



FINANCIAL STATEMENTS

Tosoh Corporation and consolidated subsidiaries
Fiscal year ended March 31, 2021

TOSOH CORPORATION

TOSOH CORPORATION
CONSOLIDATED BALANCE SHEETS

<u>ASSETS</u>	As of March 31, 2021 and 2020		
	2021	2020	2021
	Millions of Yen		Thousands of US Dollars (Note 1)
Current assets:			
Cash and cash equivalents (Notes 7 and 12)	¥ 148,398	¥ 97,235	\$ 1,340,421
Trade receivables (Notes 7 and 12)	225,459	197,918	2,036,483
Lease investment assets (Note 12)	9,773	11,751	88,276
Inventories (Note 3)	155,565	159,586	1,405,157
Other current assets	13,971	16,246	126,194
Allowance for doubtful accounts	(648)	(657)	(5,853)
Total current assets	552,518	482,079	4,990,678
Investments:			
Investment securities (Notes 5 and 12)	44,784	35,087	404,516
Investments in unconsolidated subsidiaries and affiliates (Note 12)	21,457	20,376	193,813
Long-term loans receivable (Note 12)	427	184	3,857
Assets for retirement benefit (Note 8)	27,387	19,057	247,376
Other	9,630	8,953	86,984
Allowance for doubtful accounts	(716)	(696)	(6,467)
Total investments	102,969	82,961	930,079
Property, plant and equipment—net (Notes 6 and 7)	315,466	305,403	2,849,481
Other assets:			
Deferred tax assets (Note 13)	7,149	11,694	64,574
Intangibles	4,674	4,455	42,218
Total other assets	11,823	16,149	106,792
Total assets	¥ 982,776	¥ 886,592	\$ 8,877,030

The accompanying notes are an integral part of these statements.

<u>LIABILITIES AND NET ASSETS</u>	As of March 31, 2021 and 2020		
	2021	2020	2021
	Millions of Yen		Thousands of US Dollars (Note 1)
Current liabilities:			
Short-term bank loans (Notes 7 and 12)	¥ 88,465	¥ 55,539	\$ 799,070
Current maturities of long-term debt (Notes 7 and 12)	11,376	13,302	102,755
Trade payables (Note 12)	91,377	84,585	825,373
Income taxes payable	23,479	9,083	212,076
Other current liabilities	48,923	57,714	441,902
Total current liabilities	263,620	220,223	2,381,176
Long-term liabilities:			
Long-term debt, less current maturities (Notes 7 and 12)	26,686	27,018	241,044
Liabilities for retirement benefit (Note 8)	20,582	20,988	185,909
Provision for retirement benefits for directors and corporate audit and supervisory board members	386	363	3,487
Deferred tax liabilities (Note 13)	2,510	1,437	22,672
Provision for losses on dissolution of business	30	50	271
Other long-term liabilities	7,282	6,853	65,775
Total long-term liabilities	57,476	56,709	519,158
Total liabilities	321,096	276,932	2,900,334
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock:			
Authorized—900,000,000 shares;			
Issued—325,080,956 shares	55,173	55,173	498,356
Capital surplus	45,097	45,160	407,344
Retained earnings	513,339	468,086	4,636,790
Treasury stock, 6,934,001 shares in 2021 and 247,155 shares in 2020	(10,104)	(237)	(91,266)
Total shareholders' equity	603,505	568,182	5,451,224
Accumulated other comprehensive income:			
Net unrealized gains on securities	12,751	4,998	115,175
Foreign currency translation adjustments	(5,852)	(5,224)	(52,859)
Accumulated adjustments for retirement benefit	5,167	(410)	46,671
Total accumulated other comprehensive income	12,066	(636)	108,987
Stock acquisition rights (Note 16)	214	270	1,933
Non-controlling interests	45,895	41,844	414,552
Total net assets	661,680	609,660	5,976,696
Total liabilities and net assets	¥ 982,776	¥ 886,592	\$ 8,877,030

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years ended March 31, 2021 and 2020		
	2021	2020	2021
	Millions of Yen		Thousands of US Dollars (Note 1)
Net sales (Note 14)	¥ 732,851	¥ 786,083	\$ 6,619,556
Cost of sales	528,463	584,836	4,773,399
Gross profit	204,388	201,247	1,846,157
Selling, general and administrative expenses (Note 10)	116,568	119,589	1,052,913
Operating income (Note 14)	87,820	81,658	793,244
Other income (expenses):			
Interest and dividend income	1,778	2,016	16,060
Foreign exchange gains (losses), net	3,688	(3,315)	33,312
Interest expense	(1,335)	(1,180)	(12,059)
Equity in earnings of affiliates	1,272	1,344	11,489
Loss on disposal of property, plant and equipment	(2,306)	(2,252)	(20,829)
Impairment loss	(33)	(233)	(298)
Plant closure cost	(133)	—	(1,201)
PCB disposal cost	(13)	(766)	(117)
Insurance income	282	4,291	2,547
Gain on sales of investment securities	3,094	214	27,947
Other, net	948	1,873	8,563
Subtotal	7,242	1,992	65,414
Income before income taxes	95,062	83,650	858,658
Income taxes (Note 13):			
Current	27,649	24,029	249,743
Deferred	(453)	(340)	(4,092)
Subtotal	27,196	23,689	245,651
Net income	67,866	59,961	613,007
Profit (loss) attributable to non-controlling interests	4,590	4,410	41,460
Profit attributable to owners of parent	¥ 63,276	¥ 55,551	\$ 571,547
Net income per share (Note 2)	Yen		US Dollars (Note 1)
Net income—primary	¥ 197.89	¥ 171.03	\$ 1.79
Net income—diluted	197.75	170.88	1.79
Cash dividends per share	¥ 60.00	¥ 56.00	\$ 0.54

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended March 31, 2021 and 2020		
	2021	2020	2021
	Millions of Yen		Thousands of US Dollars (Note 1)
Net income	¥ 67,866	¥ 59,961	\$ 613,007
Other comprehensive income:			
Net unrealized gains on securities	7,770	(6,853)	70,183
Deferred gains (losses) on hedges	—	0	—
Foreign currency translation adjustments	(836)	(839)	(7,551)
Adjustments for retirement benefit	5,820	(3,073)	52,570
Share of other comprehensive income of affiliates applied for equity method	214	(185)	1,933
Total other comprehensive income (Note 4)	12,968	(10,950)	117,135
Comprehensive income	¥ 80,834	¥ 49,011	\$ 730,142
Breakdown of comprehensive income:			
Comprehensive income attributable to shareholders of parent	¥ 75,979	¥ 44,698	\$ 686,289
Comprehensive income attributable to non-controlling interests	4,855	4,313	43,853

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Millions of Yen												
	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	¥ 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
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(63)			(63)								(63)
Effect of changes in accounting period of consolidated subsidiaries			13		13								13
Cash dividends			(18,006)		(18,006)								(18,006)
Profit attributable to owners of parent			63,276		63,276								63,276
Purchase of treasury stock				(10,013)	(10,013)								(10,013)
Increase (decrease) of treasury stock due to changes in shareholding ratio				(1)	(1)								(1)
Disposal of treasury stock			(30)	147	117								117
Other, net						7,753	—	(628)	5,577	12,702	(56)	4,051	16,697
As of March 31, 2021	¥ 55,173	¥ 45,097	¥ 513,339	¥ (10,104)	¥ 603,505	¥ 12,751	—	¥ (5,852)	¥ 5,167	¥ 12,066	¥ 214	¥ 45,895	¥ 661,680

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, 2020	\$ 498,356	\$ 407,913	\$ 4,228,037	\$ (2,141)	\$ 5,132,165	\$ 45,145	—	\$ (47,186)	\$ (3,704)	\$ (5,745)	\$ 2,439	\$ 377,960	\$ 5,506,819
Change in treasury shares of parent arising from transactions with non-controlling shareholders		(569)			(569)								(569)
Effect of changes in accounting period of consolidated subsidiaries			118		118								118
Cash dividends			(162,641)		(162,641)								(162,641)
Profit attributable to owners of parent			571,547		571,547								571,547
Purchase of treasury stock				(90,444)	(90,444)								(90,444)
Increase (decrease) of treasury stock due to changes in shareholding ratio				(9)	(9)								(9)
Disposal of treasury stock			(271)	1,328	1,057								1,057
Other, net						70,030	—	(5,673)	50,375	114,732	(506)	36,592	150,818
As of March 31, 2021	\$ 498,356	\$ 407,344	\$ 4,636,790	\$ (91,266)	\$ 5,451,224	\$ 115,175	—	\$ (52,859)	\$ 46,671	\$ 108,987	\$ 1,933	\$ 414,552	\$ 5,976,696

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended March 31, 2021 and 2020		
	2021	2020	2021
	Millions of Yen		Thousands of US Dollars (Note 1)
Cash flows from operating activities:			
Income before income taxes	¥ 95,062	¥ 83,650	\$ 858,658
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	40,462	34,899	365,477
Impairment loss	33	233	298
Change in assets and liabilities for retirement benefit	(364)	(704)	(3,288)
Interest and dividend income	(1,778)	(2,016)	(16,060)
Interest expense	1,335	1,180	12,059
Equity in earnings of affiliates	(1,272)	(1,344)	(11,489)
Loss on disposal of property, plant and equipment	2,306	2,252	20,829
Decrease (increase) in trade receivables	(27,844)	28,631	(251,504)
Decrease (increase) in inventories	3,393	(9,649)	30,648
Increase (decrease) in trade payables	6,965	(20,380)	62,912
Other, net	(10,726)	12,364	(96,884)
Subtotal	107,572	129,116	971,656
Interest and dividends received	2,223	2,413	20,079
Interest paid	(1,347)	(1,217)	(12,167)
Income taxes paid	(13,341)	(30,388)	(120,504)
Net cash provided by operating activities	95,107	99,924	859,064
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(50,152)	(62,403)	(453,003)
Purchases of investment securities	(317)	(4,977)	(2,863)
Proceeds from sales and redemption of investment securities	4,910	1,124	44,350
Payments for advances of long-term loans receivable	(4,999)	(2,494)	(45,154)
Proceeds from collections of long-term loans receivable	4,726	2,357	42,688
Other, net	(521)	(3,943)	(4,706)
Net cash used in investing activities	(46,353)	(70,336)	(418,688)
Cash flows from financing activities:			
Net decrease in short-term bank loans	32,999	2,954	298,067
Proceeds from long-term debt	12,203	8,802	110,225
Repayments of long-term debt	(14,305)	(16,729)	(129,211)
Purchase of treasury stock	(10,045)	(6)	(90,733)
Cash dividends paid	(18,718)	(18,795)	(169,072)
Other, net	(549)	(190)	(4,959)
Net cash used in financing activities	1,585	(23,964)	14,317
Effect of exchange rate changes on cash and cash equivalents	837	(484)	7,560
Net increase in cash and cash equivalents	51,176	5,140	462,253
Cash and cash equivalents at beginning of year	97,235	92,095	878,286
Increase (decrease) in cash and cash equivalents resulting from change in accounting period of consolidated subsidiaries	(13)	—	(118)
Cash and cash equivalents at end of year	¥ 148,398	¥ 97,235	\$ 1,340,421

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, 2021, which was ¥110.71 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, 2021, comprise interim dividends of ¥28.00 and year-end dividends of ¥32.00.

Reclassifications

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

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Significant accounting estimates

1. Applying the percentage-of-completion method

(1) Carrying amounts in the current year's consolidated financial statements

The Company and its consolidated subsidiaries recognized construction revenue of ¥45,852 million (US\$414,163 thousand) in the engineering segment, using the percentage-of-completion method for the current fiscal year.

(2) Information on the nature of significant accounting estimates for identified items

The Company and its consolidated subsidiaries applied the percentage-of-completion method to construction contracts in the engineering segment for which the realization of the completed portion is assured and recognized construction revenue using the construction-cost percentage method for estimating total construction revenue and costs, and the progress toward completion of construction at the end of the fiscal year.

Total construction costs, which formed the basis for the construction revenue using the percentage-of-completion method are estimated as the estimated cost for each contract. The increase in work hours and changes in the situation due to the fact identified subsequent to the start of construction could result in changes in the work activities. Especially, because a large-scale construction related to the water treatment engineering business takes a long period of time to complete, there is a high degree of uncertainty in estimating the work activities and work hours toward completion.

Specifically, the identification of the work required for the completion of a construction contract, the estimation of the cost relevant to the work, and the timely and appropriate reflection in the estimated cost of any changes in work due to changes in circumstances that occurred subsequent to the start of construction have a significant effect on the estimate of the total construction costs at the end of the fiscal year.

2. The valuation of inventories

(1) Carrying amounts in the current year's consolidated financial statements

The Company and its consolidated subsidiaries recognized reported inventories of ¥155,565 million (US\$1,405,157 thousand) on the consolidated balance sheets and ¥75,410 million (US\$681,149 thousand) of those inventories were held by the Company.

(2) Information on the nature of significant accounting estimates for identified items

Inventories are measured at the lower of either the acquisition cost or the net selling price at the end of the fiscal year. In addition, for slow-moving inventories that are outside of the normal operating cycle, a valuation method that reduces the carrying amount is applied in order to reflect their reduced profitability.

The Company identifies slow-moving inventories that are outside of the normal operating cycle from inventories whose turnover period exceeds a certain threshold considering the sales plan based on forecasted demand as inventories that should be subject to write-down.

This forecasted demand could significantly change due to factors beyond the control of management. Especially, as the Company has many product types and grades, the identification of slow-moving inventories that are outside of the normal operating cycle could change depending on how the Company forecasts each demand, resulting in a significant effect on the valuation.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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 26, 2021)

(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 presentation

(1) Adoption of "Accounting Standard for Disclosure of Accounting Estimates"

The Company and its subsidiaries adopted ASBJ Statement No. 31 "Accounting Standard for Disclosure of Accounting Estimates" (March 31, 2020) to the consolidated financial statements for the current consolidated fiscal year, and therefore significant accounting estimates are disclosed in the note to the consolidated financial statements.

The note does not include information for the prior consolidated fiscal year in accordance with the transitional provision set out in paragraph 11 of the Accounting Standard.

(2) About Consolidated Statements of Income

"Subsidy income", which was presented separately in the previous fiscal year, is included in "Other, net" under "Other income (expenses)" from the current fiscal year because the amount of the item has decreased in importance.

Also, "Gain on sales of investment securities", which was included in "Other, net" under "Other income (expenses)" 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 these changes in reporting method, the reclassification of accounts has been made for the statements of income for the previous fiscal year.

As a result, ¥950 million in "Subsidy income" and ¥1,137 million in "Other, net" under "Other income (expenses)" in the previous statements of income have been reclassified into ¥214 million in "Gain on sales of investment securities" and ¥1,873 million in "Other net" under "Other income (expenses)".

(3) About Consolidated Statements of Cash Flows

"Expenses for the acquisition of treasury stock", which was included in "Other, net" under "Cash flows from financing 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, ¥196 million in "Other, net" under "Cash flows from financing activities" in the previous statements of cash flows has been reclassified into ¥6 million in "Expenses for the acquisition of treasury stock" and ¥190 million in "Other net" under "Cash flows from financing activities".

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 3 – INVENTORIES

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

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Finished products	¥ 95,456	¥ 103,973	\$ 862,217
Raw materials and supplies	46,471	46,134	419,754
Work in process	13,638	9,479	123,186
Total	¥ 155,565	¥ 159,586	\$ 1,405,157

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)
	2021	2020	2021
Net unrealized gains on securities			
Increase (decrease) during the year	¥ 14,121	¥ (9,539)	\$ 127,549
Reclassification adjustments	(3,070)	(205)	(27,730)
Subtotal, before tax	11,051	(9,744)	99,819
Tax effect	(3,281)	2,891	(29,636)
Subtotal, net of tax	¥ 7,770	¥ (6,853)	\$ 70,183
Deferred gains (losses) on hedges			
Increase (decrease) during the year	¥ —	¥ 0	\$ —
Reclassification adjustments	—	0	—
Subtotal, before tax	—	0	—
Tax effect	—	(0)	—
Subtotal, net of tax	¥ —	¥ 0	\$ —
Foreign currency translation adjustments			
Increase (decrease) during the year	¥ (836)	¥ (839)	\$ (7,551)
Subtotal, net of tax	¥ (836)	¥ (839)	\$ (7,551)
Adjustments for retirement benefit			
Increase (decrease) during the year	¥ 8,301	¥ (3,733)	\$ 74,980
Reclassification adjustments	106	(680)	957
Subtotal, before tax	8,407	(4,413)	75,937
Tax effect	(2,587)	1,340	(23,367)
Subtotal, net of tax	¥ 5,820	¥ (3,073)	\$ 52,570
Share of other comprehensive income of affiliates applied for equity method			
Increase (decrease) during the year	¥ 222	¥ (198)	\$ 2,005
Reclassification adjustments	(8)	13	(72)
Subtotal, net of tax	¥ 214	¥ (185)	\$ 1,933
Total other comprehensive income	¥ 12,968	¥ (10,950)	\$ 117,135

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, 2021 and 2020.

Available-for-sale securities:

	Millions of Yen					
	2021			2020		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	¥ 22,375	¥ 39,887	¥ 17,512	¥ 10,242	¥ 20,083	¥ 9,841
Securities with book values not exceeding acquisition costs	554	500	(54)	14,421	11,014	(3,407)
Total	¥ 22,929	¥ 40,387	¥ 17,458	¥ 24,663	¥ 31,097	¥ 6,434

	Thousands of US Dollars (Note 1)		
	2021		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	\$ 202,105	\$ 360,284	\$ 158,179
Securities with book values not exceeding acquisition costs	5,004	4,516	(488)
Total	\$ 207,109	\$ 364,800	\$ 157,691

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2021 and 2020 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Land	¥ 71,642	¥ 72,237	\$ 647,114
Buildings and structures	266,773	257,766	2,409,656
Machinery and equipment	906,786	880,520	8,190,642
Lease assets	3,099	2,291	27,992
Construction in progress	28,749	32,024	259,679
	1,277,049	1,244,838	11,535,083
Less accumulated depreciation	(961,583)	(939,435)	(8,685,602)
Net property, plant and equipment	¥ 315,466	¥ 305,403	\$ 2,849,481

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 0.55% and 1.36% as of March 31, 2021 and 2020, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2021 and 2020 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Loans from banks and other financial institutions, 1.25%, maturing serially through 2035			
Secured	¥ 246	¥ 240	\$ 2,222
Unsecured	37,816	40,080	341,577
	38,062	40,320	343,799
Less amounts due within 1 year	(11,376)	(13,302)	(102,755)
Total	¥ 26,686	¥ 27,018	\$ 241,044

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Property, plant and equipment	¥ 5,492	¥ 5,716	\$ 49,607
Cash and cash equivalents	182	179	1,644
Trade receivables	221	291	1,996
Total	¥ 5,895	¥ 6,186	\$ 53,247

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The annual maturities of long-term debt as of March 31, 2021 and 2020 were as follows:

	Millions of Yen	Thousands of US Dollars (Note 1)
<u>As of March 31, 2021</u>		
2022	¥ 11,376	\$ 102,755
2023	7,919	71,529
2024	5,331	48,153
2025	3,728	33,674
2026	1,704	15,392
2027 and thereafter	8,004	72,296
	<u>¥ 38,062</u>	<u>\$ 343,799</u>
	Millions of Yen	
<u>As of March 31, 2020</u>		
2021	¥ 13,302	
2022	9,606	
2023	8,943	
2024	3,452	
2025	2,606	
2026 and thereafter	2,411	
	<u>¥ 40,320</u>	

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)
	2021	2020	2021
Beginning of year	¥ 61,678	¥ 60,507	\$ 557,113
Service cost	2,901	3,073	26,204
Interest cost	240	147	2,168
Actuarial differences	640	(650)	5,781
Benefits paid	(3,498)	(2,859)	(31,596)
Increase due to the change from simplified method to principle method	—	1,389	—
Other	(14)	71	(127)
End of year	¥ 61,947	¥ 61,678	\$ 559,543

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)
	2021	2020	2021
Beginning of year	¥ 64,198	¥ 66,687	\$ 579,875
Expected return on plan assets	1,351	1,358	12,203
Actuarial differences	8,999	(4,345)	81,284
Contributions	1,842	1,868	16,638
Benefits paid	(3,029)	(2,566)	(27,360)
Increase due to the change from simplified method to principle method	—	1,189	—
Other	1	7	10
End of year	¥ 73,362	¥ 64,198	\$ 662,650

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)
	2021	2020	2021
Beginning of year	¥ 4,452	¥ 4,426	\$ 40,213
Retirement benefit cost	697	718	6,296
Benefits paid	(344)	(304)	(3,107)
Contributions	(212)	(183)	(1,915)
Decrease due to the change from simplified method to principle method	—	(200)	—
Other	17	(5)	153
End of year	¥ 4,610	¥ 4,452	\$ 41,640

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, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Defined benefit obligation in the Company and its consolidated subsidiaries which have funded retirement plans	¥ 51,133	¥ 56,227	\$ 461,864
Retirement plan assets	(76,253)	(66,957)	(688,763)
	(25,120)	(10,730)	(226,899)
Defined benefit obligation in the consolidated subsidiaries which don't have funded retirement plans	18,315	12,661	165,432
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ (6,805)	¥ 1,931	\$ (61,467)
Liabilities for retirement benefit	20,582	20,988	185,909
Assets for retirement benefit	(27,387)	(19,057)	(247,376)
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ (6,805)	¥ 1,931	\$ (61,467)

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Components of retirement benefit cost for the year ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Service cost	¥ 2,901	¥ 3,073	\$ 26,204
Interest cost	240	147	2,168
Expected return on plan assets	(1,351)	(1,358)	(12,203)
Amortization of actuarial differences	94	(692)	849
Prior service cost recorded as expenses	12	12	108
Retirement benefit cost in the simplified method	697	718	6,296
Other	148	112	1,336
Total retirement benefit cost	¥ 2,741	¥ 2,012	\$ 24,758

Adjustments for retirement benefit before tax effect as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Actuarial differences	¥ 8,395	¥ (4,364)	\$ 75,829
Prior service cost	12	(49)	108
Total adjustments for retirement benefit before tax effect	¥ 8,407	¥ (4,413)	\$ 75,937

Accumulated adjustments for retirement benefit before tax effect as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Unrecognized actuarial differences	¥ (7,396)	¥ 998	\$ (66,805)
Unrecognized prior service cost	36	49	325
Total accumulated adjustments for retirement benefit before tax effect	¥ (7,360)	¥ 1,047	\$ (66,480)

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, 2021 and 2020 were as follows:

	2021	2020
Bonds	35.0%	38.0%
Shares of stock	38.7%	33.9%
Life insurance company general accounts	22.2%	25.7%
Other	4.1%	2.4%
Total	100%	100%

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

	2021	2020
Discount rate	Mainly 0.3%	Mainly 0.4%
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 ¥361 million (US\$3,261 thousand) and ¥316 million for the years ended March 31, 2021 and 2020, 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, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Loans guaranteed	¥ 633	¥ 808	\$ 5,718

NOTE 10 – RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Research and development expenses	¥ 19,484	¥ 18,244	\$ 175,991

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, 2021 and 2020 were as follows:

Millions of Yen				
2021		2020		
Contract amount	Fair value	Contract amount	Fair value	
Foreign currency forward exchange contracts				
Buying Indonesian Rupiahs	¥ 869	¥ (9)	¥ 965	¥ (18)
Buying US Dollars	¥ 24	¥ 1	—	—
Buying Japanese Yen	—	—	141	(2)
Total	¥ 893	¥ (8)	¥ 1,106	¥ (20)

Thousands of US Dollars		
(Note 1)		
2021		
Contract amount	Fair value	
Foreign currency forward exchange contracts		
Buying Indonesian Rupiahs	\$ 7,849	\$ (81)
Buying US Dollars	\$ 217	\$ 9
Buying Japanese Yen	—	—
Total	\$ 8,066	\$ (72)

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Derivative transactions to which hedging accounting is applied as of March 31, 2021 and 2020 were as follows:

	Millions of Yen			
	2021		2020	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Allocation method				
Buying US Dollars	¥ 0	(* 1)	¥13	(* 1)
Buying Euros	¥ 0	(* 1)	¥1	(* 1)
Total	¥ 0	—	¥ 14	—
Interest rate swaps				
Principle method				
Payment fixation and receipt change	¥ 2,943	¥ (190)	¥ 2,930	¥ (149)
Special method				
Payment fixation and receipt change	765	(* 2)	1,055	(* 2)
Total	¥ 3,708	¥ (190)	¥ 3,985	¥ (149)

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars	
	(Note 1)	
	2021	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Allocation method		
Buying US Dollars	\$ 0	(* 1)
Buying Euros	\$ 0	(* 1)
Total	\$ 0	—
Interest rate swaps		
Principle method		
Payment fixation and receipt change	\$ 26,583	\$ (1,716)
Special method		
Payment fixation and receipt change	6,910	(* 2)
Total	\$ 33,493	\$ (1,716)

(* 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, 2021 and 2020 were as follows:

Millions of Yen			
March 31, 2021			
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 148,398	¥ 148,398	¥ —
Trade receivables	225,459	225,459	—
Lease investment assets	9,773	9,773	—
Securities			
Available-for-sale securities	40,387	40,387	—
Investments in affiliates	9,964	6,389	(3,575)
Long-term loans receivable	875	875	—
Trade payables	(91,377)	(91,377)	—
Short-term bank loans	(88,465)	(88,465)	—
Long-term debt	(38,062)	(38,358)	(296)
Derivative transactions	(198)	(198)	—

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)	—

Thousands of US Dollars (Note 1)			
March 31, 2021			
	Book value	Fair value	Difference
Cash and cash equivalents	\$ 1,340,421	\$ 1,340,421	\$ —
Trade receivables	2,036,483	2,036,483	—
Lease investment assets	88,276	88,276	—
Securities			
Available-for-sale securities	364,800	364,800	—
Investments in affiliates	90,001	57,709	(32,292)
Long-term loans receivable	7,904	7,904	—
Trade payables	(825,373)	(825,373)	—
Short-term bank loans	(799,070)	(799,070)	—
Long-term debt	(343,799)	(346,473)	(2,674)
Derivative transactions	(1,788)	(1,788)	—

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
	2021	2020	Dollars (Note 1) 2021
Equity securities issued by unconsolidated subsidiaries and affiliates	¥7,828	¥7,504	\$ 70,707
Non-listed equity securities	4,397	3,990	39,716

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, 2021 and 2020 was as follows:

Millions of Yen				
2021				
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	¥ 148,398	¥ —	¥ —	¥ —
Trade receivables	225,459	—	—	—
Long-term loans receivable	62	513	128	172
Total	¥ 373,919	¥ 513	¥ 128	¥ 172

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

Thousands of US Dollars (Note 1)				
2021				
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	\$ 1,340,421	\$ —	\$ —	\$ —
Trade receivables	2,036,483	—	—	—
Long-term loans receivable	560	4,634	1,156	1,554
Total	\$ 3,377,464	\$ 4,634	\$ 1,156	\$ 1,554

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, 2021 and 2020, 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, 2021 and 2020.

	March 31, 2021	March 31, 2020
Statutory income tax rate	30.5 %	30.5 %
Increase(decrease) in taxes resulting from:		
Difference in tax rate with foreign subsidiaries	(0.6)	(0.7)
Equity in earnings of affiliates	(0.6)	(0.6)
Increase(decrease) in valuation allowance	0.3	1.2
Special deduction in research expense	(2.1)	(2.2)
Other	1.1	0.1
Actual income tax rate	28.6 %	28.3 %

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Significant components of deferred tax assets and deferred tax liabilities as of March 31, 2021 and 2020 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2021	2020	2021
Deferred tax assets:			
Liabilities for retirement benefit	¥ 7,689	¥ 7,459	\$ 69,452
Unrealized gains on intercompany transactions	7,018	7,192	63,391
Operating loss carryforwards	2,980	2,310	26,917
Impairment loss on fixed assets	1,069	1,216	9,656
Other	16,070	15,969	145,154
Total gross deferred tax assets	34,826	34,146	314,570
Valuation allowance	(8,253)	(7,987)	(74,547)
Total deferred tax assets	26,573	26,159	240,023
Deferred tax liabilities:			
Assets for retirement benefit	(8,267)	(5,787)	(74,673)
Net unrealized gains on securities	(4,931)	(1,660)	(44,540)
Reserve for replacement of property, plant and equipment	(1,645)	(1,812)	(14,858)
Other	(7,091)	(6,643)	(64,050)
Total deferred tax liabilities	(21,934)	(15,902)	(198,121)
Net deferred tax assets	¥ 4,639	¥ 10,257	\$ 41,902

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, 2021 and 2020 was as follows:

	Millions of Yen							
	Year ended March 31, 2021							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	¥ 131,387	¥ 274,862	¥ 180,593	¥ 106,207	¥ 39,802	¥ 732,851	¥ —	¥ 732,851
Inter-segment	67,637	26,234	12,721	17,845	58,375	182,812	(182,812)	—
Total	¥ 199,024	¥ 301,096	¥ 193,314	¥ 124,052	¥ 98,177	¥ 915,663	¥ (182,812)	¥ 732,851
Segment income	¥ 7,704	¥ 41,520	¥ 23,539	¥ 11,988	¥ 3,069	¥ 87,820	¥ —	¥ 87,820
Segment assets	¥ 134,957	¥ 282,199	¥ 248,640	¥ 136,355	¥ 47,946	¥ 850,097	¥ 132,679	¥ 982,776
Depreciation and amortization	5,145	12,323	15,507	1,260	2,371	36,606	929	37,535
Capital expenditures	9,575	15,154	16,176	1,312	6,842	49,059	1,568	50,627
Investment for affiliates	1,012	9,979	5,287	2,622	1,593	20,493	—	20,493
						</		

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2021							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	\$ 1,186,767	\$ 2,482,721	\$ 1,631,226	\$ 959,326	\$ 359,516	\$ 6,619,556	\$ —	\$ 6,619,556
Inter-segment	610,939	236,961	114,904	161,187	527,278	1,651,269	(1,651,269)	—
Total	\$ 1,797,706	\$ 2,719,682	\$ 1,746,130	\$ 1,120,513	\$ 886,794	\$ 8,270,825	\$ (1,651,269)	\$ 6,619,556
Segment income	\$ 69,587	\$ 375,034	\$ 212,619	\$ 108,283	\$ 27,721	\$ 793,244	\$ —	\$ 793,244
Segment assets	\$ 1,219,014	\$ 2,548,993	\$ 2,245,868	\$ 1,231,641	\$ 433,077	\$ 7,678,593	\$ 1,198,437	\$ 8,877,030
Depreciation and amortization	46,473	111,309	140,069	11,381	21,416	330,648	8,391	339,039
Capital expenditures	86,487	136,880	146,111	11,851	61,802	443,131	14,163	457,294
Investment for affiliates	9,141	90,136	47,755	23,684	14,389	185,105	—	185,105

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 ¥132,679 million (US\$1,198,437 thousand) and ¥90,550 million for segment assets as of March 31, 2021 and 2020 included ¥32,921 million (US\$297,363 thousand) and ¥24,812 million of eliminations of inter-segment receivables and assets and ¥165,600 million (US\$1,495,800 thousand) and ¥115,362 million of corporate assets unallocated to each reported segment as of March 31, 2021 and 2020, respectively.

4. Adjustments amount of ¥929 million (US\$8,391 thousand) and ¥824 million for depreciation and amortization for the years ended March 31, 2021 and 2020 were mainly corporate costs unallocated to each reported segment.

5. Adjustments amount of ¥1,568 million (US\$14,163 thousand) and ¥756 million for capital expenditures for the years ended March 31, 2021 and 2020 were mainly made to corporate assets unallocated to each reported segment.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Related information

Geographic information

(1) Net sales

	Millions of Yen				
	Year ended March 31, 2021				
	Japan	China	Other Asian countries	Other	Total
Net sales	¥ 399,433	¥ 102,241	¥ 144,328	¥ 86,849	¥ 732,851

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

	Thousands of US Dollars (Note1)				
	Year ended March 31, 2021				
	Japan	China	Other Asian countries	Other	Total
Net sales	\$ 3,607,922	\$ 923,503	\$ 1,303,658	\$ 784,473	\$ 6,619,556

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, 2021		
	Japan	Other	Total
Property, plant and equipment	¥ 281,265	¥ 34,201	¥ 315,466

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

	Thousands of US Dollars (Note1)		
	Year ended March 31, 2021		
	Japan	Other	Total
Property, plant and equipment	\$ 2,540,557	\$ 308,924	\$ 2,849,481

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, 2021							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	¥ 5	¥ 22	¥ 6	¥ —	¥ 0	¥ 33	¥ —	¥ 33

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

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2021							
	Petrochemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	\$ 45	\$ 199	\$ 54	\$ —	\$ 0	\$ 298	\$ —	\$ 298

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Information about unamortized balance of goodwill by reported segments

There was no balance to be disclosed as of the year ended March 31, 2021.

	Millions of Yen							
	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, 2021 and 2020.

NOTE 16 – STOCK OPTION PLANS

At March 31, 2021, 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)	\$ 10.77	\$ 12.41	\$ 20.57	\$ 7.80	\$ 10.83
	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)	\$ 7.69	\$ 6.12	\$ 2.97	\$ 5.66	\$ 3.55

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)	\$ 4.07	\$ 7.24	\$ 11.52

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

At the meetings of the Company's board of directors held on May 11, 2021 and May 12, 2020 retained earnings of the Company as of March 31, 2021 and 2020, were appropriated as follows:

	March 31, 2021	
	Millions of Yen	Thousands of US Dollars
		(Note 1)
Year-end cash dividends (¥32.00 per share)	¥ 10,181	\$ 91,961

	March 31, 2020
	Millions of Yen
Year-end cash dividends (¥28.00 per share)	¥ 9,096

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, 2021 and 2020, 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 and 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, 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.

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were 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 these matters.

Reasonableness of the estimate of total construction costs in applying the percentage-of-completion method to the water treatment engineering business	
The key audit matter	How the matter was addressed in our audit
<p>As described in Note 2, "SUMMARY OF ACCOUNTING POLICIES, Significant accounting estimates, 1. Applying the percentage-of-completion method" to the consolidated financial statements, Tosoh Corporation and its consolidated subsidiaries (hereinafter collectively referred to as the "Group") recognized construction revenue of ¥45,852 million (US\$414,163 thousand) in the engineering segment, using the percentage-of-completion method for the current fiscal year, representing approximately 6% of total net sales in the consolidated financial statements.</p> <p>The Group applied the percentage-of-completion method, using the construction-cost percentage method for estimating the progress toward completion of construction, to construction contracts for which the realization of the completed portion is assured, and applied the completed-contract method to other construction contracts. The percentage-of-completion method is applied to construction contracts for which the realization of the completed portion is assured. In applying the percentage-of-completion method, it is necessary to reasonably estimate total construction revenue and costs, and the progress toward completion of construction at the end of the fiscal year.</p> <p>Total construction costs, which formed the basis for the construction revenue using the percentage-of-completion method are estimated as the estimated cost for each contract. Any changes in work due to changes in circumstances that occurred subsequent to the start of construction could result in changes in the estimated cost. Especially, because a large-scale construction related to the water treatment engineering business of the consolidated subsidiary, Organo Corporation, takes a long period of time to complete, there is a high degree of uncertainty in estimating the work activities and work hours toward completion. Therefore, management's determination of the following aspects of construction had a significant effect on the estimated total construction costs at the end of the fiscal year.</p>	<p>The primary procedures we performed to assess whether the estimate of total construction costs in applying the percentage-of-completion method to the water treatment engineering business of the consolidated subsidiary Organo Corporation was reasonable included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of the Group's internal controls relevant to the process of preparing the estimated cost and managing the cost for construction contracts. In this assessment, we particularly focused our testing on controls to reflect any changes in circumstances that occurred after the start of construction within the estimated cost in a timely and appropriate manner.</p> <p>(2) Assessment of the reasonableness of the estimated total construction cost</p> <p>In order to assess the reasonableness of key assumptions adopted and preparing the estimated cost for the construction contract, which was used as the basis for estimating total construction costs of the water treatment engineering business, we inquired of management about the basis on which those assumptions were developed. In addition, we evaluated the accuracy of the estimated cost by comparing their estimated cost of completed projects with the actual cost. Also, we extracted large-scale construction projects with relatively high uncertainty in the estimation of the estimated cost from the list of works to which the percentage-of-completion method were applied. In addition, we:</p> <ul style="list-style-type: none"> ● assessed whether all the work agreed upon with the customer was included in the project budget used in applying the percentage-of-completion method by comparing the project budget with the construction contract and the specification sheet; ● evaluated the accuracy of the estimated cost by comparing the estimated cost as of the end of the fiscal year with their initial estimated cost and inquiring about the

<ul style="list-style-type: none"> ● whether all the work necessary to complete the construction contract was identified and the estimation of the cost relevant to the work was included in the estimated cost; and ● whether any changes in work due to changes in circumstances that occurred subsequent to the start of construction, were reflected within the estimated cost in a timely and appropriate manner. <p>We, therefore, determined that our assessment of the reasonableness of the estimate of total construction costs in applying the percentage-of-completion method to the water treatment engineering business of the consolidated subsidiary Organo Corporation was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>cause of significant variances between the two, and ensured that the effect of events that were the causes of those variances were reflected in the latest estimated cost as of the end of the fiscal year, as necessary; and</p> <ul style="list-style-type: none"> ● inspected the materials for monthly construction status meetings and inquired of the head of project management and other relevant personnel about any changes in circumstances that occurred after the start of construction and their judgment on whether to update the estimated cost, and assessed the consistency of their responses with each other's.
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Adequacy of the valuation of slow-moving inventories held by Tosoh Corporation	
The key audit matter	How the matter was addressed in our audit
<p>Tosoh Corporation and its consolidated subsidiaries (hereinafter collectively referred to as the "Group") reported inventories of ¥155,565 million (US\$1,405,157 thousand) on the consolidated balance sheets. As described in Note 2, "SUMMARY OF ACCOUNTING POLICIES, Significant accounting estimates, 2. The valuation of inventories" to the consolidated financial statements, ¥75,410 million (US\$681,149 thousand) of those inventories were held by Tosoh Corporation representing approximately 8% of total assets in the consolidated financial statements.</p> <p>Inventories are measured at the lower of either the acquisition cost or the net selling price at the end of the fiscal year. In addition, for slow-moving inventories that are outside of the normal operating cycle, a valuation method that reduces the carrying amount is applied in order to reflect their reduced profitability.</p> <p>The Group identifies slow-moving inventories that are outside of the normal operating cycle from inventories whose turnover period exceeds a certain threshold considering the sales plan based on forecasted demand. This forecasted demand could significantly change</p>	<p>The primary procedures we performed to assess the adequacy of the valuation of slow-moving inventories held by Tosoh Corporation included the following:</p> <p>(1) Internal control testing</p> <p>We tested the design and operating effectiveness of certain of Tosoh Corporation's internal controls relevant to the identification of slow-moving inventories that are outside of the normal operating cycle and the valuation of them, including the process of preparing the sales plan based on forecasted demand. We also tested the design and operating effectiveness of the general and application controls of the relevant IT systems that ensure the accuracy and completeness of the amount of inventory classified in each aging category in the inventory aging report that management relies on to identify slow-moving inventories.</p> <p>(2) Assessment of the valuation of slow-moving inventories</p> <p>In order to assess the reasonableness of key assumptions adopted by management in identifying slow-moving inventories that are outside of the normal operating cycle, we</p>

<p>due to factors beyond the control of management. Especially, as Tosoh Corporation has many product types and grades, the identification of slow-moving inventories that are outside of the normal operating cycle could change depending on how the company forecasts each demand, resulting in a significant effect on the valuation.</p> <p>We, therefore, determined that our assessment of the adequacy of the valuation of slow-moving inventories held by Tosoh Corporation was one of the most significant matters in our audit of the consolidated financial statements for the current fiscal year, and accordingly, a key audit matter.</p>	<p>inquired of management about the basis for which these assumptions were developed. In addition, we:</p> <ul style="list-style-type: none"> ● assessed the reasonableness of key assumptions by individually evaluating the consistency of forecasted demand with the notification of expected order volume from major customers, and compared forecasted demand with market data regarding demand trends in the industries of major customers published by external organizations; and ● assessed the accuracy of forecasted demand by comparing past forecasted demand of slow-moving inventories with subsequent actual sales and evaluating the causes of any differences from actual results, and then analyzed the sensitivity when the effect of specific uncertainties were incorporated into the forecasted demand at the end of the current fiscal year.
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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 with regard to 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.

From the matters communicated with corporate auditors and the board of corporate auditors, 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.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 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

Koichi Hamaguchi

Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Tokyo Office, Japan
June 25, 2021

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.