Annual Report

Year Ended March 31, 2019

HARIMA CHEMICALS GROUP, INC.

Business Overview

As for the world economy during the current fiscal year, economy in the US continued recovering, also in Europe which recovered gently. But Chinese economy showed growing signs of slowdown. Meanwhile, about Japanese economy, employment and corporate earnings improved and also capital investment increased.

In the current fiscal year which was the last year of our medium-term management plan “NEW HARIMA 2018”, our group has challenged to make new growth in our business.

About the oversea business of our group, with a focus on Europe and China, the sales quantity increased. As a result, both oversea sales and earnings increased than last fiscal year. On the other hand, domestic business increased in the sales and earnings as well.

As a result of these conditions, the group’s consolidated net sales for the current fiscal year increased by 5,278 million Yen (up 7.2%) year-on-year to 78,589 million Yen. Operating income increased by 656 million Yen (up 16.4%) to 4,667million. Ordinary income increased by 810 million Yen (up 20.2%) to 4,818 million Yen.

Due to additional accounting of deferred tax asset in the consolidated subsidiaries, additional corporate tax adjustment was (1,239) million Yen (income) and net income attributable to Harima Chemicals Group, INC. was 4,131 million Yen, increased by 1,405 million Yen (up 51.6%) year-on- year.

Status of Business Segments

(Resin & Tall Oil Products)

In the printing ink industry and the paint industry, the production volume both decreased than the last fiscal year. However, because our new products of printing ink resin and paint resin had good sales, the total sales and the profit of this segment increased than the previous year.

(Paper Chemicals)

In the domestic paper industry, demand for paperboard increased, but which for information printing papers declined. As a result, the total production volume decreased. At the same time, both in China and the US market, paper industry slowed down.

However, China subsidiaries still kept a good business performance and the sales of domestic and the US subsidiaries remained stable. Total sales and profit of this segment also increased than the previous year.

(Electronics Materials)

Production volume in automobile industry, which is mainly related to this segment, increased slightly both in domestic market and North America market. But under the effect of US-China trade conflicts and economic slowdown in China, production volume in China and Europe market decreased.

In this segment, due to increased sales of brazing materials for automobile heat exchangers, soldering materials and functional resin for semiconductors, the total sales and profit was both increased than the previous fiscal year.

(Lawter)

Due to worldwide expansion of the internet shopping, demand for adhesive label increased and sales of adhesive resin which is used to product adhesive label increased. Mainly in North America, sales kept a stable performance and sales volume increased than the previous fiscal year.

Though demand for printing inks was sluggish on the background of digitization of information, the sales volume of printing ink resin increased because our products acquired new market from the competing companies in Europe.

Furthermore, operating income of this segment increased because we changed our production structure and reduced the manufacturing cost.

As a result, Lawter segment achieved increase in total sales and profit the same to the three segments above.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	74th Fiscal Year (Fiscal year ended March 2016)	75th Fiscal Year (Fiscal year ended March 2017)	76th Fiscal Year (Fiscal year ended March 2018)	77th Fiscal Year (Fiscal year ended March 2019)
Net sales	80,977	71,384	73,310	78,589
Ordinary income	3,225	3,931	4,008	4,818
Net income attributable to Harima Chemicals Group, INC.	1,222	2,421	2,725	4,131
Net income per share (Yen)	47.12	93.31	105.03	159.02
Total assets	70,761	67,134	69,637	72,870
Net assets	31,362	33,813	36,097	37,811

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

2. We applied ASBJ Statement No.28, "Partial Amendments to Accounting Standard for Tax Effect Accounting" issued on Febryary16,2018 form the beginning on the 77th Fiscal year.
The information from the 74th Fiscal year to the 76th Fiscal year was changed into new data which allows retroactive application of the new statement above.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Balance Sheet
March 31, 2019

ASSETS	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 3,289	¥ 3,660	$ 29,633
Notes and accounts receivable (Note 15):			
Trade notes	2,864	1,560	25,804
Trade accounts	18,438	18,452	166,123
Associated companies	224	243	2,018
Other	932	1,058	8,397
Allowance for doubtful receivables	(102)	(122)	(919)
Inventories (Note 4)	11,558	11,541	104,136
Other current assets	949	1,124	8,551
Total current assets	38,152	37,516	343,743
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land (Note 6)	8,530	8,851	76,854
Buildings and structures (Note 6)	18,453	18,166	166,258
Machinery and equipment	26,679	27,131	240,373
Lease assets (Note 14)	760	777	6,847
Construction in progress	456	431	4,108
Other assets	4,770	4,516	42,978
Total	59,648	59,872	537,418
Accumulated depreciation	(37,611)	(37,804)	(338,869)
Net property, plant and equipment	22,037	22,068	198,549
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	3,832	6,756	34,526
Investments in and advances to associated companies	5,765	965	51,942
Deferred tax assets (Note 12)	1,414	463	12,740
Other assets	1,674	1,873	15,082
Allowance for doubtful accounts	(3)	(3)	(27)
Total investments and other assets	12,682	10,054	114,263
TOTAL	¥ 72,871	¥ 69,638	$ 656,555

LIABILITIES AND EQUITY	Millions of Yen 2019	Millions of Yen 2018	Thousands of U.S. Dollars (Note 1) 2019
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 15)	¥ 13,423	¥ 10,816	$ 120,939
Current portion of long-term debt (Notes 7 and 15)	1,688	2,786	15,209
Notes and accounts payable (Note 15):			
Trade notes	358	320	3,226
Trade accounts	8,545	8,409	76,989
Associated companies	116	105	1,045
Construction and other	1,516	1,106	13,659
Income taxes payable (Note 12)	674	428	6,073
Other current liabilities	2,209	2,267	19,903
Total current liabilities	28,529	26,237	257,043
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 14, 15, and 16)	3,345	3,398	30,138
Deferred tax liabilities (Note 12)	844	1,464	7,604
Long-term deposits received (Note 15)	684	736	6,163
Liability for retirement benefits (Note 8)	1,402	1,409	12,632
Asset retirement obligations (Note 9)	49	49	441
Other long-term liabilities	207	247	1,865
Total long-term liabilities	6,531	7,303	58,843
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 7, 14, and 16)			
EQUITY (Note 10):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2019 and 2018	10,013	10,013	90,215
Capital surplus	9,768	9,767	88,008
Retained earnings	16,950	13,573	152,716
Treasury stock – at cost: 428,851 shares in 2019 and 55,330 shares in 2018	(422)	(26)	(3,802)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,234	1,679	11,118
Foreign currency translation adjustments	(2,020)	(1,110)	(18,199)
Defined retirement benefit plans	(166)	(173)	(1,496)
Total	35,357	33,723	318,560
Noncontrolling interests	2,454	2,375	22,109
Total equity	37,811	36,098	340,669
TOTAL	¥ 72,871	¥ 69,638	$ 656,555

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET SALES	¥ 78,589	¥ 73,310	$ 708,073
COST OF SALES	59,461	55,769	535,733
Gross profit	19,128	17,541	172,340
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	14,461	13,530	130,291
Operating income	4,667	4,011	42,049
OTHER INCOME (EXPENSES):			
Interest and dividend income	263	247	2,370
Interest expense	(275)	(267)	(2,478)
Rental income	117	115	1,054
Commission paid	(16)	(7)	(144)
Foreign exchange gain (loss)	208	(190)	1,874
Gain (loss) on sale of property, plant and equipment	10	(8)	90
Loss on impairment of long-lived assets (Note 5)	(270)	(648)	(2,433)
Loss on disposal of property, plant and equipment	(74)	(22)	(667)
Gain on sale of investment securities		594	
Equity in (losses) earnings of associated companies	(13)	39	(117)
Other – net	(133)	91	(1,198)
Other income (expenses) – net	(183)	(56)	(1,649)
INCOME BEFORE INCOME TAXES	4,484	3,955	40,400
INCOME TAXES (Note 12):			
Current	1,201	1,168	10,821
Deferred	(1,240)	(201)	(11,172)
Total income taxes	(39)	967	(351)
NET INCOME	4,523	2,988	40,751
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(392)	(262)	(3,531)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 4,131	¥ 2,726	$ 37,220
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 18):			
Net income	¥159.02	¥105.03	$1.43
Cash dividends applicable to the year	36.00	23.00	0.32

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
NET INCOME	¥ 4,523	¥ 2,988	$ 40,751
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized loss on available-for-sale securities	(445)	(56)	(4,009)
Foreign currency translation adjustments	(1,043)	(88)	(9,397)
Defined retirement benefit plans	8	2	72
Share of other comprehensive loss in associated companies	(0)	(0)	(0)
Total other comprehensive income (loss)	(1,480)	(142)	(13,334)
COMPREHENSIVE INCOME (Note 17)	¥ 3,043	¥ 2,846	$ 27,417
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥2,784	¥2,534	$25,083
Noncontrolling interests	259	312	2,334

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2019

	Thousands	Millions of Yen									
						Accumulated Other Comprehensive Income					
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, APRIL 1, 2017	25,948	¥ 10,013	¥ 9,744	¥ 11,366	¥ (62)	¥ 1,735	¥ (972)	¥ (176)	¥ 31,648	¥ 2,165	¥ 33,813
Net income attributable to owners of the parent				2,726					2,726		2,726
Cash dividends, ¥20.00 per share				(519)					(519)		(519)
Purchase of treasury stock					0				0		0
Disposal of treasury stock	77		32		36				68		68
Change in ownership interest in subsidiaries			(9)						(9)		(9)
Net change in the year						(56)	(138)	3	(191)	210	19
BALANCE, MARCH 31, 2018	26,025	10,013	9,767	13,573	(26)	1,679	(1,110)	(173)	33,723	2,375	36,098
Net income attributable to owners of the parent				4,131					4,131		4,131
Cash dividends, ¥29.00 per share				(754)					(754)		(754)
Purchase of treasury stock	(373)				(396)				(396)		(396)
Disposal of treasury stock											
Change in ownership interest in subsidiaries			1						1		1
Net change in the year						(445)	(910)	7	(1,348)	79	(1,269)
BALANCE, MARCH 31, 2019	25,652	¥ 10,013	¥ 9,768	¥ 16,950	¥ (422)	¥ 1,234	¥ (2,020)	¥ (166)	¥ 35,357	¥ 2,454	¥ 37,811

	Thousands of U.S. Dollars (Note 1)									
					Accumulated Other Comprehensive Income					
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Unrealized Gain on Available-for-Sale Securities	Foreign Currency Translation Adjustments	Defined Retirement Benefit Plans	Total	Noncontrolling Interests	Total Equity
BALANCE, MARCH 31, 2018	$ 90,215	$ 87,999	$ 122,290	$ (234)	$ 15,127	$ (10,001)	$ (1,559)	$ 303,837	$ 21,398	$ 325,235
Net income attributable to owners of the parent			37,220					37,220		37,220
Cash dividends, $0.26 per share			(6,794)					(6,794)		(6,794)
Purchase of treasury stock				(3,568)				(3,568)		(3,568)
Disposal of treasury stock										
Change in ownership interest in subsidiaries		9						9		9
Net change in the year					(4,009)	(8,198)	63	(12,144)	711	(11,433)
BALANCE, MARCH 31, 2019	$ 90,215	$ 88,008	$ 152,716	$ (3,802)	$ 11,118	$ (18,199)	$ (1,496)	$ 318,560	$ 22,109	$ 340,669

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2019

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2019	2018	2019
OPERATING ACTIVITIES:			
Income before income taxes	¥ 4,484	¥ 3,955	$ 40,400
Adjustments for:			
Income taxes – paid	(960)	(1,209)	(8,649)
Depreciation and amortization	2,031	1,948	18,299
Loss on impairment of long-lived assets	270	648	2,433
Foreign exchange (gain) loss	(227)	192	(2,045)
(Gain) loss on sales of property, plant and equipment	(10)	8	(90)
Loss (gain) on sales of investment securities	0	(594)	0
Changes in assets and liabilities:			
Increase in trade notes and accounts receivable	(1,606)	(2,377)	(14,470)
Increase in inventories	(197)	(699)	(1,775)
Increase in trade notes and accounts payable	311	580	2,802
Other – net	83	325	747
Total adjustments	(305)	(1,178)	(2,748)
Net cash provided by operating activities	4,179	2,777	37,652
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,529)	(1,644)	(22,786)
Proceeds from sales of property, plant and equipment	68	140	613
Purchases of intangible assets	(50)	(115)	(450)
Purchases of investment securities	(2,595)	(807)	(23,380)
Proceeds from sales of investment securities	100	878	901
Other – net	(29)	21	(262)
Net cash used in investing activities	(5,035)	(1,527)	(45,364)
FINANCING ACTIVITIES:			
Increase in short-term bank loans – net	2,941	5,474	26,498
Proceeds from long-term debt	1,706	1,432	15,371
Repayments of long-term debt	(2,682)	(7,763)	(24,164)
Dividends paid	(755)	(519)	(6,802)
Other – net	(629)	(176)	(5,668)
Net cash provided by (used in) financing activities	581	(1,552)	5,235
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(96)	(40)	(866)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(371)	(342)	(3,343)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	3,660	4,002	32,976
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 3,289	¥ 3,660	$ 29,633

See notes to consolidated financial statements.

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations, and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain reclassifications have been made in the 2018 consolidated financial statements to conform to the classifications used in 2019.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which HARIMA CHEMICALS GROUP, INC. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥110.99 to $1, the approximate rate of exchange at March 31, 2019. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Under the control and influence concepts, those companies in which the Company directly is able to exercise control over operations are fully consolidated.

Investments in associated companies are accounted for by the equity method.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

All other leases are accounted for as operating leases.

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

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

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

On February 16, 2018, the ASBJ issued ASBJ Statement No. 28, "Partial Amendments to Accounting Standard for Tax Effect Accounting," which requires deferred tax assets and deferred tax liabilities to be classified as investments and other assets and long-term liabilities, respectively. Deferred tax assets were previously classified as current assets and investments and other assets, and deferred tax liabilities were previously classified as current liabilities and long-term liabilities under the previous accounting standard. The revised accounting standard is effective for annual periods beginning on or after April 1, 2018. The Company retrospectively applied the revised accounting standard effective April 1, 2018, and deferred tax assets of ¥260 million and deferred tax liabilities of ¥134 million which were previously classified as current assets and long-term liabilities, respectively, as of March 31, 2018, have been reclassified as investments and other assets in the accompanying consolidated balance sheet.

The amendments also require details of valuation allowance and expiration of tax loss carryforwards to be disclosed, but comparative information is allowed to not be disclosed as transitional measures. The Company disclosed the details of valuation allowance and the expiration of tax loss carryforwards as of March 31, 2019 in Note 12.

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

r. ***Foreign Currency Financial Statements*** – The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into yen at the average exchange rate.

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

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

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

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

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

u. ***New Accounting Pronouncements*** – On March 30, 2018, the ASBJ issued ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition." The core principle of the standard and guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. An entity should recognize revenue in accordance with that core principle by applying the following steps:

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

The accounting standard and guidance are effective for annual periods beginning on or after April 1, 2021. Earlier application is permitted for annual periods beginning on or after April 1, 2018.

The Company expects to apply the accounting standard and guidance for annual periods beginning on or after April 1, 2021, and is in the process of measuring the effects of applying the accounting standard and guidance in future applicable periods.

3. INVESTMENT SECURITIES

Investment securities as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Non-current:			
Equity securities	¥ 3,801	¥ 6,625	$ 34,247
Trust fund investments and other	31	131	279
Total	¥ 3,832	¥ 6,756	$ 34,526

The costs and aggregate fair values of investment securities as of March 31, 2019 and 2018, were as follows:

	Millions of Yen			
March 31, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,091	¥1,708	¥(21)	¥3,778
Debt securities	30	1		31
March 31, 2018				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,087	¥2,287	¥(5)	¥4,369
Debt securities	130	1		131

	Thousands of U.S. Dollars			
March 31, 2019	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	$18,840	$15,389	$(189)	$34,040
Debt securities	270	9		279

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Nonmarketable available-for-sale:			
Equity securities	¥23	¥2,256	$207

The information for available-for-sale securities which were sold during the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		
March 31, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 0	¥	¥ 0
Debt securities	100		
Total	¥ 100	¥	¥ 0
March 31, 2018			
Available-for-sale:			
Equity securities	¥ 817	¥ 602	
Debt securities	10		¥ 6
Total	¥ 827	¥ 602	¥ 6

	Thousands of U.S. Dollars		
March 31, 2019	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 0	$	$ 0
Debt securities	901		
Total	$ 901	$	$ 0

4. INVENTORIES

Inventories as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Finished products	¥ 5,671	¥ 5,527	$ 51,095
Work in process	195	229	1,757
Raw materials and supplies	5,692	5,785	51,284
Total	¥ 11,558	¥ 11,541	$ 104,136

5. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥270 million ($2,433 thousand) and ¥648 million for the years ended March 31, 2019 and 2018, respectively. The Group recognized a decline in value of a golf course and hotel facilities for the year ended March 31, 2018. Also, the Group recognized a decline in value of a golf course, hotel facilities, and unused real estate in Japan for the year ended March 31, 2019. 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.

6. 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, 2019 and 2018, were ¥109 million ($982 thousand) and ¥117 million, respectively.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2018	Increase/ Decrease	March 31, 2019	March 31, 2019
¥1,986	¥114	¥2,100	¥2,862

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2017	Increase/ Decrease	March 31, 2018	March 31, 2018
¥2,641	¥(655)	¥1,986	¥2,742

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2018	Increase/ Decrease	March 31, 2019	March 31, 2019
$17,894	$1,027	$18,921	$25,786

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, 2019, primarily represents the capital expenditure for current investment properties of ¥403 million ($3,631 thousand), and the decrease primarily represents depreciation of ¥28 million ($252 thousand), impairment loss of ¥260 million ($2,343 thousand), and sale of ¥1 million ($9 thousand). Increase during the fiscal year ended March 31, 2018, primarily represents the capital expenditure for current investment properties of ¥102 million, and the decrease primarily represents depreciation of ¥23 million, impairment loss of ¥648 million, and sale of ¥86 million.

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

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

Short-term bank loans as of March 31, 2019 and 2018, 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, 2019 and 2018, were 0.9% and 0.8%, respectively. As of March 31, 2019 and 2018, the total committed line of credit was ¥4,000 million ($36,039 thousand) and ¥4,000 million, and unused balance was ¥3,900 million ($35,138 thousand) and ¥4,000 million, respectively.

Long-term debt as of March 31, 2019 and 2018, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unsecured loans from banks and other financial institutions, due serially to 2023 with interest rates ranging from 0.4% to 3.7% (2019) and from 0.4% to 2.1% (2018)	¥ 4,008	¥ 5,069	$ 36,112
Obligations under finance leases	1,025	1,115	9,235
Total	5,033	6,184	45,347
Less current portion	(1,688)	(2,786)	(15,209)
Long-term debt, less current portion	¥ 3,345	¥ 3,398	$ 30,138

Annual maturities of long-term debt as of March 31, 2019, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2020	¥ 1,688	$ 15,209
2021	1,127	10,154
2022	210	1,892
2023	71	640
2024	1,331	11,992
2025 and thereafter	606	5,460
Total	¥ 5,033	$ 45,347

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, 2019 and 2018, the covenants were not breached since the Group met the requirements.

8. RETIREMENT AND PENSION PLANS

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

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

Also, the Group 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, 2019 and 2018 was ¥447 million ($4,030 thousand) and ¥405 million, respectively, and included in liability for retirement benefits in the consolidated balance sheet.

<1> Defined Benefit Plan

(1) The changes in defined benefit obligation for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 2,945	¥ 2,838	$ 26,534
Service cost	173	170	1,559
Interest cost	26	26	234
Actuarial (gains) losses	(0)	8	(0)
Benefits paid	(161)	(153)	(1,451)
Foreign currency translation differences	(36)	51	(324)
Others	6	5	54
Balance at end of year	¥ 2,953	¥ 2,945	$ 26,606

(2) The changes in plan assets for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 2,091	¥ 1,943	$ 18,840
Expected return on plan assets	60	59	541
Actuarial losses	(30)	(16)	(270)
Contributions from the employer	212	207	1,910
Benefits paid	(161)	(153)	(1,451)
Foreign currency translation differences	(32)	45	(288)
Others	6	6	53
Balance at end of year	¥ 2,146	¥ 2,091	$ 19,335

(3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥ 150	¥ 133	$ 1,351
Periodic benefit costs	4	26	36
Benefits paid	(3)	(8)	(27)
Foreign currency translation differences	(4)	(1)	(36)
Balance at end of year	¥ 147	¥ 150	$ 1,324

(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, 2019 and 2018, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Funded defined benefit obligation	¥ 2,953	¥ 2,945	$ 26,606
Plan assets	(2,146)	(2,091)	(19,335)
Total	807	854	7,271
Unfunded defined benefit obligation	147	150	1,324
Net liability arising from defined benefit obligation	¥ 954	¥ 1,004	$ 8,595

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Liability for retirement benefits	¥ 954	¥ 1,004	$ 8,595
Net liability arising from defined benefit obligation	¥ 954	¥ 1,004	$ 8,595

(5) The components of net periodic benefit costs for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Service cost	¥ 173	¥ 170	$ 1,559
Interest cost	26	26	234
Expected return on plan assets	(60)	(59)	(541)
Recognized actuarial losses	30	32	270
Recognized prior service cost	4	4	36
Periodic benefit cost in simplified method	4	26	37
Net periodic benefit costs	¥ 177	¥ 199	$ 1,595

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Prior service cost	¥ 4	¥ 4	$ 36
Actuarial (gains) losses	(0)	(8)	(0)
Others	3	(5)	27
Total	¥ 7	¥ 7	$ 63

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrecognized prior service cost	¥ 50	¥ 57	$ 450
Unrecognized actuarial losses	202	202	1,820
Total	¥ 252	¥ 259	$ 2,270

(8) Plan assets as of March 31, 2019 and 2018

a. *Components of plan assets*

Plan assets consisted of the following:

	2019	2018
Debt securities in Japan	8.7%	11.9%
Equity securities in Japan	6.9	7.9
Debt securities in other countries	3.3	3.6
Equity securities in other countries	6.9	7.2
Cash and time deposits	0.9	0.9
Insurance asset (general account)	65.8	65.1
Others	7.5	3.4
Total	100.0%	100.0%

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

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

(9) Assumptions used for the years ended March 31, 2019 and 2018, were set forth as follows:

	2019	2018
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 3.0%	Mainly 3.0%

<2> Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2019 and 2018, was ¥221 million ($1,991 thousand) and ¥200 million, respectively.

<3> Multi-Employer Pension Plan

As of March 28, 2018, Osaka Yakugyo Kosei Pension Fund had dissolved, and the Company and certain domestic subsidiaries joined Osaka Yakugyo Kigyo Pension Fund, a new multi-employer plan. This disclosure uses the most recently available information.

The contributions to the multi-employer plan, which are accounted for using the same method as a defined contribution plan, were ¥84 million ($757 thousand) and ¥93 million for the years ended March 31, 2019 and 2018, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2018 and 2017, was as follows:

a. *Osaka Yakugyo Kosei Pension Fund*

There is no available information about 2018.

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Plan assets	¥	¥ 291,474	$
Sum of actuarial liabilities of pension plan and minimum actuarial reserve		358,591	
Net balance	¥	¥ (67,117)	$

b. *Osaka Yakugyo Kigyo Pension Fund*

As of March 31, 2019, there is no available information about the new multi-employer plan.

(2) The contribution ratio of the Group in Osaka Yakugyo Kosei Pension Fund for the year ended March 31, 2017, was 1.3%. There is no available information about Osaka Yakugyo Kigyo Pension Fund.

(3) Supplementary explanation

The net balance in (1) above is mainly caused by past service cost of ¥46,483 million for 2017, and a deficiency brought forward of ¥20,634 million for 2017. Past service cost under the plan is amortized on a straight-line basis over 14 years, and the special contributions of ¥64 million for 2017, which are utilized for such amortization, were expensed in the consolidated statement of income of the Group.

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

9. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Balance at beginning of year	¥49	¥48	$441
Reconciliation associated with passage of time	0	1	0
Balance at end of year	49	49	441

10. 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.

11. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended March 31, 2019 and 2018, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Employees' salaries and bonuses	¥3,709	¥3,527	$33,417
Net periodic retirement benefit	258	223	2,325
Transport	3,464	3,150	31,210
Depreciation	248	305	2,234
Rental	247	271	2,225
Research and development	2,595	2,464	23,380

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.6% and 30.8% for the years ended March 31, 2019 and 2018, respectively. Foreign subsidiaries are subject to the income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Deferred tax assets:			
Tax loss carryforwards	¥ 1,800	¥ 2,242	$ 16,218
Impairment loss on long-lived assets	1,482	1,414	13,353
Loss on revaluation of investment securities	114	114	1,027
Retirement benefits to directors	137	124	1,234
Unrealized gain on property, plant and equipment	97	97	874
Others	865	846	7,794
Total of tax loss carryforwards and temporary differences	4,495	4,837	40,500
Less valuation allowance for tax loss carryforwards	(588)		(5,298)
Less valuation allowance for temporary differences	(1,710)		(15,407)
Total valuation allowance	(2,298)	(3,626)	(20,705)
Deferred tax assets	¥ 2,197	¥ 1,211	$ 19,795
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ (50)	¥ (52)	$ (450)
Unrealized gain on available-for-sale securities	(443)	(593)	(3,991)
Undistributed earnings of foreign subsidiaries	(278)	(250)	(2,505)
Depreciation of foreign subsidiaries	(476)	(474)	(4,289)
Negative goodwill and intangible fixed assets of foreign subsidiaries	(71)	(76)	(640)
Others	(309)	(767)	(2,784)
Deferred tax liabilities	¥ (1,627)	¥ (2,212)	$ (14,659)
Net deferred tax assets (liabilities)	¥ 570	¥ (1,001)	$ 5,136

Valuation allowance decreased by ¥1,328 million ($11,965 thousand), mainly due to the reversal of valuation allowance for tax loss carryforwards at Lawter BVBA.

The expiration of tax loss carryforwards, the related valuation allowances, and the resulting net deferred tax assets as of March 31, 2019, were as follows:

	Millions of Yen						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 34	¥ 1	¥	¥	¥ 6	¥ 1,759	¥ 1,800
Less valuation allowances for tax loss carryforwards	(21)	(1)				(566)	(588)
Net deferred tax assets relating to tax loss carryforwards	13				6	1,193	1,212

	Thousands of U.S. Dollars						
March 31, 2019	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$ 306	$ 9	$	$	$ 54	$ 15,849	$ 16,218
Less valuation allowances for tax loss carryforwards	(189)	(9)				(5,100)	(5,298)
Net deferred tax assets relating to tax loss carryforwards	117				54	10,749	10,920

Net deferred tax assets relating to tax loss carryforwards was ¥1,212 million ($10,920 thousand) for the year ended March 31, 2019. It was mainly recorded at Lawter BVBA as a result of future taxable income consideration.

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of operations for the years ended March 31, 2019 and 2018, were as follows:

	2019	2018
Normal effective statutory tax rate	30.6%	30.8%
Expenses not deductible for income tax purposes	3.6	3.6
Inhabitant tax on per capita basis	0.7	0.8
Difference of income tax rates applicable to income in certain foreign countries	(5.9)	0.3
Decrease in valuation allowance	(27.5)	(4.1)
Tax credit	(1.8)	(1.4)
Adjustment of deferred tax assets and liabilities at end of period due to change in tax rates	0.0	(5.8)
Undistributed earnings of foreign subsidiaries	0.6	1.0
Other – net	(1.2)	(0.8)
Actual effective tax rate	(0.9)%	24.4%

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,595 million ($23,380 thousand) and ¥2,464 million for the years ended March 31, 2019 and 2018, respectively.

14. LEASES

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

Total lease expenses included for the years ended March 31, 2019 and 2018, were ¥309 million ($2,784 thousand) and ¥305 million, respectively.

The future minimum lease payments commitment under noncancelable operating leases as of March 31, 2019, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 176	$ 1,586
Due after one year	1,140	10,271
Total	¥ 1,316	$ 11,857

15. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

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

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

Receivables, such as trade notes and trade accounts, are exposed to customer credit risk. Payment terms of payables, such as trade notes and trade accounts, are primarily less than one year. Payment in foreign currencies is exposed to the market risk of fluctuation in foreign currency exchange rates. Investment securities are exposed to the risk of market price fluctuations. Short-term bank loans and long-term debt are related to ongoing operations and working capital. Although a part of such bank loans are exposed to market risks from changes in variable interest rates, those risks are mitigated by using derivatives of interest rate swaps. Long-term deposits received are mainly related to deposits for membership 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 on the basis of internal guidelines, which include monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage.

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

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2019.

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

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

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

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

Liquidity risk management

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

(4) Fair Value of Financial Instruments

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

(a) Fair value of financial instruments

Carrying amounts, fair values, and the differences between carrying amounts and fair values as of March 31, 2019 and 2018, were as follows. The accounts for which fair value cannot be reasonably determined are not included in the following:

	Millions of Yen		
March 31, 2019	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 3,289	¥ 3,289	¥
Notes and accounts receivable	22,458	22,458	
Investment securities	3,809	3,809	
Total	¥ 29,556	¥ 29,556	¥
Notes and accounts payable	¥ (10,535)	¥ (10,535)	
Short-term bank loans	(13,423)	(13,423)	
Long-term debt	(5,033)	(5,054)	¥ (21)
Long-term deposits received	(684)	(639)	45
Total	¥ (29,675)	¥ (29,651)	¥ 24

	Millions of Yen		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	¥ 3,660	¥ 3,660	¥
Notes and accounts receivable	21,313	21,313	
Investment securities	4,500	4,500	
Total	¥ 29,473	¥ 29,473	¥
Notes and accounts payable	¥ (9,940)	¥ (9,940)	
Short-term bank loans	(10,816)	(10,816)	
Long-term debt	(6,184)	(6,196)	¥ (12)
Long-term deposits received	(736)	(684)	52
Total	¥ (27,676)	¥ (27,636)	¥ 40

March 31, 2019	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 29,633	$ 29,633	$
Notes and accounts receivable	202,342	202,342	
Investment securities	34,319	34,319	
Total	$ 266,294	$ 266,294	$
Notes and accounts payable	$ (94,919)	$ (94,919)	
Short-term bank loans	(120,939)	(120,939)	
Long-term debt	(45,347)	(45,537)	$ (190)
Long-term deposits received	(6,163)	(5,757)	406
Total	$ (267,368)	$ (267,152)	$ 216

Cash and Cash Equivalents and Notes and Accounts Receivable

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

Investment Securities

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

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

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

Long-Term Debt

The fair values of long-term debt are determined by discounting the future cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended March 31, 2019.

Long-Term Deposits Received

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

Derivatives

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

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

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Investments in equity instruments that do not have a quoted market price in an active market	¥23	¥2,256	$207

(5) Maturity Analysis for Financial Assets with Contractual Maturities

March 31, 2019	Millions of Yen Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 3,289	¥	¥	¥
Notes and accounts receivable	22,458			
Investment securities:				
Available-for-sale securities with contractual maturities				
Total	¥ 25,747	¥	¥	¥

March 31, 2018	Millions of Yen Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	¥ 3,660		¥	¥
Notes and accounts receivable	21,313			
Investment securities:				
Available-for-sale securities with contractual maturities		¥ 100		
Total	¥ 24,973	¥ 100	¥	¥

March 31, 2019	Thousands of U.S. Dollars Due in One Year or Less	Due after One Year through Five Years	Due after Five Years through Ten Years	Due after Ten Years
Cash and cash equivalents	$ 29,633	$	$	$
Notes and accounts receivable	202,342			
Investment securities:				
Available-for-sale securities with contractual maturities				
Total	$ 231,975	$	$	$

16. DERIVATIVES

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

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

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

March 31, 2019

Not applicable

March 31, 2018

Not applicable

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2019	2018	2019
Unrealized loss on available-for-sale securities:			
Gains arising during the year	¥ (595)	¥ 566	$ (5,360)
Reclassification adjustments to profit or loss	(0)	(594)	(0)
Amount before income tax effect	(595)	(28)	(5,360)
Income tax effect	150	(28)	1,351
Total	¥ (445)	¥ (56)	$ (4,009)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (1,043)	¥ (88)	$ (9,397)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(1,043)	(88)	(9,397)
Income tax effect			
Total	¥ (1,043)	¥ (88)	$ (9,397)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (27)	¥ (29)	$ (243)
Reclassification adjustments to profit or loss	34	36	306
Amount before income tax effect	7	7	63
Income tax effect	1	(5)	9
Total	¥ 8	¥ 2	$ 72
Share of other comprehensive loss in associated companies – Losses arising during the year	¥ (0)	¥ (0)	$ (0)
Total	¥ (0)	¥ (0)	$ (0)
Total other comprehensive income (loss)	¥ (1,480)	¥ (142)	$ (13,334)

18. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2019 and 2018, were as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income Attributable to Owners of the Parent	Weighted-Average Shares	EPS	
For the year ended March 31, 2019:				
Basic EPS				
Net income available to common shareholders	¥ 4,131	25,980	¥ 159.02	$ 1.43
For the year ended March 31, 2018:				
Basic EPS				
Net income available to common shareholders	¥ 2,726	25,954	¥ 105.03	

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

19. RELATED PARTY DISCLOSURES

(1) The Transactions between the Company and Related Parties

Transactions between the Company and related parties for the years ended March 31, 2019 and 2018, were as follows:

Fiscal year ended March 31, 2019

Not applicable

Fiscal year ended March 31, 2018

Not applicable

(2) *Transactions between Subsidiaries and Related Parties*

Transactions between subsidiaries and related parties for the years ended March 31, 2019 and 2018, were as follows:

Fiscal year ended March 31, 2019

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)	Amount (Thousands of U.S. Dollars)
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5	$ 45
						Other current assets, end of year	0	0
						Minimum rental commitments	26	234

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

Fiscal year ended March 31, 2018

Type of Related Parties	Name	Address	Capital Amount (Millions of Yen)	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount (Millions of Yen)
Owned by certain directors of the Company and their relatives	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	¥30	Food manufacturing	-	Lease payments	¥ 5
						Other current assets, end of year	0
						Minimum rental commitments	31

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

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2019, was approved at the Company's Board of Directors' meeting held on May 16, 2019:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥19.00 ($0.17) per share	¥487	$4,391

21. SEGMENT INFORMATION

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

(1) *Description of Reportable Segments*

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is performed in order to decide how resources are allocated among the Group.

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

(2) Methods of Measurement for the Amounts of Sales, Profit, Assets, and Other Items for Each Reportable Segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

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

	Millions of Yen								
	2019								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 20,309	¥ 19,950	¥ 5,737	¥ 30,980	¥ 76,976	¥ 1,580	¥ 78,556	¥ 33	¥ 78,589
Intersegment sales or transfers	210	120		148	478	118	596	(596)	
Total	¥ 20,519	¥ 20,070	¥ 5,737	¥ 31,128	¥ 77,454	¥ 1,698	¥ 79,152	¥ (563)	¥ 78,589
Segment profit (loss)	¥1,376	¥1,882	¥421	¥1,503	¥5,182	¥ (49)	¥5,133	¥ (466)	¥4,667
Other:									
Depreciation	676	665	147	428	1,916	115	2,031		2,031
Net result of interest income and interest expense	(9)	(6)	(1)	(142)	(158)	(4)	(162)	(66)	(228)
Equity in earnings of associated companies				(32)	(32)		(32)	19	(13)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥91 million ($820 thousand) and company-wide expenses of ¥620 million ($5,586 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								
	2018								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 19,087	¥ 17,334	¥ 5,634	¥ 29,700	¥ 71,755	¥ 1,605	¥ 73,360	¥ (50)	¥ 73,310
Intersegment sales or transfers	216	147		148	511	138	649	(649)	
Total	¥ 19,303	¥ 17,481	¥ 5,634	¥ 29,848	¥ 72,266	¥ 1,743	¥ 74,009	¥ (699)	¥ 73,310
Segment profit (loss)	¥1,176	¥1,749	¥404	¥1,272	¥4,601	¥ (19)	¥4,582	¥(571)	¥4,011
Other:									
Depreciation	631	629	135	427	1,822	126	1,948		1,948
Net result of interest income and interest expense	(9)	2	(1)	(149)	(157)	(4)	(161)	(69)	(230)
Equity in earnings of associated companies								39	39

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥109 million and company-wide expenses of ¥751 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								
	2019								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 182,981	$ 179,746	$ 51,689	$ 279,125	$ 693,541	$ 14,235	$ 707,776	$ 297	$ 708,073
Intersegment sales or transfers	1,892	1,081		1,333	4,306	1,063	5,369	(5,369)	
Total	$ 184,873	$ 180,827	$ 51,689	$ 280,458	$ 697,847	$ 15,298	$ 713,145	$ (5,072)	$ 708,073
Segment profit (loss)	$12,398	$16,956	$3,793	$13,542	$46,689	$ (441)	$46,248	$(4,199)	$42,049
Other:									
Depreciation	6,091	5,992	1,324	3,856	17,263	1,036	18,299		18,299
Net result of interest income and interest expense	(81)	(54)	(9)	(1,279)	(1,423)	(36)	(1,459)	(595)	(2,054)
Equity in earnings of associated companies				(288)	(288)		(288)	171	(117)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2019 and 2018, were as follows:

(1) Net sales

Millions of Yen					
2019					
Japan	South and North America	Asia	Europe	Other	Total
¥32,542	¥15,293	¥12,612	¥15,052	¥3,090	¥78,589

Millions of Yen					
2018					
Japan	South and North America	Asia	Europe	Other	Total
¥30,924	¥15,374	¥10,622	¥13,450	¥2,940	¥73,310

Thousands of U.S. Dollars					
2019					
Japan	South and North America	Asia	Europe	Other	Total
$293,198	$137,787	$113,632	$135,616	$27,840	$708,073

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

(2) Net property, plant and equipment

Millions of Yen					
2019					
Japan	South and North America	Asia	Europe	Other	Total
¥12,521	¥3,735	¥2,280	¥2,397	¥1,104	¥22,037

Millions of Yen					
2018					
Japan	South and North America	Asia	Europe	Other	Total
¥12,549	¥3,756	¥2,113	¥2,498	¥1,152	¥22,068

Thousands of U.S. Dollars					
2019					
Japan	South and North America	Asia	Europe	Other	Total
$112,812	$33,652	$20,542	$21,597	$9,946	$198,549

2. Information by principal customers

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

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

Loss on impairment of long-lived assets by reportable segment for the years ended March 31, 2019 and 2018, was as follows:

	Millions of Yen							
	2019							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥10	¥	¥	¥10	¥260	¥	¥270

	Millions of Yen							
	2018							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	¥	¥	¥	¥	¥	¥648	¥	¥648

	Thousands of U.S. Dollars							
	2019							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	$	$90	$	$	$90	$2,343	$	$2,433

* * * * * *

Deloitte.

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2019, and the related consolidated statements of income, comprehensive income, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2019, and the consolidated results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

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

Deloitte Touche Tohmatsu LLC

June 24, 2019

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview (as of March 31, 2019)

Founded	November 18, 1947
Capital Stock	10,012.95 million yen
Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Osaka Head Office	4-4-7 Imabashi, Chuo-ku, Osaka
Tokyo Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Laboratories	Central Research Laboratory, Tsukuba Research Laboratory
Plants	Kakogawa Plant, Tokyo Plant, Fuji Plant, Ibaraki Plant, Hokkaido Plant, Sendai Plant, and Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Nagoya Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	75 (Consolidated: 1,458)
Number of Group Companies	34
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	www.harima.co.jp

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
HARIMA USA, Inc.	3,350 thousand U.S. dollars	100	Control of U.S. operations
Harima do Brasil Industria Quimica Ltda.	40,206 thousand Brasil real	99.87	Manufacture and sale of rosin and its derivatives
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	100	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,356 thousand Malaysian ringgit	100	Manufacture and sale of electronic materials
Hangzhou Hanghua Harima Chemicals Co., Ltd.	52,296 thousand Chinese yuan	56.07	Manufacture and sale of papermaking chemicals
Nanning Harima Chemicals Co., Ltd.	48,234 thousand Chinese yuan	95	Manufacture and sale of rosin and its derivatives
Harimatec Czech, s.r.o.	7,000 thousand Czech koruna	100	Manufacture and sale of electronic materials
Xinyi Rihong Plastic Chemical Co., Ltd.	27,390 thousand Chinese yuan	100	Manufacture and sale of rosin and its derivatives
Lawter B.V.	76,300 thousand euro	97.68	Control of Lawter Group’s operations
Harima Chemicals (Shanghai) Co., Ltd	12,652 thousand Chinese yuan	100	Support of Chinese business

Directors and Corporate Auditors (as of March 31, 2019)

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

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2019)
(1) Total number of shares authorised to be issued 59,500,000
(2) Total number of shares outstanding 26,080,396
(including 428,851 shares of treasury stocks)
(3) Number of shareholders 3,245
(4) Major shareholders

	Status of shareholding	
	Number of shares held (Thousands of shares)	Ratio of number of shares held against total number of shares outstanding (%)
Hasegawakosan Co., Ltd.	5,826	22.71
Harima Chemicals Mutual Prosperity Association	1,236	4.82
Sumitomo Mitsui Banking Corporation	1,094	4.26
Shorai, Ltd.	1,073	4.18
Shorai Foundation for Science and Technology	854	3.32
Hyogo Prefectural Credit Federation of Agricultural Cooperatives	728	2.83
Japan Master-Trust Trust bank	694	2.70
The Minato Bank, Ltd	692	2.69
Keihansin Kougyou Corporation	672	2.61
Bank of Mitsubishi UFJ, Ltd.	476	1.85

(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 (428,851 shares), which amounts to 25,651,545 shares. The numbers shown are rounded down to two decimal places.