



FINANCIAL STATEMENTS

Tosoh Corporation and consolidated subsidiaries
Fiscal year ended March 31, 2020

TOSOH CORPORATION

TOSOH CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS	As of March 31, 2020 and 2019		
	2020	2019	2020
	Millions of Yen		Thousands of US Dollars (Note 1)
Current assets:			
Cash and cash equivalents (Notes 7 and 12)	¥ 97,235	¥ 92,095	\$ 893,458
Trade receivables (Notes 7 and 12)	197,918	227,274	1,818,598
Lease investment assets (Note 12)	11,751	13,574	107,976
Inventories (Note 3)	159,586	150,562	1,466,379
Other current assets	16,246	17,916	149,278
Allowance for doubtful accounts	(657)	(661)	(6,037)
Total current assets	482,079	500,760	4,429,652
Investments:			
Investment securities (Notes 5 and 12)	35,087	40,757	322,402
Investments in unconsolidated subsidiaries and affiliates (Note 12)	20,376	19,668	187,228
Long-term loans receivable (Note 12)	184	194	1,691
Assets for retirement benefit (Note 8)	19,057	22,145	175,108
Other	8,953	7,924	82,265
Allowance for doubtful accounts	(696)	(580)	(6,395)
Total investments	82,961	90,108	762,299
Property, plant and equipment—net (Notes 6 and 7)	305,403	275,708	2,806,239
Other assets:			
Deferred tax assets (Note 13)	11,694	6,971	107,452
Intangibles	4,455	4,647	40,935
Total other assets	16,149	11,618	148,387
Total assets	¥ 886,592	¥ 878,194	\$ 8,146,577

The accompanying notes are an integral part of these statements.

LIABILITIES
AND NET ASSETS

	As of March 31, 2020 and 2019		
	2020	2019	2020
	Millions of Yen		Thousands of US Dollars (Note 1)
Current liabilities:			
Short-term bank loans (Notes 7 and 12)	¥ 55,539	¥ 55,756	\$ 510,328
Current maturities of long-term debt (Notes 7 and 12)	13,302	16,390	122,227
Trade payables (Note 12)	84,585	105,723	777,221
Income taxes payable	9,083	15,621	83,460
Other current liabilities	57,714	48,763	530,314
Total current liabilities	220,223	242,253	2,023,550
Long-term liabilities:			
Long-term debt, less current maturities (Notes 7 and 12)	27,018	28,926	248,259
Liabilities for retirement benefit (Note 8)	20,988	20,391	192,852
Provision for retirement benefits for directors and corporate audit and supervisory board members	363	416	3,335
Deferred tax liabilities (Note 13)	1,437	1,203	13,204
Provision for losses on dissolution of business	50	71	459
Other long-term liabilities	6,853	5,432	62,970
Total long-term liabilities	56,709	56,439	521,079
Total liabilities	276,932	298,692	2,544,629
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock:			
Authorized—900,000,000 shares;			
Issued—325,080,956 shares	55,173	55,173	506,965
Capital surplus	45,160	45,041	414,959
Retained earnings	468,086	430,734	4,301,076
Treasury stock, 247,155 shares in 2020 and 345,105 shares in 2019	(237)	(328)	(2,178)
Total shareholders' equity	568,182	530,620	5,220,822
Accumulated other comprehensive income:			
Net unrealized gains on securities	4,998	11,853	45,925
Deferred gains(losses) on hedges	—	(0)	—
Foreign currency translation adjustments	(5,224)	(4,277)	(48,002)
Accumulated adjustments for retirement benefit	(410)	2,640	(3,767)
Total accumulated other comprehensive income	(636)	10,216	(5,844)
Stock acquisition rights (Note 16)	270	298	2,481
Non-controlling interests	41,844	38,368	384,489
Total net assets	609,660	579,502	5,601,948
Total liabilities and net assets	¥ 886,592	¥ 878,194	\$ 8,146,577

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years ended March 31, 2020 and 2019		
	2020	2019	2020
	Millions of Yen		Thousands of US Dollars (Note 1)
Net sales (Note 14)	¥ 786,083	¥ 861,456	\$ 7,223,036
Cost of sales	584,836	639,714	5,373,849
Gross profit	201,247	221,742	1,849,187
Selling, general and administrative expenses (Note 10)	119,589	116,002	1,098,861
Operating income (Note 14)	81,658	105,740	750,326
Other income (expenses):			
Interest and dividend income	2,016	2,152	18,524
Foreign exchange gains (losses), net	(3,315)	788	(30,460)
Interest expense	(1,180)	(1,177)	(10,843)
Equity in earnings of affiliates	1,344	1,571	12,350
Loss on disposal of property, plant and equipment	(2,252)	(1,962)	(20,692)
Impairment loss	(233)	(117)	(2,141)
PCB disposal cost	(766)	(7)	(7,039)
Insurance income	4,291	1,987	39,428
Subsidy income	950	1,387	8,729
Other, net	1,137	2,944	10,448
Subtotal	1,992	7,566	18,304
Income before income taxes	83,650	113,306	768,630
Income taxes (Note 13):			
Current	24,029	30,439	220,794
Deferred	(340)	1,818	(3,124)
Subtotal	23,689	32,257	217,670
Net income	59,961	81,049	550,960
Profit (loss) attributable to non-controlling interests	4,410	2,915	40,522
Profit attributable to owners of parent	¥ 55,551	¥ 78,134	\$ 510,438
Net income per share (Note 2)		Yen	US Dollars (Note 1)
Net income—primary	¥ 171.03	¥ 240.62	\$ 1.57
Net income—diluted	170.88	240.38	1.57
Cash dividends per share	¥ 56.00	¥ 56.00	\$ 0.51

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended March 31, 2020 and 2019		
	2020	2019	2020
	Millions of Yen		Thousands of US Dollars (Note 1)
Net income	¥ 59,961	¥ 81,049	\$ 550,960
Other comprehensive income:			
Net unrealized gains on securities	(6,853)	(4,854)	(62,970)
Deferred gains (losses) on hedges	0	0	0
Foreign currency translation adjustments	(839)	(2,676)	(7,709)
Adjustments for retirement benefit	(3,073)	(1,431)	(28,237)
Share of other comprehensive income of affiliates applied for equity method	(185)	(264)	(1,700)
Total other comprehensive income (Note 4)	<u>(10,950)</u>	<u>(9,225)</u>	<u>(100,616)</u>
Comprehensive income	<u>¥ 49,011</u>	<u>¥ 71,824</u>	<u>\$ 450,344</u>
Breakdown of comprehensive income:			
Comprehensive income attributable to shareholders of parent	¥ 44,698	¥ 69,305	\$ 410,714
Comprehensive income attributable to non-controlling interests	4,313	2,519	39,631

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Millions of Yen

	Shareholders' equity				Total shareholders' equity	Accumulated other comprehensive income						Total net assets	
	Common stock	Capital surplus	Retained earnings	Treasury stock		Net unrealized gains on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Stock acquisition rights		Non- controlling interests
As of March 31, 2018	¥ 55,173	¥ 44,891	¥ 372,085	¥ (370)	¥ 471,779	¥ 16,755	¥ (0)	¥ (1,753)	¥ 4,044	¥ 19,046	¥ 282	¥ 36,960	¥ 528,067
Change in treasury shares of parent arising from transactions with non-controlling shareholders		150			150								150
Cash dividends			(19,485)		(19,485)								(19,485)
Profit attributable to owners of parent			78,134		78,134								78,134
Purchase of treasury stock				(11)	(11)								(11)
Disposal of treasury stock			(0)	53	53								53
Other, net						(4,902)	0	(2,524)	(1,404)	(8,830)	16	1,408	(7,406)
As of March 31, 2019	¥ 55,173	¥ 45,041	¥ 430,734	¥ (328)	¥ 530,620	¥ 11,853	¥ (0)	¥ (4,277)	¥ 2,640	¥ 10,216	¥ 298	¥ 38,368	¥ 579,502
Change in treasury shares of parent arising from transactions with non-controlling shareholders		119			119								119
Cash dividends			(18,190)		(18,190)								(18,190)
Profit attributable to owners of parent			55,551		55,551								55,551
Purchase of treasury stock				(9)	(9)								(9)
Increase (decrease) of treasury stock due to changes in shareholding ratio				0	0								0
Disposal of treasury stock			(9)	100	91								91
Other, net						(6,855)	0	(947)	(3,050)	(10,852)	(28)	3,476	(7,404)
As of March 31, 2020	¥ 55,173	¥ 45,160	¥ 468,086	¥ (237)	¥ 568,182	¥ 4,998	—	¥ (5,224)	¥ (410)	¥ (636)	¥ 270	¥ 41,844	¥ 609,660

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Continued)

	Thousands of US Dollars (Note 1)												
	Shareholders' equity					Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury Stock	Total shareholders' equity	Net unrealized gains on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Stock acquisition rights	Non- controlling interests	Total net assets
As of March 31, 2019	\$ 506,965	\$ 413,866	\$ 3,957,861	\$ (3,014)	\$ 4,875,678	\$ 108,913	\$ (0)	\$ (39,300)	\$ 24,258	\$ 93,871	\$ 2,738	\$ 352,550	\$ 5,324,837
Change in treasury shares of parent arising from transactions with non-controlling shareholders		1,093			1,093								1,093
Cash dividends			(167,141)		(167,141)								(167,141)
Profit attributable to owners of parent			510,438		510,438								510,438
Purchase of treasury stock				(83)	(83)								(83)
Increase (decrease) of treasury stock due to changes in shareholding ratio				0	0								0
Disposal of treasury stock			(82)	919	837								837
Other, net						(62,988)	0	(8,702)	(28,025)	(99,715)	(257)	31,939	(68,033)
As of March 31, 2020	\$ 506,965	\$ 414,959	\$ 4,301,076	\$ (2,178)	\$ 5,220,822	\$ 45,925	—	\$ (48,002)	\$ (3,767)	\$ (5,844)	\$ 2,481	\$ 384,489	\$ 5,601,948

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended March 31, 2020 and 2019		
	2020	2019	2020
	Millions of Yen		Thousands of US Dollars (Note 1)
Cash flows from operating activities:			
Income before income taxes	¥ 83,650	¥ 113,306	\$ 768,630
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	34,899	34,519	320,674
Impairment loss	233	117	2,141
Change in assets and liabilities for retirement benefit	(704)	68	(6,469)
Interest and dividend income	(2,016)	(2,152)	(18,524)
Interest expense	1,180	1,177	10,843
Equity in earnings of affiliates	(1,344)	(1,571)	(12,350)
Loss on disposal of property, plant and equipment	2,252	1,962	20,692
Decrease (increase) in trade receivables	28,631	(9,594)	263,081
Decrease (increase) in inventories	(9,649)	(10,253)	(88,661)
Increase (decrease) in trade payables	(20,380)	3,696	(187,265)
Other, net	12,364	(13,334)	113,609
Subtotal	129,116	117,941	1,186,401
Interest and dividends received	2,413	2,451	22,172
Interest paid	(1,217)	(1,211)	(11,183)
Income taxes paid	(30,388)	(41,670)	(279,224)
Net cash provided by operating activities	99,924	77,511	918,166
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(62,403)	(61,890)	(573,399)
Purchases of investment securities	(4,977)	(1,535)	(45,732)
Proceeds from sales and redemption of investment securities	1,124	2,701	10,328
Payments for advances of long-term loans receivable	(2,494)	(2,046)	(22,916)
Proceeds from collections of long-term loans receivable	2,357	2,158	21,658
Other, net	(3,943)	(2,699)	(36,231)
Net cash used in investing activities	(70,336)	(63,311)	(646,292)
Cash flows from financing activities:			
Net decrease in short-term bank loans	2,954	8,511	27,143
Proceeds from long-term debt	8,802	5,629	80,878
Repayments of long-term debt	(16,729)	(20,549)	(153,717)
Cash dividends paid	(18,795)	(19,870)	(172,701)
Other, net	(196)	(683)	(1,800)
Net cash used in financing activities	(23,964)	(26,962)	(220,197)
Effect of exchange rate changes on cash and cash equivalents	(484)	(1,322)	(4,447)
Net increase in cash and cash equivalents	5,140	(14,084)	47,230
Cash and cash equivalents at beginning of year	92,095	106,179	846,228
Cash and cash equivalents at end of year	¥ 97,235	¥ 92,095	\$ 893,458

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tosoh Corporation (the “Company”) and its consolidated domestic subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The accounts of the Company’s overseas subsidiaries and affiliates are prepared in accordance with either International Financial Reporting Standards or US generally accepted accounting principles or Japanese GAAP, with consolidation adjustments for the specified five items, which are described in “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No.18)” and “Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method(PITF No.24)”, as applicable.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local finance bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

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

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

Consolidation and investments

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated in the consolidation.

Investments in affiliates are, with minor exceptions, accounted for by the equity method. Equity in earnings of affiliates has been calculated by excluding unrealized intercompany profits.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates, and the resulting translation adjustments are credited or charged to income.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate for assets and liabilities, at historical rates for the other balance sheet accounts exclusive of the current year's net income, and at the average annual rate for revenue and expense accounts and net income.

Cash and cash equivalents

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

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. Equity securities issued by subsidiaries and affiliates, which are not consolidated or accounted for using the equity method, are stated at cost as determined by the moving-average method. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Other available-for-sale securities with no available fair values are stated at moving-average cost.

Significant declines in fair value or the net asset value of equity securities, not on the equity method, issued by unconsolidated subsidiaries and affiliates, and available-for-sale securities judged to be other than temporary are charged to expense.

Allowance for doubtful accounts

The Company and its consolidated subsidiaries (the "Companies") provide the allowance for doubtful trade receivables by individually estimating uncollectible amounts and for other receivables based on the Companies' historical experience of write-offs of such receivables.

Inventories

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost. Cumulative amounts of impairment losses recognized have been deducted from acquisition costs. Depreciation is principally calculated using the straight-line method over the estimated useful lives of the assets. Repairs, maintenance and minor renewals are charged to expenses as incurred.

Lease transactions

Assets acquired by lessees in finance lease transactions are recorded in the corresponding asset accounts.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Retirement and severance benefits

The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the benefit formula basis.

Prior service cost (credit) is principally recognized as expense (income) as incurred.

Actuarial difference is principally recognized as expense (income) using the straight-line method over 10 years commencing in the following period.

Income taxes

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 of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Shareholders' equity

The Corporate Law of Japan (the "Law") 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 payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Law, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of common stock may be made available for dividends by resolution of the shareholders. Under the Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

Stock options

The Company has adopted an accounting standard for stock options. The standard requires companies to account for stock options granted to directors and vice presidents based on the fair value of the stock option. In the balance sheets, the stock option is presented as stock acquisition rights as a separate component of net assets until exercised.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Per share information

Net income per share is computed based upon the weighted average number of shares of common stock outstanding during the period.

Diluted net income per share reflects the potential dilution that could occur if stock options were fully exercised.

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

Cash dividends per share applicable to the period for the year ended March 31, 2020, comprise interim dividends of ¥28.00 and year-end dividends of ¥28.00.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Standards and guidance not yet adopted

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

- Accounting Standard for Revenue Recognition (ASBJ Statement No.29, March 31, 2020)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No.30, March 31, 2020)

(1)Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying following 5 steps:

Step1: Identify contracts with customers.

Step2: Identify the performance obligations in the contract.

Step3: Determine the transaction price.

Step4: Allocate the transaction price to the performance obligation in the contract.

Step5: Recognize revenue when or as the entity satisfies a performance obligation.

(2)Effective date

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

(3)Effects of the application of the standards

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

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Changes in accounting policies that are difficult to distinguish from changes in accounting estimates

Depreciation of property, plant and equipment, excluding leased assets, was previously calculated by the declining-balance method except for buildings (other than facilities attached to buildings), and facilities attached to buildings and structures acquired since April 1, 2016, which were depreciated by the straight-line method.

However, the depreciated method was changed to the straight-line method from the year ended March 31, 2020.

In formulating a medium term business plan (2019-2021), we reconsidered the method of depreciation. As the long-term and stable operation of the property, plant and equipment and constant return on investment are expected, we concluded that the straight-line method is more appropriate.

As a result of this change, in comparison with the previous method, operating income increased by ¥4,352 million (US\$39,989 thousand), and income before income taxes increased by ¥4,372 million (US\$40,173 thousand).

Changes in presentation

(1) About Consolidated Statements of Income

“PCB disposal cost”, which was included in “Other, net” under “Other income (expenses)” in the previous year, is presented separately from the current year because the amount of the item has increased in importance.

To reflect this change in reporting method, the reclassification of accounts has been made for the statements of income for the previous fiscal year.

As a result, ¥7 million in “Other, net” under “Other income (expenses)” in the previous statements of income has been reclassified into ¥7 million in “PCB disposal cost” under “Other income (expenses)”.

(2) About Consolidated Statements of Cash Flows

“Purchases of investment securities”, which was included in “Other, net” under “Cash flows from investing activities” in the previous fiscal year, is presented separately from the current fiscal year because the amount of the item has increased in importance.

To reflect this change in reporting method, the reclassification of accounts has been made for the statements of cash flows for the previous fiscal year.

As a result, ¥1,535 million in “Other, net” under “Cash flows from investing activities” in the previous statements of cash flows has been reclassified into ¥1,535 million in “Purchases of investment securities” under “Cash flows from investing activities”.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Additional information

(Accounting estimates related to the influence of COVID-19 pandemic)

Even though it's difficult to predict when the COVID-19 pandemic will subside, the Company made accounting estimates based on information such as the progress of our business plans, assuming that the pandemic will have a limited impact on the Tosoh Group's operating results and financial position for the whole fiscal year. The estimates include items such as the impairment of property, plant and equipment.

Since there are many uncertainties regarding the impact of COVID-19 pandemic on economic activity, the Tosoh Group's business performance and financial position may be affected to a considerable extent if the assumptions change.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 3 – INVENTORIES

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

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Finished products	¥ 103,973	¥ 97,257	\$ 955,371
Raw materials and supplies	46,134	44,106	423,909
Work in process	9,479	9,199	87,099
Total	¥ 159,586	¥ 150,562	\$ 1,466,379

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 4 – COMPREHENSIVE INCOME

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Net unrealized gains on securities			
Decrease during the year	¥ (9,539)	¥ (4,559)	\$ (87,650)
Reclassification adjustments	(205)	(2,152)	(1,884)
Subtotal, before tax	(9,744)	(6,711)	(89,534)
Tax effect	2,891	1,857	26,564
Subtotal, net of tax	¥ (6,853)	¥ (4,854)	\$ (62,970)
Deferred gains (losses) on hedges			
Increase during the year	¥ 0	¥ 1	\$ 0
Reclassification adjustments	0	(0)	0
Subtotal, before tax	0	1	0
Tax effect	(0)	(1)	(0)
Subtotal, net of tax	¥ 0	¥ 0	\$ 0
Foreign currency translation adjustments			
Decrease during the year	¥ (839)	¥ (2,676)	\$ (7,709)
Subtotal, net of tax	¥ (839)	¥ (2,676)	\$ (7,709)
Adjustments for retirement benefit			
Decrease during the year	¥ (3,733)	¥ (2,159)	\$ (34,301)
Reclassification adjustments	(680)	95	(6,248)
Subtotal, before tax	(4,413)	(2,064)	(40,549)
Tax effect	1,340	633	12,312
Subtotal, net of tax	¥ (3,073)	¥ (1,431)	\$ (28,237)
Share of other comprehensive income of affiliates applied for equity method			
Decrease during the year	¥ (198)	¥ (263)	\$ (1,819)
Reclassification adjustments	13	(1)	119
Subtotal, net of tax	¥ (185)	¥ (264)	\$ (1,700)
Total other comprehensive income	¥ (10,950)	¥ (9,225)	\$ (100,616)

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 5 – FAIR VALUE INFORMATION OF SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2020 and 2019.

Available-for-sale securities:

	Millions of Yen					
	2020			2019		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	¥ 10,242	¥ 20,083	¥ 9,841	¥ 19,352	¥ 35,630	¥ 16,278
Securities with book values not exceeding acquisition costs	14,421	11,014	(3,407)	1,477	1,365	(112)
Total	¥ 24,663	¥ 31,097	¥ 6,434	¥ 20,829	¥ 36,995	¥ 16,166

	Thousands of US Dollars (Note 1)		
	2020		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	\$ 94,110	\$ 184,535	\$ 90,425
Securities with book values not exceeding acquisition costs	132,509	101,204	(31,305)
Total	\$ 226,619	\$ 285,739	\$ 59,120

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2020 and 2019 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Land	¥ 72,237	¥ 72,313	\$ 663,760
Buildings and structures	257,766	234,047	2,368,520
Machinery and equipment	880,520	846,191	8,090,784
Lease assets	2,291	879	21,051
Construction in progress	32,024	42,868	294,257
	<u>1,244,838</u>	<u>1,196,298</u>	<u>11,438,372</u>
Less accumulated depreciation	<u>(939,435)</u>	<u>(920,590)</u>	<u>(8,632,133)</u>
Net property, plant and equipment	<u>¥ 305,403</u>	<u>¥ 275,708</u>	<u>\$ 2,806,239</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 7 – SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 1.36% and 0.86% as of March 31, 2020 and 2019, respectively. Such loans are generally renewable at maturity.

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

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Loans from banks and other financial institutions, 1.52%, maturing serially through 2035			
Secured	¥ 240	¥ 394	\$ 2,205
Unsecured	40,080	44,922	368,281
	40,320	45,316	370,486
Less amounts due within 1 year	(13,302)	(16,390)	(122,227)
Total	¥ 27,018	¥ 28,926	\$ 248,259

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Property, plant and equipment	¥ 5,716	¥ 10,270	\$ 52,522
Cash and cash equivalents	179	122	1,645
Trade receivables	291	256	2,674
Total	¥ 6,186	¥ 10,648	\$ 56,841

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The annual maturities of long-term debt as of March 31, 2020 and 2019 were as follows:

	Millions of Yen	Thousands of US Dollars (Note 1)
<u>As of March 31, 2020</u>		
2021	¥ 13,302	\$ 122,227
2022	9,606	88,266
2023	8,943	82,174
2024	3,452	31,719
2025	2,606	23,946
2026 and thereafter	2,411	22,154
	¥ 40,320	\$ 370,486
	Millions of Yen	
<u>As of March 31, 2019</u>		
2020	¥ 16,390	
2021	2,656	
2022	13,825	
2023	7,438	
2024	3,929	
2025 and thereafter	1,078	
	¥ 45,316	

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 8 – RETIREMENT AND SEVERANCE BENEFITS

The Company and its consolidated subsidiaries have defined benefit corporate pension plans and lump-sum payment plans, but certain of its consolidated subsidiaries have defined contribution pension plans.

The Company has instituted retirement benefit trusts. In some cases when employees retire, the Company and its consolidated subsidiaries provide for additional retirement benefits that are not related to the retirement benefit liabilities computed according to actuarial method in accordance with retirement benefit accounting.

Certain consolidated subsidiaries use the simplified method for the calculation of projected benefits obligation.

The amount in multiemployer pension plans is included in defined benefit plans.

(1) Defined benefit plans

Changes in the present value of the defined benefit obligation in the Company and its consolidated subsidiaries which have not adopted the simplified method were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Beginning of year	¥ 60,507	¥ 59,878	\$ 555,977
Service cost	3,073	3,055	28,237
Interest cost	147	193	1,351
Actuarial differences	(650)	724	(5,973)
Benefits paid	(2,859)	(3,304)	(26,270)
Increase due to the change from simplified method to principle method	1,389	—	12,763
Other	71	(39)	652
End of year	¥ 61,678	¥ 60,507	\$ 566,737

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Changes in the fair value of retirement plan assets in the Company and its consolidated subsidiaries which have not adopted the simplified method were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Beginning of year	¥ 66,687	¥ 68,074	\$ 612,763
Expected return on plan assets	1,358	1,371	12,478
Actuarial differences	(4,345)	(1,450)	(39,925)
Contributions	1,868	1,462	17,164
Benefits paid	(2,566)	(2,747)	(23,578)
Increase due to the change from simplified method to principle method	1,189	—	10,925
Other	7	(23)	65
End of year	¥ 64,198	¥ 66,687	\$ 589,892

Changes in the present value of the liabilities for retirement benefit in the consolidated subsidiaries which have adopted the simplified method were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Beginning of year	¥ 4,426	¥ 4,335	\$ 40,669
Retirement benefit cost	718	671	6,597
Benefits paid	(304)	(315)	(2,793)
Contributions	(183)	(237)	(1,682)
Decrease due to the change from simplified method to principle method	(200)	—	(1,838)
Other	(5)	(28)	(45)
End of year	¥ 4,452	¥ 4,426	\$ 40,908

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Reconciliations from ending balances of defined benefit obligation and retirement plan assets to assets and liabilities for retirement benefit on the balance sheet as of March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Defined benefit obligation in the Company and its consolidated subsidiaries which have funded retirement plans	¥ 56,227	¥ 51,439	\$ 516,650
Retirement plan assets	(66,957)	(70,594)	(615,244)
	(10,730)	(19,155)	(98,594)
Defined benefit obligation in the consolidated subsidiaries which don't have funded retirement plans	12,661	17,401	116,338
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ 1,931	¥ (1,754)	\$ 17,744
Liabilities for retirement benefit	20,988	20,391	192,852
Assets for retirement benefit	(19,057)	(22,145)	(175,108)
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ 1,931	¥ (1,754)	\$ 17,744

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Components of retirement benefit cost for the year ended March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Service cost	¥ 3,073	¥ 3,055	\$ 28,237
Interest cost	147	193	1,351
Expected return on plan assets	(1,358)	(1,371)	(12,478)
Amortization of actuarial differences	(692)	95	(6,358)
Prior service cost recorded as expenses	12	—	110
Retirement benefit cost in the simplified method	718	671	6,597
Other	112	139	1,029
Total retirement benefit cost	<u>¥ 2,012</u>	<u>¥ 2,782</u>	<u>\$ 18,488</u>

Adjustments for retirement benefit before tax effect as of March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Actuarial differences	¥ (4,364)	¥ (2,064)	\$ (40,099)
Prior service cost	(49)	—	(450)
Total adjustments for retirement benefit before tax effect	<u>¥(4,413)</u>	<u>¥(2,064)</u>	<u>\$(40,549)</u>

Accumulated adjustments for retirement benefit before tax effect as of March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Unrecognized actuarial differences	¥ 998	¥ (3,366)	\$ 9,171
Unrecognized prior service cost	49	—	450
Total accumulated adjustments for retirement benefit before tax effect	<u>¥1,047</u>	<u>¥ (3,366)</u>	<u>\$9,621</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The major categories of plan assets as a percentage of total assets as of March 31, 2020 and 2019 were as follows:

	2020	2019
Bonds	38.0%	36.0%
Shares of stock	33.9%	38.9%
Life insurance company general accounts	25.7%	24.4%
Other	2.4%	0.7%
Total	100%	100%

The assumptions and basis used in the actuarial calculation were mainly as follows:

	2020	2019
Discount rate	Mainly 0.4%	Mainly 0.3%
Long-term expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%

Note: In determining the long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, and the current and expected long-term rates of return of a wide variety of the plan assets.

(2) Defined contribution plans

The amounts contributed to defined contribution plan by certain consolidated subsidiaries were ¥316 million (US\$2,904 thousand) and ¥324 million for the years ended March 31, 2020 and 2019, respectively.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 9 – CONTINGENT LIABILITIES

Contingent liabilities primarily for loans from banks to affiliates, which are guaranteed by the Companies as of March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Loans guaranteed	¥ 808	¥ 636	\$ 7,424

NOTE 10 – RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Research and development expenses:	¥ 18,244	¥ 16,644	\$ 167,638

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 11 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedging accounting is not applied as of March 31, 2020 and 2019 were as follows:

	Millions of Yen			
	2020		2019	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Buying Indonesian Rupiahs	¥ 965	¥ (18)	¥ 1,182	¥ (49)
Buying US Dollars	—	—	26	(1)
Buying Euros	—	—	4	(0)
Buying Singapore Dollars	—	—	11	(0)
Buying Japanese Yen	141	(2)	12	(0)
Total	<u>¥ 1,106</u>	<u>¥ (20)</u>	<u>¥ 1,235</u>	<u>¥ (50)</u>

	Thousands of US Dollars	
	(Note 1)	
	2020	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Buying Indonesian Rupiahs	\$ 8,867	\$ (166)
Buying US Dollars	—	—
Buying Euros	—	—
Buying Singapore Dollars	—	—
Buying Japanese Yen	1,296	(18)
Total	<u>\$ 10,163</u>	<u>\$ (184)</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Derivative transactions to which hedging accounting is applied as of March 31, 2020 and 2019 were as follows:

	Millions of Yen			
	2020		2019	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Principle method				
Buying US Dollars	—	—	¥ 15	¥ (0)
Allocation method				
Buying US Dollars	¥13	(*1)	—	—
Buying Euros	¥1	(*1)	—	—
Total	<u>¥ 14</u>	<u>—</u>	<u>¥ 15</u>	<u>¥ (0)</u>
Interest rate swaps				
Principle method				
Payment fixation and receipt change	¥ 2,930	¥ (149)	¥ 3,276	¥ 55
Special method				
Payment fixation and receipt change	<u>1,055</u>	<u>(*2)</u>	<u>210</u>	<u>(*2)</u>
Total	<u>¥ 3,985</u>	<u>¥ (149)</u>	<u>¥ 3,486</u>	<u>¥ 55</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars (Note 1)	
	2020	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Principle method		
Buying US Dollars	—	—
Allocation method		
Buying US Dollars	\$120	(* 1)
Buying Euros	\$9	(* 1)
Total	\$ 129	—
Interest rate swaps		
Principle method		
Payment fixation and receipt change	\$ 26,923	\$ (1,369)
Special method		
Payment fixation and receipt change	9,694	(* 2)
Total	\$ 36,617	\$ (1,369)

(*1) Because derivatives to which allocation method of forward exchange contracts are applied are processed with trade receivables and trade payables as a hedge object, the fair value is included in the fair value of trade receivables and trade payables.

(*2) Because derivatives to which special method of interest swap are applied are processed with long-term debt as a hedge object, the fair value is included in the fair value of a long-term debt.

Fair values are based on the quotes provided by financial institutions.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 12– FINANCIAL INSTRUMENTS

Matters relating to the conditions of financial instruments:

Policy on financial instruments

The Tosoh Group raises capital according to loans from banks to invest in core and growing businesses based on capital investment plans. Derivatives are used to mitigate risk, and speculative transactions are not undertaken.

Contents, risk, and risk management of financial instruments

Trade receivables are exposed to credit risks of customers. The Companies monitor the due dates and the balances of customers individually in accordance with credit control rules and strive to find doubtful debt at an early stage and to reduce the risks. Securities, which are mainly shares, are exposed to market risks. Regarding listed shares, the Companies check the market prices every quarter and revise their positions consistently, taking account of relations with companies who issue the shares.

Parts of trade payables are denominated in foreign currency and exposed to foreign currency risks. However, almost all those balances may be offset at any time by accounts receivables, which are also denominated in foreign currency. Loans payable are used as short-term working capital or long-term capital investment, part of which is exposed to interest rate risk. These risks are removed by entering into interest rate swaps.

Some consolidated subsidiaries use foreign currency forward exchange contracts to hedge against foreign currency risks associated with receivables and payables denominated in foreign currencies.

The Companies execute and control derivative transactions in accordance with internal control rules that provide authority and transaction limits and have transactions only with the highest-rated banks to reduce the credit risks.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Book values and fair values of financial instruments for which it is practical to estimate values as of March 31, 2020 and 2019 were as follows:

	Millions of Yen		
	March 31,2020		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 97,235	¥ 97,235	¥ —
Trade receivables	197,918	197,918	—
Lease investment assets	11,751	11,751	—
Securities			
Available-for-sale securities	31,097	31,097	—
Investments in affiliates	9,645	6,783	(2,862)
Long-term loans receivable	518	518	—
Trade payables	(84,585)	(84,585)	—
Short-term bank loans	(55,539)	(55,539)	—
Long-term debt	(40,320)	(40,686)	(366)
Derivative transactions	(169)	(169)	—

	Millions of Yen		
	March 31,2019		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 92,095	¥ 92,095	¥ —
Trade receivables	227,274	227,274	—
Lease investment assets	13,574	13,574	—
Securities			
Available-for-sale securities	36,995	36,995	—
Investments in affiliates	9,322	6,429	(2,893)
Long-term loans receivable	533	533	—
Trade payables	(105,723)	(105,723)	—
Short-term bank loans	(55,756)	(55,756)	—
Long-term debt	(45,316)	(45,575)	(259)
Derivative transactions	5	5	—

	Thousands of US Dollars (Note 1)		
	March 31,2020		
	Book value	Fair value	Difference
Cash and cash equivalents	\$ 893,458	\$ 893,458	\$ —
Trade receivables	1,818,598	1,818,598	—
Lease investment assets	107,976	107,976	—
Securities			
Available-for-sale securities	285,739	285,739	—
Investments in affiliates	88,625	62,327	(26,298)
Long-term loans receivable	4,760	4,760	—
Trade payables	(777,221)	(777,221)	—
Short-term bank loans	(510,328)	(510,328)	—
Long-term debt	(370,486)	(373,849)	(3,363)
Derivative transactions	(1,553)	(1,553)	—

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Calculation method of fair value of financial instruments:

Cash and cash equivalents, trade receivables, lease investment assets, trade payables and short-term bank loans:

The book values approximate the fair values because of the short-term nature of these instruments.

Securities:

The fair values of securities are quoted from the stock exchange. Refer to Note 5 for the details.

Long-term loans receivable:

The fair values of long-term loans receivable are calculated by discounting future cash flows of the principal and interest using the current interest rate applicable to similar loans. However, as the fair values are approximate to the book values, the fair values are recorded at the book values.

Long-term debt:

The fair values of long-term debt are calculated by discounting future cash flows of the principal and interest using current interest rate applicable to similar debts.

Derivative transactions:

Refer to Note 11.

Financial instruments whose fair values are deemed to be extremely difficult to determine and which are not included in "Securities" in the fair value information of the financial instruments, were as follows:

	Book value		
	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Equity securities issued by unconsolidated subsidiaries and affiliates	¥7,504	¥7,291	\$ 68,952
Non-listed equity securities	3,990	3,762	36,663

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Redemption schedule of monetary claims and available-for-sale securities with maturity as of March 31, 2020 and 2019 was as follows:

	Millions of Yen			
	2020			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	¥97,235	¥—	¥—	¥—
Trade receivables	197,918	—	—	—
Long-term loans receivable	11	496	6	5
Total	¥ 295,164	¥ 496	¥ 6	¥ 5

	Millions of Yen			
	2019			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	¥92,095	¥—	¥—	¥—
Trade receivables	227,274	—	—	—
Long-term loans receivable	13	511	6	3
Total	¥ 319,382	¥ 511	¥ 6	¥ 3

	Thousands of US Dollars (Note 1)			
	2020			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	\$ 893,458	\$ —	\$ —	\$ —
Trade receivables	1,818,598	—	—	—
Long-term loans receivable	101	4,558	55	46
Total	\$ 2,712,157	\$ 4,558	\$ 55	\$ 46

Refer to Note 7 for schedule of Long-term debt.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 13 – INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, indicated a statutory income tax rate in Japan of approximately 30.5% and 30.5% for the year ended March 31, 2020 and 2019, respectively.

The following table summarizes the significant difference between the statutory income tax rate and the Companies' actual income tax rate for the year ended March 31, 2020 and 2019.

	March 31, 2020	March 31, 2019
Statutory income tax rate	30.5 %	30.5 %
Increase(decrease) in taxes resulting from:		
Difference in tax rate with foreign subsidiaries	(0.7)	(0.5)
Equity in earnings of affiliates	(0.6)	(0.4)
Increase(Decrease) in valuation allowance	1.2	0.2
Special deduction in research expense	(2.2)	(1.6)
Other	0.1	0.3
Actual income tax rate	28.3 %	28.5 %

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Significant components of deferred tax assets and deferred tax liabilities as of March 31, 2020 and 2019 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2020	2019	2020
Deferred tax assets:			
Liabilities for retirement benefit	¥ 7,459	¥ 7,321	\$ 68,538
Unrealized gains on intercompany transactions	7,192	7,000	66,085
Operating loss carryforwards	2,310	2,003	21,226
Impairment loss on fixed assets	1,216	1,321	11,173
Other	15,969	14,653	146,733
Total gross deferred tax assets	34,146	32,298	313,755
Valuation allowance	(7,987)	(6,958)	(73,389)
Total deferred tax assets	26,159	25,340	240,366
Deferred tax liabilities:			
Assets for retirement benefit	(5,787)	(6,753)	(53,175)
Net unrealized gains on securities	(1,660)	(4,539)	(15,253)
Reserve for replacement of property, plant and equipment	(1,812)	(1,906)	(16,650)
Other	(6,643)	(6,374)	(61,040)
Total deferred tax liabilities	(15,902)	(19,572)	(146,118)
Net deferred tax assets	¥ 10,257	¥ 5,768	\$ 94,248

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 14 – SEGMENT INFORMATION

The operations of the Companies are classified into four business segments - Petrochemical, Chlor-alkali, Specialty, Engineering.

Operations of the Petrochemical segment include the manufacture and sale of olefins and polymers.

Operations of the Chlor-alkali segment include the manufacture and sale of caustic soda, vinyl chloride monomer, polyvinyl chloride, high-performance polyurethane and cement.

Operations of the Specialty segment include the manufacture and sale of fine chemicals, scientific and diagnostic instruments and systems, quartz, specialty materials and metals.

Operations of the Engineering segment include water treatment equipment and construction.

The accounting methods for each reported segment are mostly described in Note 2.

Inter-segment sales and transfers are mainly based on market prices and manufacturing costs.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Business segment information for the years ended March 31, 2020 and 2019 was as follows:

Millions of Yen								
Year ended March 31, 2020								
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	¥ 159,140	¥ 297,356	¥ 185,043	¥ 101,496	¥ 43,048	¥ 786,083	¥ —	¥ 786,083
Inter-segment	84,425	28,611	12,606	19,599	58,289	203,530	(203,530)	—
Total	¥ 243,565	¥ 325,967	¥ 197,649	¥ 121,095	¥ 101,337	¥ 989,613	¥ (203,530)	¥ 786,083
Segment income	¥ 10,299	¥ 28,198	¥ 27,886	¥ 12,740	¥ 2,535	¥ 81,658	¥ —	¥ 81,658
Segment assets	¥ 127,635	¥ 263,341	¥ 242,698	¥ 119,719	¥ 42,649	¥ 796,042	¥ 90,550	¥ 886,592
Depreciation and amortization	3,751	11,678	12,838	1,247	1,720	31,234	824	32,058
Amortization on goodwill	—	—	—	23	—	23	—	23
Capital expenditures	11,601	19,397	18,944	1,321	9,116	60,379	756	61,135
Investment for affiliates	1,014	9,576	4,814	2,522	1,518	19,444	—	19,444
Millions of Yen								
Year ended March 31, 2019								
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	¥ 183,926	¥ 337,377	¥ 197,423	¥ 98,919	¥ 43,811	¥ 861,456	¥ —	¥ 861,456
Inter-segment	96,519	31,111	14,328	16,677	55,340	213,975	(213,975)	—
Total	¥ 280,445	¥ 368,488	¥ 211,751	¥ 115,596	¥ 99,151	¥ 1,075,431	¥ (213,975)	¥ 861,456
Segment income	¥ 13,393	¥ 45,996	¥ 35,349	¥ 8,304	¥ 2,698	¥ 105,740	¥ —	¥ 105,740
Segment assets	¥ 127,147	¥ 274,932	¥ 233,991	¥ 117,610	¥ 38,155	¥ 791,835	¥ 86,359	¥ 878,194
Depreciation and amortization	3,635	12,352	11,967	999	1,488	30,441	868	31,309
Amortization on goodwill	—	—	—	51	—	51	—	51
Capital expenditures	11,042	19,221	29,100	878	3,628	63,869	961	64,830
Investment for affiliates	988	9,191	4,589	2,443	1,449	18,660	—	18,660

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2020							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	\$ 1,462,281	\$ 2,732,298	\$ 1,700,294	\$ 932,610	\$ 395,553	\$ 7,223,036	\$ —	\$ 7,223,036
Inter-segment	775,751	262,896	115,832	180,088	535,597	1,870,164	(1,870,164)	—
Total	\$ 2,238,032	\$ 2,995,194	\$ 1,816,126	\$ 1,112,698	\$ 931,150	\$ 9,093,200	\$ (1,870,164)	\$ 7,223,036
Segment income	\$ 94,634	\$ 259,101	\$ 256,234	\$ 117,063	\$ 23,294	\$ 750,326	\$ —	\$ 750,326
Segment assets	\$ 1,172,792	\$ 2,419,747	\$ 2,230,066	\$ 1,100,055	\$ 391,886	\$ 7,314,546	\$ 832,031	\$ 8,146,577
Depreciation and amortization	34,467	107,305	117,964	11,458	15,804	286,998	7,572	294,570
Amortization on goodwill	—	—	—	211	—	211	—	211
Capital expenditures	106,597	178,232	174,070	12,138	83,764	554,801	6,947	561,748
Investment for affiliates	9,317	87,991	44,234	23,174	13,948	178,664	—	178,664

Notes: 1. "Other" is an additional category for service-related businesses, such as transportation and warehousing, inspection and analysis, and information processing.

2. Segment income is equal to operating income of consolidated statements of income.

3. Adjustments amount of ¥90,550 million (US\$832,031 thousand) and ¥86,359 million for segment assets as of March 31, 2020 and 2019 included ¥24,812 million (US\$227,989 thousand) and ¥28,665 million of eliminations of inter-segment receivables and assets and ¥115,362 million (US\$1,060,020 thousand) and ¥115,024 million of corporate assets unallocated to each reported segment as of March 31, 2020 and 2019, respectively.

4. Adjustments amount of ¥824 million (US\$7,572 thousand) and ¥868 million for depreciation and amortization for the years ended March 31, 2020 and 2019 were mainly corporate costs unallocated to each reported segment.

5. Adjustments amount of ¥756 million (US\$6,947 thousand) and ¥961 million for capital expenditures for the years ended March 31, 2020 and 2019 were mainly made to corporate assets unallocated to each reported segment.

6. As written in Note 2 "Changes in accounting policies that are difficult to distinguish from changes in accounting estimates", depreciation of property, plant and equipment, excluding leased assets, was previously calculated by the declining-balance method except for buildings (other than facilities attached to buildings), and facilities attached to buildings and structures acquired since April 1, 2016, which were depreciated by the straight-line method.

However, the depreciated method was changed to the straight-line method from the year ended March 31, 2020. As a result of this change, in comparison with the previous method, segment income increased by ¥1,085 million (US\$9,970 thousand) for "Petrochemical", ¥2,106 million (US\$19,351 thousand) for "Chlor-alkali", and ¥1,161 million (US\$10,668 thousand) for "Specialty".

TOSOH CORPORATION
 NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
 (Continued)

Related information

Geographic information

(1) Net sales

Millions of Yen				
Year ended March 31, 2020				
Japan	China	Other Asian countries	Other	Total
¥ 430,458	¥ 105,516	¥ 146,321	¥ 103,788	¥ 786,083

Millions of Yen				
Year ended March 31, 2019				
Japan	China	Other Asian countries	Other	Total
¥ 466,890	¥ 117,850	¥ 158,333	¥ 118,383	¥ 861,456

Thousands of US Dollars (Note1)				
Year ended March 31, 2020				
Japan	China	Other Asian countries	Other	Total
\$ 3,955,325	\$ 969,549	\$ 1,344,491	\$ 953,671	\$ 7,223,036

Note: Net sales are classified by country or region based on the locations of customers.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(2) Property, plant and equipment

Millions of Yen		
Year ended March 31, 2020		
Japan	Other	Total
¥ 271,923	¥ 33,480	¥ 305,403

Property, plant and equipment

Millions of Yen		
Year ended March 31, 2019		
Japan	Other	Total
¥ 243,802	¥ 31,906	¥ 275,708

Property, plant and equipment

Thousands of US Dollars (Note1)		
Year ended March 31, 2020		
Japan	Other	Total
\$ 2,498,603	\$ 307,636	\$ 2,806,239

Property, plant and equipment

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Information about impairment loss of fixed assets by reported segments

Millions of Yen								
Year ended March 31, 2020								
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	¥ 2	¥ 227	¥ 4	¥ —	¥ —	¥ 233	¥ —	¥ 233

Millions of Yen								
Year ended March 31, 2019								
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	¥ 8	¥ 56	¥ 52	¥ 1	¥ —	¥ 117	¥ —	¥ 117

Thousands of US Dollars (Note1)								
Year ended March 31, 2020								
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	\$ 18	\$ 2,086	\$ 37	\$ —	\$ —	\$ 2,141	¥ —	\$ 2,141

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Information about unamortized balance of goodwill by reported segments

	Millions of Yen							
	Year ended March 31, 2020							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —	¥ —

	Millions of Yen							
	Year ended March 31, 2019							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	¥ —	¥ —	¥ —	¥ 23	¥ —	¥ 23	¥ —	¥ 23

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2020							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —	\$ —

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 15 – RELATED PARTY TRANSACTIONS

There were no balances or transactions to be disclosed as of and for the year ended March 31, 2020 and 2019.

NOTE 16 – STOCK OPTION PLANS

At March 31, 2020, the Company had the following stock option plans:

	2019 plan	2018 plan	2017 plan	2016 plan	2015 plan
Date of grant	July 13, 2019	July 14, 2018	July 15, 2017	July 16, 2016	July 18, 2015
Grantees	28 (including 5 directors)	30 (including 7 directors)	31 (including 8 directors)	30 (including 6 directors)	29 (including 9 directors)
Type of stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	53,820	49,519	30,986	81,764	55,611
Exercise price (Yen)	¥1	¥1	¥1	¥1	¥1
Exercise price (US Dollars) (Note 1)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Exercisable period	July 14, 2019– July 13, 2044	July 15, 2018– July 14, 2043	July 16, 2017– July 15, 2042	July 17, 2016– July 16, 2041	July 19, 2015– July 18, 2040
Issue price upon exercise of the subscription rights to shares (Yen)	¥ 1,192	¥ 1,374	¥ 2,277	¥ 863	¥ 1,199
Issue price upon exercise of the subscription rights to shares (US Dollars) (Note 1)	\$ 10.95	\$ 12.38	\$ 20.52	\$ 7.78	\$ 10.80
	2014 plan	2013 plan	2012 plan	2011 plan	2010 plan
Date of grant	July 12, 2014	July 13, 2013	July 14, 2012	July 16, 2011	July 17, 2010
Grantees	32 (including 12 directors)	33 (including 13 directors)	30 (including 11 directors)	31 (including 13 directors)	29 (including 14 directors)
Type of stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	85,265	110,094	227,185	128,901	209,856
Exercise price (Yen)	¥1	¥1	¥1	¥1	¥1
Exercise price (US Dollars) (Note 1)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01
Exercisable period	July 13, 2014– July 12, 2039	July 14, 2013– July 13, 2038	July 15, 2012– July 14, 2037	July 17, 2011– July 16, 2036	July 18, 2010– July 17, 2035
Issue price upon exercise of the subscription rights to shares (Yen)	¥ 851	¥ 677	¥ 329	¥ 627	¥ 393
Issue price upon exercise of the subscription rights to shares (US Dollars) (Note 1)	\$ 7.67	\$ 6.10	\$ 2.96	\$ 5.65	\$ 3.54

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	2009 plan	2008 plan	2007 plan
Date of grant	July 18, 2009	July 19, 2008	July 18, 2007
Grantees	28(including 16 directors)	29 (including 16 directors)	29 (including 15 directors)
Type of stock	Common stock	Common stock	Common stock
Number of shares granted	180,594	100,549	60,686
Exercise price (Yen)	¥ 1	¥ 1	¥ 1
Exercise price (US Dollars) (Note 1)	\$ 0.01	\$ 0.01	\$ 0.01
Exercisable period	July 19, 2009- July 18, 2034	July 20, 2008- July 19, 2033	July 19, 2007- July 18, 2032
Issue price upon exercise of the subscription rights to shares (Yen)	¥ 451	¥ 801	¥ 1,275
Issue price upon exercise of the subscription rights to shares (US Dollars) (Note 1)	\$ 4.06	\$ 7.22	\$ 11.49

Notes: "Number of shares granted" means total shares to be issued upon exercise of subscription rights to shares and is adjusted for the reverse stock split (two-to-one share) executed on October 1, 2017.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 17 – SUBSEQUENT EVENTS

(1) Dividend payment

At the meetings of the Company's board of directors held on May 12, 2020 and May 9, 2019 retained earnings of the Company as of March 31, 2020 and 2019, were appropriated as follows:

	March 31, 2020	
	Millions of Yen	Thousands of US Dollars
Year-end cash dividends (¥28.00 per share)	¥ 9,096	(Note 1) \$ 83,580
	March 31, 2019	
	Millions of Yen	
Year-end cash dividends (¥28.00 per share)	¥ 9,093	

(2) The acquisition of treasury stock

Pursuant to Article 156 of the Corporate Law of Japan as applied mutatis mutandis under Article 165, Paragraph 3 of the same Law, the Company resolved the following items in relation to the acquisition of treasury stock at the meeting of the Company's board of directors held on May 12, 2020.

1. Reason for acquisition of treasury stock

To enhance shareholder returns and improve capital efficiency.

2. Details of the acquisition

(1) Type of shares to be acquired: Common stocks of the Company

(2) Total number of shares available for acquisition: 10 million shares (maximum)

(3) Total amount of acquisition: ¥10 billion (maximum)

(4) Period of acquisition: From May 13 to August 11, 2020

(5) Method of acquisition: Market purchase based on discretionary trading contract in relation to the acquisition of treasury stock

Independent Auditor's Report

To the Board of Directors of Tosoh Corporation:

Opinion

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

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

Basis for Opinion

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

Emphasis of Matter

We draw attention to Note 2 "Changes in accounting policies that are difficult to distinguish from changes in accounting estimates" to the consolidated financial statement. Depreciation of property, plant and equipment, excluding leased assets, was previously calculated by the declining-balance method except for buildings (other than facilities attached to buildings), and facilities attached to buildings and structures acquired since April 1, 2016, which were depreciated by the straight-line method. However, the depreciated method was changed to the straight-line method from the year ended March 31, 2020. Our opinion is not modified in respect of this matter.

Responsibilities of Management and Corporate auditors and the board of corporate auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable,

matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Corporate auditors and the board of corporate auditors are responsible for overseeing the directors' performance of their duties including the design, implementation and maintenance of the Group's financial reporting process.

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

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

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

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

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

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

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

Convenience Translation

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

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

We do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Masahiko Kobayashi

Designated Engagement Partner
Certified Public Accountant

Yoshitaka Kuwamoto

Designated Engagement Partner
Certified Public Accountant

Taku Kishida

Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 26, 2020

Notes to the Reader of Independent Auditor's Report:

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