

# Consolidated Financial Statements

Sekisui Chemical Co., Ltd.

Year ended March 31, 2021 with Independent Auditor's Report

## Financial Highlights (6 years)

	Millions of Yen					
	FY2015	FY2016	FY2017	FY2018	FY2019	FY2020
<b>Achievement Transition</b>						
Net Sales	1,096,317	1,065,776	1,107,429	1,142,713	1,129,254	1,056,560
Operating Income	89,823	96,476	99,231	95,686	87,974	67,300
Ordinary Income	81,213	91,513	93,929	93,146	87,202	62,649
Net Income Attributable to Owners of the Parent	56,653	60,850	63,459	66,093	59,181	41,544
Comprehensive Income	37,080	57,638	73,898	55,648	36,364	93,956
Operating Income Ratio (%)	8.2	9.1	9.0	8.4	7.8	6.4
<b>Assets, Liabilities and Net Assets</b>						
Total Assets	936,043	943,640	994,137	1,023,706	1,105,781	1,150,143
Net Assets	544,156	570,549	612,757	632,746	634,219	694,392
Equity	523,057	549,344	587,766	607,123	609,253	667,066
Equity to Total Assets (%)	55.9	58.2	59.1	59.3	55.1	58.0
Current Ratio (%)	138.0	160.7	153.6	151.0	147.2	179.1
Fixed Ratio (%)	95.9	86.9	91.0	91.2	100.8	96.6
Interest-bearing Debt	52,338	43,734	46,326	53,848	117,665	138,168
Debt/Equity Ratio (%)	10.0	8.0	7.9	8.9	19.3	20.7
Total Assets Turnover (Times)	1.15	1.13	1.14	1.13	1.06	0.94
Inventory Turnover (Times)	7.11	7.00	6.84	6.30	5.52	4.80
Tangible Fixed Assets Turnover (Times)	4.11	4.01	4.09	3.88	3.49	3.07
<b>Cash Flow</b>						
Net cash provided by operating activities	71,389	108,229	82,272	85,213	92,647	75,271
Net cash used in investing activities	(23,715)	(44,057)	(60,881)	(62,553)	(100,562)	(58,495)
Net cash (used in) provided by financing activities	(41,726)	(39,633)	(35,981)	(31,539)	15,450	(19,157)
Free Cash Flow	33,375	48,107	2,325	2,043	(30,317)	(5,417)
<b>Capital Expenditures, Depreciation and R&amp;D Expenditures</b>						
Capital Expenditures	49,740	43,868	53,518	73,595	66,667	55,326
Depreciation and Amortization	34,735	34,843	36,016	38,789	42,018	44,926
Amortization of Goodwill	2,156	2,118	2,416	2,848	3,238	4,419
R&D Expenditures	31,693	34,169	36,974	38,838	37,146	35,110
R&D Expenditures to Revenues (%)	2.89	3.21	3.34	3.40	3.29	3.32
<b>Per Share Data</b>						
Net Assets per Share (Yen)	1,071.24	1,147.91	1,245.91	1,307.75	1,333.76	1,485.89
Net Income Attributable to Owners of the Parent per Share (Yen)	115.08	126.13	133.80	141.74	128.80	91.92
Dividends per Share (Yen)	30	35	40	44	46	47
Dividends Payout Ratio (%)	26.1	27.7	29.9	31.0	35.7	51.1
Dividend on Equity Ratio (%)	2.8	3.1	3.3	3.4	3.5	3.3
<b>Other Data</b>						
Return on Equity (%)	10.9	11.3	11.2	11.1	9.7	6.5
Return on Total Assets (%)	8.5	9.7	9.7	9.2	8.2	5.6
Return on invested capital (%)	-	-	-	-	7.7	5.4
EBITDA	126,714	133,437	137,665	137,324	133,231	116,647
Interest Coverage Ratio (Times)	64.5	100.4	109.9	113.5	85.3	58.2
PER (Times)	12.04	14.83	13.87	12.55	11.17	23.12
Number of Employees	23,901	23,006	26,080	26,486	27,003	26,577
Net Sales per Employee (Ten thousands of yen)	4,588	4,544	4,512	4,347	4,222	3,943

### Equity

= Shareholders' Equity including Accumulated Other Comprehensive Income

Equity to Total Assets = Equity / Total Assets

Current Ratio = Current Assets / Current Liabilities

Fixed Ratio = Fixed Assets / Equity

Debt/Equity Ratio = Interest-bearing Debt / Equity

Total Assets Turnover = Net Sales / Average Total Assets

Inventory Turnover = Net Sales / Average Inventory

Tangible Fixed Assets Turnover = Net Sales / Average Tangible Fixed Assets

Free Cash Flow

= CF Operating Activities + CF Investing Activities - Dividend Paid

R&D Expenditures to Revenues = R&D Expenditures / Net Sales

Dividend on Equity Ratio = Total Dividend Payment (full year) / Average Equity

Return on Equity = Net Income Attributable to Owners of the Parent / Average Equity

Return on Total Assets = Ordinary Income / Average Total Assets

Return on invested capital = Operating Income / Average Invested capital

EBITDA = Operating Income + Depreciation and Amortization + Amortization of Goodwill

Interest Coverage Ratio = (Operating Income + Interest and Dividends) / Interest Expense

PER = Stock Prices at the End of Year / Net Income Attributable to Owners of the Parent per Share

Net Sales per Employee = Net Sales / Average Number of Employees

Note: "Partial Amendments to Accounting Standard for Tax Effect Accounting" (ASBJ Statement No.28 issued on February 16, 2018) have been applied from the beginning of the fiscal year ended March 31, 2019 (FY2018). Major management indicators etc. for the previous fiscal year have been calculated by retrospectively applying the accounting standard.

For the year ended March 31, 2021, the Companies completed the provisional accounting treatment related to a business combination.

As a result, certain amounts as of and for the year ended March 31, 2020 in the above table includes items that were adjusted retroactively to reflect the revision of the initial allocated amounts of the acquisition price as the Companies finalized the provisional accounting treatment for the business combination.

# Consolidated Financial Statements

## Consolidated Balance Sheet

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

March 31, 2021 and 2020

	Millions of yen	
	FY2020	FY2019
<b>Assets</b>		
<b>Current assets:</b>		
Cash and deposits (Notes 24 and 26)	¥ 87,454	¥ 76,819
Notes receivable, trade (Note 26)	34,810	39,436
Accounts receivable, trade (Note 26)	135,821	134,688
Marketable securities (Notes 7 and 26)	0	0
Merchandise and finished goods	79,652	73,744
Land for sale (Note 3)	58,767	50,580
Work in process	50,469	56,554
Raw materials and supplies	34,021	36,311
Advance payments	3,362	2,631
Prepaid expenses	7,121	5,237
Short-term loans receivable	2	1,466
Other current assets	15,259	15,789
Allowance for doubtful accounts	(1,172)	(1,377)
<b>Total current assets</b>	<b>505,571</b>	<b>491,883</b>
<b>Fixed assets:</b>		
<b>Property, plant and equipment, net (Notes 8, 11, 21 and 29):</b>		
Buildings and structures (Note 22)	116,433	104,206
Machinery, equipment and vehicles (Note 22)	96,844	84,284
Land (Note 20)	80,079	79,708
Leased assets (Note 10)	19,203	18,520
Construction in progress	27,228	38,905
Other	11,607	11,624
<b>Total property, plant and equipment, net</b>	<b>351,397</b>	<b>337,250</b>
<b>Intangible assets (Notes 3, 11, 21, 29 and 30):</b>		
Goodwill	50,914	56,078
Software	10,520	9,571
Leased assets (Note 10)	150	135
Other	36,063	38,713
<b>Total intangible assets</b>	<b>97,649</b>	<b>104,498</b>
<b>Investments and other assets:</b>		
Investments in securities (Notes 7, 9 and 26)	174,656	140,862
Long-term loans receivable	1,613	1,379
Long-term prepaid expenses	2,021	1,394
Asset for retirement benefits (Note 13)	312	125
Deferred tax assets (Note 14)	5,347	16,536
Other	13,908	13,884
Allowance for doubtful accounts	(2,334)	(2,034)
<b>Total investments and other assets</b>	<b>195,525</b>	<b>172,148</b>
<b>Total fixed assets</b>	<b>644,571</b>	<b>613,897</b>
<b>Total assets (Note 29)</b>	<b>¥ 1,150,143</b>	<b>¥ 1,105,781</b>

	Millions of yen	
	FY2020	FY2019
<b>Liabilities</b>		
<b>Current liabilities:</b>		
Notes payable, trade (Notes 11 and 26)	¥ 1,744	¥ 3,002
Electronically recorded obligations (Note 26)	25,052	26,859
Accounts payable, trade (Notes 11, 25 and 26)	90,798	101,914
Short-term debt and current portion of long-term debt (Notes 11 and 26)	7,278	8,446
Commercial paper (Notes 11 and 26)	–	28,000
Current portion of bonds (Notes 11 and 26)	–	19
Lease obligations (Note 12)	4,625	4,694
Accrued expenses (Note 25)	43,910	41,097
Accrued income taxes and other taxes (Note 14)	10,658	11,855
Allowance for bonuses to employees	17,620	18,162
Allowance for bonuses to directors and audit and supervisory board members	245	275
Provision for compensation for completed construction	1,403	1,382
Provision for stock-based compensation	157	166
Advances received	40,227	42,180
Other	38,555	46,155
<b>Total current liabilities</b>	<b>282,278</b>	<b>334,212</b>
<b>Long-term liabilities:</b>		
Bonds (Notes 11 and 26)	40,000	40,000
Long-term debt less current portion (Notes 11 and 26)	71,207	22,368
Lease obligations (Note 12)	15,057	14,137
Deferred tax liabilities (Notes 14 and 30)	10,362	7,777
Liability for retirement benefits (Note 13)	30,402	47,170
Provision for stock-based compensation	648	479
Other	5,793	5,416
<b>Total long-term liabilities</b>	<b>173,472</b>	<b>137,349</b>
<b>Total liabilities</b>	<b>455,751</b>	<b>471,562</b>
<b>Contingent liabilities (Note 17)</b>		
<b>Net assets (Notes 15 and 28)</b>		
<b>Shareholders' equity:</b>		
Common stock	100,002	100,002
Capital surplus	109,021	109,273
Retained earnings (Note 31)	441,087	433,266
Treasury stock, at cost (Note 31)	(43,414)	(44,139)
<b>Total shareholders' equity</b>	<b>606,696</b>	<b>598,403</b>
<b>Accumulated other comprehensive income:</b>		
Unrealized holding gain on securities	50,781	27,463
Deferred loss on hedges (Notes 26 and 27)	(33)	(16)
Unrealized gain on land revaluation (Note 16)	323	321
Translation adjustments	6,647	(8,499)
Retirement benefit adjustments (Note 13)	2,650	(8,419)
<b>Total accumulated other comprehensive income</b>	<b>60,370</b>	<b>10,850</b>
Stock acquisition rights (Notes 15 and 25)		64
Non-controlling interests	27,325	24,901
<b>Total net assets</b>	<b>694,392</b>	<b>634,219</b>
<b>Total liabilities and net assets</b>	<b>¥ 1,150,143</b>	<b>¥ 1,105,781</b>

See accompanying notes to consolidated financial statements

## Consolidated Statement of Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2021 and 2020

	Millions of yen	
	FY2020	FY2019
Net sales (Notes 25 and 29)	¥ 1,056,560	¥ 1,129,254
Cost of sales	726,174	766,551
Gross profit	330,385	362,702
Selling, general and administrative expenses (Note 18)	263,084	274,727
Operating income (Note 29)	67,300	87,974
Non-operating income:		
Interest income	484	957
Dividends income	4,368	4,363
Equity in earnings of affiliates	2,753	2,893
Foreign exchange gain, net	543	178
Miscellaneous income	2,886	3,417
Total non-operating income	11,036	11,809
Non-operating expenses:		
Interest expenses	861	695
Sales discounts	378	399
Inspection and maintenance expenses for external walls (Note 19)	5,011	2,694
Miscellaneous expenses	9,436	8,793
Total non-operating expenses	15,687	12,581
Ordinary income	62,649	87,202
Extraordinary income:		
Gain on sales of fixed assets (Note 20)	3,128	-
Gain on sales of investments in securities (Note 7)	2,258	6,929
Total extraordinary income	5,387	6,929
Extraordinary loss:		
Loss on impairment of fixed assets and goodwill (Notes 3, 21 and 29)	2,428	4,443
Loss on sales of investments in securities (Note 7)	728	290
Loss on revaluation of investments in securities (Note 7)	-	2,897
Loss on sales or disposal of property, plant and equipment (Note 22)	1,700	2,713
Total extraordinary loss	4,857	10,344
Income before income taxes	63,179	83,787
Income taxes (Note 14):		
Current	20,029	22,659
Deferred	(127)	(83)
Total income taxes	19,902	22,575
Net income	43,277	61,211
Net income attributable to:		
Non-controlling interests	1,733	2,030
Owners of the parent (Note 28)	¥ 41,544	¥ 59,181

See accompanying notes to consolidated financial statements

## Consolidated Statement of Comprehensive Income

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2021 and 2020

	Millions of yen			
	FY2020		FY2019	
Net income	¥	43,277	¥	61,211
Other comprehensive income (loss) (Note 23)				
Unrealized holding gain (loss) on securities		22,450		(9,448)
Deferred (loss) gain on hedges		(32)		31
Translation adjustments		16,297		(12,077)
Retirement benefit adjustments		11,068		(3,297)
Comprehensive gain (loss) of affiliates accounted for by the equity method attributable to the Company		894		(54)
Total other comprehensive income (loss)		50,679		(24,847)
Comprehensive income	¥	93,956	¥	36,364
Comprehensive income attributable to:				
Owners of the parent	¥	91,064	¥	35,801
Non-controlling interests		2,892		562

*See accompanying notes to consolidated financial statements*

## Consolidated Statement of Changes in Net Assets

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

Years ended March 31, 2021 and 2020

	Millions of yen											
	Shareholders' equity				Accumulated other comprehensive income							
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Unrealized holding gain on securities	Deferred loss on hedges	Unrealized gain on land revaluation	Translation adjustments	Retirement benefit adjustments	Stock acquisition rights	Non-controlling interests	Total net assets
Balance at April 1, 2019	¥ 100,002	¥ 109,221	¥ 408,008	¥ (44,337)	¥ 36,828	¥ (32)	¥ 321	¥ 2,123	¥ (5,011)	¥ 156	¥ 25,465	¥ 632,746
Cash dividends	–	–	(21,261)	–	–	–	–	–	–	–	–	(21,261)
Net income attributable to owners of the parent	–	–	59,181	–	–	–	–	–	–	–	–	59,181
Increase in retained earnings resulting from inclusion of subsidiaries in consolidation	–	–	45	–	–	–	–	–	–	–	–	45
Increase in retained earnings resulting from exclusion of subsidiaries in consolidation	–	–	23	–	–	–	–	–	–	–	–	23
Retirement of treasury stock	–	(12,729)	–	12,729	–	–	–	–	–	–	–	–
Purchase of treasury stock	–	–	–	(13,291)	–	–	–	–	–	–	–	(13,291)
Disposal of treasury stock	–	46	–	760	–	–	–	–	–	–	–	806
Transfer from retained earnings to capital surplus	–	12,729	(12,729)	–	–	–	–	–	–	–	–	–
Change in shareholders' equity due to transactions with non-controlling interests	–	5	–	–	–	–	–	–	–	–	–	5
Net changes of items other than shareholders' equity	–	–	–	–	(9,365)	15	–	(10,622)	(3,407)	(92)	(564)	(24,035)
Total changes of items during the year	–	52	25,258	198	(9,365)	15	–	(10,622)	(3,407)	(92)	(564)	1,472
Balance at March 31, 2020	¥ 100,002	¥ 109,273	¥ 433,266	¥ (44,139)	¥ 27,463	¥ (16)	¥ 321	¥ (8,499)	¥ (8,419)	¥ 64	¥ 24,901	¥ 634,219
Cash dividends	–	–	(20,953)	–	–	–	–	–	–	–	–	(20,953)
Net income attributable to owners of the parent	–	–	41,544	–	–	–	–	–	–	–	–	41,544
Decrease in retained earnings resulting from inclusion of subsidiaries in consolidation	–	–	(117)	–	–	–	–	–	–	–	–	(117)
Retirement of treasury stock	–	(12,699)	–	12,699	–	–	–	–	–	–	–	–
Purchase of treasury stock	–	–	–	(12,202)	–	–	–	–	–	–	–	(12,202)
Disposal of treasury stock	–	1	–	228	–	–	–	–	–	–	–	229
Transfer from retained earnings to capital surplus	–	12,651	(12,651)	–	–	–	–	–	–	–	–	–
Change in shareholders' equity due to transactions with non-controlling interests	–	(206)	–	–	–	–	–	–	–	–	–	(206)
Net changes of items other than shareholders' equity	–	–	–	–	23,318	(16)	1	15,146	11,069	(64)	2,424	51,879
Total changes of items during the year	–	(252)	7,820	725	23,318	(16)	1	15,146	11,069	(64)	2,424	60,173
Balance at March 31, 2021	¥ 100,002	¥ 109,021	¥ 441,087	¥ (43,414)	¥ 50,781	¥ (33)	¥ 323	¥ 6,647	¥ 2,650	¥ –	¥ 27,325	¥ 694,392

See accompanying notes to consolidated financial statements

## Consolidated Statement of Cash Flows

Sekisui Chemical Co., Ltd. and Consolidated Subsidiaries

Year ended March 31, 2021 and 2020

	Millions of yen	
	FY2020	FY2019
Operating activities:		
Income before income taxes	¥ 63,179	¥ 83,787
Adjustments for:		
Depreciation and amortization	44,926	42,018
Amortization of goodwill	4,419	3,238
Loss on impairment of fixed assets and goodwill	2,428	4,443
Loss on disposal of property, plant and equipment	1,672	2,664
(Gain) loss on sales of property, plant and equipment, net	(3,101)	49
Decrease in liability for retirement benefits	(1,495)	(1,056)
Gain on sales of investments in securities, net	(1,530)	(6,639)
Loss on revaluation of investments in securities	–	2,897
Interest and dividends income	(4,853)	(5,320)
Interest expenses and sales discounts	1,239	1,094
Equity in earnings of affiliates	(2,753)	(2,893)
Decrease in notes and accounts receivable	4,629	9,644
Increase in inventories	(4,165)	(24,309)
Decrease in notes and accounts payable	(11,246)	(737)
Decrease in advances received	(2,024)	(1,004)
Increase in deposits received	280	570
Other	1,144	1,237
Subtotal	92,750	109,685
Interest and dividends received	5,208	6,167
Interest paid	(1,190)	(1,133)
Income taxes paid	(21,497)	(22,071)
Net cash provided by operating activities	75,271	92,647
Investing activities:		
Purchases of property, plant and equipment	(55,359)	(52,683)
Proceeds from sales of property, plant and equipment	3,940	1,336
Payments into time deposits	(14,619)	(5,637)
Proceeds from withdrawal of time deposits	6,463	4,722
Purchases of investments in securities	(620)	(1,034)
Proceeds from sales or redemption of investments in securities	3,478	14,163
Acquisition of investments in subsidiaries resulting in change in scope of consolidation	–	(54,377)
Sales of investments in subsidiaries resulting in change in scope of consolidation	880	254
Acquisition of investments in subsidiaries	–	(45)
Purchases of intangible assets	(6,708)	(4,544)
Decrease (increase) in short-term loans receivable	15	(5,277)
Other	4,035	2,560
Net cash used in investing activities	¥ (58,495)	¥ (100,562)



## Consolidated Statement of Cash Flows (continued)

### Financing activities:

Decrease in short-term debt, net	¥	(823)	¥	(318)
Repayments of lease obligations		(4,947)		(5,073)
(Decrease) increase in commercial paper		(28,000)		11,000
Proceeds from long-term debt		51,531		17,165
Repayment of long-term debt		(3,256)		(2,182)
Proceeds from issuance of bonds		–		30,000
Redemption of bonds		(19)		(19)
Cash dividends paid		(20,952)		(21,286)
Cash dividends paid to non-controlling interests		(1,240)		(1,114)
Purchase of treasury stock		(12,201)		(13,291)
Proceeds from issuance of common stock		2,632		–
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(2,099)		(6)
Other		219		579
Net cash (used in) provided by financing activities		(19,157)		15,450
Effect of exchange rate change on cash and cash equivalents		4,171		(3,072)
Net increase in cash and cash equivalents		1,789		4,462
Cash and cash equivalents at beginning of year		74,721		68,613
Increase in cash and cash equivalents from newly consolidated subsidiaries		138		1,646
Cash and cash equivalents at end of year (Note 24)	¥	76,649	¥	74,721

*See accompanying notes to consolidated financial statements*

## Notes to Consolidated Financial Statements

### 1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of the Company and its consolidated subsidiaries (the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements were made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation.

As permitted by the Financial Instruments and Exchange Act of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements do not necessarily agree with the sum of the individual amounts.

### 2. Summary of Significant Accounting Policies

#### (1) Principles of Consolidation

The accompanying consolidated financial statements for the year ended March 31, 2021 include the accounts of the Company and its 161 significant subsidiaries.

The accounts of the other subsidiaries have not been consolidated with those of the Companies at March 31, 2021, because their combined assets, retained earnings, net sales and net income (loss) in the aggregate were not material to the consolidated financial statements.

The fiscal year end of 21 overseas consolidated subsidiaries was December 31. These consolidated subsidiaries have been consolidated using provisional financial statements at March 31.

Unrealized intercompany profit and loss among the Company and its consolidated subsidiaries have been entirely eliminated and the portion attributable to non-controlling interests has been charged to non-controlling interests.

At March 31, 2021, the Company has applied the equity method to investments in 8 major affiliates, including Sekisui Plastics Co., Ltd. and Sekisui Jushi Co., Ltd. for the purpose of the consolidated financial statements for the year then ended since the investments in the other unconsolidated subsidiaries and affiliates were not material.

#### (2) Foreign Currency Transactions

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates. Gain or loss on foreign exchange is credited or charged to income in the period in which the gain or loss is recognized for financial reporting purposes.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date except that the components of net assets excluding non-controlling interests are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating foreign currency financial statements are not included in the determination of net income and are reported as translation adjustments and non-controlling interests in the accompanying consolidated balance sheet and statement of comprehensive income.

## 2. Summary of Significant Accounting Policies (continued)

- (3) Cash and Cash Equivalents  
For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash-on-hand and in banks and other highly liquid investments with maturities of three months or less when purchased.
- (4) Inventories  
Inventories held for normal sales purposes are being determined primarily by the average method. However, real estates for sales purposes are being determined by the individual identification method. Inventories are stated at the lower of cost or net selling value
- (5) Securities  
Securities other than those of unconsolidated subsidiaries and affiliates are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities are carried at fair value. Gain or loss, both realized and unrealized, is credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income. Cost of securities sold is determined by the moving average method. Non-marketable securities classified as other securities are carried at cost determined by the moving average method.
- (6) Property, Plant and Equipment and Depreciation (excluding leased assets)  
Depreciation of property, plant and equipment is computed by the straight-line method based on the estimated useful lives of the respective assets.  
  
The range of useful lives is principally from 3 to 60 years for buildings and structures and from 4 to 17 years for machinery, equipment and vehicles.
- (7) Leased Assets  
Leased assets arising from finance lease transactions which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.
- (8) Goodwill  
Goodwill is amortized by the straight-line method over a reasonable period not exceeding 20 years, with the exception of immaterial and negative amounts, which are charged or credited to income in the year of acquisition.
- (9) Allowance for Doubtful Accounts  
The allowance for doubtful accounts is provided to cover possible losses on collection. With respect to normal accounts receivable, trade, allowance for doubtful accounts is stated at an amount based on the actual rate of historical bad debts, and for certain doubtful receivables, the uncollectible amount has been individually estimated.
- (10) Allowance for Bonuses to Employees  
Allowance for bonuses to employees is provided at the estimated amount of bonuses to be paid to the employees in the following year which has been allocated to the current fiscal year.
- (11) Retirement Benefits  
Asset for retirement benefits and liability for retirement benefits have been recorded mainly at the amount calculated based on the retirement benefit obligations and the fair value of the pension plan assets as of balance sheet date. The retirement benefit obligations are attributed to each period on a benefit formula basis over the estimated years of service of the eligible employees.  
  
Prior service cost is amortized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.  
  
Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.  
  
Certain consolidated subsidiaries have adopted a simplified method of calculation with liability for retirement benefits and retirement benefits expense. Under this simplified method, retirement benefit obligations for employees are stated the amount which would be required to be paid if all eligible employees voluntarily retired at the balance sheet date.  
  
Certain consolidated subsidiaries have retirement benefit plans for their officers which are stated at 100% of the estimated amount calculated in accordance with each subsidiary's internal rules. The related amount is included in liability for retirement benefits.
- (12) Recognition of Revenue and Related Costs  
Revenues and costs of construction contracts, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method, except for construction contracts with extremely short construction periods. To estimate the progress of such construction projects, the Company and certain consolidated subsidiaries measure the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). If a reliable estimate cannot be made, revenues and costs of construction contract are recognized by the completed-contract method.

## 2. Summary of Significant Accounting Policies (continued)

- (13) Research and Development Costs and Computer Software (excluding leased assets)  
Research and development costs are charged to income when incurred. Expenditures relating to computer software developed for internal use are charged to income when incurred, unless these contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.
- (14) Income Taxes  
Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which are entered into the determination of taxable income in different periods. The Company and consolidated subsidiaries have recognized the tax effects of such temporary differences in the accompanying consolidated financial statements.

The Company and certain consolidated subsidiaries have applied the consolidated taxation system.

- (15) Consumption Taxes  
Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes. Consumption taxes paid not offset by consumption taxes received in accordance with Consumption Tax Act of Japan that arise from the purchases of property, plant and equipment are charged to income when incurred.
- (16) Derivatives and Hedging Activities  
The Company and certain consolidated subsidiaries have entered into derivative transactions in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and interest rates. Derivatives are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss, net of the applicable income taxes, is reported as a component of accumulated other comprehensive income. Forward foreign exchange contracts and currency swap contracts which meet certain criteria are accounted for by allocation method, which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates.

If interest rates swap contracts meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract is executed.

### 3. Significant Accounting Estimates

(1) Valuation of goodwill of Sekisui Aerospace Corporation Group

(a) Amount recorded in the consolidated financial statements for the year ended March 31, 2021

Goodwill ¥40,802 million

The goodwill was recognized when the AIM Aerospace Corporation (currently Sekisui Aerospace Corporation) Group was acquired in 2019 with the aim of expanding the business in the area of mobility materials and strengthening basic technologies. No impairment loss related to the goodwill was recorded for the year ended March 31, 2021

(b) Information about significant accounting estimates for the identified item

b-1 Method of calculation

No impairment loss was recognized for the year ended March 31, 2021 as the total undiscounted future cash flows from the asset group, including goodwill of the Sekisui Aerospace Corporation Group, exceed the book value of the asset group. Undiscounted future cash flows are calculated based on the business plan approved by the management, and for the following period subsequent to the period covered by the business plan, an estimated growth rate within the market's long-term average growth rate is applied.

b-2 Significant assumptions

The significant assumptions used in the estimation of undiscounted future cash flows are, the prospects for market recovery in the aircraft industry, the prospects for customer orders, and the growth rate for the following period subsequent to the period covered by the business plan. The growth rate is set at 2%, taking into account the impact of COVID-19 on the long-term average growth rate of the market.

b-3 Impact on consolidated financial statements for the year ending March 31, 2022

An aircraft manufacturer in the United States, which is a major customer of Sekisui Aerospace Corporation Group and accounts for the majority of orders received, has been affected by a sharp decline in air passenger demand due to the spread of COVID-19, and its business environment has become increasingly uncertain.

Deterioration in the business environment of this major customer may have a significant impact on the future performance of Sekisui Aerospace Corporation Group. There is a possibility that impairment loss would be recorded in the assets group, including goodwill, if the key assumptions underlying accounting estimates change.

(2) Valuation of intangible assets of Sekisui Aerospace Corporation Group

(a) Amounts recorded in the consolidated financial statements for the year ended March 31, 2021

Loss on impairment of intangible assets ¥1,693 million

Intangible assets ¥12,564 million

The intangible assets represent customer-related assets recognized when the AIM Aerospace Corporation (currently, Sekisui Aerospace Corporation) Group was acquired in 2019 with the aim of expanding the business in the mobility materials field and strengthening basic technologies.

(b) Information about significant accounting estimates for the identified item

b-1 Method of calculation

Customer-related assets of the Sekisui Aerospace Corporation Group are calculated based on fair value less costs of disposal, which is calculated by discounting future cash flows to present value. Furthermore, if the fair value is less than the corresponding book value, an impairment loss is recorded.

For the year ended March 31, 2021, an impairment loss of ¥1,693 million was recorded as a result of the decline in profitability due to changes in the business environment.

b-2 Significant assumptions

The significant assumptions used in the estimation of the fair value less costs of disposal are, the prospects for market recovery in the aircraft industry, the prospects for customer orders, and the discount rate. The discount rate is calculated based on the weighted average cost of capital before tax and is set at 12.5%.

b-3 Impact on consolidated financial statements for the year ending March 31, 2022

The aircraft manufacturer in the United States, which is a major customer of Sekisui Aerospace Corporation Group and accounts for the majority of orders received, has been affected by a sharp decline in air passenger demand due to the spread of COVID-19, and the business environment is becoming increasingly uncertain.

The deterioration in the business environment of this major customer may have a significant impact on the evaluation for the customer-related assets of Sekisui Aerospace Corporation Group. There is a possibility that impairment loss would be recorded on the customer-related assets, if the key assumptions underlying accounting estimates change.

(3) Evaluation of land for sale

(a) Amount recorded in the consolidated financial statements for the year ended March 31, 2021

Land for sale: ¥58,767 million

(b) Information about the content of significant accounting estimates for the identified item

b-1 Method of calculation

Land for sale held for the purpose of housing sales ("Land for sale") is stated at the acquisition cost in the consolidated balance sheet, and if net selling price at the end of the year is less than the acquisition cost, that value is used as the amount recorded in the consolidated balance sheet.

Net selling price is the selling price for each individual property (in principle, the lowest publicly offered price.)

In addition, the Companies have standardized rules for writing down the book value based on the number of years that have passed since the Companies have offered the land for sale.

b-2 Significant assumptions

The significant assumption used to evaluate land for sale is the selling price based on the management's forecasts and expectations based on the housing market conditions and subjective judgments.

b-3 Impact on consolidated financial statements for the year ending March 31, 2022

In the evaluation of land for sale, it is necessary to review the selling price as appropriate due to the deterioration of the housing sales market and its sluggish sales. There is a possibility that loss would be recorded on the land for sale, if the key assumptions underlying accounting estimates change.

#### 4. Accounting Standards Issued but Not Yet Effective

##### Accounting Standard and Implementation Guidance on Revenue Recognition

On March 31, 2020, the Accounting Standards Board of Japan (the "ASBJ") issued revised "Accounting Standard for Revenue Recognition" (ASBJ Statement No.29) and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19). On March 26, 2021, the Accounting Standards Board of Japan (the "ASBJ") issued revised "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No.30)

##### (1) Overview

The International Accounting Standards Board ("IASB") and the Financial Accounting Standards Board ("FASB") of the U.S. have jointly developed a comprehensive accounting standard for revenue recognition. In May 2014, the IASB and the FASB each issued "Revenue from Contracts with Customers" (IASB: IFRS 15 and FASB: Topic 606). Considering that IFRS 15 has been applied from fiscal years beginning on or after January 1, 2018 and Topic 606 has been applied from fiscal years beginning after December 15, 2017, the ASBJ has developed a comprehensive accounting standard for revenue recognition, which was issued together with its implementation guidance.

As a basic policy in developing the accounting standard for revenue recognition, the ASBJ has incorporated the basic principles of IFRS 15 from the viewpoint of comparability between financial statements, a factor essential for facilitating consistency with IFRS 15. In addition, if there are any business practices in Japan for which consideration is required, alternative accounting treatments shall be added to the accounting standard to the extent that they do not impair comparability.

##### (2) Scheduled date of adoption

The Companies expect to adopt the accounting standard and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.

##### (3) Impact of adoption of revised accounting standard and related implementation guidance

The Companies are currently evaluating the effect of the adoption of the accounting standard and related implementation guidance on the consolidated financial statements.

##### Accounting Standard for Fair Value Measurement and Related Implementation Guidance

On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30), and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 31), along with related updates to "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, revised 2019), "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, revised 2019), and "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, revised 2020).

##### (1) Overview

The IASB and the FASB have provided almost identical detailed guidance for fair value measurement (IFRS 13 Fair Value Measurement under IFRS, and ASU 2018-13 Fair Value Measurement (Topic 820) under U.S. GAAP).

As a result of initiatives mainly to promote consistency between Japanese and international accounting standards regarding guidance for fair value measurement and required disclosures, the ASBJ then issued "Accounting Standard for Fair Value Measurement," etc.

The basic objective of the ASBJ in developing the accounting standard for fair value measurement was to enhance comparability between financial statements of domestic and foreign entities, through a unified measurement method.

Accordingly, the accounting standard fundamentally incorporates the basic policies of IFRS 13. Also, where there are items that should be considered to reflect the business practices in Japan, exceptional treatments have been established for certain items to the extent that comparability is not impaired.

##### (2) Scheduled date of adoption

The Companies expect to adopt the accounting standards and related implementation guidance from the beginning of the fiscal year ending March 31, 2022.

##### (3) Impact of adoption of revised accounting standard and related implementation guidance

The Companies are currently evaluating the effect of the adoption of the accounting standards and related implementation guidance on the consolidated financial statements.

## 5. Notes on Changes in Presentation Method

### (1) Consolidated Statement of Cash Flows

For the year ended March 31, 2020, "Sales of investments in subsidiaries resulting in change in scope of consolidation" was included in "Proceeds from sales or redemption of investments in securities" in "Investing activities."

From the viewpoint of enhancing the usefulness of the consolidated financial statements, the Companies reviewed the presentation items and decided to post this separately from the year ended March 31, 2021. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation method. As a result, ¥14,417 million shown in "Proceeds from sales or redemption of investments in securities" in "Investing activities" in the consolidated statement of cash flows for the previous fiscal year was reclassified as "Sales of investments in subsidiaries resulting in change in scope of consolidation" of ¥254 million and "Proceeds from sales or redemption of investments in securities" ¥14,163 million.

For the year ended March 31, 2020, "Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation" was included in "other" in "Financing activities."

Due to increasing materiality, the Companies reviewed the presentation items and decided to post it separately from the year ended March 31, 2021. The consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in presentation method. As a result, ¥572 million shown in "other" in "Financing activities" in the consolidated statement of cash flows for the previous fiscal year was reclassified as "Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation" of ¥(6) million and "other" of ¥579 million.

### (2) Application of "Accounting Standards for Disclosure of Accounting Estimates"

Effective from the fiscal year ended March 31, 2021, the Companies have adopted "Accounting Standard for Disclosure of Accounting Estimates (ASBJ Statement No. 31) issued on March 31, 2020.

Significant accounting estimates for the consolidated financial statements are newly disclosed. However, comparative information for the previous fiscal year is not included in accordance with the transitional treatment stipulated in the proviso of paragraph 11 of the accounting standard.

## 6. Additional Information

(Accounting estimates with respect to the impact of the spread of COVID-19)

The Companies make accounting estimates such as impairment accounting for fixed assets and the recoverability of deferred tax assets based on information known at the time of preparing the consolidated financial statements. The Companies assume that the impact of the spread of COVID-19 will gradually improve for the year ending March 31, 2022. The impact on the Companies' business and the degree of this impact differs by business.

## 7. Marketable Securities and Investments in Securities

(1) Held-to-maturity debt securities at March 31, 2021 and 2020 are summarized as follows:

		Millions of yen			
		FY2020			
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss	
Unlisted foreign debt securities	¥ 14	¥ 14	¥ -	¥ -	-
<b>Total</b>	<b>¥ 14</b>	<b>¥ 14</b>	<b>¥ -</b>	<b>¥ -</b>	<b>-</b>

  

		Millions of yen			
		FY2019			
	Carrying value	Estimated fair value	Gross unrealized gain	Gross unrealized loss	
Unlisted foreign debt securities	¥ 1	¥ 1	¥ -	¥ -	-
<b>Total</b>	<b>¥ 1</b>	<b>¥ 1</b>	<b>¥ -</b>	<b>¥ -</b>	<b>-</b>

(2) Other securities with available fair market value at March 31, 2021 and 2020 are summarized as follows:

		Millions of yen			
		FY2020			
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss	
Equity securities whose carrying value exceeds their acquisition cost	¥ 46,261	¥ 114,508	¥ 68,246	¥ -	-
Equity securities whose carrying value does not exceed their acquisition cost	229	191	-	(38)	(38)
<b>Total</b>	<b>¥ 46,491</b>	<b>¥ 114,699</b>	<b>¥ 68,246</b>	<b>¥ (38)</b>	<b>(38)</b>

  

		Millions of yen			
		FY2019			
	Acquisition cost	Carrying value	Gross unrealized gain	Gross unrealized loss	
Equity securities whose carrying value exceeds their acquisition cost	¥ 42,806	¥ 78,918	¥ 36,112	¥ -	-
Equity securities whose carrying value does not exceed their acquisition cost	4,599	4,325	-	(273)	(273)
<b>Total</b>	<b>¥ 47,405</b>	<b>¥ 83,243</b>	<b>¥ 36,112</b>	<b>¥ (273)</b>	<b>(273)</b>

Because no quoted market prices are available and it is extremely difficult to determine the fair value, unlisted equity securities of ¥3,442 million and ¥3,303 million at March 31, 2021 and 2020, respectively, are not included in the above tables.

(3) The proceeds from sales of, gross realized gain on and loss on, other securities for the years ended March 31, 2021 and 2020 are summarized as follows:

		Millions of yen	
		FY2020	FY2019
Proceeds from sales	¥	3,478	¥ 12,790
Gross realized gain		2,258	6,875
Gross realized loss		0	0

(4) For the year ended March 31, 2020, the Companies recorded a loss on revaluation of investments in securities in the amount of ¥2,897 million (investments in affiliates of ¥2,851 million and equity securities classified as other securities of ¥45 million).



## 8. Accumulated Depreciation

Property, plant and equipment, net reflected in the accompanying consolidated balance sheet at March 31, 2021 and 2020 were stated at cost, less accumulated depreciation. Accumulated depreciation at March 31, 2021 and 2020 amounted to ¥594,486 million and ¥577,906 million, respectively.

## 9. Investments and Other Assets

Investments in unconsolidated subsidiaries and affiliates included in "Investments in securities" as of March 31, 2021 and 2020 amounted to ¥56,500 million and ¥54,314 million, respectively.

## 10. Leases

The Companies enter into finance lease transactions (as lessees), and the details of finance lease transactions that do not transfer ownership are as follows.

(1) Details of leased assets

Leased assets are mainly housing exhibition building and equipment for exhibition housing in the Housing business, factory production equipment for Urban infrastructure and environmental products business and molds for High performance plastics business ("Buildings and structures", "Machinery, equipment and vehicles" and "Other").

(2) Depreciation method of leased assets

See Note2 (7)

## 11. Short-Term Debt, Bonds and Long-Term Debt

(1) Short-term debt

The average interest rates of short-term debt outstanding at March 31, 2021 and 2020 were 0.92% and 1.28%, respectively.

There were no commercial papers due within one year as at March 31, 2021.

The average interest rates of commercial papers due within one year of ¥28,000 million as at March 31, 2020 was 0.01%

(2) Bonds outstanding at March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
0.28% bonds due June 2026	¥ 10,000	¥ 10,000
0.20% bonds due September 2029	30,000	30,000
6 month JPY TIBOR bonds due March 2021	–	19
	40,000	40,019
Less current portion	–	(19)
	¥ 40,000	¥ 40,000

(3) Long-term debt at March 31, 2021 and 2020 was as follows:

	Millions of yen	
	FY2020	FY2019
Secured	¥ –	¥ 35
Unsecured	74,034	25,917
	74,034	25,953
Less current portion	(2,826)	(3,584)
	¥ 71,207	¥ 22,368

As is customary in Japan, substantially all loans (including short-term loans) from banks are made under general agreements which provide that, at the request of the respective banks, the Company or the relevant consolidated subsidiaries be required to provide collateral or guarantors (or additional collateral or guarantors, as appropriate) with respect to such loans, and that all assets pledged as collateral under such agreements be applicable to all present and future indebtedness to the banks concerned. The general agreements further provide that the banks have the right, as the indebtedness matures or becomes due prematurely by reason of default, to offset deposits at such banks against any indebtedness due to the banks.

The annual maturities of bonds and long-term debt subsequent to March 31, 2021 are summarized below:

Year ending March 31,	Millions of yen	
	Bonds	Long-term debt
2022	¥ –	¥ 2,826
2023	–	2,267
2024	–	2,424
2025	–	20,947
2026	–	270
2027 and thereafter	40,000	45,298

(4) Commitment line contract

The Companies have a commitment line contract with a bank to ensure efficient and agile procurement of working capital.

The balance of unexecuted borrowings based on this contract at March 31, 2021 was as follow:

	Millions of yen
Total amount of commitment line	¥ 100,000
Borrowing amount	–
Balance	¥ 100,000

## 11. Short-Term Debt, Bonds and Long-Term Debt (continued)

(5) At March 31, 2021 and 2020, the following assets were pledged as collateral for notes and accounts payable, trade, short-term debt and long-term debt:

Assets	Millions of yen	
	FY2020	FY2019
Buildings and structures	¥ 1,133	¥ 1,827
Machinery	–	491
Land	682	1,300
Intangible assets	–	81
Other	–	2,043
Total	¥ 1,816	¥ 5,743

Liabilities	Millions of yen	
	FY2020	FY2019
Notes payable, trade	¥ 64	¥ 62
Accounts payable, trade	26	1,090
Short-term debt	545	980
Long-term debt	–	35
Total	¥ 636	¥ 2,169

## 12. Lease Obligations

The annual maturities of lease obligations subsequent to March 31, 2021 are summarized below:

Year ending March 31,	Millions of yen
2022	¥ 4,625
2023	3,960
2024	2,814
2025	1,959
2026	1,470
2027 and thereafter	4,850

### 13. Retirement Benefits

The Company and domestic consolidated subsidiaries have set up funded and unfunded defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Under the defined benefit pension plans, which are funded, lump-sum payments or pensions are provided mainly based on the salary amounts and service periods. Under the lump-sum payment plans, which are unfunded, lump-sum payments are provided mainly based on the merit points acquired by the time of retirement.

Certain overseas consolidated subsidiaries have defined benefit plans and defined contribution plans to provide for employees' retirement benefits. Certain consolidated subsidiaries calculated liability for retirement benefits and retirement benefit expenses as for defined benefit pension plans and lump-sum payment plans, using the simplified method. In addition, certain consolidated subsidiaries participate in multi-employer pension plans. Contributions made by certain consolidated subsidiaries to the multi-employer pension plans are expensed when paid in the event that the plan assets attributable to each participant cannot be reasonably determined.

#### Defined Benefit Plans

- (1) The changes in defined benefit obligation, excluding plans to which simplified methods are applied, for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
Retirement benefit obligations at the beginning of the year	¥ 150,764	¥ 150,679
Service cost	6,764	6,835
Interest cost	949	1,011
Actuarial (gain) loss	(1,257)	413
Retirement benefits paid	(7,693)	(7,761)
Prior service cost	–	(280)
Decrease caused by business withdrawal	(2,241)	–
Others	522	(134)
<b>Retirement benefit obligations at the end of the year</b>	<b>¥ 147,807</b>	<b>¥ 150,764</b>

Note: "Others" include principally foreign exchange translation adjustments.

- (2) The changes in plan assets, excluding plans to which simplified methods are applied, for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
Plan assets at the beginning of the year	¥ 112,565	¥ 114,911
Expected return on plan assets	2,346	2,443
Actuarial gain (loss)	11,460	(5,181)
Contributions by the employer	7,015	6,710
Retirement benefits paid	(5,819)	(6,047)
Decrease caused by business withdrawal	(1,676)	–
Others	550	(271)
<b>Plan assets at the end of the year</b>	<b>¥ 126,441</b>	<b>¥ 112,565</b>

Note: "Others" include principally foreign exchange translation adjustments.

- (3) The changes in liability for retirement benefits of the plans to which simplified methods are applied for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
Liability for retirement benefits at the beginning of the year	¥ 8,027	¥ 7,715
Retirement benefit expenses	2,453	3,314
Retirement benefits paid	(914)	(848)
Contributions to the plans	(2,099)	(2,153)
Increase caused by business withdrawal	558	–
<b>Liability for retirement benefits at the end of the year</b>	<b>¥ 8,025</b>	<b>¥ 8,027</b>

### 13. Retirement Benefits (continued)

- (4) The balance of retirement benefit obligations and plan assets at fair value as of March 31, 2021 and 2020, liabilities and assets recognized in the consolidated balance sheet were as follows:

	Millions of yen	
	FY2020	FY2019
Funded retirement benefit obligations	¥ 124,983	¥ 127,667
Plan assets at fair value	132,455	117,755
	(7,472)	9,911
Unfunded retirement benefit obligations	36,862	36,315
Net liability and asset recognized in the consolidated balance sheet	29,390	46,226
Liability for retirement benefits	29,702	46,352
Asset for retirement benefits	312	125
Net liability and asset recognized in the consolidated balance sheet	¥ 29,390	¥ 46,226

Note: Plans to which simplified methods are applied are included. Liability for retirement benefits included retirement benefits for directors and audit and supervisory board members of ¥699 million and ¥817 million for the years ended March 31, 2021 and 2020, respectively.

- (5) The components of retirement benefit expenses for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
Service cost	¥ 6,764	¥ 6,835
Interest cost	949	1,011
Expected return on plan assets	(2,346)	(2,443)
Amortization of actuarial gain	2,846	927
Amortization of prior service cost	1	(278)
Retirement benefit expenses calculated by simplified methods	3,011	3,314
Retirement benefit expenses	¥ 11,226	¥ 9,367

- (6) The components of retirement benefit adjustments included in other comprehensive income (before tax effect) for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
Prior service cost	¥ (1)	¥ (2)
Actuarial (gain) loss	(15,682)	4,594
Total	¥ (15,683)	¥ 4,592

### 13. Retirement Benefits (continued)

- (7) The components of retirement benefit adjustments in accumulated other comprehensive income (before tax effect) as of March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
Unrecognized prior service cost	¥ —	¥ 1
Unrecognized actuarial (gain) loss	(4,256)	11,425
<b>Total</b>	<b>¥ (4,256)</b>	<b>¥ 11,426</b>

- (8) Plan assets, by major category, as a percentage of total plan assets (excluding the system under the simplified method) as of March 31, 2021 and 2020 were as follows:

	FY2020	FY2019
Debt securities	36%	42%
Equity securities	25%	18%
General accounts at life insurance companies	19%	19%
Cash and deposits	7%	7%
Others	11%	13%
<b>Total</b>	<b>100%</b>	<b>100%</b>

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

- (9) The assumptions used in accounting for the above plans were as follows:

	FY2020	FY2019
Discount rates	0.2%-0.7%	0.2%-0.7%
Expected long-term rates of return on plan assets	1.5%-2.0%	1.5%-2.0%
Expected rate of salary increases	2.9%	2.9%

#### Multi-employer Pension Plans

The contributions to the multi-employer pension plans, which were expensed when paid, were ¥1,586 million and ¥1,543 million for the years ended March 31, 2021 and 2020, respectively.

- (1) The most recent funded status related to multi-employer pension plans as of March 31, 2021 and 2020 was as follows:

	Millions of yen	
	FY2020	FY2019
Plan assets	¥ 120,416	¥ 123,296
Amount of actuarial obligations calculated under pension financing	109,486	112,299
<b>Difference</b>	<b>¥ 10,930</b>	<b>¥ 10,997</b>

- (2) Benefit obligations calculated under pension financing of the Companies accounted for approximately 15% of the multi-employer pension plans as of March 31, 2021 and 2020.

- (3) Supplementary explanation

The above information is obtained from the latest available information. (Data for the years ended March 31, 2021 and 2020 is based on the information as of March 31, 2020 and 2019, respectively.)

The ratio of benefit obligations noted in above (2) is not the same as the actual ratio of the Companies' obligation.

#### Defined Contribution Plans

The amounts of the required contribution to the defined contribution plans of the Company and certain consolidated subsidiaries were ¥1,708 million and ¥1,631 million for the years ended March 31, 2021 and 2020, respectively.

## 14. Income Taxes

Income taxes applicable to the Company and its domestic subsidiaries consist of corporation, inhabitants' and enterprise taxes, which, in the aggregate, resulted in a statutory tax rate of approximately 30.5% for the years ended March 31, 2021 and 2020.

A reconciliation between the statutory tax rate and the effective tax rate for the year ended March 31, 2021 is omitted because the difference is less than 5% of the statutory tax rate.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2020 differed from the above statutory tax rate for the following reasons:

	FY2019
Statutory tax rate	30.5%
Income tax credit	(3.8)
Other	0.4
Effective tax rate	27.1%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts reported for income tax purposes. The significant components of the Companies' deferred tax assets and liabilities at March 31, 2021 and 2020 are summarized as follows:

	Millions of yen	
	FY2020	FY2019
Deferred tax assets:		
Liability for retirement benefits	¥ 9,001	¥ 13,455
Unrealized gain	6,485	6,151
Allowance for bonuses	5,030	5,294
Loss on impairment of fixed assets and goodwill	2,398	2,421
Tax loss carryforwards (Note)	1,472	1,208
Loss on revaluation of investments in securities	1,067	872
Accrued business tax	853	942
Asset adjustment account	93	504
Other	12,411	11,130
Total gross deferred tax assets	38,816	41,981
Valuation allowance for tax loss carryforwards (Note)	(1,239)	(1,208)
Valuation allowance for total future deductible temporary differences	(3,170)	(2,798)
Total valuation allowance	(4,410)	(4,006)
Total deferred tax assets	34,405	37,974
Deferred tax liabilities:		
Unrealized holding gain on securities	(20,834)	(10,897)
Temporary differences arising from consolidation without tax effect	(5,817)	(7,909)
Accelerated depreciation of property, plant and equipment	(3,490)	(2,280)
Deferred capital gains on property	(3,005)	(2,338)
Retained profit	(2,843)	(2,637)
Revaluation of investments in affiliates	(1,921)	(1,921)
Other	(1,508)	(1,230)
Total deferred tax liabilities	(39,421)	(29,214)
Net deferred tax assets (liabilities)	¥ (5,015)	¥ 8,759

#### 14. Income Taxes (continued)

Note: Tax loss carryforwards and their related deferred tax assets by expiry date at March 31, 2021 were as follows:

Year ending March 31	Millions of yen		
	Tax loss carryforwards*	Valuation allowance	Deferred tax assets
2022	¥ 525	¥ 455	¥ 69
2023	300	218	81
2024	282	200	81
2025	23	23	–
2026	6	6	–
2027 and thereafter	333	333	–
<b>Total</b>	<b>¥ 1,472</b>	<b>¥ 1,239</b>	<b>¥ 232</b>

\*The amount is determined by multiplying the corresponding tax loss carryforwards by the statutory tax rate.

#### 15. Net Assets

The Corporation Law of Japan (the “Law”) provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥10,363 million at March 31, 2021 and 2020.

##### **Stock-based compensation plan**

In accordance with the Law, certain stock option plan (the 2015 plan) for directors, executive officers and key employees of the Company and for representative directors, certain directors and key employees of certain subsidiaries and affiliates were approved at the annual general meetings of shareholders held on June 25, 2015, respectively.

The stock option plans outlined above are summarized as follows:

	Number of stock options granted	Exercise price	Exercisable period
The 2015 plan	1,270,000	1,542	From July 1, 2017 up to and including June 30, 2020

Information regarding the Company’s stock option plans is summarized as follows:

	The 2015 plan
Number of stock options:	
Balance at March 31, 2019	825,000
Granted	–
Cancelled	–
Exercised	182,000
Balance at March 31, 2020	643,000
Granted	–
Cancelled	622,000
Exercised	21,000
Balance at March 31, 2021	–
Fair value of stock options as of the grant date	¥ 100

## 15. Net Assets (continued)

### Common stock and treasury stock

Movements in common stock in issue and treasury stock for the years ended March 31, 2021 and 2020 are summarized as follows:

	Number of shares			
	FY2020			
	April 1, 2020	Increase	Decrease	March 31, 2021
Common stock	484,507,285	-	8,000,000	476,507,285
Treasury stock	27,712,523	8,003,741	8,142,529	27,573,735

Note1: The number of treasury stock as of March 31, 2021 included treasury stock of 795,200 shares held by an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust.

Note2: Breakdown of the decrease in the number of common stock  
Decrease in cancellation of treasury stock 8,000,000

Note3: Breakdown of the increase in the number of treasury stock  
Increase in acquisition of treasury stock by resolution of the Board of Directors 8,000,000  
Increase in purchase of shares less than one unit 1,643  
Increase in changes in equity of affiliated companies accounted for by the equity method 2,098

Note4: Breakdown of the decrease in the number of treasury stock  
Decrease in cancellation of treasury stock 8,000,000  
Decrease in exercise of stock options 21,000  
Share delivery by an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust 121,500  
Decrease in purchase of shares less than one unit 29

	Number of shares			
	FY2019			
	April 1, 2019	Increase	Decrease	March 31, 2020
Common stock	492,507,285	-	8,000,000	484,507,285
Treasury stock	28,256,059	8,571,343	9,114,879	27,712,523

Note1: The number of treasury stock as of March 31, 2020 included treasury stock of 916,700 shares held by an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust.

Note2: Breakdown of the decrease in the number of common stock  
Decrease in cancellation of treasury stock 8,000,000

Note3: Breakdown of the increase in the number of treasury stock  
Increase in acquisition of treasury stock by resolution of the Board of Directors 8,000,000  
Increase in purchase of shares less than one unit 1,343  
Purchase based on an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust 570,000

Note4: Breakdown of the decrease in the number of treasury stock  
Decrease in cancellation of treasury stock 8,000,000  
Decrease in exercise of stock options 372,000  
Disposal of treasury stock by third-party allotment to an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust 570,000  
Decrease in changes in equity of affiliated companies accounted for by the equity method 3,379  
Share delivery based on an Employee stock ownership plan ("ESOP") trust and an Executive compensation board incentive plan ("BIP") trust 169,500



## 16. Land Revaluation

Sekisui Plastics Co., Ltd., which has been accounted for by the equity method, revalued its land held for business use in accordance with the "Land Revaluation Law" and the "Amended Land Revaluation Law." As a result of this revaluation by Sekisui Plastics Co., Ltd., the Companies recognized the portion attributable to the Companies' interest in the unrealized gain on land revaluation and this has been included in accumulated other comprehensive income as unrealized gain on land revaluation of ¥323 million and ¥321 million in the accompanying consolidated balance sheets at March 31, 2021 and 2020, respectively.

## 17. Contingent Liabilities

Contingent liabilities at March 31, 2021 and 2020 were as follows:

	Millions of yen	
	FY2020	FY2019
Guaranteed obligations		
Housing loans of customers and employees	¥ 54,894	¥ 34,542
Other guaranteed obligations	9,004	9,310
Millions of yen		
	FY2020	FY2019
Notes receivable, trade with recourse		
Notes receivable, trade endorsed	¥ 12	¥ 39

## 18. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen	
	FY2020	FY2019
Freight, packing and storage expenses	¥ 25,868	¥ 27,380
Salaries, allowances and bonuses	90,590	91,864
Provision for bonuses to employees	10,924	11,713
Retirement benefit expenses	8,813	7,385
Depreciation and amortization	14,673	13,930
Provision of allowance for doubtful accounts	162	2
Research and development costs	35,110	37,146
Research and development costs are general and administrative expenses only.		

## 19. Inspection and Maintenance Expenses for External Walls

Inspection and maintenance expenses for external walls include inspection costs for specific exterior walls of houses sold by the Companies in the past, and repair costs for those that are expected to be repaired due to defects.

## 20. Gain on Sales of Fixed Assets

Gain on sales of fixed assets for the years ended March 31, 2021 was as follow:

	Millions of yen	
Land	¥	3,077
Others		51
Total	¥	3,128

## 21. Loss on Impairment of Fixed Assets and Goodwill

The Companies group their fixed assets and goodwill by cash-generating units (except for idle property which is grouped individually) and these are defined as the smallest identifiable groups of assets generating cash inflows which are largely independent of the cash inflows from other assets or groups of assets.

For the year ended March 31, 2021, the Companies have written down the amount of certain intangible assets recorded upon acquiring the mobility field business in the United States, to the recoverable amount as the income initially estimated in the business plan at the time of acquisition was no longer expected. As a result, the Companies recorded loss on impairment of intangible assets under extraordinary loss in the amount of ¥1,693 million.

The recoverable amount is calculated based on fair value less costs of disposal, which was calculated by discounting future cash flows at a rate of 12.5%.

For the year ended March 31, 2020, the Companies have written down goodwill recorded upon acquiring the nursing care business, to the recoverable amount as the income initially estimated in the business plan at the time of acquisition was no longer expected. As a result, the Companies recorded loss on impairment of goodwill under extraordinary loss in the amount of ¥1,905 million. The recoverable value was measured at value in use and the Companies recorded the loss on impairment in the full amount of the balance of goodwill since there was considerable uncertainty about estimated amount of future cash flows.

Furthermore, the Companies have written down the amount of certain buildings and structures, for which there was a change in holding purpose from welfare facilities to assets for business use has been decided, to the recoverable amount. As a result, the Companies recorded loss on impairment of fixed assets under extraordinary loss in the amount of ¥1,736 million. The recoverable amount is calculated based on value in use, which was calculated by discounting future cash flows at a rate of 5%.

## 22. Loss on Sales or Disposal of Property, Plant and Equipment

Loss on sales or disposal of property, plant and equipment for the years ended March 31, 2021 and 2020 were as follows:

	Millions of yen			
	FY2020		FY2019	
Machinery, equipment and vehicles	¥	840	¥	984
Buildings and structures		597		1,160
Others		262		568
Total	¥	1,700	¥	2,713

### 23. Other Comprehensive Income

The reclassification adjustments and tax effects for components of other comprehensive income for the years ended March 31, 2021 and 2020 are as follows:

	Millions of yen	
	FY2020	FY2019
Unrealized holding gain (loss) on securities:		
Amount arising during the year	¥ 33,857	¥ (6,257)
Reclassification adjustments for gains and losses realized in net income	(1,530)	(6,713)
Before tax effects	32,326	(12,970)
Tax effects	(9,876)	3,521
Unrealized holding gain (loss) on securities	22,450	(9,448)
Deferred (loss) gain on hedges:		
Amount arising during the year	(32)	31
Deferred (loss) gain on hedges	(32)	31
Translation adjustments:		
Amount arising during the year	15,976	(12,077)
Reclassification adjustment	321	-
Translation adjustments	16,297	(12,077)
Retirement benefit adjustments:		
Amount arising during the year	12,956	(5,323)
Reclassification adjustments for gains and losses realized in net income	2,727	731
Before tax effects	15,683	(4,592)
Tax effects	(4,615)	1,294
Retirement benefit adjustments	11,068	(3,297)
Comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company:		
Amount arising during the year	746	(117)
Reclassification adjustments for gains and losses realized in net income	148	62
Comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company	894	(54)
Total other comprehensive income (loss)	¥ 50,679	¥ (24,847)

## 24. Supplemental Information on Statement of Cash Flows

Reconciliations between cash and cash equivalents in the accompanying consolidated statement of cash flows and cash and deposits in the accompanying consolidated balance sheet at March 31, 2021 and 2020 are presented as follows:

	Millions of yen	
	FY2020	FY2019
Cash and deposits	¥ 87,454	¥ 76,819
Time deposits with maturities in excess of three months	(10,805)	(2,097)
<b>Cash and cash equivalents</b>	<b>¥ 76,649</b>	<b>¥ 74,721</b>

Assets and liabilities related to finance lease transactions newly recognized were ¥5,835 million and ¥11,172 million during the years ended March 31, 2021 and 2020, respectively.

## 25. Related Party Transactions

There were no related party transactions to be noted for the year ended March 31, 2021.

Principal transactions between the Company's consolidated subsidiaries and their related parties for the years ended March 31, 2020 are summarized as follows:

		FY2019				
Name	Description/ Principal business	Millions of yen			Account name	Ending balance
		Paid-in capital (Millions of yen)	Transaction	Transaction amount		
Relative of Hitoshi Kobayashi	Relative of Executive Officer	-	Sales of residence (Notes 1 and 2)	¥ 33	-	-
Relative of Akinori Kawase	Relative of Executive Officer	-	Sales of residence (Notes 1 and 2)	¥ 49	-	-
Musashi Kougyousha Co., Ltd.	Majority of voting rights of this company are owned by a director's relative/ Manufacturing	¥ 10	Processing of metal parts (Notes 1 and 2)	¥ 19	Accounts payable, trade Accrued expenses	¥ 0 ¥ 1
Futoshi Kamiwaki	Director	-	Exercise of stock options (Note 3)	¥ 11	-	-
Kunio Ishizuka	Outside Director	-	Exercise of stock options (Note 3)	¥ 11	-	-
Toshiyuki Kamiyoshi	Director	-	Exercise of stock options (Note 3 and 4)	¥ 10	-	-

Notes: 1. Above transaction amounts do not include consumption taxes but ending balances are inclusive of consumption taxes.

2. Conditions of transaction and policies for deciding conditions of transaction were determined based on the same terms as third party transactions.

3. Stock options that were granted based on the resolution at the Board of Directors meeting held on June 26, 2014 and exercised for the year ended March 31, 2020 are listed.

The amount listed in the "transaction amount" section is calculated by multiplying the number of shares granted upon exercise of stock options for the year ended March 31, 2020 by the amount of payment upon exercise.

4. Stock options that were granted based on the resolution at the Board of Directors meeting held on June 25, 2015 and exercised for the year ended March 31, 2020 are listed.

The amount listed in the "transaction amount" section is calculated by multiplying the number of shares granted upon exercise of stock options for the year ended March 31, 2020 by the amount of payment upon exercise.

## 26. Financial Instruments

### Overview

#### (1) Policy for financial instruments

The Companies raise funds by bank borrowings and bonds, including short-term bonds. The Companies manage funds only through short-term deposits and others. The Companies use derivatives for the purposes of managing foreign currency exchange risk related to notes and accounts receivable, trade and notes and accounts payable, trade and avoiding the risk of fluctuations of interest rates related to debt. The Companies do not enter into derivatives for speculative or trading purposes.

#### (2) Types of financial instruments and related risk

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. In addition, the Companies are exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies resulting from trade with overseas customers.

Equity securities—the Companies hold equity securities, which are mainly issued by companies who have business relationships with the Companies, and these securities are exposed to the risk of fluctuation in market prices.

Notes and accounts payable, trade and electronically recorded obligations mostly have payment due dates within one year. A portion of trade payables, which is denominated in foreign currencies, is exposed to foreign currency exchange risk.

Short-term debt of bank loans and bonds is raised mainly in connection with business activities. Long-term debt and bonds are taken out principally for the purpose of acquiring the shares of subsidiaries. Long-term debt and bonds have maturity dates within 9 years, at the longest, subsequent to March 31, 2021. Debt with variable interest rates is exposed to interest rate fluctuation risk.

#### (3) Risk management for financial instruments

##### (a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for managing credit risk of the Companies, the Companies monitor credit worthiness of their main customers periodically, and monitor due dates and outstanding balances by customer.

To minimize the credit risk when entering into derivative transactions, counterparties are limited to financial institutions with high ratings.

##### (b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For equity securities included in investments in securities, the fair values of these securities are periodically reviewed and reported to the Board of Directors.

In conducting and managing derivative transactions, the accounting department confirms the effectiveness of hedging and obtains approval from the responsible person, depending on the notional contract value, based on the internal policies and formal regulations on market risk for financial instruments.

##### (c) Monitoring of liquidity risk for financing (the risk that the Companies may not be able to meet its obligations on the scheduled due dates)

The Companies manage liquidity risk mainly through the monthly cash-flow plans, which are prepared by each company.

#### (4) Supplementary explanation of the estimated fair value of financial instruments

Regarding the amount recorded on consolidated balance sheets related to the following derivative transactions, the amounts themselves do not necessarily indicate the market risk relating to derivative transactions.

## 26. Financial Instruments (continued)

### Estimated Fair Value of Financial Instruments

The carrying value of the financial instruments on the consolidated balance sheet, fair value and the difference at March 31, 2021 and 2020 are shown in the following table. The table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to (2) below).

Estimated fair value information at March 31, 2021:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 87,454	¥ 87,454	¥ -
Notes and accounts receivable, trade	170,631	170,631	-
Marketable securities and investments in securities	152,079	144,673	(7,405)
<b>Total assets</b>	<b>¥ 410,165</b>	<b>¥ 402,759</b>	<b>¥ (7,405)</b>
Notes and accounts payable, trade and electronically recorded obligations	¥ 117,596	¥ 117,596	¥ -
Short-term debt	4,451	4,451	-
Long-term debt, including current portion	74,034	73,959	(75)
Bonds, including current portion	40,000	39,704	(296)
<b>Total liabilities</b>	<b>¥ 236,082</b>	<b>¥ 235,711</b>	<b>¥ (371)</b>
Derivative transactions (*):			
Derivatives for which hedge accounting is applied	¥ (33)	¥ (33)	¥ -
<b>Total derivative transactions</b>	<b>¥ (33)</b>	<b>¥ (33)</b>	<b>¥ -</b>

## 26. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

Estimated fair value information at March 31, 2020:

	Millions of yen		
	Carrying value	Estimated fair value	Difference
Cash and deposits	¥ 76,819	¥ 76,819	¥ -
Notes and accounts receivable, trade	174,124	174,124	-
Marketable securities and investments in securities	118,184	110,540	(7,643)
<b>Total assets</b>	<b>¥ 369,128</b>	<b>¥ 361,485</b>	<b>¥ (7,643)</b>
Notes and accounts payable, trade and electronically recorded obligations	¥ 131,777	¥ 131,777	¥ -
Short-term debt	4,862	4,862	-
Commercial paper	28,000	28,000	-
Long-term debt, including current portion	25,953	25,965	12
Bonds, including current portion	40,019	39,531	(488)
<b>Total liabilities</b>	<b>¥ 230,611</b>	<b>¥ 230,135</b>	<b>¥ (475)</b>
Derivative transactions (*):			
Derivatives for which hedge accounting is applied	¥ (16)	¥ (16)	¥ -
<b>Total derivative transactions</b>	<b>¥ (16)</b>	<b>¥ (16)</b>	<b>¥ -</b>

(\*): Assets and liabilities arising from derivative transactions are shown at net value with the amount in parentheses representing net liability position.

- (1) Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

*Cash and deposits and notes and accounts receivable, trade*

Since these items are settled in a short period, their carrying value approximates fair value.

*Marketable securities and investments in securities*

The fair value of equity securities is based on quoted market prices. The fair value of debt securities is based on either quoted market prices or prices provided by the financial institutions making markets in these securities. For information on securities classified by holding purpose, please refer to Note 6 "Marketable Securities and Investments in Securities."

*Notes and accounts payable, trade, electronically recorded obligations, short-term debt and commercial paper*

Since these items are settled in a short period, their carrying value approximates fair value.

*Long-term debt, including current portion*

The fair value of long-term debt is based on the present value of the total amount including principal and interest, discounted by the expected interest rate to be applied if similar new loans with a similar remaining period were entered into.

*Bonds, including current portion*

The fair value of bonds issued by the Companies is the quoted market price.

*Derivative transactions*

Please refer to Note 27 "Derivatives."

## 26. Financial Instruments (continued)

- (2) Financial instruments for which it is extremely difficult to determine the fair value were as follows:

	Millions of yen	
	FY2020	FY2019
Unlisted equity securities	¥ 22,577	¥ 22,679

Because no quoted market prices are available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

- (3) Redemption schedule for cash and deposits, notes and accounts receivable, trade and marketable securities and investments in securities with maturities at March 31, 2021 and 2020:

Maturity analysis at March 31, 2021:

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 87,454	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	170,631	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	0	14	-	-
<b>Total</b>	<b>¥ 258,086</b>	<b>¥ 14</b>	<b>¥ -</b>	<b>¥ -</b>

Maturity analysis at March 31, 2020:

	Millions of yen			
	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and deposits	¥ 76,819	¥ -	¥ -	¥ -
Notes and accounts receivable, trade	174,124	-	-	-
Marketable securities and investments in securities				
Held-to-maturity debt securities	0	0	-	-
<b>Total</b>	<b>¥ 250,945</b>	<b>¥ 0</b>	<b>¥ -</b>	<b>¥ -</b>

- (4) The redemption schedule for long-term debt and bonds is disclosed in Note 11 "Short-Term Debt, Bonds and Long-Term Debt."



## 27. Derivatives

The Company and certain consolidated subsidiaries enter into currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts in order to manage certain risks arising from adverse fluctuation in foreign currency exchange rates and interest rates. The Company and certain consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these currency swap contracts, forward foreign exchange contracts and interest-rate swap contracts; however, they do not anticipate nonperformance by any of the counterparties, all of whom are financial institutions with high credit ratings.

Summarized below are the notional amounts and the estimated fair value of the derivatives positions outstanding at March 31, 2021 and 2020 :

(1) Derivatives for which hedge accounting is not applied

There were no derivatives for which hedge accounting is not applied at March 31, 2021 and 2020.

(2) Derivatives for which hedge accounting is applied

(a) Currency-related transactions

		Millions of yen		
		FY2020		
	Hedged item	Notional amount	Fair value	
Foreign currency swaps:				
	Receive fixed – U.S. dollars/ pay fixed – Indian rupees	Long-term debt	¥ 850	¥ (33)
Total		¥ 850	¥ (33)	

		Millions of yen		
		FY2019		
	Hedged item	Notional amount	Fair value	
Foreign currency swaps:				
	Receive fixed – U.S. dollars/ pay fixed – Indian rupees	Long-term debt	¥ 951	¥ (16)
Total		¥ 951	¥ (16)	

The notional amount of foreign currency swaps of receive fixed – U.S. dollars / pay fixed – Indian rupees includes a portion over 1 year of ¥329 million and ¥951 million at March 31, 2021 and 2020, respectively.

## 28. Amounts per Share

	Yen	
	FY2020	FY2019
Net income attributable to owners of the parent:		
Basic	¥ 91.92	¥ 128.80
Diluted	–	128.77
Cash dividends	47.00	46.00
Net assets	1,485.89	1,333.76

Basic net income attributable to owners of the parent per share has been computed based on the net income attributable to owners of the parent available for distribution to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income attributable to owners of the parent per share has been computed based on the net income attributable to owners of the parent available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year after giving effect to the dilutive potential of the shares of common stock issuable upon the exercise of stock options issued by the Company. The aggregate amounts of cash dividends include cash dividends of ¥19 million and ¥21 million for the shares of the Company held by the BIP Trust and ESOP Trust for the years ended March 31, 2021 and 2020, respectively. The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at year end.

	Millions of yen	
	FY2020	FY2019
Net income attributable to owners of the parent	¥ 41,544	¥ 59,181

  

	Thousands of shares	
	FY2020	FY2019
Weighted-average number of shares of common stock outstanding	451,961	459,494
Increase in shares of common stock resulting from the exercise of stock acquisition rights	–	92

The financial data used in the computation of net assets per share as of March 31, 2021 and 2020 is summarized as follows:

	Millions of yen	
	FY2020	FY2019
Total net assets	¥ 694,392	¥ 634,219
Deduction from total net assets:		
Stock acquisition rights	(–)	(64)
Non-controlling interests	(27,325)	(24,901)
	(27,325)	(24,965)
Total net assets attributable to common shareholders	¥ 667,066	¥ 609,253

  

	Thousands of shares	
	FY2020	FY2019
Number of shares of common stock used in the calculation of net assets per share	448,933	456,794

For the year ended March 31, 2021, the Companies completed the provisional accounting treatment related to a business combination. As a result, figures for the year ended March 31, 2020 reflect the revision of the initial allocated amounts of the acquisition price as the Companies finalized the provisional accounting treatment for the business combination.

Net income per share (diluted) for the year ended March 31, 2021 is not disclosed because there are no potentially dilutive common shares.

## 28. Amounts per Share (continued)

The Company's own shares held in the ESOP trust and the BIP trust recorded as treasury stock under shareholders' equity are included in treasury stock to be deducted from the weighted-average number of shares of common stock during the year in computing net income attributable to owners of the parent per share and from the number of shares of common stock at year-end in computing net assets per share. The numbers of shares of treasury stock deducted from the weighted-average number of shares in computing net income attributable to owners of the parent per share were 835 thousand and 581 thousand shares for the years ended March 31, 2021 and 2020, respectively, and the numbers of shares of treasury stock deducted from the number of shares outstanding at year-end in computing net assets per share were 795 thousand and 916 thousand shares as of March 31, 2021 and 2020, respectively.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective fiscal years together with the interim cash dividends paid.

## 29. Segment Information

### (1) Overview of the Reportable segments

The reportable segments of the Companies are determined on the basis that separate financial information of such segments is available and examined periodically by the Board of Directors of the Company to make decisions regarding the allocation of management resources and assess the business performances of such segments. The Companies have divided the business operations into the four segments of Housing, Urban Infrastructure and Environmental Products (UIEP), High Performance Plastics (HPP), and Medical based on manufacturing methods, products, sales channels, and other business similarities. Each business segment formulates comprehensive strategies and develops business activities for its products in Japan and overseas. The Housing business comprises manufacturing, construction, sales, refurbishing, and other operations related to unit housing, real estate, and residential service business. The UIEP business comprises manufacturing, sales, and construction operations related to PVC pipes and joints, polyethylene pipes and joints, pipe and drain renewal materials and construction methods, reinforced plastic pipe, construction materials, and Fiber-reinforced foamed urethane. The HPP business comprises manufacturing and sales of interlayer films for laminated glass, polyolefin foam, tape, LCD fine particles and photosensitive materials, functional resin for infrastructure, diagnostic drugs and other products. The Medical business comprises manufacturing and sales of diagnostic reagents, analyzers, pharmaceutical ingredients and intermediates.

### (2) Calculation methods used for sales, income, assets and the other items on each reportable segment

The accounting methods for the reportable segments are presented principally in accordance with the same accounting policies of the accompanying consolidated financial statements defined in Note 2 "Summary of Significant Accounting Policies." The amounts of segment income (loss) are calculated based on the same method as the calculation of operating income in the consolidated statement of income for the years ended March 31, 2021 and 2020. The figures of intersegment sales and transfers are presented based on the current market prices at the time of these transactions.

## 29. Segment Information (continued)

(3) Information as to sales, income, assets and other items on each reportable segment

Reportable segment information of the Companies for the years ended March 31, 2021 and 2020 is summarized as follows:

	Millions of yen							
	FY2020							
	Reportable segments							Consolidated
Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Total	Other (*1)			
Sales:								
Sales to third parties	¥ 485,124	¥ 192,069	¥ 303,559	¥ 72,341	¥ 1,053,095	¥ 3,465	¥ 1,056,560	
Intersegment sales or transfers	140	12,516	6,307	0	18,966	146	19,112	
Net sales	485,265	204,586	309,867	72,342	1,072,061	3,611	1,075,672	
Segment income (loss)	¥ 30,546	¥ 11,251	¥ 28,935	¥ 7,010	¥ 77,744	¥ (8,746)	¥ 68,997	
Segment assets	¥ 324,795	¥ 210,361	¥ 422,924	¥ 123,656	¥ 1,081,738	¥ 28,410	¥ 1,110,149	
Other items:								
Depreciation and amortization	9,688	8,667	19,347	4,079	41,783	2,199	43,982	
Investments in affiliates accounted for by the equity method	10,304	-	2,872	-	13,177	-	13,177	
Increase in property, plant and equipment, and intangible assets	13,761	14,076	17,184	6,519	51,543	4,634	56,177	

(\*1): Other represents segments other than the reportable segments, which includes provision of services and manufacturing and sales of film-type lithium-ion batteries and products not included in the Companies' reportable segments.

## 29. Segment Information (continued)

(3) Information as to sales, income, assets and other items on each reportable segment (continued)

	Millions of yen						
	FY2019						
	Reportable segments						Consolidated
Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Total	Other (*1)		
Sales:							
Sales to third parties	¥ 512,836	¥ 223,707	¥ 315,294	¥ 72,587	¥ 1,124,425	¥ 4,828	¥ 1,129,254
Intersegment sales or transfers	101	13,672	7,126	0	20,901	141	21,043
<b>Net sales</b>	<b>512,937</b>	<b>237,380</b>	<b>322,421</b>	<b>72,588</b>	<b>1,145,327</b>	<b>4,970</b>	<b>1,150,297</b>
Segment income (loss)	¥ 37,792	¥ 15,480	¥ 37,374	¥ 9,204	¥ 99,852	¥ (9,721)	¥ 90,130
Segment assets	¥ 331,761	¥ 216,898	¥ 376,483	¥ 120,420	¥ 1,043,563	¥ 21,820	¥ 1,067,383
Other items:							
Depreciation and amortization	9,447	7,823	17,742	3,709	38,723	2,018	40,741
Investments in affiliates accounted for by the equity method	9,985	-	2,750	-	12,735	-	12,735
Increase in property, plant and equipment, and intangible assets	14,955	15,340	29,425	7,669	67,390	4,909	72,300

(\*1): Other represents segments other than the reportable segments, which includes provision of services and manufacturing and sales of film-type lithium-ion batteries and products not included in the Companies' reportable segments.

(4) Information on the difference between the total amount of the reportable segments in the above tables and the corresponding amount reported in the consolidated financial statements

Net sales and income for the years ended March 31, 2021 and 2020

	Millions of yen	
	FY2020	FY2019
Net sales:		
Total of reportable segments	¥ 1,072,061	¥ 1,145,327
Other net sales	3,611	4,970
Eliminations	(19,112)	(21,043)
<b>Net sales</b>	<b>¥ 1,056,560</b>	<b>¥ 1,129,254</b>

## 29. Segment Information (continued)

(4) Information on the difference between the total amount of the reportable segments in the above tables and the corresponding amount reported in the consolidated financial statements (continued)

	Millions of yen	
	FY2020	FY2019
Income:		
Total of reportable segments	¥ 77,744	¥ 99,852
Other loss	(8,746)	(9,721)
Eliminations	447	637
Corporate expenses (*1)	(2,144)	(2,793)
Operating income	¥ 67,300	¥ 87,974

(\*1): Corporate expenses are mainly general administrative expenses not attributable to each reportable segment.

Assets at March 31, 2021 and 2020

	Millions of yen	
	FY2020	FY2019
Assets:		
Total of reportable segments	¥ 1,081,738	¥ 1,045,563
Assets classified as "other"	28,410	21,820
Eliminations	(316,651)	(306,643)
Corporate assets (*1)	356,645	345,040
Total assets	¥ 1,150,143	¥ 1,105,781

(\*1): Corporate assets are assets not attributable to the reportable segments. The main items were cash and deposits, long-term investments (investments in securities), assets related to administrative operations and deferred tax assets, etc. of the Company.

Other items for the years ended March 31, 2021 and 2020

	Millions of yen			
	FY2020			
	Reporting Segments	Others	Adjustments (*1)	Consolidated
Other items:				
Depreciation and amortization	¥ 41,783	¥ 2,199	¥ 943	¥ 44,926
Investments in affiliates accounted for by the equity method	13,177	-	35,239	48,417
Increase in property, plant and equipment, and intangible assets	51,543	4,634	1,867	58,044

	Millions of yen			
	FY2019			
	Reporting Segments	Others	Adjustments (*1)	Consolidated
Other items:				
Depreciation and amortization	¥ 38,723	¥ 2,018	¥ 1,277	¥ 42,018
Investments in affiliates accounted for by the equity method	12,735	-	32,813	45,549
Increase in property, plant and equipment, and intangible assets	67,390	4,909	2,081	74,381

(\*1): Adjustment represents the amounts of investments in affiliates accounted for by the equity method, which are not attributable to the reportable segments.

## 29. Segment Information (continued)

(5) Related information

(a) Sales information by geographic area

Overseas net sales by geographical areas for the years ended March 31, 2021 and 2020 is as follows:

Millions of yen						
FY2020						
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 790,537	¥ 76,359	¥ 57,673	¥ 119,359	¥ 12,630	¥ 1,056,560

  

Millions of yen						
FY2019						
	Japan	America	Europe	Asia	Other	Total
Net sales	¥ 854,600	¥ 81,312	¥ 57,508	¥ 121,161	¥ 14,672	¥ 1,129,254

(b) Information of property, plant and equipment, net by geographic area

Information of property, plant and equipment, net by geographical areas as of March 31, 2021 and 2020 is as follows:

Millions of yen						
FY2020						
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 238,128	¥ 31,347	¥ 42,036	¥ 33,707	¥ 6,176	¥ 351,397

  

Millions of yen						
FY2019						
	Japan	America	Europe	Asia	Other	Total
Property, plant and equipment, net	¥ 232,322	¥ 30,184	¥ 35,576	¥ 33,727	¥ 5,439	¥ 337,250

## 29. Segment Information (continued)

### (6) Information on loss on impairment of fixed assets and goodwill

Information on loss on impairment of fixed assets and goodwill for the years ended March 31, 2021 and 2020 is as follows:

	Millions of yen						
	FY2020						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥	-	¥ 373	¥ 2,001	¥ 54	¥ -	¥ 2,428

	Millions of yen						
	FY2019						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Loss on impairment of fixed assets and goodwill	¥	1,905	¥ 474	¥ 327	¥ -	¥ 1,736	¥ 4,443

Note: The amount of "Elimination or unallocable accounts" denotes loss on impairment of the corporate assets which do not belong to any reportable segment.

### (7) Amortization and balance of goodwill

Information on amortization of goodwill by each segment and its remaining balance for the years ended March 31, 2021 and 2020 is summarized as follows:

	Millions of yen						
	FY2020						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥	-	¥ -	¥ 2,801	¥ 1,588	¥ 29	¥ 4,419
Balance at March 31, 2021	-	-	44,275	6,634	4	-	50,914

	Millions of yen						
	FY2019						
	Housing	Urban infrastructure and environmental products	High performance plastics	Medical	Other	Elimination or unallocable accounts	Total
Amortization of goodwill	¥	127	¥ 53	¥ 1,235	¥ 1,792	¥ 29	¥ 3,238
Balance at March 31, 2020	-	-	47,959	8,085	34	-	56,078



### 30. Business Combinations

(Finalization of a Provisional Accounting Treatment Related to Business Combinations)

For the year ended March 31 2020, the Companies applied provisional accounting treatment related to a business combination with AIM Aerospace Corporation (currently, Sekisui Aerospace Corporation) in which its shares were acquired on November 21, 2019, and the provisional accounting treatment was finalized during the year ended March 31, 2021. In conjunction with the finalization of the provisional accounting treatment, comparative information included in the consolidated financial statements for the year ended March 31, 2021 reflects a significant review of the initial allocation of acquisition cost, and the Companies allocated ¥4,537 million to other intangible assets and ¥3,553 million to deferred tax liabilities. As a result, the ¥38,392 million of goodwill calculated on a provisional basis decreased by ¥984 million to ¥37,408 million. Furthermore, the assets acquired on the date of the business combination included ¥6,535 million of goodwill, and ¥10,582 million of other intangible assets. As a result of the finalization of the provisional accounting treatment, the whole amount of goodwill and other intangible assets arising from this business combination amounted to ¥43,943 million and ¥15,119 million, respectively.

### 31. Subsequent Events

#### (Year-end cash dividends)

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2021, was proposed by the Board of Directors at the meeting held on May 17, 2021.

The distribution proposed was approved by the shareholders at the meeting held on June 23, 2021.

	<u>Millions of yen</u>
Year-end cash dividends (¥24.00 per share)	¥ 10,801

The aggregate amount of cash dividends includes cash dividends of ¥19 million for the shares of the Company held by the BIP Trust and ESOP Trust.

#### (Acquisition of treasury stock)

For the purpose of implementing flexible capital policy and as a way to provide returns to shareholders, the Company resolved at the Board of Directors' meeting held on April 27, 2021 to acquire 5,000,000 shares of treasury stock for a maximum total amount of ¥10,000 million through the market including advance notice type market buying system of ToSTNeT during the period from April 28, 2021 through March 31, 2022.

As of June 23, 2021, the status of the acquisition of treasury stock is as follows:

Type of shares acquired: Common stock

Total number of shares acquired: 3,000,000 shares

Total acquisition cost: ¥5,643 million

Acquisition date: May 14, 2021

Method of acquisition: Market purchases

#### (Retirement of treasury stock)

For the purpose of strengthening measures to enhance capital efficiency and as a way to provide returns to shareholders, the Company resolved at the Board of Directors' meeting held on April 27, 2021 to retire 5,000,000 shares of treasury stock and executed the retirement on May 25, 2021. The total number of shares issued after the retirement of treasury stock was 471,507,285 shares.

## Independent Auditor's Report

The Board of Directors  
Sekisui Chemical Co., Ltd.

### Opinion

We have audited the accompanying consolidated financial statements of Sekisui Chemical Co., Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2021, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

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 its consolidated financial performance and its consolidated cash flows for the year 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 the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

Recognition and measurement of identifiable assets and liabilities in business combinations	
Description of Key Audit Matter	Auditor's Response
On November 21, 2019, the Company acquired all shares of AIM Aerospace Corporation (currently, Sekisui Aerospace Corporation) Group, which then became a consolidated subsidiary from the year ended March 31, 2020. In addition, the Company completed the allocation of acquisition costs in the year ended March 31, 2021. The	<p>In order to assess the measurement of customer-related assets related to major customers, we have mainly performed the following audit procedures.</p> <ul style="list-style-type: none"><li>We examined the consistency of the future cash flows with the business plan at the time of acquisition.</li></ul>

<p>consideration paid for the acquisition of shares was ¥37,916 million, and the Company used external valuation specialists to recognize and measure identifiable assets acquired and liabilities assumed. As a result, as described in Note 30 “Business Combinations” to the consolidated financial statements, goodwill and other intangible assets of ¥43,943 million and ¥15,119 million, respectively, were recorded.</p> <p>The intangible assets identified represent customer-related assets associated with major customers for which fair value at the date of the business combination is measured as the present value of future cash flows to be derived from the assets, and this calculation process involves various estimates and assumptions. Specifically, the prospects for market recovery in the aircraft industry, the prospects for customer orders, and the discount rate are taken into account as important factors in estimating future cash flows in measuring customer-related assets.</p> <p>As the measurement of customer-related assets in business combinations involves management’s assumptions and judgments, we determined this to be a key audit matter.</p>	<ul style="list-style-type: none"> <li>• In order to understand the transaction related to the share acquisition, we inspected the relevant contracts, made inquiries to management, and inspected materials reported to the Board of Directors.</li> <li>• In addition to our evaluation of the competence, capabilities and objectivity of the external valuation specialists used by the management, we made inquiries to the external valuation specialists in order to understand the valuation model adopted for measuring the fair value of the customer-related assets.</li> <li>• We made inquiries with management to understand the prospects for market recovery in the aircraft industry and related customer orders assumed in the future business plan, and examined the consistency of these assumptions with past market trends in the aircraft industry and orders received using available external data.</li> <li>• We engaged our network firm valuation specialists to review the valuation models used to measure the fair value of the customer-related assets and compared the discount rate with our own estimates using available external data.</li> </ul>
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Valuation of intangible assets of Sekisui Aerospace Corporation Group	
Description of Key Audit Matter	Auditor’s Response
<p>As described in Note 3 “Significant Accounting Estimates” to the consolidated financial statements, the Company recorded intangible assets (customer-related assets) in the amount of ¥12,564 million in the consolidated balance sheet that were recognized when Sekisui Aerospace Corporation Group, which belongs to the High Performance Plastics segment, was acquired. Impairment loss of ¥1,693 million on such intangible assets was recognized due to a</p>	<p>In order to assess the impairment loss on customer-related assets related to major customers recorded by the Company for the year ended March 31, 2021, we mainly performed the following audit procedures.</p> <ul style="list-style-type: none"> <li>• We examined the consistency of future cash flows with business plan at the time of evaluation.</li> <li>• In order to assess the effectiveness of management’s estimation process, we</li> </ul>

<p>decline in profitability resulting from changes in the business environment.</p> <p>In considering the amount of impairment loss for the customer-related assets attributable to the Sekisui Aerospace Corporation Group, the Company measured the recoverable amount of the cash-generating unit based on fair value less costs of disposal, which is calculated by discounting future cash flows to present value. Since Sekisui Aerospace Corporation Group, consisting of certain overseas subsidiaries, prepares its financial information in accordance with International Financial Reporting Standards, the Company considered the amount of impairment loss for the customer-related assets attributable to Sekisui Aerospace Corporation Group in accordance with the International Financial Reporting Standards.</p> <p>The significant assumptions used in the estimation of the fair value less costs of disposal are, the prospects for market recovery in the aircraft industry, the prospects for customer orders, and the discount rate.</p> <p>As the estimation of the fair value less costs of disposal involves management's assumptions and judgements, we determined this to be a key audit matter.</p>	<p>compared business plan in previous year with subsequent actual performance.</p> <ul style="list-style-type: none"> <li>• In addition to our evaluation of the competence, capabilities and objectivity of the external valuation specialists used by management, we made inquiries to the external valuation specialists in order to understand the valuation model adopted for measuring the fair value of the customer-related assets.</li> <li>• We made inquiries with management to understand the prospects for market recovery in the aircraft industry and related customer orders assumed in the future business plan, and examined the consistency of these assumptions with past market trends in the aircraft industry and orders received using available external data.</li> <li>• We engaged our network firm valuation specialists to review the valuation models used to measure the fair value of the customer-related assets and compared the discount rate with our own estimates using available external data.</li> </ul>
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Valuation of goodwill of Sekisui Aerospace Corporation Group	
Description of Key Audit Matter	Auditor's Response
<p>As described in Note 3 "Significant Accounting Estimates" to the consolidated financial statements, for the year ended March 31, 2021, the Company did not recognize impairment loss for the asset group, which includes goodwill of ¥40,802 million of Sekisui Aerospace Corporation Group, which belongs to the high-performance plastics segment, as the total undiscounted future cash flows derived from the asset group exceeded its book value.</p> <p>An aircraft manufacturer in the United</p>	<p>In order to assess the determination of the recognition of impairment loss for the asset group, including goodwill, we mainly performed the following audit procedures.</p> <ul style="list-style-type: none"> <li>• We examined the consistency of future cash flows with the latest business plan.</li> <li>• In order to assess the effectiveness of management's estimation process, we compared business plans in previous years with subsequent actual performance.</li> <li>• We made inquiries with management to</li> </ul>

<p>States, which is a major customer of Sekisui Aerospace Corporation Group and accounts for the majority of orders received, has been affected by a sharp decline in air passenger demand due to the spread of COVID-19, and its business environment has become increasingly uncertain. As the deterioration in the business environment of this major customer may have a significant impact on the future performance of Sekisui Aerospace Corporation Group, the Company determined that certain indications of impairment existed in the asset group, including goodwill.</p> <p>The undiscounted future cash flows used in determining whether the recognition of an impairment loss is necessary are based on the business plan approved by the Company's management, and for the following period subsequent to the period covered by the business plan, an estimated growth rate within the market's long-term average growth rate is applied.</p> <p>The significant assumptions used in the estimation of undiscounted future cash flows are, the prospects for market recovery in the aircraft industry, the prospects for customer orders, and the growth rate for the following period subsequent to the period covered by the business plan.</p> <p>As the determination of whether the recognition of an impairment loss is necessary involves management's assumptions and judgements, we determined this to be a key audit matter.</p>	<p>understand the prospects for market recovery in the aircraft industry and related customer orders assumed in the future business plan, and examined the consistency of these assumptions with past market trends in the aircraft industry and orders received using available external data.</p> <ul style="list-style-type: none"> <li>• We examined whether the growth rate applied for the following period subsequent to the period covered by the business plan is consistent with the market's long-term average growth rate by using available external data.</li> </ul>
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Evaluation of land for sale held for the purpose of housing sales	
Description of Key Audit Matter	Auditor's Response
<p>The Company recorded land for sale held for the purpose of housing sales ("Land for sale") of ¥58,767 million in the consolidated balance sheet.</p> <p>As described in Note 3 "Significant Accounting Estimates" to the consolidated</p>	<p>In order to assess the evaluation of the Land for sale, we mainly performed the following audit procedures.</p> <ul style="list-style-type: none"> <li>• For the acquisition of the Land for sale above a certain amount, we inspected the sales plan included in the purchase</li> </ul>

<p>financial statements, Land for sale is stated at the acquisition cost in the consolidated balance sheet and, if net selling price at the end of the year is less than the acquisition cost, that value is recorded in the consolidated balance sheet. Net selling price is the selling price for each individual property (in principle, the lowest publicly offered price.)</p> <p>Because estimates of net selling prices are based on subjective judgments from management's forecasts and expectations considering the housing market conditions and the valuation of the Land for sale may have a potentially significant impact on the consolidated financial statements, we determined this to be a key audit matter.</p>	<p>approval document of the land to understand the estimated profit margin in the business plan.</p> <ul style="list-style-type: none"> <li>• We evaluated the Company's evaluation criteria by obtaining actual sales data for Land for sale and comparing the net selling price estimates in the previous year with the subsequent actual selling price.</li> <li>• We obtained the inventory list of the Land for sale to examine whether the evaluation is conducted in accordance with the Company's evaluation criteria and compared the net selling price with the selling price publicly set by the Company. In addition, we made inquiries to the department in charge regarding the existence of events and circumstances that need to be considered in the valuation and assessed whether such information was reflected in the estimates of the net selling price.</li> <li>• With regards to pre-sale land, we inspected the materials from the management meeting regarding the existence of delays in the start of sales and the status of such delays and made inquiries to the department in charge to evaluate whether that information was reflected in the estimates of net selling price.</li> </ul>
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### **Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these 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 and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing 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. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate 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 in accordance with accounting principles generally accepted in Japan.
- 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 the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.



We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to 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 the Corporate Auditor 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.

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

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

Ernst & Young ShinNihon LLC  
Osaka, Japan

June 18, 2021

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/s/Shunsuke Sakai  
Designated Engagement Partner  
Certified Public Accountant

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/s/Takao Oshitani  
Designated Engagement Partner  
Certified Public Accountant