Financial Section 2022

Contents

DAICEL

Consolidated Balance Sheets

Daicel Corporation and Consolidated Subsidiaries
March 31, 2022 and 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021/3	2022/3	2022/3
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents (Note 20)	¥ 90,747	¥ 87,986	$ 721,196
Securities (Notes 6 and 20)	709	2,398	19,655
Receivables (Note 20):			
Trade notes	3,906	4,544	37,245
Trade accounts	88,369	97,234	797,000
Unconsolidated subsidiaries and associated companies	3,526	5,132	42,065
Allowance for doubtful accounts	(31)	(32)	(262)
Inventories (Note 7)	108,659	142,002	1,163,950
Other current assets	16,637	20,980	171,967
Total current assets	312,524	360,247	2,952,844
PROPERTY, PLANT AND EQUIPMENT (Notes 8 and 23):			
Land	30,306	31,660	259,508
Buildings and structures	173,530	176,710	1,448,442
Machinery and equipment	600,575	605,545	4,963,483
Construction in progress	55,082	60,279	494,090
Total	859,496	874,195	7,165,532
Accumulated depreciation	(639,776)	(644,352)	(5,281,573)
Net property, plant and equipment	219,720	229,843	1,883,959
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 6 and 20)	71,562	68,951	565,172
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 20)	12,001	13,960	114,426
Deferred tax assets (Note 14)	1,522	2,474	20,278
Retirement benefit asset (Note 11)	7,781	8,686	71,196
Other assets	15,272	14,672	120,262
Total investments and other assets	108,140	108,745	891,352
TOTAL	¥ 640,385	¥ 698,836	$ 5,728,163

See notes to consolidated financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021/3	2022/3	2022/3
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Short-term bank borrowings (Notes 9 and 20)	¥ 7,024	¥ 22,198	$ 181,950
Current portion of long-term borrowings (Notes 9, 10, 20 and 22)	5,003	22,275	182,581
Payables (Notes 20 and 22):			
Trade notes	168	248	2,032
Trade accounts	48,164	60,475	495,696
Nontrade accounts	13,375	12,841	105,254
Construction	10,849	5,021	41,155
Unconsolidated subsidiaries and associated companies	1,420	1,464	12,000
Provision for environmental measures		14	114
Income taxes payable (Notes 14 and 20)	4,582	5,529	45,319
Other current liabilities	21,976	23,829	195,319
Total current liabilities	112,566	153,898	1,261,459
LONG-TERM LIABILITIES:			
Long-term borrowings (Notes 9, 10, 20 and 22)	255,572	236,029	1,934,663
Retirement benefit liability (Note 11)	8,003	6,713	55,024
Provision for environmental measures	195	125	1,024
Asset retirement obligations (Note 12)	1,268	1,255	10,286
Deferred tax liabilities (Note 14)	13,684	16,311	133,696
Other long-term liabilities	4,094	4,959	40,647
Total long-term liabilities	282,818	265,394	2,175,360
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 19, 21 and 25)			
EQUITY (Notes 13 and 28):			
Share capital Common stock, authorized, 1,450,000,000 shares in 2022 and 2021; issued, 302,942,682 shares in 2022 and 2021	36,275	36,275	297,336
Capital surplus		14	114
Retained earnings	152,816	174,500	1,430,327
Treasury shares Treasury stock - at cost, 7,234,296 shares in 2022 and 1,609,633 shares in 2021	(1,446)	(6,090)	(49,918)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	36,884	36,813	301,745
Deferred gains or losses on hedges	(27)	27	221
Foreign currency translation adjustments	8,689	25,966	212,836
Remeasurements of defined benefit plans	4,660	4,509	36,959
Total	237,852	67,317	551,778
Non-controlling interests	7,148	7,526	61,688
Total equity	245,000	279,544	2,291,344
TOTAL	¥ 640,385	¥ 698,836	$ 5,728,163

Consolidated Statements of Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2022 and 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021/3	2022/3	2022/3
NET SALES (Notes 15)	¥393,568	¥467,937	$ 3,835,549
COST OF SALES (Notes 16 and 22)	282,136	329,329	2,699,418
Gross profit	111,431	138,607	1,136,122
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 16 and 17)	79,708	87,910	720,573
Operating profit	31,723	50,697	415,549
OTHER INCOME (EXPENSES):			
Interest and dividend income	1,861	2,907	23,827
Gain on sales of investment securities	3,182	1,664	13,639
Share of profit of entities accounted for using equity method	1,785	1,950	15,983
Interest expense (Note 22)	(1,195)	(1,361)	(11,155)
Foreign exchange gain (loss)	53	1,685	13,811
Loss on retirement of non-current assets	(1,099)	(2,901)	(23,778)
Impairment loss (Note 24)	(3,786)	(9,985)	(81,844)
Other – net	516	1,624	13,311
Other income (expenses) – net	1,317	(4,414)	(36,180)
PROFIT BEFORE INCOME TAXES	33,040	46,283	379,368
INCOME TAXES (Note 14):			
Current	8,272	12,630	103,524
Deferred	2,333	1,598	13,098
Total income taxes	10,605	14,229	116,631
NET PROFIT	22,435	32,053	262,729
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	2,722	799	6,549
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 19,713	¥ 31,254	$ 256,180

	Yen		U.S. Dollars (Note 1)
	2021/3	2022/3	2022/3
PER SHARE INFORMATION (Notes 2.t and 18):			
Basic net profit	¥ 65.18	¥ 104.14	$ 0.85
Cash dividends applicable to the year	34.00	32.00	0.26

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2022 and 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021/3	2022/3	2022/3
NET PROFIT	¥ 22,435	¥ 32,053	$ 262,729
OTHER COMPREHENSIVE INCOME (LOSS) (Note 26):			
Valuation difference on available-for-sale securities	10,357	(71)	(581)
Deferred gains or losses on hedges	46	55	450
Foreign currency translation adjustments	8,826	16,916	138,655
Remeasurements of defined benefit plans	2,693	(92)	(754)
Share of other comprehensive income (loss) of entities accounted for using equity method	854	1,039	8,516
Total other comprehensive income (loss)	22,779	17,847	146,286
COMPREHENSIVE INCOME	¥ 45,214	¥ 49,901	$ 409,024
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥ 42,055	¥ 48,364	$ 396,426
Non-controlling interests	3,159	1,536	12,590

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2022 and 2021

	Millions of Yen											
						Accumulated Other Comprehensive Income						
	Number of Shares of Common Stock Outstanding	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Non-controlling Interests	Total Equity
BALANCE, APRIL 1, 2020	310,781,761	¥ 36,275	¥ 31,692	¥ 271,762	¥ (5,050)	¥ 26,582	¥ (69)	¥ (656)	¥ 2,009	¥ 362,545	¥ 30,038	¥ 392,583
Net profit attributable to owners of the parent				19,713						19,713		19,713
Cash dividends, ¥34.00 per share				(10,415)						(10,415)		(10,415)
Restricted stock awards	232,604											
Repurchase of treasury stock	(9,681,271)				(8,286)					(8,286)		(8,286)
Disposal of treasury stock				(35)	209					173		173
Retirement of treasury stock				(11,681)	11,681							
Change in ownership interest of parent due to transactions with non-controlling interests			(31,692)	(116,527)						(148,220)	(19,110)	(167,330)
Net change in the year						10,301	42	9,346	2,651	22,341	(3,780)	18,561
BALANCE, MARCH 31, 2021	301,333,049	36,275		152,816	(1,446)	36,884	(27)	8,689	4,660	237,852	7,148	245,000
ACCUMULATED EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES				(26)						(26)		(26)
ADJUSTED BALANCE, MARCH 31, 2021	301,333,049	36,275		152,789	(1,446)	36,884	(27)	8,689	4,660	237,826	7,148	244,974
Net profit attributable to owners of the parent				31,254						31,254		31,254
Cash dividends, ¥32.00 per share				(9,648)						(9,648)		(9,648)
Restricted stock awards	377,191		14		338					353		353
Repurchase of treasury stock	(6,001,854)				(4,983)					(4,983)		(4,983)
Retirement of treasury stock												
Initial inclusion of certain subsidiaries in consolidation			0	104						104	(150)	(45)
Net change in the year						(70)	55	17,276	(151)	17,109	528	17,638
BALANCE, MARCH 31, 2022	295,708,386	¥ 36,275	¥ 14	¥ 174,500	¥ (6,090)	¥ 36,813	¥ 27	¥ 25,966	¥ 4,509	¥ 272,017	¥ 7,526	¥ 279,544

	Thousands of U.S. Dollars (Note 1)										
					Accumulated Other Comprehensive Income						
	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Valuation Difference on Available-for-sale Securities	Deferred Gains or Losses on Hedges	Foreign Currency Translation Adjustments	Remeasurements of Defined Benefit Plans	Total	Non-controlling Interests	Total Equity
BALANCE, MARCH 31, 2021	$ 297,336		$ 1,252,590	$ (11,852)	$ 302,327	$ (221)	$ 71,221	$ 38,196	$ 1,949,606	$ 58,590	$ 2,008,196
ACCUMULATED EFFECT OF CHANGE IN ACCOUNTING PRINCIPLES			(213)						(213)		(213)
ADJUSTED BALANCE, MARCH 31, 2021	297,336		1,252,368	(11,852)	302,327	(221)	71,221	38,196	1,949,393	58,590	2,007,983
Net profit attributable to owners of the parent			256,180						256,180		256,180
Cash dividends, $0.26 per share			(79,081)						(79,081)		(79,081)
Restricted stock awards		$ 114		2,770					2,893		2,893
Repurchase of treasury stock				(40,844)					(40,844)		(40,844)
Retirement of treasury stock											
Initial inclusion of certain subsidiaries in consolidation		0	852						852	(1,229)	(368)
Net change in the year					(573)	450	141,606	(1,237)	140,237	4,327	144,573
BALANCE, MARCH 31, 2022	$ 297,336	$ 114	$ 1,430,327	$ (49,918)	$ 301,745	$ 221	$ 212,836	$ 36,959	$ 2,229,647	$ 61,688	$ 2,291,344

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Daicel Corporation and Consolidated Subsidiaries
Years Ended March 31, 2022 and 2021

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2021/3	2022/3	2022/3
OPERATING ACTIVITIES:			
Profit before income taxes	¥ 33,040	**¥ 46,283**	**$ 379,368**
Adjustments for:			
Income taxes paid	(9,976)	**(13,558)**	**(111,131)**
Income taxes refund	3,385	**3,556**	**29,147**
Depreciation	26,323	**27,490**	**225,327**
Impairment loss	3,786	**9,985**	**81,844**
Amortization of goodwill	1,081	**705**	**5,778**
Loss on retirement of non-current assets	1,099	**2,901**	**23,778**
Increase (decrease) in provision for environmental measures	(2,077)	**(56)**	**(459)**
Loss (gain) on sales of investment securities	(3,182)	**(1,664)**	**(13,639)**
Share of loss (profit) of entities accounted for using equity method	(1,785)	**(1,950)**	**(15,983)**
Changes in assets and liabilities:			
Decrease (increase) in trade receivable	(10,846)	**(3,429)**	**(28,106)**
Decrease (increase) in inventories	11,091	**(27,480)**	**(225,245)**
Increase (decrease) in trade payable	2,183	**7,924**	**64,950**
Other – net	3,745	**(7,712)**	**(63,213)**
Net cash provided by operating activities	57,869	**42,993**	**352,401**
INVESTING ACTIVITIES:			
Net decrease (increase) in time deposits	1	**(55)**	**(450)**
Capital expenditures	(36,790)	**(47,471)**	**(389,106)**
Purchase of investment securities	(916)	**(165)**	**(1,352)**
Purchase of shares of subsidiaries and associates		**(329)**	**(2,696)**
Proceeds from sales and redemption of investment securities	5,048	**2,809**	**23,024**
Proceeds from sales of property, plant and equipment	74	**876**	**7,180**
Loan advances	(18)	**(400)**	**(3,278)**
Collection of finance receivables	809	**84**	**688**
Other – net	(2,427)	**(1,875)**	**(15,368)**
Net cash used in investing activities	(34,220)	**(46,528)**	**(381,377)**
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	(238)	**14,696**	**120,459**
Proceeds from long-term borrowings	88,177	**1,704**	**13,967**
Repayments of long-term borrowings	(10,484)	**(5,037)**	**(41,286)**
Proceeds from issuance of bonds	99,542		
Dividends paid	(10,415)	**(9,645)**	**(79,057)**
Dividends paid to non-controlling interests	(6,940)	**(1,008)**	**(8,262)**
Purchase of treasury shares	(8,286)	**(4,983)**	**(40,844)**
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	(167,330)	**(150)**	**(1,229)**
Repayments of lease liabilities	(1,076)	**(1,029)**	**(8,434)**
Net cash used in financing activities	(17,050)	**(5,452)**	**(44,688)**
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	3,475	**6,137**	**50,303**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	10,073	**(2,850)**	**(23,360)**
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	80,674	**90,747**	**743,827**
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM INCLUSION OF SUBSIDIARIES IN CONSOLIDATION		**89**	**729**
CASH AND CASH EQUIVALENTS, END OF YEAR	¥ 90,747	**¥ 87,986**	**$ 721,196**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Daicel Corporation and Consolidated Subsidiaries

1. BASIS OF PRESENTATION OF CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Daicel Corporation (the "Company") 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 ("IFRS").

In preparing the 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. Amounts less than one million yen and one thousand U.S. dollars are rounded down, except for per share data. Therefore, total amounts may not correspond with the aggregation of such account balances.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥122 to $1, the approximate rate of exchange at March 31, 2022. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. **Consolidation –** The consolidated financial statements as of March 31, 2022, include the accounts of the Company and its 62 significant (59 in 2021) subsidiaries (collectively, the "Companies").

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

The excess of the cost of acquisition over the fair value of the net assets of an acquired subsidiary at the date of acquisition is amortized over a period not exceeding 10 years.

Investments in 0 (1 in 2021) unconsolidated subsidiary and 8 (7 in 2021) associated companies are accounted for by the equity method.

Investments in the remaining unconsolidated subsidiaries and associated companies are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Companies and associated companies accounted for by the equity method has been 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 in principle be unified for the preparation of the consolidated financial statements. However, financial statements prepared by foreign subsidiaries in accordance with either IFRS or generally accepted accounting principles in the United States of America (Financial Accounting Standards Board Accounting Standards Codification) tentatively may be used for the consolidation process, except for the following items that should be adjusted in the consolidation process so that net profit is accounted for in accordance with Japanese GAAP, unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been recorded in equity through other comprehensive income; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model of accounting for property, plant and equipment and investment properties and incorporation of the cost model of accounting; and (e) recording a gain or loss through profit or loss on the sale of an investment in an equity instrument for the difference between the acquisition cost and selling price, and recording impairment loss through profit or loss for other-than-temporary declines in the fair value of an investment in an equity instrument, where a foreign subsidiary elects to present in other comprehensive income subsequent changes in the fair value of an investment in an equity instrument.

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

d. **Business Combinations –** Business combinations are accounted for using the purchase method. Acquisition-related costs, such as advisory fees or professional fees, are accounted for as expenses in the periods in which the costs are incurred. If the initial accounting for a business combination is incomplete by the end of the reporting period in which the business combination occurs, an acquirer shall report in its financial statements provisional amounts for the items for which the accounting is incomplete. During the measurement period, which shall not exceed one year from the acquisition, the acquirer shall retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and that would have affected the measurement of the amounts recognized as of that date. Such adjustments shall be recognized as if the accounting for the business combination had been completed at the acquisition date. 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 non-controlling 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 non-controlling interest is adjusted is accounted for as capital surplus as long as the parent retains control over its subsidiary.

e. **Cash Equivalents –** Cash equivalents are short-term investments that are readily convertible into cash and exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificates of deposit, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

f. **Securities and Investment Securities –** Securities and investment securities are classified and accounted for, depending on management's intent, as follows: (1) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings;

(2) held-to-maturity debt securities, for which there is a positive intent and ability to hold to maturity, are reported at amortized cost; and

(3) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported as a separate component of equity. Nonmarketable available-for-sale securities are stated at cost determined by the moving-average method.

All of the Companies' securities are classified as available-for-sale securities.

For other-than-temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

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

h. **Property, Plant and Equipment –** Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method, while the straight-line method is applied to buildings acquired on or after April 1, 1998, building improvements and structures acquired on or after April 1, 2016, and leased assets of the Company. Consolidated foreign subsidiaries primarily apply the straight-line method to property, plant and equipment.

The range of useful lives is principally from 3 to 75 years for buildings and structures and from 4 to 15 years for machinery and equipment. The useful lives for leased assets are the terms of the respective leases. Property, plant and equipment are carried at cost, less gains deferred on the sale and replacement of certain assets.

i. **Long-Lived Assets –** The Companies review their 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.

j. Retirement and Pension Plans – The Company has lump-sum severance payment and defined benefit plans. Certain consolidated subsidiaries have lump-sum severance payment plans, defined benefit plans and defined contribution plans for employees. Additionally, the Company has a "Retirement Benefit Trust."

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 from the Company or from certain consolidated subsidiaries and annuity payments from a trustee. Employees are entitled to larger payments if the termination is involuntary, by retirement at the mandatory retirement age, by death, or by voluntary retirement at certain specific ages prior to the mandatory retirement age.

The Company and certain subsidiaries account for the retirement benefit liability 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 are amortized on a straight-line basis over 10 years. Prior service cost is amortized on a straight-line basis over a period within the average remaining years of service of the employees (5 years).

Because certain subsidiaries are classified as small enterprises, the simplified method (the amount which would be required to be paid if all active employees voluntarily terminated their employment as of the balance sheet date) is applied for the calculation of the retirement benefit obligation of the subsidiaries.

Certain domestic subsidiaries record retirement allowances for directors and corporate auditors to state the liability at the amount that would be required if all directors and corporate auditors retired at each balance sheet date. Amounts payable to directors and corporate auditors upon retirement are subject to the approval of shareholders.

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 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. Revenue Recognition – The Companies recognize revenue in accordance with an amount that reflects the consideration to which it expects to be entitled in exchange for the transfer of products or services 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

Sales is recognized at the following timing. For domestic sales, revenue is recognized at the time of shipment as mainly, significant risks and economic value associated with the product is transferred to the customer and the Companies become entitled to receive payment. For export sales, revenue is recognized at the time of delivery in accordance with the trade terms set forth in Incoterms as substantial ownership of products and significant risks are transferred to the customer and the Companies become entitled to receive payment. Revenue from the sale of these products is measured at a price based on the consideration promised in a contract with a customer, less discounts, rebates, etc. The consideration for the transaction does not include a significant financial factors as it is received within one year of satisfaction of the performance obligation.

m. 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 statements of income to the extent that they are not hedged by forward exchange contracts.

n. 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.

Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

Differences arising from such translation are shown as "Foreign currency translation adjustments" under accumulated other comprehensive income in a separate component of equity.

o. Leases – Finance lease transactions are capitalized by recognizing lease assets and lease obligations in the balance sheet. All other leases are accounted for as operating leases.

p. Research and Development Costs – Research and development costs are charged to income as incurred and included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES."

q. 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 bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

r. Derivatives and Hedging Activities – The Companies use derivative financial instruments to manage their exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts, interest rate swaps and foreign currency swaps are utilized by the Companies to reduce foreign currency exchange and interest rate risks. The Companies do 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 statements 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 those derivatives are deferred until maturity of the hedged transactions.

Interest rate swaps are utilized to hedge interest rate exposures of long-term borrowings. Swaps that qualify for hedge accounting are measured at market value at the balance sheet date, and unrealized gains or losses are deferred until maturity and included in other liabilities or assets.

s. Provision for Environmental Measures – The provision for environmental measures is based on estimated future cost of environmental measures such as soil improvement work.

t. Per Share Information – Basic net profit per share is computed by dividing net profit attributable to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

Diluted net profit per share is not disclosed because the Company has no securities or warrants that may cause an additional issue of common shares.

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

u. Accounting Changes and Error Corrections – Under ASBJ Statement No. 24, "Accounting Standard for Accounting Changes and Error Corrections" and ASBJ Guidance No. 24, "Guidance on Accounting Standard for Accounting Changes and Error Corrections," accounting treatments are required as follows: (1) Changes in Accounting Policies – When a new accounting policy is applied following revision of an accounting standard, the new policy is applied retrospectively unless the revised accounting standard includes specific transitional provisions, in which case the entity shall comply with the specific transitional provisions.

(2) Changes in Presentation – When the presentation of financial statements is changed, prior-period financial statements are reclassified in accordance with the new presentation.

(3) Changes in Accounting Estimates – A change in an accounting estimate is accounted for in the period of the change if the change affects that period only, and is accounted for prospectively if the change affects both the period of the change and future periods.

(4) Corrections of Prior-Period Errors – When an error in prior-period financial statements is discovered, those statements are restated.

3. ADDITIONAL INFORMATION

The Company and some of its domestic subsidiaries will transfer from a stand-alone tax system to a Japanese Group Relief System beginning in the next consolidated fiscal year. For accounting and disclosure related to tax effect accounting for corporate and local income taxes, the PITF No. 42, "Practical Solution on the Accounting and Disclosure Under the Group Tax Sharing System" was applied from the end of fiscal year ended March 31, 2022.

4. SIGNIFICANT ACCOUNTING ESTIMATE

Valuation of assets belonging to Healthcare business

(1) Amount recorded in the consolidated financial statements

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Property, plant and equipment	¥ 17,760	¥ 9,296	$ 76,196
Impairment loss		8,385	68,729

(2) Information on the significant accounting estimate

The Company owns assets of Healthcare business such as production facility to operate the related business.

The Company writes down the book value of assets or asset groups for which there is an indication of impairment to the recoverable amount, which is the higher value in use or the net selling price, and records the decreased amount as an impairment loss if total undiscounted future cash flows are less than the carrying amounts.

The recognition and measurement of impairment losses are based on significant assumptions and estimates such as future sales volume, sales prices, raw material prices, growth rate and discount rate which are the basis of the business plan in the calculation of undiscounted future cash flows and recoverable amount.

If the conditions or assumptions on which these estimates are based changes, additional impairment losses may need to be recorded in the consolidated financial statements in the following fiscal year.

5. ACCOUNTING CHANGE

Effective April 1, 2021, the Companies adopted ASBJ Statement No. 29, "Accounting Standard for Revenue Recognition," and ASBJ Guidance No. 30, "Implementation Guidance on Accounting Standard for Revenue Recognition," issued on March 31, 2020 ("ASBJ Statement No. 29") and recognized revenue at the amount expected to be received in exchange for promised goods or services when control of the goods or services is transferred to customers. As a result, "Net sales" decreased by ¥7,969 million, "Cost of sales" decreased by ¥7,173 million, and "Operating Profit," "Ordinary profit" and "Profit before income taxes" decreased by ¥796 million. In addition, "Retained earnings" at the beginning of the fiscal year ended March 31, 2022, decreased by ¥26 million.

Effective April 1, 2021, the Companies applied ASBJ Statement No. 30, "Accounting Standard for Fair Value Measurement" and ASBJ Guidance No. 31, "Implementation Guidance on Accounting Standard for Fair Value Measurement," and revised related ASBJ Statements and ASBJ Guidance (the "New Accounting Standards"). Under the New Accounting Standards, nonmarketable available-for-sale equity securities are stated at cost, while under the previous accounting standards, nonmarketable available-for-sale securities are stated at cost. The Companies applied the New Accounting Standards prospectively. These changes had no impact on the consolidated financial statements.

6. SECURITIES AND INVESTMENT SECURITIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Current:			
Government and corporate bonds	¥ 709	¥ 2,398	$ 19,655
Non-current:			
Equity securities	¥ 68,811	¥ 68,468	$ 561,213
Government and corporate bonds	2,394		
Other	356	483	3,959
Total	¥ 71,562	¥ 68,951	$ 565,172

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

	Millions of Yen			
	2022			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 15,077	¥ 52,328	¥ (261)	¥ 67,144
Debt securities	2,400		(2)	2,398

	Millions of Yen			
	2021			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 15,483	¥ 52,000	¥ (8)	¥ 67,475
Debt securities	3,102	1	(8)	3,095

	Thousands of U.S. Dollars			
	2022			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 123,581	$ 428,918	$ (2,139)	$ 550,360
Debt securities	19,672		(16)	19,655

Securities whose fair values are not readily determinable as of March 31, 2022 and 2021, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Available-for-sale:			
Equity securities	¥ 1,336	¥ 1,323	$ 10,844
Debt securities	8		
Other	356	483	3,959
Total	¥ 1,701	¥ 1,807	$ 14,811

Proceeds from sales of available-for-sale securities for the years ended March 31, 2022 and 2021, were ¥2,809 million ($23,024 thousand) and ¥5,048 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, for the years ended March 31, 2022 and 2021 were ¥1,664 million ($13,639 thousand) and ¥3,182 million, respectively.

7. INVENTORIES

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Finished products	¥ 50,579	¥ 70,187	$ 575,303
Semi-finished products and work in process	18,234	21,035	172,418
Raw materials and supplies	39,845	50,780	416,229
Total	¥108,659	¥142,002	$ 1,163,950

8. INVESTMENT PROPERTY

The Companies own certain rental properties such as land and buildings in Osaka and other areas. Rental income for the years ended March 31, 2022 and 2021, were ¥490 million ($4,016 thousand) and ¥471 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, 2021	Increase/(Decrease)	March 31, 2022	March 31, 2022
¥ 2,455	¥ 228	¥ 2,684	¥ 19,103

Millions of Yen			
Carrying Amount			Fair Value
April 1, 2020	Increase/(Decrease)	March 31, 2021	March 31, 2021
¥ 2,689	¥ (233)	¥ 2,455	¥ 18,172

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2021	Increase/(Decrease)	March 31, 2022	March 31, 2022
$ 20,122	$ 1,868	$ 22,000	$ 156,581

Notes:
1) Increase and decrease of items related to rental properties are not disclosed for these fiscal years ended March 31, 2022 and 2021 due to insignificance.
2) Carrying amount recognized in the consolidated balance sheets is net of accumulated depreciation and accumulated impairment losses, if any.
3) Fair values of properties as of March 31, 2022 and 2021, are measured by the Companies in accordance with the Real-Estate Appraisal Standard.

9. SHORT-TERM BORROWINGS AND LONG-TERM BORROWINGS

Short-term borrowings were principally represented by bank overdrafts. Weighted-average annual interest rate of short-term borrowings at March 31, 2022 and 2021, were 0.43% and 0.81%, respectively.

Long-term borrowings at March 31, 2022 and 2021, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
1.05% bonds due 2023	¥ 10,000	¥ 10,000	$ 81,967
0.14% bonds due 2022	10,000	10,000	81,967
0.23% bonds due 2024	10,000	10,000	81,967
0.37% bonds due 2027	10,000	10,000	81,967
4.00% bonds due 2022	3	3	24
0.08% bonds due 2023	20,000	20,000	163,934
0.16% bonds due 2025	20,000	20,000	163,934
0.38% bonds due 2027	30,000	30,000	245,901
0.50% bonds due 2030	30,000	30,000	245,901
Unsecured loans from banks and other financial institutions, due through 2030, with interest rates ranging from 0.16% to 9.00% for 2022 (from 0.16% to 9.00% for 2021)	120,572	118,301	969,680
Total	260,575	258,304	2,117,245
Less current portion	(5,003)	(22,275)	(182,581)
Long-term borrowings, less current portion	¥ 255,572	¥ 236,029	$ 1,934,663

At March 31, 2022, annual maturities of long-term borrowings were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2023	¥ 22,275	$ 182,581
2024	41,412	339,442
2025	20,494	167,983
2026	29,853	244,696
2027	3,650	29,918
2028 and thereafter	140,618	1,152,606
Total	¥ 258,304	$ 2,117,245

10. FINANCIAL COVENANTS

The Company signed a syndicated loan agreement on February 22, 2021, with Sumitomo Mitsui Banking Corporation and MUFG Bank, Ltd. as the lead arrangers.

This agreement has following financial covenants.

(1) The total amount of the shareholders' equity stated in the consolidated balance sheets as of end of fiscal year ended March 31, 2022 and end of each fiscal year thereafter shall be maintained at least the amount equivalent to 75% of the total amount of the shareholders' equity stated in the consolidated balance sheets as of end of each previous fiscal year.

(2) No operating loss shall be recorded two consecutive years in the consolidated statements of income as of the end of each fiscal year.

The amount of borrowing as of the fiscal year ended March 31, 2022 is as follows. There are no current portion of long-term borrowings included as of March 31, 2022.

Long-term borrowings ¥50,000 million ($409,836 thousand)

11. RETIREMENT AND PENSION PLANS

(1) The changes in defined benefit obligation (except for cases where the simplified method was applied) for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Balance at beginning of year	¥ 38,826	¥ 39,458	$ 323,426
Current service cost	1,943	1,850	15,163
Interest cost	218	214	1,754
Actuarial losses	210	(235)	(1,926)
Benefits paid	(1,915)	(2,593)	(21,254)
Others	174	260	2,131
Balance at end of year	¥ 39,458	¥ 38,954	$ 319,295

(2) The changes in plan assets (except for cases where the simplified method was applied) for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Balance at beginning of year	¥ 37,470	¥ 42,858	$ 351,295
Expected return on plan assets	424	484	3,967
Actuarial gains	4,091	194	1,590
Contributions from employer	1,781	1,781	14,598
Benefits paid	(1,043)	(957)	(7,844)
Others	134	189	1,549
Balance at end of year	¥ 42,858	¥ 44,551	$ 365,172

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Balance at beginning of year	¥ 3,401	¥ 3,542	$ 29,032
Retirement benefit cost	313	320	2,622
Benefits paid	(300)	(336)	(2,754)
Contributions from employer	(41)	(62)	(508)
Others	169	71	581
Balance at end of year	¥ 3,542	¥ 3,534	$ 28,967

(4) Reconciliation between the net liability recorded in the consolidated balance sheet and the balances of defined benefit obligation and plan assets for the years ended March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Funded defined benefit obligation	¥ 39,483	¥ 39,047	$ 320,057
Plan assets	(43,516)	(45,294)	(371,262)
	(4,032)	(6,247)	(51,204)
Unfunded defined benefit obligation	4,175	4,185	34,303
Net liability arising from defined benefit obligation	¥ 142	¥ (2,062)	$ (16,901)

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Retirement benefit liability	¥ 7,923	¥ 6,623	$ 54,286
Retirement benefit asset	(7,781)	(8,686)	(71,196)
Net liability arising from defined benefit obligation	¥ 142	¥ (2,062)	$ (16,901)

Note: Including defined benefit obligation under the simplified method.

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Service cost	¥ 1,943	¥ 1,850	$ 15,163
Interest cost	218	214	1,754
Expected return on plan assets	(424)	(484)	(3,967)
Recognized actuarial losses	(170)	(792)	(6,491)
Past service cost	166	166	1,360
Amortization of transitional obligation	330	331	2,713
Balance at end of year	¥ 2,063	¥ 1,285	$ 10,532

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Prior service cost	¥ 166	¥ 166	$ 1,360
Actuarial losses	3,684	(378)	(3,098)
Total	¥ 3,850	¥ (211)	$ (1,729)

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Unrecognized prior service cost	¥ (498)	¥ (332)	$ (2,721)
Unrecognized actuarial losses	7,027	6,649	54,500
Total	¥ 6,528	¥ 6,316	$ 51,770

(8) Plan assets

a. Components of plan assets

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

	2021	2022
Debt investments	21%	20%
Equity investments	54	60
General accounts of insurance companies	8	8
Others	17	11
Total	100%	100%

Note: Total plan assets consisting of a Retirement Benefit Trust for the years ended March 31, 2022 and 2021, were 15% and 16%, respectively.

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

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

(9) Assumptions used for the years ended March 31, 2022 and 2021, were set forth as follows:

	2021	2022
Discount rate	0.5%	**0.6%**
Expected rate of return on plan assets	1.1%	**1.1%**
Lump-sum election rate	79.9%	**72.5%**

(10) The amount of contributions to defined contribution plans for subsidiaries for the years ended March 31, 2022 and 2021, were ¥772 million ($6,327 thousand) and ¥791 million, respectively.

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Retirement benefit liability" in the consolidated balance sheets. The amount were ¥89 million ($729 thousand) and ¥80 million at March 31, 2022 and 2021, respectively.

12. ASSET RETIREMENT OBLIGATIONS

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Balance at beginning of year	¥ 1,235	**¥ 1,268**	**$ 10,393**
Reconciliation associated with passage of time	6	**4**	**32**
Reduction associated with settlement of asset retirement obligations	(51)	**(11)**	**(90)**
Other	78	**189**	**1,549**
Balance at end of year	¥ 1,268	**¥ 1,450**	**$ 11,885**

13. EQUITY

Japanese companies are subject to the Companies Act of Japan (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 a Board of Corporate Auditors, 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. However, the Company does not meet 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 Share Capital, 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 share capital. 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 share capital, 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 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.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2022 and 2021. Foreign subsidiaries are subject to income tax of the countries in which they operate.

A reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2022 and 2021, was as follows:

	2021	2022
Normal effective statutory tax rate	31%	**31%**
Increase or decrease of valuation allowance	8	**2**
Different tax rate in foreign countries	(3)	**1**
Equity in earnings of associated companies	(2)	**(1)**
Amortization of goodwill	1	**0**
Tax credit primarily for research and development costs	(2)	**(3)**
Credit for foreign tax	(0)	**(0)**
Foreign exchange effect on foreign subsidiaries' retained earnings	2	**2**
Other – net	(2)	**(0)**
Actual effective tax rate	32%	**31%**

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Deferred tax assets:			
Accrued enterprise taxes	¥ 449	**¥ 425**	**$ 3,483**
Accrued bonuses	1,852	**2,144**	**17,573**
Retirement benefit liability	110		
Provision for environmental measures	59	**42**	**344**
Amount transferred to defined contribution pension plan	493	**239**	**1,959**
Investment securities	129	**849**	**6,959**
Tax loss carryforwards	2,246	**4,374**	**35,852**
Intercompany profits	2,107	**2,370**	**19,426**
Depreciation	4,469	**4,253**	**34,860**
Other	6,629	**5,693**	**46,663**
Less valuation allowance	(6,039)	**(7,104)**	**(58,229)**
Deferred tax assets	¥ 12,508	**¥ 13,289**	**$ 108,926**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥ 14,658	**¥ 14,973**	**$ 122,729**
Tax purpose reserves regulated by Japanese tax law	619	**590**	**4,836**
Undistributed earnings of foreign subsidiaries	8,246	**9,977**	**81,778**
Retirement benefit asset		**165**	**1,352**
Intangible fixed assets	562		
Other	584	**1,418**	**11,622**
Deferred tax liabilities	¥ 24,670	**¥ 27,125**	**$ 222,336**
Net deferred tax liabilities	¥ (12,162)	**¥ (13,836)**	**$ (113,409)**

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

	Millions of Yen						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	¥ 1,195	¥ 461	¥ 521	¥ 387	¥ 111	¥ 1,697	¥ 4,374
Less valuation allowances for tax loss carryforwards	(836)	(461)	(374)	(379)	(111)	(1,686)	(3,850)
Net deferred tax assets relating to tax loss carryforwards	358		146	7		11	524

	Thousands of U.S. Dollars						
March 31, 2022	1 Year or Less	After 1 Year through 2 Years	After 2 Years through 3 Years	After 3 Years through 4 Years	After 4 Years through 5 Years	After 5 Years	Total
Deferred tax assets relating to tax loss carryforwards	$ 9,795	$ 3,778	$ 4,270	$ 3,172	$ 909	$ 13,909	$ 35,852
Less valuation allowances for tax loss carryforwards	(6,852)	(3,778)	(3,065)	(3,106)	(909)	(13,819)	(31,557)
Net deferred tax assets relating to tax loss carryforwards	2,934		1,196	57		90	4,295

15. REVENUE

(1) Disaggregation of Revenue

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

	Millions of Yen							
	2022							
	Reportable Segment							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total
Geographical areas:								
Japan	¥ 6,944	¥ 27,811	¥ 15,698	¥ 51,464	¥ 90,783	¥ 192,702	¥ 11,271	¥ 203,974
China	3,254	248	25,557	5,288	58,050	92,400	0	92,401
Asia	2,960	3,959	8,082	36,111	44,936	96,051	7	96,059
Other	6,334	470	20,117	29,954	18,496	75,373	129	75,502
Revenues from contracts with customers	19,494	32,490	69,455	122,820	212,267	456,527	11,409	467,937
Other revenue								
Total	¥ 19,494	¥ 32,490	¥ 69,455	¥ 122,820	¥ 212,267	¥ 456,527	¥ 11,409	¥ 467,937

	Thousands of U.S. Dollars							
	2022							
	Reportable Segment							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total
Geographical areas:								
Japan	$ 56,918	$ 227,959	$ 128,672	$ 421,836	$ 744,122	$ 1,579,524	$ 92,385	$ 1,671,918
China	26,672	2,032	209,483	43,344	475,819	757,377	0	757,385
Asia	24,262	32,450	66,245	295,991	368,327	787,303	57	787,368
Other	51,918	3,852	164,893	245,524	151,606	617,811	1,057	618,868
Revenues from contracts with customers	159,786	266,311	569,303	1,006,721	1,739,893	3,742,024	93,516	3,835,549
Other revenue								
Total	$ 159,786	$ 266,311	$ 569,303	$ 1,006,721	$ 1,739,893	$ 3,742,024	$ 93,516	$ 3,835,549

(a) Medical/Healthcare

In the Medical/Healthcare business, the Companies manufacture and sell cosmetic raw materials, nutritional supplements, chiral columns and others, and their customers are mainly users of their products.

For sales of products, revenues are recognized at the time of delivery of the product since the significant risks and economic value associated with the product are transferred to the customer and the Companies become entitled to receive payment. For domestic sales, revenues are recognized at the time of shipment if the period of the time, when from the shipment to the control of the product is transferred to the customer, is normal. Revenues from the sale of these products are measured at the transaction price based on the contract with the customer. The consideration for the transaction is received within one year since satisfaction of the performance obligation and does not include a significant financial factors.

(b) Smart

In the Smart business, the Companies manufacture and sell cellulose acetate (for optical films for LCD), high-performance optical films, solvents for electronic materials and others, and their customers are mainly users of their products.

For sales of products, revenues are recognized at the time of delivery of the product since the significant risks and economic value associated with the product are transferred to the customer and the Companies become entitled to receive payment. For domestic sales, revenues are recognized at the time of shipment if the period of the time, when from the shipment to the control of the product is transferred to the customer, is normal. Revenues from the sale of these products are measured at the transaction price based on the contract with the customer. The consideration for the transaction is received within one year since satisfaction of the performance obligation and does not include a significant financial factors.

(c) Safety

In the Safety business, the Companies manufacture and sell automobile airbag inflators and others, and their customers are mainly users of their products.

For sales of products, revenues are recognized at the time of delivery of the product since the legal ownership of products, physical possession, significant risks and economic value associated with the product are transferred to the customer and the Companies become entitled to receive payment. For domestic sales, revenues are recognized at the time of shipment if the period of the time, when from the shipment to the control of the product is transferred to the customer, is normal. Revenues from the sale of these products are measured at the transaction price based on the contract with the customer. The consideration for the transaction is received within one year since satisfaction of the performance obligation and does not include a significant financial factors.

(d) Materials

In the Materials business, the Companies manufacture and sell acetate tow, acetic acid and derivatives, caprolactone derivatives, alicyclic-epoxy-resin and others, and their customers are mainly users of their products.

For sales of products, revenues are recognized at the time of delivery of the product since the legal ownership of products, physical possession, significant risks and economic value associated with the product are transferred to the customer and the Companies become entitled to receive payment. For domestic sales, revenues are recognized at the time of shipment if the period of the time, when from the shipment to the control of the product is transferred to the customer, is normal. Revenues from the sale of these products are measured at the transaction price based on the contract with the customer. The consideration for the transaction is received within one year since satisfaction of the performance obligation and does not include a significant financial factors.

(e) Engineering Plastics

In the Engineering Plastics business, the Companies manufacture and sell polyacetal (POM), ABS, engineering plastic alloy resins and others, and their customers are mainly users of their products.

For sales of products, revenues are recognized at the time of delivery of the product since the legal ownership of products, physical possession, significant risks and economic value associated with the product are transferred to the customer and the Companies become entitled to receive payment. For domestic sales, revenues are recognized at the time of shipment if the period of the time, when from the shipment to the control of the product is transferred to the customer, is normal. Revenues from the sale of these products are measured at the transaction price based on the contract with the customer. The consideration for the transaction is received within one year since satisfaction of the performance obligation and does not include a significant financial factors.

(2) Contract Balances

Receivables from contract with customers and contract liabilities at the end of the year are as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Receivables from contracts with customers	¥ 102,562	$ 840,672
Contract liabilities	2,669	21,877

(3) Transaction Prices Allocated to Remaining Performance Obligations

As the Companies has no material transactions with individual expected contract terms exceeding one year, the practical expedient method is used and information on residual performance obligations is omitted.

In addition, there are no material amounts of consideration arising from contracts with customers that are not included in the transaction price.

16. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥20,741 million ($170,008 thousand) and ¥19,540 million for the years ended March 31, 2022 and 2021, respectively.

17. MAJOR ITEMS OF SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

"SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" includes the following major items and amounts:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Freight and packing costs	¥ 16,322	¥ 21,200	$ 173,770
Salaries and allowances	19,473	20,695	169,631
Retirement benefit expense	970	638	5,229
Research and development costs	18,567	19,667	161,204

18. NET PROFIT PER SHARE

The computation of net profit per common share is based on the weighted-average number of shares outstanding. The weighted-average number of common shares in the computation were 300,115,425 and 302,448,286 for the years ended March 31, 2022 and 2021, respectively.

19. LEASES

The Companies lease certain machinery, computer equipment, office space and other assets.
Future minimum payments under noncancelable operating leases were as follows:

	Operating Leases		
	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Due within one year	¥ 366	¥ 273	$ 2,237
Due after one year	1,760	1,627	13,336
Total	¥ 2,127	¥ 1,901	$ 15,581

20. FINANCIAL INSTRUMENTS AND RELATED DISCLOSURES

(1) Group Policy for Financial Instruments

The Companies use financial instruments, mainly long-term borrowings including bank loans and bonds, based on their capital financing plan. Cash surpluses, if any, are invested in low risk financial assets. Short-term borrowings are used to fund 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. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Securities and investment securities, mainly held-to-maturity securities and equity instruments of customers and suppliers of the Company, are exposed to the risk of market price fluctuations.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are netted against the balance of receivables denominated in the same foreign currency as noted above.

Maturities of bank loans, convertible bonds and lease obligation are less than eight years and nine months from the balance sheet date. Although a part of such bank loans, convertible bonds and lease obligation are exposed to market risks from changes in variable interest rates, those risks are mitigated by using interest rate swaps.

Derivatives consist primarily of forward foreign currency contracts and interest rate swaps which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables and from changes in interest rates of bank loans and convertible bonds. Please see Note 21 for more details on derivatives.

(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 Company manages its credit risk from receivables based on 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. With respect to held-to-maturity financial investments, the Company manages its exposure to credit risk by limiting its funding to high credit rating bonds in accordance with its internal guidelines. Please see Note 21 for details regarding derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2022.

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

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk is hedged principally by forward foreign currency contracts. In addition, when foreign currency trade receivables and payables are expected from a forecasted transaction, a forward foreign currency contract may be used under the limited contract term of half year.

Interest rate swaps are used to manage exposure to market risks from changes in interest rates of loan payables and bond payables.

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

Basic principles of derivative transactions have been approved by management on a semiannual basis based on the internal guidelines which prescribe the authority and the limit for each transaction by the corporate treasury department. Transaction and balances with customers are reconciled, and the transaction data is reported to the chief financial officer and the management on a monthly basis.

Liquidity risk management

Liquidity risk includes the risk that the Company cannot meet its contractual obligations in full on maturity dates. The Company manages its liquidity risk by holding an adequate volume of liquid assets, along with adequate financial planning by the corporate treasury department.

(4) Fair Values of Financial Instruments

Fair values of financial instruments are as follows:
Investments in equity instruments that do not have a quoted market price in an active market are not included in the following table. The fair values of cash and cash equivalents are not disclosed because their maturities are short and the carrying values approximate fair value. Also, please see Note 21 for more detail about fair values of derivatives.

(a) Fair value of financial instruments

March 31, 2022	Millions of Yen Carrying Amount	 Fair Value	 Unrealized Gain/(Loss)
Securities	¥ 2,398	¥ 2,398	¥
Investment securities	67,144	67,144	
Total	¥ 69,543	¥ 69,543	¥
Long-term borrowings	¥ 258,304	¥ 257,659	¥ (645)
Total	¥ 258,304	¥ 257,659	¥ (645)

March 31, 2021	Millions of Yen Carrying Amount	 Fair Value	 Unrealized Gain/(Loss)
Securities	¥ 709	¥ 709	¥
Investment securities	69,861	69,861	
Total	¥ 70,570	¥ 70,570	¥
Long-term borrowings	¥ 260,575	¥ 261,179	¥ (603)
Total	¥ 260,575	¥ 261,179	¥ (603)

March 31, 2022	Thousands of U.S. Dollars Carrying Amount	 Fair Value	 Unrealized Gain/(Loss)
Securities	$ 19,655	$ 19,655	$
Investment securities	550,360	550,360	
Total	$ 570,024	$ 570,024	$
Long-term borrowings	$ 2,117,245	$ 2,111,959	$ (5,286)
Total	$ 2,117,245	$ 2,111,959	$ (5,286)

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

March 31, 2022	Carrying Amount Millions of Yen	 Thousands of U.S. Dollars
Investments in equity instruments that do not have a quoted market price in an active market	¥ 6,102	$ 50,016

March 31, 2021	Carrying Amount Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥ 5,490

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

March 31, 2022	Millions of Yen Due in 1 Year or Less	 Due after 1 Year through 5 Years	 Due after 5 Years through 10 Years	 Due after 10 Years
Cash and cash equivalents	¥ 87,986			
Receivables	106,911			
Securities and investment securities:				
Government bonds				
Corporate bonds	2,400	¥	¥	¥
Total	¥ 197,298	¥	¥	¥

March 31, 2021	Millions of Yen Due in 1 Year or Less	 Due after 1 Year through 5 Years	 Due after 5 Years through 10 Years	 Due after 10 Years
Cash and cash equivalents	¥ 90,747			
Receivables	95,802			
Securities and investment securities:				
Government bonds	8			
Corporate bonds	700	¥ 2,400	¥	¥
Total	¥ 187,259	¥ 2,400	¥	¥

March 31, 2022	Thousands of U.S. Dollars Due in 1 Year or Less	 Due after 1 Year through 5 Years	 Due after 5 Years through 10 Years	 Due after 10 Years
Cash and cash equivalents	$ 721,196			
Receivables	876,319			
Securities and investment securities:				
Government bonds				
Corporate bonds	19,672	$	$	$
Total	$ 1,617,196	$	$	$

Please see Note 9 for annual maturities of long-term borrowings.

(6) Financial Instruments Categorized by Fair Value Hierarchy

The fair value of financial instruments is categorized into the following three levels, depending on the observability and significance of the inputs used in making fair value measurements:

Level 1: Fair values measured by using quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Fair values measured by using inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly or indirectly.

Level 3: Fair values measured by using unobservable inputs for the assets or liabilities.

If multiple inputs are used that have a significant impact on the measurement of fair value, fair value is categorized at the lowest level in the fair value measurement among the levels to which each of these inputs belongs.

The financial assets and liabilities measured at the fair values in the consolidated balance sheet

	Millions of Yen			
March 31, 2022	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Equity securities	¥ 66,030		¥ 1,113	¥ 67,144
Corporate bonds		¥ 2,398		2,398
Total assets	¥ 66,030	¥ 2,398	¥ 1,113	¥ 69,543
Corporate bonds		¥ 139,870		¥ 139,870
Long-term debt		117,789		117,789
Derivative transactions:				
Foreign currency forward contracts		954		954
Interest rate swaps		15		15
Total liabilities		¥ 258,630		¥ 258,630

	Thousands of U.S. Dollars			
March 31, 2022	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Equity securities	$ 541,229		$ 9,122	$ 550,360
Corporate bonds		$ 19,655		19,655
Total assets	$ 541,229	$ 19,655	$ 9,122	$ 570,024
Corporate bonds		$ 1,146,475		$ 1,146,475
Long-term debt		965,483		965,483
Derivative transactions:				
Foreign currency forward contracts		7,819		7,819
Interest rate swaps		122		122
Total liabilities		$ 2,119,918		$ 2,119,918

The following is a description of valuation methodologies and inputs used for measurement of the fair value of assets and liabilities:

Marketable and Investment Securities

The fair values of listed equity securities and corporate bonds are measured at the quoted market prices. Since listed equity securities are traded in active markets, the fair values of listed equity securities are categorized as Level 1. As the corporate bonds are not considered to be in active markets due to low market transactions, the fair values of corporate bonds are categorized as Level 2.

Derivatives

The fair values of interest rate swaps and foreign currency forward contracts are mainly measured by using the price quoted by the counterparty financial institution and are categorized as Level 2.

Corporate Bonds

The fair values of corporate bonds are mainly measured at the quoted market prices and are categorized as Level 2.

Long-Term Debt

The fair values of long-term debt are measured by using discounted present value techniques considering assumptions including expected future cash flows and discount rates taking into account maturity and credit risk, and are categorized as Level 2.

The schedule of financial instruments categorized as Level 3 is as follows:

	Millions of Yen	Thousands of U.S. Dollars
	2022	2022
Balance at the beginning of the year	¥ 1,926	$ 15,786
Purchases		
Sales or settlements		
Other comprehensive income (Note)	(812)	(6,655)
Net profit (loss)		
Balance at end of year	1,113	9,122

Notes: Related to financial instruments that are measured at fair value through other comprehensive income and are included in the net change in fair value of financial instruments measured through other comprehensive income. No significant transfers from Level 3 were made.

The information regarding the valuation method and significant unobservable inputs for financial instruments classified as Level 3, which are measured at fair value on a recurring basis, is as follows:

	Fair Value				
	Millions of Yen	Thousands of U.S. Dollars	Valuation Method	Unobservable Inputs	Range
Equity securities	¥ 1,113	$ 9,122	Market approach	EBITDA Ratio	x9.5
				Illiquidity discount	20.0%

The valuation policies and procedures for the fair value of unlisted equity securities are determined by outside experts, who determine the valuation method and measure the fair value of each financial instruments. Fair value measurement results are approved by the appropriate personnel in charge.

For financial instruments classified as Level 3, no significant increase or decrease in fair value is expected when unobservable inputs are changed to reasonably possible alternative assumptions.

21. DERIVATIVES

The Companies enter into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies. The Companies also enter into interest rate swap contracts to manage their interest rate exposures on certain liabilities.

All derivative transactions are entered into to hedge interest and foreign currency exposures incorporated within the Companies' businesses. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

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

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

Derivative Transactions to Which Hedge Accounting Is Not Applied

	Millions of Yen			
March 31, 2022	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	¥ 16,637		¥ (807)	¥ (807)
Selling Euro	4,161		(144)	(144)
Buying U.S.$	2,613		9	9
Buying Ringgit	369		(0)	(0)
Buying Japanese yen	2,305		(12)	(12)

	Millions of Yen			
March 31, 2021	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	¥ 17,798		¥ (496)	¥ (496)
Selling Euro	3,719		(62)	(62)
Buying U.S.$	3,007		72	72
Buying Ringgit	383		(3)	(3)
Buying Japanese yen	417		(10)	(10)

	Thousands of U.S. Dollars			
March 31, 2022	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	$ 136,368		$ (6,614)	$ (6,614)
Selling Euro	34,106		(1,180)	(1,180)
Buying U.S.$	21,418		73	73
Buying Ringgit	3,024		(0)	(0)
Buying Japanese yen	18,893		(98)	(98)

Derivative Transactions to Which Hedge Accounting Is Applied

	Millions of Yen			
March 31, 2022	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term borrowings	¥ 3,231	¥	¥ (15)

	Millions of Yen			
March 31, 2021	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term borrowings	¥ 3,443	¥ 2,922	¥ (70)

	Thousands of U.S. Dollars			
March 31, 2022	Hedged Item	Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term borrowings	$ 26,483	$	$ (122)

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

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

22. RELATED PARTY DISCLOSURES

The Company had unsecured loans from Nippon Life Insurance Company, whose vice chairman has served as one of the directors of the Company since June 2020.

The balances due to Nippon Life Insurance Company at March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Long-term borrowings	¥ 6,400	¥ 6,000	$ 49,180
Current portion of long-term borrowings	400	400	3,278
Interest expense payable	4	3	24
Borrowing of funds	4,000		
Repayments of borrowings	400	400	3,278
Interest expenses paid	30	35	286

The interest rates of the loans were reasonably determined in accordance with market interest rates.

One of the Companies representative director and president who has served since June 2017 has close relatives who substantially preserve the majority of voting rights of SEIWA INDUSTRY CO., LTD.

The balance due to SEIWA INDUSTRY CO., LTD. at March 31, 2022 and 2021, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Trade accounts payables	¥ 0	¥ 0	$ 0
Purchase	22	20	$ 163

The transaction amount is determined on an arm's length basis.

23. MUNICIPAL GOVERNMENT SUBSIDIES

The Companies received various incentives from municipal governments in the form of subsidies for purchases of property, plant and equipment. Such subsidies were accounted for as income as received. Certain portion of the amount is charged to income and credited against the cost of property, plant and equipment when the property, plant and equipment subject to the subsidies are acquired.

24. IMPAIRMENT LOSS

The Companies has recognized impairments stated below for the year ended March 31, 2022.

As the profitability of the Healthcare business declined due to the deterioration of the cosmetics market environment on account of the impact of the COVID-19, the book value of the manufacturing facilities for cosmetic raw materials were written down to the recoverable amount and the decreased amounts were recorded as "Impairment losses" under extraordinary losses.

The goodwill of the consolidated subsidiary, Loma-pharm GmbH, was recorded based on its excess earning power at the time of stock acquisition. Due to the decline of its profitability, the entire unamortized balance was written down and the decreased amount was recorded as "Impairment losses" under extraordinary losses.

The recoverable values were determined based on value in use. The value in use for "Manufacturing facilities for cosmetic raw materials" was calculated by discounting future cash flow at a rate of 8.4%, and "Others" at 12.0%.

Location	Use	Classification	Millions of Yen	Thousands of U.S. Dollars
Japan (Himeji-shi, Hyogo)	Manufacturing facilities for cosmetic raw materials	Construction in progress	¥ 8,385	$ 68,729
—	Others	Goodwill	1,394	11,426
Others	Manufacturing facilities for automobile airbag inflators and others	Machinery and equipment	11	90
		Construction in progress	193	1,581
Total			¥ 9,985	$ 81,844

The Companies has recognized impairments stated below for the year ended March 31, 2021.

The mobility business has decided to reorganize production area of some of the product made in Japan and the United States of America to Thailand and China where more competitive. This reorganization will lead to recover of profitability as a global. However, this reorganization will decline the profitability in Japan and the United States of America as result of cutback in production.

Based on above, manufacturing facilities for automobile airbag inflators and gas generants stated below at Harima Plant and in the United States of America were written down to their recoverable value, and recorded the decreased amounts as "Impairment loss" under extraordinary losses as it was considered difficult to recover the investment amounts.

The recoverable values were measured at the net selling price which was based on the appraisal value of real estate.

The goodwill was considered difficult to achieve the expected revenue due to the reevaluation of the business plan of the consolidated subsidiary, PI-CRYSTAL, INC. Accordingly, the Company has written down the unamortized balance of goodwill which was based on excess earning power and recorded the decreased amount as "Impairment loss" under extraordinary losses.

Location	Use	Classification	Millions of Yen
Japan (Tatsuno-shi, Hyogo)	Manufacturing facilities for automobile airbag inflators and gas generants	Buildings and structures	¥ 2
		Machinery, equipment and vehicles	15
		Tools, furniture and fixtures	20
		Construction in progress	1,197
		Intangible assets and others	52
United States of America	Manufacturing facilities for automobile airbag inflators and gas generants	Construction in progress	304
—	Others	Goodwill	1,832
Others	Manufacturing facilities for packing containers and others	Buildings and structures	86
		Machinery, equipment and vehicles	150
		Tools, furniture and fixtures	19
		Construction in progress	101
		Intangible assets and others	2
Total			¥ 3,786

25. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2022, for guaranteed loans amounted to ¥126 million ($1,032 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

26. OTHER COMPREHENSIVE INCOME

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

	Millions of Yen		Thousands of U.S. Dollars
	2021	2022	2022
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥ 17,815	¥ 1,752	$ 14,360
Reclassification adjustments to profit or loss	(3,189)	(1,671)	(13,696)
Amount before income tax effect	14,625	81	663
Income tax effect	(4,268)	(152)	(1,245)
Total	¥ 10,357	¥ (71)	$ (581)
Deferred gains or losses on hedges:			
Adjustments arising during the year	¥ 6	¥ (4)	$ (32)
Reclassification adjustments to profit or loss	45	60	491
Amount before income tax effect	51	55	450
Income tax effect	(5)		
Total	¥ 46	¥ 55	$ 450
Foreign currency translation adjustments -			
Adjustments arising during the year	¥ 8,826	¥ 16,916	$ 138,655
Defined benefit plans:			
Adjustments arising during the year	¥ 3,854	¥ 413	$ 3,385
Reclassification adjustments to profit or loss	(3)	(625)	(5,122)
Amount before income tax effect	3,850	(211)	(1,729)
Income tax effect	(1,157)	118	967
Total	¥ 2,693	¥ (92)	$ (754)
Share of other comprehensive income of entities accounted for using equity method - Gains arising during the year	¥ 854	¥ 1,039	$ 8,516
Total other comprehensive income	¥ 22,779	¥ 17,847	$ 146,286

27. 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. Operating segments are components of the entity for which separate financial information is available that is utilized on a regular basis by the chief operating decision maker in determining how to allocate the entity's resources and evaluate its performance.

Segment Information

1. Description of Reportable Segments

The Companies engage in various fields of business and industries by providing products and services, which are categorized into the following segments:

Medical/Healthcare	Cosmetic raw materials, nutritional supplements, chiral columns and others
Smart	Cellulose acetate (for optical films for LCD), high-performance optical films, resist polymers forsemi-conductors, solvents for electronic materials and others
Safety	Automobile airbag inflators, Pyro-Fuses and others
Materials	Acetic acid and derivatives, cellulose acetate (other than for optical films for LCD), acetate tow, caprolactone derivatives, alicyclic-epoxy-resin and others
Engineering Plastics	Polyacetal (POM), polybutylene terephthalate (PBT), liquid crystal polymer (LCP), ABS and engineering plastic alloy resins, various synthetic resin processed products and others
Others	Defense-related products, separation membrane modules for water treatment processes, transporta-tion warehousing and others

2. Methods of Measurement for the Amounts of Sales, Profit (Loss), 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."

3. Information about Sales, Profit (Loss), Assets, Liabilities and Other Items

Millions of Yen

	Reportable Segment									
Year Ended March 31, 2022	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥19,494	¥32,490	¥69,455	¥122,820	¥212,267	¥456,527	¥11,409	¥467,937		¥467,937
Intersegment sales or transfers	527	640		11,066	264	12,499	12,043	24,543	¥ (24,543)	
Total sales	¥20,021	¥33,131	¥69,455	¥133,887	¥212,531	¥469,027	¥23,453	¥492,481	¥ (24,543)	¥467,937
Segment profit	¥ 3,435	¥ 5,799	¥ 5,189	¥ 24,771	¥ 25,758	¥ 64,955	¥ 1,766	¥ 66,722	¥ (16,024)	¥ 50,697
Segment assets	27,424	27,101	75,411	163,792	225,326	519,056	14,155	533,212	165,624	698,836
Depreciation	1,388	1,972	5,029	9,046	7,000	24,437	589	25,027	1,921	26,948
Investments in associated companies				10,180	3,056	13,236		13,236		13,236
Amortization of goodwill	204		500			705		705		705
Increase in property, plant and equipment	1,017	2,929	7,688	18,800	7,357	37,793	783	38,577	2,263	40,840

Millions of Yen

	Reportable Segment									
Year Ended March 31, 2021	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥16,209	¥24,701	¥67,218	¥104,203	¥168,556	¥380,888	¥12,679	¥393,568		¥393,568
Intersegment sales or transfers	278	184		10,070	187	10,720	11,251	21,972	¥ (21,972)	
Total sales	¥16,488	¥24,885	¥67,218	¥114,273	¥168,743	¥391,609	¥23,930	¥415,540	¥ (21,972)	¥393,568
Segment profit	¥ 1,561	¥ 3,412	¥ 2,231	¥ 17,921	¥ 21,172	¥ 46,299	¥ 1,482	¥ 47,782	¥ (16,058)	¥ 31,723
Segment assets	35,214	24,145	90,552	153,895	174,149	477,956	17,039	494,995	145,390	640,385
Depreciation	1,384	1,580	4,721	9,026	6,939	23,651	481	24,133	1,697	25,830
Investments in associated companies				8,720	2,541	11,262		11,262		11,262
Amortization of goodwill	242	366	472			1,081		1,081		1,081
Increase in property, plant and equipment	8,657	2,030	8,786	11,598	7,082	38,155	579	38,734	820	39,555

Thousands of U.S. Dollars

	Reportable Segment									
Year Ended March 31, 2022	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	$159,786	$266,311	$569,303	$1,006,721	$1,739,893	$3,742,024	$ 93,516	$3,835,549		$3,835,549
Intersegment sales or transfers	4,319	5,245		90,704	2,163	102,450	98,713	201,172	$ (201,172)	
Total sales	$164,106	$271,565	$569,303	$1,097,434	$1,742,057	$3,844,483	$192,237	$4,036,729	$ (201,172)	$3,835,549
Segment profit	$ 28,155	$47,532	$42,532	$ 203,040	$ 211,131	$ 532,418	$ 14,475	$ 546,901	$ (131,344)	$ 415,549
Segment assets	224,786	222,139	618,122	1,342,557	1,846,934	4,254,557	116,024	4,370,590	1,357,573	5,728,163
Depreciation	11,377	16,163	41,221	74,147	57,377	200,303	4,827	205,139	15,745	220,885
Investments in associated companies				83,442	25,049	108,491		108,491		108,491
Amortization of goodwill	1,672		4,098			5,778		5,778		5,778
Increase in property, plant and equipment	8,336	24,008	63,016	154,098	60,303	309,778	6,418	316,204	18,549	334,754

(Notes)
1. (1) The unallocated corporate expenses included in "Reconciliations" amounted to ¥16,024 million ($131,344 thousand) and ¥16,058 million for the years ended March 31, 2022 and 2021, respectively, which consisted mainly of expenses of administrative departments, basic research department and others.
   (2) The unallocated corporate assets included in "Reconciliations" amounted to ¥168,919 million ($1,384,581 thousand) and ¥146,304 million for the years ended March 31, 2022 and 2021, respectively, which consisted mainly of cash and cash equivalents, investment securities, and corporate properties held or used by the administrative departments, basic research departments and others. The elimination of intersegment transactions such as receivables also included in "Reconciliations" amounted to ¥3,294 million ($27,000 thousand) and ¥914 million for the years ended March 31, 2022 and 2021, respectively.
   (3) The unallocated depreciation and increase in property, plant and equipment were related to the administrative departments, basic research departments and others.
2. The aggregated amounts of operating profit were equal to those in the consolidated statements of income.

Related Information

1. Information about Products and Services

Millions of Yen

	2022						
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	¥ 19,494	¥ 32,490	¥ 69,455	¥ 122,820	¥ 212,267	¥ 11,409	¥ 467,937

Millions of Yen

	2021						
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	¥ 16,209	¥ 24,701	¥ 67,218	¥ 104,203	¥ 168,556	¥ 12,679	¥ 393,568

Thousands of U.S. Dollars

	2022						
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	$ 159,786	$ 266,311	$ 569,303	$ 1,006,721	$ 1,739,893	$ 93,516	$ 3,835,549

2. Information about Geographical Areas

(1) Sales

Millions of Yen				
2022				
	Asia			
Japan	China	Other	Other	Total
¥ 203,974	¥ 92,401	¥ 96,059	¥ 75,502	¥ 467,937

Millions of Yen				
2021				
	Asia			
Japan	China	Other	Other	Total
¥ 174,706	¥ 73,951	¥ 78,959	¥ 65,950	¥ 393,568

Thousands of U.S. Dollars				
2022				
	Asia			
Japan	China	Other	Other	Total
$ 1,671,918	$ 757,385	$ 787,368	$ 618,868	$ 3,835,549

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

(2) Property, Plant and Equipment

Millions of Yen					
2022					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 151,676	¥ 28,002	¥ 15,943	¥ 17,870	¥ 16,350	¥ 229,843

Millions of Yen					
2021					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥ 149,737	¥ 25,439	¥ 15,891	¥ 13,697	¥ 14,954	¥ 219,720

Thousands of U.S. Dollars					
2022					
	Asia				
Japan	China	Malaysia	Other	Other	Total
$ 1,243,245	$ 229,524	$ 130,680	$ 146,475	$ 134,016	$ 1,883,959

3. Information on Impairment Loss for Each Reportable Segment

	Millions of Yen							
	2022							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	¥ 9,791	¥	¥ 193	¥	¥	¥	¥	¥ 9,985

	Millions of Yen							
	2021							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	¥	¥ 1,832	¥ 1,693	¥	¥ 260	¥	¥	¥ 3,786

	Thousands of U.S. Dollars							
	2022							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	$ 80,254	$	$ 1,581	$	$	$	$	$ 81,844

4. Information on Amortization and Balance of Goodwill for Each Reportable Segment

	Millions of Yen							
	2022							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥ 204	¥	¥ 500	¥	¥	¥	¥	¥ 705
Goodwill at March 31, 2022	363							363

	Millions of Yen							
	2021							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥ 242	¥ 366	¥ 472	¥	¥	¥	¥	¥ 1,081
Goodwill at March 31, 2021	1,916		493					2,410

	Thousands of U.S. Dollars							
	2022							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	$ 1,672	$	$ 4,098	$	$	$	$	$ 5,778
Goodwill at March 31, 2022	2,975							2,975

28. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2022, was approved at the shareholders' general meeting of the Company held on June 22, 2022:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥18 ($0.14) per share	¥ 5,322	$ 43,622

Dissolution of Overseas Consolidated Subsidiaries

The consolidated subsidiary, Daicel Safety Systems Korea, Inc. (hereinafter "DSSK"), has been resolved to be dissolve at the Board of Directors' meeting held on April 28, 2022.

(1) Background of the dissolution

DSSK has been manufacturing and selling automobile airbag inflators in South Korea, but since the start of commercial production in December 2013, it has been difficult to secure profits. The improvement of the business has been ongoing, but DSSK was decided to be dissolve at the Board of Directors' meeting as it was determined that resolving this situation will be extremely difficult.

(2) Outline of the subsidiary to be dissolved

Company name	Daicel Safety Systems Korea, Inc.	
Location	285, Yeongcheonsandan-ro, Geumho-eup, Yeongcheon-si, Gyeongsangbuk-do, 38899, Korea	
Representative	Representative of a board of directors, Yosuke Omae	
Business	Manufacture and sales of automotive airbag inflators	
Date of establishment	November 29, 2011	
Investment ratio	Daicel Corporation 100%	
Relationship between the listed company and the relevant company	Capital relationship	DSSK is a wholly-owned consolidated subsidiary of Daicel Corporation.
	Personal relationship	An employee of Daicel Corporation doubles as a representative of DSSK.
	Business relationship	Daicel Corporation sells products and raw materials to DSSK.

(3) Date of dissolution

The dissolution will be completed as soon as the required procedures pursuant to local laws are completed. However, specific dates have not been determined at the current moment.

(4) Effect of the dissolution on profit and loss

The impact of this dissolution on the consolidated performance is immaterial.

Regarding Unauthorized Access to an Overseas Consolidated Subsidiary

On April 12, 2022, it was confirmed that the consolidated subsidiary, Polyplastics Asia Pacific Sdn. Bhd., has received unauthorized access to its internal network by a third party. This was promptly reported to the local authorities. The system was cut off from the network that was illegally accessed and underwent an overhaul. On April 13, 2022, it was identified that this unauthorized access was caused by a ransomware (ransom demand virus) attack. The Companies will continue to work with specialized agencies to address this issue.

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