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Appendix

# ***TOKYO OHKA KOGYO CO., LTD. and Subsidiaries***

Fiscal year ended December 31, 2019  
(January 1, 2019 — December 31, 2019)

***Consolidated financial statements,  
Notes to consolidated financial statements***

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## TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

### Consolidated Balance Sheets December 31, 2019 and 2018

<u>ASSETS</u>	<u>Millions of yen</u>		<u>Thousands of U.S. dollars (Note 1)</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>
<b>CURRENT ASSETS:</b>			
Cash and deposits (Notes 7 and 19)	¥ 28,230	¥ 37,851	\$ 258,990
Time deposits (Note 19)	18,175	18,241	166,751
Receivables:			
Trade notes and accounts (Note 19)	23,887	22,539	219,149
Securities (Notes 7, 8 and 19)	2,999	2,000	27,522
Other	557	493	5,115
Allowance for doubtful accounts	(95)	(48)	(878)
Inventories (Note 9)	17,439	17,245	159,998
Prepaid expenses and other current assets	2,087	1,577	19,151
<b>Total current assets</b>	<b>93,282</b>	<b>99,901</b>	<b>855,801</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Note 10):</b>			
Land	8,880	8,996	81,475
Buildings and structures	69,871	63,330	641,024
Machinery and equipment	45,601	57,203	418,363
Furniture and fixtures	21,271	20,712	195,151
Right-of-use assets	514	—	4,723
Construction in progress	6,618	3,393	60,721
<b>Total</b>	<b>152,759</b>	<b>153,636</b>	<b>1,401,459</b>
Accumulated depreciation	(97,701)	(105,277)	(896,348)
<b>Net property, plant and equipment</b>	<b>55,057</b>	<b>48,358</b>	<b>505,110</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Notes 8 and 19)	14,815	12,910	135,917
Investments in and advanced to an unconsolidated subsidiary and associated companies	7	7	68
Investment in capital	100	220	917
Net defined benefit asset (Note 12)	3,204	2,065	29,401
Long-term time deposits (Note 19)	18,000	18,000	165,137
Deferred tax assets (Note 16)	395	400	3,632
Other assets	1,624	1,091	14,899
<b>Total investments and other assets</b>	<b>38,147</b>	<b>34,696</b>	<b>349,974</b>
<b>TOTAL</b>	<b>¥ 186,486</b>	<b>¥ 182,957</b>	<b>\$ 1,710,885</b>

See notes to consolidated financial statements.

<u>LIABILITIES AND EQUITY</u>	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2019</u>	<u>2018</u>	<u>U.S. dollars</u>
			<u>(Note 1)</u>
			<u>2019</u>
<b>CURRENT LIABILITIES:</b>			
Payables:			
Trade notes and accounts (Note 19)	¥ 10,345	¥ 11,381	\$ 94,911
Construction and other	4,351	3,834	39,926
Income taxes payable	700	1,130	6,428
Accrued expenses	3,871	3,983	35,514
Advances from customers	50	88	464
Other current liabilities (Notes 19)	996	957	9,139
Total current liabilities	<u>20,316</u>	<u>21,375</u>	<u>186,385</u>
<b>LONG-TERM LIABILITIES:</b>			
Long-term loans payable (Note 11 and 19)	11,272	10,000	103,415
Deferred tax liabilities (Note 16)	887	98	8,144
Net defined benefit liability (Note 12)	436	306	4,007
Other long-term liabilities (Note 13 and 19)	1,840	318	16,882
Total long-term liabilities	<u>14,437</u>	<u>10,723</u>	<u>132,449</u>
<b>EQUITY (Notes 14 and 22):</b>			
Common stock—authorized, 197,000,000 shares in 2019 authorized, 197,000,000 shares in 2018 issued, 45,100,000 shares in 2019 issued, 45,100,000 shares in 2018	14,640	14,640	134,316
Capital surplus	15,207	15,207	139,522
Retained earnings	120,908	120,885	1,109,253
Treasury stock—at cost, 3,711,937 shares in 2019 and 3,436,262 shares in 2018	(14,969)	(13,816)	(137,334)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	5,695	4,315	52,254
Foreign currency translation adjustments	2,866	3,137	26,298
Remeasurements of defined benefit plans	145	(239)	1,333
Total	<u>144,495</u>	<u>144,130</u>	<u>1,325,644</u>
Stock acquisition rights	379	310	3,481
Non-controlling interests	6,858	6,416	62,924
Total equity	<u>151,733</u>	<u>150,857</u>	<u>1,392,050</u>
<b>TOTAL</b>	<u>¥ 186,486</u>	<u>¥ 182,957</u>	<u>\$ 1,710,885</u>

## TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

### Consolidated Statements of Income Years Ended December 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
NET SALES	¥102,820	¥105,277	\$ 943,307
COST OF SALES (Notes 9, 15 and 17)	69,604	71,896	638,574
Gross profit	33,215	33,380	304,732
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12, 15 and 17)	23,669	22,875	217,149
Operating income	9,546	10,505	87,582
OTHER INCOME (EXPENSES):			
Interest and dividend income	447	392	4,102
Foreign exchange loss —net	(410)	(580)	(3,767)
Gain on valuation of derivatives	95	306	876
Loss on impairment of long-lived assets (Note 10)	(477)	(860)	(4,382)
Loss on valuation of investments in capital (Note 8)	(540)	—	(4,959)
Other—net	(2)	50	(23)
Other (expenses) income —net	(888)	(691)	(8,154)
INCOME BEFORE INCOME TAXES AND NON- CONTROLLING INTERESTS	8,657	9,814	79,428
INCOME TAXES (Note 16):			
Current	1,972	2,141	18,097
Deferred	49	(187)	452
Total income taxes	2,021	1,953	18,550
NET INCOME BEFORE NON-CONTROLLING INTERESTS	6,635	7,860	60,878
NON-CONTROLLING INTERESTS IN NET INCOME	1,225	984	11,244
PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 5,410	¥ 6,875	\$ 49,633

## TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

### Consolidated Statements of Income Years Ended December 31, 2019 and 2018

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	Yen		U.S. dollars
	2019	2018	2019
PER SHARE OF COMMON STOCK (Notes 15 and 22):			
Basic profit	¥ 130.02	¥ 164.92	\$ 1.19
Diluted profit	129.62	164.44	1.18
Cash dividends applicable to the year	120.00	96.00	1.10

See notes to consolidated financial statements.

**TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries**

**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2019 and 2018**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
NET INCOME BEFORE NON-CONTROLLING INTERESTS	<u>¥ 6,635</u>	<u>¥ 7,860</u>	<u>\$ 60,878</u>
OTHER COMPREHENSIVE INCOME (Note 21):			
Unrealized (loss) gain on available-for-sale securities	1,380	(2,578)	12,666
Foreign currency translation adjustments	(284)	(1,751)	(2,606)
Remeasurements of defined benefit plans	385	(575)	3,532
Share of other comprehensive income in an associate	—	(113)	—
Total other comprehensive income	<u>1,481</u>	<u>(5,018)</u>	<u>13,592</u>
COMPREHENSIVE INCOME (Note 21)	<u>¥ 8,117</u>	<u>¥ 2,841</u>	<u>\$ 74,470</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 21):			
Owners of the parent	¥ 6,904	¥ 2,213	\$ 63,344
Non-controlling interests	1,212	628	11,126

See notes to consolidated financial statements.

**TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries**

**Consolidated Statements of Changes in Equity  
Years Ended December 31, 2019 and 2018**

	Thousands		Millions of yen									
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Subscription rights to shares	Non- controlling interests	Total equity
						Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
BALANCE, JANUARY 1, 2018	42,078	¥ 14,640	¥ 15,207	¥ 116,904	¥(11,732)	¥ 6,893	¥ 4,646	¥ 335	¥ 146,896	¥ 247	¥ 6,373	¥ 153,517
Profit attributable to owners of the parent	—	—	—	6,875	—	—	—	—	6,875	—	—	6,875
Cash dividends paid:												
Final for prior year, ¥32.0 per share	—	—	—	(1,346)	—	—	—	—	(1,346)	—	—	(1,346)
Interim for current year, ¥36.0 per share	—	—	—	(1,499)	—	—	—	—	(1,499)	—	—	(1,499)
Purchase of treasury stock	(442)	—	—	—	(2,194)	—	—	—	(2,194)	—	—	(2,194)
Disposal of treasury stock	27	—	—	(49)	110	—	—	—	61	(17)	—	43
Net change in the year	—	—	—	—	—	(2,578)	(1,508)	(575)	(4,662)	80	43	(4,538)
BALANCE, DECEMBER 31, 2018	41,663	14,640	15,207	120,885	(13,816)	4,315	3,137	(239)	144,130	310	6,416	150,857
Cumulative effect of changes in accounting policy	—	—	—	(332)	—	—	—	—	(332)	—	—	(332)
Restated balance	41,663	14,640	15,207	120,552	(13,816)	4,315	3,137	(239)	143,797	310	6,416	150,525
Profit attributable to owners of the parent	—	—	—	5,410	—	—	—	—	5,410	—	—	5,410
Cash dividends paid:												
Final for prior year, ¥60.0 per share	—	—	—	(2,499)	—	—	—	—	(2,499)	—	—	(2,499)
Interim for current year, ¥60.0 per share	—	—	—	(2,501)	—	—	—	—	(2,501)	—	—	(2,501)
Purchase of treasury stock	(442)	—	—	—	(1,371)	—	—	—	(1,371)	—	—	(1,371)
Disposal of treasury stock	27	—	—	(53)	218	—	—	—	165	(12)	—	153
Net change in the year	—	—	—	0	—	1,380	(271)	385	1,495	81	441	2,018
BALANCE, DECEMBER 31, 2019	41,248	¥ 14,640	¥ 15,207	¥ 120,908	¥(14,969)	¥ 5,695	¥ 2,866	¥ 145	¥ 144,495	¥ 379	¥ 6,858	¥ 151,733

**TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries**

**Consolidated Statements of Changes in Equity  
Years Ended December 31, 2019 and 2018**

Thousands of U.S. dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)			Total	Subscription rights to shares	Non- controlling interests	Total equity
					Unrealized (loss) gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans				
BALANCE, DECEMBER 31, 2018	\$ 134,316	\$ 139,522	\$ 1,109,037	\$(126,754)	\$ 39,588	\$ 28,786	\$ (2,199)	\$ 1,322,296	\$ 2,849	\$ 58,869	\$ 1,384,015
Cumulative effect of changes in accounting policy			(3,049)					(3,049)			(3,049)
Restated balance	134,316	139,522	1,105,987	(126,754)	39,588	28,786	(2,199)	1,319,247	2,849	58,869	1,380,966
Profit attributable to owners of the parent	—	—	49,633	—	—	—	—	49,633	—	—	49,633
Cash dividends paid:											
Final for prior year, \$0.55 per share	—	—	(22,934)	—	—	—	—	(22,934)	—	—	(22,934)
Interim for current year, \$0.55 per share	—	—	(22,949)	—	—	—	—	(22,949)	—	—	(22,949)
Purchase of treasury stock	—	—	—	(12,586)	—	—	—	(12,586)	—	—	(12,586)
Disposal of treasury stock	—	—	(490)	2,006	—	—	—	1,515	(110)	—	1,404
Net change in the year	—	—	7	—	12,666	(2,487)	3,532	13,718	743	4,054	18,517
BALANCE, DECEMBER 31, 2019	<u>\$ 134,316</u>	<u>\$ 139,522</u>	<u>\$ 1,109,253</u>	<u>\$(137,334)</u>	<u>\$ 52,254</u>	<u>\$ 26,298</u>	<u>\$ 1,333</u>	<u>\$ 1,325,644</u>	<u>\$ 3,481</u>	<u>\$ 62,924</u>	<u>\$ 1,392,050</u>

See notes to consolidated financial statements.



# TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

## Consolidated Statements of Cash Flows Years Ended December 31, 2019 and 2018

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes and non-controlling interests	¥ 8,657	¥ 9,814	\$ 79,428
Adjustments for:			
Depreciation and amortization	7,216	7,063	66,203
Loss on impairment of long-lived assets	477	860	4,382
Provision for doubtful accounts	(56)	(244)	(519)
Provision for bonuses	(56)	52	(518)
Increase in net defined benefit asset	(289)	(455)	(2,651)
Decrease in net defined benefit liability	(154)	(37)	(1,416)
Interest and dividend income	(447)	(392)	(4,102)
Interest expenses	62	36	569
Foreign exchange loss—net	580	983	5,324
Gain on valuation of derivatives	(95)	(306)	(876)
Gain on sales of non-current assets	(118)	(5)	(1,091)
Loss on retirement of non-current assets	127	124	1,166
Loss on valuation of investments in capital	540	—	4,959
Increase in trade notes and accounts receivable	(1,367)	(420)	(12,541)
Increase in inventories	(388)	(1,770)	(3,561)
(Decrease) increase in trade notes and accounts payable	(943)	1,092	(8,655)
Decrease in advances received	(37)	(147)	(346)
Interest and dividend received	441	392	4,050
Income taxes paid	(2,302)	(2,221)	(21,127)
Other—net	898	(106)	8,239
Net cash provided by operating activities	<u>12,743</u>	<u>14,311</u>	<u>116,917</u>
<b>INVESTING ACTIVITIES:</b>			
Deposit for time deposits—net	47	(2,150)	434
Purchase of securities	(6,000)	—	(55,045)
Proceeds from redemption of securities	4,000	—	36,697
Purchases of property, plant and equipment	(14,774)	(6,491)	(135,541)
Purchases of intangible assets	(145)	(234)	(1,334)
Payments into long-term time deposits	(14,000)	(14,000)	(128,440)
Withdrawal of long-term time deposits	14,000	14,000	128,440
Purchases of investment securities	(430)	(210)	(3,949)
Proceeds from sales of investment securities	—	1,081	—
Other—net	16	(8)	150
Net cash used in investing activities	<u>(17,286)</u>	<u>(8,013)</u>	<u>(158,589)</u>
<b>FINANCING ACTIVITIES:</b>			
Proceeds of long-term loans payable	1,372	10,000	12,587
Repayments of long-term loans payable	(99)	—	(914)
Dividends paid	(4,989)	(2,841)	(45,773)
Dividends paid for non-controlling interests	(770)	(584)	(7,065)
Purchases of treasury stock	(1,371)	(2,212)	(12,586)
Other—net	69	(27)	638
Net cash provided by (used in) financing activities	<u>(5,789)</u>	<u>4,333</u>	<u>(53,115)</u>

**TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries**

**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2019 and 2018**

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2019	2018	2019
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	¥ (289)	¥ (741)	\$ (2,659)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(10,621)	9,889	(97,446)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	39,851	29,961	365,611
CASH AND CASH EQUIVALENTS, END OF YEAR (Note 7)	<u>¥ 29,229</u>	<u>¥ 39,851</u>	<u>\$ 268,164</u>

See notes to consolidated financial statements.

## TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries

### Notes to Consolidated Financial Statements Years Ended December 31, 2019 and 2018

#### 1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act 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 of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain amounts reported in prior years have been reclassified to conform to the current year’s presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO OHKA KOGYO CO., LTD. (the “Company”) is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥109 to \$1, the approximate rate of exchange at December 31, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

#### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

- a. Consolidation*— The consolidated financial statements include the accounts of the Company and its seven significant subsidiaries (together, the “Group”).

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investments in an unconsolidated subsidiary and an associated company are not accounted for by the equity method but are stated at cost as their effect on the consolidated financial statements is immaterial.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

- b. Cash Equivalents*— Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible into cash and exposed to insignificant risk of changes in value.
- c. Allowance for Doubtful Accounts*— The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group’s past credit loss experience and an evaluation of potential losses in the receivables outstanding.
- d. Inventories*— Merchandise, work in process, raw materials and supplies are stated at the lower of cost, determined by the first-in, first-out method, or net selling value. Finished products are stated at the lower of cost, determined by the average method, or net selling value. Inventories of manufacturing equipment are stated at the lower of cost, determined by the specific identification method, or net selling value, which are included in raw materials, work in process and finished products.

- e. **Investment Securities**— Investment securities are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at cost and (ii) available-for-sale securities, other than (i), are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

- f. **Property, Plant and Equipment**— Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, except for lease assets and right-of-use assets, of the Company and its consolidated domestic subsidiaries is computed by the straight-line method. The range of useful lives is principally from 10 to 50 years for buildings and structures, and from 3 to 8 years for machinery and equipment, and furniture and fixtures.

- g. **Long-Lived Assets**— The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

- h. **Other Assets**— Intangible assets are stated at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

- i. **Retirement Benefits**

*Retirement benefits to employees (including officers)*— The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The companies principally accounted for the retirement benefit obligations based on the projected benefit obligations and plan assets at each balance sheet date.

Prior service cost is amortized by the straight-line method over 10 years. Actuarial gains and losses are amortized by the straight-line method over 10 years from the next period in which they arise.

- j. **Asset Retirement Obligations**— The Group recognizes assets retirement obligation for buildings and sub stations in the domestic offices in accordance with the relevant laws. The amount of the asset retirement obligations is calculated with the estimated usable years of 8 to 50 years from the acquisition and the discount rate ranging from 0.4% to 2.3%.

- k. **Research and Development Costs**— Research and development costs are charged to income as incurred.

- l. **Leases** — Leased assets under the finance lease arrangements where the ownership is not transferred to lessees at the end of lease terms are capitalized to recognize lease assets and lease obligations in the balance sheet, except for leases which existed at April 1, 2008 and do not transfer ownership of the leased property to the lessee which are accounted for as operating lease transactions.

All other leases are accounted for as operating leases.

- m. **Bonuses to Directors and Corporate Auditors**— Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

- n. **Income Taxes**— The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and

liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

- o. Foreign Currency Transactions*— All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.
- p. Foreign Currency Financial Statements*— The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the period. Differences arising from such translation were recorded in “Foreign currency translation adjustments” and “Non-controlling interests” in Equity.
- q. Derivative and Hedging Activities*— The Group uses derivative financial instruments to manage its exposures to the fluctuation in foreign currency exchange. Foreign currency forward contracts are utilized by the Group to hedge foreign exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Trade receivables and payables denominated in foreign currencies for which foreign currency forward contracts are used to hedge foreign exchange risk are translated at the contracted rate if the forward contracts qualify for hedge accounting.

- r. Per Share Information*— Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period.

Diluted net income per share reflects the potential dilution that could occur if securities with dilutive effects were exercised. Diluted net income per share of common stock assumes full exercise of outstanding warrants at the beginning of the year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends attributable to the respective years including dividends to be paid after the end of the year.

### 3. CHANGES IN ACCOUNTING POLICIES

Effective January 1, 2019, the Company’s overseas consolidated subsidiaries adopting USGAAP applied ASC 606 *Revenue from Contracts with Customers*.

Accordingly, the Company recognizes revenue when promised goods or services are transferred to customers at the amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

In applying the accounting standard, the Company adopted a transitional treatment to recognize the cumulative effect of initially applying the standard on the date of initial application, and adjusted retained earnings as of January 1, 2019.

As a result, retained earnings as of January 1, 2019 decreased ¥332 million (\$3,049 thousand). Also, net sales and income before income taxes and non-controlling interests for the fiscal year ended December 31, 2019 decreased ¥861 million (\$7,906 thousand), respectively.

The impact on net assets per share and basic and diluted net income per share for the fiscal year ended December 31, 2019 was immaterial.

Effective January 1, 2019, the Company’s overseas consolidated subsidiaries applied IFRS 16 *Lease*. The impact of applying this standard on the consolidated financial statements for the fiscal year ended December 31, 2019 was immaterial.

#### 4. ACCOUNTING STANDARD ISSUED BUT NOT YET ADOPTED

New or revised accounting standards issued as of December 31, 2019 but not yet adopted by the Group are as follows.

1. The Company and its domestic subsidiaries

Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)

Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Outline

The International Accounting Standards Board (IASB) and the U.S. Financial Accounting Standards Board (FASB) jointly developed comprehensive accounting standards for revenue recognition and issued Revenue from Contracts with Customers in May 2014 as IFRS 15 by IASB and as Topic 606 by FASB, becoming effective for annual reporting periods beginning on or after January 1, 2018, and those beginning after December 15, 2017, respectively. In light of this situation, the Accounting Standards Board of Japan (ASBJ) developed and issued a comprehensive accounting standard for revenue recognition along with its implementation guidance.

The basic policy of ASBJ in developing an accounting standard for revenue recognition was to incorporate the fundamental principles of IFRS 15 as a starting point from the perspective of comparability between financial statements, which is one of the benefits of maintaining consistency with IFRS 15, with alternative treatments added for items requiring consideration of practices which have been generally accepted in Japan, if any, to the extent that comparability is not impaired.

(2) Scheduled date of application

The standard and its implementation guidance are scheduled to be applied from the fiscal year ending December 31, 2022.

(3) Impact of the application of the standard and its implementation guidance

The Company is currently evaluating the impact of applying “Accounting Standard for Revenue Recognition” and its implementation guidance on the consolidated financial statements.

#### 5. CHANGES IN PRESENTATION

(Application of “Partial Amendments to Accounting Standard for Tax Effect Accounting”)

Effective January 1, 2019, the Company applied “Partial Amendments to Accounting Standard for Tax Effect Accounting” (ASBJ Statement No. 28, February 16, 2018) and present Deferred tax assets and Deferred tax liabilities in Investment and other assets and Long-term liabilities, respectively. As a result, in the consolidated balance sheet as of December 31, 2018, “Deferred tax assets” in “Current assets” decreased ¥1,687 million and “Deferred tax assets” in “Investments and other assets” decreased ¥38 million. Also, “Deferred tax liabilities” in “Current liabilities” decreased ¥198 million and “Deferred tax liabilities” in “Long-term liabilities” decreased ¥1,527 million.

Deferred tax assets and deferred tax liabilities of the same taxable entity are offset, and accordingly total assets decreased ¥1,726 million compared to the balance before the change.

#### 6. ADDITIONAL INFORMATION

(Transaction to grant the Company’s shares to employees, etc. through a trust)

Based on the resolution at the Board of Directors meeting held on August 7, 2019, the Company introduced “Trust-Type Employee Stock Ownership Plan” (“Plan”) with an aim to enhance the Company’s welfare program as well as to improve its medium- to long-term corporate value by providing employees with incentives for an increase in stock prices.

(1) Overview of the transaction

The Plan is an incentive plan for all employees in the “Tokyo Ohka Employees Stockholding Association”

(“Stockholding Association”). Under the Plan, the Company sets up the “Tokyo Ohka Employee Stockholding Association Trust” (“Stockholding Trust”) at a trust bank, and the Stockholding Trust purchases in advance the number of the Company’s shares expected to be purchased by the Stockholding Association over five years from the date the trust is set up and sells the shares to the Stockholding Association every month on a certain date. Any gains on sale of shares accumulated in the trust upon expiry of the Stockholding Trust will be distributed as residual assets to those satisfying the beneficiary eligibility requirements. As the Company provides guarantee for the loans payable made by the Stockholding Trust to purchase the Company’s shares, the Company is liable to pay the outstanding balance of the loans payable, equivalent to loss on sale of shares accumulated in the Stockholding Trust due to a decline in stock prices, upon expiry of the Stockholding Trust.

The Plan aims to improve our medium- to long-term corporate value by providing employees with incentives for an increase in stock prices and also to support employees’ asset building as a measures to enhance our welfare program by promoting purchase and holding of shares through enhancement of the Stockholding Association.

- (2) The Company’s shares remaining in the Trust  
 The Company’s shares remaining in the Trust are recorded as Treasury stock in Net assets at the carrying amount at the Trust (excluding ancillary expenses). The carrying amount and number of treasury stock as of December 31, 2019 were ¥1,268 million (\$11,633 thousand) and 304 thousand shares, respectively.
- (3) The carrying amount of the loans payable recorded under the gross method

	Millions of yen	Thousands of U.S dollars
December 31, 2019	<u>¥ 1,272</u>	<u>\$ 11,672</u>

## 7. CASH AND CASH EQUIVALENTS

The balances of cash and deposits reflected in the consolidated balance sheets at December 31, 2019 and 2018 were reconciled to the balances of cash and cash equivalents as presented in the consolidated statements of cash flows for the years then ended as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Cash and deposits	¥ 28,230	¥ 37,851	\$ 258,990
Securities	999	2,000	9,174
Cash and cash equivalents	<u>¥ 29,229</u>	<u>¥ 39,851</u>	<u>\$ 268,164</u>

## 8. INVESTMENT SECURITIES

Investment securities as of December 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Current:			
Negotiable certificate of deposits	¥ —	¥ 2,000	\$ —
Trust beneficiary interests	2,000	—	18,348
Commercial paper	999	—	9,174
Total	<u>¥ 2,999</u>	<u>¥ 2,000</u>	<u>\$ 27,522</u>
Non-current:			
Marketable equity securities	<u>¥ 14,811</u>	<u>¥ 12,877</u>	<u>\$ 135,887</u>
Total	<u>¥ 14,811</u>	<u>¥ 12,877</u>	<u>\$ 135,887</u>

The costs and aggregate fair values of investment securities at December 31, 2019 and 2018 were as follows:

	Millions of yen			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
<u>December 31, 2019</u>				
Securities classified as:				
Held to maturity	¥ 2,999	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 6,812	¥ 8,269	¥(270)	¥ 14,811
	Millions of yen			
<u>December 31, 2018</u>	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	¥ 2,000	¥ —	¥ —	¥ 2,000
Available-for-sale	¥ 6,821	¥ 6,226	¥(170)	¥ 12,877
	Thousands of U.S. dollars			
<u>December 31, 2019</u>	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held to maturity	\$ 27,522	\$ —	\$ —	\$ 27,522
Available-for-sale	\$ 62,496	\$ 75,870	\$ (2,479)	\$ 135,887



The difference between the sum of the above fair values of the available-for-sale securities and cost of the held-to-maturity securities, and the amounts shown in the accompanying consolidated balance sheets consists of nonmarketable securities whose fair values are not readily determinable.

Available-for-sale securities sold during the year ended December 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Amount sold	¥ 11	¥ —	\$ 103
Total gains	1	—	16
Total losses	—	—	—

#### Impairment of securities

No impairment loss was recorded for the fiscal year ended December 31, 2018.

For the fiscal year ended December 31, 2019, impairment loss of ¥570 million (\$5,234 thousand) was recorded for securities (¥29 million (\$274 thousand) for available-for-sale securities and ¥540 million (\$4,959 thousand) for investments in capital).

The Company generally recognizes impairment loss for securities with market value when their market values at year-end are more than 50% lower than their costs. When the decline in value is between 30% and 50%, the amount deemed necessary in consideration of the materiality and recoverability is recognized as impairment loss.

For securities whose market value is not readily available, impairment loss is recognized when the net asset value is more than approximately 50% lower than the cost in consideration of recoverability and other relevant factors.

## 9. INVENTORIES

Inventories at December 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Merchandise and finished products	¥ 7,022	¥ 6,232	\$ 64,422
Work in process	4,312	5,516	39,566
Raw materials and supplies	6,105	5,496	56,009
Total	<u>¥ 17,439</u>	<u>¥ 17,245</u>	<u>\$ 159,998</u>

## 10. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of December 31, 2019 and 2018, and recognized impairment losses of ¥477 million (\$4,382 thousand) and ¥860 million, respectively for the following assets. The carrying amount of those assets was written down to the recoverable amount.

For the year ended December 31, 2019

Use	Type of assets	Location (Prefecture/Country)	Amount	
			Millions of yen	Thousands of U.S. dollars
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures and Construction in progress	Kanagawa and Kumamoto	¥ 56	\$ 519
Business assets for Material business	Building and structures, Machinery and equipment, Furniture and fixtures	Tochigi	421	3,863
Total			¥ 477	\$ 4,382

For the year ended December 31, 2018

Use	Type of assets	Location (Prefecture/Country)	Amount
			Millions of yen
Business assets for Equipment business	Machinery and equipment, Furniture and fixtures, Construction in progress and Intangible assets	Kanagawa and Kumamoto	¥ 415
Business assets for Equipment business	Building and structures, Machinery and equipment, Furniture and fixtures, and Construction in progress	Kumamoto	440
Idle assets	Land	Hyogo	4
Total			¥ 860

For the purpose of evaluating and measuring impairment, assets used for business are considered to constitute a group by each business unit. Idle properties are individually evaluated.

The recoverable amount of land and buildings was measured by their net selling price estimated based on an appraisal value. The recoverable amount of the other assets was measured at their value in use based on reminder price.

## 11. LONG-TERM LOANS PAYABLE

Long-term loans payable at December 31, 2019 and 2018 consisted of the following:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Unsecured loan from a bank, with average interest rate of 0.47% for the years ended December 31, 2019	<u>¥ 11,272</u>	<u>¥ 10,000</u>	<u>\$ 103,415</u>
Total	<u>¥ 11,272</u>	<u>¥ 10,000</u>	<u>\$ 103,415</u>

The aggregate annual maturities of long-term loans payable are summarized below:

<u>Years ending December 31,</u>	Millions of yen	Thousands of
		U.S. dollars
2020	¥ —	\$ —
2021	—	—
2022	3,900	35,779
2023	—	—
2024	1,272	11,672
2025 and thereafter	<u>6,100</u>	<u>55,963</u>
Total	<u>¥ 11,272</u>	<u>\$ 103,415</u>

## 12. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The defined benefit corporate pension plans provide lump-sum payment or pension based on salary and service period.

The lump-sum retirement payment plans provide lump-sum payment as retirement benefit based on factors such as service period.

The details of the plans were as follows:

### 1. Defined benefit pension plans

#### (1) Retirement benefit obligations

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Beginning balance	¥ 16,064	¥ 16,154	\$ 147,383
Service cost	657	657	6,034
Interest cost	88	88	808
Actuarial differences incurred during the year	(145)	(225)	(1,331)
Payment of retirement benefit	(793)	(610)	(7,275)
Effect of transfer to defined contribution pension plan	(17)	—	(161)
Ending balance	<u>¥ 15,854</u>	<u>¥ 16,064</u>	<u>\$ 145,457</u>

Note: Certain consolidated subsidiaries apply a simplified method to calculate retirement benefit obligations.

#### (2) Pension assets

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Beginning balance	¥ 12,611	¥ 13,051	\$ 115,701
Expected return on plan assets	315	456	2,892
Actuarial differences incurred during the year	473	(1,047)	4,339
Contributions from employer	688	677	6,315
Payment of retirement benefit	(673)	(526)	(6,181)
Ending balance	<u>¥ 13,414</u>	<u>¥ 12,611</u>	<u>\$ 123,068</u>

#### (3) Employee retirement benefit trust

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Beginning balance	¥ 5,213	¥ 5,193	\$ 47,826
Expected return on plan assets	13	25	119
Actuarial differences incurred during the year	(17)	(5)	(163)
Ending balance	<u>¥ 5,208</u>	<u>¥ 5,213</u>	<u>\$ 47,782</u>

(4) Reconciliation between ending balance of retirement benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Retirement benefit obligations under the funded plan	¥ 15,690	¥ 15,853	\$ 143,949
Pension assets	(13,414)	(12,611)	(123,068)
Employee retirement benefit trust	(5,208)	(5,213)	(47,782)
	<u>(2,932)</u>	<u>(1,971)</u>	<u>(26,901)</u>
Retirement benefit obligations under the unfunded plan	164	211	1,507
Net liabilities or assets recorded on the consolidated balance sheet	(2,767)	(1,759)	(25,393)
Net defined benefit liabilities	436	306	4,007
Net defined benefit assets	<u>(3,204)</u>	<u>(2,065)</u>	<u>(29,401)</u>
Net liabilities or assets recorded on the consolidated balance sheet	<u>¥ (2,767)</u>	<u>¥ (1,759)</u>	<u>\$ (25,393)</u>

(5) Net periodic benefit cost and its components

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Service cost	¥ 657	¥ 657	\$ 6,034
Interest cost	88	88	808
Expected return on plan assets	(328)	(482)	(3,012)
Amortized actuarial differences	209	257	1,920
Amortized prior service cost	<u>(256)</u>	<u>(256)</u>	<u>(2,352)</u>
Net periodic benefit cost of defined benefit plan	<u>¥ 370</u>	<u>¥ 264</u>	<u>\$ 3,399</u>

Note: Net periodic benefit cost of consolidated subsidiaries applying the simplified method is recorded as "Service cost."

(6) Remeasurements of defined benefit plans (Other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Prior service cost	¥ (256)	¥ (256)	\$ (2,352)
Actuarial differences	809	(570)	7,428
Total	<u>¥ 553</u>	<u>¥ (826)</u>	<u>\$ 5,076</u>

(7) Remeasurements of defined benefit plans (Accumulated other comprehensive income)

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Unrecognized prior service cost	¥ 1,025	¥ 1,281	\$ 9,408
Unrecognized actuarial differences	(816)	(1,626)	(7,492)
Total	<u>¥ 208</u>	<u>¥ (344)</u>	<u>\$ 1,915</u>

(8) Plan assets and employee retirement benefit trust

(a) Components of plan assets

	<u>2019</u>	<u>2018</u>
Debt securities	48%	50%
Equity securities	30%	26%
Other	22%	24%
Total	<u>100%</u>	<u>100%</u>

(b) Components of employee retirement benefit trust

	<u>2019</u>	<u>2018</u>
Debt securities	98%	98%
Other	2%	2%
Total	<u>100%</u>	<u>100%</u>

(c) Long-term rate of return

Long-term rate of return on plan assets and employee retirement benefit trust is determined based on the current and expected allocation of plan assets and employee retirement benefit trust and current and expected long-term rate of return of various assets composing plan assets and employee retirement benefit trust.

(9) Basis for calculation of actuarial differences

	<u>2019</u>	<u>2018</u>
Discount rate	Mainly 0.53%	Mainly 0.53%
Long-term expected rate of return		
Defined benefit corporate pension plan	2.50%	3.50%
Employee retirement benefit trust	0.25%	0.50%

2. Defined contribution plans

Contributions to defined contribution pension plans by the Company and its consolidated subsidiaries

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>
	¥ 185	¥ 172	\$ 1,702

3. Other retirement benefits

The amount of assets to be transferred to a defined contribution pension plan in relation to a partial transfer from a funded defined benefit plan to a defined contribution pension plan is ¥17 million (\$161 thousand), and the transfer is expected to complete in four years. The remaining balance as of December 31, 2019 was ¥13 million (\$121 thousand) and is recorded in Other payables and Long-term other payables (“Other” in Long-term liabilities).

### 13. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations during the year ended December 31, 2019 and 2018 were as follows:

	<u>Millions of yen</u>		<u>Thousands of U.S. dollars</u>
	<u>2019</u>	<u>2018</u>	<u>2019</u>
Balance at beginning of year	¥ 87	¥ 88	\$ 806
Adjustments associated with passage of time	1	1	10
Others	<u>(7)</u>	<u>(2)</u>	<u>(72)</u>
Balance at end of year	<u>¥ 81</u>	<u>¥ 87</u>	<u>\$ 744</u>

## 14. EQUITY

Japanese companies are subject to the Companies Act of Japan (the “Companies Act”). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### *a. Dividends*

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its 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 Company meets all the above criteria.

The Companies Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### *b. Increases/Decreases and Transfer 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 (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. 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 shareholders.

### *c. Treasury Stock and Treasury Stock Acquisition Rights*

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

The accompanying consolidated financial statements do not include any provision for the year-end dividend of ¥60 (\$0.55) per share approved at the general shareholders’ meeting held on March 27, 2020, aggregating ¥2,501 million (\$22,949 thousand) in respect of the year ended December 31, 2019. Total dividends include dividends declared on the Company’s shares held by “Tokyo Ohka Employee Stockholding Association Trust” of ¥18 million (\$167 thousand).

## 15. STOCK OPTIONS

(1) Share-based compensation expenses which were accounted for as cost of sales and selling, general and administrative expenses

	Millions of yen		Thousands of U.S. dollars	
	2019	2018	2019	
Cost of sales	¥ 11	¥ 12	\$ 108	
Selling, general and administrative expenses	74	67	681	

(2) Outline, number and changes of stock options

(a) Outline of stock options

Stock options outstanding as of December 31, 2019 were as follows:

Stock option	2019 Stock option	2018 Stock option	2017 Stock option
Category and number of eligible person	2 representative director of the Company 4 directors of the Company 7 executive officers of the Company	1 representative director of the Company 5 directors of the Company 6 executive officers of the Company	1 representative director of the Company 5 directors of the Company 5 executive officers of the Company
Number of options granted	Common stock: 32,800 shares	Common stock: 20,200 shares	Common stock: 14,500 shares
Date of Grant	May 16, 2019	May 16, 2018	August 4, 2017
Service period	Not specified	Not specified	Not specified
Exercise period	From May 17, 2019 to May 16, 2049	From May 17, 2018 to May 16, 2048	From August 5, 2017 to August 4, 2047
Stock option	2016 Stock option	2015 Stock option	2014 Stock option
Category and number of eligible person	1 representative director of the Company 5 directors of the Company 6 executive officers of the Company	1 representative director of the Company 5 directors of the Company 8 executive officers of the Company	1 representative director of the Company 5 directors of the Company 7 executive officers of the Company
Number of options granted	Common stock: 29,300 shares	Common stock: 21,900 shares	Common stock: 31,500 shares
Date of Grant	August 4, 2016	August 4, 2015	August 5, 2014
Service period	Not specified	Not specified	Not specified
Exercise period	From August 5, 2016 to August 4, 2046	From August 5, 2015 to August 4, 2045	From August 6, 2014 to August 5, 2044



Stock option	2013 Stock option
Category and number of eligible person	2 representative directors of the Company 4 directors of the Company 7 executive officers of the Company 200 employees of the Company
Number of options granted	Common stock: 484,000 shares
Date of Grant	January 10, 2013
Service period	From January 10, 2013 to May 31, 2016
Exercise period	From June 1, 2016 to May 31, 2019

(b) Number and price of stock options

Movement in stock options during the fiscal year ended December 31, 2019 was as follows:

	Number of shares		
	2019	2018	2017
Unvested stock options:			
As of December 31, 2018	—	—	—
Granted	32,800	—	—
Forfeited	—	—	—
Vested	32,800	—	—
Unvested options as of December 31, 2019	—	—	—
Vested stock options:			
As of December 31, 2018	—	20,200	14,500
Vested	32,800	—	—
Exercised	—	—	—
Forfeited	—	—	—
Unexercised options as of December 31, 2019	32,800	20,200	14,500
	Yen		
Exercise price	¥ 1	¥ 1	¥ 1
Average share price at the time of exercise	¥ —	¥ —	¥ —
Fair value per share at grant date	¥ 2,690	¥ 4,164	¥ 3,363
	U.S. dollars		
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average share price at the time of exercise	\$ —	\$ —	\$ —
Fair value per share at grant date	\$ 24.68	\$ 38.20	\$ 30.85

	Number of shares		
	2016	2015	2014
Unvested stock options:			
As of December 31, 2018	—	—	—
Granted	—	—	—
Forfeited	—	—	—
Vested	—	—	—
Unvested options as of December 31, 2019	—	—	—
Vested stock options:			
As of December 31, 2018	27,200	17,100	22,200
Vested	—	—	—
Exercised	—	—	—
Forfeited	—	—	—
Unexercised options as of December 31, 2019	27,200	17,100	22,200
	Yen		
Exercise price	¥ 1	¥ 1	¥ 1
Average share price at the time of exercise	¥ —	¥ —	¥ —
Fair value per share at grant date	¥ 2,757	¥ 3,192	¥ 2,292
	U.S. dollars		
Exercise price	\$ 0.01	\$ 0.01	\$ 0.01
Average share price at the time of exercise	\$ —	\$ —	\$ 35.98
Fair value per share at grant date	\$ 25.29	\$ 29.28	\$ 21.03

	Number of shares	
	2013	
Unvested stock options:		
As of December 31, 2018		—
Granted		—
Forfeited		—
Vested		—
Unvested options as of December 31, 2019		—
Vested stock options:		
As of December 31, 2018	41,000	
Vested		—
Exercised	29,000	
Forfeited	12,000	
Unexercised options as of December 31, 2019		—
	Yen	
Exercise price	¥	1,759
Average share price at the time of exercise	¥	4,021
Fair value per share at grant date	¥	417
	U.S. dollars	
Exercise price	\$	16.14
Average share price at the time of exercise	\$	36.89
Fair value per share at grant date	\$	3.83

(3) Method of estimating the fair value of stock options vested

The fair value price is estimated using the Black-Scholes option pricing model with the following assumptions:

	<u>2019</u>
Volatility of stock price	34.987 %
Estimated remaining outstanding period	5 years
Estimated dividend per share	¥ 96 (\$ 0.88)
Risk-free interest rate	(0.169) %

(4) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of future forfeitures.

## 16. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.4% and 30.6% for the year ended December 31, 2019 and 2018, respectively. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences, which resulted in deferred tax assets and liabilities at December 31, 2019 and 2018 were as follows:

	<u>Millions of yen</u>		<u>Thousands of</u>
	<u>2019</u>	<u>2018</u>	<u>U.S. dollars</u>
			<u>2019</u>
Deferred tax assets:			
Accrued bonuses for employees	¥ 507	¥ 528	\$ 4,653
Unrealized gains on finished goods	485	652	4,457
Loss on valuation of inventories	404	332	3,710
Loss on valuation of investment securities	350	343	3,220
Loss on valuation of investment in capital	164	—	1,507
Net defined benefit liability and asset	717	1,024	6,584
Loss on impairment of long-lived assets	957	1,014	8,780
Allowance for doubtful accounts	25	43	236
Other	1,034	950	9,487
Less valuation allowance	<u>(869)</u>	<u>(892)</u>	<u>(7,976)</u>
Total	<u>3,778</u>	<u>3,997</u>	<u>34,658</u>
Deferred tax liabilities:			
Reserve for advanced depreciation	(200)	(220)	(1,837)
Unrealized gain on available-for-sale securities	(2,303)	(1,750)	(21,135)
Undistributed earnings of foreign subsidiaries	(1,378)	(1,301)	(12,647)
Accelerated depreciation	(343)	(346)	(3,154)
Other	<u>(43)</u>	<u>(77)</u>	<u>(398)</u>
Total	<u>(4,270)</u>	<u>(3,695)</u>	<u>(39,174)</u>
Net deferred tax assets (liabilities)	<u>¥ (491)</u>	<u>¥ 302</u>	<u>\$ (4,512)</u>

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the year ended December 31, 2019 and 2018 were as follows:

	<u>2019</u>	<u>2018</u>
Normal effective statutory tax rate	30.4%	30.6%
Adjustments:		
Non-taxable dividend income	(6.0)	(5.5)
Different income tax rates applicable to income in certain foreign countries	(6.4)	(8.3)
Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes	6.0	5.5
Tax credit for research and development costs	(2.4)	(4.2)
Other—net	<u>1.9</u>	<u>1.8</u>
Actual effective tax rate	<u>23.4%</u>	<u>19.9%</u>

## 17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Selling, general and administrative expenses	¥ 8,725	¥ 8,334	\$ 80,049
Cost of sales	<u>154</u>	<u>192</u>	<u>1,418</u>
Total	<u>¥ 8,879</u>	<u>¥ 8,526</u>	<u>\$ 81,467</u>

## 18. LEASES

The Group leases certain buildings and structures, machinery, computer hardware, software and other assets. The minimum rental commitments under non-cancelable operating leases at December 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Due within one year	¥ 25	¥ 83	\$ 232
Due after one year	<u>19</u>	<u>528</u>	<u>179</u>
Total	<u>¥ 44</u>	<u>¥ 612</u>	<u>\$ 412</u>

※Following the application of IFRS 16 *Lease* by overseas consolidated subsidiaries effective January 1, 2019, the above balance is presented as “Right-of-use assets” in “Property, plant and equipment” in the consolidated balance sheet as of December 31, 2019.

## 19. FINANCIAL INSTRUMENTS

### (1) *Group Policy for Financial Instruments*

The Group raises the funds necessary for its business operation and capital expenditure by taking into consideration the capital structure suitable for the economic environment and the actual state of the entity. Derivatives are used to avoid risks described below, and not for speculative purposes.

### (2) *Nature and Extent of Risks Arising from Financial Instruments*

Trade receivables such as trade notes and accounts are exposed to customer credit risk. Also, trade receivables denominated in foreign currencies arising from exporting products are exposed to the risk of exchange rate fluctuations.

Securities and investment securities consist mainly of debt securities held to maturity and stocks of companies having business relationship with the Group, and stocks are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and accounts, are less than one year. A part of those trade payables is denominated in foreign currencies and exposed to the risk of exchange rate fluctuations.

Long-term loans payable has fixed interest rates to hedge the risk of interest rate fluctuations. It includes loans payable from financial institutions with a floating interest rate made through a trust account associated with the introduction of "Trust-Type Employee Stock Ownership Plan." Although the loans payable is subject to the risk of interest rate fluctuations, the impact is limited.

Derivatives mainly include foreign currency forward contracts and currency option contracts, which are used to manage exposure to market risks from changes in foreign exchange rates of receivables and payables. Please see Note 20 for more detail about derivatives.

### (3) *Risk Management for Financial Instruments*

#### *Credit risk management*

The Group manages its credit risk from receivables in accordance with internal guidelines, which include monitoring of payment terms and balances of major customers by the credit administration department to identify the default risk of customers in the early stages. With respect to held-to-maturity securities, the Group manages its exposure to credit risk by limiting its holdings to high credit rating bonds. With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to major and creditworthy international financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of December 31, 2019.

#### *Market risk management (foreign exchange and interest rate risk)*

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk, which is managed monthly by currency, is hedged mainly by foreign currency forward contracts and currency option contracts. In addition, foreign currency forward contracts may be used at the maximum of expected amounts of foreign currency trade receivables and payables.

In addition, long-term loans payable has fixed interest rates to hedge the risk of interest rate fluctuations. Derivative transactions are executed and managed in accordance with "Financial Risk Management Rules."

Investment securities are managed by monitoring market values and financial position of issuers on a regular basis.

### (4) *Fair Values of Financial Instruments*

Fair values of financial instruments are based on quoted price in active markets. When quoted price is not available, other values calculated using reasonable valuation techniques are used. Please see Note 20 for the detail of fair value for derivatives.

#### *(a) Fair value of financial instruments*

<u>December 31, 2019</u>	Millions of yen		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	¥ 28,230	¥ 28,230	¥ —
Time deposits	18,175	18,175	—
Receivables—Trade notes and accounts	23,887	23,887	—
Securities and Investment securities:			
Held to maturity	2,999	2,999	—
Available-for-sale securities	14,811	14,811	—
Long-term time deposits	<u>18,000</u>	<u>17,999</u>	<u>(0)</u>
<b>Total</b>	<b><u>¥ 106,104</u></b>	<b><u>¥ 106,104</u></b>	<b><u>¥ (0)</u></b>
Payables—Trade notes and accounts	¥ 10,345	¥ 10,345	¥ —
Long-term loans payable	<u>11,272</u>	<u>11,331</u>	<u>58</u>
<b>Total</b>	<b><u>¥ 21,617</u></b>	<b><u>¥ 21,676</u></b>	<b><u>¥ 58</u></b>
Derivative transactions	<u>¥ (180)</u>	<u>¥ (180)</u>	<u>¥ —</u>

<u>December 31, 2018</u>	Millions of yen		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	¥ 37,851	¥ 37,851	¥ —
Time deposits	18,241	18,241	—
Receivables—Trade notes and accounts	22,539	22,539	—
Securities and Investment securities:			
Held to maturity	2,000	2,000	—
Available-for-sale securities	12,877	12,877	—
Long-term time deposits	<u>18,000</u>	<u>17,999</u>	<u>(0)</u>
<b>Total</b>	<b><u>¥ 111,511</u></b>	<b><u>¥ 111,510</u></b>	<b><u>¥ (0)</u></b>
Payables—Trade notes and accounts	¥ 11,381	¥ 11,381	¥ —
Long-term loans payable	<u>10,000</u>	<u>10,088</u>	<u>88</u>
<b>Total</b>	<b><u>¥ 21,381</u></b>	<b><u>¥ 21,469</u></b>	<b><u>¥ 88</u></b>
Derivative transactions	<u>¥ (439)</u>	<u>¥ (439)</u>	<u>¥ —</u>

<u>December 31, 2019</u>	Thousands of U.S. dollars		
	<u>Carrying amount</u>	<u>Fair value</u>	<u>Unrealized gain/loss</u>
Cash and deposits	\$ 258,990	\$ 258,990	\$ —
Time deposits	166,751	166,751	—
Receivables—Trade notes and accounts	219,149	219,149	—
Securities and Investment securities:			
Held to maturity	27,522	27,522	—
Available-for-sale securities	135,887	135,887	—
Long-term time deposits	<u>165,137</u>	<u>165,133</u>	<u>(4)</u>
<b>Total</b>	<b><u>\$ 973,438</u></b>	<b><u>\$ 973,434</u></b>	<b><u>\$ (4)</u></b>
Payables—Trade notes and accounts	\$ 94,911	\$ 94,911	\$ —
Long-term loans payable	<u>103,415</u>	<u>103,956</u>	<u>541</u>
<b>Total</b>	<b><u>\$ 198,327</u></b>	<b><u>\$ 198,868</u></b>	<b><u>\$ 541</u></b>
Derivative transactions	<u>\$ (1,657)</u>	<u>\$ (1,657)</u>	<u>\$ —</u>

#### Cash and deposits, and Time Deposits

The carrying values of cash and deposits, and time deposits approximate fair value because of their short maturities.

#### Receivables—Trade Notes and Accounts

The carrying values of receivables—trade notes and accounts approximate fair value because of their short maturities.

#### Securities and Investment Securities

The carrying value of securities, approximate fair value because of their short maturities. the fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 8.

#### Long-Term Time Deposits

Long-term time deposits are measured at fair value using the discounted cash flow on deposits held at banks. The discounted rate used is the deposit interest rate assuming the same period.

#### Payables—Trade Notes and Accounts

The carrying values of payables—trade notes and accounts approximate fair value because of their short maturities.

#### Long-Term Loans Payable

The carrying amount of long-term loans payable with floating interest rates approximates fair value as floating rates reflect market rates within a short period of time. The fair value of long-term loans payable with fixed interest rates is measured by discounting the sum of principal and interest by the rates assumed to be applied to similar new loans payable.

#### Derivatives

The information of the fair value for derivatives is included in Note 20.



(b) *Financial instruments whose fair value cannot be reliably determined*

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥ 10	¥ 40	\$ 98
Investments in capital that do not have a quoted market price in an active market	100	220	917

(5) *Maturity Analysis for Financial Assets and Securities with Contractual Maturities*

	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
<u>December 31, 2019</u>			
Cash and deposits	¥ 28,230	¥ —	¥ —
Time deposits	18,175	—	—
Receivables—Trade notes and accounts	23,887	—	—
Securities and Investment securities:			
Held to maturity			
Trust beneficiary interests	2,000	—	—
Commercial paper	999	—	—
Long-term time deposits	—	18,000	—
Total	<u>¥ 73,293</u>	<u>¥ 18,000</u>	<u>¥ —</u>

	Millions of yen		
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
<u>December 31, 2018</u>			
Cash and deposits	¥ 37,851	¥ —	¥ —
Time deposits	18,241	—	—
Receivables—Trade notes and accounts	22,539	—	—
Securities and Investment securities:			
Held to maturity			
Negotiable certificate of deposit	2,000	—	—
Long-term time deposits	—	18,000	—
Total	<u>¥ 80,633</u>	<u>¥ 18,000</u>	<u>¥ —</u>

<u>December 31, 2019</u>	Thousands of U.S. dollars		
	<u>Due in 1 year or less</u>	<u>Due after 1 year through 5 years</u>	<u>Due after 5 years through 10 years</u>
Cash and deposits	\$ 258,990	\$ —	\$ —
Time deposits	166,751	—	—
Receivables—Trade notes and accounts	219,149		—
Securities and Investment securities:			
Held to maturity			
Trust beneficiary interests	18,348	—	—
Commercial paper	9,174	—	—
Long-term time deposits	<u>—</u>	<u>165,137</u>	<u>—</u>
Total	<u>\$ 672,413</u>	<u>\$ 165,137</u>	<u>\$ —</u>

## 20. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

### *Derivative Transactions to Which Hedge Accounting is not Applied*

		Millions of yen							
		2019				2018			
		Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Contract amount	Fair value	Unrealized gain (loss)	
		due after one year			due after one year	due after one year			
		Contract amount			Contract amount				
Foreign currency forward contracts:									
Sell:									
EUR	¥ 121	¥ —	¥ (1)	¥ (1)	¥ —	¥ —	¥ —	¥ —	
NT\$	93	—	(2)	(2)	—	—	—	—	
KRW	7,562	2,936	(176)	(176)	7,216	2,714	(439)	(439)	
Total	¥ 7,777	¥ 2,936	¥ (180)	¥ (180)	¥ 7,216	¥ 2,714	¥ (439)	¥ (439)	

		Thousands of U.S. dollars			
		2019			
		Contract amount	Fair value	Unrealized gain (loss)	
		due after one year			
		Contract amount			
Foreign currency forward contracts:					
Sell:					
EUR	\$ 1,112	\$ —	\$ (12)	\$ (12)	
NT\$	857	—	(22)	(22)	
KRW	69,383	26,937	(1,622)	(1,622)	
Total	\$ 71,353	\$ 26,937	\$ (1,657)	\$ (1,657)	

\* The fair value is based on prices provided by financial institutions.

*Derivative Transactions to Which Hedge Accounting is Applied*

		Millions of yen		
<u>December 31, 2019</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	¥ 2,776	¥ —	*
Selling EUR	Receivables—Trade accounts	190	—	*
Selling NT\$	Receivables—Trade accounts	466	—	*

		Millions of yen		
<u>December 31, 2018</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	¥ 2,238	¥ —	*
Selling EUR	Receivables—Trade accounts	189	—	*
Selling NT\$	Receivables—Trade accounts	938	—	*

		Thousands of U.S. dollars		
<u>December 31, 2019</u>	<u>Hedged Item</u>	<u>Contract amount</u>	<u>Contract amount due after one year</u>	<u>Fair value</u>
Foreign currency forward contracts:				
Selling U.S.\$	Receivables—Trade accounts	\$ 25,468	\$ —	*
Selling EUR	Receivables—Trade accounts	1,749	—	*
Selling NT\$	Receivables—Trade accounts	4,279	—	*

\* The fair value of such foreign currency forward contracts is included in that of the hedged items (i.e., receivables—trade accounts).

## 21. COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding other comprehensive income for the year ended December 31, 2019 and 2018 were as follows:

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
			2019
Unrealized gain on available-for-sale securities:			
Recognized during the year	¥ 1,935	¥ (3,566)	\$ 17,758
Reclassification adjustments	(1)	—	(16)
Before tax effects adjustment	1,933	(3,566)	17,742
Tax effects	(553)	987	(5,075)
Unrealized gain on available-for-sale securities	1,380	(2,578)	12,666
Foreign currency translation adjustments:			
Recognized during the year	(284)	(1,751)	(2,606)
Reclassification adjustments	—	—	—
Foreign currency translation adjustments	(284)	(1,751)	(2,606)
Remeasurements of defined benefit plans:			
Recognized during the year	600	(826)	5,508
Reclassification adjustments	(47)	—	(431)
Before tax effects adjustment	553	(826)	5,076
Tax effects	(168)	251	(1,543)
Remeasurements of defined benefit plans	385	(575)	3,532
Share of other comprehensive income in companies accounted for by the equity method:			
Recognized during the year	—	(113)	—
Total other comprehensive income	¥ 1,481	¥ (5,018)	\$ 13,592

## 22. NET INCOME PER SHARE

Basic net income per share (“EPS”) for the years ended December 31, 2019 and 2018 was as follows:

	Yen		U.S. dollars
	2019	2018	2019
Basic EPS	¥ 130.02	¥ 164.92	\$ 1.19
Diluted EPS	129.62	164.44	1.18

Basis for the calculation of basic and diluted net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2019	2018	2019
Profit attributable to owners of the parent	¥ 5,410	¥ 6,875	\$ 49,633

	Thousands of shares	
	2019	2018
Earnings per share:		
Weighted-average number of shares*	41,608	41,692

Diluted earnings per share:		
Increase in number of common stock	125	120
(Of those, new share subscription rights)	(125)	(120)

\* Weighted-average shares for the year ended December 31, 2019 and 2018 excluded the Company’s shares held by the Employee Stock Ownership Plan Trust.

## 23. SEGMENT INFORMATION

### For the Years Ended December 31, 2019 and 2018

#### (1) Description of reportable segments

The Group’s reportable segments are those for which separate financial information is available and regular evaluation by the Company’s management is being performed in order to decide resources allocation within the Group and to evaluate performance. Therefore, the Group consists of the Material Business and Equipment Business. The Material Business consists of photoresists and related materials and specialty chemicals. The Equipment Business consists of semiconductor manufacturing equipment and LCD manufacturing equipment.

Effective January 1, 2019, the Company changed the expense allocation method to more properly assess and manage performance by reportable segment, and a part of common costs is allocated to the Material Business.

Segment information for the fiscal year ended December 31, 2018 is also prepared under the new method.

#### (2) Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, “Summary of Significant Accounting Policies.”

(3) Information about sales, profit (loss), assets and other items was as follows:

	Millions of yen				
	2019				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	¥ 98,986	¥ 3,833	¥102,820	¥ —	¥ 102,820
Intersegment sales or transfers	<u>1</u>	<u>46</u>	<u>48</u>	<u>(48)</u>	<u>—</u>
Total sales	<u>¥ 98,988</u>	<u>¥ 3,880</u>	<u>¥102,869</u>	<u>¥ (48)</u>	<u>¥ 102,820</u>
Segment income (loss)	¥ 13,462	¥ (286)	¥ 13,175	¥ (3,628)	¥ 9,546
Segment assets	113,079	3,612	116,691	69,795	186,486
Other:					
Depreciation	7,009	36	7,046	170	7,216
Increase in property, plant and equipment and intangible assets	14,159	57	14,217	238	14,455

Note: Reconciliations to

- Segment income (loss) amounting to ¥(3,628) million (\$33,290 thousand) includes common costs of ¥(3,628) million (\$33,290 thousand), which are not allocated to reportable segments.
- Segment assets amounting to ¥69,795 million (\$640,322 thousand) include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥62,445 million (\$572,894 thousand), which are not allocated to reportable segments.
- Increase in property, plant and equipment and intangible assets of ¥238 million (\$2,186 thousand) is related to common assets.

	Millions of yen				
	2018				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	¥102,621	¥ 2,655	¥105,277	¥ —	¥ 105,277
Intersegment sales or transfers	<u>5</u>	<u>41</u>	<u>46</u>	<u>(46)</u>	<u>—</u>
Total sales	<u>¥102,626</u>	<u>¥ 2,697</u>	<u>¥105,324</u>	<u>¥ (46)</u>	<u>¥ 105,277</u>
Segment income (loss)	¥ 14,765	¥ (883)	¥ 13,882	¥ (3,376)	¥ 10,505
Segment assets	104,125	4,245	108,371	74,585	182,957
Other:					
Depreciation	6,852	63	6,915	148	7,063
Increase in property, plant and equipment and intangible assets	5,247	482	5,729	147	5,877

Note: Reconciliations to

—Segment income (loss) amounting to ¥(3,376) million includes common costs of ¥(3,376) million, which are not allocated to reportable segments.

—Segment assets amounting to ¥74,585 million include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥68,018 million, which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥147 million is related to common assets.

	Thousands of U.S. dollars				
	2019				
	Reportable segment			Reconciliations	Consolidated
Material business	Equipment business	Total			
Sales:					
Sales to customers	\$ 908,134	\$ 35,172	\$ 943,307	\$ —	\$ 943,307
Intersegment sales or transfers	<u>14</u>	<u>430</u>	<u>445</u>	<u>(445)</u>	<u>—</u>
Total sales	<u>\$ 908,149</u>	<u>\$ 35,603</u>	<u>\$ 943,752</u>	<u>\$ (445)</u>	<u>\$ 943,307</u>
Segment income (loss)	\$ 123,506	\$ (2,632)	\$ 120,873	\$ (33,290)	\$ 87,582
Segment assets	1,037,423	33,139	1,070,562	640,322	1,710,885
Other:					
Depreciation	64,304	338	64,643	1,560	66,203
Increase in property, plant and equipment and intangible assets	129,908	527	130,435	2,186	132,622



(4) Change in reportable segment

(Change in reportable segment)

Effective January 1, 2019, the Company changed the expense allocation method to more properly assess and manage performance by reportable segment, and a part of common costs is allocated to the Material Business.

Segment information for the fiscal year ended December 31, 2018 is also prepared under the new method.

(Change in accounting policy)

As described in “CHANGES IN ACCOUNTING POLICIES,” effective January 1, 2019, the Company’s overseas consolidated subsidiaries adopting USGAAP applied ASC 606 *Revenue from Contracts with Customers*.

Accordingly, the Company recognizes revenue when promised goods or services are transferred to customers at the amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services.

As a result, net sales and segment income of the Material Business for the fiscal year ended December 31, 2019 decreased ¥861 million (\$7,906 thousand), respectively.

**Related Information**

**For the Fiscal Period Ended December 31, 2019 and the Fiscal Year Ended 2018**

(1) *Information about geographical areas*

(a) Sales

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Japan	¥ 24,549	¥ 24,750	\$ 225,228
Taiwan	40,552	41,399	372,042
Korea	11,659	12,286	106,970
U.S.A.	9,709	10,978	89,078
China	10,676	9,383	97,946
Other areas	5,672	6,478	52,040
Total	¥ 102,820	¥ 105,277	\$ 943,307

Note: Sales are classified in countries or regions based on location of customers.

(Change in presentation)

Sales in “China” which were included in “Other areas” for the fiscal year ended December 31, 2018 are presented separately for the fiscal year ended December 31, 2019 as the amount exceeded 10% of net sales in the consolidated statement of income. To reflect the change in presentation, ¥15,862 million presented as “Other areas” for the fiscal year ended December 31, 2018 was reclassified to “China” (¥9,383 million) and “Other areas” (¥6,478 million).

(b) Property, Plant and Equipment

	Millions of yen		Thousands of
	2019	2018	U.S. dollars
Japan	¥ 33,165	¥ 28,780	\$ 304,273
Taiwan	7,456	7,384	68,409
Korea	9,244	8,363	84,807
U.S.A.	4,795	3,470	43,996
Other areas	394	360	3,623
Total	<u>¥ 55,057</u>	<u>¥ 48,358</u>	<u>\$ 505,110</u>

(2) Information about major customers

Name of customers	Relevant segment	Sales amount		Thousands of
		Millions of yen		U.S. dollars
		2019	2018	2019
Taiwan Semiconductor Manufacturing Company, Ltd.	Material Business	¥ 24,289	¥ 24,603	\$ 222,841

CAUTIONARY STATEMENT

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.