Financial Factbook 2020

Management's Discussion & Analysis

The financial section was translated into English based on some disclosed documents including the securities report of the Japanese version and is provided for information purpose only.

Overview of Fiscal 2020

During the reporting term (January 1 to December 31, 2020), the momentum of the spread of the novel coronavirus (COVID-19) continued unabated, and although there were signs of economic recovery in some countries, the global economy was generally weak. Furthermore, uncertainty over the future deepened due to social turmoil following the U.S. presidential election and the intensifying U.S.-China battle for hegemony. The Japanese economy struggled to strike a balance between infection control and socio-economic activities, as the spread of COVID-19 entered its third wave.

In the overall surroundings of Toagosei Group (hereinafter "the Group"), demand for automobile and electronics-related products recovered to pre-COVID-19 levels toward the second half of the year, but the recovery of products for paper manufacturing and other products was delayed, causing major changes in the demand structure. Under these circumstances, the Group focused on shipping products for semiconductor-related and antibacterial and antiviral markets and strived to maintain and continue safe and stable operations and reduce costs, thereby lessening the extent of profit decline.

As a result, net sales in the reporting term decreased by 8.0% year on year on a consolidated basis to ¥133,392 million, while operating income decreased by 10.5% to ¥12,336 million, ordinary profit decreased by 14.3% to ¥13,054 million, and net income attributable to owners of parent decreased by 21.6% to ¥8,142 million.

Sales by Segment

Commodity Chemicals

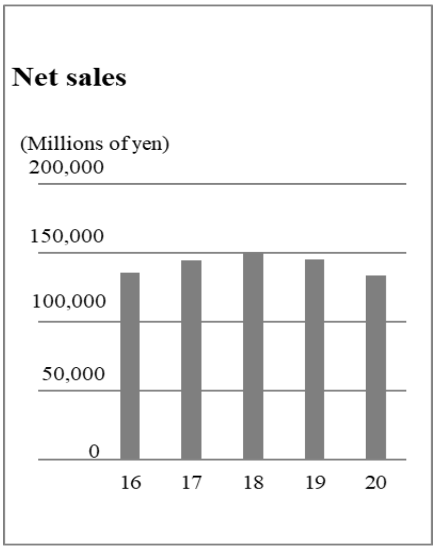
Sales of electrolytic products decreased as weak demand in a wide range of industries such as pulp and paper, metal and steel, and automobile-related resulted in a reduction in sales volume. Sales of acrylic monomer products decreased mainly due to sluggish sales in the first half of the year and the effect of a downturn in product prices linked to lower raw material prices, despite the recovery of sales volume toward the second half of the year. Sales of industrial gas decreased mainly due to a slow recovery of demand. As a result, sales in this segment decreased by 10.9% year on year to ¥58,495 million.

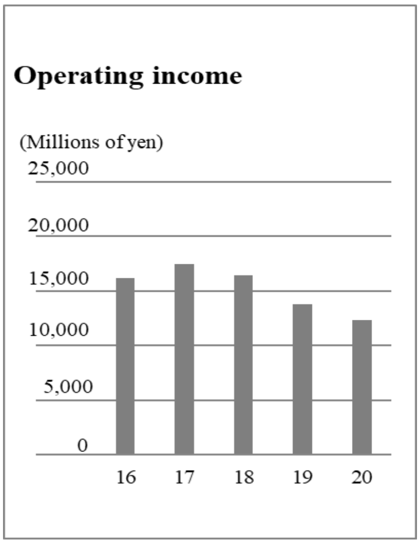
Although the decline in raw material and fuel prices resulted in variable cost improvement and fixed cost reduction, segment income decreased by 16.4% to ¥4,550 million due to lower sales volume and sales prices.

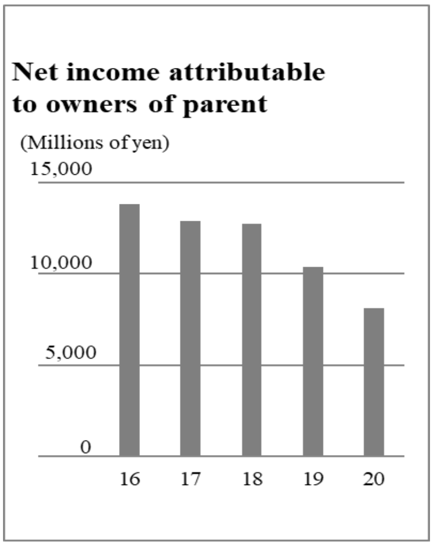
Polymer & Oligomer

Sales of acrylic polymers decreased due to a reduction in sales volume caused by the effect of sluggish demand for products for pulp and paper and products for the automobile-related market in the first half of the year. Sales of acrylic oligomers decreased as the recovery of sales volume toward the second half of the year could not make up for the slump in sales in the first half of the year. Sales of polymer flocculants decreased due to a decline in exports and lower sales prices. As a result, sales in this segment decreased by 7.4% year on year to ¥26,944 million.

Segment income decreased by 10.9% to ¥3,141 million mainly due to the effect of lower sales volumes of acrylic polymers and polymer flocculants, despite the variable cost improvement stemming from a reduction in raw material prices.







Management's Discussion & Analysis

Adhesive Material

Sales of instant glues decreased mainly due to weak sales volumes in both domestic and overseas markets from the impact of the spread of COVID-19. Despite the launch of some products for new applications, sales of functional adhesives decreased due to stagnant demand of products for the automobile and electronics-related markets in the first half of the year, in addition to the cutback on sales of some unprofitable products. As a result, sales in this segment decreased by 10.0% year on year to ¥10,054 million.

Segment income decreased by 42.4% to ¥781 million, mainly due to the lower sales volumes of instant glues and functional adhesives as well as a downturn in sales unit prices of some functional adhesives putting pressure on profits, despite profit improvement as a result of fixed cost reduction.

Performance Chemicals

Sales of high-purity inorganic chemicals increased mainly thanks to a steady increase in demand for semiconductors throughout the year following the expansion of telework. Sales of inorganic functional materials increased, as increased interest in antibacterial and antiviral products in light of the spread of COVID-19 drove up demand, while sales of the ion-trapping agent for electronic components were also strong. As a result, sales in this segment increased by 10.2% year on year to ¥8,980 million.

Segment income increased by 27.1% to ¥2,690 million mainly thanks to higher sales volumes of both high-purity inorganic chemicals and inorganic functional materials, despite a rise in fixed costs caused by the continued aggressive capital investment in response to strong demand.

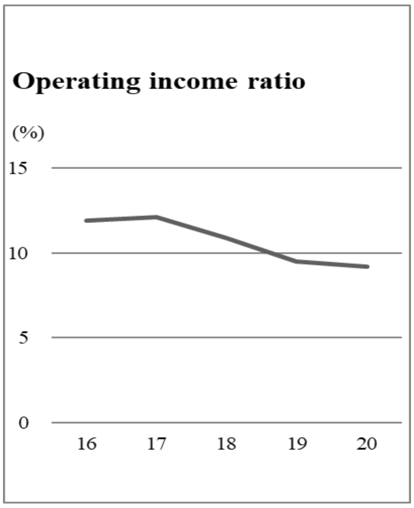
Plastics

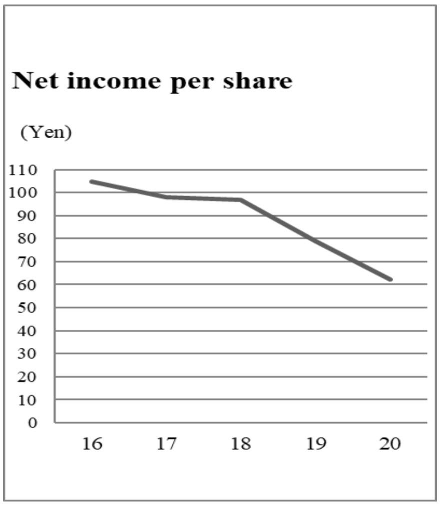
Sales of piping equipment and products for construction and civil engineering decreased due to weak demand mainly from the impact of the spread of COVID-19. Nursing care product sales decreased as the recovery in sale volumes of in-home care products and other products toward the second half of the year was not able to make up for the slump in the first half of the year. Sales of elastomer compounds decreased mainly due to sluggish demand for some products and delays in new development projects in Southeast Asia. As a result, sales in this segment decreased by 6.6% year on year to ¥25,285 million.

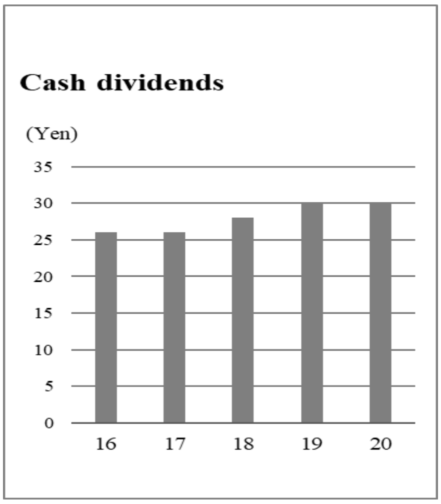
Segment income decreased by 3.7% to ¥1,188 million mainly due to the effect of an increased fixed cost burden at a Thai subsidiary, despite the variable cost improvement resulting from the reduced prices of major raw materials for piping equipment and nursing care products.

Other Businesses

Sales for this segment, which comprises of new product development operations, goods transportation services, and trading house operations, decreased by 3.7% year on year to ¥3,633 million, and segment loss totaled ¥45 million.







Cash Flows

Cash and cash equivalents at end of the year stood at ¥43,800 million, an increase of ¥686 million from the previous term-end.

Net cash provided by operating activities increased by ¥2,056 million year on year to ¥20,671 million due to decreases in inventories and income taxes paid, despite a decrease in income before income taxes.

Net cash used in investing activities decreased by ¥4,493 million year on year to ¥11,362 million due to a shift from negotiable certificates of deposit to time deposits and shortening of investment horizons for some investments.

Net cash used in financing activities increased by ¥3,908 million year on year to ¥8,491 million due to an increase in purchases of treasury stock.

Business Performance Prospects for Fiscal 2021

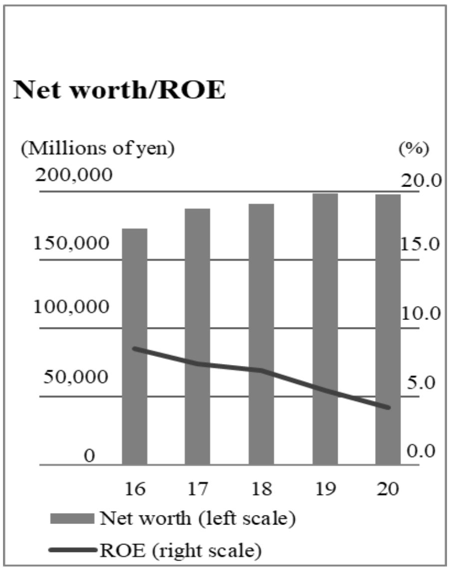
For the current term ending December 31, 2021, we forecast net sales of ¥143.0 billion, operating income of ¥14.0 billion, and net income attributable to owners of parent of ¥10.4 billion.

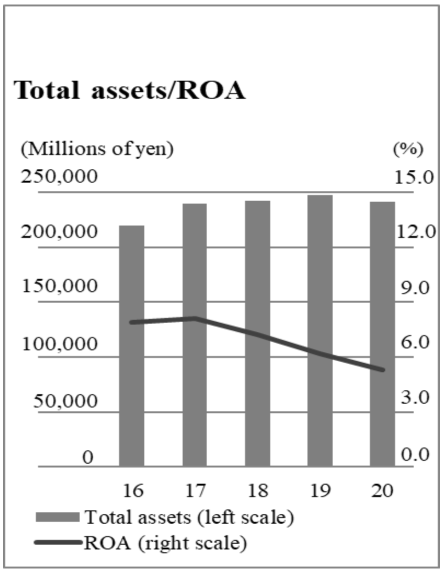
Economic Prospects for Fiscal 2021

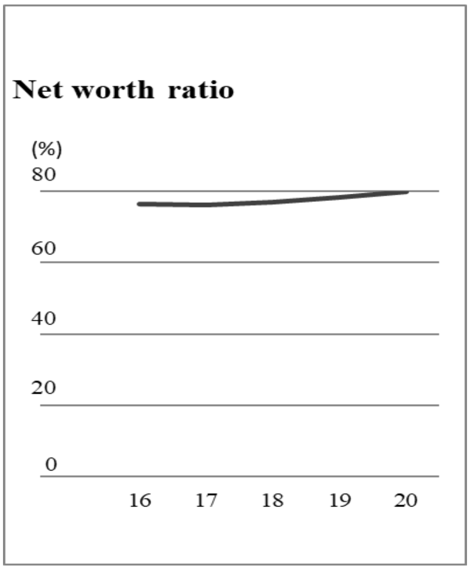
Vaccinations have begun in some countries as a promising measure to prevent the spread of COVID-19, but it is likely to take some time before the vaccines are distributed widely around the world and they start taking effect. In addition, there are concerns over the impact of the intensifying U.S.-China battle for hegemony on the global economy. In Japan, it is hoped that the government's measures to prevent the spread of COVID-19 will be successful in reviving socio-economic activities, but it remains unclear when that will be achieved at this point in time. Furthermore, the chemical industry is facing stronger calls for speedy and effective actions to realize a carbon-free society.

Basic Policy on Shareholder Returns and Dividends for Fiscal 2020 and 2021

The Company makes it a basic shareholder return policy to continue paying a stable dividend targeting a consolidated payout ratio of 30% or more and improve the consolidated total payout ratio by implementing measures such as the acquisition of treasury







stock. The Company will determine the dividend by comprehensively considering the strengthening of the management structure, enhancement of internal reserves, and the future outlook and progress of its businesses. In the Medium-Term Management Plan "Stage up for the Future" from 2020 to 2022, the Company aims to improve the consolidated total payout ratio and EPS by purchasing treasury stock (around ¥10.0 billion over three years).

For the current term ended December 31, 2020, we are planning a term-end dividend of ¥15 per share. During the fiscal year under review, the Company paid an interim dividend of ¥15 per share, amounting to an annual dividend of ¥30 per share (payout ratio of 48.1%). In addition, the Company acquired treasury shares worth ¥3,882 million during the fiscal year under review and retired 3,696,299 shares of treasury stock, including those repurchased shares. The total payout ratio taking into account the acquisition of treasury shares is 95.4%.

For the next fiscal year, the Company plans an annual dividend of ¥30 per share (payout ratio of 36.6%; an interim dividend of ¥15 and a term-end dividend of ¥15). Based on the above basic policy, on February 12, 2021, the Company announced the Determination of Matters Regarding Treasury Stock Acquisition (Treasury stock acquisition based on regulations of the Articles of Incorporation pursuant to provisions of Article 165, Paragraph 2 of the Companies Act) and shall acquire its treasury stock worth ¥4 billion again during the next fiscal year with the aim of strengthening shareholder return, improving capital efficiency, raising corporate value, and implementing flexible capital policies. The total payout ratio is expected to be 74.8% as a result.

Business Risks

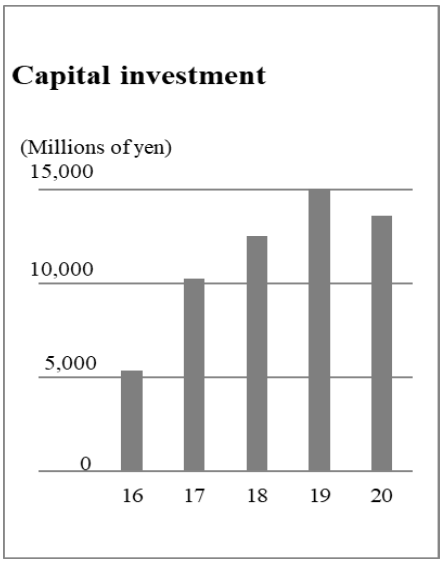
Of the matters concerning "Management's Discussion & Analysis," and "Consolidated Financial Statements and Others" contained in this report, major risks deemed to have the potential of significantly impacting the Group's financial position, business performance, and cash flows are stated below, provided, risks that may significantly impact investors' decisions are not limited to those described herein.

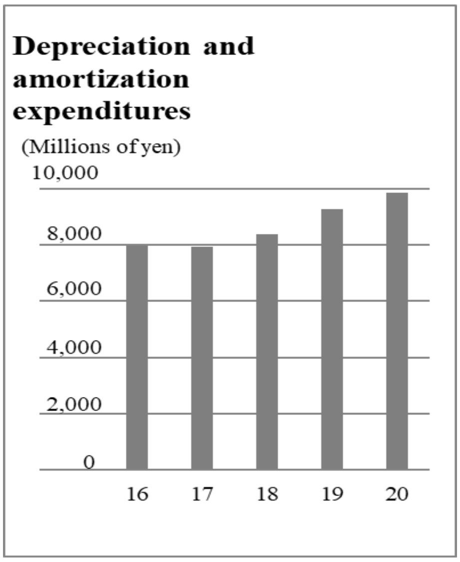
The Group established a Risk Management Committee as a mechanism for the routine identification and assessment of potential risks. Based upon this, risk countermeasures are formulated and the status of those countermeasures is checked, while measures are taken for the risks stated below. However, these countermeasures are not able to completely control the probability of risks emerging and the impact of risks if they emerge.

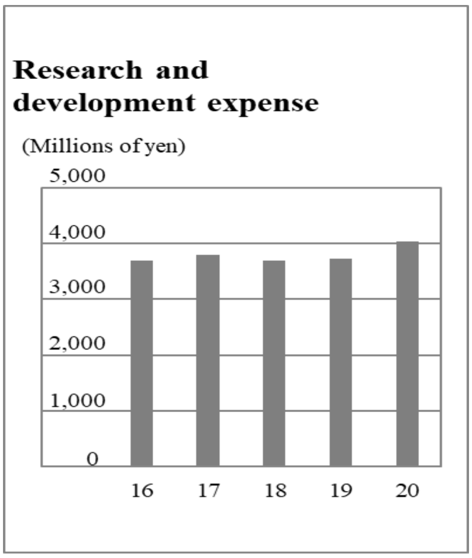
Forward-looking information stated herein is based on judgement by the Group as of the end of the fiscal year under review.

(1) Natural disasters

The Group has production and sales bases in Japan and overseas. If these bases are hit by natural disasters such as earthquakes, typhoons, heavy rains, tornadoes, gusts of wind, floods, tsunamis,







and storm surges, this may result in damage to buildings and equipment, suspension of operations and business activities, and other losses.

In particular, in the event of a Tokai, Tonankai, or Nankai earthquake, there may be substantial damage to the Group's production and sales bases located in and around the Tokai, Kinki, and Shikoku regions, including the Nagoya Plant, the Group's main production base. Similarly, in the event of an earthquake directly hitting the Tokyo metropolitan area, there may be substantial damage to the Group's head office as well as production and sales bases located in and around the Kanto region.

Each base takes measures such as seismic retrofitting, regular disaster prevention drills simulating earthquakes and fires, and insurance coverage in case of fires, storms, and floods.

(2) Accidents

The main business of the Group is the manufacturing of chemical products. Accidents such as fires, explosions, and leaks of chemical substances may occur at the Group's domestic and overseas plants due to equipment trouble and human errors, resulting in damage to buildings and equipment, the suspension of operations and business activities, and compensation for victims and local communities.

Each plant takes measures such as automatic stopping devices for emergencies, disaster prevention meetings to discuss safety and disaster prevention when equipment is newly installed or replaced, regular disaster prevention drills, and insurance coverage in case of accidents.

(3) Changing market needs and intensifying competition

The Group's business consists of five segments and supplies a wide variety of products ranging from commodity chemicals including basic industrial materials to finished products for general consumers, enabling the Group to build a well-balanced business structure that is not easily affected by economic fluctuations. However, as the Group supplies its products to a wide range of industries and regions, the sales volumes and prices of its products may fluctuate significantly due to changes in the global or regional supply and demand environment, the emergence of alternative materials, changes in the purchasing policies of customers, and the sales prices of competitors.

In particular, many commodity chemicals, which are mostly included in the Commodity Chemicals segment, are difficult to differentiate from other companies' products in terms of their function and performance. Given the present trend of intensifying price competition, there is a possibility that the Group may not be able to maintain its competitive edge over rival companies that are able to sell products with the same qualities at lower prices.

Meanwhile, the sales volumes and prices of high value-added products, which are mostly included in Polymer & Oligomer, Adhesive Material, and Performance Chemicals segments, may fluctuate significantly depending on the demand of customers and the Group's priority fields such as mobility and electronics.

In the Medium-Term Management Plan "Stage up for the Future," the Group established "the expansion of high-value-added products businesses" as one of its basic policies, and aims to increase the high-value-added product to net sales ratio from 42% in 2019 to 47% in 2022.

(4) Violation of laws and regulations, tax and legal system reforms, deregulation, greater regulatory controls, and trade restrictions

The Group has production and sales bases not only in Japan but also in the U.S., China, Taiwan, Hong Kong, Singapore, Thailand, and South Korea and is engaged in sales and procurement activities on a global scale. Therefore, the suspension of operations and business activities, criminal penalties and surcharges, and litigations may arise in the event of a violation and change in interpretation of, and a differing view from authorities on Japan's Antimonopoly Act, Unfair Competition Prevention Act, Subcontract Act, Financial Instruments and Exchange Act, Foreign Exchange and Foreign Trade Act, export trading regulations, labor law, tax law, and regulations related to chemical substances, as well as various laws and regulations of relevant foreign countries and regions.

Furthermore, these laws and regulations may change due to institutional reforms, deregulation, greater regulatory controls, and trade restrictions, leading to the incurring of counter-measure costs and increased risk of violations.

The Group places particular importance on regulations related to chemical substances and has a system in place where the Environment & Safety Department and the Quality Assurance Department at the head office and manufacturing sites coordinate with each other to prevent violations. In addition, the Compliance Committee oversees and examines group-wide compliance practices for other laws and regulations.

(5) Impairment of fixed assets

The Group owns a large amount of fixed assets, including land, machinery and equipment mainly for the manufacture of chemical products. The Group may engage in aggressive capital investment, joint ventures and strategic alliances with third parties, and business acquisitions in order to achieve sustainable growth and increase corporate value over the medium- to long-term. Under the Medium-Term Management Plan "Stage up for the Future," the Group aims to make a total of ¥44 billion in capital investment over the three years from 2020 to 2022.

Decisions on such capital investment and other investment programs will be made subject to careful assessment of profitability, but impairment losses may arise due to a decline in profitability resulting from a significant deterioration in the business environment, falling market prices, a decrease in synergies, and other factors.

(6) Product liability, recall, and inferior quality

If a defect or inferior quality of products manufactured and sold by the Group causes damage to customers or third parties, compensation for damages and recall costs may be incurred, and sales of the said products may decrease.

The Group conducts quality inspections at each manufacturing site and has a system in place to promptly respond to customer feedback in order to supply products that meet customer requirements as well as applicable legal and regulatory requirements. The Group also takes measures to reduce the impact of any potential damage by arranging product liability insurance.

(7) Information leakage

The Group holds important managerial, operational, and technological information as well as personal information on its employees. If a business partner or employee leaks such information intentionally or through negligence, or if a third party with malicious intentions breaks into the Group's information management server and illegally obtains the information, there may be damages such as deterioration of managerial, operational, and technological advantage, sanctions and compensation for information leakage, and costs required for retrieving the information.

To prevent information leaks, the Group concludes non-disclosure agreements with business partners with whom it shares important information, and instills awareness of information management and information handling rules among its employees through education programs. In addition, the Group works to continually improve its information security measures, including measures against computer viruses.

(8) Soaring prices of raw materials, fuel, and other materials and changes in the prices of crude oil and naphtha

Soaring prices of raw materials, fuel, and other materials will lead to an increase in the Group's manufacturing costs. In particular, higher prices of crude oil and naphtha will result in a rise in the manufacturing costs of acrylic monomer products and other products in the Commodity Chemicals segment, and if the Group is unable to sufficiently raise its sales prices and rationalize its operations to offset these changes, it may put pressure on the Group's profits.

On the other hand, falling prices of crude oil and naphtha may cause the Group's sales prices to decline and may result in valuation losses on inventories.

A price formula has been established mainly with domestic business partners to ensure appropriate manufacturing costs and sales prices linked to crude oil and naphtha prices. However, these measures may not work in situations where prices are volatile or in competitive overseas markets.

(9) Infectious and communicable diseases

In the event of a widespread outbreak of an infectious or communicable disease that requires quarantine and movement restrictions, in addition to a general stagnation of economic activities, the business activities and distribution of the Group's customers and suppliers may be disrupted, potentially restricting the Group's operations and business activities. Furthermore, if the infection spreads to employees of the Group, operations may be temporarily suspended.

From December 2019, the novel coronavirus (COVID-19) that emerged with China as an epicenter has since spread worldwide. The Group is building a system that enables safe and continuous operations and business activities by installing and distributing infection prevention goods such as disinfectants and face masks to prevent infection and creating an environment for telework.

(10) Suspension of raw material and fuel supplies and supply chain interruption

The Group conducts business keeping in mind the balance between cost reduction and stable procurement, but if the raw materials and fuel essential for manufacturing cannot be procured due to accidents at suppliers, production suspension, bankruptcy, and other reasons, the Group's operations may be suspended.

The Group strives to build a stable supply system by purchasing from multiple sources and maintaining constant communication with its suppliers.

(11) Environmental pollution and calls for sustainability

While complying with laws and regulations related to environmental conservation, the Group carries out environmentally conscious business activities by announcing its reduction targets for carbon dioxide emissions and maintaining thorough control of environmentally hazardous substances with the establishment of voluntary control values. However, as the Group operates chemical plants, soil, air, or water pollution may be discovered, resulting in the interruption of production activities and compensation costs. Furthermore, the chemical business, which is an energy-intensive industry, is being strongly urged to meet social demands such as further reduction of carbon dioxide emissions for sustainable social development, as exemplified by the SDGs and the ESG investment movement.

In addition to taking further steps to reduce greenhouse gas emissions, energy consumption, waste, and environmentally hazardous substances, the Sustainability Promotion Department, which was established on January 1, 2020, will lead the Group's efforts to link its products and technology with solutions to global problems, and communicate these efforts.

(12) Foreign exchange fluctuations

The Group imports raw materials from overseas and also exports products manufactured in Japan to other countries, but the volume of raw materials it imports exceeds the volume of products it exports. Therefore, if the yen depreciates against foreign currencies, overall costs will increase. However, when the yen weakens, the machinery export industry in Japan generally becomes more competitive internationally, and the demand for products sold by the Group becomes easier to stimulate.

Furthermore, in the Medium-Term Management Plan "Stage up for the Future," the Group aims to raise its overseas net sales ratio from 15.6% in 2019 to over 20% in 2022 through aggressive overseas expansion. Therefore, the nature of the risk may change depending on the progress in achieving this target.

To mitigate the risk, the Group takes measures such as making financial plans to use foreign currencies earned through exports and dividends from overseas affiliates for import payments.

(13) Stock market fluctuations

The Company will acquire and hold the shares of a relevant business partner if it determines that doing so will contribute to the improvement of the Company's corporate value over the medium- to long-term in terms of maintaining and strengthening business relationships and building business alliances. If these shares are marketable listed shares, significant losses may be incurred due to fluctuations in the stock market.

The Company regularly reports to the Board of Directors every year after verifying the effectiveness of holding such shares, by comprehensively reviewing whether maintaining and strengthening the comprehensive relationship with the relevant business partners, and the benefits and risks of holding their shares, are commensurate with the cost of capital. The Company is selling stocks that are deemed not to contribute to the improvement of corporate value over the medium- to long-term.

Estimates or projections included in this report are based on facts known to the Company's management as of the time of writing, and actual results may therefore differ substantially from such statements.

1. [Consolidated Financial Statements and Others]

(1) [Consolidated Financial Statements]

i) [Consolidated Balance Sheets]

(Millions of yen)

December 31,		2019		2020
Assets				
Current assets				
Cash and deposits		32,989		48,564
Notes and accounts receivable	*5	42,534	*5	39,757
Securities		44,000		25,000
Inventories	*1	18,161	*1	17,094
Other current assets		1,311		996
Allowance for doubtful receivables		(36)		(36)
Total current assets		138,959		131,376
Fixed assets				
Property, plant and equipment				
Buildings and structures, net		22,493		24,661
Machinery, equipment and other, net		25,857		25,919
Tools, furniture and fixtures, net		2,239		2,508
Land		17,632		17,679
Leased assets, net		128		136
Construction in progress		6,024		7,396
Total property, plant and equipment	*3, *4	74,376	*3, *4	78,301
Intangible fixed assets		727		783
Investments and other assets				
Investment securities	*2	28,711	*2	26,844
Net defined benefit asset		2,045		2,441
Deferred tax assets		73		67
Other assets		2,333	*2	2,032
Allowance for doubtful receivables		(14)		(14)
Total investments and other assets		33,148		31,370
Total fixed assets		108,252		110,456
Total assets		247,211		241,832

See accompanying notes to consolidated financial statements.

(Millions of yen)

December 31,		2019		2020
Liabilities				
Current liabilities				
Notes and accounts payable	*5	14,413	*5	12,130
Short-term bank loans		2,503		6,903
Lease obligations		185		177
Accrued income taxes		2,030		1,618
Accrued bonuses for employees		16		15
Other current liabilities	*5	13,763	*5	12,492
Total current liabilities		32,911		33,337
Long-term liabilities				
Long-term debt		9,031		4,473
Lease obligations		251		227
Deferred tax liabilities		3,005		2,808
Net defined benefit liability		161		151
Other long-term liabilities		3,271		3,191
Total long-term liabilities		15,721		10,852
Total liabilities		48,632		44,190
Net Assets				
Shareholders' equity				
Common stock		20,886		20,886
Capital surplus		16,411		15,046
Retained earnings		146,252		147,893
Treasury stock		(302)		(207)
Total shareholders' equity		183,247		183,619
Accumulated other comprehensive income				
Unrealized holding gain on available-for-sale securities		8,974		7,891
Translation adjustments		1,581		1,287
Remeasurements of defined benefit plans		(40)		86
Total accumulated other comprehensive income		10,516		9,265
Non-controlling interests		4,815		4,757
Total net assets		198,579		197,642
Total liabilities and net assets		247,211		241,832

See accompanying notes to consolidated financial statements.

ii) [Consolidated Statements of Income and Consolidated Statements of Comprehensive Income]
[Consolidated Statements of Income]

(Millions of yen)

Years ended December 31,		2019		2020
Net sales		144,955		133,392
Cost of sales	*1	104,240	*1	95,328
Gross profit		40,714		38,064
Selling, general and administrative expenses				
Selling expenses	*2	16,223	*2	15,056
General and administrative expenses	*3, *4	10,708	*3, *4	10,671
Total selling, general and administrative expenses		26,931		25,728
Operating income		13,782		12,336
Non-operating income				
Interest income		109		55
Dividend income		971		809
Equity in earnings of affiliates		164		168
Rent income on non-current assets		260		278
Foreign currency exchange gains		207		—
Other		244		194
Total non-operating income		1,957		1,506
Non-operating expenses				
Interest expenses		95		94
Foreign currency exchange losses		—		401
Environment readiness fee		268		149
Inactive facilities expenses		43		31
Other		101		110
Total non-operating expenses		510		787
Ordinary profit		15,230		13,054
Extraordinary gains				
Gain on sales of non-current assets	*5	7		—
Gain on sales of investment securities		553		253
Subsidy income		9		—
Total extraordinary gains		570		253
Extraordinary losses				
Loss on disposal of non-current assets	*6	100	*6	434
Impairment loss on property, plant and equipment	*7	410	*7	183
Loss on valuation of investment securities		—		433
Total extraordinary losses		510		1,051
Income before income taxes		15,290		12,256
Income taxes -- Current		4,532		3,628
Income taxes -- Deferred		102		262
Total income taxes		4,634		3,890
Net income		10,655		8,365
Net income attributable to non-controlling interests		268		223
Net income attributable to owners of parent		10,387		8,142

See accompanying notes to consolidated financial statements.

[Consolidated Statements of Comprehensive Income]

(Millions of yen)

Years ended December 31,		2019		2020
Net income		10,655		8,365
Other comprehensive income				
Unrealized holding gain on available-for-sale securities		673		(1,076)
Translation adjustments		(43)		(285)
Remeasurements of defined benefit plans, net of tax		237		126
Total other comprehensive income	*1	867	*1	(1,236)
Comprehensive income		11,522		7,129
Comprehensive income attributable to:				
Owners of the parent		11,255		6,891
Non-controlling interests		267		237

See accompanying notes to consolidated financial statements.

iii) [Consolidated Statements of Changes in Net Assets]

(Millions of yen)

Year ended December 31, 2019	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the year	20,886	16,499	139,682	(296)	176,771
Changes during the year:					
Cash dividends			(3,817)		(3,817)
Net income attributable to owners of parent			10,387		10,387
Purchase of treasury stock				(6)	(6)
Gain on sales of treasury stock		0		0	0
Cancellation of treasury stock					—
Transfer from retained earnings to capital surplus					—
Change in ownership interest of parent due to transactions with non-controlling interests		(88)			(88)
Net changes in items other than shareholders' equity					
Total changes during the year	—	(88)	6,569	(5)	6,475
Balance at end of the year	20,886	16,411	146,252	(302)	183,247

Year ended December 31, 2019	Accumulated other comprehensive income: Unrealized holding gain on available-for-sale securities	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of the year	8,307	1,617	(277)	9,647	4,876	191,296
Changes during the year:						
Cash dividends						(3,817)
Net income attributable to owners of parent						10,387
Purchase of treasury stock						(6)
Gain on sales of treasury stock						0
Cancellation of treasury stock						—
Transfer from retained earnings to capital surplus						—
Change in ownership interest of parent due to transactions with non-controlling interests						(88)
Net changes in items other than shareholders' equity	667	(36)	237	868	(61)	807
Total changes during the year	667	(36)	237	868	(61)	7,282
Balance at end of the year	8,974	1,581	(40)	10,516	4,815	198,579

See accompanying notes to consolidated financial statements.

(Millions of yen)

Year ended December 31, 2020	Shareholders' equity: Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at beginning of the year	20,886	16,411	146,252	(302)	183,247
Changes during the year:					
Cash dividends			(3,934)		(3,934)
Net income attributable to owners of parent			8,142		8,142
Purchase of treasury stock				(3,886)	(3,886)
Gain on sales of treasury stock		4		75	79
Cancellation of treasury stock		(3,906)		3,906	—
Transfer from retained earnings to capital surplus		2,566	(2,566)		—
Change in ownership interest of parent due to transactions with non-controlling interests		(28)			(28)
Net changes in items other than shareholders' equity					
Total changes during the year	—	(1,364)	1,640	95	371
Balance at end of the year	20,886	15,046	147,893	(207)	183,619

Year ended December 31, 2020	Accumulated other comprehensive income: Unrealized holding gain on available-for-sale securities	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of the year	8,974	1,581	(40)	10,516	4,815	198,579
Changes during the year:						
Cash dividends						(3,934)
Net income attributable to owners of parent						8,142
Purchase of treasury stock						(3,886)
Gain on sales of treasury stock						79
Cancellation of treasury stock						—
Transfer from retained earnings to capital surplus						—
Change in ownership interest of parent due to transactions with non-controlling interests						(28)
Net changes in items other than shareholders' equity	(1,083)	(293)	126	(1,250)	(58)	(1,308)
Total changes during the year	(1,083)	(293)	126	(1,250)	(58)	(936)
Balance at end of the year	7,891	1,287	86	9,265	4,757	197,642

See accompanying notes to consolidated financial statements.

iv) [Consolidated Statements of Cash Flows]

		(Millions of yen)
Years ended December 31,	2019	2020
Operating activities		
Income before income taxes	15,290	12,256
Depreciation and amortization	9,257	9,848
Impairment losses on property, plant and equipment	410	183
Decrease in allowance for doubtful receivables	(2)	(1)
Increase (decrease) in other provisions	(3)	0
Increase in net defined benefit asset	(189)	(213)
Increase (decrease) in net defined benefit liability	8	(9)
Interest and dividend income	(1,080)	(864)
Interest expense	95	94
Foreign currency exchange loss (gain)	(218)	301
Gain on sales of investment securities	(553)	(253)
Loss on valuation of investment securities	—	433
Equity in earnings of affiliates	(164)	(168)
Gain on sales of non-current assets	(7)	—
Subsidy income	(9)	—
Loss on disposal of non-current assets	100	434
Decrease in receivables	2,611	2,743
Decrease (increase) in inventories	(1,609)	1,001
Decrease in payables	(2,059)	(2,268)
Other, net	950	228
Subtotal	22,826	23,744
Interest and dividends received	1,210	958
Interest paid	(94)	(91)
Subsidy income received	9	—
Income taxes paid	(5,336)	(3,939)
Net cash provided by operating activities	18,615	20,671
Investing activities		
Increase in time deposits	(224)	(10,005)
Net decrease in short-term investment securities	—	14,000
Purchases of investment securities	(90)	(161)
Proceeds from sales of investment securities	856	293
Purchases of shares of subsidiaries and affiliates	(5)	—
Purchases of property, plant and equipment	(15,307)	(14,478)
Proceeds from sales of property, plant and equipment	7	—
Other, net	(1,091)	(1,010)
Net cash used in investing activities	(15,855)	(11,362)

See accompanying notes to consolidated financial statements.

Years ended December 31,	2019		2020	
				(Millions of yen)
Financing activities				
Repayment of long-term debt		(158)		(158)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(289)		(185)
Proceeds from sales of treasury stock		0		0
Purchases of treasury stock		(6)		(3,886)
Repayment of lease obligations		(179)		(190)
Cash dividends to shareholders		(3,822)		(3,932)
Repayments to non-controlling interests		—		(4)
Cash dividends paid to non-controlling interests		(127)		(135)
Net cash used in financing activities		(4,582)		(8,491)
Effect of exchange rate changes on cash and cash equivalents		(53)		(131)
Net increase (decrease) in cash and cash equivalents		(1,876)		686
Cash and cash equivalents at beginning of the year		44,990		43,113
Cash and cash equivalents at end of the year	*1	43,113	*1	43,800

See accompanying notes to consolidated financial statements.

[Notes]

(Basis for Preparation of Consolidated Financial Statements)

1. Scope of consolidation

(1) Consolidated subsidiaries: 19

Hokuriku Toa Logistics Co., Ltd. and Shikoku Toa Logistics Co., Ltd., which were consolidated subsidiaries (sub-subsidiaries), have been excluded from the scope of consolidation due to the completion of their liquidation on February 29, 2020.

(2) Unconsolidated subsidiaries: 3

A major unconsolidated subsidiary is Toa Kenso Co., Ltd.

The unconsolidated subsidiaries have an immaterial effect on the Company's consolidated financial statements as a whole in terms of the sum of total assets, the sum of net sales, the sum of net income/loss, and the sum of retained earnings.

2. Application of equity method

(1) Unconsolidated subsidiaries and affiliates which are accounted for by the equity method

Affiliates: 1 Partnership: 1

Chubu Liquid Oxygen Co., Ltd.

Elmer's & Toagosei Co.

(2) Unconsolidated subsidiaries and affiliates which are not accounted for by the equity method

Unconsolidated subsidiaries: 3

Affiliates: 11

Toyo Denka Kogyo Co., Ltd., etc.

(3) Reason for exclusion from application of equity method accounting:

Because the effect of their net income/loss and retained earnings on the Company's consolidated financial statements is immaterial and they are not important as a whole in accounting terms.

3. Fiscal year-end of consolidated subsidiaries

The fiscal year-end of consolidated subsidiaries is the same as the Company's consolidated fiscal year-end.

4. Accounting policies

(1) Basis and method for valuation of major assets

1) Securities

Available-for-sale securities

Marketable securities classified as available-for-sale securities

Marketable securities classified as available-for-sale securities are carried at fair value determined based on the average of quoted prices (or their equivalent) in the one-month period prior to the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets.

Non-marketable securities classified as available-for-sale securities

Non-marketable securities classified as available-for-sale securities are carried at cost. Cost of securities sold is determined by the moving average method.

2) Derivative

Derivative financial instruments are carried at fair value.

3) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined by the moving average method. (The balance sheet amounts are written down if there is any decrease in profitability.)

(2) Depreciation and amortization of major depreciable and amortizable assets

1) Property, plant and equipment (excluding leased assets)

Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of the respective assets and their residual value.

The useful lives for major property, plant and equipment are as follows:

Buildings and structures	2–75 years
Machinery, equipment and other	2–17 years
Tools, furniture and fixtures	2–20 years

2) Intangible fixed assets (excluding leased assets)

Amortization of intangible fixed assets, primarily consisting of software, is calculated by the straight-line method based on the estimated useful lives of the respective assets in this category (primarily 5 years for software).

3) Leased assets (leased assets relating to finance lease transactions that do not transfer ownership)

Depreciation of leased assets shall be calculated based on the assumption that the useful lives equal the lease term and the residual value is zero.

(3) Posting standards for providing major allowance

1) Allowance for doubtful receivables

The allowance for bad debts and doubtful receivables in respect of individual bad debts is provided in an amount sufficient to cover credit losses based on the collectability of individual receivables. The allowance for receivables other than those described above is based on past credit loss experience.

2) Accrued bonuses for employees

Accrued bonuses for employees are provided at the estimated amounts expected to be paid to employees for one consolidated subsidiary.

(4) Accounting methods relating to retirement benefits

1) Periodic allocation of estimated retirement benefits

In calculating retirement benefit obligation, the benefit formula basis is applied for allocation of projected retirement benefit to the periods until the end of the current fiscal year.

2) Amortization of actuarial gain or loss and prior service costs

Actuarial gain or loss of the Company is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the eligible employees (primarily 10 years) when incurred in each fiscal year.

Prior service costs are expensed using the straight-line method over the average remaining years of service of the eligible employees (primarily 10 years) when incurred.

3) Adoption of the simplified method in SMEs

In calculating net defined benefit liability and retirement benefit expenses, some consolidated subsidiaries adopt the simplified method where the projected benefit obligation is an estimated amount of retirement benefits, assuming that all employees terminate their services on the balance sheet date for their own convenience.

(5) Foreign currency translation

Receivables and payables in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, and the resulting translation gain or loss is charged or credited to income.

Assets and liabilities of the foreign consolidated subsidiaries are translated at the same exchange rates. Revenue and expense accounts of the foreign consolidated subsidiaries are translated at periodical average rates during the fiscal year. The resulting translation gain or loss is included in “Translation adjustments” and “Non-controlling interests” under “Net assets.”

(6) Scope of funds in the consolidated statements of cash flows

Funds (cash and cash equivalents) in the consolidated statements of cash flows comprise cash on hand, bank deposits available for withdrawal on demand and readily available short-term investments with maturities of three months or less, which are exposed to minor risk of fluctuation in value.

(7) Other important items concerning the preparation of consolidated financial statements

Consumption taxes and others

Consumption taxes are excluded from the transaction accounts.

(New Accounting Pronouncements)

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29 revised on March 31, 2020)

“Implementation Guidance on Accounting Standard for Revenue Recognition” (ASBJ Guidance No. 30 revised on March 31, 2020)

(1) Outline

The standards, etc. listed above are comprehensive accounting standards for revenue recognition. Revenue is to be recognized by applying the five steps below.

Step 1: Identify the contract(s) with a customer

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

Step 4: Allocate the transaction price to the performance obligations in the contract

Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Planned date of application

The Company plans to apply the above standards, etc. from the beginning of the year ending December 31, 2022.

(3) Effect of the application of the above standards, etc.

The Company is currently assessing the effects at the time of preparation of these consolidated financial statements.

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

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

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

“Implementation Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No. 19 revised on March 31, 2020)

(1) Outline

In order to improve comparability with provisions in international accounting standards, “Accounting Standard for Fair Value Measurement” and “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter, “Accounting Standards for Fair Value Measurement, etc.”) were developed, and guidance, etc. regarding the method for measuring fair values were stipulated. Accounting Standards for Fair Value Measurement, etc. will be applied to the fair values of the following items.

Financial instruments set forth in “Accounting Standard for Financial Instruments”

In addition, “Implementation Guidance on Disclosures about Fair Value of Financial Instruments” was revised, and items of notes such as the breakdown by the fair value level of financial instruments were stipulated.

(2) Planned date of application

The Company plans to apply the above standards, etc. from the beginning of the year ending December 31, 2022.

(3) Effect of the application of the above standards, etc.

The Company is currently assessing the effects at the time of preparation of these consolidated financial statements.

“Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections” (ASBJ Statement No. 24 revised on March 31, 2020)

(1) Outline

The objective of this accounting standard is to provide an overview of the principles and procedures for the adopted accounting treatment when no clear relevant accounting standards, etc. are established.

(2) Planned date of application

The Company plans to apply the above standard from the end of the year ending December 31, 2021.

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

(1) Outline

The objective of this accounting standard is to disclose information that deepens the understanding of users of the financial statements regarding the contents of accounting estimates that pose a risk of a significant impact on the financial statements of the following fiscal year, among the amounts determined by the accounting estimates on the financial statements of the current fiscal year.

(2) Planned date of application

The Company plans to apply the above standard from the end of the year ending December 31, 2021.

(Additional Information)

Accounting estimates pertaining to the impact of the spread of novel coronavirus disease (COVID-19)

Although it is uncertain and unpredictable when COVID-19 is brought under control, the Company has made accounting estimates such as impairment of non-current assets and collectability of deferred tax assets, based on an assumption that the demand declined due to the spread of COVID-19 will recover gradually from 2021 onward.

(Notes to Consolidated Balance Sheets)

*1. Components of inventories:

(Millions of yen)

December 31,	2019	2020
Merchandise and finished products (including semi-finished products)	12,756	11,796
Work in process	624	506
Raw materials and supplies	4,779	4,790
Total	18,161	17,094

*2. Investments in unconsolidated subsidiaries and affiliates were as follows:

(Millions of yen)

December 31,	2019	2020
Investment securities (stocks)	1,613	1,646
Other (investments and other assets)	—	9

*3. Assets pledged as collateral:

December 31, 2019

Assets pledged as collateral		
Classification	Book value (Millions of yen)	Type of security interests
Buildings and structures	6,859	Plant foundation
Machinery, equipment and other	9,828	ditto
Tools, furniture and fixtures	1,022	ditto
Land	4,444	ditto
Total	22,154	

(Note) The assets described above are pledged as collateral, but there are no corresponding secured obligations.

December 31, 2020

Assets pledged as collateral		
Classification	Book value (Millions of yen)	Type of security interests
Buildings and structures	7,792	Plant foundation
Machinery, equipment and other	11,605	ditto
Tools, furniture and fixtures	1,338	ditto
Land	4,448	ditto
Total	25,186	

(Note) The assets described above are pledged as collateral, but there are no corresponding secured obligations.

*4. Accumulated depreciation of property, plant and equipment:

(Millions of yen)

December 31,	2019	2020
	194,552	200,179

*5. Notes matured at the balance sheet date and cash settlement payable as of the balance sheet date (method of cash settlement payable at due date with the same terms as notes) are treated as if they were settled on the maturity date. Because the balance sheet date of the current fiscal year fell on a holiday for financial institutions, the notes matured and cash settlement payable at the balance sheet date were excluded from the balance as of the end of the current fiscal year.

(Millions of yen)

December 31,	2019	2020
Notes and accounts receivable	4,283	3,765
Notes and accounts payable	1,610	1,233
Other (Current liabilities)	869	1,389

6. Contingent liabilities and secured liabilities:

(Millions of yen)

December 31,		2019	2020
Employees	Guarantees against loans from financial institutions	201	168
Hokuriku Liquid Oxygen Co., Ltd.	ditto	28	20
Total		230	188

(Notes to Consolidated Statements of Income)

*1. Inventories as at the fiscal year-end represent the book value written-down due to a decrease in profitability. The following losses on devaluation of inventories were included in cost of sales (the amount stated is the amount after offset by reversal):

Years ended December 31,	2019	2020
		(Millions of yen)
	47	114

*2. Major items of selling expenses:

Years ended December 31,	2019	2020
		(Millions of yen)
Transportation expenses	8,561	8,060
Salaries	1,973	2,003
Bonuses	822	752
Retirement benefit expenses	134	138
Depreciation and amortization	144	153

*3. Major items of general and administrative expenses:

Years ended December 31,	2019	2020
		(Millions of yen)
Salaries	2,576	2,574
Bonuses	1,201	1,064
Retirement benefit expenses	230	220
Depreciation and amortization	901	1,071

*4. Research and development cost included in general and administrative expenses and manufacturing cost:

Years ended December 31,	2019	2020
		(Millions of yen)
	3,731	4,037

*5. Components of gain on sales of non-current assets:

Years ended December 31,	2019	2020
		(Millions of yen)
Land, etc.	7	—

*6. Components of loss on disposal of non-current assets:

Years ended December 31,	2019	2020
		(Millions of yen)
Machinery, equipment and other	36	41
Disposal costs	44	366
Buildings and structures, etc.	18	26

*7. Impairment loss:

Year ended December 31, 2019

The Company and its consolidated subsidiaries have recognized impairment loss on the following class of assets:

Location	Major use	Category	Impairment loss (Millions of yen)
Singapore	Facilities for manufacturing acrylate esters, etc.	Leased assets	410

(Outline and grouping method)

The Company and its consolidated subsidiaries have grouped business-use assets according to the minimum independent cash-flow-generating unit.

The Company wrote down the book values of facilities for manufacturing acrylate esters, etc. that experienced drops in profitability to their respective recoverable amounts. Accordingly, ¥410 million of impairment loss was recognized under extraordinary losses in the statement of income.

(Components of impairment loss)

The impairment loss was ¥410 million for leased assets.

(Calculation of recoverable amounts, etc.)

The recoverable amounts applicable to assets for which impairment losses were recognized for the corresponding year ended December 31, 2019 were measured using the value in use, which was calculated by discounting future cash flows at 11.75%.

Year ended December 31, 2020

The Company and its consolidated subsidiaries have recognized impairment loss on the following class of assets:

Location	Major use	Category	Impairment loss (Millions of yen)
Singapore	Facilities for manufacturing acrylate esters, etc.	Leased assets, etc.	183

(Outline and grouping method)

The Company and its consolidated subsidiaries have grouped business-use assets according to the minimum independent cash-flow-generating unit.

The Company wrote down the book values of facilities for manufacturing acrylate esters, etc. that experienced drops in profitability to their respective recoverable amounts. Accordingly, ¥183 million of impairment loss was recognized under extraordinary losses in the statement of income.

(Components of impairment loss)

The impairment loss was ¥50 million for machinery, ¥1 million for tools and furniture, ¥24 million for software and ¥107 million for leased assets.

(Calculation of recoverable amounts, etc.)

The recoverable amounts applicable to assets for which impairment losses were recognized for the corresponding year ended December 31, 2020 were measured using the value in use, which was assessed as zero as future cash flows were negative.

(Notes to Consolidated Statements of Comprehensive Income)

*1. Reclassification adjustment and tax effect of other comprehensive income:

Years ended December 31,	2019	2020
	(Millions of yen)	
Unrealized holding gain on available-for-sale securities		
Amount arising during the fiscal year	1,695	(1,314)
Reclassification adjustment	(553)	(253)
Amount before tax effect	1,142	(1,568)
Tax effect	(468)	491
Unrealized holding gain on available-for-sale securities	673	(1,076)
Translation adjustments		
Amount arising during the fiscal year	(43)	(285)
Amount before tax effect	(43)	(285)
Tax effect	—	—
Translation adjustments	(43)	(285)
Remeasurements of defined benefit plans, net of tax		
Amount arising during the fiscal year	256	124
Reclassification adjustment	84	57
Amount before tax effect	340	182
Tax effect	(103)	(55)
Remeasurements of defined benefit plans, net of tax	237	126
Total other comprehensive income	867	(1,236)

(Notes to Consolidated Statements of Changes in Net Assets)

Year ended December 31, 2019

1. Matters related to the type and total number of issued shares and the type and total number of shares of treasury stock:

(Thousands of shares)

Type of shares	Number of shares at beginning of the year	Increase in the number of shares in the year	Decrease in the number of shares in the year	Number of shares at end of the year
Issued shares				
Common stock	131,996	—	—	131,996
Total	131,996	—	—	131,996
Treasury stock				
Common stock (Notes 1, 2)	366	5	0	371
Total	366	5	0	371

(Notes) 1. The increase in the number of treasury stock (common stock) is due to purchase of less-than-one-unit shares.

2. The decrease in the number of treasury stock (common stock) is due to sales of less-than-one-unit shares.

2. Matters related to dividends

(1) Amount of dividends paid

Resolution	Type of shares	Gross amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 28, 2019 106th Annual Shareholders' Meeting	Common stock	1,842	14.00	December 31, 2018	March 29, 2019
July 31, 2019 Board of Directors	Common stock	1,974	15.00	June 30, 2019	September 5, 2019

(Note) Dividend per share of ¥15.00 pursuant to the resolution of the Board of Directors on July 31, 2019 includes a commemorative dividend of ¥1.00 for the 75th anniversary of the Company's foundation.

(2) Dividends whose record date was in the year ended December 31, 2019 but whose effective date is in the year ending December 31, 2020

Resolution	Type of shares	Gross amount (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
March 27, 2020 107th Annual Shareholders' Meeting	Common stock	1,974	Retained earnings	15.00	December 31, 2019	March 30, 2020

(Note) Dividend per share of ¥15.00 includes a commemorative dividend of ¥1.00 for the 75th anniversary of the Company's foundation.

Year ended December 31, 2020

1. Matters related to the type and total number of issued shares and the type and total number of shares of treasury stock:

(Thousands of shares)

Type of shares	Number of shares at beginning of the year	Increase in the number of shares in the year	Decrease in the number of shares in the year	Number of shares at end of the year
Issued shares				
Common stock (Note 1)	131,996	—	3,696	128,300
Total	131,996	—	3,696	128,300
Treasury stock				
Common stock (Notes 2, 3)	371	3,603	3,779	196
Total	371	3,603	3,779	196

(Notes) 1. The decrease in the number of issued shares (common stock) is due to cancellation of treasury stock.

2. The increase in the number of treasury stock (common stock) consists of the increase of 3,600 thousand shares due to treasury stock acquisition and the increase of 3 thousand shares due to purchase of less-than-one-unit shares.

3. The decrease in the number of treasury stock (common stock) consists of the decrease of 3,696 thousand shares due to cancellation of treasury stock, the decrease of 82 thousand shares due to disposal of treasury stock as the restricted share-based remuneration and the decrease of 0 thousand shares due to sales of less-than-one-unit shares.

2. Matters related to dividends

(1) Amount of dividends paid

Resolution	Type of shares	Gross amount (Millions of yen)	Dividend per share (Yen)	Record date	Effective date
March 27, 2020 107th Annual Shareholders' Meeting	Common stock	1,974	15.00	December 31, 2019	March 30, 2020
July 31, 2020 Board of Directors	Common stock	1,959	15.00	June 30, 2020	September 4, 2020

(Note) Dividend per share of ¥15.00 pursuant to the resolution of the 107th Annual Shareholders' Meeting on March 27, 2020 includes a commemorative dividend of ¥1.00 for the 75th anniversary of the Company's foundation.

(2) Dividends whose record date was in the year ended December 31, 2020 but whose effective date is in the year ending December 31, 2021

Resolution	Type of shares	Gross amount (Millions of yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
March 30, 2021 108th Annual Shareholders' Meeting	Common stock	1,921	Retained earnings	15.00	December 31, 2020	March 31, 2021

(Notes to Consolidated Statements of Cash Flows)

*1. Reconciliation of the balance of cash and cash equivalents in the consolidated statement of cash flows to cash and deposits included in the consolidated balance sheet:

Years ended December 31,	2019	2020
	(Millions of yen)	
Cash and deposits	32,989	48,564
Securities	44,000	25,000
Time deposits with terms in excess of 3 months	(15,875)	(25,763)
Negotiable certificate of deposit with terms in excess of 3 months	(18,000)	(4,000)
Cash and cash equivalents	43,113	43,800

(Lease Transactions)

1. Finance leases (lessee)

Finance lease transactions that do not transfer ownership

1) Leased assets

Property, plant and equipment

Consists of buildings and structures, machinery, equipment and other, and tools, furniture and fixtures

2) Depreciation of leased assets

As described in "4. Accounting policies (2) Depreciation and amortization of major depreciable and amortizable assets."

2. Operating leases

Future minimum lease payments under noncancelable operating leases:

December 31,	2019	2020
	(Millions of yen)	
Due within one year	14	14
Due after one year	—	—
Total	14	14

(Impairment loss)

An impairment loss which was allocated to leased assets was ¥410 million for the year ended December 31, 2019, and ¥107 million for the year ended December 31, 2020.

(Financial Instruments)

1. Matters related to the status of financial instruments

(1) Policies on financial instruments
When managing surplus funds, the Group limits the application of such funds to highly secure financial assets, mainly short-term bank deposits, and it procures funds mainly through bank borrowings. Derivative transactions are used to hedge interest fluctuation risk present in borrowings, but are not used for speculative or trading purposes.

(2) Description of financial instruments and associated risks
Notes and accounts receivable, which represent trade receivables, are exposed to client-based credit risk. Furthermore, foreign currency denominated trade receivables are also subject to exchange rate fluctuation risks. In order to counter such risk, foreign currency borrowings are used when necessary as a means of hedging the net position of foreign currency denominated trade payables. Securities and investment securities are primarily negotiable certificate of deposits and shares related to businesses, and are thus exposed to risk stemming from fluctuations in market value.
Notes and accounts payable, which represent trade payables, are due within one year. A portion of these are foreign currency denominated items related to payment for raw material imports, which are subject to exchange rate fluctuation risk. These are constantly maintained within the balance of receivables denominated in the same foreign currencies. Borrowings are used to procure funds necessary for operational transactions and capital expenditures. A portion of these borrowings bearing variable interest rates are exposed to interest rate fluctuation risk. Derivative transactions (interest rate swap transactions) are used as when necessary a means of hedging.

(3) Risk management systems related to financial instruments

1) Management of credit risk (risk associated with non-performance of a contract by a business partner etc.)
The departments in charge of Company operations regularly monitor the trade receivable status of all business partners in accordance with the Regulations on Selling in order to identify business partner-based credit risk associated with the deterioration of financial circumstances or other causes at an early stage and reduce it. In case of the consolidated subsidiaries, their divisions or accounting departments also manage the financial and credit status of their business partners pursuant to their own regulations.
Derivative transactions are entered into only with highly rated financial institutions.
The maximum credit risk value as of the date of closing of consolidated accounts for the current term is expressed by the value of financial assets in the consolidated balance sheet which are subject to credit risk.

2) Management of market risk (risk associated with exchange rate and interest rate fluctuations)
When necessary, the Company uses borrowings denominated in foreign currencies to hedge its foreign currency denominated trade receivables and trade payables. Interest rate swaps are used when necessary to reduce risk associated with fluctuations in interest expenses related to borrowings.
The Company regularly confirms the fair value of securities and investment securities and the financial condition of the issuers (its business partners) and continually reviews its shareholdings with a view to maintaining and strengthening comprehensive relations with its business partners and in consideration of the economic rationality of holding their shares.
Derivative transactions are executed and managed in accordance with internal regulations that stipulate transaction authority.

3) Management of liquidity risk associated with procuring funds (the risk of being unable to execute a payment on the due date)
The Company and its consolidated subsidiaries have formulated cash flow management plans and manage liquidity risk by, for example, keeping a certain amount of cash reserves on hand.

(4) Supplementary information regarding the fair value of financial instruments
The fair value of financial instruments consists of their market price-based value, and, if a market price is not available, their logically calculated value. Variable factors are incorporated into the calculations of the fair value, and different fair values are possible depending on the differing assumptions used.

2. Fair value of financial instruments
The fair value and carrying value of financial instruments and the difference between both values are shown below.
Financial instruments whose fair value is extremely difficult to determine, are not included in the table below. (Please refer to Note 2.)

(Millions of yen)

December 31, 2019	Carrying value	Fair value	Difference
(1) Cash and deposits	32,989	32,989	—
(2) Notes and accounts receivable	42,534	42,534	—
(3) Securities and investment securities:			
Available-for-sale securities	70,327	70,327	—
Total assets	145,851	145,851	—
(1) Notes and accounts payable	14,413	14,413	—
(2) Short-term bank loans	2,503	2,503	—
(3) Long-term debt	9,031	9,105	74
Total liabilities	25,947	26,022	74

(Millions of yen)

December 31, 2020	Carrying value	Fair value	Difference
(1) Cash and deposits	48,564	48,564	—
(2) Notes and accounts receivable	39,757	39,757	—
(3) Securities and investment securities:			
Available-for-sale securities	49,297	49,297	—
Total assets	137,618	137,618	—
(1) Notes and accounts payable	12,130	12,130	—
(2) Short-term bank loans	6,903	6,903	—
(3) Long-term debt	4,473	4,512	39
Total liabilities	23,506	23,546	39

(Note 1)
Valuation method of financial instruments and matters related to securities

Assets

(1) Cash and cash equivalents, and (2) Notes and accounts receivable
As all of these are settled within a short span of time, the fair value is virtually identical to the carrying value. Therefore, the carrying value is used.

(3) Securities and investment securities
In the case of the fair value of securities and investment securities, shares are stated at the exchange-listed price and securities are stated at the exchange-listed price or the price quoted by the correspondent financial institution. In the case of those available-for-sale securities which are settled within a short span of time, the fair value is virtually identical to the carrying value. Therefore, the carrying value is used. With regard to notes to securities by purpose of holding, please refer to the note entitled “Securities.”

Liabilities

(1) Notes and accounts payable, and (2) Short-term bank loans
As all of these are settled within a short span of time, the fair value is virtually identical to the carrying value. Therefore, the carrying value is used.

(3) Long-term debt
The fair value of long-term debt is calculated as the present value by discounting the total principal and interest on the borrowings by the interest rate which would be assumed if new, similar borrowings were made.

(Note 2)
Financial instruments whose fair value is extremely difficult to determine:

(Millions of yen)

December 31,	2019	2020
Investments in subsidiaries and affiliates		
Investments in unconsolidated subsidiaries and affiliates	1,613	1,646
Available-for-sale securities:		
Unlisted securities	769	769
Investment limited partnership	—	130
Total	2,383	2,546

It is extremely difficult to determine the fair value of these items, as they do not have market prices and future cash flow cannot be estimated. Therefore, they are not included in “Assets: (3) Securities and investment securities.”

(Note 3)
The redemption schedule for monetary claims, held-to-maturity securities and available-for-sale securities with maturities subsequent to the consolidated balance sheet date:

(Millions of yen)

December 31, 2019	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
Cash equivalents	32,984	—	—	—
Notes and accounts receivable	42,534	—	—	—
Securities and investment securities:				
Available-for-sale securities with maturities (negotiable certificate of deposit)	44,000	—	—	—
Total	119,518	—	—	—

December 31, 2020	1 year or less	Over 1 year to 5 years	Over 5 years to 10 years	Over 10 years
				(Millions of yen)
Cash equivalents	48,558	—	—	—
Notes and accounts receivable	39,757	—	—	—
Securities and investment securities:				
Available-for-sale securities with maturities (negotiable certificate of deposit)	25,000	—	—	—
Total	113,316	—	—	—

(Note 4)
The repayment schedule for long-term debt, lease obligations, and other interest-bearing debt subsequent to the consolidated balance sheet date:

(Millions of yen)

December 31, 2019	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Short-term bank loans	2,345	—	—	—	—	—
Long-term debt	158	4,558	143	140	140	4,050
Lease obligations	185	126	47	32	20	24
Total	2,688	4,684	190	172	160	4,074

(Millions of yen)

December 31, 2020	1 year or less	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years	Over 5 years
Short-term bank loans	2,345	—	—	—	—	—
Long-term debt	4,558	143	140	140	140	3,910
Lease obligations	177	122	47	29	14	13
Total	7,080	265	187	169	154	3,923

(Securities)
1. Marketable securities classified as available-for-sale securities:

(Millions of yen)

December 31, 2019	Type	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost	(1) Stock	24,333	10,912	13,420
Securities whose acquisition cost exceeds their carrying value	(1) Stock	1,994	2,465	(470)
	(2) Other	44,000	44,000	—
	Subtotal	45,994	46,465	(470)
Total		70,327	57,378	12,949

(Millions of yen)

December 31, 2020	Type	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost	(1) Stock	19,354	7,022	12,331
Securities whose acquisition cost exceeds their carrying value	(1) Stock	4,942	6,326	(1,383)
	(2) Other	25,000	25,000	—
	Subtotal	29,942	31,326	(1,383)
Total		49,297	38,349	10,947

2. Marketable securities classified as available-for-sale securities sold during the fiscal year ended:

December 31, 2019 (Millions of yen)

Classification	Sales amount	Total gain on sales	Total loss on sales
Stock	856	553	—

December 31, 2020 (Millions of yen)

Classification	Sales amount	Total gain on sales	Total loss on sales
Stock	293	253	—

3. Other securities for which impairment loss was recognized:
An impairment loss of investment securities in an amount of ¥433 million (marketable securities classified as available-for-sale securities of ¥433 million) was recognized for the current fiscal year.
In the accounting for impairment, an impairment loss is recognized for all securities of which the fair values as of the consolidated balance sheet date decline more than 50% from the acquisition cost, and at an amount deemed necessary for securities of which the fair values as of the same date decline between 30% and 50% in consideration of recoverability and other factors.

(Retirement Benefit Plans)

1. Outline of adopted retirement benefit plans for employees
   The Company and its consolidated subsidiaries adopt a defined benefit plan and a defined contribution plan, either funded or unfunded, to provide for retirement benefits for employees.
   Under defined benefit corporate pension plans (all the plans are funded), a lump-sum or annuity is paid based on accumulated points according to a qualification grade.
   Under defined contribution pension plans, a premium calculated by the qualification grade is expensed when contributed.
   Under retirement lump-sum payment plans (consisting of funded plans and unfunded plans), salaries and lump-sum payments based on length of service are paid as retirement benefits.
   In addition, under the retirement lump-sum payment plans adopted by some of the consolidated subsidiaries, net defined benefit liability and retirement benefit expenses are calculated in accordance with the simplified plan.

2. Defined benefit plan

(1) Reconciliation of opening and closing balance of retirement benefit obligation (excluding plans using the simplified method)

(Millions of yen)

Years ended December 31,	2019	2020
Balance of retirement benefit obligation at beginning of year	11,370	11,648
Service cost	547	555
Actuarial gain or loss	(68)	(16)
Retirement benefits paid	(428)	(575)
Prior service cost	227	—
Balance of retirement benefit obligation at end of year	11,648	11,611

(2) Reconciliation of opening and closing balance of plan assets (excluding plans using the simplified method)

(Millions of yen)

Years ended December 31,	2019	2020
Balance of plan assets at beginning of year	12,884	13,693
Expected return on plan assets	130	136
Actuarial gain or loss	415	107
Contribution from employer	690	690
Retirement benefits paid	(428)	(575)
Balance of plan assets at end of year	13,693	14,052

(3) Reconciliation of opening and closing balance of net defined benefit liability under the plans using the simplified method

(Millions of yen)

Years ended December 31,	2019	2020
Balance of net defined benefit liability at beginning of year	153	161
Retirement benefit expenses	23	16
Retirement benefits paid	(10)	(21)
Contribution to plan	(4)	(4)
Other	(0)	(0)
Balance of net defined benefit liability at end of year	161	151

(4) Reconciliation of the ending balance of retirement benefit obligations and plan assets and the net defined benefit liability and the net defined benefit asset included in the consolidated balance sheets

(Millions of yen)

December 31,	2019	2020
Funded retirement benefit obligations	11,862	11,810
Plan assets	(13,788)	(14,146)
	(1,926)	(2,336)
Unfunded projected benefit obligations	42	46
Net amount of relevant liabilities and assets on the consolidated balance sheets	(1,883)	(2,289)
Net defined benefit liability	161	151
Net defined benefit asset	(2,045)	(2,441)
Net amount of relevant liabilities and assets on the consolidated balance sheets	(1,883)	(2,289)

(Note) Includes the plans using the simplified method.

(5) Retirement benefit expenses and components thereof

(Millions of yen)

Years ended December 31,	2019	2020
Service cost	547	555
Expected return on plan assets	(130)	(136)
Amortization of actuarial gain or loss	111	79
Amortization of prior service cost	(27)	(21)
Retirement benefit expenses calculated using the simplified method	23	16
Retirement benefit expenses related to the defined benefit plan	524	493

(6) Remeasurements of defined benefit plans, net of tax

The components of items (before tax) reported under remeasurements of the defined benefit plans, net of tax were as follows:

(Millions of yen)

Years ended December 31,	2019	2020
Prior service cost	(254)	(21)
Actuarial gain or loss	595	203
Total	340	182

(7) Remeasurements of defined benefit plans

The components of items (before tax) reported under remeasurements of the defined benefit plans were as follows:

(Millions of yen)

December 31,	2019	2020
Unrecognized prior service cost	(216)	(194)
Unrecognized actuarial gain or loss	274	70
Total	57	(124)

(8) Matters regarding plan assets

1) Major components of the plan assets

The percentages of the major asset types accounting for the total plan assets were as follows:

December 31,	2019	2020
Bonds	39.8%	39.6%
Stocks	18.2	18.5
General accounts of life insurance companies	37.7	37.5
Other	4.3	4.4
Total	100.0	100.0

2) Method for setting the long-term rate of the expected return on plan assets

To determine the long-term rate of the expected return on plan assets, we take into account the current and projected distribution of plan assets and the current and anticipated long-term yield rates of the various assets that constitute the plan assets.

(9) Matters regarding the assumptions for actuarial calculations

Key assumptions for actuarial calculations (representing weighted averages)

Years ended December 31,	2019	2020
Discount rate	0.0%	0.0%
Long-term rate of the expected return on plan assets	1.0	1.0

3. Defined contribution plan

The amounts required to be contributed by the Company and consolidated subsidiaries are ¥304 million for the previous fiscal year and ¥310 million for the current fiscal year.

(Stock Options, etc.)

Not applicable.

(Tax Effect Accounting)

1. Significant components of deferred tax assets and liabilities:

(Millions of yen)

December 31,	2019	2020
Deferred tax assets		
Elimination of unrealized profit	1,418	1,398
Net operating loss carry forwards	690	792
Depreciation	520	541
Accrued costs of removing facilities	475	466
Impairment loss on property, plant and equipment	221	184
Loss on valuation of investment securities	299	179
Accrued enterprise tax	160	147
Valuation loss on inventories	87	107
Net defined benefit liability	49	45
Loss on valuation of golf club membership	42	42
Other	304	295
Gross deferred tax assets	4,270	4,201
Valuation allowance	(1,145)	(1,277)
Total deferred tax assets	3,124	2,923
Deferred tax liabilities		
Unrealized holding gain on available-for-sale securities	(3,953)	(3,462)
Reserve for reduction entry	(1,029)	(982)
Net defined benefit asset	(624)	(745)
Undistributed earnings of subsidiaries and affiliates	(192)	(230)
Securities returned from retirement benefit trust	(221)	(221)
Other	(34)	(23)
Total deferred tax liabilities	(6,055)	(5,664)
Net deferred tax assets (liability)	(2,931)	(2,740)

2. Major reasons for which the effective tax rates reflected in the consolidated statements of income differ from the statutory tax rates:

December 31,	2019	2020
Statutory tax rate	30.53%	30.53%
Effect of:		
Permanent difference – entertainment expenses	0.43	0.14
Permanent difference – dividend income	(0.58)	(0.47)
Inhabitants' per capita taxes	0.50	0.60
Equity in earnings of affiliates	(0.33)	(0.42)
Valuation allowance	0.51	1.70
Different tax rates applied to income of foreign consolidated subsidiaries	0.29	0.31
Tax deduction of experiment and research expenses	(1.80)	(2.23)
Other, net	0.77	1.59
Effective tax rates.	30.31	31.74

(Asset Retirement Obligations)

Not applicable.

(Rental properties, etc.)

Disclosure on rental properties, etc. is not required because rental properties, etc. are not significant in the Group.

(Segment Information, etc.)
[Segment Information]
1. Outline of Reportable Segments
(1) Methods for Determining Reportable Segments

The reportable segments of the Company and its consolidated subsidiaries are defined as operating segments for which discrete financial information is available and reviewed by the Board of Directors regularly in order to make decisions about resources to be allocated to individual segments and assess performance.

Group operating divisions are organized based on products and services and the operating divisions are responsible for comprehensive domestic and overseas comprehensive plans as to the products and services. The five reportable segments of the Company are “Commodity Chemicals,” “Polymer & Oligomer,” “Adhesive Material,” “Performance Chemicals,” and “Plastics” based on similarity of economic characteristics, and nature of products and services.

(2) Major products attributable to each reportable segment

Reportable segment	Major products
Commodity Chemicals	Caustic soda, caustic potash, sodium hypochlorite and other electrolytic products, sulfuric acid, industrial gases, acrylic acids, acrylate esters and other acrylic monomers
Polymer & Oligomer	Acrylic polymers, polymer flocculants, UV-Curable Resins and other acrylic oligomers, etc.
Adhesive Material	Instant glues, functional adhesives, etc.
Performance Chemicals	High purity inorganic chemicals, inorganic functional materials, etc.
Plastics	Piping equipment products, products for construction and civil engineering, nursing care products, elastomer compounds, etc.

2. Method of calculating net sales, income and loss, assets, liabilities and others

The accounting method applied to the reportable segments is the same as described in “Basis for Preparation of Consolidated Financial Statements.”

Segment income of the reportable segments is based on operating income.

Intersegment sales or transfer amounts are determined chiefly on the basis of market prices.

3. Information about the amounts of net sales, profit (loss), assets and other items for each reportable segment

(Millions of yen)

Year ended December 31, 2019	Reportable segments: Commodity Chemicals	Polymer & Oligomer	Adhesive Material	Performance Chemicals	Plastics	Total	Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
Sales										
Sales to third parties	65,667	29,112	11,174	8,148	27,079	141,183	3,772	144,955	—	144,955
Intersegment sales	3,465	1,265	83	55	33	4,903	1,987	6,890	(6,890)	—
Net sales	69,133	30,377	11,258	8,203	27,112	146,086	5,759	151,845	(6,890)	144,955
Segment income	5,442	3,526	1,356	2,116	1,233	13,676	132	13,808	(25)	13,782
Segment assets	59,365	30,449	12,892	10,902	43,594	157,205	1,476	158,682	88,528	247,211
Other items										
Depreciation	4,471	1,512	448	580	1,423	8,435	190	8,626	631	9,257
Investment in associates accounted for using equity method	682	—	—	—	—	682	—	682	—	682
Increase in tangible and intangible fixed assets	4,701	2,867	2,013	3,404	2,356	15,343	239	15,582	283	15,865

(Notes)
1. The Others segment includes business operations relative to research and development, transportation and trading firm business.
2. “Adjustments” were as follows:
   (1) The adjustments to segment income include intersegment eliminations.
   (2) The adjustments to segment assets include corporate assets of ¥116,016 million that are not allocated to any reportable segments, and intersegment eliminations.
   (3) The adjustments to depreciation include mainly corporate expenses that are not allocated to any reportable segments.
   (4) The adjustments to increase in tangible and intangible fixed assets include mainly capital investment in corporate assets that are not allocated to any reportable segments.
3. Segment income is reconciled with operating income on the consolidated statements of income.
4. Depreciation in the table above includes amortization of long-term prepaid expense.

(Millions of yen)

Year ended December 31, 2020	Reportable segments: Commodity Chemicals	Polymer & Oligomer	Adhesive Material	Performance Chemicals	Plastics	Total	Others (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
Sales										
Sales to third parties	58,495	26,944	10,054	8,980	25,285	129,759	3,633	133,392	—	133,392
Intersegment sales	3,157	1,283	77	76	28	4,623	1,473	6,096	(6,096)	—
Net sales	61,652	28,228	10,131	9,056	25,313	134,382	5,106	139,489	(6,096)	133,392
Segment income	4,550	3,141	781	2,690	1,188	12,352	(45)	12,306	29	12,336
Segment assets	55,666	30,264	14,163	12,461	43,490	156,047	1,454	157,502	84,330	241,832
Other items										
Depreciation	4,442	1,722	488	698	1,707	9,058	136	9,194	653	9,848
Investment in associates accounted for using equity method	715	—	9	—	—	725	—	725	—	725
Increase in tangible and intangible fixed assets	4,295	2,211	2,291	2,003	2,269	13,072	195	13,268	343	13,612

(Notes)
1. The Others segment includes business operations relative to research and development, transportation and trading firm business.
2. “Adjustments” were as follows:
   (1) The adjustments to segment income include intersegment eliminations.
   (2) The adjustments to segment assets include corporate assets of ¥111,761 million that are not allocated to any reportable segments, and intersegment eliminations.
   (3) The adjustments to depreciation include mainly corporate expenses that are not allocated to any reportable segments.
   (4) The adjustments to increase in tangible and intangible fixed assets include mainly capital investment in corporate assets that are not allocated to any reportable segments.
3. Segment income is reconciled with operating income on the consolidated statements of income.
4. Depreciation in the table above includes amortization of long-term prepaid expense.

[Related Information]

Year ended December 31, 2019
1. Information related to geographic region
(1) Net sales

(Millions of yen)

Japan	Asia	North America	Other	Total
122,326	16,392	3,201	3,034	144,955

(Note) Net sales are classified into countries and regions based on geographic location of the customer.

(2) Information related to property, plant and equipment
This information is not required to be disclosed because the amount of property, plant and equipment in Japan exceeded 90% of the amount on the consolidated balance sheet.

2. Information on major customer
This information is not required to be disclosed because net sales to any particular customer are less than 10% of the net sales on the consolidated statements of income.

Year ended December 31, 2020
1. Information related to geographic region
(1) Net sales

(Millions of yen)

Japan	Asia	North America	Other	Total
111,225	16,440	3,174	2,552	133,392

(Note) Net sales are classified into countries and regions based on geographic location of the customer.

(2) Information related to property, plant and equipment
This information is not required to be disclosed because the amount of property, plant and equipment in Japan exceeded 90% of the amount on the consolidated balance sheet.

2. Information on major customer
This information is not required to be disclosed because net sales to any particular customer are less than 10% of the net sales on the consolidated statements of income.

[Impairment loss on non-current assets by reportable segment]

Year ended December 31, 2019 (Millions of yen)

Commodity Chemicals	Polymer & Oligomer	Adhesive Material	Performance Chemicals	Plastics	Others	Adjustment	Total
410	—	—	—	—	—	—	410

Year ended December 31, 2020 (Millions of yen)

Commodity Chemicals	Polymer & Oligomer	Adhesive Material	Performance Chemicals	Plastics	Others	Adjustment	Total
183	—	—	—	—	—	—	183

[Balance of goodwill by reportable segment]
Not applicable.

[Gain on negative goodwill by reportable segment]
Not applicable.

[Related party information]
Not applicable.

(Per Share Information)

Years ended December 31,	2019	2020
		(Yen)
Net assets per share	1,472.09	1,505.69
Net income per share	78.91	62.43

(Notes)

1. Diluted net income per share is not disclosed because no potential shares exist.
2. The basis for calculation of "net income per share" is as follows:

Years ended December 31,	2019	2020
Net income per share		
Net income attributable to owners of parent (Millions of yen)	10,387	8,142
Amounts not belonging to shareholders of common stock (Millions of yen)	—	—
Net income attributable to owners of parent relating to common stock (Millions of yen)	10,387	8,142
Average number of common shares during the fiscal year (Thousands of shares)	131,627	130,412

3. The basis for calculation of "net assets per share" is as follows:

December 31,	2019	2020
Total amount of net assets (Millions of yen)	198,579	197,642
Amount deducted from the total amount of net assets (Millions of yen)	4,815	4,757
(including non-controlling interests)	(4,815)	(4,757)
Amount of net assets at the end of the fiscal year attributable to common stock (Millions of yen)	193,763	192,885
Number of common shares used for calculating net assets per share (Thousands of shares)	131,624	128,103

(Subsequent Events)
Absorption-type merger of Oita Chemical Co., Ltd.
At the Board of Directors meeting held on September 28, 2020, the Company resolved to merge Oita Chemical Co., Ltd., a wholly-owned subsidiary of the Company, into the Company. The Company concluded a merger agreement on the same date, and merged Oita Chemical Co., Ltd. into the Company with an effective date of January 1, 2021.

1. Purposes for merger
After its founding in 1983, Oita Chemical Co., Ltd. has exclusively engaged in the manufacturing of acrylic acids, etc. as a subsidiary in the Group's acrylic business. The Company has merged Oita Chemical Co., Ltd. into the Company for the purpose of further consolidating the management resources within the Group and increasing efficiency of the business operation management.

2. Date of merger
January 1, 2021

3. Type of merger
The merger was an absorption-type merger, in which the Company became a surviving company and Oita Chemical Co., Ltd. was dissolved.

4. Issuance and allotment of shares upon merger
The Company owns all the issued shares of Oita Chemical Co., Ltd. and therefore there are no issuance of new shares as a result of the merger or cash and other properties to be allotted as consideration for the merger.

5. Outline of accounting treatment
The merger will be accounted for as a common control transaction pursuant to "Accounting Standard for Business Combinations" (ASBJ Statement No. 21) and "Implementation Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10).

Treasury stock acquisition
At the Board of Directors meeting held on February 12, 2021, the Company resolved to acquire its treasury stock in accordance with provisions of Article 156 of the Companies Act, as applied by replacing terms pursuant to the provisions of Article 165, Paragraph 3 of the said Act.

1. Reasons for treasury stock acquisition
To strengthen returns to shareholders, improve capital efficiency, raise the corporate value and implement flexible capital policies.

2. Details of matters regarding the acquisition

(1) Type of stock to be acquired	Common stock of the Company
(2) Total number of shares that can be acquired	Up to 3,500,000 shares (2.73% of total number of shares issued [excluding treasury stock])
(3) Total acquisition cost	Up to ¥4,000 million
(4) Acquisition period	April 20, 2021 to December 31, 2021 (The repurchase begins after the decision is made on the allocation and granting of the restricted shares where shares of the Company’s common stock are issued or disposed of under the scheme of restricted share-based remuneration.)
(5) Acquisition method	Market purchase on the Tokyo Stock Exchange based on a discretionary investment agreement on the treasury stock acquisition

v) [Supplementary Financial Schedules]

[Schedule of bonds and debentures]
Not applicable.

[Schedule of borrowings, etc.]

Classification	Beginning balance (Millions of yen)	Ending balance (Millions of yen)	Average interest rate (%)	Due date of repayment
Short-term bank loans	2,345	2,345	0.487	—
Long-term debt scheduled to be repaid within one year	158	4,558	0.610	—
Lease obligations scheduled to be repaid within one year	185	177	—	—
Long-term debt (excluding debt scheduled to be repaid within one year)	9,031	4,473	0.667	From 2022 to 2027
Lease obligations (excluding obligations scheduled to be repaid within one year)	251	227	—	From 2022 to 2027
Other interest-bearing debt	—	—	—	—
Total	11,970	11,781	—	—

(Notes)
1. "Average interest rate" presents the weighted average interest rate against the term-end balance of borrowings.
2. "Average interest rate" for lease obligations is not required to be disclosed because lease obligations are stated in the consolidated balance sheets in the amount before deducting the amount equivalent to related interest expenses, which are included in the total lease payments.
3. The projected repayment amounts of long-term debt and lease obligations (excluding debt and obligations scheduled to be repaid within one year) within five years after the consolidated balance sheet date are as follows.

(Millions of yen)

	Over 1 year to 2 years	Over 2 years to 3 years	Over 3 years to 4 years	Over 4 years to 5 years
Long-term debt	143	140	140	140
Lease obligations	122	47	29	14

[Schedule of asset retirement obligations]
Not applicable.

(2) [Other]

Quarterly data for the current fiscal year ended December 31, 2020

Cumulative periods	First quarter (From January 1 to March 31, 2020)	Second quarter (From January 1 to June 30, 2020)	Third quarter (From January 1 to September 30, 2020)	Current fiscal year (From January 1 to December 31, 2020)
Net sales (Millions of yen)	34,251	65,775	97,488	133,392
Income before income taxes (Millions of yen)	2,679	5,605	8,242	12,256
Net income attributable to owners of parent (Millions of yen)	1,726	3,786	5,523	8,142
Net income per share (Yen)	13.12	28.82	42.17	62.43

Accounting period	First quarter (From January 1 to March 31, 2020)	Second quarter (From April 1 to June 30, 2020)	Third quarter (From July 1 to September 30, 2020)	Fourth quarter (From October 1 to December 31, 2020)
Net income per share (Yen)	13.12	15.70	13.35	20.32