

Annual Report

Year Ended March 31, 2022

HARIMA CHEMICALS GROUP, INC.

Table of Contents

| | |
|---|----|
| 1. Business Overview | 1 |
| 2. Consolidated Business Performance Trends | 3 |
| 3. Consolidated Financial Statements | 4 |
| 4. Independent Auditor's Report | 39 |
| 5. Corporate Overview | 44 |
| 6. Principal Subsidiaries | 45 |
| 7. Directors and Corporate Auditors | 46 |

Business Overview

Overall, the world economy showed a gradual recovery during the current fiscal year, although it was affected by the COVID 19 that continued from the previous year. This was supported by the progress of COVID-19 vaccination and aggressive economic measures mainly in developed countries. In the second half of 2021, global supply chain disruptions and soaring raw material prices affected economic activity overall. On the other hand, in Japan, vaccination has been progressed and the number of infected people showed declining trend. But because of the re-spreading infection with mutant virus and soaring raw material prices, recovery of Japanese economic activity has been stalled.

Under these circumstances, demand recovered from the previous year despite the COVID-19 crisis, our group worked hard to expand sales. About the oversea business, in Europe and America, sales of adhesive resins increased. At the same time, our subsidiaries of the Paper Chemicals Segment in China remained stable. As a result, the whole sales increased than the previous year. Earnings also increased despite the soaring prices of raw materials because of the increased sales. About the domestic business, sales volume of almost each product increased because of the recovered demand. As a result, both revenues and earnings increased than the previous year.

As a result of these conditions, the group's consolidated net sales for the current fiscal year increased by 13,242 million Yen (up 21.1%) year-on-year to 76,093 million Yen. Operating income increased by 1,674 million Yen (up 106.2%) to 3,250 million. Ordinary income increased by 2,340 million Yen (up 214.0%) to 3,433 million Yen. Net income attributable to Harima Chemicals Group, INC. in this fiscal year was 1,746 million Yen, increased by 654 million Yen (up 60.0%).

Status of Business Segments

(Resin & Tall Oil Products)

In this segment, sales of almost all items exceeded the previous year. As a result, the sales increased by 2,782 million Yen (up 18.8%) to 17,566 million Yen and the operating income increased by 581 million Yen to 90 million Yen though we impacted by high raw material prices in the second half of the current fiscal year.

- Sales of paint resins increased because the delay in painting work due to the effects of the COVID 19 has been gradually resolved.
- Sales of printing ink resins was the same level with the previous year. Though the demand of printing ink resins recovered at the first of 2021, because of the re-spreading infection with the COVID 19 after August 2021, demand for inks used in commercial printing and newspapers declined again.
- Sales of synthetic rubber emulsifiers increased in the current fiscal year. There was an impact of the decrease in the number of automobiles in Japan due to the shortage of semiconductors. However, demand for commercial tires used in general exchange has increased which also contributed to the increase of sales.

(Paper Chemicals)

In this segment, on the background of the increasing demand for corrugated cardboards, the sales increased by 2,692 million Yen (up 14.6%) to 21,174 million Yen but the operating income decreased by 337 million Yen (down 17.0%) to 1,650 million Yen due to the impact of high raw material prices.

- In Japan, demand for corrugated cardboards due to market expansion of processed foods and online shopping increased. In addition, production of print information paper has recovered. As a result, sales in Japan increased due to increased production of paper and paperboard.
- In China, the production of paper and paperboard also has recovered. Because Chinese government tightened import restrictions on used paper, low strength recycled paper in China needed to be reused. As a result, demand for paper strengthening agents increased, sales in China increased steadily. But the operating income decreased due to the impact of high raw material prices.
- In America, as demand for base paper of corrugated cardboard increased, production of paper and paperboard increased. As a result, sales in America increased but operating income decreased also because of high raw material prices.

(Electronics Materials)

In this segment, sales of almost all items exceeded the previous year. Thanks to the strong demand for semiconductors, the sales increased by 1,298 million Yen (up 25.9%) to 6,304 million Yen and the operating income increased by 385 million Yen to 658 million Yen (up 141.8%) with the increase in sales.

- Sales of solder pastes increased because in the global automotive industry, demand for electronic components increased due to automated driving and electrification.
- Aluminium brazing materials for automobile heat exchangers, which sales volume decreased due to the impact of the COVID 19 in the previous year. But in this current fiscal year, with the increase in global automobile production, demand for automobile heat exchangers has recovered and sales of aluminium brazing materials also increased.
- Sales of functional resin for semiconductors, increased this current fiscal year. There has been strong demand for semiconductors because of the expanding demand of personal computers and 5G communication infrastructure with the spread of home teleworking.

(Lawter)

In this segment, in Europe and America, where the vaccination has progressed, economic activity has recovered. As a result, the sales increased by 6,450 million Yen (up 28.0%) to 29,518 million Yen. The operating income also increased by 1,335 million Yen to 1,721 million Yen (up 345.8%) not only due to the increase in sales but also because that we did rationalized production and progressed to pass on the rise in raw material prices to the unit sales price.

- Sales of adhesive resin increased steadily. Though sales volume declined due to confused disruptions in South America and Oceania, 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 was sluggish on the background of digitization of information. But in this current fiscal year, demand has recovered in some regions, such as North and South America. Of course, we progressed to pass on the rise in raw material prices to the unit sales price. As a result, sales of printing ink resin increased.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

| Category | 77th Fiscal Year (Fiscal year ended March 2019) | 78th Fiscal Year (Fiscal year ended March 2020) | 79th Fiscal Year (Fiscal year ended March 2021) | 80th Fiscal Year (Fiscal year ended March 2022) |
|---|---|---|---|---|
| Net sales | 78,589 | 71,799 | 62,851 | 76,093 |
| Ordinary income | 4,818 | 3,589 | 1,093 | 3,433 |
| Net income attributable to Harima Chemicals Group, INC. | 4,131 | 2,218 | 1,091 | 1,746 |
| Net income per share (Yen) | 159.02 | 87.67 | 43.44 | 69.42 |
| Total assets | 72,871 | 71,395 | 69,390 | 78,905 |
| Net assets | 37,811 | 37,746 | 37,442 | 40,104 |

- (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 from the 80th Fiscal year. The information of 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, 2022**

| ASSETS | Millions of Yen | | Thousands of U.S. Dollars (Note 1) | LIABILITIES AND EQUITY | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|-----------------|--|---|-----------------|-----------------|--|
| | 2022 | 2021 | 2022 | | 2022 | 2021 | 2022 |
| CURRENT ASSETS: | | | | CURRENT LIABILITIES: | | | |
| Cash and cash equivalents (Note 17) | ¥ 5,339 | ¥ 3,422 | \$ 43,623 | Short-term bank loans (Notes 8 and 17) | ¥ 7,725 | ¥ 8,626 | \$ 63,118 |
| Notes and accounts receivable (Note 17): | | | | Current portion of long-term debt (Notes 8, 16, and 17) | 359 | 506 | 2,933 |
| Trade notes | 2,237 | 2,413 | 18,278 | Notes and accounts payable (Note 17): | | | |
| Trade accounts | 17,707 | 14,874 | 144,677 | Trade notes | 979 | 776 | 7,999 |
| Associated companies | 204 | 176 | 1,667 | Trade accounts | 9,411 | 7,139 | 76,894 |
| Other | 832 | 803 | 6,798 | Associated companies | 195 | 166 | 1,593 |
| Allowance for doubtful receivables | (106) | (75) | (866) | Construction and other | 1,628 | 1,463 | 13,302 |
| Inventories (Note 5) | 15,378 | 12,047 | 125,648 | Income taxes payable (Note 13) | 376 | 309 | 3,072 |
| Other current assets | 2,647 | 1,907 | 21,626 | Other current liabilities | 2,477 | 1,917 | 20,239 |
| Total current assets | 44,238 | 35,567 | 361,451 | Total current liabilities | 23,150 | 20,902 | 189,150 |
| PROPERTY, PLANT AND EQUIPMENT (Note 6): | | | | LONG-TERM LIABILITIES: | | | |
| Land (Note 7) | 8,292 | 8,306 | 67,751 | Long-term debt (Notes 8, 16, and 17) | 13,420 | 8,546 | 109,649 |
| Buildings and structures (Note 7) | 18,600 | 18,607 | 151,973 | Long-term deposits received (Note 17) | 529 | 556 | 4,322 |
| Machinery and equipment | 29,716 | 28,886 | 242,798 | Liability for retirement benefits (Note 9) | 247 | 397 | 2,018 |
| Lease assets (Note 16) | 637 | 769 | 5,205 | Asset retirement obligations (Note 10) | 39 | 49 | 319 |
| Construction in progress | 1,352 | 693 | 11,047 | Deferred tax liabilities (Note 13) | 859 | 810 | 7,019 |
| Other assets | 5,193 | 5,084 | 42,429 | Other long-term liabilities | 557 | 688 | 4,551 |
| Total | 63,790 | 62,345 | 521,203 | Total long-term liabilities | 15,651 | 11,046 | 127,878 |
| Accumulated depreciation | (40,388) | (39,894) | (329,995) | COMMITMENTS AND CONTINGENT LIABILITIES | | | |
| Net property, plant and equipment | 23,402 | 22,451 | 191,208 | (Notes 8, 16, and 18) | | | |
| INVESTMENTS AND OTHER ASSETS: | | | | EQUITY (Note 11): | | | |
| Investment securities (Notes 4 and 17) | 3,187 | 3,351 | 26,040 | Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2022 and 2021 | 10,013 | 10,013 | 81,812 |
| Investments in associated companies | 5,676 | 5,357 | 46,376 | Capital surplus | 9,760 | 9,765 | 79,745 |
| Deferred tax assets (Notes 3 and 13) | 969 | 1,243 | 7,917 | Retained earnings | 19,128 | 18,337 | 156,287 |
| Other assets | 1,446 | 1,423 | 11,815 | Treasury stock – at cost: 914,657 shares in 2022 and 946,459 shares in 2021 | (965) | (998) | (7,885) |
| Allowance for doubtful accounts | (13) | (2) | (106) | Accumulated other comprehensive income: | | | |
| Total investments and other assets | 11,265 | 11,372 | 92,042 | Unrealized gain on available-for-sale securities | 191 | 356 | 1,561 |
| | | | | Deferred gain on derivatives under hedge accounting | 57 | | 466 |
| | | | | Foreign currency translation adjustments | (1,287) | (2,720) | (10,516) |
| | | | | Defined retirement benefit plans | (156) | (187) | (1,275) |
| | | | | Total | 36,741 | 34,566 | 300,195 |
| | | | | Noncontrolling interests | 3,363 | 2,876 | 27,478 |
| | | | | Total equity | 40,104 | 37,442 | 327,673 |
| TOTAL | ¥ 78,905 | ¥ 69,390 | \$ 644,701 | TOTAL | ¥ 78,905 | ¥ 69,390 | \$ 644,701 |

See notes to consolidated financial statements.

**HARIMA CHEMICALS GROUP, INC.
and Subsidiaries**

**Consolidated Statement of Income
Year Ended March 31, 2022**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|----------------|--|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| NET SALES (Note 14) | ¥76,093 | ¥62,851 | \$ 621,726 |
| COST OF SALES | <u>58,116</u> | <u>47,888</u> | <u>474,843</u> |
| Gross profit | 17,977 | 14,963 | 146,883 |
| SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 15) | <u>14,726</u> | <u>13,386</u> | <u>120,320</u> |
| Operating income | <u>3,251</u> | <u>1,577</u> | <u>26,563</u> |
| OTHER INCOME (EXPENSES): | | | |
| Interest and dividend income | 125 | 105 | 1,021 |
| Interest expense | (273) | (261) | (2,231) |
| Rental income | 35 | 34 | 286 |
| Commission paid | (122) | (8) | (997) |
| Foreign exchange gain (loss) | 56 | (348) | 458 |
| Gain on sale of property, plant and equipment | 0 | 12 | 0 |
| Loss on impairment of long-lived assets (Note 6) | (439) | (342) | (3,587) |
| Loss on disposal of property, plant and equipment | (53) | (53) | (433) |
| Gain on sale of investment securities | 0 | 1,553 | 0 |
| Equity in earnings (losses) of associated companies | 292 | (110) | 2,386 |
| Other – net | <u>123</u> | <u>158</u> | <u>1,005</u> |
| Other income (expenses) – net | <u>(256)</u> | <u>740</u> | <u>(2,092)</u> |
| INCOME BEFORE INCOME TAXES | <u>2,995</u> | <u>2,317</u> | <u>24,471</u> |
| INCOME TAXES (Note 13): | | | |
| Current | 634 | 607 | 5,180 |
| Deferred | <u>248</u> | <u>210</u> | <u>2,026</u> |
| Total income taxes | <u>882</u> | <u>817</u> | <u>7,206</u> |
| NET INCOME | 2,113 | 1,500 | 17,265 |
| NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS | <u>(367)</u> | <u>(409)</u> | <u>(2,999)</u> |
| NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT | <u>¥ 1,746</u> | <u>¥ 1,091</u> | <u>\$ 14,266</u> |
| | <u>Yen</u> | | <u>U.S. Dollars</u> |
| PER SHARE OF COMMON STOCK (Notes 2.t and 20): | | | |
| Net income | ¥69.42 | ¥43.44 | \$0.57 |
| Cash dividends applicable to the year | 38.00 | 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, 2022**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|-----------------|--------------|--|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| NET INCOME | ¥2,113 | ¥1,500 | \$ 17,265 |
| OTHER COMPREHENSIVE INCOME (LOSS) (Note 19): | | | |
| Unrealized loss on available-for-sale securities | (164) | (516) | (1,340) |
| Deferred gain on derivatives under hedge accounting | 57 | | 466 |
| Foreign currency translation adjustments | 1,768 | (255) | 14,446 |
| Defined retirement benefit plans | 31 | 65 | 253 |
| Share of other comprehensive gain in associated companies | 0 | 0 | 0 |
| Total other comprehensive income (loss) | <u>1,692</u> | <u>(706)</u> | <u>13,825</u> |
| COMPREHENSIVE INCOME | <u>¥3,805</u> | <u>¥ 794</u> | <u>\$ 31,090</u> |
| TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO: | | | |
| Owners of the parent | ¥3,103 | ¥358 | \$25,353 |
| Noncontrolling interests | 702 | 436 | 5,737 |

See notes to consolidated financial statements.

**HARIMA CHEMICALS GROUP, INC.
and Subsidiaries**

**Consolidated Statement of Changes in Equity
Year Ended March 31, 2022**

| | Thousands | Millions of Yen | | | | | | | | | | |
|---|--|--|--------------------|----------------------|-------------------|---|--|---|---|-----------------|-----------------------------|-----------------|
| | Number of Shares of Common Stock Outstanding | Accumulated Other Comprehensive Income | | | | | | | | | Noncontrolling Interests | Total Equity |
| | | 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 | | |
| BALANCE, APRIL 1, 2020 | 25,106 | ¥ 10,013 | ¥9,768 | ¥ 18,201 | ¥(1,028) | ¥ 872 | | ¥(2,440) | ¥(250) | ¥ 35,136 | ¥2,610 | ¥ 37,746 |
| Net income attributable to owners of the parent | | | | 1,091 | | | | | | 1,091 | | 1,091 |
| Cash dividends, ¥38.00 per share | | | | (955) | | | | | | (955) | | (955) |
| Purchase of treasury stock | (0) | | | | (0) | | | | | (0) | | (0) |
| Disposal of treasury stock | 28 | | (3) | | 30 | | | | | 27 | | 27 |
| Others | | | | 0 | | | | | | 0 | | 0 |
| Net change in the year | | | | | | (516) | | (280) | 63 | (733) | 266 | (467) |
| BALANCE, MARCH 31, 2021 | 25,134 | 10,013 | 9,765 | 18,337 | (998) | 356 | | (2,720) | (187) | 34,566 | 2,876 | 37,442 |
| 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 |
| Others | | | | | | | | | | | | |
| Net change in the year | | | | | | (165) | ¥57 | 1,433 | 31 | 1,356 | 487 | 1,843 |
| BALANCE, MARCH 31, 2022 | <u>25,165</u> | <u>¥10,013</u> | <u>¥9,760</u> | <u>¥ 19,128</u> | <u>¥ (965)</u> | <u>¥ 191</u> | <u>¥57</u> | <u>¥(1,287)</u> | <u>¥(156)</u> | <u>¥ 36,741</u> | <u>¥3,363</u> | <u>¥ 40,104</u> |

| | Thousands of U.S. Dollars (Note 1) | | | | | | | | | | | |
|---|--|--------------------|----------------------|-------------------|---|--|---|---|-------------------|------------------|-----------------------------|--------------|
| | Accumulated Other Comprehensive Income | | | | | | | | | | Noncontrolling Interests | Total Equity |
| | 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 | | | |
| BALANCE, MARCH 31, 2021 | \$ 81,812 | \$ 79,786 | \$ 149,824 | \$(8,154) | \$ 2,909 | | \$(22,224) | \$(1,528) | \$ 282,425 | \$ 23,499 | \$ 305,924 | |
| Net income attributable to owners of the parent | | | 14,266 | | | | | | 14,266 | | 14,266 | |
| Cash dividends, \$0.31 per share | | | (7,803) | | | | | | (7,803) | | (7,803) | |
| Purchase of treasury stock | | | | (0) | | | | | (0) | | (0) | |
| Disposal of treasury stock | | (41) | | 269 | | | | | 228 | | 228 | |
| Others | | | | | | | | | | | | |
| Net change in the year | | | | | (1,348) | \$ 466 | 11,708 | 253 | 11,079 | 3,979 | 15,058 | |
| BALANCE, MARCH 31, 2022 | <u>\$ 81,812</u> | <u>\$ 79,745</u> | <u>\$ 156,287</u> | <u>\$(7,885)</u> | <u>\$ 1,561</u> | <u>\$ 466</u> | <u>\$(10,516)</u> | <u>\$(1,275)</u> | <u>\$ 300,195</u> | <u>\$ 27,478</u> | <u>\$ 327,673</u> | |

See notes to consolidated financial statements.

**HARIMA CHEMICALS GROUP, INC.
and Subsidiaries**

**Consolidated Statement of Cash Flows
Year Ended March 31, 2022**

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|--|-----------------|----------------|--|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| OPERATING ACTIVITIES: | | | |
| Income before income taxes | ¥ 2,995 | ¥ 2,317 | \$ 24,471 |
| Adjustments for: | | | |
| Income taxes – paid | (587) | (783) | (4,796) |
| Depreciation and amortization | 2,175 | 2,353 | 17,771 |
| Loss on impairment of long-lived assets | 439 | 342 | 3,587 |
| Foreign exchange (gain) loss | (56) | 372 | (458) |
| Gain on sales of property, plant and equipment | (21) | (12) | (172) |
| Loss (gain) on sales of investment securities | 1 | (1,567) | 8 |
| Changes in assets and liabilities: | | | |
| Increase in trade notes and accounts receivable | (1,745) | (100) | (14,258) |
| (Increase) decrease in inventories | (2,572) | 554 | (21,015) |
| Increase (decrease) in trade notes and accounts payable | 2,006 | (596) | 16,390 |
| Other – net | 198 | 128 | 1,619 |
| Total adjustments | <u>(162)</u> | <u>691</u> | <u>(1,324)</u> |
| Net cash provided by operating activities | <u>2,833</u> | <u>3,008</u> | <u>23,147</u> |
| INVESTING ACTIVITIES: | | | |
| Purchases of property, plant and equipment | (2,589) | (2,226) | (21,154) |
| Proceeds from sales of property, plant and equipment | 26 | 260 | 212 |
| Purchases of intangible assets | (267) | (69) | (2,182) |
| Purchases of investment securities | (4) | (1,788) | (33) |
| Proceeds from sales of investment securities | 5 | 2,649 | 41 |
| Other – net | (610) | (684) | (4,983) |
| Net cash used in investing activities | <u>(3,439)</u> | <u>(1,858)</u> | <u>(28,099)</u> |
| FINANCING ACTIVITIES: | | | |
| Decrease in short-term bank loans – net | (1,144) | (3,980) | (9,347) |
| Proceeds from long-term debt | 5,000 | 5,005 | 40,853 |
| Repayments of long-term debt | (536) | (1,453) | (4,379) |
| Dividends paid | (956) | (955) | (7,811) |
| Other – net | (257) | (182) | (2,100) |
| Net cash provided by (used in) financing activities | <u>2,107</u> | <u>(1,565)</u> | <u>17,216</u> |
| FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS | <u>416</u> | <u>(75)</u> | <u>3,399</u> |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | 1,917 | (490) | 15,663 |
| CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR | <u>3,422</u> | <u>3,912</u> | <u>27,960</u> |
| CASH AND CASH EQUIVALENTS, END OF YEAR | <u>¥ 5,339</u> | <u>¥ 3,422</u> | <u>\$ 43,623</u> |

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. and Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2022

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 2021 consolidated financial statements to conform to the classifications used in 2022.

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 ¥122.39 to \$1, the approximate rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

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

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

- b. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements** – Under Accounting Standards Board of Japan ("ASBJ") Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements," the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method** – ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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

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

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

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

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

Nonmarketable available-for-sale 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.

Effective April 1, 2021, the Company applied ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement," etc. The Company applied the New Accounting Standards prospectively. As a result, there is no impact on the consolidated financial statements for 2022.

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

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

- j. Software** – Amortization of capitalized software costs is computed using the straight-line method over five years, the estimated useful life of the assets.
- k. Retirement and Pension Plans** – The Company and certain domestic subsidiaries have funded defined benefit pension plans, defined contribution pension plans, and severance lump sum payment plans covering substantially all of their employees. Certain foreign subsidiaries have adopted funded defined benefit plans and defined contribution pension plans.

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

Retirement allowances for directors are recorded as a liability at the amount that would be required if all directors retired at each balance sheet date.

- l. Asset Retirement Obligations** – An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- m. 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 "Revenue from Contract(s) with Customers" (IFRS 15 and ASC 606), 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.

Effective April 1, 2021, the Company and its domestic subsidiaries adopted ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," etc. and recognizes revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to customers. As a result, under the New Accounting Standards, in buy-sell transactions, the Company does not recognize termination of paid supplies if the Company has the obligation to buy them back, while under the previous accounting standards, the Company recognize termination of them.

The Company retrospectively applied ASBJ Statement No. 29 and there was no cumulative effect to the retained earnings at April 1, 2021. Also, the effects of this accounting change for 2022 were insignificant.

- n. Research and Development Costs** – Research and development costs are charged to income as incurred.
- o. 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.
- p. Bonuses to Directors** – Bonuses to directors are accrued at the end of the year to which such bonuses are attributable.
- q. 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.
- r. 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.
- s. 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.
- t. 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.

- u. 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.

- v. 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. SIGNIFICANT ACCOUNTING ESTIMATE

Valuation of deferred tax assets

- (1) *Carrying amounts*

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------|-----------------|--------|------------------------------|
| | 2022 | 2021 | 2022 |
| Deferred tax assets | ¥969 | ¥1,243 | \$7,917 |

- (2) *Information on the significant accounting estimate*

Net deferred tax assets were ¥969 million (\$7,917 thousand) as of March 31, 2022, of which ¥729 million (\$5,956 thousand) was recorded relating to tax loss carryforwards at LAWTER Europe BV. Under the accounting principles generally accepted in the United States of America, 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.

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2022 and 2021, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-------------------|-----------------|---------------|------------------------------|
| | 2022 | 2021 | 2022 |
| Non-current: | | | |
| Equity securities | ¥3,187 | ¥3,351 | \$26,040 |
| Total | <u>¥3,187</u> | <u>¥3,351</u> | <u>\$26,040</u> |

The costs and aggregate fair values of investment securities as of March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | | |
|--------------------------------|---------------------------|---------------------|----------------------|---------------|
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| <u>March 31, 2022</u> | | | | |
| Securities classified as: | | | | |
| Marketable available-for-sale: | | | | |
| Equity securities | ¥2,800 | ¥596 | ¥(231) | ¥3,165 |
| <u>March 31, 2021</u> | | | | |
| Securities classified as: | | | | |
| Marketable available-for-sale: | | | | |
| Equity securities | ¥2,802 | ¥600 | ¥(73) | ¥3,329 |
| | | | | |
| | Thousands of U.S. Dollars | | | |
| | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| <u>March 31, 2022</u> | | | | |
| Securities classified as: | | | | |
| Marketable available-for-sale: | | | | |
| Equity securities | \$22,878 | \$4,870 | \$(1,888) | \$25,860 |

Carrying amounts of nonmarketable available-for-sale securities as of March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|-----------------------------------|-----------------|-------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Nonmarketable available-for-sale: | | | |
| Equity securities | ¥22 | ¥22 | \$180 |

The information for available-for-sale securities which were sold during the years ended March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | |
|-----------------------|---------------------------|-------------------|--------------------|
| | Proceeds | Realized Gains | Realized Losses |
| <u>March 31, 2022</u> | | | |
| Available-for-sale: | | | |
| Equity securities | ¥ 5 | _____ | ¥ 1 |
| Total | <u>¥ 5</u> | <u>_____</u> | <u>¥ 1</u> |
| <u>March 31, 2021</u> | | | |
| Available-for-sale: | | | |
| Equity securities | ¥2,657 | ¥1,576 | ¥ 1 |
| Total | <u>¥2,657</u> | <u>¥1,576</u> | <u>¥ 1</u> |
| | | | |
| | Thousands of U.S. Dollars | | |
| | Proceeds | Realized Gains | Realized Losses |
| <u>March 31, 2022</u> | | | |
| Available-for-sale: | | | |
| Equity securities | \$41 | _____ | \$ 8 |
| Total | <u>\$41</u> | <u>_____</u> | <u>\$ 8</u> |

5. INVENTORIES

Inventories as of March 31, 2022 and 2021, consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|----------------------------|-----------------|-----------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Finished products | ¥ 6,705 | ¥ 5,084 | \$ 54,784 |
| Work in process | 365 | 378 | 2,982 |
| Raw materials and supplies | <u>8,308</u> | <u>6,585</u> | <u>67,882</u> |
| Total | <u>¥ 15,378</u> | <u>¥ 12,047</u> | <u>\$ 125,648</u> |

6. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥439 million (\$3,587 thousand) and ¥342 million for the years ended March 31, 2022 and 2021, respectively. The Group recognized a decline in value of a golf course, hotel facilities, and paper chemicals facilities of the Hokkaido Plant for the year ended March 31, 2021. Also, 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.

7. INVESTMENT PROPERTY

The Group owns certain rental properties, such as office buildings and land. The net of rental income and operating expenses for those rental properties for the years ended March 31, 2022 and 2021, were ¥33 million (\$269 thousand) and ¥91 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, 2021 | Increase/ Decrease | March 31, 2022 | March 31, 2022 |
| ¥1,888 | ¥34 | ¥1,922 | ¥2,840 |

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

| Thousands of U.S. Dollars | | | |
|---------------------------|-----------------------|-------------------|-------------------|
| Carrying Amount | | | Fair Value |
| April 1, 2021 | Increase/ Decrease | March 31, 2022 | March 31, 2022 |
| \$15,426 | \$279 | \$15,705 | \$23,205 |

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, 2022, primarily represents the capital expenditure for current investment properties of ¥521 million (\$4,257 thousand), and the decrease primarily represents depreciation of ¥65 million (\$531 thousand) and impairment loss of ¥439 million (\$3,587 thousand). Increase during the fiscal year ended March 31, 2021, primarily represents the capital expenditure for current investment properties of ¥155 million, and the decrease primarily represents depreciation of ¥45 million and impairment loss of ¥230 million.
- 3) Fair value of properties is measured by the Group in accordance with the Real-Estate Appraisal Standard.

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

Short-term bank loans as of March 31, 2022 and 2021, 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, 2022 and 2021, were 0.9% and 0.7%, respectively. As of March 31, 2022 and 2021, the total committed line of credit was ¥6,000 million (\$49,024 thousand) and ¥6,000 million, and unused balance was ¥6,000 million (\$49,024 thousand) and ¥5,000 million, respectively.

Long-term debt as of March 31, 2022 and 2021, consisted of the following:

| | <u>Millions of Yen</u> | | <u>Thousands of U.S. Dollars</u> |
|---|------------------------|----------------|--------------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Unsecured loans from banks and other financial institutions, due serially to 2032 with interest rates ranging from 0.5% to 2.3% (2022) and from 0.5% to 3.7% (2021) | ¥ 12,974 | ¥ 8,162 | \$ 106,005 |
| Obligations under finance leases | 805 | 890 | 6,577 |
| Total | 13,779 | 9,052 | 112,582 |
| Less current portion | <u>(359)</u> | <u>(506)</u> | <u>(2,933)</u> |
| Long-term debt, less current portion | <u>¥ 13,420</u> | <u>¥ 8,546</u> | <u>\$ 109,649</u> |

Annual maturities of long-term debt as of March 31, 2022, for the next five years and thereafter were as follows:

| <u>Year Ending March 31</u> | <u>Millions of Yen</u> | <u>Thousands of U.S. Dollars</u> |
|-----------------------------|----------------------------|--------------------------------------|
| 2023 | ¥ 359 | \$ 2,933 |
| 2024 | 6,695 | 54,702 |
| 2025 | 1,226 | 10,017 |
| 2026 | 1 | 8 |
| 2027 | 0 | 0 |
| 2028 and thereafter | <u>5,498</u> | <u>44,922</u> |
| Total | <u>¥ 13,779</u> | <u>\$ 112,582</u> |

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, 2022 and 2021, the covenants were not breached since the Group met the requirements.

9. 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, 2022 and 2021 was ¥5 million (\$41 thousand) and ¥4 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, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Balance at beginning of year | ¥3,080 | ¥3,019 | \$ 25,165 |
| Service cost | 180 | 180 | 1,471 |
| Interest cost | 21 | 22 | 172 |
| Actuarial (gains) losses | (31) | 50 | (253) |
| Benefits paid | (247) | (224) | (2,018) |
| Foreign currency translation differences | 21 | 26 | 172 |
| Others | <u>7</u> | <u>7</u> | <u>56</u> |
| Balance at end of year | <u>¥3,031</u> | <u>¥3,080</u> | <u>\$ 24,765</u> |

- (2) The changes in plan assets for the years ended March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|---------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Balance at beginning of year | ¥2,790 | ¥2,168 | \$ 22,796 |
| Expected return on plan assets | 79 | 46 | 645 |
| Actuarial (losses) gains | (25) | 113 | (204) |
| Contributions from the employer | 251 | 660 | 2,051 |
| Benefits paid | (247) | (224) | (2,018) |
| Foreign currency translation differences | 17 | 22 | 139 |
| Others | <u>7</u> | <u>5</u> | <u>57</u> |
| Balance at end of year | <u>¥2,872</u> | <u>¥2,790</u> | <u>\$ 23,466</u> |

- (3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|--------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Balance at beginning of year | ¥ 103 | ¥ 146 | \$ 842 |
| Periodic benefit costs | (15) | (9) | (123) |
| Benefits paid | (9) | (31) | (74) |
| Foreign currency translation differences | <u>4</u> | <u>(3)</u> | <u>33</u> |
| Balance at end of year | <u>¥ 83</u> | <u>¥ 103</u> | <u>\$ 678</u> |

- (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, 2022 and 2021, was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Funded defined benefit obligation | ¥ 3,031 | ¥ 3,080 | \$ 24,765 |
| Plan assets | <u>(2,872)</u> | <u>(2,790)</u> | <u>(23,466)</u> |
| Total | 159 | 290 | 1,299 |
| Unfunded defined benefit obligation | <u>83</u> | <u>103</u> | <u>678</u> |
| Net liability arising from defined benefit obligation | <u>¥ 242</u> | <u>¥ 393</u> | <u>\$ 1,977</u> |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|--------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Liability for retirement benefits | <u>¥ 242</u> | <u>¥ 393</u> | <u>\$ 1,977</u> |
| Net liability arising from defined benefit obligation | <u>¥ 242</u> | <u>¥ 393</u> | <u>\$ 1,977</u> |

- (5) The components of net periodic benefit costs for the years ended March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--|-----------------|--------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Service cost | ¥ 180 | ¥ 180 | \$ 1,471 |
| Interest cost | 21 | 22 | 172 |
| Expected return on plan assets | (79) | (46) | (645) |
| Recognized actuarial losses | 20 | 37 | 163 |
| Recognized prior service cost | 4 | 4 | 33 |
| Periodic benefit cost in simplified method | (14) | (8) | (114) |
| Others | <u>2</u> | <u>—</u> | <u>16</u> |
| Net periodic benefit costs | <u>¥ 134</u> | <u>¥ 189</u> | <u>\$ 1,096</u> |

- (6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|--------------------------|-----------------|---------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Prior service cost | ¥ 4 | ¥ 4 | \$ 33 |
| Actuarial gains (losses) | 28 | (101) | 229 |
| Others | <u>(4)</u> | <u>(4)</u> | <u>(34)</u> |
| Total | <u>¥28</u> | <u>¥(101)</u> | <u>\$ 228</u> |

- (7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------------------|-----------------|-------------|------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Unrecognized prior service cost | ¥ 39 | ¥ 42 | \$ 319 |
| Unrecognized actuarial losses | <u>183</u> | <u>208</u> | <u>1,495</u> |
| Total | <u>¥222</u> | <u>¥250</u> | <u>\$ 1,814</u> |

- (8) Plan assets as of March 31, 2022 and 2021

a. *Components of plan assets*

Plan assets consisted of the following:

| | <u>2022</u> | <u>2021</u> |
|--------------------------------------|---------------|---------------|
| Debt securities in Japan | 9.0% | 9.0% |
| Equity securities in Japan | 11.7 | 11.3 |
| Debt securities in other countries | 3.1 | 4.0 |
| Equity securities in other countries | 11.7 | 11.5 |
| Cash and time deposits | 0.6 | 0.5 |
| Insurance asset (general account) | 63.3 | 63.4 |
| Others | <u>0.6</u> | <u>0.3</u> |
| Total | <u>100.0%</u> | <u>100.0%</u> |

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, 2022 and 2021, were set forth as follows:

| | <u>2022</u> | <u>2021</u> |
|--|-------------|-------------|
| Discount rate | Mainly 0.7% | Mainly 0.7% |
| Expected rate of return on plan assets | Mainly 3.0% | Mainly 2.0% |

<2> Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2022 and 2021, was ¥272 million (\$2,228 thousand) and ¥210 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 ¥89 million (\$727 thousand) and ¥86 million for the years ended March 31, 2022 and 2021, respectively.

- (1) The funded status of the multi-employer plan as of March 31, 2021 and 2020, was as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------------------------|------------------|------------------|---------------------------|
| | <u>2021</u> | <u>2020</u> | <u>2021</u> |
| Plan assets | ¥ 39,662 | ¥ 35,561 | \$ 324,062 |
| Actuarial liabilities of pension plan | <u>66,209</u> | <u>67,611</u> | <u>540,967</u> |
| Net balance | <u>¥(26,547)</u> | <u>¥(32,050)</u> | <u>\$ (216,905)</u> |

- (2) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2021 and 2020, were 2.1% and 2.1%, respectively.

- (3) Supplementary explanation

The above information is obtained from the latest available information.

The net balance in (1) above is mainly caused by past service cost of ¥31,794 million (\$259,776 thousand) for 2021 and ¥32,708 million for 2020, and a deficiency brought forward of ¥5,246 million (\$42,863 thousand) for 2021 and ¥658 million for 2020. Past service cost under the plan is amortized on a straight-line basis over 23 years, and the special contributions of ¥38 million (\$310 thousand) for 2021 and ¥38 million for 2020, which are utilized for such amortization, were expensed in the consolidated statement of income of the Group.

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

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|------------------------------|-----------------|-------------|---------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Balance at beginning of year | ¥49 | ¥49 | \$ 400 |
| Balance at end of year | 39 | 49 | 319 |

11. EQUITY

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

a. Dividends

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

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

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

b. Increases/Decreases and Transfer of Common Stock, Reserve, and Surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus, and retained earnings can be transferred among the accounts within equity under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by a specific formula. Under the Companies Act, stock acquisition rights are now presented as a separate component of equity. The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.

12. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2022 and 2021, principally consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---------------------------------|-----------------|--------|------------------------------|
| | 2022 | 2021 | 2022 |
| Employees' salaries and bonuses | ¥3,820 | ¥3,426 | \$ 31,212 |
| Net periodic retirement benefit | 306 | 212 | 2,500 |
| Transport | 3,839 | 3,223 | 31,367 |
| Depreciation | 307 | 317 | 2,508 |
| Rental | 258 | 254 | 2,108 |
| Research and development | 2,537 | 2,599 | 20,729 |

13. 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, 2022 and 2021. 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, 2022 and 2021, were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|-----------------|----------|------------------------------|
| | 2022 | 2021 | 2022 |
| Deferred tax assets: | | | |
| Tax loss carryforwards | ¥ 1,464 | ¥ 1,653 | \$ 11,962 |
| Impairment loss on long-lived assets | 1,584 | 1,481 | 12,942 |
| Loss on revaluation of investment securities | 64 | 66 | 523 |
| Retirement benefits to directors | 1 | 1 | 8 |
| Unrealized gain on property, plant and equipment | 97 | 97 | 793 |
| Others | 964 | 902 | 7,876 |
| Total of tax loss carryforwards and temporary differences | 4,174 | 4,200 | 34,104 |
| Less valuation allowance for tax loss carryforwards | (705) | (612) | (5,760) |
| Less valuation allowance for temporary differences | (1,738) | (1,634) | (14,201) |
| Total valuation allowance | (2,443) | (2,246) | (19,961) |
| Deferred tax assets | ¥ 1,731 | ¥ 1,954 | \$ 14,143 |
| Deferred tax liabilities: | | | |
| Reserve for deferred gains on sales of property, plant and equipment | ¥ (46) | ¥ (47) | \$ (376) |
| Unrealized gain on available-for-sale securities | (163) | (162) | (1,332) |
| Undistributed earnings of foreign subsidiaries | (461) | (327) | (3,767) |
| Depreciation of foreign subsidiaries | (715) | (683) | (5,842) |
| Intangible fixed assets of foreign subsidiaries | (21) | (50) | (172) |
| Others | (215) | (252) | (1,756) |
| Deferred tax liabilities | ¥(1,621) | ¥(1,521) | \$(13,245) |
| Net deferred tax assets | ¥ 110 | ¥ 433 | \$ 898 |

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2022 and 2021, were as follows:

| | Millions of Yen | | | | | | Total |
|--|---------------------------|---------------------------------------|--|--|--|------------------|-----------|
| | 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 | |
| <u>March 31, 2022</u> | | | | | | | |
| 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 |
| <u>March 31, 2021</u> | | | | | | | |
| Deferred tax assets relating to tax loss carryforwards | ¥ 105 | ¥ | ¥ | ¥ | ¥ 19 | ¥ 1,529 | ¥ 1,653 |
| Less valuation allowances for tax loss carryforwards | (88) | | | | (14) | (510) | (612) |
| Net deferred tax assets relating to tax loss carryforwards | 17 | | | | 5 | 1,019 | 1,041 |
| | Thousands of U.S. Dollars | | | | | | Total |
| | 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 | |
| <u>March 31, 2022</u> | | | | | | | |
| Deferred tax assets relating to tax loss carryforwards | \$ | \$ | \$ | \$ 212 | \$ 123 | \$ 11,627 | \$ 11,962 |
| Less valuation allowances for tax loss carryforwards | | | | (106) | (123) | (5,531) | (5,760) |
| Net deferred tax assets relating to tax loss carryforwards | | | | 106 | | 6,096 | 6,202 |

Net deferred tax assets relating to tax loss carryforwards were ¥759 million (\$6,202 thousand) and ¥1,041 million for the years ended March 31, 2022 and 2021, 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, 2022 and 2021, were as follows:

| | <u>2022</u> | <u>2021</u> |
|--|--------------|--------------|
| Normal effective statutory tax rate | 30.6% | 30.6% |
| Expenses not deductible for income tax purposes | 2.8 | 0.5 |
| Inhabitant tax on per capita basis | 1.1 | 1.4 |
| Difference of income tax rates applicable to income in certain foreign countries | (10.7) | 0.3 |
| Increase in valuation allowance | 4.2 | 1.7 |
| Tax credit | (1.1) | (2.9) |
| Undistributed earnings of foreign subsidiaries | 4.5 | 0.4 |
| Other – net | <u>(2.0)</u> | <u>3.3</u> |
| Actual effective tax rate | <u>29.4%</u> | <u>35.3%</u> |

14. REVENUE

(1) Disaggregation of Revenue

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

| | Millions of Yen | | | | | | |
|--|--|----------------------------|----------------------------------|-------------------|------------------|-----------------------------|---------------------|
| | <u>2022</u> | | | | | | |
| | <u>Reportable Segment</u> | | | | | | |
| | <u>Resin & Tall Oil Products</u> | <u>Paper Chemicals</u> | <u>Electronics Materials</u> | <u>Lawter</u> | <u>Other</u> | <u>Reconcilia tions</u> | <u>Consolidated</u> |
| Domestic | ¥ 16,272 | ¥ 9,243 | ¥ 4,684 | | ¥ 1,388 | ¥ (27) | ¥ 31,560 |
| Foreign | <u>1,294</u> | <u>11,931</u> | <u>1,620</u> | <u>¥ 29,519</u> | <u>(19)</u> | <u>33</u> | <u>44,378</u> |
| Revenues from contracts with customers | 17,566 | 21,174 | 6,304 | 29,519 | 1,369 | 6 | 75,938 |
| Other revenue | | | | | <u>155</u> | | <u>155</u> |
| Total | <u>¥ 17,566</u> | <u>¥ 21,174</u> | <u>¥ 6,304</u> | <u>¥ 29,519</u> | <u>¥ 1,524</u> | <u>¥ 6</u> | <u>¥ 76,093</u> |
| | Thousands of U.S. Dollars | | | | | | |
| | <u>2022</u> | | | | | | |
| | <u>Reportable Segment</u> | | | | | | |
| | <u>Resin & Tall Oil Products</u> | <u>Paper Chemicals</u> | <u>Electronics Materials</u> | <u>Lawter</u> | <u>Other</u> | <u>Reconcilia tions</u> | <u>Consolidated</u> |
| Domestic | \$ 132,952 | \$ 75,521 | \$ 38,271 | | \$ 11,341 | \$(221) | \$ 257,864 |
| Foreign | <u>10,573</u> | <u>97,483</u> | <u>13,236</u> | <u>\$ 241,189</u> | <u>(155)</u> | <u>270</u> | <u>362,596</u> |
| Revenues from contracts with customers | 143,525 | 173,004 | 51,507 | 241,189 | 11,186 | 49 | 620,460 |
| Other revenue | | | | | <u>1,266</u> | | <u>1,266</u> |
| Total | <u>\$ 143,525</u> | <u>\$ 173,004</u> | <u>\$ 51,507</u> | <u>\$ 241,189</u> | <u>\$ 12,452</u> | <u>\$ 49</u> | <u>\$ 621,726</u> |

(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.

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,537 million (\$20,728 thousand) and ¥2,599 million for the years ended March 31, 2022 and 2021, respectively.

16. LEASES

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

Total lease expenses for the years ended March 31, 2022 and 2021, were ¥313 million (\$2,557 thousand) and ¥337 million, respectively.

The future minimum lease payments commitment under noncancelable operating leases as of March 31, 2022, are as follows:

| | <u>Millions of Yen</u> | <u>Thousands of U.S. Dollars</u> |
|---------------------|----------------------------|--------------------------------------|
| Due within one year | ¥ 155 | \$ 1,266 |
| Due after one year | <u>720</u> | <u>5,883</u> |
| Total | <u>¥ 875</u> | <u>\$ 7,149</u> |

17. 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, 2022.

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, 2022, 6.8% 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 18 for details of the fair values of derivatives.

Fair value of financial instruments

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

| <u>March 31, 2021</u> | Millions of Yen | | |
|-----------------------------|--------------------|---------------|---------------------------|
| | Carrying Amount | Fair Value | Unrealized Gain (Loss) |
| Investment securities | ¥3,329 | ¥3,329 | ¥ |
| Total | <u>¥3,329</u> | <u>¥3,329</u> | <u>¥</u> |
| Long-term bank debt | ¥8,162 | ¥8,168 | ¥ 6 |
| Lease debt | 890 | 891 | 1 |
| Long-term deposits received | <u>556</u> | <u>525</u> | <u>(31)</u> |
| Total | <u>¥9,608</u> | <u>¥9,584</u> | <u>¥(24)</u> |

| <u>March 31, 2022</u> | Thousands of U.S. Dollars | | |
|-----------------------------|---------------------------|-------------------|---------------------------|
| | Carrying Amount | Fair Value | Unrealized Gain (Loss) |
| Investment securities | \$ 25,860 | \$ 25,860 | \$ |
| Total | <u>\$ 25,860</u> | <u>\$ 25,860</u> | <u>\$</u> |
| Long-term bank debt | \$ 106,005 | \$ 105,997 | \$ (8) |
| Lease debt | 6,577 | 6,577 | (0) |
| Long-term deposits received | <u>4,322</u> | <u>4,257</u> | <u>(65)</u> |
| Total | <u>\$ 116,905</u> | <u>\$ 116,831</u> | <u>\$(74)</u> |
| Derivative | \$ 670 | \$ 670 | \$ |
| Total | <u>\$ 670</u> | <u>\$ 670</u> | <u>\$</u> |

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 |
|--|-----------------|-------------|---------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Investments in equity instruments that do not have a quoted market price in an active market | ¥22 | ¥22 | \$180 |

Maturity analysis for financial assets with contractual maturities

| | Millions of Yen | | | |
|-------------------------------|--------------------------------|--|---|----------------------------|
| | <u>Due in One Year or Less</u> | <u>Due after One Year through Five Years</u> | <u>Due after Five Years through Ten Years</u> | <u>Due after Ten Years</u> |
| <u>March 31, 2022</u> | | | | |
| Cash and cash equivalents | ¥ 5,339 | ¥ | ¥ | ¥ |
| Notes and accounts receivable | <u>20,980</u> | — | — | — |
| Total | <u>¥26,319</u> | <u>¥</u> | <u>¥</u> | <u>¥</u> |

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

| | Thousands of U.S. Dollars | | | |
|-------------------------------|--------------------------------|--|---|----------------------------|
| | <u>Due in One Year or Less</u> | <u>Due after One Year through Five Years</u> | <u>Due after Five Years through Ten Years</u> | <u>Due after Ten Years</u> |
| <u>March 31, 2022</u> | | | | |
| Cash and cash equivalents | \$ 43,623 | \$ | \$ | \$ |
| Notes and accounts receivable | <u>171,420</u> | — | — | — |
| Total | <u>\$ 215,043</u> | <u>\$</u> | <u>\$</u> | <u>\$</u> |

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*

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

| <u>March 31, 2022</u> | Thousands of U.S. Dollars | | | |
|---------------------------------------|---------------------------|----------------|----------------|------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Marketable and investment securities: | | | | |
| Investment securities | \$ 25,860 | | | \$ 25,860 |
| Derivative transactions: | | | | |
| Derivative | | \$ 670 | | 670 |
| Total assets | <u>\$ 25,860</u> | <u>\$ 670</u> | | <u>\$ 26,530</u> |

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

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

| <u>March 31, 2022</u> | Thousands of U.S. Dollars | | | |
|-----------------------------|---------------------------|-------------------|----------------|-------------------|
| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
| Long-term bank debt | | \$ 105,997 | | \$ 105,997 |
| Lease debt | | 6,577 | | 6,577 |
| Long-term deposits received | | 4,257 | | 4,257 |
| Total liabilities | | <u>\$ 116,831</u> | | <u>\$ 116,831</u> |

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.

18. 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, 2022

Not applicable

March 31, 2021

Not applicable

Derivative Transactions to Which Hedge Accounting Is Applied

| | | Millions of Yen | | |
|---|------------------------|-----------------|------------------------------------|------------|
| | Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
| <u>March 31, 2022</u> | | | | |
| Foreign currency forward contracts: Buying EUR | Forecasted transaction | ¥877 | ¥ | ¥82 |
| <u>March 31, 2021</u> | | | | |
| Foreign currency forward contracts: Buying EUR | Forecasted transaction | ¥ | ¥ | ¥ |

| <u>March 31, 2022</u> | <u>Hedged Item</u> | <u>Thousands of U.S. Dollars</u> | | |
|-------------------------------------|---------------------------|----------------------------------|---|-----------------------|
| | | <u>Contract Amount</u> | <u>Contract Amount Due after One Year</u> | <u>Fair Value</u> |
| Foreign currency forward contracts: | | | | |
| Buying EUR | Forecasted transaction | \$7,166 | \$ | \$670 |

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2022 and 2021, were as follows:

| | <u>Millions of Yen</u> | | <u>Thousands of U.S. Dollars</u> |
|---|------------------------|----------------|--------------------------------------|
| | <u>2022</u> | <u>2021</u> | <u>2022</u> |
| Unrealized loss on available-for-sale securities: | | | |
| Gains (losses) arising during the year | ¥ (163) | ¥ 848 | \$ (1,332) |
| Reclassification adjustments to profit or loss | <u>1</u> | <u>(1,567)</u> | <u>8</u> |
| Amount before income tax effect | (162) | (719) | (1,324) |
| Income tax effect | <u>(2)</u> | <u>203</u> | <u>(16)</u> |
| Total | <u>¥ (164)</u> | <u>¥ (516)</u> | <u>\$ (1,340)</u> |
| Deferred gain on derivatives under hedge accounting: | | | |
| Adjustments arising during the year | ¥ 82 | ¥ | \$ 670 |
| Reclassification adjustments to profit or loss | <u>82</u> | <u>—</u> | <u>670</u> |
| Amount before income tax effect | (25) | — | (204) |
| Income tax effect | <u>(25)</u> | <u>—</u> | <u>(204)</u> |
| Total | <u>¥ 57</u> | <u>¥</u> | <u>\$ 466</u> |
| Foreign currency translation adjustments: | | | |
| Adjustments arising during the year | ¥1,768 | ¥ (255) | \$ 14,446 |
| Reclassification adjustments to profit or loss | <u>1,768</u> | <u>(255)</u> | <u>14,446</u> |
| Amount before income tax effect | 1,768 | (255) | 14,446 |
| Income tax effect | <u>—</u> | <u>—</u> | <u>—</u> |
| Total | <u>¥1,768</u> | <u>¥ (255)</u> | <u>\$ 14,446</u> |
| Defined retirement benefit plans: | | | |
| Adjustments arising during the year | ¥ 2 | ¥ 59 | \$ 16 |
| Reclassification adjustments to profit or loss | <u>26</u> | <u>42</u> | <u>212</u> |
| Amount before income tax effect | 28 | 101 | 228 |
| Income tax effect | <u>3</u> | <u>(36)</u> | <u>25</u> |
| Total | <u>¥ 31</u> | <u>¥ 65</u> | <u>\$ 253</u> |
| Share of other comprehensive loss in associated companies – Losses arising during the year | | | |
| | ¥ 0 | ¥ 0 | \$ 0 |
| Total | <u>¥ 0</u> | <u>¥ 0</u> | <u>\$ 0</u> |
| Total other comprehensive income (loss) | <u>¥1,692</u> | <u>¥ (706)</u> | <u>\$ 13,825</u> |

20. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2022 and 2021, were as follows:

| | <u>Millions of Yen</u> | <u>Thousands of Shares</u> | <u>Yen</u> | <u>Dollars</u> |
|--|--|---|---------------|----------------|
| | <u>Net Income Attributable to Owners of the Parent</u> | <u>Weighted- Average Shares</u> | <u>EPS</u> | |
| <u>For the year ended March 31, 2022:</u> | | | | |
| Basic EPS | | | | |
| Net income available to common shareholders | <u>¥1,746</u> | <u>25,156</u> | <u>¥69.42</u> | <u>\$0.57</u> |
| <u>For the year ended March 31, 2021:</u> | | | | |
| Basic EPS | | | | |
| Net income available to common shareholders | <u>¥1,091</u> | <u>25,125</u> | <u>¥43.44</u> | |

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

21. 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, 2022 and 2021, were as follows:

Fiscal year ended March 31, 2022

Not applicable

Fiscal year ended March 31, 2021

Not applicable

(2) Transactions between Subsidiaries and Related Parties

Transactions between subsidiaries and related parties for the years ended March 31, 2022 and 2021, were as follows:

Fiscal year ended March 31, 2022

| Type of Related Parties | Name | Address | Millions of Yen | Description of Business | Percentage of Equity Ownership in the Company | Nature of Transactions | Millions of Yen | Thousands of U.S. Dollars |
|---|-------------------|----------------------------|-----------------|-------------------------|---|---|-----------------|---------------------------|
| | | | Capital Amount | | | | Amount | |
| Owned by certain directors of the Company and their relatives | Harima Food, Inc. | Kakogawa-shi, Hyogo, Japan | ¥30 | Food manufacturing | - | Lease payments | ¥ 5 | \$ 41 |
| | | | | | | Other current assets, end of year Minimum rental commitments | 0 10 | 4 82 |

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, 2021

| Type of Related Parties | Name | Address | Millions of Yen | Description of Business | Percentage of Equity Ownership in the Company | Nature of Transactions | Millions of Yen |
|---|-------------------|----------------------------|-----------------|-------------------------|---|---|-----------------|
| | | | Capital Amount | | | | 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 Minimum rental commitments | 0 15 |

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).

22. SUBSEQUENT EVENT

(1) Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2022, was approved at the Company's Board of Directors' meeting held on May 18, 2022:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|-----------------|---------------------------|
| Year-end cash dividends, ¥19 (\$0.16) per share | ¥478 | \$3,906 |

(2) Acquisition of Material Assets

Since the agreement with Henkel AG & Co. KGaA on acquisition of commercial rights, assets, etc. related to its solder materials business that concluded on December 16, 2021, the Group has proceeded with procedures related to this acquisition. Following enhancement of the contractual preconditions of the purchase agreement, the acquisition procedures were completed on June 1, 2022 (June 2 Japan time).

Since Henkel AG & Co. KGaA's solder business has a large number of customers in the global industrial equipment and communication equipment industry, especially in the automotive industry in Europe, the acquisition will greatly expand our customer base. In addition, by acquiring the high-performance solder product line owned by Henkel AG & Co. KGaA, the Company enhances competitiveness by expanding the product portfolio of solder business. In addition, the Company plans to expand production scale and improves production efficiency by merging the solder business of the two companies, thus contributing profits.

Nature of assets – commercial rights, land, factory, etc. of solder business

Purchase price – The purchase price will not be disclosed under a confidentiality agreement with Henkel AG & Co. KGaA. For the calculation of transferee price, in addition to the estimation of future profitability, the Company also obtains the business value table calculated by third-party institutions for reference and determination.

23. 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 | | | | | | | | |
|---|---------------------------|-----------------|-----------------------|-----------------|-----------------|----------------|-----------------|------------------|-----------------|
| | 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 | <u>¥ 17,818</u> | <u>¥ 21,331</u> | <u>¥ 6,304</u> | <u>¥ 30,164</u> | <u>¥ 75,617</u> | <u>¥ 1,727</u> | <u>¥ 77,344</u> | <u>¥ (1,251)</u> | <u>¥ 76,093</u> |
| 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 (losses) 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 (\$131 thousand) and company-wide expenses of ¥882 million (\$7,206 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 | | | | | | | | |
|---|---------------------------|-----------------|-----------------------|-----------------|-----------------|----------------|-----------------|-----------------|-----------------|
| | 2021 | | | | | | | | |
| | Reportable Segments | | | | | | | | |
| | Resin & Tall Oil Products | Paper Chemicals | Electronics Materials | Lawter | Total | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | | |
| Sales to external customers | ¥ 14,784 | ¥ 18,481 | ¥ 5,005 | ¥ 23,069 | ¥ 61,339 | ¥ 1,525 | ¥ 62,864 | ¥ (13) | ¥ 62,851 |
| Intersegment sales or transfers | 228 | 4 | | 401 | 633 | 156 | 789 | (789) | |
| Total | <u>¥ 15,012</u> | <u>¥ 18,485</u> | <u>¥ 5,005</u> | <u>¥ 23,470</u> | <u>¥ 61,972</u> | <u>¥ 1,681</u> | <u>¥ 63,653</u> | <u>¥ (802)</u> | <u>¥ 62,851</u> |
| Segment profit (loss) | ¥ (491) | ¥ 1,988 | ¥ 272 | ¥ 386 | ¥ 2,155 | ¥ 27 | ¥ 2,182 | ¥ (605) | ¥ 1,577 |
| Other: | | | | | | | | | |
| Depreciation | 781 | 738 | 158 | 534 | 2,211 | 142 | 2,353 | | 2,353 |
| Net result of interest income and interest expense | (3) | 10 | (0) | (169) | (162) | (6) | (168) | (69) | (237) |
| Equity in earnings (losses) of associated companies | | | | (158) | (158) | | (158) | 48 | (110) |

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management. Reconciliations of segment profit include reconciliation gain of inventories of ¥113 million and company-wide expenses of ¥732 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 | | | | | | | | |
|---|---------------------------|-------------------|-----------------------|-------------------|-------------------|------------------|-------------------|--------------------|-------------------|
| | 2022 | | | | | | | | |
| | Reportable Segments | | | | | | | | |
| | Resin & Tall Oil Products | Paper Chemicals | Electronics Materials | Lawter | Total | Other | Total | Reconciliations | Consolidated |
| Sales: | | | | | | | | | |
| Sales to external customers | \$ 143,525 | \$ 173,004 | \$ 51,507 | \$ 241,180 | \$ 609,216 | \$ 12,460 | \$ 621,676 | \$ 50 | \$ 621,726 |
| Intersegment sales or transfers | 2,059 | 1,283 | | 5,278 | 8,620 | 1,651 | 10,271 | (10,271) | |
| Total | <u>\$ 145,584</u> | <u>\$ 174,287</u> | <u>\$ 51,507</u> | <u>\$ 246,458</u> | <u>\$ 617,836</u> | <u>\$ 14,111</u> | <u>\$ 631,947</u> | <u>\$ (10,221)</u> | <u>\$ 621,726</u> |
| Segment profit (loss) | \$ 744 | \$ 13,490 | \$ 5,376 | \$ 14,070 | \$ 33,680 | \$ (98) | \$ 33,582 | \$ (7,019) | \$ 26,563 |
| Other: | | | | | | | | | |
| Depreciation | 5,286 | 5,474 | 1,087 | 4,682 | 16,529 | 1,242 | 17,771 | | 17,771 |
| Net result of interest income and interest expense | (8) | 180 | 0 | (1,454) | (1,282) | (8) | (1,290) | (613) | (1,903) |
| Equity in earnings (losses) of associated companies | | | | 2,271 | 2,271 | | 2,271 | 115 | 2,386 |

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2022 and 2021, were as follows:

(1) Net sales

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

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

| Thousands of U.S. Dollars | | | | | | | |
|---------------------------|-------------------------|----------|----------|----------|-----------|----------|-----------|
| 2022 | | | | | | | |
| Japan | South and North America | | Asia | | Europe | Other | Total |
| | United States | Other | China | Other | | | |
| \$263,763 | \$88,904 | \$29,488 | \$89,444 | \$19,511 | \$110,491 | \$20,125 | \$621,726 |

Notes:

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

(2) Net property, plant and equipment

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

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

| Thousands of U.S. Dollars | | | | | | | |
|---------------------------|-------------------------|-------|----------|-------|----------|----------|-----------|
| 2022 | | | | | | | |
| Japan | South and North America | | Asia | | Europe | Other | Total |
| | United States | Other | China | Other | | | |
| \$99,935 | \$33,156 | \$744 | \$18,850 | \$163 | \$19,332 | \$19,028 | \$191,208 |

1. 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, 2022 and 2021, was as follows:

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

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

| | Thousands of U.S. Dollars | | | | | | | |
|------------------------------|---------------------------|--------------------------|--------|-------|----|---------|----------------------------|--------------|
| | 2022 | | | | | | | |
| | Reportable Segments | | | | | Other | Eliminations/ Corporate | Consolidated |
| Resin & Tall Oil Products | Paper Chemicals | Electronics Materials | Lawter | Total | | | | |
| Loss on impairment | \$ | \$ | \$ | \$ | \$ | \$3,587 | \$ | \$3,587 |

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, 2022, 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, 2022, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Basis for Opinion

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

Key Audit Matter

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

| Valuation of deferred tax assets | |
|---|---|
| Key Audit Matter Description | How the Key Audit Matter Was Addressed in the Audit |
| <p>As discussed in Note 3, "SIGNIFICANT ACCOUNTING ESTIMATE" and Note 13, "INCOME TAXES" to the consolidated financial statements, net deferred tax assets relating to tax loss carryforwards were 759 million yen as of March 31, 2022, of which 728 million yen was recorded at LAWTER Europe BV, a subsidiary of HARIMA CHEMICALS GROUP, INC. Under the accounting principles generally accepted in the United States of America, 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. In considering the realizability of deferred tax assets, LAWTER Inc. (Global Headquarters of LAWTER Group) mainly determines the existence of tax reforms in the countries and regions where its subsidiaries are located, evaluates the status of taxable income in the last three years, including the current fiscal year, and evaluates future estimated taxable income. In evaluating the estimated taxable income used to determine the realizability of deferred tax assets, a tax expertise is required, and the judgment made by management has a significant impact. The judgment made by management includes estimating the revenues and related expenses for the following year. In particular, the sales volume and price, which are important assumptions in estimating revenues, involve uncertainties, and the calculated monetary amount is also material. Therefore, we identified the valuation of deferred tax assets as a key audit matter.</p> | <p>With the assistance of the auditor of the subsidiaries, our audit procedures related to valuation of deferred tax assets included the following, among others:</p> <ul style="list-style-type: none"> ● We understood the process and the controls over the preparation of documents to assess the necessity of recording valuation allowance with respect to the realizability of deferred tax assets. ● With the assistance of our network firm's tax specialists, we evaluated whether there were any tax reforms that would have a significant impact on the future taxable income in countries and regions where tax loss carryforwards were incurred. ● We evaluated the difference between pre-tax income and taxable income in the last two years and assessed that the management's pre-tax income estimates were appropriate for the consideration of the deferred tax assets realization in the future. ● After evaluating the actual results of pre-tax incomes in the last three years, including the current fiscal year, excluding those generated by ad hoc factors, and calculating the period required for realization of deferred tax assets based on the average annual pre-tax income in the last three years, we examined if such period was significantly longer. ● We evaluated management's estimates for accuracy and validity by comparing the prior pre-tax income estimates with the actual results. We also examined retrospectively the deviation between the actual results and the estimates in the prior year and independently evaluated whether there were any doubts about the realization of deferred tax assets. ● For the business plans, which are the basis for future pre-tax incomes, we evaluated the validity of the estimates of sales volumes, unit sales prices and related costs by considering past performances, future business strategies, external market analysis and other factors. We also evaluated the reasonableness of management's estimates and performed a sensitivity analysis as appropriate to determine whether the taxable income could be sufficiently earned for the realization of deferred tax assets. |

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 24, 2022

Corporate Overview (as of March 31, 2022)

| | |
|---------------------------|--|
| 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 | 113 (Consolidated: 1,523) |
| Number of Group Companies | 34 |
| Business Activities | Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc. |
| Website | www.harima.co.jp |

Principal Subsidiaries

| Company name | Capital stock | Percentage of equity participation (%) | Main business |
|---|----------------------------------|--|---|
| Harima Chemicals, Inc. | 5,000,000 thousand yen | 100 | Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc. |
| Harima Trading, Inc. | 398,000 thousand yen | 100 | Real estate management, etc. |
| Seven Rivers, Inc. | 14,000 thousand yen | 100 | Manufacture and sale of industrial detergents, etc. |
| Harima M.I.D., Inc. | 300,000 thousand yen | 75 | Manufacture and sale of tall oil products |
| Nippon Filler Metals, Ltd. | 45,000 thousand yen | 100 | Manufacture and sale of electronic materials |
| HARIMA USA, Inc. | 3,350 thousand U.S. dollars | 100 | Raw material procurement, Business support in the U.S. Holding company of U.S. group |
| Harima do Brasil Industria Quimica Ltda. | 42,588 thousand Brasil real | 99.88 | Manufacture and sale of rosin and its derivatives |
| Harimatec Hangzhou Co., Ltd. | 8,690 thousand Chinese yuan | 100 | Manufacture and sale of electronic materials |
| Harimatec Malaysia Sdn. Bhd. | 1,356 thousand Malaysian ringgit | 100 | Manufacture and sale of electronic materials |
| Hangzhou Hanghua Harima Chemicals Co., Ltd. | 52,296 thousand Chinese yuan | 56.07 | Manufacture and sale of papermaking chemicals |
| Harimatec Czech, s.r.o. | 7,000 thousand Czech koruna | 100 | Manufacture and sale of electronic materials |
| 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 |

Directors and Corporate Auditors (as of March 31, 2022)

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

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2022)

- (1) Total number of shares authorised to be issued 59,500,000
(2) Total number of shares outstanding 26,080,396
(including 914,657 shares of treasury stocks)
(3) Number of shareholders 4,431
(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 | 11.57 |
| Matsukawa Corporation | 2,913 | 11.57 |
| Japan Master-Trust Trust bank | 1,886 | 7.49 |
| Harima Chemicals Mutual Prosperity Association | 1,354 | 5.38 |
| Shorai, Ltd. | 1,284 | 5.10 |
| Sumitomo Mitsui Banking Corporation | 1,094 | 4.34 |
| Hyogo Prefectural Credit Federation of Agricultural Cooperatives | 1,028 | 4.08 |
| Shorai Foundation for Science and Technology | 965 | 3.83 |
| The Minato Bank, Ltd | 632 | 2.51 |
| Bank of Mitsubishi UFJ, Ltd. | 476 | 1.89 |

(Notes) 1. In "Number of shares held," figures less than one thousand are rounded down.

2. Ratio of number of shares held against total number of shares outstanding is determined based on the total number of shares outstanding minus the number of treasury stocks (914,657 shares), which amounts to 25,165,739 shares. The numbers shown are rounded down to two decimal places.