Daicel Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets as of March 31, 2023 and 2022, and the Consolidated Statements of Income, Comprehensive Income, Changes in Equity, and Cash Flows for the Year in the Period Ended March 31, 2023 and 2022

Daicel Corporation and Consolidated Subsidiaries

Consolidated Balance Sheets
March 31, 2023 and 2022

ASSETS	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT ASSETS:			
Cash and cash equivalents (Note 19)	¥ 93,493	¥ 87,986	$ 697,708
Securities (Notes 5 and 19)		2,398	
Receivables (Note 19):			
Trade notes	4,602	4,544	34,343
Trade accounts	96,639	97,234	721,186
Unconsolidated subsidiaries and associated companies	4,847	5,132	36,171
Allowance for doubtful accounts	(66)	(32)	(492)
Inventories (Note 6)	177,169	142,002	1,322,156
Other current assets	29,941	20,980	223,440
Total current assets	406,627	360,247	3,034,529
PROPERTY, PLANT AND EQUIPMENT (Notes 7 and 22):			
Land	35,639	31,660	265,962
Buildings and structures	181,794	176,710	1,356,671
Machinery and equipment	624,671	605,545	4,661,723
Construction in progress	75,803	60,279	565,694
Total	917,909	874,195	6,850,050
Accumulated depreciation	(661,778)	(644,352)	(4,938,641)
Net property, plant and equipment	256,130	229,843	1,911,417
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 19)	61,527	68,951	459,156
Investments in and advances to unconsolidated subsidiaries and associated companies (Note 19)	15,796	13,960	117,880
Deferred tax assets (Note 13)	2,425	2,474	18,097
Retirement benefit asset (Note 10)	7,648	8,686	57,074
Other assets	15,449	14,672	115,291
Total investments and other assets	102,848	108,745	767,522
TOTAL	¥ 765,606	¥ 698,836	$ 5,713,477

LIABILITIES AND EQUITY	Millions of Yen 2023	Millions of Yen 2022	Thousands of U.S. Dollars (Note 1) 2023
CURRENT LIABILITIES:			
Short-term bank borrowings (Notes 8 and 19)	¥ 66,267	¥ 22,198	$ 494,529
Current portion of long-term borrowings (Notes 8, 9, 19 and 21)	42,742	22,275	318,970
Payables (Notes 19 and 21):			
Trade notes	25	248	186
Trade accounts	56,111	60,475	418,738
Nontrade accounts	11,413	12,841	85,171
Construction	8,275	5,021	61,753
Unconsolidated subsidiaries and associated companies	1,215	1,464	9,067
Provision for environmental measures	-	14	-
Income taxes payable (Notes 13 and 19)	5,343	5,529	39,873
Other current liabilities	29,460	23,829	219,850
Total current liabilities	220,856	153,898	1,648,179
LONG-TERM LIABILITIES:			
Long-term borrowings (Notes 8, 9, 19 and 21)	208,823	236,029	1,558,380
Retirement benefit liability (Note 10)	4,807	6,713	35,873
Provision for environmental measures	122	125	910
Asset retirement obligations (Note 11)	1,170	1,255	8,731
Deferred tax liabilities (Note 13)	14,394	16,311	107,417
Other long-term liabilities	4,995	4,959	37,276
Total long-term liabilities	234,314	265,394	1,748,611
COMMITMENTS AND CONTINGENT LIABILITIES (Notes 18, 20 and 24)			
EQUITY (Notes 12 and 27):			
Share capital			
Common stock, authorized, 1,450,000,000 shares in 2023 and 2022; issued, 302,942,682 shares in 2023 and 2022	36,275	36,275	270,708
Capital surplus	132	14	985
Retained earnings	204,529	174,500	1,526,335
Treasury shares			
Treasury stock - at cost, 17,307,785 shares in 2023 and 7,234,296 shares in 2022	(15,716)	(6,090)	(117,283)
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	32,906	36,813	245,567
Deferred gains or losses on hedges	43	27	320
Foreign currency translation adjustments	33,519	25,966	250,141
Remeasurements of defined benefit plans	3,519	4,509	26,261
Total	69,988	67,317	522,298
Non-controlling interests	15,225	7,526	113,619
Total equity	310,435	279,544	2,316,679
TOTAL	¥ 765,606	¥ 698,836	$ 5,713,477

See notes to consolidated financial statements.

Daicel Corporation and Consolidated Subsidiaries

Consolidated Statements of Income
Years Ended March 31, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
NET SALES (Note 14)	¥ 538,026	¥ 467,937	$ 4,015,119
COST OF SALES (Notes 15 and 21)	392,214	329,329	2,926,970
Gross profit	145,811	138,607	1,088,141
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 15 and 16)	98,303	87,910	733,604
Operating profit	47,508	50,697	354,537
OTHER INCOME (EXPENSES):			
Interest and dividend income	3,975	2,907	29,664
Gain on sales of investment securities	4,208	1,664	31,402
Subsidies from municipal governments (Note 22)	513		3,828
Gain on sales of investments in capital of subsidiaries and associates	722		5,388
Share of profit of entities accounted for using equity method	2,335	1,950	17,425
Interest expense (Note 21)	(1,432)	(1,361)	(10,686)
Foreign exchange gain (loss)	(201)	1,685	(1,500)
Loss on retirement of non-current assets	(1,524)	(2,901)	(11,373)
Impairment loss (Note 23)		(9,985)	
Loss on liquidation of business	(548)		(4,089)
Reduction of cost of property, plant and equipment (Note 22)	(513)		(3,828)
Other – net	(75)	1,624	(559)
Other income (expenses) – net	7,458	(4,414)	55,656
PROFIT BEFORE INCOME TAXES	54,967	46,283	410,201
INCOME TAXES (Note 13):			
Current	13,055	12,630	97,425
Deferred	270	1,598	2,014
Total income taxes	13,326	14,229	99,447
NET PROFIT	41,641	32,053	310,753
NET PROFIT ATTRIBUTABLE TO NON-CONTROLLING INTERESTS	958	799	7,149
NET PROFIT ATTRIBUTABLE TO OWNERS OF THE PARENT	¥ 40,682	¥ 31,254	$ 303,597

	Yen		U.S. Dollars (Note 1)
	2023	2022	2023
PER SHARE INFORMATION (Notes 2.t and 17):			
Basic net profit	¥138.87	¥104.14	$1.03
Cash dividends applicable to the year	36.00	32.00	0.26

See notes to consolidated financial statements.

Daicel Corporation and Consolidated Subsidiaries

Consolidated Statements of Comprehensive Income
Years Ended March 31, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
NET PROFIT	¥41,641	¥32,053	$ 310,753
OTHER COMPREHENSIVE INCOME (LOSS) (Note 25):			
Valuation difference on available-for-sale securities	(3,910)	(71)	(29,179)
Deferred gains or losses on hedges	15	55	111
Foreign currency translation adjustments	7,579	16,916	56,559
Remeasurements of defined benefit plans	(942)	(92)	(7,029)
Share of other comprehensive income (loss) of entities accounted for using equity method	89	1,039	664
Total other comprehensive income (loss)	2,831	17,847	21,126
COMPREHENSIVE INCOME	¥44,473	¥49,901	$ 331,888
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Owners of the parent	¥43,353	¥48,364	$ 323,529
Non-controlling interests	1,119	1,536	8,350

See notes to consolidated financial statements.

Daicel Corporation and Consolidated Subsidiaries

Consolidated Statements of Changes in Equity
Years Ended March 31, 2023 and 2022

	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, 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, 2022	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
Net profit attributable to owners of the parent				40,682						40,682		40,682
Cash dividends, ¥36.00 per share				(10,653)						(10,653)		(10,653)
Restricted stock awards	445,750		(8)		375					366		366
Repurchase of treasury stock	(10,519,274)				(10,000)					(10,000)		(10,000)
Disposal of treasury stock	35		0		0							
Change in ownership interest of parent due to transactions with non-controlling interests			126							126		126
Net change in the year						(3,907)	15	7,553	(990)	2,671	7,699	10,370
BALANCE, MARCH 31, 2023	285,634,897	¥ 36,275	¥ 132	¥ 204,529	¥(15,716)	¥ 32,906	¥ 43	¥ 33,519	¥3,519	¥ 295,209	¥ 15,225	¥ 310,435

	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, 2022	$ 270,708	$104	$1,302,238	$ (45,447)	$ 274,723	$ 201	$ 193,776	$ 33,649	$ 2,029,977	$ 56,164	$ 2,086,149
Net profit attributable to owners of the parent			303,597						303,597		303,597
Cash dividends, $0.26 per share			(79,500)						(79,500)		(79,500)
Restricted stock awards		(59)		2,798					2,731		2,731
Repurchase of treasury stock				(74,626)					(74,626)		(74,626)
Disposal of treasury stock		0							0		0
Change in ownership interest of parent due to transactions with non-controlling interests		940							940		940
Net change in the year					(29,156)	111	56,365	(7,388)	19,932	57,455	77,388
BALANCE, MARCH 31, 2023	$ 270,708	$985	$ 1,526,335	$(117,283)	$ 245,567	$ 320	$ 250,141	$ 26,261	$ 2,203,052	$113,619	$ 2,316,679

See notes to consolidated financial statements.

Daicel Corporation and Consolidated Subsidiaries

Consolidated Statements of Cash Flows
Years Ended March 31, 2023 and 2022

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2023	2022	2023
OPERATING ACTIVITIES:			
Profit before income taxes	¥ 54,967	¥ 46,283	$ 410,201
Adjustments for:			
Income taxes paid	(14,425)	(13,558)	(107,649)
Income taxes refund	1,308	3,556	9,761
Depreciation	31,516	27,490	235,194
Impairment loss		9,985	
Amortization of goodwill	59	705	440
Loss on retirement of non-current assets	1,524	2,901	11,373
Increase (decrease) in provision for environmental measures	(16)	(56)	(119)
Loss (gain) on sales of investment securities	(4,208)	(1,664)	(31,402)
Loss (gain) on sales of investments in capital of subsidiaries and associates	(722)		(5,388)
Loss on liquidation of business	548		4,089
Share of loss (profit) of entities accounted for using equity method	(2,335)	(1,950)	(17,425)
Changes in assets and liabilities:			
Decrease (increase) in trade receivable	4,498	(3,429)	33,567
Decrease (increase) in inventories	(31,875)	(27,480)	(237,873)
Increase (decrease) in trade payable	(8,701)	7,924	(64,932)
Other – net	(5,291)	(7,712)	(39,485)
Net cash provided by operating activities	26,847	42,993	200,350
INVESTING ACTIVITIES:			
Net decrease (increase) in time deposits	(208)	(55)	(1,552)
Capital expenditures	(51,924)	(47,471)	(387,492)
Purchase of investment securities	(365)	(165)	(2,723)
Purchase of shares of subsidiaries and associates		(329)	
Proceeds from sales and redemption of investment securities	8,677	2,809	64,753
Proceeds from sales of property, plant and equipment	318	876	2,373
Proceeds from sales of investments in capital of subsidiaries and associates	1,125		8,395
Loan advances	(807)	(400)	(6,022)
Collection of finance receivables	445	84	3,320
Other – net	(1,353)	(1,875)	(10,097)
Net cash used in investing activities	(44,093)	(46,528)	(329,052)
FINANCING ACTIVITIES:			
Net increase (decrease) in short-term borrowings	43,411	14,696	323,962
Proceeds from long-term borrowings	15,074	1,704	112,492
Repayments of long-term borrowings	(23,110)	(5,037)	(172,462)
Proceeds from share issuance to non-controlling shareholders	7,200		53,731
Dividends paid	(10,651)	(9,645)	(79,485)
Dividends paid to non-controlling interests	(742)	(1,008)	(5,537)
Purchase of treasury shares	(10,000)	(4,983)	(74,626)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation		(150)	
Repayments of lease liabilities	(1,224)	(1,029)	(9,134)
Net cash used in financing activities	19,956	(5,452)	148,925
EFFECT OF EXCHANGE RATE CHANGE ON CASH AND CASH EQUIVALENTS	2,795	6,137	20,858
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	5,506	(2,850)	41,089
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	87,986	90,747	656,611
INCREASE IN CASH AND CASH EQUIVALENTS RESULTING FROM INCLUSION OF SUBSIDIARIES IN CONSOLIDATION		89	

CASH AND CASH EQUIVALENTS, END OF YEAR	¥93,493	¥ 87,986	$ 697,708

See notes to consolidated financial statements.

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 ¥134 to $1, the approximate rate of exchange at March 31, 2023. 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, 2023, include the accounts of the Company and its 59 significant (62 in 2022) 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 (0 in 2022) unconsolidated subsidiary and 8 (8 in 2022) 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 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 preparation for the disposal of PCB (polychlorinated biphenyl) waste.

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.

v. New Accounting Pronouncements

- ASBJ Statement No. 27(revised 2022), Accounting Standard for Current Income Taxes.

- ASBJ Statement No. 25(revised 2022), Accounting Standard for Presentation of Comprehensive Income.

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

The accounting standards and guidance pertains to the classification of corporate tax and the treatment of tax effects upon the sale of subsidiary company shares when other comprehensive income is subject to taxation and the application of the consolidated taxation system for group companies.

The accounting standards will be applied from the beginning of the fiscal year ending March 31, 2025, and the effect of application on the consolidated financial statements is currently being evaluated.

3. 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
	2023	2022	2023
Property, plant and equipment	¥ 8,396	¥ 9,296	$ 62,656
Impairment loss		8,385	

(2) Information on the significant accounting estimate

The Companies own assets such as production plants and facilities for the operation of the Healthcare business.

The Companies' asset groups are based on the in-house company, strategic business unit (SBU), and business unit (BU) as the lowest level units. Regarding the Healthcare business in the consolidated financial statements for the year ended March 31, 2023, the sales plan, assumed in the business plan, is expected to be behind schedule due to the sluggish cosmetics market in China resulting from the lockdowns and the sharp increase in raw material prices. As a result, based on the possibility of significant deterioration of the business environment, indicators of impairment were identified and the total undiscounted future cash flows from the asset group in the Healthcare business was compared to the carrying amount of the asset group. Since the total of undiscounted flows exceeded the carrying amount, the Company determined that no impairment loss should be recognized. The calculation of undiscounted future cash flows is based on significant assumptions and estimates, including future sales volumes, unit sales prices, market conditions of raw material prices, and growth rates beyond the business plan period. If the conditions or assumptions on which these estimates are based change, an impairment loss may be recognized in the consolidated financial statements of the following fiscal year.

4. ACCOUNTING CHANGE

ASBJ Guidance No. 31 (June 17, 2021), "Implementation Guidance on Accounting Standard for Fair Value Measurement," (hereafter “Implementation Guidance on Accounting Standard for Fair Value Measurement”) is applied to the Consolidated financial statements from April 1, 2022.
In accordance with the transitional provisions stipulated in paragraph 27-2 of the Implementation Guidance on Accounting Standard for Fair Value Calculation, the new accounting policy set forth is applied prospectively. These changes had no impact on the consolidated financial statements.

5. SECURITIES AND INVESTMENT SECURITIES

Securities and investment securities as of March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Current:			
Government and corporate bonds		¥ 2,398	
Non-current:			
Equity securities	¥60,754	¥68,468	$ 453,388
Government and corporate bonds			
Other	773	483	5,768
Total	¥61,527	¥68,951	$ 459,156

The costs and aggregate fair values of securities and investment securities at March 31, 2023 and 2022, were as follows:

	Millions of Yen			
	2023			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	¥ 13,040	¥ 46,510	¥(157)	¥ 59,393
Debt securities				

	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

	Thousands of U.S. Dollars			
	2023			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available-for-sale:				
Equity securities	$ 97,313	$ 347,089	$ (1,171)	$ 443,231
Debt securities				

Securities whose fair values are not readily determinable as of March 31, 2023 and 2022, were as follows:

	Carrying Amount		
	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Available-for-sale:			
Equity securities	¥1,360	¥1,323	$ 10,149
Debt securities			
Other	773	483	5,768
Total	¥2,133	¥1,807	$ 15,917

Proceeds from sales of available-for-sale securities for the years ended March 31, 2023 and 2022, were ¥8,677 million ($64,753 thousand) and ¥2,809 million, respectively. Gross realized gains on these sales, computed on the moving-average cost basis, for the years ended March 31, 2023 and 2022 were ¥4,208 million ($31,402 thousand) and ¥1,664 million, respectively.

6. INVENTORIES

Inventories at March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Finished products	¥ 91,035	¥ 70,187	$ 679,365
Semi-finished products and work in process	25,554	21,035	190,701
Raw materials and supplies	60,579	50,780	452,082
Total	¥ 177,169	¥ 142,002	$ 1,322,156

7. 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, 2023 and 2022, were ¥481 million ($3,589 thousand) and ¥490 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, 2022	Increase/(Decrease)	March 31, 2023	March 31, 2023
¥2,684	¥(265)	¥2,419	¥18,946

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

Thousands of U.S. Dollars			
Carrying Amount			Fair Value
April 1, 2022	Increase/(Decrease)	March 31, 2023	March 31, 2023
$20,029	$(1,977)	$18,052	$141,388

Notes:

1) Increase and decrease of items related to rental properties are not disclosed for these fiscal years ended March 31, 2023 and 2022 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, 2023 and 2022, are measured by the Companies in accordance with the Real-Estate Appraisal Standard.

8. 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, 2023 and 2022, were 1.20% and 0.43%, respectively.

Long-term borrowings at March 31, 2023 and 2022, consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
1.05% bonds due 2023	¥ 10,000	¥ 10,000	$ 74,626
0.14% bonds due 2022		10,000	
0.23% bonds due 2024	10,000	10,000	74,626
0.37% bonds due 2027	10,000	10,000	74,626
4.00% bonds due 2022		3	
0.08% bonds due 2023	20,000	20,000	149,253
0.16% bonds due 2025	20,000	20,000	149,253
0.38% bonds due 2027	30,000	30,000	223,880
0.50% bonds due 2030	30,000	30,000	223,880
Unsecured loans from banks and other financial institutions, due through 2033, with interest rates ranging from 0.16% to 7.50% for 2023 (from 0.16% to 9.00% for 2022)	121,566	118,301	907,208
Total	251,566	258,304	1,877,358
Less current portion	(42,742)	(22,275)	(318,970)
Long-term borrowings, less current portion	¥ 208,823	¥ 236,029	$ 1,558,380

At March 31, 2023, annual maturities of long-term borrowings were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2024	¥ 42,742	$ 318,970
2025	23,008	171,701
2026	32,989	246,186
2027	6,542	48,820
2028	45,059	336,261
2029 and thereafter	101,223	755,395
Total	¥ 251,566	$ 1,877,358

9. 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, 2023 is as follows. There are no current portion of long-term borrowings included as of March 31, 2023.

Long-term borrowings ¥50,000 million ($373,134 thousand)

10. 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, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 38,954	¥ 39,458	$ 290,701
Current service cost	1,881	1,850	14,037
Interest cost	239	214	1,783
Actuarial losses	(425)	(235)	(3,171)
Benefits paid	(2,311)	(2,593)	(17,246)
Increase due to change from simplified method to principal method	798		5,955
Decrease due to exclusion from consolidation	(525)		(3,917)
Others	117	260	873
Balance at end of year	¥ 38,728	¥ 38,954	$ 289,014

(2) The changes in plan assets (except for cases where the simplified method was applied) for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥ 44,551	¥ 42,858	$ 332,470
Expected return on plan assets	547	484	4,082
Actuarial gains	(469)	194	(3,500)
Contributions from employer	386	1,781	2,880
Benefits paid	(947)	(957)	(7,067)
Others	49	189	365
Balance at end of year	¥ 44,118	¥ 44,551	$ 329,238

(3) The changes in defined benefit obligation as a result of applying the simplified method for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥3,534	¥3,542	$ 26,373
Retirement benefit cost	770	320	5,746
Benefits paid	(1,083)	(336)	(8,082)
Contributions from employer	(82)	(62)	(611)
Increase due to change from simplified method to principal method	(798)		(5,955)
Others	135	71	1,007
Balance at end of year	¥2,476	¥3,534	$ 18,477

(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, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Funded defined benefit obligation	¥ 39,599	¥ 39,047	$ 295,514
Plan assets	(44,903)	(45,294)	(335,097)
	(5,304)	(6,247)	(39,582)
Unfunded defined benefit obligation	2,391	4,185	17,843
Net liability arising from defined benefit obligation	¥ (2,912)	¥ (2,062)	$ (21,731)

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Retirement benefit liability	¥ 4,735	¥ 6,623	$ 35,335
Retirement benefit asset	(7,648)	(8,686)	(57,074)
Net liability arising from defined benefit obligation	¥(2,912)	¥(2,062)	$ (21,731)

Note: Including defined benefit obligation under the simplified method.

(5) The components of net periodic benefit costs for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Service cost	¥1,881	¥1,850	$ 14,037
Interest cost	239	214	1,783
Expected return on plan assets	(547)	(484)	(4,082)
Recognized actuarial losses	(1,306)	(792)	(9,746)
Past service cost	166	166	1,238
Amortization of transitional obligation	771	331	5,753
Balance at end of year	¥1,204	¥1,285	$ 8,985

(6) Amounts recognized in other comprehensive income (before income tax effect) in respect of defined benefit plans for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Prior service cost	¥ 166	¥ 166	$ 1,238
Actuarial losses	(1,542)	(378)	(11,507)
Total	¥(1,376)	¥ (211)	$(10,268)

(7) Amounts recognized in accumulated other comprehensive income (before income tax effect) in respect of defined benefit plans as of March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Unrecognized prior service cost	¥ (166)	¥ (332)	$ (1,238)
Unrecognized actuarial losses	5,106	6,649	38,104
Total	¥4,940	¥6,316	$ 36,865

(8) Plan assets

a. *Components of plan assets*

Plan assets as of March 31, 2023 and 2022, consisted of the following:

	2023	2022
Debt investments	20 %	20 %
Equity investments	42	60
General accounts of insurance companies	14	8
Short-term assets	19	
Others	5	11
Total	100 %	100 %

Note: Total plan assets consisting of a Retirement Benefit Trust for the years ended March 31, 2023 and 2022, were 10% and 15%, 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, 2023 and 2022, were set forth as follows:

	2023	2022
Discount rate	0.6%	0.6%
Expected rate of return on plan assets	1.2%	1.1%
Lump-sum election rate	71.1%	72.5%

(10) The amount of contributions to defined contribution plans for subsidiaries for the years ended March 31, 2023 and 2022, were ¥834 million ($6,223 thousand) and ¥772 million, respectively.

Retirement allowances for certain subsidiaries' directors and corporate auditors are included in "Retirement benefit liability" in the consolidated balance sheets. The amounts were ¥71 million ($529 thousand) and ¥89 million at March 31, 2023 and 2022, respectively.

11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Balance at beginning of year	¥1,450	¥1,268	$10,820
Reconciliation associated with passage of time	6	4	44
Reduction associated with settlement of asset retirement obligations	(15)	(11)	(111)
Other	(270)	189	(2,014)
Balance at end of year	¥1,170	¥1,450	$ 8,731

12. 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.

13. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 31% for the years ended March 31, 2023 and 2022. 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, 2023 and 2022, was as follows:

	2023	2022
Normal effective statutory tax rate	31%	31%
Increase or decrease of valuation allowance	(2)	2
Different tax rate in foreign countries	(4)	1
Equity in earnings of associated companies	(1)	(1)
Amortization of goodwill	0	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	0	2
Other – net	3	(0)
Actual effective tax rate	24%	31%

The tax effects of significant temporary differences and tax loss carryforwards which resulted in deferred tax assets and liabilities at March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Deferred tax assets:			
Accrued enterprise taxes	¥ 391	¥ 425	$ 2,917
Accrued bonuses	2,210	2,144	16,492
Retirement benefit liability	929		6,932
Provision for environmental measures	37	42	276
Amount transferred to defined contribution pension plan		239	
Investment securities	57	849	425
Tax loss carryforwards	3,995	4,374	29,813
Intercompany profits	3,002	2,370	22,402
Depreciation	3,360	4,253	25,074
Other	6,287	5,693	46,917
Less valuation allowance	(6,099)	(7,104)	(45,514)
Deferred tax assets	¥ 14,174	¥ 13,289	$ 105,776
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	¥ 13,172	¥ 14,973	$ 98,298
Tax purpose reserves regulated by Japanese tax law	553	590	4,126
Undistributed earnings of foreign subsidiaries	10,792	9,977	80,537
Retirement benefit liability		165	
Other	1,625	1,418	12,126
Deferred tax liabilities	¥ 26,143	¥ 27,125	$ 195,097
Net deferred tax liabilities	¥(11,969)	¥(13,836)	$ (89,320)

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

	Millions of Yen						
March 31, 2023	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	¥ 623	¥ 488	¥ 392	¥ 111	¥ 124	¥ 2,254	¥ 3,995
Less valuation allowances for tax loss carryforwards	(133)	(488)	(392)	(111)	(124)	(2,241)	(3,493)
Net deferred tax assets relating to tax loss carryforwards	489					12	502

	Thousands of U.S. Dollars						
March 31, 2023	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	$ 4,649	$ 3,641	$ 2,925	$ 828	$ 925	$16,820	$ 29,813
Less valuation allowances for tax loss carryforwards	(992)	(3,641)	(2,925)	(828)	(925)	(16,723)	(26,067)
Net deferred tax assets relating to tax loss carryforwards	3,649					89	3,746

14. REVENUE

(1) Disaggregation of Revenue

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

	Millions of Yen							
	2023							
	Reportable Segment							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total
Geographical areas:								
Japan	¥ 7,218	¥ 23,270	¥ 15,515	¥ 51,113	¥ 94,935	¥ 192,052	¥ 8,852	¥ 200,905
China	4,131	1,295	28,488	8,793	63,320	106,029	2	106,032
Asia	3,363	4,461	11,967	45,360	54,024	119,177	16	119,193
Other	7,805	571	28,009	49,546	25,782	111,715	179	111,894
Revenues from contracts with customers	22,518	29,599	83,981	154,813	238,062	528,975	9,051	538,026
Other revenue								
Total	¥ 22,518	¥ 29,599	¥ 83,981	¥ 154,813	¥ 238,062	¥ 528,975	¥ 9,051	¥ 538,026

	Thousands of U.S. Dollars							
	2023							
	Reportable Segment							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total
Geographical areas:								
Japan	$ 53,865	$ 173,656	$ 115,783	$ 381,440	$ 708,470	$ 1,433,223	$ 66,059	$ 1,499,291
China	30,828	9,664	212,597	65,619	472,537	791,261	14	791,283
Asia	25,097	33,291	89,305	338,507	403,164	889,380	119	889,500
Other	58,246	4,261	209,022	369,746	192,402	833,694	1,335	835,029
Revenues from contracts with customers	168,044	220,888	626,723	1,155,320	1,776,582	3,947,574	67,544	4,015,119
Other revenue								
Total	$ 168,044	$ 220,888	$ 626,723	$ 1,155,320	$ 1,776,582	$ 3,947,574	$ 67,544	$ 4,015,119

(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 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 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 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 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 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
	2023	2023
Receivables from contracts with customers	¥ 101,534	$ 757,716
Contract liabilities	5,416	40,417

(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.

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in "COST OF SALES" and "SELLING, GENERAL AND ADMINISTRATIVE EXPENSES" were ¥21,878 million ($163,268 thousand) and ¥20,741 million for the years ended March 31, 2023 and 2022, respectively.

16. 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
	2023	2022	2023
Freight and packing costs	¥ 24,390	¥ 21,200	$ 182,014
Salaries and allowances	22,906	20,695	170,940
Retirement benefit expense	547	638	4,082
Research and development costs	20,646	19,667	154,074

17. 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 292,957,081 and 300,115,425 for the years ended March 31, 2023 and 2022, respectively.

18. 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
	2023	2022	2023
Due within one year	¥ 35	¥ 273	$ 261
Due after one year	77	1,627	574
Total	¥ 112	¥1,901	$ 835

19. 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, non-deliverable forwards, currency swaps 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 20 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 20 for details regarding derivatives.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2023.

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 non-deliverable forwards, currency swaps. 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 20 for more detail about fair values of derivatives.

(a) Fair value of financial instruments

	Millions of Yen		
March 31, 2023	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Securities			
Investment securities	¥ 59,393	¥ 59,393	¥
Total	¥ 59,393	¥ 59,393	¥
Long-term borrowings	¥ 251,566	¥ 248,876	¥(2,690)
Total	¥ 251,566	¥ 248,876	¥(2,690)

	Millions of Yen		
March 31, 2022	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)

	Thousands of U.S. Dollars		
March 31, 2023	Carrying Amount	Fair Value	Unrealized Gain/(Loss)
Securities			
Investment securities	$ 443,231	$ 443,231	$
Total	$ 443,231	$ 443,231	$
Long-term borrowings	$ 1,877,358	$ 1,857,283	$(20,074)
Total	$ 1,877,358	$ 1,857,283	$(20,074)

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

March 31, 2023	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	¥8,520	$63,582

March 31, 2022	Carrying Amount
	Millions of Yen
Investments in equity instruments that do not have a quoted market price in an active market	¥6,102

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

	Millions of Yen			
March 31, 2023	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	¥ 93,493			
Receivables	106,089			
Securities and investment securities:				
Government bonds				
Corporate bonds		¥	¥	¥
Total	¥ 199,583	¥	¥	¥

	Millions of Yen			
March 31, 2022	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	¥	¥	¥

	Thousands of U.S. Dollars			
March 31, 2023	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	$ 697,708			
Receivables	791,708			
Securities and investment securities:				
Government bonds				
Corporate bonds		$	$	$
Total	$ 1,489,425	$	$	$

Please see Note 8 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, 2023	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Equity securities	¥ 58,378		¥1,014	¥ 59,393
Corporate bonds				
Total assets	¥ 58,378		¥1,014	¥ 59,393
Corporate bonds		¥ 128,925		¥ 128,925
Long-term debt		119,950		119,950
Derivative transactions:				
Foreign currency forward contracts		324		324
Interest rate swaps				
Total liabilities		¥ 249,200		¥ 249,200

	Thousands of U.S. Dollars			
March 31, 2023	Level 1	Level 2	Level 3	Total
Marketable and investment securities:				
Available-for-sale securities:				
Equity securities	$ 435,656		$7,567	$ 443,231
Corporate bonds				
Total assets	$ 435,656		$7,567	$ 443,231
Corporate bonds		$ 962,126		$ 962,126
Long-term debt		895,149		895,149
Derivative transactions:				
Foreign currency forward contracts		2,417		2,417
Interest rate swaps				
Total liabilities		$ 1,859,701		$ 1,859,701

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
	2023	2023
Balance at the beginning of the year	¥1,113	$ 8,305
Purchases		
Sales or settlements		
Other comprehensive income (Note)	368	2,746
Capital reduction	(467)	(3,485)
Net profit (loss)		
Balance at end of year	1,014	7,567

Note: 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	¥1,014	$7,567	Market approach	EBITDA Ratio	x6.1
				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.

20. 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, 2023	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	¥ 17,641		¥(136)	¥(136)
Selling Euro	3,985		(67)	(67)
Buying U.S.$	4,870		(29)	(29)
Buying Ringgit	508		(1)	(1)
Buying Japanese yen	621		(1)	(1)
Non-deliverable forward foreign exchange transaction				
Selling Indian Rupee	2,448		(88)	(88)

	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)

	Thousands of U.S. Dollars			
March 31, 2023	Contract Amount	Contract Amount Due after One Year	Fair Value	Unrealized Gain/(Loss)
Foreign currency forward contracts:				
Selling U.S.$	$ 131,649		$(1,014)	$(1,014)
Selling Euro	29,738		(500)	(500)
Buying U.S.$	36,343		(216)	(216)
Buying Ringgit	3,791		(7)	(7)
Buying Japanese yen	4,634		(7)	(7)
Non-deliverable forward foreign exchange transaction				
Selling Indian Rupee	18,268		(656)	(656)

Derivative Transactions to Which Hedge Accounting Is Applied

March 31, 2023	Hedged Item	Millions of Yen Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term borrowings	¥	¥	¥

March 31, 2022	Hedged Item	Millions of Yen 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)

March 31, 2023	Hedged Item	Thousands of U.S. Dollars Contract Amount	Contract Amount Due after One Year	Fair Value
Interest rate swaps:				
Fixed rate payment, floating rate receipt	Long-term borrowings	$	$	$

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.

21. 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, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Long-term borrowings	¥6,000	¥6,000	$ 44,776
Current portion of long-term borrowings	400	400	2,985
Interest expense payable	11	3	82
Borrowing of funds			
Repayments of borrowings		400	
Interest expenses paid	10	35	74

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

On July 5, 2022 the vice chairman and director of Nippon Life Insurance Company retired and is no longer a related party. The transaction amounts and year end balances are as of the end of July 2022, the month of his retirement.

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, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Trade accounts payables	¥ 3	¥ 0	$ 22
Purchase	72	20	537

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

22. 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.

23. IMPAIRMENT LOSS

No impairment loss has been recognized for the year ended March 31, 2023

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, Lomapharm 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
Japan (Himeji-shi, Hyogo)	Manufacturing facilities for cosmetic raw materials	Construction in progress	¥8,385
-	Others	Goodwill	1,394
Others	Manufacturing facilities for automobile airbag inflators and others	Machinery and equipment	11
		Construction in progress	193
		Total	¥9,985

24. CONTINGENT LIABILITIES

Contingent liabilities at March 31, 2023, for guaranteed loans amounted to ¥119 million ($888 thousand). Loans guaranteed are principally those of unconsolidated subsidiaries, associated companies and employees.

25. OTHER COMPREHENSIVE INCOME

The components of other comprehensive income for the years ended March 31, 2023 and 2022, were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥ (1,491)	¥ 1,752	$ (11,126)
Reclassification adjustments to profit or loss	(4,220)	(1,671)	(31,492)
Amount before income tax effect	(5,712)	81	(42,626)
Income tax effect	1,801	(152)	13,440
Total	¥ (3,910)	¥ (71)	$ (29,179)
Deferred gains or losses on hedges:			
Adjustments arising during the year	¥ (2)	¥ (4)	$ (14)
Reclassification adjustments to profit or loss	18	60	134
Amount before income tax effect	15	55	111
Income tax effect			
Total	¥ 15	¥ 55	$ 111
Foreign currency translation adjustments			
Adjustments arising during the year	¥ 7,936	¥ 16,916	$ 59,223
Reclassification adjustments to profit or loss	(357)		(2,664)
Amount before income tax effect	7,579		56,559
Income tax effect			
Defined benefit plans:			
Adjustments arising during the year	¥ (38)	¥ 413	$ (283)
Reclassification adjustments to profit or loss	(1,338)	(625)	(9,985)
Amount before income tax effect	(1,376)	(211)	(10,268)
Income tax effect	434	118	3,238
Total	¥ (942)	¥ (92)	$ (7,029)
Share of other comprehensive income of entities accounted for using equity method - Gains arising during the year	¥ 89	¥ 1,039	$ 664
Total other comprehensive income	¥ 2,831	¥ 17,847	$ 21,126

	Millions of Yen		Thousands of U.S. Dollars
	2023	2022	2023
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥ (1,491)	¥ 1,752	$ (11,126)
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Total other comprehensive income	¥ 2,831	¥ 17,847	$ 21,126

26. 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 for semiconductors, 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, transportation 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."

Effective from the consolidated financial statements for the year ended March 31, 2023, the Company has reviewed the allocation method of company-wide common expenses and changed the calculation method of reportable segment income (loss), assets, and other items to enhance the evaluation and management of each reportable segment′s performance. The segment information for the year ended March 31, 2022 is based on the calculation method for reportable segment income (loss), assets, and other items after the change.

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

	Millions of Yen									
	Reportable Segment									
Year Ended March 31, 2023	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	¥22,518	¥29,599	¥83,981	¥154,813	¥238,062	¥528,975	¥ 9,051	¥538,026	-	¥538,026
Intersegment sales or transfers	196	289	-	12,913	288	13,687	12,414	26,102	¥ (26,102)	-
Total sales	¥22,715	¥29,888	¥83,981	¥167,726	¥238,350	¥542,662	¥21,465	¥564,128	¥ (26,102)	¥538,026
Segment profit	¥ 699	¥ (642)	¥ (143)	¥ 21,936	¥ 25,310	¥ 47,161	¥ 347	¥ 47,508		¥ 47,508
Segment assets	29,539	38,466	113,611	214,890	265,325	661,833	15,586	677,420	¥ 88,186	765,606
Depreciation	2,811	2,689	6,483	9,695	8,571	30,251	584	30,835		30,835
Investments in associated companies				10,117	3,407	13,525		13,525		13,525
Amortization of goodwill	59					59		59		59
Increase in property, plant and equipment	2,693	4,197	8,987	8,618	30,596	55,092	1,216	56,308		56,308

	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	¥ 2,439	¥ 4,035	¥ 2,583	¥ 18,336	¥ 22,110	¥ 49,505	¥ 1,192	¥ 50,697		¥ 50,697
Segment assets	30,136	33,613	80,771	214,329	226,414	585,265	18,394	603,659	¥ 95,177	698,836
Depreciation	1,505	2,280	5,236	10,158	7,118	26,298	650	26,948		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	1,155	3,291	7,931	20,109	7,495	39,984	855	40,840		40,840

Year Ended March 31, 2023	Thousands of U.S. Dollars									
	Reportable Segment									
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Total	Others	Total	Reconciliations	Consolidated
Sales to external customers	$ 168,044	$ 220,888	$ 626,723	$ 1,155,320	$ 1,776,582	$ 3,947,574	$ 67,544	$ 4,015,119		$ 4,015,119
Intersegment sales or transfers	1,462	2,156	-	96,365	2,149	102,141	92,641	194,791	$ (194,791)	-
Total sales	$ 169,514	$ 223,044	$ 626,723	$ 1,251,686	$ 1,778,731	$ 4,049,716	$ 160,186	$ 4,209,910	$ (194,791)	$ 4,015,119
Segment profit	$ 5,216	$ (4,791)	$ (1,067)	$ 163,701	$ 188,880	$ 351,947	$ 2,589	$ 354,537		$ 354,537
Segment assets	220,440	287,059	847,843	1,603,656	1,980,037	4,939,052	116,313	5,055,373	$ 658,104	5,713,477
Depreciation	20,977	20,067	48,380	72,350	63,962	225,753	4,358	230,111		230,111
Investments in associated companies	-	-	-	75,500	25,425	100,932	-	100,932		100,932
Amortization of goodwill	440	-	-	-	-	440	-	440		440
Increase in property, plant and equipment	20,097	31,320	67,067	64,313	228,328	411,134	9,074	420,208		420,208

(Notes)

1. The unallocated corporate assets included in "Reconciliations" amounted to ¥ 90,202 million ($ 673,149 thousand) and ¥ 98,471 million for the years ended March 31, 2023 and 2022, 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 ¥ 2,015 million ($ 15,037 thousand) and ¥ 3,294 million for the years ended March 31, 2023 and 2022, respectively.

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						
	2023						
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	¥22,518	¥29,599	¥83,981	¥154,813	¥238,062	¥9,051	¥538,026

	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

	Thousands of U.S. Dollars						
	2023						
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Total
Sales to external customers	$168,044	$220,888	$626,723	$1,155,320	$1,776,582	$67,544	$4,015,119

2. Information about Geographical Areas

(1) Sales

Millions of Yen				
2023				
	Asia			
Japan	China	Other	Other	Total
¥200,905	¥106,032	¥119,193	¥111,894	¥538,026

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

Thousands of U.S. Dollars				
2023				
	Asia			
Japan	China	Other	Other	Total
$1,499,291	$791,283	$889,500	$835,029	$4,015,119

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

(2) Property, Plant and Equipment

Millions of Yen					
2023					
	Asia				
Japan	China	Malaysia	Other	Other	Total
¥152,666	¥43,351	¥15,263	¥22,418	¥22,430	¥256,130

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

Thousands of U.S. Dollars					
2023					
	Asia				
Japan	China	Malaysia	Other	Other	Total
$1,139,298	$323,514	$113,902	$167,298	$167,388	$1,911,417

3. Information on Impairment Loss for Each Reportable Segment

	Millions of Yen							
	2023							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	¥	¥	¥	¥	¥	¥	¥	¥

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

	Thousands of U.S. Dollars							
	2023							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Impairment loss	$	$	$	$	$	$	$	$

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

	Millions of Yen							
	2023							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	¥ 59	¥	¥	¥	¥	¥	¥	¥ 59
Goodwill at March 31, 2023	338							338

	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

	Thousands of U.S. Dollars							
	2023							
	Medical/ Healthcare	Smart	Safety	Materials	Engineering Plastics	Others	Elimination/ Corporate	Total
Amortization of goodwill	$ 440	$	$	$	$	$	$	$ 440
Goodwill at March 31, 2023	2,522							$2,522

27. SUBSEQUENT EVENTS

Appropriations of Retained Earnings

The following plan for appropriations of retained earnings for the year ended March 31, 2023, was approved at the shareholders' general meeting of the Company held on June 22, 2023:

	Millions of Yen	Thousands of U.S. Dollars
Cash dividends, ¥20 ($0.14) per share	¥5,712	$42,626

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