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UBE Corporation

Integrated Report

# 2023

## Financial Section

Contents

# Consolidated Balance Sheet

*UBE Corporation and Consolidated Subsidiaries*
*March 31, 2023 and 2022*

## Assets

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| **Current assets:** | | | |
| Cash and cash equivalents (Note 5) | ¥ 30,703 | ¥ 78,761 | $ 229,127 |
| Time deposits (Note 5) | 472 | 731 | 3,522 |
| Receivables (Note 5): | | | |
| Notes - trade | 5,309 | 18,090 | 39,619 |
| Accounts - trade | 96,256 | 137,518 | 718,328 |
| Contract assets | 5,433 | 15,750 | 40,545 |
| Others | 12,318 | 11,546 | 91,925 |
| Allowance for doubtful accounts | (109) | (259) | (813) |
| Inventories (Note 7) | 127,008 | 124,709 | 947,821 |
| Other current assets | 5,626 | 7,843 | 41,986 |
| Total current assets | 283,016 | 394,689 | 2,112,060 |
| **Property, plant and equipment** (Notes 9, 15 and 21)**:** | | | |
| Land | 36,701 | 75,816 | 273,888 |
| Buildings and structures | 152,227 | 286,028 | 1,136,022 |
| Machinery and equipment | 540,161 | 761,152 | 4,031,052 |
| Construction in progress | 12,357 | 14,113 | 92,217 |
| Accumulated depreciation | (533,419) | (804,352) | (3,980,739) |
| Total property, plant and equipment, net | 208,027 | 332,757 | 1,552,440 |
| **Investments and other assets:** | | | |
| Investment securities (Notes 5 and 6) | 198,393 | 61,808 | 1,480,545 |
| Long-term loans receivable | 139 | 303 | 1,037 |
| Deferred tax assets (Note 16) | 14,853 | 16,452 | 110,843 |
| Net defined benefit asset (Note 20) | 11,009 | 10,382 | 82,157 |
| Other non-current assets | 16,462 | 22,103 | 122,851 |
| Allowance for doubtful accounts | (263) | (540) | (1,963) |
| Total investments and other assets | 240,593 | 110,508 | 1,795,470 |
| **Total assets** | ¥ 731,636 | ¥ 837,954 | $ 5,459,970 |

*See accompanying notes.*

## Liabilities and Net Assets

| | Millions of yen 2023 | Millions of yen 2022 | Thousands of U.S. dollars (Note 1) 2023 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term loans payable (Notes 5, 8 and 9) | ¥ 35,868 | ¥ 24,686 | $ 267,672 |
| Commercial paper (Note 5) | 3,000 | 17,000 | 22,388 |
| Current portion of long-term debt (Notes 5, 8 and 9) | 19,269 | 29,820 | 143,799 |
| Payables (Note 5): | | | |
| Notes and accounts - trade | 69,241 | 110,766 | 516,724 |
| Others | 20,199 | 34,292 | 150,739 |
| Provision for bonuses | 5,258 | 6,951 | 39,238 |
| Income taxes payable (Note 5) | 1,528 | 5,890 | 11,403 |
| Contract liabilities | 9,078 | 6,595 | 67,746 |
| Other current liabilities | 7,718 | 13,174 | 57,597 |
| Total current liabilities | 171,159 | 249,174 | 1,277,306 |
| | | | |
| **Long-term liabilities:** | | | |
| Long-term debt less current portion (Notes 5, 8 and 9) | 155,520 | 164,670 | 1,160,597 |
| Net defined benefit liability (Note 20) | 7,219 | 7,292 | 53,873 |
| Deferred tax liabilities (Note 16) | 1,013 | 1,932 | 7,560 |
| Other long-term liabilities | 15,066 | 20,851 | 112,433 |
| Total long-term liabilities | 178,818 | 194,745 | 1,334,463 |
| | | | |
| **Contingent liabilities** (Note 10) | | | |
| | | | |
| **Net assets** (Note 11)**:** | | | |
| Capital stock, without par value:<br>Authorized — 330,000,000 shares<br>Issued —106,200,107 shares at March 31, 2023 and 2022 | 58,435 | 58,435 | 436,082 |
| Capital surplus | 40,371 | 40,623 | 301,276 |
| Retained earnings | 257,985 | 274,725 | 1,925,261 |
| Treasury shares<br>9,159,538 shares at March 31, 2023 and<br>9,392,743 shares at March 31, 2022 | (21,676) | (22,234) | (161,761) |
| Valuation difference on available-for-sale securities | 2,698 | 3,680 | 20,134 |
| Deferred gains (losses) on hedges | (143) | (70) | (1,067) |
| Foreign currency translation adjustment | 23,740 | 13,218 | 177,164 |
| Remeasurements of defined benefit plans | 229 | 765 | 1,709 |
| Share acquisition rights (Note 22) | 71 | 510 | 530 |
| Non-controlling interests | 19,949 | 24,383 | 148,873 |
| Total net assets | 381,659 | 394,035 | 2,848,201 |
| **Total liabilities and net assets** | ¥731,636 | ¥837,954 | $5,459,970 |

## Consolidated Statement of Income

*UBE Corporation and Consolidated Subsidiaries*
*For the years ended March 31, 2023 and 2022*

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| **Net sales** | ¥494,738 | ¥655,265 | $3,692,075 |
| **Cost of sales** | 412,134 | 527,346 | 3,075,627 |
| Gross profit | 82,604 | 127,919 | 616,448 |
| **Selling, general and administrative expenses** (Notes 12, 13 and 22) | 66,314 | 83,881 | 494,881 |
| Operating profit | 16,290 | 44,038 | 121,567 |
| **Other income (expenses):** | | | |
| Interest and dividend income | 1,448 | 1,247 | 10,806 |
| Amortization of negative goodwill | — | 52 | — |
| Interest expense | (780) | (898) | (5,821) |
| Share of loss of entities accounted for using equity method | (23,115) | (1,942) | (172,500) |
| Others, net (Note 14) | 3,561 | (5,703) | 26,575 |
| | (18,886) | (7,244) | (140,940) |
| Profit (loss) before income taxes | (2,596) | 36,794 | (19,373) |
| **Income taxes** (Note 16)**:** | | | |
| Current | 3,864 | 9,593 | 28,836 |
| Deferred | 1,669 | 1,355 | 12,455 |
| | 5,533 | 10,948 | 41,291 |
| Profit (loss) | (8,129) | 25,846 | (60,664) |
| **Profit (loss) attributable to non-controlling interests** | (1,123) | 1,346 | (8,380) |
| Profit (loss) attributable to owners of parent | ¥ (7,006) | ¥ 24,500 | $ (52,284) |

| | Yen | | U.S. dollars (Note 1) |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| **Per share:** | | | |
| Net income (loss): | | | |
| Basic | ¥(72.25) | ¥249.31 | $(0.539) |
| Diluted | — | 248.56 | — |
| Cash dividends applicable to the period | 95.00 | 100.00 | 0.709 |

*See accompanying notes.*

## Consolidated Statement of Comprehensive Income

*UBE Corporation and Consolidated Subsidiaries*
*For the years ended March 31, 2023 and 2022*

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| **Profit (loss)** | ¥(8,129) | ¥25,846 | $(60,664) |
| Valuation difference on available-for-sale securities | (38) | (390) | (284) |
| Deferred gains (losses) on hedges | 32 | (73) | 239 |
| Foreign currency translation adjustment | 7,142 | 5,694 | 53,299 |
| Remeasurements of defined benefit plans, net of tax | (1,222) | 33 | (9,119) |
| Share of other comprehensive income of entities accounted for using equity method | 4,053 | 527 | 30,246 |
| **Total other comprehensive income** | 9,967 | 5,791 | 74,381 |
| Comprehensive income | ¥ 1,838 | ¥31,637 | $ 13,717 |
| Attributable to: | | | |
| Owners of parent | ¥ 1,925 | ¥29,600 | $ 14,366 |
| Non-controlling interests | (87) | 2,037 | (649) |

*See accompanying notes.*

# Consolidated Statement of Changes in Net Assets

*UBE Corporation and Consolidated Subsidiaries*

| For the year ended March 31, 2023 | Number of shares issued (thousands) | Capital stock | Capital surplus | Retained earnings | Treasury shares | Valuation difference on available-for- sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Share acquisition rights | Non-controlling interests |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Millions of yen | | | | | | | | | |
| **Opening balance** | 106,200 | ¥58,435 | ¥40,623 | ¥274,725 | ¥(22,234) | ¥3,680 | ¥ (70) | ¥13,218 | ¥ 765 | ¥ 510 | ¥24,383 |
| Cash dividends at ¥100.00 per share | — | — | — | (9,692) | — | — | — | — | — | — | — |
| Profit (loss) attributable to owners of parent | — | — | — | (7,006) | — | — | — | — | — | — | — |
| Purchase of treasury shares | — | — | — | — | (38) | — | — | — | — | — | — |
| Disposal of treasury shares | — | — | (93) | — | 596 | — | — | — | — | — | — |
| Purchase of shares of consolidated subsidiaries | — | — | (135) | — | — | — | — | — | — | — | — |
| Increase (decrease) due to change in fiscal year end of consolidated subsidiaries | — | — | — | (33) | — | — | — | — | — | — | — |
| Effect of corporate spin-off | — | — | (24) | (9) | — | — | — | — | — | — | — |
| Net changes of items other than shareholders' equity | — | — | — | — | — | (982) | (73) | 10,522 | (536) | (439) | (4,434) |
| **Closing balance** | 106,200 | ¥58,435 | ¥40,371 | ¥257,985 | ¥(21,676) | ¥2,698 | ¥(143) | ¥23,740 | ¥ 229 | ¥ 71 | ¥19,949 |

| For the year ended March 31, 2022 | Number of shares issued (thousands) | Capital stock | Capital surplus | Retained earnings | Treasury shares | Valuation difference on available-for- sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Share acquisition rights | Non-controlling interests |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Millions of yen | | | | | | | | | |
| **Opening balance** | 106,200 | ¥58,435 | ¥40,659 | ¥259,806 | ¥(12,380) | ¥4,080 | ¥ 3 | ¥ 7,720 | ¥ 690 | ¥547 | ¥21,075 |
| Cumulative effects of changes in accounting policies | — | — | — | (648) | — | — | — | — | — | — | — |
| **Restated balance** | 106,200 | 58,435 | 40,659 | 259,158 | (12,380) | 4,080 | 3 | 7,720 | 690 | 547 | 21,075 |
| Cash dividends at ¥90.00 per share | — | — | — | (8,944) | — | — | — | — | — | — | — |
| Profit (loss) attributable to owners of parent | — | — | — | 24,500 | — | — | — | — | — | — | — |
| Purchase of treasury shares | — | — | — | — | (10,006) | — | — | — | — | — | — |
| Disposal of treasury shares | — | — | (34) | — | 152 | — | — | — | — | — | — |
| Increase by merger | — | — | — | 11 | — | — | — | — | — | — | — |
| Purchase of shares of consolidated subsidiaries | — | — | (2) | — | — | — | — | — | — | — | — |
| Net changes of items other than shareholders' equity | — | — | — | — | — | (400) | (73) | 5,498 | 75 | (37) | 3,308 |
| **Closing balance** | 106,200 | ¥58,435 | ¥40,623 | ¥274,725 | ¥(22,234) | ¥3,680 | ¥(70) | ¥13,218 | ¥765 | ¥510 | ¥24,383 |

| For the year ended March 31, 2023 | Number of shares issued (thousands) | Capital stock | Capital surplus | Retained earnings | Treasury shares | Valuation difference on available-for- sale securities | Deferred gains (losses) on hedges | Foreign currency translation adjustment | Remeasurements of defined benefit plans | Share acquisition rights | Non-controlling interests |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Thousands of U.S. dollars (Note 1) | | | | | | | | | |
| **Opening balance** | 106,200 | $436,082 | $303,157 | $2,050,187 | $(165,925) | $27,463 | $ (522) | $ 98,642 | $ 5,709 | $ 3,806 | $181,963 |
| Cash dividends at ¥100.00 per share | — | — | — | (72,328) | — | — | — | — | — | — | — |
| Profit (loss) attributable to owners of parent | — | — | — | (52,284) | — | — | — | — | — | — | — |
| Purchase of treasury shares | — | — | — | — | (284) | — | — | — | — | — | — |
| Disposal of treasury shares | — | — | (694) | — | 4,448 | — | — | — | — | — | — |
| Purchase of shares of consolidated subsidiaries | — | — | (1,008) | — | — | — | — | — | — | — | — |
| Increase (decrease) due to change in fiscal year end of consolidated subsidiaries | — | — | — | (246) | — | — | — | — | — | — | — |
| Effect of corporate spin-off | — | — | (179) | (68) | — | — | — | — | — | — | — |
| Net changes of items other than shareholders' equity | — | — | — | — | — | (7,329) | (545) | 78,522 | (4,000) | (3,276) | (33,090) |
| **Closing balance** | 106,200 | $436,082 | $301,276 | $1,925,261 | $(161,761) | $20,134 | $(1,067) | $177,164 | $ 1,709 | $ 530 | $148,873 |

*See accompanying notes.*

## Consolidated Statement of Cash Flows

*UBE Corporation and Consolidated Subsidiaries*
*For the years ended March 31, 2023 and 2022*

| | Millions of yen | | Thousands of U.S. dollars (Note 1) |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| **Cash flows from operating activities:** | | | |
| Profit (loss) before income taxes | ¥ (2,596) | ¥ 36,794 | $ (19,373) |
| Depreciation and amortization | 25,412 | 36,506 | 189,642 |
| Loss on impairment of fixed assets | 1,350 | 771 | 10,075 |
| Interest and dividend income | (1,448) | (1,247) | (10,806) |
| Interest expense | 780 | 898 | 5,821 |
| Loss (gain) on sales of property, plant and equipment | (343) | 17 | (2,560) |
| Loss (gain) on sales of investment securities | 817 | (367) | 6,097 |
| Decrease (increase) in notes and accounts receivable - trade | 11,305 | (21,204) | 84,366 |
| Increase in inventories | (21,885) | (34,908) | (163,321) |
| Increase (decrease) in notes and accounts payable - trade | (1,819) | 15,609 | (13,575) |
| Changes in net defined benefit asset and liability | 1,044 | (781) | 7,791 |
| Others, net | 9,078 | 3,559 | 67,746 |
| Subtotal | 21,695 | 35,647 | 161,903 |
| Interest and dividend income received | 5,497 | 2,610 | 41,022 |
| Interest expenses paid | (811) | (956) | (6,052) |
| Proceeds from subsidy income | 165 | 836 | 1,231 |
| Income taxes paid | (8,419) | (5,426) | (62,828) |
| Net cash provided by operating activities | 18,127 | 32,711 | 135,276 |
| **Cash flows from investing activities:** | | | |
| Proceeds from sales of property, plant and equipment | 394 | 398 | 2,940 |
| Purchase of property, plant and equipment and intangible assets | (26,829) | (36,379) | (200,216) |
| Proceeds from sales of investment securities | 594 | 995 | 4,433 |
| Purchase of investment securities | (152) | (192) | (1,134) |
| Payments for investments in capital of subsidiaries and associates | (2,465) | (2,244) | (18,396) |
| Purchase of shares of subsidiaries and affiliates | (1,374) | (192) | (10,254) |
| Proceeds from sales of shares of subsidiaries and affiliates | 817 | 78 | 6,097 |
| Payments from sales of shares of subsidiaries and affiliates | (420) | — | (3,134) |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | (7,322) | — | (54,642) |
| Payments for sales of shares of subsidiaries resulting in change in scope of consolidation | — | (563) | — |
| Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation | 2,350 | 315 | 17,537 |
| Net decrease (increase) in loans receivable | 8,246 | (5,241) | 61,537 |
| Others, net | 142 | (348) | 1,060 |
| Net cash used in investing activities | (26,019) | (43,373) | (194,172) |
| **Cash flows from financing activities:** | | | |
| Proceeds from long-term borrowings | 23,497 | 34,720 | 175,351 |
| Proceeds from issuance of bonds | 9,950 | — | 74,254 |
| Repayments of long-term borrowings | (14,065) | (16,024) | (104,963) |
| Redemption of bonds | (10,000) | (10,000) | (74,627) |
| Net increase in short-term borrowings | 19,466 | 1,262 | 145,269 |
| Net increase (decrease) in commercial paper | (14,000) | 17,000 | (104,478) |
| Cash dividends paid | (9,667) | (8,923) | (72,142) |
| Dividends paid to non-controlling interests | (942) | (242) | (7,030) |
| Proceeds from share issuance to non-controlling shareholders | — | 2,279 | — |
| Purchase of shares of subsidiaries not resulting in change in scope of consolidation | (1,168) | (733) | (8,716) |
| Others, net | (628) | (10,968) | (4,687) |
| Net cash provided by financing activities | 2,443 | 8,371 | 18,231 |
| **Effect of exchange rate change on cash and cash equivalents** | 658 | 1,349 | 4,911 |
| **Net decrease in cash and cash equivalents** | (4,791) | (942) | (35,754) |
| **Cash and cash equivalents at beginning of the year** | 78,761 | 79,646 | 587,769 |
| **Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries** | — | 57 | — |
| **Decrease in cash and cash equivalents resulting from corporate spin-off** | (43,267) | — | (322,888) |
| **Cash and cash equivalents at end of the year** | ¥ 30,703 | ¥ 78,761 | $ 229,127 |

*See accompanying notes.*

## 1

### Basis of presenting consolidated financial statements

**(a)** UBE Corporation (the "Company") and its consolidated subsidiaries (collectively, the "Group") maintain their accounting records and prepare their financial statements in accordance with accounting principles generally accepted in Japan. The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Financial Instruments and Exchange Act of Japan and, accordingly, have been prepared in accordance with accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards.

Certain modifications have been made to the accompanying financial statements in order to present them in a form which is more familiar to readers outside Japan.

**(b)** The accompanying financial statements are expressed in Japanese yen and, solely for the convenience of the reader, have been translated into U.S. dollars at ¥134=US$1, the approximate rate of exchange on March 31, 2023. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

## 2

### Significant accounting policies

#### (a) Basis of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and significant companies controlled directly or indirectly by the Company (36 and 65 companies for the years ended March 31, 2023 and 2022, respectively). Significant companies over which the Company exercises significant influence in terms of their operating and financial policies are included in the consolidated financial statements by the equity method (15 and 26 companies for the years ended March 31, 2023 and 2022, respectively). All significant intercompany balances and transactions are eliminated in consolidation.

Certain subsidiaries are consolidated using their financial statements as of their respective fiscal year end, which falls on December 31, and necessary adjustments are made to their financial statements to reflect any significant transactions occurring during the January 1 to March 31 period.

In the initial consolidation, assets and liabilities of subsidiaries including those attributable to non-controlling interests are recorded based on fair value in the consolidated financial statements.

The difference between acquisition cost and the underlying net assets at fair value at the date of acquisition is amortized over a period of 20 years on a straight-line basis. Goodwill in the amount of ¥2,952 million (US$22,030 thousand) and ¥857 million is included in "Other non-current assets" on the consolidated balance sheet at March 31, 2023 and 2022, respectively.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost.

#### (b) Accounting for income taxes

Deferred tax assets and liabilities are recognized in the consolidated financial statements with respect to the differences between the financial reporting and the tax bases of the assets and liabilities.

Deferred tax assets and liabilities are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Valuation allowance is provided for the deferred tax assets that are not realizable within a reasonable period.

#### (c) Securities

Securities other than equity securities issued by subsidiaries and affiliates are classified into three categories: "Trading," "Held-to-maturity" and "Others." The Company and its consolidated subsidiaries have no trading securities and held-to-maturity securities. Marketable securities classified as other securities are carried at fair value with changes in the valuation difference, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving-average method.

#### (d) Derivatives and hedge accounting

All derivatives are stated at fair value, with changes in fair value recorded as gain or loss for the period in which they arise.

If derivative financial instruments are used as hedges and meet certain hedging criteria, the Group defers the recognition of gains or losses resulting from changes in the fair value of the derivative financial instruments until the related losses or gains on the hedged items are recognized.

If interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under these swap contracts is added to or deducted from the interest on the assets or liabilities for which the swap contracts were executed ("Short-cut method").

Summarized in the table below are hedging instruments and items hedged.

| Hedging instruments | Items hedged |
|---|---|
| Interest rate swaps | Loans |
| Interest rate options | Loans |
| Forward foreign exchange contracts | Foreign currency receivables and payables<br>Forecasted foreign currency transactions |
| Currency options | Foreign currency receivables and payables<br>Forecasted foreign currency transactions |
| Currency swaps | Foreign currency loans |

The Company and its consolidated subsidiaries use hedging instruments for the purpose of reducing the fluctuation risk of interest rates, and foreign exchange in accordance with the Company's policies.

The effectiveness of hedging activities is assessed by confirming whether each hedging instrument corresponds to the item hedged.

Additional information on derivatives is presented in Note 17. Derivative financial instruments.

### (e) Retirement and pension plan

The Company attributes projected benefits based on a flat benefit formula.

Actuarial gain or loss is amortized in the following year in which the gain or loss is incurred mainly by the declining-balance method over 5-13 years, which are shorter than the average remaining service years of employees.

Prior service cost is amortized as incurred mainly by the straight-line method over 12-13 years, which are shorter than the average remaining service years of the employees.

Many consolidated subsidiaries adopt a simplified method to calculate net defined benefit liability and retirement benefit expenses based on the assumption that the benefits payable, which are calculated as if all eligible employees voluntarily terminate their employment at fiscal year end, approximates the retirement benefit obligations at year end.

### (f) Allowance for doubtful accounts

Allowance for doubtful accounts is provided at an amount estimated with reference to individual uncollectible accounts plus an amount calculated using a historical rate determined based on the actual uncollectible amounts incurred in prior years.

### (g) Inventories

Inventories are stated at the lower of cost or market, cost being determined principally by the weighted-average method.

### (h) Property, plant and equipment (except for leased assets) and depreciation

Property, plant and equipment is stated at cost. Depreciation of property, plant and equipment is computed principally by the straight-line method for the Company and by the declining-balance method for some consolidated subsidiaries, except for certain buildings of domestic consolidated subsidiaries acquired on or after April 1, 1998, and except for certain building facilities and structures of domestic consolidated subsidiaries acquired on or after April 1, 2016, which are depreciated by the straight-line method, at rates based on the estimated useful lives of the respective assets.

The estimated useful lives of the assets are as follows:

Buildings and structures: 2 to 67 years

Machinery and equipment: 2 to 30 years

### (i) Intangible assets (except for leased assets)

Patent rights, software and others are amortized by the straight-line method over their estimated useful lives.

### (j) Leased assets

Leased property under finance leases which does not transfer ownership of the leased property to lessees is depreciated or amortized by the straight-line method over the lease terms assuming no residual value.

### (k) Research and development costs

Research and development costs are charged to income when incurred.

### (l) Net income per share

Basic net income per share is computed based on net income available for distribution to stockholders of common stock and the weighted average number of shares of common stock outstanding during each year (96,970 thousand shares and 98,272 thousand shares for the years ended March 31, 2023 and 2022, respectively). Diluted net income per share is computed based on net income available for distribution to the stockholders and the weighted average number of shares of common stock outstanding during each year assuming full exercise of share subscription rights (296 thousand shares for the year ended March 31, 2022, but for the year ended March 31, 2023, diluted net income per share is not presented because the Company recorded loss attributable to owners of parent for the year).

### (m) Provision for bonuses

Provision for bonuses is provided for payments to employees at the estimated amount incurred attributable to the current fiscal year.

### (n) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, demand deposits and short-term investments. Short-term investments included here are readily convertible into cash, exposed to insignificant risk of changes in value and mature or become due within three months of the date of acquisition.

### (o) Provision for loss on order received

Provision for loss on order received is provided to cover the losses that are highly likely to be incurred and the amounts of which can be reasonably estimated.

These provision for loss on order received in the amounts of ¥433 million (US$3,231 thousand) and ¥321 million are included in "Other current liabilities" on the consolidated balance sheet at March 31, 2023 and 2022, respectively.

### (p) Provision for directors retirement benefits

Consolidated subsidiaries provide for retirement allowances for directors and audit & supervisory board members at the necessary amount at the year end based on their internal policies.

Retirement allowances of ¥196 million (US$1,463 thousand) and ¥422 million are included in "Other long-term liabilities" on the consolidated balance sheet at March 31, 2023 and 2022, respectively.

### (q) Provision for loss on business restructuring

Provision for loss on business restructuring is provided to cover the losses, which are highly likely to be incurred and the amounts of which can be reasonably estimated, related to certain businesses of the Company and its consolidated subsidiaries.

These provision for losses on business restructuring in the amounts of ¥519 million (US$3,873 thousand) and ¥109 million are included in "Other long-term liabilities" on the consolidated balance sheet at March 31, 2023 and 2022, respectively.

### (r) Provision for special repairs

Provision for special repairs is provided for payments of routine maintenance mainly for ammonia plants at the estimated amount.

These provision for special repairs in the amounts of ¥1,312 million (US$9,791 thousand) and ¥3,084 million are included in "Other long-term liabilities" on the consolidated balance sheet at March 31, 2023 and 2022, respectively.

### (s) Significant revenues and expenses

The Company and its consolidated subsidiaries conduct business activities in the following four business segments: "Specialty Products ," "Polymers & Chemicals ," "Machinery" and "Others," and provide a wide variety of products to customers in Japan and overseas.

With regard to the sales of products in these businesses, the Group recognizes revenue at the point in time when the product is delivered to the customer based on the provisions of the contract or when risks are transferred to the customer based on Incoterms because the customer has gained control over the product and the Group's performance obligations have been satisfied. Regarding domestic transactions we have determined that control of the sales of products are transferred to the customer at the time of product delivery, and sales revenue is recognized at the time of shipment because the period from shipment to delivery is the normal period. In addition, regarding contracts in the Machinery segment in which performance obligations are fulfilled over a certain period of time, unless the period is very short, the degree of progress in satisfying the performance obligations is estimated and revenue is recognized over a certain period of time based on the degree of progress. The method of estimating the degree of progress related to the satisfaction of the performance obligations is based on the input method using the ratio of costs incurred to the estimated total cost.

Revenue is calculated by deducting returns, discounts, and rebates from the consideration promised in the contract with the customer, and at an amount within a range where it is highly probable that a significant refund will not occur.

In addition, other parties are involved in some overseas sales transactions of products in the Polymers & Chemicals segment and Others segment. The Group is required to arrange for goods or services to be provided to the customer by these other parties, and therefore the Company is acting as an agent in such transactions. For transactions where the Group acts as an agent, the Company recognizes revenue by deducting the amount paid to the supplier from the amount received from the customer.

Furthermore, the consideration in contracts involving the sales of products is collected within approximately one year from the time the control over the product is transferred to the customer, and does not include the significant interest rate factor.

## 3

## Significant accounting estimates

### Loss on impairment of property, plant and equipment

An impairment loss of ¥1,350 million (US$10,075 thousand) was recognized for the year ended March 31, 2023.

Total property, plant and equipment, net of ¥208,027 million (US$1,552,440 thousand) has been recorded on the consolidated balance sheet at March 31, 2023.

Business assets which profitability has declined were identified during the year ended March 31, 2023.

The Group regularly assesses any indication of impairment for each fixed asset grouping and estimates the recoverable amount in the event indications of impairment exist. When calculating the recoverable amount, the future cash flows expected to be generated by the asset group are used. In estimating the future cash flows, the Group evaluates business conditions, market trends of industries in which its customers operate their business and future growth rates. However, if the future cash flow projection changes and the carrying value of the asset group is unrecoverable, an impairment loss may be recorded.

### Recoverability of deferred tax assets

Deferred tax assets of ¥14,853 million (US$110,843 thousand) have been recorded on the consolidated balance sheet at March 31, 2023.

Deferred tax assets recognized by the Group are related to future tax consequences of temporary differences and are estimated regularly to assess their recoverability. The recoverability of deferred tax assets is largely dependent on estimates of future taxable income. In estimating taxable income, the Group evaluates business conditions, market trends of industries in which its customers operate their businesses and future growth rates. However, if it is determined that some or all deferred tax assets are unrecoverable due to a change in estimates, the amount of deferred tax assets may be reduced.

## 4

## Accounting changes

### (Application of “Implementation Guidance on Accounting Standard for Fair Value Measurement”)

The “Implementation Guidance on Accounting Standard for Fair Value Measurement” (ASBJ Statement No.31, June 17, 2021) is applied from the first quarter of the fiscal year ended March 31, 2023. Based on the transitional treatment prescribed in Paragraph 27-2 of the “Implementation Guidance on Accounting Standard for Fair Value Measurement”, new accounting policies set forth by the “Implementation Guidance on Accounting Standard for Fair Value Measurement” are applied prospectively. These changes had no impact on the consolidated financial statements.

## 5

## Financial instruments

### (a) Policy for financial instruments

The Group manages funds by utilizing short-term deposits, etc., subject to an insignificant risk of change in value. The Group raises money by borrowing from financial institutions and by issuing commercial paper, straight bonds and bonds with warrants. The Group uses derivatives for the purpose of reducing risk and does not hold or issue derivative financial instruments for speculative purposes.

### (b) Types of financial instruments and related risk

Trade receivables— Notes and accounts receivables - trade —are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from receivables and payables denominated in foreign currencies. The foreign currency exchange risks deriving from those receivables and payables are hedged by forward foreign exchange contracts, currency options and currency swaps.

Investment securities are exposed to market risk and credit risk in relation to issuers. Those securities are composed of the shares of common stock of other companies.

Trade payables— Notes and accounts payables - trade —have payment due dates within one year.

Short-term loans payable is raised and commercial paper is issued mainly in connection with business activities, and long-term debt is taken out principally for the purpose of making capital investments. Short-term loans payable and long-term debt with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for those bearing interest at variable rates, the Group utilizes interest rate swap or option transactions as a hedging instrument.

Regarding derivatives, the Group enters into derivative transactions in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates, and interest rates.

### (c) Risk management for financial instruments

*1. Monitoring of credit risk (the risk that customers or counterparties may default)*

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors the credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

*2. Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)*

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency and enters into forward foreign exchange contracts, currency options and currency swaps to hedge such risk. In order to mitigate the interest rate risk for loans payable bearing interest at variable rates, the Group may also enter into interest rate swap transactions and interest rate option transactions.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers.

In conducting derivative transactions, the division in charge of derivative transactions follows the internal policies, which set forth delegation of authority and maximum upper limit on positions.

*3. Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)*

Based on a report from each division, the Group prepares and updates its cash flow plans on a timely basis to manage liquidity risk.

### (d) Supplementary explanation of the estimated fair value of financial instruments

Since fluctuation factors are included into the calculation of the market value of financial instruments, the price may be fluctuated by adopting different preconditions. The notional amounts of derivatives in Note 17. Derivative financial instruments are not necessarily indicative of the actual market risk involved in derivative transactions.

Summarized in the table below are the carrying amounts and the estimated fair values of financial instruments outstanding at March 31, 2023 and 2022. The amount recorded on the consolidated balance sheet, the market value and the difference between them are as follows.

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| | 2023 | | | 2023 | | |
| | Carrying amount | Fair value | Difference | Carrying amount | Fair value | Difference |
| **Assets** | | | | | | |
| Notes receivable - trade | ¥ 5,309 | ¥ 5,309 | ¥ — | $ 39,619 | $ 39,619 | $ — |
| Accounts receivable - trade | 96,256 | 96,256 | — | 718,328 | 718,328 | — |
| Investment securities | 9,271 | 9,271 | — | 69,187 | 69,187 | — |
| Total assets | ¥110,836 | ¥110,836 | ¥ — | $827,134 | $827,134 | $ — |
| **Liabilities** | | | | | | |
| Notes and accounts payable - trade | ¥ 69,241 | ¥ 69,241 | ¥ — | $ 516,724 | $ 516,724 | $ — |
| Short-term loans payable | 35,868 | 35,868 | — | 267,672 | 267,672 | — |
| Commercial paper | 3,000 | 3,000 | — | 22,388 | 22,388 | — |
| Other payables | 20,199 | 20,199 | — | 150,739 | 150,739 | — |
| Income taxes payable | 1,528 | 1,528 | — | 11,403 | 11,403 | — |
| Long-term debt* | 174,789 | 174,160 | (629) | 1,304,395 | 1,299,701 | (4,694) |
| Total liabilities | ¥304,625 | ¥303,996 | ¥(629) | $2,273,321 | $2,268,627 | $(4,694) |
| Derivative financial transactions** | ¥ (143) | ¥ (143) | ¥ — | $ (1,067) | $ (1,067) | $ — |

* *The current portion of long-term borrowings of ¥19,269 million (US$143,799 thousand) is included in long-term debt.*

** *The value of assets and liabilities arising from derivatives is shown at net value with amounts in parentheses representing net liability position.*

*** *Regarding investment in partnerships and other similar business entities that record the amount equivalent to their equity in the consolidated balance sheet in net amount, the description of matters related to the market value of financial instruments is omitted. The amount recorded on the consolidated balance sheet of the investment is ¥670 million (US$5,000 thousand).*

**** *"Cash and deposits" are omitted because they are cash, and the market value is close to the book value because the deposits are settled in a short period of time.*

| | Millions of yen | | |
|---|---|---|---|
| | 2022 | | |
| | Carrying amount | Fair value | Difference |
| **Assets** | | | |
| Notes receivable - trade | ¥ 18,090 | ¥ 18,090 | ¥ — |
| Accounts receivable - trade | 137,518 | 137,518 | — |
| Investment securities | 11,304 | 11,304 | — |
| Total assets | ¥166,912 | ¥166,912 | ¥ — |
| **Liabilities** | | | |
| Notes and accounts payable - trade | ¥110,766 | ¥110,766 | ¥ — |
| Short-term loans payable | 24,686 | 24,686 | — |
| Commercial paper | 17,000 | 17,000 | — |
| Other payables | 34,292 | 34,292 | — |
| Income taxes payable | 5,890 | 5,890 | — |
| Long-term debt* | 194,490 | 193,902 | (588) |
| Total liabilities | ¥387,124 | ¥386,536 | ¥(588) |
| Derivative financial transactions** | ¥ 1,488 | ¥ 1,488 | ¥ — |

* *The current portion of long-term borrowings of ¥19,820 million and the current portion of bonds payable of ¥10,000 million are included in long-term debt.*

** *The value of assets and liabilities arising from derivatives is shown at net value with amounts in parentheses representing net liability position.*

*** *Regarding investment in partnerships and other similar business entities that record the amount equivalent to their equity in the consolidated balance sheet in net amount, the description of matters related to the market value of financial instruments is omitted. The amount recorded on the consolidated balance sheet of the investment is ¥546 million.*

**** *"Cash and deposits" are omitted because they are cash, and the market value is close to the book value because the deposits are settled in a short period of time.*

Stocks without market prices are not included in investment securities. The amount recorded on the consolidated balance sheet of the relevant financial instrument at March 31, 2023 is as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | **2023** | **2023** |
| Unconsolidated subsidiaries and affiliates securities | **¥186,106** | **$1,388,851** |
| Non-listed equity securities | **2,043** | **15,246** |
| Others | **973** | **7,261** |

Financial instruments for which it is extremely difficult to determine the fair value at March 31, 2022 is as follows:

| | Millions of yen |
|---|---|
| | 2022 |
| Unconsolidated subsidiaries and affiliates securities | ¥45,410 |
| Non-listed equity securities | 4,245 |
| Others | 849 |

Redemption schedules for financial assets and investment securities with contractual maturities subsequent to March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | Within one year | After one year through five years | After five years through ten years | After ten years |
| Cash and cash equivalents | **¥ 30,694** | **¥—** | **¥—** | **¥—** |
| Time deposits | **472** | **—** | **—** | **—** |
| Notes receivable - trade | **5,309** | **—** | **—** | **—** |
| Accounts receivable - trade | **96,256** | **—** | **—** | **—** |
| | **¥132,731** | **¥—** | **¥—** | **¥—** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | **2023** | | | |
| | Within one year | After one year through five years | After five years through ten years | After ten years |
| Cash and cash equivalents | **$229,060** | **$—** | **$—** | **$—** |
| Time deposits | **3,522** | **—** | **—** | **—** |
| Notes receivable - trade | **39,619** | **—** | **—** | **—** |
| Accounts receivable - trade | **718,328** | **—** | **—** | **—** |
| | **$990,529** | **$—** | **$—** | **$—** |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | Within one year | After one year through five years | After five years through ten years | After ten years |
| Cash and cash equivalents | ¥ 78,735 | ¥— | ¥— | ¥— |
| Time deposits | 731 | — | — | — |
| Notes receivable - trade | 18,090 | — | — | — |
| Accounts receivable - trade | 137,518 | — | — | — |
| | ¥235,074 | ¥— | ¥— | ¥— |

Redemption schedules for long-term debt and other interest-bearing debt subsequent to March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | | | |
| | Within one year | After one year through two years | After two years through three years | After three years through four years | After four years through five years | After five years |
| Short-term loans payable | ¥35,868 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Commercial paper | 3,000 | — | — | — | — | — |
| Long-term debt | 19,269 | 40,878 | 29,084 | 30,332 | 30,531 | 24,695 |
| | ¥58,137 | ¥40,878 | ¥29,084 | ¥30,332 | ¥30,531 | ¥24,695 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| | 2023 | | | | | |
| | Within one year | After one year through two years | After two years through three years | After three years through four years | After four years through five years | After five years |
| Short-term loans payable | $267,672 | $ — | $ — | $ — | $ — | $ — |
| Commercial paper | 22,388 | — | — | — | — | — |
| Long-term debt | 143,799 | 305,060 | 217,045 | 226,358 | 227,843 | 184,291 |
| | $433,859 | $305,060 | $217,045 | $226,358 | $227,843 | $184,291 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | | | |
| | Within one year | After one year through two years | After two years through three years | After three years through four years | After four years through five years | After five years |
| Short-term loans payable | ¥24,686 | ¥ — | ¥ — | ¥ — | ¥ — | ¥ — |
| Commercial paper | 17,000 | — | — | — | — | — |
| Long-term debt | 29,820 | 24,704 | 45,814 | 33,712 | 30,060 | 30,380 |
| | ¥71,506 | ¥24,704 | ¥45,814 | ¥33,712 | ¥30,060 | ¥30,380 |

The fair value of financial instruments are classified into the following three levels according to the observability and significance of the inputs related to the calculation of the fair value.

Level 1: Of the inputs related to the calculation of the observable fair value, the corresponding market price is used of the assets or liabilities based on their fair value in active markets.

Level 2: Of the inputs related to the calculation of the observable fair value, inputs other than the level 1 input in calculating fair value are used.

Level 3: The fair value was calculated using unobservable inputs.

When using multiple inputs that have significant impact on fair value calculations, the fair value is classified into the lowest priority level.

Financial instruments recorded on the consolidated balance sheet at market value as of March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Investment securities: | | | | |
| Available-for-sale securities: | | | | |
| Shares | ¥9,271 | ¥ — | ¥— | ¥9,271 |
| Derivative financial transactions: | | | | |
| Currency related | — | 1 | — | 1 |
| Total assets | ¥9,271 | ¥ 1 | ¥— | ¥9,272 |
| **Liabilities** | | | | |
| Derivative financial transactions: | | | | |
| Currency related | — | 144 | — | 144 |
| Total liabilities | ¥ — | ¥144 | ¥— | ¥ 144 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Investment securities: | | | | |
| Available-for-sale securities: | | | | |
| Shares | $69,187 | $ — | $— | $69,187 |
| Derivative financial transactions: | | | | |
| Currency related | — | 7 | — | 7 |
| Total assets | $69,187 | $ 7 | $— | $69,194 |
| **Liabilities** | | | | |
| Derivative financial transactions: | | | | |
| Currency related | — | 1,075 | — | 1,075 |
| Total liabilities | $ — | $1,075 | $— | $ 1,075 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Investment securities: | | | | |
| Available-for-sale securities: | | | | |
| Shares | ¥11,304 | ¥ — | ¥— | ¥11,304 |
| Derivative financial transactions: | | | | |
| Currency related | — | 1,658 | — | 1,658 |
| Total assets | ¥11,304 | ¥1,658 | ¥— | ¥12,962 |
| **Liabilities** | | | | |
| Derivative financial transactions: | | | | |
| Currency related | — | 170 | — | 170 |
| Total liabilities | ¥ — | ¥ 170 | ¥— | ¥ 170 |

Financial instruments other than the financial instruments recorded on the consolidated balance sheet at market value as of March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Notes receivable - trade | ¥— | ¥ 5,309 | ¥— | ¥ 5,309 |
| Accounts receivable - trade | — | 96,256 | — | 96,256 |
| Total assets | ¥— | ¥101,565 | ¥— | ¥101,565 |
| **Liabilities** | | | | |
| Notes and accounts payable - trade | — | 69,241 | — | 69,241 |
| Short-term loans payable | — | 35,868 | — | 35,868 |
| Commercial paper | — | 3,000 | — | 3,000 |
| Other payables | — | 20,199 | — | 20,199 |
| Income taxes payable | — | 1,528 | — | 1,528 |
| Long-term debt | — | 174,160 | — | 174,160 |
| Total liabilities | ¥— | ¥303,996 | ¥— | ¥303,996 |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Notes receivable - trade | $— | $ 39,619 | $— | $ 39,619 |
| Accounts receivable - trade | — | 718,328 | — | 718,328 |
| Total assets | $— | $ 757,947 | $— | $ 757,947 |
| **Liabilities** | | | | |
| Notes and accounts payable - trade | — | 516,724 | — | 516,724 |
| Short-term loans payable | — | 267,672 | — | 267,672 |
| Commercial paper | — | 22,388 | — | 22,388 |
| Other payables | — | 150,739 | — | 150,739 |
| Income taxes payable | — | 11,403 | — | 11,403 |
| Long-term debt | — | 1,299,701 | — | 1,299,701 |
| Total liabilities | $— | $2,268,627 | $— | $2,268,627 |

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| **Assets** | | | | |
| Notes receivable - trade | ¥— | ¥ 18,090 | ¥— | ¥ 18,090 |
| Accounts receivable - trade | — | 137,518 | — | 137,518 |
| Total assets | ¥— | ¥155,608 | ¥— | ¥155,608 |
| **Liabilities** | | | | |
| Notes and accounts payable - trade | — | 110,766 | — | 110,766 |
| Short-term loans payable | — | 24,686 | — | 24,686 |
| Commercial paper | — | 17,000 | — | 17,000 |
| Other payables | — | 34,292 | — | 34,292 |
| Income taxes payable | — | 5,890 | — | 5,890 |
| Long-term debt | — | 193,902 | — | 193,902 |
| Total liabilities | ¥— | ¥386,536 | ¥— | ¥386,536 |

*Note: Explanation of the valuation technique used to calculate the fair value and the inputs related to the calculation of the fair value.*

*"Investment securities"*

*Listed stocks are valued using market prices. Since listed stocks are traded in active markets, we classify their fair value as Level 1.*

*"Derivative financial transactions"*

*The method of calculating the fair value of foreign exchange contracts and currency options are calculated based on the prices offered by the financial institutions of our business partners, and is classified as Level 2.*

*The fair value of currency swaps accounted for by the short-cut method is included in the fair value of long-term debt, which is designated as the hedged item.*

*"Notes and accounts receivable - trade"*

*These market values are calculated by the discounted present value method based on the interest rate that takes into account the amount of receivables, the period until maturity, and credit risk for each fixed period and for each classified receivables, and is classified as Level 2.*

*"Notes and accounts payable - trade," "Short-term loans payable," "Commercial paper," "Other payables" and "Income taxes payable"*

*These fair values are calculated by the discounted present value method based on the future cash flows, the period until the repayment date, and the interest rate that takes into account credit risk for each fixed period and for each classified payables, and is classified as Level 2.*

*"Long-term debt"*

*The fair value of corporate bonds issued by the Company is based on the market price and is divided into Level 2.*

*The fair value of long-term loans payable is calculated by the discounted present value method based on the total amount of principal and interest, the remaining period of the debt and the interest rate that takes into account credit risk, and is classified as Level 2.*

## 6

## Securities

Investment securities at March 31, 2023 and 2022 consist of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Investment securities: | | | |
| Unconsolidated subsidiaries and affiliated companies | ¥186,106 | ¥45,410 | $1,388,851 |
| Others | 12,287 | 16,398 | 91,694 |
| | ¥198,393 | ¥61,808 | $1,480,545 |

Marketable securities classified as other securities at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | | 2023 | | |
| | Carrying value | Acquisition costs | Unrealized gain (loss) | Carrying value | Acquisition costs | Unrealized gain (loss) | Carrying value | Acquisition costs | Unrealized gain (loss) |
| Securities whose carrying value exceeds their acquisition cost: | | | | | | | | | |
| Stock | ¥8,701 | ¥3,192 | ¥5,509 | ¥ 9,460 | ¥3,406 | ¥6,054 | $64,933 | $23,821 | $41,112 |
| Debt securities | — | — | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — | — | — |
| Subtotal | 8,701 | 3,192 | 5,509 | 9,460 | 3,406 | 6,054 | 64,933 | 23,821 | 41,112 |
| Securities whose acquisition cost exceeds their carrying value: | | | | | | | | | |
| Stock | 570 | 962 | (392) | 1,844 | 2,716 | (872) | 4,254 | 7,179 | (2,925) |
| Debt securities | — | — | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — | — | — |
| Subtotal | 570 | 962 | (392) | 1,844 | 2,716 | (872) | 4,254 | 7,179 | (2,925) |
| Total | ¥9,271 | ¥4,154 | ¥5,117 | ¥11,304 | ¥6,122 | ¥5,182 | $69,187 | $31,000 | $38,187 |

Sales of securities classified as other securities and the aggregate gain for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | | 2023 | | |
| | Sales proceeds | Aggregate gain | Aggregate loss | Sales proceeds | Aggregate gain | Aggregate loss | Sales proceeds | Aggregate gain | Aggregate loss |
| Stock | ¥534 | ¥279 | ¥(26) | ¥403 | ¥279 | ¥— | $3,985 | $2,082 | $(194) |
| Debt securities | — | — | — | — | — | — | — | — | — |
| Others | — | — | — | — | — | — | — | — | — |
| | ¥534 | ¥279 | ¥(26) | ¥403 | ¥279 | ¥— | $3,985 | $2,082 | $(194) |

Acquisition costs in the tables above represent the amounts after deduction of impairment losses.

Impairment losses in the amount of ¥260 million (US$1,940 thousand) were recognized for the year ended March 31, 2023.

Impairment losses are recognized for securities which fair values at the end of fiscal year are less than 50% of acquisition cost, or are more than 50% but less than 70% and deemed to be unrecoverable.

## 7

## Inventories

Inventories at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Finished goods | ¥ 56,754 | ¥ 53,576 | $423,537 |
| Work in process | 23,881 | 21,131 | 178,217 |
| Raw materials and supplies | 46,373 | 50,002 | 346,067 |
| | ¥127,008 | ¥124,709 | $947,821 |

## 8

## Short-term loans payable and long-term debt

Short-term loans payable represent bank loans, with average interest rates of 0.40% and 0.31% per annum at March 31, 2023 and 2022, respectively.

Long-term debt at March 31, 2023 and 2022 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| 0.15% unsecured bonds due FY 2022 | ¥ — | ¥ 10,000 | $ — |
| 0.15% unsecured bonds due FY 2024 | 10,000 | 10,000 | 74,627 |
| 0.31% unsecured bonds due FY 2025 | 10,000 | 10,000 | 74,627 |
| 0.43% unsecured bonds due FY 2026 | 10,000 | 10,000 | 74,627 |
| 0.375% unsecured bonds due FY 2027 | 10,000 | 10,000 | 74,627 |
| 0.53% unsecured bonds due FY 2027 | 5,000 | — | 37,313 |
| 0.58% unsecured bonds due FY 2030 | 10,000 | 10,000 | 74,627 |
| 0.97% unsecured bonds due FY 2032 | 5,000 | — | 37,313 |
| Loans principally from banks and insurance companies: | | | |
| Secured, at 0.45% to 1.10%, maturing through FY 2028 | — | 2,433 | — |
| Unsecured, at 0.00% to 3.95%, maturing through FY 2033 | — | 132,057 | — |
| Unsecured, at 0.00% to 1.65%, maturing through FY 2033 | 114,789 | — | 856,635 |
| | 174,789 | 194,490 | 1,304,396 |
| Less current portion | 19,269 | 29,820 | 143,799 |
| | ¥155,520 | ¥164,670 | $1,160,597 |

The Company and certain consolidated subsidiaries have established commitment lines with some of their banks in order to procure working capital efficiently. The amount was ¥21,477 million (US$160,276 thousand) as of March 31, 2023.

The aggregate annual maturities of the non-current portion of long-term debt are as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2025 | ¥ 40,878 | $ 305,060 |
| 2026 | 29,084 | 217,045 |
| 2027 | 30,332 | 226,358 |
| 2028 | 30,531 | 227,843 |
| 2029 and thereafter | 24,695 | 184,291 |
| | ¥155,520 | $1,160,597 |

## 9

## Pledged assets

The assets pledged as collateral for short-term and long-term borrowings, guarantees and borrowings of affiliated companies at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Assets pledged as collateral: | | | |
| Property, plant and equipment, at net book value | ¥2,822 | ¥8,785 | $21,060 |

## 10

## Contingent liabilities

At March 31, 2023 and 2022, the Company and its consolidated subsidiaries are contingently liable as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| As endorser of trade notes discounted or endorsed | ¥ 820 | ¥ 102 | $ 6,119 |
| As guarantor of employees' housing loans | 3 | 7 | 22 |
| As guarantor of indebtedness principally of unconsolidated subsidiaries and affiliated companies | 6,004 | 6,233 | 44,806 |

## 11

### Net assets

The Corporation Law of Japan provides that an amount equal to 10% of the amount to be distributed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) shall be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met, but neither the capital reserve nor the legal reserve is available for distributions.

At the general shareholders' meeting of the Company held on June 29, 2023, the distribution of retained earnings for the year ended March 31, 2023 was approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥45.00 per share) | ¥4,367 | $32,590 |

## 12

### Selling, general and administrative expenses

Major components of selling, general and administrative expenses for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Freight and storage | ¥14,410 | ¥23,286 | $107,537 |
| Salaries and benefits | 14,910 | 20,763 | 111,269 |
| Research and development costs | 10,165 | 11,462 | 75,858 |

## 13

### Research and development costs

Research and development costs, all of which are included in "Selling, general and administrative expenses" and "Manufacturing cost" for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Research and development costs | ¥10,422 | ¥11,786 | $77,776 |

## 14

### Other income (expenses)

"Other income (expenses) – Others, net" for the years ended March 31, 2023 and 2022 consists of the following:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Gain (loss) on sales of investment securities, net | ¥ (817) | ¥ 367 | $ (6,097) |
| Gain (loss) on sales of property, plant and equipment, net | 343 | (17) | 2,560 |
| Loss on disposal of property, plant and equipment | (1,500) | (1,310) | (11,194) |
| Loss on impairment of fixed assets (Note 15) | (1,350) | (771) | (10,075) |
| Loss on valuation of investment securities | (338) | (13) | (2,522) |
| Gain on foreign currency exchange, net | 517 | 1,666 | 3,858 |
| Provision for loss over investment cost of subsidiaries and affiliates | (456) | (2,426) | (3,403) |
| Contribution for industrial water weight loss | — | (1,550) | — |
| Gain on change in equity | 8,265 | — | 61,679 |
| Others, net | (1,103) | (1,649) | (8,231) |
| | ¥ 3,561 | ¥(5,703) | $ 26,575 |

## 15

### Loss on impairment of fixed assets

Fixed assets of the Company and consolidated subsidiaries are grouped at the business unit or department level for impairment testing.

Loss on impairment of fixed assets for the year ended March 31, 2023 consists of the following:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2023 | 2023 |
| Rental property | | |
| Land (UBE Corporation) | ¥ (273) | $ (2,037) |
| Business assets in use: | | |
| 1,6-Hexanediol manufacturing plant (UBE Corporation) | (424) | (3,164) |
| Momoyama electric equipment (UBE Corporation) | (257) | (1,918) |
| Oxalic acid and Dimethyl oxalate manufacturing plant (UBE Corporation) | (175) | (1,306) |
| RASEN COMPOSE (optical fiber cable material) manufacturing plant (UBE EXSYMO ADVANCED MATERIALS (WUXI) CO.,LTD.) | (143) | (1,067) |
| Nitric acid manufacturing plant (UBE Corporation) | (61) | (456) |
| Revolving electric furnace (Ube Steel Co., Ltd.) | (5) | (37) |
| Company housing facility (Ube Film, Ltd.) | (12) | (90) |
| | ¥(1,350) | $(10,075) |

#### (a) Rental property

The book value of one rental property that has declined in the market was reduced to the recoverable value, and the amount of the reduction was recognized as an impairment loss of ¥(273) million (US$(2,037) thousand) under other expenses. The breakdown is ¥(273) million (US$(2,037) thousand) for land.

#### (b) Business assets in use

Regarding the 1,6-hexanediol manufacturing facility of UBE Corporation, a decision was made to withdraw from the business, and the book value was reduced to the memorandum value, and the amount of the reduction was recognized as an impairment loss of ¥(424) million (US$(3,164) thousand) under other expenses. The breakdown is ¥(424) million (US$(3,164) thousand) for machinery and other equipment. In addition, related to this transaction, the cost of raw materials which will be purchased in the future is included as provision for loss on investments in subsidiaries and affiliates ¥(176) million (US$(1,313) thousand).

Regarding the Momoyama electrical equipment of UBE Corporation, since future use is not expected, the book value of the equipment has been reduced to the memorandum value.

The amount of the reduction was recognized as an impairment loss of ¥(257) million (US$(1,918) thousand) under other expenses. The breakdown is ¥(257) million (US$(1,918) thousand) for buildings and others.

Regarding oxalic acid and DMO (dimethyl oxalate) manufacturing facilities of UBE Corporation, a decision was made to withdraw from the business. Accordingly, the book value of the manufacturing equipment was reduced to the memorandum value, and the amount of the reduction was recognized as an impairment loss of ¥(175) million (US$(1,306) thousand) under other expenses. The breakdown is ¥(175) million (US$(1,306) thousand) for machinery and others.

The decision was made to withdraw from the RASEN COMPOSE manufacturing facility of UBE EXSYMO ADVANCED MATERIALS (WUXI) CO., LTD.. As a result, the book value of the manufacturing equipment was reduced to the memorandum value, and the amount of the reduction was recognized as an impairment loss of ¥(143) million (US$(1,067) thousand) under other expenses. The breakdown is ¥(143) million (US$(1,067) thousand) for machinery and others.

Regarding our third nitric acid production facility, since future use is not expected, the book value of the facility was reduced to the memorandum value. The amount of the reduction was recognized as an impairment loss of ¥(61) million (US$(456) thousand) under other expenses. The breakdown is ¥(61) million (US$(456) thousand) for machinery and other items.

For Ube Steel Co., Ltd., the book value of the facility was reduced to the memorandum value due to the suspension of renewal of the revolving electric furnace. The amount of the reduction was recognized as an impairment loss of ¥(5) million (US$(37) thousand) under other expenses. The breakdown is construction in progress of ¥(5) million (US$(37) thousand).

Regarding the company housing facilities of Ube Film Co., Ltd., the decision was made to discontinue use due to aging, and the book value of the facilities was written down. The amount was reduced to the residual value, and the amount of the reduction was recognized as an impairment loss of ¥(12) million (US$(90) thousand) under other expenses. The breakdown is ¥(12) million (US$(90) thousand) for buildings.

Loss on impairment of fixed assets for the year ended March 31, 2022 consists of the following:

| | Millions of yen |
|---|---|
| | 2022 |
| Business assets in use: | |
| Isa factory dedicated line (UBE Corporation) | ¥(100) |
| Functional fiber materials manufacturing plant (UBE Exsymo Co.,Ltd.) | (662) |
| Hydroxyapatite manufacturing plant (UBE Material Industries, Ltd.) | (9) |
| | ¥(771) |

### (a) Business assets in use

The Company reduced the book value of the Isa factory dedicated line to their recoverable amounts because it is not expected to be used in the future.

The recoverable amounts were their memorandum value, and an impairment loss of ¥(100) million was recorded. This impairment loss consisted of ¥(100) million for structures.

UBE Exsymo Co., Ltd. reduced the book value of the functional fiber materials manufacturing plant to the recoverable amount due to deteriorating profitability.

The recoverable amounts were their memorandum value, and an impairment loss of ¥(662) million was recorded.

This impairment loss consisted of ¥(662) million for construction in progress, machineries, and others. The recoverable value is measured based on value in use, but a discount rate is omitted because the future cash flow before the discounting is negative.

Ube Material Industries, Ltd. decided to withdraw from the hydroxyapatite manufacturing business and reduced the book value of the related facilities to their recoverable amounts.

The recoverable amounts were their memorandum value, and an impairment loss of ¥(9) million was recorded.

This impairment loss consisted of ¥(9) million for buildings and others.

## 16

## Income taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes which, in the aggregate, resulted in statutory tax rates of approximately 30.5% for the year ended March 31, 2022.

The effective tax rates reflected in the consolidated statement of income for the years ended March 31, 2023 and 2022 differ from the statutory tax rates for the following reasons.

| | Percentage | |
|---|---|---|
| | 2023 | 2022 |
| Statutory tax rate | —% | 30.5% |
| Effect of: | | |
| Permanently non-deductible expenses | — | 0.2 |
| Permanently non-taxable items including dividend income | — | (12.5) |
| Loss carried forward without deferred tax assets | — | 0.9 |
| Deducted amount of loss without deferred tax assets | — | (0.1) |
| Effect of elimination of dividend income through consolidation procedures | — | 13.5 |
| Share of profit of entities accounted for using equity method | — | 1.6 |
| Tax rate difference of overseas consolidated subsidiaries | — | (3.1) |
| Retained earnings of foreign subsidiary companies | — | 1.8 |
| Deductible research and development expenses | — | (2.5) |
| Consolidated adjustment for allowance for doubtful accounts | — | (0.5) |
| Others | — | 0.0 |
| Effective tax rate | —% | 29.8% |

** Information for the year ended March 31, 2023 is omitted because a loss before income taxes is recorded for the fiscal year 2023.*

The significant components of deferred tax assets and liabilities at March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Deferred tax assets: | | | |
| Provision for bonuses | ¥ 1,638 | ¥ 2,155 | $ 12,224 |
| Net defined benefit liability | 2,079 | 2,303 | 15,515 |
| Allowance for doubtful accounts | 116 | 253 | 866 |
| Loss carried forward | 6,768 | 5,181 | 50,508 |
| Intercompany profit | 9,203 | 10,642 | 68,679 |
| Depreciation and amortization | 1,502 | 1,260 | 11,209 |
| Loss on valuation of investment securities | 2,607 | 3,326 | 19,455 |
| Disposal of fixed assets without dismantlement | 1,090 | 2,012 | 8,134 |
| Accrual for losses on business restructuring | 110 | 66 | 821 |
| Others | 5,929 | 7,576 | 44,246 |
| Gross deferred tax assets | 31,042 | 34,774 | 231,657 |
| Valuation allowance: | | | |
| Tax loss carried forward | (1,125) | (4,989) | (8,396) |
| Total future tax consequences of temporary differences** | (4,126) | (1,788) | (30,791) |
| Gross valuation allowance | (5,251) | (6,777) | (39,187) |
| Total deferred tax assets | 25,791 | 27,997 | 192,470 |
| Deferred tax liabilities: | | | |
| Reserve for advanced depreciation of non-current assets | (680) | (1,873) | (5,075) |
| Valuation difference on available-for-sale securities | (1,454) | (1,474) | (10,851) |
| Net defined benefit asset | (3,005) | (2,889) | (22,425) |
| Revaluation surplus on assets | (1,102) | (1,254) | (8,224) |
| Retained earnings of foreign subsidiary companies | (2,267) | (2,407) | (16,918) |
| Others | (3,443) | (3,580) | (25,694) |
| Total deferred tax liabilities | (11,951) | (13,477) | (89,187) |
| Net deferred tax assets* | ¥ 13,840 | ¥ 14,520 | $103,283 |

** Net deferred tax assets in the preceding table are classified as follows in the accompanying consolidated balance sheet.*

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Investments and other assets – Deferred tax assets | ¥14,853 | ¥16,452 | $110,843 |
| Long-term liabilities – Deferred tax liabilities | (1,013) | (1,932) | (7,560) |

*** Tax loss carried forward and deferred tax assets by carry-forward period are as follows:*

| | Millions of yen | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|
| Years ending March 31 | Tax loss carried forward | Valuation allowance | Deferred tax assets | Tax loss carried forward | Valuation allowance | Deferred tax assets |
| 2024 | ¥ 159 | ¥ (159) | ¥ — | $ 1,187 | $ (1,187) | $ — |
| 2025 | — | — | — | — | — | — |
| 2026 | 36 | — | 36 | 269 | — | 269 |
| 2027 | — | — | — | — | — | — |
| 2028 | 970 | — | 970 | 7,239 | — | 7,239 |
| 2029 and thereafter | 5,603 | (966) | 4,637 | 41,813 | (7,209) | 34,604 |
| | ¥6,768 | ¥(1,125) | ¥5,643* | $50,508 | $(8,396) | $42,112 |

** For the tax loss carried forward of ¥6,768 million (US$50,508 thousand) and ¥5,181 million for the years ended March 31, 2023 and 2022, respectively, the deferred tax assets of ¥5,643 million (US$42,112 thousand) and ¥192 million for the years ended March 31, 2023 and 2022, respectively have been recorded. The tax loss carried forward was determined to be recoverable as future taxable income is anticipated, and therefore a valuation allowance has not been recognized.*

*Note: Tax loss carried forward is measured using the statutory effective tax rate.*

## 17 Derivative financial instruments

Summarized below are the notional amounts and the estimated fair values of the derivative transactions outstanding at March 31, 2023 and 2022.

### (a) Derivative financial instruments for which deferred hedge accounting has not been applied

*Currency-related transactions:*

| | Millions of yen | | | | | | Thousands of U.S. dollars | | |
|---|---|---|---|---|---|---|---|---|---|
| | 2023 | | | 2022 | | | 2023 | | |
| | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) | Notional amount | Fair value | Unrealized gain (loss) |
| Forward exchange contracts: | | | | | | | | | |
| Sell: | | | | | | | | | |
| USD | ¥ 955 | ¥ (3) | ¥ (3) | ¥ 2,777 | ¥ (56) | ¥ (56) | $ 7,127 | $ (22) | $ (22) |
| JPY | 359 | 2 | 2 | 247 | 8 | 8 | 2,679 | 15 | 15 |
| EUR | 451 | (4) | (4) | 737 | (12) | (12) | 3,366 | (30) | (30) |
| Buy: | | | | | | | | | |
| USD | 3,247 | (91) | (91) | 7,733 | 1,627 | 1,627 | 24,231 | (679) | (679) |
| JPY | 153 | (0) | (0) | 124 | (1) | (1) | 1,142 | (0) | (0) |
| EUR | 195 | 8 | 8 | 641 | 30 | 30 | 1,455 | 59 | 59 |
| Currency options contracts: | | | | | | | | | |
| Sell and buy*: | | | | | | | | | |
| USD | — | — | — | 102 | (7) | (7) | — | — | — |
| Total | ¥5,360 | ¥(88) | ¥(88) | ¥12,361 | ¥1,589 | ¥1,589 | $40,000 | $(657) | $(657) |

** Currency options contracts is zero cost option, and call options and put options are listed together because they are integrated contracts.*

### (b) Derivative financial instruments for which deferred hedged accounting has been applied

*Currency-related transactions*

Main items hedged by forward foreign exchange contracts are trade accounts receivable and payable.

| | | Millions of yen | | | | Thousands of U.S. dollars | |
|---|---|---|---|---|---|---|---|
| | | 2023 | | 2022 | | 2023 | |
| | | Notional amount | Fair value | Notional amount | Fair value | Notional amount | Fair value |
| Principle method | Forward exchange contracts: | | | | | | |
| | Sell: | | | | | | |
| | USD | ¥ 944 | ¥(62) | ¥1,024 | ¥(104) | $7,045 | $(463) |
| | Buy: | | | | | | |
| | USD | 46 | 1 | — | — | 343 | 8 |
| | EUR | 161 | 6 | 161 | 3 | 1,202 | 45 |
| Short-cut method | Forward exchange contracts: | | | | | | |
| | Sell: | | | | | | |
| | USD | — | — | 1,321 | (140) | — | — |
| | Currency swap contracts: | | | | | | |
| | Receive/USD | | | | | | |
| | Pay/JPY | — | — | 1,000 | * | — | — |
| | Total | ¥1,151 | ¥(55) | ¥3,506 | ¥(241) | $8,590 | $(410) |

** The fair value of currency swaps accounted for by the short-cut method is included in the fair value of long-term debt, which is designated as the hedged item.*

## 18

## Segment information

The reportable segments of the Company are defined as individual units, where separate financial information is available and which are subject to regular review by the Board of Directors of the Company to evaluate their results and decide the allocation of management resources.

The Company Group consolidated the segments of which products and services have similar economic characteristic and markets, and classified them into the reportable segments consisting of “Specialty Products,” “Polymers & Chemicals,” “Machinery” and “Others” segments.

Main products and services of each reportable segment are as follows;

| Reportable segment | Main products and services |
|---|---|
| Specialty Products | Polyimide, Separation membrane, Ceramics, Separators, etc. |
| Polymers & Chemicals | Composite, Nylon polymer, Caprolactam, Ammonium sulfate, Industrial chemicals, Fine Chemicals, High-Performance Coating, Elastomer (Synthetic rubber), etc. |
| Machinery | Molding Machinery(Die Casting Machines, Extrusion Presses, and Injection Molding Machines), Industrial Machinery(Kiln, Chemical Equipment, Vertical mill, Bulk handling machine, Water screening equipment, Crushers), Bridges and Steel Structures and Steel Products(Billets, Casting), etc. |
| Others | Pharmaceuticals (APIs and intermediates), electric power supply business, leasing and control of real estate,etc. |

As the Group revised the reportable segments in its medium-term management plan “UBE Vision 2030 Transformation—1st Stage” after it had transferred its cement business and the associated business to Mitsubishi UBE Cement Corporation in April 2022, its reported segments were changed from the previous four segments consisting of “Chemicals,” “Construction Materials,” “Machinery” and “Others” to four new segments consisting of “Specialty Products,” “Polymers & Chemicals,” “Machinery” and “Others.”

For fair comparison with the previous fiscal year, the segment information for the previous fiscal year reflects this new revised segmentation.

In addition, no applicable net sales and segment profit (operating profit) in the Cement Business and Cement-Related Business that had been included in the “Construction Materials” Segment were reported during the current fiscal year. This is because Mitsubishi UBE Cement Corporation is an equity-method affiliate of the Group, and as a result, share of losses of entities accounted for using equity method (non-operating expenses) of (¥24,646) million (US$(183,925) thousand) relating to the said business were reported.

The operations of the Company and its consolidated subsidiaries for the years ended March 31, 2023 and 2022 are summarized by reportable segment as follows:

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| Year ended March 31, 2023 | Specialty Products | Polymers & Chemicals | Machinery | Others | Elimination & Corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | ¥47,085 | ¥268,469 | ¥96,373 | ¥82,811 | ¥ — | ¥494,738 |
| Intersegment sales and transfers | 15,073 | 24,919 | 548 | (9,701) | (30,839) | — |
| Total | 62,158 | 293,388 | 96,921 | 73,110 | (30,839) | 494,738 |
| Segment operating profit | ¥10,464 | ¥ 2,426 | ¥ 5,215 | ¥ 2,643 | ¥ (4,458) | ¥ 16,290 |
| Segment assets | ¥74,090 | ¥274,814 | ¥89,728 | ¥88,661 | ¥204,343 | ¥731,636 |
| Depreciation and amortization | 4,073 | 14,397 | 2,007 | 2,921 | 2,014 | 25,412 |
| Equity method investments | 5,240 | 26,634 | — | 3,117 | 150,369 | 185,360 |
| Capital expenditures | 4,874 | 10,514 | 1,684 | 8,639 | 3,578 | 29,289 |

| | Thousands of U.S. dollars | | | | | |
|---|---|---|---|---|---|---|
| Year ended March 31, 2023 | Specialty Products | Polymers & Chemicals | Machinery | Others | Elimination & Corporate | Consolidated |
| Sales: | | | | | | |
| Outside customers | $351,381 | $2,003,500 | $719,201 | $617,993 | $ — | $3,692,075 |
| Intersegment sales and transfers | 112,485 | 185,963 | 4,090 | (72,396) | (230,142) | — |
| Total | 463,866 | 2,189,463 | 723,291 | 545,597 | (230,142) | 3,692,075 |
| Segment operating profit | $ 78,090 | $ 18,104 | $ 38,918 | $ 19,724 | $ (33,269) | $ 121,567 |
| Segment assets | $552,910 | $2,050,851 | $669,612 | $661,649 | $1,524,948 | $5,459,970 |
| Depreciation and amortization | 30,396 | 107,440 | 14,978 | 21,799 | 15,029 | 189,642 |
| Equity method investments | 39,105 | 198,761 | — | 23,261 | 1,122,157 | 1,383,284 |
| Capital expenditures | 36,373 | 78,463 | 12,567 | 64,470 | 26,702 | 218,575 |

| Year ended March 31, 2022 | Specialty Products | Polymers & Chemicals | Machinery | Others | Elimination & Corporate | Consolidated |
|---|---|---|---|---|---|---|
| | Millions of yen | | | | | |
| Sales: | | | | | | |
| Outside customers | ¥47,694 | ¥233,921 | ¥95,579 | ¥64,191 | ¥213,880 | ¥655,265 |
| Intersegment sales and transfers | 13,093 | 26,123 | 1,408 | (9,949) | (30,675) | — |
| Total | 60,787 | 260,044 | 96,987 | 54,242 | 183,205 | 655,265 |
| Segment operating profit | ¥11,627 | ¥ 23,516 | ¥ 5,130 | ¥ 3,548 | ¥ 217 | ¥ 44,038 |
| Segment assets | ¥71,719 | ¥273,568 | ¥89,397 | ¥56,346 | ¥346,924 | ¥837,954 |
| Depreciation and amortization | 4,224 | 13,792 | 1,859 | 2,437 | 14,194 | 36,506 |
| Equity method investments | 5,624 | 24,983 | — | 2,750 | 7,937 | 41,294 |
| Capital expenditures | 5,233 | 10,322 | 2,528 | 2,650 | 18,839 | 39,572 |

Sales and amounts of property, plant and equipment of the Company and its consolidated subsidiaries as of and for the years ended March 31, 2023 and 2022 by geographic area are as follows:

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| Year ended March 31, 2023 | Japan | Asia | Europe | Others | Consolidated |
| Sales | **¥236,819** | **¥136,703** | **¥70,572** | **¥50,644** | **¥494,738** |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| Year ended March 31, 2023 | Japan | Asia | Europe | Others | Consolidated |
| Sales | **$1,767,306** | **$1,020,172** | **$526,657** | **$377,940** | **$3,692,075** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| As of March 31, 2023 | Japan | Thailand | Spain | Others | Consolidated |
| Property, plant and equipment | **¥143,270** | **¥41,027** | **¥22,455** | **¥1,275** | **¥208,027** |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| As of March 31, 2023 | Japan | Thailand | Spain | Others | Consolidated |
| Property, plant and equipment | **$1,069,179** | **$306,171** | **$167,575** | **$9,515** | **$1,552,440** |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| Year ended March 31, 2022 | Japan | Asia | Europe | Others | Consolidated |
| Sales | ¥415,238 | ¥137,951 | ¥57,355 | ¥44,721 | ¥655,265 |

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| As of March 31, 2022 | Japan | Thailand | Spain | Others | Consolidated |
| Property, plant and equipment | ¥269,465 | ¥40,716 | ¥21,357 | ¥1,219 | ¥332,757 |

From the year ended March31, 2023, "Spain" was listed separately for tangible assets that had been included in the "Europe" section in the previous fiscal year. In addition, the figures for "Other Asia" and "Europe" excluding Spain, both of which were presented separately in the previous fiscal year, are presented collectively in "Others". To reflect these changes in presentation method, the Company has made certain reclassifications to its consolidated financial statements for the previous fiscal year.

## 19 Leases

### Operating leases

Future minimum lease payments subsequent to March 31, 2023 and 2022 for non-cancelable operating leases are summarized as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Years ending March 31 | **2023** | **2023** |
| 2024 | **¥ 787** | **$ 5,873** |
| 2025 and thereafter | **2,409** | **17,978** |
| | **¥3,196** | **$23,851** |

| | Millions of yen |
|---|---|
| Years ending March 31 | 2022 |
| 2023 | ¥ 696 |
| 2024 and thereafter | 2,976 |
| | ¥3,672 |

## 20 Retirement benefits

The Company and certain domestic consolidated subsidiaries have funded and unfunded defined benefit company pension plans. Certain domestic consolidated subsidiaries have defined contribution pension plans.

Under the defined benefit pension plans, employees terminating their employment are entitled to retirement benefits determined based on the rate of pay and years of service. The retirement benefit trusts have been established for some defined benefit pension plans.

Under the lump-sum retirement benefit of defined pension plans, benefits are determined based on the rate of pay and years of service.

Defined contribution plans are mainly defined contribution pension plans.

### (a) Defined benefit plans

The changes in the retirement benefit obligation during the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Opening balance of retirement benefit obligation | ¥ 48,920 | ¥50,604 | $365,075 |
| Service cost | 2,333 | 3,029 | 17,410 |
| Interest cost | 234 | 290 | 1,746 |
| Actuarial loss (gain) | 680 | (207) | 5,075 |
| Benefit paid | (3,473) | (4,796) | (25,918) |
| Prior service cost | 300 | — | 2,239 |
| Increase due to new consolidation | 2,108 | — | 15,731 |
| Decrease due to corporate separation | (12,653) | — | (94,425) |
| Closing balance of retirement benefit obligation | ¥ 38,449 | ¥48,920 | $286,933 |

The changes in plan assets during the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Opening balance of plan assets | ¥ 56,127 | ¥57,202 | $418,858 |
| Expected return on pension assets | 1,030 | 1,274 | 7,686 |
| Actuarial gain (loss) | (686) | (32) | (5,119) |
| Contributions by the employer | 1,697 | 2,161 | 12,664 |
| Benefit paid | (3,264) | (4,478) | (24,358) |
| Decrease due to corporate separation | (10,988) | — | (82,000) |
| Closing balance of plan assets | ¥ 43,916 | ¥56,127 | $327,731 |

The reconciliation of the retirement benefit obligations and plan assets to the liabilities and assets for retirement benefits recognized in the consolidated balance sheet as of March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Funded retirement benefit obligations | ¥ 35,105 | ¥ 47,961 | $ 261,977 |
| Plan assets | (43,916) | (56,127) | (327,731) |
| | (8,811) | (8,166) | (65,754) |
| Unfunded retirement benefit obligations | 3,344 | 959 | 24,955 |
| Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet | ¥ (5,467) | ¥ (7,207) | $ (40,799) |
| Net defined benefit liability | ¥ 5,542 | ¥ 3,087 | $ 41,358 |
| Net defined benefit asset | (11,009) | (10,294) | (82,157) |
| Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet | ¥ (5,467) | ¥ (7,207) | $ (40,799) |

The breakdown of the retirement benefit expenses for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Service cost | ¥ 2,333 | ¥ 3,029 | $17,410 |
| Interest cost | 234 | 290 | 1,746 |
| Expected return on plan assets | (1,030) | (1,274) | (7,686) |
| Amortization of actuarial loss | (139) | (137) | (1,037) |
| Amortization of prior service cost | 46 | — | 343 |
| Retirement benefit expenses | ¥ 1,444 | ¥ 1,908 | $10,776 |

The components of remeasurements of defined benefit plans in other comprehensive income (before tax effect) for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Actuarial loss (gain) | ¥1,505 | ¥38 | $11,231 |
| Prior service cost | 254 | — | 1,896 |
| Total | ¥1,759 | ¥38 | $13,127 |

The components of remeasurements of defined benefit plans in accumulated other comprehensive income (before tax effect) as of March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Unrecognized actuarial loss (gain) | ¥536 | ¥(969) | $4,000 |
| Unrecognized prior service cost | 254 | — | 1,896 |
| Total | ¥790 | ¥(969) | $5,896 |

The breakdown of pension assets by major category as a percentage of total plan assets as of March 31, 2023 and 2022 are as follows:

| | Ratio | |
|---|---|---|
| | 2023 | 2022 |
| Bonds | 24% | 22% |
| Equities | 38 | 33 |
| Insurance assets (General account) | 22 | 23 |
| Other | 16 | 22 |
| Total | 100% | 100% |

The above total includes 10% and 7% of the retirement benefit trusts of company pension plans at March 31, 2023 and 2022, respectively.

The expected return rate on plan assets is estimated based on the current and anticipated allocations to each asset class and current and anticipated long-term returns on assets held in each category.

The items of actuarial assumptions for the years ended March 31, 2023 and 2022 are as follows:

| | Ratio | |
|---|---|---|
| | 2023 | 2022 |
| Discount rate | 0.4~1.2% | 0.5~1.2% |
| Expected long-term return on plan assets: | | |
| Pension assets | 2.0~2.5 | 1.0~2.5 |
| Retirement benefit trusts | 0.0 | 0.0 |

The schedule of the defined benefit obligation and pension assets accounted for by the simplified method for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Opening balance of net defined benefit asset and liability | ¥ 4,117 | ¥4,319 | $ 30,724 |
| Benefit expenses | 209 | 284 | 1,560 |
| Benefit paid | (166) | (411) | (1,239) |
| Contributions to the plans | (34) | (75) | (254) |
| Decrease due to corporate separation | (2,216) | — | (16,537) |
| Others | (233) | — | (1,739) |
| Closing balance of net defined benefit asset and liability | ¥ 1,677 | ¥4,117 | $ 12,515 |

The reconciliation of the retirement benefit obligations and plan assets to the liabilities and assets for retirement benefits by the simplified method recognized in the consolidated balance sheet as of March 31, 2023 and 2022 are as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Funded retirement benefit obligations | ¥ 718 | ¥ 1,484 | $ 5,358 |
| Plan assets | (498) | (1,202) | (3,716) |
| | 220 | 282 | 1,642 |
| Unfunded retirement benefit obligations | 1,457 | 3,835 | 10,873 |
| Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet | 1,677 | 4,117 | 12,515 |
| Net defined benefit liability | 1,677 | 4,205 | 12,515 |
| Net defined benefit asset | — | (88) | — |
| Net amount of liabilities and assets for retirement benefits in the consolidated balance sheet | ¥1,677 | ¥ 4,117 | $12,515 |

The retirement benefit expenses under the simplified method were ¥209 million (US$1,560 thousand) and ¥284 million for the years ended March 31, 2023 and 2022, respectively.

### (b) Defined contribution plans

The contributions by consolidated subsidiaries paid to defined contribution pension plans were ¥32 million (US$239 thousand) and ¥75 million for the years ended March 31, 2023 and 2022, respectively.

## 21

## Investment and rental property

The Company and its consolidated subsidiaries own idle property and rental property in Yamaguchi prefecture, Japan and other areas. The carrying amount, net changes and fair value of investment and rental property for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Carrying amount | | | Fair value at March 31, 2023 |
| | Opening balance | Net change during the year | Closing balance | |
| Idle property | **¥ 5,793** | **¥(2,638)** | **¥3,155** | **¥16,550** |
| Rental property | **10,832** | **(5,159)** | **5,673** | **13,529** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Carrying amount | | | Fair value at March 31, 2023 |
| | Opening balance | Net change during the year | Closing balance | |
| Idle property | **$43,232** | **$(19,687)** | **$23,545** | **$123,507** |
| Rental property | **80,836** | **(38,500)** | **42,336** | **100,963** |

*Notes: Carrying amounts represent the acquisition costs less accumulated depreciation and impairment losses.*
*Net change for the year ended March 31, 2023 is mainly the corporate spin-off ¥(5,625) million (US$(41,978) thousand).*
*Fair value of main property at March 31, 2023 is based on external appraisal, and fair value of other property is estimated based on the index prices deemed to reflect the market price accurately.*

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | Carrying amount | | | Fair value at March 31, 2022 |
| | Opening balance | Net change during the year | Closing balance | |
| Idle property | ¥ 5,708 | ¥ 85 | ¥ 5,793 | ¥21,571 |
| Rental property | 10,975 | (143) | 10,832 | 20,608 |

*Notes: Carrying amounts represent the acquisition costs less accumulated depreciation and impairment losses.*
*Net change for the year ended March 31, 2022 is mainly loss on sales of ¥(285) million.*
*Fair value of main property at March 31, 2022 is based on external appraisal, and fair value of other property is estimated based on the index prices deemed to reflect the market price accurately.*

The amount of income and expenses related to investment and rental property for the years ended March 31, 2023 and 2022 are as follows:

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Rental income | Rental expenses | Net income | Others |
| Idle property | **¥ —** | **¥ —** | **¥ —** | **¥(117)** |
| Rental property | **670** | **265** | **405** | **316** |

| | Thousands of U.S. dollars | | | |
|---|---|---|---|---|
| | 2023 | | | |
| | Rental income | Rental expenses | Net income | Others |
| Idle property | **$ —** | **$ —** | **$ —** | **$ (873)** |
| Rental property | **5,000** | **1,978** | **3,022** | **2,358** |

*Notes: Others in the above table for idle property consist of taxes and dues of ¥(120) million (US$(896) thousand), and profit on sales of ¥3 million (US$22 thousand).*
*Others for rental property is profit on sales of ¥316 million (US$2,358 thousand).*

| | Millions of yen | | | |
|---|---|---|---|---|
| | 2022 | | | |
| | Rental income | Rental expenses | Net income | Others |
| Idle property | ¥ — | ¥ — | ¥ — | ¥(105) |
| Rental property | 1,174 | 584 | 590 | (108) |

*Notes: Others in the above table for idle property consist of taxes and dues of ¥(164) million, and profit on sales of ¥59 million.*
*Others for rental property is loss on sales of ¥(108) million.*

## 22 Stock options

Stock option expenses in the amounts of ¥16 million (US$119 thousand) and ¥80 million were recognized as "Selling, general and administrative expenses" on the consolidated statement of income for the years ended March 31, 2023 and 2022, respectively.

The Company determined to introduce a restricted stock remuneration plan (hereinafter, the "Plan"). The Plan has been approved at the 116th Ordinary General Meeting of Shareholders which was held on June 29, 2022 for Directors of the Company (excluding those who are Audit and Supervisory Committee members and Outside Directors).

The Company abolishes the remuneration for stock acquisition rights as stock compensation-type stock options, and discontinues the issuance of stock acquisition rights as stock compensation-type stock options thereafter. Stock acquisition rights as stock options granted to the Eligible Directors, etc. that have not yet been exercised will be waived by the Eligible Directors, etc., provided that the Plan will be introduced.

The Company completed a share consolidation of 10 common shares to one common share, effective as of October 1, 2017. Information on stock options at March 31, 2023, which reflects such share consolidation, is as follows:

| | | |
|---|---|---|
| **2007 stock options** | *Position and number of grantees* | Directors of the Company: 5<br>Executive officers of the Company: 12 |
| | *Type and number of shares* | Common stock of the Company: 26,900 shares |
| | *Date of grant* | February 22, 2007 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | For 1 year (From July 1, 2006 to June 30, 2007) |
| | *Exercise period of rights* | For 25 years from grant date (From February 22, 2007 to February 21, 2032) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2008 stock options** | *Position and number of grantees* | Directors of the Company: 5<br>Executive officers of the Company: 17 |
| | *Type and number of shares* | Common stock of the Company: 23,700 shares |
| | *Date of grant* | July 13, 2007 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2007 to June 30, 2008)<br>Executive officers of the Company: For 9 months (From July 1, 2007 to March 31, 2008)<br>Newly designated executive officers of the Company: For 1 year (From April 1, 2007 to March 31, 2008) |
| | *Exercise period of rights* | For 25 years from grant date (From July 13, 2007 to July 12, 2032) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2009 stock options** | *Position and number of grantees* | Directors of the Company: 6<br>Executive officers of the Company: 16 |
| | *Type and number of shares* | Common stock of the Company: 24,300 shares |
| | *Date of grant* | July 14, 2008 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2008 to June 30, 2009)<br>Executive officers of the Company: For 1 year (From April 1, 2008 to March 31, 2009) |
| | *Exercise period of rights* | For 25 years from grant date (From July 14, 2008 to July 13, 2033) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2010 stock options** | *Position and number of grantees* | Directors of the Company: 6<br>Executive officers of the Company: 17 |
| | *Type and number of shares* | Common stock of the Company: 32,200 shares |
| | *Date of grant* | July 13, 2009 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2009 to June 30, 2010)<br>Executive officers of the Company: For 1 year (From April 1, 2009 to March 31, 2010) |
| | *Exercise period of rights* | For 25 years from grant date (From July 13, 2009 to July 12, 2034) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |

| | | |
|---|---|---|
| **2011 stock options** | *Position and number of grantees* | Directors of the Company: 5<br>Executive officers of the Company: 17 |
| | *Type and number of shares* | Common stock of the Company: 36,600 shares |
| | *Date of grant* | July 14, 2010 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2010 to June 30, 2011)<br>Executive officers of the Company: For 1 year (From April 1, 2010 to March 31, 2011) |
| | *Exercise period of rights* | For 25 years from grant date (From July 14, 2010 to July 13, 2035) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2012 stock options** | *Position and number of grantees* | Directors of the Company: 5<br>Executive officers of the Company: 18 |
| | *Type and number of shares* | Common stock of the Company: 35,500 shares |
| | *Date of grant* | July 14, 2011 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2011 to June 30, 2012)<br>Executive officers of the Company: For 1 year (From April 1, 2011 to March 31, 2012) |
| | *Exercise period of rights* | For 25 years from grant date (From July 14, 2011 to July 13, 2036) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2013 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 19 |
| | *Type and number of shares* | Common stock of the Company: 37,700 shares |
| | *Date of grant* | July 13, 2012 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2012 to June 30, 2013)<br>Executive officers of the Company: For 1 year (From April 1, 2012 to March 31, 2013) |
| | *Exercise period of rights* | For 25 years from grant date (From July 13, 2012 to July 12, 2037) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2014 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 20 |
| | *Type and number of shares* | Common stock of the Company: 48,100 shares |
| | *Date of grant* | July 12, 2013 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2013 to June 30, 2014)<br>Executive officers of the Company: For 1 year (From April 1, 2013 to March 31, 2014) |
| | *Exercise period of rights* | For 25 years from grant date (From July 12, 2013 to July 11, 2038) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2015 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 19 |
| | *Type and number of shares* | Common stock of the Company: 43,000 shares |
| | *Date of grant* | July 14, 2014 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2014 to June 30, 2015)<br>Executive officers of the Company: For 1 year (From April 1, 2014 to March 31, 2015) |
| | *Exercise period of rights* | For 25 years from grant date (From July 14, 2014 to July 13, 2039) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2016 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 19 |
| | *Type and number of shares* | Common stock of the Company: 50,000 shares |
| | *Date of grant* | July 13, 2015 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2015 to June 30, 2016)<br>Executive officers of the Company: For 1 year (From April 1, 2015 to March 31, 2016) |
| | *Exercise period of rights* | For 25 years from grant date (From July 13, 2015 to July 12, 2040) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 8 years, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |

| | | |
|---|---|---|
| **2017 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 19 |
| | *Type and number of shares* | Common stock of the Company: 39,500 shares |
| | *Date of grant* | July 14, 2016 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2016 to June 30, 2017)<br>Executive officers of the Company: For 1 year (From April 1, 2016 to March 31, 2017) |
| | *Exercise period of rights* | For 25 years from the next day of grant date (From July 15, 2016 to July 14, 2041) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2018 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 20 |
| | *Type and number of shares* | Common stock of the Company: 42,100 shares |
| | *Date of grant* | July 14, 2017 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2017 to June 30, 2018)<br>Executive officers of the Company: For 1 year (From April 1, 2017 to March 31, 2018) |
| | *Exercise period of rights* | For 25 years from the next day of grant date (From July 15, 2017 to July 14, 2042) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2019 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 22 |
| | *Type and number of shares* | Common stock of the Company: 32,100 shares |
| | *Date of grant* | July 13, 2018 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2018 to June 30, 2019)<br>Executive officers of the Company: For 1 year (From April 1, 2018 to March 31, 2019) |
| | *Exercise period of rights* | For 25 years from the next day of grant date (From July 14, 2018 to July 13, 2043) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2020 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 21 |
| | *Type and number of shares* | Common stock of the Company: 41,500 shares |
| | *Date of grant* | July 12, 2019 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2019 to June 30, 2020)<br>Executive officers of the Company: For 1 year (From April 1, 2019 to March 31, 2020) |
| | *Exercise period of rights* | For 25 years from the next day of grant date (From July 13, 2019 to July 12, 2044) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2021 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 21 |
| | *Type and number of shares* | Common stock of the Company: 41,900 shares |
| | *Date of grant* | July 13, 2020 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2020 to June 30, 2021)<br>Executive officers of the Company: For 1 year (From April 1, 2020 to March 31, 2021) |
| | *Exercise period of rights* | For 25 years from the next day of grant date (From July 14, 2020 to July 13, 2045) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |
| **2022 stock options** | *Position and number of grantees* | Directors of the Company: 4<br>Executive officers of the Company: 18 |
| | *Type and number of shares* | Common stock of the Company: 43,200 shares |
| | *Date of grant* | July 14, 2021 |
| | *Settlement of rights* | After providing service for the period |
| | *Period of providing service for stock option* | Directors of the Company: For 1 year (From July 1, 2021 to June 30, 2022)<br>Executive officers of the Company: For 1 year (From April 1, 2021 to March 31, 2022) |
| | *Exercise period of rights* | For 25 years from the next day of grant date (From July 15, 2021 to July 14, 2046) |
| | *Condition of exercise of rights* | A holder of share acquisition rights may only exercise rights within a maximum of 10 days, within the exercise period of rights described above, from the next day when such holder no longer holds a position as a director and/or an executive officer. |

| | Exercise price | Average stock price at exercise | Fair value at grant date |
|---|---|---|---|
| 2007 stock options | ¥1 | ¥ — | ¥3,880 |
| 2008 stock options | ¥1 | ¥ — | ¥3,510 |
| 2009 stock options | ¥1 | ¥ — | ¥3,260 |
| 2010 stock options | ¥1 | ¥ — | ¥2,230 |
| 2011 stock options | ¥1 | ¥ — | ¥1,860 |
| 2012 stock options | ¥1 | ¥ — | ¥2,270 |
| 2013 stock options | ¥1 | ¥1,986 | ¥1,360 |
| 2014 stock options | ¥1 | ¥2,055 | ¥1,560 |
| 2015 stock options | ¥1 | ¥1,991 | ¥1,350 |
| 2016 stock options | ¥1 | ¥1,980 | ¥1,810 |
| 2017 stock options | ¥1 | ¥1,946 | ¥1,610 |
| 2018 stock options | ¥1 | ¥1,946 | ¥2,820 |
| 2019 stock options | ¥1 | ¥1,946 | ¥2,584 |
| 2020 stock options | ¥1 | ¥1,944 | ¥1,910 |
| 2021 stock options | ¥1 | ¥1,940 | ¥1,480 |
| 2022 stock options | ¥1 | ¥1,940 | ¥1,917 |
| | US$0.01 | US$14.48 | US$14.31 |

## 23 Related parties

### (a) Related party transactions

The Company purchased raw materials such as coal from Mitsubishi UBE Cement Corporation in the amount of ¥48,954 million (US$365,328 thousand) during the year ended March 31, 2023. The capital stock of Mitsubishi UBE Cement Corporation is ¥50,250 million (US$375,000 thousand) as of March 31, 2023, and it is accounted for by the equity method.

The purchase of raw materials from Mitsubishi UBE Cement Corporation is determined in the same way as general transaction conditions.

### (b) Summarized financial information of significant affiliates

The Company recognizes Mitsubishi UBE Cement Corporation as a significant affiliate from this fiscal year. The following is a summarized financial information based on original consolidated financial statement of Mitsubishi UBE Cement Corporation and adjusted to account for customer- related assets which was recognized at the business combination.

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| | 2023 | 2023 |
| Total current assets | ¥278,142 | $2,075,686 |
| Total non-current assets | 484,087 | 3,612,590 |
| Total current liabilities | 269,703 | 2,012,709 |
| Total non-current liabilities | 146,112 | 1,090,388 |
| Total net assets | 346,414 | 2,585,179 |
| Net sales | 576,304 | 4,300,776 |
| Loss before income taxes | (46,638) | (348,045) |
| Loss attributable to owners of parent | (49,192) | (367,104) |

## Revenue recognition

### Revenue from Contracts with Customers

The Group recognizes revenue at the amount that it expects to receive in exchange for promised goods or services at the time control of the goods or services are transferred to a customer. Related information with revenue from contracts with customers is as follows.

#### (a) A disaggregation of revenue from contracts with customers for the fiscal years ended March 31, 2023 and 2022 are as follows.

| | Millions of yen | | | | |
|---|---|---|---|---|---|
| | 2023 | | | | |
| | Specialty Products | Polymers & Chemicals | Machinery | Others | Total |
| Japan | ¥36,762 | ¥109,668 | ¥58,487 | ¥31,628 | ¥236,545 |
| Asia | 9,586 | 79,225 | 25,058 | 22,834 | 136,703 |
| Europe | 2 | 59,685 | 45 | 10,840 | 70,572 |
| Others | 735 | 19,891 | 12,783 | 17,235 | 50,644 |
| Revenue from contracts with customers | 47,085 | 268,469 | 96,373 | 82,537 | 494,464 |
| Other revenue | — | — | — | 274 | 274 |
| Sales to outside customers | ¥47,085 | ¥268,469 | ¥96,373 | ¥82,811 | ¥494,738 |

| | Thousands of U.S. dollars | | | | |
|---|---|---|---|---|---|
| | 2023 | | | | |
| | Specialty Products | Polymers & Chemicals | Machinery | Others | Total |
| Japan | $274,343 | $ 818,418 | $436,470 | $236,030 | $1,765,261 |
| Asia | 71,537 | 591,232 | 187,000 | 170,403 | 1,020,172 |
| Europe | 15 | 445,410 | 336 | 80,896 | 526,657 |
| Others | 5,486 | 148,440 | 95,395 | 128,619 | 377,940 |
| Revenue from contracts with customers | 351,381 | 2,003,500 | 719,201 | 615,948 | 3,690,030 |
| Other revenue | — | — | — | 2,045 | 2,045 |
| Sales to outside customers | $351,381 | $2,003,500 | $719,201 | $617,993 | $3,692,075 |

| | Millions of yen | | | | | |
|---|---|---|---|---|---|---|
| | 2022 | | | | | |
| | Specialty Products | Polymers & Chemicals | Machinery | Others | Elimination & Corporate | Total |
| Japan | ¥34,985 | ¥ 92,888 | ¥62,281 | ¥17,801 | ¥207,283 | ¥415,238 |
| Asia | 12,282 | 75,255 | 22,111 | 22,810 | 5,493 | 137,951 |
| Europe | — | 47,951 | 110 | 8,728 | 566 | 57,355 |
| Others | 427 | 17,827 | 11,077 | 14,852 | 538 | 44,721 |
| Revenue from contracts with customers | 47,694 | 233,921 | 95,579 | 64,191 | 213,880 | 655,265 |
| Other revenue | — | — | — | — | — | — |
| Sales to outside customers | ¥47,694 | ¥233,921 | ¥95,579 | ¥64,191 | ¥213,880 | ¥655,265 |

#### (b) Information on contract assets and contract liabilities from contracts with customers at March 31, 2023 and 2022 are as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2023 | 2022 | 2023 |
| Contract assets (Beginning balance) | ¥155,608 | ¥140,891 | $1,161,254 |
| Contract assets (Ending balance) | 101,565 | 155,608 | 757,948 |

### (c) Allocation of transaction price to separate performance obligations in contracts by timing is as follows.

| Years ending March 31 | Millions of yen 2023 | Thousands of U.S. dollars 2023 |
|---|---|---|
| 2024 | ¥16,582 | $123,746 |
| 2025 | 11,087 | 82,739 |
| 2026 | 191 | 1,426 |
| 2027 and thereafter | 450 | 3,358 |
| | ¥28,310 | $211,269 |

| Years ending March 31 | Millions of yen 2022 |
|---|---|
| 2023 | ¥31,916 |
| 2024 | 1,268 |
| 2025 | 2,128 |
| 2026 and thereafter | 9 |
| | ¥35,321 |

## 25 Business combinations

### (a) Formation of jointly controlled company

The Company resolved at its Board of Directors meeting held on May 12, 2021 to enter into the absorption-type split agreement ("Absorption-Type Split Agreement") with Mitsubishi Materials Corporation, Ltd. ("Mitsubishi Materials") to integrate the cement business and its associated business of Mitsubishi Materials ("Integration"), and signed the Absorption-Type Split Agreement on May 14, 2021 with C Integration Arrangement, Ltd. (which was renamed to Mitsubishi UBE Cement Corporation ("Mitsubishi UBE Cement") on January 1, 2022). Subsequently, the Group and Mitsubishi Materials received approvals of their general meeting of shareholders held on June 29, 2021 and June 24, 2021, respectively. Based on this agreement, both companies transferred their cement business and its associated business to Mitsubishi UBE Cement on April 1, 2022.

*1. Summary of the Transaction*

(1) Name and Business Content of the New Joint Venture Company

Cement and ready-mixed concrete business, limestone resource business, business related to energy and environment, construction material business, and other business related to the foregoing

(2) Date of Integration

April 1, 2022

(3) Legal Form of Integration

Absorption-type split with Mitsubishi UBE Cement Corporation as the succeeding company

(4) Company Name after Integration

Mitsubishi UBE Cement Corporation

(5) Other Matters Related to the Summary of the Transaction

The Group and Mitsubishi Materials resolved at respective Board of Directors meetings held on February 12, 2020 to start specific discussions and review for this integration and a letter of intent was prepared. The integration was formally resolved at respective Board of Directors meetings held on September 29, 2020, and the integration agreement was concluded.

(6) Reason why this integration was determined as formation of a jointly controlled company

In order to establish this jointly controlled company, the Group and Mitsubishi Materials signed the absorption-type split agreement stipulating that both companies would jointly control Mitsubishi UBE Cement, and both companies paid with respective voting shares for the business integration. In addition, there is no certain clearly specified fact to show other controlling interests. Hence, the Company determined that this business integration is in the form of a jointly controlled company.

*2. Outline of Accounting Treatment*

This business integration has been accounted for as formation of a jointly controlled company pursuant to "Accounting Standard for Business Combinations" (ASBJ Statement No. 21, January 16, 2019) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10, January 16, 2019).

### (b) Business combination through acquisitions

*1. Outline of business combination*

(1) Name of acquired company

API Corporation (hereafter "APIC")

(2) Business description

Contract manufacturing of active pharmaceutical ingredients, intermediates and investigational medical products, contract research and development, manufacturing and sales of fine chemicals.

(3) Main reason for business combination

APIC was established in October 2002 through the integration of the active pharmaceutical ingredients business and a part of the fine chemicals business which had been run by Mitsubishi Chemical Corporation into Yoshitomi Fine Chemicals, Ltd.. APIC is a contract development and manufacturing organization (CDMO) that offers a wide range of services such as synthetic route design, pilot manufacturing, investigational medical manufacturing, and commercial production, by making full use of integrated processes that combine organic synthesis technologies and biotechnologies it has cultivated over many years. APIC is also engaged in the business of proposing, manufacturing, and marketing active pharmaceutical ingredients (APIs) and intermediates using processes developed based on its own proprietary technologies.

In April 2022, the Company made a fresh start, under a new company name, "UBE", by transforming its management structure into that of a chemicals business holding stocks of companies engaged in the machinery business and the cement-related business. The medium-term management plan, "UBE Vision 2030 Transformation—1st Stage," announced in May 2022, calls for focused investment of management resources in specialty chemicals. The Company positions the pharmaceutical business as an important business that will play a role in the sustainable growth of the UBE Group, which pursues global profit expansion with a focus on specialty chemicals.

The Company's pharmaceuticals business is comprised of a licensing business based on drug discovery research and the CDMO business. The acquisition of shares will enable the Company and APIC to mutually utilize their proprietary high-level manufacturing and quality control technologies, jointly develop new technologies, expand their supply chain networks, and leverage the bases of both companies. Through these efforts, the Company will strive to establish a high-quality, stable supply system to meet the demands of the CDMO market, which is expected to continue to grow in the future, to strengthen its presence in the market.

(4) Date of business combination

December 1, 2022 (Share acquisition date)
December 31, 2022 (Deemed acquisition date)

(5) Legal form of business combination

Acquisition of shares in exchange for cash

(6) Company name after business combination

Unchanged

(7) Percentage of voting rights acquired

Percentage of voting rights before business combination: —%
Percentage of voting rights after business combination: 100%

(8) Basis for determining acquiring company

Because the Company acquired shares of APIC in exchange for cash

*2. Period for which acquired company's operating results are included in consolidated statement of income*

The acquired company's operating results are included in the consolidated statement of income from January 1, 2023 to March 31, 2023.

*3. Acquisition cost*

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash | ¥7,473 | $55,769 |
| Total acquisition cost | ¥7,473 | $55,769 |

* *Regarding the acquisition cost, based on the share transfer agreement, the price will be adjusted at later date to reflect the increase or decrease in working capital, etc. until the closing date.*

*4. Acquisition-related cost*

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Advisory fees | ¥275 | $2,052 |

*5. Amount of goodwill, reason for recognition, the amortization method and amortization period*

(1) Amount of goodwill

¥1,894 million (US$14,134 thousand)

** This amount of goodwill is a tentative calculation as of the end of the current fiscal year as the acquisition cost allocation has not yet been completed.*

(2) Reason for recognition

Due to excess earning power expected through future business development.

(3) Amortization method and amortization period

Straight-line amortization over in 10 years

*6. Details on assets acquired and liabilities assumed*

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Current assets | ¥13,625 | $101,679 |
| Non-current assets | 4,717 | 35,201 |
| Total assets | ¥18,342 | $136,880 |

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Current liabilities | ¥10,238 | $76,403 |
| Non-current liabilities | 2,525 | 18,843 |
| Total assets | ¥12,763 | $95,246 |

** As of the end of the current fiscal year, the acquisition cost allocation has not yet been completed, therefore provisional accounting treatment is being applied based on reasonable available information.*

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## Additional information

### (a) Formation of jointly controlled company

Regarding the amount, reason for recognition, amortization method and amortization period of "goodwill" included in investment securities generated are as follows.

(1) The amount of goodwill embedded in this investment generated

¥1,672 million (US$12,478 thousand)

(2) Reason for recognition

Due to excess earning power expected through future business development.

(3) Amortization method and amortization period

Straight-line amortization over 20 years

(4) Amounts and types of intangible fixed assets (other than goodwill) embedded in this investment and their amortization periods

Type: Customer-related assets

Amount: ¥10,014 million (US$74,731 thousand)

Amortization period: 11 years

### (b) Share of loss of entities accounted for using equity method

As part of its business structure reform, Mitsubishi UBE Cement Corporation (an equity-method affiliate of the Company) decided to discontinue operations at its Aomori Factory and reduce production by shutting down the first kiln at its Isa Cement Factory and completed the process by March 31, 2023. Related to this, the Group recorded ¥(8,376) million (US$(62,507) thousand) as share of loss of entities accounted for using equity method for the year ended March 31, 2023.

Independent Auditor's Report

The Board of Directors
UBE Corporation

## Opinion

We have audited the accompanying consolidated financial statements of UBE Corporation (the Company) and its consolidated subsidiaries (collectively, the Group), which comprise the consolidated balance sheet as at March 31, 2023, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

## Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of the audit of the consolidated financial statements as a whole, and in forming the auditor's opinion thereon, and we do not provide a separate opinion on these matters.

| Valuation of Property, Plant and Equipment | |
|---|---|
| **Description of Key Audit Matter** | **Auditor's Response** |
| The total value of the Group's property, plant and equipment ("PP&E") in the consolidated balance sheet as at March 31, 2023 was ¥208,027 million, representing 28.4% of total assets.<br><br>Since the Group's business activities are | The audit procedures we performed to assess the Company's determination of indications of impairment of PP&E include the following, among others:<br><br>1. Evaluation of PP&E grouping |

| | |
|---|---|
| diverse and there are differences in business operating environments and profitability, the Company determines business units or departments in its Specialty Products, Polymers & Chemicals, Machinery and Others segments as the smallest cash generating units for the asset grouping of PP&E.<br><br>Indications of impairment include events such as operating profit or cash flows from operating activities being continuously negative or a change that alters the range or manner of utilization of PP&E so as to significantly reduce the recoverable amount.<br><br>As there are many products with different supply chains or manufacturing processes, the grouping of PP&E related to production of products requires a range of judgments by management to reflect operating conditions, such as considering the relevance of manufacturing processes. Also, the Group operates a wide range of businesses, and the impact of environmental changes on business profitability varies. Therefore, the management determines whether there is any indication of impairment considering specific circumstances.<br><br>As described above, because the book value of the PP&E is substantial and the management's judgment of the grouping and indications of impairment is required, we determined the valuation of the PP&E to be a key audit matter. | In order to ensure that business units or departments are grouped on the basis of the smallest cash generating unit in the examination of impairment of PP&E, we reviewed related materials such as the Group's internal policies for recognizing impairment of PP&E and impairment documentation. In order to evaluate whether changing the asset grouping is necessary, we inquired of management, and reviewed minutes of certain meetings and related materials.<br><br>2. Judgment regarding indications of impairment<br><br>(Assessment of operating profit or cash flows)<br><br>In order to evaluate the accuracy and completeness of basic accounting data used to calculate operating profit or cash flows from operating activities in each asset group, we evaluated effectiveness of the IT system for managing the data. For the head office expenses allocated to each asset group, in order to ensure that the scope and method of allocation of expenses were reasonable, we reviewed the Company's regulations for such allocation. In addition, in order to evaluate the accuracy of allocation calculations of the expenses, we assessed the consistency between basic allocation data and basic accounting data and conducted a calculation review of the basic allocation data.<br><br>(Assessment of any continuous deficit)<br><br>In order to confirm whether operating profit or cash flows from operating activities for each asset group was continuously negative or projected to be continuously negative, we reviewed the impairment-related materials such as impairment documentation, the basic accounting data and business plans approved by management.<br><br>(Evaluation of existence of other indications of impairment) |

| | |
|---|---|
| | In order to determine whether there were changes in the range or manner of utilization of PP&E, a significant deterioration of the business environment or significant decline in market prices, we inquired of management from each business unit or department and reviewed minutes of certain meetings and related materials. |

| Valuation of fixed assets in the domestic cement business held by Mitsubishi UBE Cement Corporation, an affiliate accounted for using the equity method | |
|---|---|
| **Description of Key Audit Matter** | **Auditor's Response** |
| The Company recorded investment securities of ¥198,393 million in the consolidated balance sheet as at March 31, 2023, of which ¥150,369 million was the amount of investment in Mitsubishi UBE Cement Corporation ("MUCC"), which is engaged in cement and related businesses, as described in Notes to Consolidated Financial Statements ("18. Segment information"), representing 20.6% of total assets.<br><br>MUCC's management determines whether to recognize an impairment loss for fixes assets when it is deemed there are indications that fixed assets in the cement business held by MUCC may be impaired. If an impairment loss for fixed assets needs to be recognized based on the results of such a determination, the carrying amount of fixed assets is reduced to the recoverable amount and the amount of the reduction is recognized as an impairment loss. The Company accounts for the portion of the impairment loss recognized by MUCC as share of loss entities accounted for using equity method in the Company's consolidated statement of income.<br><br>MUCC recorded an operating loss, due to factors such as a rise in the price of coal used in cement manufacturing, for the fiscal year ended March 31, 2023. In addition, as described in Notes to Consolidated Financial Statements ("26. Additional information"), production systems were reviewed as part of | In considering whether to recognize an impairment loss for fixed assets in MUCC's domestic cement business, an affiliate of the Company accounted for using the equity method, we involved component auditors and instructed them to mainly perform the following audit procedures. We received a report on the results of the audit procedures and evaluated whether the audit evidence we have obtained is sufficient and appropriate.<br><br>1. Evaluation of internal controls<br><br>Evaluate the design and operating effectiveness of internal controls in order to confirm the effectiveness of the internal controls relating to the necessity of recognition of impairment losses for fixed assets.<br><br>2. Determination of whether to recognize an impairment loss<br><br>(1) Recalculate the weighted average remaining economic lives of property, plant and equipment and compare this to the estimated periods in order to assess the adequacy of periods for estimating future cash flows.<br><br>(2) Consider consistency between future cash flows and the medium-term management strategy approved by the MUCC's management in order to ensure that MUCC is using reasonable future cash flows that reflect its unique |

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| | |
|---|---|
| its business structure reform and MUCC recorded the loss associated with the review. Given the challenging operating environment, MUCC determined whether to recognize an impairment loss for fixed assets in the domestic cement business.<br><br>Estimates of future cash flows used at the time of determining whether to recognize an impairment loss for fixed assets are performed based on the medium-term management strategy prepared by MUCC's management. However, since the significant assumptions underlying the estimates of future cash flows are domestic demand and sales prices of cement used in forecasting future net sales as well as the outlook on coal type compositions and coal prices used in cement manufacturing in forecasting future cost of sales, and these significant assumptions are subject to uncertainty, judgment exercised by MUCC's management has a significant impact on these estimates.<br><br>As described above, since the Company's investment in MUCC is substantial, and judgment exercised by MUCC's management has a significant impact on the significant assumptions used in determining whether to recognize an impairment loss, we determined the valuation of fixed assets in the domestic cement business held by MUCC to be a key audit matter. | circumstances.<br><br>(3) Perform the following procedures in order to ascertain the key assumptions used in the estimate of future cash flows.<br><br>・Evaluate the consistency between domestic demand for cement used to determine net sales, which serve as the basis of the medium-term management strategy, and available data published by external organizations<br><br>・Hold discussions with MUCC's management regarding sales prices used to determine net sales, which serve as the basis of the medium-term management strategy, and evaluate the current progress on price increases externally published in the past<br><br>・Hold discussions with MUCC's management regarding the composition of coal types used to determine cost of sales, which serve as the basis of the medium-term management strategy, and evaluate the consistency between the manufacturing plans and sales plans based on the respective types of coal<br><br>・Evaluate the consistency between changes in coal prices used to determine cost of sales, which serve as the basis of the medium-term management strategy, and future forecasts published by external organizations<br><br>(4) Based on the results of performing the above procedures, consider the consequences of factoring in certain uncertainties in future cash flows in order to ascertain the impact of future uncertainties. |

**Other Information**

Other information comprises the information included in the Integrated Report Financial Sections that contains audited consolidated financial statements, but does not include the consolidated financial statements and our auditor's report thereon.

We have concluded that other information does not exist. Accordingly, we have not performed any work related to other information.

**Responsibilities of Management, the Audit and Supervisory Committee for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Audit and Supervisory Committee is responsible for overseeing the Group's financial reporting process.

**Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit and Supervisory Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit and Supervisory Committee with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the consolidated financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit and Supervisory Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

**Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan**

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

**Convenience Translation**

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2023 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Tokyo, Japan

June 29, 2023

Hideaki Karaki
Designated Engagement Partner
Certified Public Accountant

Ritsuko Narazaki
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Certified Public Accountant

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