TAIYO NIPPON SANSO

The Road to Growth

Annual Report 2015

Year Ended March 31, 2015

Profile

Taiyo Nippon Sanso Corporation was created through the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd., on October 1, 2004. Today, the Company continues to draw on the capabilities of its two predecessors as it strives to become a recognized global player.

Management Philosophy

“Market-driven collaborative innovation:
improving the future through gases”

Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements regarding the future plans, strategies, activities and performance of Taiyo Nippon Sanso Corporation. Forward-looking statements reflect management's assumptions and beliefs based on information available as of the date of this document's publication and inherently involve risks and uncertainties. Actual results may thus differ substantially from these statements. Risks and uncertainties include, but are not limited to, changes in general economic and specific market conditions, currency exchange rate fluctuations and evolving trends in demands for the Company's products and services.

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To Our Stakeholders

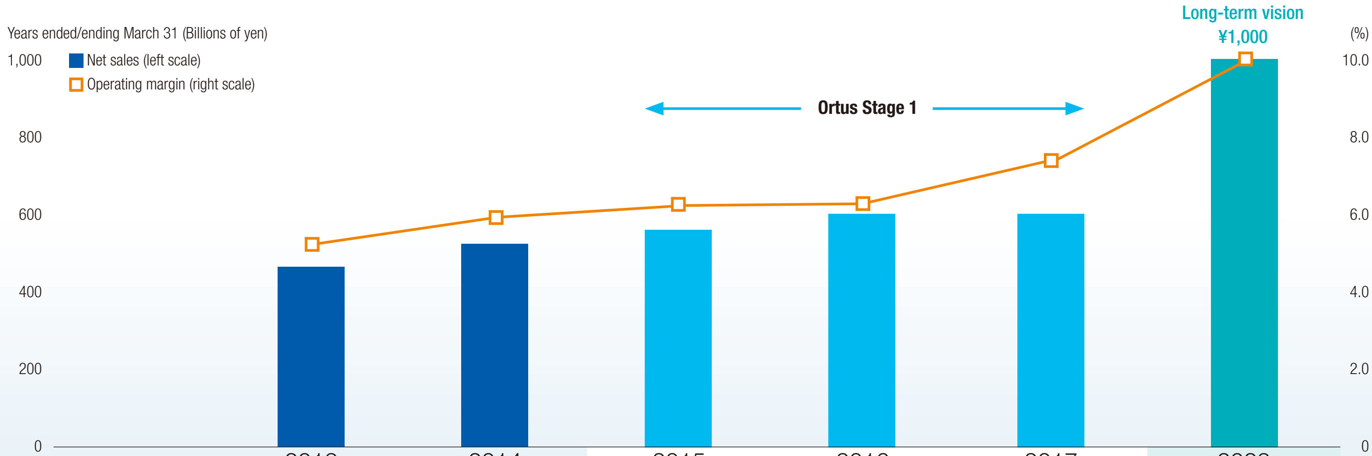
Despite a gradual revival in the United States, the global economy in fiscal year 2015, ended March 31, 2015, reflected slowing growth in Europe and Asia. The Japanese economy continued to recover moderately, although causes for concern remained, including rising prices for raw materials, a consequence of yen depreciation.

Against this backdrop, we reported significant advances in net sales and operating income in North America and Asia, the former attributable to the modest economic rally and the positive impact on results of a newly consolidated carbon dioxide manufacturer, and the latter to the robust performance of our Electronics segment businesses in Taiwan, China and South Korea. In contrast, the pace of recovery in Japan was measured, as trends varied from one sector to another. These factors contributed to a 7.0% increase in consolidated net sales, to ¥559,373 million, and a 12.1% gain in operating income, to ¥35,297 million.

Fiscal year 2015 was the 10th year since the merger that created Taiyo Nippon Sanso. This important milestone in our history also saw us embark on a new medium-term business plan, Ortus Stage 1, which we have positioned as the first step in our drive to attain the targets of our long-term vision—net sales of ¥1 trillion, an operating margin of 10%, a return on capital employed (ROCE) of at least 10%, and an overseas sales ratio of 50% or higher—by the end of fiscal year 2023. Our operating results targets for fiscal year 2017, the final year of Ortus Stage 1, are consolidated net sales of ¥600 billion, an operating margin of 7.5%, an ROCE of at least 8% and an overseas sales ratio of 40% or higher. Over the next year, we will continue to promote restructuring initiatives, particularly in Japan, as well as take steps to accelerate the expansion of our overseas operations, with the aim of meeting these targets.

Owing to a tender offer by our principal shareholder, Mitsubishi Chemical Holdings Corporation, which concluded

Quantitative Targets of Ortus Stage 1 and Our Long-Term Vision



	2013 Actual	2014 Actual	2015 Actual	2016 Forecast*	2017 Target	2023 Target
Net sales	¥468.3	¥522.7	¥559.3	¥600.0	¥600.0	¥1,000
Operating income	¥ 24.8	¥ 31.4	¥ 35.2	¥ 38.0	¥ 45.0	¥ 100
Operating margin	5.3%	6.0%	6.3%	6.3%	7.5%	10.0%
Overseas sales ratio	27.6%	31.4%	35.0%	39.1%	40% or higher	50% or higher
ROCE	5.5%	6.1%	6.5%	—	8.0% or higher	10.0% or higher

Structural reforms, growth strategies

Optimization, expansion of scale

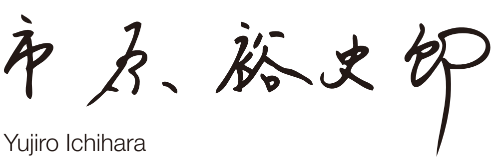
*Forecast for fiscal year 2016 excludes the impact of a change in the fiscal year-ends of two subsidiaries, which is expected to add ¥50.0 billion to net sales and ¥3.0 billion to operating income.

in November 2014, the company's stake in Taiyo Nippon Sanso increased to 50.57%, resulting in a change in our relationship with Mitsubishi Chemical Holdings from that of equity-method affiliate to consolidated subsidiary. Looking ahead, we will maintain our status as a listed company with independent management, while at the same time capitalizing on our new role in the Mitsubishi Chemical Holdings Group, which we expect to yield broad synergies. Of particular note, we will leverage our global network to expand our supplies of industrial gases to the overseas sites of Mitsubishi Chemical Holdings Group companies, the number of which is expected to increase substantially. We are also excited by the potential for greater collaboration in R&D and the development of new cornerstone technologies.

Acting in accordance with Japan's Corporate Governance Code, in June 2015 we modified our management configuration with the goal of improving our management efficiency and strengthening our corporate governance. This involved reducing our Board of Directors from 17 members to 11—including two individuals invited to serve as independent outside directors—to clarify the separation between decision making/oversight and business execution.

Under our new management configuration, we will continue endeavoring to further enhance corporate value by working in concert with Mitsubishi Chemical Holdings and implementing the strategies of Ortus Stage 1, with the ultimate goal of realizing our long-term management vision. In these and all of our efforts, we look forward to the support and guidance of our many stakeholders.

June 2015



Yujiro Ichihara

President and CEO

SPECIAL FEATURE

An Interview
with Yujiro Ichihara

Taiyo Nippon Sanso's president and CEO answers questions about the first year of Ortus Stage 1 and his outlook for the remaining two years of the plan.

Part I: Evaluating Achievements in the First Year of Ortus Stage 1

Q1. What do you see as your principal achievements in the first year of your current medium-term business plan?

Consolidated net sales reached ¥559.3 billion, while operating income was ¥35.2 billion, so we met our fiscal year 2015 Ortus Stage 1 targets for both, thereby creating a foundation on which we can build to achieve the ultimate net sales and operating income targets of the plan, which are ¥600.0 billion and ¥45.0 billion, respectively. In addition to reaping tangible benefits from a major acquisition in the United States made in fiscal year 2014, which contributed to operating income growth, we accepted new on-site orders in the United States, the Philippines and Indonesia, laying the groundwork for dramatic future growth in our overseas operations. In Japan, we reported an improvement in operating income, despite only a slight increase in net sales, thanks to the implementation of structural reforms.

Operating Results: Largely in Line with the Quantitative Targets of Ortus Stage 1

(Billions of yen)

Years ended/ending March 31	2014 (Actual)	2015 (Actual)	2016 (Forecast)*	2017 (Target)
		Ortus Stage 1		
Net sales	¥522.7	**¥559.3**	¥600.0	¥600.0
Increase from Ortus Stage 1 target		**+9.3**	+30.0	+0.0
Operating income	¥31.4	**¥35.2**	¥38.0	¥45.0
Increase from Ortus Stage 1 target		**+0.2**	+0.0	+0.0
Operating margin	6.0%	**6.3%**	6.3%	7.5%
Overseas sales ratio	31.4%	**35.0%**	39.1%	40.0%
ROCE	6.2%	**6.2%**	—	8.0%

*Forecast for fiscal year 2016 excludes the impact of a change in the fiscal year-ends of two subsidiaries, which is expected to add ¥50.0 billion to net sales and ¥3.0 billion to operating income.

Q2. The central strategies of your medium-term business plan are to streamline and optimize your operations in Japan and to selectively allocate management resources to businesses overseas. Can you elaborate on what sort of concrete measures you are promoting in both areas?

Let's start by looking at efforts to streamline and optimize our domestic operations. One of the targets of our medium-term business plan is to achieve an overseas sales ratio of 40% or higher, but our operating foundation remains in Japan. Ensuring sufficient cash flow from operating activities in Japan is thus crucial to realizing our investment plans in promising overseas markets. Recognizing that the growth potential of the Japanese industrial gases market is limited, we must promote structural reforms that will fortify our earnings base. We are thus implementing a variety of measures focused on swiftly creating an agile management structure that is small in size but large in talent—one that is capable of responding effectively to the multifaceted changes taking place in the market—and on bolstering profitability.

We recently introduced an early retirement system at the parent company and our Japanese engineering subsidiary in a bid to lower personnel expenses, which reduced the combined headcount of the two companies by 170 individuals. We also proceeded with further efforts to improve the efficiency of back office operations and realign our domestic affiliates. For example, in April 2015 we integrated the various companies across the country selling liquefied petroleum (LP) gas into one business entity. In addition, we continued working to strengthen our supply chains, an ongoing challenge, conducting reviews of our production and logistics configurations and taking steps to rationalize our production bases through the integration and closure of facilities.

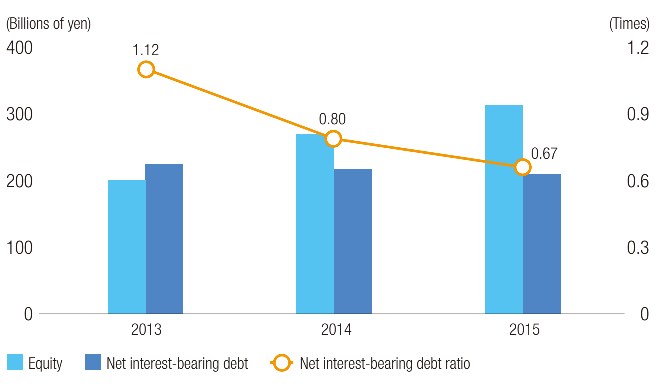
In terms of efforts to selectively allocate management resources to businesses overseas, in the United States we started up a new air separation unit in Mesa, Arizona in August 2014, and made acquisitions in Hawaii and California in February 2015. In Asia, we established a joint venture in February 2014 and secured two new on-site orders in Indonesia. In the Philippines, we commenced operations at an air separation unit for the production of liquid gases in April 2015, while in Malaysia we pushed forward with the construction of a new air separation unit. In light of the rapid expansion of our overseas operations, we stepped up the redeployment of personnel from Japan. We also reviewed hardship allowances for employees posted overseas, a move directed at both reducing overall costs and enhancing our capabilities overseas.

Q3. What is your assessment of your financial footing at present?

Thanks to an abundant flow of cash from operating activities in fiscal year 2015, net interest-bearing debt as of March 31, 2015, was ¥212.8 billion, ¥6.9 billion lower than at the end of fiscal year 2014, and our net debt-to-equity ratio improved to 0.67 times, from 0.80 times a year earlier. We plan to invest ¥200 billion over the three years of Ortus Stage 1, ¥180 billion of which we expect to fund from cash generated by operating activities, and anticipate being able to hold our net debt-to-equity ratio to 0.74 times in the final year of the plan.

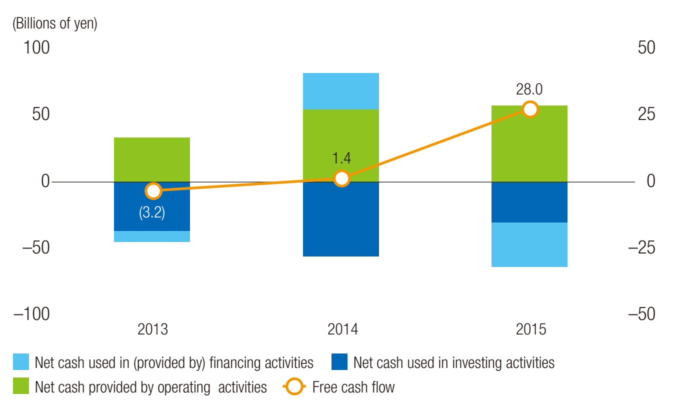
Interest-Bearing Debt and Debt-to-Equity Ratio

Years ended March 31



Cash Flows

Years ended March 31



Q4. How do you see the operating environment changing in the near future?

Electricity is a major component of the cost of manufacturing our core products, which are oxygen, nitrogen and argon. Accordingly, fluctuations in electricity rates can significantly affect our profitability. In Japan, the impact of the Great East Japan Earthquake of 2011 and the subsequent suspension of operations at nuclear power plants increased pressure on electricity supplies, prompting the country's electric power companies to hike rates. We continue negotiating with customers to increase sales prices for our products to mitigate the impact of resulting production cost increases on our profitability.

A distinguishing feature of all but our most specialized products is that they are generally consumed where they are produced. Because imports and exports account for only a small portion of our business, the direct impact of foreign exchange fluctuations on our operating results is minimal. However, the relentless strength of the yen prior to 2013 and resulting moves by many of our customers to shift to offshore production prompted fears of a perilous contraction of the domestic market for industrial gases, which accounts for approximately 65% of our sales. In response, we sought to leverage our global supply network to lock in demand that has moved from Japan to other locales. The yen's continued correction since 2013 has mostly halted the stream of manufacturers moving overseas, encouraging a recovery in domestic demand from customers in certain industries.

Despite a temporary slowdown, emerging markets, including those of Southeast Asia, are expected to continue seeing rapid economic growth. In addition to Vietnam and the Philippines, where we already have robust supply networks, we will continue working to solidify our bases in Thailand, Indonesia and Malaysia, among others, through acquisitions and capital investment. We will also seek to capitalize on expanding demand in other markets by broadening the geographic coverage of our operations.

Projected Growth in Real GDP

Ortus Stage 1

			April 2015 outlook		Change from October 2013 outlook		
	2013 Actual	2014 Actual	2015 Projection	2016 Projection	2014 Change	2015 Change	2016 Change
Japan	1.6%	−0.1%	1.0%	1.2%	−1.3%	−0.1%	0.0%
United States	2.2%	2.4%	3.1%	3.1%	−0.2%	−0.2%	−0.4%
China	7.8%	7.4%	6.8%	6.3%	0.1%	−0.3%	−0.7%
Singapore	4.4%	2.9%	3.0%	3.0%	−0.5%	−0.6%	−0.7%
ASEAN-5*	5.2%	4.6%	5.2%	5.3%	−0.8%	−0.4%	−0.1%

*Indonesia, Malaysia, the Philippines, Thailand and Vietnam

Source: *World Economic Outlook*, International Monetary Fund (October 2013 and April 2015)

Part II: The Next Stage of our Medium-Term Business Plan

Q5. How have you positioned the second year of Ortus Stage 1?

The measures we implement in fiscal year 2016 will largely determine our ability to achieve our ¥45.0 billion operating income target for the final year of the plan, so this is a particularly important year for us from a strategic perspective. Owing to a change in their fiscal year-ends, subsidiaries Matheson Tri-Gas, Inc. in the United States and Leeden

National Oxygen, Ltd. in Singapore will report results for a 15-month period, which will automatically add approximately ¥3.0 billion to consolidated operating income. Excluding this amount, our forecast for operating income in fiscal year 2016 is identical to the original target of ¥38.0 billion set forth in Ortus Stage 1 for the plan's second year.

The difference between our operating income target for fiscal year 2016 and ¥45.0 billion in fiscal year 2017 is a fairly significant ¥7.0 billion. Accordingly, we will press ahead with a variety of initiatives. With sales likely to remain flat in Japan, we will continue to focus as a Group on reducing costs, mainly through the redeployment of personnel to overseas businesses and the rationalization of affiliated companies, and on strengthening our supply chains, principally by cutting facility operating costs and enhancing the efficiency of logistics. In tandem with structural reforms, we will also continue to promote ambitious growth strategies.

Q6. One of Ortus Stage 1's strategic policies is innovation. What sort of progress have you made on this front?

In addition to structural reforms—the principal objective of which is to raise efficiency—Ortus Stage 1 outlines three other growth-oriented strategic policies, summarized simply as "innovation," "globalization" and "M&A."

In the area of innovation, our focus is on the development of groundbreaking materials that we can grow into mainstay products in new businesses. In December 2014, Toyota Motor Corporation launched a hydrogen fuel cell vehicle in Japan. With the goal of expanding the number of hydrogen stations in operation, in August 2013 we released the Hydro Shuttle, an innovative mobile hydrogen station. Further evidence of the steady growth of our hydrogen station business is the fact that we received orders for three conventional hydrogen stations in fiscal year 2014 and 11 mobile hydrogen stations in fiscal year 2015.

Another key focus under the heading of "innovation" is our metal organic chemical vapor deposition (MOCVD) system, which is crucial to the production of blue light-emitting diodes (LEDs). These efficient and energy-saving light sources attracted considerable attention when the three Japanese scientists credited with their invention were awarded the Nobel Prize in Physics for 2014. We began developing MOCVD systems in 1983 and are one of only three major MOCVD system manufacturers in existence today. We are taking decisive steps to expand sales of our MOCVD systems worldwide, and in fiscal year 2015 we delivered systems to Sandia National Laboratories, a top U.S. government-affiliated research institute, and leading LED manufacturer Epistar Corporation of Taiwan. We are also scheduled to install an MOCVD system at the University of Malaya, a public-funded research university in Malaysia.

In addition to industrial gases, we are well known as a manufacturer of stable isotopes. Capitalizing on our cryogenic air separation technologies, we manufacture Water-^{18}O, an oxygen stable isotope that is the starting material for agents used in positron emission tomography (PET) diagnostics,

which are instrumental in the early detection and diagnosis of cancer. In response to steadily rising global demand, in late 2015 we plan to commence shipments of Water-^{18}O from our third stable isotope manufacturing facility, which will give us an unparalleled global production configuration. With Water-^{18}O, we aim to capture a 40% share of the global market for oxygen stable isotopes.

We also continue to promote open innovation. As an example, we recently began providing several major customers with systems designed to produce ultra-high-purity steam for use in electronics manufacturing. These systems were developed by RASIRC, Inc., of the United States, a company we acquired in 2012. Furthermore, we look forward to our new role within the Mitsubishi Chemical Holdings Group, which will provide us with the opportunity to step up collaboration and promote new innovation.

Q7. What measures have you implemented in line with the plan's other two strategic policies?

Efforts to promote globalization in fiscal year 2015 led to the conclusion of a contract with Sasol Chemical (USA) LLC to build an air separation unit and supply piped oxygen and nitrogen to Sasol's large-scale ethane cracker project in the state of Louisiana, our first major on-site order in the United States.

In February 2014, we established a joint venture in Indonesia, the largest single market for industrial gases in Southeast Asia. Japanese companies are currently investing actively to establish large facilities in Indonesia and, as mentioned earlier, we have recently secured two new large on-site orders from Japanese manufacturers with operations in the country.

We are also encouraging our subsidiaries to expand their overseas operations. In response to soaring global demand, Thermos K.K., a manufacturer of stainless steel vacuum

Expanding Our Global Operations

bottles and other household products, is currently building its fourth production facility, in the Philippines. The facility is expected to begin shipping products in late 2015.

In November 2014, we acquired alfi GmbH of Germany, a leading European manufacturer of tabletop vacuum bottles, with the goal of strengthening Thermos' sales in Europe and alfi's sales worldwide. We are confident that both companies will benefit globally from complementary product lines—Thermos focuses on portable vacuum bottles, whereas alfi's specialty is tabletop units—and significant operating synergies.

In February 2015, we made two acquisitions in the United States, in Hawaii and California. Our objectives in Hawaii were twofold: establish a presence in the state, which we previously did not have, and further expand our air separation unit network. Our acquisition in California—Sims Welding Supply, Los Angeles' premier independent distributor of industrial gases—will substantially increase our local market share and position us to capitalize on economic growth in the state, where the growth rate for gross domestic product exceeds the national average.

Subsequent to the fiscal year-end, in June 2015, we acquired an additional stake in Thai affiliate Air Products Industry Co., Ltd., as a result of which the company became a consolidated subsidiary. To date, Air Products Industry has been primarily a bulk supplier. Going forward, we will expand the scope of the company's business to include other gases, hard goods and gas supply facility construction, thereby transforming the company into a comprehensive provider of industrial gases and fortifying both its operations and its profitability. We expect to make several other important M&A-related announcements in the near future.

Part III: Looking Ahead

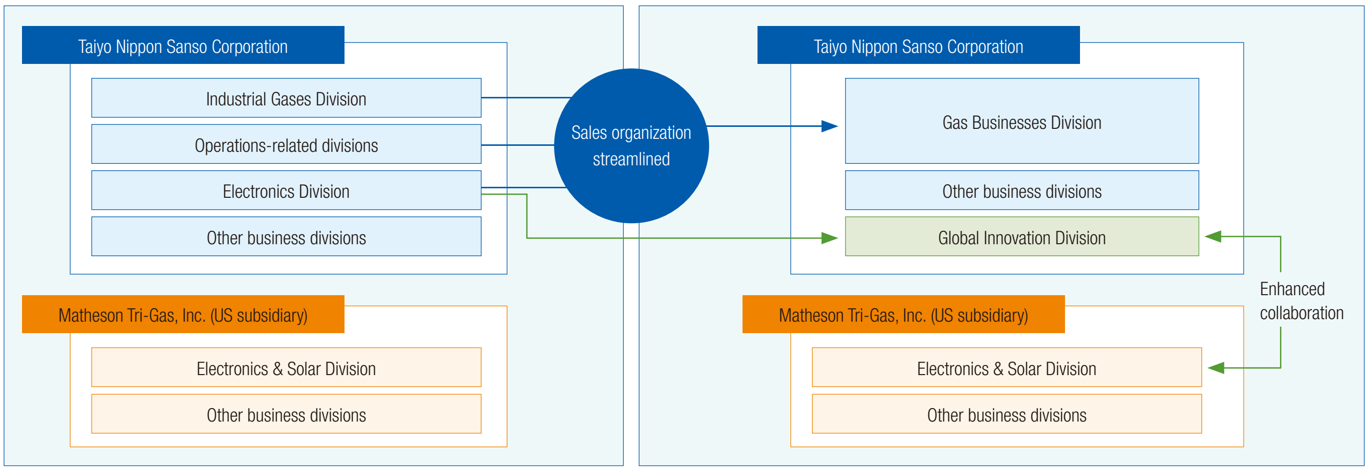
Q8. You have also made some forward-looking organizational changes. What did you do and why?

In June 2014, we integrated the parent company's Industrial Gases and Electronics divisions to create the Gas Businesses Division. Combining the two divisions has thus enabled us to create one sales force, thereby enhancing the efficiency of sales activities.

Another key move was the establishment of our Global Innovation Division, the purpose of which is to enhance cooperation among our electronics-related businesses in Japan, the United States and Asia. The division is tasked with advancing collaboration among Group companies and reinforcing our MOCVD system and other electronics-related business in overseas markets. The efforts of the new division were instrumental in securing the recent new overseas orders for MOCVD systems that I spoke of earlier.

We also took steps to improve our management structure in Asia. Since setting up operations in Singapore in 1982, we have expanded our presence in the region to include China, other Southeast Asian countries and India, to name just a few. In fiscal year 2015, sales in the region have topped ¥60.0 billion. In a bid to further expand our businesses in Asia, in July 2014 we established a holding company in Singapore, while in April 2015 we transformed a subsidiary in China into a company that integrates our businesses in that country. The responsibilities of our Singapore holding company are currently limited to providing operational support to Group companies in Asia, but looking ahead the company will also function as a regional headquarters and will be tasked with overseeing efforts to accelerate the expansion of our operations in Singapore and across Southeast Asia. Similarly, to facilitate market- and product-specific collaboration, we are

Streamlining for a More Efficient Organization



integrating the management of our 10 Group companies in China, engaged in the production of industrial gases, which is not currently centralized.

I should also comment on the specialized team we have created to support strategic M&A-related efforts under Ortus Stage 1. Formed in 2014, the team comprises staff from Japan and the United States, which positions us to maximize the know-how and business connections of both to take advantage of attractive M&A opportunities that will facilitate our expansion, including into overseas markets in Asia, the Americas and elsewhere, where we do not currently have a presence. As you can see, the team has already achieved some notable successes.

Creating Holding Companies in Asia

Q9. In closing, what can you tell us about your capital policy?

We have always recognized the provision of fair returns to shareholders as a key management responsibility. Accordingly, we place a high priority on maintaining stable dividends while at the same time ensuring that dividends are commensurate with our consolidated operating results. In line with this policy, we increased our year-end dividend for fiscal year 2015 by ¥1.00, to ¥7.00 per share, in recognition of our solid operating performance, bringing annual cash dividends to ¥13.00 per share. In fiscal year 2016, we hope to pay annual cash dividends of ¥14.00 per share. Going forward, we will continue working to implement the strategic policies of our medium-term business plan with the aim of further bolstering our operating results, thereby positioning us to enhance our dividend payout ratio.

JAPAN

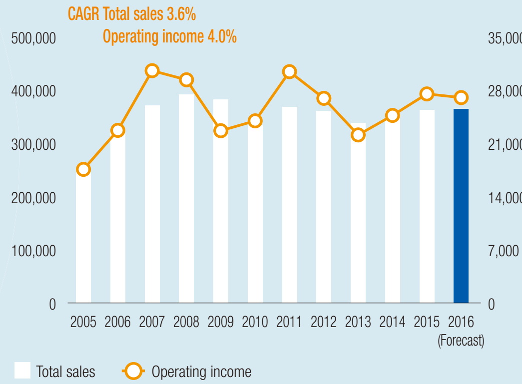
As Japan's leading manufacturer of industrial gases, we have an extensive nationwide network of production and sales bases, enabling us to provide industrial gases to a wide range of customers, from major manufacturers in the steel, chemicals and electronics industries, to small and medium-sized users. Formats for delivering gases include on-site plants, that is, air separation units built on or adjacent to customers' production facilities from which we supply separated gases directly via pipeline, and tanker trucks, which enable us to supply liquefied gases in bulk. Sales in Japan account for approximately 65% of the Taiyo Nippon Sanso Group's overall sales.

Taiyo Nippon Sanso was created in 2004 through the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd. While our domestic industrial gases business has grown fairly steadily since, demand was hit hard in 2008 by the global economic downturn and again in 2011 by the Great East Japan Earthquake. The impact on our electronics-related businesses, which enjoy a strong competitive advantage, was especially severe, as a result of which in fiscal year 2013 we reported our first-ever net loss. Since then, we have seen a gradual recovery in domestic demand, particularly from the steel and automotive industries, but we recognize that a return to robust economic growth is unlikely in the near future.

In fiscal year 2015, we embarked on a new medium-term business plan that focuses on structural reforms, the goal of which is to ensure profitability in an era of low economic growth, as well as on innovation, through which we will endeavor to attract new demand.

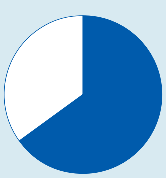
Total Sales and Operating Income in Japan

Years ended March 31 (Millions of yen)

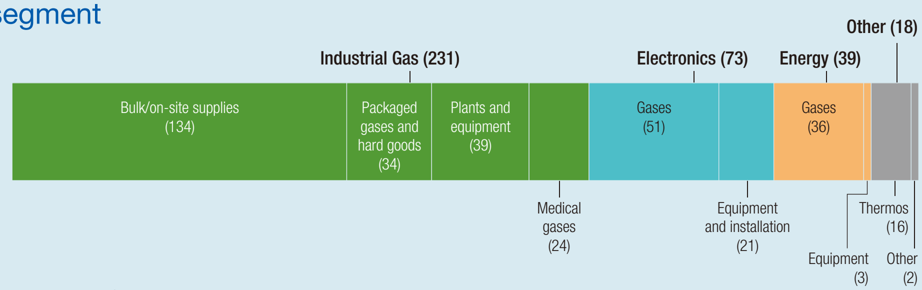


Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2005–2015 and estimates for the year ending March 31, 2016.

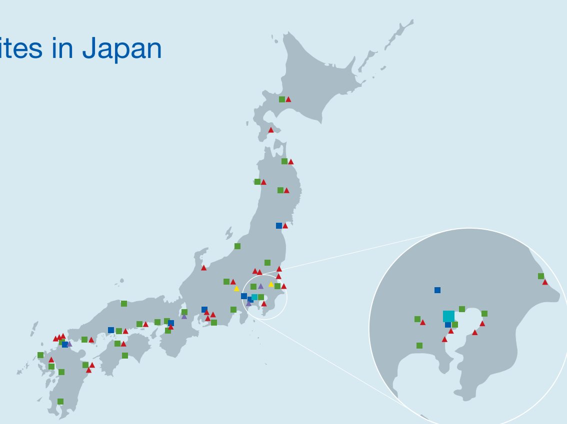
Breakdown of sales by business segment



65.0%
of total
(¥363.3 billion)



Business sites in Japan



- **Head office**
- Branches
- Branch offices/sales offices
- R&D facilities
- Sanso centers/liquid oxygen facilities
- Semiconductor gas production facilities

United States

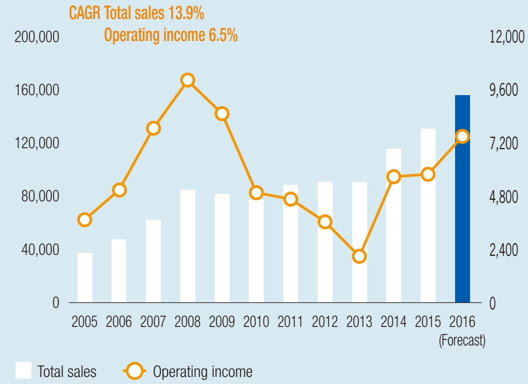
Efforts to expand our U.S. presence, which began in the 1980s when we acquired a local company, initially focused on the southern states. Since 2004, we have reinforced our operations across the country through strategic acquisitions of varying scales and the construction of plants, moves that have helped us more than triple our annual sales of industrial gases in the United States to approximately ¥130 billion.

Our principal customers in the United States are small and medium-sized manufacturers, whom we primarily supply with packaged and bulk gases. We also provide a range of original cutting and welding equipment and other related items, another area in which we have secured a substantial market share. In recent years, we have built helium production facilities and diversified our product lineup through the acquisition of acetylene and carbon dioxide gas producers.

We continue to expand our U.S. operations using a business model that focuses on reinforcing our position as a producer, by periodically acquiring local industrial gas distributors to secure sales channels, capitalizing on our distinctive expertise to augment the product lineups of these companies and then installing air separation units fabricated in Japan to reinforce their market presence. Thanks to these efforts, we currently have bases in 43 states and 18 air separation units. We have also taken steps to grow our sales network, thereby increasing our presence and positioning us to accept major on-site orders. In January 2015, we accepted our first such order in the United States, which came from a chemicals company in Louisiana. Looking ahead, we will work to further grow our U.S. operations by capitalizing on M&A opportunities to expand our customer reach, install new air separation units and secure additional major on-site orders.

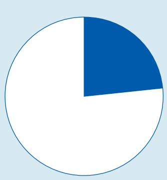
Total Sales and Operating Income in United States

Years ended March 31 (Millions of yen)

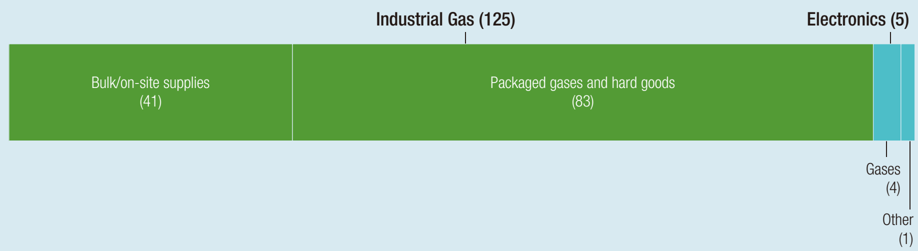


Notes: 1. Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2005–2015 and estimates for the year ending March 31, 2016.
2. Forecast for fiscal year 2016 excludes the impact of a change in the fiscal year ends of two subsidiaries, which is expected to add ¥39.0 billion to net sales and ¥2.2 billion to operating income in fiscal year 2016.

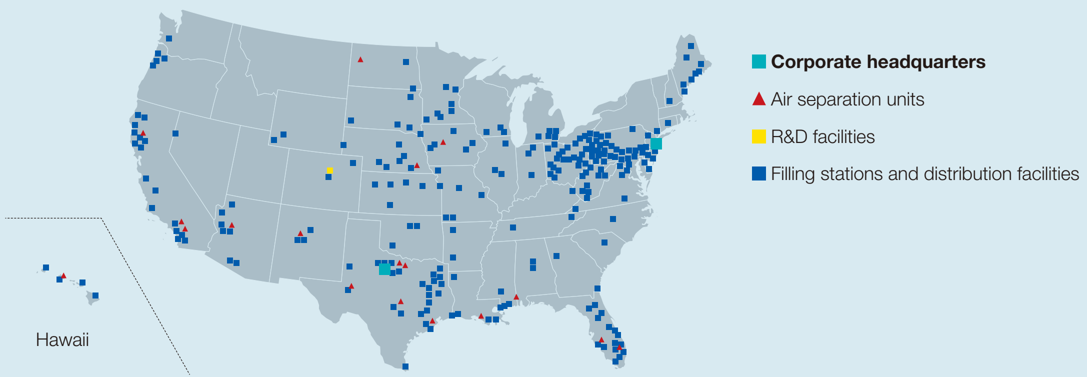
Breakdown of sales by business segment



23.4%
of total
(¥130.9 billion)



Operations in the United States



Asia

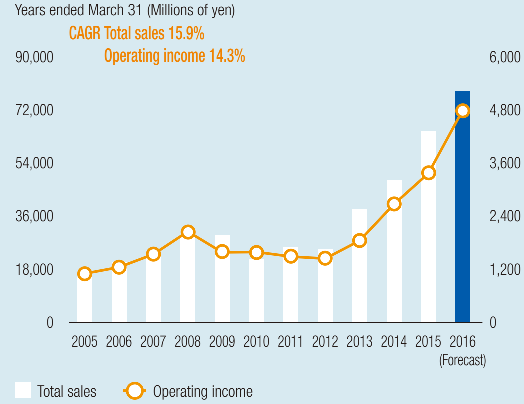
Our operations in Asia center on the supply of industrial gases to manufacturers in Southeast Asia, China and India and on electronics-related businesses in Taiwan, China and South Korea.

We entered the Singaporean market in the early 1980s by establishing National Oxygen Pte. Ltd. Since then, we have gradually expanded our presence across Asia. We also established a presence in Vietnam and the Philippines comparatively early and are now the top producer of liquefied gases in both countries in terms of production capacity, an achievement facilitated by the creation of a robust operating infrastructure. We continue to seek out promising investment opportunities in this region that will position us to capitalize on opportunities arising from brisk economic growth.

In 2012, we acquired Singapore-based Leeden Limited, a producer with a broad Southeast Asia-wide network. In addition to packaged gases, Leeden is also a leading provider of cutting and welding equipment and safety-related products. In September 2014, we merged Leeden and National Oxygen, integrating the extensive networks of these two companies and strengthening our industrial gases business in Singapore and Malaysia. We have also broadened our geographic reach. In February 2014, we established a base in Indonesia, Southeast Asia's largest market for industrial gases. Going forward, we will pursue additional decisive measures—including acquisitions—aimed at expanding our operations in this strategically important region.

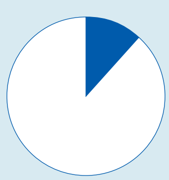
Total Sales and Operating Income in Asia

Years ended March 31 (Millions of yen)



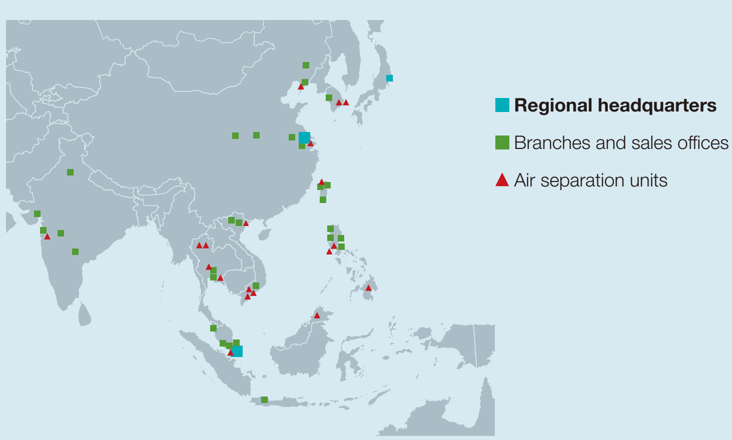
Notes: 1. Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2005–2015 and estimates for the year ending March 31, 2016.
2. Forecast for fiscal year 2016 excludes the impact of a change in the fiscal year ends of two subsidiaries, which is expected to add ¥11.0 billion to net sales and ¥800 million to operating income in fiscal year 2016.

Breakdown of sales by business segment



11.6%
of total
(¥65.0 billion)

Operations in Asia



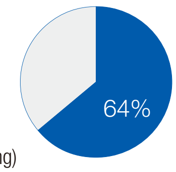
Taiyo Nippon Sanso at a Glance

Industrial Gas Business

Principal products and operations

- Oxygen, nitrogen, argon, carbon dioxide, hydrogen, helium, acetylene and other industrial gases
- Gas supply (filling, transport, storage) equipment, facilities installation and construction
- Gas-related equipment (including for cutting, welding, combustion and freezing)

Share of Sales
Years ended March 31, 2015

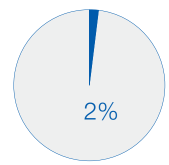


¥356.8 billion

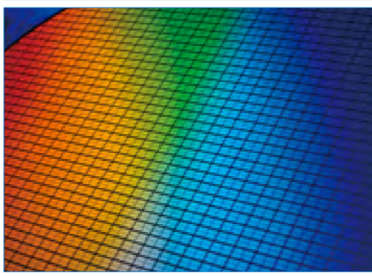
Plant and Engineering Business

Principal products and operations

- Plant: Cryogenic air separation units, space simulation chambers/ cryogenic vacuum equipment and other chemical equipment



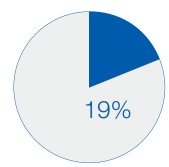
¥13.3 billion



Electronics-related Business

Principal products and operations

- High-purity nitrogen and argon
- Electronic materials gases
- MOCVD system
- Gas purification, abatement and other systems
- High-purity gas supply facility installation and construction

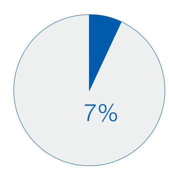


¥103.6 billion

LP Gas Business

Principal products and operations

- Propane, butane and other liquid gases
- Related equipment and devices
- Construction of LP gas facilities, gas heat pumps

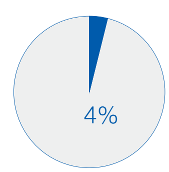


¥39.3 billion

Medical Business

Principal products and operations

- Medical-related oxygen and other gases
- Synthesized (pure) air supply facilities, portable oxygen cylinders and medical-use oxygen compressors
- Stable isotopes

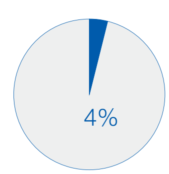


¥24.4 billion

Thermos Business and Others

Principal products and operations

- Thermos: Stainless steel vacuum bottles, cooking implements and professional-use cooking implements
- Others: Real estate leasing and other businesses



¥21.7 billion

Industrial Gas Business

Outline

In line with our commitment to provide industrial gases to our customers when and where needed, we have gas production and supply capabilities in Japan, the United States and across Asia, including in China and India. This enables us to ensure safe, stable supplies of gases to customers in the manner that best suits their particular needs, thereby contributing to enhanced quality and productivity, as well as to the safety and security of their operations. Our distinctive gas technologies continue to earn us high marks from customers in a wide range of industries, including manufacturing and processing, materials, energy, chemicals, agriculture, food, bioscience and aerospace.

Plants and Engineering Business

Outline

We have built an extensive lineup of plants, which underpin our industrial gas business, ranging from ultrahigh-purity manufacturing equipment for customers in the electronics industry to large-scale plants for steelmakers and specialized containers for the cryogenic transport of helium, and we enjoy a favorable reputation for all products both in Japan and overseas. We also provide space-simulation chambers, large-scale helium refrigeration systems and other cutting-edge offerings, which we market primarily for use in space development and in R&D in the area of superconductive technologies.

Industrial Gas Business

Competitive advantages

- **Top share of Japan's market for industrial gases**

  Number 1 in oxygen, nitrogen, argon and carbon dioxide and number 2 in acetylene and helium, we enjoy a 40% share of Japan's market for industrial gases. In addition to approximately 30 liquid gas production facilities and 200 filling stations nationwide, we have an extensive network of shipping bases and a fleet of tanker trucks. At our liquid gas production facilities, we are steadily replacing equipment with state-of-the-art, energy-efficient air separation units.

- **One of only six companies in the world with rights to conduct transactions directly with major helium producers**

  We have extensive offtake rights in North America. In the United States, subsidiary Matheson Tri-Gas, Inc., commenced operations at its joint venture with Air Products and Chemicals, Inc. In China, India and elsewhere in Asia, we are pressing forward with the construction of helium filling stations with the aim of expanding our supply capabilities.

- **Growing network of air separation units in the United States and Asia**

  In the United States, a new air separation unit in Vernon, California, is expected to begin operating in 2017. In Asia, a new unit in the Philippines began operating in April 2015, while we are proceeding with the construction of units in Sabah, in Malaysia, and in northern Vietnam, the former scheduled for completion by the end of 2015 and the latter for startup in March 2016.

- **Expanded market coverage in the United States thanks to U.S. distributor acquisitions**

  We recently acquired Sims Welding Supply (California) and a business based in Hawaii.

- **Increased presence in the U.S. carbon dioxide business**

  We recently acquired Continental Carbonic Products, Inc., the number two supplier of dry ice in the United States.

Breakdown of sales by business items

Years ended March 31 (Billions of yen)	2014	2015
Separated gases (bulk/on-site)	¥115.5	¥120.3
Other gases (bulk/on-site)	57.7	70.7
Packaged gases and hard goods	118.7	131.2
Gas equipment	33.9	34.5
Total	¥325.9	¥356.8

Plants and Engineering Business

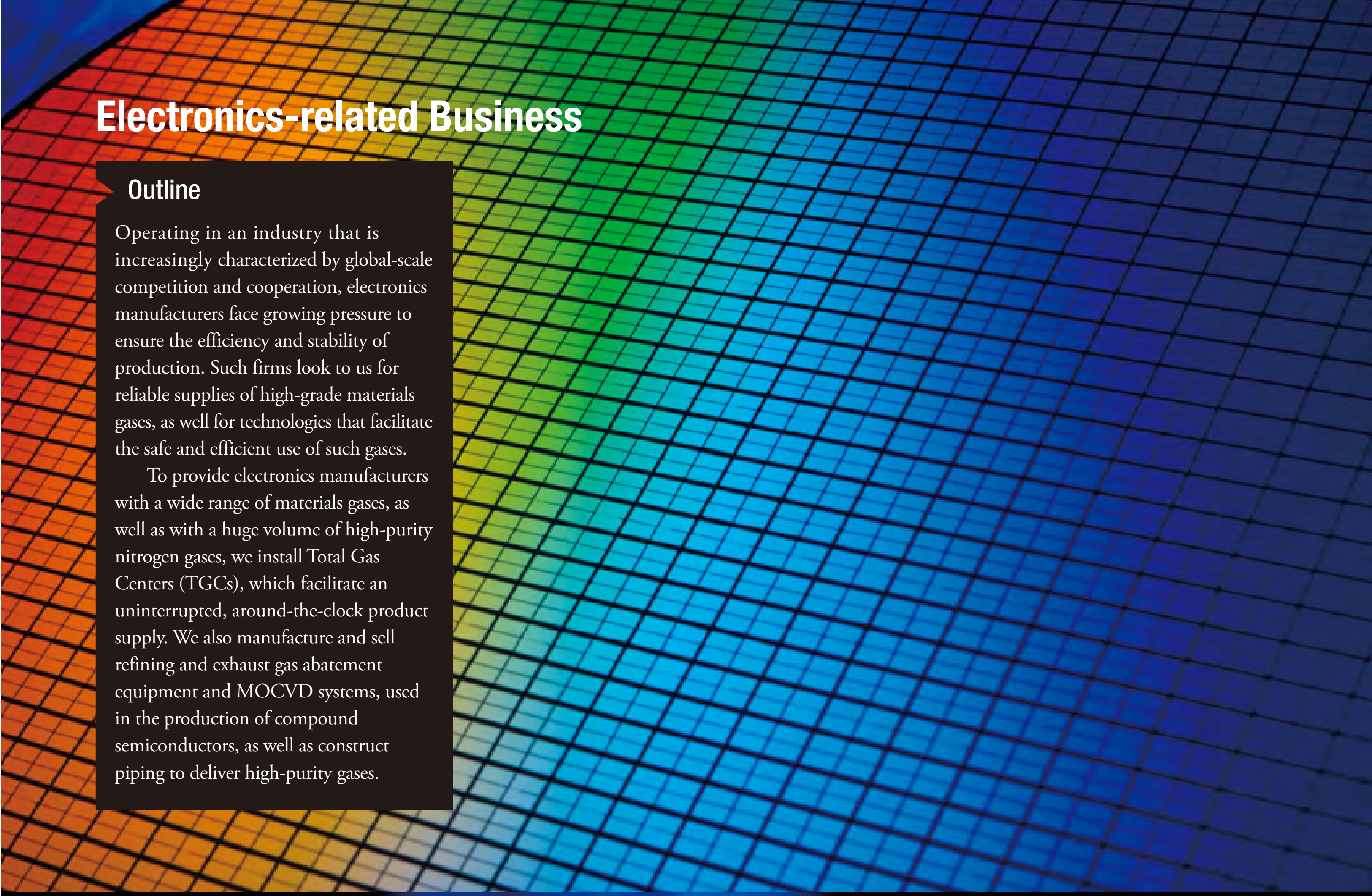
Competitive advantages

- **Top share of Japan's market for air separation units**
- **A wealth of accumulated cryogenic and adsorption technologies, which we are leveraging to reduce consumption of electricity and cost per unit of production, as well as to enhance the quality and size of plants**
- **Cutting-edge simulation technologies that ensure the optimal operation of air separation units in response to different requirements**
- **One of only three helium container manufacturers worldwide and the only one in Japan**

  We are expanding our production capacity to accommodate rising demand for containers that facilitate the cryogenic transport of helium over long distances.

Breakdown of sales by business items

Years ended March 31 (Billions of yen)	2014	2015
Plants	¥12.8	¥13.3
Total	¥12.8	¥13.3

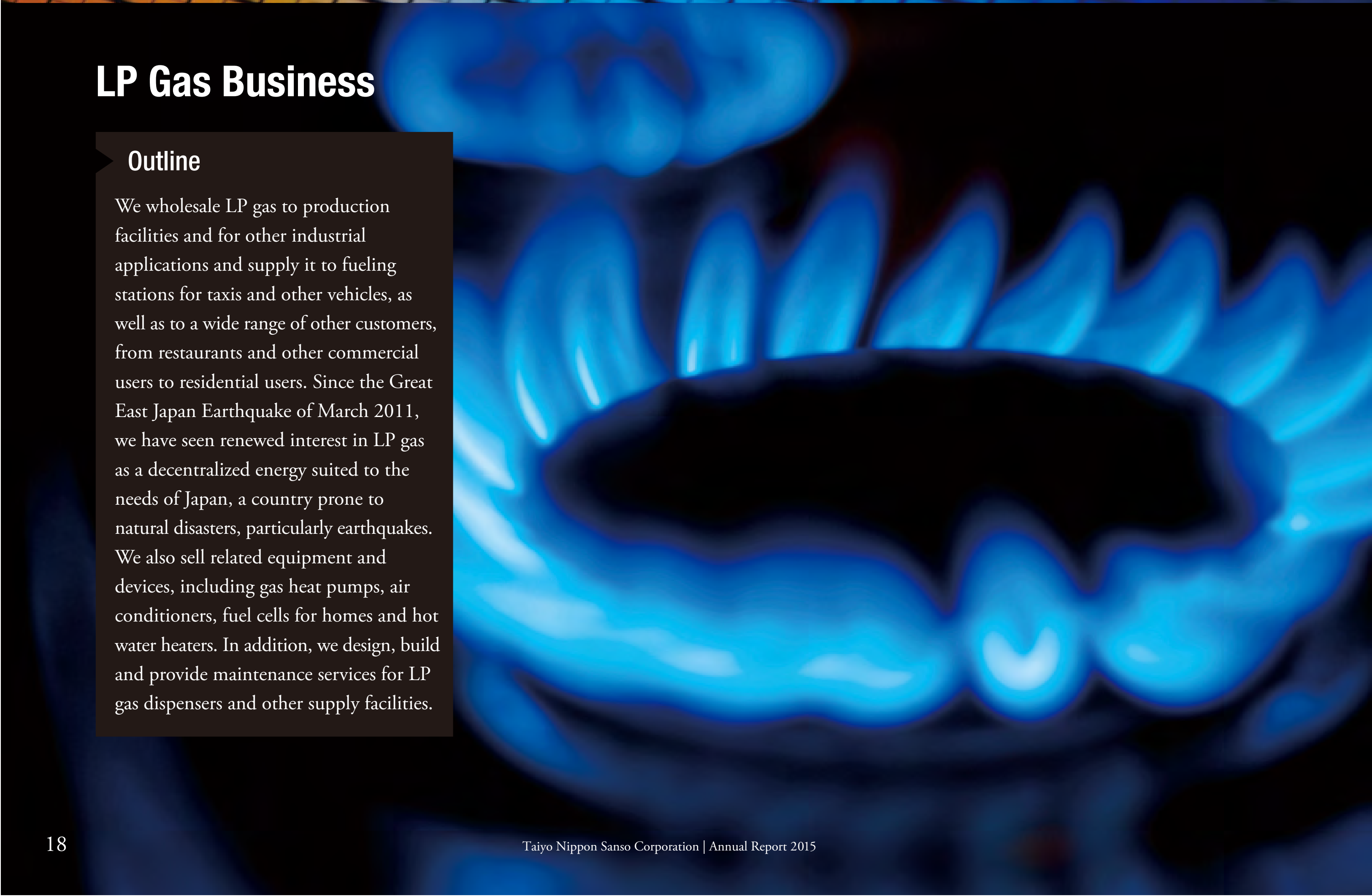


Electronics-related Business

Outline

Operating in an industry that is increasingly characterized by global-scale competition and cooperation, electronics manufacturers face growing pressure to ensure the efficiency and stability of production. Such firms look to us for reliable supplies of high-grade materials gases, as well for technologies that facilitate the safe and efficient use of such gases.

To provide electronics manufacturers with a wide range of materials gases, as well as with a huge volume of high-purity nitrogen gases, we install Total Gas Centers (TGCs), which facilitate an uninterrupted, around-the-clock product supply. We also manufacture and sell refining and exhaust gas abatement equipment and MOCVD systems, used in the production of compound semiconductors, as well as construct piping to deliver high-purity gases.



LP Gas Business

Outline

We wholesale LP gas to production facilities and for other industrial applications and supply it to fueling stations for taxis and other vehicles, as well as to a wide range of other customers, from restaurants and other commercial users to residential users. Since the Great East Japan Earthquake of March 2011, we have seen renewed interest in LP gas as a decentralized energy suited to the needs of Japan, a country prone to natural disasters, particularly earthquakes. We also sell related equipment and devices, including gas heat pumps, air conditioners, fuel cells for homes and hot water heaters. In addition, we design, build and provide maintenance services for LP gas dispensers and other supply facilities.

Electronics-related Business

Competitive advantages

- **World-class total gas and equipment solutions made possible by stringent quality control and clean technologies**

  Solutions include high-purity gas piping systems

- **Supply structure encompassing key global markets**

  Our supply structure covers Japan, the United States, East Asia (South Korea, China and Taiwan), Southeast Asia and the United States. Our global network enables us to optimize production, procurement and transport.

- **Rising sales of MOCVD systems in cutting-edge fields**

  We were recently selected to provide a MOCVD system to Sandia National Laboratories of the United States, a global leader in research in the area of compound semiconductors. In addition, we delivered an UR-25K MOCVD system, designed for mass production, to Taiwan-based light-emitting diode (LED) manufacturer Epistar Corporation. We are also scheduled to install an MOCVD system at the University of Malaya in Malaysia.

Breakdown of sales by business items

Years ended March 31 (Billions of yen)	2014	2015
Separated gases	¥21.6	¥ 20.3
Electronics materials gases	50.5	57.8
Electronics materials gas equipment	26.2	25.3
Total	¥98.3	¥103.6

LP Gas Business

Competitive advantages

- **Ranked seventh in Japan in terms of market share, with an annual LP gas supply capacity of 390,000 tons**

- **Ability to provide stable LP gas supplies to approximately 100,000 households; increasingly strong and efficient network in Japan for supplying commercial users thanks to the integration and/or expansion of sales and delivery sites**

  We merged five LP gas subsidiaries to create Taiyo Nippon Sanso Energy Corporation, a move aimed at reinforcing our operating foundation and expanding our operations in this area.

Breakdown of sales by business items

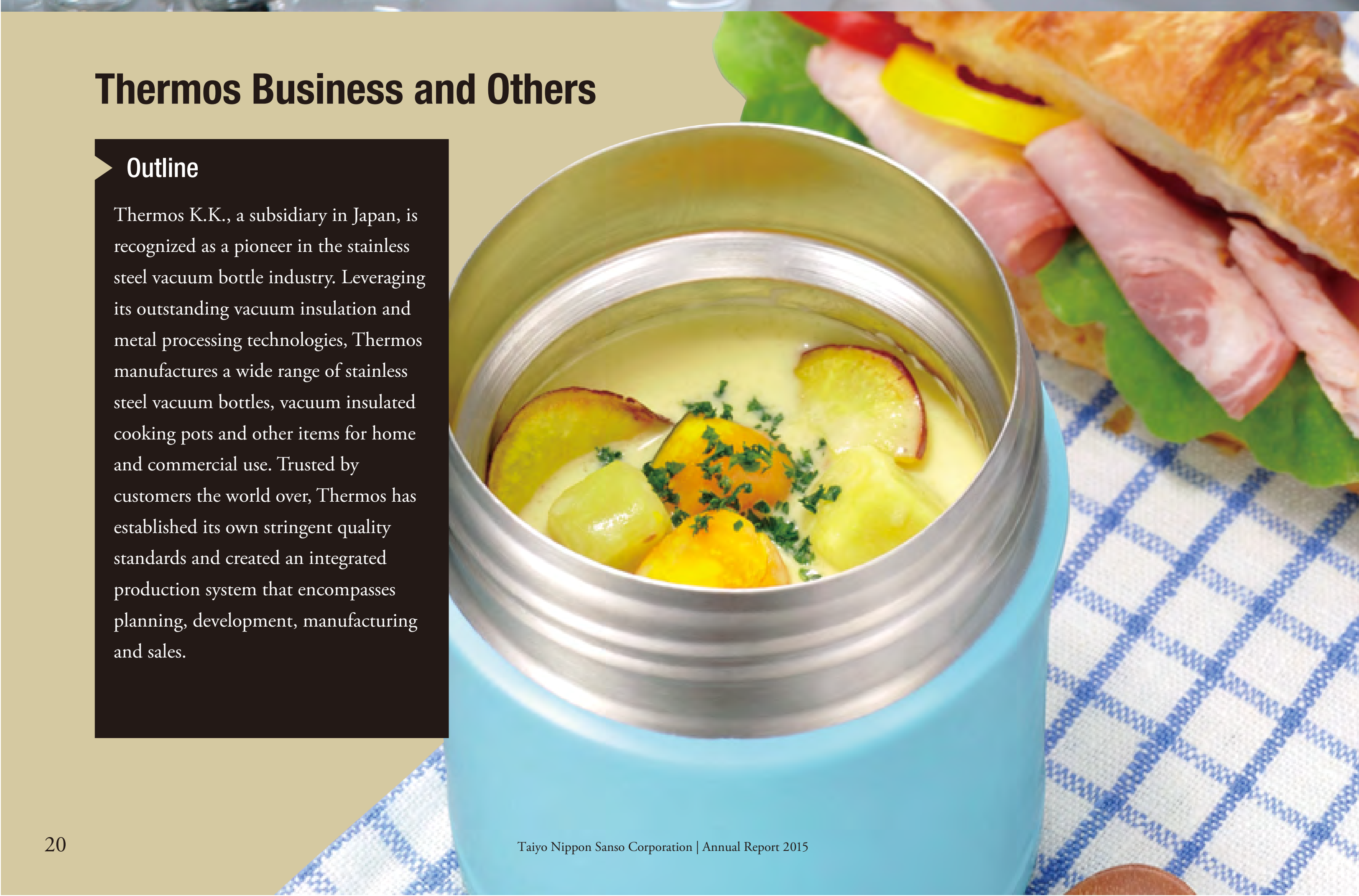
Years ended March 31 (Billions of yen)	2014	2015
LP gas	¥40.8	¥36.0
LP gas supply equipment	3.6	3.2
Total	¥44.5	¥39.3

Medical Business

Outline

In addition to providing stable supplies of high-quality medical gases, we develop, manufacture, sell and provide maintenance services for gas supply systems for hospitals, as well as home oxygen therapy (HOT) and other home healthcare equipment. We also extend comprehensive support in the form of around-the-clock services, including remote monitoring of gas levels and follow-up services for equipment, which are extended in cooperation with retailers. Applying our advanced gas technologies, we provide products for the biotechnology field, including cryopreservation containers for bioresources used in research, as well as stable isotopes and specialty gases for use in advanced diagnostics and medical treatment.

Thermos Business and Others



Outline

Thermos K.K., a subsidiary in Japan, is recognized as a pioneer in the stainless steel vacuum bottle industry. Leveraging its outstanding vacuum insulation and metal processing technologies, Thermos manufactures a wide range of stainless steel vacuum bottles, vacuum insulated cooking pots and other items for home and commercial use. Trusted by customers the world over, Thermos has established its own stringent quality standards and created an integrated production system that encompasses planning, development, manufacturing and sales.

Medical Business

Competitive advantages

- **A world-class 300 kg annual production capacity for Water-^{18}O, a starting material for diagnostic agents used in positron emission tomography (PET) diagnostics, with shipments from a third plant (annual capacity: 300 kg) scheduled to begin by the end of 2015, doubling our current capacity and giving us an unmatched supply configuration**

  The reliability and quality of Water-^{18}O is highly valued by customers in more than 20 countries, including in the United States. We are working to contribute to the growing market for PET diagnostics by ensuring stable supplies of high-grade Water-^{18}O, demand for which is expected to grow for use in diagnosing Alzheimer's disease and heart ailments.

- **The newly established SI Innovation Center, which has reinforced our stable isotopes business**

- **A leading market position in Japan for liquid nitrogen dewars for cryopreservation, which are crucial to the biotechnology field, as well as for cell banking systems and auto-pick-up cryopreservation systems (trade name: CryoLibrary), used in cutting-edge areas such as the development of iPS cell therapies.**

  We have expanded our CryoLibrary lineup to include a new unit with a significantly larger storage capacity.

- **Japan's largest network of production bases, filling facilities and distribution bases for medical gases, ensuring the stability of supplies nationwide**

- **A well-organized distribution and maintenance network that includes the Medical Technical Service Center, which helps guarantee the stability of supplies to patients' homes and maintain superior product quality**

- **Rising sales of OXYMED-brand medical gas supply equipment and systems for hospitals, developed through an integrated process that encompasses design, manufacturing, and testing and maintenance services**

Breakdown of sales by business items

Years ended March 31 (Billions of yen)	2014	2015
Medical gases	¥ 7.9	¥ 7.9
Medical gases equipment	13.9	16.5
Total	¥21.9	¥24.4

Thermos Business and Others

Competitive advantages

- **Products that are developed in Japan, manufactured in Malaysia and China and sold in approximately 120 countries and territories worldwide; a reputation for unconditional commitment to quality and a solid top global market share**

- **An increased manufacturing capacity, facilitating responsiveness to growth in the market for stainless steel vacuum bottles worldwide**

  In China, we expanded our stainless steel vacuum bottle production facility. In the Philippines, we established a new plant, which is expected to begin operating in December 2015, to raise our production capacity for compact, ultralight steel vacuum bottles.

- **An ultralight insulated mug that has swept markets worldwide, thanks to its lightness, compact size and superb design; food containers for soup and other hot liquids that are credited with creating and driving the expansion of a new market by offering a brand-new way to enjoy lunch**

- **Entry into the market for insulated wireless portable speakers, thanks to the application of our vacuum insulation technologies in this area**

Breakdown of sales by business items

Years ended March 31 (Billions of yen)	2014	2015
Thermos	¥16.4	¥19.1
Others	2.5	2.6
Total	¥19.0	¥21.7

Corporate Governance

Basic Policy

In the interest of maintaining an effectively functioning corporate governance framework, as well as to earn the trust and respond to the expectations of our many stakeholders, including shareholders, customers, local communities and Taiyo Nippon Sanso Group employees, we are committed to enhancing our internal control system and ensuring fairness, transparency, efficiency and appropriateness, all of which are essential to sustainable growth.

Management Structure

We have adopted an internal auditing system and clarified accountability on a fiscal year basis by setting the term of office for our directors at one year. Our Board of Directors met 12 times in fiscal year 2015. In addition, our Management Committee and Representative Directors Committee, among others, met as necessary, helping to facilitate swift management decision making. In fiscal year 2014, our Board of Directors comprised 17 directors, none of whom qualified as outside directors. At the General Meeting of Shareholders held in June 2015, two outside director candidates were included in the list for election as directors, a move aimed at ensuring greater transparency. These individuals, both of whom were elected, are unlikely to have any conflict of interest with general shareholders and will bring fresh and independent guidance and advice. To further accelerate decision making, we also resolved to reduce the number of directors on the Board to 11, including two outside directors.

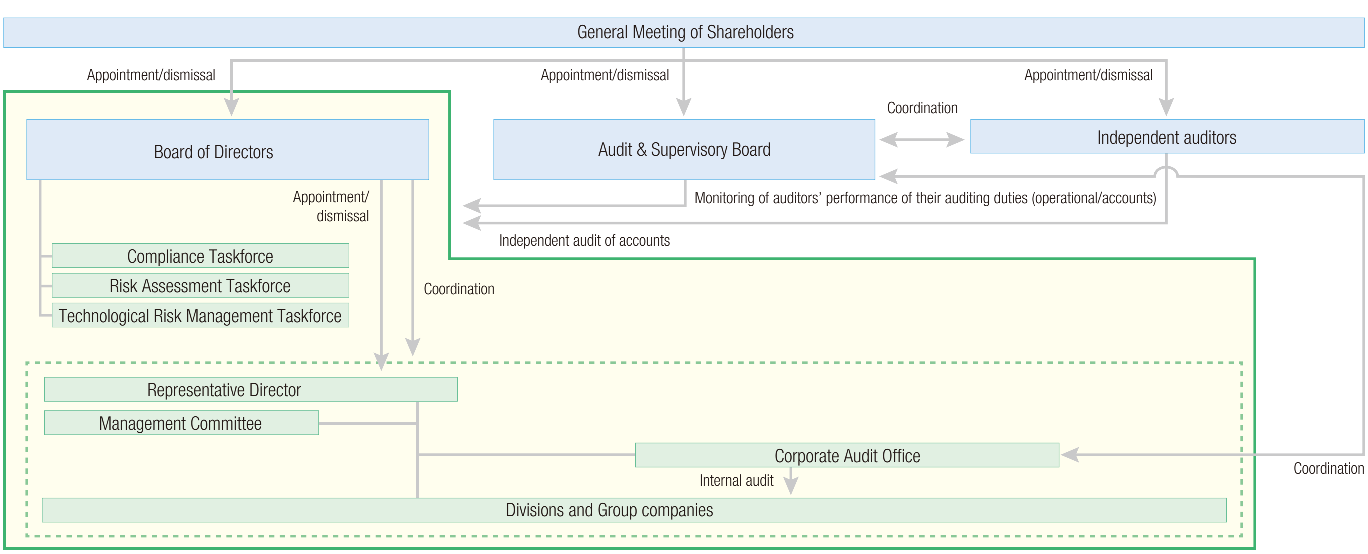
Auditing Structure and Internal Control System

To ensure adequate monitoring capabilities, our Audit & Supervisory Board has four members, three of whom satisfy the requirements of outside auditors, including two who are independent. In fiscal year 2015, the three outside auditors attended all 12 meetings of the Board of Directors. The Audit & Supervisory Board members meet with the independent auditors 12 times annually and accompany the independent accountants on their periodic site audits. This enables them to keep abreast of the implementation status and to exchange opinions with the independent accountants on key aspects of the auditing process and on the assessment of internal control risks associated with auditing. They are briefed on audit plans and audit results by the internal auditing body, as well as by the Technical Audit Office on annual safety plans and their implementation, and oversee management appropriateness and efficiency.

Remuneration for Directors

In fiscal year 2015, remuneration for 18 directors totaled ¥854 million, while that for four auditors totaled ¥104 million. Remuneration for directors consists of monthly remuneration, performance-linked bonuses and dividend-linked bonuses. Performance-linked bonuses are tied to consolidated operating results.

Auditing and Risk Management Structure



Corporate Social Responsibility

To fulfill the responsibilities implied in our corporate slogan, "The Gas Professionals," and in line with our belief that selling gas is commensurate with selling safety and peace of mind, we continue to expand our operations in a manner that reflects our key priorities, which are to ensure stringent compliance with pertinent laws and regulations, enhance safety management, guarantee superior product quality and safety, contribute to a healthy environment and manage the technology risk associated with use of intellectual property. We recognize effective corporate social responsibility (CSR) as a crucial aspect of management. Through the practical application of our corporate philosophy, "Market-driven collaborative innovation: Improving the future through gases," we will continue working to develop products and technologies that help address key social imperatives by alleviating environment load, reducing energy consumption and increasing production efficiency.

Contributing to the Prevention of Global Warming: Promoting Energy-Saving Initiatives at Gas Production Facilities

In addition to supplying industrial gases, we build air separation units, which are used to produce oxygen, nitrogen and argon. Our product lineup is diverse, ranging from compact models used in the electronics industry to ultralarge models used by steelmakers. We are currently Japan's leading supplier of all types of air separation units.

The production of oxygen, nitrogen and argon using air separation requires a significant amount of energy. Having established the Energy Savings Taskforce, a subcommittee of our Environmental Committee, we are promoting ongoing, decisive efforts to address a critical challenge, namely, reducing energy use per unit of production by these facilities. As of fiscal year 2015, we had achieved a reduction of 25.9% from the fiscal year 1991 level.

Key Initiatives

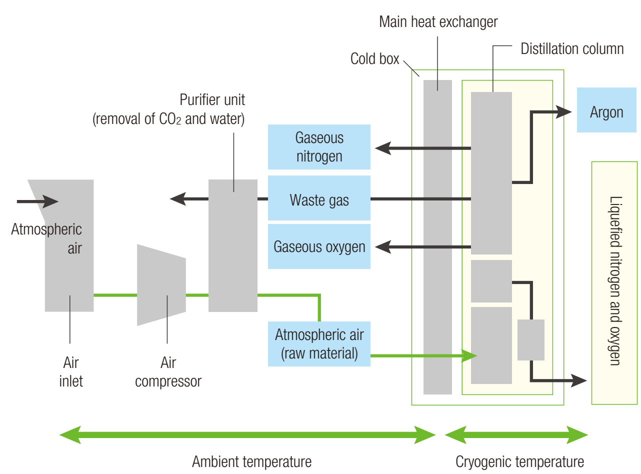
- Develop, build and install energy-efficient air separation units
- Replace the equipment used in our air separation units with energy-efficient alternatives
- Optimize plant operating methods

Environmental Impact

Air separation units produce oxygen, nitrogen and argon simultaneously by separating atmospheric air into its constituent gases. Air is first compressed and cooled almost to the point where the gases liquefy, after which it is ready for the distillation column, where it is separated into gas and liquid components using a thermal distillation process. Nitrogen, which has a low boiling point, concentrates in the gas and is withdrawn from the top of the column, while oxygen, which has a higher boiling point, concentrates in the liquid and is withdrawn from the bottom section. Argon, which has an intermediate boiling point, is withdrawn from the middle of the column.

Air compression in air separation units uses a considerable amount of energy. The use of electricity for this purpose comprises the single most significant environmental impact of Taiyo Nippon Sanso's operations.

Air Separation Unit: Simplified Process Flow



Board of Directors, Audit & Supervisory Board Members and Executive Officers

Board of Directors

Chairman
Shotaro Yoshimura

Vice Chairmen
Shinji Tanabe
Kunishi Hazama

President and Chief Executive Officer
Yujiro Ichihara

Executive Vice President
Tadashige Maruyama

Senior Managing Executive Officers
Shigeru Amada
William J. Kroll
Hiroshi Katsumata

Directors
Akio Yamada**
Mitsuhiro Katsumaru**
Masanori Karatsu

Audit & Supervisory Board Members

Yasufumi Miyazaki*
Kiyoshi Fujita
Ichiro Yumoto*
Kazuo Yoshida*

Executive Officers

Managing Executive Officer and Chief Compliance Officer
Kinji Mizunoe

Managing Executive Officers
Akihiko Umekawa
Shin-ichiro Hiramine
Keiki Ariga
Yuki Hajikano
Jun Ishikawa
Yoshihide Kenmochi

Senior Executive Officers
Shigenobu Somaya
Mikio Yamaguchi
Kazushige Arai
Masahiro Sakamoto
Hiroyuki Tanizawa
Norikazu Ishikawa
Kou Matsumoto
Hirohisa Yanagida
Masahiro Uehara

Executive Officers
Masami Takaine
Kazunori Takeda
Shigeyuki Osawa
Masahisa Kanzaki
Haruhiko Yasuga
Kenji Nagata
Kunihiro Kobayashi
Junzo Tai
Nobuaki Kobayashi
Masami Myobatake
Hideaki Hirose
Hiroshi Matsuda
Yasuhiko Kawano
Yuki Endo
Toshikazu Kurishita
Satoshi Wataru
Tsutomu Moroishi
Toshihiro Fukagawa

(As of June 23, 2015)

Note: *Outside Auditor
**Outside Director

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2015**	2014	2013	2012	2011	2010
For the year:						
Net sales	**¥559,373**	¥522,746	¥468,387	¥477,451	¥483,620	¥433,390
Operating income	**35,297**	31,489	24,884	31,067	35,468	27,556
Net income (loss)	**20,764**	20,194	(2,071)	21,200	12,736	15,748
Capital expenditures	**35,201**	32,532	31,715	31,452	31,991	38,366
Investments and loans	**5,710**	35,749	5,672	8,035	15,171	63,408
Depreciation and amortization	**35,568**	33,507	29,400	30,471	32,167	30,143
Amortization of goodwill	**4,959**	3,668	2,719	2,472	3,635	3,153
Research and development expenses	**3,430**	3,170	3,177	3,458	3,924	4,137
At year-end:						
Interest-bearing debt	**266,276**	278,063	253,424	241,121	256,358	259,111
Net interest-bearing debt	**212,855**	219,727	228,681	206,524	211,808	235,082
Total net assets	**341,207**	298,475	224,253	219,611	207,416	212,396
Total assets	**782,357**	731,677	615,820	607,024	617,676	617,215
Financial indicator:						
SGA expenses ratio (%)	**26.7%**	26.4%	26.8%	26.3%	26.1%	27.5%
Return on equity[1] (%)	**7.0%**	8.4%	(1.0)%	10.8%	6.5%	8.3%
Return on capital employed[2] (%)	**6.2%**	6.2%	5.5%	7.0%	7.8%	6.6%
Net debt equity ratio (times)	**0.67**	0.80	1.12	1.03	1.10	1.11

	Yen					
Amounts of per share of common stock:						
Net income (loss)[3]	**¥47.98**	¥49.42	¥ (5.25)	¥53.33	¥31.86	¥39.39
Cash dividends	**13.00**	12.00	12.00	12.00	12.00	12.00
Dividends payout ratio (%)	**27.1%**	24.3%	—%	22.5%	37.7%	30.5%
Price earnings ratio (times)	**34.16**	16.43	—	10.95	21.75	23.20

[1] Return on equity is computed as net income (loss) divided by average shareholders' equity.
[2] Return on capital employed is computed as operating income (loss) divided by capital employed (average shareholders' equity + average interest-bearing debt).
[3] Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, as adjusted retroactively for free share distributions made during the period.

Management's Analysis of Operating Results and Financial Position

Scope of Consolidation and Application of the Equity Method

As of March 31, 2015, Taiyo Nippon Sanso Corporation had 159 consolidated subsidiaries (74 based in Japan and 85 based overseas)—including newly consolidated subsidiaries Taiyo Nippon Sanso Holdings Singapore Pte. Ltd. and Northern Vietnam Japan Gas Company Limited—and 27 equity-method affiliates (10 based in Japan and 17 based overseas).

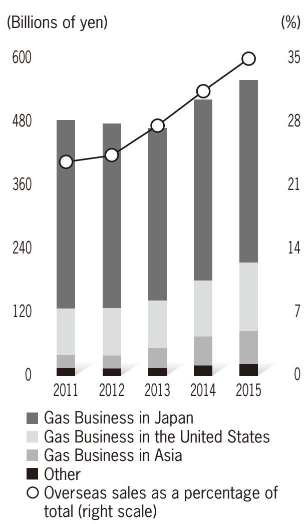
Operating Results

In fiscal year 2015, ended March 31, 2015, consolidated net sales rose 7.0%, to ¥559,373 million. Cost of sales was up 6.1%, to ¥374,923 million, while selling, general and administrative expenses advanced 8.0%, to ¥149,151 million. As a consequence, operating income climbed 12.1%, to ¥35,297 million. The operating margin improved 0.3 percentage point, to 6.3%. Net income increased 2.8%, to ¥20,764 million, bolstered by equity in earnings of affiliates of ¥2,500 million. Net income per share was ¥47.98, while return on capital employed (ROCE) was 6.2%.

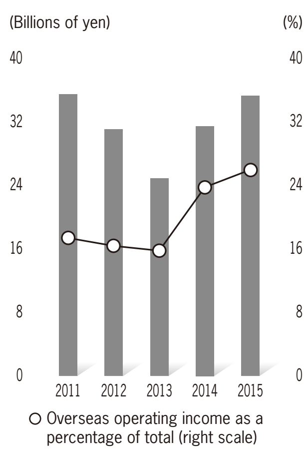
At a general meeting of the Company's shareholders on June 23, 2015, shareholders approved a proposal to pay a year-end dividend of ¥7.00 per share, an increase of ¥1.00, bringing cash dividends for the term, comprising interim and year-end dividends, to ¥13.00 per share, representing a payout ratio of 27.1%.

Capital expenditures, on a final acceptance basis, totaled ¥35,201 million, up ¥2,669 million. Depreciation and amortization was up ¥2,061 million, to ¥35,568 million. Research and development costs rose ¥260 million, to ¥3,430 million, equivalent to approximately 0.6% of net sales.

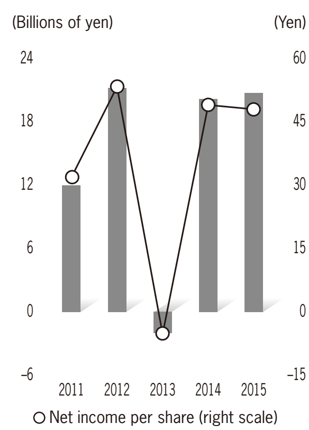
Net Sales



Operating Income



Net Income (Loss)



Results by Segment

Gas Business in Japan
Sales of separated gases, our core products, increased, despite a decline in demand from the chemicals industry, underpinned by brisk sales to the steel industry, in particular, as well as to shipbuilding and other transportation equipment industries. Sales of air separation units rose substantially, as did sales of cutting and welding equipment and materials, bolstered by an uptick in domestic capital investment. Robust shipments to manufacturers of liquid crystal displays (LCDs), solar cells and semiconductors pushed up sales of electronics materials gases. Sales in the medical business were up significantly, reflecting higher sales of stable isotopes and contributions from Pacific Medico Co., Ltd., acquired in fiscal year 2014, although sales of medical-use oxygen were down somewhat. In contrast, sales of liquefied petroleum gas (LPG) fell sharply, owing to falling import prices. As a result, segment sales inched up 0.8%, to ¥344,635 million, and operating income increased 7.2%, to ¥25,045 million.

Gas Business in the United States
Economic recovery, together with the positive impact of the February 2014 acquisition of Continental Carbonic Products, Inc., an increase in sales after translation into yen attributable to foreign exchange fluctuations, and sales price hikes for industrial gases, supported solid results in our U.S. gas business. Segment sales rose 21.8%, to ¥130,983 million and operating income advanced 22.9%, to ¥5,795 million.

Gas Business in Asia
Sales of separated gases in southeastern China were brisk, while sales in the northeastern part of the country were sluggish. Sales of electronic materials gases and equipment were healthy in Taiwan, China and South Korea. These and other factors boosted segment sales 14.1%, to ¥61,995 million, and operating income 29.1%, to ¥2,468 million.

Other Businesses
Sales in the Thermos business remained robust, particularly for new products. A subsidiary in South Korea that was newly consolidated in fiscal year 2014 also continued to post favorable results. For these reasons, segment sales rose 14.5%, to ¥21,758 million and operating income advanced 12.2%, to ¥3,437 million.

Financial Position

Total assets as of March 31, 2015, amounted to ¥782,357 million, an increase of 6.9%. Approximately ¥43,200 million of this was attributable to the depreciation of the yen, which was ¥15.16 lower against the U.S. dollar on March 31, 2015, than on the same day a year earlier. The current ratio was 145%, up 11.0 percentage points from the end of fiscal year 2014. Property, plant and equipment, less accumulated depreciation, rose 5.8%, to ¥324,842 million, bolstered primarily by increases in gas supply facilities and transport equipment. Total investments and other assets increased 9.7%, to ¥97,235 million, owing to increases in investment securities.

Total current liabilities edged down 0.8%, to ¥184,570 million, despite a ¥7,034 million increase in notes and accounts payable—trade, reflecting a ¥15,000 million decline in the current portion of long-term loans payable. Total non-current liabilities rose 3.8%, to ¥256,579 million, as long-term loans payable and deferred tax liabilities rose ¥4,007 million and ¥7,687 million, respectively. Total interest-bearing debt thus amounted to ¥266,276 million, a decrease of ¥11,787 million. Total net assets stood at ¥341,207 million, a consequence of changes in capital surplus, which was down ¥523 million, to ¥55,955 million, and the balance of treasury stock, which was ¥232 million, compared with ¥108 million at the end of fiscal year 2014. Retained earnings rose ¥13,688 million, to ¥190,957 million, owing to changes in net income and dividends paid. In addition, the Company reported positive foreign currency translation adjustments of ¥20,067 million, compared with negative adjustments of ¥2,035 million at the previous fiscal year-end. As a consequence, the equity ratio improved 3.0 percentage points, to 40.5%, while net assets per share increased ¥99.35, to ¥733.04.

Cash Flows

Net cash provided by operating activities in fiscal year 2015 amounted to ¥58,615 million, an increase of ¥1,899 million. Principal factors behind this result included income before income taxes and minority interests and changes in depreciation and amortization, notes and accounts receivable—trade and notes and accounts payable—trade. The interest coverage ratio improved 0.5 point, to 14.8 times.

Net cash used in investing activities, at ¥30,583 million, was down ¥24,712 million. Principal applications of cash included purchases of property, plant and equipment and purchases of investment securities.

Net cash used in financing activities came to ¥33,866 million, compared with net cash provided by such activities, of ¥27,884 million, in fiscal year 2014. This result was primarily attributable to outlays for the repayment of long-term loans receivable and the redemption of bonds.

After factoring in the effect of exchange rate fluctuations on cash and cash equivalents, which totaled ¥1,287 million, and the impact on cash and cash equivalents resulting from changes in the scope of consolidation, operating, investing and financing activities in fiscal year 2015 yielded cash and cash equivalents at end of period of ¥51,547 million, ¥4,541 million lower than at the end of fiscal year 2014.

Business Risks

Management Policy- and Business-Related Risks

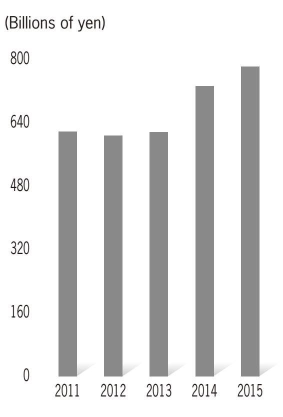
Purchase of Property, Plant and Equipment

The Company maintains large-scale gas supply facilities for major customers and needs to spend heavily to maintain and upgrade these facilities. Accordingly, interest rate trends could have a material impact on the Company's business performance.

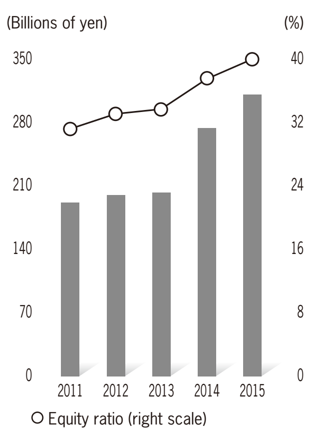
Manufacturing Costs

Electricity is the major component of the cost of manufacturing such core products as oxygen, nitrogen and argon. Accordingly, a sharp increase in the price of crude oil could result in a substantial increase in electricity charges, which the Company may be unable to reflect in the pricing of its products.

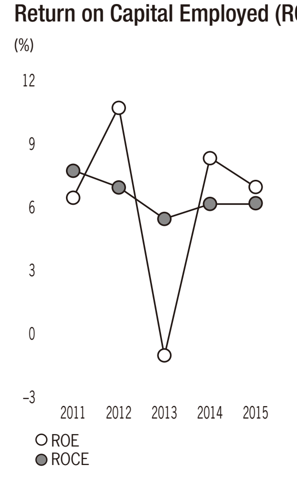
Total Assets



Equity



Return on Equity (ROE) and Return on Capital Employed (ROCE)



Overseas Factors

The Company maintains operations overseas, particularly in the United States and in other parts of Asia, including China, where the Company has substantial gas operations. Political and economic changes in countries where the Company has operations may have an adverse impact on its business performance.

Technological and Safety Factors

Technological Development

The creation of new products and technologies entails various uncertainties, owing to the Company's reliance on technological development in such areas as compound semiconductors, the environment and energy.

Intellectual Property

The Company's business depends on proprietary technological development. The Company endeavors to obtain intellectual property rights as necessary for its proprietary technologies. However, there are no guarantees that its technologies are completely protected.

Product Defects

The Company sells high-pressure gas-related products and handles toxic and flammable gases used in electronics manufacturing. While the Company strives to ensure the effective management of related risks, it cannot guarantee that all of its products are free of defects.

Financial Risks and Other Factors

Foreign Exchange Risk

The Company exports products for sale outside of Japan. The Company strives to hedge foreign exchange risks by entering into forward exchange contracts and other derivative transactions. However, the Company may not be able to respond to sudden fluctuations in currency rates, which therefore may have an adverse impact on its business performance.

Retirement Benefit Liabilities

A sudden deterioration in retirement plan returns resulting in an increase in retirement benefit costs may have an adverse impact on the Company's business performance.

Natural Disasters and Contingencies

The occurrence of earthquakes or other natural disasters in areas where the Company has manufacturing facilities may damage facilities. In particular, damage to the Company's large-scale manufacturing facilities may lead to a significant decline in production capacity and incur major recovery costs. Such factors may adversely affect the Company's business performance. Major accidents occurring as a result of contingencies, including those attributable to human factors, may also adversely affect the Company's business performance.

Legal Issues

Unanticipated changes to existing laws and the introduction of new laws—particularly in countries overseas where the Company maintains operations—may adversely affect the Company's business performance. Revisions to environmental laws that result in a tightening of restrictions may result in an increase in costs to ensure compliance, which may also adversely affect the Company's business performance. Because the Company does business both in Japan and overseas, there is a risk that it may become involved in legal disputes or be the subject of investigations and/or legal action by relevant authorities in the markets in which it operates. Such legal and regulatory action may adversely affect the Company's operations, business performance, financial condition, reputation and reliability.

Medium-Term Business Plan

The Company's ability to meet the targets of its medium-term business plan may be adversely affected by a number of factors, including changes in the operating environment.

Capital Alliance with Mitsubishi Chemical Holdings

Mitsubishi Chemical Holdings Corporation owns a 50.57% stake in the Company (indirect holding: 14.07%). With the aim of further strengthening the capital alliance, established on May 13, 2014, and enhancing corporate value, the two companies have agreed that Mitsubishi Chemical Holdings will maintain its stake in the Company at the current level. Accordingly, the Company does not at present anticipate any increase or decrease in the percentage of its shares held by Mitsubishi Chemical Holdings. However, there is still a chance that the capital alliance between the two companies will change. Any such change has the potential to significantly affect the Company's financial condition and business performance.

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
March 31	**2015**	2014	**2015**
Assets			
Current assets:			
Cash and deposits (Notes 16 and 23)	**¥ 53,420**	¥ 58,336	**$ 444,537**
Notes and accounts receivable—trade (Notes 7 and 16)	**150,552**	134,959	**1,252,825**
Merchandise and finished goods	**30,252**	25,954	**251,743**
Work in process	**8,758**	6,640	**72,880**
Raw materials and supplies	**9,782**	9,186	**81,401**
Deferred tax assets (Note 11)	**8,387**	6,698	**69,793**
Other	**9,470**	8,761	**78,805**
Allowance for doubtful accounts	**(2,520)**	(1,216)	**(20,970)**
Total current assets	**268,105**	249,322	**2,231,048**
Property, plant and equipment (Notes 9, 10, 13 and 22)	**828,957**	780,134	**6,898,203**
Accumulated depreciation	**(504,115)**	(473,077)	**(4,195,015)**
Property, plant and equipment, net	**324,842**	307,057	**2,703,187**
Investments and other assets:			
Investment securities (Notes 6 and 16)	**75,377**	67,321	**627,253**
Long-term loans receivable	**1,199**	390	**9,978**
Goodwill (Notes 22 and 25)	**66,471**	65,327	**553,141**
Other intangible assets	**25,701**	21,327	**213,872**
Net defined benefit asset (Note 14)	**8,396**	9,376	**69,868**
Deferred tax assets (Note 11)	**2,073**	1,976	**17,251**
Other	**10,542**	10,070	**87,726**
Valuation allowance for investments	**(20)**	(20)	**(166)**
Allowance for doubtful accounts	**(333)**	(472)	**(2,771)**
Total investments and other assets	**189,408**	175,297	**1,576,167**
Total assets	**¥ 782,357**	¥ 731,677	**$ 6,510,419**

See notes to consolidated financial statements.

March 31	Millions of yen 2015	Millions of yen 2014	Thousands of U.S. dollars (Note 5) 2015
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable—trade (Notes 9 and 16)	**¥ 77,036**	¥ 70,002	**$ 641,059**
Short-term loans payable (Notes 8, 9 and 16)	**65,746**	81,508	**547,108**
Income taxes payable (Note 11)	**7,113**	4,492	**59,191**
Other	**34,673**	29,972	**288,533**
Total current liabilities	**184,570**	185,975	**1,535,907**
Noncurrent liabilities:			
Long-term loans payable (Notes 8, 9 and 16)	**193,904**	189,897	**1,613,581**
Pension and severance indemnities (Note 14)	**1,230**	1,296	**10,235**
Net defined benefit liability (Note 14)	**3,824**	6,235	**31,822**
Deferred tax liabilities (Note 11)	**43,451**	35,764	**361,579**
Negative goodwill (Note 22)	**—**	22	**—**
Lease obligations (Note 8)	**4,779**	4,896	**39,769**
Other	**9,387**	9,112	**78,114**
Total noncurrent liabilities	**256,579**	247,226	**2,135,134**
Contingent liabilities (Note 15)			
Total liabilities	**441,149**	433,201	**3,671,041**
Net assets (Notes 12 and 26):			
Shareholders' equity:			
Common stock:			
Authorized—1,600,000,000 shares			
Issued—433,092,837 shares in 2015 and 2014	**37,344**	37,344	**310,760**
Capital surplus	**55,955**	56,478	**465,632**
Retained earnings	**190,957**	177,269	**1,589,057**
Treasury stock	**(232)**	(108)	**(1,931)**
Total shareholders' equity	**284,025**	270,983	**2,363,527**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**12,777**	7,257	**106,324**
Deferred gains or losses on hedges	**(461)**	(7)	**(3,836)**
Foreign currency translation adjustments	**20,067**	(2,035)	**166,988**
Remeasurements of defined benefit plans (Note 14)	**835**	(1,891)	**6,948**
Total accumulated other comprehensive income	**33,219**	3,323	**276,433**
Minority interests	**23,963**	24,168	**199,409**
Total net assets	**341,207**	298,475	**2,839,369**
Total liabilities and net assets	**¥782,357**	¥731,677	**$6,510,419**

Consolidated Statements of Operations

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
Years ended March 31	2015	2014	2015
Net sales (Note 22)	¥559,373	¥522,746	$4,654,847
Cost of sales (Note 18)	374,923	353,204	3,119,938
Gross profit	184,449	169,542	1,534,901
Selling, general and administrative expenses (Note 18)	149,151	138,052	1,241,167
Operating income	35,297	31,489	293,726
Other income (expenses):			
Interest and dividend income	1,259	1,372	10,477
Interest expenses	(3,508)	(3,912)	(29,192)
Amortization of negative goodwill	23	199	191
Gain on sales of noncurrent assets (Note 19)	—	3,846	—
Loss on sales and retirement of noncurrent assets	(832)	(656)	(6,924)
Loss on valuation of investment securities	—	(199)	—
Gain on sales of investment securities	2,491	3,641	20,729
Loss on valuation of golf club memberships	—	(10)	—
Equity in earnings of affiliates	2,500	1,999	20,804
Impairment loss (Notes 20 and 22)	(2,266)	(1,183)	(18,857)
Loss on step acquisitions	—	(151)	—
Loss on liquidation of subsidiaries and affiliates	—	(451)	—
Early extra retirement payments	—	(1,667)	—
Other	(457)	54	(3,803)
	(789)	2,881	(6,566)
Income before income taxes and minority interests	34,507	34,370	287,152
Income taxes (Note 11):			
Current	12,856	9,303	106,982
Deferred	(482)	3,505	(4,011)
	12,373	12,808	102,962
Income before minority interests	22,133	21,562	184,181
Minority interests in income	1,369	1,367	11,392
Net income	¥ 20,764	¥ 20,194	$ 172,789
	Yen		U.S. dollars (Note 5)
Amounts per share:			
Net assets	¥733.04	¥633.69	$6.10
Net income	47.98	49.42	0.40
Cash dividends	13.00	12.00	0.11

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
Year ended March 31	2015	2014	2015
Income before minority interests	¥22,133	¥21,562	$184,181
Other comprehensive income (Note 21):			
Valuation difference on available-for-sale securities	5,547	927	46,160
Deferred gains or losses on hedges	(454)	113	(3,778)
Foreign currency translation adjustments	21,559	21,761	179,404
Remeasurements of defined benefit plans	2,764	154	23,001
Share of other comprehensive income of associates accounted for using the equity method	1,416	1,992	11,783
Total other comprehensive income	30,831	24,950	256,562
Comprehensive income	¥52,965	¥46,512	$440,751
Total comprehensive income attributable to:			
Owners of the Company	¥50,660	¥44,383	$421,569
Minority interests	2,305	2,129	19,181

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

		Millions of yen				
		Shareholders' equity				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2013	403,092,837	¥27,039	¥44,909	¥159,999	¥(9,161)	¥222,787
Issuance of common stock	30,000,000	10,305	10,305	—	—	20,610
Disposal of treasury stock	—	—	1,263	—	9,109	10,373
Dividends from surplus	—	—	—	(4,655)	—	(4,655)
Net income	—	—	—	20,194	—	20,194
Change of scope of consolidation	—	—	—	1,731	—	1,731
Purchase of treasury stock	—	—	—	—	(57)	(57)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2014	433,092,837	¥37,344	¥56,478	¥177,269	¥ (108)	¥270,983
Cumulative effects of changes in accounting policies	—	—	—	(1,539)	—	(1,539)
Restated balance at March 31, 2014	433,092,837	¥37,344	¥56,478	¥175,730	¥ (108)	¥269,444
Dividends from surplus	**—**	**—**	**—**	**(5,195)**	**—**	**(5,195)**
Net income	**—**	**—**	**—**	**20,764**	**—**	**20,764**
Change of scope of consolidation	**—**	**—**	**—**	**(341)**	**—**	**(341)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(148)**	**(148)**
Disposal of treasury stock	**—**	**—**	**12**	**—**	**31**	**43**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**(534)**	**—**	**—**	**(534)**
Change in treasury stock arising from change in equity in entities account for using equity method	**—**	**—**	**—**	**—**	**(6)**	**(6)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2015	**433,092,837**	**¥37,344**	**¥55,955**	**¥190,957**	**¥ (232)**	**¥284,025**

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2013	¥ 6,322	¥(120)	¥(25,020)	¥(197)	¥ —	¥(19,016)	¥20,481	¥224,253
Issuance of common stock	—	—	—	—	—	—	—	20,610
Disposal of treasury stock	—	—	—	—	—	—	—	10,373
Dividends from surplus	—	—	—	—	—	—	—	(4,655)
Net income	—	—	—	—	—	—	—	20,194
Change of scope of consolidation	—	—	—	—	—	—	—	1,731
Purchase of treasury stock	—	—	—	—	—	—	—	(57)
Net changes of items other than shareholders' equity	934	113	22,984	197	(1,891)	22,339	3,686	26,026
Balance at March 31, 2014	¥ 7,257	¥ (7)	¥ (2,035)	¥ —	¥(1,891)	¥ 3,323	¥24,168	¥298,475
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	(47)	(1,587)
Restated balance at March 31, 2014	¥ 7,257	¥ (7)	¥ (2,035)	¥ —	¥(1,891)	¥ 3,323	¥24,120	¥296,888
Dividends from surplus	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,195)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**20,764**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(341)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(148)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**43**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(534)**
Change in treasury stock arising from change in equity in entities account for using equity method	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(6)**
Net changes of items other than shareholders' equity	**5,520**	**(454)**	**22,103**	**—**	**2,727**	**29,895**	**(157)**	**29,738**
Balance at March 31, 2015	**¥12,777**	**¥(461)**	**¥ 20,067**	**¥ —**	**¥ 835**	**¥ 33,219**	**¥23,963**	**¥341,207**

	Thousands of U.S. dollars (Note 5)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2014	$310,760	$469,984	$1,475,152	$ (899)	$2,254,997
Cumulative effects of changes in accounting policies	—	—	(12,807)	—	(12,807)
Restated balance at April 1, 2014	$310,760	$469,984	$1,462,345	$ (899)	$2,242,190
Dividends from surplus	**—**	**—**	**(43,230)**	**—**	**(43,230)**
Net income	**—**	**—**	**172,789**	**—**	**172,789**
Change of scope of consolidation	**—**	**—**	**(2,838)**	**—**	**(2,838)**
Purchase of treasury stock	**—**	**—**	**—**	**(1,232)**	**(1,232)**
Disposal of treasury stock	**—**	**100**	**—**	**258**	**358**
Purchase of shares of consolidated subsidiaries	**—**	**(4,444)**	**—**	**—**	**(4,444)**
Change in treasury stock arising from change in equity in entities account for using equity method	**—**	**—**	**—**	**(50)**	**(50)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2015	**$310,760**	**$465,632**	**$1,589,057**	**$(1,931)**	**$2,363,527**

	Thousands of U.S. dollars (Note 5)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2014	$ 60,389	$ (58)	$ (16,934)	$—	$(15,736)	$ 27,652	$201,115	$2,483,773
Cumulative effects of changes in accounting policies	—	—	—	—	—	—	(391)	(13,206)
Restated balance at April 1, 2014	$ 60,389	$ (58)	$ (16,934)	$—	$(15,736)	$ 27,652	$200,716	$2,470,567
Dividends from surplus	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(43,230)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**172,789**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,838)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(1,232)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**358**
Purchase of shares of consolidated subsidiaries	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,444)**
Change in treasury stock arising from change in equity in entities account for using equity method	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(50)**
Net changes of items other than shareholders' equity	**45,935**	**(3,778)**	**183,931**	**—**	**22,693**	**248,773**	**(1,306)**	**247,466**
Balance at March 31, 2015	**$106,324**	**$(3,836)**	**$166,988**	**$—**	**$ 6,948**	**$276,433**	**$199,409**	**$2,839,369**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
Years ended March 31	**2015**	2014	**2015**
Operating activities			
Income before income taxes and minority interests	**¥ 34,507**	¥ 34,370	**$ 287,152**
Depreciation and amortization	**35,568**	33,507	**295,981**
Impairment loss	**2,266**	1,183	**18,857**
Amortization of goodwill	**4,959**	3,668	**41,267**
Interest and dividends income	**(1,259)**	(1,372)	**(10,477)**
Interest expense	**3,508**	3,912	**29,192**
Equity in earnings of affiliates	**(2,500)**	(1,999)	**(20,804)**
Loss (gain) on sales and retirement of noncurrent assets	**634**	(3,410)	**5,276**
Gain on sales of investment securities	**(2,506)**	(3,670)	**(20,854)**
Loss on step acquisitions	**—**	151	**—**
Loss on liquidation of subsidiaries and affiliates	**—**	451	**—**
Early extra retirement payments	**—**	1,667	**—**
Increase in notes and accounts receivable—trade	**(11,080)**	(3,713)	**(92,203)**
(Increase) decrease in accounts receivable—other	**(175)**	1,051	**(1,456)**
Decrease (increase) in advance payments	**53**	(537)	**441**
(Increase) decrease in inventories	**(3,931)**	1,351	**(32,712)**
Increase (decrease) in notes and accounts payable—trade	**4,979**	(5,995)	**41,433**
Increase in accrued expenses	**2,203**	573	**18,332**
Increase (decrease) in advances received	**876**	(757)	**7,290**
Decrease in net defined benefit liability	**(43)**	(76)	**(358)**
Decrease in net defined benefit asset	**489**	428	**4,069**
Other, net	**2,424**	4,505	**20,171**
	70,973	65,288	**590,605**
Interest and dividends income received	**2,851**	1,753	**23,725**
Interest expenses paid	**(3,521)**	(3,954)	**(29,300)**
Payments for early extra retirement payments	**(1,398)**	(251)	**(11,634)**
Income taxes paid	**(10,290)**	(6,121)	**(85,629)**
Net cash provided by operating activities	**58,615**	56,716	**487,767**
Investing activities			
Decrease in short-term investments	**804**	2,195	**6,691**
Purchases of property, plant and equipment	**(33,357)**	(29,821)	**(277,582)**
Proceeds from sales of property, plant and equipment	**2,035**	5,559	**16,934**
Purchases of intangible assets	**(886)**	(447)	**(7,373)**
Purchases of investment securities	**(3,038)**	(5,276)	**(25,281)**
Proceeds from sales of investment securities	**6,411**	4,754	**53,349**
Purchases of investments in subsidiaries resulting in change in scope of consolidation (Note 23)	**—**	(30,162)	**—**
Payments of loans receivable	**(1,084)**	(310)	**(9,021)**
Other, net	**(1,467)**	(1,785)	**(12,208)**
Net cash used in investing activities	**(30,583)**	(55,295)	**(254,498)**
Financing activities			
Net increase (decrease) in short-term loans payable	**¥ 7,265**	¥ (7,921)	**$ 60,456**
Proceeds from long-term loans payable	**36,987**	31,808	**307,789**
Repayment of long-term loans payable	**(53,339)**	(43,371)	**(443,863)**
Proceeds from issuance of bonds	**—**	24,857	**—**
Redemption of bonds	**(15,000)**	—	**(124,823)**
Purchases of investments in subsidiaries not resulting in change in scope of consolidation	**(1,586)**	—	**(13,198)**
Repayments of lease obligations	**(2,049)**	(2,880)	**(17,051)**
Proceeds from issuance of common stock	**—**	20,452	**—**
Purchase of treasury stock	**(182)**	(55)	**(1,515)**
Proceeds from sales of treasury stock	**12**	2	**100**
Proceeds from disposal of treasury stock	**21**	10,370	**175**
Cash dividends paid	**(5,196)**	(4,656)	**(43,239)**
Cash dividends paid to minority shareholders	**(799)**	(722)	**(6,649)**
Net cash (used in) provided by financing activities	**(33,866)**	27,884	**(281,817)**
Effect of exchange rate change on cash and cash equivalents	**1,287**	485	**10,710**
Net (decrease) increase in cash and cash equivalents	**(4,546)**	29,791	**(37,830)**
Cash and cash equivalents at beginning of period	**56,088**	22,721	**466,739**
Increase in cash and cash equivalents resulting from change of scope of consolidation	**5**	3,568	**42**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	**—**	7	**—**
Cash and cash equivalents at end of period (Note 23)	**¥ 51,547**	¥ 56,088	**$ 428,951**

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

1. Basis of Consolidated Financial Statements

The accompanying consolidated financial statements of TAIYO NIPPON SANSO CORPORATION (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan (the "FIEA").

As permitted by the FIEA, amounts of less than one million yen have been omitted. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sums of the individual amounts.

Certain amounts previously reported have been reclassified to conform to the current year presentation.

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 159 significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

In accordance with the regulations for the preparation of consolidated financial statements under the FIEA, investments in certain unconsolidated subsidiaries and significant affiliates are accounted for by the equity method of accounting.

The differences at the dates of acquisition between the cost and the underlying net equity in investments in consolidated subsidiaries and the companies accounted for by the equity method are amortized equally over the years for which their effect is reasonably estimated.

Investments in unconsolidated subsidiaries and affiliates other than those which are accounted for by the equity method are principally stated at cost.

(b) Cash equivalents

For purposes of the statements of cash flows, the Company considers all highly liquid instruments with maturity of three months or less when purchased to be cash equivalents.

(c) Investment securities

Investments in securities are classified into three categories: trading securities, held-to-maturity securities and available-for-sale securities. The Company and certain consolidated subsidiaries have marketable securities classified as available-for-sale securities, which are carried at fair value with any changes in valuation difference on available-for-sale securities, net of the applicable income taxes, reported as a separate component of net assets. Cost of marketable securities sold is determined by the moving-average method. Non-marketable securities classified as available-for-sale securities are carried at cost determined by the moving-average method. Under the Companies Act of Japan (the "Act"), unrealized gain or loss on available-for-sale securities, net of the applicable income taxes, is not available for distribution as dividends.

(d) Inventories

Inventories are stated at cost, determined by the average method, specific identification method or the moving-average method (lower than book value due to decline in profitability).

(e) Property, plant and equipment (except for leased assets)

Property, plant and equipment is stated at cost, and for the Company and its consolidated domestic subsidiaries, depreciation is principally computed by the straight-line method.

The useful lives are as follows:

Buildings	3 to 50 years
Machinery	4 to 20 years

As for consolidated overseas subsidiaries, depreciation is also principally computed by the straight-line method based on the estimated useful lives of the respective assets.

(f) Intangible assets

Intangible assets are stated at cost. As for the Company and its consolidated domestic subsidiaries, software is amortized by the straight-line method over its estimated useful life of 5 years. Consolidated subsidiaries in the United States apply the Accounting Standards Codification 350, issued by the Financial Accounting Standards Board ("Intangibles-Goodwill and Other").

(g) Leases

Leased assets are initially accounted for at their acquisition costs and depreciated over the leased term by the straight-line method with no residual value.

Finance leases contracted on or before March 31, 2008 that do not deem to transfer ownership of the leased property to the lessee are accounted for as operating lease transactions.

(h) Translation of foreign currency transactions

All monetary assets and liabilities denominated in foreign currencies other than receivables and payables hedged by qualified foreign exchange forward contracts, are translated into yen at the exchange rates prevailing as of the fiscal year-end, and resulting gains and losses are included in income.

The accounts of the overseas consolidated subsidiaries are translated into yen at the year-end exchange rates, except for net assets, which are translated at historical rates, and income statement items are translated into yen at average exchange rates during the year. Differences arising from the translations are stated under "Foreign currency translation adjustments" and "Minority interests" in the accompanying consolidated balance sheet.

(i) Pension and severance indemnities

The benefit formula method is used as the method of attributing expected benefits to periods through the end of the fiscal year ended March 31, 2015 in calculating the projected benefit obligation.

For transition benefit liability, the Company established a pension and severance indemnity trust by contribution of shares owned by the Company, and the remaining transition benefit liability is being amortized over a period of 15 years. Actuarial gains or losses and prior service cost are recognized for each defined benefit plan over a period not exceeding the expected average remaining service years of the employees participating in the plan. The Company and its consolidated domestic subsidiaries amortize actuarial gains or losses using the straight-line method over 12 to 16 years following the respective fiscal years when such gains or losses are recognized. Prior service cost is amortized using the straight-line method over 13 to 16 years.

Certain consolidated domestic subsidiaries apply the simplified method, which assumes projected benefit obligations to be equal to the benefit payable assuming the voluntary retirement of all employees at fiscal year-end, in computing net defined benefit liability and retirement benefit expenses.

(j) Allowance for directors' and corporate auditors' retirement benefits

The allowance for directors' and corporate auditors' retirement benefits of the Company and certain consolidated domestic subsidiaries is provided at the amount which would have been required to be paid if all directors and corporate auditors had voluntarily terminated their services as of the balance sheet date. This amount has been determined in accordance with the internal rules of the respective companies.

The allowance included ¥810 million ($6,740 thousand) and ¥799 million for directors and corporate auditors at March 31, 2015 and 2014, respectively, and included ¥420 million ($3,495 thousand) and ¥497 million for corporate officers at March 31, 2015 and 2014, respectively.

(k) Research and development expenses

Research and development expenses are charged to operations as incurred.

(l) Income taxes

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

(m) Amounts per share

Presentation of diluted net income per share is not applicable as there were no potentially dilutive securities for the years ended March 31, 2015 and 2014.

(n) Allowance for doubtful accounts

To cover possible losses on collection of receivables, the Company and its consolidated domestic subsidiaries provided for an allowance with respect to specific debts of which recovery is doubtful, based on estimated write-off amounts, after considering the likelihood of recovery on an individual basis.

(o) Valuation allowance for investments

To state the investment amount fairly, the allowance is provided by considering the related parties' assets and other factors.

(p) Derivative and hedging transactions

The Company and certain consolidated subsidiaries have used foreign exchange forward contracts solely in order to hedge against risks of fluctuations in foreign currency exchange rates relating to its receivables and payables denominated in foreign currencies, and have used interest-rate swap agreements solely to hedge against risks of fluctuations in interest rates relating to its long-term loans payable. Also, currency exchange swap agreements have been used solely to hedge against risks of fluctuations in foreign exchange of long-term loans payable denominated in foreign currencies, in compliance with the internal rules of respective companies.

Under the "Accounting Standard for Financial Instruments" (Statement No. 10, issued by the Accounting Standards Board of Japan ("ASBJ") on March 10, 2008) derivative transactions are valued at market prices, except for hedging transactions whose gains or losses are deferred and recorded in the balance sheet until the hedged transactions are settled. Moreover, if interest-rate swaps in Japan are specifically tied to the hedged loan transactions, unrealized gains or losses on those swaps are not recognized in the consolidated financial statements as such gains or losses are to be offset with those on the hedged transactions. Deferred hedge accounting is applied to currency swaps.

Receivables and payables hedged by qualified foreign exchange forward contracts are translated at the corresponding foreign exchange forward contract rates.

(q) Recognition of revenues and costs of construction contracts

Revenues and costs of construction contracts of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

3. Changes in Accounting Policies

(a) Accounting standard for retirement benefits

Effective from the year ended March 31, 2015, the Company has adopted the main text of Paragraph 35 of "Accounting Standard for Retirement Benefits" (Statement No. 26, issued by the Accounting Standards Board of Japan (ASBJ) on May 17, 2012 (hereinafter, "Standard No. 26")) and the main text of Paragraph 67 of "Guidance on Accounting Standard for Retirement Benefits" (Guidance No. 25, issued by the ASBJ on March 26, 2015 (hereinafter, "Guidance No. 25")). Accordingly, the calculation methods of projected benefit obligations and service costs have been revised, the method of attributing expected benefits to periods has been changed from the straight-line method to the benefit formula method, and the method for determining the discount rate has been changed from determining the discount rate based on the yields of bonds with maturities that approximate the average remaining service period of the employees to using a single weighted average discount rate reflecting the estimated period and amount of retirement benefit payment. With regards to the adoption of the standard and the guidance, in accordance with the provisions on transitional treatment set forth in Paragraph 37 of Standard No. 26, the cumulative effect of the change in calculation methods of projected benefit obligations and service costs has been recognized in retained earnings as of April 1, 2014.

As a result of this change, net defined benefit liability increased by ¥92 million ($766 thousand) and net defined benefit asset, retained earnings and minority interests decreased by ¥2,226 million ($18,524 thousand), ¥1,539 million ($12,807 thousand) and ¥47 million ($391 thousand), respectively, as of April 1, 2014. The impact on operating income and income before income taxes and minority interests for the year ended March 31, 2015 was immaterial.

In addition, the effect on net income per share for the year ended March 31, 2015 was immaterial while net assets per share as of March 31, 2015 decreased by ¥3.56 ($0.03).

(b) Accounting standards for business combinations

"Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, issued on September 13, 2013 (hereinafter, "Statement No. 21")), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013 (hereinafter, "Statement No. 22")) and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, issued on September 13, 2013 (hereinafter, "Statement No. 7")), etc., are effective from April 1, 2014. Accordingly, effective from the year ended March 31, 2015, the Company has adopted these standards, etc. (except Paragraph 39 of Statement No. 22) and any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary are recorded as capital surplus and acquisition-related costs are expensed in the year when such costs are incurred. With regards to business combinations occurring on or after April 1, 2014, changes in acquisition cost allocation following the determination of transitional treatment is reflected in the consolidated financial statements applicable to the year in which the business combination occurs.

In accordance with the provisions on transitional treatment set forth in Paragraph 58-2 (4) of Statement No. 21, Paragraph 44-5 (4) of Statement No. 22 and Paragraph 57-4 (4) of Statement No. 7, these standards have been applied from the beginning of the year ended March 31, 2015 to the future periods.

As a result of this change, capital surplus decreased by ¥534 million ($4,444 thousand) as of March 31, 2015. The impact on operating income and income before income taxes and minority interests for the year ended March 31, 2015 was immaterial.

Accordingly, purchases of investments in subsidiaries not resulting in change in scope of consolidation are recorded under financing activities and investments in subsidiaries resulting in change in scope of consolidation and acquisition-related expenses for investments in subsidiaries not resulting in change in scope of consolidation are recorded under operating activities in the consolidated statement of cash flows from the year ended March 31, 2015.

As a result of this change, capital surplus in the consolidated statement of changes included in net assets decreased by ¥534 million ($4,444 thousand) as of March 31, 2015.

The impacts on net income per share for the year ended March 31, 2015 and net assets per share as of March 31, 2015 were immaterial.

4. Accounting Standards Issued but Not Yet Effective

On March 26, 2015, the ASBJ issued "Practical Solution on Accounting for Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements" (Practical Issues Task Force (PITF) No. 18).

(1) Overview

This practical solution was revised in response to a change in a related accounting standard for goodwill in the United States of America, which was revised in January 2014, and "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), which was revised in September 2013, as well as to clarify amortization of actuarial gains or losses under retirement benefit accounting.

(2) Expected application date

This practical solution is expected to be applied from the beginning of the year ending March 31, 2016.

(3) Effects of the adoption

The Company is currently evaluating the effects of applying this practical solution on its consolidated financial statements.

5. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥120.17=U.S.$1, the approximate rate of exchange at March 31, 2015. 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.

6. Investment Securities

At March 31, 2015 and 2014, information with respect to available-for-sale securities for which market prices were available was summarized as follows:

	Millions of yen			Thousands of U.S. dollars		
	2015			2015		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	**¥41,480**	**¥22,483**	**¥18,996**	**$345,178**	**$187,093**	**$158,076**
Unrecognized loss items: Stock	**191**	**228**	**(36)**	**1,589**	**1,897**	**(300)**
Total	**¥41,672**	**¥22,712**	**¥18,959**	**$346,775**	**$188,999**	**$157,768**

	Millions of yen		
	2014		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	¥27,120	¥15,524	¥11,596
Unrecognized loss items: Stock	10,045	10,515	(469)
Total	¥37,166	¥26,040	¥11,126

Proceeds from sales of securities classified as available-for-sale securities amounted to ¥6,198 million ($51,577 thousand) and ¥4,655 million with an aggregate gain on sales of ¥2,535 million ($21,095 thousand) and ¥3,653 million for the years ended March 31, 2015 and 2014, respectively, and an aggregate loss on sales of nil for the years ended March 31, 2015 and 2014.

7. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Accounts receivable transferred by liquidation	**¥ —**	¥4,742	**$ —**
Notes receivable transferred by liquidation	**1,791**	1,839	**14,904**

(b) Notes receivable discounted at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Notes receivable discounted	**¥2**	¥2	**$17**

8. Short-Term Loans Payable, Long-Term Loans Payable and Lease Obligations

As of March 31, 2015 and 2014, short-term loans payable and the current portion of long-term loans payable consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Bank loans	**¥28,827**	¥19,677	**$239,885**
Current portion of long-term loans payable	**36,919**	46,831	**307,223**
1.13% unsecured bonds, payable in yen, due 2014	**—**	15,000	**—**
Total	**¥65,746**	¥81,508	**$547,108**

The average interest rates applicable to bank loans outstanding at March 31, 2015 and 2014 are 1.10% and 1.32%, respectively.

Long-term loans payable at March 31, 2015 and 2014 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Loans from banks due through 2033 at average interest rates of 1.32% in 2015 and 1.53% in 2014	**¥148,904**	¥144,897	**$1,239,111**
0.55% unsecured bonds, payable in yen, due 2017	**10,000**	10,000	**83,215**
0.44% unsecured bonds, payable in yen, due 2017	**10,000**	10,000	**83,215**
0.32% unsecured bonds, payable in yen, due 2019	**15,000**	15,000	**124,823**
0.56% unsecured bonds, payable in yen, due 2021	**10,000**	10,000	**83,215**
	¥193,904	¥189,897	**$1,613,581**

Short-term lease obligations at March 31, 2015 and 2014 included in other current liabilities were ¥1,843 million ($15,337 thousand) and ¥1,760 million, respectively.

The annual maturities of long-term loans payable subsequent to March 31, 2015 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2016	¥ 36,919	$ 307,223
2017	49,755	414,038
2018	38,919	323,866
2019	25,810	214,779
2020	22,652	188,500
2021 and thereafter	11,768	97,928
	¥185,823	$1,546,334

The annual maturities of lease obligations subsequent to March 31, 2015 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2016	¥1,843	$15,337
2017	1,395	11,609
2018	1,511	12,574
2019	468	3,894
2020	306	2,546
2021 and thereafter	1,099	9,145
	¥6,622	$55,105

9. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥10 million ($83 thousand) and ¥120 million, long-term loans payable of nil and ¥197 million, accounts payable—trade of nil and ¥5 million and other of ¥31 million ($258 thousand) and ¥47 million at March 31, 2015 and 2014, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Property, plant and equipment, at net book value	**¥491**	¥701	**$4,086**

10. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Property, plant and equipment	**¥411**	¥411	**$3,420**

11. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of 35.64% and 38.01% for the years ended March 31, 2015 and 2014, respectively.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥ 2,100**	¥ 2,144	**$ 17,475**
Loss from valuation of inventory	**26**	11	**216**
Accrued expenses	**4,220**	2,504	**35,117**
Net operating loss carryforward for tax purposes	**97**	199	**807**
Other	**2,256**	2,096	**18,773**
Deferred tax assets—subtotal	**8,701**	6,956	**72,406**
Valuation allowance	**(312)**	(238)	**(2,596)**
Deferred tax assets—net	**8,389**	6,718	**69,809**
Deferred tax liabilities	**(1)**	(19)	**(8)**
Net deferred tax assets	**¥ 8,387**	¥ 6,698	**$ 69,793**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (1)**	¥ (87)	**$ (8)**
Deferred tax liabilities—subtotal	**(1)**	(87)	**(8)**
Offset by deferred tax assets	**1**	19	**8**
Net deferred tax liabilities	**¥ —**	¥ (67)	**$ —**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 2,191**	¥ 2,385	**$ 18,233**
Net defined benefit liability	**1,168**	1,248	**9,720**
Other	**7,211**	7,030	**60,007**
Deferred tax assets—subtotal	**10,570**	10,664	**87,959**
Valuation allowance	**(4,082)**	(3,961)	**(33,969)**
Deferred tax assets—net	**6,488**	6,702	**53,990**
Deferred tax liabilities	**(4,414)**	(4,726)	**(36,731)**
Net deferred tax assets	**¥ 2,073**	¥ 1,976	**$ 17,251**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**¥ (6,120)**	¥ (3,980)	**$ (50,928)**
Reserve for replacement of fixed assets	**(3,471)**	(4,260)	**(28,884)**
Reserve for special depreciation	**(55)**	—	**(458)**
Reserve for replacement of fixed assets—special	**(656)**	(572)	**(5,459)**
Depreciation	**(29,750)**	(20,166)	**(247,566)**
Other	**(7,811)**	(11,510)	**(65,000)**
Deferred tax liabilities—subtotal	**(47,865)**	(40,490)	**(398,311)**
Offset by deferred tax assets	**4,414**	4,726	**36,731**
Net deferred tax liabilities	**¥(43,451)**	¥(35,764)	**$(361,579)**

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the years ended March 31, 2015 and 2014 was not presented since the difference was less than 5% of the statutory tax rate.

The "Act on Partial Revision of the Income Tax Act" (Act No. 9 of 2015) and the "Act on Partial Revision of Local Tax Act" (Act No. 2 of 2015) were promulgated on March 31, 2015 and income tax rates will be reduced effective from years beginning on or after April 1, 2015. Accordingly, the normal effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.64% to 33.10% and 32.34% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and from years beginning April 1, 2016, respectively.

As a result, deferred tax assets, net of deferred tax liabilities, as of March 31, 2015 decreased by ¥641 million ($5,334 thousand) and income taxes—deferred, deferred losses on hedges, valuation difference on available-for-sale securities and remeasurements of defined benefit plans increased by ¥13 million ($108 thousand), ¥17 million ($141 thousand), ¥616 million ($5,126 thousand) and ¥56 million ($466 thousand), respectively, as of and for the year ended March 31, 2015.

12. Shareholders' Equity

(a) Dividends

Under the Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders' meeting. For companies that meet certain criteria, such as: (1) having a Board of Directors, (2) having independent auditors, (3) having a Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) if the Company has prescribed so in its articles of incorporation.

The Act permits companies to distribute dividends-in-kind (non-cash assets) to shareholders subject to a certain limitation and additional requirements.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the Company so stipulate.

(b) Increases/decreases and transfer of common stock, reserve and surplus

The Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation.

The Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

(c) Treasury stock and treasury stock acquisition rights

The Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders, which is determined by specific formula. Under the Act, stock acquisition rights, which were previously presented as a liability, are now presented as a separate component of shareholders' equity.

The Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of shareholders' equity or deducted directly from stock acquisition rights.

At the Board of Directors' meeting held on September 26, 2013, the Company resolved to issue new shares (30,000,000 shares of common stock) and dispose of treasury stock (15,096,000 shares of common stock) by way of a third-party allotment to Mitsubishi Chemical Holdings Corporation. The transaction was completed on October 15, 2013.

As a result, common stock and capital surplus as of March 31, 2014 increased by ¥10,305 million and ¥11,568 million, respectively, and treasury stock as of March 31, 2014 decreased by ¥9,107 million. Common stock, capital surplus and treasury stock as of March 31, 2014 amounted to ¥37,344 million, ¥56,478 million and ¥(108) million, respectively.

13. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2015 and 2014, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Acquisition costs:			
Property, plant and equipment	**¥993**	¥1,274	**$8,263**
Accumulated depreciation:			
Property, plant and equipment	**859**	1,087	**7,148**
Net book value:			
Property, plant and equipment	**¥133**	¥ 187	**$1,107**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥59 million ($491 thousand) and ¥94 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2015 and 2014, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2015 and 2014 for finance lease transactions accounted for as operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015		
2016	**¥ 51**	**$ 424**
2017 and thereafter	**82**	**682**
Total	**¥133**	**$1,107**
2014		
2015	¥ 56	
2016 and thereafter	131	
Total	¥187	

(b) Future minimum lease payments subsequent to March 31, 2015 and 2014 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015		
2016	**¥ 2,607**	**$ 21,694**
2017 and thereafter	**9,971**	**82,974**
Total	**¥12,579**	**$104,677**
2014		
2015	¥ 1,688	
2016 and thereafter	8,590	
Total	¥10,278	

14. Pension and Severance Indemnities

The Company and certain consolidated subsidiaries have funded and unfunded cash balance plans (market-linked pension plans) and defined contribution benefit plans for future retirement benefits. The other consolidated domestic subsidiaries have a lump-sum retirement benefit plan as a defined benefit plan. Certain consolidated overseas subsidiaries have a defined contribution benefit plan.

A lump-sum amount or pension are paid based on salary and service period of employees under the defined benefit corporate pension plans.

Certain defined benefit corporate pension plans establish retirement benefit trusts.

A lump-sum amount is paid based on salary and service period of employees as retirement benefits under the lump-sum retirement benefit plan.

Certain consolidated domestic subsidiaries apply the simplified method in computing net defined benefit liability and retirement benefit expenses for their defined benefit corporate pension plans and lump-sum payment plans.

The tables below include plans to which the simplified method is applied.

Defined benefit plans

(a) The changes in projected benefit obligations for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance at beginning of year	**¥31,669**	¥32,019	**$263,535**
Cumulative effects of changes in accounting policies	**2,319**	—	**19,298**
Restated balance at beginning of the year	**¥33,988**	¥ 32,019	**$282,833**
Service cost	**1,435**	1,282	**11,941**
Interest cost	**350**	539	**2,913**
Actuarial loss	**2**	66	**17**
Retirement benefits paid	**(2,814)**	(2,424)	**(23,417)**
Other	**19**	185	**158**
Balance at end of year	**¥32,982**	¥31,669	**$274,461**

Note: Certain consolidated domestic subsidiaries apply the simplified method in computing projected benefit obligations.

(b) The changes in plan assets for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance at beginning of year	**¥34,810**	¥32,616	**$289,673**
Expected return on plan assets	**837**	808	**6,965**
Actuarial gain	**3,110**	1,832	**25,880**
Contributions from the employer	**1,122**	1,603	**9,337**
Retirement benefits paid	**(2,327)**	(2,102)	**(19,364)**
Other	**2**	49	**17**
Balance at end of year	**¥37,554**	¥34,810	**$312,507**

(c) The reconciliation between the balances of projected benefit obligation and plan assets and net defined benefit liability and the funded net defined benefit asset recorded on the consolidated balance sheets as of March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Funded projected benefit obligation	**¥ 29,725**	¥ 28,558	**$ 247,358**
Plan assets at fair market value	**(37,554)**	(34,810)	**(312,507)**
	(7,829)	(6,251)	**(65,149)**
Unfunded retirement benefit liabilities	**3,257**	3,110	**27,103**
Net liability and asset recorded on the consolidated balance sheet	**¥ (4,572)**	¥ (3,140)	**$ (38,046)**
Net defined benefit liability	**¥ 3,824**	¥ 6,235	**$ 31,822**
Net defined benefit asset	**(8,396)**	(9,376)	**(69,868)**
Net liability and asset recorded on the consolidated balance sheet	**¥ (4,572)**	¥ (3,140)	**$ (38,046)**

(d) The components of retirement benefit expenses for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥1,435	¥ 1,282	$11,941
Interest cost	350	539	2,913
Expected return on plan assets	(837)	(808)	(6,965)
Amortization of actual loss	891	1,043	7,414
Amortization of prior service cost	(226)	(226)	(1,881)
Net loss on change in accounting standard for employees' retirement benefits	461	458	3,836
Additional early retirement expenses	—	(1,667)	—
Total	¥2,074	¥ 3,956	$17,259

Note: The above table includes retirement benefit expenses of certain consolidated subsidiaries which apply the simplified method.

(e) The components of remeasurements of defined benefit plans (before applicable tax effects) in other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial gain	¥3,999	¥ —	$33,278
Prior service cost	(226)	—	(1,881)
Effect of change in accounting standard	423	—	3,520
Other	(74)	275	(616)
Total	¥4,121	¥275	$34,293

(f) The components of remeasurements of defined benefit plans (before applicable tax effects) in accumulated other comprehensive income as of March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrecognized actuarial losses	¥ (604)	¥ 3,395	$ (5,026)
Unrecognized prior service cost	(785)	(1,011)	(6,532)
Unsettled effect of change in accounting standard	—	423	—
Total	¥(1,389)	¥ 2,806	$(11,559)

(g) Information on plan assets for the years ended March 31, 2015 and 2014 was as follows:

(1) Components of plan assets as of March 31, 2015 and 2014 were as follows:

	2015	2014
Debt securities	33%	16%
Equity securities	25	40
Life insurance general accounts	31	38
Cash and cash equivalents	2	0
Others	9	6
Total	100%	100%

The retirement benefit trusts established for defined benefit corporate pension plans hold 17% and 15% of plan assets as of March 31, 2015 and 2014, respectively.

(2) Expected long-term rate of return
The expected long-term rate of return on plan assets is determined considering current and expected distribution of plan assets and the long-term rate of return derived from various components of the plan assets.

(h) The principal assumptions used for the actuarial calculation for the years ended March 31, 2015 and 2014 were as follows:

	2015	2014
Discount rates	Mainly 0.9%	Mainly 2.0%
Expected long-term rate of return on plan assets	Mainly 3.0%	Mainly 3.0%
Expected rate of salary increase	Mainly 5.3%	Mainly 5.3%

Defined contribution benefit plan
The required contribution amount to the defined contribution benefit plan was ¥1,285 million ($10,693 thousand) and ¥1,087 million for the years ended March 31, 2015 and 2014, respectively.

15. Contingent Liabilities

At March 31, 2015 and 2014, the Company and certain consolidated subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥2,473 million ($20,579 thousand) and ¥2,682 million, which included reguarantees by joint investors amounting to ¥163 million ($1,356 thousand) and ¥229 million and commitments to guarantees amounting to ¥39 million ($325 thousand) and ¥57 million, and guarantees for employees' bank loans based on employees' house ownership discount policy amounting to ¥970 million ($8,072 thousand) and ¥890 million, respectively.

16. Financial Instruments

(a) Policy for financial instruments

In consideration of plans for capital investment, the Company and consolidated subsidiaries (collectively, the "Group") raise funds through bank loans or bond issues. The Group manages temporary cash surpluses through short-term deposits and obtains necessary borrowings through short-term loans. The Group uses derivatives only for the purpose of reducing risk and does not enter into derivatives for speculative or trading purposes.

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

Notes and accounts receivable—trade are exposed to credit risk in relation to customers. In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors creditworthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer.

Investment securities are exposed to market risk. Those securities are composed of mainly the shares of common stock of other companies with which the Group has business relationships. The Group also reviews their fair value quarterly.

Notes and accounts payable—trade have payment due dates within one year. Although the Group is exposed to liquidity risk arising from those payables the Group manages the risk by preparing cash management plans monthly.

Short-term loans payable are raised mainly for short-term capital and long-term loans are mostly taken out principally for the purpose of making capital investments and long-term capital. Some of those loans with variable interest rates are exposed to interest rate fluctuation risk. However, to reduce such risk and fix interest expense for those loans bearing interest at variable rates, the Group utilizes interest-rate swap transactions for each loan contract to hedge such risks and to fix interest expenses.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the trade receivables and payables denominated in foreign currencies. The Group also enters into interest-rate and foreign currency swap transactions to reduce fluctuation risk deriving from interest payable for loans and bonds bearing interest at variable rates.

Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Note 2. (p). Derivative and hedging transactions.

In conducting derivative transactions, the division in charge of each derivative transaction follows the internal policies and the Group enters into derivative transactions only with financial institutions which have a sound credit profile.

(c) Fair value of financial instruments

The fair value of financial instruments is based on their market price, if available. When there is no market price available, fair value is reasonably estimated. In addition, the notional amounts of derivatives in Note 17. "Derivative and Hedging Activities" are not necessarily indicative of the actual market risk involved in derivative transactions.

(1) Fair value of financial instruments

Carrying amount on the consolidated balance sheets as of March 31, 2015 and 2014 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2015			2015		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and deposits	¥ 53,420	¥ 53,420	¥ —	$ 444,537	$ 444,537	$ —
Notes and accounts receivable—trade	150,552	150,552	—	1,252,825	1,252,825	—
Investment securities:						
Available-for-sale securities	41,672	41,672	—	346,775	346,775	—
Total assets	¥245,645	¥245,645	¥ —	$2,044,146	$2,044,146	$ —
Notes and accounts payable—trade	¥ 77,036	¥ 77,036	¥ —	$ 641,059	$ 641,059	$ —
Short-term loans payable	28,827	28,827	—	239,885	239,885	—
Long-term loans payable	230,824	232,437	1,613	1,920,812	1,934,235	13,423
Total liabilities	¥336,688	¥338,301	¥1,613	$2,801,764	$2,815,187	$13,423

	Millions of yen		
	2014		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 58,336	¥ 58,336	¥ —
Notes and accounts receivable—trade	134,959	134,959	—
Investment securities:			
Available-for-sale securities	37,166	37,166	—
Total assets	¥230,462	¥230,462	¥ —
Notes and accounts payable—trade	¥ 70,002	¥ 70,002	¥ —
Short-term loans payable	19,677	19,677	—
Long-term loans payable	251,728	254,301	2,572
Total liabilities	¥341,407	¥343,980	¥2,572

The table above does not include financial instruments for which it is extremely difficult to determine the fair value. For information on those items, please refer to note (2) below. The current portion of long-term loans payable shown as "Short-term loans payable" in consolidated balance sheets are included in "Long-term loans payable" in the table above.

Valuation method of fair value of financial instruments and information on investment securities and derivative transactions were as follows:

Cash and deposits and notes and accounts receivable—trade
Since these items are settled in a short period of time, their carrying amount approximates fair value.

Investment securities
The fair value of stocks is based on quoted market prices of the stock exchange. For information on securities classified by holding purpose, please refer to Note 6 "Investment securities."

Notes and accounts payable—trade and short-term loans payable
Since these items are settled in a short period of time, their carrying amount approximates fair value.

Long-term loans payable
The fair value of bonds is measured at the quoted market price. The fair value of long-term loans payable other than bonds is based on the present value of the total of principal and interest discounted by the interest rate combined of the risk free rate and credit spread. Interest-rate swap transactions are utilized for most variable rate loans to fix interest expense. All interest-rate swap transactions meet the criteria for the short-cut method of interest-rate swap transactions and are integrally processed with those loans. Therefore, the fair value of those loans is based on the present value of the total of principal and interest processed with interest-rate swap discounted by the rate above.

(2) Financial instruments as of March 31, 2015 and 2014 for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unlisted stocks	**¥33,705**	¥30,154	**$280,478**

(3) Redemption schedule for financial assets with maturities subsequent to March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
	Due in one year or less		
Cash and deposits	**¥ 53,420**	¥ 58,336	**$ 444,537**
Notes and accounts receivable—trade	**150,552**	134,959	**1,252,825**

(4) Redemption schedule for long-term loans payable is disclosed in Note 8. "Short-Term Loans Payable, Long-Term Loans Payable and Lease Obligations."

(5) Unused overdraft agreements and loan commitment lines were ¥56,376 million ($469,135 thousand) and ¥51,282 million as of March 31, 2015 and 2014, respectively.

17. Derivative and Hedging Activities

Derivative transactions for which hedge accounting is applied for the years ended March 31, 2015 and 2014 were as follows:

(a) Currency-related

		Millions of yen		
		2015		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**¥5,705**	**¥—**	*
MYD		**664**	**—**	
Buy:	Accounts payable—trade			
USD		**1,275**	**—**	
EUR		**157**	**—**	
CHF		**46**	**—**	
SGD		**4**	**—**	
TWD		**1,624**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**50**	**—**	
Buy:				
SGD		**30**	**—**	
Total		**¥9,559**	**¥—**	

		Millions of yen		
		2014		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		¥ 568	¥ —	*
TWD		4	—	
MYD		668	—	
Buy:	Accounts payable—trade			
USD		4,002	—	
EUR		111	—	
CHF		510	—	
SGD		21	—	
TWD		1,607	—	
MYD		297	—	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		1,576	1,501	
Buy:				
SGD		169	30	
Total		¥9,537	¥1,532	

	Hedged item	Thousands of U.S. dollars 2015 Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**$47,474**	**$—**	*
MYD		**5,526**	**—**	
Buy:	Accounts payable—trade			
USD		**10,610**	**—**	
EUR		**1,306**	**—**	
CHF		**383**	**—**	
SGD		**33**	**—**	
TWD		**13,514**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**416**	**—**	
Buy:				
SGD		**250**	**—**	
Total		**$79,546**	**$—**	

* The estimated fair value of the foreign exchange forward contracts and foreign currency swaps is included in the fair value of the receivables/payables as the hedged items.

(b) Interest-related

	Hedged item	Millions of yen 2015 Contract amount	Due after one year	Fair value	Thousands of U.S. dollars 2015 Contract amount	Due after one year	Fair value
Short-cut method							
Interest-rate swap agreements:							
Receive floating/Pay fix	Long-term loans payable	**¥47,252**	**¥35,224**	*	**$393,210**	**$293,118**	*

	Hedged item	Millions of yen 2014 Contract amount	Due after one year	Fair value
Short-cut method				
Interest-rate swap agreements:				
Receive floating/Pay fix	Long-term loans payable	¥41,619	¥29,297	*

* The estimated fair value of the interest-rate swap agreements is included in the fair value of long-term loans payable as the hedged item.

18. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2015 and 2014 totaled ¥3,430 million ($28,543 thousand) and ¥3,170 million, respectively.

19. Gain on Sales of Noncurrent Assets

Significant components of the gain on sales of noncurrent assets of nil and ¥3,846 million for the years ended March 31, 2015 and 2014, respectively, were as follows:

	Millions of yen 2015	2014	Thousands of U.S. dollars 2015
Land and buildings	**¥—**	¥3,846	**$—**

20. Impairment Loss

The Company and its consolidated subsidiaries categorize business assets by business segmentation and idle assets without a specific future use are categorized separately.

Components of impairment loss for the years ended March 31, 2015 and 2014, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Buildings	**¥ 113**	¥ 159	**$ 940**
Machinery	**2,152**	884	**17,908**
Land	**—**	127	**—**
Other	**—**	11	**—**
Total	**¥2,266**	¥1,183	**$18,857**

For gas production facilities whose profitability has declined due to changes in the business environment and whose future cash flows have proven to be below their book values, the book values were written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥1,077 million ($8,962 thousand) for the year ended March 31, 2015. The recoverable amounts of these assets were measured by value in use, calculated by discounting the future cash flows at 10.6 to 16%.

For idle assets whose recoverable amounts have proven to be below their book values, the book values were written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥1,189 million ($9,894 thousand) for the year ended March 31, 2015. The recoverable amounts of these assets were measured based on the net realizable value using market prices, etc.

For specialty gas production facilities whose future cash flows were below their book values due to a decline in profitability due to changes in the business environment, the book values are written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥1,055 million for the year ended March 31, 2014. The recoverable amounts for the relevant assets are measured by value in use, calculated by discounting the future cash flows at 6 to 12%.

For business assets affected by a decrease in the fair market value of land, the book values are written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥127 million for the year ended March 31, 2014, due to the probability of a recovery in the market value in the near future. The recoverable amounts for the relevant assets are the estimated net selling price (publicly notified land price based on property tax valuation).

21. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥10,059**	¥ 5,090	**$ 83,706**
Reclassification adjustments for gains and losses included in net income	**(2,351)**	(3,652)	**(19,564)**
Amount before tax effects	**7,707**	1,438	**64,134**
Tax effects	**(2,160)**	(511)	**(17,975)**
Valuation difference on available-for-sale securities	**5,547**	927	**46,160**
Deferred gains or losses on hedges:			
Amount arising during the year	**(479)**	297	**(3,986)**
Reclassification adjustments for gains and losses included in net income	**(200)**	(119)	**(1,664)**
Amount before tax effects	**(680)**	178	**(5,659)**
Tax effects	**225**	(65)	**1,872**
Deferred gains or losses on hedges	**(454)**	113	**(3,778)**
Foreign currency translation adjustments:			
Amount arising during the year	**21,559**	21,761	**179,404**
Reclassification adjustments for gains and losses included in net income	**—**	—	**—**
Amount before tax effects	**21,559**	21,761	**179,404**
Tax effects	**—**	—	**—**
Foreign currency translation adjustments	**21,559**	21,761	**179,404**
Remeasurements of defined benefit plans:			
Amount arising during the year	**3,033**	261	**25,239**
Reclassification adjustments for gains and losses included in net income	**1,088**	14	**9,054**
Amount before tax effects	**4,121**	275	**34,293**
Tax effects	**(1,357)**	(121)	**(11,292)**
Remeasurements of defined benefit plans	**2,764**	154	**23,001**
Share of other comprehensive income of associates accounted for using the equity method:			
Amount arising during the year	**1,427**	1,581	**11,875**
Reclassification adjustments for gains and losses included in net income	**(11)**	411	**(92)**
Share of other comprehensive income of associates accounted for using the equity method	**1,416**	1,992	**11,783**
Total other comprehensive income	**¥30,831**	¥24,950	**$256,562**

22. Segment Information

(a) Overview of reportable segments

The reportable segments of the Company are components for which discrete financial information is available and whose operating results are regularly reviewed by the Board of Directors to make decisions about resource allocation and to assess performance.

The Company operates gas businesses in Japan and overseas, mainly for customers in the steel, chemical and electronics industries, and it has established sales and production platforms for its main products in Japan, the United States and Asia. Therefore, the Company has determined its four reportable segments as "Gas Business in Japan," "Gas Business in the United States," "Gas Business in Asia" and "Other Businesses." "Other Businesses" mainly includes the thermos business, which primarily manufactures and sells household items.

The Company has changed its reportable segments from the year ended March 31, 2015, in accordance with a decision to reorganize for the purposes of "improvement of profitability of domestic business under a lower growth environment" and "focusing management resources on opportunities for overseas growth" to carry out the management strategy policies set out under the medium-term business plan, "Ortus Stage 1," which was established on May 13, 2014.

Therefore, the amounts for the year ended March 31, 2014 have been reclassified to conform to the new segmentation.

(b) Method of calculating net sales, income, assets, liabilities and other items by reportable segment

Accounting policies of the reportable segments are consistent to those described in Note 2. "Summary of Significant Accounting Policies." Segment income is based on operating income. Intersegment sales or transfers are based on prevailing market price.

(c) Net sales, income, assets, liabilities and other items by reportable segment

	Millions of yen						
	2015						
	Reportable segments						
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**¥344,635**	**¥130,983**	**¥61,995**	**¥21,758**	**¥559,373**	**¥ —**	**¥559,373**
Intersegment sales or transfers	**6,267**	**6,645**	**1,190**	**656**	**14,759**	**(14,759)**	**—**
Total	**350,902**	**137,629**	**63,186**	**22,414**	**574,132**	**(14,759)**	**559,373**
Segment income (operating income)	**¥ 25,045**	**¥ 5,795**	**¥ 2,468**	**¥ 3,437**	**¥ 36,747**	**¥ (1,449)**	**¥ 35,297**
Other item:							
Depreciation expenses	**¥ 17,451**	**¥ 13,405**	**¥ 4,112**	**¥ 688**	**¥ 35,658**	**¥ (89)**	**¥ 35,568**

	Millions of yen						
	2014						
	Reportable segments						
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	¥341,883	¥107,504	¥54,349	¥19,010	¥522,746	¥ —	¥522,746
Intersegment sales or transfers	5,673	4,610	897	746	11,926	(11,926)	—
Total	347,556	112,114	55,246	19,756	534,672	(11,926)	522,746
Segment income (operating income)	¥ 23,368	¥ 4,714	¥ 1,912	¥ 3,064	¥ 33,059	¥ (1,569)	¥ 31,489
Other item:							
Depreciation expenses	¥ 17,576	¥ 11,045	¥ 4,328	¥ 606	¥ 33,556	¥ (48)	¥ 33,507

	Thousands of U.S. dollars						
	2015						
	Reportable segments						
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**$2,867,895**	**$1,089,981**	**$515,894**	**$181,060**	**$4,654,847**	**$ —**	**$4,654,847**
Intersegment sales or transfers	**52,151**	**55,297**	**9,903**	**5,459**	**122,818**	**(122,818)**	**—**
Total	**2,920,047**	**1,145,286**	**525,805**	**186,519**	**4,777,665**	**(122,818)**	**4,654,847**
Segment income (operating income)	**$ 208,413**	**$ 48,223**	**$ 20,538**	**$ 28,601**	**$ 305,792**	**$ (12,058)**	**$ 293,726**
Other item:							
Depreciation expenses	**$ 145,219**	**$ 111,550**	**$ 34,218**	**$ 5,725**	**$ 296,730**	**$ (741)**	**$ 295,981**

Notes: 1. Adjustments for segment income of ¥(1,449) million ($(12,058) thousand) and ¥(1,569) million for the years ended March 31, 2015 and 2014 include intersegment eliminations of ¥72 million ($599 thousand) and ¥14 million, and corporate general administration expenses which mainly consisted of basic research and development expenses and are not allocable to each reportable segment of ¥(1,377) million ($(11,459) thousand) and ¥(1,554) million, respectively.

2. The Company does not allocate assets to reportable segments.

3. Change in reportable segments

From the year ended March 31, 2015, to better reflect the Company's operating results by reportable segment, the Company has changed the method of allocating certain expenses to a reasonable method based on the nature of the reorganized segments. The figures in "(c) Net sales, income, assets, liabilities and other items by reportable segment" for the year ended March 31, 2014 have been prepared in accordance with the new allocation method.

As a result of this change, segment income in "Gas Business in Japan" increased by ¥1,074 million ($8,937 thousand) and segment income in "Gas Business in the United States" and "Gas Business in Asia" decreased by ¥227 million ($1,889 thousand) and ¥846 million ($7,040 thousand), respectively, for the year ended March 31, 2015, and segment income in "Gas Business in Japan" increased by ¥884 million and segment income in "Gas Business in the United States" and "Gas Business in Asia" decreased by ¥128 million and ¥756 million, respectively, for the year ended March 31, 2014.

As described in Note 3. "Changes in Accounting Policies," the calculation methods of projected benefit obligations and service costs have been changed. Accordingly, the calculation methods of projected benefit obligations and service costs for the reportable segments have also been changed. The impact on segment income was immaterial.

As described in Note 3. "Changes in Accounting Policies," any changes in a parent's ownership interest in a subsidiary not resulting a change in control of the subsidiary is recorded as capital surplus and acquisition-related costs are expensed in the year when such costs are incurred. The impact on segment income was immaterial.

(d) Information by geographical area

(1) Net sales

Millions of yen			
2015			
Japan	The United States	Others	Total
¥354,241	**¥126,203**	**¥78,928**	**¥559,373**

Millions of yen			
2014			
Japan	The United States	Others	Total
¥352,069	¥102,772	¥67,905	¥522,746

Thousands of U.S. dollars			
2015			
Japan	The United States	Others	Total
$2,947,832	**$1,050,204**	**$656,803**	**$4,654,847**

(2) Property, plant and equipment

Millions of yen			
2015			
Japan	The United States	Others	Total
¥152,888	**¥130,231**	**¥41,723**	**¥324,842**

Millions of yen			
2014			
Japan	The United States	Others	Total
¥161,440	¥111,813	¥33,802	¥307,057

Thousands of U.S. dollars			
2015			
Japan	The United States	Others	Total
$1,272,264	**$1,083,723**	**$347,200**	**$2,703,187**

(e) Information about major customers

Information about major customers is not disclosed since there are no outside customers that make up more than 10% of net sales on the consolidated statements of income.

(f) Information on impairment loss by reportable segments

	Millions of yen					
	2015					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Impairment loss	**¥—**	**¥—**	**¥2,266**	**¥—**	**¥—**	**¥2,266**

	Millions of yen					
	2014					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Impairment loss	¥796	¥387	¥—	¥—	¥—	¥1,183

	Thousands of U.S. dollars					
	2015					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Impairment loss	**$—**	**$—**	**$18,857**	**$—**	**$—**	**$18,857**

(g) Information on amortization and unamortized balance of goodwill by reportable segments

	Millions of yen					
	2015					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Amortization	**¥ 801**	**¥ 4,036**	**¥ 144**	**¥—**	**¥—**	**¥ 4,983**
Unamortized balance	**2,462**	**62,627**	**1,381**	**—**	**—**	**66,471**

	Millions of yen					
	2014					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Amortization	¥ 503	¥ 3,233	¥ 131	¥—	¥—	¥ 3,868
Unamortized balance	2,735	61,335	1,256	—	—	65,327

	Thousands of U.S. dollars					
	2015					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Amortization	**$ 6,666**	**$ 33,586**	**$ 1,198**	**$—**	**$—**	**$ 41,466**
Unamortized balance	**20,488**	**521,153**	**11,492**	**—**	**—**	**553,141**

(h) Information on amortization and unamortized balance of negative goodwill which resulted from business combinations prior to April 1, 2010 by reportable segments

	Millions of yen					
	2015					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Amortization	**¥23**	**¥—**	**¥—**	**¥—**	**¥—**	**¥23**
Unamortized balance	**—**	**—**	**—**	**—**	**—**	**—**

	Millions of yen					
	2014					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Amortization	¥123	¥—	¥0	¥76	¥—	¥199
Unamortized balance	22	—	—	—	—	22

	Thousands of U.S. dollars					
	2015					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia	Other Businesses	Corporate/Eliminations	Total
Amortization	**$191**	**$—**	**$—**	**$—**	**$—**	**$191**
Unamortized balance	**—**	**—**	**—**	**—**	**—**	**—**

23. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2015 and 2014 were reconciled to cash and deposits reported in the consolidated balance sheets as of March 31, 2015 and 2014 as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash and deposits	**¥53,420**	¥58,336	**$444,537**
Time deposits with maturities of more than three months	**(1,873)**	(2,248)	**(15,586)**
Cash and cash equivalents	**¥51,547**	¥56,088	**$428,951**

The acquisition cost and net payments for assets and liabilities of Pacific Medico Co., Ltd., Continental Carbonic Products, Inc., and 11 other companies acquired through a stock purchase, for the year ended March 31, 2014 were as follows:

	Millions of yen
	2014
Current assets	¥ 7,181
Noncurrent assets	11,307
Goodwill	15,665
Current liabilities	(1,968)
Noncurrent liabilities	(312)
Acquisition cost of stock	(31,873)
Cash and cash equivalents	1,711
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥(30,162)

24. Related Party Transactions

Related party transactions for the year ended March 31, 2015 are summarized as follows:

Related party	Transactions	Millions of yen	Thousands of U.S. dollars
		2015	**2015**
Mitsubishi Chemical Holdings Corporation	Sale of parent company's stock	**¥5,923**	**$49,289**
	Gain on sale of parent company's stock	**2,332**	**19,406**

Notes: 1. Mitsubishi Chemical Holdings Corporation, the Company's parent company, is listed on the Tokyo Stock Exchange.
2. The above transaction amounts do not include consumption taxes.
3. Transaction terms and their determination
The sales price of the parent company's stock is based on the average closing price of the shares on the Tokyo Stock Exchange from January 5, 2015 through February 2, 2015.

Related party transactions for the year ended March 31, 2014 are summarized as follows:

Related party	Transactions	Millions of yen
		2014
Mitsubishi Chemical Holdings Corporation *1	Third-party allotment *2	¥20,610
	Disposal of treasury stock *2	10,370

*1 The Company executed a capital and business alliance agreement with Mitsubishi Chemical Holdings Corporation on September 26, 2013.
*2 Mitsubishi Chemical Holdings Corporation entered into an agreement on the third-party allotment and disposal of treasury stock of the Company based on the closing price of the Company's common stock at the Tokyo Stock Exchange, Inc. on the business day immediately before the date of the resolution at the Board of Directors' meeting.

25. Business Combinations

(Transactions, etc., under common control)
On October 1, 2014, National Oxygen Pte. Ltd and Taiyo Nippon Sanso Singapore Pte. Ltd., consolidated subsidiaries of the Company, were merged into Leeden Limited, a consolidated subsidiary of the Company, based on a resolution of the Board of Directors' meeting held on July 30, 2014.

(a) Overview of business combination

(1) Name and description of business
Surviving company:
Name:
Leeden Limited
Business description:
Manufacturing, purchasing and selling of welding equipment, safety equipment, high pressure gas

Absorbed companies:
Name:
National Oxygen Pte. Ltd.
Business description:
Manufacturing and selling of oxygen, nitrogen and argon
Name:
Taiyo Nippon Sanso Singapore Pte. Ltd.
Business description:
Investment company in Singapore

(2) Objective of business combination
To integrate the business in Singapore and Malaysia, which had been conducted separately by each company, and improve efficiency by expanding the business scale and also enhancing capabilities for developing new markets.

(3) Date of business combination
October 1, 2014

(4) Legal form of business combination
Absorption-type merger with Leeden Limited as the surviving company and National Oxygen Pte. Ltd. and Taiyo Nippon Sanso Singapore Pte. Ltd. as the absorbed companies.

(5) Company name after business combination
Leeden National Oxygen Ltd.

(b) Overview of accounting treatment
This transaction was accounted for as a transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 on September 13, 2013) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 on September 13, 2015).

(Purchase price allocation resulting in significant adjustments)
Continental Carbonic Products, Inc. was acquired in the year ended March 31, 2014, however, the purchase price allocation had not been finalized at that time since the determination and fair value measurement of identifiable assets and liabilities at the acquisition date had not been finalized. Therefore, the purchase price allocation was provisional based on the available information as of March 31, 2014. The purchase price allocation was finalized and accounted for in the year ended March 31, 2015.

The goodwill adjustment due to a revision of the purchase price allocation for the year ended March 31, 2015 is as follows:

(1) Acquisition cost of acquired company

	Millions of U.S. dollars
Consideration for acquisition	$234
Direct acquisition-related costs (advisory fees, etc.)	0
Acquisition cost	$235

(2) Goodwill adjustment due to revision of purchase price allocation

	Millions of U.S. dollars
Revised accounts	Adjustments
Current assets	$ 1
Noncurrent assets	(31)
Current liabilities	(3)
Noncurrent liabilities	8
Total	(24)
Direct expenses for acquisition	0
Goodwill adjustment	$ (24)
Goodwill before adjustment	$128
Goodwill after adjustment	$104

(3) Method and period of amortization
Straight-line method over 20 years

26. Subsequent Events

Appropriation of retained earnings
The following appropriations of retained earnings, which have not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2015, were approved at the shareholders' meeting held on June 23, 2015.

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥7.00 ($0.058) per share	¥3,030	$25,214

Report of Independent Auditors

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Independent Auditor's Report

The Board of Directors
TAIYO NIPPON SANSO CORPORATION

We have audited the accompanying consolidated financial statements of TAIYO NIPPON SANSO CORPORATION and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAIYO NIPPON SANSO CORPORATION and its consolidated subsidiaries as at March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 5.

Ernst & Young ShinNihon LLC

June 23, 2015

Investor Information

(At March 31, 2015)

Head Office:
Toyo Building, 1-3-26, Koyama, Shinagawa-ku, Tokyo 142-8558, Japan

Number of Employees:
13,142

Date of Incorporation:
October 1910

Number of Shares:
Authorized—1,600,000,000 Issued—433,092,837

Minimum Trading Unit:
1,000 shares*
* Changed to 100 shares effective from April 1, 2015.

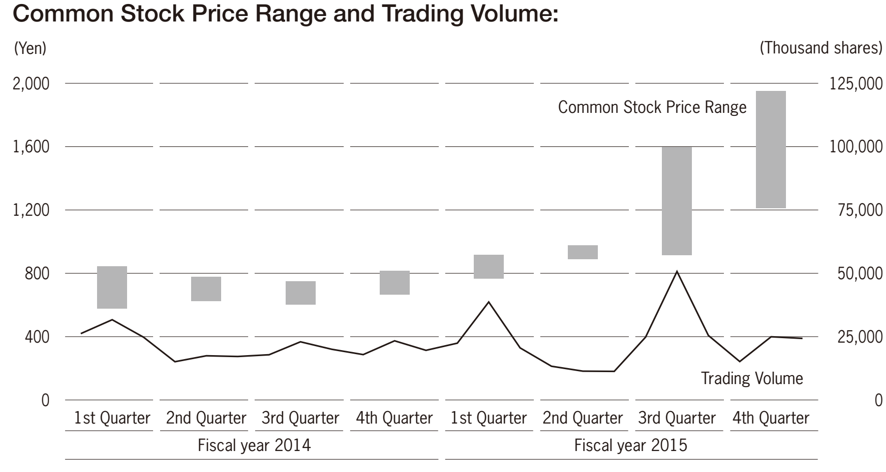
Number of Stockholders:
15,012

Transfer Agent for Shares:
Mizuho Trust & Banking Co., Ltd.

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Holdings Corporation	158,048	36.51%
Mitsubishi Chemical Corporation	60,947	14.08
JFE Steel Corporation	25,254	5.83
Taiyo Nippon Sanso Client Shareholding Society	19,282	4.45
Mizuho Corporate Bank, Ltd.	16,365	3.78
Meiji Yasuda Life Insurance Company	10,007	2.31
The Norinchukin Bank	7,000	1.62
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,819	1.34
Japan Trustee Services Bank, Ltd. (Trust Account)	5,441	1.26
TAIYO NIPPON SANSO CORPORATION Employee Shareholding Association	3,879	0.90
	312,042	72.08%

Common Stock Price Range and Trading Volume:



THE KAITEKI COMPANY
Mitsubishi Chemical Holdings Group

TAIYO NIPPON SANSO
The Gas Professionals

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