Annual Report

Year Ended March 31, 2021

HARIMA CHEMICALS GROUP, INC.

Business Overview

Due to the effects of the pandemic COVID 19, the world economy during the first quarter (April1,2020 to June 30,2020) of the current fiscal year was in extremely difficult situation. From the second quarter (July 1,2020 to September 30,2020), economy in Europe started to recover, but because the COVID 19 spread again in the end of 2020, the future was uncertain. On the other hand, economic activity in China was started again, the economy has shown growing signs of recovery.

In Japan, after the release of the first state of emergency in May 2020, there was a movement of recovery in Japanese economy. But because the COVID 19 also spread again in Japan, the government issued a second state of emergency in January 2021. Fixed investment, corporate income and employment were weak, Japanese economy did not recover in the fiscal year 2020.

Under these circumstances, our group also suffered a particularly severe decline in orders due to the effects of the COVID 19, as a result, the fall in both sales and income was not avoided. We have tried for enlargement of sale while carrying out reduction in cost.

About the oversea business of our group, because of the COVID 19, the whole sales volume decreased significantly. Even though our subsidiaries of the Paper Chemicals Segment in China remained stable, both revenues and earnings of our group decreased than the previous fiscal year.

As a result of these conditions, the group's consolidated net sales for the current fiscal year decreased by 8,948 million Yen (down 12.5%) year-on-year to 62,850 million Yen. Operating income decreased by 2,175 million Yen (down58.0%) to 1,576 million. Ordinary income decreased by 2,496 million Yen (down 69.5%) to 1,093 million Yen because of the foreign exchange loss and equity in losses of associated companies.

Net income attributable to Harima Chemicals Group, INC. in this fiscal year was 1,091 million Yen, decreased by 1,126 million Yen (down 50.8%) because of the gain on sale of investment securities.

Status of Business Segments

(Resin & Tall Oil Products)

Due to the spread of the COVID 19, in the printing ink industry which demand was sluggish. Also because of the digitization acceleration, print for the commerce and production volume of newspaper decreased. In the synthetic rubber industry, styrene butadiene rubber, the main material of automobile tires, which volume of production decreased significantly. But a recovery trend was seen in the latter half of the current fiscal year. In the paint industry, volume of production of the paint for buildings decreased.

In the current fiscal year, sales of functional nanoparticles dispersion liquid remained steady, but sales of resin for printing ink, emulsifier for synthetic rubber and resin for paint decreased significantly. As a result, the operating income of this segment decreased with the decrease in sales and the price increase in main raw materials.

(Paper Chemicals)

In the domestic paper industry, also influenced by the COVID 19, demand for paperboard and information printing papers declined. As a result, the total production volume of both paper and paperboard decreased. At the same time, about overseas market, demand for paper and paperboard in China increased because of fast economic recovery but which decreased in the US.

Consequently, China subsidiaries kept a good business performance which was mainly due to the increased demand for paper strength enhancers. But the sales of domestic and the US subsidiaries decreased. As a result, total sales of this segment decreased than the previous fiscal year. On the one hand, total segment income increased thanks to the sustainable good performance of China.

(Electronics Materials)

In the semiconductor-related industry which kept a good business performance because of the expanding demand of PC and telecommunications infrastructure with the spread of home teleworking. But production volume in automobile industry decreased because of the effects of the COVID 19.

In this segment, sales volume of functional resin for semiconductors and soldering materials increased, but sales volume of conductive paste and brazing materials for automobile heat exchangers decreased. Though the segment total sales decreased, the income increased than the previous fiscal year because we tried to rationalize the management by integration - abolition of sales offices.

(Lawter)

Lawter segment, developing business in 7 countries around the world, which main business is manufacturing and sales of adhesive resin and printing ink resin. Because sales volume of adhesive resin in Europe and South America increased but decreased in other areas, total sales decreased than the previous fiscal year.

Demand for printing inks was sluggish not only on the background of digitization of information but also because of the spread of the COVID 19 especially. Sales volume of the printing ink resin decreased than the previous fiscal year.

Operating income of this segment decreased drastically because of the decrease of the sales volume and the rise in cost price rate of synthetic perfume-related product.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	76th Fiscal Year (Fiscal year ended March 2018)	77th Fiscal Year (Fiscal year ended March 2019)	78th Fiscal Year (Fiscal year ended March 2020)	79th Fiscal Year (Fiscal year ended March 2021)
Net sales	73,310	78,589	71,799	62,850
Ordinary income	4,008	4,818	3,589	1,093
Net income attributable to Harima Chemicals Group, INC.	2,725	4,131	2,217	1,091
Net income per share (Yen)	105.03	159.02	87.67	43.44
Total assets	69,637	72,870	71,395	69,390
Net assets	36,097	37,811	37,745	37,441

(Notes) 1. Net income per share is calculated based on the weighted average number of issued shares during the fiscal year after deducting treasury stocks.

2. We applied ASBJ Statement No.28, “Partial Amendments to Accounting Standard for Tax Effect Accounting” issued on Febryary16,2018 form the beginning on the 77th Fiscal year.
The information of the 76th Fiscal year was changed into new data which allows retroactive application of the new statement above.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Balance Sheet
March 31, 2021

ASSETS	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 3,422	¥ 3,911	$ 30,910
Notes and accounts receivable (Note 16):			
Trade notes	2,413	2,442	21,796
Trade accounts	14,874	14,964	134,351
Associated companies	176	168	1,590
Other	803	943	7,253
Allowance for doubtful receivables	(75)	(91)	(677)
Inventories (Note 5)	12,047	12,938	108,816
Other current assets	1,907	1,208	17,224
Total current assets	35,567	36,483	321,263
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land (Note 7)	8,306	8,516	75,025
Buildings and structures (Note 7)	18,607	18,784	168,070
Machinery and equipment	28,886	27,494	260,916
Lease assets (Note 15)	769	739	6,946
Construction in progress	693	1,258	6,260
Other assets	5,084	5,138	45,921
Total	62,345	61,929	563,138
Accumulated depreciation	(39,894)	(38,814)	(360,347)
Net property, plant and equipment	22,451	23,115	202,791
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 16)	3,351	3,363	30,268
Investments in associated companies	5,357	5,532	48,388
Deferred tax assets (Notes 3 and 13)	1,243	1,328	11,228
Other assets	1,423	1,577	12,853
Allowance for doubtful accounts	(2)	(3)	(18)
Total investments and other assets	11,372	11,797	102,719
TOTAL	¥ 69,390	¥ 71,395	$ 626,773

LIABILITIES AND EQUITY	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars (Note 1) 2021
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 16)	¥ 8,626	¥ 12,384	$ 77,915
Current portion of long-term debt (Notes 8, 15, and 16)	506	1,400	4,570
Notes and accounts payable (Note 16):			
Trade notes	776	869	7,009
Trade accounts	7,139	7,799	64,484
Associated companies	166	195	1,499
Construction and other	1,463	1,497	13,215
Income taxes payable (Note 13)	309	495	2,791
Other current liabilities	1,917	1,929	17,317
Total current liabilities	20,902	26,568	188,800
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8, 15, and 16)	8,546	4,121	77,193
Long-term deposits received (Note 16)	556	583	5,022
Liability for retirement benefits (Note 9)	397	1,484	3,586
Asset retirement obligations (Note 10)	49	49	443
Deferred tax liabilities (Note 13)	810	625	7,316
Other long-term liabilities	688	219	6,214
Total long-term liabilities	11,046	7,081	99,774
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 8, 15, and 17)			
EQUITY (Note 11):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2021 and 2020	10,013	10,013	90,444
Capital surplus	9,765	9,768	88,203
Retained earnings	18,337	18,201	165,631
Treasury stock – at cost: 946,459 shares in 2021 and 974,643 shares in 2020	(998)	(1,028)	(9,015)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	356	872	3,216
Foreign currency translation adjustments	(2,720)	(2,440)	(24,569)
Defined retirement benefit plans	(187)	(250)	(1,689)
Total	34,566	35,136	312,221
Noncontrolling interests	2,876	2,610	25,978
Total equity	37,442	37,746	338,199
TOTAL	¥ 69,390	¥ 71,395	$ 626,773

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET SALES	¥62,851	¥71,799	$ 567,708
COST OF SALES	47,888	53,843	432,554
Gross profit	14,963	17,956	135,154
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 14)	13,386	14,203	120,910
Operating income	1,577	3,753	14,244
OTHER INCOME (EXPENSES):			
Interest and dividend income	105	147	948
Interest expense	(261)	(292)	(2,358)
Rental income	34	39	307
Commission paid	(8)	(9)	(72)
Foreign exchange loss	(348)	(112)	(3,143)
Gain on sale of property, plant and equipment	12	9	108
Loss on impairment of long-lived assets (Note 6)	(342)	(76)	(3,089)
Loss on disposal of property, plant and equipment	(53)	(26)	(479)
Gain on sale of investment securities	1,553	6	14,028
Equity in losses of associated companies	(110)	(40)	(994)
Other – net	158	115	1,428
Other income (expenses) – net	740	(239)	6,684
INCOME BEFORE INCOME TAXES	2,317	3,514	20,928
INCOME TAXES (Note 13):			
Current	607	838	5,483
Deferred	210	49	1,897
Total income taxes	817	887	7,380
NET INCOME	1,500	2,627	13,548
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(409)	(409)	(3,693)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 1,091	¥ 2,218	$ 9,855
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.t and 19):			
Net income	¥43.44	¥87.67	$0.39
Cash dividends applicable to the year	38.00	38.00	0.34

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
NET INCOME	¥1,500	¥2,627	$13,548
OTHER COMPREHENSIVE INCOME (LOSS) (Note 18):			
Unrealized loss on available-for-sale securities	(516)	(363)	(4,661)
Foreign currency translation adjustments	(255)	(485)	(2,302)
Defined retirement benefit plans	65	(85)	587
Share of other comprehensive gain (loss) in associated companies	0	(0)	0
Total other comprehensive loss	(706)	(933)	(6,376)
COMPREHENSIVE INCOME	¥ 794	¥1,694	$ 7,172
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥358	¥1,351	$3,234
Noncontrolling interests	436	343	3,938

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2021

	Thousands	Millions of Yen									
						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2019	25,652	¥10,013	¥9,768	¥16,950	¥ (422)	¥1,234	¥(2,020)	¥(166)	¥35,357	¥2,454	¥37,811
Net income attributable to owners of the parent				2,218					2,218		2,218
Cash dividends, ¥38.00 per share				(967)					(967)		(967)
Purchase of treasury stock	(546)				(606)				(606)		(606)
Change in ownership interest in subsidiaries			(0)						(0)		(0)
Net change in the year						(362)	(420)	(84)	(866)	156	(710)
BALANCE, MARCH 31, 2020	25,106	10,013	9,768	18,201	(1,028)	872	(2,440)	(250)	35,136	2,610	37,746
Net income attributable to owners of the parent				1,091					1,091		1,091
Cash dividends, ¥38.00 per share				(955)					(955)		(955)
Purchase of treasury stock	(0)				(0)				(0)		(0)
Disposal of treasury stock	28		(3)		30				27		27
Others				0					0		0
Net change in the year						(516)	(280)	63	(733)	266	(467)
BALANCE, MARCH 31, 2021	25,134	¥10,013	¥9,765	¥18,337	¥ (998)	¥ 356	¥(2,720)	¥(187)	¥34,566	¥2,876	¥37,442

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2020	$ 90,444	$ 88,231	$ 164,402	$ (9,286)	$ 7,876	$ (22,040)	$ (2,258)	$ 317,369	$ 23,575	$ 340,944
Net income attributable to owners of the parent			9,855					9,855		9,855
Cash dividends, $0.34 per share			(8,626)					(8,626)		(8,626)
Purchase of treasury stock				(0)				(0)		(0)
Disposal of treasury stock		(28)		271				243		243
Others			0					0		0
Net change in the year					(4,660)	(2,529)	569	(6,620)	2,403	(4,217)
BALANCE, MARCH 31, 2021	$ 90,444	$ 88,203	$ 165,631	$ (9,015)	$ 3,216	$ (24,569)	$ (1,689)	$ 312,221	$ 25,978	$ 338,199

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021	2020	2021
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,317	¥ 3,514	$ 20,928
Adjustments for:			
Income taxes – paid	(783)	(1,024)	(7,073)
Depreciation and amortization	2,353	2,258	21,254
Loss on impairment of long-lived assets	342	76	3,089
Foreign exchange loss	372	101	3,360
Gain on sales of property, plant and equipment	(12)	(9)	(108)
Gain on sales of investment securities	(1,567)	(6)	(14,154)
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(100)	3,767	(903)
Decrease (increase) in inventories	554	(1,492)	5,004
Decrease in trade notes and accounts payable	(596)	(89)	(5,383)
Other – net	128	(909)	1,156
Total adjustments	691	2,673	6,242
Net cash provided by operating activities	3,008	6,187	27,170
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,226)	(3,484)	(20,107)
Proceeds from sales of property, plant and equipment	260	36	2,348
Purchases of intangible assets	(69)	(177)	(623)
Purchases of investment securities	(1,788)	(4)	(16,150)
Proceeds from sales of investment securities	2,649	37	23,927
Other – net	(684)	129	(6,178)
Net cash used in investing activities	(1,858)	(3,463)	(16,783)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans – net	(3,980)	(754)	(35,950)
Proceeds from long-term debt	5,005	2,198	45,208
Repayments of long-term debt	(1,453)	(1,594)	(13,124)
Dividends paid	(955)	(967)	(8,626)
Other – net	(182)	(928)	(1,644)
Net cash used in financing activities	(1,565)	(2,045)	(14,136)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(75)	(57)	(677)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(490)	622	(4,426)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,912	3,289	35,336
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 3,422	¥ 3,911	$ 30,910

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF 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 the 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 reclassifications have been made in the 2020 consolidated financial statements to conform to the classifications used in 2021.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which HARIMA CHEMICALS GROUP, INC. (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 ¥110.71 to $1, the approximate rate of exchange at March 31, 2021. 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation – The consolidated financial statements include the accounts of the Company and all its subsidiaries (together, the "Group").

Under the control and influence concepts, 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.

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period not exceeding 20 years.

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 also eliminated.

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

c. ***Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method*** – ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

d. ***Business Combinations*** – Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. Cash Equivalents – Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.

f. Inventories – Inventories are principally stated at the lower of cost, determined by the moving-average cost method, or net selling value.

The inventories of certain consolidated foreign subsidiaries are stated at the lower of cost, determined by the first-in, first-out method, or net selling value.

g. Investment Securities – Investment securities are classified and accounted for as follows: Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Nonmarketable 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.

h. Property, Plant and Equipment – Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. Certain domestic subsidiaries and foreign subsidiaries apply the straight-line method, using rates based on the estimated useful lives of the assets. The range of useful lives is from 5 to 50 years for buildings and from 4 to 17 years for machinery and equipment.

i. 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 is 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 value at disposition.

j. Software – Amortization of capitalized software costs is computed using the straight-line method over five years, the estimated useful life of the assets.

k. ***Retirement and Pension Plans*** – The Company and certain domestic subsidiaries have funded defined benefit pension plans, defined contribution pension plans, and severance lump-sum payment plans covering substantially all of their employees. Certain foreign subsidiaries have adopted funded defined benefit plans and defined contribution pension plans.

The Company accounts for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date. The projected benefit obligations are attributed to periods on a benefit formula basis. Actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are recognized within equity (accumulated other comprehensive income), after adjusting for tax effects and are recognized in profit or loss over 14 years, no longer than the expected average remaining service period of the employees. Prior service costs are recognized in the period in which they are incurred.

Retirement allowances for directors are recorded as a liability at the amount that would be required if all directors retired at each balance sheet date. Effective June 24, 2020, the Company terminated its unfunded retirement allowance plan for all directors. The outstanding balance of retirement allowances for directors as of March 31, 2020, was reclassified to the other long-term liabilities in the year ended March 31, 2021.

l. ***Asset Retirement Obligations*** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.

m. ***Research and Development Costs*** – Research and development costs are charged to income as incurred.

n. ***Leases*** – Finance lease transactions are capitalized by recognizing leased assets and leased obligations in the balance sheet.

All other leases are accounted for as operating leases.

o. ***Bonuses to Directors*** – Bonuses to directors are accrued at the end of the year to which such bonuses are attributable.

p. ***Income Taxes*** – The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. 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 basis of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

q. ***Foreign Currency Transactions*** – All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations to the extent that they are not hedged by forward exchange contracts.

r. ***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. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

s. ***Derivative and Hedging Activities*** – The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of operations; and (2) for derivatives used for hedging purposes, if such derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps which qualify for hedge accounting and meet specific matching criteria are not remeasured at market value, but the differential paid or received under the swap agreements is recognized and included in interest expense.

t. ***Per Share Information*** – Basic net income per share is computed by dividing net income attributable to common shareholders by the weighted-average number of common shares outstanding for the period.

Cash dividends per share presented in the accompanying consolidated statement of operations are dividends applicable to the respective fiscal years, including dividends to be paid after the end of the year.

u. ***Accounting Changes and Error Corrections*** – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections," and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies—When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.
(2) Changes in Presentation—When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.
(3) Changes in Accounting Estimates—A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.
(4) Corrections of Prior-Period Errors—When an error in prior-period financial statements is discovered, those statements are restated.

v. New Accounting Pronouncements

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

- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30 revised on March 26, 2021)

(a) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

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

(b) Scheduled date of adoption

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021.

(c) Impact of the adoption of accounting standard and implementation guidance

The adoption of these accounting standard and implementation guidance have no impact on the retained earnings at the beginning of the next fiscal year.

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

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

- Accounting Standard for Measurement of Inventories (ASBJ Statement No. 9 revised on July 4, 2019)

- Accounting Standard for Financial Instruments (ASBJ Statement No. 10 revised on July 4, 2019)

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

(a) Overview

In order to enhance comparability of financial statements among domestic and overseas companies, ASBJ developed an "Accounting Standard for Fair Value Measurement" and issued a new standard together with its implementation guidance. The sections revised by the new accounting standards and implementation guidance are as follows:

・ Financial instruments defined by "Accounting Standard for Financial Instruments"

・ Measurement methods of inventories held for trading purposes defined by "Accounting Standard for Measurement of Inventories"

(b) Scheduled date of adoption

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021.

(c) Impact of the adoption of accounting standard and implementation guidance

The Company is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. SIGNIFICANT ACCOUNTING ESTIMATE

Valuation of deferred tax assets

(1) *Carrying amounts*

	Millions of Yen	Thousands of U.S. Dollars
	2021	2021
Deferred tax assets	¥1,243	$11,228

(2) *Information on the significant accounting estimate*

Net deferred tax assets were ¥1,243 million ($11,228 thousand) as of March 31, 2021, of which ¥965 million ($8,716 thousand) was recorded relating to tax loss carryforwards at LAWTER BVBA. Under the accounting principles generally accepted in the United States of America, which LAWTER BVBA applies, a valuation allowance is generally provided to offset deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. Future estimated taxable income is used to determine the recoverability of the deferred tax assets. But due to the deterioration of the business environment and the impact of the COVID-19, it could be necessary to revise the assumptions used in the estimation. In this case, related valuation allowances may be recorded to offset the deferred tax assets in the next consolidated fiscal year.

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2021 and 2020, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Non-current:			
Equity securities	¥3,351	¥3,363	$30,268
Trust fund investments and other			
Total	¥3,351	¥3,363	$30,268

The costs and aggregate fair values of investment securities as of March 31, 2021 and 2020, were as follows:

	Millions of Yen			
March 31, 2021	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,802	¥600	¥(73)	¥3,329
March 31, 2020				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,095	¥1,405	¥(159)	¥3,341

March 31, 2021	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	$25,309	$5,420	$(660)	$30,069

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2021 and 2020, were as follows:

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Nonmarketable available-for-sale:			
Equity securities	¥22	¥22	$199

The information for available-for-sale securities which were sold during the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		
March 31, 2021	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥2,657	¥1,576	¥1
Debt securities			
Total	¥2,657	¥1,576	¥1
March 31, 2020			
Available-for-sale:			
Equity securities	¥ 5	¥4	¥
Debt securities	32	2	
Total	¥37	¥6	¥

	Thousands of U.S. Dollars		
March 31, 2021	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 24,000	$ 14,235	$ 9
Debt securities			
Total	$ 24,000	$ 14,235	$ 9

5. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Finished products	¥ 5,084	¥ 5,666	$ 45,922
Work in process	378	163	3,414
Raw materials and supplies	6,585	7,109	59,480
Total	¥ 12,047	¥ 12,938	$ 108,816

6. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥342 million ($3,089 thousand) and ¥76 million for the years ended March 31, 2021 and 2020, respectively. The Group recognized a decline in value of a golf course and hotel facilities for the year ended March 31, 2020. Also, the Group recognized a decline in value of a golf course, hotel facilities, and paper chemicals facilities of the Hokkaido Plant for the year ended March 31, 2021. The impairment loss was recognized since the recoverable value of the assets was lower than the carrying amounts of the assets. The recoverable value of the assets was measured at the fair value considering a third-party appraisal report for the facility.

7. INVESTMENT PROPERTY

The Group owns certain rental properties, such as office buildings and land. The net of rental income and operating expenses for those rental properties for the years ended March 31, 2021 and 2020, were ¥91 million ($822 thousand) and ¥117 million, respectively.

In addition, the carrying amounts, changes in such balances, and market prices of such properties were as follows:

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2020	Increase/ Decrease	March 31, 2021	March 31, 2021
¥2,009	¥(120)	¥1,889	¥2,796

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2019	Increase/ Decrease	March 31, 2020	March 31, 2020
¥2,100	¥(91)	¥2,009	¥2,915

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2020	Increase/ Decrease	March 31, 2021	March 31, 2021
$18,147	$(1,084)	$17,063	$25,255

Notes:

1) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.

2) Increase during the fiscal year ended March 31, 2021, primarily represents the capital expenditure for current investment properties of ¥155 million ($1,400 thousand), and the decrease primarily represents depreciation of ¥45 million ($406 thousand) and impairment loss of ¥230 million ($2,077 thousand). Increase during the fiscal year ended March 31, 2020, primarily represents the capital expenditure for current investment properties of ¥26 million, and the decrease primarily represents depreciation of ¥26 million, impairment loss of ¥76 million, and sale of ¥15 million.

3) Fair value of properties is measured by the Group in accordance with the Real-Estate Appraisal Standard.

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans as of March 31, 2021 and 2020, consisted of an outstanding balance of line of credit, notes to banks and bank overdrafts. The average interest rates applicable to the short-term bank loans as of March 31, 2021 and 2020, were 0.7% and 0.8%, respectively. As of March 31, 2021 and 2020, the total committed line of credit was ¥6,000 million ($54,196 thousand) and ¥4,000 million, and unused balance was ¥5,000 million ($45,163 thousand) and ¥3,200 million, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unsecured loans from banks and other financial institutions, due serially to 2024 with interest rates ranging from 0.5% to 3.7% (2021) and from 0.5% to 3.7% (2020)	¥8,162	¥ 4,578	$73,724
Obligations under finance leases	890	943	8,039
Total	9,052	5,521	81,763
Less current portion	(506)	(1,400)	(4,570)
Long-term debt, less current portion	¥8,546	¥ 4,121	$77,193

Annual maturities of long-term debt as of March 31, 2021, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2022	¥ 506	$ 4,570
2023	377	3,405
2024	6,486	58,585
2025	1,200	10,839
2026	1	9
2027 and thereafter	482	4,355
Total	¥9,052	$81,763

Certain bank loans and the commitment lines of credit are subject to financial covenants, which use total equity and continuous operating income without extraordinary items for the most recent year as credit risk indicators, and require the Group to maintain the financial measures above a certain level. Based on the financial results for the years ended March 31, 2021 and 2020, the covenants were not breached since the Group met the requirements.

9. RETIREMENT AND PENSION PLANS

The Company and some domestic subsidiaries have a defined contribution plan and a defined benefit plan, including a defined corporate pension plan and retirement lump sum plan. Some foreign subsidiaries have defined contribution plans and defined benefit plans. Some domestic subsidiaries apply the simplified method to calculate liabilities for retirement benefits and retirement benefit costs.

In addition, the Company and certain domestic subsidiaries participate in multi-employer pension plans. Since the pension assets attributable to the Company and certain domestic subsidiaries cannot be reliably determined based on their contributions, the plan is accounted for as a defined contribution plan.

Also, a certain domestic subsidiary has a severance payment plan for directors. The retirement benefits for directors are paid subject to the approval of the shareholders in accordance with the Companies Act of Japan (the "Companies Act"). The liability for retirement benefits for directors as of March 31, 2021 and 2020 was ¥4 million ($36 thousand) and ¥487 million, respectively, and included in liability for retirement benefits in the consolidated balance sheet.

<1> Defined Benefit Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥3,019	¥2,953	$27,269
Service cost	180	174	1,626
Interest cost	22	27	199
Actuarial losses	50	62	452
Benefits paid	(224)	(182)	(2,023)
Foreign currency translation differences	26	(21)	235
Others	7	6	62
Balance at end of year	¥3,080	¥3,019	$27,820

(2) The changes in plan assets for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥2,168	¥2,146	$19,583
Expected return on plan assets	46	62	415
Actuarial gains (losses)	113	(73)	1,021
Contributions from the employer	660	228	5,962
Benefits paid	(224)	(182)	(2,023)
Foreign currency translation differences	22	(19)	199
Others	5	6	44
Balance at end of year	¥2,790	¥2,168	$25,201

(3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥146	¥147	$1,319
Periodic benefit costs	(9)	2	(81)
Benefits paid	(31)	(1)	(280)
Foreign currency translation differences	(3)	(2)	(27)
Balance at end of year	¥103	¥146	$ 931

(4) Reconciliation between the liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets as of March 31, 2021 and 2020, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Funded defined benefit obligation	¥ 3,080	¥ 3,019	$ 27,820
Plan assets	(2,790)	(2,168)	(25,201)
Total	290	851	2,619
Unfunded defined benefit obligation	103	146	931
Net liability arising from defined benefit obligation	¥ 393	¥ 997	$ 3,550

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Liability for retirement benefits	¥393	¥997	$3,550
Net liability arising from defined benefit obligation	¥393	¥997	$3,550

(5) The components of net periodic benefit costs for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Service cost	¥180	¥174	$1,626
Interest cost	22	27	199
Expected return on plan assets	(46)	(62)	(415)
Recognized actuarial losses	37	30	334
Recognized prior service cost	4	4	36
Periodic benefit cost in simplified method	(8)	2	(72)
Net periodic benefit costs	¥189	¥175	$1,708

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Prior service cost	¥ 4	¥ 4	$ 36
Actuarial gains	(101)	(105)	(912)
Others	(4)	2	(36)
Total	¥(101)	¥ (99)	$(912)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrecognized prior service cost	¥ 42	¥ 44	$ 379
Unrecognized actuarial losses	208	307	1,879
Total	¥250	¥351	$2,258

(8) Plan assets as of March 31, 2021 and 2020

a. *Components of plan assets*

Plan assets consisted of the following:

	2021	2020
Debt securities in Japan	9.0%	8.3%
Equity securities in Japan	11.3	6.1
Debt securities in other countries	4.0	3.5
Equity securities in other countries	11.5	6.0
Cash and time deposits	0.5	1.0
Insurance asset (general account)	63.4	68.2
Others	0.3	6.9
Total	100.0%	100.0%

b. *Method of determining the expected rate of return on plan assets*

The expected rate of return on plan assets is determined considering the long-term rates of return which are expected currently and in the future from the various components of the plan assets.

(9) Assumptions used for the years ended March 31, 2021 and 2020, were set forth as follows:

	2021	2020
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 2.0%	Mainly 3.0%

<2> Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2021 and 2020, was ¥210 million ($1,897 thousand) and ¥225 million, respectively.

<3> Multi-Employer Pension Plan

The contributions to the multi-employer plan, which are accounted for using the same method as a defined contribution plan, were ¥86 million ($777 thousand) and ¥85 million for the years ended March 31, 2021 and 2020, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2020 and 2019, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2020	2019	2020
Plan assets	¥ 35,561	¥ 38,528	$ 321,209
Actuarial liabilities of pension plan	67,611	68,843	610,704
Net balance	¥(32,050)	¥(30,315)	$(289,495)

(2) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2020 and 2019, were 2.1% and 2.1%, respectively.

(3) Supplementary explanation

The above information is obtained from the latest available information.

The net balance in (1) above is mainly caused by past service cost of ¥32,708 million ($295,439 thousand) for 2020 and ¥33,225 million for 2019, and a deficiency brought forward of ¥658 million ($5,943 thousand) for 2020 and ¥2,910 million for 2019. Past service cost under the plan is amortized on a straight-line basis over 23 years, and the special contributions of ¥38 million ($343 thousand) for 2020 and ¥37 million for 2019, which are utilized for such amortization, were expensed in the consolidated statement of income of the Group.

The ratios in (2) above do not represent the actual actuarial liability ratio of the Group.

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Balance at beginning of year	¥49	¥49	$443
Balance at end of year	49	49	443

11. EQUITY

Japanese companies are subject to 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. Additionally, for companies that meet certain criteria including (1) having a Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors being prescribed as one year rather than the normal two-year term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. With respect to the third condition above, the Board of Directors of companies with (a) board committees (namely, appointment committee, compensation committee, and audit committee) or (b) an audit and supervisory committee (as implemented under the Companies Act effective May 1, 2015) may also declare dividends at any time because such companies, by nature, meet the criteria under the Companies Act. The Company is organized as a company with an audit and supervisory committee, effective June 25, 2015. The Company meets all the above criteria and, accordingly, the Board of Directors may declare dividends (except for dividends-in-kind) at any time during the fiscal year.

The Companies Act permits companies to distribute dividends-in-kind (noncash 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 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 within equity 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 a specific formula. Under the Companies Act, stock acquisition rights are now 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.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2021 and 2020, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Employees' salaries and bonuses	¥3,426	¥3,600	$30,946
Net periodic retirement benefit	212	215	1,915
Transport	3,223	3,465	29,112
Depreciation	317	298	2,863
Rental	254	243	2,294
Research and development	2,599	2,635	23,476

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% and 30.6% for the years ended March 31, 2021 and 2020, respectively. Foreign subsidiaries are subject to the income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Deferred tax assets:			
Tax loss carryforwards	¥ 1,653	¥ 1,717	$ 14,931
Impairment loss on long-lived assets	1,481	1,468	13,377
Loss on revaluation of investment securities	66	113	596
Retirement benefits to directors	1	149	9
Unrealized gain on property, plant and equipment	97	97	876
Others	902	896	8,148
Total of tax loss carryforwards and temporary differences	4,200	4,440	37,937
Less valuation allowance for tax loss carryforwards	(612)	(576)	(5,528)
Less valuation allowance for temporary differences	(1,634)	(1,692)	(14,759)
Total valuation allowance	(2,246)	(2,268)	(20,287)
Deferred tax assets	¥ 1,954	¥ 2,172	$ 17,650
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ (47)	¥ (49)	$ (425)
Unrealized gain on available-for-sale securities	(162)	(364)	(1,463)
Undistributed earnings of foreign subsidiaries	(327)	(318)	(2,954)
Depreciation of foreign subsidiaries	(683)	(466)	(6,169)
Intangible fixed assets of foreign subsidiaries	(50)	(62)	(452)
Others	(252)	(210)	(2,275)
Deferred tax liabilities	¥(1,521)	¥(1,469)	$(13,738)
Net deferred tax assets	¥ 433	¥ 703	$ 3,912

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2021 and 2020, were as follows:

	Millions of Yen						
March 31, 2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥105	¥	¥	¥	¥ 19	¥1,529	¥1,653
Less valuation allowances for tax loss carryforwards	(88)				(14)	(510)	(612)
Net deferred tax assets relating to tax loss carryforwards	17				5	1,019	1,041
March 31, 2020							
Deferred tax assets relating to tax loss carryforwards	¥ 2	¥	¥	¥	¥ 8	¥1,707	¥1,717
Less valuation allowances for tax loss carryforwards	(1)					(575)	(576)
Net deferred tax assets relating to tax loss carryforwards	1				8	1,132	1,141

	Thousands of U.S. Dollars						
March 31, 2021	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$ 948	$	$	$	$ 172	$ 13,811	$ 14,931
Less valuation allowances for tax loss carryforwards	(795)				(126)	(4,607)	(5,528)
Net deferred tax assets relating to tax loss carryforwards	153				46	9,204	9,403

Net deferred tax assets relating to tax loss carryforwards were ¥1,041 million ($9,403 thousand) and ¥1,141 million for the years ended March 31, 2021 and 2020, respectively. They were mainly recorded at LAWTER BVBA as a result of future taxable income consideration.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the years ended March 31, 2021 and 2020, were as follows:

	2021	2020
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	0.5	0.1
Inhabitant tax on per capita basis	1.4	0.9
Difference of income tax rates applicable to income in certain foreign countries	0.3	(8.2)
Increase (decrease) in valuation allowance	1.7	(0.5)
Tax credit	(2.9)	(1.2)
Undistributed earnings of foreign subsidiaries	0.4	1.2
Other – net	3.3	2.4
Actual effective tax rate	35.3%	25.3%

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,599 million ($23,476 thousand) and ¥2,635 million for the years ended March 31, 2021 and 2020, respectively.

15. LEASES

The Group leases certain buildings and structures, machinery and equipment, and other assets.

Total lease expenses for the years ended March 31, 2021 and 2020, were ¥337 million ($3,044 thousand) and ¥315 million, respectively.

The future minimum lease payments commitment under noncancelable operating leases as of March 31, 2021, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 166	$ 1,499
Due after one year	835	7,542
Total	¥ 1,001	$ 9,041

16. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Group uses financial instruments, mainly bank loans based on its capital financing plan. Short-term bank loans are used to fund the Group's ongoing operations. Derivatives are not used for speculative purposes, but to manage exposure to financial risks as described in (2) below.

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Payment terms of payables, such as trade notes and trade accounts, are primarily less than one year. Payment in foreign currencies is exposed to the market risk of fluctuation in foreign currency exchange rates. Investment securities are exposed to the risk of market price fluctuations. Short-term bank loans and long-term debt are related to ongoing operations and working capital. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using interest rate swaps. Long-term deposits received are mainly related to deposits for membership at a golf course and are exposed to liquidity risk.

(3) Risk Management for Financial Instruments

Credit risk management

Credit risk is the risk of economic loss arising from a counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables based on internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

The counterparties to the Group's derivative contracts are limited to major international financial institutions to reduce credit risk.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2021.

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

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loans payable.

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

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

Liquidity risk management

Liquidity risk is the risk that the Group cannot meet its contractual obligations in full on their maturity dates. The Group manages its liquidity risk by holding adequate volume of liquid assets at the level of one month's sales volume, along with adequate financial planning by the corporate treasury department.

(4) Fair Value of Financial Instruments

Fair values of financial instruments are based on quoted prices in active markets. If a quoted price is not available, another rational valuation technique is used instead.

(a) Fair value of financial instruments

Carrying amounts, fair values, and the differences between carrying amounts and fair values as of March 31, 2021 and 2020, were as follows. The accounts for which fair value cannot be reasonably determined are not included in the following:

	Millions of Yen		
March 31, 2021	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 3,422	¥ 3,422	¥
Notes and accounts receivable	18,266	18,266	
Investment securities	3,329	3,329	
Total	¥ 25,017	¥ 25,017	¥
Notes and accounts payable	¥ (9,544)	¥ (9,544)	
Short-term bank loans	(8,626)	(8,626)	
Long-term debt	(9,052)	(9,059)	¥ (7)
Long-term deposits received	(556)	(525)	31
Total	¥(27,778)	¥(27,754)	¥24

	Millions of Yen		
March 31, 2020	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 3,911	¥ 3,911	¥
Notes and accounts receivable	18,517	18,517	
Investment securities	3,341	3,341	
Total	¥ 25,769	¥ 25,769	¥
Notes and accounts payable	¥(10,360)	¥(10,360)	
Short-term bank loans	(12,384)	(12,384)	
Long-term debt	(5,521)	(5,538)	¥(17)
Long-term deposits received	(583)	(549)	34
Total	¥(28,848)	¥(28,831)	¥ 17

March 31, 2021	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 30,910	$ 30,910	$
Notes and accounts receivable	164,990	164,990	
Investment securities	30,069	30,069	
Total	$ 225,969	$ 225,969	$
Notes and accounts payable	$ (86,207)	$ (86,207)	
Short-term bank loans	(77,915)	(77,915)	
Long-term debt	(81,763)	(81,826)	$ (63)
Long-term deposits received	(5,022)	(4,742)	280
Total	$ (250,907)	$ (250,690)	$ 217

Cash and Cash Equivalents and Notes and Accounts Receivable

The carrying values of cash and cash equivalents and notes and accounts receivable approximate fair value because of their short maturities.

Investment Securities

The fair values of marketable and 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 fair value information for investment securities by classification is included in Note 4.

Notes and Accounts Payable, Short-Term Bank Loans, and Current Portion of Long-Term Debt

The carrying values of notes and accounts payable, short-term bank loans, and current portion of long-term debt approximate fair value because of their short maturities.

Long-Term Debt

The fair values of long-term debt are determined by discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended March 31, 2021.

Long-Term Deposits Received

The fair values of long-term deposits received are determined by discounting the future cash flows estimable from the past refund experience and by the estimated interest rate reflecting assumed refund period and credit risk.

Derivatives

The fair value information for derivatives is included in Note 17.

(b) *Carrying amount of financial instruments whose fair value cannot be reliably determined*

	Millions of Yen 2021	Millions of Yen 2020	Thousands of U.S. Dollars 2021
Investments in equity instruments that do not have a quoted market price in an active market	¥22	¥22	$199

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen			
March 31, 2021	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 3,422	¥	¥	¥
Notes and accounts receivable	18,266			
Total	¥21,688	¥	¥	¥

	Millions of Yen			
March 31, 2020	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 3,911	¥	¥	¥
Notes and accounts receivable	18,517			
Total	¥22,428	¥	¥	¥

	Thousands of U.S. Dollars			
March 31, 2021	Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	$ 30,910	$	$	$
Notes and accounts receivable	164,990			
Total	$ 195,900	$	$	$

17. DERIVATIVES

The Group also enters into interest rate swap contracts to manage its interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest exposures incorporated within the Group's business. Accordingly, market risk in these derivatives is generally offset by opposite movements in the value of the hedged 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 amount.

Derivative Transactions to Which Hedge Accounting Is Not Applied

March 31, 2021

Not applicable

March 31, 2020

Not applicable

18. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2020	2021
Unrealized loss on available-for-sale securities:			
Gains (losses) arising during the year	¥ 848	¥(448)	$ 7,659
Reclassification adjustments to profit or loss	(1,567)	6	(14,154)
Amount before income tax effect	(719)	(442)	(6,495)
Income tax effect	203	79	1,834
Total	¥ (516)	¥(363)	$ (4,661)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (255)	¥(485)	$ (2,302)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(255)	(485)	(2,302)
Income tax effect			
Total	¥ (255)	¥(485)	$ (2,302)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 59	¥(133)	$ 533
Reclassification adjustments to profit or loss	42	34	379
Amount before income tax effect	101	(99)	912
Income tax effect	(36)	14	(325)
Total	¥ 65	¥ (85)	$ 587
Share of other comprehensive loss in associated companies – Losses arising during the year	¥ 0	¥ 0	$ 0
Total	¥ 0	¥ 0	$ 0
Total other comprehensive income (loss)	¥ (706)	¥(933)	$ (6,376)

19. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2021 and 2020, were as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2021:				
Basic EPS				
Net income available to common shareholders	¥1,091	25,125	¥43.44	$0.39
For the year ended March 31, 2020:				
Basic EPS				
Net income available to common shareholders	¥2,218	25,294	¥87.67	

Diluted net income per share is not disclosed because there are no outstanding potentially dilutive securities.

20. RELATED PARTY DISCLOSURES

(1) The Transactions between the Company and Related Parties

Transactions between the Company and related parties for the years ended March 31, 2021 and 2020, were as follows:

Fiscal year ended March 31, 2021

Not applicable

Fiscal year ended March 31, 2020

Not applicable

(2) Transactions between Subsidiaries and Related Parties

Transactions between subsidiaries and related parties for the years ended March 31, 2021 and 2020, were as follows:

Fiscal year ended March 31, 2021

Type of Related Parties	Name	Address	Millions of Yen Capital Amount	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Millions of Yen Amount	Thousands of U.S. Dollars Amount
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5	$ 45
						Other current assets, end of year	0	0
						Minimum rental commitments	15	135

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.
Lease payments are determined based on fair value (used to calculate property taxes).

Fiscal year ended March 31, 2020

Type of Related Parties	Name	Address	Millions of Yen Capital Amount	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Millions of Yen Amount
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5
						Other current assets, end of year	0
						Minimum rental commitments	21

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.
Lease payments are determined based on fair value (used to calculate property taxes).

21. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2021, was approved at the Company's Board of Directors' meeting held on May 19, 2021:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19.00 ($0.17) per share	¥478	$4,318

22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Disclosures about Segments of an Enterprise and Related Information," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and for which such information is evaluated regularly by the chief operating decision-maker in deciding how to allocate resources and in assessing performance. Generally, segment information is required to be reported on the same basis as is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.

(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 performed in order to decide how resources are allocated among the Group.

"Resin & Tall Oil Products" manufactures and sells paint resin, resins for print inks, tall oil products, and synthetic rubber emulsifiers. "Paper Chemicals" manufactures and sells paper-strengthening agents, sizing agents, and surface-coating agents. "Electronics Materials" manufactures and sells electronics materials. "Lawter" manufactures and sells resins for print inks and adhesives.

(2) Methods of Measurement for the Amounts of Sales, Profit, 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, and Other Items Is As Follows:

	Millions of Yen								
	2021								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥14,784	¥18,481	¥5,005	¥23,069	¥61,339	¥1,525	¥62,864	¥ (13)	¥62,851
Intersegment sales or transfers	228	4		401	633	156	789	(789)	
Total	¥15,012	¥18,485	¥5,005	¥23,470	¥61,972	¥1,681	¥63,653	¥(802)	¥62,851
Segment profit (loss)	¥(491)	¥1,988	¥272	¥ 386	¥2,155	¥ 27	¥2,182	¥(605)	¥1,577
Other:									
Depreciation	781	738	158	534	2,211	142	2,353		2,353
Net result of interest income and interest expense	(3)	10	(0)	(169)	(162)	(6)	(168)	(69)	(237)
Equity in earnings (losses) of associated companies				(158)	(158)		(158)	48	(110)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit include reconciliation gain of inventories of ¥113 million ($1,021 thousand) and company-wide expenses of ¥732 million ($6,612 thousand), which are not attributable to any reportable segment. Assets are not allocated to reportable segments as they are not used to determine allocation of management resources or for assessment of performance of the Company.

	Millions of Yen								
	2020								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥18,189	¥18,928	¥5,298	¥27,655	¥70,070	¥1,726	¥71,796	¥ 3	¥71,799
Intersegment sales or transfers	209	48		38	295	181	476	(476)	
Total	¥18,398	¥18,976	¥5,298	¥27,693	¥70,365	¥1,907	¥72,272	¥(473)	¥71,799
Segment profit	¥419	¥1,839	¥158	¥1,655	¥4,071	¥140	¥4,211	¥(458)	¥3,753
Other:									
Depreciation	766	745	164	451	2,126	132	2,258		2,258
Net result of interest income and interest expense	(5)	(6)	(1)	(156)	(168)	(3)	(171)	(69)	(240)
Equity in earnings (losses) of associated companies				(51)	(51)		(51)	11	(40)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit include reconciliation gain of inventories of ¥104 million and company-wide expenses of ¥579 million, which are not attributable to any reportable segment. Assets are not allocated to reportable segments as they are not used to determine allocation of management resources or for assessment of performance of the Company.

	Thousands of U.S. Dollars								
	2021								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 133,538	$ 166,932	$ 45,208	$ 208,373	$ 554,051	$ 13,774	$ 567,825	$ (117)	$ 567,708
Intersegment sales or transfers	2,060	36		3,622	5,718	1,410	7,128	(7,128)	
Total	$ 135,598	$ 166,968	$ 45,208	$ 211,995	$ 559,769	$ 15,184	$ 574,953	$ (7,245)	$ 567,708
Segment profit (loss)	$(4,435)	$17,957	$2,457	$ 3,487	$19,466	$ 243	$19,709	$(5,465)	$14,244
Other:									
Depreciation	7,054	6,666	1,427	4,823	19,970	1,283	21,253		21,253
Net result of interest income and interest expense	(27)	90	(0)	(1,527)	(1,464)	(45)	(1,518)	(623)	(2,141)
Equity in earnings (losses) of associated companies				(1,427)	(1,427)		(1,427)	434	(994)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2021 and 2020, were as follows:

(1) Net sales

Millions of Yen							
2021							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥27,728	¥8,440	¥2,854	¥9,718	¥1,598	¥10,348	¥2,165	¥62,851

Millions of Yen							
2020							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥31,193	¥10,083	¥3,910	¥9,391	¥1,682	¥12,560	¥2,980	¥71,799

Thousands of U.S. Dollars							
2021							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
$250,456	$76,235	$25,779	$87,779	$14,434	$93,469	$19,556	$567,708

Notes:

1) Sales are classified by country or region based on the location of customers.

(2) Net property, plant and equipment

Millions of Yen							
2021							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥12,525	¥3,863	¥102	¥2,041	¥19	¥2,305	¥1,596	¥22,451

Millions of Yen							
2020							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥13,061	¥4,272	¥124	¥2,109	¥10	¥2,292	¥1,247	¥23,115

Thousands of U.S. Dollars							
2021							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
$113,133	$34,893	$921	$18,436	$172	$20,820	$14,416	$202,791

2. Information by principal customers

Information is not provided because there are no customers who account for more than 10% of total consolidated net sales.

[Loss on impairment of long-lived assets by reportable segment]

Loss on impairment of long-lived assets by reportable segment for the years ended March 31, 2021 and 2020, was as follows:

	Millions of Yen							
	2021							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥112	¥	¥	¥112	¥230	¥	¥342

	Millions of Yen							
	2020							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥	¥	¥	¥	¥76	¥	¥76

	Thousands of U.S. Dollars							
	2021							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	$	$1,012	$	$	$1,012	$2,077	$	$3,089

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of HARIMA CHEMICALS GROUP, INC.:

Opinion

We have audited the consolidated financial statements of HARIMA CHEMICALS GROUP, INC. and its subsidiaries (the "Group"), which comprise the consolidated balance sheet as of March 31, 2021, and the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, all expressed in Japanese yen.

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

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in accordance with the basis stated in Note 1 to the consolidated financial statements. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Basis for Opinion

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

Key Audit Matter

A key audit matter is a matter that, in our professional judgment, was of most significance in our audit of the consolidated financial statements of the current period. The matter was addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on the matter.

Valuation of deferred tax assets	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
As discussed in Note 3, "SIGNIFICANT ACCOUNTING ESTIMATE" and Note 13, "INCOME TAXES" to the consolidated financial statements, net deferred tax assets relating to tax loss carryforwards were ¥1,041 million as of March 31, 2021, of which ¥965 million was recorded at LAWTER BVBA, a subsidiary of HARIMA CHEMICALS GROUP, INC.. Under the accounting principles generally accepted in the United States of America, which LAWTER BVBA applies, a valuation allowance is generally provided to offset deferred tax assets if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. In considering the realizability of deferred tax assets, LAWTER Inc. (Global Headquarters of LAWTER Group) mainly determines the existence of tax reforms in the countries and regions where its subsidiaries are located, evaluates the status of taxable income in the last three years, including the current fiscal year, and evaluates future estimated taxable income. In evaluating the estimated taxable income used to determine the realizability of deferred tax assets, a tax expertise is required, and the judgment by management has a significant impact. The judgment made by management includes estimating the revenues and related expenses for the following year. In particular, the sales volume and price, which are important assumptions in estimating revenues, involve uncertainties, and the calculated monetary amount is also material. Therefore, we identified the valuation of deferred tax assets as a key audit matter.	With the assistance of our subsidiaries' auditor, we performed the following procedures related to the valuation of deferred tax assets, among others: ● With the assistance of our tax specialists, we evaluated whether there were any tax reforms that would have a significant impact on the future taxable income in countries and regions where tax loss carryforwards were incurred. ● We evaluated the difference between pre-tax income and taxable income in the last two years and assessed that the management's pre-tax income estimates were appropriate for the consideration of the deferred tax assets realization in the future. ● After evaluating the actual results of pre-tax incomes in the last three years, including the current fiscal year, excluding those generated by ad hoc factors, and calculating the period required for realization of deferred tax assets based on the average annual pre-tax income in the last three years, we examined if such period was significantly longer. ● We evaluated management's estimates for accuracy and validity by comparing the prior pre-tax income estimates with the actual results. We also examined retrospectively the deviation between the actual results and the estimates in the prior year and independently evaluated whether there were any doubts about the realization of deferred tax assets. ● For the business plans, which are the basis for future pre-tax incomes, we evaluated the validity of the estimates of sales volumes, unit sales prices and related costs by considering past performances, future business strategies, external market analysis and other factors. We also evaluated the reasonableness of management's estimates and performed a sensitivity analysis as appropriate to determine whether the taxable income could be sufficiently earned for the realization of deferred tax assets.

Responsibilities of Management and the Audit and Supervisory Committee for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern in accordance with accounting principles generally accepted in Japan and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

The Audit and Supervisory Committee is responsible for overseeing the Directors' execution of duties relating to the design and operating effectiveness of the controls over the Group's financial reporting process.

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

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks. The procedures selected depend on the auditor's judgment. In addition, we obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain, when performing risk assessment procedures, an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate whether the overall presentation and disclosures of the consolidated financial statements are in accordance with accounting principles generally accepted in Japan, as well as the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Deloitte Touche Tohmatsu LLC

June 24, 2021

Corporate Overview (as of March 31, 2021)

Founded	November 18, 1947
Capital Stock	10,012.95 million yen
Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Osaka Head Office	4-4-7 Imabashi, Chuo-ku, Osaka
Tokyo Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Laboratories	Central Research Laboratory, Tsukuba Research Laboratory
Plants	Kakogawa Plant, Tokyo Plant, Fuji Plant, Ibaraki Plant, Hokkaido Plant, Sendai Plant, and Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	84 (Consolidated: 1,427)
Number of Group Companies	34
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	www.harima.co.jp

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
HARIMA USA, Inc.	3,350 thousand U.S. dollars	100	Raw material procurement, Business support in the U.S. Holding company of U.S. group
Harima do Brasil Industria Quimica Ltda.	42,588 thousand Brasil real	99.88	Manufacture and sale of rosin and its derivatives
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	100	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,356 thousand Malaysian ringgit	100	Manufacture and sale of electronic materials
Hangzhou Hanghua Harima Chemicals Co., Ltd.	52,296 thousand Chinese yuan	56.07	Manufacture and sale of papermaking chemicals
Harimatec Czech, s.r.o.	7,000 thousand Czech koruna	100	Manufacture and sale of electronic materials
Xinyi Rihong Plastic Chemical Co., Ltd.	27,390 thousand Chinese yuan	100	Manufacture and sale of rosin and its derivatives
Lawter B.V.	76,300 thousand euro	97.68	Control of Lawter Group’s operations
Harima Chemicals (Shanghai) Co., Ltd	12,652 thousand Chinese yuan	100	Support of Chinese business

Directors and Corporate Auditors (as of March 31, 2021)

President	Yoshihiro Hasegawa
Senior Executive Managing Director	Teruo Kaneshiro
Executive Managing Director	Ichiro Taninaka
Executive Director	Tsutomu Nishioka
Managing Director	Shunichiro Taoka
Managing Director	Ryohei Kataoka
Managing Director	Eiketsu Ro
Audit＆Supervisory Committee Member	Hideo Yamada
Audit＆Supervisory Committee Member *	Tatsuya Michigami
Audit＆Supervisory Committee Member *	Tsuneo Takahashi

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2021)

(1) Total number of shares authorised to be issued 59,500,000

(2) Total number of shares outstanding 26,080,396
(including 946,459 shares of treasury stocks)

(3) Number of shareholders 2,925

(4) Major shareholders

	Status of shareholding	
	Number of shares held (Thousands of shares)	Ratio of number of shares held against total number of shares outstanding (%)
Hasegawakosan Co., Ltd.	5,826	23.18
Harima Chemicals Mutual Prosperity Association	1,339	5.32
Shorai, Ltd.	1,278	5.08
Sumitomo Mitsui Banking Corporation	1,094	4.35
Shorai Foundation for Science and Technology	965	3.83
Japan Master-Trust Trust bank	952	3.78
Hyogo Prefectural Credit Federation of Agricultural Cooperatives	728	2.89
The Minato Bank, Ltd	692	2.75
Keihansin Kougyou Corporation	672	2.67
Bank of Mitsubishi UFJ, Ltd.	476	1.89

(Notes) 1. In “Number of shares held,” figures less than one thousand are rounded down.
2. Ratio of number of shares held against total number of shares outstanding is determined based on the total number of shares outstanding minus the number of treasury stocks (946,459shares), which amounts to 25,133,937 shares. The numbers shown are rounded down to two decimal places.