

Annual Report

Year Ended March 31, 2024

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

During the fiscal year ended March 31, 2024, the pace of global economic recovery slowed down due to monetary tightening in Europe and the USA aimed at controlling inflation, the prolonged war in Ukraine, the deterioration of the situation in the Middle East, and the sluggish Chinese economy. In addition, the economic environment remained uncertain due to rising prices caused by soaring raw material and energy prices. The Japanese economy continued to recover as corporate production activity, capital investment, and personal consumption recovered due to an increase in inbound demand after the prolonged impact of COVID-19 infections. However, rising prices such as raw materials and energy, and yen depreciation have had an impact on the economic environment.

Under these conditions, in the Group's overseas business, net sales decreased year on year due to sluggish demand of resins for adhesives and printing inks in Europe. Additionally, earnings declined from the previous fiscal year on the impact of rising manufacturing costs caused soaring energy prices. In the domestic business, net sales rose year on year due to rising market prices, and earnings also increased from the previous fiscal year owing to efforts to reduce costs through rationalization.

As a result of these conditions, the group's consolidated net sales for the current fiscal year decreased by 2,180million Yen (down 2.3%) year-on-year to 92,330 million Yen. Operating loss was 211 million Yen (operating income was 1,706 million Yen in the previous fiscal year), affected by soaring energy prices. Ordinary loss was 275 million Yen (ordinary income was 2,541 million Yen in the previous fiscal year). Net loss attributable to Harima Chemicals Group, INC. in this fiscal year was 1,161 million Yen (net income attributable to Harima Chemicals Group, INC was 885 million Yen in the previous fiscal year).

Status of Business Segments

(Resin & Tall Oil Products)

In this segment, due to higher market prices, the sales increased by 2,184 million Yen (up 11.3%) to 21,436 million Yen and the operating income increased by 176 million Yen (up 502.6%) to 211 million Yen due to the increasing sales.

- About paint resins, though demand for paints for architecture such as houses and factories remained at the same level as the previous year, sales increased due to the passing on a portion of the soaring raw material prices to sales prices.
- About printing ink resins, though the market for lithographic inks used in commercial printing continued to shrink, sales increased due to the passing on a portion of the soaring raw material prices to sales prices and the expansion of sales of new products.
- About synthetic rubber emulsifiers, though sales volume declined due to a decrease in synthetic rubber production, sales increased owing to the passing on the soaring raw material prices to sales prices.

(Paper Chemicals)

In this segment, though sales volume in China increased, the sales decreased by 306 million Yen (down 1.2%) year-on-year to 24,627 million Yen due to falling product prices. Operating income increased by 14 million Yen (up 0.9%) to 1,548 million Yen due to progress in improving profitability, despite the impact of increases in manufacturing costs such as raw material prices.

- About Paper Strengthening Agents, though domestic demand for corrugated cardboards shrank, sales increased due to the passing on the soaring raw material prices to sales prices. In China, although the sales volume increased, the sales decreased year on year due to price competition with rival companies. As a result, the sales of Paper Strengthening Agents remained at the same level as the previous fiscal year.
- About Sizing Agents, sales volume decreased both in Japan and the USA due to a decline in paper and paperboard production. However, sales remained at the same level as the previous fiscal year because of passing on the increase in raw material prices to sales prices in the United States.

(Electronics Materials)

In this segment, by the expansion of the solder materials business acquired in the previous fiscal year, the sales increased by 2,343 million Yen (up25.4%) year on year to 11,585 million Yen. Operating income increased by 418 million Yen (up 255.3%) to 582 million Yen due to increasing sales and passing on the soaring raw material prices to sales prices.

- About solder pastes, overseas business expanded due to business acquisitions in the previous fiscal year. In addition, sales increased compared to the previous fiscal year due to an increase in the number of automobiles produced.
- Sales of aluminium brazing materials for automobile heat exchangers increased due to an increase in the number of automobiles produced.
- Sales of functional resins for semiconductors increased in the second half of the fiscal year as the semiconductor market recovered, but sales in the first half were sluggish. As a result, sales decreased compared to the previous fiscal year.

(Lawter)

In this segment, sales decreased by 7,616 million (down 19.6%) to 31,181 million Yen on the impact of sluggish demand in Europe. Operating loss was 1,675 million Yen (operating income was 1,315 million Yen in the previous fiscal year) due to rising manufacturing costs caused by soaring energy prices and global inflation.

- About adhesive resin, although the decline in demand caused customer inventory adjustments showed signs of bottoming out, demand in Europe remained sluggish due to the prolonged war in Ukraine and the economic downturn. In addition, demand, which was for resins for road marking paints and emulsifiers for synthetic rubber, was also sluggish. As a result, sales decreased compared to the previous fiscal year.
- About Printing ink resin, rising prices led to sluggish demand for consumer goods, and sales volumes, which was of publishing inks for newspapers and commercial printing, decreased. In addition, sales volumes in Europe, North America, and Asia decreased due to price competition with rival companies. As a result, sales decreased compared to the previous fiscal year.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	79th Fiscal Year (Fiscal year ended March 2021)	80th Fiscal Year (Fiscal year ended March 2022)	81st Fiscal Year (Fiscal year ended March 2023)	82nd Fiscal Year (Fiscal year ended March 2024)
Net sales	62,850	76,093	94,510	92,330
Ordinary income (loss)	1,093	3,433	2,541	△275
Net income (loss) attributable to Harima Chemicals Group, INC.	1,091	1,746	885	△1,161
Net income (loss) per share (Yen)	43.44	69.42	35.76	△47.96
Total assets	69,390	78,905	92,439	98,583
Net assets	37,441	40,104	40,820	40,881

- (Notes) 1. Net income (loss) per share is calculated based on the weighted average number of issued shares during the fiscal year after deducting treasury stocks.
2. We applied ASBJ Statement No.29, “Accounting Standard for Revenue Recognition” issued on March 31,2020 from the 80th Fiscal year. The information from the 80th Fiscal year is calculated based on the application of the new statement above.

HARIMA CHEMICALS GROUP, INC. and Subsidiaries

Consolidated Balance Sheet March 31, 2024

ASSETS	Millions of Yen		Thousands of U.S. Dollars (Note 1)	LIABILITIES AND EQUITY	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2024	2023	2024		2024	2023	2024
CURRENT ASSETS:				CURRENT LIABILITIES:			
Cash and cash equivalents (Note 17)	¥ 6,633	¥ 6,219	\$ 43,808	Short-term bank loans (Notes 8 and 17)	¥29,926	¥18,350	\$ 197,649
Notes and accounts receivable (Note 17):				Current portion of long-term debt (Notes 8 and 17)	1,322	7,099	8,731
Trade notes	2,561	3,005	16,914	Notes and accounts payable (Note 17):			
Trade accounts	19,117	19,090	126,260	Trade notes	1,015	1,152	6,704
Associated companies	168	219	1,110	Trade accounts	9,555	8,951	63,107
Other	818	1,483	5,403	Associated companies	154	189	1,017
Allowance for doubtful receivables	(143)	(104)	(944)	Construction and other	1,509	1,790	9,966
Inventories (Note 5)	23,173	18,927	153,048	Current portion of long-term lease obligations (Notes 16 and 17)	402	412	2,655
Other current assets	1,262	952	8,334	Provision for loss on litigation	613	493	4,049
				Income taxes payable (Note 13)	341	255	2,252
Total current assets	<u>53,589</u>	<u>49,791</u>	<u>353,933</u>	Other current liabilities	2,853	2,966	18,843
PROPERTY, PLANT AND EQUIPMENT (Notes 3 and 6):				Total current liabilities	<u>47,690</u>	<u>41,657</u>	<u>314,973</u>
Land (Note 7)	8,589	8,453	56,727				
Buildings and structures (Note 7)	20,146	19,606	133,056	LONG-TERM LIABILITIES:			
Machinery and equipment	35,875	32,887	236,939	Long-term debt (Notes 8 and 17)	6,200	6,185	40,948
Lease assets (Note 16)	2,417	2,604	15,963	Long-term lease obligations (Notes 16 and 17)	1,521	1,620	10,046
Construction in progress	2,457	2,328	16,227	Long-term deposits received (Note 17)	490	501	3,236
Other assets	5,846	5,532	38,611	Liability for retirement benefits (Note 9)	136	104	898
Total	<u>75,330</u>	<u>71,410</u>	<u>497,523</u>	Asset retirement obligations (Note 10)	39	39	258
Accumulated depreciation	<u>(46,831)</u>	<u>(44,290)</u>	<u>(309,299)</u>	Deferred tax liabilities (Note 13)	1,141	1,020	7,536
				Other long-term liabilities	486	493	3,210
Net property, plant and equipment	<u>28,499</u>	<u>27,120</u>	<u>188,224</u>				
				Total long-term liabilities	<u>10,013</u>	<u>9,962</u>	<u>66,132</u>
INVESTMENTS AND OTHER ASSETS:				COMMITMENTS AND CONTINGENT LIABILITIES			
Investment securities (Notes 4 and 17)	3,188	2,690	21,055	(Notes 8, 16, and 18)			
Investments in associated companies	6,804	6,276	44,938	EQUITY (Note 11):			
Customer list	3,861	4,046	25,500	Common stock—authorized 59,500,000 shares; issued, 26,080,396 shares in 2024 and 2023	10,013	10,013	66,132
Deferred tax assets (Note 13)	616	658	4,068	Capital surplus	9,743	9,749	64,348
Asset for retirement benefits	214		1,413	Retained earnings	16,837	19,016	111,201
Other assets	1,825	1,872	12,054	Treasury stock—at cost, 1,846,943 shares in 2024 and 1,878,064 shares in 2023	(1,761)	(1,794)	(11,631)
Allowance for doubtful accounts	(12)	(14)	(79)	Accumulated other comprehensive income:			
				Unrealized gain on available-for-sale securities	547	52	3,613
Total investments and other assets	<u>16,496</u>	<u>15,528</u>	<u>108,949</u>	Foreign currency translation adjustments	1,893	150	12,502
				Defined retirement benefit plans	(55)	(84)	(363)
				Total	<u>37,217</u>	<u>37,102</u>	<u>245,802</u>
				Noncontrolling interests	3,664	3,718	24,199
				Total equity	<u>40,881</u>	<u>40,820</u>	<u>270,001</u>
TOTAL	<u>¥98,584</u>	<u>¥92,439</u>	<u>\$ 651,106</u>	TOTAL	<u>¥98,584</u>	<u>¥92,439</u>	<u>\$ 651,106</u>

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. and Subsidiaries

Consolidated Statement of Operations Year Ended March 31, 2024

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	<u>2024</u>	<u>2023</u>	<u>2024</u>
NET SALES (Note 14)	¥92,330	¥94,511	\$ 609,801
COST OF SALES	<u>74,409</u>	<u>75,300</u>	<u>491,440</u>
Gross profit	17,921	19,211	118,361
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 15)	<u>18,134</u>	<u>17,504</u>	<u>119,768</u>
Operating (loss) income	<u>(213)</u>	<u>1,707</u>	<u>(1,407)</u>
OTHER INCOME (EXPENSES):			
Interest and dividend income	309	193	2,041
Interest expense	(580)	(425)	(3,831)
Rental income	33	37	218
Commission paid	(1)	(5)	(7)
Provision for loss on litigation	(44)	(493)	(291)
Foreign exchange loss	(472)	(207)	(3,117)
Loss on impairment of long-lived assets (Note 6)	(125)		(826)
Loss on disposal of property, plant and equipment	(22)	(114)	(145)
Gain on sale of investment securities	193	193	1,275
Equity in earnings of associated companies	191	1,042	1,261
Bargain purchase gain		187	
Other—net	<u>479</u>	<u>208</u>	<u>3,164</u>
Other (expenses) income—net	<u>(39)</u>	<u>616</u>	<u>(258)</u>
(LOSS) INCOME BEFORE INCOME TAXES	<u>(252)</u>	<u>2,323</u>	<u>(1,665)</u>
INCOME TAXES (Note 13):			
Current	680	402	4,491
Deferred	<u>(41)</u>	<u>636</u>	<u>(271)</u>
Total income taxes	<u>639</u>	<u>1,038</u>	<u>4,220</u>
NET (LOSS) INCOME	(891)	1,285	(5,885)
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	<u>(271)</u>	<u>(399)</u>	<u>(1,790)</u>
NET (LOSS) INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	<u>¥ (1,162)</u>	<u>¥ 886</u>	<u>\$ (7,675)</u>
	<u>Yen</u>		<u>U.S. Dollars</u>
PER SHARE OF COMMON STOCK (Notes 2.v and 20):			
Net (loss) income	¥(47.96)	¥35.76	\$(0.32)
Cash dividends applicable to the year	42.00	42.00	0.28

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. and Subsidiaries

Consolidated Statement of Comprehensive Income Year Ended March 31, 2024

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2024	2023	2024
NET (LOSS) INCOME	¥ (891)	¥1,285	\$ (5,885)
OTHER COMPREHENSIVE INCOME (LOSS) (Note 19):			
Unrealized gain (loss) on available-for-sale securities	495	(139)	3,270
Deferred loss on derivatives under hedge accounting		(57)	
Foreign currency translation adjustments	1,917	1,595	12,660
Defined retirement benefit plans	29	75	192
Share of other comprehensive gain in associated companies			
Total other comprehensive income	<u>2,441</u>	<u>1,474</u>	<u>16,122</u>
COMPREHENSIVE INCOME	<u>¥1,550</u>	<u>¥2,759</u>	<u>\$ 10,237</u>
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥1,105	¥2,200	\$ 7,298
Noncontrolling interests	445	559	2,939

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. and Subsidiaries
**Consolidated Statement of Changes in Equity
Year Ended March 31, 2024**

	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, 2022	25,165	¥10,013	¥9,760	¥19,128	¥ (965)	¥191	¥57	¥(1,287)	¥(156)	¥36,741	¥3,363	¥40,104
Net income attributable to owners of the parent				886						886		886
Cash dividends, ¥40.00 per share				(998)						(998)		(998)
Purchase of treasury stock	(1,000)				(868)					(868)		(868)
Disposal of treasury stock	37		(11)		39					28		28
Net change in the year						(139)	(57)	1,437	72	1,313	355	1,668
BALANCE, MARCH 31, 2023	24,202	10,013	9,749	19,016	(1,794)	52		150	(84)	37,102	3,718	40,820
Net loss attributable to owners of the parent				(1,162)						(1,162)		(1,162)
Cash dividends, ¥42.00 per share				(1,017)						(1,017)		(1,017)
Purchase of treasury stock												
Disposal of treasury stock	31		(6)		33					27		27
Net change in the year						495		1,743	29	2,267	(54)	2,213
BALANCE, MARCH 31, 2024	<u>24,233</u>	<u>¥10,013</u>	<u>¥9,743</u>	<u>¥16,837</u>	<u>¥(1,761)</u>	<u>¥547</u>	<u>—</u>	<u>¥ 1,893</u>	<u>¥ (55)</u>	<u>¥37,217</u>	<u>¥3,664</u>	<u>¥40,881</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, 2023	\$66,132	\$64,388	\$125,593	\$ (11,849)	\$ 343		\$ 991	\$ (555)	\$245,043	\$24,556	\$269,599
Net loss attributable to owners of the parent			(7,675)						(7,675)		(7,675)
Cash dividends, \$0.28 per share			(6,717)						(6,717)		(6,717)
Purchase of treasury stock											
Disposal of treasury stock		(40)		218					178		178
Net change in the year					3,270		11,511	192	14,973	(357)	14,616
BALANCE, MARCH 31, 2024	<u>\$66,132</u>	<u>\$64,348</u>	<u>\$111,201</u>	<u>\$ (11,631)</u>	<u>\$3,613</u>	<u>—</u>	<u>\$12,502</u>	<u>\$ (363)</u>	<u>\$245,802</u>	<u>\$24,199</u>	<u>\$270,001</u>

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. and Subsidiaries

Consolidated Statement of Cash Flows Year Ended March 31, 2024

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2024	2023	2024
OPERATING ACTIVITIES:			
(Loss) income before income taxes	¥ (252)	¥ 2,323	\$ (1,665)
Adjustments for:			
Income taxes—paid	(597)	(474)	(3,943)
Depreciation and amortization	2,730	2,469	18,031
Loss on impairment of long-lived assets	125		826
Foreign exchange loss	438	197	2,893
Gain on sales of property, plant and equipment	(2)		(13)
Gain on sales of investment securities	(193)	(193)	(1,275)
Bargain purchase gain		(187)	
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	1,118	(909)	7,384
Increase in inventories	(3,584)	(2,044)	(23,671)
Increase (decrease) in trade notes and accounts payable	126	(1,191)	832
Increase in provision for loss on litigation	44	493	291
Other—net	401	(950)	2,648
Total adjustments	606	(2,789)	4,003
Net cash provided by (used in) operating activities	354	(466)	2,338
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(3,296)	(3,523)	(21,769)
Proceeds from sales of property, plant and equipment	5	2	33
Purchases of intangible assets	(133)	(807)	(878)
Purchases of investment securities	(5)	(18)	(33)
Proceeds from sales of investment securities	373	560	2,464
Purchase of shares of subsidiaries		(190)	
Other—net	(142)	(2,673)	(938)
Net cash used in investing activities	(3,198)	(6,649)	(21,121)
FINANCING ACTIVITIES:			
Increase in short-term bank loans—net	4,999	10,131	33,016
Proceeds from long-term debt	1,200		7,926
Repayments of long-term debt	(1,773)	(383)	(11,710)
Dividends paid	(1,017)	(998)	(6,717)
Other—net	(514)	(1,093)	(3,395)
Net cash provided by financing activities	2,895	7,657	19,120
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS			
	363	338	2,397
NET INCREASE IN CASH AND CASH EQUIVALENTS	414	880	2,734
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	6,219	5,339	41,074
CASH AND CASH EQUIVALENTS, END OF YEAR	¥6,633	¥ 6,219	\$43,808

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. and Subsidiaries

Notes to Consolidated Financial Statements Year Ended March 31, 2024

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 IFRS Accounting 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 2023 consolidated financial statements to conform to the classifications used in 2024.

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 ¥151.41 to \$1, the approximate rate of exchange at March 31, 2024. 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 IFRS Accounting Standards or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) ("US GAAP") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D;

(d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

- c. *Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method***—ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments," requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method, unless it is impracticable to determine such adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either IFRS Accounting Standards or US GAAP tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign associate elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.
- d. *Business Combinations***—Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. The acquirer recognizes any bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase price allocation. A parent's ownership interest in a subsidiary might change if the parent purchases or sells ownership interests in its subsidiary. The carrying amount of noncontrolling interest is adjusted to reflect the change in the parent's ownership interest in its subsidiary while the parent retains its controlling interest in its subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the noncontrolling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.
- e. *Cash Equivalents***—Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value. Cash equivalents include time deposits and certificates of deposit, all of which mature or become due within three months of the date of acquisition.

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

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

- g. Investment Securities**—Investment securities are classified and accounted for as follows:

Marketable available-for-sale securities are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

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

- h. Property, Plant and Equipment**—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is principally computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, and building improvements and structures acquired on or after April 1, 2016. Certain domestic subsidiaries and foreign subsidiaries apply the straight-line method, using rates based on the estimated useful lives of the assets. The range of useful lives is from 5 to 50 years for buildings and from 4 to 17 years for machinery and equipment.
- i. Long-Lived Assets**—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss is recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset, or the net selling value at disposition.
- j. Software**—Amortization of capitalized software costs is computed using the straight-line method over 5 years, the estimated useful life of the assets.
- k. Customer List**—Amortization of capitalized customer list costs is computed using the straight-line method over 23 years, the estimated useful life of the assets.
- l. Retirement and Pension Plans**—The Company and certain domestic subsidiaries have funded defined benefit pension plans, defined contribution pension plans, and severance lump sum payment plans covering substantially all of their employees. Certain foreign subsidiaries have adopted funded defined benefit plans and defined contribution pension plans.

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

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

- m. Asset Retirement Obligations**—An asset retirement obligation is recorded for a legal obligation imposed either by law or contract that results from the acquisition, construction, development, and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of the asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an adjustment to the carrying amount of the liability and the capitalized amount of the related asset retirement cost.
- n. Revenue Recognition**—The Company and its domestic subsidiaries implement the Accounting Standards for Revenue Recognition (ASBJ Statement No. 29 revised on March 31, 2020), etc. Foreign subsidiaries implement the IFRS Accounting Standards (IFRS) 15 and the Accounting Standards Codification ("ASC") 606, "Revenue from Contract(s) with Customers," recognizing revenue at the amount expected to be received in exchange for goods or services when control of the promised goods or services is transferred to customers.
- (1) *The nature of performance obligations for each of the Group's major industry*—The Group's main business segments including—Resin & Tall Oil Products, Paper Chemicals, Electronics Materials and Lawter, have the obligation to perform the contract and deliver the goods according to the sales contract with the customer.
- (2) *The timing when performance obligations are satisfied*—Since the sale of products and commodities is a performance obligation satisfied when the customer gains control over the products and commodities, revenue is recognized when the performance obligation considered to be completed. However, for domestic shipment from factories, the Company applies paragraph 98 of the Guidance on Accounting Standards for Revenue Recognition (ASBJ Guidance No. 30 revised on March 26, 2021) to recognize revenue at the time of shipment.
- o. Research and Development Costs**—Research and development costs are charged to income as incurred.
- p. Leases**—Finance lease transactions are capitalized by recognizing leased assets and leased obligations in the balance sheet.
- All other leases are accounted for as operating leases.
- q. Bonuses to Directors**—Bonuses to directors are accrued at the end of the year to which such bonuses are attributable.
- r. Income Taxes**—The provision for income taxes is computed based on the pretax income included in the consolidated statement of operations. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax basis of assets and liabilities. Deferred taxes are measured by applying currently enacted income tax rates to the temporary differences. The Company and some of its domestic subsidiaries have adopted the group tax relief regime.
- s. Foreign Currency Transactions**—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statement of operations to the extent that they are not hedged by forward exchange contracts.

- t. Foreign Currency Financial Statements**—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.
- u. Derivative and Hedging Activities**—The Group uses derivative financial instruments to manage its exposures to fluctuations in interest rates. Interest rate swaps are utilized by the Group to reduce interest rate risks. The Group does not enter into derivatives for trading or speculative purposes.

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

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

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

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

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

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

y. New Accounting Pronouncements

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

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

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

(a) Overview

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

(b) Scheduled date of adoption

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

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

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

3. SIGNIFICANT ACCOUNTING ESTIMATE

Recognition and Measurement of Impairment Losses on Property, Plant and Equipment

(1) Carrying amounts

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Property, plant and equipment	¥28,499	¥27,118	\$ 188,224
Which belong to LAWTER B.V. included in the above	10,167	8,909	67,149

(2) *Information on the significant accounting estimate*

The consolidated subsidiary, LAWTER B.V., operates in seven countries (the Netherlands, Belgium, the United States of America, Argentina, New Zealand, China, and South Korea) and mainly manufactures and sells resins for adhesives and printing inks. To identify loss on impairment of long-lived assets, we grouped assets based on management accounting categories that are used to continuously manage income and expenses. LAWTER B.V. applies the accounting principles generally accepted in the United States of America, and the difference between the carrying amount and fair value is provided as an impairment loss, if indicators of impairment are identified and recoverability tests indicate that the sum of the undiscounted future cash flows to be expected from the asset group is less than the carrying amount. For the fiscal year ended March 31, 2024, LAWTER B.V. posted an operating loss in New Zealand and China, and indications of impairment for the property, plant and equipment was identified. However, the fair value of the asset group in New Zealand exceeded its carrying amount and the sum of the undiscounted future cash flows to be expected from the asset group in China exceeded its carrying amount. As a result, any impairment loss was not provided. The key assumptions, which was used in calculating the fair value of the New Zealand asset group, were the selling price per land area, expected selling costs and the disposable amounts of construction in progress and machinery and equipment. The key assumptions, which was used in calculating undiscounted future cash flows for China, were projected sales, gross margins, fixed costs, and the sale value of land use rights. These assumptions are determined based on the best estimates as of the end of the current consolidated fiscal year, but they are subject to the effects of future fluctuations in uncertain economic conditions. Any changes in the assumptions in the estimates could affect the valuation of the fixed assets, which could have a significant impact on the consolidated financial statements.

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2024 and 2023, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2024</u>	<u>2023</u>	<u>U.S. Dollars</u>
Non-current:			
Equity securities	<u>¥3,188</u>	<u>¥2,690</u>	<u>\$ 21,055</u>
Total	<u>¥3,188</u>	<u>¥2,690</u>	<u>\$ 21,055</u>

The costs and aggregate fair values of investment securities as of March 31, 2024 and 2023, were as follows:

	<u>Millions of Yen</u>			
	<u>Cost</u>	<u>Unrealized</u> <u>Gains</u>	<u>Unrealized</u> <u>Losses</u>	<u>Fair</u> <u>Value</u>
<u>March 31, 2024</u>				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,303	¥1,057	¥(194)	¥3,166
<u>March 31, 2023</u>				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,476	¥ 504	¥(312)	¥2,668

<u>March 31, 2024</u>	<u>Thousands of U.S. Dollars</u>			<u>Fair Value</u>
	<u>Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
Securities classified as:				
Marketable available-for-sale:				
Equity securities	\$ 15,210	\$ 6,981	\$ (1,281)	\$ 20,910

Carrying amounts of nonmarketable available-for-sale securities as of March 31, 2024 and 2023, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Nonmarketable available-for-sale:			
Equity securities	¥22	¥22	\$ 145

The information for available-for-sale securities which were sold during the years ended March 31, 2024 and 2023, were as follows:

<u>March 31, 2024</u>	<u>Millions of Yen</u>		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale:			
Equity securities	¥374	¥195	—
Total	<u>¥374</u>	<u>¥195</u>	<u>—</u>

<u>March 31, 2023</u>	<u>Millions of Yen</u>		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale:			
Equity securities	¥561	¥243	¥49
Total	<u>¥561</u>	<u>¥243</u>	<u>¥49</u>

<u>March 31, 2024</u>	<u>Thousands of U.S. Dollars</u>		
	<u>Proceeds</u>	<u>Realized Gains</u>	<u>Realized Losses</u>
Available-for-sale:			
Equity securities	\$2,470	\$1,288	—
Total	<u>\$2,470</u>	<u>\$1,288</u>	<u>—</u>

5. INVENTORIES

Inventories as of March 31, 2024 and 2023, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Finished products	¥ 7,991	¥ 7,857	\$ 52,777
Work in process	603	424	3,983
Raw materials and supplies	<u>14,579</u>	<u>10,646</u>	<u>96,288</u>
Total	<u>¥23,173</u>	<u>¥18,927</u>	<u>\$ 153,048</u>

6. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥125 million for the year ended March 31, 2024. The Group recognized a decline in value of a golf course and hotel facilities for the year ended March 31, 2024. 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, 2024 and 2023, were ¥115 million (\$760 thousand) and ¥117 million, respectively.

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

Millions of Yen			
	Carrying Amount		Fair Value
	Increase/ Decrease		
<u>April 1, 2023</u>		<u>March 31, 2024</u>	<u>March 31, 2024</u>
¥1,406	¥(7)	¥1,399	¥2,336

Millions of Yen			
	Carrying Amount		Fair Value
	Increase/ Decrease		
<u>April 1, 2022</u>		<u>March 31, 2023</u>	<u>March 31, 2023</u>
¥1,923	¥(516)	¥1,407	¥2,333

Thousands of U.S. Dollars			
	Carrying Amount		Fair Value
	Increase/ Decrease		
<u>April 1, 2023</u>		<u>March 31, 2024</u>	<u>March 31, 2024</u>
\$9,286	\$(46)	\$9,240	\$15,428

- 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, 2024, primarily represents the capital expenditure for current investment properties of ¥6 million (\$40 thousand), and the decrease primarily represents depreciation of ¥13 million (\$86 thousand). Increase during the fiscal year ended March 31, 2023, primarily represents the capital expenditure for current investment properties of ¥8 million, and the decrease primarily represents depreciation of ¥12 million and the conversion to non-investment properties of ¥512 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, 2024 and 2023, 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, 2024 and 2023, were 1.5% and 1.8%, respectively. As of March 31, 2024 and 2023, the total committed line of credit was ¥6,000 million (\$39,628 thousand) and ¥6,000 million, and unused balance was ¥1,500 million (\$9,907 thousand) and ¥200 million, respectively.

Long-term debt as of March 31, 2024 and 2023, consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of U.S. Dollars</u>
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Unsecured loans from banks and other financial institutions, due serially to 2032 with interest rates ranging from 0.3% to 1.8% (2024) and from 0.4% to 1.8% (2023)	¥7,522	¥ 13,284	\$ 49,679
Total	7,522	13,284	49,679
Less current portion	<u>(1,322)</u>	<u>(7,099)</u>	<u>(8,731)</u>
Long-term debt, less current portion	<u>¥6,200</u>	<u>¥ 6,185</u>	<u>\$ 40,948</u>

Annual maturities of long-term debt, excluding finance leases (see Note 16), at March 31, 2024, 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>
2025	¥1,322	\$ 8,731
2026		
2027		
2028		
2029	1,200	7,925
2030 and thereafter	<u>5,000</u>	<u>33,023</u>
Total	<u>¥7,522</u>	<u>\$ 49,679</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, 2024 and 2023, 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, 2024 and 2023, was ¥17 million (\$112 thousand) and ¥15 million, respectively, and included in liability for retirement benefits in the consolidated balance sheet.

(a) Defined Benefit Plan

- (1) The changes in defined benefit obligation for the years ended March 31, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Balance at beginning of year	¥2,968	¥3,031	\$ 19,602
Service cost	194	176	1,281
Interest cost	46	25	304
Actuarial losses (gains)	19	(165)	125
Benefits paid	(144)	(165)	(951)
Foreign currency translation differences	76	60	502
Others	<u>25</u>	<u>6</u>	<u>166</u>
Balance at end of year	<u>¥3,184</u>	<u>¥2,968</u>	<u>\$ 21,029</u>

- (2) The changes in plan assets for the years ended March 31, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Balance at beginning of year	¥3,015	¥2,872	\$ 19,913
Expected return on plan assets	110	124	727
Actuarial gains (losses)	28	(123)	185
Contributions from the employer	292	250	1,929
Benefits paid	(144)	(165)	(951)
Foreign currency translation differences	76	51	502
Others	<u>26</u>	<u>6</u>	<u>170</u>
Balance at end of year	<u>¥3,403</u>	<u>¥3,015</u>	<u>\$ 22,475</u>

- (3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Balance at beginning of year	¥ 137	¥ 84	\$ 905
Increase from new consolidation		31	
Periodic benefit costs	11	20	73
Benefits paid	(25)	(3)	(166)
Foreign currency translation differences	<u>3</u>	<u>4</u>	<u>20</u>
Balance at end of year	<u>¥ 126</u>	<u>¥ 136</u>	<u>\$ 832</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, 2024 and 2023, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Funded defined benefit obligation	¥3,184	¥2,968	\$ 21,029
Plan assets	<u>(3,403)</u>	<u>(3,015)</u>	<u>(22,475)</u>
Total	(220)	(47)	(1,453)
Unfunded defined benefit obligation	<u>126</u>	<u>136</u>	<u>832</u>
Net liability arising from defined benefit obligation	<u>¥ (94)</u>	<u>¥ 89</u>	<u>\$ (621)</u>

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Liability for retirement benefits	¥ 120	¥89	\$ 793
Asset for retirement benefits	<u>(214)</u>	—	<u>(1,414)</u>
Net liability arising from defined benefit obligation	<u>¥ (94)</u>	<u>¥89</u>	<u>\$ (621)</u>

- (5) The components of net periodic benefit costs for the years ended March 31, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Service cost	¥ 194	¥ 176	\$ 1,281
Interest cost	46	25	304
Expected return on plan assets	(110)	(124)	(727)
Recognized actuarial losses	28	20	185
Recognized prior service cost	5	4	33
Periodic benefit cost in simplified method	10	21	66
Others	<u>(2)</u>	<u>(2)</u>	<u>(13)</u>
Net periodic benefit costs	<u>¥ 171</u>	<u>¥ 120</u>	<u>\$ 1,129</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, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Prior service cost	¥ 5	¥ 4	\$ 33
Actuarial losses	35	61	231
Others	<u>3</u>	<u>(7)</u>	<u>20</u>
Total	<u>¥ 43</u>	<u>¥ 58</u>	<u>\$ 284</u>

- (7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Unrecognized prior service cost	¥ 37	¥ 38	\$244
Unrecognized actuarial losses	<u>84</u>	<u>126</u>	<u>555</u>
Total	<u>¥121</u>	<u>¥164</u>	<u>\$799</u>

- (8) Plan assets as of March 31, 2024 and 2023

a. Components of plan assets

Plan assets consisted of the following:

	<u>2024</u>	<u>2023</u>
Debt securities in Japan	9.1%	8.9%
Equity securities in Japan	12.2	10.8
Debt securities in other countries	3.2	2.7
Equity securities in other countries	11.8	10.9
Cash and time deposits	0.7	1.0
Insurance asset (general account)	63.0	62.1
Others	<u> </u>	<u>3.6</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, 2024 and 2023, were set forth as follows:

	<u>2024</u>	<u>2023</u>
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 4.0%	Mainly 5.0%

(b) Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2024 and 2023, was ¥305 million (\$2,014 thousand) and ¥287 million, respectively.

(c) **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 ¥93 million (\$614 thousand) and ¥92 million for the years ended March 31, 2024 and 2023, respectively.

- (1) The funded status of the multi-employer plan as of March 31, 2024 and 2023, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Plan assets	¥ 36,788	¥ 38,962	\$ 242,969
Actuarial liabilities of pension plan	<u>62,707</u>	<u>64,556</u>	<u>414,153</u>
Net balance	<u>¥ (25,919)</u>	<u>¥ (25,594)</u>	<u>\$ (171,184)</u>

- (2) The contribution ratio of the Group in the multi-employer plan for the years ended March 31, 2024 and 2023, were 2.2%.

- (3) Supplementary explanation

The above information is obtained from the latest available information.

The net balance in (1) above is mainly caused by past service cost of ¥30,175 million (\$199,293 thousand) for 2024 and ¥30,947 million for 2023, and a deficiency brought forward of ¥4,256 million (\$28,109 thousand) for 2024 and ¥5,353 million for 2023. Past service cost under the plan is amortized on a straight-line basis over 22 years, and the special contributions of ¥41 million (\$271 thousand) for 2024 and ¥39 million for 2023, which are utilized for such amortization, were expensed in the consolidated statement of operations 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, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Balance at beginning of year	¥ 39	¥ 39	\$ 258
Balance at end of year	39	39	258

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, 2024 and 2023, principally consisted of the following:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2024</u>	<u>2023</u>	<u>U.S. Dollars</u>
Employees' salaries and bonuses	¥5,013	¥4,704	\$ 33,109
Net periodic retirement benefit	274	277	1,810
Transport	3,923	4,311	25,910
Depreciation	553	448	3,652
Rental	296	275	1,955
Research and development	2,707	2,731	17,879

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, 2024 and 2023. 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, 2024 and 2023, were as follows:

	<u>Millions of Yen</u>		<u>Thousands of</u>
	<u>2024</u>	<u>2023</u>	<u>U.S. Dollars</u>
Deferred tax assets:			
Tax loss carryforwards	¥2,554	¥1,961	\$ 16,868
Impairment loss on long-lived assets	1,175	1,553	7,760
Loss on revaluation of investment securities	47	62	310
Retirement benefits to directors	5	4	33
Unrealized gain on property, plant and equipment	97	97	641
Intangible fixed assets of foreign subsidiaries	3	35	20
Others	<u>1,932</u>	<u>896</u>	<u>12,761</u>
Total of tax loss carryforwards and temporary differences	<u>5,813</u>	<u>4,608</u>	<u>38,393</u>
Less valuation allowance for tax loss carryforwards	<u>(1,844)</u>	<u>(1,242)</u>	<u>(12,179)</u>
Less valuation allowance for temporary differences	<u>(2,148)</u>	<u>(1,786)</u>	<u>(14,187)</u>
Total valuation allowance	<u>(3,992)</u>	<u>(3,028)</u>	<u>(26,366)</u>
Deferred tax assets	<u>1,821</u>	<u>1,580</u>	<u>12,027</u>
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	(44)	(45)	(291)
Unrealized gain on available-for-sale securities	(304)	(127)	(2,008)
Undistributed earnings of foreign subsidiaries	(528)	(540)	(3,487)
Depreciation of foreign subsidiaries	(909)	(817)	(6,004)
Intangible fixed assets of foreign subsidiaries			
Others	<u>(561)</u>	<u>(413)</u>	<u>(3,705)</u>
Deferred tax liabilities	<u>(2,346)</u>	<u>(1,942)</u>	<u>(15,495)</u>
Net deferred tax liabilities	<u>¥ (525)</u>	<u>¥ (362)</u>	<u>\$ (3,468)</u>

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2024 and 2023, were as follows:

	Millions of Yen						
	<u>1 Year or Less</u>	<u>After 1 Year through 2 Years</u>	<u>After 2 Years through 3 Years</u>	<u>After 3 Years through 4 Years</u>	<u>After 4 Years through 5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
<u>March 31, 2024</u>							
Deferred tax assets relating to tax loss carryforwards	¥ 4	¥66	¥16	¥48	¥71	¥2,349	¥2,554
Less valuation allowances for tax loss carryforwards	(4)	(66)	(16)	(48)	(71)	(1,639)	(1,844)
Net deferred tax assets relating to tax loss carryforwards						710	710
<u>March 31, 2023</u>							
Deferred tax assets relating to tax loss carryforwards	¥48	¥ 4	¥79	¥31	¥70	¥1,729	¥1,961
Less valuation allowances for tax loss carryforwards	(48)	(4)	(79)	(31)	(40)	(1,040)	(1,242)
Net deferred tax assets relating to tax loss carryforwards					30	689	719
	Thousands of U.S. Dollars						
	<u>1 Year or Less</u>	<u>After 1 Year through 2 Years</u>	<u>After 2 Years through 3 Years</u>	<u>After 3 Years through 4 Years</u>	<u>After 4 Years through 5 Years</u>	<u>After 5 Years</u>	<u>Total</u>
<u>March 31, 2024</u>							
Deferred tax assets relating to tax loss carryforwards	\$26	\$ 436	\$ 106	\$ 317	\$ 469	\$ 15,514	\$ 16,868
Less valuation allowances for tax loss carryforwards	(26)	(436)	(106)	(317)	(469)	(10,825)	(12,179)
Net deferred tax assets relating to tax loss carryforwards						4,689	4,689

Net deferred tax assets relating to tax loss carryforwards were ¥710 million (\$4,689 thousand) and ¥719 million for the years ended March 31, 2024 and 2023, 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, 2024 and 2023, were as follows:

	<u>2024</u>	<u>2023</u>
Normal effective statutory tax rate	30.6 %	30.6%
Expenses not deductible for income tax purposes	(88.0)	1.1
Inhabitant tax on per capita basis	(11.9)	1.4
Difference of income tax rates applicable to income in certain foreign countries	68.9	(10.7)
Increase in valuation allowance	(254.7)	30.7
Tax credit	17.1	(1.3)
Undistributed earnings of foreign subsidiaries	5.0	3.4
Share of profit of entities accounted for using equity method	17.1	(9.6)
Withholding taxes on dividends from foreign subsidiaries	(27.1)	1.0
Expiry of time limit of loss carried forward	(19.1)	
Other—net	<u>7.9</u>	<u>(1.9)</u>
Actual effective tax rate	<u>(254.2)%</u>	<u>44.7%</u>

14. REVENUE

(1) Disaggregation of Revenue

Revenues from contracts with customers on a disaggregated basis for the years ended March 31, 2024 and 2023, were as follows:

	Millions of Yen						
	2024						
	Reportable Segment					Reconciliations	Consolidated
Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Other			
Domestic	¥19,872	¥10,054	¥4,939	¥928	¥3,568	¥(67)	¥39,294
Foreign	1,565	14,573	6,647	30,253	(26)	(136)	52,876
Revenues from contracts with customers	<u>21,437</u>	<u>24,627</u>	<u>11,586</u>	<u>31,181</u>	<u>3,542</u>	<u>(203)</u>	<u>92,170</u>
Other revenue					160		160
Total	<u>¥21,437</u>	<u>¥24,627</u>	<u>¥11,586</u>	<u>¥31,181</u>	<u>¥3,702</u>	<u>¥(203)</u>	<u>¥92,330</u>
	Millions of Yen						
	2023						
	Reportable Segment					Reconciliations	Consolidated
Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Other			
Domestic	¥17,724	¥9,882	¥4,857	¥1,348	¥2,408	¥(20)	¥36,199
Foreign	1,528	15,052	4,384	37,450	(21)	(253)	58,140
Revenues from contracts with customers	<u>19,252</u>	<u>24,934</u>	<u>9,241</u>	<u>38,798</u>	<u>2,387</u>	<u>(273)</u>	<u>94,339</u>
Other revenue					172		172
Total	<u>¥19,252</u>	<u>¥24,934</u>	<u>¥9,241</u>	<u>¥38,798</u>	<u>¥2,559</u>	<u>¥(273)</u>	<u>¥94,511</u>

	Thousands of U.S. Dollars						
	2024						
	Reportable Segment						
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Other	Reconciliations	Consolidated
Domestic	\$ 131,246	\$ 66,402	\$ 32,620	\$ 6,130	\$ 23,565	\$ (443)	\$ 259,520
Foreign	10,336	96,249	43,901	199,808	(172)	(898)	349,224
Revenues from contracts with customers	141,582	162,651	76,521	205,938	23,393	(1,341)	608,744
Other revenue					1,057		1,057
Total	<u>\$ 141,582</u>	<u>\$ 162,651</u>	<u>\$ 76,521</u>	<u>\$ 205,938</u>	<u>\$ 24,450</u>	<u>\$ (1,341)</u>	<u>\$ 609,801</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 ¥2,707 million (\$17,879 thousand) and ¥2,731 million for the years ended March 31, 2024 and 2023, 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, 2024 and 2023, were ¥422 million (\$2,787 thousand) and ¥429 million, respectively.

Lease obligations and future minimum payments commitment under noncancelable operating leases as of March 31, 2024, are as follows:

	Millions of Yen		Thousands of U.S. Dollars	
	2024		2024	
	Lease Obligations	Operating Leases	Lease Obligations	Operating Leases
Due within one year	¥ 402		\$ 2,655	
Due after one year	1,521		10,046	
Total	<u>¥1,923</u>		<u>\$12,701</u>	

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

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, 2024.

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, 2024, 7.7% 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

	Millions of Yen		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2024</u>			
Investment securities	<u>¥ 3,166</u>	<u>¥ 3,166</u>	—
Total	<u>¥ 3,166</u>	<u>¥ 3,166</u>	—
Long-term bank debt	¥ 7,522	¥ 7,520	¥ (2)
Lease debt	1,923	1,973	50
Long-term deposits received	<u>490</u>	<u>466</u>	<u>(24)</u>
Total	<u>¥ 9,935</u>	<u>¥ 9,959</u>	<u>¥24</u>
<u>March 31, 2023</u>			
Investment securities	<u>¥ 2,668</u>	<u>¥ 2,668</u>	—
Total	<u>¥ 2,668</u>	<u>¥ 2,668</u>	—
Long-term bank debt	¥13,284	¥13,286	¥ 2
Lease debt	2,032	2,032	—
Long-term deposits received	<u>501</u>	<u>493</u>	<u>(8)</u>
Total	<u>¥15,817</u>	<u>¥15,811</u>	<u>¥ (6)</u>
	Thousands of U.S. Dollars		
	Carrying Amount	Fair Value	Unrealized Gain (Loss)
<u>March 31, 2024</u>			
Investment securities	<u>\$20,910</u>	<u>\$20,910</u>	—
Total	<u>\$20,910</u>	<u>\$20,910</u>	—
Long-term bank debt	\$49,679	\$49,666	\$ (13)
Lease debt	12,701	13,031	330
Long-term deposits received	<u>3,236</u>	<u>3,078</u>	<u>(158)</u>
Total	<u>\$65,616</u>	<u>\$65,775</u>	<u>\$ 159</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>2024</u>	<u>2023</u>	<u>2024</u>
Investments in equity instruments that do not have a quoted market price in an active market	¥22	¥22	\$ 145

Maturity analysis for financial assets with contractual maturities

	Millions of Yen			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
<u>March 31, 2024</u>				
Cash and cash equivalents	¥ 6,633			
Notes and accounts receivable	<u>22,665</u>			
Total	<u>¥29,298</u>			
<u>March 31, 2023</u>				
Cash and cash equivalents	¥ 6,219			
Notes and accounts receivable	<u>23,797</u>			
Total	<u>¥30,016</u>			
	Thousands of U.S. Dollars			
	<u>Due in 1 Year or Less</u>	<u>Due after 1 Year through 5 Years</u>	<u>Due after 5 Years through 10 Years</u>	<u>Due after 10 Years</u>
<u>March 31, 2024</u>				
Cash and cash equivalents	\$ 43,808			
Notes and accounts receivable	<u>149,693</u>			
Total	<u>\$ 193,501</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, 2024</u>	Millions of Yen			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Marketable and investment securities:				
Investment securities	¥3,166			¥3,166
Derivative transactions:				
Derivative	_____	_____	_____	_____
Total assets	<u>¥3,166</u>	<u>_____</u>	<u>_____</u>	<u>¥3,166</u>
<u>March 31, 2023</u>				
Marketable and investment securities:				
Investment securities	¥2,668			¥2,668
Derivative transactions:				
Derivative	_____	_____	_____	_____
Total assets	<u>¥2,668</u>	<u>_____</u>	<u>_____</u>	<u>¥2,668</u>

<u>March 31, 2024</u>	Thousands of U.S. Dollars			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Marketable and investment securities:				
Investment securities	\$20,910			\$20,910
Derivative transactions:				
Derivative	_____	_____	_____	_____
Total assets	<u>\$20,910</u>	<u>_____</u>	<u>_____</u>	<u>\$20,910</u>

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

<u>March 31, 2024</u>	Millions of Yen			<u>Total</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	
Long-term bank debt		¥ 7,520		¥ 7,520
Lease debt		1,973		1,973
Long-term deposits received	_____	466	_____	466
Total liabilities	<u>_____</u>	<u>¥ 9,959</u>	<u>_____</u>	<u>¥ 9,959</u>
<u>March 31, 2023</u>				
Long-term bank debt		¥ 13,286		¥ 13,286
Lease debt		2,032		2,032
Long-term deposits received	_____	493	_____	493
Total liabilities	<u>_____</u>	<u>¥ 15,811</u>	<u>_____</u>	<u>¥ 15,811</u>

<u>March 31, 2024</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		\$ 49,666		\$ 49,666
Lease debt		13,031		13,031
Long-term deposits received		<u>3,078</u>		<u>3,078</u>
Total liabilities		<u>\$ 65,775</u>		<u>\$ 65,775</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, 2024

Not applicable

March 31, 2023

Not applicable

19. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income for the years ended March 31, 2024 and 2023, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Unrealized gain (loss) on available-for-sale securities:			
Gains (losses) arising during the year	¥ 479	¥ (371)	\$ 3,164
Reclassification adjustments to profit or loss	193	193	1,275
Amount before income tax effect	<u>672</u>	<u>(178)</u>	<u>4,439</u>
Income tax effect	<u>(177)</u>	<u>39</u>	<u>(1,169)</u>
Total	<u>¥ 495</u>	<u>¥ (139)</u>	<u>\$ 3,270</u>
Deferred loss on derivatives under hedge accounting:			
Adjustments arising during the year		¥ 57	
Reclassification adjustments to profit or loss		(139)	
Adjustments to acquisition costs of assets	_____	_____	_____
Amount before income tax effect		(82)	
Income tax effect	_____	<u>25</u>	_____
Total	_____	<u>¥ (57)</u>	_____
Foreign currency translation adjustments:			
Adjustments arising during the year	¥1,917	¥1,595	\$ 12,660
Reclassification adjustments to profit or loss			
Amount before income tax effect	<u>1,917</u>	<u>1,595</u>	<u>12,660</u>
Income tax effect	_____	_____	_____
Total	<u>¥1,917</u>	<u>¥1,595</u>	<u>\$ 12,660</u>
Defined retirement benefit plans:			
Adjustments arising during the year	¥ 6	¥ 32	\$ 40
Reclassification adjustments to profit or loss	37	26	244
Amount before income tax effect	<u>43</u>	<u>58</u>	<u>284</u>
Income tax effect	<u>(14)</u>	<u>17</u>	<u>(92)</u>
Total	<u>¥ 29</u>	<u>¥ 75</u>	<u>\$ 192</u>
Share of other comprehensive gain in associated companies:			
Gains (losses) arising during the year	_____	_____	_____
Total	_____	_____	_____
Total other comprehensive income	<u>¥2,441</u>	<u>¥1,474</u>	<u>\$ 16,122</u>

20. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2024 and 2023, were as follows:

	<u>Millions of Yen</u>	<u>Thousands of Shares</u>	<u>Yen</u>	<u>U.S. Dollars</u>
<u>Year Ended March 31, 2024</u>	<u>Net (Loss) Income Attributable to Owners of the Parent</u>	<u>Weighted- Average Shares</u>	<u>EPS</u>	
Basic EPS—Net loss related to common shareholders	<u>¥(1,162)</u>	<u>24,223</u>	<u>¥(47.96)</u>	<u>\$(0.32)</u>
<u>Year Ended March 31, 2023</u>				
Basic EPS—Net income available to common shareholders	<u>¥ 886</u>	<u>24,769</u>	<u>¥ 35.76</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, 2024 and 2023, were as follows:

Fiscal year ended March 31, 2024

Not applicable

Fiscal year ended March 31, 2023

Not applicable

(2) *Transactions between Subsidiaries and Related Parties*

Transactions between subsidiaries and related parties for the years ended March 31, 2024 and 2023, were as follows:

Fiscal year ended March 31, 2024

Not applicable

Fiscal year ended March 31, 2023

Not applicable

(3) Summary of Financial Statements of Significant Affiliates

For the fiscal year ended March 31, 2024, the significant affiliate was SunPine AB. Its condensed financial information is as follows:

	Millions of Yen		Thousands of U.S. Dollars
	<u>2024</u>	<u>2023</u>	<u>2024</u>
Total current assets	¥17,671	¥14,048	\$116,710
Total non-current assets	7,822	7,524	51,661
Total current liabilities	6,642	4,759	43,868
Total non-current liabilities	6,872	4,333	45,387
Total equity	11,979	12,480	79,116
Net sales	52,665	39,814	347,830
Income before income taxes	2,202	6,198	14,543
Net income	1,748	4,921	11,545

22. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2024, was approved at the Company's Board of Directors' meeting held on May 13, 2024:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥21 (\$0.14) per share	¥509	\$3,362

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, synthetic rubber emulsifiers and resins for road marking paints.

(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								
	2024								
	Reportable Segments				Total	Other	Total	Reconciliations	Consolidated
Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter						
Sales:									
Sales to external customers	¥21,437	¥24,627	¥11,586	¥31,181	¥88,831	¥3,702	¥92,533	¥ (203)	¥92,330
Intersegment sales or transfers	602	1		993	1,596	261	1,857	(1,857)	
Total	¥22,039	¥24,628	¥11,586	¥32,174	¥90,427	¥3,963	¥94,390	¥(2,060)	¥92,330
Segment profit (loss)	¥ 211	¥ 1,549	¥ 582	¥ (1,675)	¥ 667	¥ (29)	¥ 638	¥ (851)	¥ (213)
Other:									
Depreciation	696	724	446	723	2,589	141	2,730		2,730
Net result of interest income and interest expense	21	12	(25)	(243)	(235)	1	(234)	(129)	(363)
Equity in earnings of associated companies				160	160		160	31	191

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 ¥277 million (\$1,829 thousand) and company-wide expenses of ¥1,136 million (\$7,503 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								
	2023								
	Reportable Segments				Total	Other	Total	Reconciliations	Consolidated
Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter						
Sales:									
Sales to external customers	¥19,252	¥24,934	¥9,242	¥38,798	¥92,226	¥2,558	¥94,784	¥ (273)	¥94,511
Intersegment sales or transfers	314	136		1,352	1,802	183	1,985	(1,985)	
Total	¥19,566	¥25,070	¥9,242	¥40,150	¥94,028	¥2,741	¥96,769	¥(2,258)	¥94,511
Segment profit (loss)	¥ 35	¥ 1,535	¥ 164	¥ 1,316	¥ 3,050	¥ (101)	¥ 2,949	¥(1,242)	¥ 1,707
Other:									
Depreciation	615	719	371	637	2,342	127	2,469		2,469
Net result of interest income and interest expense	(2)	29	(10)	(249)	(232)		(232)	(99)	(331)
Equity in earnings of associated companies				990	990		990	52	1,042

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.

Reconciliations of segment profit include reconciliation loss of inventories of ¥255 million and company-wide expenses of ¥998 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								
	2024								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	\$ 141,582	\$ 162,651	\$ 76,521	\$ 205,938	\$ 586,692	\$ 24,450	\$ 611,142	\$ (1,341)	\$ 609,801
Intersegment sales or transfers	<u>3,976</u>	<u>7</u>	<u>—</u>	<u>6,558</u>	<u>10,541</u>	<u>1,724</u>	<u>12,265</u>	<u>(12,265)</u>	<u>—</u>
Total	<u>\$ 145,558</u>	<u>\$ 162,658</u>	<u>\$ 76,521</u>	<u>\$ 212,496</u>	<u>\$ 597,233</u>	<u>\$ 26,174</u>	<u>\$ 623,407</u>	<u>\$ (13,606)</u>	<u>\$ 609,801</u>
Segment profit (loss)	\$ 1,394	\$ 10,230	\$ 3,844	\$ (11,063)	\$ 4,405	\$ (192)	\$ 4,213	\$ (5,620)	\$ (1,407)
Other:									
Depreciation	4,597	4,782	2,946	4,775	17,100	931	18,031		18,031
Net result of interest income and interest expense	139	79	(165)	(1,605)	(1,552)	7	(1,545)	(852)	(2,397)
Equity in earnings of associated companies				1,057	1,057		1,057	204	1,261

[Related Information]

a. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2024 and 2023, were as follows:

(1) Net sales

Millions of Yen							
2024							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥39,454	¥15,386	¥4,715	¥12,468	¥1,495	¥16,075	¥2,737	¥92,330
Millions of Yen							
2023							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
¥36,372	¥16,771	¥5,741	¥13,140	¥1,640	¥17,924	¥2,923	¥94,511
Thousands of U.S. Dollars							
2024							
	South and North America		Asia				
Japan	United States	Other	China	Other	Europe	Other	Total
\$ 260,577	\$ 101,618	\$ 31,141	\$ 82,346	\$ 9,874	\$ 106,169	\$ 18,076	\$ 609,801

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

(2) Net property, plant and equipment

Millions of Yen							
2024							
Japan	South and North America		Asia		Europe	Other	Total
	United States	Other	China	Other			
¥12,641	¥5,063	¥97	¥2,530	¥441	¥3,755	¥3,972	¥28,499

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

Thousands of U.S. Dollars							
2024							
Japan	South and North America		Asia		Europe	Other	Total
	United States	Other	China	Other			
\$83,489	\$33,439	\$641	\$16,710	\$2,913	\$24,800	\$26,232	\$188,224

b. 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 year ended March 31, 2024, was as follows:

Millions of Yen								
2024								
Resin & Tall Oil Products	Reportable Segments			Lawter	Total	Other	Eliminations/ Corporate	Consolidated
	Paper Chemicals	Electronics Materials						
Loss on impairment						¥125		¥125

Thousands of U.S. Dollars								
2024								
Resin & Tall Oil Products	Reportable Segments			Lawter	Total	Other	Eliminations/ Corporate	Consolidated
	Paper Chemicals	Electronics Materials						
Loss on impairment						\$826		\$826

* * * * *

INDEPENDENT AUDITOR'S REPORT

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

<Audit of Consolidated Financial Statements>

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, 2024, and the consolidated statement of operations, 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, 2024, 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 property, plant and equipment of Lawter	
Key Audit Matter Description	How the Key Audit Matter Was Addressed in the Audit
<p>As disclosed in Note 3, "Significant Accounting Estimate," as of March 31, 2024, the Group recorded ¥28,499 million in property, plant and equipment on the consolidated balance sheet. The balance amount included ¥10,167 million for Lawter, which is composed of LAWTER B.V. and its affiliates operating a business in seven countries around the world (the Netherlands, Belgium, the United States of America, Argentina, New Zealand, China, and South Korea). It mainly manufactures and sells resins for adhesives and printing inks.</p> <p>Lawter applies the accounting principles generally accepted in the United States of America. If there is any indication of impairment and the total amount of undiscounted future cash flows expected to arise from the asset group is less than the carrying amount as a result of recoverability test, an impairment loss should be recognized at the amount by which the carrying amount exceeds its fair value.</p> <p>For the year ended March 31, 2024, indications of impairment were identified for asset groups of Lawter in New Zealand and China.</p> <p>For the asset group of New Zealand, no impairment loss was recorded because the fair value of the asset group exceeded its carrying amount. The key assumptions used by management in calculating the fair value were the land price per unit area, the expected selling cost, and net realizable value of construction in progress and machinery and equipment.</p> <p>For the asset group of China, no impairment loss was recorded because the total amount of undiscounted future cash flows from the asset group exceeded its carrying amount. The key assumptions used by management in calculating the undiscounted future cash flows were forecasts of sales, gross margin rate and fixed costs, and the realizable value of the right to use the land.</p> <p>In the estimating process above, the calculation of fair value requires a high level of expertise in determining the valuation method and selecting the data used. In addition, the business plan used to calculate the undiscounted future cash flows involves subjective judgments made by management and uncertainties. Further, changes in the key assumptions could have a material impact on the consolidated financial statements.</p> <p>Therefore, we identified the valuation of property, plant and equipment of Lawter as a key audit matter.</p>	<p>With the assistance of the component auditors, we performed the following audit procedures related to the valuation of property, plant and equipment of Lawter, among others:</p> <ul style="list-style-type: none"> We evaluated the effectiveness of controls over the valuation process of property, plant and equipment. <p>The following procedures for the fair value of the New Zealand asset group:</p> <ul style="list-style-type: none"> With regard to the valuation report, which was the basis for the fair value calculation, we involved our valuation specialists at the auditor of the subsidiary to examine the appropriateness of the valuation methodologies and the reasonableness of the data used. In particular, we carefully examined the reasonableness of the data used in the market approach in the valuation report, such as land price per unit area, the expected selling cost, and net realizable values of construction in progress and machinery and equipment. <p>The following procedures for the undiscounted future cash flows from the China asset group:</p> <ul style="list-style-type: none"> We examined the consistency of the undiscounted future cash flows with the business plan approved by Lawter's Board of Directors. In addition, we inquired of management to understand the changes in the business environment underlying the business plan. Also, we compared the business plans developed in previous years with the actual results to evaluate the accuracy of the estimate of future cash flows. We examined the consistency of the projection period of the undiscounted future cash flows with the remaining useful life of primary assets. We examined the appropriateness of the projections of sales, gross margin rate and fixed costs in the undiscounted future cash flows by comparing them with previous years' results, inquiring of management, and inspecting relevant materials including available external data. We examined the appropriateness of realizable value of the right to use the land included in the undiscounted future cash flows by inquiring of management and comparing with available external data.

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, actions taken to eliminate threats or safeguards applied.

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.

<Fee-Related Information>

Fees for audit and other services for the year ended March 31, 2024, which were charged by us and our network firms to HARIMA CHEMICALS GROUP, INC. and its subsidiaries were ¥186 million and ¥45 million, respectively.

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 21, 2024

Corporate Overview (as of March 31, 2024)

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	127 (Consolidated: 1,734)
Number of Group Companies	35
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	www.harima.co.jp

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	398,000 thousand yen	100	Management of real estate, golf courses and hotels, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
Harima Foods, Inc.	30,000 thousand yen	100	Manufacture and sale of business-use foods, and sale of health foods and functional ingredients
HARIMA USA, Inc.	3,350 thousand U.S. dollars	100	Raw material procurement, Business support in the U.S. Holding company of U.S. group
Harima do Brasil Industria Quimica Ltda.	23,979 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.	18,356 thousand Malaysian ringgit	100	Manufacture and sale of electronic materials
Hangzhou Hanghua Harima Chemicals Co., Ltd.	52,296 thousand Chinese yuan	56.07	Manufacture and sale of papermaking chemicals
Harimatec Czech, s.r.o.	7,000 thousand Czech koruna	100	Manufacture and sale of electronic materials
Lawter B.V.	76,300 thousand euro	97.68	Control of Lawter Group's operations
Harima Chemicals (Shanghai) Co., Ltd	12,652 thousand Chinese yuan	100	Business support for subsidiaries in China
HARIMA UK LTD.	1,500 thousand British pound	100	Sales support for electronic materials

Directors and Corporate Auditors (as of March 31, 2024)

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

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2024)

(1) Total number of shares authorised to be issued	59,500,000
(2) Total number of shares outstanding	26,080,396 (including 1,846,943 shares of treasury stocks)
(3) Number of shareholders	11,019
(4) Major shareholders	

	Status of shareholding	
	Number of shares held (Thousands of shares)	Ratio of number of shares held against total number of shares outstanding (%)
Hasegawakosan Co., Ltd.	2,913	12.02
Matsukawa Corporation	2,913	12.02
Japan Master-Trust Trust bank	1,473	6.07
Harima Chemicals Mutual Prosperity Association	1,381	5.70
Hyogo Prefectural Credit Federation of Agricultural Cooperatives	1,028	4.24
Sumitomo Mitsui Banking Corporation	994	4.10
Shorai Foundation for Science and Technology	965	3.98
Shorai, Ltd.	934	3.85
Harima Employee Stock Ownership Association	445	1.83
Bank of Mitsubishi UFJ, Ltd.	388	1.60

- (Notes) 1. In “Number of shares held,” figures less than one thousand are rounded down.
2. Ratio of number of shares held against total number of shares outstanding is determined based on the total number of shares outstanding minus the number of treasury stocks (1,846,943 shares), which amounts to 24,233,453 shares. The numbers shown are rounded down to two decimal places.