Financial Section

TOYOBO CO., LTD.
CONSOLIDATED FINANCIAL STATEMENTS
March 31, 2021 and 2020

Disclaimer Regarding Forward-Looking Statements

This report not only describes the past and present facts about Toyobo Co., Ltd. and its affiliates (together, the "Toyobo Group") but also projects future business performance and forecasts the future business environment. Such projections include assumptions and evaluations that were developed based on information that Toyobo was able to obtain as of the time this report was prepared and, thus, contain unknown as well as known risks and uncertainties. Consequently, there is a possibility that these risks and uncertainties will render the projections and forecasts inaccurate and result in actual future business performance and a future business environment significantly different from the projections and forecasts presented in this report. Readers are thus advised to exercise caution. The projections of future business performance and forecasts of the future business environment that are found in this report were developed based on information that our corporation was able to obtain at the time the descriptions were written. These projections and forecasts, therefore, contain elements of uncertainty. Moreover, there is a possibility that latent risks that have the potential to render such projections and forecasts inaccurate will materialize. Please be fully advised that, in the future, actual business performance and the actual business environment could turn out to be different from the projections and forecasts presented in this report.

CONTENTS

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Management’s Discussion and Analysis

Overview of Fiscal Year Ended March 31, 2021

As for the business environment surrounding the Toyobo Group (hereinafter the “Group”) in the fiscal year ended March 31, 2021, the economic activities recovered due to the rapid suppression of the novel coronavirus disease (COVID-19) in China, while the global economy was deeply impacted by this pandemic. In the United States, economic activities were gradually recovering due to human mobility restrictions and fiscal and monetary policies. However, it is expected that it will take time for the global economy, including the economy of Japan, to normalize due to a shortage of semiconductors and price increase of raw materials and fuel, which became extra factors in the fourth quarter of the fiscal year ended March 31, 2021, on top of the resurgence of the COVID-19 infection cases.

In this business environment, automotive-related products and textiles in the Group were affected by the spread of the COVID-19 infection cases, mainly in the first half of the fiscal year ended March 31, 2021. In the acrylic fiber business, an impairment loss of ¥7.8 billion was recorded on business assets. On the other hand, while the COVID-19 infection spread, Toyobo established a system to double the production volume of raw materials and reagents for PCR testing in order to meet the global demand for PCR testing. In addition, sales of mold releasing film for MLCC “COSMOPEEL” improved due to the recovery of automobile production, and sales of polarizer protective films for LCDs “COSMOSHINE SRF” grew due to the commencement of mass production in the new line (Unit 3).

As a result, consolidated net sales in the fiscal year ended March 31, 2021 decreased ¥2.2 billion (0.6%) over the previous fiscal year to ¥337.4 billion. Operating profit increased ¥3.9 billion (16.9%) to ¥26.7 billion, ordinary profit increased ¥2.7 billion (14.8%) to ¥20.7 billion, and profit attributable to owners of parent decreased ¥9.6 billion (69.5%) to ¥4.2 billion as a result of recording extraordinary loss for impairment loss on business assets in the acrylic fiber business and loss due to the fire at Inuyama Plant.

Results by business segment were as follows:
Please note that the Group changed its reporting segment classification from the fiscal year ended March 31, 2021. With regard to the following year-on-year comparison, the prior year’s figures have been restated in accordance with the aforesaid change in the segment classification.

Films and Functional Materials

In this segment, sales and operating profit increased due to the strong performance of the films business.

In the films business, the packaging film business experienced a decline in films for professional use, etc., caused by the spread of infection of COVID-19. On the other hand, demand from people staying at home increased. Furthermore, despite a decrease in sales of some products due to the fire accident, environmentally friendly films achieved growth in sales due to the rising eco consciousness of consumers. In the industrial film business, polarizer protective films for LCDs “COSMOSHINE SRF” showed strong sales growth, and mold releasing film for MLCC “COSMOPEEL” improved in the second half of the fiscal year ended March 31, 2021 due to the recovery in automobile production.

In the functional materials business, sales of industrial adhesives “Vylon” and adhesion promoter for polyolefin “HARDLEN” improved in the second half of the fiscal year ended March 31, 2021, but this was unable to compensate for the impact of the spread of COVID-19 through the first half of the fiscal year ended March 31, 2021. On the other hand, in the photo functional materials business, which handles water wash photo sensitive printing plates, sales of products for 5 China, Europe and the United States trended strong.

As a result, sales in this segment increased ¥25.7 billion (20.2 %) from the previous fiscal year to ¥152.8 billion, and operating profit increased ¥5.4 billion (37.3 %) to ¥20.0 billion.

Mobility
In this segment, despite sales recovery in the second half of the fiscal year ended March 31, 2021 due to the improvement of global automobile production, sales and operating profit decreased as the recovery was unable to compensate for the effect of reducing the production of vehicles caused by the spread of infection of COVID-19 through the six months ended September 30, 2020.

Engineering plastics saw a recovery in demand in Japan and overseas in the second half of the fiscal year ended March 31, 2021, and the sales grew in the 4th quarter with a year on year increase. The recovery was unable to compensate for sales decreases through the first half of the fiscal year ended March 31, 2021 caused by reduced production of vehicles. The airbag fabrics business continued to face challenges due to material shortages, etc., despite a recovery in demand in the second half of the fiscal year ended March 31, 2021.

As a result, sales in this segment decreased ¥7.3 billion (16.7 %) from the previous fiscal year to ¥36.6 billion, with an operating loss of ¥1.6 billion. (Compared with operating loss of ¥0.7 billion for the previous fiscal year.)

Lifestyle and Environment
In this segment, sales and operating profit decreased as a result of high performance fibers and textiles being sluggish, caused by a decline in demand due to the spread of the COVID-19 infections.

In the environmental solutions business, despite the challenges to acquiring new projects due to the spread of the COVID-19 infections, sales of volatile organic compound (VOC) emissions treatment equipment for recovering solvents were steady for the full year period owing to the backlog of sales orders. Sales of Reverse Osmosis (RO) membrane for seawater desalination grew for the full year period because the timing of orders for replacement elements shifted to the second half of the fiscal year ended March 31, 2021.

In the nonwoven fabrics business, sales of spunbond for construction and civil engineering applications were sluggish. Sales of functional filters were strong for air purifiers and masks, but struggled for office machinery.

In the functional fiber materials business, sales of polyester staple fibers for use in hygiene products and functional cushion material “BREATHAIR” for bedding applications were strong. On the other hand, with regard to high performance fibers, demand for “Tsunooga” used in cut resistant gloves contracted as the plant operation rate fell throughout the world, and “IZANAS” was affected by the decline in demand for the use of ropes in Japan.

In the textile business, store sales, etc., for sports, underwear and suits were sluggish because of a significant decline in orders. Sales of traditional Arabic fabric remained weak due to sluggish store sales caused by the outing restrictions in Middle Eastern countries.

The acrylic fiber business struggled due to the further deterioration in the market environment due to the spread of the COVID-19 infections amid the fall in demand in Chinese markets and tough business operations enforced by antidumping policy.

As a result, sales in this segment decreased ¥19.3 billion (15.0%) from the previous fiscal year to ¥109.1 billion, and operating profit decreased ¥1.6 billion (26.3%) to ¥4.4 billion.

Life Science
In this segment, sales and operating profit increased due to the rapid growth in demand for reagents for PCR testing while the contract manufacturing business of pharmaceuticals faced challenges.

In the biotechnology business, demand for raw materials for diagnostic reagents decreased, but sales of reagents for PCR testing and genetic testing equipment grew significantly due to the high demand with the spread of COVID-19.

The contract manufacturing business of pharmaceuticals struggled due to the temporary suspension in operations and increased costs for compliance with Good Manufacturing Practice (GMP).

In the medical materials business, sales of membranes for artificial kidney in the medical membrane business trended strong.
As a result, sales in this segment increased ¥1.5 billion (6.1 %) from the previous fiscal year to ¥27.1 billion, and operating profit increased ¥0.7 billion (18.9 %) to ¥4.5 billion.

Real Estate and Other Businesses
This segment includes infrastructure related businesses, such as real estate, engineering, information processing services, and logistics services. Results in these businesses were generally in line with plans.

As a result, total sales in these businesses decreased ¥2.9 billion (19.6 %) from the previous fiscal year to ¥11.8 billion, and operating profit decreased ¥0.3 billion (12.2 %) to ¥2.3 billion.

Cash Flows
Net cash proceeded by operating activities amounted to ¥35.0 billion, down ¥9.2 billion from the previous fiscal year. This was due mainly to a cash increase of depreciation of ¥19.1 billion and impairment losses of ¥8.9 billion.

Net cash used in investing activities amounted to ¥31.7 billion, down ¥7.5 billion from the previous fiscal year. This was due mainly to purchase of property, plant and equipment and intangible assets of ¥27.5 billion.

Net cash proceeded by financing activities amounted to ¥5.3 billion (expenditure of ¥1.8 billion for the previous fiscal year). This was due mainly to net increase in short-term borrowings of ¥8.5 billion, proceeds from long-term borrowings of ¥12.0 billion, repayments of long-term borrowings of ¥9.5 billion and dividends paid of ¥3.6 billion.

As a result, the balance of cash and cash equivalents at the end of the current fiscal year stood at ¥34.5 billion, an increase of ¥9.4 billion from the end of the previous fiscal year.

Assets, Liabilities and Net Assets
Total assets at the end of the current fiscal year increased ¥2.3 billion (0.5%) from the end of the previous fiscal year to ¥491.2 billion. This was due mainly to an increase in cash and deposits as a result of financing through borrowings from financial institutions in order to increase liquidity on hand after taking into account the impact of the spread of COVID-19, despite a decrease in property, plant and equipment resulting from impairment losses.

Liabilities at the end of the current fiscal year decreased ¥3.7 billion (1.2%) from the end of the previous fiscal year to ¥302.6 billion. This was mainly because of decreases in other current liabilities and electronically recorded obligations - operating.

Total net assets at the end of the current fiscal year increased ¥6.0 billion (3.3%) from the end of the previous fiscal year to ¥188.6 billion. This was due mainly to an increase in accumulated other comprehensive income, such as remeasurements of defined benefit plans.

Forecast for Fiscal Year Ending March 31, 2022
Regarding the business environment for the fiscal year ending March 31, 2022, as mentioned earlier, it is expected that it will take time for the global economy, including the economy of Japan, to normalize due to the effect of shortage of semiconductors and price increases for raw materials and fuel, which became extra factors in the second half of the fiscal year ending March 31, 2022, on top of the resurgence of the COVID-19 infection cases. The speed of economic recovery is likely to be affected by the progress of the COVID-19 vaccine roll out, the timing of the lifting of restrictions on human mobility, and the recovery status in semiconductor production.

There are concerns that the Group’s businesses will be affected by a delay in the recovery of personal consumption due to restriction on human mobility, a decrease in automobile production due to the shortage of semiconductors, and a rise in the price of raw materials and fuel.

Meanwhile, Toyobo will make every effort to offer reagents for PCR testing and provide genetic testing equipment, etc., in order to respond to the public demand for PCR testing. In addition, in order to respond to the strong demand for information equipment, Toyobo plans to increase the production of mold releasing film for MLCC “COSMOPEEL” and polarizer protective films for LCDs “COSMOSHINE SRF.”

In this environment, for the fiscal year ending March 31, 2022, the Group is forecasting net sales of ¥360.0 billion (an increase of ¥22.6 billion year on year), operating profit of ¥27.0 billion (an increase of ¥0.3 billion), ordinary profit of ¥22.0 billion (an increase of ¥1.3 billion), and profit attributable to owners of parent of ¥11.5 billion (an increase of ¥7.3 billion).

Management Policy, Business Environment, Issues to be Addressed
With regard to matters concerning the future in the text, the Group made judgments as at the end of the fiscal year ended March 31, 2021 under review, and no assurance is given as to the accuracy.

1. Management Policy
The Group has adopted “Jun-Ri-Soku-Yu (**順理則裕**)” as our corporate philosophy. This motto, which means “Do what must be done, don’t do what must not be done”. This motto is understood to show the attitude of business operations in which adhering to “Jun-Ri” leads to a prosperous society while also realizing self-growth. “Jun-Ri-Soku-Yu (**順理則裕**)” is based on so-called CSV (Creating Shared Value: contributing to solutions for social challenges and working to improve economic value to increase the corporate value). The Group has maintained this corporate philosophy for about 140 years since its founding.

In 2019, the Group returned to its original starting point of the spirit of Eiichi Shibusawa and rearranged its “Jun-Ri-Soku-Yu (**順理則裕**)” corporate philosophy as the corporate philosophy system “TOYOBO PVVs” so as to become a company that continues to draw a growth path through contributions to society while responding to the changes of the times.

〈TOYOBO PVVs〉
Principle
“Jun-Ri-Soku-Yu (**順理則裕**)” (Adhering to reason leads to prosperity)
Vision
We will continue to create the solutions needed by people and the earth with our materials and science.
Values
We welcome change, enjoy change, and create change.
TOYOBO Spirit
Challenge, Reliability, Collaboration

However, a fire accident occurred at the Company’s Inuyama Plant in September 2020, leading to the loss of two employee’s lives. In addition, misconduct concerning quality of engineering plastics occurred during fiscal 2021. The Group considers those incidents as material and serious issues. By reflecting with this corporate philosophy system as the foothold for judgments and actions of all the members of the Group, we will work together to thoroughly implement measures to prevent recurrence and repetition of such incident and quality problem.

Based on such recognition, in fiscal 2022, we will press ahead with reforms with the top priority of “recovery of trust” by establishing the management policy: “rebuild business foundation for sustainable growth.”

2. 2018 Medium-Term Management Plan
The Group is especially focusing on operating profit, return on equity (ROE) and return on invested capital (ROA), which serve as its managerial indicators. The numerical targets in its 2018 Medium-Term Management Plan (from the fiscal year ended March 31, 2019 to the fiscal year ending March 31, 2022) are operating profit amounting to no less than ¥30.0 billion and ROE of at least 8%. Furthermore, the Group has employed ROA as a performance management indicator in the Group and aims to achieve ROA of at least 7%.

In assessing its financial position, the Group focuses on the “ratio of interest bearing debt and net assets (D/E Ratio)” from the perspective of maintaining and improving its debt rating and ensuring stability in financing and has set a target of a D/E ratio of less than 1.0. However, the Group believes that it is vital to make investments toward future growth at the appropriate time and will continue its efforts to strengthen its earnings power without regard for the D/E ratio of 1.0 while keeping in mind the ratio.

The following table shows major managerial indicators and targets in the 2018 Medium-Term Management Plan (announced in May 2018) and actual results to date.

Regarding fiscal 2022, while expecting the increased production of industrial film and the strong sales of products related to PCR testing, consideration was also given on the impact of rising raw materials and fuel prices, and an increase in expenses related to disaster prevention and safety. As a result, the Group is forecasting net sales of ¥360.0 billion, operating profit of ¥27.0 billion, and net profit of ¥11.5 billion, which falls below the final targets of the Medium-term Management Plan (net sales of ¥375.0 billion, operating profit of ¥30.0 billion and net profit of ¥16.0 billion).

	fiscal 2019 Results	fiscal 2020 Results	fiscal 2021 Results	fiscal 2022 Targets
Net sales (¥bn.)	336.7	339.6	337.4	375.0
Overseas sales ratio (%)	30.5	32.3	33.0	35.0
Operating profit (¥bn.)	21.7	22.8	26.7	30.0
Operating profit margin (%)	6.5	6.7	7.9	8.0
Profit (loss) attributable to owners of parent (¥bn.)	-0.6	13.8	4.2	16.0
ROE (%)	-	7.8	2.3	≧8.0
ROA (%)	4.7	4.7	5.4	≧7.0
D/E ratio (-)	0.93	0.98	1.01	<1.0

3. Management Issues and Key Measures

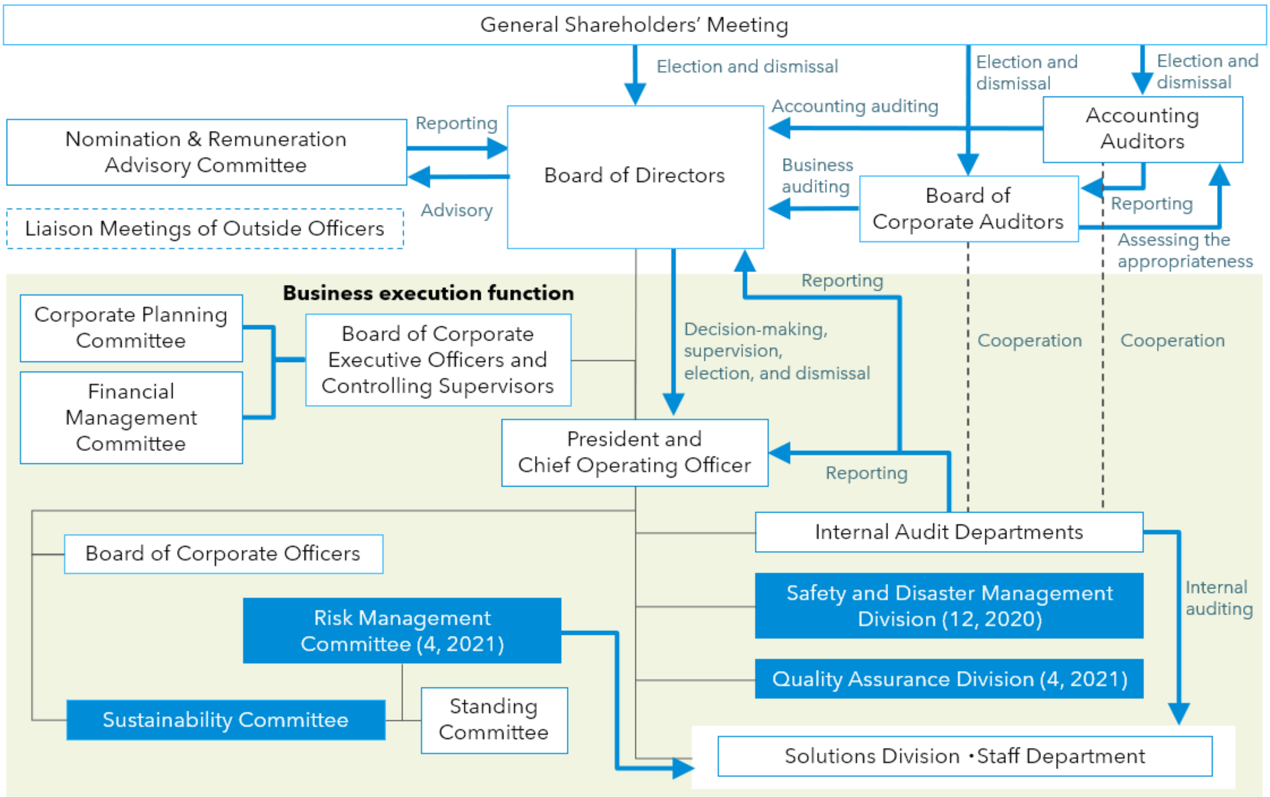
(1) Recovery of Trust

As measures to prevent recurrence of fire accident and misconduct concerning quality that occurred in fiscal 2021, the Group has drastically reviewed its organizational structure on safety and disaster prevention, and quality.

With regard to safety and disaster prevention, in December 2020, the Group established the Safety and Disaster Management Division, which oversees both safety and disaster management of the entire Group in a unified manner, and implements appropriate measures. Through the establishment, the Group has started implementing the Disaster Prevention Master Plan (Basic Plan) with the aim of creating an "organizational culture in which the top priority is given to safety." More specifically, we will review the volume of respective measures that are implemented by plant, by business division, between head office and plants, and throughout the Group, and carefully manage performance and progress to strengthen the safety and disaster prevention system. In addition, we will enhance disaster prevention education and training to further develop our safety culture. Furthermore, we will accelerate the implementation of safety and disaster prevention investment planned in the Overall Inspection to Prevent Disasters, which was conducted in response to the fire at Tsuruga Research and Production Center in 2018. Eighty percent of the plan is scheduled to be completed by fiscal 2025.

With regard to quality, on April 1, 2021, the Group established the Quality Assurance Division as a company-wide common group. Through the establishment, the Group has started a thorough review of the quality assurance process of each business. Going forward, we will reconstruct the Quality Assurance Management System of the entire Group centering on this division. On the said day, the Company also established a Risk Management Committee chaired by its President and Chief Operating Officer. The Committee will be engaged in risk management activities (identification, analysis and evaluation of and response to risks), formulate risk management policies for the entire Group, and establish and operate the organizations and frameworks so as to strengthen the risk management system. With regard to the organizations and frameworks, we will establish three lines of defense: business division, administrative division, and audit division (the governance system that strengthens risk management is as shown below). We will review the details, scope, and methods of PL/QA assessments that are conducted to examine the degree of PL/QA risks at each stage from product development to sales. For example, sampling and spot-check inspections will be added on products and manufacturing activities. In addition, continuous efforts will be made to review and strengthen personnel rotations and compliance education to change the culture and awareness.

We will implement these measures in a complex manner with group-wide efforts to recovery of trust.



(2) Rearrangement of Business Portfolio
Our businesses are categorized into expanding business, stable and maintained business, and business to improve based on the two measures of (profitability and growth). We will operate our businesses according to each class. Because the Group has superiority in expanding business and is expected to expand the market, we will make aggressive capital investments for further growth over medium- and long-term. Films, Life Science, Environment businesses are included in this category.

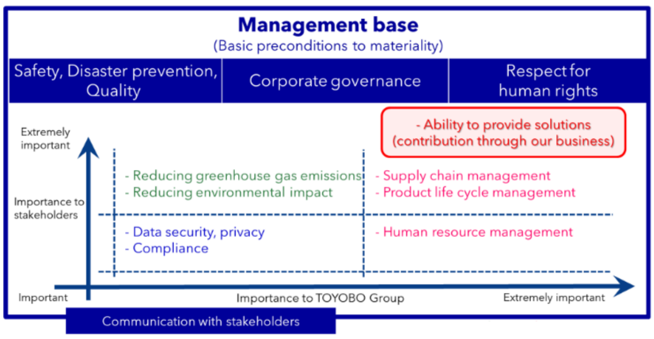
Regarding stable and maintained business, room for growth is observed to give response. For the business to improve, which has low profitability, the "Reform Master Plan" is implemented. Through rearrangement of such business portfolio, we will improve the asset efficiency of the entire Group.

(3) Preparation for the Future
We will launch the company-wide "Mirai Project" and determine development themes toward commercialization for fiscal 2031 and later in various fields such as digital society, healthcare, and environment. We will also lay out and carry out digital transformation (DX) strategies and formulate carbon neutral plans.

(4) Reestablishment of Foundation
In addition to improving our on-site manufacturing skills, we strive to develop human resources and create an open work culture. We will also reconstruct the foundations necessary for sustainable growth, such as promoting diversity, strengthening internal audit functions, and thorough compliance.

4. Approach to Materiality
In May 2020, the Group identified materiality (priority issues) as shown in the figure below. This section will explain some of those issues. "Safety, disaster prevention, quality" are as described in Paragraph 3, (1) Recovery of Trust.

(1) Reducing Greenhouse Gas Emissions
With the impact of climate change caused by global warming becoming increasingly evident in recent years, the Group has been keenly aware that global warming and related climate change present a major risk to continuing its business activities. We have set the goal of "achieving carbon neutrality" by attaining net (real) zero greenhouse gas emissions by fiscal 2051.



As a target for the transition by fiscal 2051, we will switch fuel to natural gas, enhance production efficiency and introduce renewable energies such as solar power. Through those measures, we aim to reduce 30% greenhouse gas emissions from our activities by fiscal 2031 compared to fiscal 2014 (Scope 1, Scope 2). We are already promoting reductions in greenhouse gas emissions in production and logistics. In fiscal 2021, we reduced greenhouse gas emissions by 26% compared to fiscal 2014.

In April 2021, the Company established the Carbon Neutral Strategies Council and the Carbon Neutral Strategies Cross-Functional Team as initiatives to achieve carbon neutrality. The Carbon Neutral Strategies Council has commenced activities to formulate the Group’s strategies and milestones. The company-wide Carbon Neutral Strategies Cross-Functional Team will proceed with diverse measures to realize carbon neutrality, such as encouraging innovation, promoting alliances, accelerating R&D and creating solution businesses.

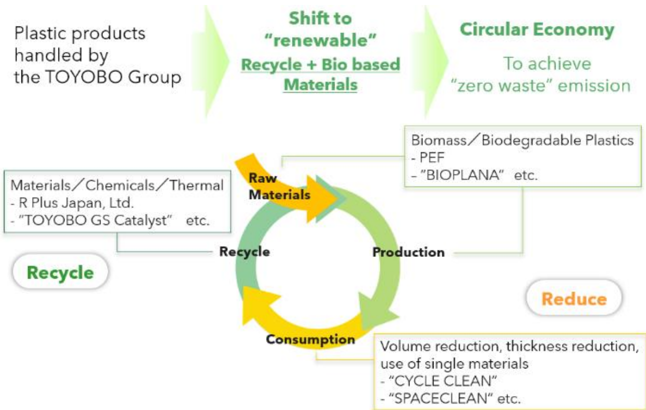
In January 2020, the Group expressed its support for recommendations made by the Task Force on Climate-related Financial Disclosures (TCFD) and joined the “TCFD Consortium.” Going forward, we will proceed with scenario analysis in parallel with the diverse activities as listed above.

(2) Reducing Environmental Impact

The Group handles petrified products in many businesses, including films, fibers and engineering plastics, and recognizes that the plastic waste problem is one of the major risks associated with the continuation of our business activities.

The Group has been promoting initiatives focusing on plastic waste issues. We have developed and launched products, including PET bottle label film “CYCLE CLEAN” that uses 80% or more recycled PET bottle resins; film “SPACE CLEAN” in which thickness is cut to half to reduce waste; and PET film “BIOPLANA” that uses about 20% biomass. In fiscal 2021, environmentally-friendly packaging films accounted for approximately 20% of sales in the packaging film business, an increase of approximately 5% from the previous fiscal year.

In order to establish a circular economy and reduce the impact on ecosystems, we will further strengthen those initiatives and accelerate the shift to renewable plastics made from recycled resins or biomass. For example, we are developing “TOYOBO GS Catalyst,” an aluminum polyester catalyst free of heavy metals. Polyester using this catalyst has excellent recyclability. We are also aware that because it is difficult to realize a circular economy with a company alone, efforts throughout the supply chain are indispensable. Based on such awareness, the Company and 11 other companies, including Suntory MONOZUKURI Expert Ltd., established R Plus Japan, Ltd. This firm was jointly formed to support the development of chemical recycling technology. In order to contribute to solving plastic related issues, we will promote collaboration across industries, such as with companies that sort collected plastics; producers of monomers, polymers, packaging films and containers; trading companies; and beverage makers. The Group is also working on the development of polyethylene furanoate (PEF) with 100% biomass. We plan to commence trial marketing in 2023.



Furthermore, the Company has been promoting initiatives to certify and register environmentally friendly products as ECO-PARTNER SYSTEM products since 1998. The life cycle of products from raw materials to disposal are divided into six stages (design/development, raw materials, manufacturing, distribution/packaging, use/consumption and recycling/disposal). The environmental impact at each stage is evaluated from the viewpoint of five environmental contributions (waste reduction, prevention of global warming, energy saving, reduction of chemical substance and other) and products that have reached certain standards are certified as ECO-PARTNER SYSTEM products. Currently, sales of certified products account for about 30% of total sales*1. Going forward, we will further expand the lineup of those products.

*1 TOYOBO CO., LTD. only. Includes duplication of multiple criteria for environmental contribution.

(3) Human Resource Management

We believe that creating an environment in which each employee can work with pride and satisfaction, and feel their own growth will contribute to enhancing the sustainability of the Company. We will review our HR system that supports employees, create a framework to treat and develop specialized human resources so that diverse personnel can play an active role. At the same time, starting July 2022, we plan to implement a new HR system that develops managerial personnel from an early stage and raises the level of the entire management team.

Even today, the Group is actively hiring mid-career employees and promoting the participation of women with the aim of becoming a company where diverse personnel can play an active role.
In 2021, about 50% of new hires with college degrees were mid-career employees and 40% of new hires of recent university graduates were woman. Going forward, we will also increase the proportion of women in management positions.

(4) Ability to Provide Solutions (Contribution Through Our Business)

To realize “ability to provide solutions*2 (contribution through our business),” the Group reorganized itself into solution-based organizational structure oriented to end customers and markets from the previous product-out-type structure centering on products and technologies in April 2020.

*2 To solve current and future social challenges from the end customer’s point of view.

(a) Film and Functional Materials Solutions

The packaging film business currently focuses on domestic food packaging films. One of the products is the transparent vapor-deposited film “ECOSYAR,” which has high barrier and moisture resistance. This product helps extend the date of expiration of foods, while maintaining the flavor and tastes. While food loss is one of the social issues in Japan and overseas, this product will contribute to solving this issue. The global market for transparent vapor-deposited film is said to grow at 10% a year. Production of this product commenced in fiscal 2021 at PT. TOYOBO TRIASECOSYAR in Indonesia, expanding sales not only in Japan but also overseas markets.

For the industrial film business, we will expand sales of polarizer protective films for LCDs “COSMOSHINE SRF” and mold releasing film for MLCC “COSMOPEEL.” In fiscal 2021, sales of “COSMOSHINE SRF” increased by about 30% from the previous fiscal year due to the excellent handleability realized from the low moisture permeability and price competitiveness. We intend to boost the operational rate of the new line (Unit 3) launched in fiscal 2021, with the aim of increasing sales by 20% year on year in fiscal 2022. Moreover, in fiscal 2021, sales of “COSMOPEEL,” which is recognized for its excellent smoothness, increased by approximately 20% from the previous fiscal year. We intend to boost the operational rate of the new processing facility launched in fiscal 2021, with the aim of increasing sales by 20% year on year in fiscal 2022. The high-end ceramic capacitors market is said to grow by more than 10% a year. We will continue to expand sales while considering the introduction of further processing facility.

Furthermore, the Group acquired all the stock of two subsidiaries held by TEIJIN LIMITED in 2019 and commenced to integrate the management. The Company implemented an absorption-type merger with one of the subsidiaries, TOYOBO FILM SOLUTIONS LIMITED, in April 2021. Synergistic effects will be exerted by further enhancing cooperation on the aspects of technology, production and sales.

(b) Mobility Solutions

In the engineering plastics business, we are expanding sales both in Japan and overseas under the supply structure with four bases worldwide, based on our proven track record with Japanese automotive manufacturers over many years and comprehensive product lineup. In addition, in response to the world’s trend of CO2 emissions, we are switching to alternative metal parts and EV-compatible materials through weight reductions.

In the airbag fabrics business, the Toyobo and PHP Fibers GmbHGroup is promoting global expansion at five bases, including basis in Japan, China, the United States, Thailand and Europe. The Company will jointly establish an airbag yarns production company with Indorama Polyester Industries PCL. This joint venture company plans to commence the operations of airbag yarn plant (Thailand) in 2022. We will accelerate sales promotion activities for not only Japanese but also for foreign customers.

In addition, the Group sells automotive-related products in many businesses, including spunbond and Vylon/HARDLEN. The Mobility Marketing Strategy Department will help strengthen our cross-organizational systems and initiatives and create synergies within the Group.

(c) Lifestyle and Environmental Solutions

We offer seawater desalination membranes, volatile organic compound (VOC) emissions treatment equipment, high-performance nonwoven fabrics for applications including automobiles, materials and filters, super fibers and textiles. We will proactively contribute to resolving various social issues, including air pollution and water shortages, with our unique membrane/filter technologies and functional materials.

VOC emissions treatment equipment, which is excellent for its capacity to process the solvent used in the process of manufacturing lithium-ion battery (LIB) separators, will be expanded to Japan and overseas markets. Seawater desalination membranes (reverse osmosis (RO) membranes) are currently sold mainly in the Middle East. In addition to RO membranes, we will develop and expand sales of forward osmosis (FO) membranes, which are more energy-efficient seawater desalination membranes, and brine concentration (BC) membranes, which are also effective in purifying industrial wastewater.

(d) Life Science Solutions

In the biotechnology business, we develop and sell raw enzymes, reagents, diagnostic reagents and equipment systems. We contribute to the improvement of public health by developing gene testing agents and equipment systems for a variety of infectious diseases. In fiscal 2021, we developed and sold raw enzymes, reagents, diagnostic reagents, and diagnostic systems for PCR testing for the novel coronavirus disease (COVID-19). We have been making concerted efforts with production, sales and development departments to detect infections at an early stage. In February 2021, we have established a system to double the production volume to meet the urgent and strong global demand.

In the pharmaceutical business, we specialize in contract manufacturing of sterile injections to meet growing demand by demonstrating our strengths to be able to comply with regulations in Europe, the United States and Japan.

In the medical materials business, dialysis membranes that use our cellulose-based hollow fiber membranes are known for excellent biocompatibility. There were developed as a safe product because allergic reactions rarely occur in patients who suffer from allergies. We will further develop the technology of dialysis membranes and expand it to blood purification membranes. For medical equipment, we strive to expand sales of regenerative medicinal materials, such as the nerve regeneration inducing device “Nerbridge” and bone regeneration inducing material “Bonarc.”

(5) Impact of the Spread of COVID-19 and Response

In fiscal 2021, automobile-related products and textiles were affected by the spread of COVID-19.

Regarding automobile-related products, despite sales recovery in the second half of fiscal 2021 due to the improvement of global automobile production, this recovery was unable to compensate for the effect of reducing the production of vehicles caused by the spread of COVID-19 through the first half of fiscal 2021. For textiles, store sales were sluggish. In particular, the acrylic fiber business recorded impairment loss of ¥7.8 billion because of the further deterioration in the market environment due to the spread of the COVID-19 infections amid the fall in demand in the Chinese markets and tough business operations enforced by the anti-dumping policy.

On the other hand, while the COVID-19 infection spread, the Company has established a system to double the production volume of raw materials and reagents for PCR testing in order to meet the global demand for PCR testing.

In fiscal 2021, we worked on OC100 (Overcome Corona 100), company-wide activities to reduce costs, business assets and capital investment, mainly taking into account the adverse effects of a rapidly shrinking of market size due to the spread of COVID-19 on the business and financial sides. For example, through flexible inventory and production adjustments, we formulated a target of controlling inventory increase to zero compared with fiscal 2020. As a result, we achieved an inventory decrease of ¥4.3 billion from the previous fiscal year. In addition, we carefully examined the details of capital investments and reviewed the implementation timing of non-urgent projects, and constrained expenditures at ¥23.3 billion in comparison with the initial plan of ¥26.5 billion. Moreover, in addition to the regular cash management system at domestic affiliates, we also set the framework for emergency financing from the parent company to overseas affiliates for unforeseen circumstances.

Moreover, we make various efforts as measures to protect employees from infection, such as encouraging mask wearing and hand washing, promoting staggered work and teleworking, postponing major meetings and training programs, postponing non-urgent business trips, and promoting thorough health management. At head offices and branch offices, we have recommended and implemented the teleworking system by setting targets to control the number of employees who work in the office, in order to reduce the risk of infection and prevent the spread of infection and clusters. This change has led to the dissemination of teleworking as a common workstyle.

As the number of variant cases increases today, we will continue to take necessary measures.

(6) Toward Sustainable Management

The Group aims to be a company that contributes to the solution of social issues through business activities and enables employees to continuously work with pride and satisfaction, and a sustainable company that can grow sustainably.

In fiscal 2022, we will make efforts by hoisting our management policy of "Rebuilding our business foundation for sustainable growth." At the same time, we will formulate a new medium-term management plan named "2025 Medium-Term Management Plan" and "Sustainable Vision 2030," which will start in fiscal 2023. We will announce those plans in the second half of fiscal 2022.

Risk Factors

The Group is exposed to the following risks that may affect its operating results and financial status. However, risks described below do not cover all the risks associated the Group.
The future matters specified in the following are based on information that was available as of the end of the fiscal year ended March 31, 2021 and certain assumptions that serve as the basis for its judgments.

With its corporate philosophy "Jun-Ri-Soku-Yu (**順理則裕**)" as the foundation of its operations, the Group strives to provide products and services that are beneficial to society and to enhance both its corporate and social value. Regarding the risk management system, the Company established a Risk Management Committee chaired by its President and Chief Operating Officer on April 1, 2021, to unitarily manage risks facing the entire Group. The Committee will be engaged in risk management activities (identification, analysis and evaluation of and response to risks), and formulate risk management policies for the entire Group to ensure that any risks are avoided, quickly detected or prevented from recurring. It will also establish and operate the organizations and frameworks that effectively and sustainably give appropriate response to cases in which risk is materialized so as to strengthen the risk management system.

The Group formulated the 2018 Medium-Term Management Plan aiming to achieve medium- to long-term growth. As described in "1 Management Policy, Business Environment, Issues to Be Addressed," the 2018 Medium-Term Management Plan, of which the final year is fiscal 2022, set targets for management indicators that the Group places special emphasis on. These targets were formulated based on information available to the Group at the time of formulation. However, a part of the business environment has changed significantly due to the fire accidents occurred in 2018 and 2020, misconduct concerning quality, and the spread of the COVID-19. Furthermore, in the case where the external environment changes, including the case where risks in (1) to (16) below or risks other than those described below become apparent and the businesses are affected directly or indirectly, the case where various measures are taken but these measures do not work effectively, the case where any unexpected situations arises, and other cases, targets set in the 2018 Medium-Term Management Plan might not be achieved and the Group's operating results, financial status, etc., could be seriously affected.

1. Incurred or highly probable risks

(1) Occurrence of disasters, accidents and infections

The Group conducts production activities and other corporate activities in various locations in Japan and overseas, and strives to prevent an accident as much as possible by replacing aging facilities and enhancing equipment management at each plant and each business site, promoting training and education for operators assuming accidents, and other means. However, in the case where a natural disaster such as large earthquake, windstorm and flood, and snow, accident such as fire, or infection of COVID-19, new type of influenza, etc. occurs, or the case where any similar damage from a disaster occurs in a business partner, this could seriously affect the Group's businesses and others, through considerable difficulty caused in its production and other activities among others.

Following the fire that occurred at the Tsuruga Research and Production Center in September 2018, we have been promoting disaster prevention measures primarily based on the diagnosis and guidance of external experts. However, on September 27, 2020, a fire occurred at our Inuyama Plant, leading to a serious incident where the lives of our important employees were lost. In December 2020, we reviewed our system for promoting safety and security and disaster prevention activities by determining safety and disaster prevention as the Group's top priorities, and started implementing measures more actively. We will make company-wide efforts on through safety management and prevention of recurrence to recover the trust from society. In addition, for natural disasters, disaster mitigation measures are implemented continuously through the improvement of infrastructure at business sites and plants, including the aseismic reinforcement of buildings, and emergency response exercises, among others.

It is expected that it will take time for the global economy, including the economy in Japan, to normalize due to the impact of COVID-19 spreading again. In the Group, some businesses, in particular, the textile business, are likely to be affected by the timing of the lifting of restrictions on human mobility. Meanwhile, we will make every effort to offer reagents for PCR testing and provide genetic testing equipment, etc., in order to respond to the public demand for PCR testing.

(2) Further Worsening of Political & Economic Situations
The Group produces and sells in Japan and overseas a wide range of products in the films and functional materials, mobility, lifestyle and environment and life science. Political turmoil or a serious economic recession in the countries in which our production bases are located or in major markets could reduce our production and sales, and if the impact of these events is expected to continue for a long period, the Group's businesses could be seriously affected through recording of impairment losses on fixed assets and reversal of deferred tax assets.

In the sales, the Group conducts credit transactions. Accordingly, the Group assumes credit risks in which a loss occurs due to customers' credit deterioration and business failure. The Group has made provisions for bad debt losses based on past default ratios. However, in the event of the bankruptcy of major customers due to economic recession or other reasons, our businesses could be seriously affected by bad debt loss that substantially exceeds the amount of provisions made. Therefore, the Group strives to minimize its credit risk under its credit management regulations by setting credit limits for each customer, assessing credit status of major customers in each fiscal period, and other means.

The Group is concerned about the power of Chinese economy that may slow down due to the economic environment changes caused by trade friction between the U.S. and China. Exports to China and net sales in China account for approximately 10% of our consolidated net sales. If the Chinese economy deteriorates, sales of acrylic fiber business, engineering plastics business, etc., will be affected. Considering such concerns, we are taking necessary measures, such as reviewing the supply chain and developing other applications.

(3) Inappropriate Conduct in the Contents of Third-Party Certification Registrations, Etc.
With regard to some items in the engineering plastic products that received certification from Underwriters Laboratories (UL), a third-party U.S. organization engaged in product safety certification, the Company has confirmed that it submitted for verification tests, samples with a chemical composition different from those actually being sold to its customers, and that manufacturing activities were conducted at a plant that was not registered to manufacture UL certified products (hereinafter referred to as the "inappropriate acts"). As a result of sending reports, etc., to UL regarding those inappropriate acts, the UL certification registration was rescinded on February 3, 2021 for three products, following the rescission of one UL certified product on October 28, 2020. We then requested the rescission of UL certification registration regarding some items in three other products (collectively hereinafter, the "nonconforming products" for products relevant to the inappropriate acts). As a result, those items were delisted on March 26, 2021. So far, we have not received any reports of incidents, etc., regarding the final products using the nonconforming products. We will continuously investigate safety and product performance with the cooperation of our customers.

In relation to this case, the Company was subject to a special review by Lloyd's Register Quality Assurance Ltd., which is a certification/registration agent for the International Organization for Standardization (ISO). As a result, among ISO9001 certifications acquired by the Company, the scope of certification associated with the department in charge of the nonconforming products was removed from the certification list as of January 28, 2021. At the same time, the scope of certification of departments that have obtained multisite (integrated) certification included in the range of ISO9001 certification was temporarily suspended. Thereafter, the temporary suspension was withdrawn on June 9, 2021.

The Company takes the number of inappropriate incidents seriously. We continue the investigation to understand the actual status and identify the causes mainly led by the relevant committee, which has secured independence from the executive body. We will formulate effective measures to prevent recurrence and steadily implement them, primarily based on future investigations and investigations that have already been conducted by third parties. The Quality Assurance Division was newly established on April 1, 2021 as one of the measures to prevent recurrence. Through transferring the Quality Assurance Division and the Quality Assurance Department, which were previously established in each business division (solutions division), to the new Quality Assurance Division, we will ensure the independence of the quality assurance section and strengthen the mutual checking function with the business divisions. We will make every effort to recover the trust by rebuilding appropriate quality control systems and improving governance.

Going forward, if orders decrease due to the fall in trust related to inappropriate acts or losses such as compensation costs to customers, etc., occur, the Group's business performance, etc., may be significantly affected.

2. Medium- to long-term risk

(4) Purchase of Raw Materials

The Group purchases raw materials from various suppliers in order to produce its wide range of products in the fields of films and functional materials, mobility, lifestyle and environment, and life science. Major raw materials mainly include polyester, nylon and polyolefin resin, all of which are petrochemical products. Although these materials are provided by a number of suppliers due in part to risk management considerations, there remains a risk that we may not be able to purchase a sufficient volume of raw materials in the case of natural disasters, plague, strikes, problems in transportation, suppliers' failure or withdraw from the business, shrinkage, accidents, etc. In addition, the spread of COVID-19 variants may cause supply chain disruptions and difficulties in obtaining raw materials, and have the impact on the Group's production and sales. Moreover, in the event of a city-wide lockdown or restriction on outings, turmoil might also be caused in logistics networks, leading to difficulty with procurement of necessary raw materials. Furthermore, even if raw materials are secured, the purchase prices could soar due largely to a rise in crude oil price and balance of supply and demand of the raw materials. In such cases, contraction of production or an increase in costs could occur in the Group.

The Group has established an appropriate trading policy and conducts procurement/logistics responsibly, so as to support the development of a sustainable society. In order to achieve the SDGs within the supply chain, including legal compliance, fair trading, respect for human rights, and consideration for the environment, the Group aims to realize procurement and logistics based on its "CSR Procurement Guidelines."

(5) Product Defects

The Group produces a variety of products related to films and functional materials, mobility, lifestyle and environment, life science, etc., while preventing the risk of product defects and other risks and conducting specified quality assurance activities. However, we cannot guarantee that all of our current products are free from all defects or that there will be no defective products in the future. Especially, if concerns arise about the safety or quality of products for some reason in association with products related to safety of automobiles, such as airbag fabrics, and the contract manufacturing business of pharmaceuticals among others, it might threaten customers' lives, and lead to compensation to customers and concerned parties due partly to recall of the products. Although the Group is covered by product liability insurance, we cannot guarantee that ultimate compensatory payments will be fully covered by insurance. Therefore, in the occurrence of material product defects, our group businesses, etc., could be seriously affected by large liability payments or loss of credit.

The Group conducts PL/QA assessments to confirm and improve quality assurance activities of each division and group company. In addition, we strive to reduce risks on our customers, etc. by providing Product Safety Review (PSR) at each stage from product development to sales and responding to risks in advance.

(6) Securing of human resources

The Group considers human resources to be our most important asset. We support the growth of each and every one of our employees, who have a diversity of characteristics and opinions. We believe that the continuation and development of the Group as a whole can be achieved by building an environment in which they can flourish within the company and realize their career development. On the other hand, if the Group cannot secure and develop personnel who have a high level of expertise or who have a leadership quality to be a future executive due to a decrease in the labor force resulting from the falling birthrate and the aging population, changes in employment conditions, and other reasons, the competitiveness of the organization could decline, which might cause stagnation in business activities.

The Group is putting its effort into nurturing the next generation of managers, who will help to realize its growth strategy. At the same time, the Group is actively engaged in initiatives to train mid-career hires and promote the participation of women in the workforce, focused on encouraging diversity.

In addition, we hold "Japan-based training" for local employees for selected personnel from overseas business sites every year, with the aim of improving the organizational power for its employees with their differing work styles, careers, gender, nationality, race and beliefs to mutually respect each other and realize the creation of value. (This training could not be held because of the effect of COVID-19 during the current fiscal year).

(7) Climate Change
The impact of climate change associated global warming has become apparent with an increase of natural disasters such as typhoons and localized torrential rainfall, as well as changes in the ecosystem due to the “subtropicalization” of the climate, and is also affecting the society profoundly. The Group recognizes the serious risk posed by climate change to the continuation of business activities. In response to this issue, we aim to achieve carbon neutrality. More specifically, we have set the goal of attaining net (real) zero greenhouse gas emissions by fiscal 2051. In this manner, we strive to reduce greenhouse gas emissions in our business activities. In addition, we have newly established the Carbon Neutral Strategies Council in order to formulate strategies and milestones with a view to not only reducing greenhouse gas emissions in production and logistics, but also the entire value chain, and diligently work to achieve carbon neutrality. Moreover, the Group organizes the company-wide Carbon Neutral Strategies Cross-Functional Team and proceeds with the reduction of greenhouse gas emissions to realize carbon neutrality, such as encouraging innovation, promoting alliances, accelerating R&D, and creating solution businesses.

(8) Environmental Burden
In recent years, marine pollution issues stemming from plastic waste in the ocean have been global common challenges. The Group, which has been broadly developing businesses with polymer as its core material, considers that the plastic waste issues are key challenges. In the future, tighter regulations on waste plastics at a global level could seriously affect the Group’s businesses, etc. through a decline in demand for plastic products and a decrease in its sales. The Group is advancing the development of products and technologies that help mitigate environmental impact and also working on the effective use of resources. For example, the Group is engaged in initiatives such as melting down film scrap at the site of production for re-use as raw material depending on the brand of film.

In addition, since it is important that the entire supply chain considers plastic waste issues, the Group has participated in the Clean Ocean Material Alliance (CLOMA), which aims to promote sustainable use of plastic products and development and introduction of alternative materials, the Circular Economy for Flexible Packaging (CEFLEX), a consortium that pursues the realization of circular economy in the soft packaging industry in Europe, and Petcore Europe, a consortium that covers the whole value chain of polyester-related companies in Europe, to solve the plastic waste issues in the ocean.

(9) Information Security
The Group manages a lot of important information such as customer information and confidential information related to the execution of business. To handle this information, the Group has put in place security measures. However, in the event of communication failure due to natural disasters and others, unauthorized access to systems, and being targeted in a cyberattack, employee errors, among others, the Group’s businesses, etc. could be seriously affected through suspension of its business activities resulting from system failure, leak of customer information and confidential information and damage from fraud, etc.

The Group has drawn up the “Information Security Policy” and has established various regulations to appropriately manage and utilize all information assets.

In addition, the Group set up the “Cyber Security Committee” and is proceeding with not only technical and expert measures but also the improvement of employees’ level of awareness and the development of in-house experts, among others. Going forward, the Group will promote strengthening of the ability to respond to incidents.

(10) Laws, Regulations and Compliance
The Group is subject to various statutory regulations on product manufacturing, quality, safety, environment, competitiveness, import/export, information, labor, accounting, and others in each country in which it operates. If water restrictions or other regulations related to the environment become tighter in areas where our major business sites are located, substances currently being used become prohibited or regulations regarding usage levels are implemented, substantial restrictions could be imposed on our production activities or other corporate activities, or the Group could be forced to make large capital investments, tax payments or other expenditures in order to comply with the regulations. Tariff hikes or import regulations on quantity limits might be imposed under antidumping laws in major overseas markets and could seriously affect the Group’s businesses, etc. Furthermore, if any non-compliance or illegal act occurs at the Group or business partners in association with these regulations, a considerable amount of damages could be caused including loss of credit of the Group and administrative penalty.

The Group has stated its corporate philosophy of "Jun-Ri-Soku-Yu (順理則裕)" as the core of its compliance activities, and is promoting compliance manuals. Meanwhile, in the event of compliance violation, such as violation of laws and regulations, etc. in Japan and overseas, a considerable amount of damages could be caused by loss of credit of the Group, administrative penalty, liability for damages, among others.

The Group implements a variety of specific initiatives to promote compliance. For example, the "TOYOBO Group Charter of Corporate Behavior," and the "TOYOBO Group Employee Conduct Standards," which are the codes of conduct, are distributed to employees of the Company and other group companies. We encourage them to read through the texts together in each workplace to ensure thorough familiarization of the rules. In addition, we conduct a compliance workshop targeted for managerial personnel from 38 companies, including group companies in Japan and overseas, and monthly publish case studies that present topics such as violations of laws and regulations to raise compliance awareness. In Compliance Enforcement Month, we conduct a compliance survey to identify issues related to the status of compliance and promotion activities. Improvement measures are taken thereafter.

(11) Overseas Business Activities
The Group is expanding its business activities globally to the U.S., Europe, China, Southeast Asia, Latin America and other regions. Accordingly, in addition to trends in the whole global economy, if any country in which we operate experiences unforeseen events, including unexpected changes in laws, regulations or policies or social unrest as a result of terrorism, war, political upheaval or any other cause, this could have a material effect on the Group's businesses, etc.

In response to these risks, the Group has developed a "Risk Management Manual" for each country and strives to improve the overseas risk management structure to identify the risks through each Group company's information collection, information from external consultants and others and deal with them specifically and appropriately before they become apparent.

In addition, the Group has paid taxes appropriately in compliance with each country's tax law and also gives close attention to international tax risks such as applicable transfer price taxation of each country. However, difference of views with tax authorities could result in additional tax levies.

(12) Litigation
No major lawsuit that could have a material effect was filed against the Group in the fiscal year ended March 31, 2020. The Group conducts production and other corporate activities in various domestic and overseas locations. In this process, there is a possibility that lawsuits may be brought against us in connection with product liability, the environment, labor, intellectual property or other areas. If a major lawsuit is filed against the Group, our operating results and financial status could be seriously affected.

3. Financial Risk
(13) Foreign Exchange Rate Fluctuation
The Company imports certain raw materials from overseas and exports certain products manufactured in Japan to overseas. Because difference between the export volume of products and the import volume of raw materials is not large, the effect of exchange fluctuations on operating results is not significant in the medium term. In the short term, however, if the appreciation of the Japanese yen against foreign currencies develops, products for which the manufacturing lead time is relatively long will negatively affect operating results. While the Group strives to minimize such risks using forward foreign exchange contracts, etc., the risks cannot be completely avoided.

Furthermore, since operating results of overseas consolidated subsidiaries and associates accounted for using the equity method are converted into the yen in the preparation of consolidated financial statements, exchange rates at the time of conversion affect the consolidated financial statements. In addition, if the appreciation of the yen develops, this could seriously affect the Group's operating results, etc., including a decrease in own capital through currency translation differences of foreign subsidiaries and others.

(14) Major Interest Rate Rise
The Group raises funds by borrowing from financial institutions and issuing bonds, among other means. Of these interest bearing debts, for loans payable exposed to the risk of interest rate fluctuation, derivatives (mainly interest rate swaps) are used as hedging instruments to avoid the risk of changes in interest payments. In addition, the Group focuses on a "ratio of interest bearing debt and net assets (excluding non-controlling interests) (D/E Ratio)" and has accordingly set the objective of its D/E ratio of less than 1.0. At the end of the current fiscal year, the D/E ratio was 1.01 because we secured ample funds in hand to ensure liquidity due to the spread of COVID-19.

(15) Substantial Decline in Stock Prices

The Group holds a significant volume of stocks that are traded on exchange markets and bears the risk of fluctuations in stock prices. If the prices of these stocks decline by a large margin, net unrealized holding gains on securities may decrease and losses may be recorded when these stocks are sold. For the Company's corporate pension, since certain pension assets are managed with stocks that are traded on exchange markets, there is a risk of a decrease in pension assets due to a decline in stock prices. With respect to investment stocks held for purposes other than net investment purposes, the Company individually verifies whether the stock contributes to its sustained growth and medium- to long-term improvement in the corporate value, in light of future business strategy, business relations, and other factors at the Board of Directors each year to judge whether or not to continue to hold the stock.

(16) Impairment Loss of Fixed Assets

The Group holds fixed assets for business use such as land for plants, buildings and manufacturing facilities and conducts production and sales activities. As products manufactured with these manufacturing facilities are affected by changes in the relevant operating environment including markets and technological development, earnings could decrease significantly. In addition, there is also the risk of a significant decrease in appraisal value of held assets due to a drop in market value of land, among others. A decline in profitability or a significant decrease in value of held assets could seriously affect the Group's operating results, etc., including the required recording of impairment losses on the asset.

Impairment loss of ¥8.9 billion was recorded in the current fiscal year mainly on business assets for the acrylic fiber business.

Consolidated Financial Highlights

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net sales	¥337,406	¥339,607	$3,047,656
Cost of sales	247,032	255,140	2,231,343
Profit before income taxes and non-controlling interests	5,582	19,716	50,420
Profit attributable to owners of parent	4,202	13,774	37,955
Total assets	491,188	488,874	4,436,709
Total net assets	¥188,635	¥182,636	$1,703,866

	Yen		U.S. dollars (Note 1)
Net profit per share	¥47.30	¥155.12	$0.427

See accompanying Notes to Consolidated Financial Statements.

Financial Section
CONSOLIDATED FIVE-YEAR SUMMARY
TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2021, 2020, 2019, 2018 and 2017

	Millions of yen, except per share information				
	2021	2020	2019	2018	2017
For the year:					
Net sales	¥337,406	¥339,607	¥336,698	¥331,148	¥329,487
Cost of sales	247,032	255,140	255,634	250,042	249,940
Selling, general and administrative expenses	63,718	61,673	59,337	57,183	56,215
Operating profit	26,657	22,794	21,727	23,923	23,332
Other expenses	21,075	3,078	21,625	5,698	9,392
Profit before income taxes and non-controlling interests	5,582	19,716	102	18,225	13,940
Provision for income taxes	3,270	6,406	913	5,243	4,913
Profit attributable to owners of parent	4,202	13,774	(603)	13,044	9,444
Comprehensive income	¥9,471	¥4,437	(¥467)	¥15,611	¥13,519
Net profit per share (yen) *1	¥47.30	¥155.12	(¥6.80)	¥146.93	¥106.38
At the end of the year:					
Total current assets *2	¥212,963	¥206,416	¥193,125	¥186,571	¥196,292
Property, plant and equipment	224,640	231,478	208,476	203,451	207,906
Total assets *2	491,188	488,874	461,047	445,495	450,790
Total long-term liabilities	171,109	183,916	148,053	135,870	143,015
Total net assets	¥188,635	¥182,636	¥181,226	¥184,515	¥170,910

*1 The Company consolidated shares on the basis of one new common share for every 10 common shares with an effective date of October 1, 2017. As a result, net profit per share (yen) is calculated assuming the consolidation took place April 1, 2017.
*2 The Group has applied the “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) effective from the beginning of the fiscal year ended March 31, 2019. Accordingly, major managerial indicators, etc, for the fiscal year ended March 31, 2018 are those after retrospective application of this accounting standard and the relevant guidance.

Consolidated Balance Sheets

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	2021	2020	2021
Current assets:			
Cash and time deposits (Note 3, 11 and 18)	¥34,695	¥25,247	$313,386
Notes and accounts receivable:			
Trade (Note 3)	93,891	93,553	848,081
Other	3,273	2,904	29,564
Allowance for doubtful receivables	(136)	(154)	(1,228)
	97,028	96,303	876,416
Inventories (Note 6)	76,310	80,629	689,278
Other current assets	4,930	4,237	44,531
Total current assets	212,963	206,416	1,923,611
Investments and other assets:			
Investment securities (Note 3 and 4)			
Unconsolidated subsidiaries and affiliates	8,831	8,433	79,767
Other	19,675	15,071	177,717
Defined benefit asset (Note 10)	420	-	3,794
Deferred income tax assets (Note 8)	15,066	17,977	136,085
Other	5,768	5,615	52,100
Allowance for doubtful accounts	(849)	(757)	(7,669)
	48,911	46,339	441,794
Property, plant and equipment (Note 11 and 17):			
Land (Note 16)	93,169	97,055	841,559
Buildings and structures	151,239	143,221	1,366,083
Machinery and equipment	369,188	330,131	3,334,730
Tools, furniture and fixtures	24,479	21,575	221,109
Lease assets	5,941	5,762	53,663
Construction in progress	12,454	29,876	112,492
	656,470	627,620	5,929,636
Less accumulated depreciation	431,830	396,142	3,900,551
	224,640	231,478	2,029,085
Intangible assets:			
Other	4,674	4,641	42,218
	4,674	4,641	42,218
Total assets (Note 15)	¥491,188	¥488,874	$4,436,709

See accompanying Notes to Consolidated Financial Statements.

LIABILITIES AND NET ASSETS	Millions of yen 2021	2020	Thousands of U.S. dollars (Note 1) 2021
Current liabilities:			
Short-term borrowing (Note 3 and 9)	¥40,767	¥32,027	$368,232
Long-term debt due within one year (Note 3 and 9)	20,107	8,510	181,619
Notes and accounts payable:			
Trade (Note 3)	45,760	50,016	413,332
Other (Note 9)	13,905	18,367	125,598
	59,665	68,383	538,931
Accrued employees' bonuses	4,691	4,366	42,372
Other current liabilities	6,214	9,036	56,129
Total current liabilities	131,444	122,322	1,187,282
Long-term liabilities:			
Long-term debt due after one year (Note 3 and 9)	122,046	130,851	1,102,394
Deferred income tax liabilities on land revaluation (Note 8 and 16)	20,156	21,277	182,061
Defined benefit liability (Note 10)	18,288	21,613	165,188
Directors' and statutory auditors' retirement benefits	241	247	2,177
Provision for environmental measures	31	331	280
Other long-term liabilities (Note 8 and 9)	10,347	9,597	93,460
Total long-term liabilities	171,109	183,916	1,545,560
Total liabilities	302,553	306,238	2,732,843
Contingent liabilities (Note 13)			
Net assets (Note 12):			
Capital stock *1	51,730	51,730	467,257
Capital surplus	32,202	32,200	290,868
Retained earnings	64,351	61,929	581,257
Less treasury stock, at cost (203 thousand shares in 2021 and 238 thousand shares in 2020)	(294)	(350)	(2,656)
Total shareholders' equity	147,989	145,509	1,336,727
Valuation difference on available-for-sale securities	7,038	4,013	63,571
Deffered gains and losses on hedges	11	(8)	99
Land revaluation (Note 16)	42,708	44,457	385,765
Foreign currency translation adjustments	(11,052)	(11,953)	(99,828)
Accumulated remeasurements of defined benefit plans	(965)	(4,128)	(8,716)
Total accumulated other comprehensive income	37,740	32,381	340,891
Non-controlling interests	2,906	4,746	26,249
Total net assets	188,635	182,636	1,703,866
Total liabilities and net assets	¥491,188	¥488,874	$4,436,709

	Yen		U.S. dollars (Note 1)
Net assets per share	¥2,090.47	¥2,003.01	$18.882

See accompanying Notes to Consolidated Financial Statements.

*1 Common stock: Authorized 200,000 thousand shares in 2021 and 2020. Issued 89,048 thousand shares in 2021 and 2020.

Consolidated Statements of Income

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Net sales (Note 15)	¥337,406	¥339,607	$3,047,656
Cost of sales	247,032	255,140	2,231,343
Gross profit	90,375	84,467	816,322
Selling, general and administrative expenses	63,718	61,673	575,540
Operating profit (Note 15)	26,657	22,794	240,782
Other income (expenses)			
Dividend income	555	650	5,013
Interest expense	(1,283)	(1,369)	(11,589)
Gain on extinguishment of tie-in shares	387	-	3,496
Gain on sale of securities	-	448	-
Gain on sales of property, plant and equipment	85	16	768
Loss on disposal of property, plant and equipment	(3,558)	(3,979)	(32,138)
Loss due to fire (Note 20)	(1,906)	(3,112)	(17,216)
Insurance income related to loss due to fire (Note 20)	-	10,647	-
Gain on bargain purchase (Note 15)	-	65	-
Gain on liquidation of subsidiaries and associates	157	30	1,418
State subsidy	1,041	38	9,403
Impairment loss (Note 7 and 15)	(8,923)	(2,397)	(80,598)
Equity in gains of unconsolidated subsidiaries and affiliates	-	469	-
Loss on suspension of production	(1,854)	(947)	(16,746)
Salaries paid to dispatched employees	(753)	(859)	(6,802)
Other, net	(5,023)	(2,778)	(45,371)
	(21,075)	(3,078)	(190,362)
Profit before income taxes and non-controlling interests	5,582	19,716	50,420
Provision for income taxes (Note 8)			
Current	3,541	5,587	31,984
Deferred	(271)	819	(2,448)
	3,270	6,406	29,537
Profit	2,313	13,310	20,892
Loss attributable to non-controlling interests	(1,889)	(464)	(17,063)
Profit attributable to owners of parent	¥4,202	¥13,774	$37,955

	Yen		U.S. dollars (Note 1)
Net profit per share			
Basic (Note 2)	¥47.30	¥155.12	$0.427
Cash dividends applicable to the year	¥40.00	¥40.00	$0.361

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Comprehensive Income
TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Profit	¥2,313	¥13,310	$20,892
Other comprehensive income (Note 19)			
Valuation difference on available-for-sale securities	3,015	(5,052)	27,233
Deferred gains and losses on hedges	19	25	172
Foreign currency translation adjustments	1,069	(1,705)	9,656
Remeasurements of defined benefit plans	3,162	(2,089)	28,561
Share of other comprehensive income of associates accounted for using equity method	(107)	(52)	(966)
Total other comprehensive income	7,158	(8,873)	64,655
Comprehensive income	9,471	4,437	85,548
Comprehensive income attributable to			
Owners of parent	11,309	4,974	102,150
Non-controlling interests	(¥1,838)	(¥538)	($16,602)

Consolidated Statements of Changes in Net Assets
TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Shareholders' equity			
Capital stock			
Balance at the beginning of current period	¥51,730	¥51,730	$467,257
Changes in items during the period			
Total changes in items during the period	-	-	-
Balance at the end of current period	51,730	51,730	467,257
Capital surplus			
Balance at the beginning of current period	32,200	32,206	290,850
Changes in items during the period			
Disposal of treasury stock	2	(6)	18
Total changes in items during the period	2	(6)	18
Balance at the end of current period	32,202	32,200	290,868
Retained earnings			
Balance at the beginning of current period	61,929	51,858	559,380
Changes in items during the period			
Dividends from surplus	(3,552)	(3,551)	(32,084)
Profit attributable to owners of parent	4,202	13,774	37,955
Reversal of land revaluation	1,745	26	15,762
Change in scope of consolidation	28	(169)	253
Change in scope of equity method	-	(9)	-
Total changes in items during the period	2,422	10,071	21,877
Balance at the end of current period	64,351	61,929	581,257
Treasury stock			
Balance at the beginning of current period	(350)	(416)	(3,161)
Changes in items during the period			
Purchase of treasury stock	(3)	(3)	(27)
Disposal of treasury stock	59	69	533
Total changes in items during the period	56	66	506
Balance at the end of current period	(294)	(350)	(2,656)
Total shareholders' equity			
Balance at the beginning of current period	145,509	135,378	1,314,326
Changes in items during the period			
Dividends from surplus	(3,552)	(3,551)	(32,084)
Profit attributable to owners of parent	4,202	13,774	37,955
Reversal of land revaluation	1,745	26	15,762
Change in scope of consolidation	28	(169)	253
Change in scope of equity method	-	(9)	-
Purchase of treasury stock	(3)	(3)	(27)
Disposal of treasury stock	61	63	551
Total changes in items during the period	2,480	10,131	22,401
Balance at the end of current period	¥147,989	¥145,509	$1,336,727

See accompanying Notes to Consolidated Financial Statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities			
Balance at the beginning of current period	¥4,013	¥9,071	$36,248
Changes in items during the period			
Net changes in items other than shareholders' equity	3,025	(5,058)	27,324
Total changes in items during the period	3,025	(5,058)	27,324
Balance at the end of current period	7,038	4,013	63,571
Deferred gains and losses on hedges			
Balance at the beginning of current period	(8)	(33)	(72)
Changes in items during the period			
Net changes in items other than shareholders' equity	19	25	172
Total changes in items during the period	19	25	172
Balance at the end of current period	11	(8)	99
Land revaluation			
Balance at the beginning of current period	44,457	44,483	401,563
Changes in items during the period			
Net changes in items other than shareholders' equity	(1,749)	(26)	(15,798)
Total changes in items during the period	(1,749)	(26)	(15,798)
Balance at the end of current period	42,708	44,457	385,765
Foreign currency translation adjustments			
Balance at the beginning of current period	(11,953)	(10,277)	(107,967)
Changes in items during the period			
Net changes in items other than shareholders' equity	902	(1,676)	8,147
Total changes in items during the period	902	(1,676)	8,147
Balance at the end of current period	(11,052)	(11,953)	(99,828)
Accumulated remeasurements of defined benefit plans			
Balance at the beginning of current period	(4,128)	(2,038)	(37,287)
Changes in items during the period			
Net changes in items other than shareholders' equity	3,162	(2,090)	28,561
Total changes in items during the period	3,162	(2,090)	28,561
Balance at the end of current period	(965)	(4,128)	(8,716)
Total accumulated other comprehensive income			
Balance at the beginning of current period	32,381	41,206	292,485
Changes in items during the period			
Net changes in items other than shareholders' equity	5,359	(8,825)	48,406
Total changes in items during the period	5,359	(8,825)	48,406
Balance at the end of current period	37,740	32,381	340,891
Non-controlling interests			
Balance at the beginning of current period	4,746	4,642	42,869
Changes in items during the period			
Net changes in items other than shareholders' equity	(1,840)	104	(16,620)
Total changes in items during the period	(1,840)	104	(16,620)
Balance at the end of current period	2,906	4,746	26,249
Total net assets			
Balance at the beginning of current period	182,636	181,226	1,649,679
Changes in items during the period			
Dividends from surplus	(3,552)	(3,551)	(32,084)
Profit attributable to owners of parent	4,202	13,774	37,955
Reversal of land revaluation	1,745	26	15,762
Change in scope of consolidation	28	(169)	253
Change in scope of equity method	-	(9)	-
Purchase of treasury stock	(3)	(3)	(27)
Disposal of treasury stock	61	63	551
Net changes in items other than shareholders' equity	3,518	(8,721)	31,777
Total changes in items during the period	5,999	1,410	54,187
Balance at the end of current period	¥188,635	¥182,636	$1,703,866

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES
Years ended March 31, 2021 and 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2021	2020	2021
Cash flows provided by operating activities:			
Profit before income taxes and non-controlling interests	¥5,582	¥19,716	$50,420
Depreciation and amortization	19,095	17,005	172,478
Allowance for doubtful receivables, net	68	48	614
Increase in net defined benefit liability	1,189	230	10,740
Interest and dividend income	(619)	(791)	(5,591)
Interest expense	1,283	1,369	11,589
Equity in losses (gains) of unconsolidated subsidiaries and affiliates	338	(469)	3,053
Impairment loss	8,923	2,397	80,598
Loss on sale and disposal of property, plant and equipment, net	3,658	3,963	33,041
Loss (gain) on sales and valuation of investment securities	78	(448)	705
Loss on sales of shares of subsidiaries and associates	4	-	36
Loss due to fire	1,906	3,112	17,216
Insurance income	-	(10,647)	-
Decrease (increase) in trade notes and accounts receivable	306	(2,005)	2,764
Decrease in inventories	5,067	1,678	45,768
Increase (decrease) in trade notes and accounts payable	(4,664)	3,367	(42,128)
Decrease (increase) in net defined benefit asset	(420)	142	(3,794)
Other, net	467	552	4,218
Total	42,261	39,219	381,727
Payments for loss due to fire	(952)	(4,147)	(8,599)
Income taxes paid	(6,281)	(1,464)	(56,734)
Insurance income received	-	10,647	-
Net cash flows provided by operating activities	35,028	44,255	316,394
Cash flows used in investing activities:			
Purchase of property, plant and equipment and intangibles	(27,495)	(30,858)	(248,352)
Proceeds from sale of property, plant and equipment and intangibles	473	1,344	4,272
Purchase of shares of subsidiaries resulting in change in scope of consolidation (Note 18)	-	(8,797)	-
Collections of long-term loans receivable	29	903	262
Payments of long-term loans receivable	(73)	(117)	(659)
Interest and dividends received	619	810	5,591
Other, net	(5,230)	(2,501)	(47,241)
Net cash flows used in investing activities	(31,678)	(39,216)	(286,135)
Cash flows provided by (used in) financing activities:			
Cash dividends	(3,550)	(3,551)	(32,066)
Cash dividends to non-controlling interests	(2)	(25)	(18)
Increase (decrease) in short-term bank loans	8,466	(13,498)	76,470
Proceeds from long-term loans payable	12,004	14,595	108,427
Repayments of long-term loans payable	(9,471)	(12,460)	(85,548)
Proceeds from issuance of bonds	-	25,000	-
Payments of bonds	-	(10,000)	-
Payments of interest	(1,249)	(1,376)	(11,282)
Payments for purchase of treasury stock	(2)	(3)	(18)
Other, net	(856)	(487)	(7,732)
Net cash flows provided by (used in) financing activities	5,340	(1,805)	48,234
Adjustments for foreign currency translation	461	(621)	4,164
Net increase in cash and cash equivalents	9,151	2,613	82,657
Cash and cash equivalents at beginning of year	25,084	22,167	226,574
Increase resulting from changes in consolidated subsidiaries	20	304	181
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	270	-	2,439
Cash and cash equivalents at end of year (Note 18)	¥34,526	¥25,084	$311,860

See accompanying Notes to Consolidated Financial Statements.

Notes to Consolidated Financial Statements

TOYOBO CO., LTD. AND CONSOLIDATED SUBSIDIARIES

1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Toyobo Co., Ltd. (the "Company") and its consolidated subsidiaries have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan (“Japanese GAAP”), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards.

The accounts of major consolidated foreign subsidiaries for the years ended March 31, 2021 and 2020 were prepared in accordance with either International Financial Reporting Standards or U.S. generally accepted accounting principles for consolidation purposes, with adjustments for the specified five items as applicable in compliance with ASBJ (Accounting Standards Board of Japan) Practical Solution No. 18, “Tentative Treatment of Accounting for Foreign Subsidiaries in Preparing Consolidated Financial Statements.” If other GAAP are used in preparing other foreign subsidiaries financial statements for consolidation purposes, appropriate modifications in compliance with ASBJ Practical Solution No. 18 are also made.

The accompanying consolidated financial statements have been restructured and translated into English, with some expanded descriptions, from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law. Some supplementary information included in the corporate Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements. Certain reclassifications have been made in the previous consolidated financial statements to conform to the current presentation.

The amounts in Japanese yen are presented in millions of yen, rounded to the nearest million. Accordingly, the total yen amounts do not necessarily agree with the sum of the individual account balances.

Translations of the Japanese yen amounts into U.S. dollar amounts were included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2021, which was ¥110.71 to U.S. $1.00. These 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.

2. SIGNIFICANT ACCOUNTING POLICIES

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its 53 significant, substantially controlled subsidiaries. Investments in 6 affiliates over which the Company has significant influence are accounted for using the equity method. Intercompany transactions and accounts have been eliminated upon consolidation. Any significant difference between the cost of an investment in a consolidated subsidiary and the equity in the net assets at the date of acquisition is amortized over five years. In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to non-controlling stockholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

For the year ended March 31, 2021, the accounts of 4 consolidated subsidiaries were included in the scope of consolidation based on a fiscal year that ended on December 31. These subsidiaries did not prepare for consolidation purposes financial statements that corresponded with the fiscal year of the Company. For the consolidated subsidiaries with a fiscal year-end different from that of the Company, if significant transactions occurred between their fiscal year-end and that of the Company, necessary adjustments were made to reflect the transactions in the consolidated financial statements.

From the fiscal year ended March 31, 2021, TOYOBO DO BRAZIL PRODUCTOS BIOLOGICOS LTDA. has been included in the scope of consolidation because of its materiality. In addition, TOYOBO Europe GmbH has been excluded from the scope of consolidation due to the completion of its liquidation.

Securities

Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Realized gains and losses on the sale of such securities are calculated using moving average cost. Other securities with no available fair market value are stated at moving average cost. Held-to-maturity securities are stated at amortized cost by the straight-line method.

Inventories

Inventories are stated principally at the lower of weighted average cost or net realizable value at the fiscal year-end.

Property, plant and equipment
The Company and its consolidated subsidiaries use principally the straight-line method for the depreciation of property, plant and equipment.

Lease assets
Lease assets under finance lease transactions that transfer ownership of the lease assets to the lessee are amortized using the same depreciation method applied to tangible and intangible fixed assets.

Lease assets under finance lease transactions that do not transfer ownership of the lease assets are amortized using the straight-line method over the lease term, assuming that the useful life coincides with the lease term and the residual value is zero.

Intangible assets
Other intangible assets, including software, are amortized using the straight-line method over the estimated useful life of five years.

Bond issuance expenses
Bond issuance expenses are expensed as incurred.

Research and development expenses
Expenses related to research and development are charged to income as incurred. Research and development expenses were ¥12,656 million ($114,317 thousand) and ¥11,690 million for the years ended March 31, 2021 and 2020, respectively.

Allowance for doubtful receivables
With respect to normal trade accounts receivable, an allowance for doubtful receivables is stated based on the actual rate of historical bad debts. For certain other doubtful receivables, the uncollectible amount is individually estimated.

Retirement benefits accounting
1. Attribution method for estimated amounts of retirement benefits
   The benefit formula basis is used for attributing the estimated amount of retirement benefits to the current period in calculating projected benefit obligations.

2. Prior service costs and actuarial differences
   Prior service costs are amortized using the straight-line method over a certain period within the average remaining years of service of the eligible employees (ten years) at the time of recognition. Actuarial differences are amortized using the straight-line method over a certain period within the average remaining years of service of the eligible employees (ten years) at the time of recognition and allocated proportionately from the year following the year of recognition.

3. Unrecognized actuarial gains and losses and unrecognized prior service costs
   Unrecognized actuarial gains and losses and unrecognized prior service costs are reported as accumulated remeasurements of defined benefit plans within other comprehensive income in net assets, after adjusting for tax effects.

Retirement benefits for directors, operating officers and corporate auditors
Some consolidated subsidiaries accrue estimated amounts of retirement benefits for directors, operating officers and corporate auditors equal to management’s estimate of the amounts that would be payable at the balance sheet date if they retired at that date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of the stockholders of the subsidiaries.

Accrued employees’ bonuses
In order to prepare for the payment of employee bonuses, the Company and its consolidated subsidiaries accrue the estimated amounts.

Provision for environmental measures
In order to prepare for expenditures related to environmental measures such as the removal of hazardous substances required by laws and regulations, the Company and some consolidated subsidiaries reserve the amount expected to be incurred in future periods.

Translation of foreign currencies
Accounts denominated in foreign currencies, namely cash, receivables and payables are translated at year-end exchange rates. The assets and liabilities in the financial statements of the foreign consolidated subsidiaries are also translated into Japanese yen at year-end exchange rates. Income and expenses are translated at the average exchange rates prevailing during the year. Resulting translation adjustments are reflected in the consolidated financial statements as "Foreign currency translation adjustments" and in non-controlling interests.

Derivatives and hedge accounting
Derivative financial instruments are stated at fair value, and changes in the fair value are recognized as gain or loss unless the derivative financial instruments are used for hedging purposes. If derivative financial instruments are used as hedges and meet certain hedging criteria, the Company and its consolidated subsidiaries defer recognition of gain or loss resulting from a change in the fair value of the derivative financial instrument until the related loss or gain on the hedged item is recognized. However, when forward foreign exchange contracts are used as hedges and meet certain hedging criteria, the foreign exchange forward contracts and hedged items are accounted for in the following manner:

1. If a foreign exchange forward contract is executed to hedge an existing foreign currency receivable or payable, the difference, if any, between the Japanese yen amount of the hedged foreign currency receivable or payable (translated using the spot rate at the inception date of the contract) and the book value of the receivable or payable is recognized in the statement of income in the period which includes the inception date, and the discount or premium on the contract (the difference between the Japanese yen amount of the contract translated using the contracted forward rate and that translated using the spot rate at the inception date of the contract) is recognized over the term of the contract.

2. If a foreign exchange forward contract is executed to hedge a future transaction denominated in a foreign currency, the future transaction will be recorded using the contracted forward rate, and no gain or loss on the forward foreign exchange contract will be recognized.

Also, if interest rate swap contracts are used as hedges and meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contract is added to or deducted from the interest on the assets or liabilities for which the swap contract was executed.

Below are the hedging derivative financial instruments used by the Company and its consolidated subsidiaries and the corresponding items hedged:

Hedging instruments:	Hedged items:
Foreign exchange forward contracts	Future transactions denominated in foreign currencies
	Foreign currency receivables and payables
Interest rate swap contracts	Interest expense on borrowings

The Company and certain consolidated subsidiaries evaluate hedge effectiveness by comparing the cumulative changes in cash flows or the changes in fair value of the hedged items and the corresponding changes in the hedging derivative instruments.

(Hedging relationships to which "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR" is applied)
Of the above hedging relationships, the Company and its subsidiaries have applied the exception set out in the "Practical Solution on the Treatment of Hedge Accounting for Financial Instruments that Reference LIBOR "(PITF No.40, September 29, 2020) to all of those hedging relationships that are within the scope of the Practical Solution. The details of the hedging relationships to which the Practical Solution is applied are as follows.

Method of hedge accounting: Deferral hedge accounting is applied. For interest rate swaps that satisfy the requirements for special treatment, the special treatment is applied.

Hedging instruments and hedged items: Risks of interest rate fluctuation in long-term borrowings are hedged using instruments such as interest rate swaps.

Kinds of hedge transactions: Cash flow hedge

Amortization of goodwill
Goodwill is amortized using the straight-line method over five years.

Impairment of fixed assets
In accordance with the "Accounting Standards for Impairment of Fixed Assets" issued by the Business Accounting Council in Japan, fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability is measured by comparing the carrying amount of an asset or group of assets to the estimated undiscounted future cash flows expected to be generated by the asset or group of assets. If the carrying amount exceeds the estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the greater of net realizable value or value in use.

Income taxes
Income taxes comprise corporation tax, enterprise tax and prefectural and municipal inhabitants' taxes. The Company and its consolidated subsidiaries provide for income taxes at the amounts currently payable and for deferred income taxes pertaining to loss carryforwards, temporary differences between financial and tax reporting and temporary differences in respect to the elimination of unrealized intercompany profits and other adjustments for consolidation purposes. The asset-liability method is used to recognize deferred income tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Amounts per share
Computations of net profit per share of common stock are based on the weighted average number of shares outstanding during each period. Diluted net profit per share is not disclosed because the Company had no dilutive shares outstanding. Computations of net assets per share of common stock are based on the number of shares outstanding at year end. Cash dividends per share represent amounts applicable for the respective years on an accrual basis.

Net profit per share for the years ended March 31, 2021 and 2020 is calculated based on the following factors.

	Millions of yen	Thousands of shares	Yen	U.S. dollars
	Profit attributable to owners of parent	Weighted average number of shares	Net profit per share	
For the year ended March 31, 2021:				
Basic	¥4,202	88,834	¥47.30	$0.427

	Millions of yen	Thousands of shares	Yen
	Profit attributable to owners of parent	Weighted average number of shares	Net profit per share
For the year ended March 31, 2020:			
Basic	¥13,774	88,794	¥155.12

Significant accounting estimates

1. Amounts recorded on the consolidated financial statements in the current fiscal year

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment	¥224,640	$2,029,085
Defined benefit liability	18,288	165,188

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

The consolidated financial statements of the Group are prepared by performing judgments, estimates, and assumptions that affect the application of accounting policies and the reported amount of assets, liabilities, revenue, and expenses using a reasonable approach that takes into account past results, etc. The uncertainty of these estimates, etc., may grow, depending on trends in the markets affecting the Group and economic conditions, which could cause a discrepancy between those estimates and future results. The estimates and underlying assumptions are reviewed on an ongoing basis. The effects from changes in accounting estimates, if any, are recognized in the fiscal year in which the changes were made and in future fiscal years.

The estimates and underlying assumptions thereof used by the Group in its accounting for the current fiscal year that may have a significant effect on the consolidated financial statements of the following fiscal year are outlined below.

(1) Property, plant and equipment

In cases in which there are indications of impairment in the current fiscal year among property, plant and equipment in any asset groups, which are classified according to administrative accounting, the Group makes a judgment as to whether an impairment loss is recognized based on a comparison between the undiscounted future cash flow and the carrying amount. If the undiscounted future cash flow is below the carrying amount, the carrying amount is reduced to the recoverable amount, and the amount of that reduction is recognized as an impairment loss.

In the pharmaceutical business, the undiscounted future cash flows were higher than the carrying amount of property, plant and equipment in the amount of ¥2,837 million ($25,626 thousand), an amount which excluded assets scheduled for disposal and development phase assets for deployment in new projects, and therefore the Group judged that measurement of impairment loss was not required. However, the future business plan, which is used in calculation of undiscounted future cash flows, contains estimates for new acquisition of pharmaceutical contract manufacturing projects for the United States and Europe in regard to the improvement of quality to comply with Good Manufacturing Practice (GMP; standards for manufacturing and quality control of pharmaceuticals and others). If those estimates and their underlying assumptions should change, it could cause disadvantageous effect on the related valuation and a significant impact on the judgment of whether impairment loss should be recognized and on the amount of such impairment loss.

(2) Defined benefit liability

The Group has defined benefit and defined contribution retirement benefit plans for employees and retirees. Retirement benefit obligations are determined based on actuarial calculation, and the assumptions for actuarial calculation include estimates of discount rate, retirement rate, mortality rate, rate of salary increase and other data. These assumptions are determined by comprehensively assessing available information such as the market trends of interest rate fluctuations.

The following illustrates the amount of impact in a case in which there is a change in the discount rate (a discount rate of 0.6% is primarily used for the end of the current fiscal year) used for accounting estimates for measuring defined benefit liability.

Amount of impact on retirement benefit liability at the end of the current fiscal year

	Millions of yen	Thousands of U.S. dollars
Discount rates: decrease of 0.5 percentage points	¥3,719	$33,592
Discount rates: increase of 0.5 percentage points	(3,420)	(30,892)

Accounting standards issued but not yet effective

1. Accounting Standard for Revenue Recognition

“Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29, March 31, 2020)
“Implementation Guidance on Accounting Standard for Revenue Recognition”
(ASBJ Guidance No. 30, March 26, 2021)

(1) Summary

This is a comprehensive accounting standard on revenue recognition. Revenue is recognized using the following five steps.

1: Identify the contract(s) with a customer
2: Identify the performance obligations in the contract
3: Determine the transaction price
4: Allocate the transaction price to the performance obligations in the contract
5: Recognize revenue when, or as, the entity satisfies a performance obligation

(2) Effective date

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

(3) Impact of application

The impact of the application of these new standards on the consolidated financial statements is currently under evaluation.

2. Accounting Standard for Fair Value Measurement, etc.
   "Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 30, July 4, 2019)
   "Implementation Guidance on Accounting Standard for Fair Value Measurement"
   (ASBJ Statement No. 31, July 4, 2019)
   "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9, July 4, 2019)
   "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, July 4, 2019)
   "Implementation Guidance on Disclosures about Fair Value of Financial Instruments"
   (ASBJ Statement No. 19, March 31, 2020)

(1) Summary

"Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter referred to as the "Accounting Standards for Fair Value Measurement") were formulated in order to enhance the comparability with the provisions of international accounting standards, and accordingly, guidance, on the method of fair value measurement was prescribed. The Accounting Standards for Fair Value Measurement shall apply to the fair value of the following items.

- Financial instruments under "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes under "Accounting Standard for Measurement of Inventories"

In addition, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" was revised to prescribe the notes on the breakdown of financial instruments by the level of the fair value hierarchy.

(2) Effective date

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

(3) Impact of application

The impact of the application of these new standards on the consolidated financial statements is currently under evaluation.

Changes in presentation method

Adoption of "Accounting Standard for Disclosure of Accounting Estimates"

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

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

Additional Information

Effects of COVID-19

There continues to be uncertainty regarding the effects of COVID-19 on the economy as a result of measures such as voluntary restrictions through on non-essential outings due to the ongoing spread of infection. The Group believes that the effects of COVID-19 on the Group has been limited, although the extent of such effects varies depending on the business, and that the overall effects will not be material.

Although it is difficult to forecast the timing of the end of COVID-19, we are assuming that while the pandemic will gradually draw to a close beginning from the second half of the fiscal year ending March 31, 2022, it will require about one year for recovery in demand for the some products, including textiles, and the Group uses accounting estimates for items such as impairment of fixed assets and recoverability of deferred tax assets. As a result, it is the judgment of the Group that there are no material effects at this point in time.

3. FINANCIAL INSTRUMENTS

1. Overall status of financial instruments

(1) Policy for the use of financial instruments

In the Toyobo Group, cash is managed using only short-term financial instruments after ensuring the collectability of the principal and sufficient liquidity. Funds are raised both through direct access to capital markets such as through the issuance of bonds and through indirect financing in the form of borrowings from banks. As a policy, the Company uses derivative financial instruments only for the purpose of hedging the risk of exchange rate and interest rate fluctuation in the normal course of the Company's business and does not engage in highly leveraged transactions or speculative transactions using these instruments.

(2) Type and risk of financial instruments and related risk management system

Notes and accounts receivable - trade arising in the normal course of the Company's business are exposed to the credit risk of customers. This risk is managed through the monitoring of due dates and balances by customer and by examining the credit standing of major customers in each fiscal period in accordance with the credit management rules of the Company. Most notes and accounts payable - trade arising in the normal course of the Company's business are due in less than one year.

Trade receivables and payables denominated in foreign currencies are exposed to the risk of exchange rate fluctuation. In principle, the receivables and payables are hedged for the net position risk remaining after cross currency netting by using derivative instruments such as foreign exchange forward contracts.

Investment securities consist mainly of stocks of our customers and suppliers held in connection with our ongoing business relationships and are exposed to the risk of market price fluctuation. The Company and its consolidated subsidiaries regularly monitor the current market price of these stocks and the financial conditions of the issuers, i.e., our customers and suppliers, and review the status of our stock holdings on an ongoing basis, taking into consideration our relationship with these customers and suppliers.

Short-term borrowing is used mainly to finance operating transactions. Long-term loans payable and corporate bonds are used mainly to finance capital improvements, other investments and lending. For loans payable exposed to the risk of interest rate fluctuation, derivatives (mainly interest rate swaps) are used as hedging instruments on an individual contract basis to avoid the risk of changes in interest payments. The hedging instruments, hedged items, hedging policy and the method used to assess hedge effectiveness in relation to hedge accounting are described in the Note 2, "Significant Accounting Policies."

In accordance with the internal rules of the Toyobo Group, derivative transactions are executed and managed under a system that segregates functions and promotes mutual checking, including (1) the establishment of risk management policies by the director in charge of finance, (2) the execution of transactions and management of positions by the Finance Department and (3) the valuation of and accounting for financial instruments by the Accounting and Control Department. Overall derivative positions across the Toyobo Group are managed by the Finance Department and reported to the director in charge of finance. The Company and its consolidated subsidiaries deal with highly rated financial institutions as counterparties to these transactions and no counterparty default is expected.

Trade payables and interest bearing debt such as borrowings create exposure to liquidity risk. The liquidity risk arising from these liabilities is managed at the individual company level based on cash flow projections prepared by each group company. In addition, the liquidity risk of the domestic subsidiaries is managed centrally by the Company using a cash management system.

(3) Supplementary explanation on disclosure about fair value of financial instruments

In addition to the fair values determined by market price, the fair value of financial instruments includes a reasonably determined value if no market price is available. Certain assumptions used for such determinations are subject to change. Accordingly, the results of the valuations could change if different assumptions were used. Furthermore, the contractual and other amounts of derivative transactions included in Note 5, "Derivatives and hedge accounting," do not reflect the market risk associated with the derivative transactions themselves.

2. Disclosure about fair value, etc., of financial instruments

The following table summarizes the carrying amounts and the estimated fair values of financial instruments as of March 31, 2021 and 2020. Note that the following table does not include unlisted equity securities and certain other securities whose fair value is extremely difficult to estimate.

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
For the year ended March 31, 2021:						
(1) Cash and time deposits	¥34,695	¥34,695	¥ -	$313,386	$313,386	$ -
(2) Notes and accounts receivable - trade	93,891	93,891	-	848,081	848,081	-
(3) Investment securities						
Available-for-sale securities	18,245	18,245	-	164,800	164,800	-
Total assets	¥146,831	¥146,831	¥ -	$1,326,267	$1,326,267	$ -
(1) Notes and accounts payable - trade	¥45,760	¥45,760	¥ -	$413,332	$413,332	$ -
(2) Short-term borrowing	40,767	40,767	-	368,232	368,232	-
(3) Long-term debt						
Corporate bonds	55,000	54,886	114	496,793	495,764	1,030
Long-term loans payable	87,153	87,912	(759)	787,219	794,075	(6,856)
Total liabilities	¥228,680	¥229,325	(¥645)	$2,065,577	$2,071,403	($5,826)
Derivatives (*)	(¥65)	(¥65)	¥ -	($587)	($587)	$ -

* Derivative assets and liabilities are presented on a net basis, and an amount enclosed in parentheses ( ) indicates a net liability position.

	Millions of yen		
	Book value	Fair value	Difference
For the year ended March 31, 2020:			
(1) Cash and time deposits	¥25,247	¥25,247	¥ -
(2) Notes and accounts receivable - trade	93,553	93,553	-
(3) Investment securities			
Available-for-sale securities	13,807	13,807	-
Total assets	¥132,607	¥132,607	¥ -
(1) Notes and accounts payable - trade	¥50,016	¥50,016	¥ -
(2) Short-term borrowing	32,027	32,027	-
(3) Long-term debt			
Corporate bonds	55,000	54,770	230
Long-term loans payable	84,360	85,566	(1,206)
Total liabilities	¥221,403	¥222,379	(¥976)
Derivatives (*)	(¥6)	(¥6)	¥ -

* Derivative assets and liabilities are presented on a net basis, and an amount enclosed in parentheses ( ) indicates a net liability position.

(Notes)

1. Methods used to determine the fair value of financial instruments and matters concerning marketable securities and derivatives.

Assets

(1) Cash and time deposits and (2) Notes and accounts receivable - trade

As cash and time deposits and notes and accounts receivable - trade are settled within a short period, their fair value is nearly equal to the carrying amount. Therefore, the carrying amount is reported as the fair value.

(3) Investment securities

The fair value of available-for-sale securities is determined based on the price quoted on the exchange (for stocks) or the published net asset value per unit (for investment trusts). For investments in investment partnerships that are deemed to be securities, the proportional equity share in the value of the partnership assets is reported as the fair value. See Note 4, "Securities," for information on securities categorized by the purpose for which they are held.

Liabilities

(1) Notes and accounts payable - trade and (2) Short-term borrowing

As notes and accounts payable - trade and short-term borrowing are settled within a short period, their fair value is nearly equal to the carrying amount. Therefore, the carrying amount is reported as the fair value.

(3) Long-term debt

- Corporate bonds

The fair value of corporate bonds is based on the market price.

- Long-term loans payable

The fair value of long-term loans payable is determined by discounting the sum of the principal and interest payments at an interest rate that is estimated to be applicable to newly arranged debt of similar quality. For variable-rate, long-term loans payable, the carrying amount is reported as the fair value as it is considered to be a reasonable approximation of fair value because such loans payable reflect market interest rates in a short period and there has been no significant change in the creditworthiness of the Company.

Derivative transactions

Refer to the Note 5, “Derivatives and hedge accounting.”

2. Financial instruments whose fair value is extremely difficult to estimate

The following table summarizes book values of available-for-sale securities with no available fair values as of March 31, 2021 and 2020.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Non-listed equity securities	¥1,381	¥1,221	$12,474
Convertible bond-type bonds with share acquisition rights	11	-	99

For the financial instruments shown in the above table, quoted market price was not available. Therefore, the fair value was considered to be extremely difficult to estimate, and the instruments were not included in “Investment securities” in the above table summarizing the carrying amounts and estimated fair values of financial instruments.

3. Stocks of subsidiaries and affiliates are also not included in “Investment securities” in the above table summarizing the carrying amounts and estimated fair values of financial instruments. For stocks of listed subsidiaries and affiliates, the carrying amount was ¥2,804 million, the fair value was ¥2,523 million, and the difference was a negative ¥281 million for the year ended March 31, 2020. The carrying amount of stocks of unlisted subsidiaries and affiliates was stated at ¥6,866 million ($62,018 thousand) and ¥3,084 million for the years ended March 31, 2021 and 2020, respectively.

4. SECURITIES

The following tables summarize acquisition cost and book value (fair value) of securities with available fair values as of March 31, 2021 and 2020.

Available-for-sale securities

	Millions of yen					
	2021			2020		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:						
Equity securities	¥5,561	¥16,297	¥10,736	¥3,604	¥10,347	¥6,743
Other	7	15	8	7	12	5
	¥5,568	¥16,312	¥10,744	¥3,611	¥10,359	¥6,748
Securities with book values not exceeding acquisition costs:						
Equity securities	¥1,996	¥1,690	(¥306)	¥3,975	¥3,344	(¥631)
Other	243	243	-	104	104	-
Total	¥2,239	¥1,933	(¥306)	¥4,079	¥3,448	(¥631)

	Thousands of U.S. dollars		
	2021		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs:			
Equity securities	$50,230	$147,204	$96,974
Other	63	135	72
	$50,294	$147,340	$97,046
Securities with book values not exceeding acquisition costs:			
Equity securities	$18,029	$15,265	($2,764)
Other	2,195	2,195	-
Total	$20,224	$17,460	($2,764)

Unlisted shares (carrying amount stated in consolidated balance sheet: ¥1,381 million, $12,474 thousand) and convertible bond-type bonds with share acquisition rights (carrying amount stated in consolidated balance sheet: ¥11 million, $99 thousand) are not included in the table above as “Available-for-sale securities” since their market prices are not available, it is not possible to estimate their future cash flows, and therefore it is deemed extremely difficult to measure their fair value.

The following table summarizes sales of available-for-sale securities and the related gains and losses for the years ended March 31, 2021 and 2020.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Total sales of available-for-sale securities	¥193	¥1,014	$1,743
Related gains	39	448	352

5. DERIVATIVES AND HEDGE ACCOUNTING

The Company and some of its consolidated subsidiaries use derivatives to manage risks related to foreign currencies and interest rates. Details of these derivatives are as follows:

Currency related transactions not designated as hedging transactions at March 31, 2021 and 2020 consisted of the following:

	Millions of yen					
	2021			2020		
	Contract amount	Fair value	Revaluation gain (loss)	Contract amount	Fair value	Revaluation gain (loss)
Over the counter						
Forward						
Sold	¥2,327	(¥78)	(¥78)	¥2,485	¥5	¥5
Bought	114	(3)	(3)	120	1	1
Total	¥2,441	(¥81)	(¥81)	¥2,605	¥6	¥6

	Thousands of U.S. dollars		
	2021		
	Contract amount	Fair value	Revaluation gain (loss)
Over the counter			
Forward			
Sold	$21,019	($705)	($705)
Bought	1,030	(27)	(27)
Total	$22,049	($732)	($732)

(Note) The fair values of the transactions are provided by financial institutions.

Currency related transactions designated as hedging transactions at March 31, 2021 and 2020 consisted of the following:

		Millions of yen					
		2021			2020		
		Contract amount			Contract amount		
	Major hedged items	Total	Maturity over 1 year	Fair value	Total	Maturity over 1 year	Fair value
Deferral hedge accounting *1							
Forward							
Bought	Accounts payable - trade	¥534	¥ -	¥20	¥1,031	¥ -	¥2
Alternative method *2							
Forward							
Bought	Accounts payable - trade	313	-	*3	297	-	*3
Total		¥847	¥ -	¥20	¥1,328	¥ -	¥2

		Thousands of U.S. dollars		
		2021		
		Contract amount		
	Major hedged items	Total	Maturity over 1 year	Fair value
Deferral hedge accounting *1				
Forward				
Bought	Accounts payable - trade	$4,823	$ -	$181
Alternative method *2				
Forward				
Bought	Accounts payable - trade	2,827	-	*3
Total		$7,651	$ -	$181

*1. The fair values of the transactions are determined by the forward exchange rate.
*2. Monetary obligations denominated in foreign currencies for which foreign exchange forward contracts are used to hedge foreign currency fluctuation are translated at the contracted rate if the forward contract qualifies for hedge accounting.
*3. Since foreign exchange forward contracts under the alternative method are accounted for as an integral part of accounts payable as hedged items, their fair values are included in the fair value of the underlying accounts payable.

Interest rate related transactions designated as hedging transactions at March 31, 2021 and 2020 consisted of the following:

	Millions of yen					
	2021			2020		
	Contract amount			Contract amount		
Major hedged items	Total	Maturity over 1 year	Fair value	Total	Maturity over 1 year	Fair value
Deferral hedge accounting of interest rate swaps (Note)						
Long-term loans payable						
Receive - float / Pay - fixed	¥15,000	¥15,000	(¥4)	¥15,000	¥15,000	(¥14)
Total	¥15,000	¥15,000	(¥4)	¥15,000	¥15,000	(¥14)

	Thousands of U.S. dollars		
	2021		
	Contract amount		
Major hedged items	Total	Maturity over 1 year	Fair value
Deferral hedge accounting of interest rate swaps (Note)			
Long-term loans payable			
Receive - float / Pay - fixed	$135,489	$135,489	($36)
Total	$135,489	$135,489	($36)

(Note) The fair value of the transactions is provided mainly by financial institutions.

6. INVENTORIES

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Finished goods	¥45,785	¥49,150	$413,558
Work-in-process	11,480	12,750	103,694
Raw materials	11,331	11,378	102,348
Supplies	7,714	7,351	69,678
	¥76,310	¥80,629	$689,278

7. IMPAIRMENT LOSS

Major assets and asset groups recognizing impairment loss during the fiscal year ended March 31, 2021 consisted of the following:

Location	Usage	Type
Japan Exlan Co., LTD. (Okayama, Okayama)	Business assets (Manufacturing facilities for acrylic fibers and power equipment)	Buildings and structures Machinery and equipment Land Others
TOYOBO INDUSTRIAL MATERIALS AMERICA, INC. (Alabama, U.S.A.)	Business assets (Manufacturing facilities for airbag fabrics)	Buildings and structures Machinery and equipment Others
TOYOBO CO., LTD. (Otsu, Shiga)	Assets scheduled for disposal	Buildings and structures Machinery and equipment Others

The Group's business assets are classified in administrative accounting and, assets scheduled for disposal and idle assets are grouped together on an individual basis. The recoverable amount of the business assets fell below their carrying amount due to the changes in the business environment, etc. Therefore, the carrying amount of these assets has been reduced to the recoverable amount, and the reduction was recognized as impairment loss of ¥8,923 million ($80,598 thousand).

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥2,534	$22,889
Machinery and equipment	2,067	18,670
Land	3,512	31,723
Construction in progress	86	777
Other	724	6,540
	¥8,923	$80,598

The undiscounted future cash flows for the aforementioned asset groups are calculated using cash flow estimates based on business plans created mainly considering market trends, past experience, and current and projected economic conditions, and real estate appraisals used for calculations of the net selling price of the relevant fixed assets after continuous use. For the recoverable amount of the aforementioned asset groups, the Company used either the value in use, for which the undiscounted future cash flow, calculated using rational estimates, was discounted by a discount rate of 5.0%, or the net selling price based on third-party real estate appraisal.

Major assets and asset groups recognizing impairment loss during the fiscal year ended March 31, 2020 consisted of the following:

Location	Usage	Type
TOYOBO CO., LTD. (Tsuruga, Fukui)	Business assets (Manufacturing facilities for airbag yarns)	Buildings and structures Machinery and equipment Others
TOYOBO CHEMICALS(Thailand)Co.,Ltd. (Chonburi, Thailand)	Business assets (Manunfacturing facilities for copolyester)	Buildings and structures Machinery and equipment Others

The Toyobo Group's business assets are classified in administrative accounting and, idle assets are grouped together on an individual basis. The recoverable amount of the business assets fell below their carrying amount due to the idle or the changes in the business environment. Therefore, the carrying amount of these assets has been reduced to the recoverable amount, and the reduction was treated as an impairment loss, amounting to ¥2,397 million.

	Millions of yen
Buildings and structures	¥430
Machinery and equipment	1,865
Land	2
Tangible assets and other	100
	¥2,397

In calculating the recoverable amount of the assets and asset groups, the recoverable amount of land adopted net selling price stated in the sales agreement for land. Other fixed assets adopted the value in use, which discounted 2.9% and 4.3% for the future cash flows calculated by reasonable estimates.

8. INCOME TAXES

Significant components of the Company's and its consolidated subsidiaries' deferred income tax assets and liabilities as of March 31, 2021 and 2020 are set forth below.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Deferred income tax assets:			
Accrued employees' bonuses	¥1,686	¥1,572	$15,229
Devaluation loss on inventories	876	697	7,913
Defined benefit liability	6,177	7,359	55,794
Allowance for doubtful receivables	241	195	2,177
Provision for environmental measures	9	11	81
Impairment loss	1,193	1,448	10,776
Write-down of investment securities	446	395	4,029
Depreciation	399	286	3,604
Tax losses carried forward	11,917	6,246	107,642
Unrealized gains eliminated in consolidation	9,434	9,389	85,214
Securities acquired through merger	105	105	948
Defict of subsidiaries under liquidation	272	700	2,457
Loss due to fire	364	1,114	3,288
Other	2,306	2,482	20,829
Subtotal deferred income tax assets	35,425	31,999	319,980
Valuation allowance for tax losses carried forward	(11,573)	(6,144)	(104,534)
Valuation allowance for temporary differences	(2,496)	(2,422)	(22,545)
Total valuation allowance	(14,069)	(8,566)	(127,080)
Net deferred income tax assets	21,356	23,433	192,900
Deferred income tax liabilities:			
Reserve for deferred gains on sale of property	(570)	(431)	(5,149)
Undistributed earnings of overseas subsidiaries and affiliates	(1,963)	(1,841)	(17,731)
Consolidation adjustment of allowance for doubtful receivables	(0)	(0)	(0)
Valuation difference of subsidiaries	(1,980)	(1,963)	(17,885)
Tax deferred gains on assets transferred to a new company	(1,335)	(1,335)	(12,059)
Tax deferred gains on spin-off	(497)	(497)	(4,489)
Valuation difference on available-for-sale securities	(3,244)	(1,944)	(29,302)
Foreign currency translation adjustments	-	(9)	-
Total deferred income tax liabilities	(9,589)	(8,020)	(86,614)
Net deferred income tax assets	¥11,766	¥15,413	$106,278

	2021	2020	2021
Investments and other assets	15,066	17,977	136,085
Long-term liabilities	(3,299)	(2,564)	(29,799)
Total	¥11,766	¥15,413	$106,278

In addition to the aforementioned, deferred income tax liabilities on land revaluation of ¥20,156 million ($182,016 thousand) and ¥21,277 million were recorded in long-term liabilities as of March 31, 2021 and 2020, respectively.

Balance by tax loss carryforward deadline and deferred income tax assets. A breakdown of tax losses carried forward and valuation allowance by expiry date as of March 31, 2021 is as follows:

	Tax losses carried forward *	Valuation allowance	Deferred income tax assets
Within 1st year	¥505	(¥433)	¥72
2nd year	166	(153)	13
3rd year	327	(327)	-
4th year	402	(402)	-
5th year	500	(500)	-
thereafter	10,017	(9,758)	259
Total	¥11,917	(¥11,573)	¥344

*The amounts are determined by multiplying the corresponding tax losses carried forward by the statutory tax rate.

	Thousands of U.S. dollars		
	Tax losses carried forward *	Valuation allowance	Deferred income tax assets
Within 1st year	$4,561	($3,911)	$650
2nd year	1,499	(1,382)	117
3rd year	2,954	(2,954)	-
4th year	3,631	(3,631)	-
5th year	4,516	(4,516)	-
thereafter	90,480	(88,140)	2,339
Total	$107,642	($104,534)	$3,107

*The amounts are determined by multiplying the corresponding tax losses carried forward by the statutory tax rate.

A breakdown of tax losses carried forward and valuation allowance by expiry date as of March 31, 2020 is as follows:

	Tax losses carried forward *	Valuation allowance	Deferred income tax assets
Within 1st year	¥275	(¥261)	¥14
2nd year	229	(227)	2
3rd year	27	(27)	-
4th year	123	(123)	-
5th year	98	(98)	-
thereafter	5,494	(5,408)	86
Total	¥6,246	(¥6,144)	¥102

*The amounts are determined by multiplying the corresponding tax losses carried forward by the statutory tax rate.

The Company is subject to a number of taxes based on income, which, in the aggregate, indicate a statutory tax rate in Japan of approximately 31.0% for both the years ended March 31, 2021 and 2020. The effective tax rate for the years ended March 31, 2021 and 2020 differ from statutory tax rate as follows:

	2021	2020
Statutory tax rate	31.0%	
Expenses not deductible for tax purposes	0.5	
Nontaxable dividend income	(1.3)	
Tax credits	(7.7)	
Valuation allowance	55.9	
Equity in income of unconsolidated subsidiaries and affiliates	2.5	*1
Undistributed earnings of overseas subsidiaries and affiliates	2.2	
Difference in tax rate	(1.1)	
Effect of exclusion of subsidiaries from consolidation	(0.9)	
Reversal of revaluation reserve for land	(20.1)	
Other	(2.3)	
Effective tax rate	58.6%	

*1 Notes are omitted as the differences between the statutory tax rate and the effective tax rate of income taxes after tax effect accounting are 5% or less of the statutory tax rate.

9. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

Short-term borrowings at March 31, 2021 and 2020 consisted of short-term loans due within one year bearing interest at an average rate of 0.44% and 0.65%, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unsecured:			
0.45% bonds due 2021	¥5,000	¥5,000	$45,163
0.16% bonds due 2021	5,000	5,000	45,163
0.31% bonds due 2023	10,000	10,000	90,326
0.29% bonds due 2025	10,000	10,000	90,326
0.18% bonds due 2024	15,000	15,000	135,489
0.23% bonds due 2026	10,000	10,000	90,326
Long-term loans payable, principally maturing through 2078 at the weighted average interest rate of 0.91% as of March 31, 2021			
Unsecured	87,153	84,361	787,219
Lease obligations maturing serially through 2040	4,038	3,751	36,474
Total	146,191	143,112	1,320,486
Less amount due within one year	21,012	9,285	189,793
	¥125,179	¥133,827	$1,130,693

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

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2022	¥21,012	$189,793
2023	21,417	193,451
2024	35,137	317,379
2025	24,126	217,921
2026	15,760	142,354
Thereafter	28,739	259,588
	¥146,191	$1,320,486

The Company has credit facility commitments with three banks in order to secure financing. The total unused credit available to the Company through these facilities at March 31, 2021 was ¥17,500 million ($158,071 thousand).

10. EMPLOYEES SEVERANCE AND RETIREMENT BENEFITS

Overview of defined benefit plans

The Company and certain consolidated subsidiaries have established funded and unfunded defined benefit plans and defined contribution plans. Under the defined benefit corporate pension plan and lump-sum severance payment plan, a lump-sum payment or pension payment based on the employee's salary at the time of retirement or termination and length of service is provided.

In certain cases, the Company pays employees who are retiring additional retirement benefits that are not considered to be retirement benefit obligations as calculated under actuarial methods according to retirement benefit accounting principles. Although one consolidated subsidiary subscribes to a corporate pension plan under a multi-employer type employee pension fund plans, as this plan is unable to rationally calculate amounts of pension assets corresponding to the Company's contribution, the Group adopts an accounting procedure that treats the plan as being equivalent to a defined contribution plan.

Defined benefit plans

Reconciliation of the beginning balance and the ending balance of retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Retirement benefit obligations at beginning of year	¥63,665	¥62,215	$575,061
Service cost	2,678	2,372	24,189
Interest cost	386	373	3,487
Actuarial differences incurred	(165)	2,007	(1,490)
Retirement benefits paid	(3,066)	(3,234)	(27,694)
Other	137	(68)	1,237
Retirement benefit obligations at end of year	¥63,635	¥63,665	$574,790

(Note) The above table includes retirement benefit obligations of the consolidated subsidiaries applying the simplified method.

Reconciliation of the beginning balance and the ending balance of plan assets

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Plan assets at beginning of year	¥42,052	¥43,979	$379,839
Expected return on plan assets	759	848	6,856
Actuarial differences incurred	3,235	(1,462)	29,220
Employer's contribution	2,339	1,085	21,127
Retirement benefits paid	(2,656)	(2,398)	(23,991)
Other	38	-	343
Plan assets at end of year	¥45,766	¥42,052	$413,386

Reconciliation between the balance of retirement benefit obligations and plan assets at the end of the fiscal year, and retirement benefit liability and retirement benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Funded retirement benefit obligations	¥61,120	¥61,020	$552,073
Plan assets	(45,766)	(42,052)	(413,386)
	15,354	18,968	138,687
Unfunded retirement benefit obligations	2,515	2,645	22,717
Net liability and asset recorded on the consolidated balance sheet	17,868	21,613	161,395
Defined benefit liability	18,288	21,613	165,188
Defined benefit asset	(420)	-	(3,794)
Net liability and asset recorded on the consolidated balance sheet	¥17,868	¥21,613	$161,395

Retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Service cost – benefits earned during the year	¥2,678	¥2,372	$24,189
Interest cost on projected benefit obligation	386	373	3,487
Expected return on plan assets	(759)	(848)	(6,856)
Amortization of actuarial differences	1,252	505	11,309
Amortization of prior service cost	(64)	(64)	(578)
Additional retirement benefits	100	138	903
Retirement benefit expenses for defined benefit plans	¥3,594	¥2,476	$32,463

(Note) Retirement benefit expenses of the consolidated subsidiaries applying the simplified method are included in service cost.

Remeasurements of defined benefit plans, before tax effect

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Actuarial differences	¥4,653	(¥2,964)	$42,029
Prior service cost	(64)	(64)	(578)
Total	¥4,590	(¥3,028)	$41,460

Accumulated remeasurements of defined benefit plans, before tax effect

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Unrecognized actuarial differences	¥2,208	¥6,860	$19,944
Unrecognized prior service cost	(815)	(878)	(7,362)
Total	¥1,393	¥5,982	$12,582

Plan assets
Components of plan assets by main categories were as follows:

	2021	2020
Debt securities	26%	23%
Equity securities	21	13
General accounts	34	41
Cash and deposits	4	11
Other	15	12
Total	100%	100%

(Note) The ratio of plan assets used to fund a retirement benefit trust established for corporate pension plans was 4% and 6% for the years ended March 31, 2021 and 2020 respectively.

Method used to determine expected long-term rate of return on plan assets
The expected long-term rate of return on plan assets is based on the current and expected allocation of plan assets and the current and expected long-term rate of return on the various plan assets.

Assumptions used for actuarial calculation
The assumptions used for the actuarial calculation at the end of the years ended March 31, 2021 and 2020 were as follows:

	2021	2020
Discount rates	0.6%	0.6%
Expected rates of return on plan assets	2.0%	2.0%

Defined contribution plans
The amount contributed to defined contribution plans by the Company and certain consolidated subsidiaries was ¥481 million ($4,345 thousand) and ¥456 million for the fiscal years ended March 31, 2021 and 2020, respectively.

Multi-employer type employee pension fund plans
The total amount contributed to multi-employer type employee pension fund plans, which are calculated in the same way as defined contribution plans, was ¥6 million ($54 thousand) and ¥6 million for the years ended March 31, 2021 and 2020, respectively.

11. ASSETS PLEDGED AS COLLATERAL

Assets pledged as collateral for customers' deposits of ¥106 million ($957 thousand) and ¥106 million at March 31, 2021 and 2020 respectively.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and time deposits	¥2	¥2	$18
Property, plant and equipment — net of accumulated depreciation	243	259	2,195
	¥245	¥261	$2,213

12. NET ASSETS

The significant provisions of the Japanese Companies Act (the "Companies Act") that affect financial and accounting matters are summarized below:

1. Dividends:
   The Companies Act allows Japanese companies to pay dividends at any time during the fiscal year, in addition to the year-end dividend, upon resolution at the stockholders meeting. For Japanese companies that meet certain criteria such as having a board of directors, independent auditors, a board of corporate auditors and one-year terms of service for directors rather than the two-year normal term provided by the articles of incorporation, the board of directors may declare dividends (except for dividends in kind) if the company has prescribed so in its articles of incorporation. The Companies Act permits Japanese companies to distribute dividends in kind (noncash assets) to stockholders subject to certain limitations and additional requirements. The Companies Act provides certain limitations on the amounts available for dividends and the purchase of treasury stock. The maximum amount that the Company can distribute as dividends is determined based on the nonconsolidated financial statements of the Company in accordance with the Companies Act and regulations.

2. Increases/decreases in and transfers of common stock, reserve and surplus:
   The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (of retained earnings) or as additional paid-in capital (of capital surplus), depending on the equity account charged upon the payment of such dividends, until the total aggregate amount of legal reserve and additional paid-in capital equals 25% of the capital stock. Under the Companies Act, all additional paid-in capital and all legal reserve may be transferred to other capital surplus and retained earnings, respectively, and are potentially available for dividends. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the stockholders. Under the Companies Act, the entire amount paid for new shares must be designated as common stock. However, a company may, by a resolution of the board of directors, designate an amount not exceeding one half of the price of the new shares as additional paid-in capital, which is included in capital surplus.

3. Treasury stock:
   The Companies Act provides for Japanese companies to repurchase or dispose of treasury stock. The amount of treasury stock purchased, however, cannot exceed the amount available for distribution to the stockholders, an amount which is determined by a specific formula.

13. CONTINGENT LIABILITIES

At March 31, 2021 and 2020, the Company and certain consolidated subsidiaries were contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
As guarantor of indebtedness			
Unconsolidated subsidiaries and affiliates	¥4,048	¥3,099	$36,564
Employees (housing loans)	1	3	9
	¥4,049	¥3,102	$36,573

14. OFF-BALANCE SHEET LEASE TRANSACTIONS

Future minimum lease receipts as lessor under non-cancelable operating leases for the remaining lease periods as of March 31, 2021 and 2020 were ¥5,962 million ($53,852 thousand) and ¥6,635 million, respectively, of which ¥673 million ($6,079 thousand) and ¥673 million, respectively, were due within one year.

15. SEGMENT INFORMATION

1. Overview of reportable segments

   Toyobo's reportable segments allow it to acquire financial data separated into the various components of the corporate group. The scope of the segments is reviewed on a regular basis in order to allow the highest decision-making body to determine the allocation of management resources, and evaluate earnings performance. Toyobo's basic organization comprises solution headquarters and business divisions within the head office, separated by the type, nature and market region for products and services. Each solution headquarters and business division formulates comprehensive strategies for its domestic and overseas operations, and conducts business activities.

   Accordingly, Toyobo comprises segments by market region. Its five reportable segments are "Films and Functional Materials," "Mobility," "Lifestyle and Environment," "Life Science" and "Real Estate." The "Films and Functional Materials" segment manufactures and sells packaging films, industrial films, industrial adhesives, photo functional materials and other products. The "Mobility" segment manufactures and sells engineering plastics, airbag fabrics and other products. The "Lifestyle and Environment" segment manufactures and sells water treatment membranes, functional filters, high-performance fibers, nonwoven fabrics, functional textiles, apparel products, apparel textiles, apparel fibers and other products. The "Life Science" segment manufactures and sells bio-products such as enzymes for diagnostics, pharmaceuticals, medical-use membranes, medical equipment, equipment devices and other products. The "Real Estate" segment leases and manages real estate properties.

   From the subject fiscal year, the Group reviewed the method of classification of reportable segments in conformity with the changes of the Group's internal organizational structure carried out in order to realize the "ability to provide solutions" (contribution through our business), which is the one of Group's materiality. Accordingly, business segments were changed from "Films and Functional Polymers," "Industrial Materials," "Healthcare" and "Textiles and Trading" to "Films and Functional Materials," "Mobility," "Lifestyle and Environment" and "Life Science." Segment Information for the previous fiscal year was restated in accordance with the method of classification after the aforesaid change.

2. The methods of accounting for business segments are the same as those stated in Note 2, "Significant Accounting Policies." Profit of the reporting segments is operating profit. Transfers among segments are based on market prices.

Year ended March 31, 2021	Millions of yen							
	Net sales to external customers	Intersegment net sales and transfer amounts	Net sales	Segment profit (loss)	Segment assets	Depreciation and amortization	Impairment loss	Capital expenditure
Films and Functional Materials	¥152,842	¥110	¥152,952	¥20,028	¥165,697	¥8,886	¥ -	¥8,802
Mobility	36,573	27	36,599	(1,572)	50,396	1,364	782	1,408
Lifestyle and Environment	109,148	362	109,509	4,376	132,101	3,802	7,817	5,892
Life Science	27,087	40	27,127	4,517	36,034	2,372	324	3,159
Real Estate	3,959	463	4,422	1,548	48,237	704	-	348
	329,608	1,002	330,610	28,897	432,465	17,128	8,923	19,609
Other businesses	7,798	13,631	21,429	754	16,141	421	-	751
Total	337,406	14,633	352,039	29,650	448,606	17,550	8,923	20,360
Elimination or Corporate	-	(14,633)	(14,633)	(2,993)	42,582	1,545	-	2,893
Consolidated	¥337,406	¥ -	¥337,406	¥26,657	¥491,188	¥19,095	¥8,923	¥23,253

Year ended March 31, 2021	Thousands of U.S. dollars							
	Net sales to external customers	Intersegment net sales and transfer amounts	Net sales	Segment profit (loss)	Segment assets	Depreciation and amortization	Impairment loss	Capital expenditure
Films and Functional Materials	$1,380,562	$994	$1,381,555	$180,905	$1,496,676	$80,264	$—	$79,505
Mobility	330,350	244	330,584	(14,199)	455,207	12,320	7,063	12,718
Lifestyle and Environment	985,891	3,270	989,152	39,527	1,193,217	34,342	70,608	53,220
Life Science	244,666	361	245,028	40,800	325,481	21,425	2,927	28,534
Real Estate	35,760	4,182	39,942	13,982	435,706	6,359	-	3,143
	2,977,220	9,051	2,986,270	261,015	3,906,287	154,711	80,598	177,120
Other businesses	70,436	123,123	193,560	6,811	145,795	3,803	-	6,783
Total	3,047,656	132,174	3,179,830	267,817	4,052,082	158,522	80,598	183,904
Elimination or Corporate	-	(132,174)	(132,174)	(27,035)	384,627	13,955	-	26,131
Consolidated	$3,047,656	$—	$3,047,656	$240,782	$4,436,709	$172,478	$80,598	$210,035

(Notes) 1. Other businesses include design and construction of buildings, equipment, etc., information services, logistics services and other items.

2. (a) Elimination or Corporate for segment profit adjustment of ¥-2,993 million ($-27,035 thousand) includes eliminations of intersegment transactions of ¥150 million ($1,355 thousand) and companywide expenses that are not allocated across reportable segments of ¥-3,144 million ($-28,399 thousand). The principal components of companywide expenses are those related to basic research and development.

(b) Elimination or Corporate for segment assets adjustment of ¥42,582 million ($384,627 thousand) includes companywide assets that are not allocated across reportable segments and amount to ¥79,074 million ($714,244 thousand).

(c) Elimination or Corporate for capital expenditure of ¥2,893 million ($26,131 thousand) is the amount of capital investment related to research and development.

3. Segment profit (loss) has been adjusted with operating profit on the consolidated financial statements.

Year ended March 31, 2020	Net sales to external customers	Intersegment net sales and transfer amounts	Net sales	Segment profit (loss)	Segment assets	Depreciation and amortization	Impairment loss	Capital expenditure
	Millions of yen							
Films and Functional Materials	¥127,127	¥86	¥127,213	¥14,582	¥158,950	¥6,724	¥825	¥21,528
Mobility	43,905	10	43,915	(701)	51,153	1,550	1,486	3,360
Lifestyle and Environment	128,409	435	128,844	5,936	135,923	3,921	-	6,689
Life Science	25,538	48	25,586	3,798	32,571	2,330	84	2,704
Real Estate	4,405	393	4,797	1,482	48,709	657	2	377
	329,383	971	330,355	25,097	427,306	15,182	2,397	34,658
Other businesses	10,224	22,473	32,697	1,141	21,972	336	-	341
Total	339,607	23,444	363,052	26,238	449,278	15,518	2,397	34,999
Elimination or Corporate	-	(23,444)	(23,444)	(3,444)	39,596	1,487	-	1,446
Consolidated	¥339,607	¥ -	¥339,607	¥22,794	¥488,874	¥17,005	¥2,397	¥36,445

(Notes) 1. Other businesses include design and construction of buildings, equipment, etc., information services, logistics services and other items.

2. (a) Elimination or Corporate for segment profit adjustment of ¥-3,444 million includes eliminations of intersegment transactions of ¥-388 million and companywide expenses that are not allocated across reportable segments of ¥-3,056 million. The principal components of companywide expenses are those related to basic research and development.

(b) Elimination or Corporate for segment assets adjustment of ¥39,596 million includes companywide assets that are not allocated across reportable segments and amount to ¥79,682 million.

(c) Elimination or Corporate for capital expenditure of ¥1,446 million is the amount of capital investment related to research and development.

3. Segment profit (loss) has been adjusted with operating profit on the consolidated financial statements.

Sales in Japan, Southeast Asia and other areas were as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Japan	¥226,094	¥229,834	$2,042,218
China	33,858	30,782	305,826
Southeast Asia	44,782	42,247	404,498
Other areas	32,673	36,744	295,122
Total	¥337,406	¥339,607	$3,047,656

Principal countries and areas in each segment are:
Southeast Asia: China, Korea, Taiwan, Malaysia, Indonesia, Thailand, etc.
Other areas: USA, Germany, Spain, Brazil, Saudi Arabia, etc.

Gain on Bargain Purchase by Reportable Segment:
Fiscal year ended March 31, 2020
In the "Films and Functional Materials" business segment, the Company acquired shares of TOYOBO FILM SOLUTIONS LIMITED and PT. INDONESIA TOYOBO FILM SOLUTIONS and made these companies consolidated subsidiaries. In conjunction with this, gain on negative goodwill of ¥65 million was recorded.

16. LAND REVALUATION

Applying the law on revaluation of land, the Company, a consolidated subsidiary and an affiliate accounted for using the equity method revaluated land for business use on March 31, 2002 and included the increase, net of income taxes and non-controlling interests, in net assets. As of March 31, 2021 and 2020, the fair value of this land was lower than book value by ¥31,680 million ($286,153 thousand) and ¥33,945 million, respectively. Another consolidated subsidiary revaluated its land for business use on March 31, 2000 and included the increase, net of income taxes and non-controlling interests, in net assets. As of March 31, 2021 and 2020, the fair value of this land was lower than book value by ¥427 million ($3,857 thousand) and ¥3,184 million, respectively.

17. INVESTMENT AND RENTAL PROPERTY

The Company and some of its consolidated subsidiaries hold investment and rental office buildings (including land) located in Osaka, Japan and other areas. For the fiscal years ended March 31, 2021 and 2020, the rental income (principal rental income is recorded in net sales, and principal rental expenses are recorded in cost of sales) on these real estate properties was ¥1,828 million ($16,512 thousand) and ¥2,105 million, respectively. The gain on the sale of fixed assets, recorded in other income (expenses), was ¥41 million ($370 thousand) for the year ended March 31, 2021. The loss on the sale of fixed assets, recorded in order income (expenses), was ¥33 million for the years ended March 31, 2020.

The following table summarizes the carrying amount, the change during the fiscal year and the estimated fair value of investment and rental property.

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Carrying amount at beginning of year	¥31,430	¥33,398	$283,895
Change during the year	(644)	(1,968)	(5,817)
Carrying amount at end of year	30,786	31,430	278,078
Fair value on March 31, 2021 and 2020	¥36,230	¥37,789	$327,251

(Notes) 1. The carrying amount represents the net amount calculated as the acquisition cost less accumulated depreciation and impairment loss.
2. The change during the fiscal year ended March 31, 2021 and 2020 was attributable mainly to a decrease in the sale of assets of ¥276 million ($2,493 thousand) and ¥1,235 million respectively.
3. The fair value at March 31, 2021 and 2020 was based on real estate appraisal reports provided by external real estate appraisers for major properties and the index considered to reflect the current market price for other properties.

18. CASH FLOW INFORMATION

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

1. The reconciliation of cash and time deposits in the consolidated balance sheets and cash and cash equivalents in the consolidated statements of cash flows as of March 31, 2021 and 2020 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Cash and time deposits in the consolidated balance sheets	¥34,695	¥25,247	$313,386
Time deposits maturing after three months	(169)	(163)	(1,527)
Cash and cash equivalents in the consolidated statements of cash flows	¥34,526	¥25,084	$311,860

2. Major breakdown of assets and liabilities of newly consolidated subsidiaries through stock acquisition during the fiscal year ended March 31, 2020

Followings are the composition of assets and liabilities as of the beginning of the consolidation of TOYOBO FILM SOLUTIONS LIMITED and PT. INDONESIA TOYOBO FILM SOLUTIONS, which were newly acquired through stock acquisition, the relationship between the acquisition price of the said companies' shares, and the acquisition cost (net) incurred for the acquisition of the companies thereof.

	Millions of yen
	2020
Current assets	¥13,196
Noncurrent assets	5,577
Current liabilities	(8,614)
Long-term liabilities	(1,111)
Negative goodwill	(65)
Acquisition price of the stock	8,983
Cash and time deposits	(186)
Net cash paid for the acquisition	¥8,797

19. COMPREHENSIVE INCOME

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

	Millions of yen		Thousands of U.S. dollars
	2021	2020	2021
Valuation difference on available-for-sale securities			
Increase (decrease) during the year	¥4,307	(¥6,887)	$38,903
Reclassification adjustments	67	(438)	605
Subtotal, before tax	4,374	(7,325)	39,509
Tax (expense) benefit	(1,359)	2,273	(12,275)
Subtotal, net of tax	3,015	(5,052)	27,233
Deferred gains and losses on hedges			
Increase during the year	33	19	298
Reclassification adjustments	(4)	16	(36)
Subtotal, before tax	29	35	262
Tax (expense) benefit	(10)	(10)	(90)
Subtotal, net of tax	19	25	172
Foreign currency translation adjustments			
Decrease (increase) during the year	1,225	(1,707)	11,065
Reclassification adjustments	(157)	-	(1,418)
Subtotal, before tax	1,069	(1,707)	9,656
Tax (expense) benefit	-	2	-
Subtotal, net of tax	1,069	(1,705)	9,656
Remeasurements of defined benefit plans			
Decrease (increase) during the year	3,400	(3,469)	30,711
Reclassification adjustments	1,190	441	10,749
Subtotal, before tax	4,590	(3,028)	41,460
Tax (expense) benefit	(1,428)	939	(12,899)
Subtotal, net of tax	3,162	(2,089)	28,561
Share of other comprehensive income of associates accounted for using equity method			
Increase during the year	(107)	(52)	(966)
Reclassification adjustments	-	-	-
Subtotal, net of tax	(107)	(52)	(966)
Total other comprehensive income	¥7,158	(¥8,873)	$64,655

20. LOSS DUE TO FIRE

Loss due to fire and insurance claim income
Fiscal year ended March 31, 2021
This loss is related to the fire that occurred at the Company's Inuyama Plant on September 27, 2020, and its breakdown includes loss on extinguishment of fixed assets and inventories, fixed costs during the closing period, and other related costs.

Fiscal year ended March 31, 2020
This loss is related to the fire that occurred at the Company's Tsuruga Research and Production Center No. 2 on September 6, 2018, and its breakdown includes the cost of related to procurement of replacement materials and other related costs. The insurance money awarded in relation to this incident is recorded as "insurance income related to loss due to fire".

21. SUBSEQUENT EVENTS

Merger with TOYOBO FILM SOLUTIONS LIMITED
The Company has resolved to implement an absorption-type merger with its consolidated subsidiary, TOYOBO FILM SOLUTIONS LIMITED (hereinafter, "TFS"), at the meeting of the Board of Directors held on December 25, 2020, entered into a merger agreement on the same date and carried out the merger effective April 1, 2021. Pursuant to Article 796, Paragraph 2 (for the Company) and Article 784, Paragraph 1 (for TFS) of the Companies Act, the merger has been conducted without the approval of the general meeting of shareholders of each company.
The outline of the merger is as follows.

1. Outline of the transaction
(1) Name and content of business of the company involved in the merger
Name of the company involved in the merger: TOYOBO FILM SOLUTIONS LIMITED
Content of business: Manufacturing and sale of films

(2) Date of the business combination
April 1, 2021

(3) Legal form of the business combination
The merger has been conducted as an absorption-type merger, with the Company as the surviving company and TFS as the disappearing company.

(4) Name of the company after the business combination
TOYOBO CO., LTD.

(5) Other items related to the outline of the transaction
(i) Purpose of the merger
The Company decided to implement an absorption-type merger with TFS with the aim of establishing a structure to seamlessly and efficiently provide high-performance film products to customers by combining the distinctive technologies and product lineups of TFS and the Company.

(ii) Allotment regarding the merger
There was no issuance of new shares or allotment of any other consideration with respect to the merger.

(iii) Financial position and operating results of the company involved in the merger for immediately preceding fiscal year (fiscal year ended December 31, 2020)
Assets : ¥18,145 million ($163,897 thousand)
Liabilities : ¥7,801 million ($70,463 thousand)
Net assets : ¥10,344 million ($93,433 thousand)
Net sales : ¥24,939 million ($225,264 thousand)
Profit : ¥2,107 million ($19,032 thousand)

2. Outline of the accounting method
In accordance with the "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019), the merger was accounted for as a transaction under common control.

Issuance of unsecured straight bonds in the Japanese market

At the meeting of the Board of Directors held on April 23, 2021, a comprehensive resolution regarding the issuance of unsecured straight bonds in the Japanese market was passed. The details of this resolution are as follows:

(1) Issue amount: ¥20,000 million or less.
However, multiple issues within the scope of this amount are not ruled out.

(2) Issue price: ¥100 for each bond with par value of ¥100.

(3) Interest rate: Market yield of Japanese government bonds with the same maturities plus 1.0% or less

(4) Payment dates: From April 24, 2021 to March 31, 2022.
However, if the bonds are offered during this period, payments after this period will be accepted.

(5) Term of redemption: 5 years or more, to 10 years.

(6) Method of redemption: Full amount on maturity.
However, a retirement by purchase clause may be included.

(7) Uses of funds: For redemption of bonds, repayment of borrowings, purchases of securities (includes acquisition of stock through mergers and acquisitions), working capital and capital investments.

(8) Special provisions: These bonds will include a negative pledge clause.

(9) Other: Decisions regarding matters covered in Article 676 of the Companies Act and all other items related to the issuance of bonds will be made within the scope stated above at the discretion of the director in charge of the Finance Division.

Independent auditor's report

To the Board of Directors of TOYOBO Co., Ltd.:

Opinion

We have audited the accompanying consolidated financial statements of TOYOBO Co., Ltd. ("the Company") and its consolidated subsidiaries (collectively referred to as "the Group"), which comprise the consolidated balance sheets as at March 31, 2021 and 2020, the consolidated statements of income, comprehensive income, changes in net assets and cash flows for the years then ended , and notes, comprising a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2021 and 2020, and its consolidated financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Appropriateness of the amount of an impairment loss recognized on fixed assets held by Japan Exlan Co., Ltd.

The key audit matter	How the matter was addressed in our audit
As described in Note 7 "IMPAIRMENT lOSS" and Note 15 "SEGMENT INFORMATION," an impairment loss of ¥7,817 million on the fixed assets held by Japan Exlan Co., Ltd., a consolidated subsidiary (hereinafter, the "Subsidiary") within the Lifestyle and Environment segment, was recognized in the Consolidated Statement of Income of the	In order to assess the appropriateness of the amount of an impairment loss recognized on the fixed assets held by the Subsidiary, we requested the component auditor of the Subsidiary to perform an audit. Then we evaluated the report of the component auditor as to whether sufficient and appropriate audit

Company for the year ended March 31, 2021. The Subsidiary manufactures and sells acrylic fiber and acrylic functional materials, and it has recognized recurring operating losses due to the further deterioration in the European market environment because of the spread of the COVID-19 infections amid the fall in demand in the Chinese markets, the major export destination. While fixed assets are depreciated/amortized in a systematic manner, they need to be tested for impairment whenever there is any indications of impairment. The impairment test is performed by comparing the undiscounted future cash flows that are expected to be generated from the related asset group with their carrying amounts. If the recognition of an impairment loss is deemed necessary, the carrying amount is reduced to the recoverable amount, and the resulting decrease in the carrying amount is recognized as an impairment loss. The value in use was used as the recoverable amount in the measurement of an impairment loss on the fixed assets. In addition, the business plan prepared by management that served as the basis for calculating the value in use included the estimated sales volume calculated based on market forecasts for demand of acrylic fiber, as well as the estimated effect of increased profitability from concentrating management resources on acrylic functional materials. Those forecasts involved a high degree of uncertainty, and management's judgment thereon had a significant effect on the estimated future cash flows. Further, the property appraisal value used to calculate net selling price of those fixed assets after continuous use and the estimated discount rate used to calculate the value in use require a high degree of expertise in valuation. We, therefore, determined that our assessment of the appropriateness of the amount of an impairment loss recognized on the fixed assets held by the Subsidiary was the most significant in our audit of the consolidated financial statements for this fiscal year, and accordingly, a key audit matter.	evidence was obtained from the following procedures among others: **(1) Internal control testing** Test of the design and operating effectiveness of certain of the Subsidiary's internal controls relevant to recognizing an impairment loss on the fixed assets. **(2) Assessment of the reasonableness of the estimated future cash flows** Assessment of the reasonableness of the key assumptions included in the business plan used to estimate future cash flows by inquiring of management regarding the basis on which those assumptions were developed as well as by performing the following procedures: ● Comparison of the basic data related to the market forecasts for demand of acrylic fiber, which forms the basis for estimating sales volume, with applicable market data related to acrylic fiber issued by external organizations; ● Assessment of the estimated effect of increased profitability from concentrating management resources on acrylic functional materials by inquiring of the personnel responsible for sales about the status of negotiations with customers on expansion of sales of those materials and comparing it with customers' sales plans; and ● Assessment of whether the valuation method was appropriate in view of the requirements of the accounting standards and comparison of the input data used for the calculations with market data published by external organizations by engaging our valuation specialists to assist in the assessment of the property appraisal value. **(3) Assessment of the reasonableness of the discount rate** Assessment of whether the valuation method was appropriate in view of the requirements of the accounting standards and comparison of the input data used for the calculations with market data published by external organizations by engaging valuation specialists within our domestic network firms.

Responsibilities of Management and Corporate Auditors and the Board of Corporate Auditors for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan.

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

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

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

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

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

business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

From the matters communicated with corporate auditors and the board of corporate auditors , we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2021 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

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

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

Tomoyuki Ono
Designated Engagement Partner
Certified Public Accountant

Tetsuo Yamada
Designated Engagement Partner
Certified Public Accountant

Seiko Ohashi
Designated Engagement Partner
Certified Public Accountant

KPMG AZSA LLC
Osaka Office, Japan
September 7, 2021

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