Annual Report

Year Ended March 31, 2023

HARIMA CHEMICALS GROUP, INC.

Table of Contents

Business Overview

During the first half of the fiscal year ended March 31, 2023, the world economy followed a gradual recovery trend, with consumption and investment expanding mainly due to progress made by governments worldwide in balancing economic activities with measures to prevent COVID-19 infections. However, the second half of the year saw a moderate deceleration on account of Russia's invasion of Ukraine which caused a situation of ongoing instability such as with soaring energy and raw material prices. The Japanese economy also showed signs of a recovery in inbound consumption as economic activity normalized due to the easing of behavioral restrictions, although the global semiconductor shortage, high crude oil prices, yen depreciation and other factors increased upward pressure on prices, exerting a significant impact on economic activities.

Under these conditions, the Group endeavored to achieve further business growth in the first year of its new medium-term management plan, "NEW HARIMA 2026." In the Group's overseas business, net sales rose year on year with increased sales of adhesive resins in Europe and America, and brisk sales in the Paper Chemicals segment. Although sales increased, earnings declined year on year, buffeted by the impact of soaring prices of raw materials and energy. In the domestic business, net sales rose year on year, partly owing to efforts made to pass on surging raw material prices to sales prices. Earnings, on the other hand, declined from the previous fiscal year on the impact of steeply rising raw material and energy prices.

As a result of these conditions, the group's consolidated net sales for the current fiscal year increased by 18,417million Yen (up 24.2%) year-on-year to 94,510 million Yen. Operating income decreased by 1,544 million Yen (down 47.5%) to 1,706 million affected by soaring raw material prices. Ordinary income decreased by 892 million Yen (down 26.0%) to 2,541 million Yen. This result is because that equity method investment income was 1,042 million Yen, but foreign exchange loss was 207 million Yen. Net income attributable to Harima Chemicals Group, INC. in this fiscal year was 885 million Yen, decreased by 860 million Yen (down 49.3%). This result is due to several reasons. As income-generating matters, there was a gain on sale of investment securities of 193 million Yen and a gain on bargain purchase of 186 million Yen. However, as loss-generating matters, this was due to 492 million Yen provision for loss on litigation and 105 million Yen for dismantling and removal of fixed assets.

Status of Business Segments

(Resin & Tall Oil Products)

In this segment, due to a certain degree of progress in passing on the soaring raw material prices to sales prices, the sales increased by 1,685 million Yen (up 9.6%) to 19,251 million Yen and the operating income decreased by 55 million Yen (down 61.5%) to 35 million Yen due to the impact of increased manufacturing costs such as raw material prices,

- Sales volumes of paint resins decreased compared to the previous fiscal year because that there was a decline in construction-related demand due to sluggish demand for repainting of ordinary homes and factories which has been impacted by the soaring prices. Sales increased due to progress in passing on higher raw material prices to sales prices.
- Sales volumes of printing ink resins decreased compared to the previous fiscal year due to lower demand for inks used in commercial printing and newspapers. Sales increased due to progress in passing on higher raw material prices to sales prices.
- Sales volumes of synthetic rubber emulsifiers also decreased than the previous fiscal year. Because tire production volume decreased slightly, also because there was impact of synthetic rubber inventory adjustments. Sales increased due to progress in passing on higher raw material prices to sales prices.

(Paper Chemicals)

In this segment, because of passing on raw material price to sales prices and the impact of the weaker yen, the sales increased by 3,759 million Yen (up 17.8%) to 24,933 million Yen but the operating income decreased by 116 million Yen (down 7.0%) to 1,534 million Yen which was affected by increased manufacturing costs such as raw material prices.

- About Paper Strengthening Agents, though domestic demand for corrugated cardboards remained at the same level as the previous fiscal year, sales increased due to the passing on of a portion of the soaring raw material prices to sales prices and the expansion of demand in Southeast Asia. In China, although the production volume of paper and paperboard decreased compared to the previous fiscal year, sales increased due to the impact of the depreciation of the yen.

- About Sizing Agents, in the domestic market, sales increased as a certain degree of progress was made in passing on higher raw material prices to sales prices. In the USA, although the production volume of paper and paperboard decreased compared with the previous fiscal year, sales increased as market prices rose due to soaring raw material prices.

(Electronics Materials)

In this segment, by launching the acquired solder material business, the sales increased by 2,937 million Yen (up 46.6%) to 9,241 million Yen but the operating income decreased by 494 million Yen to 163 million Yen (down 75.1%) due to the soaring raw material prices and increased depreciation costs in the solder materials business.

- Sales of solder pastes increased due to the acquisition of the solder materials business and the passing on of higher raw material prices to selling prices.
- Aluminium brazing materials for automobile heat exchangers, which sales volume increased due to the passing on of higher raw material prices to selling prices.
- Sales of functional resin for semiconductors increased this current fiscal year because of the expanding demand for 5G communication infrastructure, etc.

(Lawter)

In this segment, although there were signs of a decline in demand due to concerns about a global economic recession, the increase in raw material prices was passed on to sales prices. As a result, the sales increased by 9,279 million Yen (up 31.4%) to 38,797 million Yen. But the operating income decreased by 405 million Yen to 1,315 million Yen (down 23.6%). This is because of the rise in manufacturing costs which was caused by the soaring energy prices and the global inflation.

- Overall, sales of adhesive resin increased steadily. Although sales volume decreased in South America and Oceania due to turmoil in logistics, thanks to market expansion of online shopping, demand for adhesive resin, which is used in the address label stickers, increased over the world. On the other hand, sales of resins used in road marking paint also increased steadily.
- Printing ink resin, demand for which has been sluggish on the background of digitization of information. However, demand recovered in all regions along with the economic recovery from the COVID-19, and sales volume increased. In addition, sales increased due to the passing on of soaring raw material prices to sales prices.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	78th Fiscal Year (Fiscal year ended March 2020)	79th Fiscal Year (Fiscal year ended March 2021)	80th Fiscal Year (Fiscal year ended March 2022)	81th Fiscal Year (Fiscal year ended March 2023)
Net sales	71,799	62,851	76,093	94,511
Ordinary income	3,589	1,093	3,433	2,541
Net income attributable to Harima Chemicals Group, INC.	2,218	1,091	1,746	886
Net income per share (Yen)	87.67	43.44	69.42	35.76
Total assets	71,395	69,390	78,905	92,439
Net assets	37,746	37,442	40,104	40,820

(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.29, “Accounting Standard for Revenue Recognition” issued on March 31,2020 form the 80th Fiscal year. The information from the 80th Fiscal year is calculated based on the application of the new statement above.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Balance Sheet
March 31, 2023

ASSETS	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT ASSETS:			
Cash and cash equivalents (Note 18)	¥ 6,219	¥ 5,339	$ 46,574
Notes and accounts receivable (Note 18):			
Trade notes	3,005	2,237	22,504
Trade accounts	19,090	17,707	142,964
Associated companies	219	204	1,640
Other	1,483	832	11,106
Allowance for doubtful receivables	(104)	(106)	(779)
Inventories (Note 6)	18,927	15,378	141,743
Other current assets	952	2,647	7,130
Total current assets	49,791	44,238	372,882
PROPERTY, PLANT AND EQUIPMENT (Note 7):			
Land (Note 8)	8,453	8,292	63,304
Buildings and structures (Note 8)	19,606	18,600	146,828
Machinery and equipment	32,887	29,716	246,289
Lease assets (Note 17)	2,604	637	19,501
Construction in progress	2,328	1,352	17,434
Other assets	5,532	5,193	41,430
Total	71,410	63,790	534,786
Accumulated depreciation	(44,290)	(40,388)	(331,686)
Net property, plant and equipment	27,120	23,402	203,100
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 18)	2,690	3,187	20,145
Investments in associated companies	6,276	5,676	47,001
Customer list	4,046		30,300
Deferred tax assets (Notes 4 and 14)	658	969	4,928
Other assets	1,872	1,446	14,020
Allowance for doubtful accounts	(14)	(13)	(105)
Total investments and other assets	15,528	11,265	116,289
TOTAL	¥ 92,439	¥ 78,905	$ 692,271

LIABILITIES AND EQUITY	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT LIABILITIES:			
Short-term bank loans (Notes 9 and 18)	¥ 18,350	¥ 7,725	$ 137,422
Current portion of long-term debt (Notes 9 and 18)	7,099	312	53,164
Notes and accounts payable (Note 18):			
Trade notes	1,152	979	8,627
Trade accounts	8,951	9,411	67,034
Associated companies	189	195	1,415
Construction and other	1,790	1,628	13,405
Current portion of long-term lease obligations (Notes 17 and 18)	412	47	3,085
Provision for loss on litigation	493		3,692
Income taxes payable (Note 14)	255	376	1,910
Other current liabilities	2,966	2,477	22,213
Total current liabilities	41,657	23,150	311,967
LONG-TERM LIABILITIES:			
Long-term debt (Notes 9 and 18)	6,185	12,662	46,319
Long-term lease obligations (Notes 17 and 18)	1,620	758	12,132
Long-term deposits received (Note 18)	501	529	3,752
Liability for retirement benefits (Note 10)	104	247	779
Asset retirement obligations (Note 11)	39	39	292
Deferred tax liabilities (Note 14)	1,020	859	7,639
Other long-term liabilities	493	557	3,692
Total long-term liabilities	9,962	15,651	74,605
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 9, 17, and 19)			
EQUITY (Note 12):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2023 and 2022	10,013	10,013	74,987
Capital surplus	9,749	9,760	73,010
Retained earnings	19,016	19,128	142,410
Treasury stock – at cost: 1,878,064 shares in 2023 and 914,657 shares in 2022	(1,794)	(965)	(13,435)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	52	191	389
Deferred gain on derivatives under hedge accounting		57	
Foreign currency translation adjustments	150	(1,287)	1,123
Defined retirement benefit plans	(84)	(156)	(629)
Total	37,102	36,741	277,855
Noncontrolling interests	3,718	3,363	27,844
Total equity	40,820	40,104	305,699
TOTAL	¥ 92,439	¥ 78,905	$ 692,271

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
NET SALES (Note 15)	¥94,511	¥76,093	$ 707,789
COST OF SALES	75,300	58,116	563,918
Gross profit	19,211	17,977	143,871
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 13 and 16)	17,504	14,726	131,087
Operating income	1,707	3,251	12,784
OTHER INCOME (EXPENSES):			
Interest and dividend income	193	125	1,445
Interest expense	(425)	(273)	(3,183)
Rental income	37	35	277
Commission paid	(5)	(122)	(37)
Provision for loss on litigation	(493)		(3,692)
Foreign exchange (loss) gain	(207)	56	(1,550)
Loss on impairment of long-lived assets (Note 7)		(439)	
Loss on disposal of property, plant and equipment	(114)	(53)	(854)
Gain on sale of investment securities	193		1,445
Equity in earnings of associated companies	1,042	292	7,803
Bargain purchase gain	187		1,400
Other – net	208	123	1,559
Other income (expenses) – net	616	(256)	4,613
INCOME BEFORE INCOME TAXES	2,323	2,995	17,397
INCOME TAXES (Note 14):			
Current	402	634	3,011
Deferred	636	248	4,763
Total income taxes	1,038	882	7,774
NET INCOME	1,285	2,113	9,623
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(399)	(367)	(2,988)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 886	¥ 1,746	$ 6,635

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.v and 21):			
Net income	¥35.76	¥69.42	$0.27
Cash dividends applicable to the year	42.00	38.00	0.31

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
NET INCOME	¥1,285	¥2,113	$ 9,623
OTHER COMPREHENSIVE INCOME (LOSS) (Note 20):			
Unrealized loss on available-for-sale securities	(139)	(164)	(1,041)
Deferred (loss) gain on derivatives under hedge accounting	(57)	57	(427)
Foreign currency translation adjustments	1,595	1,768	11,945
Defined retirement benefit plans	75	31	562
Share of other comprehensive gain in associated companies	0	0	0
Total other comprehensive income	1,474	1,692	11,039
COMPREHENSIVE INCOME	¥2,759	¥3,805	$ 20,662
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥2,200	¥3,103	$16,476
Noncontrolling interests	559	702	4,186

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2023

	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	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2021	25,134	¥10,013	¥9,765	¥18,337	¥ (998)	¥ 356		¥(2,720)	¥(187)	¥34,566	¥2,876	¥37,442
Net income attributable to owners of the parent				1,746						1,746		1,746
Cash dividends, ¥38.00 per share				(955)						(955)		(955)
Purchase of treasury stock	(0)				(0)					(0)		(0)
Disposal of treasury stock	31		(5)		33					28		28
Net change in the year						(165)	¥ 57	1,433	31	1,356	487	1,843
BALANCE, MARCH 31, 2022	25,165	10,013	9,760	19,128	(965)	191	57	(1,287)	(156)	36,741	3,363	40,104
Net income attributable to owners of the parent				886						886		886
Cash dividends, ¥40.00 per share				(998)						(998)		(998)
Purchase of treasury stock	(1,000)				(868)					(868)		(868)
Disposal of treasury stock	37		(11)		39					28		28
Net change in the year						(139)	(57)	1,437	72	1,313	355	1,668
BALANCE, MARCH 31, 2023	24,202	¥10,013	¥9,749	¥19,016	¥(1,794)	¥ 52		¥ 150	¥ (84)	¥37,102	¥3,718	¥40,820

	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	Deferred Gain on Derivatives under Hedge Accounting	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2022	$74,987	$73,092	$ 143,249	$ (7,227)	$ 1,430	$ 427	$ (9,638)	$(1,168)	$ 275,152	$ 25,185	$ 300,337
Net income attributable to owners of the parent			6,635						6,635		6,635
Cash dividends, $0.30 per share			(7,474)						(7,474)		(7,474)
Purchase of treasury stock				(6,500)					(6,500)		(6,500)
Disposal of treasury stock		(82)		292					210		210
Net change in the year					(1,041)	(427)	10,761	539	9,832	2,659	12,491
BALANCE, MARCH 31, 2023	$74,987	$73,010	$ 142,410	$(13,435)	$ 389		$ 1,123	$ (629)	$ 277,855	$ 27,844	$ 305,699

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2023

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
OPERATING ACTIVITIES:			
Income before income taxes	¥ 2,323	¥ 2,995	$ 17,397
Adjustments for:			
Income taxes – paid	(474)	(587)	(3,550)
Depreciation and amortization	2,469	2,175	18,490
Loss on impairment of long-lived assets		439	
Foreign exchange loss (gain)	197	(56)	1,475
Gain on sales of property, plant and equipment		(21)	
(Gain) loss on sales of investment securities	(193)	1	(1,445)
Bargain purchase gain	(187)		(1,400)
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(909)	(1,745)	(6,807)
Increase in inventories	(2,044)	(2,572)	(15,307)
(Decrease) increase in trade notes and accounts payable	(1,191)	2,006	(8,919)
Increase in provision for loss on litigation	493		3,692
Other – net	(950)	198	(7,116)
Total adjustments	(2,789)	(162)	(20,887)
Net cash (used in) provided by operating activities	(466)	2,833	(3,490)
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3,523)	(2,589)	(26,384)
Proceeds from sales of property, plant and equipment	2	26	15
Purchases of intangible assets	(807)	(267)	(6,044)
Purchases of investment securities	(18)	(4)	(135)
Proceeds from sales of investment securities	560	5	4,194
Purchase of shares of subsidiaries	(190)		(1,423)
Other – net	(2,673)	(610)	(20,017)
Net cash used in investing activities	(6,649)	(3,439)	(49,794)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans – net	10,131	(1,144)	75,871
Proceeds from long-term debt		5,000	
Repayments of long-term debt	(383)	(536)	(2,868)
Dividends paid	(998)	(956)	(7,474)
Other – net	(1,093)	(257)	(8,186)
Net cash provided by financing activities	7,657	2,107	57,343
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	338	416	2,531
NET INCREASE IN CASH AND CASH EQUIVALENTS	880	1,917	6,590
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,339	3,422	39,984
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 6,219	¥ 5,339	$ 46,574

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 2022 consolidated financial statements to conform to the classifications used in 2023.

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 ¥133.53 to $1, the approximate rate of exchange at March 31, 2023. 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) ("US GAAP") 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 equity 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 5 years, the estimated useful life of the assets.

k*.** ***Customer List – Amortization of capitalized customer list costs is computed using the straight-line method over 23 years, the estimated useful life of the assets.

l. ***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.

m. ***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.

n. ***Revenue Recognition*** – The Company and its domestic subsidiaries implement the Accounting Standards for Revenue Recognition (ASBJ Statement No. 29 revised on March 31, 2020), etc. Foreign subsidiaries implement the International Financial Reporting Standards ("IFRS") 15 and the Accounting Standards Codification ("ASC") 606, "Revenue from Contract(s) with Customers," recognizing revenue at the amount expected to be received in exchange for goods or services when control of the promised goods or services is transferred to customers.

(1) The nature of performance obligations for each of the Group's major industry – The Group's main business segments including - Resin & Tall Oil Products, Paper Chemicals, Electronics Materials and Lawter, have the obligation to perform the contract and deliver the goods according to the sales contract with the customer.

(2) The timing when performance obligations are satisfied – Since the sale of products and commodities is a performance obligation satisfied when the customer gains control over the products and commodities, revenue is recognized when the performance obligation considered to be completed. However, for domestic shipment from factories, the Company applies paragraph 98 of the Guidance on Accounting Standards for Revenue Recognition (ASBJ Guidance No. 30 revised on March 26, 2021) to recognize revenue at the time of shipment.

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

p. ***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.

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

r. ***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 Company and some of its domestic subsidiaries have adopted the group tax relief regime.

s. ***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.

t. ***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.

u. ***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.

Foreign currency forward contracts employed to hedge foreign exchange exposures for export sales are measured at fair value and the unrealized gains/losses are recognized in income. Forward contracts applied for forecasted (or committed) transactions are also measured at fair value but the unrealized gains/losses are deferred until the underlying transactions are completed.

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.

v. ***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.

w. ***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.

x. Provision for Loss on Litigation – In order to prepare for the provision for loss on litigation, estimated amounts of losses are provided.

y. New Accounting Pronouncements

- Accounting Standard for Corporation, Residential and Business Taxes (ASBJ Statement No. 27 revised on October 28, 2022)

- Accounting Standard for Presentation of Comprehensive Income (ASBJ Statement No. 25 revised on October 28, 2022)

- Implementation Guidance on Accounting Standard for Tax Effect Accounting (ASBJ Guidance No. 28 revised on October 28, 2022)

(a) Overview

These are revised accounting standards for the classification of income taxes if taxable on other comprehensive income, and the tax effects on sales of subsidiary stock, etc. when the group tax relief regime is applied.

(b) Scheduled date of adoption

The Company expects to apply the accounting standards and guidance for annual periods beginning on or after April 1, 2024.

(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 standards and guidance in future applicable periods.

3. ACCOUNTING CHANGE

Certain foreign subsidiaries under US GAAP adopted ASC 842, "Leases" effective from the fiscal year ended March 31, 2023. As a result, all lease assets and liabilities associated with leases for which such a subsidiary is the lessee are, in principle, recorded in the balance sheets.

In accordance with the transitional treatment stipulated in ASC 842, the cumulative monetary effects of the application of this accounting standard were recognized as an adjustment to the consolidated balance of retained earnings at the beginning of the fiscal year ended March 31, 2023.

As a result of the adoption, consolidated total property, plant and equipment, a net figure, in non-current assets increased by ¥1,210 million ($9,062 thousand), lease obligations in current liabilities increased by ¥285 million ($2,134 thousand), and lease obligations in non-current liabilities increased by ¥944 million ($7,070 thousand), as of March 31, 2023.

The effect of this accounting change on the consolidated statements of income in the current fiscal year was insignificant.

Prior to April 1, 2022, the lease liabilities were included in the long-term debt section of the balance sheet. Since during this fiscal year ended March 31, 2023, the amount increased significantly due to the adoption, such amount is disclosed separately in the lease liabilities section of the balance sheet as of March 31, 2023. The adoption of the new presentation requirement of the liabilities resulted in a reclassification of ¥47 million from current portion of long-term debt into current portion of long-term lease obligations, and ¥758 million from long-term debt into long-term lease obligations for the year ended March 31, 2022.

4. SIGNIFICANT ACCOUNTING ESTIMATE

Valuation of deferred tax assets

(1) *Carrying amounts*

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deferred tax assets	¥658	¥969	$4,928

(2) *Information on the significant accounting estimate*

Net deferred tax assets were ¥658 million ($4,928 thousand) as of March 31, 2023, of which ¥529 million ($3,962 thousand) was recorded relating to tax loss carryforwards at LAWTER Europe BV. Under US GAAP, which LAWTER Europe BV 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 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.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Non-current:			
Equity securities	¥2,690	¥3,187	$20,145
Total	¥2,690	¥3,187	$20,145

The costs and aggregate fair values of investment securities as of March 31, 2023 and 2022, were as follows:

	Millions of Yen			
March 31, 2023	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,476	¥504	¥(312)	¥2,668
March 31, 2022				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,800	¥596	¥(231)	¥3,165

	Thousands of U.S. Dollars			
March 31, 2023	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	$18,543	$3,775	$(2,337)	$19,981

Carrying amounts of nonmarketable available-for-sale securities as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Nonmarketable available-for-sale:			
Equity securities	¥22	¥22	$164

The information for available-for-sale securities which were sold during the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		
March 31, 2023	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥561	¥243	¥49
Total	¥561	¥243	¥49
March 31, 2022			
Available-for-sale:			
Equity securities	¥ 5		¥ 1
Total	¥ 5		¥ 1

	Thousands of U.S. Dollars		
March 31, 2023	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$4,201	$1,820	$367
Total	$4,201	$1,820	$367

6. INVENTORIES

Inventories as of March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Finished products	¥ 7,857	¥ 6,705	$ 58,841
Work in process	424	365	3,175
Raw materials and supplies	10,646	8,308	79,727
Total	¥ 18,927	¥ 15,378	$ 141,743

7. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥439 million for the year ended March 31, 2022. The Group recognized a decline in value of a golf course and hotel facilities for the year ended March 31, 2022. 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. For the year ended March 31, 2023, the Group did not record any impairment losses.

8. 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, 2023 and 2022, were ¥117 million ($876 thousand) and ¥33 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, 2022	Increase/ Decrease	March 31, 2023	March 31, 2023
¥1,923	¥(516)	¥1,407	¥2,333

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2021	Increase/ Decrease	March 31, 2022	March 31, 2022
¥1,888	¥34	¥1,922	¥2,840

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2022	Increase/ Decrease	March 31, 2023	March 31, 2023
$14,401	$(3,864)	$10,537	$17,472

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, 2023, primarily represents the capital expenditure for current investment properties of ¥8 million ($60 thousand), and the decrease primarily represents depreciation of ¥12 million ($90 thousand) and the conversion to non-investment properties of ¥512 million ($3,834 thousand). Increase during the fiscal year ended March 31, 2022, primarily represents the capital expenditure for current investment properties of ¥521 million, and the decrease primarily represents depreciation of ¥65 million and impairment loss of ¥439 million.

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

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

Short-term bank loans as of March 31, 2023 and 2022, 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, 2023 and 2022, were 1.8% and 0.9%, respectively. As of March 31, 2023 and 2022, the total committed line of credit was ¥6,000 million ($44,934 thousand) and ¥6,000 million, and unused balance was ¥200 million ($1,498 thousand) and ¥6,000 million, respectively.

Long-term debt as of March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unsecured loans from banks and other financial institutions, due serially to 2032 with interest rates ranging from 0.4% to 1.8% (2023) and from 0.5% to 2.3% (2022)	¥ 13,284	¥ 12,974	$ 99,483
Total	13,284	12,974	99,483
Less current portion	(7,099)	(312)	(53,164)
Long-term debt, less current portion	¥ 6,185	¥ 12,662	$ 46,319

Annual maturities of long-term debt, excluding finance leases (see Note 17), at March 31, 2023, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 7,099	$ 53,164
2025	1,185	8,874
2026		
2027		
2028		
2029 and thereafter	5,000	37,445
Total	¥ 13,284	$ 99,483

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, 2023 and 2022, the covenants were not breached since the Group met the requirements.

10. RETIREMENT AND PENSION PLANS

The Company and certain domestic subsidiaries have a defined contribution plan and a defined benefit plan, including a defined corporate pension plan and retirement lump sum plan. Certain foreign subsidiaries have defined contribution plans and defined benefit plans. Certain 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, 2023 and 2022 was ¥15 million ($112 thousand) and ¥5 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, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥3,031	¥3,080	$22,699
Service cost	176	180	1,318
Interest cost	25	21	187
Actuarial gains	(165)	(31)	(1,236)
Benefits paid	(165)	(247)	(1,236)
Foreign currency translation differences	60	21	449
Others	6	7	46
Balance at end of year	¥2,968	¥3,031	$22,227

(2) The changes in plan assets for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥2,872	¥2,790	$21,508
Expected return on plan assets	124	79	929
Actuarial losses	(123)	(25)	(921)
Contributions from the employer	250	251	1,872
Benefits paid	(165)	(247)	(1,236)
Foreign currency translation differences	51	17	382
Others	6	7	45
Balance at end of year	¥3,015	¥2,872	$22,579

(3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 84	¥103	$ 629
Increase from new consolidation	31		232
Periodic benefit costs	20	(15)	150
Benefits paid	(3)	(9)	(22)
Foreign currency translation differences	4	4	30
Balance at end of year	¥136	¥ 83	$1,019

(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, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Funded defined benefit obligation	¥ 2,968	¥ 3,031	$ 22,227
Plan assets	(3,015)	(2,872)	(22,579)
Total	(47)	159	(352)
Unfunded defined benefit obligation	136	83	1,019
Net liability arising from defined benefit obligation	¥ 89	¥ 242	$ 667

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Liability for retirement benefits	¥89	¥242	$667
Net liability arising from defined benefit obligation	¥89	¥242	$667

(5) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Service cost	¥ 176	¥180	$1,318
Interest cost	25	21	187
Expected return on plan assets	(124)	(79)	(929)
Recognized actuarial losses	20	20	150
Recognized prior service cost	4	4	30
Periodic benefit cost in simplified method	21	(14)	157
Others	(2)	2	(14)
Net periodic benefit costs	¥ 120	¥134	$ 899

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Prior service cost	¥ 4	¥ 4	$ 30
Actuarial losses	61	28	457
Others	(7)	(4)	(52)
Total	¥58	¥28	$435

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrecognized prior service cost	¥ 38	¥ 39	$ 285
Unrecognized actuarial losses	126	183	943
Total	¥164	¥222	$1,228

(8) Plan assets as of March 31, 2023 and 2022

a. *Components of plan assets*

Plan assets consisted of the following:

	2023	2022
Debt securities in Japan	8.9%	9.0%
Equity securities in Japan	10.8	11.7
Debt securities in other countries	2.7	3.1
Equity securities in other countries	10.9	11.7
Cash and time deposits	1.0	0.6
Insurance asset (general account)	62.1	63.3
Others	3.6	0.6
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, 2023 and 2022, were set forth as follows:

	2023	2022
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 5.0%	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, 2023 and 2022, was ¥287 million ($2,149 thousand) and ¥272 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 ¥92 million ($689 thousand) and ¥89 million for the years ended March 31, 2023 and 2022, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2023 and 2022, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Plan assets	¥ 38,962	¥ 39,662	$ 291,785
Actuarial liabilities of pension plan	64,556	66,209	483,457
Net balance	¥(25,594)	¥(26,547)	$(191,672)

(2) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2023 and 2022, were 2.2% 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 ¥30,947 million ($231,761 thousand) for 2023 and ¥31,794 million for 2022, and a deficiency brought forward of ¥5,353 million ($48,088 thousand) for 2023 and ¥5,246 million for 2022. Past service cost under the plan is amortized on a straight-line basis over 23 years, and the special contributions of ¥39 million ($292 thousand) for 2023 and ¥38 million for 2022, 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.

11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥39	¥49	$292
Balance at end of year	39	39	292

12. 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.

13. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2023 and 2022, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Employees' salaries and bonuses	¥4,704	¥3,820	$35,228
Net periodic retirement benefit	277	306	2,074
Transport	4,311	3,839	32,285
Depreciation	448	307	3,355
Rental	275	258	2,059
Research and development	2,731	2,537	20,452

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 30.6% for the years ended March 31, 2023 and 2022. 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, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deferred tax assets:			
Tax loss carryforwards	¥ 1,961	¥ 1,464	$ 14,686
Impairment loss on long-lived assets	1,553	1,584	11,630
Loss on revaluation of investment securities	62	64	464
Retirement benefits to directors	4	1	30
Unrealized gain on property, plant and equipment	97	97	726
Intangible fixed assets of foreign subsidiaries	35		262
Others	896	964	6,711
Total of tax loss carryforwards and temporary differences	4,608	4,174	34,509
Less valuation allowance for tax loss carryforwards	(1,242)	(705)	(9,301)
Less valuation allowance for temporary differences	(1,786)	(1,738)	(13,375)
Total valuation allowance	(3,028)	(2,443)	(22,676)
Deferred tax assets	¥ 1,580	¥ 1,731	$ 11,833
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ (45)	¥ (46)	$ (337)
Unrealized gain on available-for-sale securities	(127)	(163)	(951)
Undistributed earnings of foreign subsidiaries	(540)	(461)	(4,044)
Depreciation of foreign subsidiaries	(817)	(715)	(6,118)
Intangible fixed assets of foreign subsidiaries		(21)	
Others	(413)	(215)	(3,094)
Deferred tax liabilities	¥(1,942)	¥(1,621)	$(14,544)
Net deferred tax assets	¥ (362)	¥ 110	$ (2,711)

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2023 and 2022, were as follows:

	Millions of Yen						
March 31, 2023	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	¥	¥	¥ 25	¥ 16	¥ 70	¥ 1,850	¥ 1,961
Less valuation allowances for tax loss carryforwards			(25)	(16)	(40)	(1,161)	(1,242)
Net deferred tax assets relating to tax loss carryforwards					30	689	719
March 31, 2022							
Deferred tax assets relating to tax loss carryforwards	¥	¥	¥	¥ 26	¥ 15	¥1,423	¥1,464
Less valuation allowances for tax loss carryforwards				(13)	(15)	(677)	(705)
Net deferred tax assets relating to tax loss carryforwards				13		746	759

	Thousands of U.S. Dollars						
March 31, 2023	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	$	$	$ 187	$ 120	$ 524	$ 13,855	$ 14,686
Less valuation allowances for tax loss carryforwards			(187)	(120)	(300)	(8,694)	(9,301)
Net deferred tax assets relating to tax loss carryforwards					224	5,161	5,385

Net deferred tax assets relating to tax loss carryforwards were ¥719 million ($5,385 thousand) and ¥759 million for the years ended March 31, 2023 and 2022, respectively. They were mainly recorded at LAWTER Europe BV 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, 2023 and 2022, were as follows:

	2023	2022
Normal effective statutory tax rate	30.6%	30.6%
Expenses not deductible for income tax purposes	1.1	2.8
Inhabitant tax on per capita basis	1.4	1.1
Difference of income tax rates applicable to income in certain foreign countries	(10.7)	(10.7)
Increase in valuation allowance	30.7	4.2
Tax credit	(1.3)	(1.1)
Undistributed earnings of foreign subsidiaries	3.4	4.5
Share of profit of entities accounted for using equity method	(9.6)	(2.1)
Other – net	(0.9)	0.1
Actual effective tax rate	44.7%	29.4%

15. REVENUE

(1) Disaggregation of Revenue

Revenues from contracts with customers on a disaggregated basis for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen						
	2023						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Other	Reconciliations	Consolidated
Domestic	¥17,724	¥ 9,882	¥4,857	¥ 1,348	¥2,408	¥ (20)	¥36,199
Foreign	1,528	15,052	4,384	37,450	(21)	(253)	58,140
Revenues from contracts with customers	19,252	24,934	9,241	38,798	2,387	(273)	94,339
Other revenue					172		172
Total	¥19,252	¥24,934	¥9,241	¥38,798	¥2,559	¥(273)	¥94,511

	Millions of Yen						
	2022						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Other	Reconciliations	Consolidated
Domestic	¥16,272	¥ 9,243	¥4,684	¥ 567	¥1,388	¥(27)	¥32,127
Foreign	1,294	11,931	1,620	28,952	(19)	33	43,811
Revenues from contracts with customers	17,566	21,174	6,304	29,519	1,369	6	75,938
Other revenue					155		155
Total	¥17,566	¥21,174	¥6,304	¥29,519	¥1,524	¥ 6	¥76,093

	Thousands of U.S. Dollars						
	2023						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Other	Reconcilia tions	Consolidated
Domestic	$ 132,734	$ 74,006	$ 36,374	$ 10,095	$ 18,033	$ (150)	$ 271,092
Foreign	11,443	112,724	32,832	280,461	(157)	(1,895)	435,408
Revenues from contracts with customers	144,177	186,730	69,206	290,556	17,876	(2,044)	706,501
Other revenue					1,288		1,288
Total	$ 144,177	$ 186,730	$ 69,206	$ 290,556	$ 19,164	$ (2,044)	$ 707,789

(2) Basic Information to Understand Revenues from Contracts with Customers

Contract, performance obligation, timing of satisfaction of performance obligation – The information is included in Note 2.

Transaction price calculation information – Regarding production sales, the Company calculates the transaction price according to the amount of consideration agreed in the contract with the customer after deducting the estimated value such as discount, and revenue is recognized only to the extent that it is highly probability that no significant reversal will occur. Revenue-related consideration recognized by the company is usually received within one year after performance obligations have been completed, excluding significant financial factors.

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,731 million ($20,452 thousand) and ¥2,537 million for the years ended March 31, 2023 and 2022, respectively.

17. LEASES

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

Total lease expenses for the years ended March 31, 2023 and 2022, were ¥370 million ($2,771 thousand) and ¥313 million, respectively.

Lease obligations and future minimum payments commitment under noncancelable operating leases as of March 31, 2023, are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2023		2023	
	Lease Obligations	Operating Leases	Lease Obligations	Operating Leases
Due within one year	¥ 412	¥ 5	$ 3,085	$ 37
Due after one year	1,620		12,132	
Total	¥ 2,032	¥ 5	$ 15,217	$ 37

Certain foreign subsidiaries under US GAAP adopted ASC 842, "Leases" effective from the fiscal year ended March 31, 2023.

18. 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, 2023.

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) Concentration of Credit Risk

As of March 31, 2023, 6.2% of total receivables is from certain major customer group.

(5) Fair Value of Financial Instruments

Fair values of financial instruments are as follows: Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of cash and cash equivalents, notes and accounts receivable, notes and accounts payable and short-term bank loans are not disclosed because their maturities are short and the carrying values approximate fair value. Also, please see Note 19 for details of the fair values of derivatives.

Fair value of financial instruments

	Millions of Yen		
March 31, 2023	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Investment securities	¥ 2,668	¥ 2,668	¥
Total	¥ 2,668	¥ 2,668	¥
Long-term bank debt	¥ 13,284	¥ 13,286	¥ 2
Lease debt	2,032	2,032	(0)
Long-term deposits received	501	493	(8)
Total	¥ 15,817	¥ 15,811	¥ (6)

	Millions of Yen		
March 31, 2022	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Investment securities	¥ 3,165	¥ 3,165	¥
Total	¥ 3,165	¥ 3,165	¥
Long-term bank debt	¥ 12,974	¥ 12,973	¥ (1)
Lease debt	805	805	(0)
Long-term deposits received	529	521	(8)
Total	¥ 14,308	¥ 14,299	¥ (9)
Derivative	¥ 82	¥ 82	¥
Total	¥ 82	¥ 82	¥

	Thousands of U.S. Dollars		
March 31, 2023	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Investment securities	$ 19,981	$ 19,981	$
Total	$ 19,981	$ 19,981	$
Long-term bank debt	$ 99,483	$ 99,498	$ 15
Lease debt	15,217	15,217	(0)
Long-term deposits received	3,752	3,692	(60)
Total	$ 118,453	$ 118,408	$ (45)

Carrying amount of investments in equity instruments that do not have a quoted market price in an active market

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Investments in equity instruments that do not have a quoted market price in an active market	¥22	¥22	$164

Maturity analysis for financial assets with contractual maturities

	Millions of Yen			
March 31, 2023	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	¥ 6,219	¥	¥	¥
Notes and accounts receivable	23,797			
Total	¥30,016	¥	¥	¥

	Millions of Yen			
March 31, 2022	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	¥ 5,339	¥	¥	¥
Notes and accounts receivable	20,980			
Total	¥26,319	¥	¥	¥

	Thousands of U.S. Dollars			
March 31, 2023	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	$ 46,574	$	$	$
Notes and accounts receivable	178,214			
Total	$ 224,788	$	$	$

Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

(1) The financial assets and liabilities measured at the fair values in the consolidated balance sheet

	Millions of Yen			
March 31, 2023	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Investment securities	¥2,668			¥2,668
Derivative transactions:				
Derivative				
Total assets	¥2,668			¥2,668

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Investment securities	¥3,165			¥3,165
Derivative transactions:				
Derivative		¥82		82
Total assets	¥3,165	¥82		¥3,247

	Thousands of U.S. Dollars			
March 31, 2023	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Investment securities	$ 19,981			$ 19,981
Derivative transactions:				
Derivative				
Total assets	$ 19,981			$ 19,981

(2) The financial assets and liabilities not measured at the fair values in the consolidated balance sheet

	Millions of Yen			
March 31, 2023	Level 1	Level 2	Level 3	Total
Long-term bank debt		¥13,286		¥13,286
Lease debt		2,032		2,032
Long-term deposits received		493		493
Total liabilities		¥15,811		¥15,811

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Long-term bank debt		¥12,973		¥12,973
Lease debt		805		805
Long-term deposits received		521		521
Total liabilities		¥14,299		¥14,299

March 31, 2023	Thousands of U.S. Dollars			
	Level 1	Level 2	Level 3	Total
Long-term bank debt		$ 99,498		$ 99,498
Lease debt		15,217		15,217
Long-term deposits received		3,692		3,692
Total liabilities		$ 118,408		$ 118,408

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Investment Securities

The fair values of listed equity securities are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1.

Derivatives

The fair values of foreign currency forward contracts are measured by using discounted present value techniques considering observable inputs such as foreign currency exchange rate, and are categorized as Level 2.

Long-Term bank Debt and Lease Debt

The fair values of long-term debt and lease debt are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk, and are categorized as Level 2.

Long-Term Deposits Received

The fair values of long-term deposits received are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk, and are categorized as Level 2.

19. 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, 2023

Not applicable

March 31, 2022

Not applicable

Derivative Transactions to Which Hedge Accounting Is Applied

		Millions of Yen		
March 31, 2023	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying EUR	Forecasted transaction			
March 31, 2022				
Foreign currency forward contracts:				
Buying EUR	Forecasted transaction	¥877	¥	¥82

		Thousands of U.S. Dollars		
March 31, 2023	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Foreign currency forward contracts:				
Buying EUR	Forecasted transaction			

20. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrealized loss on available-for-sale securities:			
Losses arising during the year	¥ (371)	¥ (163)	$ (2,778)
Reclassification adjustments to profit or loss	193	1	1,445
Amount before income tax effect	(178)	(162)	(1,333)
Income tax effect	39	(2)	292
Total	¥ (139)	¥ (164)	$ (1,041)
Deferred (loss) gain on derivatives under hedge accounting:			
Adjustments arising during the year	¥ 57	¥ 82	$ 434
Reclassification adjustments to profit or loss			
Adjustments to acquisition costs of assets	(139)		(1,041)
Amount before income tax effect	(82)	82	(607)
Income tax effect	25	(25)	180
Total	¥ (57)	¥ 57	$ (427)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥1,595	¥1,768	$11,945
Reclassification adjustments to profit or loss			
Amount before income tax effect	1,595	1,768	11,945
Income tax effect			
Total	¥1,595	¥1,768	$11,945
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 32	¥ 2	$ 240
Reclassification adjustments to profit or loss	26	26	195
Amount before income tax effect	58	28	435
Income tax effect	17	3	127
Total	¥ 75	¥ 31	$ 562
Share of other comprehensive loss in associated companies – Losses arising during the year	¥ 0	¥ 0	$ 0
Total	¥ 0	¥ 0	$ 0
Total other comprehensive income	¥1,474	¥1,692	$11,039

21. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2023 and 2022, 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, 2023:				
Basic EPS				
Net income available to common shareholders	¥ 886	24,769	¥35.76	$0.27
For the year ended March 31, 2022:				
Basic EPS				
Net income available to common shareholders	¥1,746	25,156	¥69.42	

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

22. 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, 2023 and 2022, were as follows:

Fiscal year ended March 31, 2023

Not applicable

Fiscal year ended March 31, 2022

Not applicable

(2) Transactions between Subsidiaries and Related Parties

Transactions between subsidiaries and related parties for the years ended March 31, 2023 and 2022, were as follows:

Fiscal year ended March 31, 2023

Not applicable

Fiscal year ended March 31, 2022

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	10

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).

23. SUBSEQUENT EVENT

(1) Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2023, was approved at the Company's Board of Directors' meeting held on May 17, 2023:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥21 ($0.16) per share	¥508	$3,804

24. 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 2023								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥19,252	¥24,934	¥9,242	¥38,798	¥92,226	¥2,558	¥94,784	¥ (273)	¥94,511
Intersegment sales or transfers	314	136		1,352	1,802	183	1,985	(1,985)	
Total	¥19,566	¥25,070	¥9,242	¥40,150	¥94,028	¥2,741	¥96,769	¥(2,258)	¥94,511
Segment profit (loss)	¥ 35	¥1,535	¥164	¥1,316	¥3,050	¥(101)	¥2,949	¥(1,242)	¥1,707
Other:									
Depreciation	615	719	371	637	2,342	127	2,469		2,469
Net result of interest income and interest expense	(2)	29	(10)	(249)	(232)		(232)	(99)	(331)
Equity in earnings of associated companies				990	990		990	52	1,042

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 loss of inventories of ¥255 million ($1,910 thousand) and company-wide expenses of ¥998 million ($7,474 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 2022								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥17,566	¥21,174	¥6,304	¥29,518	¥74,562	¥1,525	¥76,087	¥ 6	¥76,093
Intersegment sales or transfers	252	157		646	1,055	202	1,257	(1,257)	
Total	¥17,818	¥21,331	¥6,304	¥30,164	¥75,617	¥1,727	¥77,344	¥(1,251)	¥76,093
Segment profit (loss)	¥ 91	¥1,651	¥658	¥1,722	¥4,122	¥ (12)	¥4,110	¥(859)	¥3,251
Other:									
Depreciation	647	670	133	573	2,023	152	2,175		2,175
Net result of interest income and interest expense	(1)	22	0	(178)	(157)	(1)	(158)	(75)	(233)
Equity in earnings of associated companies				278	278		278	14	292

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 ¥16 million and company-wide expenses of ¥882 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 2023								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 144,177	$ 186,730	$ 69,213	$ 290,556	$ 690,676	$ 19,157	$ 709,833	$ (2,044)	$ 707,789
Intersegment sales or transfers	2,352	1,018		10,125	13,495	1,371	14,866	(14,866)	
Total	$ 146,529	$ 187,748	$ 69,213	$ 300,681	$ 704,171	$ 20,528	$ 724,699	$ (16,910)	$ 707,789
Segment profit (loss)	$ 262	$11,496	$1,228	$ 9,855	$22,841	$(756)	$22,085	$(9,301)	$12,784
Other:									
Depreciation	4,606	5,385	2,778	4,770	17,539	951	18,490		18,490
Net result of interest income and interest expense	(15)	217	(75)	(1,865)	(1,738)		(1,738)	(741)	(2,479)
Equity in earnings of associated companies				7,414	7,414		7,414	389	7,803

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2023 and 2022, were as follows:

(1) Net sales

Millions of Yen							
2023							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥36,372	¥16,771	¥5,741	¥13,140	¥1,640	¥17,924	¥2,923	¥94,511

Millions of Yen							
2022							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥32,282	¥10,881	¥3,609	¥10,947	¥2,388	¥13,523	¥2,463	¥76,093

Thousands of U.S. Dollars							
2023							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
$272,388	$125,597	$42,994	$98,405	$12,282	$134,232	$21,891	$707,789

Notes:

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

(2) Net property, plant and equipment

Millions of Yen							
2023							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥12,673	¥4,954	¥123	¥2,472	¥433	¥3,314	¥3,151	¥27,120

Millions of Yen							
2022							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥12,231	¥4,058	¥91	¥2,307	¥20	¥2,366	¥2,329	¥23,402

	Thousands of U.S. Dollars						
	2023						
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
$94,908	$37,100	$921	$18,513	$3,243	$24,818	$23,597	$203,100

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, 2023 and 2022, was as follows:

	Millions of Yen							
	2023							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥	¥	¥	¥	¥	¥	¥

	Millions of Yen							
	2022							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥	¥	¥	¥	¥439	¥	¥439

	Thousands of U.S. Dollars							
	2023							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	$	$	$	$	$	$	$	$

* * * * * *

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1 Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp/en

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, 2023, 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, 2023, 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.

Appropriateness of acquisition cost of customer list	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
The Group completed the procedures related to the agreement with Henkel AG & Co. KGaA regarding the acquisition of the commercial rights, assets, etc. related to its solder materials business on June 1, 2022 (June 2, Japan time), and recognized the customer list arising from the transaction in the amount of 4,046 million yen in the consolidated balance sheet as of March 31, 2023. The Group measured costs of the acquired assets through the transaction based on the agreed price of each asset in the asset purchase agreement and performed an intangible asset value analysis using external valuation specialists to examine the appropriateness of the acquisition costs of intangible assets. Developing the future cash flows based on the business plans used in the intangible asset value analysis requires management to make significant estimates and judgments. Also, a high level of expertise is required in selecting valuation methodologies and input data. In addition, the identified customer list as a result of the transaction is quantitatively material. Therefore, we identified the appropriateness of the acquisition cost of the customer list as a key audit matter.	Our audit procedures related to the appropriateness of the acquisition cost of the customer list included the following, among others: ● In order to understand the outline and purpose of the transaction, we inquired of management and inspected related materials such as minutes of the board of directors' meetings and the asset purchase agreement. ● We evaluated the design and operating effectiveness of controls over the appropriateness of the acquisition cost of the customer list. ● We inspected the results of the intangible asset value analysis prepared by external valuation specialists which management used, and evaluated the reasonableness of management's key assumptions such as sales growth rate and operating profit margin rate through discussions with management on the business plans, which were the basis for the future cash flow estimates. ● With the assistance of our valuation specialists, we examined the reasonableness of the valuation methodologies used in the intangible asset value analysis. In addition, we examined the reasonableness of key input data such as discount rate and customer attrition rate.

Other Information

Management is responsible for the other information. 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 other information. The other information comprises the information included in the Annual Report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 26, 2023

Corporate Overview (as of March 31, 2023)

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, Sendai Plant, and Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Fuji Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	119 (Consolidated: 1,710)
Number of Group Companies	35
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.	398,000 thousand yen	100	Management of real estate, golf courses and hotels, 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 Foods, Inc.	30,000 thousand yen	100	Manufacture and sale of business-use foods, and sale of health foods and functional ingredients
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.	45,435 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
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	Business support for subsidiaries in China

HARIMA UK LTD.	1,500 thousand British pound	100	Sales support for electronic materials

Directors and Corporate Auditors (as of March 31, 2023)

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

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2023)

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

(2) Total number of shares outstanding 26,080,396
(including 1,878,064 shares of treasury stocks)

(3) Number of shareholders 10,144

(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.	2,913	12.03
Matsukawa Corporation	2,913	12.03
Harima Chemicals Mutual Prosperity Association	1,392	5.75
Shorai, Ltd.	1,284	5.30
Japan Master-Trust Trust bank	1,263	5.22
Sumitomo Mitsui Banking Corporation	1,094	4.52
Hyogo Prefectural Credit Federation of Agricultural Cooperatives	1,028	4.24
Shorai Foundation for Science and Technology	965	3.98
Bank of Mitsubishi UFJ, Ltd.	476	1.96
Harima Employee Stock Ownership Association	422	1.74

(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 (1,878,064shares), which amounts to 24,202,332 shares. The numbers shown are rounded down to two decimal places.