

1 Consolidated Financial Statements

(1) Consolidated Financial Statements

1) Consolidated Balance Sheet as of March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Assets			
Current assets			
Cash and deposits	106,548	113,054	1,038,814
Notes and accounts receivable - trade	*7 96,915	92,742	852,170
Electronically recorded monetary claims - operating	*7 12,174	10,982	100,913
Merchandise and finished goods	41,557	42,667	392,053
Work in process	6,337	6,767	62,179
Raw materials and supplies	28,801	27,864	256,033
Other	7,380	4,945	45,437
Allowance for doubtful accounts	(62)	(2)	(21)
Total current assets	299,650	299,019	2,747,578
Non-current assets			
Property, plant and equipment			
Buildings and structures	*2 226,249	*2 227,571	2,091,069
Accumulated depreciation	(144,536)	(148,743)	(1,366,746)
Buildings and structures, net	*1 81,713	*1 78,828	724,323
Machinery, equipment and vehicles	*2 874,571	*2 887,255	8,152,673
Accumulated depreciation	(738,986)	(747,628)	(6,869,689)
Machinery, equipment and vehicles, net	*1 135,585	*1 139,627	1,282,984
Land	*1, *2 80,468	*1, *2 81,890	752,457
Construction in progress	29,750	49,900	458,517
Other	*2 22,453	*2 25,040	230,076
Accumulated depreciation	(12,263)	(13,161)	(120,932)
Other, net	10,190	11,879	109,144
Total property, plant and equipment	337,706	362,124	3,327,425
Intangible assets			
Goodwill	43,553	39,941	367,005
Other	11,685	16,936	155,613
Total intangible assets	55,238	56,877	522,618
Investments and other assets			
Investment securities	*3 32,861	*3 23,182	213,012
Long-term loans receivable	3,840	3,824	35,136
Deferred tax assets	5,420	8,126	74,665
Retirement benefit asset	—	845	7,763
Other	*3 11,930	*3 9,922	91,178
Allowance for doubtful accounts	(1,031)	(1,040)	(9,554)
Total investments and other assets	53,020	44,859	412,200
Total non-current assets	445,964	463,860	4,262,243
Deferred assets	252	181	1,662
Total assets	745,866	763,060	7,011,483

The accompanying notes are an integral part of these financial statements.

	Millions of Yen		Thousands of U.S. Dollars
	As of March 31, 2019	As of March 31, 2020	As of March 31, 2020
Liabilities			
Current liabilities			
Notes and accounts payable - trade	58,774	53,135	488,239
Short-term borrowings	19,222	15,453	141,988
Current portion of bonds with share acquisition rights	—	22,541	207,118
Current portion of long-term borrowings	*1 49,839	*1 53,724	493,651
Accounts payable - other	29,312	39,216	360,340
Current portion of long-term accounts payable - facilities	*1 811	*1 538	4,939
Income taxes payable	2,250	10,947	100,588
Provision for bonuses	4,893	5,217	47,934
Provision for bonuses for directors (and other officers)	98	129	1,188
Other	12,618	14,534	133,561
Total current liabilities	177,817	215,434	1,979,546
Non-current liabilities			
Bonds payable	60,300	60,300	554,075
Convertible bonds with share acquisition rights	23,745	—	—
Long-term borrowings	*1 250,755	*1 242,101	2,224,576
Long-term accounts payable - facilities	*1 1,094	*1 568	5,222
Retirement benefit liability	22,060	23,255	213,681
Provision for retirement benefits for directors (and other officers)	311	194	1,784
Provision for share-based remuneration	—	47	432
Provision for environmental measures	27	25	229
Provision for loss on business of subsidiaries and associates	68	32	295
Other	10,350	11,568	106,290
Total non-current liabilities	368,710	338,090	3,106,584
Total liabilities	546,527	553,524	5,086,130
Net assets			
Shareholders' equity			
Share capital	42,859	43,449	399,238
Capital surplus	42,968	44,095	405,176
Retained earnings	99,189	116,818	1,073,399
Treasury shares	(2,910)	(3,065)	(28,162)
Total shareholders' equity	182,106	201,297	1,849,651
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	9,051	2,799	25,722
Deferred gains or losses on hedges	(20)	10	89
Foreign currency translation adjustment	(6,089)	(5,443)	(50,017)
Remeasurements of defined benefit plans	554	470	4,323
Total accumulated other comprehensive income	3,496	(2,164)	(19,883)
Non-controlling interests	13,737	10,403	95,585
Total net assets	199,339	209,536	1,925,353
Total liabilities and net assets	745,866	763,060	7,011,483

The accompanying notes are an integral part of these financial statements.

2) Consolidated Statement of Income and Consolidated Statement of Comprehensive Income

Consolidated Statement of Income for the Fiscal Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	Fiscal Year ended March 31, 2019	Fiscal Year ended March 31, 2020	Fiscal Year ended March 31, 2020
Net sales	533,890	546,433	5,020,982
Cost of sales	*2, *5 417,513	*2, *5 406,127	3,731,760
Gross profit	116,377	140,306	1,289,222
Selling, general and administrative expenses	*1, *2 104,255	*1, *2 109,677	1,007,784
Operating profit	12,122	30,629	281,438
Non-operating income			
Interest income	195	166	1,524
Dividend income	578	592	5,436
Rental income from non-current assets	361	393	3,615
Insurance claim income	214	436	4,002
Subsidy income	568	411	3,775
Ship lease income	—	418	3,838
Other	1,417	1,523	14,001
Total non-operating income	3,333	3,939	36,191
Non-operating expenses			
Interest expenses	3,113	3,202	29,421
Foreign exchange losses	377	1,028	9,448
Other	2,123	2,226	20,450
Total non-operating expenses	5,613	6,456	59,319
Ordinary profit	9,842	28,112	258,310
Extraordinary income			
Gain on exchange from business combination	1,438	—	—
Gain on sales of investment securities	71	6,778	62,283
Other	891	790	7,263
Total extraordinary income	2,400	7,568	69,546
Extraordinary losses			
Loss on sales and retirement of non-current assets	*3 1,070	*3 1,499	13,774
Loss on disaster	998	463	4,251
Impairment loss	*4 3,019	*4 1,742	16,008
Other	185	725	6,666
Total extraordinary losses	5,272	4,429	40,699
Profit before income taxes	6,970	31,251	287,157
Income taxes - current	5,159	12,633	116,078
Refund of income taxes	(454)	(344)	(3,157)
Income taxes - deferred	(1,069)	(224)	(2,061)
Total income taxes	3,636	12,065	110,860
Profit	3,334	19,186	176,297
Loss attributable to non-controlling interests	(1,363)	(13)	(117)
Profit attributable to owners of parent	4,697	19,199	176,414

The accompanying notes are an integral part of these financial statements.

Consolidated Statement of Comprehensive Income for the Fiscal Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	Fiscal Year ended March 31, 2019	Fiscal Year ended March 31, 2020	Fiscal Year ended March 31, 2020
Profit	3,334	19,186	176,297
Other comprehensive income			
Valuation difference on available-for-sale securities	(855)	(6,341)	(58,269)
Deferred gains or losses on hedges	(20)	30	275
Foreign currency translation adjustment	(2,116)	685	6,294
Remeasurements of defined benefit plans, net of tax	1,240	(83)	(766)
Total other comprehensive income	* (1,751)	* (5,709)	(52,466)
Comprehensive income	1,583	13,477	123,831
Comprehensive income attributable to:			
Owners of parent	3,291	13,539	124,409
Non-controlling interests	(1,708)	(62)	(578)

The accompanying notes are an integral part of these financial statements.

3) Consolidated Statement of Changes in Net Assets for the Fiscal Year Ended March 31, 2020

Fiscal Year Ended March 31, 2019

(Millions of Yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	39,707	39,817	96,513	(2,909)	173,128
Changes of items during period					
Dividends			(1,545)		(1,545)
Conversion of convertible bonds with share acquisition rights	3,151	3,151			6,303
Profit attributable to owners of parent			4,697		4,697
Purchase of treasury shares				(1)	(1)
Disposal of treasury shares					—
Change in scope of consolidation			(476)		(476)
Capital increase of consolidated subsidiaries					—
Purchase of shares of consolidated subsidiaries					—
Net changes of items other than shareholders' equity					
Total changes of items during period	3,151	3,151	2,676	(1)	8,978
Balance at end of current period	42,859	42,968	99,189	(2,910)	182,106

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	9,888	—	(4,302)	(684)	4,902	15,035	193,065
Changes of items during period							
Dividends							(1,545)
Conversion of convertible bonds with share acquisition rights							6,303
Profit attributable to owners of parent							4,697
Purchase of treasury shares							(1)
Disposal of treasury shares							—
Change in scope of consolidation							(476)
Capital increase of consolidated subsidiaries							—
Purchase of shares of consolidated subsidiaries							—
Net changes of items other than shareholders' equity	(837)	(20)	(1,787)	1,238	(1,406)	(1,298)	(2,704)
Total changes of items during period	(837)	(20)	(1,787)	1,238	(1,406)	(1,298)	6,274
Balance at end of current period	9,051	(20)	(6,089)	554	3,496	13,737	199,339

Fiscal Year Ended March 31, 2020

(Millions of Yen)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	42,859	42,968	99,189	(2,910)	182,106
Changes of items during period					
Dividends			(1,570)		(1,570)
Conversion of convertible bonds with share acquisition rights	590	590			1,180
Profit attributable to owners of parent			19,199		19,199
Purchase of treasury shares				(419)	(419)
Disposal of treasury shares		154		264	418
Change in scope of consolidation					—
Capital increase of consolidated subsidiaries		(93)			(93)
Purchase of shares of consolidated subsidiaries		476			476
Net changes of items other than shareholders' equity					
Total changes of items during period	590	1,127	17,629	(155)	19,191
Balance at end of current period	43,449	44,095	116,818	(3,065)	201,297

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	9,051	(20)	(6,089)	554	3,496	13,737	199,339
Changes of items during period							
Dividends							(1,570)
Conversion of convertible bonds with share acquisition rights							1,180
Profit attributable to owners of parent							19,199
Purchase of treasury shares							(419)
Disposal of treasury shares							418
Change in scope of consolidation							—
Capital increase of consolidated subsidiaries							(93)
Purchase of shares of consolidated subsidiaries							476
Net changes of items other than shareholders' equity	(6,252)	30	646	(84)	(5,660)	(3,334)	(8,994)
Total changes of items during period	(6,252)	30	646	(84)	(5,660)	(3,334)	10,197
Balance at end of current period	2,799	10	(5,443)	470	(2,164)	10,403	209,536

Fiscal Year Ended March 31, 2020

(Thousands of U.S. Dollars)

	Shareholders' equity				
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	393,814	394,822	911,411	(26,741)	1,673,306
Changes of items during period					
Dividends			(14,426)		(14,426)
Conversion of convertible bonds with share acquisition rights	5,424	5,424			10,848
Profit attributable to owners of parent			176,414		176,414
Purchase of treasury shares				(3,854)	(3,854)
Disposal of treasury shares		1,410		2,433	3,843
Change in scope of consolidation					—
Capital increase of consolidated subsidiaries		(854)			(854)
Purchase of shares of consolidated subsidiaries		4,374			4,374
Net changes of items other than shareholders' equity					
Total changes of items during period	5,424	10,354	161,988	(1,421)	176,345
Balance at end of current period	399,238	405,176	1,073,399	(28,162)	1,849,651

	Accumulated other comprehensive income					Non-controlling interests	Total net assets
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of current period	83,160	(186)	(55,945)	5,093	32,122	126,224	1,831,652
Changes of items during period							
Dividends							(14,426)
Conversion of convertible bonds with share acquisition rights							10,848
Profit attributable to owners of parent							176,414
Purchase of treasury shares							(3,854)
Disposal of treasury shares							3,843
Change in scope of consolidation							—
Capital increase of consolidated subsidiaries							(854)
Purchase of shares of consolidated subsidiaries							4,374
Net changes of items other than shareholders' equity	(57,438)	275	5,928	(770)	(52,005)	(30,639)	(82,644)
Total changes of items during period	(57,438)	275	5,928	(770)	(52,005)	(30,639)	93,701
Balance at end of current period	25,722	89	(50,017)	4,323	(19,883)	95,585	1,925,353

4) Consolidated Statement of Cash Flows for the Fiscal Year Ended March 31, 2020

	Millions of Yen		Thousands of U.S. Dollars
	Fiscal Year ended March 31, 2019	Fiscal Year ended March 31, 2020	Fiscal Year ended March 31, 2020
Cash flows from operating activities			
Profit before income taxes	6,970	31,251	287,157
Depreciation	33,331	31,843	292,596
Impairment loss	3,019	1,742	16,008
Amortization of goodwill	3,583	3,559	32,707
Gain on exchange from business combination	(1,438)	—	—
Increase (decrease) in allowance for doubtful accounts	93	(51)	(470)
Loss (gain) on sales of investment securities	(44)	(6,778)	(62,280)
Increase (decrease) in retirement benefit liability	1,028	220	2,026
Interest and dividend income	(773)	(757)	(6,960)
Interest expenses	3,113	3,202	29,421
Foreign exchange losses (gains)	377	776	7,135
Subsidy income	(568)	(411)	(3,775)
Insurance claim income	(926)	(604)	(5,551)
Loss (gain) on sales of property, plant and equipment	13	23	215
Loss on retirement of property, plant and equipment	1,045	1,464	13,449
Decrease (increase) in notes and accounts receivable - trade	330	5,448	50,064
Decrease (increase) in inventories	(4,880)	3	30
Increase (decrease) in notes and accounts payable - trade	335	(5,653)	(51,946)
Increase (decrease) in other assets/liabilities	(19)	5,235	48,104
Increase (decrease) in accrued consumption taxes	(283)	2,193	20,148
Other, net	(1)	(57)	(542)
Subtotal	44,305	72,648	667,536
Interest and dividends received	1,072	940	8,640
Interest paid	(3,335)	(3,638)	(33,428)
Proceeds from subsidy income	970	918	8,432
Proceeds from insurance income	872	579	5,319
Income taxes paid	(4,726)	(4,134)	(37,984)
Income taxes refunded	1,129	700	6,432
Net cash provided by (used in) operating activities	40,287	68,013	624,947

	Millions of Yen		Thousands of U.S. Dollars
	Fiscal Year ended March 31, 2019	Fiscal Year ended March 31, 2020	Fiscal Year ended March 31, 2020
Cash flows from investing activities			
Net decrease (increase) in time deposits	3,333	(544)	(5,001)
Purchase of property, plant and equipment	(64,380)	(49,096)	(451,125)
Proceeds from sales of property, plant and equipment	2,434	514	4,720
Purchase of investment securities	(228)	(209)	(1,920)
Proceeds from sales of investment securities	324	8,142	74,814
Purchase of intangible assets	(3,560)	(6,723)	(61,772)
Loans receivable granted	(644)	(474)	(4,355)
Collection of loans receivable	575	474	4,360
Payments of leasehold deposits	(596)	(20)	(179)
Proceeds from exchange of subsidiary shares resulting in change in scope of consolidation	*2 1,581	—	—
Other, net	(949)	66	600
Net cash provided by (used in) investing activities	(62,110)	(47,870)	(439,858)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	(6,616)	(3,769)	(34,635)
Proceeds from long-term borrowings	105,000	45,110	414,500
Repayments of long-term borrowings	(50,646)	(49,879)	(458,320)
Proceeds from issuance of bonds	19,909	—	—
Proceeds from issuance of common shares assigned to non-controlling interests	410	—	—
Cash dividends paid	(1,545)	(1,570)	(14,426)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	—	(2,888)	(26,541)
Other, net	(614)	(1,054)	(9,676)
Net cash provided by (used in) financing activities	65,898	(14,050)	(129,098)
Effect of exchange rate change on cash and cash equivalents	(731)	(115)	(1,068)
Net increase (decrease) in cash and cash equivalents	43,344	5,978	54,923
Cash and cash equivalents at beginning of period	60,086	103,407	950,173
Increase (decrease) in cash and cash equivalents resulting from change in scope of consolidation	(23)	—	—
Cash and cash equivalents at end of period	*1 103,407	*1 109,385	1,005,096

The accompanying notes are an integral part of these financial statements.

[Notes to Consolidated Financial Statements]

(Basis of Presenting Consolidated Financial Statements)

The accompanying consolidated financial statements of Daio Paper Corporation (hereinafter referred to as “the Company”) have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Act of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (hereinafter referred to as “Japanese GAAP”), which are different in certain aspects as to application and disclosure requirements from International Financial Reporting Standards.

In preparing the accompanying consolidated financial statements, Japanese yen figures including the subtotal and total amounts less than one million yen have been rounded up or down to the nearest million yen. The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of readers outside Japan, using the prevailing exchange rate as of March 31, 2020, which was ¥108.83 to \$1.00 U.S. dollar figures including the subtotal and total amounts less than one thousand dollars have been rounded up or down to the nearest thousand dollars. The convenience translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

(Summary of Significant Accounting and Reporting Policies)

1. Scope of consolidation

(1) Number of consolidated subsidiaries

As of March 31, 2019: 32; as of March 31, 2020: 33

Names of the main consolidated subsidiaries:

Iwaki Daio Paper Corporation, Elleair Product Co., Ltd., Forestal Anchile Limitada, Elleair International (Thailand) Co., Ltd., Elleair International China (Nantong) Co., Ltd., PT. Elleair International Trading Indonesia, PT. Elleair International Manufacturing Indonesia

(Changes in the scope of consolidation or the scope of application of the equity method)

The Company’s scope of consolidation has changed as a result of the inclusion of Senmeisha Corporation effective from the fourth quarter of the fiscal year ended March 31, 2020 following the completion of business transfer.

(2) Names of the main unconsolidated subsidiaries

Main unconsolidated subsidiaries:

Nagoya Paper Tec Corporation

(Reasons for excluding from the scope of consolidation)

Subsidiaries, which are small in terms of their total assets, net sales, profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity) and other indicators, and do not have a significant effect on the consolidated financial statements, are excluded from the scope of consolidation.

2. Application of the equity method

(1) Number of associates accounted for using the equity method

There is no associate accounted for using the equity method as of March 31, 2020.

(2) Unconsolidated subsidiaries (such as Nagoya Paper Tec Corporation) and associates, which are small in terms of their profit or loss (amount corresponding to equity), retained earnings (amount corresponding to equity) and other indicators, and do not have a significant effect on the consolidated financial statements and are immaterial as a whole, are excluded from the scope of application of the equity method.

3. Fiscal years of consolidated subsidiaries

Consolidated subsidiaries whose closing date differs from the consolidated closing date are as follows:

Company name	Closing date
Forestal Anchile Limitada	December 31
Elleair International (Thailand) Co., Ltd.	December 31
Elleair International China (Nantong) Co., Ltd.	December 31
PT. Elleair International Trading Indonesia	December 31
PT. Elleair International Manufacturing Indonesia	December 31

For the purpose of preparing the consolidated financial statements, the Company used the financial statements of the subsidiaries above whose closing date differs from that of the Company. Adjustments to account for material transactions occurring between the actual closing dates and the consolidated closing date are recorded as necessary.

4. Accounting policies

(1) Valuation standard and methods for significant assets

Securities

Available-for-sale securities

Available-for-sale securities with quoted market price

Investments in available-for-sale securities are stated at fair value based on the quoted market price as of the end of the fiscal year. The valuation differences are accounted for as a separate component of net assets and the cost of securities sold is calculated by using the moving-average method.

Available-for-sale securities without quoted market price

Investments in securities without quoted market price are stated at cost using the moving-average method.

Derivatives

Derivative financial instruments are stated at fair value.

Inventories

Inventories are stated at cost, determined primarily by the moving-average method after recording any write-downs appropriate as a result of the decline in profitability.

(2) Depreciation and amortization methods for significant depreciable assets

Property, plant and equipment (excluding leased assets)

All the items of property, plant and equipment are depreciated using the straight-line method.

Intangible assets (excluding leased assets)

Intangible assets are amortized using the straight-line method.

Leased assets

Leased assets arising from finance lease transactions in which ownership of the leased assets is not transferred to the lessee are depreciated or amortized using the straight-line method over the lease term with no residual value.

Of those finance lease transactions in which ownership of the leased assets is not transferred to the lessee, lease transactions that commenced on or before March 31, 2008 are accounted for using the method applicable to ordinary rental transactions.

(3) Accounting standard for significant provisions

Allowance for doubtful accounts

For receivables from insolvent debtors who are undergoing bankruptcy or other collection proceedings or who are in the similar financial condition, an allowance for doubtful accounts is provided based on an evaluation of collectability of each debtor. For other receivables, an allowance is provided based on the Company's historical rate of uncollectible receivable amount.

Provision for bonuses

To provide for payment of bonuses to employees, a provision for bonuses is recorded in the amounts that are estimated to be paid as at the end of each fiscal year.

Provision for bonuses for directors (and other officers)

To provide for payment of bonuses to directors and audit & supervisory board members, a provision for bonuses for directors (and other officers) is recorded in the amounts that are estimated to be paid as at the end of each fiscal year.

Provision for retirement benefits for directors (and other officers)

To provide for payment of retirement benefits to directors and audit & supervisory board members, a provision for retirement benefits for directors (and other officers) is recorded in the amounts that are required by the internal rule to be paid at the end of each fiscal year.

Provision for share-based remuneration

To provide for delivery of shares of the Company to directors and executive officers, a provision for share-based remuneration is recorded based on the estimated amount of share-based remuneration obligation at the end of each fiscal year.

Provision for environmental measures

To provide for payments related to treatment of the polychlorinated biphenyl (PCB) waste, a provision for environmental measures is recorded in the amounts that are estimated to be incurred for the treatment in the future.

Provision for loss on business of subsidiaries and associates

To provide for operating losses expected to be suffered by subsidiaries and associates in the future, a provision for loss on business of subsidiaries and associates is recorded in the amounts that the Company is expected to incur in view of the financial position and other conditions of the subsidiaries and associates.

(4) Accounting methods for retirement benefits

1) Method of allocating projected retirement benefit obligation

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

2) Method for amortizing actuarial gain or loss and past service cost

Actuarial gain or loss is amortized from the following fiscal year of the fiscal year in which it is incurred using the straight-line method over a period (mainly five years) which is within the employees' average remaining years of service at the time of incurrence.

Past service cost is amortized using the straight-line method over a period (mainly five years) which is within the employees' average remaining years of service at the time of incurrence.

3) Application of simplified method at small scale companies, etc.

Some of the consolidated subsidiaries apply the simplified method by which they use the amount of retirement benefit which would be required to be paid for voluntary retirement at the end of the fiscal year as retirement benefit obligation in order to calculate the retirement benefit liability and retirement benefit expenses.

(5) Standard of translating significant assets or liabilities in foreign currencies into Japanese yen

Receivables and payables denominated in foreign currencies are translated into yen at the spot exchange rates in effect at the balance sheet date, and differences arising from the translation are recognized in profit or loss. Assets, liabilities, revenues and expenses of the consolidated foreign subsidiaries are translated into yen at the spot exchange rates in effect at the balance sheet date. Differences arising from the translation are included in foreign currency translation adjustment and non-controlling interests in the net assets section.

(6) Significant hedge accounting method

Hedge accounting method

The Company applies the deferred hedge accounting method. With regard to forward exchange contracts, when hedges against foreign exchange rate fluctuation risk meet certain conditions to qualify for the designated hedge accounting treatment (“*furiate shori*”), the Company adopts such treatment, by which foreign currency transactions hedged by forward exchange contracts are reported at the forward rate and the resulting differences between the spot rate and the forward rate are amortized over the life of each contract.

When an interest rate swap contract meets certain conditions to qualify for the exceptional hedge accounting treatment (“*tokurei shori*”), the Company adopts such treatment, by which the net amount to be paid or received under the contract is added to or deducted from the interest on the hedged items.

Hedging instruments and hedged items

1) Hedging instruments: Forward exchange contracts

Hedged items: Foreign currency receivables resulting from export of finished goods and foreign currency payables resulting from import of raw materials

2) Hedging instruments: Interest rate swap contracts

Hedged items: Borrowings

3) Hedging instruments: Commodity swap contracts

Hedged items: Raw materials

Hedging policy

Based primarily on the Derivatives Transaction Control Regulations, which is the Group’s internal rule, the Group is party to the derivative transactions in order to hedge against the risks of fluctuations in foreign exchange rates, raw material prices, and interest rates.

Method for evaluation of hedge effectiveness

The evaluation of hedge effectiveness is performed by comparing the changes in market prices or changes in cumulative cash flows of hedged items those of with hedging instruments and using them as a basis.

The evaluation of hedge effectiveness is not performed for the interest rate swap transactions subject to the exceptional hedge accounting treatment (“*tokurei shori*”) and for the forward exchange contracts subject to the designated hedge accounting treatment (“*furiate shori*”).

(7) Amortization method and period for goodwill

Goodwill is amortized using the straight-line method over a period not exceeding 20 years, which is determined on a deal-by-deal basis.

(8) Scope of cash and cash equivalents in consolidated statement of cash flows

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition that are readily convertible into cash and are exposed to immaterial risk of changes in value.

(9) Other

1) Accounting for consumption taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

2) Adoption of consolidated tax return

The Company and its certain consolidated subsidiaries have adopted the consolidated tax return system, with the Company being a parent for the purpose of the system.

(Application of tax effect accounting for the transition from the consolidated tax return system to the group tax sharing system)

With respect to items subjected to the review under the non-consolidated tax return system conducted in line with the transition from the consolidated tax return system to the group tax sharing system, which was created under the “Act on Partial Revision of the Income Tax Act, etc.” (Act No. 8 of 2020), the Company and certain of its domestic consolidated subsidiaries have not applied the provisions of paragraph 44 of the “Implementation Guidance on Tax Effect Accounting” (ASBJ Guidance No. 28 issued on February 16, 2018) in accordance with the treatment set out in paragraph 3 of the “Practical Solution on the Treatment of Tax Effect Accounting for the Transition from the Consolidated Taxation System to the Group Tax Sharing System” (PITF No. 39 issued on March 31, 2020). Accordingly, the amounts of deferred tax assets and deferred tax liabilities have been determined based on the provisions of tax laws in effect before the revision.

(Accounting Standards That Have Not Yet Been Applied)

1. Accounting Standard for Revenue Recognition, etc.

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

(1) Summary

A comprehensive accounting standard for revenue recognition. Revenue is recognized by applying the following five steps.

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

Step 2: Identify the performance obligations in the contract

Step 3: Determine the transaction price

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

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

(2) Planned date of application

To be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of application of these accounting standards

The amount of the impact of the application on consolidated financial statements is currently under assessment.

2. Accounting Standards for Fair Value Measurement, etc.

- “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 Measurement of Inventories” (ASBJ Statement No. 9 issued on July 4, 2019)
- “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 issued on July 4, 2019)

(1) Summary

In order to improve comparability with provisions of internationally recognized accounting standards, the Accounting Standards Board of Japan (the “ASBJ”) has developed the “Accounting Standard for Fair Value Measurement” and the “Implementation Guidance on Accounting Standard for Fair Value Measurement” (hereinafter referred to as the “Fair Value Measurement Standards, etc.”) and established guidance and other rules on the method of fair value measurement. The Fair Value Measurement Standards, etc. will be applicable to the fair values of the following items:

- Financial instruments included in the “Accounting Standard for Financial Instruments”
- Inventories held for trading purposes included in the “Accounting Standard for Measurement of Inventories”

(2) Planned date of application

To be applied from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of application of these accounting standards

The amount of the impact of the application on consolidated financial statements is currently under assessment.

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

(1) Summary

The purpose of this accounting standard is to outline the accounting principles and procedures adopted, in cases where the provisions of relevant accounting standards, etc. are unclear.

(2) Planned date of application

To be applied from the end of the fiscal year ending March 31, 2021.

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

(1) Summary

The purpose of this accounting standard is to disclose information that will facilitate the understanding of users of financial statements, regarding items of accounting estimates recorded in the financial statements for the current fiscal year that have a risk of significantly impacting the financial statements for the following fiscal year.

(2) Planned date of application

To be applied from the end of the fiscal year ending March 31, 2021.

(Changes in the Method of Presentation)

(Consolidated Statement of Income)

“Insurance claim income” included in “Other” under “Non-operating income” and “Foreign exchange losses” included in “Other” under “Non-operating expenses” for the fiscal year ended March 31, 2019 have been presented separately from the fiscal year ended March 31, 2020 due to an increase in financial significance. In addition, “Gain on sales of non-current assets” and “Insurance claim income” under “Extraordinary income” and “Loss on sales of investment securities” under “Extraordinary losses,” which were presented separately for the fiscal year ended March 31, 2019, have been included in “Other” under “Extraordinary income” and “Other” under “Extraordinary losses,” respectively, from the fiscal year ended March 31, 2020 due to a decrease in financial significance. To reflect these changes in presentation, the reclassification of accounts has been made in the comparative financial information for the fiscal year ended March 31, 2019.

As a result, the ¥1,631 million presented as “Other” under “Non-operating income” in the consolidated statement of income for the fiscal year ended March 31, 2019 has been reclassified to be presented as ¥214 million of “Insurance claim income” and ¥1,417 million of “Other,” and the ¥2,500 million presented as “Other” under “Non-operating expenses” has been reclassified to be presented as ¥377 million of “Foreign exchange losses” and ¥2,123 million of “Other.” Furthermore, the ¥12 million presented as “Gain on sales of non-current assets,” the ¥712 million yen presented as “Insurance claim income” and the ¥167 million presented as “Other” under “Extraordinary income” have been reclassified to be presented as ¥891 million of “Other,” and the ¥27 million presented as “Loss on sales of investment securities” and the ¥158 million presented as “Other” under “Extraordinary losses” have been reclassified to be presented as ¥185 million of “Other.”

(Additional Information)

(Introduction of the Board Benefit Trust (BBT))

Upon resolution at the Board of Directors' Meeting held on May 27, 2019, the Company has introduced a new stock-based incentive system for directors (excluding outside directors) and executive officers (hereinafter referred to as "Directors, etc.") effective from October 2019, in order to enhance their awareness of contributing to the Company's medium- to long-term performance and growth in corporate value.

1. Overview of transaction

This system is a stock-based incentive system in which cash is entrusted to a trust established by the Company (hereinafter the "Trust"), and the Company's shares of common stock (hereinafter the "the Company's Shares") are acquired by the Trust. Points are granted to Directors, etc. in accordance with the Stock Delivery Rules set by the Board of Directors of the Company, and, through the Trust, the Company's Shares are delivered in proportion to the number of points granted. In principle, Directors, etc. receive the Company's Shares at the time of their retirement.

2. Treasury shares remaining in the Trust

The Company's Shares remaining in the Trust are recorded as treasury shares in the net assets section at the book value in the Trust (excluding the amount of incidental expenses). The book value and the number of such treasury shares at the end of the fiscal year ended March 31, 2020 were ¥418 million (\$3,843 thousand) and 302 thousand shares, respectively.

(Accounting Estimates)

The spread of the COVID-19 infection is an event affecting the global economy and corporate activities inside and outside Japan. At this time, it is difficult to estimate how the infectious disease will affect the Group and when the pandemic will be over. However, we expect that the impact of the spread of this disease on earnings forecasts and accounting estimates (for instance, assessment of the indication of impairment for non-current assets) will mainly emerge as decreases in production and sales volumes in the first half of the fiscal year 2020. The factors of these decreases include a global economic slowdown, postponement of the Olympics, restriction of public events and a decline in demand for paper due to the emergence of more frequent remote working. We have made forecasts based on an assumption that although the situation will gradually recover, it will take a considerable amount of time for the global economy and business conditions to return to previous levels.

(Notes to Consolidated Balance Sheet)

*1. Assets pledged as collateral are as follows:

	As of March 31, 2019 (Millions of Yen)		As of March 31, 2020 (Millions of Yen)		As of March 31, 2020 (Thousands of U.S. Dollars)	
Buildings and structures	19,371	[18,684]	17,656	[17,057]	162,232	[156,731]
Machinery, equipment and vehicles	29,365	[28,747]	22,470	[21,919]	206,473	[201,404]
Land	32,317	[28,577]	30,193	[28,572]	277,437	[262,541]
Total	81,053	[76,008]	70,319	[67,548]	646,142	[620,676]

Associated secured debt obligations are as follows:

	As of March 31, 2019 (Millions of Yen)		As of March 31, 2020 (Millions of Yen)		As of March 31, 2020 (Thousands of U.S. Dollars)	
Long-term borrowings (including current portion)	3,350	[3,149]	2,114	[1,946]	19,422	[17,878]
Long-term accounts payable – facilities (including current portion)	550	[–]	407	[–]	3,742	[–]
Total	3,900	[3,149]	2,521	[1,946]	23,164	[17,878]

(Note) The figures in square brackets indicate the amounts of factory foundation mortgage and the debt secured by the factory foundation mortgage.

*2. The following are the amounts of the reduction entry associated with acquisition of property, plant and equipment using government subsidies.

	As of March 31, 2019 (Millions of Yen)		As of March 31, 2020 (Millions of Yen)		As of March 31, 2020 (Thousands of U.S. Dollars)	
Buildings and structures	36	[1,148]	11	[1,102]	100	[10,128]
Machinery, equipment and vehicles	119	[5,531]	157	[5,440]	1,439	[49,986]
Land	–	[569]	–	[569]	–	[5,225]
Other	–	[121]	1	[122]	7	[1,124]

(Note) The figures in square brackets above indicate the accumulated amounts of the reduction entry associated with acquisition of property, plant and equipment using the government subsidies.

*3. Investments in unconsolidated subsidiaries and associates are as follows:

	As of March 31, 2019 (Millions of Yen)		As of March 31, 2020 (Millions of Yen)		As of March 31, 2020 (Thousands of U.S. Dollars)	
Investment securities (equity securities)	2,231		1,994		18,320	
Investments and other assets	683		118		1,088	
Other (investments in capital)						

4. Guarantee liabilities

The Company has committed to provide the following debt guarantees for borrowings taken out by companies other than the consolidated subsidiaries and associates from financial institutions.

	As of March 31, 2019 (Millions of Yen)		As of March 31, 2020 (Millions of Yen)		As of March 31, 2020 (Thousands of U.S. Dollars)	
Fujiseishi Cooperative	3		60		555	

5. Notes receivable transferred by endorsement

	As of March 31, 2019 (Millions of Yen)		As of March 31, 2020 (Millions of Yen)		As of March 31, 2020 (Thousands of U.S. Dollars)	
Notes receivable transferred by endorsement	389		343		3,150	

6. Discounts on electronically recorded monetary claims - operating

	As of March 31, 2019 (Millions of Yen)	As of March 31, 2020 (Millions of Yen)	As of March 31, 2020 (Thousands of U.S. Dollars)
Discounts on electronically recorded monetary claims - operating	–	885	8,130

*7. Notes maturing as of the end of the fiscal year

The Group settles notes maturing as of the end of the fiscal year on their clearing days. Since March 31, 2019 was a financial institution holiday, the following notes which matured as of March 31, 2019 are included in the balances at the end of the previous fiscal year.

	As of March 31, 2019 (Millions of Yen)	As of March 31, 2020 (Millions of Yen)	As of March 31, 2020 (Thousands of U.S. Dollars)
Notes receivable	986	–	–
Electronically recorded monetary claims - operating	1,154	–	–

(Notes to Consolidated Statement of Income)

*1. Selling, general and administrative expenses mainly consist of the following:

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Logistics and warehousing expenses	49,222	51,818	476,136
Salaries, allowances and bonuses	15,656	15,689	144,164
Provision for bonuses	1,752	1,957	17,984
Retirement benefit expenses	1,070	806	7,409

*2. Research and development expenses included in selling, general and administrative expenses and manufacturing costs are as follows:

Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
2,809	3,043	27,960

*3. The details of loss on sales and retirement of non-current assets are as follows:

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Buildings and structures	69	295	2,715
Machinery, equipment and vehicles	252	255	2,346
Land	59	6	53
Removal costs, etc.	690	943	8,660
Total	1,070	1,499	13,774

*4. Impairment loss

The Group recognized impairment losses for the following asset groups.

For the fiscal year ended March 31, 2019

Use	Type	Location	Millions of Yen
Business assets	Machinery and equipment	West Java Province, Indonesia	2,193
Other	Goodwill, machinery and equipment, etc.	Tsuyama City, Okayama Prefecture	727
Idle assets	Buildings and structures, machinery and equipment, land	Shikoku-Chuo City, Ehime Prefecture and other	99

The Group recognizes an impairment loss by grouping assets by business unit whose cash inflows and outflows are captured consistently for managerial accounting purposes. Assets that are not directly in use for business operations (consisting of idle assets, assets for rent and other assets) are grouped on an individual basis.

The book values of business assets were written down to their recoverable amounts as the performance of these assets was determined to have fallen below the level expected in the initial plan due to their decreased profitability. The recoverable amounts of the business assets are measured at value in use, which is determined by discounting future cash flows at 12.9%.

In addition, the Company reviewed the business plans for some of its consolidated subsidiaries, which the Company formulated at the time of the acquisition. As a result, the entire book value of goodwill was written off and the values of machinery and equipment, and others were written down to their recoverable amounts.

The book values of idle assets that were not directly in use for business operations (including buildings and structures, machinery and equipment, land, etc.) were written down to their recoverable amounts. The breakdown of the impairment losses is ¥3 million for buildings and structures, ¥95 million for machinery and equipment, and ¥1 million for land.

The recoverable amounts of other assets and idle assets are measured at net selling price by valuing the assets primarily at their estimated selling price.

For the fiscal year ended March 31, 2020

Use	Type	Location	Millions of Yen	Thousands of U.S. Dollars
Assets for rent	Buildings and structures; tools, furniture and fixtures	Matsuyama City, Ehime Prefecture	1,191	10,939
Idle assets	Buildings and structures, machinery and equipment, land, intangible assets - other	Shikoku-Chuo City, Ehime Prefecture and other	552	5,069

The Group recognizes an impairment loss by grouping assets by business unit whose cash inflows and outflows are captured consistently for managerial accounting purposes. Assets that are not directly in use for business operations (consisting of idle assets, assets for rent and other assets) are grouped on an individual basis.

The book values of assets for rent (buildings and structures and tools, furniture and fixture) were written down to their recoverable amounts as the cash flows are expected to remain negative from the fiscal year ending March 31, 2021 onwards. The breakdown of the impairment losses is ¥1,173 million (\$10,775 thousand) for building and structures and ¥18 million (\$164 thousand) for tools, furniture and fixture. The recoverable amounts of the assets for rent are measured at value in use, which is determined by discounting future cash flows at 6.2%.

The book values of idle assets (buildings and structures, machinery and equipment, land, and intangible assets - other) were written down to their recoverable amounts. The breakdown of the impairment losses is ¥1 million (\$8 thousand) for buildings and structures, ¥19 million (\$177 thousand) for machinery and equipment, ¥16 million (\$144 thousand) for land and ¥516 million (\$4,740 thousand) for intangible assets - other. The recoverable amounts of idle assets are measured at net selling price by valuing the assets primarily at their estimated selling price.

- *5. The amounts of inventories at the end of the fiscal years are calculated by writing down the value based on any decreased profitability. Losses on valuation of inventories included in cost of sales are shown as follows:

Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
646	641	5,887

(Note to Consolidated Statement of Comprehensive Income)

- * The reclassification and tax effects allocated to each component of other comprehensive income are as follows:

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Valuation difference on available-for-sale securities:			
Amount arising during the year	(1,098)	(1,973)	(18,131)
Reclassification adjustments	(57)	(6,760)	(62,114)
Before tax effect adjustment	(1,155)	(8,733)	(80,245)
Tax effect	300	2,392	21,976
Valuation difference on available-for-sale securities	(855)	(6,341)	(58,269)
Deferred gains or losses on hedges:			
Amount arising during the year	(29)	14	128
Reclassification adjustments	—	29	267
Before tax effect adjustment	(29)	43	395
Tax effect	9	(13)	(120)
Deferred gains or losses on hedges	(20)	30	275
Foreign currency translation adjustment:			
Amount arising during the year	(2,116)	685	6,294
Reclassification adjustments	—	—	—
Before tax effect adjustment	(2,116)	685	6,294
Tax effect	—	—	—
Foreign currency translation adjustment	(2,116)	685	6,294
Remeasurements of defined benefit plans, net of tax:			
Amount arising during the year	1,361	(164)	(1,507)
Reclassification adjustments	463	34	314
Before tax effect adjustment	1,824	(130)	(1,193)
Tax effect	(584)	47	427
Remeasurements of defined benefit plans, net of tax	1,240	(83)	(766)
Total other comprehensive income	(1,751)	(5,709)	(52,466)

(Notes to Consolidated Statement of Changes in Net Assets)

For the fiscal year ended March 31, 2019

1. Type and number of shares issued and type and number of treasury shares are summarized as follows:

	Number of shares April 1, 2018 (in thousands)	Increase (in thousands)	Decrease (in thousands)	Number of shares March 31, 2019 (in thousands)
Shares issued:				
Common stock	149,349	4,364	—	153,713
Total	149,349	4,364	—	153,713
Treasury shares:				
Common stock (Note)	3,620	0	—	3,620
Total	3,620	0	—	3,620

- (Notes) 1. The 4,364 thousand share increase in the number of shares issued of common stock is due to conversion of convertible bonds.
2. The 0 thousand share increase in the number of treasury shares of common stock is due to purchase of shares in less than standard units.

2. Stock acquisition rights and treasury stock acquisition rights

Company name	Details	Type of stock subject to stock acquisition rights	Number of shares subject to stock acquisition rights (in thousands) (Note 2)				Balance as of March 31, 2019 (Millions of Yen)
			April 1, 2018	Increase	Decrease	March 31, 2019	
Filing company	Euro Yen Zero Coupon Convertible Bonds due 2020 (issued on September 17, 2015)	Common stock	20,816	—	4,364	16,452	(Note 1) (Note 3)

- (Notes) 1. Convertible bonds are accounted for using the lump-sum method, by which a bond portion and a stock acquisition right portion are treated as non-separable.
2. The number of shares subject to stock acquisition rights shown above is the number of shares based on the assumption that the stock acquisition rights were fully exercised.
3. Reason for change in number of shares subject to stock acquisition rights
A decrease in the number of shares subject to stock acquisition rights is due to conversion of convertible bonds.

3. Dividends

(1) Amount of cash dividends distributed

Resolution	Type of shares	Total amount of dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General Shareholders' Meeting held on June 28, 2018	Common stock	805	5.50	March 31, 2018	June 29, 2018
Board of Directors' Meeting held on November 8, 2018	Common stock	752	5.00	September 30, 2018	December 5, 2018

(2) Dividends with record date in the current fiscal year, and effective date in the following fiscal year

Resolution	Type of shares	Total amount of dividends (Millions of Yen)	Source of dividends	Dividends per share (Yen)	Record date	Effective date
General Shareholders' Meeting held on June 27, 2019	Common stock	829	Retained earnings	5.50	March 31, 2019	June 28, 2019

For the fiscal year ended March 31, 2020

1. Type and number of shares issued and type and number of treasury shares are summarized as follows:

	Number of shares April 1, 2019 (in thousands)	Increase (in thousands)	Decrease (in thousands)	Number of shares March 31, 2020 (in thousands)
Shares issued:				
Common stock	153,713	819	—	154,532
Total	153,713	819	—	154,532
Treasury shares:				
Common stock (Note)	3,620	306	302	3,624
Total	3,620	306	302	3,624

(Notes) 1. The 819 thousand share increase in the number of shares issued of common stock is due to conversion of convertible bonds.

2. The Company has introduced a stock-based incentive system using the Board Benefit Trust (BBT) for Directors, etc. Accordingly, the number of treasury shares as of March 31, 2020 includes 302 thousand shares of the Company's stock held by the trust account.

(Overview of reasons for change in the number of treasury shares)

The major breakdown of the increase is as follows:

Acquisition by the trust for the BBT: 302 thousand shares

Increase due to purchase of shares in less than standard units, etc.: 4 thousand shares

The major breakdown of the decrease is as follows:

Sale to the trust for the BBT: 302 thousand shares

2. Stock acquisition rights and treasury stock acquisition rights

Company name	Details	Type of stock subject to stock acquisition rights	Number of shares subject to stock acquisition rights (in thousands) (Note 2)				Balance as of March 31, 2020 (Millions of Yen/Thousands of U.S. Dollars)
			April 1, 2019	Increase	Decrease	March 31, 2020	
Filing company	Euro Yen Zero Coupon Convertible Bonds due 2020 (issued on September 17, 2015)	Common stock	16,452	—	819	15,633	(Note 1) (Note 3)

(Notes) 1. Convertible bonds are accounted for using the lump-sum method, by which a bond portion and a stock acquisition right portion are treated as non-separable.

2. The number of shares subject to stock acquisition rights shown above is the number of shares based on the assumption that the stock acquisition rights were fully exercised.

3. Reason for change in number of shares subject to stock acquisition rights

A decrease in the number of shares subject to stock acquisition rights is due to conversion of convertible bonds.

3. Dividends

(1) Amount of cash dividends distributed

Resolution	Type of shares	Total amount of dividends (Millions of Yen)	Dividends per share (Yen)	Record date	Effective date
General Shareholders' Meeting held on June 27, 2019	Common stock	829	5.50	March 31, 2019	June 28, 2019
Board of Directors' Meeting held on November 13, 2019	Common stock	754	5.00	September 30, 2019	December 6, 2019

Resolution	Type of shares	Total amount of dividends (Thousands of U.S. Dollars)	Dividends per share (U.S. Dollars)	Record date	Effective date
General Shareholders' Meeting held on June 27, 2019	Common stock	7,621	0.05	March 31, 2019	June 28, 2019
Board of Directors' Meeting held on November 13, 2019	Common stock	6,928	0.05	September 30, 2019	December 6, 2019

(2) Dividends with record date in the current fiscal year, and effective date in the following fiscal year

Resolution	Type of shares	Total amount of dividends (Millions of Yen)	Source of dividends	Dividend per share (Yen)	Record date	Effective date
General Shareholders' Meeting held on June 26, 2020	Common stock	1,291	Retained earnings	8.50	March 31, 2020	June 29, 2020

Resolution	Type of shares	Total amount of dividends (Thousands of U.S. Dollars)	Source of dividends	Dividend per share (U.S. Dollars)	Record date	Effective date
General Shareholders' Meeting held on June 26, 2020	Common stock	11,865	Retained earnings	0.08	March 31, 2020	June 29, 2020

(Note) The total amount of dividends resolved at the General Shareholders' Meeting held on June 26, 2020 includes ¥3 million (\$24 thousand) of dividends paid to the trust account for the BBT established for the stock-based incentive system for Directors, etc.

(Notes to Consolidated Statement of Cash Flows)

- *1. Cash and cash equivalents in the consolidated statement of cash flows for the fiscal years ended March 31, 2019 and 2020 are reconciled to the accounts reported in the consolidated balance sheet as of March 31, 2019 and 2020 as follows:

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Cash and deposits	106,548	113,054	1,038,814
Time deposits with maturities of more than three months	(3,141)	(3,669)	(33,718)
Cash and cash equivalents	103,407	109,385	1,005,096

- *2. Breakdown of assets and liabilities of the company that ceased to be a consolidated subsidiary following the share exchange
For the fiscal year ended March 31, 2019

The following is the breakdown of assets and liabilities at the time of the share exchange, share exchange price and net proceeds from the share exchange as a result of Miura Create Inc., which ceased to be a consolidated subsidiary following the share exchange transaction.

	(Millions of Yen)
Current assets	527
Non-current assets	862
Current liabilities	(827)
Non-current liabilities	—
Non-controlling interests	—
Gain on exchange from business combination	1,438
Share exchange price	2,000
Cash and cash equivalents	(419)
Net proceeds from share exchange	1,581

For the fiscal year ended March 31, 2020

Not applicable.

(Lease Transactions)

1. Finance lease transactions

Finance lease transactions in which ownership of the leased assets is not transferred to the lessee

Details of leased assets

Property, plant and equipment

Mainly production facilities (machinery, equipment and vehicles)

Depreciation and amortization of leased assets

As described in “4. Accounting policies (2) Depreciation and amortization methods for significant depreciable assets,” leased assets are depreciated or amortized using the straight-line method over the lease term with no residual value.

Of those finance lease transactions in which ownership of the leased assets is not transferred to the lessee, lease transactions that commenced on or before March 31, 2008 are accounted for using the method applicable to ordinary rental transactions. The following are the details of such transactions on an “as if capitalized” basis.

(1) Equivalents of acquisition cost, accumulated depreciation and ending balance of leased assets

(Millions of Yen)

	As of March 31, 2019		
	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and vehicles	33	33	—
Total	33	33	—

(Millions of Yen/Thousands of U.S. Dollars)

	As of March 31, 2020		
	Acquisition cost	Accumulated depreciation	Ending balance
Machinery, equipment and vehicles	—	—	—
Total	—	—	—

(Note) The acquisition cost equivalents above are calculated using the imputed interest method since the amount of future minimum lease payments at the end of the fiscal year are not material compared with the book values of property, plant and equipment at the end of the fiscal year.

(2) Future minimum lease payments equivalent at the end of the fiscal year
Not applicable.

(3) Lease expenses and depreciation expense equivalent

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Lease expenses	3	—	—
Depreciation expense equivalent	3	—	—

(4) Method for calculation of depreciation expense equivalent

The depreciation expense equivalent is calculated using the straight-line method over the lease term with no residual value.

2. Operating lease transactions

(Lessee)

Future minimum lease payments relating to non-cancellable operating leases

	As of March 31, 2019 (Millions of Yen)	As of March 31, 2020 (Millions of Yen)	As of March 31, 2020 (Thousands of U.S. Dollars)
Due within one year	1,944	1,954	17,958
Due after one year	14,786	13,060	120,002
Total	16,730	15,014	137,961

(Financial Instruments)

1. Overview

(1) Group policy for financial instruments

The Group raises funds required to implement the capital investment plan through bank borrowings and bond issues. Also, the Group raises short-term working capital through bank borrowings. Derivative financial instruments are utilized to reduce risks and the Group does not hold or issue derivative financial instruments for speculative trading purposes.

(2) Details of financial instruments and risks

Trade receivables, presented as notes and accounts receivable – trade, are exposed to credit risk of customers. Investment securities are mostly stocks that are held by the Group in conjunction with the business or capital alliance with our business partners and are exposed to the risk of market price fluctuation. The Company is also a lender who delivers long-term loans to its subsidiaries and business partners.

Trade payables, presented as notes and accounts payable – trade, are mostly due within one year. Borrowings and bonds payable are taken out primarily for the purpose of financing the Group's capital expenditures. While the floating-rate

borrowings are exposed to interest rate fluctuation risk, part of the risks are hedged by using derivative financial instruments, i.e. interest rate swap transactions.

Derivative transactions used by the Company include interest rate swap transactions, forward exchange contracts, and commodity swap transactions. These are used to manage the risk of significant financial impact arising from interest rate fluctuations on interest expenses from borrowings, exchange rate fluctuations on foreign currency trade receivables and payables, and fluctuations in raw material prices, respectively. Regarding hedging instruments and hedged items, the hedging policy and method for evaluation of hedge effectiveness of hedging activities, please refer to “4. Accounting policies (6) Significant hedge accounting method.”

(3) Risk management for financial instruments

1) Management of credit risk (the risk of non-performance by business counterparts)

The Company protects and manages trade receivables by first establishing a credit limit of each customer based on their financial situation and creditworthiness, and then monitoring the due dates and the outstanding balance on a customer-by-customer basis primarily in accordance with the Credit Control Regulations, which are the Company’s internal rules. Creditworthiness is measured using credit information obtained through the credit-reporting agencies and collected by the Company on its own behalf. Furthermore, the Company takes appropriate measures, such as holding transaction credit insurance and factoring, to protect and manage certain trade receivables. In addition, long-term loans receivable are controlled by regularly updating the borrowers’ financial situation on top of monitoring the due dates and the outstanding balances so as to quickly detect and reduce concerns about collection. The consolidated subsidiaries also follow the same procedures in accordance with the Company’s Credit Control Regulations.

2) Management of market risk (the risk of foreign exchange and interest rate fluctuations)

The Company and certain consolidated subsidiaries use interest rate swap transactions to reduce the risk of interest rate fluctuations on interest expenses from borrowings.

Investment securities are subject to review on a regular basis to allow for appropriate portfolio decisions by monitoring their fair values and the financial situation of business partners whose shares are owned by the Company, and evaluating the relationship with them.

Regarding derivative transactions, the basic policy is determined by the Board of Directors and transactions are entered into by the Treasury Department in accordance with the Derivatives Transaction Control Regulations, which is the Company’s internal rule.

3) Management of liquidity risk related to financing activities (the risk of non-performance on a due date)

The Company manages liquidity risk, or the risk of non-performance by the Company on due dates, associated with trade payables and borrowings primarily through monthly preparation of a cash budget by the Treasury Department based on the reported forecasts received from each department. The consolidated subsidiaries also manage liquidity risk by preparing a cash budget in the same manner on a monthly basis.

(4) Supplementary explanation regarding fair value of financial instruments

Fair value of financial instruments is measured based on quoted market prices, if available, or reasonably assessed value if a quoted market price is not available. Fair value of financial instruments for which a quoted market price is not available is calculated based on certain assumptions, and the fair value might differ if different assumptions are used.

2. Matters related to fair values of financial instruments

Book value, fair value and their difference are summarized as follows. Financial instruments whose fair values are extremely difficult to determine are excluded from the following table (See Note 2 for details.)

For the fiscal year ended March 31, 2019

(Millions of Yen)

	Book value	Fair value	Difference
(1) Cash and deposits	106,548	106,548	—
(2) Notes and accounts receivable – trade	96,915	96,915	—
(3) Electronically recorded monetary claims – operating	12,174	12,174	—
(4) Investment securities	28,219	28,219	—
(5) Long-term loans receivable	3,840		
Allowance for doubtful accounts (*1)	(804)		
Net amount	3,000	3,131	101
Total of assets	246,856	246,957	101
(1) Notes and accounts payable – trade	58,774	58,774	—
(2) Short-term borrowings	19,222	19,222	—
(3) Accounts payable – other	29,312	29,312	—
(4) Income taxes payable	2,250	2,250	—
(5) Bonds payable	60,300	60,623	323
(6) Convertible bond-type bonds with share acquisition rights	23,745	23,829	84
(7) Long-term borrowings	300,594	298,943	(1,651)
(8) Long-term accounts payable – facilities	1,905	1,890	(15)
Total of liabilities	496,102	494,843	(1,259)
Derivatives transactions (*2)	(29)	(29)	—

(*1) Allowance for doubtful accounts separately accounted for on long-term loans receivable is deducted.

(*2) Receivables and payables from derivatives transactions are presented on a net basis with figures in parentheses representing net payable balances.

For the fiscal year ended March 31, 2020

(Millions of Yen)

	Book value	Fair value	Difference
(1) Cash and deposits	113,054	113,054	—
(2) Notes and accounts receivable – trade	92,742	92,742	—
(3) Electronically recorded monetary claims - operating	10,982	10,982	—
(4) Investment securities	18,744	18,744	—
(5) Long-term loans receivable	3,824		
Allowance for doubtful accounts (*1)	(824)		
Net amount	3,000	3,096	96
Total of assets	238,522	238,618	96
(1) Notes and accounts payable – trade	53,135	53,135	—
(2) Short-term borrowings	15,453	15,453	—
(3) Accounts payable – other	39,216	39,216	—
(4) Income taxes payable	10,947	10,947	—
(5) Bonds payable	60,300	60,101	(199)
(6) Convertible bond-type bonds with share acquisition rights	22,541	22,782	241
(7) Long-term borrowings	295,825	294,003	(1,822)
(8) Long-term accounts payable – facilities	1,106	1,102	(4)
Total liabilities	498,523	496,739	(1,784)
Derivative transactions (*2)	(14)	(14)	—

(Thousands of U.S. Dollars)

	Book value	Fair value	Difference
(1) Cash and deposits	1,038,814	1,038,814	—
(2) Notes and accounts receivable – trade	852,170	852,170	—
(3) Electronically recorded monetary claims - operating	100,913	100,913	—
(4) Investment securities	172,234	172,234	—
(5) Long-term loans receivable	35,136		
Allowance for doubtful accounts (*1)	(7,570)		
Net amount	27,566	28,446	880
Total of assets	2,191,697	2,192,577	880
(1) Notes and accounts payable – trade	488,239	488,239	—
(2) Short-term borrowings	141,988	141,988	—
(3) Accounts payable – other	360,340	360,340	—
(4) Income taxes payable	100,588	100,588	—
(5) Bonds payable	554,075	552,249	(1,826)
(6) Convertible bond-type bonds with share acquisition rights	207,118	209,339	2,221
(7) Long-term borrowings	2,718,227	2,701,489	(16,738)
(8) Long-term accounts payable – facilities	10,161	10,128	(33)
Total liabilities	4,580,736	4,564,360	(16,376)
Derivative transactions (*2)	(127)	(127)	—

(*1) Allowance for doubtful accounts separately accounted for on long-term loans receivable is deducted.

(*2) Receivables and payables from derivatives transactions are presented on a net basis with figures in parentheses representing net payable balances.

(Note 1) The method for measuring fair values of financial instruments and matters relating to securities

Assets:

- (1) Cash and deposits, (2) Notes and accounts receivable – trade, (3) Electronically recorded monetary claims - operating

As these instruments are settled within a short term and their fair values approximate book values, their fair values are equal to their book values.

- (4) Investment securities

Fair value of investment securities equals the price quoted in the stock exchange. Please refer to the section “(Securities)” regarding matters concerning the securities classified by holding purpose.

- (5) Long-term loans receivable

Fair value of long-term loans receivable (including the current portion) is determined by discounting the total of principal and interest at the rate that consists of an appropriate rate such as the government bond yield plus an adjustment factor reflecting the credit risk.

Liabilities:

- (1) Notes and accounts payable – trade, (2) Short-term borrowings, (3) Accounts payable – other, (4) Income taxes payable

As these instruments are settled within a short term and their fair values approximate book values, their fair values are equal to their book values.

- (5) Bonds payable, (6) Convertible bond-type bonds with share acquisition rights and current portion of bonds with share acquisition rights

Fair values of bonds payable, convertible bond-type bonds with share acquisition rights and current portion of bonds with share acquisition rights are determined based on a quoted market price if any. In cases where quoted market prices are not available, it is determined by discounting the total of principal and interest at the rate that reflects the remaining life of the bond and its credit risk.

- (7) Long-term borrowings, (8) Long-term accounts payable – facilities

Fair values of long-term borrowings (including the current portion) and long-term accounts payable – facilities (including the current portion) are determined by discounting the total amount of principal and interest with an interest rate to be applied if similar new borrowings were entered into or similar new equipment were purchased.

(Note 2) Financial instruments whose fair values are deemed to be extremely difficult to determine

Category	As of March 31, 2019 (Millions of Yen)	As of March 31, 2020 (Millions of Yen)	As of March 31, 2020 (Thousands of U.S. Dollars)
Non-marketable equity securities	2,411	2,444	22,458
Shares of subsidiaries and associates	2,231	1,994	18,320

As these financial instruments do not have quoted market prices and their fair values are deemed to be extremely difficult to determine, they are not included in “(4) Investment securities.”

(Note 3) Redemption schedule for financial receivables and securities with maturity dates after the consolidated balance sheet date
As of March 31, 2019

(Millions of Yen)

	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	106,474	—	—	—
Notes and accounts receivable – trade	96,915	—	—	—
Electronically recorded monetary claims - operating	12,174	—	—	—
Investment securities				
Available-for-sale securities with maturity dates				
(1) Bonds (corporate bonds)	—	—	—	—
(2) Other	—	—	—	—
Long-term loans receivable	0	3,000	—	840
Total	215,563	3,000	—	840

As of March 31, 2020

(Millions of Yen)

	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	112,977	—	—	—
Notes and accounts receivable – trade	92,742	—	—	—
Electronically recorded monetary claims - operating	10,982	—	—	—
Investment securities				
Available-for-sale securities with maturity dates				
(1) Bonds (corporate bonds)	—	—	—	—
(2) Other	—	—	—	—
Long-term loans receivable	—	3,000	—	824
Total	216,701	3,000	—	824

(Thousands of U.S. Dollars)

	Due within one year	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	1,038,105	—	—	—
Notes and accounts receivable – trade	852,170	—	—	—
Electronically recorded monetary claims - operating	100,913	—	—	—
Investment securities				
Available-for-sale securities with maturity dates				
(1) Bonds (corporate bonds)	—	—	—	—
(2) Other	—	—	—	—
Long-term loans receivable	—	27,566	—	7,570
Total	1,991,188	27,566	—	7,570

(Note 4) Repayment schedule for bonds payable, long-term borrowings, lease obligations and other interest-bearing debt after the consolidated balance sheet date

As of March 31, 2019

(Millions of Yen)

	Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Short-term borrowings	19,222	—	—	—	—	—
Bonds payable	—	—	15,300	15,000	—	30,000
Convertible bond-type bonds with share acquisition rights	—	23,710	—	—	—	—
Long-term borrowings	49,839	53,604	59,945	45,529	41,663	50,013
Long-term accounts payable – facilities	811	535	383	166	10	—
Lease obligations	694	585	442	341	217	411
Total	70,566	78,434	76,070	61,036	41,890	80,424

As of March 31, 2020

(Millions of Yen)

	Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Short-term borrowings	15,453	—	—	—	—	—
Bonds payable	—	15,300	15,000	—	10,000	20,000
Convertible bond-type bonds with share acquisition rights	22,530	—	—	—	—	—
Long-term borrowings	53,724	62,970	53,465	49,248	52,159	24,258
Long-term accounts payable – facilities	538	385	168	13	2	—
Lease obligations	1,012	770	527	379	209	359
Total	93,257	79,425	69,160	49,640	62,370	44,617

(Thousands of U.S. Dollars)

	Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	Over five years
Short-term borrowings	141,988	—	—	—	—	—
Bonds payable	—	140,586	137,830	—	91,886	183,773
Convertible bond-type bonds with share acquisition rights	207,020	—	—	—	—	—
Long-term borrowings	493,651	578,607	491,274	452,526	479,274	222,895
Long-term accounts payable – facilities	4,939	3,538	1,545	120	19	—
Lease obligations	9,301	7,077	4,839	3,484	1,918	3,301
Total	856,899	729,808	635,488	456,130	573,097	409,969

(Securities)

1. Available-for-sale securities

As of March 31, 2019

(Millions of Yen)

Classification	Type of securities	Book value	Cost	Difference
Securities for which book value exceeds cost	Equity securities	24,170	10,430	13,740
Securities for which book value does not exceed cost	Equity securities	4,049	4,726	(677)
Total		28,219	15,156	13,063

(Note) Non-marketable equity securities (with book value of ¥2,411 million) are not included in “available-for-sale securities” in the above table because they have no quoted market price and thus it is extremely difficult to determine their fair values.

As of March 31, 2020

(Millions of Yen)

Classification	Type of securities	Book value	Cost	Difference
Securities for which book value exceeds cost	Equity securities	13,844	8,129	5,715
Securities for which book value does not exceed cost	Equity securities	4,900	6,285	(1,385)
Total		18,744	14,414	4,330

(Thousands of U.S. Dollars)

Classification	Type of securities	Book value	Cost	Difference
Securities for which book value exceeds cost	Equity securities	127,205	74,695	52,510
Securities for which book value does not exceed cost	Equity securities	45,029	57,750	(12,721)
Total		172,234	132,445	39,789

(Note) Non-marketable equity securities (with book value of ¥2,444 million (\$22,458 thousand)) are not included in “available-for-sale securities” in the above table because they have no quoted market price and thus it is extremely difficult to determine their fair values.

2. Available-for-sale securities sold

For the fiscal year ended March 31, 2019

(Millions of yen)

Type of securities	Proceeds from sale	Gain on sale	Loss on sale
Equity securities	324	71	27

For the fiscal year ended March 31, 2020

(Millions of yen)

Type of securities	Proceeds from sale	Gain on sale	Loss on sale
Equity securities	7,700	6,778	0

(Thousands of U.S. Dollars)

Type of securities	Proceeds from sale	Gain on sale	Loss on sale
Equity securities	70,756	62,283	3

3. Impairment of investment in securities

For the fiscal year ended March 31, 2019

The Company did not record any impairment losses.

For securities whose fair values at the end of the fiscal year have declined by 50% or more compared with their cost, loss on impairment is recorded without exception. For securities whose fair value at the end of the fiscal year have declined by 30% or more but less than 50% compared with cost, loss on impairment is recorded if it is deemed necessary in consideration of the possibility of the fair values being restored.

For the fiscal year ended March 31, 2020

The Company recorded impairment losses of ¥19 million (\$175 thousand) on securities, which consist solely of available-for-sale securities.

For securities whose fair values at the end of the fiscal year have declined by 50% or more compared with their cost, loss on impairment is recorded without exception. For securities whose fair value at the end of the fiscal year have declined by 30% or more but less than 50% compared with cost, loss on impairment is recorded if it is deemed necessary in consideration of the possibility of the fair values being restored.

(Derivatives Transactions)

1. Derivatives contracts outstanding to which the hedge accounting was not applied

There were no relevant transactions.

2. Derivatives contracts outstanding to which the hedge accounting was applied

(1) Currency-related derivatives

As of March 31, 2019

Hedge accounting method	Type of derivatives transactions	Major hedged item	Contract amount (Millions of Yen)		Fair value (Millions of Yen)
				of which due after one year	
Designated hedge accounting treatment (<i>furiate shori</i>) applicable to forward exchange contracts	Forward exchange contract				
	Buy				
	USD	Accounts payable – trade	372	–	(Note 2)
Total			372	–	–

(Notes) 1. Fair values are determined based on the prices quoted by counterparty financial institutions.

2. The fair values of forward exchange contracts are included in those of accounts payable – trade because when forward exchange contracts qualify for designated hedge accounting treatment (*furiate shori*), they are accounted for together with foreign currency denominated financial receivables and payables (the hedged items) as one set of transactions.

As of March 31, 2020

Hedge accounting method	Type of derivatives transactions	Major hedged item	Contract amount (Millions of Yen)		Fair value (Millions of Yen)
				of which due after one year	
Designated hedge accounting treatment (<i>furiate shori</i>) applicable to forward exchange contracts	Forward exchange contract				
	Sell				
	USD	Accounts receivable – trade	0	–	(Note 2)
	Buy				
	USD	Accounts payable – trade	6,405	–	(Note 2)
Total			6,405	–	–

Hedge accounting method	Type of derivatives transactions	Major hedged item	Contract amount (Thousands of U.S. Dollars)		Fair value (Thousands of U.S. Dollars)
				of which due after one year	
Designated hedge accounting treatment (<i>furiate shori</i>) applicable to forward exchange contracts	Forward exchange contract				
	Sell				
	USD	Accounts receivable – trade	3	–	(Note 2)
	Buy				
	USD	Accounts payable – trade	58,851	–	(Note 2)
Total			58,854	–	–

(Notes) 1. Fair values are determined based on the prices quoted by counterparty financial institutions.

2. The fair values of forward exchange contracts are included in those of accounts payable – trade because when forward exchange contracts qualify for designated hedge accounting treatment (*furiate shori*), they are accounted for together with foreign currency denominated financial receivables and payables (the hedged items) as one set of transactions.

(2) Interest rate-related derivatives

As of March 31, 2019

Hedge accounting method	Type of derivatives transactions	Major hedged item	Contract amount (Millions of Yen)		Fair value (Millions of Yen)
				of which due after one year	
Exceptional hedge accounting treatment (<i>tokurei shori</i>) applicable to interest rate swap contracts	Interest rate swap contract	Long-term borrowings	44,031	40,856	(Note 2)
	Floating rate receipt/ fixed rate payment				

(Notes) 1. Fair values are determined based on the prices quoted by counterparty financial institutions.

2. The fair values of interest rate swap contracts are included in those of long-term borrowings because when interest rate swap contracts qualify for exceptional hedge accounting treatment (*tokurei shori*), they are accounted for together with long-term borrowings (the hedged items) as one set of transactions.

As of March 31, 2020

Hedge accounting method	Type of derivatives transactions	Major hedged item	Contract amount (Millions of Yen)		Fair value (Millions of Yen)
				of which due after one year	
Exceptional hedge accounting treatment (<i>tokurei shori</i>) applicable to interest rate swap contracts	Interest rate swap contract Floating rate receipt/ fixed rate payment	Long-term borrowings	50,752	47,228	(Note 2)

Hedge accounting method	Type of derivatives transactions	Major hedged item	Contract amount (Thousands of U.S. Dollars)		Fair value (Thousands of U.S. Dollars)
				of which due after one year	
Exceptional hedge accounting treatment (<i>tokurei shori</i>) applicable to interest rate swap contracts	Interest rate swap contract Floating rate receipt/ fixed rate payment	Long-term borrowings	466,342	433,961	(Note 2)

(Notes) 1. Fair values are determined based on the prices quoted by counterparty financial institutions.

2. The fair values of interest rate swap contracts are included in those of long-term borrowings because when interest rate swap contracts qualify for exceptional hedge accounting treatment (*tokurei shori*), they are accounted for together with long-term borrowings (the hedged items) as one set of transactions.

(3) Commodity-related derivatives

As of March 31, 2019

Hedge accounting method	Type of derivative transactions	Major hedged item	Contract amount (Millions of Yen)		Fair value (Millions of Yen)
				of which due after one year	
Standard accounting method	Commodity swap contract Floating rate receipt/ fixed rate payment	Raw materials	1,066	—	(29)

(Note) 1. Fair values are determined based on the prices quoted by counterparty financial institutions.

As of March 31, 2020

There were no relevant transactions.

(Retirement Benefits)

1. Overview of retirement benefit plans

The Company and its consolidated subsidiaries provide the following defined benefit plans: a contract-type corporate pension plan and a lump-sum retirement benefit plan.

Some of the consolidated subsidiaries participate in the Small and Medium Enterprises' Retirement Allowance Mutual Aid System. The simplified method is applied by some of the consolidated subsidiaries to calculate the retirement benefit liability and retirement benefit expenses.

In addition, some of the consolidated subsidiaries provide the corporate defined contribution pension plan.

2. Defined benefit plans

(1) Reconciliation of beginning and ending balances of retirement benefit obligations

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Beginning balance of retirement benefit obligation	28,811	28,175	258,893
Service cost	1,513	1,372	12,607
Interest cost	223	221	2,032
Actuarial (gain) loss	(833)	(95)	(869)
Benefits paid	(1,140)	(1,424)	(13,089)
Past service cost	(510)	—	—
Increase due to a change from the simplified method to the standard method	111	—	—
Ending balance of retirement benefit obligation	28,175	28,249	259,574

(Note) Retirement benefit obligations under the plans for which the simplified method is applied are not included in the table above.

(2) Reconciliation of beginning and ending balances of plan assets

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Beginning balance of plan assets	7,873	8,055	74,014
Expected return on plan assets	89	81	740
Actuarial gain (loss)	20	(259)	(2,377)
Employer contributions	357	355	3,263
Benefits paid	(284)	(324)	(2,978)
Ending balance of plan assets	8,055	7,908	72,662

(Note) Plan assets of ¥754 million (\$6,930 thousand) for the fiscal year ended March 31, 2020 (¥793 million for the fiscal year ended March 31, 2019) under the plans for which the simplified method is applied are not included in the table above.

(3) Reconciliation of beginning and ending balances of net defined benefit liability for plans for which the simplified method is applied

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Beginning balance of retirement benefit liability	1,946	1,940	17,824
Retirement benefit expenses	303	331	3,039
Benefits paid	(129)	(155)	(1,421)
Contribution to the plans	(44)	(48)	(436)
Increase resulting from a change in scope of consolidation	(25)	—	—
Decrease due to a change from the simplified method to the standard method	(111)	—	—
Ending balance of retirement benefit liability	1,940	2,068	19,006

(4) Reconciliation of ending balances of retirement benefit obligations and plan assets, retirement benefit liability and retirement benefit asset reported on the consolidated balance sheet

	As of March 31, 2019 (Millions of Yen)	As of March 31, 2020 (Millions of Yen)	As of March 31, 2020 (Thousands of U.S. Dollars)
Funded retirement benefit obligation	8,284	8,336	76,594
Plan assets	(8,847)	(8,662)	(79,592)
Subtotal	(563)	(326)	(2,998)
Unfunded retirement benefit obligation	22,623	22,736	208,916
Net asset or liability reported on the consolidated balance sheet	22,060	22,410	205,918
Retirement benefit liability	22,060	23,255	213,681
Retirement benefit asset	—	(845)	(7,763)
Net asset or liability reported on the consolidated balance sheet	22,060	22,410	205,918

(Note) Retirement benefit obligation and plan assets under the plans for which the simplified method is applied are included in the reconciliation above.

(5) Components of retirement benefit expenses

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Service cost	1,513	1,372	12,607
Interest cost	223	221	2,032
Expected return on plan assets	(89)	(81)	(740)
Amortization of actuarial (gain) loss	472	55	507
Amortization of past service cost	(10)	(21)	(194)
Retirement benefit expenses calculated by the simplified method	303	331	3,039
Retirement benefit expenses related to defined benefit plans	2,412	1,877	17,251

(Note) Other than the retirement benefit expenses above, the Company paid ¥238 million (\$2,192 thousand) of early retirement expenses for the fiscal year ended March 31, 2020, which are included in extraordinary losses.

(6) Remeasurements of defined benefit plans in other comprehensive income (before tax effect)

	Fiscal year ended March 31, 2019 (Millions of Yen)	Fiscal year ended March 31, 2020 (Millions of Yen)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars)
Actuarial (gain) loss	1,324	(109)	(999)
Past service cost	500	(21)	(194)
Total	1,824	(130)	(1,193)

(7) Remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effect)

	As of March 31, 2019 (Millions of Yen)	As of March 31, 2020 (Millions of Yen)	As of March 31, 2020 (Thousands of U.S. Dollars)
Unrecognized actuarial (gain) loss	(339)	(232)	(2,134)
Unrecognized past service cost	(490)	(469)	(4,308)
Total	(829)	(701)	(6,442)

(8) Plan assets

1) Allocation of plan assets

Plan assets by major category as a percentage of total plan assets are as follows:

	As of March 31, 2019	As of March 31, 2020
General account	34%	35%
Debt securities	38	36
Equity securities	22	16
Other	6	13
Total	100	100

(Note) Plan assets under the plans for which the simplified method is applied are not included in the table above.

2) Determination procedure of long-term expected rate of return on plan assets

In determining the long-term expected rate of return on plan assets, the Company considers the current and projected asset allocations as well as current and future expected long-term rate of returns from various assets that constitute the plan assets.

(9) Assumptions used in actuarial calculations

Major assumptions used in actuarial calculations

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Discount rate	0.1% - 1.06%	0.1% - 1.06%
Long-term expected rate of return on plan assets	1.0% - 1.5%	1.0%

3. Defined contribution plan

The amounts required to contribute to defined contribution plans of the consolidated subsidiaries for the fiscal years ended March 31, 2019 and 2020 were ¥100 million and ¥145 million (\$1,335 thousand), respectively.

(Income Taxes)

1. Significant components of deferred tax assets and deferred tax liabilities

	As of March 31, 2019 (Millions of Yen)	As of March 31, 2020 (Millions of Yen)	As of March 31, 2020 (Thousands of U.S. Dollars)
Deferred tax assets:			
Provision for bonuses	1,533	1,634	15,018
Accrued enterprise tax	255	714	6,564
Tax loss carryforwards (Note 1)	3,664	3,627	33,327
Tax credit carryforwards	1,181	753	6,920
Loss on valuation of inventories	520	690	6,339
Retirement benefit liability	7,120	7,203	66,183
Unrealized gains and losses on non-current assets and investment securities	283	283	2,601
Adjustments on non-current assets	612	643	5,913
Loss on valuation of investment securities	956	1,025	9,415
Impairment loss	878	1,358	12,477
Adjustment of book value of investments	2,314	2,314	21,260
Valuation difference associated with business combinations	3,430	2,763	25,389
Other	2,204	2,859	26,265
Subtotal	24,950	25,866	237,671
Valuation allowance for tax loss carryforwards (Note 1)	(3,344)	(3,190)	(29,314)
Valuation allowance for total of deductible temporary differences and others	(6,981)	(7,286)	(66,941)
Less valuation allowance	(10,325)	(10,476)	(96,255)
Total deferred tax assets	14,625	15,390	141,416
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	(3,765)	(1,412)	(12,976)
Retained earnings of subsidiaries and associates	(3,186)	(3,375)	(31,015)
Valuation difference on non-current assets for consolidated tax return	(796)	(773)	(7,101)
Trademark right	(838)	(785)	(7,211)
Other (Note 2)	(1,753)	(2,189)	(20,112)
Total deferred tax liabilities	(10,338)	(8,534)	(78,415)
Net deferred tax assets	4,287	6,856	63,001

(Notes) 1. Amounts of tax loss carryforwards and associated deferred tax assets by expiration period

For the fiscal year ended March 31, 2019

(Millions of yen)

	Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	More than five years	Total
Tax loss carryforwards (a)	186	192	464	541	505	1,776	3,664
Valuation allowance	(66)	(184)	(460)	(443)	(415)	(1,776)	(3,344)
Deferred tax assets	120	8	4	98	90	—	320

(a) The amounts of tax loss carryforwards are calculated by multiplying the statutory tax rate.

For the fiscal year ended March 31, 2020

(Millions of yen)

	Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	More than five years	Total
Tax loss carryforwards (b)	381	512	378	1,322	309	725	3,627
Valuation allowance	(373)	(505)	(314)	(1,302)	(309)	(387)	(3,190)
Deferred tax assets	8	7	64	20	–	338	437

(Thousands of U.S. Dollars)

	Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years	More than five years	Total
Tax loss carryforwards (b)	3,501	4,706	3,475	12,151	2,843	6,651	33,327
Valuation allowance	(3,432)	(4,638)	(2,884)	(11,962)	(2,843)	(3,555)	(29,314)
Deferred tax assets	69	68	591	189	–	3,096	4,013

(b) The amounts of tax loss carryforwards are calculated by multiplying the statutory tax rate.

2. Changes in the method of presentation

“Enterprise taxes receivable,” which was presented separately under deferred tax liabilities for the fiscal year ended March 31, 2019, has been included in “Other” from the fiscal year ended March 31, 2020 due to a decrease in financial significance. To reflect the change in presentation, the reclassification of accounts has been made in the notes to income taxes for the fiscal year ended March 31, 2019. As a result, the ¥(47) million presented as “Enterprise taxes receivable” and the ¥(1,706) million presented as “Other” under deferred tax liabilities for the fiscal year ended March 31, 2019 have been reclassified to be presented as ¥(1,753) million of “Other.”

2. Difference between the statutory tax rate and the Company’s effective income tax rate

	Fiscal year ended March 31, 2019	Fiscal year ended March 31, 2020
Statutory tax rate	30.5%	30.5%
(Reconciliation)		
Per capita levy of inhabitants tax	1.4	0.3
Permanently non-deductible and non-taxable items	(0.5)	1.1
Change in valuation allowances	13.4	4.5
Amortization of goodwill	11.8	2.6
Deferred tax liabilities on retained earnings of subsidiaries and associates	1.9	0.6
Refund of income taxes for prior periods	(6.6)	(1.1)
Other	0.3	0.1
Effective income tax rate	52.2	38.6

(Segment Information, etc.)

[Segment Information]

1. Overview of reportable segments

The Company is organized into business units or sales divisions by product line. Each business unit or sales division is responsible for the formulation of a comprehensive strategy for the products it carries and the relevant business activities.

The Company consists of two reportable segments, namely the Paper and Paperboard business segment and the Home and Personal Care business segment, each of which comprises businesses of product lines that are similar in terms of the manufacture and distribution system and types of market or customers.

Each reportable segment of the Company is a unit for which operating results are evaluated regularly at the budget meeting, where decisions regarding the Company's financial performance are made, and for which separate financial information is available.

The products manufactured and distributed by the Paper and Paperboard business segment include newsprints, printing papers, packaging papers, paperboards, corrugated containers and pulps. The products manufactured and distributed by the Home and Personal Care business segment include sanitary goods, disposable diapers, napkins and wet wipes.

2. Calculation method of net sales, income, assets and other items by reportable segment

The accounting method for the reportable segments is the same as those described in "Summary of Significant Accounting and Reporting Policies."

Segment income is based on operating income.

Intersegment sales or transfers are based on the price determined upon consultation between the parties involved.

3. Net sales, income, assets and other items by reportable segment

For the fiscal year ended March 31, 2019

(Millions of Yen)

	Reportable Segment			Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Paper and Paperboard	Home and Personal Care	Total				
Net Sales							
Sales to external customers	316,491	195,095	511,586	22,304	533,890	—	533,890
Intersegment sales and transfers	20,300	4,208	24,508	63,171	87,679	(87,679)	—
Total sales	336,791	199,303	536,094	85,475	621,569	(87,679)	533,890
Segment income (loss)	8,130	4,272	12,402	(331)	12,071	51	12,122
Segment assets	422,117	246,068	668,185	58,927	727,112	18,754	745,866
Other items:							
Depreciation and amortization	22,584	9,900	32,484	847	33,331	—	33,331
Increase in property, plant and equipment and intangible assets	25,668	23,778	49,446	10,144	59,590	—	59,590

(Notes) 1. The "Other" category consists of the business segments that are not included in the reportable segments, and includes woodchip, forestry, machinery, logistics, electric power selling, golf club and real estate leasing businesses.

2. Adjustments are as follows:

- (1) The amount of adjustments for segment income is the adjustment for elimination of intersegment transactions.
- (2) The amount of adjustments for segment assets is the adjustment for elimination of intersegment transactions of ¥(12,875) million and corporate assets, consisting primarily of investment securities, not attributable to any reportable segment of ¥31,629 million.

3. Segment income is calculated by adjusting operating income presented in the consolidated statement of income.

For the fiscal year ended March 31, 2020

(Millions of Yen)

	Reportable Segment			Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Paper and Paperboard	Home and Personal Care	Total				
Net Sales							
Sales to external customers	317,825	204,732	522,557	23,876	546,433	–	546,433
Intersegment sales and transfers	18,925	3,447	22,372	65,975	88,347	(88,347)	–
Total sales	336,750	208,179	544,929	89,851	634,780	(88,347)	546,433
Segment income (loss)	19,936	7,964	27,900	2,687	30,587	42	30,629
Segment assets	440,337	246,274	686,611	63,866	750,477	12,583	763,060
Other items:							
Depreciation and amortization	19,806	10,900	30,706	1,137	31,843	–	31,843
Increase in property, plant and equipment and intangible assets	43,270	12,736	56,006	5,928	61,934	–	61,934

(Thousands of U.S. Dollars)

	Reportable Segment			Other (Note 1)	Total	Adjustments (Note 2)	Consolidated (Note 3)
	Paper and Paperboard	Home and Personal Care	Total				
Net Sales							
Sales to external customers	2,920,386	1,881,207	4,801,593	219,389	5,020,982	–	5,020,982
Intersegment sales and transfers	173,890	31,678	205,568	606,218	811,786	(811,786)	–
Total sales	3,094,276	1,912,885	5,007,161	825,607	5,832,768	(811,786)	5,020,982
Segment income (loss)	183,181	73,179	256,360	24,692	281,052	386	281,438
Segment assets	4,046,095	2,262,924	6,309,019	586,848	6,895,867	115,616	7,011,483
Other items:							
Depreciation and amortization	181,988	100,162	282,150	10,446	292,596	–	292,596
Increase in property, plant and equipment and intangible assets	397,593	117,030	514,623	54,465	569,088	–	569,088

(Notes) 1. The “Other” category consists of the business segments that are not included in the reportable segments, and includes woodchip, forestry, machinery, logistics, electric power selling, golf club and real estate leasing businesses.

2. Adjustments are as follows:

- (1) The amount of adjustments for segment income is the adjustment for elimination of intersegment transactions.
- (2) The amount of adjustments for segment assets is the adjustment for elimination of intersegment transactions of ¥(13,279) million (\$ (122,023) thousand) and corporate assets, consisting primarily of investment securities, not attributable to any reportable segment of ¥25,862 million (\$237,640 thousand).

3. Segment income is calculated by adjusting operating income presented in the consolidated statement of income.

[Related Information]

For the fiscal year ended March 31, 2019

1. Information by product and service

This information is omitted because a similar description has been disclosed in segment information.

2. Information by geographical area

(1) Net sales

This information is omitted because the Group’s sales in Japan exceed 90% of net sales presented in the consolidated statement of income.

(2) Property, plant and equipment

This information is omitted because the Group's amount of property, plant and equipment located in Japan exceeds 90% of the amount of property, plant and equipment presented in the consolidated balance sheet.

3. Information by major customer

This information is omitted because none of the external customers singularly account for 10% or more of net sales presented in the consolidated statement of income.

For the fiscal year ended March 31, 2020

1. Information by product and service

This information is omitted because a similar description has been disclosed in segment information.

2. Information by geographical area

(1) Net sales

This information is omitted because the Group's sales in Japan exceed 90% of net sales presented in the consolidated statement of income.

(2) Property, plant and equipment

(Millions of Yen)

Japan	Asia	South America	Other	Total
324,657	22,999	14,038	430	362,124

(Thousands of U.S. Dollars)

Japan	Asia	South America	Other	Total
2,983,158	211,332	128,994	3,942	3,327,426

3. Information by major customer

This information is omitted because none of the external customers singularly account for 10% or more of net sales presented in the consolidated statement of income.

[Impairment Loss of Non-current Assets by Reportable Segment]

For the fiscal year ended March 31, 2019

(Millions of Yen)

	Paper and Paperboard	Home and Personal Care	Other	Corporate & elimination	Total
Impairment loss	776	2,243	—	—	3,019

For the fiscal year ended March 31, 2020

(Millions of Yen)

	Paper and Paperboard	Home and Personal Care	Other (Note)	Corporate & elimination	Total
Impairment loss	1,742	0	—	—	1,742

(Thousands of U.S. Dollars)

	Paper and Paperboard	Home and Personal Care	Other	Corporate & elimination	Total
Impairment loss	16,005	3	—	—	16,008

[Amortization and Unamortized Balance of Goodwill by Reportable Segment]

For the fiscal year ended March 31, 2019

(Millions of Yen)

	Paper and Paperboard	Home and Personal Care	Other (Note)	Corporate & elimination	Total
Amortization of goodwill	1,150	1,999	507	–	3,656
Unamortized balance	13,238	24,167	6,725	–	44,130

(Note) The amount of “Other” includes amortization and unamortized balance associated with the woodchip, forestry, machinery, and logistics businesses.

The following are amortization and unamortized balances of negative goodwill arising from the business combinations that occurred before April 1, 2010.

(Millions of Yen)

	Paper and Paperboard	Home and Personal Care	Other (Note)	Corporate & elimination	Total
Amortization of negative goodwill	11	0	62	–	73
Unamortized balance	78	0	499	–	577

(Note) The amount of “Other” includes amortization and unamortized balance associated with the woodchip and forestry businesses.

For the fiscal year ended March 31, 2020

(Millions of Yen)

	Paper and Paperboard	Home and Personal Care	Other (Note)	Corporate & elimination	Total
Amortization of goodwill	1,122	1,999	512	–	3,633
Unamortized balance	12,116	22,168	6,161	–	40,445

(Thousands of U.S. Dollars)

	Paper and Paperboard	Home and Personal Care	Other (Note)	Corporate & elimination	Total
Amortization of goodwill	10,314	18,370	4,696	–	33,380
Unamortized balance	111,330	203,696	56,609	–	371,635

(Note) The amount of “Other” includes amortization and unamortized balance associated with the woodchip, forestry, machinery, and logistics businesses.

The following are amortization and unamortized balances of negative goodwill that arose in the business combinations that occurred before April 1, 2010.

(Millions of Yen)

	Paper and Paperboard	Home and Personal Care	Other (Note)	Corporate & elimination	Total
Amortization of negative goodwill	11	0	62	–	73
Unamortized balance	68	0	436	–	504

(Thousands of U.S. Dollars)

	Paper and Paperboard	Home and Personal Care	Other (Note)	Corporate & elimination	Total
Amortization of negative goodwill	100	1	572	–	673
Unamortized balance	620	4	4,006	–	4,630

(Note) The amount of “Other” includes amortization and unamortized balance associated with the woodchip and forestry businesses.

[Negative Goodwill (Gain on Bargain Purchase) by Reportable Segment]

The Company did not recognize any gain on bargain purchase for the fiscal years ended March 31, 2019 and 2020.

[Related Party Information]

Not applicable.

(Per Share Information)

	Fiscal year ended March 31, 2019 (Yen)	Fiscal year ended March 31, 2020 (Yen)	Fiscal year ended March 31, 2020 (U.S. Dollars)
Net assets per share	1,236.58	1,319.57	12.13
Basic earnings per share	31.70	127.91	1.18
Diluted earnings per share	28.09	115.18	1.06

(Notes) 1. Treasury shares remaining in the Board Benefit Trust (BBT) recorded as treasury shares under shareholders' equity are included in treasury shares that are deducted in the calculation of the average number of shares outstanding during the period for the determination of basic earnings per share, and are included in treasury shares that are deducted from the total number of shares issued at the end of the period for the determination of net assets per share. The average number during the period of such treasury shares deducted for the determination of basic earnings per share for the fiscal year ended March 31, 2020 was 139 thousand shares. Meanwhile, the number at the end of the period of such treasury shares deducted for the determination of net assets per share for the fiscal year ended March 31, 2020 was 302 thousand shares.

2. Basic and diluted earnings per share are calculated based on the following:

	Fiscal year ended March 31, 2019 (Millions of Yen, unless otherwise stated)	Fiscal year ended March 31, 2020 (Millions of Yen, unless otherwise stated)	Fiscal year ended March 31, 2020 (Thousands of U.S. Dollars, unless otherwise stated)
Basic earnings per share			
Profit attributable to owners of parent	4,697	19,199	176,414
Amount not attributable to common shareholders of parent	—	—	—
Profit attributable to common shareholders of parent	4,697	19,199	176,414
Average number of common shares outstanding during the period (thousands of shares)	148,162	150,093	150,093
Diluted earnings per share			
Adjustment to profit attributable to owners of parent	(19)	(17)	(154)
[Interest expenses (after deducting the amount equivalent to taxes)]	[(19)]	[(17)]	[(154)]
Increase in the number of common shares (thousands of shares)	18,382	16,449	16,449
[Convertible bond-type bonds with share acquisition rights (thousands of shares)]	[18,382]	[16,449]	[16,449]
Summary of potentially dilutive shares that were not included in the calculation of diluted earnings per share since there was no dilutive effect	—	—	—

(Subsequent Events)

Business Combinations through Acquisition

1. Ozen Kisisel Bakim Urunleri Uretim A.S.

At the Board of Directors Meeting held on February 27, 2020, the Company resolved to acquire all shares of Ozen Kisisel Bakim Urunleri Uretim A.S. (hereinafter referred to as “Ozen”), a hygiene products manufacturer owned by Yildiz Holding A.S. (hereinafter referred to as “Yildiz”), which is a major food and consumer goods conglomerate in the Republic of Turkey (hereinafter referred to as “Turkey”), (hereinafter referred to as the “Share Acquisition”). The Company completed the Share Acquisition on May 29, 2020.

(1) Overview of the business combination

1) Name and business details of the acquired company

Name of the acquired company: Ozen Kisisel Bakim Urunleri Uretim A.S.

Business details: Production and sales of disposable diapers, wet wipes, liquid soaps, etc.

2) Main reasons for the business combination

Ozen has a factory situated in an excellent location close to Istanbul and currently produces and sells products in three product categories: baby diapers, wet wipes and liquid soaps, which are expected to have synergistic effects with the Company’s Home & Personal Care (hereinafter referred to as the “H&PC”) business. Since Ozen, which entered the baby diaper business in 2007, had ESSITY, a major global manufacturer of hygiene products, as its equity participant from 2011 to 2019, we assess that Ozen’s technical capabilities in manufacturing baby diapers is high.

Under this situation, as the Company intends to promote business expansion by establishing a factory in Turkey, it evaluated the efficacy of constructing its own factory versus a corporate acquisition. As a result of the deliberation, it has concluded that the acquisition of Ozen from Yildiz is the most effective option for the Company.

3) Date of the business combination

May 29, 2020

4) Legal form of the business combination

The transaction was a share acquisition in consideration for cash.

5) Company name after the business combination

Elleair International Turkey Kisisel Bakim Urunleri Uretim A.S.

6) Ratio of voting rights acquired

Ratio of voting rights before the acquisition: 0.0%

Ratio of voting rights after the acquisition: 100.0%

7) Grounds for determining the acquiring company

The Company acquired shares of Ozen Kisisel Bakim Urunleri Uretim A.S. in consideration for cash.

(2) Period of operating results of the acquired company or business which is included in the consolidated financial statements

The operating results of the acquired company is not included in the consolidated statement of income for the fiscal year ended March 31, 2020 because the acquisition was deemed to be implemented on March 31, 2020.

(3) Acquisition cost and breakdown by type of consideration

Consideration for acquisition	Consideration for the share acquisition in cash	¥207 million (\$1,898 thousand)
Acquisition cost		¥207 million (\$1,898 thousand)

(Note) The figure above represents the consideration at the time of acquisition. Accordingly, the final amount may vary from the above amount due to price adjustment in accordance with the share purchase agreement.

In conjunction with the acquisition of all shares of Ozen on May 29, 2020, the Company paid ¥2,199 million (\$20,204 thousand) to Yildiz for performing Ozen's obligation against Yildiz through a third-party performance with the consent of Ozen, in addition to the above-mentioned consideration for the share acquisition in cash. As a result, Ozen bears the obligation of ¥2,199 million (\$20,204 thousand) against the Company. The said obligation was converted to equity capital of the acquired company in July 2020 through a debt-equity swap.

(4) Major components and amounts of acquisition related costs

Fees, commissions, etc. paid to external advisors and other parties: ¥188 million (\$1,725 thousand)

(5) Amount of goodwill, reason for recognition, and method and period of amortization

1) Amount of goodwill

¥1,743 million (\$16,013 thousand)

The figure above is provisionally calculated amount.

2) Reason for recognition

The goodwill arose from reasonable estimates of future excess earning power expected to be generated from business developments going forward.

3) Method and period of amortization

The goodwill is to be amortized using the straight-line method over 20 years.

(6) Amounts of assets received and liabilities assumed on the date of the business combination and their breakdown

The details have not yet been determined at this time.

2. Santher – Fabrica de Papel Santa Therezinha S.A.

At the Board of Directors Meeting held on February 27, 2020, the Company resolved to jointly acquire indirectly all shares (hereinafter referred to as the "Transaction") of Santher – Fabrica de Papel Santa Therezinha S.A. (hereinafter referred to as "Santher") based in the Federative Republic of Brazil (hereinafter referred to as "Brazil") with Marubeni Corporation (hereinafter referred to as "Marubeni"). The Company and Marubeni completed the Transaction on June 29, 2020. A joint investment company established in Brazil called H&PC BRAZIL PARTICIPACOES S.A. (hereinafter referred to as the "Subsidiary Company"), in which the Company and Marubeni hold 51.0% and 49.0% stake, respectively, directly acquired 100% of Santher shares.

(1) Overview of the business combination

1) Name and business details of the acquired company

Name of the acquired company: Santher – Fabrica de Papel Santa Therezinha S.A.

Business details: Production and sales of H&PC products such as household paper, disposable diapers, etc. and specialty paper

2) Main reasons for the business combination

Santher has engaged in production and sales of personal care products such as household paper, disposable baby diapers and sanitary napkins in Brazil for over 80 years since its foundation. Brand awareness of the company's products is notably high throughout Brazil. Particularly, it has established a solid leading position in the H&PC market with the "Personal"

brand, which is highly valued by local consumers. Santher holds a strong position as a market leader in the Brazilian household paper market, and out of the local companies, holds the top share of disposable diapers and sanitary napkins.

The Brazilian H&PC market is the fourth largest market in the world, with household paper products and disposable diapers marking an annual growth rate of 5.6 percent and 5.4 percent respectively over the last five years, and continued growth of the market is expected moving forward, given that penetration rates of such products would increase driven by population growth, economic development and higher living standards. Since it should take significant number of years to gain market share and to generate profit organically through a greenfield investment, the Company and Marubeni believe a friendly takeover of a promising local company will be an effective measure, therefore they came to the decision to acquire Santher.

3) Date of the business combination

June 29, 2020

4) Legal form of the business combination

The transaction was a share acquisition in consideration for cash.

5) Company name after the business combination

The name has not been changed.

6) Ratio of voting rights acquired

Ratio of voting rights before the acquisition: 0.0%

Ratio of voting rights after the acquisition: 51.0% (of which indirectly owns 51.0%)

7) Grounds for determining the acquiring company

The Subsidiary Company acquired shares of Santher – Fabrica de Papel Santa Therezinha S.A. in consideration for cash.

(2) Period of operating results of the acquired company or business which is included in the consolidated financial statements

The operating results of the acquired company is not included in the consolidated statement of income for the fiscal year ended March 31, 2020 because the acquisition was deemed to be implemented on March 31, 2020.

(3) Acquisition cost and breakdown by type of consideration

Consideration for acquisition	Consideration for the share acquisition in cash	¥52,243 million (\$480,040 thousand)
Acquisition cost		¥52,243 million (\$480,040 thousand)

(Note) The figure above represents the consideration at the time of acquisition. Accordingly, the final amount may vary from the above amount due to price adjustment in accordance with the share purchase agreement.

(4) Major components and amounts of acquisition related costs

The details have not yet been determined at this time.

(5) Amount of goodwill, reason for recognition, and method and period of amortization

1) Amount of goodwill

¥26,303 million (\$241,688 thousand)

The figure above is provisionally calculated amount.

2) Reason for recognition

The goodwill arose from reasonable estimates of future excess earning power expected to be generated from business developments going forward.

3) Method and period of amortization

The goodwill is to be amortized using the straight-line method over 20 years.

(6) Amounts of assets received and liabilities assumed on the date of the business combination and their breakdown

The details have not yet been determined at this time.

Exercise of share acquisition rights

For the Euro Yen Zero Coupon Convertible Bonds due 2020 issued by the Company, the share acquisition rights were exercised and converted into new shares during the period from April 1, 2020 to September 3, 2020—the expiration date. The details are outlined below.

(1) Decrease in balance of convertible bond-type bonds with share acquisition rights:	¥20,871 million (\$191,774 thousand)
(2) Increase in balance of share capital:	¥10,435 million (\$95,887 thousand)
(3) Increase in balance of capital surplus:	¥10,435 million (\$95,887 thousand)
(4) Type and number of shares increased:	14,480,973 shares of common stock

5) Supplementary Schedules

[Schedule of Bonds]

(Millions of Yen)

Company	Name	Date of issue	Beginning balance (Millions of Yen)	Ending balance (Millions of Yen)	Interest rate (%)	Collateral	Maturity
Daio Paper Corporation	Euro Yen Zero Coupon Convertible Bonds due 2020 (Note 2)	September 17, 2015	23,745	22,541 [22,541]	—	None	September 17, 2020
Daio Paper Corporation	Unsecured Straight Bond No. 18	March 22, 2017	15,000	15,000	0.42	None	March 22, 2022
Daio Paper Corporation	Unsecured Straight Bond No. 19	December 14, 2017	15,000	15,000	0.42	None	December 14, 2022
Daio Paper Corporation	Unsecured Straight Bond No. 20	December 14, 2017	10,000	10,000	0.60	None	December 13, 2024
Daio Paper Corporation	Unsecured Straight Bond No. 21	October 25, 2018	15,000	15,000	0.61	None	October 24, 2025
Daio Paper Corporation	Unsecured Straight Bond No. 22	October 25, 2018	5,000	5,000	0.86	None	October 25, 2028
Consolidated subsidiaries	Subsidiary Straight Bonds	March 27, 2017	300	300	0.49	None	March 27, 2022
Total	—	—	84,045	82,841 [22,541]	—	—	—

(Thousands of U.S. Dollars)

Company	Name	Date of issue	Beginning balance (Thousands of U.S. Dollars)	Ending balance (Thousands of U.S. Dollars)	Interest rate (%)	Collateral	Maturity
Daio Paper Corporation	Euro Yen Zero Coupon Convertible Bonds due 2020 (Note 2)	September 17, 2015	218,187	207,118 [207,118]	—	None	September 17, 2020
Daio Paper Corporation	Unsecured Straight Bond No. 18	March 22, 2017	137,830	137,830	0.42	None	March 22, 2022
Daio Paper Corporation	Unsecured Straight Bond No. 19	December 14, 2017	137,830	137,830	0.42	None	December 14, 2022
Daio Paper Corporation	Unsecured Straight Bond No. 20	December 14, 2017	91,886	91,886	0.60	None	December 13, 2024
Daio Paper Corporation	Unsecured Straight Bond No. 21	October 25, 2018	137,830	137,830	0.61	None	October 24, 2025
Daio Paper Corporation	Unsecured Straight Bond No. 22	October 25, 2018	45,943	45,943	0.86	None	October 25, 2028
Consolidated subsidiaries	Subsidiary Straight Bonds	March 27, 2017	2,756	2,756	0.49	None	March 27, 2022
Total	—	—	772,262	761,193 [207,118]	—	—	—

(Notes) 1. The figures in square brackets in ending balance indicate the amounts of current portion of bonds payable included in the total balance.

2. Details of the convertible bonds are presented as follows.

Name of bonds:	Euro Yen Zero Coupon Convertible Bonds due 2020
Stock to be issued:	Common stock
Issue price of stock acquisition rights:	Free of charge (gratis issue)
Issue price of stock:	¥1,441.2 (\$13.24)
Total issue amount:	¥30,150 million (\$277,038 thousand)
Total issue amount of stock issued upon exercise of stock acquisition rights:	¥7,483 million (\$68,763 thousand)
Percentage of stock acquisition rights granted:	100.0%
Exercise period of stock acquisition rights:	From October 1, 2015 to September 3, 2020 (Local time of the place for accepting the exercise request)

(Note) Upon the exercise of stock acquisition rights, the bonds associated with the stock acquisition rights shall be subject to capital contribution, with the price for the bonds being the same as their face value.

3. The redemption schedule of bonds payable for five years subsequent to March 31, 2020 is as follows:

(Millions of Yen)

Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years
22,530	15,300	15,000	—	10,000

(Thousands of U.S. Dollars)

Due within one year	Between one to two years	Between two to three years	Between three to four years	Between four to five years
207,020	140,586	137,830	—	91,886

[Schedule of Debts]

Category	Beginning balance (Millions of Yen)	Ending balance (Millions of Yen)	Beginning balance (Thousands of U.S. Dollars)	Ending balance (Thousands of U.S. Dollars)	Average interest rate (%)	Maturity
Short-term borrowings	19,222	15,453	176,622	141,988	0.61	—
Current portion of long-term borrowings	49,839	53,724	457,952	493,651	0.99	—
Current portion of lease obligations	694	1,012	6,380	9,301	—	—
Long-term borrowings (excluding current portion)	250,755	242,101	2,304,095	2,224,576	0.89	Due in 2021 through 2027
Lease obligations (excluding current portion)	1,995	2,244	18,331	20,619	—	Due in 2021 through 2026
Other interest-bearing debt						
Current portion of long-term accounts payable – facilities	811	538	7,455	4,939	0.70	—
Long-term accounts payable – facilities (excluding current portion)	1,094	568	10,049	5,222	0.49	Due in 2021 through 2024
Total	324,410	315,640	2,980,884	2,900,296	—	—

- (Notes)
1. The average interest rate above represents the weighted-average interest rate for the ending balance of borrowings.
 2. The average interest rate of the lease obligations is not presented because the lease obligations are stated in the consolidated balance sheet at the amount before deducting the amount equivalent to interest expenses that are included in the total lease payments.
 3. The redemption schedule of long-term borrowings, lease obligations and other interest-bearing debt (excluding current portions) for five years subsequent to March 31, 2020 is as follows:

(Millions of Yen)

	Between one to two years	Between two to three years	Between three to four years	Between four to five years
Long-term borrowings	62,970	53,465	49,248	52,159
Lease obligations	770	527	379	209
Other interest-bearing debt	385	168	13	2

(Thousands of U.S. Dollars)

	Between one to two years	Between two to three years	Between three to four years	Between four to five years
Long-term borrowings	578,607	491,274	452,526	479,274
Lease obligations	7,077	4,839	3,484	1,918
Other interest-bearing debt	3,539	1,545	120	18

[Schedule of Asset Retirement Obligations]

The Schedule of Asset Retirement Obligations is not presented, pursuant to Article 92-2 of the Ordinance on Consolidated Financial Statements, as the beginning and ending balances of asset retirement obligations for the current fiscal year ended March 31, 2020 were one percent or less of the total beginning and ending balances of liabilities and net assets of the current fiscal year.