Annual Report

Year Ended March 31, 2018

HARIMA CHEMICALS GROUP, INC.

Business Overview

The world economy during the current fiscal year, the economy in the US is continued recovering, also in Europe recovered gently. Meanwhile, in the Japanese economy, corporate earnings improved, and capital investment increased moderately.

In the overseas business of the Group, Lawter whose major market is Europe, decreased sales and profit from the previous fiscal year, due to corrections in prices and decrease of volumes, but in the subsidiaries in China sales was increased, as a result, the overall sales was increased in overseas operations. Domestic business increased both sales and earnings compared with the previous fiscal year.

As a result of these conditions, the group's consolidated net sales for the current fiscal year increased by 1,926 million Yen (up 2.7%) year-on-year to 73,310 million Yen. Operating income increased by 35 million Yen (up 0.9%) year-on-year to 4,010 million Yen. Ordinary income increased by 76 million Yen (up 2.0%) year-on-year to 4,008 million Yen. Net income attributable to Harima Chemicals Group, INC. was 2,725 million Yen, increased by 304 million Yen (up 12.6%) year-on-year.

Status of Business Segments

(Resin & Tall Oil Products)

In the printing ink industry, production volume fell compared to the previous year due to a decrease in the number of copies issued by commercial printing and newspapers. Although included the adoption of new products, sales of resin for printing inks in this division declined from the previous fiscal year.

In the paint industry, the production volume was unchanged with the previous year, but the paints for construction and exterior-decoration which is related to this division, increased. Sales of paint resins for this segment increased compared with the previous fiscal year, by the increased sales for construction and exterior paints.

In this segment the overall sales and profit was increased compared with the previous fiscal year.

(Paper Chemicals)

In the domestic papermaking industry, demand for information printing papers declined, while demand for paperboard increased, production volume of paper and paperboard remained unchanged from the previous year. Production volume of paper and paperboard increased in China, the main oversea market of our division. In the United States, although paperboard demand was increased, the demand for information printing paper decreased, and the production of paper and paperboard production remained unchanged from the previous year.

In this segment, sales in Japan and China increased compared with the previous fiscal year, but sales in the United States remained unchanged from the previous fiscal year.

In this segment the overall sales and profit was increased compared with the previous fiscal year.

(Electronics Materials)

Production volume in the automobile industry, which is mainly related to this division, decreased in North America compared with the previous year, but increased in Japan, Europe and China.

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

(Lawter)

Sales volume of adhesive for pressure-sensitive adhesives, which is the main product of this division, remained unchanged from the previous fiscal year, but due to revision of sales unit price, the sales decreased compared with the previous fiscal year.

Demand for printing inks was sluggish worldwide on the background of digitization of information, and sales declined from the previous fiscal year due to a decrease in sales volumes and a correction of sales unit prices.

Concerning the profit, although there were factors for the increase in business income, such as rationalization, cost reductions, increased sales of high value-added products, because there was adjustment of depreciation expenses in the previous fiscal year, the profit was decreased from the previous fiscal year.

Consolidated Business Performance Trends

(Millions of Yen unless otherwise stated)

Category	73th Fiscal Year (Fiscal year ended March 2015)	74th Fiscal Year (Fiscal year ended March 2016)	75th Fiscal Year (Fiscal year ended March 2017)	76th Fiscal Year (Fiscal year ended March 2018)
Net sales	82,692	80,977	71,384	73,310
Ordinary income	249	3,225	3,931	4,008
Net income(loss) attributable to Harima Chemicals Group,INC.	△1,026	1,222	2,421	2,725
Net income (loss) per share (Yen)	△39.53	47.12	93.31	105.03
Total assets	75,256	70,772	67,352	69,771
Net assets	33,080	31,362	33,813	36,097

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

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Balance Sheet
March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
ASSETS	2018	2017	2018
CURRENT ASSETS:			
Cash and cash equivalents (Note 15)	¥ 3,660	¥ 4,002	$ 34,450
Notes and accounts receivable (Note 15):			
Trade notes	1,560	1,794	14,684
Trade accounts	18,452	15,965	173,682
Associated companies	243	173	2,287
Other	1,058	1,215	9,959
Allowance for doubtful notes and accounts	(122)	(109)	(1,148)
Inventories (Note 4)	11,541	10,970	108,631
Deferred tax assets (Note 12)	260	336	2,447
Other current assets	1,124	772	10,580
Total current assets	37,776	35,118	355,572
PROPERTY, PLANT AND EQUIPMENT (Note 5):			
Land (Note 6)	8,851	9,391	83,311
Buildings and structures (Note 6)	18,166	18,110	170,990
Machinery and equipment	27,131	26,517	255,375
Leased assets (Note 14)	777	845	7,314
Construction in progress	431	447	4,057
Other assets	4,516	4,296	42,507
Total	59,872	59,606	563,554
Accumulated depreciation	(37,804)	(36,794)	(355,836)
Net property, plant and equipment	22,068	22,812	207,718
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 3 and 15)	6,756	6,271	63,592
Investments in and advances to associated companies	965	936	9,083
Deferred tax assets (Note 12)	337	448	3,172
Other assets	1,873	1,771	17,630
Allowance for doubtful accounts	(3)	(3)	(28)
Total investments and other assets	9,928	9,423	93,449
TOTAL	¥ 69,772	¥ 67,353	$ 656,739

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
LIABILITIES AND EQUITY	2018	2017	2018
CURRENT LIABILITIES:			
Short-term bank loans (Notes 7 and 15)	¥ 10,816	¥ 4,759	$ 101,807
Current portion of long-term debt (Notes 7 and 15)	2,786	717	26,224
Notes and accounts payable (Note 15):			
Trade notes	320	375	3,012
Trade accounts	8,409	8,608	79,151
Associated companies	105	85	988
Construction and other	1,106	330	10,410
Income taxes payable (Note 12)	428	464	4,029
Other current liabilities	2,267	2,217	21,339
Total current liabilities	26,237	17,555	246,960
LONG-TERM LIABILITIES:			
Long-term debt (Notes 7, 14, 15, and 16)	3,398	11,584	31,984
Deferred tax liabilities (Note 12)	1,598	1,940	15,041
Long-term deposits received (Note 15)	736	741	6,928
Liability for retirement benefits (Note 8)	1,409	1,433	13,262
Asset retirement obligations (Note 9)	49	48	461
Other long-term liabilities	247	239	2,326
Total long-term liabilities	7,437	15,985	70,002
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 2018 and 2017	10,013	10,013	94,249
Capital surplus	9,767	9,744	91,933
Retained earnings	13,573	11,366	127,758
Treasury stock – at cost: 55,330 shares in 2018 and 132,049 shares in 2017	(26)	(62)	(245)
Accumulated other comprehensive income:			
Unrealized gain on available-for-sale securities	1,679	1,735	15,804
Foreign currency translation adjustments	(1,110)	(972)	(10,448)
Defined retirement benefit plans	(173)	(176)	(1,628)
Total	33,723	31,648	317,423
Noncontrolling interests	2,375	2,165	22,354
Total equity	36,098	33,813	339,777
TOTAL	¥ 69,772	¥ 67,353	$ 656,739

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Income
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET SALES	¥ 73,310	¥ 71,384	$ 690,041
COST OF SALES	55,769	54,082	524,934
Gross profit	17,541	17,302	165,107
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 11 and 13)	13,530	13,327	127,353
Operating income	4,011	3,975	37,754
OTHER INCOME (EXPENSES):			
Interest and dividend income	247	150	2,325
Interest expense	(267)	(306)	(2,513)
Rental income	115	116	1,082
Commission paid	(7)	(12)	(66)
Foreign exchange loss	(190)	(130)	(1,788)
Gain on sale of property, plant and equipment	(8)	(2)	(75)
Loss on impairment of long-lived assets (Note 5)	(648)	(152)	(6,099)
Loss on disposal of property, plant and equipment	(22)	(41)	(207)
Gain on sale of investment securities	594	50	5,591
Equity in earnings of associated companies	39	35	367
Other – net	91	87	856
Other expenses – net	(56)	(205)	(527)
INCOME BEFORE INCOME TAXES	3,955	3,770	37,227
INCOME TAXES (Note 12):			
Current	1,168	783	10,994
Deferred	(201)	304	(1,892)
Total income taxes	967	1,087	9,102
NET INCOME	2,988	2,683	28,125
NET INCOME ATTRIBUTABLE TO NONCONTROLLING INTERESTS	(262)	(262)	(2,466)
NET INCOME ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 2,726	¥ 2,421	$ 25,659
	Yen		U.S. Dollars
PER SHARE OF COMMON STOCK (Notes 2.s and 18):			
Net income	¥105.03	¥93.31	$0.99
Cash dividends applicable to the year	23.00	17.00	0.22

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Comprehensive Income
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
NET INCOME	¥ 2,988	¥ 2,683	$ 28,125
OTHER COMPREHENSIVE INCOME (LOSS) (Note 17):			
Unrealized (loss) gain on available-for-sale securities	(56)	733	(527)
Foreign currency translation adjustments	(88)	(793)	(829)
Defined retirement benefit plans	2	311	19
Share of other comprehensive income in associated companies	0	0	0
Total other comprehensive (loss) income	(142)	251	(1,337)
COMPREHENSIVE INCOME (Note 17)	¥ 2,846	¥ 2,934	$ 26,788
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 17):			
Owners of the parent	¥2,534	¥2,803	$23,852
Noncontrolling interests	312	131	2,936

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Changes in Equity
Year Ended March 31, 2018

	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, 2016	25,949	¥ 10,013	¥ 9,744	¥ 9,334	¥ (62)	¥ 1,003	¥ (320)	¥ (477)	¥ 29,235	¥ 2,127	¥ 31,362
Net income attributable to owners of the parent				2,421					2,421		2,421
Cash dividends, ¥15.00 per share	0			(389)					(389)		(389)
Purchase of treasury stock	(1)				(0)				(0)		(0)
Change in ownership interest in subsidiaries			0						0		0
Net change in the year						732	(652)	301	381	38	419
BALANCE, MARCH 31, 2017	25,948	10,013	9,744	11,366	(62)	1,735	(972)	(176)	31,648	2,165	33,813
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

	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, 2017	$ 94,249	$ 91,717	$ 106,984	$ (584)	$ 16,331	$ (9,149)	$ (1,657)	$ 297,891	$ 20,378	$ 318,269
Net income attributable to owners of the parent			25,659					25,659		25,659
Cash dividends, $0.19 per share			(4,885)					(4,885)		(4,885)
Purchase of treasury stock				0				0		0
Disposal of treasury stock		301		339				640		640
Change in ownership interest in subsidiaries		(85)						(85)		(85)
Net change in the year					(527)	(1,299)	29	(1,797)	1,976	179
BALANCE, MARCH 31, 2018	$ 94,249	$ 91,933	$ 127,758	$ (245)	$ 15,804	$ (10,448)	$ (1,628)	$ 317,423	$ 22,354	$ 339,777

See notes to consolidated financial statements.

HARIMA CHEMICALS GROUP, INC.
and Subsidiaries

Consolidated Statement of Cash Flows
Year Ended March 31, 2018

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2018	2017	2018
OPERATING ACTIVITIES:			
Income before income taxes	¥ 3,955	¥ 3,770	$ 37,227
Adjustments for:			
Income taxes – paid	(1,209)	(594)	(11,380)
Depreciation and amortization	1,948	2,125	18,336
Loss on impairment of long-lived assets	648	152	6,099
Foreign exchange loss	192	121	1,807
Loss on sales of property, plant and equipment	8	2	75
Gain on sales of investment securities	(594)	(50)	(5,591)
Changes in assets and liabilities:			
(Increase) decrease in trade notes and accounts receivable	(2,377)	675	(22,374)
(Increase) decrease in inventories	(699)	882	(6,579)
Increase in trade notes and accounts payable	580	575	5,459
Other – net	325	(818)	3,060
Total adjustments	(1,178)	3,070	(11,088)
Net cash provided by operating activities	2,777	6,840	26,139
INVESTING ACTIVITIES:			
Purchases of property, plant and equipment	(1,644)	(2,039)	(15,474)
Proceeds from sales of property, plant and equipment	140	7	1,318
Purchases of intangible assets	(115)	(155)	(1,082)
Purchases of investment securities	(807)	(415)	(7,596)
Proceeds from sales of investment securities	878	311	8,264
Other – net	21	(33)	197
Net cash used in investing activities	(1,527)	(2,324)	(14,373)
FINANCING ACTIVITIES:			
Increase (decrease) in short-term bank loans – net	5,474	(3,293)	51,525
Proceeds from long-term debt	1,432	977	13,479
Repayments of long-term debt	(7,763)	(3,297)	(73,070)
Dividends paid	(519)	(389)	(4,885)
Other – net	(176)	(173)	(1,657)
Net cash used in financing activities	(1,552)	(6,175)	(14,608)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	(40)	(220)	(377)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(342)	(1,879)	(3,219)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	4,002	5,881	37,669
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 3,660	¥ 4,002	$ 34,450

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 2017 consolidated financial statements to conform to the classifications used in 2018.

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 ¥106.24 to $1, the approximate rate of exchange at March 31, 2018. 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—"FASB ASC") tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of research and development; and (d) cancellation of the fair value model of accounting for property, plant, and equipment and investment properties and incorporation of the cost model of accounting.

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

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

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

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

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

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

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

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

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

j. ***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.

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

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

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

All other leases are accounted for as operating leases.

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

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

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

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

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

r. ***Derivative 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.

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

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

t. ***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, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Non-current:			
Equity securities	¥ 6,625	¥ 6,129	$ 62,359
Trust fund investments and other	131	142	1,233
Total	¥ 6,756	¥ 6,271	$ 63,592

The costs and aggregate fair values of investment securities as of March 31, 2018 and 2017, were as follows:

	Millions of Yen			
March 31, 2018	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥2,087	¥2,287	¥(5)	¥4,369
Debt securities	130	1		131
March 31, 2017				
Securities classified as:				
Marketable available-for-sale:				
Equity securities	¥1,635	¥2,330	¥(14)	¥3,951
Debt securities	147	0	(5)	142

March 31, 2018	Thousands of U.S. Dollars Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Marketable available-for-sale:				
Equity securities	$19,644	$21,527	$(47)	$41,124
Debt securities	1,224	9		1,233

Carrying amounts of available-for-sale securities whose fair value is not readily determinable as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Nonmarketable available-for-sale:			
Equity securities	¥2,256	¥2,178	$21,235

The information for available-for-sale securities which were sold during the years ended March 31, 2018 and 2017, were as follows:

March 31, 2018	Millions of Yen Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	¥ 817	¥ 602	
Debt securities	10		¥ 6
Total	¥ 827	¥ 602	¥ 6
March 31, 2017			
Available-for-sale:			
Equity securities	¥ 62	¥ 49	¥ 0
Debt securities	300		
Total	¥ 362	¥ 49	¥ 0

March 31, 2018	Thousands of U.S. Dollars Proceeds	Realized Gains	Realized Losses
Available-for-sale:			
Equity securities	$ 7,690	$ 5,666	
Debt securities	94		$ 56
Total	$ 7,784	$ 5,666	$ 56

4. INVENTORIES

Inventories as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Finished products	¥ 5,527	¥ 5,068	$ 52,024
Work in process	229	312	2,155
Raw materials and supplies	5,785	5,590	54,452
Total	¥ 11,541	¥ 10,970	$ 108,631

5. LONG-LIVED ASSETS

The Group recorded impairment losses of ¥648 million ($6,099 thousand) and ¥152 million for the years ended March 31, 2018 and 2017, respectively. The Group recognized a decline in value of unused real estate in Japan for the year ended March 31, 2017. Also, the Group recognized a decline in value of a golf course and hotel facilities for the year ended March 31, 2018. 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, 2018 and 2017, were ¥117 million ($1,101 thousand) and ¥106 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, 2017	Increase/ Decrease	March 31, 2018	March 31, 2018
¥2,641	¥(655)	¥1,986	¥2,742

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

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2017	Increase/ Decrease	March 31, 2018	March 31, 2018
$24,859	$(6,165)	$18,694	$25,809

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, 2018, primarily represents the capital expenditure for current investment properties of ¥102 million ($960 thousand), and the decrease primarily represents depreciation of ¥23 million ($217 thousand), impairment loss of ¥648 million ($6,099 thousand), and sale of ¥86 million ($809 thousand). Increase during the fiscal year ended March 31, 2017, primarily represents the capital expenditure for current investment properties of ¥308 million, and the decrease primarily represents depreciation of ¥33 million and impairment loss of ¥152 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, 2018 and 2017, 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, 2018 and 2017, were 0.8% and 1.3%, respectively. As of March 31, 2018 and 2017, the total committed line of credit was ¥4,000 million ($37,651 thousand) and ¥5,000 million, and unused balance was ¥4,000 million ($37,651 thousand) and ¥5,000 million, respectively.

Long-term debt as of March 31, 2018 and 2017, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unsecured loans from banks and other financial institutions, due serially to 2020 with interest rates ranging from 0.4% to 2.1% (2018) and from 0.4% to 2.1% (2017)	¥ 5,069	¥ 11,117	$ 47,713
Obligations under finance leases	1,115	1,184	10,495
Total	6,184	12,301	58,208
Less current portion	(2,786)	(717)	(26,224)
Long-term debt, less current portion	¥ 3,398	¥ 11,584	$ 31,984

Annual maturities of long-term debt as of March 31, 2018, for the next five years and thereafter were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2019	¥ 2,786	$ 26,224
2020	2,103	19,796
2021	395	3,718
2022	69	649
2023	69	649
2024 and thereafter	762	7,172
Total	¥ 6,184	$ 58,208

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, 2018 and 2017, 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, 2018 and 2017 was ¥405 million ($3,812 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, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 2,838	¥ 4,104	$ 26,713
Service cost	170	161	1,600
Interest cost	26	25	245
Actuarial losses	8	86	75
Benefits paid	(153)	(151)	(1,440)
Foreign currency translation differences	51	(145)	480
Liabilities extinguished on settlements		(1,247)	
Others	5	5	47
Balance at end of year	¥ 2,945	¥ 2,838	$ 27,720

(2) The changes in plan assets for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 1,943	¥ 2,619	$ 18,289
Expected return on plan assets	59	10	555
Actuarial (losses) gains	(16)	85	(151)
Contributions from the employer	207	197	1,948
Benefits paid	(153)	(151)	(1,440)
Foreign currency translation differences	45	(92)	424
Assets distributed on settlements		(730)	
Others	6	5	57
Balance at end of year	¥ 2,091	¥ 1,943	$ 19,682

(3) The changes in defined benefit obligation under the simplified method for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥ 133	¥ 119	$ 1,252
Periodic benefit costs	26	18	244
Benefits paid	(8)	(0)	(75)
Foreign currency translation differences	(1)	(4)	(9)
Balance at end of year	¥ 150	¥ 133	$ 1,412

(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, 2018 and 2017, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Funded defined benefit obligation	¥ 2,945	¥ 2,838	$ 27,720
Plan assets	(2,091)	(1,943)	(19,682)
Total	854	895	8,038
Unfunded defined benefit obligation	150	133	1,412
Net liability arising from defined benefit obligation	¥ 1,004	¥ 1,028	$ 9,450

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Liability for retirement benefits	¥ 1,004	¥ 1,028	$ 9,450
Net liability arising from defined benefit obligation	¥ 1,004	¥ 1,028	$ 9,450

(5) The components of net periodic benefit costs for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Service cost	¥ 170	¥ 161	$ 1,600
Interest cost	26	25	245
Expected return on plan assets	(59)	(10)	(555)
Recognized actuarial losses	32	42	301
Recognized prior service cost	4	4	38
Periodic benefit cost in simplified method	26	17	244
Other		(130)	
Net periodic benefit costs	¥ 199	¥ 109	$ 1,873

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined retirement benefit plans for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Prior service cost (benefit)	¥ 4	¥ (35)	$ 38
Actuarial gain	8	467	75
Others	(5)	39	(47)
Total	¥ 7	¥ 471	$ 66

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined retirement benefit plans as of March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrecognized prior service cost	¥ 57	¥ 56	$ 537
Unrecognized actuarial losses	202	210	1,901
Total	¥ 259	¥ 266	$ 2,438

(8) Plan assets as of March 31, 2018 and 2017

a. *Components of plan assets*

Plan assets consisted of the following:

	2018	2017
Debt securities in Japan	11.9%	12.9%
Equity securities in Japan	7.9	8.3
Debt securities in other countries	3.6	3.2
Equity securities in other countries	7.2	7.9
Cash and time deposits	0.9	1.0
Insurance asset (general account)	65.1	63.7
Others	3.4	3.0
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, 2018 and 2017, were set forth as follows:

	2018	2017
Discount rate	Mainly 0.7%	Mainly 0.7%
Expected rate of return on plan assets	Mainly 3.0%	Mainly 0.0%

<2> Defined Contribution Plan

The amount of contributions required for the defined contribution plan of the Group for the years ended March 31, 2018 and 2017, was ¥200 million ($1,883 thousand) and ¥195 million, respectively.

<3> Multi-Employer Pension Plan

The contributions to the multi-employer plan, which are accounted for using the same method as a defined contribution plan, were ¥93 million ($875 thousand) and ¥123 million for the years ended March 31, 2018 and 2017, respectively.

(1) The funded status of the multi-employer plan as of March 31, 2017 and 2016, was as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2017	2016	2017
Plan assets	¥ 291,474	¥ 306,491	$ 2,743,543
Sum of actuarial liabilities of pension plan and minimum actuarial reserve	358,591	365,489	3,375,292
Net balance	¥ (67,117)	¥ (58,998)	$ (631,749)

(2) The contribution ratio of the group in the multi-employer plan for the years ended March 31, 2017 and 2016, were 1.3% and 1.3%, respectively.

(3) Supplementary explanation

The above information is obtained from the latest available information.

The net balance in (1) above is mainly caused by past service cost of ¥46,483 million ($437,528 thousand) for 2017 and ¥47,872 million for 2016, and a deficiency brought forward of ¥20,634 million ($194,221 thousand) for 2017 and ¥11,125 million for 2016. Past service cost under the plan is amortized on a straight-line basis over 14 years, and the special contributions of ¥64 million ($602 thousand) for 2017 and ¥62 million for 2016, 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, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Balance at beginning of year	¥48	¥48	$452
Reconciliation associated with passage of time	1	0	9
Balance at end of year	49	48	461

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, 2018 and 2017, principally consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Employees' salaries and bonuses	¥3,527	¥3,333	$33,198
Net periodic retirement benefit	223	130	2,099
Transport	3,150	2,973	29,650
Depreciation	305	276	2,871
Rental	271	234	2,551
Research and development	2,464	2,496	23,193
Amortization of goodwill		87	

12. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 30.8% for each of the years ended March 31, 2018 and 2017. Foreign subsidiaries are subject to the income taxes of the countries in which they operate.

On December 22, 2017, a tax reform law was enacted in the U.S., which changed the normal effective statutory tax rate from approximately 35.0% to 21.0%. The effect of this change resulted in a decrease in deferred tax liabilities of ¥230 million ($2,165 thousand) in the consolidated balance sheet as of March 31, 2018, and a decrease in income taxes — deferred of ¥230 million ($2,165 thousand) in the consolidated statement of income for the year then ended.

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Deferred tax assets:			
Tax loss carryforwards	¥ 2,242	¥ 2,541	$ 21,103
Impairment loss on long-lived assets	1,414	1,279	13,309
Loss on revaluation of investment securities	114	172	1,073
Retirement benefits to directors	124	124	1,167
Unrealized gain on property, plant and equipment	97	97	913
Others	846	997	7,964
Less valuation allowance	(3,626)	(3,867)	(34,130)
Total	¥ 1,211	¥ 1,343	$ 11,399
Deferred tax liabilities:			
Reserve for deferred gains on sales of property, plant and equipment	¥ (52)	¥ (53)	$ (489)
Unrealized gain on available-for-sale securities	(593)	(565)	(5,582)
Undistributed earnings of foreign subsidiaries	(250)	(212)	(2,353)
Depreciation of foreign subsidiaries	(474)	(556)	(4,462)
Negative goodwill and intangible fixed assets of foreign subsidiaries	(76)	(80)	(715)
Others	(767)	(1,033)	(7,220)
Total	¥ (2,212)	¥ (2,499)	$ (20,821)
Net deferred tax liabilities	¥ (1,001)	¥ (1,156)	$ (9,422)

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, 2018 and 2017, were as follows:

	2018	2017
Normal effective statutory tax rate	30.8%	30.8%
Expenses not deductible for income tax purposes	3.6	(0.1)
Inhabitant tax on per capita basis	0.8	0.8
Difference of income tax rates applicable to income in certain foreign countries	0.3	0.1
Decrease in valuation allowance	(4.1)	(3.2)
Tax credit	(1.4)	(1.2)
Adjustment of deferred tax assets and liabilities at end of period due to change in tax rates	(5.8)	
Undistributed earnings of foreign subsidiaries	1.0	0.3
Amortization of goodwill		0.7
Other – net	(0.8)	0.6
Actual effective tax rate	24.4%	28.8%

13. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥2,464 million ($23,193 thousand) and ¥2,496 million for the years ended March 31, 2018 and 2017, 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, 2018 and 2017, were ¥305 million ($2,871 thousand) and ¥322 million, respectively.

The future minimum lease payments commitment under noncancelable operating leases as of March 31, 2018, are as follows:

	Millions of Yen	Thousands of U.S. Dollars
Due within one year	¥ 185	$ 1,741
Due after one year	1,373	12,924
Total	¥ 1,558	$ 14,665

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, 2018.

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, 2018 and 2017, were as follows. The accounts for which fair value cannot be reasonably determined are not included in the following:

	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

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

	Thousands of U.S. Dollars		
March 31, 2018	Carrying Amount	Fair Value	Unrealized Gain (Loss)
Cash and cash equivalents	$ 34,450	$ 34,450	$
Notes and accounts receivable	201,092	201,092	
Investment securities	42,357	42,357	
Total	$ 277,899	$ 277,899	$
Notes and accounts payable	$ (93,561)	$ (93,561)	
Short-term bank loans	(101,807)	(101,807)	
Long-term debt	(58,208)	(58,321)	$ (113)
Long-term deposits received	(6,928)	(6,438)	490
Total	$ (260,504)	$ (260,127)	$ 377

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, 2018.

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
	2018	2017	2018
Investments in equity instruments that do not have a quoted market price in an active market	¥2,256	¥2,178	$21,235

(5) Maturity Analysis for Financial Assets with Contractual Maturities

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	21,364			
Investment securities:				
Available-for-sale securities with contractual maturities		¥ 100		
Total	¥ 25,024	¥ 100	¥	¥

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

March 31, 2018	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	$ 34,450		$	$
Notes and accounts receivable	201,092			
Investment securities:				
Available-for-sale securities with contractual maturities		$ 941		
Total	$ 235,542	$ 941	$	$

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, 2018

Not applicable

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2017

Not applicable

17. OTHER COMPREHENSIVE INCOME (LOSS)

The components of other comprehensive income (loss) for the years ended March 31, 2018 and 2017, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2018	2017	2018
Unrealized (loss) gain on available-for-sale securities:			
Gains arising during the year	¥ 566	¥ 1,034	$ 5,328
Reclassification adjustments to profit or loss	(594)	(48)	(5,591)
Amount before income tax effect	(28)	986	(263)
Income tax effect	(28)	(253)	(264)
Total	¥ (56)	¥ 733	$ (527)
Foreign currency translation adjustments:			
Adjustments arising during the year	¥ (88)	¥ (793)	$ (829)
Reclassification adjustments to profit or loss			
Amount before income tax effect	(88)	(793)	(829)
Income tax effect			
Total	¥ (88)	¥ (793)	$ (829)
Defined retirement benefit plans:			
Adjustments arising during the year	¥ (29)	¥ 38	$ (273)
Reclassification adjustments to profit or loss	36	433	339
Amount before income tax effect	7	471	66
Income tax effect	(5)	(160)	(47)
Total	¥ 2	¥ 311	$ 19
Share of other comprehensive income (loss) in associated companies –			
Gains (losses) arising during the year	¥ 0	¥ 0	$ 0
Total	¥ 0	¥ 0	$ 0
Total other comprehensive (loss) income	¥ (142)	¥ 251	$ (1,337)

18. NET INCOME PER SHARE

Details of the basic net income per share ("EPS") for the years ended March 31, 2018 and 2017, 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, 2018:				
Basic EPS				
Net income available to common shareholders	¥ 2,726	25,954	¥ 105.03	$ 0.99
For the year ended March 31, 2017:				
Basic EPS				
Net income available to common shareholders	¥ 2,421	25,948	¥ 93.31	

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, 2018 and 2017, were as follows:

Fiscal year ended March 31, 2018

Not applicable

Fiscal year ended March 31, 2017

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

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

(2) Transactions between Subsidiaries and Related Parties

Transactions between subsidiaries and related parties for the years ended March 31, 2018 and 2017, were as follows:

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)	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	$ 47
						Minimum rental commitments	31	292
						Other current assets, end of year	0	0

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

Fiscal year ended March 31, 2017

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

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

20. SUBSEQUENT EVENT

Appropriations of Retained Earnings

The following appropriation of retained earnings at March 31, 2018, was approved at the Company's Board of Directors' meeting held on May 17, 2018:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥12 ($0.11) per share	¥312	$2,937

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								
	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)

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 ($1,026 thousand) and company-wide expenses of ¥751 million ($7,069 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								
	2017								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	¥ 18,286	¥ 16,209	¥ 5,326	¥ 29,855	¥ 69,676	¥ 1,685	¥ 71,361	¥ 23	¥ 71,384
Intersegment sales or transfers	250	238		143	631	132	763	(763)	
Total	¥ 18,536	¥ 16,447	¥ 5,326	¥ 29,998	¥ 70,307	¥ 1,817	¥ 72,124	¥ (740)	¥ 71,384
Segment profit (loss)	¥943	¥1,716	¥310	¥1,392	¥4,361	¥ (21)	¥4,340	¥(365)	¥3,975
Other:									
Depreciation	632	598	147	529	1,906	132	2,038		2,038
Net result of interest income and interest expense	(27)	(4)	(3)	(124)	(158)	12	(146)	(97)	(243)

Notes: "Other" comprises business segments not attributable to a reportable segment and is mainly comprised of real estate management.
Reconciliations of segment profit (loss) include reconciliation gain of inventories of ¥69 million and company-wide expenses of ¥517 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								
	2018								
	Reportable Segments								
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Total	Reconciliations	Consolidated
Sales:									
Sales to external customers	$ 179,659	$ 163,159	$ 53,031	$ 279,556	$ 675,405	$ 15,107	$ 690,512	$ (471)	$ 690,041
Intersegment sales or transfers	2,033	1,384		1,393	4,810	1,299	6,109	(6,109)	
Total	$ 181,692	$ 164,543	$ 53,031	$ 280,949	$ 680,215	$ 16,406	$ 696,621	$ (6,580)	$ 690,041
Segment profit (loss)	$11,069	$16,463	$3,803	$11,973	$43,308	$ (179)	$43,129	$(5,375)	$37,754
Other:									
Depreciation	5,939	5,921	1,271	4,019	17,150	1,186	18,336		18,336
Net result of interest income and interest expense	(85)	19	(9)	(1,402)	(1,477)	(38)	(1,515)	(649)	(2,164)

[Related information]

1. Information about geographical areas

Net sales to customers and property, plant and equipment by region for the years ended March 31, 2018 and 2017, were as follows:

(1) Net sales

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

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

Thousands of U.S. Dollars					
2018					
Japan	South and North America	Asia	Europe	Other	Total
$291,077	$144,710	$99,981	$126,600	$27,673	$690,041

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

(2) Net property, plant and equipment

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

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

Thousands of U.S. Dollars					
2018					
Japan	South and North America	Asia	Europe	Other	Total
$118,119	$35,354	$19,889	$23,513	$10,843	$207,718

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, 2018 and 2017, was as follows:

	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

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

	Thousands of U.S. Dollars							
	2018							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Loss on impairment	$	$	$	$	$	$	$6,099	$6,099

[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, 2018 and 2017, were as follows:

	Millions of Yen							
	2018							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	¥	¥	¥	¥	¥	¥	¥	¥
Amount of goodwill								

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

	Thousands of U.S. Dollars							
	2018							
	Reportable Segments							
	Resin & Tall Oil Products	Paper Chemicals	Electronics Materials	Lawter	Total	Other	Eliminations/ Corporate	Consolidated
Amortization of goodwill	$	$	$	$	$	$	$	$
Amount of goodwill								

* * * * * *

Deloitte.

Deloitte Touche Tohmatsu LLC
Yodoyabashi Mitsui Building
4-1-1 Imabashi, Chuo-ku
Osaka 541-0042
Japan

Tel: +81 (6) 4560 6000
Fax: +81 (6) 4560 6001
www.deloitte.com/jp/en

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying consolidated balance sheet of HARIMA CHEMICALS GROUP, INC. and its subsidiaries as of March 31, 2018, 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, 2018, 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 25, 2018

Member of
Deloitte Touche Tohmatsu Limited

Corporate Overview (as of March 31, 2017)

Founded	November 18, 1947
Capital Stock	10,012.95 million yen
Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Osaka Head Office	4-4-7 Imabashi, Chuo-ku, Osaka
Tokyo Head Office	3-8-4 Nihonbashi, Chuo-ku, Tokyo
Laboratories	Central Research Laboratory, Tsukuba Research Laboratory
Plants	Kakogawa Plant, Tokyo Plant, Fuji Plant, Ibaraki Plant, Hokkaido Plant, Sendai Plant, and Shikoku Plant
Sales Offices	Tokyo Sales Office, Osaka Sales Office, Nagoya Sales Office, Fuji Sales Office, Hokkaido Sales Office, Sendai Sales Office, and Shikoku Sales Office
Number of Employees	91 (Consolidated: 1,467)
Number of Group Companies	35
Business Activities	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Website	http://www.harima.co.jp/en/index.html

Principal Subsidiaries

Company name	Capital stock	Percentage of equity participation (%)	Main business
Harima Chemicals, Inc.	5,000,000 thousand yen	100	Manufacture and sale of Resin & Tall Oil Products, Paper Chemicals, Electronics Materials, etc.
Harima Trading, Inc.	48,000 thousand yen	100	Real estate management, etc.
Seven Rivers, Inc.	14,000 thousand yen	100	Manufacture and sale of industrial detergents, etc.
Harima M.I.D., Inc.	300,000 thousand yen	75	Manufacture and sale of tall oil products
Nippon Filler Metals, Ltd.	45,000 thousand yen	100	Manufacture and sale of electronic materials
HARIMA USA, Inc.	3,350 thousand U.S. dollars	100	Control of U.S. operations
Harima do Brasil Industria Quimica Ltda.	39,854 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	85	Manufacture and sale of electronic materials
Hangzhou Hanghua Harima Chemicals Co., Ltd.	52,296 thousand Chinese yuan	56.07	Manufacture and sale of papermaking chemicals
Nanning Harima Chemicals Co., Ltd.	48,234 thousand Chinese yuan	95	Manufacture and sale of rosin and its derivatives
Harimatec Czech, s.r.o.	7,000 thousand Czech koruna	100	Manufacture and sale of electronic materials
Xinyi Rihong Plastic Chemical Co., Ltd.	27,390 thousand Chinese yuan	100	Manufacture and sale of rosin and its derivatives
Lawter B.V.	76,300 thousand euro	97.68	Control of Lawter Group’s operations
Harima Chemicals (Shanghai) Co., Ltd	12,652 thousand Chinese yuan	100	Support of Chinese business

Directors and Corporate Auditors (as of March 31, 2018)

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, 2018)

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

(2) Total number of shares outstanding 26,080,396
(including 55,330 shares of treasury stocks)

(3) Number of shareholders 3,464

(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	22.38
Harima Chemicals Mutual Prosperity Association	1,183	4.54
Sumitomo Mitsui Banking Corporation	1,094	4.20
Shorai, Ltd.	1,073	4.12
Shorai Foundation for Science and Technology	805	3.09
Hyogo Prefectural Credit Federation of Agricultural Cooperatives	728	2.79
The Minato Bank, Ltd	692	2.65
Keihansin Kougyou Corporation	672	2.58
Japan Master-Trust Trust bank	595	2.28
Bank of Tokyo-Mitsubishi UFJ, Ltd.	476	1.82

(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 (55,330 shares), which amounts to 26,025,066 shares. The numbers shown are rounded down to two decimal places.
3.Bank of Tokyo-Mitsubishi UFJ, Ltd., as of April 1, 2018 shares Company name has changed to Mitsubishi UFJ Bank.