

TAIHEIYO CEMENT REPORT 2020

Financial Section

- 02 Consolidated Balance Sheets
- 04 Consolidated Statements of Income/
Consolidated Statements of Comprehensive Income
- 05 Consolidated Statements of Changes in Net Assets
- 07 Consolidated Statements of Cash Flows
- 08 Notes to the Consolidated Financial Statements
- 12 Consolidated Segment Information

Consolidated Balance Sheets

(Millions of yen)

(Thousands of U.S. dollars)

	FY2019 (As of March 31, 2019)	FY2020 (As of March 31, 2020)	FY2020 (As of March 31, 2020)
Assets			
Current assets			
Cash and deposits	56,561	51,641	474,519
Notes and accounts receivable - trade	180,535	159,048	1,461,435
Electronically recorded monetary claims - operating	12,998	13,507	124,114
Merchandise and finished goods	31,138	30,897	283,903
Work in process	2,268	2,310	21,228
Raw materials and supplies	43,314	45,075	414,184
Short-term loans receivable	3,421	3,289	30,225
Other	11,714	14,035	128,965
Allowance for doubtful accounts	(646)	(1,302)	(11,970)
Total current assets	341,307	318,502	2,926,606
Non-current assets			
Property, plant and equipment			
Buildings and structures	483,443	490,824	4,510,011
Accumulated depreciation	(347,790)	(351,877)	(3,233,273)
Buildings and structures, net	135,653	138,947	1,276,738
Machinery, equipment and vehicles	886,495	919,556	8,449,473
Accumulated depreciation	(751,845)	(756,611)	(6,952,236)
Machinery, equipment and vehicles, net	134,649	162,944	1,497,237
Land	157,638	164,869	1,514,930
Leased assets	51,648	53,175	488,610
Accumulated depreciation	(29,527)	(31,234)	(287,000)
Leased assets, net	22,120	21,941	201,610
Construction in progress	48,678	30,665	281,778
Other	53,171	66,706	612,943
Accumulated depreciation	(30,971)	(41,521)	(381,528)
Other, net	22,199	25,184	231,414
Total property, plant and equipment	520,939	544,553	5,003,709
Intangible assets			
Goodwill	321	179	1,650
Other	30,553	29,634	272,301
Total intangible assets	30,875	29,814	273,952
Investments and other assets			
Investment securities	83,692	82,931	762,025
Long-term loans receivable	1,754	1,880	17,275
Retirement benefit asset	17,807	11,090	101,909
Deferred tax assets	17,109	21,118	194,053
Other	28,374	29,359	269,772
Allowance for doubtful accounts	(7,432)	(6,327)	(58,137)
Total investments and other assets	141,306	140,053	1,286,897
Total non-current assets	693,120	714,420	6,564,558
Total assets	1,034,428	1,032,923	9,491,164

	FY2019 (As of March 31, 2019)	FY2020 (As of March 31, 2020)	FY2020 (As of March 31, 2020)
Liabilities			
Current liabilities			
Notes and accounts payable - trade	96,275	83,430	766,610
Electronically recorded obligations - operating	8,716	5,330	48,976
Short-term borrowings	135,381	120,783	1,109,832
Commercial papers	4,000	12,000	110,263
Current portion of bonds	10,000	—	—
Income taxes payable	8,376	6,024	55,358
Provision for bonuses	6,046	6,158	56,584
Other provisions	220	139	1,279
Other	80,373	79,906	734,228
Total current liabilities	349,390	313,771	2,883,134
Non-current liabilities			
Bonds payable	30,000	30,000	275,659
Long-term borrowings	100,233	103,332	949,488
Deferred tax liabilities	7,630	7,491	68,838
Retirement benefit liability	24,206	24,999	229,706
Provision for retirement benefits for directors	535	521	4,791
Provision for special repairs	75	128	1,176
Other provisions	757	828	7,614
Lease obligations	17,616	17,996	165,359
Asset retirement obligations	7,619	7,341	67,462
Other	45,718	53,270	489,487
Total non-current liabilities	234,392	245,910	2,259,584
Total liabilities	583,783	559,682	5,142,719
Net assets			
Shareholders' equity			
Share capital	86,174	86,174	791,824
Capital surplus	60,408	60,233	553,466
Retained earnings	294,265	326,086	2,996,289
Treasury shares	(16,081)	(16,098)	(147,927)
Total shareholders' equity	424,767	456,395	4,193,652
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	8,688	6,723	61,784
Deferred gains or losses on hedges	(3)	(0)	(3)
Revaluation reserve for land	5,019	4,968	45,653
Foreign currency translation adjustment	(20,128)	(21,413)	(196,761)
Remeasurements of defined benefit plans	(3,632)	(9,995)	(91,844)
Total accumulated other comprehensive income	(10,057)	(19,716)	(181,171)
Non-controlling interests	35,935	36,563	335,965
Total net assets	450,645	473,241	4,348,445
Total liabilities and net assets	1,034,428	1,032,923	9,491,164

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108.83=US\$1, the approximate exchange rate prevailing on the Foreign Exchange Market on March 31, 2020.

Consolidated Statements of Income

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2019 (April 1, 2018 through March 31, 2019)	FY2020 (April 1, 2019 through March 31, 2020)	FY2020 (April 1, 2019 through March 31, 2020)
Net sales	916,071	884,350	8,125,979
Cost of sales	712,660	689,321	6,333,927
Gross profit	203,411	195,029	1,792,052
Selling, general and administrative expenses			
Amortization of goodwill	490	89	826
Other	136,907	133,930	1,230,642
Total selling, general and administrative expenses	137,398	134,020	1,231,469
Operating income	66,012	61,008	560,582
Non-operating income			
Interest income	632	540	4,966
Dividend income	1,227	1,267	11,648
Rental income from real estate	247	141	1,304
Share of profit of entities accounted for using equity method	2,288	2,427	22,306
Foreign exchange gains	—	1,035	9,516
Other	3,294	2,661	24,457
Total non-operating income	7,691	8,075	74,200
Non-operating expenses			
Interest expenses	4,068	3,876	35,617
Loss on disposal of inventories	1,126	126	1,166
Other	4,202	4,538	41,704
Total non-operating expenses	9,397	8,541	78,488
Ordinary income	64,306	60,541	556,294
Extraordinary income			
Gain on disposal of non-current assets	1,149	754	6,936
Gain on sales of investment securities	532	205	1,889
Compensation income	—	2,730	25,091
Other	234	147	1,352
Total extraordinary income	1,917	3,838	35,270
Extraordinary losses			
Loss on disposal of non-current assets	4,828	5,580	51,277
Loss on sales of investment securities	133	36	330
Loss on valuation of investment securities	326	222	2,041
Impairment loss	1,101	5,451	50,093
Other	660	1,311	12,054
Total extraordinary losses	7,049	12,602	115,798
Profit before income taxes	59,174	51,777	475,766
Income taxes - current	11,760	11,223	103,127
Income taxes - deferred	1,796	(300)	(2,759)
Total income taxes	13,557	10,923	100,368
Profit	45,616	40,854	375,398
Profit attributable to non-controlling interests	2,164	1,703	15,653
Profit attributable to owners of parent	43,452	39,151	359,745

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108.83=US\$1, the approximate exchange rate prevailing on the Foreign Exchange Market on March 31, 2020.

Consolidated Statements of Comprehensive Income

		(Millions of yen)	(Thousands of U.S. dollars)
	FY2019 (April 1, 2018 through March 31, 2019)	FY2020 (April 1, 2019 through March 31, 2020)	FY2020 (April 1, 2019 through March 31, 2020)
Profit	45,616	40,854	375,398
Other comprehensive income			
Valuation difference on available-for-sale securities	(1,657)	(1,720)	(15,812)
Deferred gains or losses on hedges	(4)	3	29
Foreign currency translation adjustment	(4,733)	(1,494)	(13,736)
Remeasurements of defined benefit plans	(3,553)	(6,193)	(56,911)
Share of other comprehensive income of entities accounted for using equity method	(641)	(302)	(2,781)
Total other comprehensive income	(10,590)	(9,708)	(89,211)
Comprehensive income	35,026	31,145	286,186
Comprehensive income attributable to			
Comprehensive income attributable to owners of parent	33,746	29,542	271,457
Comprehensive income attributable to non-controlling interests	1,280	1,602	14,728

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108.83=US\$1, the approximate exchange rate prevailing on the Foreign Exchange Market on March 31, 2020.

Consolidated Statements of Changes in Net Assets

(Millions of yen)

FY2020 (April 1, 2019 through March 31, 2020)

	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	86,174	60,408	294,265	(16,081)	424,767	8,688	(3)	5,019	(20,128)	(3,632)	(10,057)	35,935	450,645
Cumulative effects of changes in accounting policies			(48)		(48)							(57)	(106)
Restated balance	86,174	60,408	294,217	(16,081)	424,718	8,688	(3)	5,019	(20,128)	(3,632)	(10,056)	35,878	450,539
Changes in items during period													
Change in ownership interest of parent due to transactions with non-controlling interests		(220)			(220)								(220)
Dividends of surplus			(7,350)		(7,350)								(7,350)
Profit attributable to owners of parent			39,151		39,151								39,151
Purchase of treasury shares				(60)	(60)								(60)
Disposal of treasury shares		35		43	78								78
Increase by merger of consolidated subsidiary and non-consolidated subsidiary		10	68		78								78
Adjustment to retained earnings due to change in US tax rate													—
Net changes in items other than shareholders' equity						(1,964)	3	(50)	(1,284)	(6,362)	(9,659)	684	(8,974)
Total changes in items during period	—	(174)	31,868	(17)	31,676	(1,964)	3	(50)	(1,284)	(6,362)	(9,659)	684	22,702
Balance at end of period	86,174	60,233	326,086	(16,098)	456,395	6,723	(0)	4,968	(21,413)	(9,995)	(19,716)	36,563	473,241

(Thousands of U.S. dollars)

FY2020 (April 1, 2019 through March 31, 2020)

	Shareholders' equity					Accumulated other comprehensive income						Non-controlling interests	Total net assets
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income		
Balance at beginning of period	791,824	555,073	2,703,904	(147,769)	3,903,033	79,832	(32)	46,120	(184,956)	(33,382)	(92,417)	330,202	4,140,818
Cumulative effects of changes in accounting policies			(443)		(443)							(531)	(975)
Restated balance	791,824	555,073	2,703,460	(147,769)	3,902,589	79,832	(32)	46,120	(184,956)	(33,382)	(92,417)	329,671	4,139,843
Changes in items during period													
Change in ownership interest of parent due to transactions with non-controlling interests		(2,022)			(2,022)								(2,022)
Dividends of surplus			(67,545)		(67,545)								(67,545)
Profit attributable to owners of parent			359,745		359,745								359,745
Purchase of treasury shares				(557)	(557)								(557)
Disposal of treasury shares		323		399	722								722
Increase by merger of consolidated subsidiary and non-consolidated subsidiary		91	628		720								720
Adjustment to retained earnings due to change in US tax rate													—
Net changes in items other than shareholders' equity						(18,048)	28	(466)	(11,804)	(58,462)	(88,754)	6,293	(82,460)
Total changes in items during period	—	(1,607)	292,828	(158)	291,062	(18,048)	28	(466)	(11,804)	(58,462)	(88,754)	6,293	208,602
Balance at end of period	791,824	553,466	2,996,289	(147,927)	4,193,652	61,784	(3)	45,653	(196,761)	(91,844)	(181,171)	335,965	4,348,445

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108.83=US\$1, the approximate exchange rate prevailing on the Foreign Exchange Market on March 31, 2020.

(Millions of yen)

FY2019 (April 1, 2018 through March 31, 2019)

	Shareholders' equity					Accumulated other comprehensive income							
	Share capital	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at beginning of period	86,174	60,339	260,016	(10,947)	395,582	10,941	1	5,057	(16,201)	(111)	(313)	37,058	432,326
Cumulative effects of changes in accounting policies													
Restated balance	86,174	60,339	260,016	(10,947)	395,582	10,941	1	5,057	(16,201)	(111)	(313)	37,058	432,326
Changes in items during period													
Change in ownership interest of parent due to transactions with non-controlling interests		69			69								69
Dividends of surplus			(9,909)		(9,909)								(9,909)
Profit attributable to owners of parent			43,452		43,452								43,452
Purchase of treasury shares				(5,134)	(5,134)								(5,134)
Disposal of treasury shares		0		0	0								0
Increase by merger of consolidated subsidiary and non-consolidated subsidiary			(53)		(53)								(53)
Adjustment to retained earnings due to change in US tax rate			759		759								759
Net changes in items other than shareholders' equity						(2,252)	(4)	(37)	(3,927)	(3,521)	(9,744)	(1,122)	(10,866)
Total changes in items during period	—	69	34,249	(5,134)	29,185	(2,252)	(4)	(37)	(3,927)	(3,521)	(9,744)	(1,122)	18,318
Balance at end of period	86,174	60,408	294,265	(16,081)	424,767	8,688	(3)	5,019	(20,128)	(3,632)	(10,057)	35,935	450,645

Consolidated Statements of Cash Flows

(Millions of yen)

(Thousands of U.S. dollars)

	FY2019 (April 1, 2018 through March 31, 2019)	FY2020 (April 1, 2019 through March 31, 2020)	FY2020 (April 1, 2019 through March 31, 2020)
Cash flows from operating activities			
Profit before income taxes	59,174	51,777	475,766
Depreciation	44,008	48,863	448,989
Amortization of goodwill	490	89	826
Share of loss (profit) of entities accounted for using equity method	(2,288)	(2,427)	(22,306)
Loss (gain) on valuation of investment securities	326	222	2,041
Decrease (increase) in net retirement benefit asset and liability	(1,364)	(1,172)	(10,777)
Increase (decrease) in provision for retirement benefits for directors	15	(14)	(131)
Increase (decrease) in provision for bonuses	24	109	1,006
Increase (decrease) in allowance for doubtful accounts	(185)	91	838
Increase (decrease) in other provisions	52	42	394
Interest and dividend income	(1,860)	(1,808)	(16,614)
Interest expenses	4,068	3,876	35,617
Loss (gain) on sales of investment securities	(399)	(169)	(1,558)
Loss (gain) on disposal of non-current assets	3,678	4,825	44,341
Impairment loss	1,101	5,451	50,093
Decrease (increase) in trade receivables	(2,728)	20,800	191,126
Decrease (increase) in inventories	(4,207)	(1,661)	(15,269)
Increase (decrease) in trade payables	9,577	(16,151)	(148,414)
Other, net	(1,218)	(6,674)	(61,333)
Subtotal	108,266	106,069	974,636
Interest and dividends received	2,844	2,321	21,330
Interest paid	(4,019)	(3,890)	(35,752)
Income taxes paid	(9,808)	(13,597)	(124,946)
Cash flows from operating activities	97,283	90,902	835,268
Cash flows from investing activities			
Decrease (increase) in time deposits	1,995	515	4,733
Purchase of non-current assets	(64,520)	(66,378)	(609,927)
Proceeds from sales of non-current assets	2,208	1,367	12,567
Purchase of other depreciated assets	(142)	(240)	(2,210)
Proceeds from sales of other depreciated assets	–	0	2
Purchase of investment securities	(43)	(539)	(4,960)
Proceeds from sales and redemption of investment securities	1,132	393	3,612
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	1,308	–	–
Loan advances	(2,639)	(3,240)	(29,779)
Collection of loans receivable	3,078	2,782	25,570
Other, net	(402)	(193)	(1,782)
Cash flows from investing activities	(58,025)	(65,534)	(602,174)
Cash flows from financing activities			
Net increase (decrease) in short-term borrowings	1,509	200	1,838
Increase (decrease) in commercial papers	4,000	8,000	73,509
Proceeds from long-term borrowings	57,127	44,663	410,394
Repayments of long-term borrowings	(75,721)	(56,077)	(515,275)
Proceeds from issuance of bonds	20,000	–	–
Redemption of bonds	(15,035)	(10,000)	(91,886)
Proceeds from sales of treasury shares	0	94	871
Purchase of treasury shares	(5,026)	(22)	(204)
Dividends paid	(9,909)	(7,350)	(67,545)
Dividends paid to non-controlling interests	(1,565)	(681)	(6,265)
Other, net	(9,133)	(8,262)	(75,918)
Cash flows from financing activities	(33,753)	(29,436)	(270,481)
Effect of exchange rate change on cash and cash equivalents	(543)	(301)	(2,766)
Net increase (decrease) in cash and cash equivalents	4,960	(4,369)	(40,154)
Cash and cash equivalents at beginning of period	44,976	50,084	460,209
Increase in cash and cash equivalents resulting from merger	147	33	307
Cash and cash equivalents at end of period	50,084	45,748	420,363

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108.83=US\$1, the approximate exchange rate prevailing on the Foreign Exchange Market on March 31, 2020.

Notes to the Consolidated Financial Statements

Taiheiyō Cement Corporation and Subsidiaries for the year ended 31st March, 2020

1. Notes, etc. on Significant Matters serving as the Basis for Preparation of Consolidated Financial Statements

(1) Matters concerning Scope of Consolidation

- (i) Number of consolidated subsidiaries and name of major consolidated subsidiaries

Number of consolidated subsidiaries: 118

Name of major consolidated subsidiaries:

Major consolidated subsidiaries are DC Co., Ltd., Clion Co., Ltd., Myojyō Cement Co., Ltd., Taiheiyō Materials Corporation, CalPortland Company, Jiangnan-Onoda Cement Co., Ltd., Qinhuangdao Asano Cement Co., Ltd., Dalian Onoda Cement Co., Ltd., Nghi Son Cement Corporation and Taiheiyō Cement Philippines, Inc.

Of note, Taiheiyō Shield Mechanics Corporation was excluded from the scope of consolidation as a result of disappearance due to absorption-type merger wherein the Company's consolidated subsidiary Onoda Chemico Co., Ltd. is the surviving company.

- (ii) Name, etc. of major unconsolidated subsidiaries

Name of major unconsolidated subsidiaries:

Major unconsolidated subsidiaries are Taiheiyō Singapore Pte., Ltd., and Taiheiyō Services Co., Ltd.

Reason for excluding from the scope of consolidation:

All unconsolidated subsidiaries are small companies, and none of them have a material impact on the consolidated financial statements in terms of the amount of equity interest including total assets, net sales, net income and retained earnings as a whole; accordingly, they were excluded from the scope of consolidation.

(2) Matters concerning Application of Equity Method

- (i) Number of unconsolidated subsidiaries and affiliates accounted for by the equity method and name of major companies, etc.

Number of unconsolidated subsidiaries accounted for by the equity method: 6

Name of major companies, etc.:

Major unconsolidated subsidiaries accounted for by the equity method are Taiheiyō Singapore Pte., Ltd.

Number of affiliates accounted for by the equity method: 37

Name of major companies, etc.:

Major equity-method affiliates are Okutama Kogyō Co., Ltd., A&A Material Corporation, Fuji P.S. Corporation, Yakushima Denko Co., Ltd., Chichibu Railway Co., Ltd. and Azuma Shipping Co., Ltd.

- (ii) Name, etc. of unconsolidated subsidiaries and affiliates not accounted for by the equity method

Name of major companies, etc.:

(Unconsolidated subsidiaries)

Unconsolidated subsidiaries not accounted for by the equity method are Taiheiyō Services Co., Ltd. and 61 other companies.

(Affiliates)

Affiliates not accounted for by the equity method are Cement Terminal Corporation and 64 other companies.

Reason for not applying the equity method:

Unconsolidated subsidiaries and affiliates not accounted for by the equity method were excluded from the scope of the equity method because the amount of equity interest including their respective net income and retained earnings all have minimal impact on the consolidated financial statements.

- (iii) Particularly noteworthy matters concerning procedures for application of the equity method

For companies accounted for by the equity method whose fiscal year-end is different from the consolidated fiscal year-end, their respective non-consolidated financial statements for the most recent fiscal year have been used.

(3) Matters concerning Accounting Policies

- (i) Standards and methods for valuation of significant assets

a. Available-for-sale securities

a) Securities with market value:

Such securities are marked to market by the Company and some consolidated subsidiaries based on the average market price, etc. in the one-month period before the end of the fiscal year. (Valuation differences are all charged/credited directly to net assets, and the cost of selling the securities is determined by the moving-average method.)

b) Securities without market value:

Such securities are stated at cost, based on the moving-average method.

b. Derivatives

Derivatives are stated at market value.

c. Inventories

Inventories are mainly stated at cost, which is determined by the moving average method (subject to write-down due to diminished profitability). However, the cost for contract work in process is determined by the specific identification cost method.

Of note, inventories at the consolidated subsidiary in the U.S. are stated at lower of cost or market, based on the gross average method.

- (ii) Depreciation method for significant depreciable assets

a. Property, plant and equipment (excluding lease assets)

The declining balance method is adopted by the Company and its domestic consolidated subsidiaries, and the straight-line method by its consolidated overseas subsidiaries.

However, the depreciation of buildings (excluding accompanying facilities) purchased on and after April 1, 1998 and accompanying facilities and structures purchased on and after April 1, 2016 is computed based on the straight-line method by the Company and its domestic consolidated subsidiaries.

The range of useful lives of main property, plant and equipment is as follows:

Buildings and structures: 10-75 years

Machinery, equipment and vehicles: 4-15 years

b. Intangible assets (excluding lease assets)

Intangible assets are amortized by the straight-line method.

However, software is amortized by the straight-line method over its useful life assuming in-house use (5 years).

c. Lease assets

Lease assets are depreciated by the straight-line method that assumes their lease periods are useful lives and residual values are zero (or if there is a residual value guarantee, the guaranteed residual value).

- (iii) Accounting standards for significant provisions

a. Allowance for doubtful accounts

Allowance for doubtful accounts is provided for by the Company and its domestic consolidated subsidiaries at the estimated uncollectible amount, which is calculated based on the historical credit loss ratio with respect to ordinary receivables, and in consideration of collectibility on a case-by-case basis with respect to specified receivables such as doubtful accounts. Consolidated overseas subsidiaries mainly provide for such allowance at the estimated uncollectible amount with respect to specified receivables.

b. Provision for bonuses

To prepare for the payment of bonuses payable to employees, the Company and its domestic consolidated subsidiaries record the estimated payable amount to be borne in the consolidated fiscal year under review.

c. Provision for directors' retirement benefits

Certain consolidated subsidiaries provide for retirement allowances for directors and corporate auditors at the necessary payment amount in full at the year-end based on their internal regulations.

- (iv) Accounting standards for revenue recognition of construction

Completed construction volume is recorded under the construction progress method (percentage of completion estimates for construction are via the cost to cost method) for construction for which progress results can be determined with certainty by the end of the fiscal year under review, and for others, the completed construction method is applied.

- (v) Standards for translating significant foreign currency assets and liabilities into Japanese yen

Monetary claims and obligations denominated in foreign currencies are translated into Japanese yen based on the spot exchange rate as at the consolidated closing date, and translation gains (losses) are recognized in profit (loss). Of note, consolidated overseas subsidiaries' assets and liabilities are translated into Japanese yen based on the spot exchange rate as at the consolidated closing date, revenue and expenses are translated into Japanese yen based on the average exchange rate for the fiscal year, and translation gains (losses) are included in "Foreign currency translation adjustments" and "Non-controlling interests" under Net Assets.

- (vi) Significant hedge accounting methods

a. Method of hedge accounting

Gains/losses on hedges are deferred. Allocation treatment is applied when the currency swaps meet the conditions for application of such allocation treatment. Exceptional treatment is applied when the interest rate swaps meet the conditions for application of such exceptional treatment.

b. Hedging instruments and hedged items

Hedging instruments:

Interest rate swaps, currency swaps, raw materials and fuel swaps, interest-rate options, currency options, raw materials and fuel options and forward exchange contracts are employed as hedging instruments.

Hedged items:

Borrowings, accounts payable-trade, fuel, etc.

c. Hedging policy

Hedge accounting policy is to limit hedging to those aimed at hedging against the risk of interest rate, exchange rate, and raw materials and fuel price fluctuations of the hedged items and those aimed at eliminating hedging.

d. Method of evaluating hedge effectiveness

Hedge effectiveness is verified on a transaction-by-transaction basis at the end of each accounting period with respect to hedging instruments and hedged items; however, if the principal, interest rate, period, and other such significant terms of the hedging instruments and hedged items are the same, such verification is omitted.

(vii) Method and period of amortization of goodwill

Goodwill is amortized over the estimated number of years in cases that the number of years can be estimated based on practical judgment starting from the fiscal year of acquisition while the entire amount of goodwill is amortized in the fiscal year of acquisition without analyzing the causes in cases that the amount of goodwill is insignificant.

(viii) Accounting procedures for liability for retirement benefits

To prepare for the payment of retirement benefits to employees, liability for retirement benefits is recorded in the amount of retirement benefit obligation less plan assets based on the projected amount at the end of the consolidated financial year under review.

Actuarial gains and losses and prior service cost are amortized in equal amounts as expenses by the straight-line method over a certain number of years (primarily 10 years) within the average remaining years of service of employees at the time of accrual, commencing in the consolidated fiscal year following the year of accrual for actuarial gains and losses and in the consolidated fiscal year of accrual for prior service cost.

Unrecognized actuarial gains and losses and unrecognized prior service cost are recorded as "Retirement benefits liability adjustments" in "Accumulated other comprehensive income" under Net Assets, after making tax effect adjustments. When the value of plan assets exceeds the amount of the retirement benefit obligation, the amount of such excess is recorded in "Assets for retirement benefits".

(ix) Accounting treatment of consumption tax, etc. Tax exclusion method is applied.

Of note, there were no applicable transactions in consolidated overseas subsidiaries.

(x) Amounts shown in these consolidated financial statements are rounded down to the nearest million yen.

(4) Changes in Accounting Policy

The IFRS 16 "Leases" has been applied from the first quarter of the consolidated fiscal year under review at overseas consolidated subsidiaries that prepare their financial statements in accordance with International Financial Reporting Standards. Consequently, in principle, all leases as lessee are recorded as assets and liabilities on the consolidated balance sheets. Due to the application, a method deemed to be a transitional measure that recognizes the cumulative effect at the date of initial application has been adopted.

As a result, in the consolidated balance sheets of the consolidated fiscal year under review, other under property, plant and equipment increased by ¥2,220 million (net amount), other under current liabilities increased by ¥637 million, and lease obligations under noncurrent liabilities increased by ¥1,354 million, while other under intangible assets decreased by ¥321 million.

The impact of this change on profit (loss) for the consolidated fiscal year under review is immaterial.

2. Notes to the Consolidated Balance Sheets

(1) Assets pledged as collateral and secured liabilities

(i) Assets pledged as collateral

	(Million of yen)	(Thousands of U.S. dollars)
	FY2020 (As of March 31, 2020)	FY2020 (As of March 31, 2020)
Cash and deposits	653	6,000
Property, plant and equipment	35,530	326,472
Intangible assets	779	7,159
Investment securities	85	786
Investments and other assets-other	1,802	16,566
Total	38,850	356,985

(ii) Secured liabilities

	(Million of yen)	(Thousands of U.S. dollars)
	FY2020 (As of March 31, 2020)	FY2020 (As of March 31, 2020)
Notes and accounts payable-trade	4,185	38,462
Notes discounted	120	1,103
Short-term loans payable	5,694	52,324
Other current liabilities	3	34
Long-term loans payable	3,290	30,238
Other noncurrent liabilities	11	107
Total	13,306	122,271

(2) Accumulated depreciation of property, plant and equipment

(Million of yen)	(Thousands of U.S. dollars)
FY2020 (As of March 31, 2020)	FY2020 (As of March 31, 2020)
1,181,245	10,854,038

(3) Guarantee obligations

	(Million of yen)	(Thousands of U.S. dollars)
	FY2020 (As of March 31, 2020)	FY2020 (As of March 31, 2020)
Guarantees for loans payable from banks, etc.	1,067	9,808
Guarantees for account payables to Ready-mixed Cooperative Association, etc.	1,313	12,069

(4) Discounted trade notes receivable

	(Million of yen)	(Thousands of U.S. dollars)
	FY2020 (As of March 31, 2020)	FY2020 (As of March 31, 2020)
Trade notes receivable transferred by endorsement	2,239	20,577
Discounts on electronically recorded monetary claims-operating	758	6,972
	39	359

(5) Revaluation of Land

A&A Material Corporation and Chichibu Railway Co., Ltd., the Company's affiliates accounted for by the equity method, revalued their business-purpose land in accordance with the Act on Revaluation of Land (Act No. 34, promulgated on March 31, 1998) and the Act on Partial Revision of the Act on Revaluation of Land (revised on March 31, 1999). With respect to the valuation difference, the amount of the Company's share in the valuation difference is recorded in Net Assets as "Revaluation reserve for land."

3. Notes to the Consolidated Statements of Changes in Net Assets

(1) Class and total number of outstanding shares as at the end of the consolidated fiscal year under review:

Common stock 127,140,278 shares

(2) Matters concerning dividends

(i) Amount of dividends paid

Resolution	Class of shares	Total amount of dividends (millions of yen)	Amount of dividend per share	Record date	Effective date
Ordinary General Meeting of Stockholders held on June 27, 2019	Common stock	3,681*1	¥30.00	March 31, 2019	June 28, 2019
Meeting of Board of Directors held on November 12, 2019	Common stock	3,681*2	¥30.00	September 30, 2019	December 3, 2019

*1. Includes dividends of ¥6 million associated with treasury stock held by consolidated subsidiaries.

*2. Includes dividends of ¥6 million associated with treasury stock held by consolidated subsidiaries.

(ii) Dividends whose record date is at the end of the consolidated fiscal year under review whereas its effective date falls in the next consolidated fiscal year

The following matters concerning dividends for common stock are scheduled to be proposed at the Ordinary General Meeting of Stockholders.

Total amount of dividends: ¥3,681 million

Amount of dividend per share: ¥30.00

Record date: March 31, 2020

Effective date: June 29, 2020

Of note, the source of funding dividend payments is scheduled to be retained earnings.

Total amount of dividends includes dividends of ¥5 million associated with treasury stock held by consolidated subsidiaries.

(iii) Class and number of shares to be issued upon exercise of share options at the end of the consolidated fiscal year under review (excluding those for which the first day of the exercise period has not yet arrived)

Not applicable

4. Notes on Financial Instruments

(1) Matters concerning Status of Financial Instruments

The Taiheiyo Cement Group limits its fund management activities to short-term deposits, etc., and raises funds principally by bank borrowings and corporate bonds. It performs derivative transactions for the purpose of averting risks due to future exchange-rate, interest-rate, and raw materials and fuel price fluctuations and does not perform speculative transactions.

While notes and accounts receivable-trade and electronically recorded monetary claims-operating, which are operating receivables, are exposed to credit risk in relation to customers, each responsible department periodically identifies the financial position, etc. of the counterparties and manages the due date and outstanding balance with respect to each counterparty, in an effort to identify and reduce collectibility concerns in the early stages. In addition, operating receivables denominated in foreign currencies related to export transactions are exposed to exchange rate fluctuation risks. Investment securities are primarily shares of companies with which the Company has a business relationship, and are exposed to the risk of market price fluctuations.

Notes and accounts payable-trade and electronically recorded obligations-operating, which are operating payables, have payment due dates within one year. For a portion of raw materials and fuel procurement, derivative transactions (foreign exchange contracts and raw fuel swap transactions) are used as hedging methods to limit risk of exchange and price fluctuations of raw materials and fuel. Among borrowings, short-term loans payable are mainly funds raised in connection with business transactions, and long-term loans payable and bonds payable are principally funds raised for the purpose of making capital investments. Some long-term loans payable have financial covenants and may influence liquidity risks regarding fund raising activities. Borrowings with variable interest rates are exposed to interest rate fluctuation risk; however, to avert the risk of fluctuations of interest payable and fix interest expenses for some long-term loans payable, derivatives (interest rate swap transactions) are used as hedging instruments on a contract-by-contract basis. Additionally, borrowings in foreign currencies are exposed to foreign exchange risk, but of these, for a portion of long-term borrowings, derivative transactions (currency swap transactions) are used as a hedging method to avoid foreign currency fluctuation risk.

(2) Matters concerning Market Value, etc. of Financial Instruments

The consolidated balance sheet amount and market value of financial instruments and the difference between the two at March 31, 2020 (i.e., end of the consolidated fiscal year under review) are shown in the following table.

(Unit: Millions of yen)

	Consolidated balance sheet amount	Market value	Difference
(i) Cash and deposits	51,641	51,641	—
(ii) Notes and accounts receivable-trade	159,048	159,048	—
(iii) Electronically recorded monetary claims-operating	13,507	13,507	—
(iv) Investment securities	39,361	32,213	(7,148)
Total assets	263,559	256,410	(7,148)
(v) Notes and accounts payable-trade	83,430	83,430	—
(vi) Electronically recorded obligations-operating	5,330	5,330	—
(vii) Short-term loans payable	81,750	81,750	—
(viii) Commercial papers	12,000	12,000	—
(ix) Bonds payable	30,000	29,915	(84)
(x) Long-term loans payable	142,365	143,459	1,094
Total assets	354,876	355,886	1,009
(xi) Derivative transactions*	1,174	1,174	—

*Net receivables and payables arising from derivative transactions are shown in net amount.

(Notes)1. Calculation method of market value of financial instruments and matters related to securities and derivative transactions

(i) Cash and deposits, (ii) Notes and accounts receivable-trade and (iii) Electronically recorded monetary claims-operating
Since these items are settled in a short period of time, their market value is more or less the same as carrying value; therefore, the carrying value is adopted.

(iv) Investment securities

The market value of investment securities is based on quoted market prices.

(v) Notes and accounts payable-trade, (vi) Electronically recorded obligations-operating, (vii) Short-term loans payable, (viii) Commercial papers
Since these items are settled in a short period of time, their market value is more or less the same as carrying value; therefore, the carrying value is adopted.

(ix) Bonds payable

The calculation method involves discounting the sum of the principal and interest by an interest rate that takes into account the credit risk. The presentation of market value of bonds payable includes the current portion of bonds.

(x) Long-term loans payable

The calculation method involves discounting the sum of the principal and interest by the interest rate that is expected to be applied if a similar new loan is taken out. The presentation of market value of long-term loans payable includes the current portion of long-term loans payable. A portion of long-term loans payable are subject to appropriated treatment for currency swaps and exceptional treatment for interest rate swaps (see (xi) below), and the calculation method involves discounting the sum of the principal, which is an aggregate of the currency swap and interest rate swap, with a reasonably-estimated interest rate that would be applied if a similar loan is taken out.

(xi) Derivative transactions

The market value of derivatives is calculated based on prices, etc. presented by financial institutions with which derivative transactions are performed. Of note, those subject to allocation treatment for exchange rate swaps and exceptional treatment for interest rate swaps are processed integrally with the hedged long-term loans payable, so their market value is included in the presentation of such long-term loans payable (see (x) above).

2. Unlisted stocks and investments in capital, etc. (consolidated balance sheet amount: ¥43,569 million) are not included in "(iv) Investment securities" as it is deemed extremely difficult to determine their market value because there is no quoted market price and it is impossible to estimate future cash flows.

5. Notes on Real Estate for Rent, etc.

(1) Matters concerning status of real estate for rent, etc.

The Company and some of its consolidated subsidiaries have plants, warehouses (including land), etc. for lease purposes in Tokyo and other regions.

(2) Matters concerning market value of real estate for rent, etc.

(Unit: Millions of yen)

Consolidated balance sheet amount	Market value
51,186	112,966

- (Notes) 1. Consolidated balance sheet amount equals the acquisition cost minus accumulated depreciation and accumulated impairment loss.
 2. The market value of major properties as at the end of the consolidated fiscal year under review is the amount based on a real estate appraisal conducted by an outside real estate appraiser, whereas the market value of other properties is a certain appraisal value or the amount calculated in-house based on indicators deemed to properly reflect the market price. However, if there are no significant changes in a certain level of valuation amounts or indices which are believed to accurately reflect market values from the most recent evaluation, amounts utilizing these valuations and indices are applied.

6. Notes on Per Share Information

Net assets per share: ¥3,567.63

Net income per share: ¥319.89

7. Notes on Significant Subsequent Events

(1) Share acquisition of PT Solusi Bangun Indonesia Tbk

At the Board of Directors meeting held on April 21, 2020, a resolution was passed to enter into a basic agreement with PT Semen Indonesia (Persero) Tbk (hereinafter "SI"), which is a state-owned cement business in Indonesia, wherein the Company builds a comprehensive partnership with SI, builds a business alliance in the cement business and relevant businesses inside and outside Indonesia with SI and SI's subsidiary PT Solusi Bangun Indonesia Tbk (hereinafter "SBI"), and makes SBI an equity-method affiliate by share acquisition and dispatch of Directors and Corporate Auditors (hereinafter the "capital and business alliance").

- (i) Purpose of the capital and business alliance
 The purpose of the capital and business alliance is to establish the Company's business foundations in Indonesia as well as to further promote globalization in business operations including cement trading. The transaction is deemed to contribute to increasing corporate value of the Company.
- (ii) Name and description of business of the company of which shares are to be acquired Overview of SBI (listed on the Indonesia Stock Exchange (IDX))
 a. Name: PT Solusi Bangun Indonesia Tbk
 b. Business Description: Cement business, ready-mixed concrete businesses, and aggregates business, etc.
 c. Date of establishment: June 15, 1971
 d. Major stockholder and its stockholding ratio:
 PT Semen Indonesia Industri Bangunan ("SIIB*")
 98.31% (As of the end of December 2019)
 e. Performance in FY2019 (consolidated)
 • Cement sales by volume: 10.9 million tons
 • Net sales: ¥77,405 million, operating income: ¥8,245 million, profit: ¥3,493 million
 • Total assets: ¥136,972 million, net assets: ¥48,878 million (As of the end of December 2019)
 * SI substantially holds 100% of shares in SIIB.
 (Reference) The above amounts presented in yen are calculated at the exchange rate of 1 rupiah to 0.007 yen.
- (iii) Price of the share acquisition and the holding ratio after the share acquisition
 a. Price of the share acquisition: around ¥20.0~25.0 billion
 b. Holding ratio after the share acquisition: No less than the minimum ratio required to be accounted as equity-method affiliate (15%)
 c. Method of acquisition: By a rights issue to be implemented by SBI (an Indonesian legal procedure equivalent of allotment of share options without contribution in Japan)
 d. Dispatch of officers: One Director and one Corporate Auditor to be dispatched.
 In order to make SBI an equity-method affiliate of the Company, the Company will work in deliberation with SI and SBI to move toward final conclusion of the agreement.

(iv) Timing of final conclusion of the agreement, etc.

- a. Date of final conclusion of agreement: July 2020 (scheduled)
 b. Exercise date of rights issue: March 2021 (scheduled)

The above date may change due to applications to authorities concerned, acquisition of permissions and authorizations, and other factors.

(iv) Effect on profit (loss) by the event

The effect on the consolidated financial statements by the event is currently under calculation.

(2) Share repurchase

At the Board of Directors meeting held on May 20, 2020, a resolution was passed concerning matters regarding share repurchase, pursuant to the provisions of Article 156 of the Companies Act as applied by replacing certain terms under the provisions of Article 165, Paragraph 3 of the same Act.

(i) Reasons for the share repurchase

Based on the Company's Medium-Term Management plan, the Company will repurchase its shares in order to enhance shareholder returns.

(ii) Details of the repurchase

- a. Class of shares to be repurchased Common stock
 b. Total number of shares to be repurchased 3,000,000 shares (maximum)
 (2.44% of the total number of shares issued (excluding treasury stock))
 c. Total repurchase amount ¥5.0 billion (maximum)
 d. Period of the repurchase May 21, 2020 to July 31, 2020
 e. Method of the repurchase Purchase through the Tokyo Stock Exchange

8. Other Notes

(Notes on Impairment Loss)

The Company's assets are grouped together based on segments by business type, except for assets for rent, important idle properties and assets scheduled for disposal, which are grouped together by treating individual property as a single unit.

In the case of consolidated subsidiaries, in principle, a business company is deemed as a single asset group, and in the case of important companies, assets are grouped together based on management accounting classifications, etc., except for important assets for rent, idle properties and assets scheduled for disposal, which are grouped together by treating individual property as a single unit.

As a result, the carrying value was reduced to the recoverable amount with respect to assets for business with reduced profitability due to such factors as substantial deterioration in the business environment and a substantial fall in the market value of land, and idle properties that are not expected to be used in the future as follows, and such reduction in the amount of ¥5,451 million was recorded as an impairment loss under extraordinary loss.

(Unit: Millions of yen)

Purpose	Location	Type	Impairment loss
Assets for business	Jiangsu, China, etc.	Buildings and structures, machinery, equipment and vehicles, land, etc.	5,198
Idle properties	Tomakomai-shi, Hokkaido Prefecture, etc.	Land, etc.	252

Note: Breakdown of impairment loss by purpose

(Unit: Millions of yen)

Purpose	Breakdown
Assets for business	Buildings and structures: 1,197, Machinery, equipment and vehicles: 3,286, Land: 113, Other: 601, Total: 5,198
Idle properties	Land: 251, Other: 1, Total: 252

Recoverable amount is measured at the higher of net selling price or value in use.

If it is measured at net selling price, it is calculated by making reasonable adjustments based on real estate appraisal standards, etc.

If it is measured at value in use, it is calculated by discounting future cash flows by 5%.

Consolidated Segment Information

■ Information of Net Sales, Profit or Loss, Assets, Liabilities, and Other Items by Reportable Segment* are as Follows:

(Millions of yen)

FY2020 (April 1, 2019 through March 31, 2020)

	Reportable Segments					Other ¹	Total	Adjustment ²	Consolidated Total ³
	Cement Business	Mineral Resources Business	Environmental Business	Construction Materials Business	Total				
Net sales									
Sales to outside customers	617,838	55,965	76,281	77,035	827,121	57,228	884,350	–	884,350
Inter-segment sales	10,578	24,181	8,140	4,268	47,168	25,802	72,971	(72,971)	–
Total	628,416	80,147	84,422	81,303	874,290	83,031	957,321	(72,971)	884,350
Segment income	36,526	7,179	7,707	4,537	55,951	5,327	61,279	(270)	61,008
Segment assets	639,899	103,590	25,714	77,589	846,794	221,295	1,068,089	(35,165)	1,032,923
The Others									
Depreciation ⁴	34,333	4,956	666	2,502	42,459	5,879	48,339	523	48,863
Amortization of goodwill	89	–	–	–	89	–	89	–	89
Equity in earnings of unconsolidated subsidiaries and affiliates	662	(8)	(7)	1,354	2,001	421	2,423	4	2,427
Impairment loss	4,894	58	–	–	4,952	498	5,451	–	5,451
Investment in unconsolidated subsidiaries and affiliates accounted for by the equity method	18,245	–	267	16,079	34,592	15,614	50,207	434	50,641
Increase for property, plant, equipment, and intangible assets ⁴	45,709	10,972	2,750	3,035	62,467	13,246	75,714	1,963	77,677

(Thousands of U.S. dollars)

FY2020 (April 1, 2019 through March 31, 2020)

	Reportable Segments					Other ¹	Total	Adjustment ²	Consolidated Total ³
	Cement Business	Mineral Resources Business	Environmental Business	Construction Materials Business	Total				
Net sales									
Sales to outside customers	5,677,097	514,250	700,924	707,853	7,600,125	525,854	8,125,979	–	8,125,979
Inter-segment sales	97,201	222,198	74,799	39,219	433,418	237,088	670,507	(670,507)	–
Total	5,774,298	736,448	775,724	747,072	8,033,544	762,942	8,796,487	(670,507)	8,125,979
Segment income	335,629	65,965	70,824	41,694	514,114	48,956	563,071	(2,488)	560,582
Segment assets	5,879,810	951,852	236,285	712,941	7,780,889	2,033,401	9,814,291	(323,126)	9,491,164
The Others									
Depreciation ⁴	315,475	45,547	6,128	22,995	390,146	54,028	444,175	4,813	448,989
Amortization of goodwill	826	–	–	–	826	–	826	–	826
Equity in earnings of unconsolidated subsidiaries and affiliates	6,086	(76)	(68)	12,448	18,389	3,877	22,266	40	22,306
Impairment loss	44,973	536	–	–	45,510	4,583	50,093	–	50,093
Investment in unconsolidated subsidiaries and affiliates accounted for by the equity method	167,649	–	2,456	147,748	317,854	143,479	461,334	3,988	465,323
Increase for property, plant, equipment, and intangible assets ⁴	420,006	100,820	25,277	27,889	573,994	121,717	695,711	18,037	713,749

Note: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥108.83=US\$1, the approximate exchange rate prevailing on the Foreign Exchange Market on March 31, 2020.

(Millions of yen)

FY2019 (April 1, 2018 through March 31, 2019)

	Reportable Segments					Other	Total	Adjustment	Consolidated Total ¹³
	Cement Business	Mineral Resources Business	Environmental Business	Construction Materials Business	Total				
Net sales									
Sales to outside customers	636,385	59,401	85,081	77,940	858,808	57,263	916,071	–	916,071
Inter-segment sales	10,092	24,860	7,611	4,245	46,809	28,765	75,575	(75,575)	–
Total	646,477	84,262	92,693	82,185	905,618	86,028	991,647	(75,575)	916,071
Segment income	41,743	8,242	6,614	4,999	61,559	4,658	66,257	(244)	66,012
Segment assets	647,846	101,608	21,292	80,813	851,561	217,462	1,069,023	(34,595)	1,034,428
The Others									
Depreciation ¹⁴	31,023	4,279	671	2,405	38,381	5,258	43,639	368	44,008
Amortization of goodwill	490	–	–	–	490	–	490	–	490
Equity in earnings of unconsolidated subsidiaries and affiliates	508	40	11	1,481	2,042	252	2,295	(6)	2,288
Impairment loss	39	353	–	103	496	604	1,101	–	1,101
Investment in unconsolidated subsidiaries and affiliates accounted for by the equity method	17,145	–	281	15,166	32,593	15,683	48,276	437	48,714
Increase for property, plant, equipment, and intangible assets ¹⁴	38,557	10,246	1,852	3,626	54,282	11,899	66,182	1,614	67,796

*1 The "Other" category accounts for business segments that do not constitute reportable segments and include the real estate, engineering, data processing, financial services, transportation and warehouse, chemical products, sports, and electric power supply businesses.

*2 Adjustment for segment income signifies the eliminated amount of intersegment transactions. The adjusted amount for segment assets signifies 55,055 million yen in corporate assets not allocated to each reportable segment and the eliminated amount of intersegment transactions. Corporate assets consist mainly of Taiheiyo Cement Corporation's surplus operating funds (deposits) and assets associated with the Administration Department.

*3 Segment income has been adjusted with regard to operating income reported in the Consolidated Statements of Income.

*4 The increase in depreciation and increase for property, plant, equipment and intangible assets reported under the "Other" category include amounts associated with long-term prepaid expenses.

■ Geographic Segments

(Millions of yen)

FY2020	Japan	U.S.A.	Other	Total
Net sales	653,524	143,705	87,120	884,350
Non-current assets	388,658	110,862	45,032	544,553

*Outline of Reportable Segments

The Company's reportable segments are component units of the Company for which discrete financial information is available and for which the Board of Directors regularly conducts a review to determine the allocation of management resources and assess performance. The reportable segments have been divided into "Cement," "Mineral Resources," "Environmental" and "Construction Materials" according to the products and services handled by each business. The following are major products provided by each reportable segment.

Cement	Material Resources	Environmental	Construction Materials
Various cement products, ready-mixed concrete	Aggregates, limestone products	Waste recycling, desulfurization materials	Precast concrete products, autoclaved lightweight concrete (ALC)

Method of Calculating Net Sales, Income or Loss, Assets, Liabilities and Other Items for Each Reportable Segment

The accounting method applied to reportable segments is basically the same as the accounting method used to prepare the consolidated financial statements. Income for each reportable segment is based on operating income. Amounts reported as intersegment sales and transfers are based on actual market value.

