Annual Report

Year Ended March 31, 2017

HARIMA CHEMICALS GROUP, INC.

Business Overview

During the current fiscal year, the economy in the US is continued recovering, also in Europe recovered gently. However, in China, the economic growth became slowdown, from the latter half of the fiscal year remained signs of some recovery. Meanwhile, about the domestic economic situation in Japan, the employment conditions and corporate earnings improved, and the economic is continued recovering gently.

Regarding the business environment surrounding our group, about overseas business, paper chemicals in North America and China, sales and profit decreased as compared to the last year. Lawter, whose major market is Europe, due to the foreign exchange rates, although sales decreased, because of revenue returned to surpluses, the total revenue of overseas business has increased. Regarding the domestic business, although due to sales quantity decreased, the sales also decreased, the revenue is the same level as the previous period.

As a result of these conditions, the group's consolidated net sales for the current fiscal year decreased by 9,593 million Yen (down 11.8%) year-on-year to 71,384 million Yen. Operating income increased by 1,538 million Yen (up 63.1%) year-on-year to 3,975 million Yen. Ordinary income increased by 706 million Yen (up 21.9%) year-on-year to 3,931 million Yen. Net income attributable to Harima Chemicals Group, INC. was 2,421 million Yen, increased by 1,198 million Yen (up 98.0%) year-on-year.

From the current fiscal year, for properly evaluating the segment income, our group has changed the allocation standard of the expense. By way of comparison, the operating income about the previous fiscal year has been compared based on the changed operating income.

Status of Business Segments

(Resin & Tall Oil Products)

With regard to the printing ink industry, although the production volume was as the same level as the previous year, the commercial printing business has continued to decrease because the publication of newspapers and magazines have continued to shrink. Our sales of printing inks resins continued to decline and as a result, the total sales decreased from the previous fiscal year.

In the paint industry, although the production volume was as the same level as the previous year, the volume of building paints which is our main products, decreased from the previous fiscal year. As this effect, the total sales of paint resins decreased from the previous fiscal year.

Moreover, in the synthetic rubber industry, because the production volume of tires has decreased, our sales of synthetic rubber emulsifiers also decreased.

(Paper Chemicals)

In the current fiscal year, cardboard production volume was increased, but the production volume of paper for printing information was decreased from the previous fiscal year. About the overseas market, in US, the demand for newspaper and printing information was reduced, paper and cardboard production volume was lower than the previous fiscal year. On the other side, paper and cardboard production volume increased in China.

Due to the foreign exchange rates, although sales decreased from the previous fiscal year. Devoting to improve the corporate earnings, operating income increased from the previous fiscal year.

(Electronics Materials)

With regard to the performance of the car industry to which this segment is related, the volume of vehicles manufactured in North America, Europe and China was higher than the previous fiscal year. On the other hand, the volume of vehicles manufactured in domestic market was no change.

The sales of solder paste decreased from the previous fiscal year, but brazing materials used in heat exchangers increased in sales.

(Lawter)

In this segment, the main production adhesives resins, compared to the previous fiscal year was slowing down in North America and Oceania. On the other hand, in Europe, North America and Asia was steadily increasing, the total sales quantity has increased than the previous fiscal year.

On the other side, due to digitization of the information, resins for printing inks which global demand was stagnant, especially North America and Asia. However in our main market in Europe, for the reason that the company of Sunpine which we has invested in Sweden, began to supply us the main raw material-resin in a stable way. In this reason, the sales quantity has increased from the previous fiscal year.

About the total sales of Lawter, the drop in the price due to the foreign exchange rates and the price of main raw material-resin was declined, the sales quantity has decreased from the previous fiscal year. However, because of making exertions to cut down the cost, operating earnings in Lawter has improved, and returned into surplus.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	72th Fiscal Year (Fiscal year ended March 2014)	73th Fiscal Year (Fiscal year ended March 2015)	74th Fiscal Year (Fiscal year ended March 2016)	75th Fiscal Year (Fiscal year ended March 2017)
Net sales	75,175	82,692	80,977	71,384
Ordinary income	2,608	249	3,225	3,931
Net income(loss) attributable to Harima Chemicals Group,INC.	280	△1,026	1,222	2,421
Net income (loss) per share (Yen)	10.80	△39.53	47.12	93.31
Total assets	70,471	75,256	70,772	67,352
Net assets	31,466	33,080	31,362	33,813

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

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2017

ASSETS	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 4,002	¥ 5,881	$ 35,672
Notes and accounts receivable (Note 15):			
Trade notes	1,794	1,748	15,991
Trade accounts	15,965	17,044	142,303
Associated companies	173	201	1,542
Other	1,215	1,118	10,830
Allowance for doubtful notes and accounts	(109)	(80)	(972)
Inventories (Note 4)	10,970	12,198	97,781
Deferred tax assets (Note 12)	336	374	2,995
Other current assets	772	451	6,881
Total current assets	35,118	38,935	313,023
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land (Note 6)	9,391	9,645	83,706
Buildings and structures (Note 6)	18,110	18,111	161,423
Machinery and equipment	26,517	25,172	236,358
Leased assets (Note 14)	845	867	7,532
Construction in progress	447	1,470	3,984
Other assets	4,296	4,284	38,292
Total	59,606	59,549	531,295
Accumulated depreciation	(36,794)	(36,360)	(327,961)
Net property, plant and equipment	22,812	23,189	203,334
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	6,271	5,441	55,896
Investments in and advances to associated companies	936	911	8,343
Goodwill		87	
Deferred tax assets (Note 12)	448	267	3,993
Other assets	1,771	1,949	15,786
Allowance for doubtful accounts	(3)	(7)	(27)
Total investments and other assets	9,423	8,648	83,991
TOTAL	¥ 67,353	¥ 70,772	$ 600,348

LIABILITIES AND EQUITY	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars (Note 1) 2017
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 15)	¥ 4,759	¥ 8,186	$ 42,419
Current portion of long-term debt (Notes 7 and 15)	717	2,423	6,391
Notes and accounts payable (Note 15):			
Trade notes	375	322	3,343
Trade accounts	8,608	8,474	76,727
Associated companies	85	106	758
Construction and other	330	487	2,941
Income taxes payable (Note 12)	464	282	4,136
Other current liabilities	2,217	2,102	19,761
Total current liabilities	17,555	22,382	156,476
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 14, 15 and 16)	11,584	12,914	103,253
Deferred tax liabilities (Note 12)	1,940	1,106	17,292
Long-term deposits received (Note 15)	741	753	6,605
Liability for retirement benefits (Note 8)	1,433	2,003	12,773
Asset retirement obligations (Note 9)	48	48	428
Other long-term liabilities	239	204	2,131
Total long-term liabilities	15,985	17,028	142,482
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7, 14 and 16)			
EQUITY (Note 10):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2017 and 2016	10,013	10,013	89,250
Capital surplus	9,744	9,744	86,853
Retained earnings	11,366	9,334	101,310
Treasury stock - at cost: 132,049 shares in 2017 and 131,882 shares in 2016	(62)	(62)	(553)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,735	1,003	15,465
Foreign currency translation adjustments	(972)	(320)	(8,664)
Defined retirement benefit plans	(176)	(477)	(1,569)
Total	31,648	29,235	282,092
Noncontrolling interests	2,165	2,127	19,298
Total equity	33,813	31,362	301,390
TOTAL	¥ 67,353	¥ 70,772	$ 600,348

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET SALES	¥ 71,384	¥ 80,978	$ 636,278
COST OF SALES	54,082	64,210	482,057
Gross profit	17,302	16,768	154,221
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	13,327	14,331	118,790
Operating income	3,975	2,437	35,431
OTHER INCOME (EXPENSES):			
Interest and dividend income	150	121	1,337
Interest expense	(306)	(352)	(2,728)
Rental income	116	115	1,034
Foreign exchange (loss) gain	(130)	658	(1,159)
(Loss) gain on sale of property, plant and equipment	(2)	49	(18)
Loss on impairment of long-lived assets (Note 5)	(152)	(235)	(1,355)
Commission paid	(12)	(13)	(107)
Loss on disposal of property, plant and equipment	(41)	(16)	(365)
Equity in earnings of associated companies	35	39	312
Gain on sale of investment securities	50		446
Expense on disposal of property, plant and equipment		(48)	
Other – net	87	177	776
Other (expenses) income – net	(205)	495	(1,827)
INCOME BEFORE INCOME TAXES	3,770	2,932	33,604
INCOME TAXES (Note 12):			
Current	783	853	6,979
Deferred	304	570	2,710
Total income taxes	1,087	1,423	9,689
NET INCOME	2,683	1,509	23,915
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(262)	(286)	(2,336)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,421	¥ 1,223	$ 21,579
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 18):			
Net income	¥93.31	¥47.12	$0.83
Cash dividends applicable to the year	17.00	14.00	0.15

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
NET INCOME	¥ 2,683	¥ 1,509	$ 23,915
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized gain (loss) on available-for-sale securities	733	(495)	6,534
Foreign currency translation adjustments	(793)	(2,461)	(7,069)
Defined retirement benefit plans	311	166	2,772
Share of other comprehensive income in associated companies	0	0	0
Total other comprehensive income (loss)	251	(2,790)	2,237
COMPREHENSIVE INCOME (LOSS) (Note 17)	¥ 2,934	¥ (1,281)	$ 26,152
TOTAL COMPREHENSIVE INCOME (LOSS) ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥2,803	¥(1,462)	$24,984
Noncontrolling interests	131	181	1,168

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2017

	Thousands	Millions of Yen									
						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2015	25,949	¥ 10,013	¥ 9,744	¥ 8,475	¥ (62)	¥ 1,497	¥ 2,035	¥ (642)	¥ 31,060	¥ 2,020	¥ 33,080
Net income attributable to owners of the parent				1,223					1,223		1,223
Cash dividends, ¥14.00 per share				(364)					(364)		(364)
Purchase of treasury stock	(0)				(0)				(0)		(0)
Net change in the year						(494)	(2,355)	165	(2,684)	107	(2,577)
BALANCE, MARCH 31, 2016	25,949	10,013	9,744	9,334	(62)	1,003	(320)	(477)	29,235	2,127	31,362
Net income attributable to owners of the parent				2,421					2,421		2,421
Cash dividends, ¥15.00 per share				(389)					(389)		(389)
Purchase of treasury stock	(1)				(0)				(0)		(0)
Change in ownership interest in subsidiaries			0						0		0
Net change in the year						732	(652)	301	381	38	419
BALANCE, MARCH 31, 2017	25,948	¥ 10,013	¥ 9,744	¥ 11,366	¥ (62)	¥ 1,735	¥ (972)	¥ (176)	¥ 31,648	¥ 2,165	¥ 33,813

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2016	$ 89,250	$ 86,853	$ 83,198	$ (553)	$ 8,940	$ (2,852)	$ (4,252)	$ 260,584	$ 18,959	$ 279,543
Net income attributable to owners of the parent			21,579					21,579		21,579
Cash dividends, $0.13 per share			(3,467)					(3,467)		(3,467)
Purchase of treasury stock				(0)				(0)		(0)
Change in ownership interest in subsidiaries		0						0		0
Net change in the year					6,525	(5,812)	2,683	3,396	339	3,735
BALANCE, MARCH 31, 2017	$ 89,250	$ 86,853	$ 101,310	$ (553)	$ 15,465	$ (8,664)	$ (1,569)	$ 282,092	$ 19,298	$ 301,390

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2017

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2017	2016	2017
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,770	¥ 2,932	$ 33,604
Adjustments for:			
Income taxes – paid	(594)	(953)	(5,295)
Depreciation and amortization	2,125	2,214	18,941
Loss on impairment of long-lived assets	152	235	1,355
Foreign exchange loss (gain)	121	(686)	1,079
Loss (gain) on sales of property, plant and equipment	2	(49)	18
Gain on sales of investment securities	(50)		(446)
Changes in assets and liabilities:			
Decrease in trade notes and accounts receivable	675	640	6,017
Decrease in inventories	882	1,871	7,862
Increase (decrease) in trade notes and accounts payable	575	(2,032)	5,125
Other – net	(818)	38	(7,291)
Total adjustments	3,070	1,278	27,365
Net cash provided by operating activities	6,840	4,210	60,969
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,039)	(2,529)	(18,175)
Proceeds from sales of property, plant and equipment	7	136	62
Purchases of intangible assets	(155)	(279)	(1,382)
Purchases of investment securities	(415)	(229)	(3,699)
Proceeds from sales of investment securities	311	100	2,772
Other – net	(33)	82	(293)
Net cash used in investing activities	(2,324)	(2,719)	(20,715)
FINANCING ACTIVITIES:			
Decrease in short-term bank loans - net	(3,293)	(723)	(29,352)
Proceeds from long-term debt	977	8,382	8,708
Repayments of long-term debt	(3,297)	(7,984)	(29,388)
Dividends paid	(389)	(363)	(3,467)
Other – net	(173)	(208)	(1,542)
Net cash used in financing activities	(6,175)	(896)	(55,041)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(220)	(150)	(1,961)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(1,879)	445	(16,748)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,881	5,436	52,420
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 4,002	¥ 5,881	$ 35,672

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 2016 consolidated financial statements to conform to the classifications used in 2017.

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 ¥112.19 to $1, the approximate rate of exchange at March 31, 2017. 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 is able to exercise control over operations are fully consolidated.

Investments in associated companies 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 being 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—"FASB ASC") 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 research and development; and (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.

c. ***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.

d. ***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.

e. ***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.

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

Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method. For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

g. ***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.

Pursuant to an amendment to the Corporate Tax Act, the Company adopted ASBJ PITF No. 32, "Practical Solution on a change in depreciation method due to Tax Reform 2016" and changed the depreciation method for building improvements and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. There was not a material impact on the consolidated financial statements from these accounting changes.

h. ***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.

i. ***Software –*** Amortization of capitalized software costs is computed using the straight-line method over 5 years, the estimated useful life of the assets.

j. ***Retirement Benefits –*** The Company and certain domestic consolidated 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 and Audit & Supervisory Board members are recorded as a liability at the amount that would be required if all directors and Audit & Supervisory Board members retired at each balance sheet date.

k. ***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.

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

m. ***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.

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

o. ***Income Taxes –*** The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences.

The Group files a tax return under the consolidated corporate-tax system, which allows companies to base tax payments on the combined profits or losses of the parent company and its wholly owned domestic subsidiaries.

p. ***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.

q. ***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.

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

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

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

s. ***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.

t. ***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.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Non-current:			
Equity securities	¥ 6,129	¥ 5,031	$ 54,631
Trust fund investments and other	142	410	1,265
Total	¥ 6,271	¥ 5,441	$ 55,896

The costs and aggregate fair values of investment securities as of March 31, 2017 and 2016, were as follows:

	Millions of Yen			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥1,635	¥2,330	¥(14)	¥3,951
Debt securities	147	0	(5)	142
March 31, 2016				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥1,644	¥1,388	¥(56)	¥2,976
Debt securities	416	0	(6)	410

	Thousands of U.S. Dollars			
March 31, 2017	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	$14,574	$20,768	$(125)	$35,217
Debt securities	1,310		(45)	1,265

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Nonmarketable available-for-sale:			
Equity securities	¥2,178	¥2,055	$19,414

The information for available-for-sale securities which were sold during the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		
March 31, 2017	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 62	¥ 49	¥ 0
Debt securities	300		
Total	¥ 362	¥ 49	¥ 0
March 31, 2016			
Available-for-sale:			
Equity securities	¥	¥	¥
Debt securities	100		
Total	¥ 100	¥ -	¥

March 31, 2017	Thousands of U.S. Dollars Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 553	$ 437	$ 0
Debt securities	2,674		
Total	$ 3,227	$ 437	$ 0

4. INVENTORIES

Inventories as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen 2017	Millions of Yen 2016	Thousands of U.S. Dollars 2017
Finished products	¥ 5,068	¥ 5,803	$ 45,174
Work in process	312	302	2,781
Raw materials and supplies	5,590	6,093	49,826
Total	¥ 10,970	¥ 12,198	$ 97,781

5. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥152 million ($1,355 thousand) and ¥235 million for the years ended March 31, 2017 and 2016, respectively. The Group recognized a decline in value of a golf course and hotel facilities for the year ended March 31, 2016. Also, the Group recognized a decline in value of unused real estate in Japan for the year ended March 31, 2017. 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 the third-party appraisal report for the facility.

6. INVESTMENT PROPERTY

In November 2008, the ASBJ issued ASBJ Statement No. 20, "Accounting Standard for Investment Property and Related Disclosures" and issued ASBJ Guidance No. 23, "Guidance on Accounting Standard for Investment Property and Related Disclosures."

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, 2017 and 2016, were ¥106 million ($945 thousand) and ¥108 million, respectively.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2016	Increase/ Decrease	March 31, 2017	March 31, 2017
¥2,518	¥123	¥2,641	¥3,400

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2015	Increase/ Decrease	March 31, 2016	March 31, 2016
¥2,776	¥(258)	¥2,518	¥3,294

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2016	Increase/ Decrease	March 31, 2017	March 31, 2017
$22,444	$1,096	$23,540	$30,306

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, 2017, primarily represents the capital expenditure for current investment properties of ¥308 million ($2,745 thousand), and the decrease primarily represents depreciation of ¥33 million ($294 thousand), and impairment loss of ¥152 million ($1,355 thousand). Increase during the fiscal year ended March 31, 2016, primarily represents the capital expenditure for current investment properties of ¥29 million, and the decrease primarily represents depreciation of ¥38 million, properties sold of ¥14 million, and impairment loss of ¥235 million.

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

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

Short-term bank loans as of March 31, 2017 and 2016, 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, 2017 and 2016, were 1.3% and 1.4%, respectively. As of March 31, 2017 and 2016, the total committed line of credit was ¥5,000 million ($44,567 thousand) and ¥5,000 million, and unused balance was ¥5,000 million ($44,567 thousand) and ¥3,000 million, respectively.

Long-term debt as of March 31, 2017 and 2016, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unsecured loans from banks and other financial institutions, due serially to 2022 with interest rates ranging from 0.4% to 2.1% (2017) and from 0.4% to 2.1% (2016)	¥ 11,117	¥ 14,084	$ 99,091
Obligations under finance leases	1,184	1,253	10,553
Total	12,301	15,337	109,644
Less current portion	(717)	(2,423)	(6,391)
Long-term debt, less current portion	¥ 11,584	¥ 12,914	$ 103,253

Annual maturities of long-term debt as of March 31, 2017, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2018	¥ 717	$ 6,391
2019	2,758	24,583
2020	2,310	20,590
2021	1,559	13,896
2022	4,139	36,893
2023 and thereafter	818	7,291
Total	¥ 12,301	$ 109,644

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 keep the indicators above a certain level. Based on the financial results for the years ended March 31, 2017 and 2016, the covenants were not applied since the Group met the requirements.

8. RETIREMENT AND PENSION PLANS

The Company and some domestic subsidiaries have a defined contribution plan and a defined benefit plan including a defined corporate pension plan and retirement lump sum plan. Some foreign consolidated subsidiaries have defined contribution plans and defined benefit plans. Some domestic consolidated 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 reiably determined based on their contributions, the plan is accounted for as a defined contribution plan.

Also, the Group has a severance payment plan for directors.

The liability for retirement benefits as of March 31, 2017 and 2016, for directors was ¥405 million ($3,610 thousand) and ¥399 million, respectively, and included in liability for retirement benefits in the consolidated balance sheet. 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").

<1> Defined Benefit Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 4,104	¥ 4,205	$ 36,581
Service cost	161	335	1,435
Interest cost	25	55	223
Actuarial losses (gains)	86	(88)	767
Benefits paid	(151)	(155)	(1,346)
Foreign currency translation differences	(145)	(192)	(1,292)
Liabilities extinguished on settlements	(1,247)		(11,115)
Others	5	(56)	43
Balance at end of year	¥ 2,838	¥ 4,104	$ 25,296

(2) The changes in plan assets for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 2,619	¥ 2,614	$ 23,344
Expected return on plan assets	10	33	89
Actuarial losses (gains)	85	(42)	758
Contributions from the employer	197	281	1,756
Benefits paid	(151)	(155)	(1,346)
Foreign currency translation differences	(92)	(116)	(820)
Assets distributed on settlements	(730)		(6,507)
Others	5	4	45
Balance at end of year	¥ 1,943	¥ 2,619	$ 17,319

(3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥ 119	¥ 113	$ 1,061
Periodic benefit costs	18	27	160
Benefits paid	0	(20)	0
Foreign currency translation differences	(4)	(1)	(36)
Balance at end of year	¥ 133	¥ 119	$ 1,185

(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, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Funded defined benefit obligation	¥ 2,838	¥ 4,104	$ 25,297
Plan assets	(1,943)	(2,619)	(17,319)
Total	895	1,485	7,978
Unfunded defined benefit obligation	133	119	1,185
Net liability arising from defined benefit obligation	¥ 1,028	¥ 1,604	$ 9,163

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Liability for retirement benefits	¥ 1,028	¥ 1,604	$ 9,163
Net liability arising from defined benefit obligation	¥ 1,028	¥ 1,604	$ 9,163

(5) The components of net periodic benefit costs for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Service cost	¥ 161	¥ 335	$ 1,435
Interest cost	25	55	223
Expected return on plan assets	(10)	(33)	(89)
Recognized actuarial losses	42	93	374
Recognized prior service cost (benefit)	4	(10)	36
Periodic benefit cost in simplified method	17	27	152
Other	(130)	(86)	(1,159)
Net periodic benefit costs	¥ 109	¥ 381	$ 972

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Prior service cost	¥ (35)	¥ (98)	$ (312)
Actuarial gain	467	201	4,162
Others	39	64	348
Total	¥ 471	¥ 167	$ 4,198

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrecognized prior service cost	¥ 56	¥ 21	$ 499
Unrecognized actuarial losses	210	716	1,872
Total	¥ 266	¥ 737	$ 2,371

(8) Plan assets as of March 31, 2017 and 2016

a. *Components of plan assets*

Plan assets consisted of the following:

	2017	2016
Debt securities in Japan	12.9%	8.4%
Equity securities in Japan	8.3	6.1
Debt securities in other countries	3.2	2.6
Equity securities in other countries	7.9	5.8
Cash and time deposits	1.0	0.8
Insurance asset (general account)	63.7	73.7
Others	3.0	2.6
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, 2017 and 2016, were set forth as follows:

	2017	2016
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 0.0%	Mainly 0.0%

<2> Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2017 and 2016, was ¥195 million ($1,738 thousand) and ¥123 million, respectively.

The amount of contributions required for the multi-employer pension funds, accounted for as a defined contribution plan, for the years ended March 31, 2017 and 2016, was ¥123 million ($1,096 thousand) and ¥158 million, respectively.

(1) The funding condition of multi-employer pension funds as of March 31, 2016 and 2015, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2016	2015	2016
Amount of fair value of plan assets	¥ 306,491	¥ 334,668	$ 2,731,892
Amount of benefit obligations for pension financing calculations	365,489	381,438	3,257,768
Net balance	¥ (58,998)	¥ (46,770)	$ (525,876)

(2) The Group's ratio in the multi-employer pension funds based on the contributions as of March 31, 2016 and 2015, were 1.3% and 1.2%, respectively.

(3) Supplementary explanation

The above information is obtained from the latest available information.

The primary factors for the net balance in (1) above are ¥47,872 million ($426,705 thousand) and ¥49,404 million of past service liabilities used in calculating the projected benefit obligation, and zero and ¥2,634 million of general reserve in the pension fund, and ¥11,125 million ($99,162 thousand) and zero lack carryforward for the years ended March 31, 2016 and 2015, respectively. The amount of principle and interest of past service liabilities in this plan are amortized equally over 15 years.

The ratio in (2) above does not agree to the actual contribution ratio of the Group because of the additional contribution paid for past service liabilities.

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Balance at beginning of year	¥48	¥47	$428
Reconciliation associated with passage of time	0	1	0
Balance at end of year	48	48	428

10. EQUITY

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

a. Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. 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 years.

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.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2017 and 2016, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Employees' salaries and bonuses	¥3,333	¥3,571	$29,709
Net periodic retirement benefit	130	329	1,159
Transport	2,973	3,374	26,500
Depreciation	276	347	2,460
Rental	234	241	2,086
Research and development	2,496	2,371	22,248
Amortization of goodwill	87	87	775

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.8% and 33.0% for the years ended March 31, 2017 and 2016, respectively. Foreign subsidiaries are subject to 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, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Deferred tax assets:			
Tax loss carryforwards	¥ 2,541	¥ 2,944	$ 22,649
Impairment loss on long-lived assets	1,279	1,265	11,400
Loss on revaluation of investment securities	172	64	1,533
Retirement benefits to directors	124	122	1,105
Unrealized gain on property, plant and equipment	97	97	865
Others	997	1,095	8,887
Less valuation allowance	(3,867)	(3,970)	(34,468)
Total	¥ 1,343	¥ 1,617	$ 11,971
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ (53)	¥ (56)	$ (472)
Unrealized gain on available-for-sale securities	(565)	(312)	(5,036)
Undistributed earnings of foreign subsidiaries	(212)	(200)	(1,890)
Depreciation of foreign subsidiaries	(556)	(247)	(4,956)
Negative goodwill and intangible fixed assets of foreign subsidiaries	(80)	(188)	(713)
Others	(1,033)	(1,079)	(9,208)
Total	¥ (2,499)	¥ (2,082)	$ (22,275)
Net deferred tax liabilities	¥ (1,156)	¥ (465)	$ (10,304)

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, 2017 and 2016, were as follows:

	2017	2016
Normal effective statutory tax rate	30.8%	33.0%
Expenses not deductible for income tax purposes	(0.1)	0.3
Inhabitant tax on per capita basis	0.8	1.0
Difference of income tax rates applicable to income in certain foreign countries	0.1	(3.1)
(Decrease) increase in valuation allowance	(3.2)	17.0
Tax credit	(1.2)	(1.8)
Adjustment on deferred tax assets and liabilities at the end of period due to change in tax rates		0.7
Undistributed earnings of foreign subsidiaries	0.3	1.1
Amortization of goodwill	0.7	1.0
Other – net	0.6	(0.7)
Actual effective tax rate	28.8%	48.5%

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,496 million ($22,248 thousand) and ¥2,371 million for the years ended March 31, 2017 and 2016, respectively.

14. LEASES

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

Total lease expenses included for the years ended March 31, 2017 and 2016, were ¥322 million ($2,870 thousand) and ¥312 million, respectively.

The future minimum lease payments commitment under noncancelable operating leases as of March 31, 2017, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 73	$ 651
Due after one year	913	8,138
Total	¥ 986	$ 8,789

15. 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 derivatives of interest rate swaps. Long-term deposits received are mainly related to deposits for membership of 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 on the basis of 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, 2017.

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

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

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

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

Liquidity risk management

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

(4) Fair Value of Financial Instruments

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

(a) Fair value of financial instruments

Carrying amounts, fair values and the differences between carrying amounts and fair values as of March 31, 2017 and 2016, were as follows. The accounts for which fair value cannot be reasonably determined are not included in the following:

	Millions of Yen		
March 31, 2017	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 4,002	¥ 4,002	¥
Notes and accounts receivable	19,147	19,147	
Investment securities	4,093	4,093	
Total	¥ 27,242	¥ 27,242	¥
Notes and accounts payable	¥ (9,398)	¥ (9,398)	¥
Short-term bank loans	(4,759)	(4,759)	
Long-term debt	(12,301)	(12,332)	(31)
Long-term deposits received	(741)	(688)	53
Total	¥ (27,199)	¥ (27,177)	¥ 22

	Millions of Yen		
March 31, 2016	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 5,881	¥ 5,881	¥
Notes and accounts receivable	20,111	20,111	
Investment securities	3,386	3,386	
Total	¥ 29,378	¥ 29,378	¥
Notes and accounts payable	¥ 9,389	¥ 9,389	¥
Short-term bank loans	8,186	8,186	
Long-term debt	15,337	15,341	(4)
Long-term deposits received	753	672	81
Total	¥ 33,665	¥ 33,588	¥ 77

March 31, 2017	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 35,672	$ 35,672	$
Notes and accounts receivable	170,666	170,666	
Investment securities	36,482	36,482	
Total	$ 242,820	$ 242,820	$
Notes and accounts payable	$ (83,769)	$ (83,769)	$
Short-term bank loans	(42,419)	(42,419)	
Long-term debt	(109,644)	(109,921)	(277)
Long-term deposits received	(6,605)	(6,132)	473
Total	$ (242,437)	$ (242,241)	$ 196

Cash and Cash Equivalents and Notes and Accounts Receivable

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

Investment Securities

The fair values of marketable and investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The fair value information for investment securities by classification is included in Note 3.

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

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

Long-Term Debt

The fair values of long-term debt are determined by discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended March 31, 2017.

Long-Term Deposits Received

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

Derivatives

The fair value information for derivatives is included in Note 16.

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

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Investments in equity instruments that do not have a quoted market price in an active market	¥3,114	¥2,966	$27,756

(5) Maturity Analysis for Financial Assets with Contractual Maturities

	Millions of Yen			
March 31, 2017	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	¥ 4,002	¥	¥	¥
Notes and accounts receivable	19,147			
Investment securities				
Available-for-sale securities with contractual maturities		100		
Total	¥ 23,149	¥ 100	¥	¥

	Millions of Yen			
March 31, 2016	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	¥ 5,881	¥	¥	¥
Notes and accounts receivable	20,111			
Investment securities				
Available-for-sale securities with contractual maturities		200		200
Total	¥ 25,992	¥ 200	¥	¥ 200

	Thousands of U.S. Dollars			
March 31, 2017	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	$ 35,672	$	$	$
Notes and accounts receivable	170,666			
Investment securities				
Available-for-sale securities with contractual maturities		891		
Total	$ 206,338	$ 891	$	$

16. 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, 2017

Not applicable

March 31, 2016

Not applicable

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2017

Not applicable

March 31, 2016

Not applicable

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 1,034	¥ (652)	$ 9,217
Reclassification adjustments to profit or loss	(48)		(428)
Amount before income tax effect	986	(652)	8,789
Income tax effect	(253)	157	(2,255)
Total	¥ 733	¥ (495)	$ 6,534
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (793)	¥ (2,461)	$ (7,069)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(793)	(2,461)	(7,069)
Income tax effect			
Total	¥ (793)	¥ (2,461)	$ (7,069)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 38	¥ 172	$ 338
Reclassification adjustments to profit or loss	433	(5)	3,860
Amount before income tax effect	471	167	4,198
Income tax effect	(160)	(1)	(1,426)
Total	¥ 311	¥ 166	$ 2,772
Share of other comprehensive income (loss) in associated companies - Gains (losses) arising during the year	¥ 0	¥ (0)	$ 0
Total	¥ 0	¥ (0)	$ 0
Total other comprehensive income (loss)	¥ 251	¥ (2,790)	$ 2,237

18. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2017 and 2016, 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, 2017:				
Basic EPS				
Net income available to common shareholders	¥ 2,421	25,948	¥ 93.31	$ 0.83
For the year ended March 31, 2016:				
Basic EPS				
Net income available to common shareholders	¥ 1,223	25,949	¥ 47.12	

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

19. 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, 2017 and 2016, were as follows:

Fiscal year ended March 31, 2017

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the Company and their relatives	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 22.34	Payment of insurance premium	¥14	$125

Note: Hasegawa Kosan Co., Ltd. is wholly owned by Yoshihiro Hasegawa, the representative director of the Company. The insurance premium is determined on an arm's-length basis.

Fiscal year ended March 31, 2016

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)
Owned by certain directors of the Company and their relatives	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.56	Payment of insurance premium	¥22
						Other current assets, end of year	13

Note: Hasegawa Kosan Co., Ltd. is wholly owned by Yoshihiro Hasegawa, the representative director of the Company. The insurance premium is determined on an arm's-length basis.

(2) The Transactions between Subsidiaries and Related Parties

Transactions between subsidiaries and related parties for the years ended March 31, 2017 and 2016, were as follows:

Fiscal year ended March 31, 2017

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5	$ 45
						Minimum rental commitments	36	321
						Other current assets, end of year	0	0

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

Fiscal year ended March 31, 2016

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5
						Minimum rental commitments	42
						Sales	12
						Other current assets, end of year	0

Note: Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.
Lease payments are determined based on their fair value (used to calculate property taxes).
Sales transactions are carried out on an arm's-length basis similar to third party transactions.

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2017, was approved at the Company's Board of Directors' meeting held on May 18, 2017:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥9 ($0.08) per share	¥234	$2,086

21. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures," and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," 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 such information is evaluated regularly by the chief operating decisionmaker 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 being 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."

Effective April 1, 2016, the Group changed its expense allocation rules in order to allow for a more appropriate evaluation of segment performance. The segment information for the year ended March 31, 2016, has been retrospectively restated to conform to the new allocation standards.

(3) Information about Sales, Profit and Other Items Is As Follows.

	Millions of Yen								
	2017								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 18,286	¥ 16,209	¥ 5,326	¥ 29,855	¥ 69,676	¥ 1,685	¥ 71,361	¥ 23	¥ 71,384
Intersegment sales or transfers	250	238		143	631	132	763	(763)	
Total	¥ 18,536	¥ 16,447	¥ 5,326	¥ 29,998	¥ 70,307	¥ 1,817	¥ 72,124	¥ (740)	¥ 71,384
Segment profit (loss)	¥943	¥1,716	¥310	¥1,392	¥4,361	¥ (21)	¥4,340	¥(365)	¥3,975
Other:									
Depreciation	632	598	147	529	1,906	132	2,038		2,038
Net result of interest income and interest expense	(27)	(4)	(3)	(124)	(158)	12	(146)	(97)	(243)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥69 million ($615 thousand) and company-wide expenses of ¥517 million ($4,608 thousand), which are not attributable to any reportable segment. Assets are not allocated to reportable segments as they are not used for the determination of the allocation of management resources or the assessment of performance of the Company.

	Millions of Yen								
	2016								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 20,092	¥ 18,131	¥ 5,008	¥ 36,123	¥ 79,354	¥ 1,641	¥ 80,995	¥ (17)	¥ 80,978
Intersegment sales or transfers	508	384		222	1,114	137	1,251	(1,251)	
Total	¥ 20,600	¥ 18,515	¥ 5,008	¥ 36,345	¥ 80,468	¥ 1,778	¥ 82,246	¥ (1,268)	¥ 80,978
Segment profit (loss)	¥1,055	¥1,693	¥279	¥(312)	¥2,715	¥(52)	¥2,663	¥(226)	¥2,437
Other:									
Depreciation	626	549	138	671	1,984	143	2,127		2,127
Net result of interest income and interest expense	(39)	(11)	(7)	(77)	(134)	(14)	(148)	(155)	(303)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit (loss) include reconciliation loss of inventories of ¥7 million and company-wide expenses of ¥290 million, which are not attributable to any reportable segment. Assets are not allocated to reportable segments as they are not used for the determination of the allocation of management resources or the assessment of performance of the Company.

	Thousands of U.S. Dollars								
	2017								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 162,991	$ 144,479	$ 47,473	$ 266,111	$ 621,054	$ 15,019	$ 636,073	$ 205	$ 636,278
Intersegment sales or transfers	2,228	2,121		1,275	5,624	1,177	6,801	(6,801)	
Total	$ 165,219	$ 146,600	$ 47,473	$ 267,386	$ 626,678	$ 16,196	$ 642,874	$ (6,596)	$ 636,278
Segment profit (loss)	$8,405	$15,295	$2,763	$12,408	$38,871	$ (187)	$38,684	$(3,253)	$35,431
Other:									
Depreciation	5,633	5,330	1,310	4,715	16,998	1,177	18,165		18,165
Net result of interest income and interest expense	(241)	(36)	(27)	(1,105)	(1,409)	107	(1,302)	(865)	(2,167)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2017 and 2016, were as follows:

(1) Net sales

Millions of Yen					
2017					
Japan	South and North America	Asia	Europe	Other	Total
¥30,419	¥15,366	¥9,493	¥13,226	¥2,880	¥71,384

Millions of Yen					
2016					
Japan	South and North America	Asia	Europe	Other	Total
¥32,043	¥18,889	¥10,914	¥15,388	¥3,744	¥80,978

Thousands of U.S. Dollars					
2017					
Japan	South and North America	Asia	Europe	Other	Total
$271,138	$136,964	$84,615	$117,889	$25,672	$636,278

Note: Sales are classified by country or region based on the location of customers.

(2) Net property, plant and equipment

Millions of Yen					
2017					
Japan	South and North America	Asia	Europe	Other	Total
¥13,310	¥4,030	¥2,020	¥2,326	¥1,126	¥22,812

Millions of Yen					
2016					
Japan	South and North America	Asia	Europe	Other	Total
¥13,622	¥3,910	¥2,213	¥2,322	¥1,122	¥23,189

Thousands of U.S. Dollars					
2017					
Japan	South and North America	Asia	Europe	Other	Total
$118,638	$35,921	$18,005	$20,733	$10,037	$203,334

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, 2017 and 2016, was as follows:

	Millions of Yen							
	2017							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥	¥	¥	¥	¥7	¥145	¥152

	Millions of Yen							
	2016							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥	¥	¥	¥	¥235	¥	¥235

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	$	$	$	$	$	$63	$1,292	$1,355

[Amortization of goodwill and amount of goodwill by reportable segment]

The amortization of goodwill and amount of goodwill by reportable segment for the years ended March 31, 2017 and 2016, were as follows:

	Millions of Yen							
	2017							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥	¥	¥	¥86	¥86	¥1	¥	¥87
Amount of goodwill								

	Millions of Yen							
	2016							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥	¥	¥	¥86	¥86	¥1	¥	¥87
Amount of goodwill				86	86	1		87

	Thousands of U.S. Dollars							
	2017							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	$	$	$	$766	$766	$9	$	$775
Amount of goodwill								

* * * * * *

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.:

We have audited the accompanying consolidated balance sheet of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2017, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2017, and the consolidated results of their operations and their 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.

Deloitte Touche Tohmatsu LLC

June 26, 2017

Corporate Overview (as of March 31, 2017)

Founded	November 18, 1947
Capital Stock	10,012.95 million yen
Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Osaka Head Office	4-4-7 Imabashi, Chuo-ku, Osaka
Tokyo Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Laboratories	Central Research Laboratory, Tsukuba Research Laboratory
Plants	Kakogawa Plant, Tokyo Plant, Fuji Plant, Ibaraki Plant, Hokkaido Plant, Sendai Plant, and Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Nagoya Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	88 (Consolidated: 1,462)
Number of Group Companies	35
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	http://www.harima.co.jp/en/index.html

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
HARIMA USA, Inc.	3,350 thousand U.S. dollars	100	Control of U.S. operations
Harima do Brasil Industria Quimica Ltda.	38,349 thousand Brasil real	99.87	Manufacture and sale of rosin and its derivatives
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	85	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,356 thousand Malaysian ringgit	85	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
Nanning Harima Chemicals Co., Ltd.	48,234 thousand Chinese yuan	95	Manufacture and sale of rosin and its derivatives
Harimatec Czech, s.r.o.	7,000 thousand Czech koruna	100	Manufacture and sale of electronic materials
Xinyi Rihong Plastic Chemical Co., Ltd.	27,390 thousand Chinese yuan	100	Manufacture and sale of rosin and its derivatives
Lawter B.V.	76,300 thousand euro	97.68	Control of Lawter Group’s operations
Harima Chemicals (Shanghai) Co., Ltd	12,652 thousand Chinese yuan	100	Support of Chinese business

Directors and Corporate Auditors (as of March 31, 2017)

President	Yoshihiro Hasegawa
Senior Executive Managing Director	Teruo Kaneshiro
Executive Director	Masashi Inaba
Executive Director	Ichiro Taninaka
Managing Director	Fumiaki Tsuchida
Audit＆Supervisory Committee Member	Jyoichiro Tanaka
Audit＆Supervisory Committee Member *	Tatsuya Michigami
Audit＆Supervisory Committee Member *	Hidenori Hiramatsu

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2017)

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

(2) Total number of shares outstanding 26,080,396
(including 132,049 shares of treasury stocks)

(3) Number of shareholders 2,543

(4) Major shareholders

	Status of shareholding	
	Number of shares held (Thousands of shares)	Ratio of number of shares held against total number of shares outstanding (%)
Hasegawakosan Co., Ltd.	5,826	22.45
Harima Chemicals Mutual Prosperity Association	1,132	4.36
Sumitomo Mitsui Banking Corporation	1,094	4.21
Shorai, Ltd.	1,073	4.13
Shorai Foundation for Science and Technology	805	3.10
Japan Trusty-Service Trust bank	771	2.97
Hyogo Prefectural Credit Federation of Agricultural Cooperatives	728	2.80
The Minato Bank, Ltd	692	2.66
Keihansin Kougyou Corporation	672	2.58
Japan Master-Trust Trust bank	495	1.91

(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 (132,049 shares), which amounts to 25,948,347 shares. The numbers shown are rounded down to two decimal places.