

LETTER TO STAKEHOLDERS

Overview of Business Performance

In Japan, production activities by customers have been on a recovery trend, partly due to the expansion of vaccinations against the novel coronavirus (COVID-19), but overall recovery has not been sufficient, with the mood of self-restraint still dragging due to the impact of intermittent issuance of state of emergency and other measures.

Overseas, demand has recovered due to the gradual resumption of economic activities following the self-imposed coronavirus restrictions, but there are no signs that logistics disruptions, such as soaring ocean freight rates and difficulties in securing containers in some areas, will subside. In addition to the resurgence of infectious diseases and the reduction of automobile production due to the global shortage of semiconductors, there are also soaring raw material prices and concerns over procurement. The Ukraine problem has further intensified uncertainty over the future.

Our group continues to develop high quality, price-competitive products and to maintain and improve profitability by promoting activities to develop new customers and applications, in light of the instability of the global economic environment and the prolonged risk of fluctuations.

As a result, net sales increased to ¥ 37,248 million (up by 25.8% on a year-on-year basis), operating income increased to ¥ 5,759 million (up by 45.9 %), ordinary income increased to ¥ 7,738 million (up by 60.9 %), and net income attributable to owners of the parent increased to ¥ 5,492 million (up by 60.0 %).

The ratio of operating income to net sales increased 2.2 percentage points from the previous fiscal year to 15.5% mainly due to the depreciation of the yen.

The ratio of ordinary income to total assets increased 3.5 percentage points from the previous fiscal year to 10.7% due to the increase in operating income and an increase in foreign exchange gains.

Return on equity increased 2.9 percentage points to 9.0%.
As a result, net income per share was ¥1,697.19.

Overview of Performance by Business Segment

Japan Segment

Segment sales increased to ¥36,636 million (up by 25.7%) and segment income (operating income) increased to ¥5,742 million (up by 47.4 %).

In the field of anionic surfactants, domestic textile applications for industrial materials were sluggish due to a decline in automobile production. Clothing use has bottomed out but has not recovered sufficiently. Overseas sales were generally solid. As a result, sales to external customers in this field increased to ¥3,222 million (up by 12.6%).

In the field of non-ionic surfactants, sales of products for sportswear remained strong in Japan, while sales of products for uniform and casual wear were sluggish due to an increase in teleworking. Production adjustments slowed the pace of recovery in automotive materials. In the non-textile business, sales to automobiles and toiletries declined, but sales to overseas customers were generally strong. As a result, sales to external customers in this field increased to ¥22,534 million (up by 27.8%).

In the field of cationic and zwitterionic surfactants, domestic sales of textile finishing agents improved. Sales to external customers increased to ¥998 million (up by 1.7%) due to growth in sales for shampoos and household detergents.

In the field of polymers and inorganic products, domestic production in the textile industry continued to be sluggish. In the non-textile industry, sales were higher than the same period of the previous fiscal year due to a recovery trend overall, despite the impact of production adjustments by automakers in the main automotive applications. Sales of equipment investment related materials decreased due to the end of sales. As a result, sales to external customers increased to ¥9,881 million (up by 29.0%).

Indonesia Segment

Net sales to external customers for the fiscal year were ¥612 million yen (up by 30.0%) and segment profit (operating profit) was ¥21 million yen (down by 51.4%).

Due to the effect of COVID-19, large-scale social restrictions (PSBB) were implemented in Indonesia, which led to a decline in business activities. Although business activities subsequently recovered, they have not returned to pre-COVID-19 levels.

In the field of nonionic surfactants, production has declined for most of our customers due to COVID-19, but is returning to pre-COVID-19 levels. As a result, sales to external customers increased to ¥403 million (up by 38.8%).

In the polymer, inorganic products and other fields, the domestic market has been shrinking, and many products are produced without using glue agents, resulting in a significant drop in shipment volume. On the other hand, exports have been increasing since last year. As a result, sales to external customers increased to ¥198 million (up by 14.6%).

In the fields of anionic surfactants and cationic/anionic surfactants, sales to external customers were ¥8 million (up by 30.9%) and ¥3 million (up by 84.0%), respectively.

A Message from the Management

We focus on R & D, with 20% of our employees in the R & D division, supplying users in a variety of industries, especially the textile industry, with a wide range of products essential for improving quality and productivity. Our goal is to become a stronger, more profitable company that can respond to the global economy.

We have established its current position by continuing to develop unique technologies not only in the surfactant field but also in the polymer field. Our customer base spans a wide range of fields, and we are confident that

by accurately grasping customer needs, we will be able to significantly expand our accumulated technological capabilities. In other words, we are deepening and expanding the chain of development from the development of oil for fibers to Polymer Matsumoto Microsphere, oil for DI cans of metal processing oil, and magnetic fluid.

The economic environment and employment situation have worsened due to the global spread of the novel coronavirus, and it is expected that the situation will continue to be unpredictable.

Under these circumstances, we will continue to work to strengthen our management foundation in anticipation of the post-corona era. In response to fluctuations in global demand in the textile and automotive industries, we will flexibly adjust production volumes, develop competitive new products, expand sales channels, maintain a stable product supply system, and rationalize our operations.

In addition, we have been working to strengthen our production facilities over the past few years, and we will continue to make effective use of these facilities.

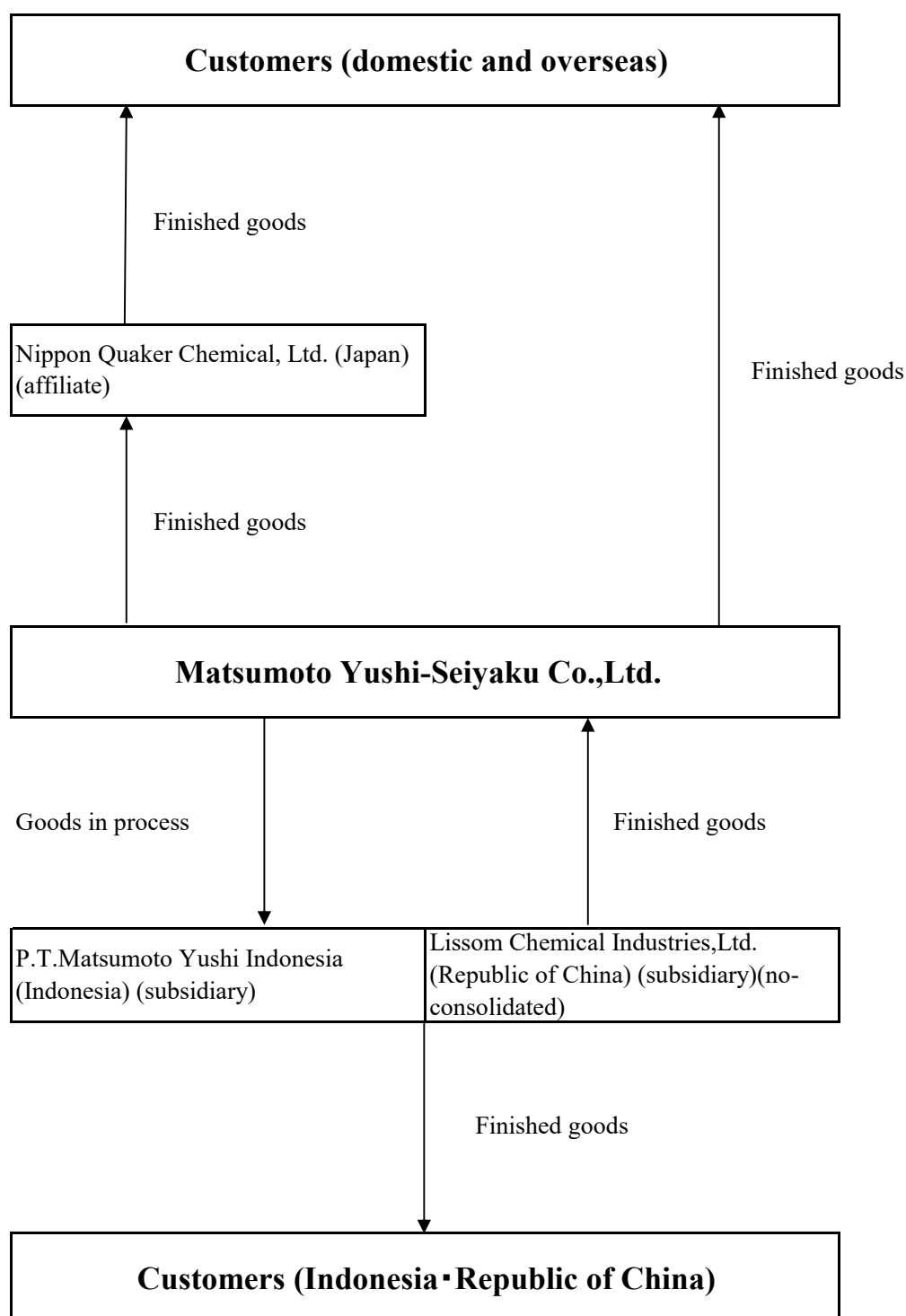
In R & D, we are developing new materials and applications with higher added value, and we intend to continue to flexibly operate our business by placing the right people in the right jobs in order to respond to changes in social conditions.

Sincerely,

NAOKI KIMURA

President and CEO

Holding Company Configuration and Highlights of Business



CORPORATE GOVERNANCE

We are working to achieve a highly transparent and sound system of corporate governance which enables us to realize stable and continuous improvement of enterprise value.

In addition to the regular monthly meetings of the board of directors, extraordinary meetings are held as necessary in order to make timely decisions. Directors, statutory auditors and the chiefs of department have a joint meeting once a week. They ensure legal compliance and the legitimate execution of business. The term of office of directors is one year in order to respond to the rapidly changing business environment.

We adopt a board of statutory auditor system. The board consists of three auditors, one of whom is a full-time auditor. They also attend the director meetings and join other significant discussions to observe the appropriateness of managerial business execution.

As for internal auditing, the Internal Auditing Department is working on the promotion and improvement of internal control and maintaining close coordination with the Board of Statutory Auditors and Accounting Auditor.

MATSUMOTO YUSHI-SEIYAKU CO., LTD. AND A SUBSIDIARY**Selected Financial Data****Years ended March 31**

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Results for the year (millions of Yen):					
Net Sales	37,248	29,605	31,393	32,803	32,113
Cost of sales	27,439	21,991	22,775	23,625	22,874
Gross profit	9,809	7,614	8,618	9,178	9,239
Selling, general and administrative expenses	4,051	3,668	3,867	3,923	3,952
Operating income	5,759	3,946	4,751	5,255	5,287
Other income(expenses)	2,017	858	709	1,156	119
Income before income taxes and non-controlling interests	7,776	4,804	5,460	6,411	5,405
Income taxes					
current	2,319	1,380	1,579	1,799	1,709
deferred	(41)	(21)	(13)	75	(143)
Net income	5,498	3,445	3,893	4,538	3,839
Net income attributable to :					
non controlling interests in subsidiary	(6)	(12)	(5)	(3)	(9)
owners of parent	5,492	3,433	3,888	4,535	3,830
Acquisition of property, plant and equipment	462	792	2,729	1,036	976
Depreciation and amortization	929	931	654	610	584
Per share of common stock(Yen):					
Net income attributable to owners of parent	1,697.19	1,060.99	1,201.59	1,401.19	1,183.38
Cash dividends	350.00	300.00	300.00	350.00	300.00
Year-end financial position(millions of Yen):					
Total current assets	60,277	53,079	49,667	49,690	46,879
Total property, plant and equipment	6,153	6,747	7,410	5,208	4,605
Total investments and other assets	9,777	8,824	7,630	8,172	8,609
Total current liabilities	11,405	9,057	8,518	9,078	8,694
Total long-term liabilities	1,409	1,250	1,178	1,125	1,722
Non-controlling interests	155	143	154	146	154
Foreign currency translation adjustments	(47)	(165)	(154)	(168)	(116)
Total net assets	63,393	58,344	55,010	52,867	49,677
Other year-end data:					
Number of shares issued(thousands)	4,513	4,513	4,513	4,513	4,513
Number of shareholders	774	694	648	638	688

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2022 and 2021

	Millions of yen		Thousands of U.S.dollars (Note 1)	
	2022	2021	2022	2021
ASSETS				
Current assets:				
Cash and cash equivalents(Note 7)	¥ 44,874	¥ 40,682	\$ 367,819	\$ 333,456
Short-term investments (Note 7,8)	510	510	4,180	4,180
Notes and accounts receivable(Note 7):				
Trade	7,847	6,312	64,320	51,735
Associates	2,252	1,956	18,463	16,029
Other	35	54	287	446
Electronically recorded monetary claims(Note 7):	260	201	2,135	1,644
Allowance for doubtful accounts	(6)	(4)	(45)	(32)
	10,389	8,518	85,160	69,822
Inventories (Note 9)	4,431	3,319	36,321	27,203
Other current assets	72	50	594	412
Total current assets	60,277	53,079	494,073	435,074
Property, plant and equipment(Note 11) :				
Land	530	529	4,347	4,334
Building and structures	8,468	8,468	69,408	69,410
Machinery and equipment	15,976	15,751	130,952	129,111
Construction in progress	5	25	42	205
	24,979	24,773	204,748	203,059
Accumulated depreciation	(18,826)	(18,026)	(154,311)	(147,753)
Total property, plant and equipment	6,153	6,747	50,437	55,306
Investments and other assets:				
Investments in affiliates(Note 10)	1,678	1,492	13,758	12,230
Investments in securities (Note 7,8)	7,160	6,417	58,691	52,598
Long-term loans(Note 7)	212	201	1,736	1,648
Deferred income taxes(Note 16)	10	1	83	10
Other	721	719	5,907	5,895
Allowance for doubtful accounts	(5)	(7)	(37)	(53)
Total investments and other assets	9,777	8,824	80,138	72,328
Total assets	¥ 76,207	¥ 68,650	\$ 624,648	\$ 562,709

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2022	2021	2022	2021
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities:				
Accounts payable(Note 7):				
Trade	¥ 7,097	¥ 5,874	\$ 58,176	\$ 48,149
Associates	1,339	792	10,974	6,495
Other	827	1,285	6,779	10,536
Accrued income taxes	1,708	717	14,002	5,880
Accrued bonuses to employees	333	322	2,726	2,639
Other current liabilities	101	65	827	536
Total current liabilities	11,405	9,057	93,483	74,236
Long-term liabilities				
Retirement benefit liability(Note 12)	994	973	8,146	7,979
Asset retirement obligations(Note 21)	112	110	915	905
Deferred income taxes (Note 16)	231	91	1,897	749
Other liabilities	72	75	594	611
Total long-term liabilities	1,409	1,250	11,552	10,243
Total liabilities	12,814	10,306	105,035	84,479
Net assets:				
Shareholders' equity				
Common stock				
Authorized 16,000,000 shares				
Issued 2022- 4,512,651 shares (Note 13)	6,090	6,090	49,918	49,918
Capital surplus	6,518	6,518	53,428	53,428
Retained earnings	56,050	51,529	459,426	422,370
Less, treasury stock, at cost: (Note 13)	(7,326)	(7,323)	(60,050)	(60,024)
Total Shareholders' equity	61,332	56,815	502,722	465,693
Accumulated other comprehensive income				
Unrealized gain (loss) on available-for-sale securities	1,892	1,507	15,504	12,350
Foreign currency translation adjustments	(47)	(165)	(386)	(1,349)
Remeasurements of defined benefit plans	61	44	498	363
Total accumulated other comprehensive income	1,905	1,386	15,616	11,365
Non-controlling interests	155	143	1,274	1,172
Total net assets	63,393	58,344	519,613	478,229
Total liabilities and net assets	¥ 76,207	¥ 68,650	\$ 624,648	\$ 562,709

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2022	2021	2022	2021
Net sales(Note 18,19,23)	¥ 37,248	¥ 29,605	\$ 305,311	\$ 242,666
Cost of sales(Note 18,19)	27,439	21,991	224,907	180,255
Gross profit	9,809	7,614	80,404	62,410
Selling, general and administrative expenses (Note 14)	4,051	3,668	33,203	30,069
Operating income	5,759	3,946	47,201	32,342
Other income (expenses):				
Interest and dividend income	142	136	1,162	1,112
Interest expenses	(0)	(0)	(0)	(1)
Investment profit (Loss) on equity method	130	161	1,063	1,316
Foreign exchange profit (Loss)	1,526	331	12,507	2,711
Governmental subsidy	—	191	—	1,565
Loss on tax purpose reduction entry of non-current assets	—	(187)	—	(1,535)
Other, net	182	228	1,489	1,865
Income before income taxes and non-controlling interests	7,776	4,804	63,737	39,374
Income taxes (Note 16):				
Current	2,319	1,380	19,008	11,312
Deferred	(41)	(21)	(336)	(174)
	2,278	1,359	18,672	11,138
Net income	5,498	3,445	45,065	28,236
Net income attributable to :				
Non-controlling interests in subsidiary	(6)	(12)	(51)	(94)
Owners of parent	¥ 5,492	¥ 3,433	\$ 45,013	\$ 28,142

	Yen		U.S. dollars (Note 1)	
	2022	2021	2022	2021
Net income per share:				
Basic(Note 20)	¥ 1,697.19	¥ 1,060.99	\$ 13.911	\$ 8.697
Cash dividends per share(Note 13)	350.00	300.00	2.869	2.459

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MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED MARCH 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2022	2021	2022	2021
Income before income taxes and non-controlling interests	¥ 5,498	¥ 3,445	\$ 45,065	\$ 28,236
Other comprehensive income(Note 17):				
Unrealized gains (losses) on available-for-sale securities	385	856	3,153	7,018
Foreign currency translation adjustments	37	(27)	301	(221)
Remeasurement of defined benefit plans	5	46	43	378
Share of other comprehensive income of associates accounted for using equity method	102	(0)	838	(2)
Total other comprehensive income (loss)	529	875	4,336	7,173
Comprehensive income	¥ 6,027	¥ 4,320	\$ 49,400	\$ 35,409
Comprehensive income attributable to:				
Owners of the parent company	6,008	4,318	49,245	35,392
Minority interests	19	2	155	17

MATSUMOTO YUSHI-SEIYAKU CO.,LTD
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2022 and 2021

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						Total net assets
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income	Non-controlling interests	
Balance at March 31, 2020	4,513	6,090	6,518	49,067	(7,322)	54,353	651	(154)	6	503	154	55,010
Cash dividends				(971)		(971)						(971)
Net income attributable to owners of parent				3,433		3,433						3,433
Purchase of treasury stock					(1)	(1)						(1)
Net change of items other than shareholders' equity							856	(10)	38	884	(12)	872
Balance at March 31, 2021	4,513	¥ 6,090	¥ 6,518	¥ 51,529	¥ (7,323)	¥ 56,815	¥ 1,507	¥ (165)	¥ 44	¥ 1,386	¥ 143	¥ 58,344
Cash dividends				(971)		(971)						(971)
Net income attributable to owners of parent				5,492		5,492						5,492
Purchase of treasury stock					(3)	(3)						(3)
Net change of items other than shareholders' equity							385	117	16	519	13	531
Balance at March 31, 2022	4,513	¥ 6,090	¥ 6,518	¥ 56,050	¥ (7,326)	¥ 61,332	¥ 1,892	¥ (47)	¥ 61	¥ 1,905	¥ 155	¥ 63,393

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Accumulated other comprehensive income						Total net assets
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulated other comprehensive income	Non-controlling interests	
Balance at March 31, 2020	4,513	\$ 49,918	\$ 53,428	\$ 402,186	\$ (60,014)	\$ 445,518	\$ 5,332	\$ (1,264)	51	\$ 4,119	\$ 1,266	\$ 450,903
Cash dividends				(7,957)		(7,957)						(7,957)
Net income attributable to owners of parent				28,142		28,142						28,142
Purchase of treasury stock					(10)	(10)						(10)
Net change of items other than shareholders' equity							7,018	(85)	312	7,246	(94)	7,151
Balance at March 31, 2021	4,513	\$ 49,918	\$ 53,428	\$ 422,370	\$ (60,024)	\$ 465,693	\$ 12,350	\$ (1,349)	\$ 363	\$ 11,365	\$ 1,172	\$ 478,229
Cash dividends				(7,957)		(7,957)						(7,957)
Net income attributable to owners of parent				45,013		45,013						45,013
Purchase of treasury stock					(27)	(27)						(27)
Net change of items other than shareholders' equity							3,154	963	135	4,252	103	4,354
Balance at March 31, 2022	4,513	\$ 49,918	\$ 53,428	\$ 459,426	\$ (60,050)	\$ 502,722	\$ 15,504	\$ (386)	\$ 498	\$ 15,616	\$ 1,274	\$ 519,613

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2022 and 2021

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2022	2021	2022	2021
Cash flows from operating activities:				
Net income	¥ 7,776	¥ 4,804	\$ 63,737	\$ 39,374
Adjustments for:				
Depreciation and amortization	929	931	7,617	7,635
Loss (gain) on sales and disposal of property,	1	10	9	81
Allowance for doubtful accounts	(1)	0	(6)	3
Investment (profit) loss on equity method	(124)	(164)	(1,013)	(1,343)
Increase (decrease) in retirement benefit liability	29	38	237	315
Increase (decrease) in provision for bonuses	11	11	87	88
Interest and dividend income	(142)	(136)	(1,162)	(1,112)
Interest expenses	0	0	0	1
Foreign exchange (profit) loss	(1,477)	(242)	(12,107)	(1,980)
Loss on tax purpose reduction entry of non-current assets	—	187	—	1,535
Subsidy income	—	(191)	—	(1,565)
Decrease (Increase) in notes and accounts receivable	(1,821)	(526)	(14,925)	(4,310)
Decrease (Increase) in inventories	(1,099)	503	(9,010)	4,123
Increase (Decrease) in accounts payable	1,762	772	14,443	6,324
Increase (Decrease) in accrued consumption tax	(394)	350	(3,232)	2,865
Other, net	78	(133)	643	(1,087)
Sub total	5,529	6,216	45,317	50,947
Interest and dividend income received	181	191	1,486	1,567
Interest expenses paid	(0)	(0)	(1)	(1)
Income taxes paid	(1,374)	(1,363)	(11,265)	(11,174)
Net cash provided by operating activities	4,336	5,044	35,538	41,340
Cash flows from investing activities:				
Repayment of maturity of time deposits	(1,020)	(1,020)	(8,361)	(8,361)
Proceeds from maturity of time deposits	1,020	1,020	8,361	8,361
Receipt from redemption of investment securities	1	7	5	59
Payments for purchase of property, plant and equipment	(462)	(792)	(3,790)	(6,493)
Payments for purchase of investments in securities	(225)	(319)	(1,844)	(2,616)
Subsidies received	—	191	—	1,565
Other, net	1	149	10	1,223
Net cash provided by (used in) investing activities	(686)	(764)	(5,620)	(6,263)
Cash flows from financing activities:				
Cash dividends paid	(971)	(971)	(7,957)	(7,959)
Cash dividends paid to non-controlling shareholders	(8)	(13)	(63)	(109)
Purchase of treasury stock	(3)	(1)	(27)	(10)
Repayments of lease obligations	(2)	(2)	(17)	(12)
Net cash used in financing activities	(984)	(987)	(8,064)	(8,090)
Effect of exchange rate changes on cash and cash equivalents	1,526	252	12,508	2,066
Net increase (decrease) in cash and cash equivalents	4,192	3,544	34,362	29,053
Cash and cash equivalents at beginning of year	40,682	37,137	333,456	304,403
Cash and cash equivalents at end of year (Note 7)	¥ 44,874	¥ 40,682	\$ 367,818	\$ 333,456

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY

Notes to Financial Statements Years Ended March 31, 2022 and 2021

1. Basis of Presenting Consolidated Financial Statements

Matsumoto Yushi-Seiyaku Co.,Ltd.(the "Company") maintains its accounts and records in accordance with the provisions set forth in the Company Code of Japan (the "Code") and the Financial Instruments and Exchange Act and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The Company's overseas subsidiary maintains its accounts and records in conformity with generally accepted accounting principles and practices prevailing in its country of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiary (the "Group") which were filed with the Director of Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act.

In preparing the accompanying 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.

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2022, which was ¥122 to U.S.\$1.00. These translations for convenience should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation Principles

The consolidated financial statements include the accounts of the Company's subsidiary. All significant inter-company transactions and accounts are eliminated.

Investments in affiliates are accounted for by the equity method whereby the group includes in net income its share of income or losses of these companies, and records its investments at cost adjusted for its share of income, losses or dividends received.

Generally, companies that are owned more than 50% fall under the category of subsidiaries and companies that are owned 20% or more but not more than 50% fall under the category of affiliates, respectively.

However, companies that are owned 40% to 50% may also fall under the category of subsidiaries and companies that are owned 15% or more but not more than 20% may also fall under the category of affiliates, respectively, if the Company substantially controls the investees' management or has significant influence and relationship with the investees.

(b) Translation of Foreign Currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates in effect on the balance sheet date, and translation gains or losses are charged to income in the year incurred.

Assets, liabilities, revenue and expenses of overseas subsidiary are translated into Japanese yen at the exchange rates in effect on balance sheet date and shareholders' equity is translated into Japanese yen at historical rates. Differences arising from translation are presented as "Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

(c) Consolidated Statement of Cash Flows

For the purposes of cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

(d) Short-term Investments and Investments in Securities

In accordance with the Financial Instruments and Exchange Act, securities should be classified into four categories: trading securities, held-to-maturities securities, equity investments in an affiliate and other securities. Equity and debt securities are classified as other securities.

Marketable equity and debt securities are stated at fair value with unrealized gains and losses, net of applicable income taxes, reported as a separate component of shareholders' equity. Gains and losses are credited or charged to income when realized, with cost determined by the weighted average method.

However, if the fair value falls below 50% of cost and if there is no prospect of recovery, the unrealized losses have to be charged to income.

(e) Inventories

Finished products, work in process, purchased merchandise and raw materials are stated at cost determined (net realized value method) by the weighted average method. Raw materials are stated at cost determined (net realized value method) by the weighted average method. Supplies and containers are stated at the most recent purchase prices.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment are as follows:

Buildings	i Buildings acquired before March 31, 1998 Declining-balance method.
	ii Buildings acquired after April 1, 1998 Straight-line method.
Structures	i Structures acquired before March 31, 2016 Declining-balance method.
	ii Structures acquired after April 1, 2016 Straight-line method.
Machinery and Equipment	Declining-balance method.
Leased Assets	Straight-line method over the lease period assuming no residual value.

(g) Intangible Assets

Amortization of intangible assets is computed by the straight-line method.

(h) Accrued Severance Indemnities

Accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the period.

Employees' retirement benefits, covering employees of the Company, are provided through unfunded lump-sum benefit plans and funded noncontributory pension plans. Under the plans, eligible employees are entitled, under most circumstances, to severance payments based on compensation at the time of severance and year of service.

Actuarial losses will be amortized over five years beginning with the next year and past service cost will be expensed in the fiscal year collectively.

(i) Standards for Recognizing Revenues and Expenses**① Description of the performance obligations in the main business**

The Group sells products related to the two divisions in the surfactant division and the polymer and inorganic products division.

② The normal point in time at which the entity fulfils the performance obligation (The normal point in time at which revenue is recognised)

Revenue from sales of products is recognized at the time of delivery of the products because the customer has gained control over the products and the performance obligations are satisfied at the time of delivery of the products. However, for domestic sales of goods or products, revenue is recognized at the time of shipment if the period between the time of shipment and the time when control of the goods or products is transferred to the customer is a normal period.

(j)Research and Development and Computer Software

Research and development expenditure is charged to income when incurred.

Expenditure relating to computer software developed for internal use is charged to income when incurred. When it contributes to the generation of income or to future cost savings, such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life, namely, 5 years.

(k)Allowance for Doubtful Accounts

In accordance with the Accounting Standards for Financial Instruments, allowance for doubtful accounts is provided by actual bad debt expense ratio to normal receivables and by specific examination of collectability to bad debt.

(l)Consumption Tax

The consumption tax is imposed at the flat rate of 10% on the Company's sales to customers and purchases of goods and services. The consumption tax thus withheld on sales and paid on purchases by the Company is not included in the amounts of revenue and expense items.

Under the consumption tax law, the tax paid on purchases can generally be deducted from the tax withheld.

(m)Accrued Bonuses to Employees

As a general practice in Japan, bonuses are normally payable to employees in early summer and early winter covering the first and second half of the year, respectively. The Company records such accrued bonus liabilities at March 31.

(n)Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial statements and the tax bases of the assets and liabilities are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be settled.

(o)Per Share Information

The computation of basic net income per share is based on net income available to common shareholders and the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 3,236 thousand and 3,236 thousand for the periods ended March 31, 2022 and 2021, respectively.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(p)Amortization Method of Goodwill and Period Thereof

Goodwill is mainly amortized on a straight-line basis over a period when the effect lasts to. Immaterial goodwill is amortized in full in the same fiscal year in which it is incurred.

3. Significant Accounting Estimates

Items whose amounts have been recorded in the consolidated financial statements for the current consolidated fiscal year based on accounting estimates that may have a material impact on the consolidated financial statements for the following consolidated fiscal year are as follows:

(1)Deferred tax assets ¥10 million and deferred tax liabilities ¥231 million

Deferred tax assets and liabilities are recorded to the extent considered to have the effect of reducing future tax burdens, based on the estimated future taxable income and feasible tax planning.

The estimated amount of future taxable income varies depending on the business environment and other factors at the time. Therefore, if factors that affect the estimated taxable income occur, the amount of deferred tax assets and deferred tax liabilities of our group may be significantly affected.

(2)Investment securities (unlisted stocks) 917 million yen

In the event that the real value of unlisted shares, whose market value is deemed extremely difficult to ascertain, declines significantly due to deterioration in the financial condition of the investee, it is determined whether to devalue the value following an assessment of the possibility of recovery,

If the performance of the investee declines significantly in the future and the appraised value of the investment securities is devalued, it may have a material impact on the business performance of our group in the following fiscal year and thereafter.

4.Unapplied Accounting Standard

•Accounting Standard for Fair Value measurement (ASBJ Guidance No. 31, June 17, 2021)

(1) Summary

Calculation of the market value of investment trusts and treatment of notes, and treatment of notes on the market value of investments in partnerships, etc. in which the amount equivalent to equity interests is recorded in the balance sheet at a net amount were stipulated.

(2)Planned Application

To be applied from the beginning of the fiscal year ending March 31, 2023.

(3)Effect of Accounting Standard Application

The Company is currently assessing the effects on the consolidated financial statements resulting from the application of this accounting standard for revenue.

5.Changes In Accounting Policies

•Application of Accounting Standards for Revenue Recognition

The Group applies the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020. Hereinafter referred to as "Accounting Standard for Revenue Recognition".), etc. from the beginning of the current fiscal year, and recognizes revenue in the amount expected to be received in exchange for promised goods or services when control of those goods or services is transferred to customers. As a result, in the past, The Group recognized the extinction of supplied goods paid for, but changed the method to not recognize the extinction of supplied goods when The Group is obligated to repurchase the supplied goods. By applying the alternative treatment set forth in Paragraph 98 of the "Guidance on Accounting Standard for Revenue Recognition", revenue is recognized at the time of shipment if the period from the time of shipment to the time when control of the product is transferred to the customer is an ordinary period in the domestic sales of the product or product.

The application of the new accounting policy is in accordance with the transitional treatment set forth in the proviso to paragraph 84 of the Accounting Standard for Revenue Recognition, and the cumulative effect of retroactive application of the new accounting policy prior to the beginning of the current consolidated fiscal year is adjusted to retained earnings at the beginning of the current consolidated fiscal year, and the new accounting policy is applied from the balance at the beginning of the current consolidated fiscal year. However, The Group has applied the method set forth in paragraph 86 of the Accounting Standard for Revenue Recognition, and has not retroactively applied the new accounting policy to contracts for which almost all revenue amounts were recognized in accordance with the previous treatment prior to the beginning of the current fiscal year.

As a result, the impact on earnings for the current fiscal year is immaterial. There is no impact on the balance of retained earnings at the beginning of the period.

In addition, in accordance with the transitional treatment set forth in Article 89, Paragraph -3 of the Accounting Standard for Revenue Recognition, the notes on "Revenue Recognition" for the previous fiscal year are not stated.

- Application of Accounting Standards for Calculation of Market Value

The Group has applied the "Accounting Standard for Calculation of Market Value" (ASBJ Statement No. 30, July 4, 2019. Hereinafter referred to as "Current Value Accounting Standard".), etc. from the beginning of the current consolidated fiscal year, and in accordance with the transitional treatment set forth in Paragraph 19 of the Accounting Standard for Calculation of Market Value and Paragraph 44 -2 of the Accounting Standard for Financial Instruments (ASBJ Statement No. 10, July 4, 2019), the new accounting policy set forth in the Accounting Standard for Calculation of Market Value, etc. will be applied in the future. This has no impact on the consolidated financial statements.

In addition, in the notes to "Financial Instruments," matters concerning the breakdown of the market value of financial instruments by level, etc. will be noted. However, in accordance with the transitional treatment set forth in "Guidance on Disclosure of Fair Value of Financial Instruments" (Corporate Accounting Guidelines No. 19, July 4, 2019), paragraph 7, paragraph -4, the notes pertaining to the previous consolidated fiscal year are not stated.

6.Additional Information

- Accounting Estimates on the Effects of the Spread of the Novel Coronavirus Infection

Although the impact of the resurgence of the novel coronavirus infection and the invasion of the Republic of Ukraine by the Russian Federation remains unclear, we do not expect any significant impact on accounting estimates, including the impairment of fixed assets and the recoverability of deferred tax assets, as of the date of preparation of the consolidated financial statements for the current fiscal year.

Since there are many uncertain factors regarding the impact of the COVID-19, etc., there is a possibility that The Group's financial position and operating results will be affected if the actual changes differ from the projections.

7. Financial Instruments

(1) Circumstances on financial instruments

(a) Policy for financial instruments

The Company and its consolidated subsidiaries manage the temporary surplus funds by deposit and securities with banks that have a high level of safety. The Company and its consolidated subsidiaries raise funds for business operation with short-term bank loans.

(b) Details and risk of financial instruments and its risk management

Receivables such as notes and accounts receivable are exposed to customer's credit risk.

Receivables denominated in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates.

In order to reduce to the customer's credit risk, the Company monitors the dues and balances by customer.

Short-term investments and investments in securities are exposed to market fluctuation risk, but mainly consist of equity of the companies which conduct business with the Company. The Company periodically monitors the fair value of the security and the financial condition of the issuer.

Payables such as accounts payable are due within 6 months.

Payables denominated in foreign currency are exposed to the risk of fluctuation in foreign currency exchange rates.

(c) Supplemental information on fair values of financial instruments

Fair values of financial instruments include values based on market price and reasonably estimated values when market price is not available. Because variable factors are counted in the estimation, the estimated values may vary by adopting different assumptions.

(2) Fair value of financial instruments

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

millions of yen			
2022			
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 44,874	¥ 44,874	¥ -
Notes and accounts receivable	10,129	10,129	-
Electronically recorded monetary clims	260	260	-
Short-term investments and investments in securities	2,188	2,188	-
Total assets	¥ 57,452	¥ 57,452	¥ -
Accounts payable	9,263	9,263	-
Total liabilities	¥ 9,263	¥ 9,263	¥ -

millions of yen			
2021			
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 40,682	¥ 40,682	¥ -
Notes and accounts receivable	8,318	8,318	-
Electronically recorded monetary clims	201	201	-
Short-term investments and investments in securities	6,927	6,927	-
Total assets	¥ 56,127	¥ 56,127	¥ -
Accounts payable	7,952	7,952	-
Total liabilities	¥ 7,952	¥ 7,952	¥ -

thousands of U.S.dollars(Note 1)			
2022			
	Book Value	Fair Value	Differences
Cash and cash equivalents	\$ 367,819	\$ 367,819	\$ -
Notes and accounts receivable	83,025	83,070	-
Electronically recorded monetary clims	2,135	2,135	-
Short-term investments and investments in securities	17,938	17,938	-
Total assets	<u>\$ 470,916</u>	<u>\$ 470,916</u>	<u>\$ -</u>
Accounts payable	75,928	75,928	-
Total liabilities	<u>\$ 75,928</u>	<u>\$ 75,928</u>	<u>\$ -</u>

Repayment schedule of, cash and cash equivalents, notes and accounts receivable, short-term investments and investments in securities, long-term loans.

millions of yen				
2022				
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and cash equivalents	¥ 44,874	¥ -	¥ -	¥ -
Notes and accounts receivable	10,129	-	-	-
Electronically recorded monetary clims	260	-	-	-
Short-term investments and investments in securities	-	-	-	-
Other	-	383	-	-
Total assets	<u>¥ 55,263</u>	<u>¥ 383</u>	<u>¥ -</u>	<u>¥ -</u>

millions of yen				
2021				
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and cash equivalents	¥ 40,682	¥ -	¥ -	¥ -
Notes and accounts receivable	8,318	-	-	-
Electronically recorded monetary clims	201	-	-	-
Short-term investments and investments in securities	-	-	-	-
Other	-	90	263	-
Total assets	<u>¥ 49,200</u>	<u>¥ 90</u>	<u>¥ 263</u>	<u>¥ -</u>

thousands of U.S.dollars(Note 1)				
2022				
	Within one year	Over one year within five years	Over five years within ten years	Over ten years
Cash and cash equivalents	\$ 367,819	\$ -	\$ -	\$ -
Notes and accounts receivable	83,025	-	-	-
Electronically recorded monetary clims	2,135	-	-	-
Short-term investments and investments in securities	-	-	-	-
Other	-	3,142	-	-
Total assets	<u>\$ 452,978</u>	<u>\$ 3,142</u>	<u>\$ -</u>	<u>\$ -</u>

(3)Fair value information of financial instruments by level of inputs

Based on the observability and the significance of the inputs used to determine fair values, fair value information of financial instruments is presented by categorizing measurements into the following three levels:

Level 1 fair value: the fair value measured by quoted prices of identical assets or liabilities in active markets.

Level 2 fair value: the fair value measured using directly or indirectly observable inputs other than Level 1.

Level 3 fair value: fair values measured using unobservable inputs.

Financial assets and financial liabilities measured at fair value in the consolidated balance sheet

Types of shares	Millions of yen			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities				
Shares	4,646	-	-	4,646
Total assets	4,646	-	-	4,646

Types of shares	Thousands of U.S.dollars(Note 1)			
	2022			
	Fair value			
	Level 1	Level 2	Level 3	Total
Investments in securities				
Other securities				
Shares	38,085	-	-	38,085
Total assets	38,085	-	-	38,085

The fair values of investment trusts are not included in the above.

(Note) Valuation techniques and inputs used in measuring fair value

Investments in securities

Listed securities are measured using quoted prices. Fair value of listed securities are classified as Level 1, because they are traded in active markets.

8. Short-term Investments and Investments in Securities

Short-term investments at March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Bonds and debentures	¥ -	¥ -	\$ -
Time deposits	510	510	4,180
Other	-	0	-
	<u>¥ 510</u>	<u>¥ 510</u>	<u>\$ 4,180</u>

The following is a summary of investments in securities at March 31, 2022 and 2021 respectively:

	Millions of yen			
	March 31, 2022			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	¥ 2,606	¥ 2,451	¥ (70)	¥ 4,988
Other	1,256	340	-	1,597
	<u>¥ 3,863</u>	<u>¥ 2,792</u>	<u>¥ (70)</u>	<u>¥ 6,585</u>
Add: Securities without readily determinable fair value				576
				<u>¥ 7,160</u>

	Millions of yen			
	March 31, 2021			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	¥ 2,401	¥ 2,048	¥ (2)	¥ 4,447
Other	1,083	340	-	1,423
	<u>¥ 3,484</u>	<u>¥ 2,388</u>	<u>¥ (2)</u>	<u>¥ 5,870</u>
Add: Securities without readily determinable fair value				547
				<u>¥ 6,417</u>

	Thousands of U.S.dollars(Note 1)			
	March 31, 2022			
	Other securities			
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	\$ 21,363	\$ 20,094	\$ (572)	\$ 40,885
Other	10,297	2,790	-	13,088
	<u>\$ 31,660</u>	<u>\$ 22,885</u>	<u>\$ (572)</u>	<u>\$ 53,972</u>
Add: Securities without readily determinable fair value				4,719
				<u>\$ 58,691</u>

9. Inventories

Inventories at March 31, 2022 and 2021 comprise the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Finished goods	¥ 2,425	¥ 1,828	\$ 19,881
Work in process	612	519	5,014
Raw materials and supplies	1,394	972	11,426
	<u>¥ 4,431</u>	<u>¥ 3,319</u>	<u>\$ 36,321</u>

Revaluation loss on inventories of ¥10 million (U.S.\$85 thousand) and ¥23 million based on the lower of cost or market method was deducted from the carrying amounts of inventories at March 31,2022 and 2021 , respectively.

10. Investments in Affiliates

Investments in affiliates as of March 31, 2022 and 2021 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Investments in securities (Stocks)	¥ 1,678	¥ 1,492	\$ 13,758

11. Property, Plant and Equipment

Accumulated reduction entry of property , plant and equipment purchased using funds from a government subsidy amounted to ¥224 million (U.S.\$1,834 thousand) and ¥224 million at March 31,2022 and 2021 , respectively.

12. Retirement and Pension Plans

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2022 and 2021 respectively:

(1) Changes in Benefit Obligations

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Beginning balance of benefit obligations	¥ 2,162	¥ 2,081	\$ 17,718
Service costs	145	142	1,185
Interest costs	24	23	195
Actuarial differences arising during the year	(18)	6	(147)
Retirement benefits paid	(56)	(91)	(459)
Ending balance of benefit obligations	<u>¥ 2,256</u>	<u>¥ 2,162</u>	<u>\$ 18,492</u>

(2) Changes in Pension Assets

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Beginning balance of pension assets	¥ 1,188	¥ 1,078	\$ 9,740
Expected return on pension assets	29	26	237
Actuarial differences arising during the year	5	56	44
Contributions made by the Company and consolidated subsidiary	62	61	508
Retirement benefits paid	(22)	(33)	(183)
Ending balance of pension assets	<u>¥ 1,262</u>	<u>¥ 1,188</u>	<u>\$ 10,347</u>

(3) Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Funded benefit obligations	¥ 2,256	¥ 2,162	\$ 18,492
Pension assets	(1,262)	(1,188)	(10,347)
Net amount of liability and asset on Consolidated Balance Sheets	<u>¥ 994</u>	<u>¥ 973</u>	<u>\$ 8,146</u>

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Net defined benefit liability	¥ 994	¥ 973	\$ 8,146
Net amount of liability and asset on Consolidated Balance Sheets	<u>¥ 994</u>	<u>¥ 973</u>	<u>\$ 8,146</u>

(4) Retirement Benefit Expenses

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Service costs	¥ 145	¥ 142	\$ 1,185
Interest costs	24	23	195
Expected return on pension assets	(29)	(26)	(237)
Amortization of actuarial differences	(15)	18	(121)
Retirement benefit expenses for defined benefit pension plans	<u>¥ 125</u>	<u>¥ 157</u>	<u>\$ 1,021</u>

**(5) Remeasurements of Defined Benefit Plans (Other Comprehensive Income)
Breakdown (before deduction of tax effects)**

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Actuarial differences, etc.	¥ 8	¥ 67	\$ 62
Total	<u>¥ 8</u>	<u>¥ 67</u>	<u>\$ 62</u>

**(6) Remeasurements of Defined Benefit Plans (Accumulated Other Comprehensive Income)
Breakdown (before deduction of tax effects)**

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Unrecognized actuarial differences, etc.	¥ 77	¥ 69	\$ 631
Total	<u>¥ 77</u>	<u>¥ 69</u>	<u>\$ 631</u>

**(7) Pension Assets
Breakdown**

	2022	2021
Bonds	13.7%	17.3%
Stocks	42.4%	29.0%
General account	14.3%	44.2%
Other	29.6%	9.5%
Total	<u>100.0%</u>	<u>100.0%</u>

Rate of expected return on pension assets

The expected return on pension assets is determined based on the current and estimated future rates of return on various pension assets.

(8) Basic Assumptions for Calculating Benefit Obligations

	2022	2021
Discount rate	1.0%	1.0%
Expected rate of return on pension assets	2.4%	2.4%
Expected rate of salary increase	2.6%	2.6%

13. Supplemental Information for Consolidated Statements of Changes in Net Assets

(a) Type and number of outstanding shares

Thousand of shares				
Year ended March 31, 2022				
Types of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at year end
Issued stock:				
Common stock	4,513	-	-	4,513
Treasury stock:				
Common stock	1,277	0	-	1,277

Thousand of shares				
Year ended March 31, 2021				
Types of shares	Balance at beginning of year	Increase in shares during the year	Decrease in shares during the year	Balance at year end
Issued stock:				
Common stock	4,513	-	-	4,513
Treasury stock:				
Common stock	1,277	0	-	1,277

(b)Dividends**(1)Dividends paid to shareholders**

Year ended March 31,2022								
Date of approval	Resolution approved by	Type of shares	Amount		Amount per share		Cut-off date	Effective date
			(Million s of yen)	(Thousand of U.S.dollars)	(Yen)	(U.S.dollars)		
June 29, 2021	Annual general meeting of shareholders	Common stock	¥971	\$7,956	¥300	\$2.46	March 31, 2021	June 30, 2021

Year ended March 31,2021								
Date of approval	Resolution approved by	Type of shares	Amount		Amount per share		Cut-off date	Effective date
			(Millions of yen)		(Yen)			
June 26, 2020	Annual general meeting of shareholders	Common stock	¥971		¥300		March 31, 2020	June 29, 2020

(2)Dividends with a cut-off date during the fiscal year but an effective date subsequent to the fiscal year

Year ended March 31,2022									
Date of approval	Resolution approved by	Type of shares	Source of dividends	Amount		Amount per share		Cut-off date	Effective date
				(Million s of yen)	(Thousand of U.S.dollars)	(Yen)	(U.S.dollars)		
June 29, 2022	Annual general meeting of shareholders	Common stock	Retained earnings	¥1,132	\$9,282	¥350	2.87	March 31, 2022	June 30, 2022

Year ended March 31,2021							
Date of approval	Resolution approved by	Type of shares	Source of dividends	Amount	Amount per share	Cut-off date	Effective date
				(Millions of yen)	(Yen)		
June 29, 2021	Annual general meeting of shareholders	Common stock	Retained earnings	¥971	¥300	March 31, 2021	June 29, 2021

14. Selling, General and Administrative Expenses

Selling, general and administrative expenses for the years ended March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Packing and haulage expenses	¥ 1,076	¥ 877	\$ 8,822
Employees' salaries and Bonuses	570	536	4,668
Provision for bonuses	134	127	1,100
Provision of allowance for doubtful accounts	-	(1)	-
Retirement benefit expenses	37	44	305
Research and development expenses	771	784	6,321

15. Research and Development Expenses

Research and development expenditure charged to income was ¥771 million(U.S.\$6,321 thousand) and ¥784 million for the year ended March 31, 2022 and 2021, respectively.

16. Income Taxes

The Company is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 30.62% and 30.62% for the years ended March 31, 2022 and 2021.

Overseas subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2022 and 2021 differs from the Company's statutory tax rate for the following reasons:

	2022	2021
Statutory tax rate	30.62	30.62
Permanently nondeductible expenses	0.06	0.12
Permanently nontaxable dividends received	(0.24)	(0.47)
Per capital levy of residents tax	0.15	0.26
Reserve for special depreciation	(0.79)	(1.28)
Difference of tax rates of overseas subsidiary	0.00	(0.06)
Elimination of intercompany dividend income	(0.06)	(0.16)
Other	(0.44)	(0.74)
Effective tax rate	29.30	28.29

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2022 and 2021 are presented below:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Deferred tax assets:			
Net defined benefit liability	¥ 302	¥ 295	\$ 2,476
Net unrealized holding losses on securities	64	66	523
Accrued employee bonuses	102	99	835
Accrued enterprise tax payable	92	52	751
Loss on valuation of golf club membership	29	41	239
Depreciation	26	25	210
Loss on valuation of investment securities	21	21	171
Unrealized losses on inventories	4	5	37
Other	38	36	310
Gross deferred tax assets	677	641	5,551
Valuation allowance	-	-	-
Total deferred tax assets	677	641	5,551
Deferred tax liabilities:			
Net unrealized holding profits on securities	(899)	(731)	(7,365)
Total deferred tax liabilities	(899)	(731)	(7,365)
Net deferred tax assets	10	1	83
Net deferred tax liabilities	(231)	(91)	(1,897)

17. Comprehensive Income

Reclassification adjustments and income tax effects attributable to other comprehensive income for the years ended March 31, 2022 and 2021 are as follows:

	Millions of yen		Thousands of U.S dollars
	2022	2021	2022
Valuation difference on available-for-sale securities:			
Gains (losses) arising during the year	¥ 593	¥ 1,234	\$ 4,861
Reclassification adjustments	(39)	0	(316)
Before income tax effects	555	1,234	4,545
Income tax effects	170	378	1,392
Total	385	856	3,153
Foreign currency translation adjustments:			
Adjustments arising during the year	37	(27)	301
Reclassification adjustments	-	-	-
Before income tax effects	37	(27)	301
Income tax effects	-	-	-
Total	37	(27)	301
Remeasurements of defined benefit plans:			
Adjustments arising during the year	22	49	183
Reclassification adjustments	(15)	18	(121)
Before income tax effects	8	67	62
Income tax effects	(2)	(20)	(19)
Total	5	46	43
Share of other comprehensive income of entities accounted for using equity method:			
Adjustments arising during the year	106	(2)	869
Reclassification adjustments	0	(1)	1
Before income tax effects	106	(3)	870
Income tax effects	(4)	3	(32)
Total	102	(0)	838
Total other comprehensive income	¥ 529	¥ 875	\$ 4,336

18. Segment and Related Information

Matsumoto Yushi-Seiyaku Co., Ltd. For Japan segment, and P.T. Matsumoto Yushi Indonesia for Indonesian segment, respectively, function as an independent business entity developing comprehensive strategies and promoting business operations.

The reported segments are individually accounted for, with separate financial data available, and are subject to periodical scrutiny by the Board of Directors for performance evaluation and resources assignment.

(1) Segment information

Segment information for the years ended March 31, 2022 and 2021 consisted of the following respectively:

Millions of yen			
2022			
	Japan	Indonesia	Total segments
Sales			
Anionic surfactants	¥ 3,222	¥ 8	¥ 3,230
Nonionic surfactants	22,534	403	22,937
Cationic and zwitterionic surfactants	999	3	1,002
High polymer and inorganic chemicals	9,881	198	10,079
Revenue from contracts with customers	36,636	612	37,248
Sales to external customers	36,636	612	37,248
Inter-segment	332	41	373
Total sales	¥ 36,968	¥ 653	¥ 37,621
Segment income	5,742	21	5,763
Total assets	74,513	628	75,141
Total liabilities	12,907	185	13,092
Other			
Depreciation	¥ 921	¥ 8	¥ 929
Capital expenditure	321	0	321

Millions of yen			
2021			
	Japan	Indonesia	Total segments
Sales			
External customers	¥ 29,134	¥ 471	¥ 29,605
Inter-segment	178	20	198
Total sales	¥ 29,312	¥ 491	¥ 29,803
Segment income	3,896	44	3,940
Total assets	67,135	533	67,668
Total liabilities	10,348	127	10,474
Other			
Depreciation	¥ 926	¥ 5	¥ 931
Capital expenditure	478	6	483

Thousands of U.S.dollars			
2022			
	Japan	Indonesia	Total segments
Sales			
Anionic surfactants	\$ 26,410	\$ 66	\$ 26,475
Nonionic surfactants	184,705	3,303	188,008
Cationic and zwitterionic surfactants	8,189	25	8,213
High polymer and inorganic chemicals	80,992	1,623	82,615
Revenue from contracts with customers	300,295	5,016	305,311
Sales to external customers	300,295	5,016	305,311
Inter-segment	2,721	336	3,057
Total sales	\$ 303,016	\$ 5,352	\$ 308,369
Segment income	47,066	172	47,238
Total assets	610,762	5,148	615,910
Total liabilities	105,795	1,516	107,311
Other			
Depreciation	\$ 7,549	\$ 66	\$ 7,615
Capital expenditure	2,631	0	2,631

(2) Adjustments and eliminations

Reconciliation of sales	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Segment sales	¥ 37,621	¥ 29,803	\$ 308,373
Inter-segment transactions (elimination)	(373)	(198)	(3,061)
Group sales	¥ 37,248	¥ 29,605	\$ 305,311

Reconciliation of income	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Segment income	¥ 5,763	¥ 3,940	\$ 47,241
Adjustment of inventory	(5)	5	(40)
Group operating income	¥ 5,759	¥ 3,946	\$ 47,201

Reconciliation of assets	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Segment operating assets	¥ 75,141	¥ 67,668	\$ 615,910
Inter-segment transactions (elimination)	(210)	(98)	(1,720)
Adjustment of inventory	(5)	(6)	(44)
Other adjustments	1,272	1,086	10,428
Group assets	¥ 76,207	¥ 68,650	\$ 624,648

Reconciliation of liabilities

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Segment operating liabilities	¥ 13,092	¥ 10,474	\$ 107,312
Inter-segment transactions (elimination)	(210)	(98)	(1,720)
Other adjustments	(77)	(69)	(631)
Group liabilities	<u>¥ 12,814</u>	<u>¥ 10,306</u>	<u>\$ 105,035</u>

(3) Related information**Products and Services information**

	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
Sales to external customers	2022	2021	2022
Surfactants	¥ 27,169	¥ 21,773	\$ 222,696
High polymer and inorganic chemicals	9,464	7,472	77,573
Other	615	360	5,043
Total	<u>¥ 37,248</u>	<u>¥ 29,605</u>	<u>\$ 305,311</u>

Geographic information

	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
Sales to external customers	2022	2021	2022
Japan	¥ 12,163	¥ 11,936	\$ 99,695
Asia	21,344	15,936	174,952
Other	3,741	1,733	30,665
Total	<u>¥ 37,248</u>	<u>¥ 29,605</u>	<u>\$ 305,311</u>

Main customers information

	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
Sales	2022	2021	2022
Marubeni Chemix Corporation	¥ 11,836	¥ 8,788	\$ 97,019
Nippon Quaker Chemical, Ltd.	4,727	3,915	38,748

19. Related Party Transactions

Principal transactions between the Company and its affiliate for the years ended March 31, 2022 and 2021 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2022	2021	2022
Sales(Nippon Quaker Chemical, Ltd.)	¥ 4,727	¥ 3,915	\$ 38,748
Purchase(Nippon Quaker Chemical, Ltd.)	2,450	1,628	20,079

20. Per Share Data

	yen		U.S.dollars
	2022	2021	2022
Net income per share	¥ 1,697.19	¥ 1,060.99	\$ 13.911
Net assets per share	¥ 19,544.43	¥ 17,986.18	\$ 160.200

The bases for calculating net income per share are as follows:

	Millions of yen		Thousands of U.S dollars
	2022	2021	2022
Profit attributable to owners of parent available for distribution to common shareholders	¥ 5,492	¥ 3,433	\$ 45,013
	Shares		
	2022	2021	
Weighted average number of shares for net income	3,235,713	3,235,931	

The bases for calculating net assets per share are as follows:

	Millions of yen		Thousands of U.S dollars
	2022	2021	2022
Total net assets	¥ 63,393	¥ 58,344	\$ 519,613
Amounts deducted from total net assets			
Noncontrolling interests	(155)	(143)	(1,274)
Net assets attributable to shares of common stock	63,237	58,201	518,339
	Shares		
	2022	2021	
Number of shares of common stock used in the calculation of net assets per share	3,235,566	3,235,872	

21. Asset Retirement Obligations

Asset retirement obligations for the year ended March 31, 2022 and 2021 consisted of the following respectively:

	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
	2022	2021	2022
Balance at beginning of year	¥ 110	¥ 109	\$ 905
Payments for purchase of property, plant and equipment	-	-	-
Interest cost	1	1	10
Balance at end of year	¥ 112	¥ 110	\$ 915

22. Subsidiaries

The Company's subsidiaries are as follows:

<u>Name</u>	<u>Ownership Interest</u>	<u>Country of Incorporation</u>
P.T.Matsumoto-Yushi Indonesia	65%	Indonesia

23.Revenues from contracts with customers

(1)Disaggregation of revenue from customer contracts

The disaggregation of revenue from contracts with customers is as described in Notes18 (Segment and Related Information).

(2)Revenues from contracts with customers

Information for understanding revenues is provided in Note 2(i), “Summary of Significant Accounting Policies– Standards for Recognizing Revenues and Expenses”

(3)Revenue in the current and subsequent consolidated fiscal years

(a) Receivables from contracts with customers and contract liabilities

Contract liabilities relate mainly to advances received from customers from the obligation to transfer goods or products to customers.

They are included in “Other current liabilities” under current liabilities in the accompanying consolidated financial statements.

The contractual liability balances recorded at the beginning of the period are generally recognized as revenue within 1 year.

The balances of receivables from contracts with customers and contract liabilities were as follows.

	Millions of yen	Thousands of U.S. dollars(Note 1)
	2022	2022
Receivables from contracts with customers (opening balance)		
Notes and accounts receivable	¥ 8,214	\$ 67,331
Electronically recorded monetary claims	201	1,644
Total	<u>¥ 8,415</u>	<u>\$ 68,974</u>
Receivables from contracts with customers (closing balance)		
Notes and accounts receivable	¥ 9,989	\$ 81,879
Electronically recorded monetary claims	260	2,135
Total	<u>¥ 10,250</u>	<u>\$ 84,014</u>
Contract liabilities (opening balance)	<u>¥ 42</u>	<u>\$ 344</u>
Contract liabilities (closing balance)	¥ 72	\$ 591

(b)The transaction prices allocated to remaining performance obligations

The total amount of the transaction price allocated to the remaining performance obligation is 72 million yen, and expected to be recognized within 1 year.