥ 346,161	¥ 346,765	¥ (603)

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

	Thousands of U.S. Dollars		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Gain / (Loss)
Cash and cash equivalents	$ 817,540	$ 817,540	$
Securities	6,387	6,387	
Receivables	863,081	863,081	
Investment securities	629,378	629,378	
Total	$ 2,316,405	$ 2,316,405	$
Short-term borrowings	$ 63,279	$ 63,279	
Payables	666,477	666,477	
Income taxes payable	41,279	41,279	
Long-term borrowings	2,347,522	2,352,963	$ (5,432)
Total	$ 3,118,567	$ 3,124,009	$ (5,432)

Cash and Cash Equivalents

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

Securities and Investment Securities

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

Receivables, Payables and Income Taxes Payable

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

Short-Term Borrowings

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

Long-Term Borrowings

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

Derivatives

Fair value information for derivatives is included in Note 19.

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

	Carrying Amount	
March 31, 2021	Millions of Yen	Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 5,490	$ 49,459

	Carrying Amount
March 31, 2020	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥ 4,707

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

	Millions of Yen			
March 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**¥ 90,747**			
Receivables	**95,802**			
Securities and investment securities:				
Government bonds	**8**		**¥**	**¥**
Corporate bonds	**700**	**¥ 2,400**		
Total	**¥ 187,259**	**¥ 2,400**	**¥**	**¥**

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

	Thousands of U.S. Dollars			
March 31, 2021	Due in 1 Year or Less	Due after 1 Year through 5 Years	Due after 5 Years through 10 Years	Due after 10 Years
Cash and cash equivalents	**$ 817,540**			
Receivables	**863,081**			
Securities and investment securities:				
Government bonds	**72**		**$**	**$**
Corporate bonds	**6,306**	**$ 21,621**		
Total	**$ 1,687,018**	**$ 21,621**	**$**	**$**

Please see Note 7 for annual maturities of long-term borrowings.

19. DERIVATIVES

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

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

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
March 31, 2021	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain / (Loss)
Foreign currency forward contracts:				
Selling U.S.$	**¥ 17,798**		**¥ (496)**	**¥ (496)**
Selling Euro	**3,719**		**(62)**	**(62)**
Buying U.S.$	**3,007**		**72**	**72**
Buying Ringgit	**383**		**(3)**	**(3)**
Buying Japanese yen	**417**		**(10)**	**(10)**

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

	Thousands of U.S. Dollars			
March 31, 2021	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain / (Loss)
Foreign currency forward contracts:				
Selling U.S.$	**$ 160,342**		**$ (4,468)**	**$ (4,468)**
Selling Euro	**33,504**		**(558)**	**(558)**
Buying U.S.$	**27,090**		**648**	**648**
Buying Ringgit	**3,450**		**(27)**	**(27)**
Buying Japanese yen	**3,756**		**(90)**	**(90)**

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen		
March 31, 2021	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term borrowings	**¥ 3,443**	**¥ 2,922**	**¥ (70)**

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

		Thousands of U.S. Dollars		
March 31, 2020	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term borrowings	**$ 31,018**	**$ 26,324**	**$ (630)**

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

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

20. RELATED PARTY DISCLOSURES

The Company had unsecured loans from Nippon Life Insurance Company, whose vice chairman has served as one of the directors of the Company since June 2021.

The balances due to Nippon Life Insurance Company at March 31, 2021, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Long-term borrowings	¥ 6,400	$ 57,657
Current portion of long-term borrowings	400	3,603
Interest expense payable	4	36
Borrowing of funds	4,000	36,036
Repayments of borrowings	400	3,603
Interest expenses paid	30	270

The interest rates of the loans were reasonably determined in accordance with market interest rates.
One of the Companies representative director and president who has served since June 2017 has close relatives who substantially preserve the majority of voting rights of SEIWA INDUSTRY CO., LTD.

The balance due to SEIWA INDUSTRY CO., LTD. at March 31, 2021 and 2020 was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Trade accounts payables	¥ 14	¥ 0	$ 0
Purchase	91	21	189

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

21. MUNICIPAL GOVERNMENT SUBSIDIES

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

22. IMPAIRMENT LOSS

The Companies has recognized impairments stated below for the year ended March 31, 2021.

The mobility business has decided to reorganize production area of some of the product made in Japan and the United States of America to Thailand and China where more competitive. This reorganization will lead to recover of profitability as a global. However, this reorganization will decline the profitability in Japan and the United States of America as result of cutback in production.

Based on above, manufacturing facilities for automobile airbag inflators and gas generants stated below at Harima Plant and in the United States of America were written down to their recoverable value, and recorded the decreased amounts as "Impairment loss" under extraordinary losses as it was considered difficult to recover the investment amounts.

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

The goodwill was considered difficult to achieve the expected revenue due to the reevaluation of the business plan of the consolidated subsidiary, PI-CRYSTAL, INC. Accordingly, the Company has written down the unamortized balance of goodwill which was based on excess earning power and recorded the decreased amount as "Impairment loss" under extraordinary losses.

Location	Use	Classification	Millions of Yen	Thousands of U.S. Dollars
Japan (Tatsuno-shi, Hyogo)	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	¥ 2	$ 18
		Machinery, equipment and vehicles	15	135
		Tools, furniture and fixtures	20	180
		Construction in progress	1,197	10,783
		Intangible assets and others	52	468
United States of America	Manufacturing facilities for automobile airbag inflators and gas generants	Construction in progress	304	2,738
—	Others	Goodwill	1,832	16,504
Others	Manufacturing facilities for packing containers and others	Buildings and structures	86	774
		Machinery, equipment and vehicles	150	1,351
		Tools, furniture and fixtures	19	171
		Construction in progress	101	909
		Intangible assets and others	2	18
		Total	¥ 3,786	$ 34,108

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

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

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

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

Location	Use	Classification	Millions of Yen
Japan (Tatsuno-shi, Hyogo)	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	¥ 1,451
		Machinery, equipment and vehicles	1,695
		Tools, furniture and fixtures	400
		Construction in progress	1,119
		Intangible assets and others	578
	Manufacturing facilities for defense-related products	Buildings and structures	307
		Machinery, equipment and vehicles	87
		Tools, furniture and fixtures	15
		Construction in progress	38
		Intangible assets and others	66
	Shared assets	Land	409
		Buildings and structures	437
		Machinery, equipment and vehicles	164
		Tools, furniture and fixtures	37
		Construction in progress	148
		Intangible assets and others	21
Japan (Himeji-shi, Hyogo)	Manufacturing facilities for defense-related products	Buildings and structures	58
		Machinery, equipment and vehicles	32
		Tools, furniture and fixtures	2
United States of America	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	1,830
		Machinery, equipment and vehicles	2,557
		Tools, furniture and fixtures	178
		Construction in progress	3,118
		Total	¥ 14,757

23. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2021, for guaranteed loans amounted to ¥127 million ($1,144 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

24. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2021	2021
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥ (887)	¥ 17,815	$ 160,495
Reclassification adjustments to profit or loss	(2,660)	(3,189)	(28,729)
Amount before income tax effect	(3,548)	14,625	131,756
Income tax effect	1,019	(4,268)	(38,450)
Total	¥ (2,528)	¥ 10,357	$ 93,306
Deferred gains or losses on hedges:			
Adjustments arising during the year	¥ (151)	¥ 6	$ 54
Reclassification adjustments to profit or loss	(8)	45	405
Amount before income tax effect	(159)	51	459
Income tax effect	4	(5)	(45)
Total	¥ (155)	¥ 46	$ 414
Foreign currency translation adjustments -			
Adjustments arising during the year	¥ (6,089)	¥ 8,826	$ 79,513
Defined benefit plans:			
Adjustments arising during the year	¥ 586	¥ 3,854	$ 34,720
Reclassification adjustments to profit or loss	(368)	(3)	(27)
Amount before income tax effect	218	3,850	34,684
Income tax effect	(101)	(1,157)	(10,423)
Total	¥ 116	¥ 2,693	$ 24,261
Share of other comprehensive income of entities accounted for using equity method - Gains arising during the year	¥ (484)	¥ 854	$ 7,693
Total other comprehensive income	¥ (9,141)	¥ 22,779	$ 205,216

25. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments.

Operating segments are components of the entity for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker in determining how to allocate the entity's resources and evaluate its performance.

Segment Information

1.Description of Reportable Segments

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

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

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

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

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

Millions of Yen

Year Ended March 31, 2021	Reportable Segment: Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥ 16,209	¥ 24,701	¥ 67,218	¥ 104,203	¥ 168,556	¥ 380,888	¥ 12,679	¥ 393,568		¥ 393,568
Intersegment sales or transfers	278	184		10,070	187	10,720	11,251	21,972	¥ (21,972)	
Total sales	¥ 16,488	¥ 24,885	¥ 67,218	¥ 114,273	¥ 168,743	¥ 391,609	¥ 23,930	¥ 415,540	¥ (21,972)	¥ 393,568
Segment profit	¥ 1,561	¥ 3,412	¥ 2,231	¥ 17,921	¥ 21,172	¥ 46,299	¥ 1,482	¥ 47,782	¥ (16,058)	¥ 31,723
Segment assets	35,214	24,145	90,552	153,895	174,149	477,956	17,039	494,995	145,390	640,385
Depreciation	1,384	1,580	4,721	9,026	6,939	23,651	481	24,133	1,697	25,830
Investments in associated companies				8,720	2,541	11,262		11,262		11,262
Amortization of goodwill	242	366	472			1,081		1,081		1,081
Increase in property, plant and equipment	8,657	2,030	8,786	11,598	7,082	38,155	579	38,734	820	39,555

Millions of Yen

Year Ended March 31, 2020	Reportable Segment: Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥ 15,088	¥ 25,349	¥ 74,806	¥ 109,377	¥ 176,123	¥ 400,745	¥ 12,081	¥ 412,826		¥ 412,826
Intersegment sales or transfers	204	209		10,695	963	12,073	15,755	27,829	¥ (27,829)	
Total sales	¥ 15,293	¥ 25,558	¥ 74,806	¥ 120,072	¥ 177,087	¥ 412,818	¥ 27,837	¥ 440,655	¥ (27,829)	¥ 412,826
Segment profit	¥ 1,339	¥ 3,350	¥ 3,302	¥ 15,817	¥ 20,898	¥ 44,709	¥ 814	¥ 45,523	¥ (15,878)	¥ 29,644
Segment assets	27,114	25,965	80,684	144,786	171,424	449,975	16,459	466,434	131,557	597,992
Depreciation	1,419	1,553	7,156	9,998	6,572	26,700	561	27,261	1,740	29,002
Investments in associated companies	238		484			723		723		723
Amortization of goodwill				7,277	2,577	9,854		9,854		9,854
Increase in property, plant and equipment	6,000	2,074	7,988	19,189	10,300	45,554	1,021	46,576	992	47,568

Thousands of U.S. Dollars

Year Ended March 31, 2021	Reportable Segment: Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	$ 146,027	$ 222,531	$ 605,567	$ 938,765	$1,518,522	$3,431,423	$ 114,225	$3,545,657		$3,545,657
Intersegment sales or transfers	2,504	1,657		90,720	1,684	96,576	101,360	197,945	$ (197,945)	
Total sales	$ 148,540	$ 224,189	$ 605,567	$1,029,486	$1,520,207	$3,528,009	$ 215,585	$3,743,603	$ (197,945)	$3,545,657
Segment profit	$ 14,063	$ 30,738	$ 20,099	$ 161,450	$ 190,738	$ 417,108	$ 13,351	$ 430,468	$ (144,666)	$ 285,792
Segment assets	317,243	217,522	815,783	1,386,441	1,568,909	4,305,909	153,504	4,459,414	1,309,819	5,769,234
Depreciation	12,468	14,234	42,531	81,315	62,513	213,072	4,333	217,414	15,288	232,702
Investments in associated companies				78,558	22,891	101,459		101,459		101,459
Amortization of goodwill	2,180	3,297	4,252			9,738		9,738		9,738
Increase in property, plant and equipment	77,990	18,288	79,153	104,486	63,801	343,738	5,216	348,954	7,387	356,351

(Notes)
1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥16,058 million ($144,666 thousand) and ¥15,878 million for the years ended March 31, 2021 and 2020, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.
   (2) The unallocated corporate assets included in "Reconciliations" amounted to ¥146,304 million ($1,318,054 thousand) and ¥134,002 million for the years ended March 31, 2021 and 2020, respectively, which consisted mainly of cash and cash equivalents, investment securities, and corporate properties held or used by the administrative departments, basic research departments and others. The elimination of intersegment transactions such as receivables also included in "Reconciliations" amounted to ¥914 million ($8,234 thousand) and ¥2,445 million for the years ended March 31, 2021 and 2020, respectively.
   (3) The unallocated depreciation and increase in property, plant and equipment were related to the administrative departments, basic research departments and others.
2. The aggregated amounts of operating profit were equal to those in the consolidated statements of income.

Related Information

1.Information about Products and Services

Millions of Yen

2021	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	¥ 16,209	¥ 24,701	¥ 67,218	¥ 104,203	¥ 168,556	¥ 12,679	¥ 393,568

Millions of Yen

2020	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	¥ 15,088	¥ 25,349	¥ 74,806	¥ 109,377	¥ 176,123	¥ 12,081	¥ 412,826

Thousands of U.S. Dollars

2021	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	$ 146,027	$ 222,531	$ 605,567	$ 938,765	$ 1,518,522	$ 114,225	$ 3,545,657

2.Information about Geographical Areas

(1) Sales

Millions of Yen

2021				
	Asia			
Japan	China	Other	Other	Total
¥ 174,706	¥ 73,951	¥ 78,959	¥ 65,950	¥ 393,568

Millions of Yen

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

Thousands of U.S. Dollars

2021				
	Asia			
Japan	China	Other	Other	Total
$ 1,573,927	$ 666,225	$ 711,342	$ 594,144	$ 3,545,657

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

(2) Property, Plant and Equipment

Millions of Yen

2021					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 149,737	**¥ 25,439**	**¥ 15,891**	**¥ 13,697**	**¥ 14,954**	**¥ 219,720**

Millions of Yen

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

Thousands of U.S. Dollars

2021					
	Asia				
Japan	China	Malaysia	Other	Other	Total
$ 1,348,981	**$ 229,180**	**$ 143,162**	**$ 123,396**	**$ 134,720**	**$ 1,979,459**

3.Information on Impairment Loss for Each Reportable Segment

Millions of Yen

	2021							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	**¥**	**¥ 1,832**	**¥ 1,693**	**¥**	**¥ 260**	**¥**	**¥**	**¥ 3,786**

Millions of Yen

	2020							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	¥	¥	¥ 13,923	¥	¥	¥ 833	¥	¥ 14,757

Thousands of U.S. Dollars

	2021							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	**$**	**$ 16,504**	**$ 15,252**	**$**	**$ 2,342**	**$**	**$**	**$ 34,108**

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

Millions of Yen

	2021							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	**¥ 242**	**¥366**	**¥472**	**¥**	**¥**	**¥**	**¥**	**¥ 1,081**
Goodwill at March 31, 2021	**1,916**		**493**					**2,410**

Millions of Yen

	2020							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥ 238	¥	¥484	¥	¥	¥	¥	¥ 723
Goodwill at March 31, 2020	2,026	2,198	969					5,194

Thousands of U.S. Dollars

	2021							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	**$ 2,180**	**$ 3,297**	**$ 4,252**	**$**	**$**	**$**	**$**	**$ 9,738**
Goodwill at March 31, 2021	**17,261**		**4,441**					**21,711**

26. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2021, was approved at the shareholders' general meeting of the Company held on June 25, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥16 ($0.14) per share	**¥ 4,821**	**$ 43,432**

Independent Auditor's Report

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of Daicel Corporation:

Opinion

We have audited the consolidated financial statements of Daicel Corporation and its consolidated subsidiaries (the "Group"), which comprise the consolidated balance sheets as of March 31, 2021 and 2020, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of March 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matter

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

Member of
Deloitte Touche Tohmatsu Limited

Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
【Valuation of the property, plant and equipment for the Healthcare business】	
As described in Note 3 to the Consolidated Financial Statements, Daicel Corporation (the "Company") recorded the property, plant and equipment of ¥17,760 million ($160,000 thousand) related to manufacturing plant and equipment for the Healthcare business in the Medical/Healthcare segment as of March 31, 2021 and disclosed the assumptions used to determine the valuation of the property, plant and equipment. The Company has evaluated the recognition of the impairment loss for asset groups where indications of impairment existed by comparing the undiscounted future cash flows from the asset groups with the carrying amount. The undiscounted future cash flows are based on the business plan authorized by management. For the period beyond the term of the business plan, the growth rates are estimated in consideration of uncertainty in the future. The significant assumptions used in estimating the undiscounted future cash flows based on the business plan are the expected sales volume and expected sales price, and the expected growth rates for the period beyond the term of the business plan. The judgment of the recognition of the impairment loss for the property, plant and equipment was complex as it involved uncertainty related to the significant assumptions and required a high degree of management's judgment. Therefore, we have identified the valuation of the property, plant and equipment for the Healthcare business as a key audit matter.	For the valuation of the property, plant and equipment for the Healthcare business, our audit procedures included the followings, among others: ● We evaluated the method for developing the business plan by inquiring of management for the plan. ● We evaluated the assumptions of the business plan by comparing the prior year's business plan with actual results. ● We evaluated the assumptions included in the estimation for the business plan such as expected sales volume and expected sales price by inquiring of management, analyzing trends using actual results, and comparing the relevant assumptions with market forecasts and evaluating the consistency of other relevant information. ● We evaluated the expected growth rates for the period beyond the terms of the business plan by assessing management's estimation for uncertainties related to long term growth rates.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Deloitte Touche Tohmatsu LLC

June 25, 2021

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