Annual Report

Year Ended March 31, 2013

HARIMA CHEMICALS GROUP, INC.

Business Overview

The world economy remained generally stagnant during the fiscal year ended March 31, 2013. Despite gradual improvement in the US, Europe faced an economic downturn caused by the financial crisis. Meanwhile, emerging countries such as China that play a leading role in the world economy began to see a drop in performance. At the same time, the economic situation in Japan remained less-than-optimistic despite the depreciation of the yen and the rise in stock prices that have continued from last year.

The business environment surrounding our group remained substandard. Lawter B.V., a subsidiary for which Europe is a major market, was particularly influenced by the downturn in the European economy. Further, business results deteriorated due to increases in the price of oil, our main raw material imported from the US.

As a result of these conditions, the group's consolidated net sales for the current fiscal year decreased by 7,333 million yen (down 10.3%) year-on-year to 64,203 million yen.

In terms of revenue, operating income decreased by 2,538 million yen (down 81.5%) year-on-year to 576 million yen.

Ordinary income decreased by 738 million yen (down 34.2%) year-on-year to 1,422 million yen, with a foreign exchange gain of 932 million yen. Net income decreased by 796 million yen (down 78.6%) year-on-year to 216 million yen.

Provided below is an overview of business segments corresponding to the company's reporting segments.

We became a holding company in October 2012 and, as such, changed our business segments in the 3rd quarter of this fiscal year. In order to improve business efficiency, allow for quick decision-making, and clarify management responsibility, we introduced a new internal system for reporting on our business segments.

Further, the acquisition of the rosin base resin business of Momentive Specialty Chemicals, Inc. to establish Lawter B.V., one of our consolidated subsidiaries, has increased our overseas sales. Lawter B.V. is reported as a segment of the company.

Status of Business Segments

(Resin & Tall Oil Products)

As digital technology continues to develop, demand for resins for printing inks has waned. The publication of newspapers and books has decreased and the commercial printing industry remains stagnant, with a notable decrease in the production of planography ink, down 6% year-on-year. For these reasons, there was a drop in our sales of resins, the raw material for printing inks.

With regard to paint resins, our sales are mainly aimed at the domestic market. With growth in housing construction, the domestic production of paint increased by 3% year-on-year. Moreover, sales of building paints and new products have remained strong on demand generated from the recovery of areas affected by the Great East Japan Earthquake.

In the synthetic rubber emulsifier market, despite signs of recovery in the domestic automobile industry and an increase in production, the domestic production of styrene-butadiene rubber used for tires decreased by 2% year-on-year. Therefore, sales of synthetic rubber emulsifiers in this segment didn't lead to recovery.

In addition, due to the depreciation of the yen and an increase in the price of tall oil, our main raw material in the last half of the fiscal year, revenue declined substantially.

(Paper Chemicals)

During the current fiscal year, domestic cardboard production volume totalled 25.73 million tons, a 3% decrease year-on-year.

This decrease continued for 10 months in a row from June 2012. In particular, the production volume of printing and publishing paper and paper for information processing significantly decreased by 5.3% year-on-year due to a decrease in demand resulting from the European debt crisis and an increase in imports. Despite efforts to rationalize the production process and focus on promotion, sales and profit decreased in the domestic market.

In the overseas market, although Chinese paper and cardboard paper production tended to increase, cardboard paper production was reduced, and competition among paper and paper chemical manufacturers intensified. Regardless, our Chinese subsidiary still experienced a steady increase in sales, contributing to our profits.

(Electronics Materials)

The performance of the Electronics device industry to which this segment is related remained the same as the previous year for household electronic appliances such as audio-visual equipment and information terminal devices. Sales of domestic audio-visual equipment such as flat panel TVs have fallen far below the previous year. Automobile sales remained the same as the previous year, while an increase was seen in the domestic market.

Under such circumstances, there has been an increase in sales of aluminium brazing materials used in heat exchangers for automobiles and novelty conductive paste. However, sales remained low due to the effects of audio-visual equipment and information terminal devices.

(Lawter B.V.)

This segment is part of our resin and tall oil products business, whereby we manufacture and sell ink resins and adhesive resins overseas.

Under the European debt crisis, sales of ink resins in this segment started to drop off as production decreased not only in the European market, but also in China which depends on exports to Europe.

Sales of adhesive resins continued to experience strong demand in North America, South America, Asia, and Oceania, but still could not fully offset the large decline in Europe.

Consolidated Business Performance Trends

(Millions of yen unless otherwise stated)

Category	68th Fiscal Year (Fiscal year ended March 2010)	69th Fiscal Year (Fiscal year ended March 2011)	70th Fiscal Year (Fiscal year ended March 2012)	71th Fiscal Year (Fiscal year ended March 2013)
Net sales	33,495	41,495	71,536	64,203
Ordinary income	1,597	2,766	2,159	1,422
Net income (loss)	952	1,337	1,012	216
Net income (loss) per share (yen)	36.66	51.53	38.99	8.33
Total assets	45,940	63,983	63,429	61,355
Net assets	28,317	29,313	29,581	29,823

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

HARIMA CHEMICALS GROUP, INC. (formerly, Harima Chemicals, Inc.)
and Consolidated Subsidiaries

Consolidated Balance Sheet
March 31, 2013

ASSETS	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT ASSETS:			
Cash and cash equivalents (Note 16)	¥ 3,471	¥ 5,218	$ 36,906
Notes and accounts receivable (Note 16):			
Trade notes	1,948	2,107	20,712
Trade accounts	15,383	16,376	163,562
Associated companies	211	167	2,243
Allowance for doubtful notes and accounts	(123)	(126)	(1,308)
Inventories (Note 5)	9,256	9,988	98,416
Deferred tax assets (Note 13)	367	357	3,902
Other current assets	2,493	1,878	26,508
Total current assets	33,006	35,965	350,941
PROPERTY, PLANT AND EQUIPMENT (Note 6):			
Land (Note 7)	10,665	10,460	113,397
Buildings and structures (Note 7)	18,443	17,512	196,098
Machinery and equipment	22,163	20,694	235,651
Furniture and fixtures	3,814	3,593	40,553
Lease assets (Note 15)	621	617	6,603
Construction in progress	559	816	5,944
Total	56,265	53,692	598,246
Accumulated depreciation	(33,767)	(32,144)	(359,033)
Net property, plant and equipment	22,498	21,548	239,213
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 4 and 16)	2,810	2,747	29,878
Investments in and advances to associated companies	828	824	8,804
Goodwill	108	178	1,148
Other intangible assets	122	229	1,297
Deferred tax assets (Note 13)	286	382	3,041
Other assets	1,712	1,571	18,203
Allowance for doubtful accounts	(15)	(15)	(159)
Total investments and other assets	5,851	5,916	62,212
TOTAL	¥ 61,355	¥ 63,429	$ 652,366

LIABILITIES AND EQUITY	Millions of Yen 2013	Millions of Yen 2012	Thousands of U.S. Dollars (Note 1) 2013
CURRENT LIABILITIES:			
Short-term bank loans (Notes 8 and 16)	¥ 8,663	¥ 9,083	$ 92,111
Current portion of long-term debt (Notes 8 and 16)	1,800	1,685	19,139
Notes and accounts payable (Note 16):			
Trade notes	312	384	3,317
Trade accounts	7,626	8,049	81,085
Associated companies	102	95	1,085
Construction and other	400	737	4,253
Income taxes payable	649	657	6,901
Deferred tax liabilities (Note 13)	53	2	564
Other current liabilities	2,180	2,019	23,177
Total current liabilities	21,785	22,711	231,632
LONG-TERM LIABILITIES:			
Long-term debt (Notes 8 and 16)	6,667	8,064	70,888
Deferred tax liabilities (Note 13)	531	435	5,646
Long-term deposits received (Note 16)	935	1,065	9,942
Liability for retirement benefits (Note 9)	1,332	1,322	14,163
Asset retirement obligations (Note 10)	46	45	489
Other long-term liabilities	236	206	2508
Total long-term liabilities	9,747	11,137	103,636
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 8, 15 and 17)			
EQUITY (Note 11):			
Common stock, authorized 59,500,000 shares; issued, 26,080,396 shares in 2013 and 2012	10,013	10,013	106,465
Capital surplus	9,744	9,744	103,604
Retained earnings	9,742	9,890	103,583
Treasury stock - at cost: 131,247 shares in 2013 and 131,120 shares in 2012	(62)	(62)	(659)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	510	221	5,423
Foreign currency translation adjustments	(1,437)	(1,561)	(15,279)
Total	28,510	28,245	303,137
Minority interests	1,313	1,336	13,961
Total equity	29,823	29,581	317,098
TOTAL	¥ 61,355	¥ 63,429	$ 652,366

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. (formerly, Harima Chemicals, Inc.) and Consolidated Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET SALES	¥ 64,203	¥ 71,536	$ 682,648
COST OF SALES	51,859	57,370	551,399
Gross profit	12,344	14,166	131,249
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 12 and 14)	11,768	11,052	125,125
Operating income	576	3,114	6,124
OTHER INCOME (EXPENSES) (Notes 4 and 6):			
Interest and dividend income	97	102	1,031
Interest expense	(370)	(460)	(3,934)
Rental income	117	133	1,244
Foreign exchange gain (loss)	933	(614)	9,920
Equity in earnings of associated companies	23	24	245
Fire insurance proceeds	-	332	-
Other - net	57	(146)	607
Other income (expenses) - net	857	(629)	9,113
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	1,433	2,485	15,237
INCOME TAXES (Note 13):			
Current	1,138	1,194	12,100
Deferred	124	172	1,318
Total income taxes	1,262	1,366	13,418
NET INCOME BEFORE MINORITY INTERESTS	171	1,119	1,819
MINORITY INTERESTS IN NET INCOME (LOSS)	(45)	107	(478)
NET INCOME	¥ 216	¥ 1,012	$ 2,297

	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.r and 19):			
Net income	¥ 8.33	¥38.99	$0.09
Cash dividends applicable to the year	14.00	14.00	0.15

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. (formerly, Harima Chemicals, Inc.) and Consolidated Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
NET INCOME BEFORE MINORITY INTERESTS	¥ 171	¥ 1,119	$ 1,819
OTHER COMPREHENSIVE INCOME (Note 18):			
Unrealized gain on available-for-sale securities	289	38	3,073
Foreign currency translation adjustments	226	(384)	2,402
Share of other comprehensive income in associates	0	0	0
Total other comprehensive income	515	(346)	5,475
COMPREHENSIVE INCOME (Note 18)	¥ 686	¥ 773	$ 7,294
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 18):			
Owners of the parent	¥629	¥656	$6,688
Minority interests	57	117	606

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC. (formerly, Harima Chemicals, Inc.)
and Consolidated Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2013

	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	Total	Minority Interests	Total Equity
BALANCE, APRIL 1, 2011	25,950	¥ 10,013	¥ 9,744	¥ 9,267	¥ (62)	¥ 182	¥ (1,165)	¥ 27,979	¥ 1,334	¥ 29,313
Net income				1,012				1,012		1,012
Cash dividends, ¥15.00 per share				(389)				(389)		(389)
Purchase of treasury stock	(1)				(0)			(0)		(0)
Net change in the year						39	(396)	(357)	2	(355)
BALANCE, MARCH 31, 2012	25,949	10,013	9,744	9,890	(62)	221	(1,561)	28,245	1,336	29,581
Net income				216				216		216
Cash dividends, ¥14.00 per share				(364)				(364)		(364)
Purchase of treasury stock	(0)				(0)			(0)		(0)
Net change in the year						289	124	413	(23)	390
BALANCE, MARCH 31, 2013	25,949	¥ 10,013	¥ 9,744	¥ 9,742	¥ (62)	¥ 510	¥ (1,437)	¥ 28,510	¥ 1,313	¥ 29,823

	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	Total	Minority Interests	Total Equity
BALANCE, MARCH 31, 2012	$ 106,465	$ 103,604	$ 105,157	$ (659)	$ 2,350	$ (16,598)	$ 300,319	$ 14,205	$ 314,524
Net income			2,297				2,297		2,297
Cash dividends, $0.15 per share			(3,871)				(3,871)		(3,871)
Purchase of treasury stock				(0)			(0)		(0)
Net change in the year					3,073	1,319	4,392	(244)	4,148
BALANCE, MARCH 31, 2013	$ 106,465	$ 103,604	$ 103,583	$ (659)	$ 5,423	$ (15,279)	$ 303,137	$ 13,961	$ 317,098

See notes to consolidated financial statements

HARIMA CHEMICALS GROUP, INC. (formerly, Harima Chemicals, Inc.)
and Consolidated Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2013

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2013	2012	2013
OPERATING ACTIVITIES:			
Income before income taxes and minority interests	¥ 1,433	¥ 2,485	$ 15,237
Adjustments for:			
Income taxes - paid	(1,102)	(925)	(11,717)
Depreciation and amortization	2,195	2,014	23,339
Loss on impairment of long-lived assets	109	14	1,159
Foreign exchange (gain) loss	(925)	596	(9,835)
Gain on sales of property, plant and equipment	(22)	(5)	(234)
Changes in assets and liabilities:			
Decrease (increase) in trade notes and accounts receivable	1,721	(1,803)	18,299
Decrease in inventories	1,326	148	14,099
(Decrease) in trade notes and account payable	(927)	(1,182)	(9,856)
Other - net	(574)	305	(6,105)
Total adjustments	1,801	(838)	19,149
Net cash provided by operating activities	3,234	1,647	34,386
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(2,508)	(1,967)	(26,667)
Proceeds from sales of property, plant and equipment	59	10	627
Purchases of intangible assets	(55)	(169)	(585)
Purchases of investment securities	(332)	(86)	(3,530)
Proceeds from sales and redemption of investment securities	654	699	6,954
Other - net	10	(200)	107
Net cash used in investing activities	(2,172)	(1,713)	(23,094)
FINANCING ACTIVITIES:			
Net change in short-term bank loans	(864)	(7,684)	(9,187)
Proceeds from long-term debt	-	9,973	-
Repayments of long-term debt	(1,640)	(2,186)	(17,438)
Dividends paid	(364)	(389)	(3,871)
Other - net	(248)	(189)	(2,635)
Net cash used in financing activities	(3,116)	(475)	(33,131)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	307	(199)	3,264
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,747)	(740)	(18,575)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	5,218	5,958	55,481
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 3,471	¥ 5,218	$ 36,906

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 accordance 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 2012 consolidated financial statements to conform to the classifications used in 2013.

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 ¥94.05 to $1, the approximate rate of exchange at March 31, 2013. 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 or influence concept, those companies in which the Company directly is able to exercise control over operations are fully consolidated.

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

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

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

b. ***Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements*** - In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force (PITF) No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes that the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle 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 the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, except for the following items which 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 directly recorded in equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant, and equipment and investment properties and incorporation of the cost model accounting; and (e) exclusion of minority interests from net income, if contained in net income.

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

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

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

e. ***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.

f. ***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 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.

In accordance with a revision of corporate tax law, the Company and certain domestic subsidiaries have changed the method of depreciation based on the revised corporate tax law and applied the new method to property, plant and equipment acquired on and after April 1, 2012. This change had the effect of increasing operating income and income before income taxes and minority interests for the year ended March 31, 2013, by ¥44 million ($468 thousand).

g. ***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 price at disposition.

h. ***Other Assets -*** Amortization of capitalized software costs is computed using the straight-line method over 5 years, the estimated useful life of the assets. Amortization of customer lists costs is computed using the straight-line method over 5 years, the estimated economic life of the assets.

i. ***Retirement Benefits -*** The Company and certain domestic consolidated subsidiaries have a funded defined benefit pension plan, defined contribution pension plan and severance lump-sum payment plan covering substantially all of its employees. Certain foreign subsidiaries have adopted funded defined benefit plans and defined contribution pension plans.

The Company and certain domestic subsidiaries have adopted an accounting standard for employees' retirement benefits and accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at the balance sheet date.

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

j. ***Asset Retirement Obligations*** - In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as 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.

k. ***Research and Development Costs -*** Research and development costs are charged to income as incurred.

l. ***Leases -*** In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions be capitalized by recognizing lease assets and lease obligations in the balance sheet.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as acquisition cost of lease assets measured at the amount of obligation under finance leases less interest expense at the transition date.

All other leases are accounted for as operating leases.

m. ***Bonuses to Directors and Audit & Supervisory Board Members -*** Bonuses to directors and Audit & Supervisory Board members are accrued at the end of the year to which such bonuses are attributable.

n. ***Income Taxes -*** The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. 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 tax laws to the temporary differences.

o. ***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 income to the extent that they are not hedged by forward exchange contracts.

p. ***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.

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

Derivative financial instruments are classified and accounted for as follows: (1) all derivatives are recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the consolidated statement of income 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 or income.

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

Diluted net income per share is not presented as the effect of including potential common shares is anti-dilutive.

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

s. ***Accounting Changes and Error Corrections -*** In December 2009, the ASBJ issued 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 under this standard and guidance are 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.

t. ***New Accounting Pronouncements***

Accounting Standard for Retirement Benefits - On May 17, 2012, the ASBJ issued ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" and ASBJ Guidance No. 25, "Guidance on Accounting Standard for Retirement Benefits," which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000, and the other related practical guidance, and followed by partial amendments from time to time through 2009.

Major changes are as follows:

(*a*) *Treatment in the balance sheet*

Under the current requirements, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss are not recognized in the balance sheet, and the difference between retirement benefit obligations and plan assets (hereinafter, "deficit or surplus"), adjusted by such unrecognized amounts, is recognized as a liability or asset.

Under the revised accounting standard, actuarial gains and losses and past service costs that are yet to be recognized in profit or loss shall be recognized within equity (accumulated other comprehensive income), after adjusting for tax effects, and any resulting deficit or surplus shall be recognized as a liability (liability for retirement benefits) or asset (asset for retirement benefits).

(*b*) *Treatment in the statement of income and the statement of comprehensive income*

The revised accounting standard does not change how to recognize actuarial gains and losses and past service costs in profit or loss. Those amounts would be recognized in profit or loss over a certain period no longer than the expected average remaining working lives of the employees. However, actuarial gains and losses and past service costs that arose in the current period and have not yet been recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and past service costs that were recognized in other comprehensive income in prior periods and then recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(c) *Amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases*

The revised accounting standard also made certain amendments relating to the method of attributing expected benefit to periods and relating to the discount rate and expected future salary increases.

This accounting standard and the guidance for (a) and (b) above are effective for the end of annual periods beginning on or after April 1, 2013, and for (c) above are effective for the beginning of annual periods beginning on or after April 1, 2014, or for the beginning of annual periods beginning on or after April 1, 2015, subject to certain disclosure in March 2015, both with earlier application being permitted from the beginning of annual periods beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

The Company expects to apply the revised accounting standard for (a) and (b) above from the end of the annual period beginning on April 1, 2013, and for (c) above from the beginning of the annual period beginning on April 1, 2014, and is in the process of measuring the effects of applying the revised accounting standard in future applicable periods.

3. BUSINESS COMBINATION

Company split for the transition to a holding company structure

The Company spun off all of its business into a new wholly owned subsidiary named Harima Chemicals, Inc. and effected a transition to a holding company structure at October 1, 2012. The Company changed its name to HARIMA CHEMICALS GROUP, INC. from the former Harima Chemicals, Inc. on the same day and maintains its listing as a holding company. Harima Chemicals, Inc. issued 170,000 shares of common stock and all of them were allocated to the Company.

The business which was spun off consists of Resin & Tall Oil Products business, Paper Chemicals business and Electronics Materials business.

The Company carried out the company split in order to separate management and administration functions from business functions and initiate a global strategy to improve overall group efficiency as a holding company.

The Company accounted for this company split as transactions under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, December 26, 2008), "Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, December 26, 2008) and "Guidance for Accounting Standard for Business Combinations and Business Divestitures" (ASBJ Guidance No. 10, December 26, 2008).

Assets and liabilities transferred to Harima Chemicals, Inc., from the Company are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Current assets	¥ 14,423	$ 153,355
Noncurrent assets	343	3,647
Total assets	¥ 14,766	$ 157,002
Current liabilities	¥ (5,524)	$ (58,735)
Long-term liabilities	(743)	(7,900)
Total liabilities	¥ (6,267)	$ (66,635)

4. INVESTMENT SECURITIES

Investment securities as of March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Non-current:			
Equity securities	¥ 2,424	¥ 2,063	$ 25,774
Trust fund investments and other	386	684	4,104
Total	¥ 2,810	¥ 2,747	$ 29,878

The costs and aggregate fair values of investment securities at March 31, 2013 and 2012, were as follows:

	Millions of Yen			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,676	¥ 868	¥ 153	¥ 2,391
Debt securities	387	7	8	386
March 31, 2012				
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 1,671	¥ 584	¥ 226	¥ 2,029
Debt securities	703	4	23	684

	Thousands of U.S. Dollars			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	$ 17,820	$ 9,229	$ 1,626	$ 25,423
Debt securities	4,115	74	85	4,104

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Available-for-sale:			
Equity securities	¥ 33	¥ 34	$ 351
Other	0	0	0

The information for available-for-sale securities which were sold during the years ended March 31, 2013 and 2012, was as follows:

	Millions of Yen		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 13	¥ 2	¥ -
Debt securities	641	9	-
Total	¥ 654	¥ 11	¥ -
March 31, 2012			
Available-for-sale:			
Equity securities	¥ 29	¥ 9	¥ -
Debt securities	670	1	1
Total	¥ 699	¥ 10	¥ 1

	Thousands of U.S. Dollars		
March 31, 2013	Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 138	$ 21	$ -
Debt securities	6,816	96	-
Total	$ 6,954	$ 117	$ -

The impairment loss on available-for-sale equity securities for the year ended March 31, 2012, was ¥1 million included in OTHER EXPENSES other - net in the consolidated statements of income.

5. INVENTORIES

Inventories at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Finished products	¥ 4,656	¥ 4,128	$ 49,506
Work in process	357	393	3,796
Raw materials and supplies	4,243	5,467	45,114
Total	¥ 9,256	¥ 9,988	$ 98,416

6. LONG-LIVED ASSETS

The Group recognized an impairment loss of ¥109 million ($1,159 thousand), which is included in OTHER EXPENSES other - net in the consolidated statement of income, for the year ended March 31, 2013. The impairment loss was mainly recognized for the buildings and structures and machinery and equipment in Tokushima plant in Japan. This impairment loss was recognized since the recoverable amounts of the assets were lower than the carrying amounts of the assets. The recoverable amounts of the assets were measured by the net selling price at disposal.

The Group recognized an impairment loss of ¥14 million, which is included in OTHER EXPENSES other - net in the consolidated statement of income, for the year ended March 31, 2012. The impairment loss was mainly recognized for the machinery and equipment in Kakogawa plant in Japan. This impairment loss was recognized since the recoverable amounts of the assets were lower than the carrying amounts of the assets. The recoverable amounts of the assets were measured by the net selling price at disposal.

7. INVESTMENT PROPERTY

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

The Group owns certain rental properties such as office buildings and land. The net of rental income and operating expenses for those rental properties for the fiscal years ended March 31, 2013 and 2012, were ¥121 million ($1,287 thousand) and ¥132 million, respectively.

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

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2012	Decrease	March 31, 2013	March 31, 2013
¥3,450	¥42	¥3,408	¥4,298

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2011	Decrease	March 31, 2012	March 31, 2012
¥3,466	¥16	¥3,450	¥4,380

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2012	Decrease	March 31, 2013	March 31, 2013
$36,683	$447	$36,236	$45,699

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, 2013, primarily represents the acquisition of certain properties of ¥12 million ($128 thousand), and decrease primarily represents the depreciation of ¥45 million ($478 thousand). Increase during the fiscal year ended March 31, 2012, primarily represents the acquisition of certain properties of ¥30 million, and decrease primarily represents the depreciation of ¥46 million.

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

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

Short-term bank loans at March 31, 2013 and 2012, consisted of notes to banks and bank overdrafts. The average interest rates applicable to the short-term bank loans as of March 31, 2013 and 2012, were 2.1% and 2.4%, respectively.

Long-term debt at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Unsecured loans from banks and other financial institutions, due serially to 2016 with interest rates ranging from 1.6% to 1.9% (1.7% to 6.7% in 2012)	¥ 7,752	¥ 9,116	$ 82,425
Obligations under finance leases	715	633	7,602
Total	8,467	9,749	90,027
Less current portion	(1,800)	(1,685)	(19,139)
Long-term debt, less current portion	¥ 6,667	¥ 8,064	$ 70,888

Annual maturities of long-term debt, at March 31, 2013, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2014	¥ 1,800	$ 19,139
2015	1,665	17,703
2016	1,623	17,257
2017	2,869	30,505
2018	38	404
2019 and thereafter	472	5,019
Total	¥ 8,467	$ 90,027

Certain loans from banks are subject to the following financial covenants:

1) Total equity shall be more than ¥22,000 million ($233,918 thousand) for the first half of the fiscal year ended March 31, 2013, and for the fiscal year ended March 31, 2013, on a consolidated basis.

2) Total equity shall be more than ¥19,900 million ($211,590 thousand) for the first half of the fiscal year ended March 31, 2013, and for the fiscal year ended March 31, 2013, on a nonconsolidated basis. Total equity for the fiscal year ended March 31, 2013, on a nonconsolidated basis is ¥27,922 million ($296,885 thousand).

3) Ordinary income shall not be a loss for the fiscal years ended March 31, 2013 and 2012, both on a consolidated and nonconsolidated basis.

As is customary in Japan, the Company maintains substantial deposit balances with banks with which it has borrowings. Such deposit balances are not legally or contractually restricted as to withdrawal.

As is customary in Japan, collateral must be provided if requested by the lending banks and certain banks have the right to offset cash deposited with them against any bank loan or obligation that becomes due and, in case of default and certain other specified events, against all other debt payable to the banks concerned. The Company has never received any such request.

The outstanding balance of the commitment as of March 31, 2013, was as follows:

	Millions of Yen	Thousands of U.S. Dollars
Total committed line of credit	¥ 10,000	$ 106,326
Executed amount	3,326	35,364
Unexecuted amount	¥ 6,674	$ 70,962

The above agreements are subject to the following financial covenants:

1) Total equity shall be more than ¥22,000 million ($233,918 thousand) for the first half of the fiscal year ended March 31, 2013, and for the fiscal year ended March 31, 2013, on a consolidated basis.

2) Total equity shall be more than ¥19,900 million ($211,590 thousand) for the first half of the fiscal year ended March 31, 2013, and for the fiscal year ended March 31, 2013, on a nonconsolidated basis. Total equity for the fiscal year ended March 31, 2013, on a nonconsolidated basis is ¥27,922 million ($296,885 thousand).

3) Ordinary income shall not be a loss for the fiscal years ended March 31, 2013 and 2012, both on a consolidated and nonconsolidated basis.

9. RETIREMENT AND PENSION PLANS

The Group has severance payment plans for employees, directors and Audit & Supervisory Board members.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay at the time of termination, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment or annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age or by death.

The liability for retirement benefits at March 31, 2013 and 2012, for directors and Audit & Supervisory Board members is ¥464 million ($4,934 thousand) and ¥435 million, respectively, and is included in liability for retirement benefits in the consolidated balance sheets. The retirement benefits for directors and Audit & Supervisory Board members are paid subject to the approval of the shareholders in accordance with the Companies Act of Japan (the "Companies Act").

The liability for employees' retirement benefits at March 31, 2013 and 2012, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Projected benefit obligation	¥ 2,805	¥ 2,495	$ 29,825
Fair value of plan assets	(1,391)	(1,255)	(14,790)
Unrecognized actuarial loss	(546)	(353)	(5,806)
Net liability	¥ 868	¥ 887	$ 9,229

The components of net periodic retirement benefit costs for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Service cost	¥ 288	¥ 234	$ 3,062
Interest cost	49	47	521
Recognized actuarial loss	55	63	585
Net periodic retirement benefit costs	392	344	4,168
Payments to defined contribution pension plan and other	122	107	1,297
Total	¥ 514	¥ 451	$ 5,465

Assumptions used for the years ended March 31, 2013 and 2012, are set forth as follows:

	2013	2012
Discount rate	1.0%	2.0%
Expected rate of return on plan assets	0.0%	0.0%
Allocation method of the retirement benefits expected to be paid at the retirement date	Straight-line method based on years of service	Straight-line method based on years of service
Amortization period of prior service cost	1 year	1 year
Recognition period of actuarial gain or loss	14 years	14 years

10. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Balance at beginning of year	¥ 45	¥ 45	$ 478
Reconciliation associated with passage of time	1	0	11
Balance at end of year	46	45	489

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. For companies that meet certain criteria such as (1) having the Board of Directors, (2) having independent auditors, (3) having an Audit & Supervisory Board, and (4) the term of service of the directors is prescribed as one year rather than two years of normal 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. The Company meets all the above criteria.

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 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 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, 2013 and 2012, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Employees' salaries and bonuses	¥ 2,473	¥ 2,480	$ 26,295
Net periodic retirement benefit	167	175	1,776
Transport	2,318	2,217	24,646
Depreciation	566	437	6,018
Rental	155	242	1,648
Research and development	1,764	1,764	18,756
Amortization of goodwill	89	80	946

13. 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 38.0% for the year ended March 31, 2013, and 40.6% for the year ended March 31, 2012.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2013 and 2012, are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Deferred tax assets:			
Tax loss carryforwards	¥ 1,458	¥ 1,211	$ 15,502
Impairment loss on long-lived assets	1,360	1,359	14,460
Loss on revaluation of investment securities	248	248	2,637
Retirement benefits to directors and Audit & Supervisory Board members	166	158	1,765
Property, plant and equipment	97	97	1,031
Unrealized loss on available-for-sale securities	58	89	617
Other	694	392	7,379
Less valuation allowance	(3,645)	(2,965)	(38,756)
Total	¥ 436	¥ 589	$ 4,635
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ 79	¥ 82	$ 840
Unrealized gain on available-for-sale securities	194	108	2,063
Other	94	97	999
Total	¥ 367	¥ 287	$ 3,902
Net deferred tax assets	¥ 69	¥ 302	$ 733

A reconciliation between the normal effective statutory tax rate and the actual effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2013, with corresponding figures for 2012, is as follows:

	2013	2012
Normal effective statutory tax rate	38.0%	40.6%
Expenses not deductible for income tax purposes	12.0	10.6
Inhabitants' per capita levy	2.0	1.4
Difference of income tax rates applicable to income in certain foreign countries	5.7	(1.1)
Adjustment of deferred tax assets and liabilities at end of period due to change in tax rates	-	3.0
Increase of valuation allowance	38.9	-
Tax credit	(9.3)	(4.5)
Other - net	0.8	5.0
Actual effective tax rate	88.1%	55.0%

On December 2, 2011, new tax reform laws were enacted in Japan, which changed the normal effective statutory tax rate from approximately 40.6% to 38.0% effective for the fiscal years beginning on or after April 1, 2012 through March 31, 2015, and to 35.6% afterwards.

14. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,764 million ($18,756 thousand) and ¥1,764 million for the years ended March 31, 2013 and 2012, respectively.

15. LEASES

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

Total lease expenses included for the years ended March 31, 2013 and 2012, were ¥157 million ($1,669 thousand) and ¥128 million, respectively.

16. 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 used, not 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 entry deposits for 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 term 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, 2013.

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 comprises 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 volumes 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.

Fair Value of Financial Instruments

Carrying amounts, fair values and the differences between carrying amounts and fair values as of March 31, 2013 and 2012, are as follows. The accounts deemed to be extremely difficult to calculate the fair values are not included in the following:

	Millions of Yen		
March 31, 2013	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 3,471	¥ 3,471	¥ -
Notes and accounts receivable	17,542	17,542	-
Investment securities	2,777	2,777	-
Total	¥ 23,790	¥ 23,790	¥ -
Notes and accounts payable	¥ 8,440	¥ 8,440	¥ -
Short-term bank loans	8,663	8,663	-
Current portion of long-term debt (excluding obligations under finance leases)	1,737	1,737	-
Long-term debt (excluding obligations under finance leases)	6,015	6,020	(5)
Long-term deposits received	935	818	117
Total	¥ 25,790	¥ 25,678	¥ 112

	Millions of Yen		
March 31, 2012	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	¥ 5,218	¥ 5,218	¥ -
Notes and accounts receivable	18,650	18,650	-
Investment securities	2,713	2,713	-
Total	¥ 26,581	¥ 26,581	¥ -
Notes and accounts payable	¥ 9,265	¥ 9,265	¥ -
Short-term bank loans	9,083	9,083	-
Current portion of long-term debt (excluding obligations under finance leases)	1,634	1,634	-
Long-term debt (excluding obligations under finance leases)	7,482	7,489	(7)
Long-term deposits received	1,065	864	201
Total	¥ 28,529	¥ 28,335	¥ 194

March 31, 2013	Thousands of U.S. Dollars Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Cash and cash equivalents	$ 36,906	$ 36,906	$ -
Notes and accounts receivable	186,517	186,517	-
Investment securities	29,527	29,527	-
Total	$ 252,950	$ 252,950	$ -
Notes and accounts payable	$ 89,740	$ 89,740	$ -
Short-term bank loans	92,111	92,111	-
Current portion of long-term debt (excluding obligations under finance leases)	18,469	18,469	-
Long-term debt (excluding obligations under finance leases)	63,955	64,009	(54)
Long-term deposits received	9,942	8,698	1,244
Total	$ 274,217	$ 273,027	$ 1,190

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 4.

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 cash flows related to the debt at the Group's assumed corporate borrowing rate for the fiscal year ended March 31, 2013.

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 17.

(5) Maturity Analysis for Financial Assets with Contractual Maturities

March 31, 2013	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	¥ 3,471	¥ -	¥ -	¥ -
Notes and accounts receivable	17,542	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	-	386
Total	¥ 21,013	¥ -	¥ -	¥ 386

March 31, 2012	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	¥ 5,218	¥ -	¥ -	¥ -
Notes and accounts receivable	18,650	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	106	578
Total	¥ 23,868	¥ -	¥ 106	¥ 578

March 31, 2013	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	$ 36,906	$ -	$ -	$ -
Notes and accounts receivable	186,517	-	-	-
Investment securities				
Available-for-sale securities with contractual maturities	-	-	-	4,104
Total	$ 223,423	$ -	$ -	$ 4,104

17. 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 basically offset by opposite movements in the value of 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 Applied

At March 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Millions of Yen			
Interest rate swaps: (fixed rate payment, floating rate receipt)	Short-term bank loans	¥ 400	¥ -	¥ -

At March 31, 2012	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Millions of Yen			
Interest rate swaps: (fixed rate payment, floating rate receipt)	Short-term bank loans	¥ 400	¥ -	¥ -

At March 31, 2013	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
	Thousands of U.S. Dollars			
Interest rate swaps: (fixed rate payment, floating rate receipt)	Short-term bank loans	$ 4,253	$ -	$ -

The fair value of derivative transactions is measured at the quoted price obtained from the financial institution.

The contract amounts of derivatives which are shown in the above table do not represent the amounts exchanged by the parties and do not measure the Group's exposure to credit or market risk.

The above 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 are recognized and included in interest expense or income. In addition, the fair value of such interest rate swaps is included in that of hedged items (short-term bank loans).

18. COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2013	2012	2013
Unrealized gain on available-for-sale securities:			
Gains arising during the year	¥ 385	¥ 46	$ 4,094
Reclassification adjustments to profit or loss	(11)	(8)	(117)
Amount before income tax effect	374	38	3,977
Income tax effect	(85)	0	(904)
Total	¥ 289	¥ 38	$ 3,073
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ 293	¥ (384)	$ 3,115
Reclassification adjustments to profit or loss	(67)	-	(713)
Amount before income tax effect	226	(384)	2,402
Income tax effect	-	-	-
Total	¥ 226	¥ (384)	$ 2,402
Share of other comprehensive income in associates -			
Gains arising during the year	¥ 0	¥ 0	$ 0
Total	¥ 0	¥ 0	$ 0
Total other comprehensive income	¥ 515	¥ (346)	$ 5,475

19. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen	Thousands of Shares	Yen	Dollars
	Net Income	Weighted-Average Shares	EPS	
For the year ended March 31, 2013:				
Basic EPS				
Net income available to common shareholders	¥ 216	25,949	¥ 8.33	$ 0.09
For the year ended March 31, 2012:				
Basic EPS				
Net income available to common shareholders	¥ 1,012	25,949	¥ 38.99	

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

20. RELATED PARTY DISCLOSURES

The transactions between the Company and related parties

Transactions of the Company and related parties for the years ended March 31, 2013 and 2012, were as follows:

Fiscal year ended March 31, 2013

			Millions of Yen				Millions of Yen	Thousands of U.S. Dollars
Type of Related Parties	Name	Address	Capital Amount	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount	
Owned by certain directors of the Company and their relatives.	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.56	Payment of insurance	¥ 13	$ 138
						Other current assets, end of year	23	245
	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	30	Food manufacturing	-	Sales of food	10	106

Note: Hasegawa Kosan Co., Ltd. is wholly held by Yoshihiro Hasegawa, who is the representative director of the Company, and his close relatives.
Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.

Fiscal year ended March 31, 2012

			Millions of Yen				Millions of Yen
Type of Related Parties	Name	Address	Capital Amount	Description of Business	Percentage of Equity Ownership in the Company	Nature of Transactions	Amount
Owned by certain directors of the Company and their relatives.	Hasegawa Kosan Co., Ltd.	Kakogawa-shi, Hyogo, Japan	¥40	Insurance agent	(Owned) Direct 17.64	Payment of insurance	¥ 13
						Other current assets, end of year	25
						Other assets, end of year	23
	Harima Food, Inc.	Kakogawa-shi, Hyogo, Japan	30	Food manufacturing	-	Sales of food	11

Note: Hasegawa Kosan Co., Ltd. is wholly held by Yoshihiro Hasegawa, who is the representative director of the Company, and his close relatives.
Harima Food, Inc. is a wholly owned subsidiary of Hasegawa Kosan Co., Ltd.

21. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2013, was approved at the Company's Board of Directors' meeting held on May 21, 2013:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥7.00 ($0.07) per share	¥ 181	$ 1,925

22. SEGMENT INFORMATION

Under ASBJ Statement No. 17, "Accounting Standard for Segment Information Disclosures" and ASBJ Guidance No. 20, "Guidance on Accounting Standard for Segment Information Disclosures," an entity is required to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. Operating segments are components of an entity about which separate financial information is available and such information is evaluated regularly by the chief operating 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 being performed in order to decide how resources are allocated among the Group.

Effective April 1, 2012, the Group changed its operating segments from "Resin & Tall Oil Products," "Paper Chemicals" and "Electronics Materials" to "Resin & Tall Oil Products," "Paper Chemicals," "Electronics Materials" and "Lawter" because the Group revised its administrative classification when the Company was demerged and adopted a holding company structure. The segment information for the year ended March 31, 2012, is also disclosed using the new operating segments.

"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, Liabilities 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."

As discussed in Note 2.f., effective April 1, 2012, the Company and certain domestic subsidiaries changed their depreciation method of property, plant and equipment. This change had the effect of increasing segment profit of "Resin & Tall Oil Products" by ¥16 million ($170 thousand), segment profit of "Paper Chemicals" by ¥7 million ($74 thousand), segment profit of "Electronics Materials" by ¥3 million ($32 thousand) and segment profit of "other" by ¥18 million ($192 thousand) for the year ended March 31, 2013.

(3) Information about Sales, Profit and Other Items is as follows.

	Millions of Yen								
	2013								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 20,543	¥ 12,419	¥ 4,367	¥ 25,297	¥ 62,626	¥ 1,597	¥ 64,223	¥ (20)	¥ 64,203
Intersegment sales or transfers	277	571	0	246	1,094	148	1,242	(1,242)	-
Total	¥ 20,820	¥ 12,990	¥ 4,367	¥ 25,543	¥ 63,720	¥ 1,745	¥ 65,465	¥ (1,262)	¥ 64,203
Segment profit (loss)	¥172	¥817	¥155	¥(877)	¥ 267	¥ 86	¥ 353	¥1,068	¥1,421
Other:									
Depreciation	687	551	188	489	1,915	191	2,106	-	2,106
Net result of interest income and interest expense	(49)	(17)	(15)	(18)	(99)	(20)	(119)	(207)	(326)

Notes: "Other" division is business segments not attributable to a reportable segment and includes mainly real estate management, etc.

Reconciliations of segment profit (loss) include reconciliation loss of inventories of ¥60 million ($638 thousand), company-wide expenses of ¥91 million ($968 thousand) and foreign exchange gain of ¥888 million ($9,442 thousand) which are not attributable to a reportable segment, etc.

Segment profits (losses) are adjusted to certain other income and expenses from operating income in the consolidated statement of income.

Assets are not allocated into reportable segments as they are not used for the determination of the allocation of management resources and how to assess performance of the Company.

	Millions of Yen								
	2012								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 22,415	¥ 13,235	¥ 4,739	¥ 29,804	¥ 70,193	¥ 1,355	¥ 71,548	¥ (12)	¥ 71,536
Intersegment sales or transfers	192	555	-	87	834	72	906	(906)	-
Total	¥ 22,607	¥ 13,790	¥ 4,739	¥ 29,891	¥ 71,027	¥ 1,427	¥ 72,454	¥ (918)	¥ 71,536
Segment profit (loss)	¥1,599	¥805	¥ 43	¥(278)	¥2,169	¥222	¥2,391	¥(231)	¥2,160
Other:									
Depreciation	756	597	198	273	1,824	113	1,937	(3)	1,934
Net result of interest income and interest expense	(52)	(27)	(18)	(40)	(137)	(28)	(165)	(247)	(412)

Notes: "Other" division is business segments not attributable to a reportable segment and includes mainly real estate management, etc.

Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥55 million, company-wide expenses of ¥429 million and foreign exchange loss of ¥194 million which are not attributable to a reportable segment, etc.

Segment profits (losses) are adjusted to certain other income and expenses from operating income in the consolidated statement of income.

Assets are not allocated into reportable segments as they are not used for the determination of the allocation of management resources and how to assess performance of the Company.

	Thousands of U.S. Dollars								
	2013								
	Reportable Segment								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 218,426	$ 132,047	$ 46,433	$ 268,974	$ 665,880	$ 16,980	$ 682,860	$ (212)	$ 682,648
Intersegment sales or transfers	2,945	6,071	0	2,616	11,632	1,574	13,206	(13,206)	-
Total	$ 221,371	$ 138,118	$ 46,433	$ 271,590	$ 677,512	$ 18,554	$ 696,066	$ (13,418)	$ 682,648
Segment profit (loss)	$1,829	$8,687	$1,648	$(9,325)	$ 2,839	$ 914	$ 3,753	$11,356	$15,109
Other:									
Depreciation	7,305	5,859	1,999	5,199	20,362	2,031	22,393	-	22,393
Net result of interest income and interest expense	(521)	(181)	(159)	(191)	(1,052)	(213)	(1,265)	(2,201)	(3,466)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by regions for the years ended March 31, 2013 and 2012, were as follows:

(1) Net sales

Millions of Yen					
2013					
Japan	South and North America	Asia	Europe	Other	Total
¥30,184	¥12,386	¥7,842	¥11,258	¥2,533	¥64,203

Millions of Yen					
2012					
Japan	South and North America	Asia	Europe	Other	Total
¥32,791	¥14,528	¥8,011	¥13,593	¥2,613	¥71,536

Thousands of U.S. Dollars					
2013					
Japan	South and North America	Asia	Europe	Other	Total
$320,936	$131,696	$83,381	$119,702	$26,933	$682,648

Note: Sales are classified into countries or regions based on a customer's location.

(2) Net property, plant and equipment

Millions of Yen					
2013					
Japan	South and North America	Asia	Europe	Other	Total
¥15,194	¥2,317	¥1,823	¥2,273	¥891	¥22,498

Millions of Yen					
2012					
Japan	South and North America	Asia	Europe	Other	Total
¥15,031	¥1,911	¥1,768	¥2,120	¥718	¥21,548

Thousands of U.S. Dollars					
2013					
Japan	South and North America	Asia	Europe	Other	Total
$161,552	$24,636	$19,383	$24,168	$9,474	$239,213

1. Information by principal customers

Information is not described because there are no customers who cover 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, 2013 and 2012, was as follows:

	Millions of Yen							
	2013							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	¥102	¥ -	¥ -	¥ -	¥102	¥7	¥ -	¥109

	Millions of Yen							
	2012							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	¥ -	¥ -	¥14	¥ -	¥14	¥ -	¥ -	¥14

	Thousands of U.S. Dollars							
	2013							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Long-lived assets	$1,085	$ -	$ -	$ -	$1,085	$74	$ -	$1,159

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

The amortization of goodwill and amount of goodwill by reportable segment for the years ended March 31, 2013 and 2012, were as follows:

	Millions of Yen							
	2013							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥ -	¥ -	¥ -	¥ 88	¥ 88	¥1	¥ -	¥ 89
Amount of goodwill	-	-	-	103	103	5	-	108

	Millions of Yen							
	2012							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥ -	¥ -	¥ -	¥ 80	¥ 80	¥ -	¥ -	¥ 80
Amount of goodwill	-	-	-	178	178	-	-	178

	Thousands of U.S. Dollars							
	2013							
	Reportable Segment							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	$ -	$ -	$ -	$ 936	$ 936	$10	$ -	$ 946
Amount of goodwill	-	-	-	1,095	1,095	53	-	1,148

* * * * * *

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. (formerly, Harima Chemicals, Inc.) and its subsidiaries as of March 31, 2013, 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, 2013, 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 27, 2013

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview (as of March 31, 2013)

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, Kyushu Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	53 (Consolidated: 1,575)
Number of Group Companies	37
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	http://www.harima.co.jp/en/index.html

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Harima Kasei Polymer Co., Ltd.	10,000 thousand yen	100	Manufacture and sale of resins for printing inks, etc.
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.	8,356 thousand Brasil real	99.39	Manufacture and sale of rosin and its derivatives
Harimatec Hangzhou Co., Ltd.	8,690 thousand Chinese yuan	85	Manufacture and sale of electronic materials
Harimatec Malaysia Sdn. Bhd.	1,356 thousand Malaysian ringgit	85	Manufacture and sale of electronic materials
Hangzhou Hanghua-Harima Paper 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	80	Manufacture and sale of rosin and its derivatives
Xinyi Zhonglin Rosin Co., Ltd.	12,000 thousand yuan	81	Manufacture and sale of rosin and its derivatives
Lawter B.V.	17,600 thousand euro	90	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, 2013)

President	Yoshihiro Hasegawa
Senior Executive Director	Nobuo Makino
Executive Director	Masanao Kono
Executive Director	Teruo Kaneshiro
Executive Director	Masashi Inaba
Director	Satoru Iwasa
Director	Yorishige Matsuba
Director	Yasuhiro Mizutani
Director	Yoshinobu Matsuda
Director	Mitsunori Kiyono
Director	Fumiaki Tsuchida
Director	Ichiro Taninaka
Standing Corporate Auditor	Jyoichiro Tanaka
Corporate Auditor*	Tatsuya Michigami
Corporate Auditor*	Hidenori Hiramatsu

* denotes Outside Corporate Auditors.

Status of Shares (as of March 31, 2013)

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

(2) Total number of shares outstanding 26,080,396
(including 131,247 shares of treasury stocks)

(3) Number of shareholders 2,912

(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.	4,558	17.56
Yoshihiro Hasegawa	1,737	6.69
Sumitomo Mitsui Banking Corporation	1,094	4.21
Harima Chemicals Mutual Prosperity Association	934	3.59
Shorai Foundation for Science and Technology	805	3.10
THE MINATO BANK, LTD.	692	2.66
Shorai, Ltd.	687	2.64
Keihansin Kougyou Corporation	672	2.58
The Master Trust Bank of Japan, Ltd. (Account in trust)	559	2.15
Hyogo Prefectual Credit Federation of Agricultural Cooperatives	521	2.01

(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 (131,247 shares), which amounts to 25,949,149 shares. The numbers shown are rounded down to two decimal places.