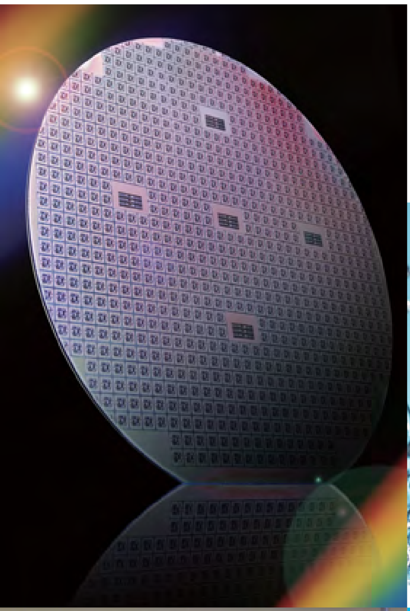
TAIYO NIPPON SANSO



Taiyo Nippon Sanso will change

Annual Report

2013

Year Ended March 31, 2013

CONTENTS

Profile

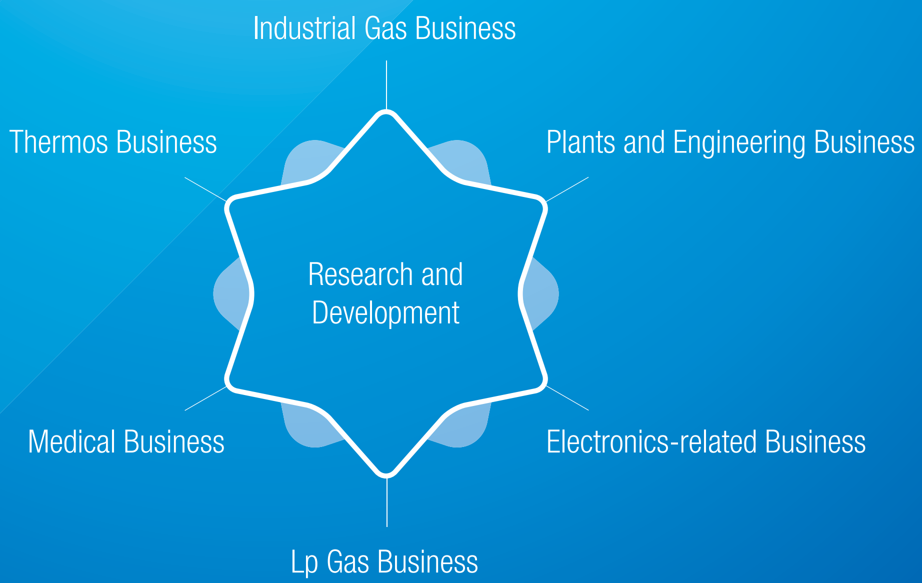
Taiyo Nippon Sanso Corporation was created through the merger of Nippon Sanso Corporation and Taiyo Toyo Sanso Co., Ltd., on October 1, 2004. Today, the Company continues to draw on the capabilities of its two predecessors as it strives to become an Asian-born major player in the global industrial gases industry.

Management Philosophy

"Market-driven collaborative innovation:
improving the future through gases"

BUSINESS PORTFOLIO

This section presents information on Taiyo Nippon Sanso's operations, focusing on the nature, competitive advantages and market position of each of the Company's businesses.



Industrial Gas Business

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.

Competitive advantages

➡ **Leading share of Japan's market for industrial gases**

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

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

We have established an extensive customer base in North America. In the United States, subsidiary Matheson Tri-Gas, Inc., formed a helium production joint venture with Air Products and Chemicals, Inc., that is scheduled to commence operations within the current year. 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 plants in the United States and Asia**

In the United States, we completed new air separation plants in North Dakota and Florida, the first commencing operations in May 2012 and the second in March 2013. In Asia, we completed air separation plants in southern Vietnam and on the island of Mindanao in the Philippines, which began operating in February 2012 and January 2013, respectively, and plan to complete another unit, near Pune, India, by the end of 2013.

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

In fiscal year 2013, we acquired the businesses and assets of four industrial gas distributors in the United States: US Airweld, Inc. (Arizona and New Mexico), A&F Welding Supply, Inc. (Texas), Whitmer Welding Supplies, Inc. (Nebraska) and Evergreen Supply, Inc. (South Dakota).

Plants and Engineering Business

We have built an extensive lineup of plants, which underpin our industrial gas business, that ranges 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 enjoy a favorable reputation for all products both in Japan and overseas. Our offerings also include 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.

Competitive advantages

➡ Top share of Japan's market for air separation plants

➡ 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 increase the quality and size of plants

➡ Cutting-edge simulation technologies that ensure the optimal operation of air separation plants in response to different requirements

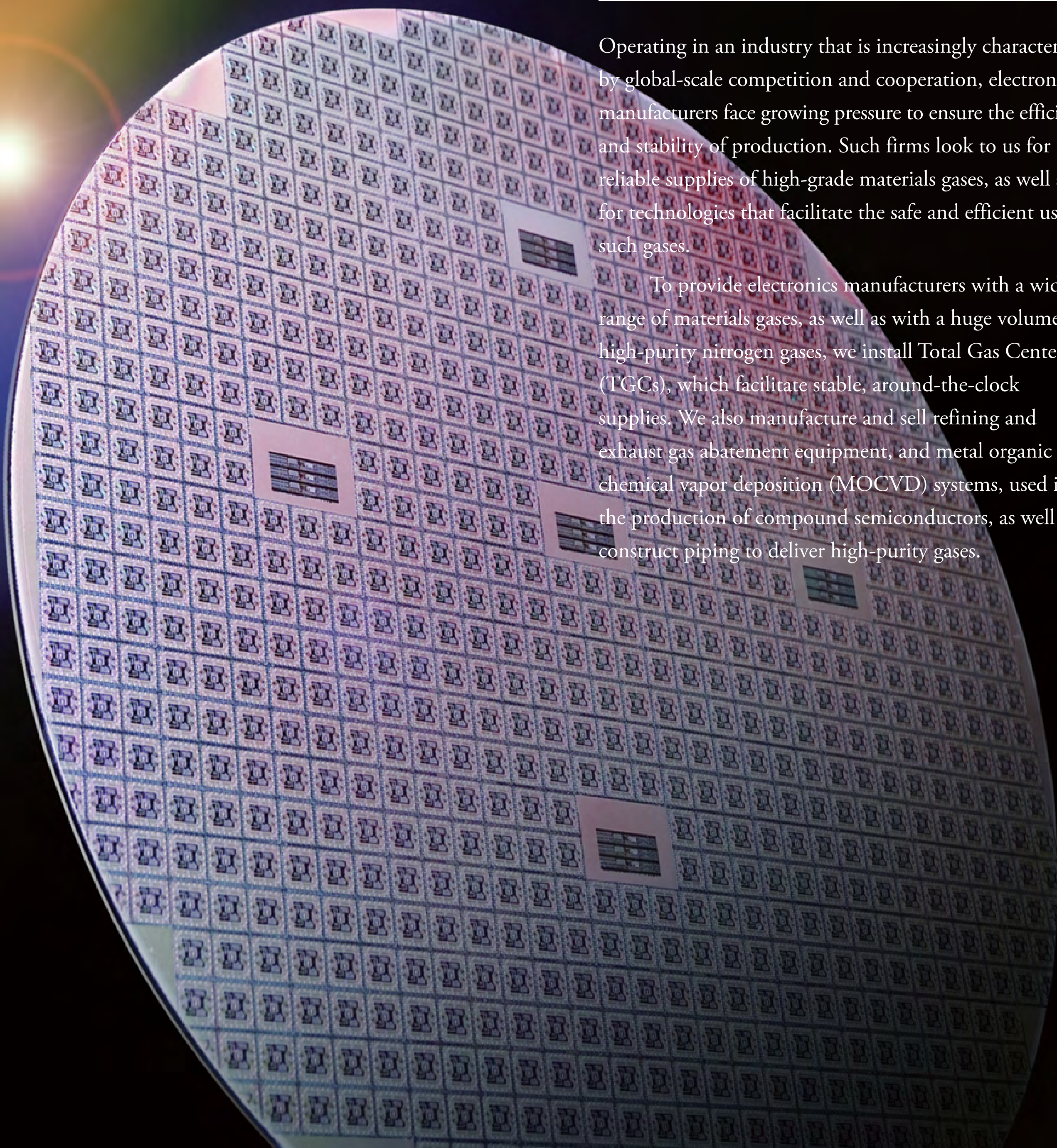
➡ One of only three helium container manufacturers worldwide and the only one in Japan

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

Electronics-related Business

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 as 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 stable, around-the-clock supplies. We also manufacture and sell refining and exhaust gas abatement equipment, and metal organic chemical vapor deposition (MOCVD) systems, used in the production of compound semiconductors, as well as construct piping to deliver high-purity gases.



Competitive advantages

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

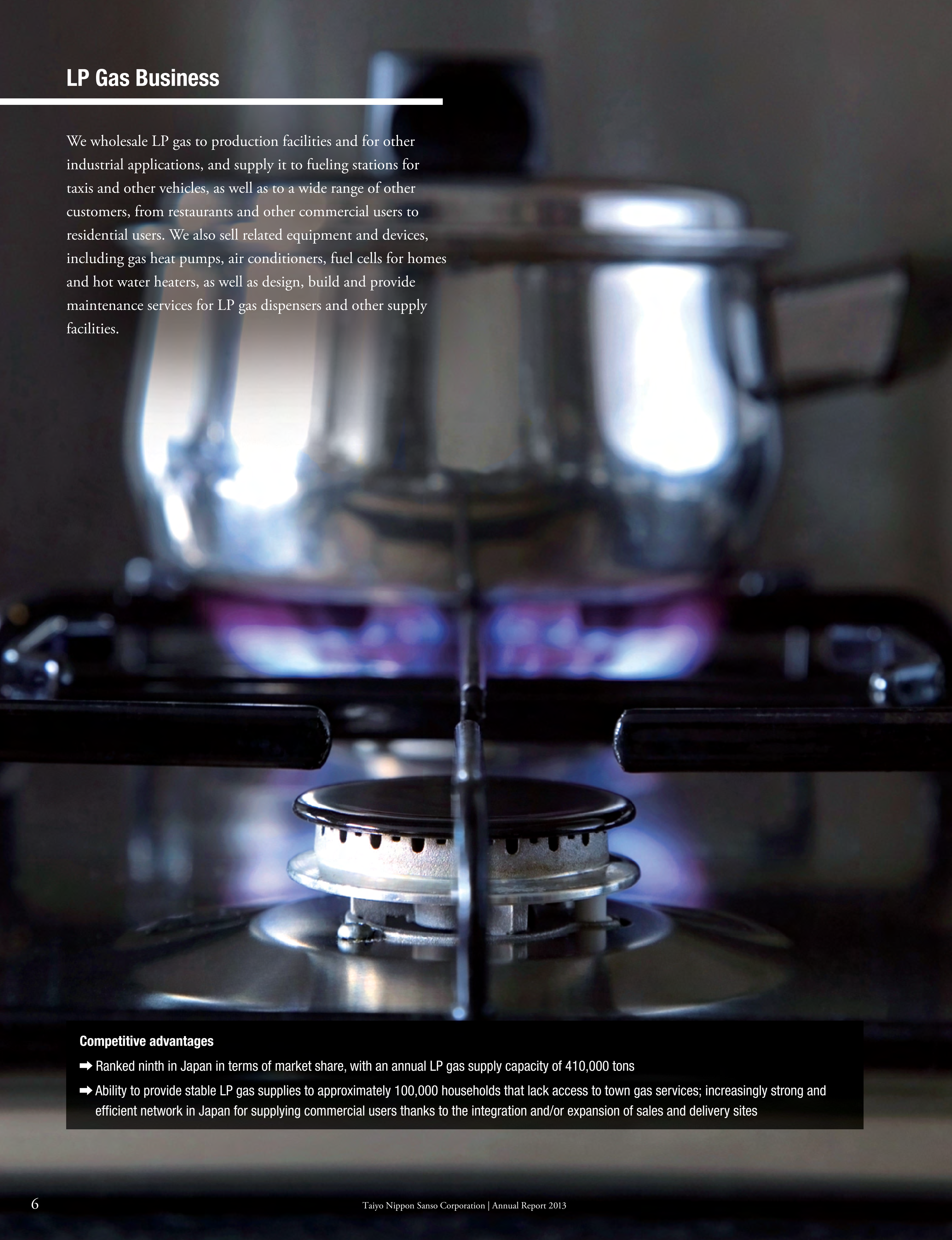
Solutions include high-purity piping systems.

➡ **Supply structure encompassing key global markets**

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

➡ **Increasing sales of UR-26K MOCVD system**

This system realizes world-class surface processing performance and a yield rate of 10 six-inch or six eight-inch wafers.



LP Gas Business

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. We also sell related equipment and devices, including gas heat pumps, air conditioners, fuel cells for homes and hot water heaters, as well as design, build and provide maintenance services for LP gas dispensers and other supply facilities.

Competitive advantages

- ➡ Ranked ninth in Japan in terms of market share, with an annual LP gas supply capacity of 410,000 tons
- ➡ Ability to provide stable LP gas supplies to approximately 100,000 households that lack access to town gas services; increasingly strong and efficient network in Japan for supplying commercial users thanks to the integration and/or expansion of sales and delivery sites

Medical Business

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 provided 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.

Competitive advantages

➡ 200 kg increase in annual production capacity for Water-^{18}O, a starting material for diagnostic agents used in positron emission tomography (PET) diagnostics in the fourth quarter of fiscal year 2013, bringing our total annual production capacity (combined capacities of new and existing plants) to a world-class 300 kg. A third plant (annual capacity: 300 kg) planned in Japan will double our capacity.

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.

➡ 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 iPS cell therapies.

➡ Japan's largest network of production bases, filling facilities and distribution bases for medical gases, facilitating stable supplies nationwide

➡ A well-organized distribution and maintenance network that includes the Medical Technical Service Center, which helps ensure stable 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

Thermos Business

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.

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 expanded manufacturing base in China, facilitating responsiveness to growth in the market for stainless steel vacuum bottles worldwide
- ➡ Ultralight insulated mug (released in the fall of 2012) that swept markets worldwide thanks to its lightness, compact size and superb design and new 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

Research and Development

As a pioneering provider of industrial gases with a proud history anchored by our core cryogenic air separation technologies, we work continuously to enhance our cryogenic, high-pressure, air separation, vacuum, gas control technologies, enabling us to support the activities of companies in a wide variety of industries around the world. In addition to research in advanced areas that draws on proprietary know-how accumulated over more than a century, we work to develop technologies that facilitate the application of gases in new fields. This dual approach enables us to respond promptly to evolving customer needs and to foster new demand.

Competitive advantages

- ➡ Tsukuba Laboratory in Ibaraki Prefecture in Japan: Promotes R&D focused on ultrahigh-sensitivity gas analysis, the synthesis of stable isotope compounds, cryogenic separation and isotope separation, as well as cutting-edge research in the electronics field
- ➡ Yamanashi Laboratory in Yamanashi Prefecture in Japan: Emphasizes the development of cryogenics, adsorption and other air separation-related technologies, as well as research in and the development of basic technologies in such areas as safety, physical properties and new materials
- ➡ Yamanashi Laboratory Gas Application Technology Center: Concentrates on research in and the development of industrial gas application technologies that respond to the needs of customers

Hiroshi Taguchi, Chairman (left)
Shinji Tanabe, President (right)

The global economy remained fragile in fiscal year 2013, ended March 31, 2013, despite signs of a modest recovery in the United States powered largely by consumer spending. Overall weakness was due to a variety of factors, including sluggish conditions in Europe, attributable to a lack of progress in resolving the region's prolonged financial crisis, and hints of a slowdown in key emerging economies, particularly China and India, after years of unprecedented growth. In Japan, stagnation persisted, reflecting a strong yen and deflation, but ambitious measures implemented late in the period by the new government, which came into power in December 2012, and the Bank of Japan, yielded indications of a gradual upturn.

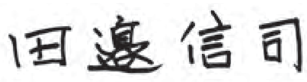
In this environment, we saw a moderate improvement in demand for industrial gases in North America. In Asia, the impact of declining production in the electronics industry in Taiwan was offset by solid results in other markets and the expansion of our operations in the region following the acquisition in March 2012 of a company in Singapore. In contrast, results in Japan flagged, owing to a decline in demand from our principal customers, particularly those in the electronics industry.

In September 2012 we withdrew from a monosilane gas production joint venture in Japan. This difficult decision was prompted by a sudden dramatic change in the structure of the global monosilane gas market, resulting in a sharp decline in demand, shortly after the joint venture began shipping products in 2011, and by our realization that market conditions were likely to remain unfavorable for some time. As a consequence of our withdrawal from the joint venture, we posted an extraordinary loss of approximately ¥23,300 million in fiscal year 2013.

In light of this occurrence, a new management team was installed with the aim of rebuilding our operating foundation and growing our existing businesses. Nonetheless, operating conditions remained harsh throughout the period, as a consequence of which we reported declines in consolidated net sales and operating income. We acknowledge the seriousness of this situation. Placing the highest priority on achieving a prompt improvement in our operating results, we pledge to respond flexibly, swiftly and accurately to the dramatic changes taking place in our operating environment. In these and all of our efforts, we look forward to the ongoing support of our stakeholders.

July 2013

Hiroshi Taguchi, Chairman



Shinji Tanabe, President

BOLD REFORMS AND UNYIELDING DETERMINATION

Taiyo Nippon Sanso will change

In fiscal year 2013, Taiyo Nippon Sanso reported its first-ever net loss. Having acknowledged the gravity of this situation, the companies of the Taiyo Nippon Sanso Group pledge to work together to respond flexibly, swiftly and accurately to dramatic changes in its operating environment both in Japan and overseas, thereby driving the Group forward toward new growth. Guided by its corporate philosophy—"Market-driven collaborative innovation: improving the future through gases"—the Company is taking decisive steps to reorganize its operations with the aim of ensuring sustainable growth in corporate value.

Shinji Tanabe, President

Part I:

A New Management Team Takes the Helm

Q

What are your plans and goals as the new president of Taiyo Nippon Sanso?

"Owing to our withdrawal from a monosilane gas production joint venture, we posted an extraordinary loss of approximately ¥23,300 million, as a consequence of which in fiscal year 2013 we reported our first-ever net loss. As a result, a decision was taken to elect a new president to provide the focus necessary to ensure our ability to respond to dramatic changes in the operating environment. I am keenly aware of the weight of responsibility that comes with this position."

A As president, I must take steps to reinforce our operating foundation and ensure it is capable of supporting future growth. I must also implement decisive structural reforms that will enable us to cultivate new businesses that will sustain that growth.

From a cost perspective, it is crucial that we realign our corporate structure and production system to better suit our current operating environment. Another key challenge will be responding to the needs of major customers in Japan who are increasingly shifting manufacturing bases offshore.

Q

Can you tell us a little about your career up to now?

"I joined Nippon Sanso Corporation—Taiyo Nippon Sanso's predecessor—in 1972 as an engineer in the plants and engineering business, after which I spent eight years overseeing a subsidiary's plant engineering and on-site operations in the United States. After returning to Japan, I served as managing director of the On-Site & Plant, Development & Engineering and Technological Affairs divisions."

A In the United States, I was involved in procurement, which gave me some understanding of the user side. In my experience, our focus has always been weighted heavily toward producing and supplying gases, and as a result we lack awareness of the customer's perspective. Success depends on accurately grasping our customers' needs and providing products and services that respond to those needs at a reasonable cost. It's only common sense, but it is really important.

Part II:

Assessment of Operating Results in Fiscal Year 2013 and Reasons for Shelving the Medium-Term Business Plan

Q

How do you evaluate your performance in Japan in fiscal year 2013? What was your strategic focus?

"In Japan, on-site gas supplies to steelmakers yielded solid results. However, further measures to strengthen profitability are needed in the electronics-related business."

A In the Electronics segment, demand from manufacturers of semiconductors, liquid crystal display (LCD) panels and solar cells fell. In light of deteriorating market conditions, in September 2012 we withdrew from a monosilane gas production joint venture. We closed a new monosilane gas production facility, which had taken three years to complete but had only been in operation for one year. As a consequence, we posted an extraordinary loss. We also saw a substantial decline in gas supply facility installations, notably in Japan, further underscoring the need to undertake a fundamental reorganization of our electronics-related business.

In the Industrial Gas segment, our core on-site gas business benefited from firm demand from steelmakers, which are its main customers. Demand from customers in the chemicals industry, the principal users of these products, was down slightly for oxygen and nitrogen.

In the Energy segment, import prices to Japan for LP gas continued to rise, but we were successful in revising sales prices accordingly. As a result, both sales and operating income were solid.

In our fourth segment, called Other, the launch of new products contributed to sturdy sales in the Thermos business, which specializes in stainless steel vacuum bottles. In the medical business, we saw brisk sales of medical care equipment.

Q
What were results like overseas, particularly in the United States and elsewhere in Asia?

"In the United States, sales in the industrial gas business were steady, reflecting a gradual improvement in market conditions. In other Asian markets, sales in the electronics-related business were sluggish, just as they were in Japan, although sales in the industrial gas business were firm."

A In the United States, sales in the industrial gas business were steady, bolstered by signs of market recovery. Sales in the electronics-related business were sluggish as demand flagged, as a result of which sales in remaining businesses were insufficient to offset the absence of contributions from our U.S. safe delivery source (SDS) business—part of our specialty gases business—which was transferred to a third party in fiscal year 2012.

Sales were firm in other Asian markets, bolstered by the consolidation of Singapore-based Leeden Limited, acquired in March 2012. During the period, we sought to capitalize on Leeden's market presence to further expand our operations in Southeast Asia. To grow our existing industrial gas operations and increase our leading market shares in the Philippines and Vietnam, we commenced the expansion of our air separation plants near Hanoi in northern Vietnam and on the Philippine island of Luzon, in an industrial development on the site of the former Clark Air Base. Also in the Philippines, in January 2013 we commenced operations at our first liquid gas plant on the island of Mindanao. In China, we proceeded with efforts to boost operating rates at existing air separation plants.

Q
What prompted you to shelve your previous medium-term business plan in October 2012?

"In response to dramatic changes in our operating environment, we recognize that we must rally our collective capabilities to reinforce our operating foundation, principally by rebuilding our operations in Japan and promoting further global expansion, to restore our growth trajectory."

A We launched our previous business plan, dubbed GEAR UP 10, in April 2011. The plan contained three medium-term quantitative targets for critical management benchmarks—a 10% share of the global industrial gases market, an operating margin of 10% and a return on capital employed (ROCE) of 10%—and set forth strategies for reinforcing our operating foundation and driving growth. However, with the deterioration of economic conditions in Japan, exacerbated by yen appreciation, rising electricity rates and emerging risks in China, customers in major end-user industries such as electronics, steel and chemicals were compelled to revamp their operations and realign their business portfolios.

Realizing that survival and prosperity in such an environment depends on being able to respond flexibly and swiftly to change, we made the decision to shelve GEAR UP 10 and narrow our focus to two basic strategies, which are to further enhance our pivotal operating foundation in Japan and to expand operations in overseas markets, which we see as being especially promising. When we announced this decision last October, we identified four key challenges and a fundamental short-term goal of increasing profit by ¥5 billion.

Part III:

Key Challenges and Basic Strategies

Q

Please explain the rationale behind the structural reforms you have already implemented in Japan, particularly in the industrial gas and electronics-related businesses?

"The impetus for the structural reforms we have made was our need to streamline our organization, increase efficiency, reduce costs and enhance our responsiveness to customers to better suit our current operating environment."

A In April 2013, we reorganized our Industrial Gases and Electronics divisions.

In the industrial gas business, cost management for production and distribution has traditionally been the responsibility of the Business Administration division. To centralize cost management at all stages, from production through to sales, we created a product planning and management department within the Industrial Gases division. We also established a marketing department, which is tasked with devising and implementing strategies for our global industrial gas business. We are confident that these changes will facilitate the creation of a new business model, as well as the geographic expansion of our operations.

In the electronics-related business, we responded to the rapid contraction of the Japanese market by streamlining individual sections within the Electronics division, as well as the division's staff. Personnel were reassigned to positions closer to the front line of sales to improve our responsiveness to customer needs. To accelerate the expansion of our overseas operations, notably in Asia, we established a new global business department. The department will work closely with U.S. subsidiary Matheson Tri-Gas, Inc., to direct planning and sales in global markets. In light of the steady decline in gas supply facility installations in the electronics-related business in Japan, we have also embarked on an extensive reorganization of an engineering subsidiary. Transforming the company into an appropriately lean and efficient entity will require personnel reductions.

Q

Can you tell us about your plans for expanding overseas businesses, including those for boosting the earnings capacity of your North American business?

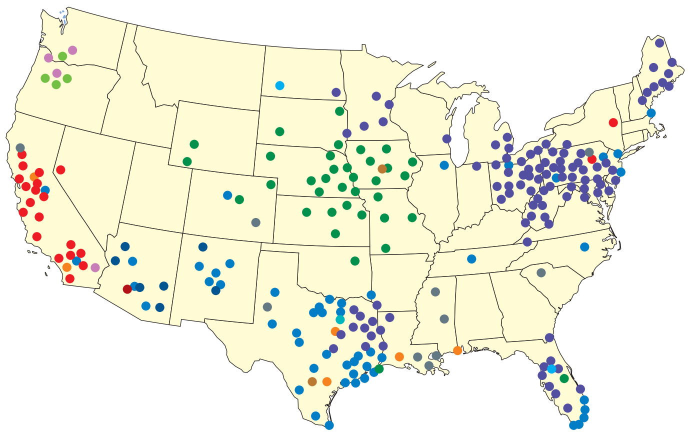
"We will expand our operations in overseas markets, which offer considerable growth potential. Our goal is to boost overseas sales outside of Japan to 50% of net sales, from 30% at present."

A Having acknowledged the unlikelihood of significant growth in the Japanese industrial gas market, we see North America and the rest of Asia offering greater potential for our industrial gas business.

In North America, for example, we have capitalized actively on a variety of small- and large-scale M&A opportunities, as a result of which our sales of industrial gases in that market have tripled over the past decade. In contrast, increasingly intense competition has depressed margins in the electronics-related business. For these reasons, our focus in North America will be on implementing stringent rationalization measures to shore up profitability, purchasing small and mid-sized gas distributors

Milestones in the United States (2000–2014)

2002 Builds air separation plant in Irving, Texas
2004 Acquires six air separation plants from the Air Liquide Group
2006 Acquires helium business of the former BOC Group plc and Linweld Inc.
2007 Builds air separation plant in Vernon, California; acquires Polar Cryogenics Inc.
2008 Acquires Aeris, Inc., Five Star Gas & Gear, Inc. and Advanced Gas Technologies
2009 Builds air separation plants in San Antonio, Texas and Grimes, Iowa
2009 Acquires ETOX, Inc. and Valley National Gases, Inc.
2010 Acquires Western International Gas & Cylinders Inc.
2011 Acquires Quimby Welding Supplies, Inc.
2012 Acquires US Airweld, Inc., A&F Welding Supply, Inc., Whitmer Welding Supplies, Inc. and Evergreen Supply, Inc.
2013 Builds air separation plants in Dickinson, North Dakota and Lakeland, Florida
2014 Builds air separation plant in Mesa, Arizona (under construction)



Since 2000, we have expanded our presence in the United States through an active program of acquisitions. As a result, we currently have 270 bases in 41 states.

and proceeding with the expansion of our air separation plants in the region.

In 2012, we acquired four North American gas distributors. These included Evergreen Supply, Inc., which we acquired in December, giving us a service base in South Dakota, thereby positioning us well to benefit from demand growth in the state fueled by the shale gas revolution. We also completed construction of two new air separation plants, one each in Dickinson, North Dakota, and Lakeland, Florida, and are in the process of building a third in Mesa, Arizona. Going forward, the rapid expansion of shale gas and oil production in North America is expected to boost regional demand for nitrogen and other industrial gases. We will seek to capture that demand by expanding our network of liquid gas bases. Our efforts to extend our on-site hydrogen plant business are also progressing well.

In Asia, we further fortified our already-high market share by increasing our stake in a joint venture in Vietnam. In Singapore, the Philippines and other markets where we have built a strong market presence, we will work to foster additional growth. In recent years, our annual sales of industrial gases in Asia have been in the area of ¥40,000 million. Our medium-term goal is to lift that to ¥100,000 million. We will also actively expand into new markets, including Indonesia.

Q

How will you strengthen responsiveness in the plants and engineering business?

"This is a task we will address through unremitting efforts to reduce costs and to enhance quality and performance."

A We will standardize plant designs and automate processes such as welding to shorten lead times and cut costs. Additionally, we will consign the fabrication of cold boxes and other plant components to manufacturers overseas. In North America and Southeast Asia, we will strive to take advantage of increasing demand for new plants and increase our share of each individual market. In Japan, our emphasis will be on building highly efficient small and mid-sized air separation plants to fill gaps in our production network, thereby lower distribution costs and bolster our market share.

Q

Earlier you spoke about cultivating new businesses that will help sustain growth. What sorts of businesses are you considering?

Hydrogen filling station

"Between now and fiscal year 2017, the companies of the Taiyo Nippon Sanso Group will work together to cultivate new demand that will add ¥20,000 million to annual net sales."

A Hydrogen filling stations will be of particular importance. In Japan, the Ministry of Economy, Trade and Industry is supporting a project to establish a nationwide hydrogen filling station infrastructure, as part of which it intends to build 100 hydrogen filling stations across the country by 2015, when fuel cell vehicles (FCVs) are expected to become available to the general public. Leveraging our proprietary compact facility engineering capabilities, we have developed a packaged off-site hydrogen station that can be built for approximately half the cost of a conventional station. Thanks to our technologies, we have set a goal of establishing a dominant position in this new sector in Japan and securing orders for 30 of the 100 planned stations.

We also have high expectations for our cryopreservation system, which facilitates the automated freezing, storage and thawing of induced pluripotent stem (iPS) cells. Significant demand for the system is expected from universities, research facilities and pharmaceutical manufacturers. We are also promoting the development of a new refrigeration system for high-temperature superconductors that uses liquid nitrogen as a refrigerant instead of liquid helium. Other key development areas include carbon nanotubes and other innovative materials and new specialty electronics materials gases.

Q

What specific strategies have you formulated to add ¥5 billion to profit?

"In October 2012, we set a target for a ¥5 billion increase in profit, which we aim to achieve within two years."

A To achieve this target, we have further broken down our four key challenges into five concrete efforts.

The first is to revise sales prices of our industrial gases in Japan. In fiscal year 2013, rate hikes by Tokyo Electric Power Company, Incorporated (TEPCO) drove up production costs. Owing to delays in negotiating price increases for liquid gases sold to customers in TEPCO's service area, the actual positive impact of gas price increases fell short of our expectations. Accordingly, we are determined to make up the difference in fiscal year 2014. We have already taken prompt steps to revise sales prices to customers in areas other than those served by TEPCO, where electricity rate hikes are expected in fiscal 2014.

The second is to fortify collaboration with our official dealers, stepping up cooperation between our salespeople and official dealers to cultivate new markets and raising the profile of our products at official dealers' retail locations. Through such efforts, we will endeavor to raise annual sales via official dealers, currently approximately ¥80,000 million, by 10%.

Third, we will improve the profit structure of our electronics-related business. In light of the decline in gas supply facility installations in Japan, we will focus on rightsizing our engineering operations and modifying the functions of our Electronics Division with the aim of increasing operating efficiency and reduce costs.

Fourth, we will also improve the profit structure of our North American operations. This is a task we have sought to address since 2011 through rationalization and other measures. As part of this effort, we have created a new organization that centers on four regional divisions, rather than six. We also merged several previously acquired local subsidiaries. Additionally, we have transferred back-office departments, including those of subsidiary Matheson Tri-Gas, to our newly established a Back-office Center in Dallas, Texas. These moves have enhanced efficiency, which has in turn enabled us to strengthen our sales capabilities and trim support staff.

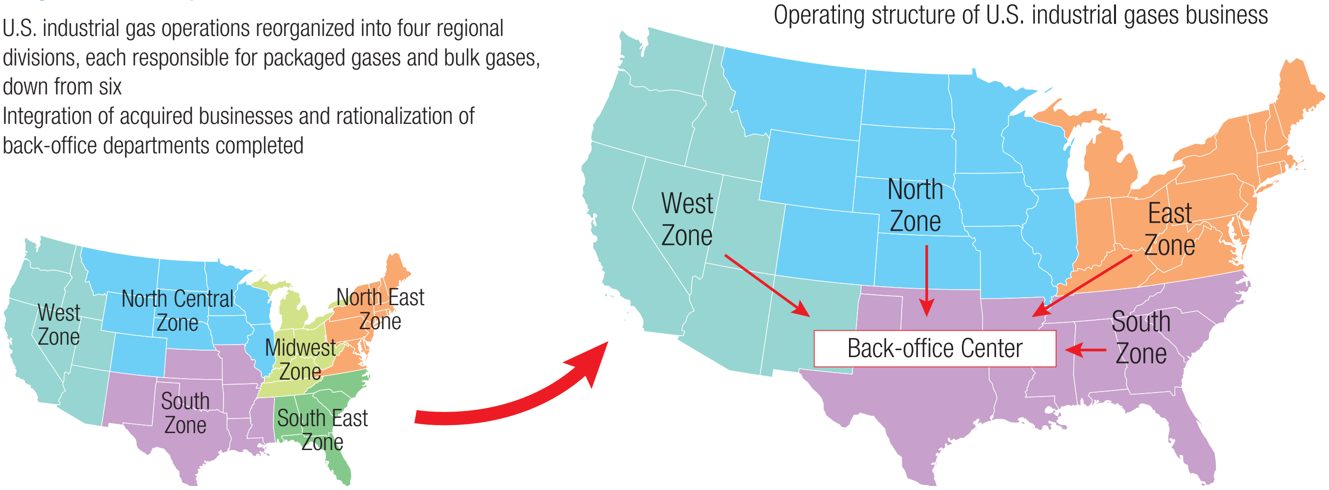
Fifth, we will expand our operations in Asia. We have already taken several steps to this end, transforming our joint venture in Vietnam into a consolidated subsidiary, while subsidiary National Oxygen Pte. Ltd., in Singapore, has launched sales of standard gases in Saudi Arabia.

Efforts to Strengthen Sales Capabilities and Enhance Efficiency in the U.S.

Realignment Accomplished

- U.S. industrial gas operations reorganized into four regional divisions, each responsible for packaged gases and bulk gases, down from six
- Integration of acquired businesses and rationalization of back-office departments completed

Operating structure of U.S. industrial gases business



Part IV:
Management's Perceptions of the Current Operating Environment

Q

What positive trends do you see in your main geographic markets that you expect to bolster operating results in fiscal year 2014? What risks do you anticipate?

"In Japan, stimulus policies introduced by the new government, which took power last year, and the Bank of Japan have sparked a turnaround in the domestic economy."

A For the past several years, manufacturers in Japan have operated in a harsh environment, owing to the relentless strength of the yen, electricity rate hikes and other factors. As a consequence, many manufacturers have shifted production offshore and closed down or integrated domestic production facilities. Companies were forced to form alliances as almost a last resort. Since the new government took power last year, stimulus policies introduced by the new government and the Bank of Japan have sparked a turnaround in the domestic economy. The steel industry, one of our principal customer industries in Japan, continues to see robust demand for exports to automakers and to maintain high operating rates. Efforts to reduce costs, including through the use of low-grade coal, have pushed up demand for oxygen. However, excess capacity in China's steel industry is likely to persist, which is certainly a cause for some concern.

In the chemical industry in Japan, the yen correction continues to support a recovery in production of general-purpose ethylene derivatives, particularly for export. Nonetheless, in light of ongoing structural issues, notably the high cost of raw materials, one can only assume that chemical companies will start looking to shift production offshore. Over the medium to long term, we will position ourselves to support customers in this industry in overseas markets.

Plunging demand from the Japanese electronics industry has had a particularly harsh impact on our performance in recent years. Demand does appear to have finally bottomed out, but the likelihood of a return to anything near peak level is extremely low. Accordingly, our focus will remain on rationalization and streamlining our operations.

In the United States, conditions remain harsh, owing to steadily declining demand for electronics-related gases. Having concluded efforts to build a leaner organization, including through the integration and closure of specialty gases production facilities, in fiscal year 2013, and given the promising outlook for shale gas development in North America, we are guardedly optimistic. However, with a glut of plants slated for construction by chemicals manufacturers looking to take advantage of the shale gas revolution, we see this primarily as an opportunity for our on-site gas business, and will take ambitious steps to use this opportunity to our advantage.

In Asia, we will continue to invest actively in promising markets, notably in Southeast Asia, focusing on areas where we have already established a strong presence, including the Philippines and Vietnam, to enhance our supply capabilities. This will situate us to capitalize on market growth going forward. We will also actively expand into new markets, including Indonesia.

Part V:
Outlook for Fiscal Year 2014

Q

Can you explain the assumptions underlying your operating results forecasts for fiscal year 2014?

"Our forecasts include a ¥6.6 billion increase in operating income."

A We currently expect consolidated net sales in fiscal year 2014 to be up 9.7% from fiscal year 2013. If we disregard the impact of favorable currency rates and an increase in the scope of consolidation, the increase would be 7.0%. This reflects our outlook for a gradual recovery in the industrial gas business in Japan, although we expect sales in the electronics-related business to be level. In North America, we expect to see brisk growth in our cylinder business, the recovery of which had been delayed. We predict firm results in the industrial gas business elsewhere in Asia. We also forecast consolidated operating income to rise 26.6%, or ¥6.6 billion, owing to the positive impact of higher net sales and the other aforementioned factors.

Q

In closing, is there anything that you would like to say directly to shareholders?

"I remain unyielding in my determination to increase corporate value."

A The entire Taiyo Nippon Sanso Group is committed to working as one to rebuild our operating foundation as swiftly as possible and to secure sustainable growth. My personal motto has always been "Never give up." As president, I will to continue to lead to the absolute best of my ability and will be unyielding in my determination to increase corporate value. In all of our efforts, I look forward to the ongoing support and guidance of shareholders and investors.

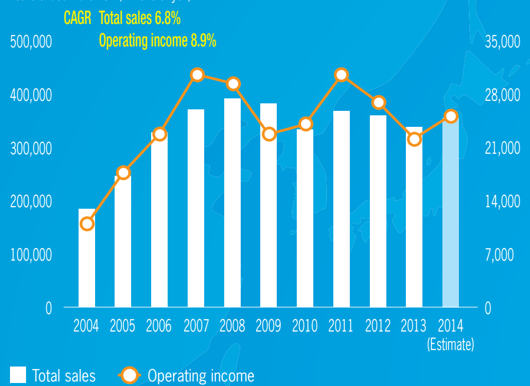
Perception of the Business Climate in Key Markets

Japan

Owing to the launch of a decisive fiscal stimulus package by Japan's new government, which came to power in December 2012, the yen finally began to weaken toward the end of fiscal year 2013. Nonetheless, with the Japanese currency robust through most of the period, the manufacturing sector stagnated. While demand from steel manufacturing, our largest customer industry, was firm, and automotive production remained high, the strength of the yen discouraged demand from other major customer industries, including chemicals, nonferrous metals and shipbuilding. Demand from the electronics industry was hit particularly hard, reflecting visible declines in operating rates and efforts to curb capital expenditures.

Total Sales and Operating Income in Japan

Years ended March 31 (Millions of yen)



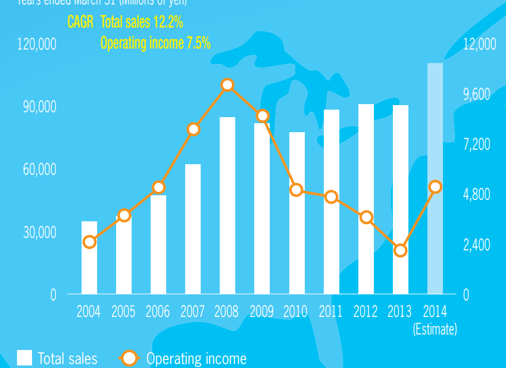
Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2013 and estimates for the year ending March 31, 2014.

North America

Modest economic recovery continued in North America, stimulated by another round of quantitative easing in the United States and supported by falling unemployment rates and increased consumer spending. Sales of packaged gases rose, but not enough to offset the impact of waning sales to the electronics industry. With the aim of securing solid growth in North America, we acquired four smaller U.S. industrial gas distributors and proceeded with the construction of three new air separation plants. Concurrently, we sought to reinforce our earnings foundation by realigning our North American business portfolio and streamlining our labor force.

Total Sales and Operating Income in North America

Years ended March 31 (Millions of yen)



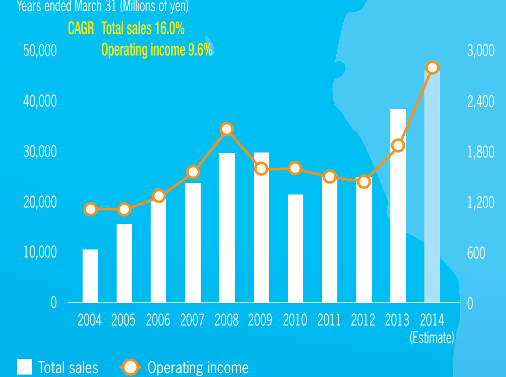
Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2013 and estimates for the year ending March 31, 2014.

Asia

Economic growth in Asia slowed, a consequence of falling exports to Europe, but remained firm. During the period, we pressed ahead with ambitious efforts to expand our presence in China, Taiwan, South Korea, Singapore, Vietnam, the Philippines, Thailand and Malaysia. We proceeded with the construction of two new air separation plants, one each in the Philippines and Vietnam, where we already enjoy a leading market share in terms of liquid gas production capacity. We also continued working to expand our market coverage.

Total Sales and Operating Income in Asia

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, 2004—2013 and estimates for the year ending March 31, 2014.

Basic Policy

To earn the trust and respond to the expectations of our many stakeholders, including our shareholders, customers, local communities and employees of Taiyo Nippon Sanso Group companies, we work continuously to create a management system that ensures transparency and efficiency, as well as the effectiveness of business execution.

Management Structure

Taiyo Nippon Sanso has adopted a system of internal auditors. Our Board of Directors is composed of 15 directors. To guarantee transparency, one of the directors satisfies the requirements for an outside director. To clarify accountability on a fiscal year basis, the term of office for directors is set at one year. In fiscal year 2013, the Board of Directors met 12 times. The outside director, Shotaro Yoshimura, attended all 10 of the meetings held subsequent to his appointment (100.0%).

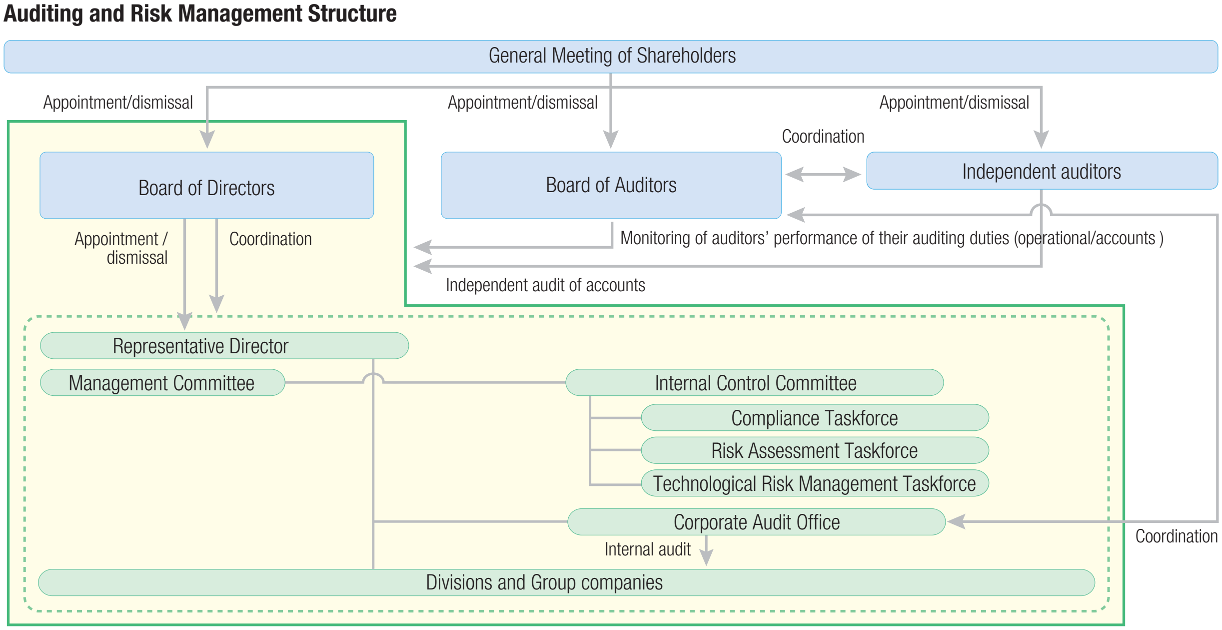
Auditing Structure and Internal Control System

To ensure adequate monitoring capabilities, our Board of Auditors consists of four auditors, three of whom satisfy the requirements of outside auditors, including two who are independent. Auditors communicate with the independent accountants, with whom they meet to exchange opinions on key aspects of the auditing process and the assessment of risks associated with auditing from the perspective of internal controls. They are briefed on audit plans and audit results by the Internal Control Committee (an 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 2013, remuneration for 19 directors totaled ¥629 million, while that for six auditors totaled ¥105 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



We recognize effective corporate social responsibility (CSR) as a crucial aspect of management. Through our CSR program, which emphasizes contributing to society and to environmental preservation, among others, we strive for sound management, thereby ensuring Taiyo Nippon Sanso remains an entity that exists in harmony with society and the natural environment and is deserving of the designation "good corporate citizen," as well as helping to realize sustainable growth. Our CSR program is founded on the core concept behind our corporate philosophy, "Market-driven collaborative innovation: improving the future through gases," namely, our commitment to working with our customers in different industries to contribute, through the advancement of gas technologies, to a healthy and prosperous society.

To fulfill the responsibilities and effectively manage the technical risks 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 five key priorities:

1. Ensure stringent compliance
2. Enhance safety management
3. Guarantee superior product quality
4. Contribute to a healthy environment
5. Make effective use of intellectual property

Creating a Positive Work Environment

We view our employees as our most important asset. To maximize this asset, which is also our biggest competitive advantage, we strive to create a positive work environment that enables all employees to realize their full potential. To this end, we have developed a variety of employee leave systems that accommodate a diverse range of individual needs.

One of the principal challenges facing Japan today is demographic change, a consequence of falling birth rates and the increasing proportion of the population accounted for by seniors. As part of our effort to support employees rearing children, we have developed a child-care leave system that enables employees to shorten their working day by choosing either reduced working hours or flextime. Employees opting to reduce their working hours can adjust their starting and/or finishing times in either direction in 30-minute increments. We also offer a special leave system that enables employees to use expired annual vacation days to care for children of elementary school age or younger, undergo treatment for non-work-related illness or injuries requiring more than three days, provide nursing care for another family member or receive prenatal care. Recognizing that the rapid aging of society will mean employees are increasingly required to provide nursing care for elderly family members, we have also established a nursing care leave system that enables employees to take up to 365 days off for this purpose.

Looking ahead, we will continue to develop innovative working arrangements that respond flexibly to the needs resulting from Japan's changing population dynamics. Through such efforts, we will endeavor to create a positive work environment for all employees.

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman and Representative Director
Hiroshi Taguchi

President and Representative Director
Shinji Tanabe

Vice President and Representative Director
Kunishi Hazama

Vice Presidents
Tadashige Maruyama
Yujiro Ichihara

Senior Managing Directors
Yoshikazu Yamano
Shigeru Amada
William J. Kroll

Managing Directors
Hiroshi Katsumata
Kinji Mizunoe
Akihiko Umekawa
Shin-ichiro Hiramine
Keiki Ariga

Executive Directors
Yasunobu Kawaguchi
Shotaro Yoshimura*1

Notes: *1 Outside Director
*2 Outside Corporate Auditor

Corporate Auditors

Kiyoshi Fujita
Yasufumi Miyazaki*2
Ichiro Yumoto*2
Kazuo Yoshida*2

Corporate Officers

Executive Corporate Officers
Tetsuya Nakayama
Yuki Hajikano
Jun Ishikawa
Masami Sakaguchi
Yoshihide Kenmochi
Shigenobu Somaya
Mikio Yamaguchi
Kazushige Arai

Corporate Officers
Masahiro Sakamoto
Masahiko Kitabatake
Hiroyuki Tanizawa
Tadashi Higashino
Atsuhiro Fujita
Hiroshi Nagae
Takeki Hata
Norikazu Ishikawa
Masayuki Taniguchi
Masami Takaine
Kazunori Takeda
Shigeyuki Osawa
Hirohisa Yanagida
Kou Matsumoto
Masahisa Kanzaki
Haruhiko Yasuga
Masahiro Uehara
Kenji Nagata
Kunihiro Kobayashi

(As of June 27, 2013)

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2013**	2012	2011	2010	2009	2008
Net sales	**¥468,387**	¥477,451	¥483,620	¥433,390	¥495,746	¥507,718
Operating income	**24,884**	31,067	35,468	27,556	29,164	38,783
Net income (loss)	**(2,071)**	21,200	12,736	15,748	16,533	21,930
Selling, general and administrative expenses/ Net sales (%)	**26.8%**	26.3%	26.1%	27.5%	24.7%	23.1%
Return on equity (%)	**(1.0)%**	10.8%	6.5%	8.3%	8.6%	10.8%
Return on assets (%)	**(0.3)%**	3.5%	2.1%	2.4%	3.1%	4.0%
Capital expenditures	**31,715**	31,452	31,991	38,366	66,010	36,260
Depreciation and amortization	**29,400**	30,471	32,167	30,143	28,339	25,506
Research and development expenses	**3,177**	3,458	3,924	4,137	3,936	2,903
Interest-bearing debt	**253,424**	241,121	250,409	259,111	191,074	159,500
Total net assets	**224,253**	219,611	207,416	212,396	194,250	217,813
Total assets	**615,820**	607,024	617,676	617,215	534,350	547,237

	Yen					
Per share data:						
Net income (loss)[1]	**¥ (5.25)**	¥53.33	¥31.86	¥39.39	¥41.21	¥54.48
Cash dividends	**12.00**	12.00	12.00	12.00	12.00	12.00

	Times					
Price earnings ratio	**—**	10.95	21.75	23.20	15.55	14.65

[1] 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.

Scope of Consolidation and Application of the Equity Method

As of March 31, 2013, Taiyo Nippon Sanso Corporation had 110 consolidated subsidiaries (46 based in Japan and 64 based overseas) and 30 equity-method affiliates (10 based in Japan and 20 based overseas).

A total of 86 consolidated subsidiaries and 19 equity-method affiliates are accounted for in the Industrial Gas segment. The Electronics segment and the Energy segment comprise 12 and four consolidated subsidiaries, respectively. The Other segment encompasses eight consolidated subsidiaries and 11 equity-method affiliates.

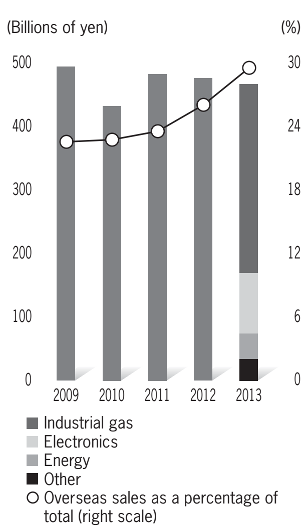
Operating Results

In fiscal year 2013, ended March 31, 2013, consolidated net sales declined 1.9%, to ¥468,387 million. Cost of sales slipped 0.9%, to ¥317,999 million. Selling, general and administrative expenses edged down ¥22 million, to ¥125,503 million. Reflecting these and other factors, operating income fell 19.9%, to ¥24,884 million. The operating margin decreased 1.2 percentage points, to 5.3%.

Owing to our withdrawal from a monosilane gas production joint venture, we posted an extraordinary loss of ¥23,276 million. As a consequence, we reported a net loss of ¥2,071 million, compared with net income of ¥21,200 million in the previous fiscal year. Net loss per share was ¥5.25, while return on equity (ROE) was -1.0%, down from 10.8% in fiscal year 2012. At the general meeting of the Company's shareholders on June 27, 2013, a proposal to pay a year-end dividend of ¥6.00 per share was approved by shareholders, bringing cash dividends for the term, comprising interim and year-end dividends, to ¥12.00 per share.

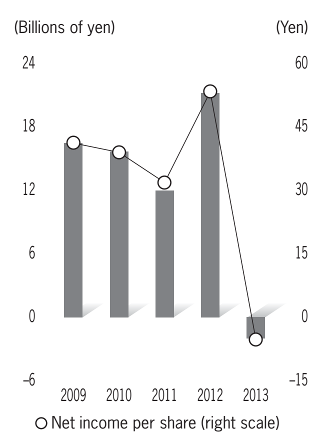
Capital expenditures, including the cost of construction, totaled ¥31,715 million, an increase of ¥263 million from the previous fiscal year. In contrast, depreciation and amortization declined ¥1,071 million, to ¥29,400 million. Research and development costs, which totaled ¥3,177 million, were down ¥281 million, equivalent to approximately 0.7% of net sales.

Net Sales



Operating Income

Net Income (Loss)



Results by Segment

Industrial Gas

Sales of oxygen rose in Japan, shored up by firm demand from steelmakers, the principal users of these gases. However, sales of nitrogen edged down, owing primarily to lower operating rates in the chemicals industry. Sales of air separation plants were down from fiscal year 2012, as were sales of cutting and welding equipment, owing primarily to the strong yen. Sales in North America increased, against a backdrop of gradual economic recovery. In Asia, sales climbed substantially, bolstered by an increase in the scope of consolidation. Owing to these and other factors, sales in the Industrial Gas segment rose 2.4%, to ¥298,073 million. Nonetheless, operating income slipped 1.8%, to ¥21,322 million, owing to an increase in costs attributable to higher electricity rates and other charges.

Electronics

Sales to the electronics industry were weak, reflecting sluggish demand for semiconductors, liquid crystal display (LCD) panels, solar cells and other products. Sales of electronics materials gases and electronics-related equipment and installations fell sharply. Sluggish capital investment by key domestic customers pushed down sales of MOCVD systems, used in the fabrication of semiconductors. As a result, the Electronics segment reported a 16.3% drop in sales, to ¥96,546 million, and an operating loss of ¥536 million.

Energy

Despite a decline in the volume of LP gas shipments, we continued to focus on efforts to revise sales prices in line with higher import prices and reduce costs, among others. As a consequence, sales in this segment advanced 3.0%, to ¥40,031 million, and operating income increased 8.4%, to ¥1,808 million.

Other

In the medical business, shipments of medical devices and equipment were brisk. Sales in the Thermos business advanced, thanks to contributions from sales of ultralight compact insulated mugs and food containers. As a result, sales in the Other segment rose 4.7%, to ¥33,736 million, and operating income climbed 20.9%, to ¥3,291 million.

Financial Position

As of March 31, 2013, total assets amounted to ¥615,820 million. Approximately ¥29,300 million of this was attributable to the declining value of the yen, which was ¥8.84 lower against the U.S. dollar on March 31, 2013, than on the same day a year earlier. The current ratio was 115%, down 14.0 percentage points from the end of fiscal year 2012.

Property, plant and equipment, less accumulated depreciation, rose 6.5%, to ¥272,142 million, bolstered mainly by increases in gas supply facilities and transport equipment. Total investments and other assets rose 6.0%, to ¥140,301 million, due largely to an increase in investment securities.

Total current liabilities, at ¥176,242 million, were up 3.8%, owing primarily to an increase in short-term loans payable. Total noncurrent liabilities declined 1.1%, to ¥215,324 million. Total interest-bearing debt thus amounted to ¥253,424 million, an increase of ¥12,303 million.

Total net assets rose 2.1%, to ¥224,253 million. This increase occurred despite the adverse impact of the net loss on retained earnings, which fell ¥6,836 million, and reflected such factors as a ¥13,015 million decrease in the deduction for foreign currency translation adjustments. As a consequence, the equity ratio was 33.1%, essentially level with fiscal year 2012, while net assets per share rose ¥19.36, to ¥525.38.

Cash Flows

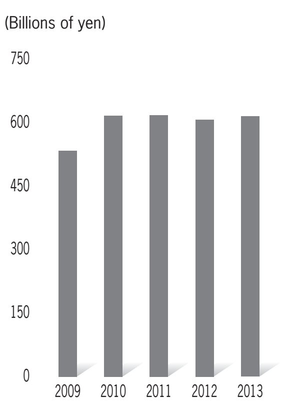
Net cash provided by operating activities in fiscal year 2013 amounted to ¥33,964 million, a decline of ¥12,022 million from fiscal year 2012. Principal factors behind this result included a loss before income taxes and minority interests and changes in depreciation and amortization, notes and accounts receivable–trade and notes and accounts payable–trade. The interest coverage ratio weakened by 2.5 points, to 8.2 times.

Net cash used in investing activities came to ¥37,225 million, up ¥4,477 million. This was primarily attributable to purchases of property, plant and equipment.

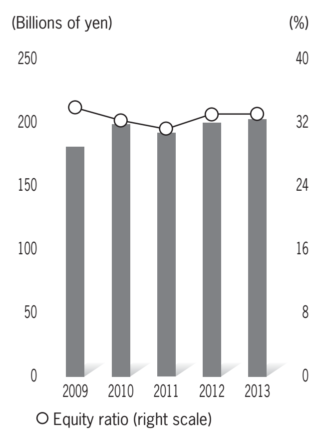
Net cash used in financing activities, at ¥8,181 million, was down ¥15,355 million. Principal applications of cash included cash dividends paid and the purchase of treasury stock.

After factoring in the effect of exchange rate fluctuations, operating, investing and financing activities in fiscal year 2013 yielded cash and cash equivalents at end of period of ¥22,721 million, down ¥10,554 million from the end of fiscal year 2012.

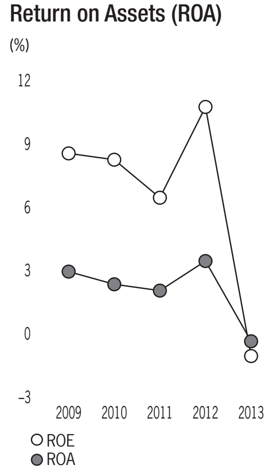
Total Assets



Equity



Return on Equity (ROE) and Return on Assets (ROA)



Business Risks

Management Policies, 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.

Reliance on Specific Industries

The Company supplies gases to a wide range of industries and its exposure to risks from reliance on specific industries is thus low. Nevertheless, changes in the crucial semiconductor market could have a significant 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.

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 (semiconductors, LCD panels, solar cells). 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 derivatives 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

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.

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.

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

March 31	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 4) 2013
Assets			
Current assets:			
Cash and deposits (Notes 15 and 24)	**¥ 24,743**	¥ 34,596	**$ 263,083**
Notes and accounts receivable—trade (Notes 6 and 15)	**123,282**	132,176	**1,310,813**
Merchandise and finished goods	**22,716**	23,462	**241,531**
Work in process	**7,100**	7,827	**75,492**
Raw materials and supplies	**8,092**	6,439	**86,039**
Deferred tax assets (Note 10)	**7,285**	5,216	**77,459**
Other	**11,007**	10,332	**117,033**
Allowance for doubtful accounts	**(850)**	(842)	**(9,038)**
Total current assets	**203,376**	219,208	**2,162,424**
Property, plant and equipment (Notes 8, 9,12 and 23)	**698,083**	653,202	**7,422,467**
Accumulated depreciation	**(425,941)**	(397,703)	**(4,528,878)**
Property, plant and equipment, net	**272,142**	255,499	**2,893,589**
Investments and other assets:			
Investment securities (Notes 5 and 15)	**60,110**	50,871	**639,128**
Long-term loans receivable	**642**	5,103	**6,826**
Goodwill	**43,561**	39,735	**463,169**
Other intangible assets	**17,213**	16,376	**183,020**
Prepaid pension cost (Note 13)	**9,804**	10,790	**104,242**
Deferred tax assets (Note 10)	**2,057**	2,105	**21,871**
Other	**8,532**	9,089	**90,718**
Valuation allowance for investments	**(1,000)**	(865)	**(10,633)**
Allowance for doubtful accounts	**(618)**	(889)	**(6,571)**
Total investments and other assets	**140,301**	132,316	**1,491,770**
Total assets	**¥ 615,820**	¥ 607,024	**$ 6,547,794**

See notes to consolidated financial statements.

March 31	Millions of yen 2013	2012	Thousands of U.S. dollars (Note 4) 2013
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable—trade (Note 15)	**¥ 70,785**	¥ 75,927	**$ 752,632**
Short-term loans payable (Notes 7 and 15)	**75,062**	60,517	**798,107**
Income taxes payable (Note 10)	**2,716**	5,242	**28,878**
Other	**27,676**	28,040	**294,269**
Total current liabilities	**176,242**	169,729	**1,873,918**
Noncurrent liabilities:			
Long-term loans payable (Notes 7 and 15)	**170,806**	172,469	**1,816,119**
Pension and severance indemnities (Note 13)	**4,641**	4,948	**49,346**
Deferred tax liabilities (Note 10)	**27,229**	26,398	**289,516**
Negative goodwill	**106**	335	**1,127**
Lease obligations (Note 7)	**5,061**	6,030	**53,812**
Other	**7,478**	7,500	**79,511**
Total noncurrent liabilities	**215,324**	217,683	**2,289,463**
Contingent liabilities (Note 14)			
Total liabilities	**391,566**	387,413	**4,163,381**
Net assets (Notes 11 and 25):			
Shareholders' equity:			
Common stock:			
Authorized—1,600,000,000 shares			
Issued—403,092,837 shares	**27,039**	27,039	**287,496**
Capital surplus	**44,909**	44,909	**477,501**
Retained earnings	**159,999**	166,835	**1,701,212**
Treasury stock, at cost—			
15,237,498 shares in 2013 and 6,197,947 shares in 2012	**(9,161)**	(4,125)	**(97,406)**
Total shareholders' equity	**222,787**	234,659	**2,368,814**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**6,322**	4,432	**67,220**
Deferred gains or losses on hedges	**(120)**	(26)	**(1,276)**
Foreign currency translation adjustments	**(25,020)**	(38,035)	**(266,029)**
Pension liability adjustment of foreign subsidiaries	**(197)**	(193)	**(2,095)**
Total accumulated other comprehensive income (loss)	**(19,016)**	(33,823)	**(202,190)**
Minority interests	**20,481**	18,775	**217,767**
Total net assets	**224,253**	219,611	**2,384,402**
Total liabilities and net assets	**¥615,820**	¥607,024	**$6,547,794**

Consolidated Statements of Operations

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	2013	2012	2013
Net sales	¥468,387	¥477,451	$4,980,191
Cost of sales (Note 17)	317,999	320,857	3,381,170
Gross profit	150,388	156,593	1,599,022
Selling, general and administrative expenses (Note 17)	125,503	125,526	1,334,428
Operating income	24,884	31,067	264,583
Other income (expenses):			
Interest and dividend income	970	1,036	10,314
Interest expenses	(4,110)	(4,292)	(43,700)
Amortization of negative goodwill	273	507	2,903
Gain on sales of noncurrent assets (Note 18)	31	3,385	330
Loss on sales and retirement of noncurrent assets (Note 18)	(1,497)	(5,206)	(15,917)
Foreign exchange losses	—	(6)	—
Loss on valuation of investment securities	(89)	(312)	(946)
Gain on sales of investment securities	78	—	829
Loss on valuation of golf club memberships	(68)	(48)	(723)
Equity in earnings of affiliates	1,284	1,158	13,652
Impairment loss (Note 19)	(50)	(213)	(532)
Provision of valuation allowance for investments	(135)	(70)	(1,435)
Loss on liquidation of subsidiaries and affiliates	—	(215)	—
Gain on transfer of business	—	6,733	—
Loss on disaster (Note 20)	—	(429)	—
Loss on liquidation of business (Note 21)	(23,276)	—	(247,485)
Other	1,256	844	13,355
	(25,334)	2,868	(269,367)
Income (loss) before income taxes and minority interests	(450)	33,935	(4,785)
Income taxes (Note 10):			
Current	4,588	9,428	48,783
Deferred	(4,306)	2,106	(45,784)
	281	11,535	2,988
Income (loss) before minority interests	(731)	22,400	(7,772)
Minority interests in income	1,339	1,199	14,237
Net income (loss)	¥ (2,071)	¥ 21,200	$ (22,020)
	Yen		U.S. dollars (Note 4)
Amounts per share:			
Net assets	¥525.38	¥506.02	$ 5.59
Net income (loss)	(5.25)	53.33	(0.06)
Cash dividends	12.00	12.00	0.13

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 4)
Year ended March 31	2013	2012	2013
Income (loss) before minority interests	¥ (731)	¥22,400	$ (7,772)
Other comprehensive income (loss) (Note 22):			
Valuation difference on available-for-sale securities	1,853	(2,005)	19,702
Deferred gains or losses on hedges	(93)	136	(989)
Foreign currency translation adjustments	11,075	(3,815)	117,757
Pension liability adjustment of foreign subsidiaries	(3)	(53)	(32)
Share of other comprehensive income of associates accounted for using the equity method	1,134	(440)	12,057
Total other comprehensive income (loss)	13,966	(6,177)	148,495
Comprehensive income	¥13,234	¥16,222	$140,712
Total comprehensive income attributable to:			
Owners of the Company	¥12,735	¥14,874	$135,407
Minority interests	498	1,348	5,295

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					Accumulated other comprehensive income						
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2011	403,092,837	¥27,039	¥44,910	¥150,439	¥(2,321)	¥220,068	¥ 6,428	¥(163)	¥(33,621)	¥(140)	¥(27,496)	¥14,845	¥207,416
Disposal of treasury stock	—	—	(0)	—	3	3	—	—	—	—	—	—	3
Dividends from surplus	—	—	—	(4,781)	—	(4,781)	—	—	—	—	—	—	(4,781)
Net income	—	—	—	21,200	—	21,200	—	—	—	—	—	—	21,200
Purchase of treasury stock	—	—	—	—	(1,807)	(1,807)	—	—	—	—	—	—	(1,807)
Decrease by merger	—	—	—	(23)	—	(23)	—	—	—	—	—	—	(23)
Net changes of items other than shareholders' equity	—	—	—	—	—	—	(1,995)	136	(4,413)	(53)	(6,326)	3,930	(2,396)
Balance at March 31, 2012	403,092,837	¥27,039	¥44,909	¥166,835	¥(4,125)	¥234,659	¥ 4,432	¥ (26)	¥(38,035)	¥(193)	¥(33,823)	¥18,775	¥219,611
Disposal of treasury stock	**—**	**—**	**(0)**	**—**	**1**	**1**	**—**	**—**	**—**	**—**	**—**	**—**	**1**
Dividends from surplus	**—**	**—**	**—**	**(4,764)**	**—**	**(4,764)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,764)**
Net loss	**—**	**—**	**—**	**(2,071)**	**—**	**(2,071)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2,071)**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(5,036)**	**(5,036)**	**—**	**—**	**—**	**—**	**—**	**—**	**(5,036)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**	**1,889**	**(93)**	**13,015**	**(3)**	**14,807**	**1,706**	**16,513**
Balance at March 31, 2013	**403,092,837**	**¥27,039**	**¥44,909**	**¥159,999**	**¥(9,161)**	**¥222,787**	**¥ 6,322**	**¥(120)**	**¥(25,020)**	**¥(197)**	**¥(19,016)**	**¥20,481**	**¥224,253**

	Thousands of U.S. dollars (Note 4)											
	Shareholders' equity					Accumulated other comprehensive income						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2012	$287,496	$477,501	$1,773,897	$(43,860)	$2,495,045	$47,124	$ (276)	$(404,413)	$(2,052)	$(359,628)	$199,628	$2,335,045
Disposal of treasury stock	**—**	**(0)**	**—**	**11**	**11**	**—**	**—**	**—**	**—**	**—**	**—**	**11**
Dividends from surplus	**—**	**—**	**(50,654)**	**—**	**(50,654)**	**—**	**—**	**—**	**—**	**—**	**—**	**(50,654)**
Net loss	**—**	**—**	**(22,020)**	**—**	**(22,020)**	**—**	**—**	**—**	**—**	**—**	**—**	**(22,020)**
Purchase of treasury stock	**—**	**—**	**—**	**(53,546)**	**(53,546)**	**—**	**—**	**—**	**—**	**—**	**—**	**(53,546)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**20,085**	**(989)**	**138,384**	**(32)**	**157,438**	**18,139**	**175,577**
Balance at March 31, 2013	**$287,496**	**$477,501**	**$1,701,212**	**$(97,406)**	**$2,368,814**	**$67,220**	**$(1,276)**	**$(266,029)**	**$(2,095)**	**$(202,190)**	**$217,767**	**$2,384,402**

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 4)
Years ended March 31	**2013**	2012	**2013**
Operating activities			
Income (loss) before income taxes and minority interests	**¥ (450)**	¥ 33,935	**$ (4,785)**
Depreciation and amortization	**29,400**	30,471	**312,600**
Impairment loss	**50**	213	**532**
Amortization of goodwill	**2,719**	2,472	**28,910**
Gain from transfer of business	**—**	(6,733)	**—**
Interest and dividends income	**(970)**	(1,036)	**(10,314)**
Interest expense	**4,110**	4,292	**43,700**
Equity in earnings of affiliates	**(1,284)**	(1,158)	**(13,652)**
Loss on sales and retirement of noncurrent assets	**1,262**	1,686	**13,418**
Gain on sales of investment securities	**(68)**	(28)	**(723)**
Loss on disaster	**—**	429	**—**
Loss on liquidation of business	**23,276**	—	**247,485**
Decrease (increase) in notes and accounts receivable—trade	**12,403**	(1,838)	**131,877**
Increase in accounts receivable—other	**(921)**	(958)	**(9,793)**
(Increase) decrease in advance payments	**(14)**	466	**(149)**
Decrease (increase) in inventories	**2,376**	(2,223)	**25,263**
(Decrease) increase in notes and accounts payable—trade	**(6,930)**	7,196	**(73,684)**
Decrease in accrued expenses	**(1,124)**	(2,500)	**(11,951)**
(Decrease) increase in advances received	**(266)**	555	**(2,828)**
Decrease in provision for retirement benefits	**(255)**	(204)	**(2,711)**
Decrease in prepaid pension costs	**985**	637	**10,473**
Other, net	**(2,330)**	1,740	**(24,774)**
	61,965	67,415	**658,852**
Interest and dividends income received	**1,151**	1,499	**12,238**
Interest expenses paid	**(4,122)**	(4,294)	**(43,828)**
Payments for loss on disaster	**—**	(1,560)	**—**
Payments for surcharges	**—**	(5,144)	**—**
Payments for loss on liquidation of business	**(17,059)**	—	**(181,382)**
Income taxes paid	**(7,970)**	(11,929)	**(84,742)**
Net cash provided by operating activities	**33,964**	45,986	**361,127**
Investing activities			
Increase in short-term investments	**(477)**	(530)	**(5,072)**
Purchases of property, plant and equipment	**(31,096)**	(35,101)	**(330,633)**
Proceeds from sales of property, plant and equipment	**1,408**	5,542	**14,971**
Purchases of intangible assets	**(445)**	(166)	**(4,732)**
Purchases of investment securities	**(2,139)**	(2,683)	**(22,743)**
Proceeds from sales of investment securities	**152**	75	**1,616**
Purchases of investments in subsidiaries resulting in change in scope of consolidation (Note 24)	**(513)**	(4,151)	**(5,455)**
Payments of loans receivable	**(601)**	(187)	**(6,390)**
Payments for assets purchase (Note 24)	**(2,417)**	(1,013)	**(25,699)**
Proceeds from transfer of business (Note 24)	**—**	6,585	**—**
Other, net	**(1,094)**	(1,118)	**(11,632)**
Net cash used in investing activities	**(37,225)**	(32,748)	**(395,800)**
Financing activities			
Net increase (decrease) in short-term loans payable	**¥ 349**	¥ (2,321)	**$ 3,711**
Proceeds from long-term loans payable	**34,108**	18,727	**362,658**
Repayment of long-term loans payable	**(30,104)**	(24,642)	**(320,085)**
Proceeds from issuance of bonds	**10,000**	10,000	**106,326**
Redemption of bonds	**(10,000)**	(15,000)	**(106,326)**
Repayments of lease obligations	**(2,339)**	(3,406)	**(24,870)**
Purchase of treasury stock	**(5,011)**	(1,811)	**(53,280)**
Proceeds from sales of treasury stock	**1**	3	**11**
Cash dividends paid	**(4,764)**	(4,781)	**(50,654)**
Cash dividends paid to minority shareholders	**(421)**	(303)	**(4,476)**
Net cash used in financing activities	**(8,181)**	(23,536)	**(86,986)**
Effect of exchange rate change on cash and cash equivalents	**888**	(394)	**9,442**
Net decrease in cash and cash equivalents	**(10,554)**	(10,692)	**(112,217)**
Cash and cash equivalents at beginning of period	**33,275**	43,877	**353,801**
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	**—**	90	**—**
Cash and cash equivalents at end of period (Note 24)	**¥ 22,721**	¥ 33,275	**$ 241,584**

See notes to consolidated financial statements.

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 110 significant subsidiaries (111 in 2012). 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 are 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 of the Company and its consolidated domestic subsidiaries 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).

As for overseas consolidated subsidiaries, inventories are stated at the lower of cost or market, cost being determined by the first-in first-out method.

(e) Property, plant and equipment (except for the 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

Goodwill and other intangible assets are stated at cost. As for the Company and its consolidated domestic subsidiaries, goodwill is amortized by the straight-line method over 5 years and 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 sheets.

(i) Pension and severance indemnities

Allowance for employees' retirement benefits is recognized at the net total of the present value of the defined benefit obligation at the balance sheet date, plus any actuarial gains (less any actuarial losses) not yet recognized, minus the fair value of plan assets (if any) at the balance sheet date out of which the obligations are to be settled directly. If the amount determined above is negative (an asset), such asset should be recorded as prepaid pension expenses.

Net retirement benefit expense or income is recognized at the net total of current service cost and interest cost, minus the expected return on any plan assets, minus any actuarial gains (less any actuarial losses) and prior service cost recognized during the year, plus any retirement benefits paid at a lump sum.

To determine the present value of a defined benefit obligation and the related current service cost and, where applicable, the prior service cost, the project unit credit method are used.

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 recognize actuarial gains or losses evenly over 12 to 16 years following the respective fiscal years when such gains or losses are identified. Prior service cost is amortized using the straight-line method over 13 to 16 years.

The Company recognized the amount of unrecognized prior service cost due to the revision of the retirement rule at April 1, 2003.

For transition benefit liability, the Company established the pension and severance indemnity trust by contribution of shares owned by the Company, and the remaining transition benefit liability is being recognized over a period of 15 years.

(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 ¥550 million ($5,848 thousand) and ¥505 million for corporate officers at March 31, 2013 and 2012, 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 (loss) per share is not applicable as there were no potentially dilutive securities for the years ended March 31, 2013 and 2012.

(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 (the "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. Accounting Standards Issued but Not Yet Effective

On May 17, 2012, the ASBJ issued "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25), which replaced the Accounting Standard for Retirement Benefits that had been issued by the Business Accounting Council in 1998 with an effective date of April 1, 2000 and the other related practical guidance, being followed by partial amendments from time to time through 2009. The major changes are as follows:

(1) Overview
(a) Treatment in the consolidated balance sheets
Actuarial gains and losses and prior service costs that have yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), after adjusting for tax effects, and the deficit or surplus shall be recognized as a liability or asset.

(b) Treatment in the consolidated statement of operations and the consolidated statement of comprehensive income
Actuarial gains and losses and prior service cost that arose in the current period and have yet to be recognized in profit or loss shall be included in other comprehensive income and actuarial gains and losses and prior service costs that were recognized in other comprehensive income in prior periods and then are recognized in profit or loss in the current period shall be treated as reclassification adjustments.

(2) Expected application date
This standard and related guidance are effective as of the end of fiscal years beginning on or after April 1, 2013. However, no retrospective application of this accounting standard to consolidated financial statements in prior periods is required.

(3) Effects of the adoption of the standard and the guidance
The Company is currently evaluating the effect that these modifications will have on its consolidated results of operations and financial position.

4. 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 ¥94.05=U.S.$1, the approximate rate of exchange at March 31, 2013. The approximate rate of exchange prevailing at May 31, 2013 was ¥101.18=U.S.$1. 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.

5. Investment Securities

At March 31, 2013 and 2012, 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		
	2013			**2013**		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	**¥23,869**	**¥12,746**	**¥11,122**	**$253,791**	**$135,524**	**$118,256**
Unrecognized loss items: Stock	**9,492**	**10,932**	**(1,440)**	**100,925**	**116,236**	**(15,311)**
Total	**¥33,361**	**¥23,679**	**¥ 9,681**	**$354,716**	**$251,770**	**$102,935**

	Millions of yen		
	2012		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	¥19,305	¥10,951	¥ 8,353
Unrecognized loss items: Stock	10,147	11,647	(1,499)
Total	¥29,453	¥22,599	¥ 6,853

Proceeds from sales of securities classified as available-for-sale securities amounted to ¥142 million ($1,510 thousand) and ¥36 million with an aggregate gain on sales of ¥78 million ($829 thousand) and ¥8 million for the years ended March 31, 2013 and 2012, respectively, and an aggregate loss on sales of ¥9 million ($96 thousand) and ¥1 million for the years ended March 31, 2013 and 2012, respectively.

6. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Accounts receivable transferred by liquidation	**¥4,376**	¥3,809	**$46,528**
Notes receivable transferred by liquidation	**5,665**	6,177	**60,234**

(b) Notes receivable discounted at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Notes receivable discounted	**¥9**	¥5	**$96**

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

As of March 31, 2013 and 2012, 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
	2013	2012	**2013**
Bank loans	**¥23,575**	¥20,699	**$250,665**
Current portion of long-term loans payable	**51,487**	29,818	**547,443**
1.58% unsecured bonds, payable in yen, due 2012	**—**	10,000	**—**
Total	**¥75,062**	¥60,517	**$798,107**

The average interest rates applicable to bank loans outstanding at March 31, 2013 and 2012 are 1.25% and 1.18%, respectively.

Long-term loans payable at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Loans from banks due through 2019 at average interest rates of 1.56% in 2013 and 1.84% in 2012	**¥135,806**	¥147,469	**$1,443,977**
1.13% unsecured bonds, payable in yen, due 2014	**15,000**	15,000	**159,490**
0.55% unsecured bonds, payable in yen, due 2017	**10,000**	10,000	**106,326**
0.44% unsecured bonds, payable in yen, due 2017	**10,000**	—	**106,326**
	¥170,806	¥172,469	**$1,816,119**

Short-term lease obligations at March 31, 2013 and 2012 included in other current liabilities were ¥2,493 million ($26,507 thousand) and ¥2,103 million, respectively.

The annual maturities of long-term loans payable subsequent to March 31, 2013 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥ 51,487	$ 547,443
2015	41,180	437,852
2016	25,181	267,741
2017	37,341	397,033
2018	21,978	233,684
2019 and thereafter	10,124	107,645
	¥187,293	$1,991,419

The annual maturities of lease obligations subsequent to March 31, 2013 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2014	¥2,493	$26,507
2015	1,420	15,098
2016	1,166	12,398
2017	826	8,783
2018	964	10,250
2019 and thereafter	685	7,283
	¥7,554	$80,319

8. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥96 million ($1,021 thousand) and ¥120 million, long-term loans payable of ¥308 million ($3,275 thousand) and ¥425 million, accounts payable-trade of ¥132 million ($1,404 thousand) and ¥142 million and other of ¥91 million ($968 thousand) and ¥53 million at March 31, 2013 and 2012, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Property, plant and equipment, at net book value	**¥799**	¥982	**$8,495**

9. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Property, plant and equipment	**¥411**	¥411	**$4,370**

10. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in statutory tax rates of 38.01% and 40.69% for the years ended March 31, 2013 and 2012, respectively.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥ 1,998**	¥ 2,048	**$ 21,244**
Loss from valuation of inventory	**587**	339	**6,241**
Accrued expenses	**1,618**	1,361	**17,204**
Net operating loss carryforward for tax purposes	**2,454**	—	**26,093**
Other	**1,020**	1,764	**10,845**
Deferred tax assets—subtotal	**7,678**	5,513	**81,637**
Valuation allowance	**(389)**	(250)	**(4,136)**
Deferred tax assets—net	**7,289**	5,262	**77,501**
Deferred tax liabilities	**(4)**	(46)	**(43)**
Net deferred tax assets	**¥ 7,285**	¥ 5,216	**$ 77,459**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (71)**	¥ (112)	**$ (755)**
Deferred tax liabilities – subtotal	**(71)**	(112)	**(755)**
Offset by deferred tax assets	**4**	46	**43**
Net deferred tax liabilities	**¥ (66)**	¥ (66)	**$ (702)**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 1,711**	¥ 1,451	**$ 18,192**
Reserve for retirement benefits	**1,215**	1,295	**12,919**
Net operating loss carryforward for tax purposes	**2,860**	—	**30,409**
Other	**7,675**	8,085	**81,606**
Deferred tax assets—subtotal	**13,463**	10,832	**143,147**
Valuation allowance	**(4,444)**	(4,983)	**(47,251)**
Deferred tax assets—net	**9,018**	5,848	**95,885**
Deferred tax liabilities	**(6,960)**	(3,743)	**(74,003)**
Net deferred tax assets	**¥ 2,057**	¥ 2,105	**$ 21,871**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**¥ (3,471)**	¥ (2,445)	**$ (36,906)**
Reserve for replacement of fixed assets	**(4,460)**	(4,984)	**(47,422)**
Reserve for special depreciation	**(34)**	(68)	**(362)**
Reserve for replacement of fixed assets—special	**(389)**	(385)	**(4,136)**
Depreciation	**(13,307)**	(11,811)	**(141,489)**
Other	**(12,528)**	(10,446)	**(133,206)**
Deferred tax liabilities—subtotal	**(34,190)**	(30,142)	**(363,530)**
Offset by deferred tax assets	**6,960**	3,743	**74,003**
Net deferred tax liabilities	**¥(27,229)**	¥(26,398)	**$(289,516)**

Reconciliation between the normal effective statutory tax rate and the actual effective tax rates reflected in the accompanying consolidated statements of operations for the year ended March 31, 2012 was as follows:

	2012
Statutory tax rate	40.69%
Entertainment expenses and others not deductible permanently	0.98
Dividends received and others	(5.08)
Valuation allowance for deferred tax assets	(1.80)
Income tax rate changes	(2.70)
Other	1.90
Effective tax rates	33.99%

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2013 was not presented since the Company recorded loss before income taxes and minority interests.

11. 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.

12. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2013 and 2012, 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
	2013	2012	**2013**
Acquisition costs:			
Property, plant and equipment	**¥1,951**	¥3,140	**$20,744**
Other assets	**62**	235	**659**
	¥2,014	¥3,375	**$21,414**
Accumulated depreciation:			
Property, plant and equipment	**¥1,633**	¥2,541	**$17,363**
Other assets	**62**	228	**659**
	¥1,697	¥2,769	**$18,044**
Net book value:			
Property, plant and equipment	**¥ 317**	¥ 598	**$ 3,371**
Other assets	**—**	7	**—**
	¥ 317	¥ 606	**$ 3,371**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥211 million ($2,243 thousand) and ¥692 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, 2013 and 2012, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 and 2012 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
2013		
2014	**¥ 132**	**$1,404**
2015 and thereafter	**185**	**1,967**
Total	**¥ 317**	**$3,371**
2012		
2013	¥ 251	
2014 and thereafter	354	
Total	¥ 606	

(b) Future minimum lease payments subsequent to March 31, 2013 and 2012 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2013		
2014	**¥ 1,551**	**$ 16,491**
2015 and thereafter	**8,639**	**91,855**
Total	**¥10,191**	**$108,357**
2012		
2013	¥ 1,355	
2014 and thereafter	8,613	
Total	¥ 9,969	

13. Pension and Severance Indemnities

The Company has the cash balance plan (market rate-linked pension plan) and the defined contribution benefit plan.

The Company's consolidated domestic subsidiaries have, jointly or severally, defined benefit plans, including funded non-contributory tax-qualified retirement pension plans and a lump-sum retirement benefits plan, which together cover substantially all full-time employees who meet certain eligibility requirements.

Certain consolidated overseas subsidiaries have a defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 and 2012 and the components of net retirement benefit expenses recognized in the accompanying consolidated statements of operations for the years ended March 31, 2013 and 2012 are summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Projected benefit obligation	**¥ 32,019**	¥ 34,578	**$ 340,447**
Plan assets at fair market value	**(32,616)**	(30,055)	**(346,794)**
Unfunded retirement benefit liabilities	**(597)**	4,523	**(6,348)**
Net unrecognized actuarial losses	**(6,200)**	(11,940)	**(65,922)**
Difference at change of accounting standard	**(916)**	(1,375)	**(9,740)**
Unrecognized prior service cost	**1,238**	1,585	**13,163**
Prepaid pension cost	**9,804**	10,790	**104,242**
Allowance for employees' retirement benefits	**(3,327)**	(3,583)	**(35,375)**

(b) Net retirement benefit expenses

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Current service cost	**¥1,368**	¥1,346	**$14,545**
Interest cost	**590**	597	**6,273**
Expected return on plan assets	**(729)**	(716)	**(7,751)**
Expense of actuarial loss	**1,406**	1,364	**14,949**
Net loss on change in accounting standard for employees' retirement benefits	**461**	461	**4,902**
Adjustment for prior service cost	**(226)**	(235)	**(2,403)**
Total of retirement benefit expenses	**¥2,871**	¥2,817	**$30,526**
Other	**951**	851	**10,112**
Total	**¥3,822**	¥3,668	**$40,638**

(c) The principal assumptions used in determining retirement benefit obligations and other components for the Company and certain consolidated domestic subsidiaries plans are shown below:

	2013	2012
Discount rate	**Mainly 2.0%**	Mainly 2.0%
Rate of return on assets	**Mainly 3.0%**	Mainly 3.0%
Period of recognition of actuarial gains or losses	**12 to 16 years**	12 to 16 years
Period of recognition of transition gains or losses	**Mainly 15 years**	Mainly 15 years
Period of recognition of prior service cost	**13 to 16 years**	13 to 16 years
Allocation method of estimated retirement benefits	**Evenly for period**	Evenly for period

14. Contingent Liabilities

At March 31, 2013 and 2012, the Company and certain consolidated subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥6,173 million ($65,635 thousand) and ¥7,424 million, which included reguarantees by joint investors amounting to ¥747 million ($7,943 thousand) and ¥489 million and commitments to guarantees amounting to ¥93 million ($989 thousand) and ¥181 million, respectively.

15. 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 credit worthiness 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 16. "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, 2013 and 2012 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2013			2013		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and deposits	¥ 24,743	¥ 24,743	¥ —	$ 263,083	$ 263,083	$ —
Notes and accounts receivable—trade	123,282	123,282	—	1,310,813	1,310,813	—
Investment securities:						
Available-for-sale securities	33,361	33,361	—	354,716	354,716	—
Total assets	¥181,386	¥181,386	¥ —	$1,928,612	$1,928,612	$ —
Notes and accounts payable—trade	¥ 70,785	¥ 70,785	¥ —	$ 752,632	$ 752,632	$ —
Short-term loans payable	23,575	23,575	—	250,665	250,665	—
Long-term loans payable	222,293	225,607	3,313	2,363,562	2,398,799	35,226
Total liabilities	¥316,654	¥319,968	¥3,313	$3,366,869	$3,402,105	$35,226

	Millions of yen		
	2012		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 34,596	¥ 34,596	¥ —
Notes and accounts receivable—trade	132,176	132,176	—
Investment securities:			
Available-for-sale securities	29,453	29,453	—
Total assets	¥196,226	¥196,226	¥ —
Notes and accounts payable—trade	¥ 75,927	¥ 75,927	¥ —
Short-term loans payable	20,699	20,699	—
Long-term loans payable	212,288	215,322	3,035
Total liabilities	¥308,914	¥311,950	¥3,035

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 5. "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, 2013 and 2012 for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Unlisted stocks	**¥26,749**	¥21,417	**$284,413**

(3) Redemption schedule for financial assets with maturities subsequent to March 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
	Due in one year or less		
Cash and deposits	**¥ 24,743**	¥ 34,596	**$ 263,083**
Notes and accounts receivable—trade	**123,282**	132,176	**1,310,813**

(4) Redemption schedule for long-term loans payable is disclosed in Note 7. "Short- Term Loans Payable, Long-Term Loans Payable and Lease Obligations."

(5) Unused overdraft agreements and loan commitment lines were ¥47,295 million ($502,871 thousand) and ¥55,771 million as of March 31, 2013 and 2012, respectively.

16. Derivative and Hedging Activities

Derivative transactions for which hedge accounting is applied for the years ended March 31, 2013 and 2012 were as follows:

(a) Currency-related

		Millions of yen		
		2013		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**¥1,166**	**¥ —**	*
TWD		**3**	**—**	
MYD		**478**	**—**	
Buy:	Accounts payable—trade			
USD		**975**	**—**	
EUR		**269**	**—**	
CHF		**169**	**—**	
SGD		**1**	**—**	
TWD		**1,418**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**1,002**	**85**	
Buy:				
SGD		**395**	**169**	
Total		**¥5,879**	**¥255**	

* 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.

		Millions of yen		
		2012		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		¥ 80	¥ —	*
TWD		25	—	
MYD		754	—	
Buy:	Accounts payable—trade			
USD		2,899	—	
EUR		300	—	
GBP		12	—	
CHF		184	—	
SGD		76	—	
TWD		747	—	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		863	863	
Buy:				
SGD		704	704	
Total		¥6,648	¥1,568	

* 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.

	Hedged item	Thousands of U.S. dollars		
		2013		
		Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**$12,398**	**$ —**	*
TWD		**32**	**—**	
MYD		**5,082**	**—**	
Buy:	Accounts payable—trade			
USD		**10,367**	**—**	
EUR		**2,860**	**—**	
CHF		**1,797**	**—**	
SGD		**11**	**—**	
TWD		**15,077**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**10,654**	**904**	
Buy:				
SGD		**4,200**	**1,797**	
Total		**$62,509**	**$2,711**	

* 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			Thousands of U.S. dollars		
		2013			**2013**		
		Contract amount	Due after one year	Fair value	Contract amount	Due after one year	Fair value
Short-cut method							
Interest-rate swap agreements:							
Receive floating/Pay fix	Long-term loans payable	**¥53,646**	**¥38,028**	*	**$570,399**	**$404,338**	*

	Hedged item	Millions of yen		
		2012		
		Contract amount	Due after one year	Fair value
Short-cut method				
Interest-rate swap agreements:				
Receive floating/Pay fix	Long-term loans payable	¥58,075	¥45,873	*

* 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.

17. 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, 2013 and 2012 totaled ¥3,177 million ($33,780 thousand) and ¥3,458 million, respectively.

18. Gain and Loss on Sales and Retirement of Noncurrent Assets

Significant components of the gain on sales of noncurrent assets of ¥31 million ($330 thousand) and ¥3,385 million for the years ended March 31, 2013 and 2012, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Land and buildings	**¥31**	¥3,385	**$330**

Significant components of the loss on sales and retirement of noncurrent assets of ¥1,497 million ($15,917 thousand) and ¥5,206 million for the years ended March 31, 2013 and 2012, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Land and buildings	**¥—**	¥4,623	**$—**

19. 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. For idle assets affected by a decrease in the fair market value of land, the book values are written down to the recoverable amount and such write-downs were recorded as impairment loss of ¥50 million ($532 thousand) and ¥213 million for the years ended March 31, 2013 and 2012, respectively, due to lack of recovery provability of market value or recovery provability in the near future. Recoverable amounts for relevant assets are estimated net selling price (considerable declared price based on valuation by property tax).

20. Loss on Disaster

The amount recorded in loss on disaster in the accompanying consolidated statement of operations corresponds to expenses required for recovery of assets damaged by the Great East Japan Earthquake, such as repair expenses of property, plant and equipment, and loss on disposal of inventories. For the year ended March 31, 2013, no loss on disaster was recognized.

21. Loss on Liquidation of Business

The amount recorded in loss on liquidation of business in the accompanying consolidated statement of operations corresponds to expenses to terminate the joint activities with Evonik Degussa Japan Co., Ltd. for the manufacturing of monosilane gas, which consisted of early termination costs of ¥19,800 million ($210,526 thousand) and losses from the liquidation of the joint venture and others of ¥3,476 million ($36,959 thousand) for the year ended March 31, 2013.

22. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥ 2,869**	¥(3,794)	**$ 30,505**
Reclassification adjustments for gains and losses included in net income (loss)	**25**	312	**266**
Amount before tax effects	**2,894**	(3,481)	**30,771**
Tax effects	**(1,041)**	1,476	**(11,069)**
Valuation difference on available-for-sale securities	**1,853**	(2,005)	**19,702**
Deferred gains or losses on hedges:			
Amount arising during the year	**58**	80	**617**
Reclassification adjustments for gains and losses included in net income (loss)	**(199)**	133	**(2,116)**
Amount before tax effects	**(140)**	213	**(1,489)**
Tax effects	**47**	(77)	**500**
Deferred gains or losses on hedges	**(93)**	136	**(989)**
Foreign currency translation adjustments:			
Amount arising during the year	**11,075**	(4,167)	**117,757**
Reclassification adjustments for gains and losses included in net income (loss)	**—**	253	**—**
Amount before tax effects	**11,075**	(3,914)	**117,757**
Tax effects	**—**	99	**—**
Foreign currency translation adjustments	**11,075**	(3,815)	**117,757**
Pension liability adjustment of foreign subsidiaries:			
Amount arising during the year	**(34)**	(124)	**(362)**
Reclassification adjustments for gains and losses included in net income (loss)	**42**	35	**447**
Amount before tax effects	**8**	(89)	**85**
Tax effects	**(11)**	36	**(117)**
Pension liability adjustment of foreign subsidiaries	**(3)**	(53)	**(32)**
Share of other comprehensive income of associates accounted for using the equity method:			
Amount arising during the year	**1,134**	(440)	**12,057**
Total other comprehensive income (loss)	**¥13,966**	¥(6,177)	**$148,495**

23. 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 is made up of segments based on individual business headquarters classified by products, services and sales markets. Therefore, the reportable segments of the Company consist of "Industrial gas," "Electronics," "Energy" and "Other."

The "Industrial gas" segment produces and sells gases and related equipment used in the domestic and overseas steel and chemical industry. The plant engineering business is included in this segment considering the similarities of major customers.

The "Electronics" segment produces and sells gases and related equipment used in the domestic and overseas electronics industry.

The "Energy" segment sells liquefied petroleum gas in Japan.

The "Other" segment mainly consists of the medical-related business which sells medial gas, and the thermos business which produces and sells housewares.

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

	Millions of yen						
	2013						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**¥298,073**	**¥96,546**	**¥40,031**	**¥33,736**	**¥468,387**	**¥ —**	**¥468,387**
Intersegment sales or transfers	**1,742**	**157**	**1,985**	**2,552**	**6,437**	**(6,437)**	**—**
Total	**299,816**	**96,703**	**42,016**	**36,289**	**474,825**	**(6,437)**	**468,387**
Segment income (operating income)	**¥ 21,322**	**¥ (536)**	**¥ 1,808**	**¥ 3,291**	**¥ 25,885**	**¥(1,000)**	**¥ 24,884**
Other item:							
Depreciation expenses	**¥ 17,977**	**¥ 9,806**	**¥ 446**	**¥ 1,493**	**¥ 29,724**	**¥ (323)**	**¥ 29,400**

	Millions of yen						
	2012						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	¥291,057	¥115,294	¥38,881	¥32,218	¥477,451	¥ —	¥477,451
Intersegment sales or transfers	2,143	107	2,431	2,696	7,379	(7,379)	—
Total	293,201	115,402	41,312	34,914	484,830	(7,379)	477,451
Segment income (operating income)	¥ 21,712	¥ 5,914	¥ 1,667	¥ 2,723	¥ 32,018	¥ (950)	¥ 31,067
Other item:							
Depreciation expenses	¥ 18,501	¥ 10,360	¥ 534	¥ 1,511	¥ 30,907	¥ (435)	¥ 30,471

	Thousands of U.S. dollars						
	2013						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**$3,169,304**	**$1,026,539**	**$425,635**	**$358,703**	**$4,980,191**	**$ —**	**$4,980,191**
Intersegment sales or transfers	**18,522**	**1,669**	**21,106**	**27,135**	**68,442**	**(68,442)**	**—**
Total	**3,187,836**	**1,028,208**	**446,741**	**385,848**	**5,048,644**	**(68,442)**	**4,980,191**
Segment income (operating income)	**$ 226,709**	**$ (5,699)**	**$ 19,224**	**$ 34,992**	**$ 275,226**	**$(10,633)**	**$ 264,583**
Other item:							
Depreciation expenses	**$ 191,143**	**$ 104,264**	**$ 4,742**	**$ 15,875**	**$ 316,045**	**$ (3,434)**	**$ 312,600**

Notes: 1. Adjustments for segment income of ¥(1,000) million ($(10,633) thousand) and ¥(950) million for the years ended March 31, 2013 and 2012 include intersegment eliminations of ¥383 million ($4,072 thousand) and ¥85 million, and corporate general administration expenses which mainly consisted of basic research and development expenses and are not allocable to each reportable segment of ¥(1,384) million ($(14,716) thousand) and ¥(1,035) million, respectively.
2. The Company does not allocate assets to reportable segments.

(d) Information by geographical area

(1) Net sales

Millions of yen			
2013			
Japan	The United States	Others	Total
¥329,771	**¥81,024**	**¥57,592**	**¥468,387**

Millions of yen			
2012			
Japan	The United States	Others	Total
¥352,727	¥81,684	¥43,039	¥477,451

Thousands of U.S. dollars			
2013			
Japan	The United States	Others	Total
$3,506,337	**$861,499**	**$612,355**	**$4,980,191**

(2) Property, plant and equipment

Millions of yen			
2013			
Japan	The United States	Others	Total
¥159,074	**¥82,994**	**¥30,073**	**¥272,142**

Millions of yen			
2012			
Japan	The United States	Others	Total
¥160,907	¥69,122	¥25,469	¥255,499

Thousands of U.S. dollars			
2013			
Japan	The United States	Others	Total
$1,691,377	**$882,446**	**$319,755**	**$2,893,589**

(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 statement of operations.

(f) Information on impairment loss by reportable segments

	Millions of yen					
	2013					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	**¥45**	**¥—**	**¥—**	**¥4**	**¥—**	**¥50**

	Millions of yen					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	¥213	¥—	¥—	¥—	¥—	¥213

	Thousands of U.S. dollars					
	2013					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	**$478**	**$—**	**$—**	**$43**	**$—**	**$532**

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

	Millions of yen					
	2013					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**¥ 2,769**	**¥—**	**¥223**	**¥—**	**¥—**	**¥ 2,992**
Unamortized balance	**43,329**	**—**	**231**	**—**	**—**	**43,561**

	Millions of yen					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	¥ 2,735	¥—	¥243	¥—	¥—	¥ 2,979
Unamortized balance	39,383	—	351	—	—	39,735

	Thousands of U.S. dollars					
	2013					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**$ 29,442**	**$—**	**$2,371**	**$—**	**$—**	**$ 31,813**
Unamortized balance	**460,702**	**—**	**2,456**	**—**	**—**	**463,169**

(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					
	2013					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**¥215**	**¥11**	**¥25**	**¥20**	**¥—**	**¥273**
Unamortized balance	**54**	**22**	**10**	**19**	**—**	**106**

	Millions of yen					
	2012					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	¥371	¥30	¥25	¥80	¥—	¥507
Unamortized balance	226	34	35	39	—	335

	Thousands of U.S. dollars					
	2013					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**$2,286**	**$117**	**$266**	**$213**	**$—**	**$2,903**
Unamortized balance	**574**	**234**	**106**	**202**	**—**	**1,127**

24. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2013 and 2012 were reconciled to cash and deposits reported in the consolidated balance sheets as of March 31, 2013 and 2012 as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	**2013**
Cash and deposits	**¥24,743**	¥34,596	**$263,083**
Time deposits with maturities of more than three months	**(2,022)**	(1,321)	**(21,499)**
Cash and cash equivalents	**¥22,721**	¥33,275	**$241,584**

The acquisition cost and net payments for assets and liabilities of RASIRC, Inc., acquired through a stock purchase, for the year ended March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 141**	**$ 1,499**
Noncurrent assets	**616**	**6,550**
Goodwill	**713**	**7,581**
Current liabilities	**(220)**	**(2,339)**
Noncurrent liabilities	**(698)**	**(7,422)**
Acquisition cost of assets	**(549)**	**(5,837)**
Cash and cash equivalents	**36**	**383**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥(513)**	**$ (5,455)**

The acquisition cost and net payments for assets and liabilities of US Airweld, Inc., A&F Welding Supply, Inc., Whitmer Welding Supplies, Inc. and Evergreen Supply, Inc., acquired through an assets purchase by Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2013 were as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 341	$ 3,626
Noncurrent assets	1,153	12,259
Goodwill	974	10,356
Current liabilities	(51)	(542)
Acquisition cost of assets	(2,417)	(25,699)
Cash and cash equivalents	—	—
Payments for assets purchase	¥(2,417)	$(25,699)

The acquisition cost and net payments for assets and liabilities of Leeden Limited, acquired through a stock purchase, for the year ended March 31, 2012 were as follows:

	Millions of yen
Current assets	¥ 9,864
Noncurrent assets	5,941
Goodwill	591
Current liabilities	(5,963)
Noncurrent liabilities	(1,860)
Minority interests	(2,217)
Acquisition cost of assets	(6,356)
Cash and cash equivalents	1,163
Transferred shares	1,041
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥(4,151)

The acquisition cost and net payments for assets and liabilities of Quimby, acquired through an assets purchase by Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2012 were as follows:

	Millions of yen
Current assets	¥ 221
Noncurrent assets	947
Current liabilities	(154)
Acquisition cost of assets	(1,013)
Cash and cash equivalents	—
Payments for assets purchase	¥(1,013)

The decrease in assets due to the transfer of the SDS and VAC businesses of Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, for the year ended March 31, 2012 was as follows:

	Millions of yen
Current assets	¥20
Noncurrent assets	3
Total assets	¥24

25. 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, 2013, were approved at the shareholders' meeting held on June 27, 2013.

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.064) per share	¥2,328	$24,753

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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, 2013, and the consolidated statements of operations, 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, 2013, 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 4.

Ernst & Young ShinNihon LLC

June 27, 2013

Investor Information

(At March 31, 2013)

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

Number of Employees:
11,468

Date of Incorporation:
October 1910

Number of Shares:
Authorized—1,600,000,000 Issued—403,092,837

Minimum Trading Unit:
1,000 shares

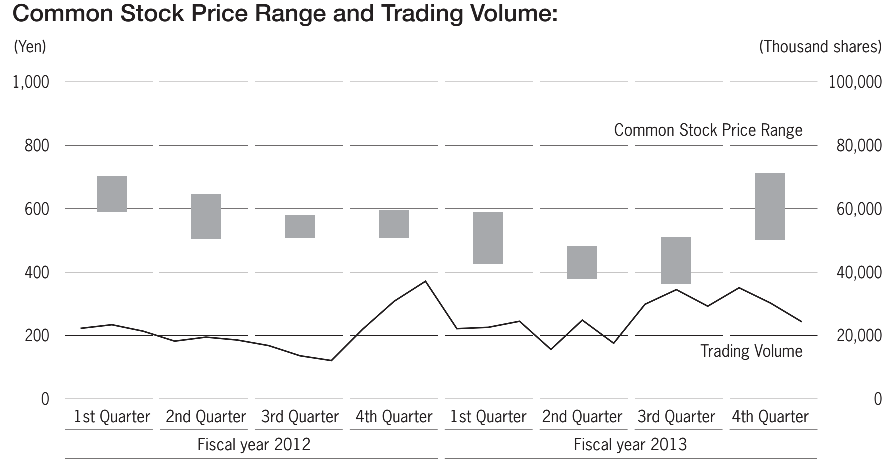
Number of Stockholders:
15,768

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

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Corporation	60,947	15.12%
JFE Steel Corporation	25,254	6.27
Taiyo Nippon Sanso Client Shareholding Society	20,735	5.14
Meiji Yasuda Life Insurance Company	16,007	3.97
National Mutual Insurance Federation of Agricultural Cooperatives	15,194	3.77
Mizuho Corporate Bank, Ltd.	14,484	3.59
The Master Trust Bank of Japan, Ltd. (Trust Account)	11,799	2.93
Japan Trustee Services Bank, Ltd. (Trust Account)	11,212	2.78
The Norinchukin Bank	10,000	2.48
Dai-ichi Mutual Life Insurance Company	7,537	1.87
	193,169	47.92%

Common Stock Price Range and Trading Volume:



TAIYO NIPPON SANSO
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