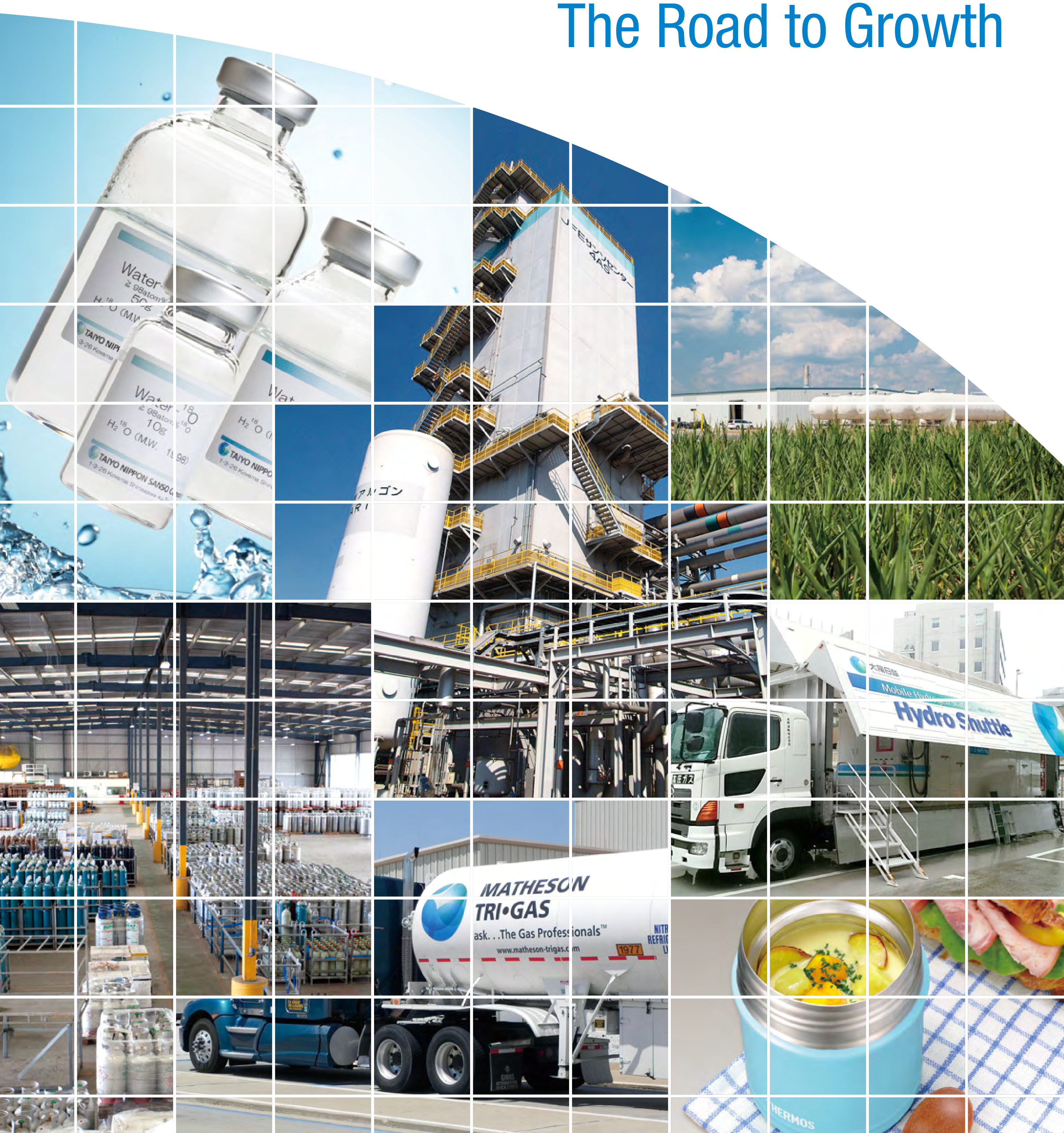
TAIYO NIPPON SANSO

Annual Report 2016

Year Ended March 31, 2016

The Road to Growth



Profile

In business for more than a century, Taiyo Nippon Sanso Corporation is Japan's leading industrial gases producer. The Company has built a broad business portfolio encompassing a diverse range of industrial gases, as well as related equipment, facilities and technologies, worthy of its corporate slogan, "The Gas Professionals," through which it has contributed to the advancement of both industry and humanity. Looking ahead, Taiyo Nippon Sanso will continue working to ensure safe and stable supplies of industrial gases, with the aim of helping realize a healthy and prosperous society.

Management Philosophy

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

Long-Term Vision

Net sales of ¥1 trillion, an operating margin of 10%, a return on capital employed (ROCE) of at least 10%, and an overseas sales ratio of 50% or higher by fiscal year 2023.

CONTENTS

Efforts to Enhance Stakeholder Understanding

Information on our environmental and social initiatives can be accessed by visiting the CSR section of our corporate website.

https://www.tn-sanso.co.jp/en/csr/index.html

Disclaimer Regarding Forward-Looking Statements

This annual report contains forward-looking statements. These statements reflect management's assumptions and beliefs based on information available as of the date of this document's publication and inherently involve risks and uncertainties. Actual results may differ substantially from these statements.

To Our Stakeholders

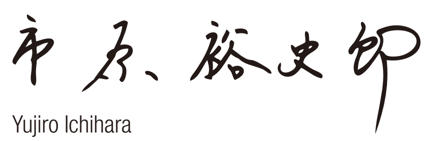
The global economy continues to reflect a more pronounced downshift in China, the impact of which has spread to neighboring countries in Asia. Notwithstanding concerns over the slowing of other key economies, the pace of recovery in the United States remains steady against a backdrop of improving labor market conditions. Despite forecasts for a gradual recovery in Europe, the risk of a downturn caused by political turmoil has emerged as a concern, underscoring the importance of maintaining a close eye on the impact of the situation on the global economy and on financial and foreign exchange markets. The Japanese economy continues to stagnate, owing to a persistently strong yen, as well as to a downward trend in share prices and sluggish consumer spending.

In fiscal year 2016, ended March 31, 2016, we reported a decline in consolidated net sales in Japan, as plummeting crude oil prices drove down sales of liquefied petroleum gas (LP gas), although consolidated operating income increased, underpinned by initiatives to transform our business structure implemented in line with our medium-term business plan. Overseas, net sales climbed ¥51.3 billion and operating income advanced ¥2.9 billion, owing to a change in the accounting period of certain subsidiaries in the United States and Asia, which resulted in the inclusion of 15 months of results for these companies. Even discounting this factor, sales in the Gas Business in the United States segment increased, bolstered by firm sales of bulk, packaged and electronics materials gases, although operating income fell, as a glut of helium worldwide pushed down profitability. Both sales and operating income in the Gas Business in Asia and Oceania segment were up, even excluding the positive impact of the accounting period change, thanks to robust results in electronics-related businesses in China, Taiwan and South Korea, and to acquisitions in Thailand and Australia. Sales and operating income in the Thermos and Other Businesses segment increased sharply, as biannual product launches and rising demand from tourists in Japan pushed up sales of stainless steel vacuum bottles. These factors contributed to a 14.7% increase in net sales and a 22.8% gain in operating income, with both results reaching record highs.

In light of our solid performance, we increased our year-end dividend for fiscal year 2016 by ¥2.00, to ¥9.00 per share. Recognizing the provision of fair returns to shareholders as a key management responsibility, we continue to place a high priority on maintaining stable dividends while at the same time ensuring that dividends are commensurate with our consolidated operating results.

In April 2014, we embarked on a new medium-term business plan, Ortus Stage 1, which we have positioned as the first step in our drive to attain the targets of our long-term vision, formulated in the same year—consolidated net sales of ¥1 trillion, an operating margin of 10%, a return on capital employed (ROCE) of at least 10% and an overseas sales ratio of 50% or higher—by fiscal year 2023. Our targets for fiscal year 2017, the final year of Ortus Stage 1, are consolidated net sales of ¥600 billion, an operating margin of 7.5%, a ROCE of at least 8% and an overseas sales ratio of 40% or higher. Determined to achieve these targets, we will continue to promote transformation and growth strategies, as well as to implement measures aimed at further enhancing corporate value. In all of our efforts, we look forward to the continued support and guidance of our stakeholders.

June 2016



Yujiro Ichihara
President and CEO

Yujiro Ichihara
President and CEO

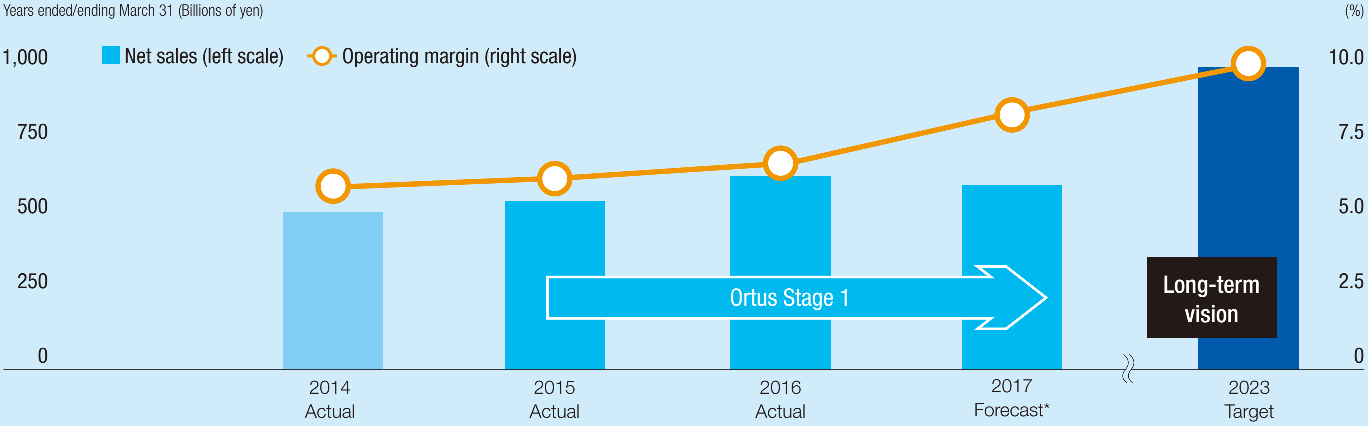
Long-term vision

In May 2014, we announced our long-term vision, the targets of which are consolidated net sales of ¥1 trillion, an operating margin of 10%, a return on capital employed (ROCE) of at least 10% and an overseas sales ratio of 50% or higher, by fiscal year 2023. Although we currently enjoy a 40% market share in Japan and have established an unshakeable position as a leading supplier of industrial gases, we remain some distance from the four so-called major players in the global industry, which are based in North America or Europe. These companies each boast average annual sales in excess of ¥1–¥2 trillion. In contrast, our net sales in fiscal year 2016 were ¥641.5 billion. Achieving the targets of our long-term vision is thus essential for us to be considered in the same class as these companies.

The annual global industrial gases market is estimated at approximately ¥10 trillion. Net sales of ¥1 trillion thus represent a 10% global market share. Sustaining a business of that scale requires the ability to

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

Years ended/ending March 31 (Billions of yen)



	2014 Actual	2015 Actual	2016 Actual	2017 Forecast*	2023 Target
Net sales	¥522.7	¥559.3 (+¥9.3)	¥641.5 (+¥71.5)	¥610.0	¥1,000
Operating income	¥ 31.4	¥ 35.2 (+¥0.2)	¥ 43.3 (+¥5.3)	¥ 52.0	¥ 100
Operating margin	6.0%	6.3%	6.8%	8.5%	10.0%
Overseas sales ratio	31.4%	35.0%	44.4%	41.4%	50% or higher
ROCE	6.2%	6.2%	7.4%	8.6%	10.0% or higher

Transformation, growth strategies | Optimization, expansion of scale

Notes: 1. In fiscal year 2016, subsidiaries Matheson Tri-Gas, Inc., in the United States, and Leeden National Oxygen Ltd., in Singapore, changed their fiscal year end from December 31 to March 31, resulting in a 15-month transitional accounting period for the settlement of accounts on a provisional basis using the extended period.
2. Effective from the fiscal year 2017 first quarter (the three months ended June 30, 2016), the Group has adopted the International Financial Reporting Standards (IFRS). Accordingly, targets for fiscal year 2017 have been calculated based on IFRS.

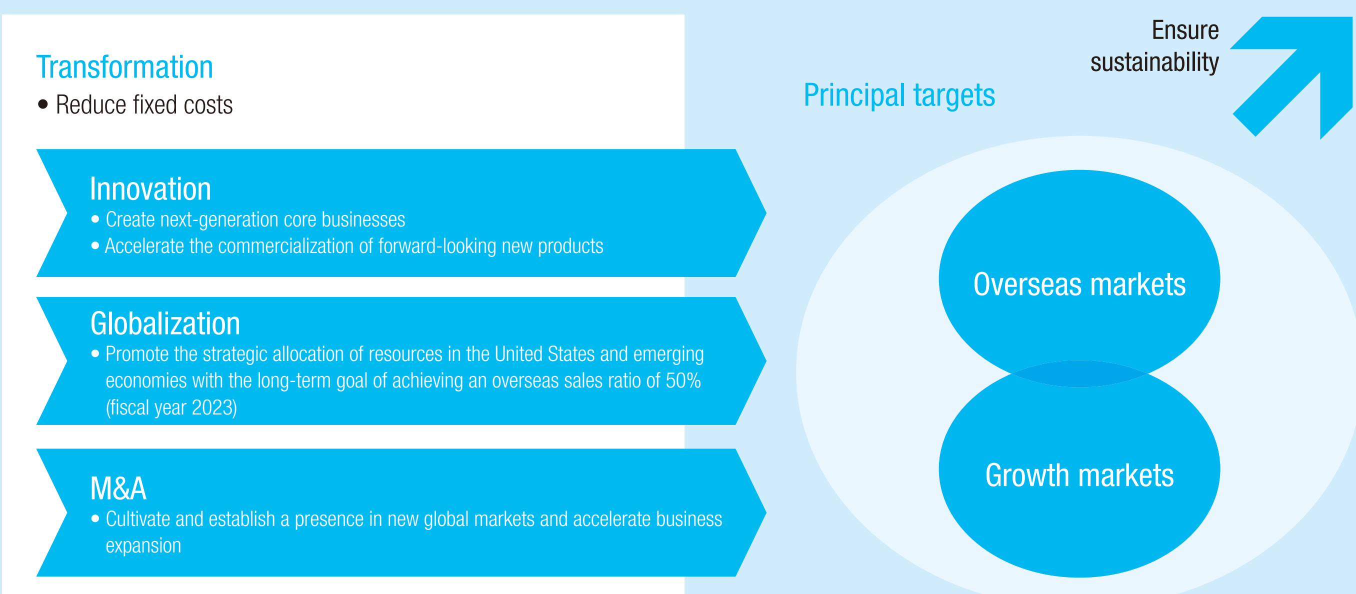
compete with other major players in terms of, among others, supply chain, cost competitiveness and sales strategies. Also, while the aforementioned North American and European firms have been globally active for many years, we first began exploring growth opportunities beyond our home market in the 1980s. Three-plus decades later, we have operations in 18 countries and territories. We will continue working to expand our overseas operations and accelerate growth with the aim of earning our place among the major global players.

Progress under Ortus Stage 1

Concurrent with our long-term vision, we formulated a new medium-term business plan, Ortus Stage 1, which we have positioned as the first step in our drive to attain the targets of our vision. The principal objectives of Ortus Stage 1 are to create a new earnings base and revamp key configurations. The plan sets forth four core strategic policies, summarized simply as “transformation,” “innovation,” “globalization” and “M&A.” In line with these policies and having recognized that significant future growth in the domestic industrial gases market is unlikely, we are taking steps to reinforce our operating foundation in Japan and promoting targeted investments in promising growth businesses overseas. In fiscal year 2016, the second year of Ortus Stage 1, we met our targets for both consolidated net sales and operating income.

Our operating environment has changed from early 2014, owing to a variety of factors, including tax system revisions in Japan, plummeting crude oil prices, fluctuating currency rates and uncertainty in the Chinese economy. Nonetheless, we continue to implement measures in line with the four strategic policies set forth in Ortus Stage 1, which remain highly relevant, as we press toward our targets for the final year of the plan.

Basic Policy of Ortus Stage 1



Transformation

Our industrial gases business in Japan accounts for approximately 60% of our consolidated net sales. Although we have built a robust domestic earnings base, significant growth in the domestic market is improbable over the medium term. The goal of our transformation strategy is thus to ensure profitability in an era of low growth by reassessing management resources, particularly in domestic businesses, and reconfiguring organizations so that they are capable of generating value.

In April 2014, Taiyo Nippon Sanso introduced special incentives for employees taking early retirement, a measure designed to optimize human resources in existing businesses. We have also promoted the reallocation of personnel in Japan to new businesses, including the newly established SI Innovation Center, which has reinforced our stable isotopes business; hydrogen stations, for which orders remain brisk; and our on-site business. We are also redeploying personnel to promising businesses overseas, including those acquired through M&A activities.

On the operational front, our main focus is on strengthening our supply chains. In the carbon dioxide gas business, raw materials sources have dwindled, owing to a decline in the operation of oil refineries and the termination of ammonia production by a number of manufacturers. As a result, we must depend on supplies transported over long distances or imported from overseas. In the Chugoku region, we responded by recovering low-density CO_2 emitted by Mitsubishi Chemical Corporation's Mizushima Plant, which is located in Okayama Prefecture, and resolved to build a plant for the production of high-density carbon dioxide gas. To ensure the sustainability of our carbon dioxide gas business, we took steps to guarantee stable supplies to customers, and lower procurement and logistics costs. We are also gradually replacing superannuated plants in the Chubu and northern Kanto regions with state-of-the-art facilities. The new plants are power-efficient, use less energy, and eliminate the need for frequent repairs, an issue with our older plants. All of these attributes will help reduce costs.

SI Innovation Center

New plant (Northern Kanto region)

Transforming the Taiyo Nippon Sanso Group

Current reality		Objectives		Measures
• Growth in domestic businesses remains low • Overseas businesses are expanding	»	• Maintain a stable earnings foundation • Capitalize on sound growth opportunities	»	• Increase efficiency and optimize domestic businesses • Promote the targeted allocation of resources in overseas businesses

Innovation

By “innovation,” we mean the creation of truly original value based on pioneering technologies and ideas. Efforts in line with this strategic policy center on developing groundbreaking products and promoting open innovation.

In the area of groundbreaking products, for example, we proceeded with efforts to promote sales of hydrogen stations, notably the Hydro Shuttle, a mobile unit developed in August 2013. As of March 31, 2016, we had sold a total of 15 of these stations. In the medical business, we doubled our production capacity for stable isotope Water-^{18}O, a starting material for diagnostic agents used in positron emission tomography (PET) diagnostics, by building a new plant in the Shunan area of Yamaguchi Prefecture. Shipments from the plant commenced in February 2016 and are expected to contribute to operating results in the coming years.

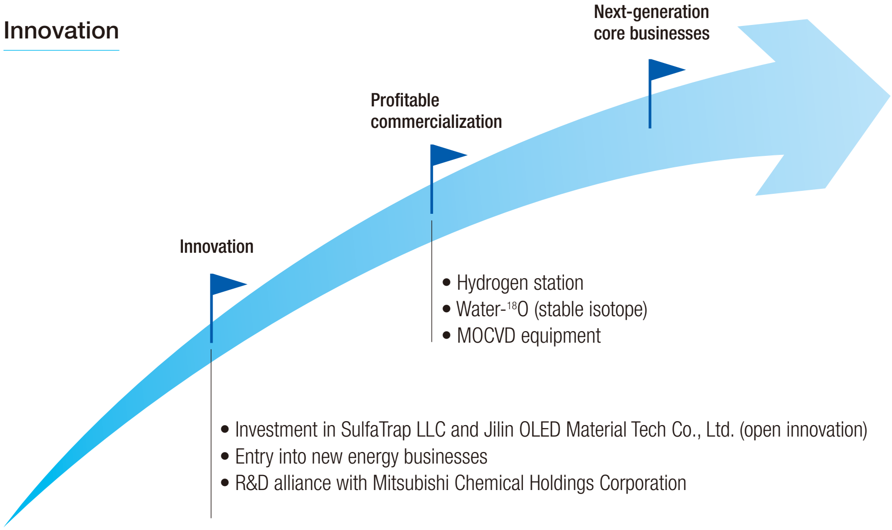
To promote open innovation, we pressed ahead with efforts to add high-value-added products to our portfolio, investing in U.S. firm SulfaTrap LLC in January 2016 and Chinese firm Jilin OLED Material Tech Co., Ltd. the following month. SulfaTrap is engaged in the development and production of desulfurization sorbents, which are used by customers in the energy field, including fuel cell manufacturers and petroleum refiners. We will promote SulfaTrap’s products to companies in these industries, as well as seek to secure orders for gas supplies. Jilin OLED is one of China’s top manufacturers of organic electroluminescent materials. We will supply these products together with gases to customers in the growing OLED devices industry.

In the energy field, we will continue to seek opportunities to enter new businesses. To maximize synergies with Mitsubishi Chemical Holdings, we will continue to leverage our sales networks to expand sales of Mitsubishi Chemical Holdings Group products. The aforementioned recovery of CO_2 emitted by Mitsubishi Chemical’s Mizushima Plant for use in high-grade carbon dioxide gas is another example of Group synergies at work. Over the medium to long term, we also look forward to benefiting in the healthcare field from collaboration with fellow Group company Mitsubishi Tanabe Pharma Corporation.

Hydro Shuttle mobile hydrogen station

Third plant for Water-^{18}O
(Shunan area, Yamaguchi Prefecture)

Innovation



Globalization

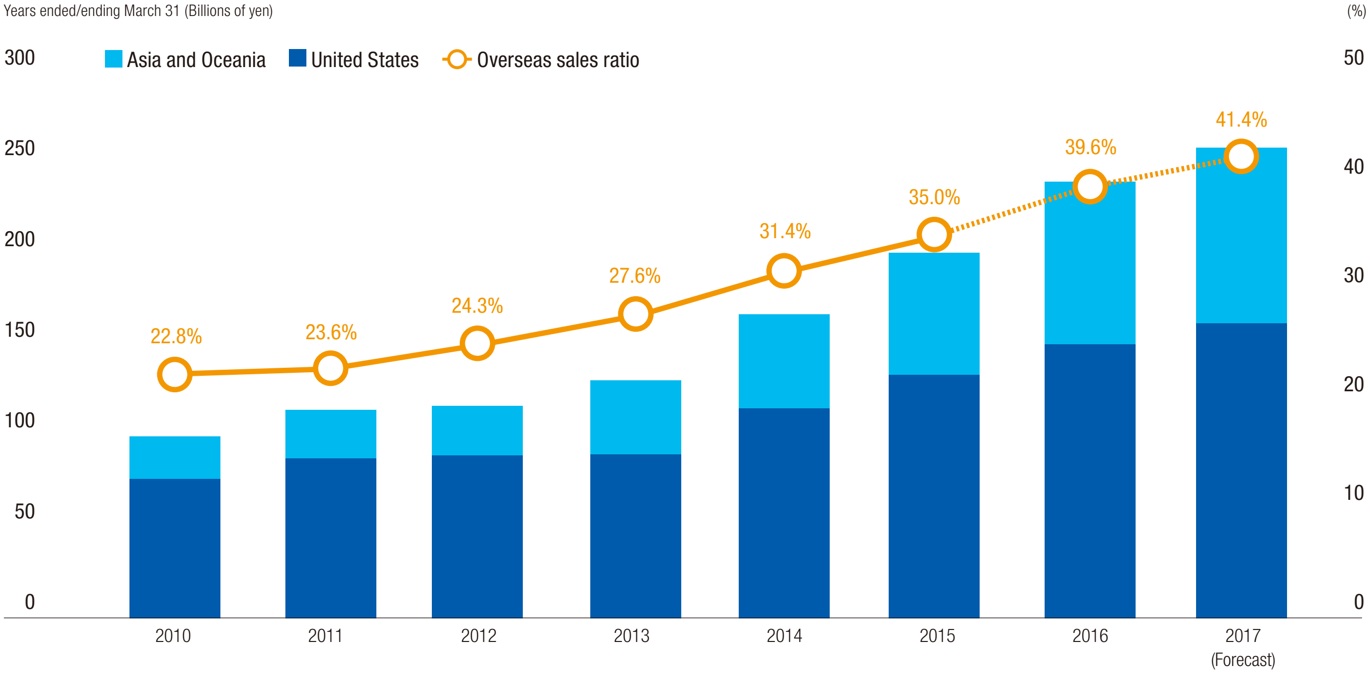
To accelerate the expansion of our overseas operations, we have begun a review of our management structures in different regions and have strengthened our on-site plant business. In July 2014, we established a holding company in Singapore, while in April 2015 we created a holding company in China, in which we vested responsibility for overseeing all of our businesses in that country. In November 2015, we changed the management structure of our subsidiary in India from indirect investment via a U.S. subsidiary to direct investment. Recent years have seen a sharp increase in Japanese firms setting up operations in India. Direct investment will position us to lock in demand from such companies.

We recently secured an order from Sasol Chemicals (USA) LLC to build a major air separation unit and supply piped gas for a large-scale ethane cracker project in the United States, as well as orders for two such plants from a Japanese manufacturer in Indonesia and another two from an electronics-related firm in the Philippines.

Excluding the impact of changes in the accounting period by certain overseas subsidiaries, our overseas sales ratio in fiscal year 2016 was close to 40%, bolstered by active investment in overseas markets. In fiscal year 2017, we expect this ratio to rise to 41.4%. We will continue to promote the expansion of our overseas operations. In fiscal year 2023, we anticipate an overseas sales ratio in excess of 50%.

Sales in Overseas Markets

Years ended/ending March 31 (Billions of yen)



Note: Figures for fiscal year 2016 exclude the impact of a change in fiscal year end by certain subsidiaries in the United States and Asia.

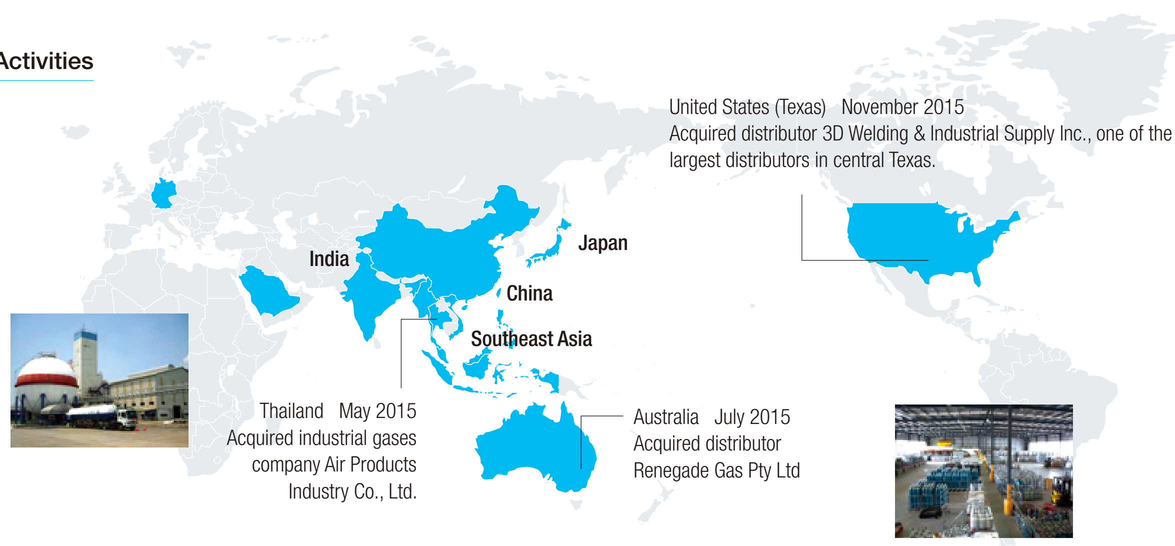
M&A

In May 2015, we acquired additional shares in Thai equity method subsidiary Air Products Industry Co., Ltd., transforming it into a wholly owned subsidiary. In July 2015, we entered the Australian industrial gases market with the acquisition of Renegade Gas Pty Ltd, a LP gas and industrial gas distributor in Australia. As we did not previously have a production base in Oceania, this move has given us a foothold in this important market. In addition to maximizing synergies by selling Taiyo Nippon Sanso Group products through our sales network in eastern Australia, we will continue to expand our operations by establishing new production bases.

We also continued our program of strategic U.S. acquisitions with the purchase of Texas-based 3D Welding & Industrial Supply Inc. Subsidiary Matheson Tri-Gas, Inc., has five air separation units in Texas, giving us a solid operating foundation in the state. The new acquisition will add further depth to our local operations and position us to further expand our presence in this key market.

Going forward, we will continue seeking to take advantage of promising M&A opportunities that will enable us to expand or deepen our operations and add new products to our portfolio.

Assertive M&A Activities



The Road Ahead

Guided by our medium-term business plan, we will press ahead with a variety of transformation initiatives, particularly in Japan, and with measures based on the plan's growth-oriented strategic policies, summarized simply as, "innovation," "globalization" and "M&A." Despite sharply declining energy prices, our operating environment has not changed significantly since 2014, when the plan was launched. Accordingly, we have maintained the four key strategic policies of the plan and modified initiatives as necessary in response to change.

Fiscal year 2017 is the final year of Ortus Stage 1. We will continue working to ensure we meet the plan's targets as we move toward realizing our long-term vision, which will conclude in fiscal year 2023.

Expanding our U.S. Industrial Gases Operations

Message from Scott Kallman, President and CEO of Matheson Tri-Gas, Inc.

Growth strategy of the US industrial gas business by Matheson Tri-Gas, Inc.

Scott Kallman
President and CEO,
Matheson Tri-Gas, Inc.

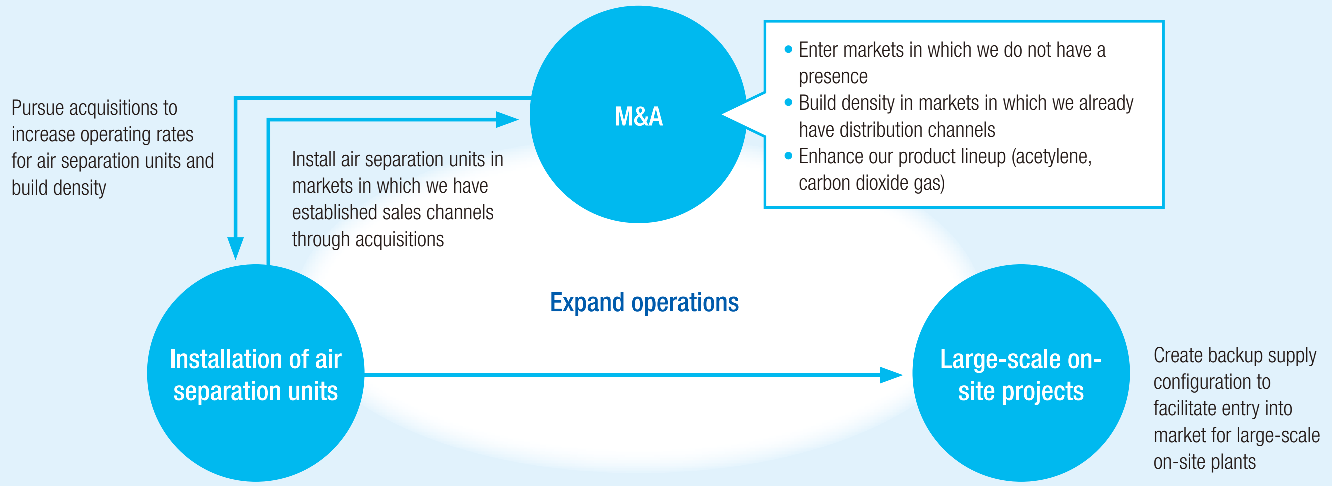
With the strong support of our parent company, Taiyo Nippon Sanso, the United States and MATHESON have become key growth engines for the Taiyo Nippon Sanso Group. We actively promote M&A and capital investments with the aim of expanding both our geographical coverage and vertically integrating our operations in order to better serve our Customers resulting in increased revenues and operating income.

Our M&A strategy includes three overlapping objectives. 1) The first is to broaden our packaged gas footprint through the acquisition of privately-owned or independent packaged gas distributors. This allows entry into markets in which we have yet to establish a presence allowing us to diversify our portfolio either geographically or by industry and customer type which can reduce volatility in our sales and profit performance. 2) The second objective is to build density in markets in which we already have distribution channels. Multiple acquisitions and/or investments in targeted markets increases the operating leverage of our business by reducing unit costs related to purchasing, production and distribution. 3) The third objective is product line extension. We look for products that require the same operations competencies and/or complement our existing product line. Acquisitions of Western International Gas & Cylinders in 2010 and Continental Carbonic Products in 2014 are prime examples of this M&A strategy objective.

We also focus on large scale onsite and pipeline capital projects that provide stable revenue over an extended period due to take or pay volumes or fixed fee long term contracts. These projects typically include the production of liquid products that ensure high reliability of supply to the onsite and pipeline Customer but also provide a source of liquid products for the surrounding merchant liquid market. Also, Taiyo Nippon Sanso's state-of-the-art plants reduce power costs and optimize operating overhead costs further enhancing our competitiveness and profitability.

These capital investments combined with distribution channels already in place or secured through our aggressive M&A activities results in the completion of our vertical integration strategy. This allows MATHESON to serve the marketplace via cylinders, bulk liquid or onsite and pipelines as we expand in the world largest industrial gas market.

M&A Strategy (Growth Strategy)



Our History in the U.S. and Recent Development

Our expansion into the U.S. industrial gases market

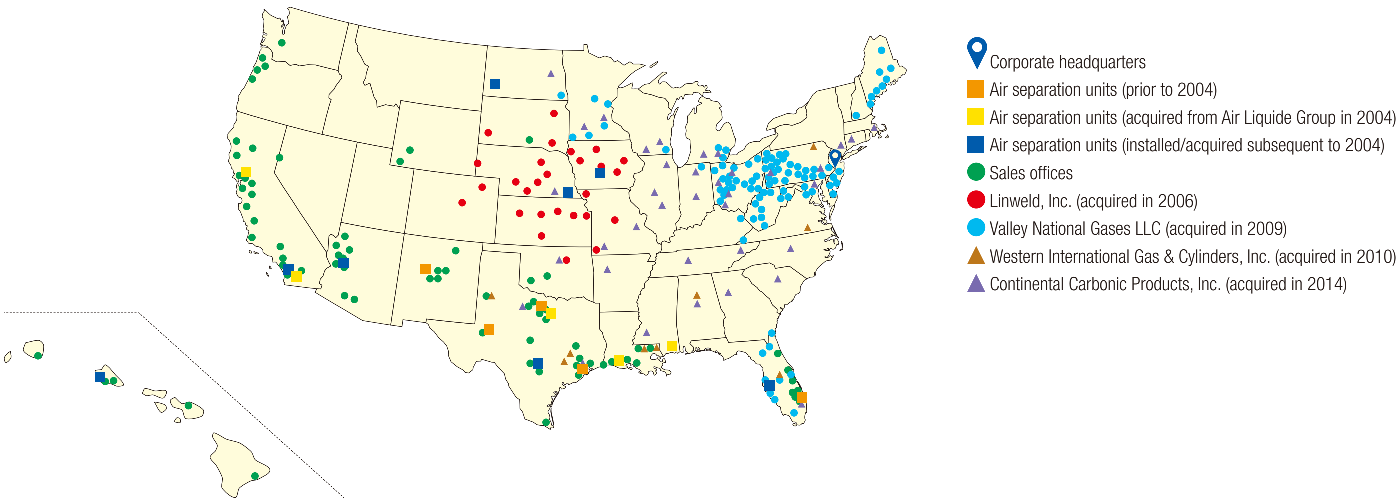
Efforts to enter the U.S. market, which began in 1980 with the establishment of Japan Oxygen, Inc., took a significant step forward in 1983 when we acquired Matheson Gas Products, Inc., a specialty gases firm headquartered in New Jersey with 12 production facilities in the United States and Canada. With this acquisition, we gained access to Matheson Gas Products' specialty gas production technologies, as well as its U.S. sales network, reinforcing our position in the specialty gases business in Japan and overseas.

While our U.S. operations focused on specialty gases and related equipment for close to a decade thereafter, in 1992 we acquired Tri-Gas, Inc., an industrial gases manufacturer based in Irving, Texas, with operations in Texas, New Mexico and Florida. This positioned us to expand our portfolio to include oxygen, nitrogen, argon and other general industrial gases and marked the start of our efforts to build an industrial gases supply network in the southern United States. In 1999, we merged Matheson Gas Products and Tri-Gas to create Matheson Tri-Gas, Inc., an integrated specialty and industrial gases manufacturer.

As part of the terms of an agreement permitting the Air Liquide Group's acquisition of the German, U.K. and U.S. gas businesses of Germany's Messer Griesheim GmbH, in 2004 the U.S. Federal Trade Commission (FTC) required Air Liquide to divest Messer's operations in the southern and western United States. Shortly thereafter, we reached an agreement to purchase seven Messer air separation units on six sites from Air Liquide, a move that substantially reinforced our operating foundation in the south and enabled us to enter key western states, creating a supply network that stretched from southern California to Florida.

The acquisition in 2006 of Linweld, Inc., a medium-sized privately held industrial gases producer headquartered in Nebraska, allowed us to extend our reach into the U.S. Midwest. In 2009, we acquired Valley National Gases LLC, the largest privately held distributor of industrial gases in the United States. With a network extending from the Midwest to the Northeast, Valley National Gases gave us a strong launch pad from which to expand our industrial gases operations across the entire continental United States.

An Expanded Presence in the United States



Expanding our U.S. Industrial Gases Operations

Thanks to our strategy of promoting expansion through select acquisitions, we currently have approximate 300 sites spanning 43 states. A parallel strategy focused on the installation of air separation units to reinforce our position as a manufacturer, as a result of which we installed units in Vernon, California in 2007; Des Moines, Iowa in 2009; San Antonio, Texas in 2010; Lakeland, Florida and Dickinson, North Dakota in 2013; and Mesa, Arizona (2014). Today, we have 18 air separation units in the United States, principally in the south, and are currently in the process of building three more: our second unit in Vernon, California and our third and fourth units in Westlake, Louisiana.

Strategic M&A activities also enabled us to enhance our product lineup. In 2010, we acquired Western International Gas & Cylinders, Inc., a leading U.S. manufacturer and wholesaler of acetylene, while in 2014 we acquired Continental Carbonic Products, Inc., a manufacturer of carbon dioxide gas and the number two supplier of dry ice in the U.S. market, positioning us to respond to firm demand, particularly from food and beverage manufacturers. In addition to expanding the scale of our operations, this acquisition solidified our position as a full-line industrial gases manufacturer.

Taiyo Nippon Sanso in the United States

1980	Established Japan Oxygen, Inc. and entered the U.S. market
1983	Acquired specialty gases producer Matheson Gas Products, Inc.
1992	Acquired industrial gases producer Tri-Gas, Inc.
1999	Merged Matheson and Tri-Gas to create Matheson Tri-Gas, Inc.
2004	Acquired the gas business of Messer Griesheim GmbH in the Southern and Western United States from the Air Liquide Group
2006	Acquired Linweld, Inc., a medium-sized industrial gases producer headquartered in the U.S. Midwest
2009	Acquired Valley National Gases LLC, the largest privately held distributor of industrial gases in the United States
2010	Acquired Western International Gas & Cylinders, Inc., the top U.S. manufacturer and wholesaler of acetylene
2014	Acquired Continental Carbonic Products, Inc., a leading manufacturer of carbon dioxide gas
2016	Acquired 18 air separation units in the Eastern and Midwestern United States from the Air Liquide Group


Linweld, Inc.

Valley National Gases LLC

Western International Gas & Cylinders, Inc.


Continental Carbonic Products, Inc.

Efforts to expand our on-site business

In Japan, our on-site plant business dates back to the 1960s. However, in the United States we were not organized to compete for large-scale on-site & pipeline projects despite our 2004 acquisition of the Westlake, Louisiana pipeline network. In 2010 we established the MATHESON On-site & Pipeline Business Development Team. Within twelve months we were awarded the supply of tonnage gaseous oxygen to a major titanium dioxide producer. In January, 2015 we were awarded the gaseous oxygen supply for the Sasol Ethane Cracker project in the Westlake area. This award required the replacement of existing Westlake plants with new large-scale air separation units, which almost tripled our previous gaseous oxygen production capacity. Since the Sasol win, the Team has competed for multiple on-site and pipeline proposals to opportunities across the United States. Most recently we were awarded the on-site gaseous oxygen supply to a major steel producer in the Southern United States and expect to be awarded additional significant business in the course of this coming four year plan.


Large-scale air separation unit on its way to Sasol Chemicals (USA)

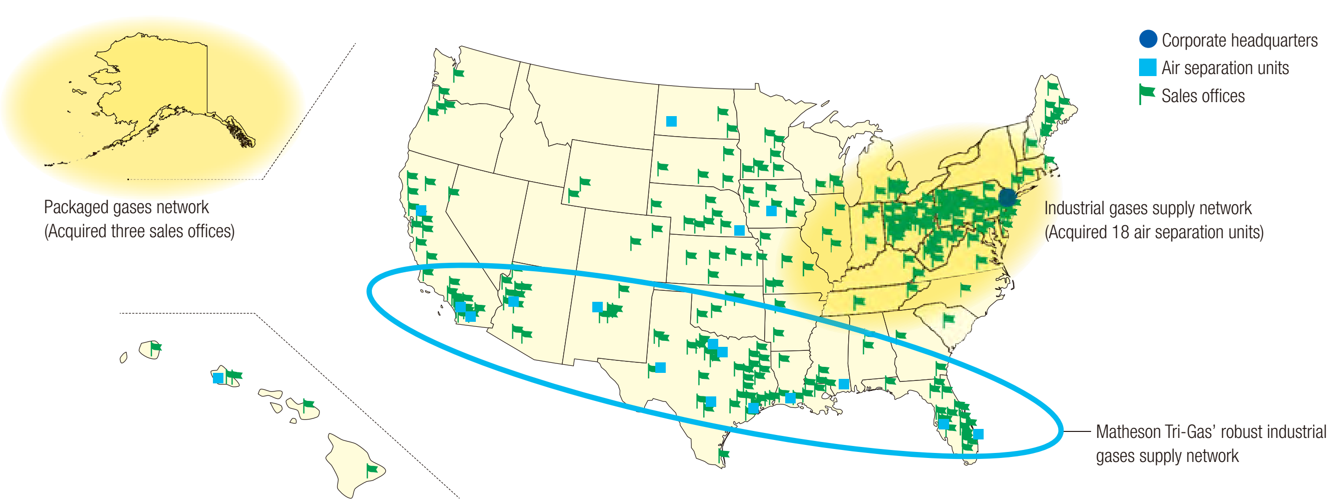

The Taiyo Nippon Sanso Group's air separation units are built at the Keihin Plant (Plant Engineering Center) for shipments across Japan

Expanding our U.S. Industrial Gases Operations

Recent developments

In May 2016, the FTC approved the Air Liquide Group's acquisition of Airgas, Inc., a prominent U.S. industrial gases company, with the requirement that the group divest certain assets. Matheson Tri-Gas subsequently entered into an agreement with the Air Liquide Group to purchase 18 air separation units in 16 locations within the Eastern and Midwestern United States, four liquefied carbon dioxide gas plants (two of which include dry ice plants), three packaged gas retail stores in Alaska, two nitrous oxide plants, and a number of related assets. This acquisition, combined with its existing network, makes Matheson Tri-Gas a nationwide, vertically integrated industrial gases company.

Operations in the United States



Investment Strategy

Our current medium-term business plan, Ortus Stage 1, which kicked off in April 2014, calls for the allocation of ¥200 billion over three years to investments in M&A activities, venture capital investments, major capital expenditures and rationalization. In the first two years of the plan, we invested ¥130 billion in total, including in M&A activities. In fiscal year 2017, we plan capital expenditures of ¥60 billion, as a result of which we expect total investments over the course of the plan to be largely in line with our original estimate.

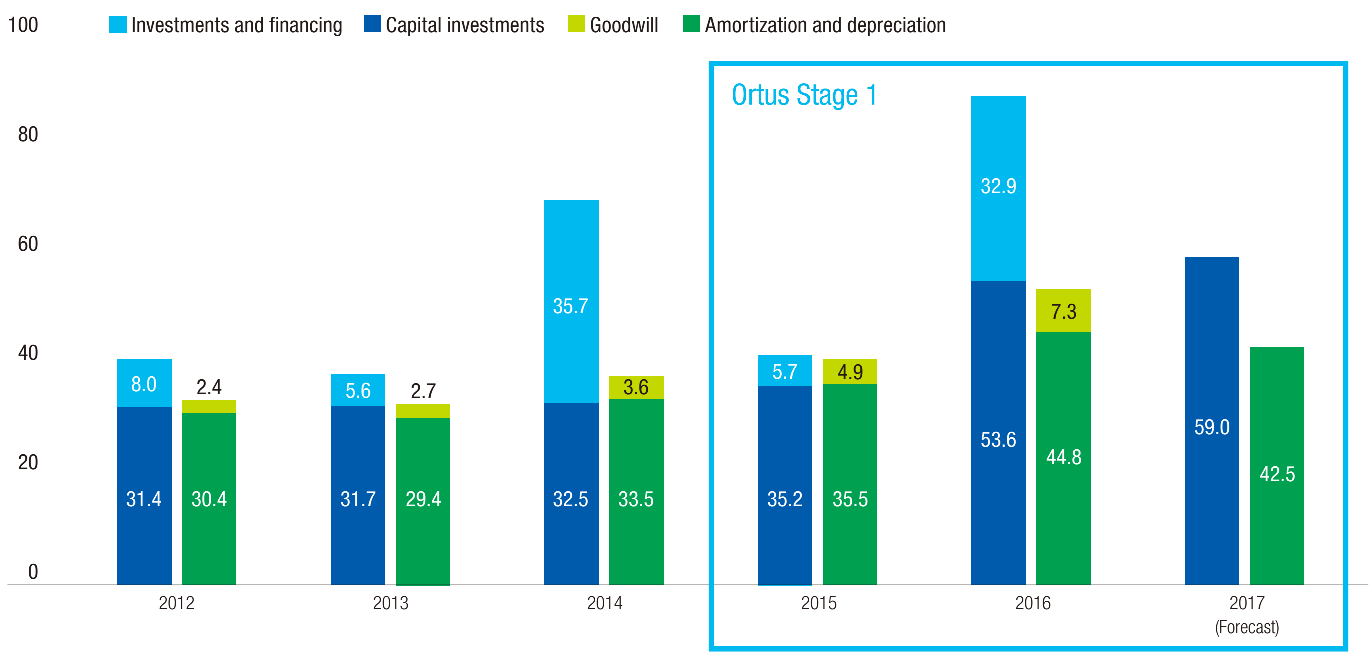
In Japan, where significant market growth is unlikely, investments will continue to be focused on rationalization, including the replacement of existing air separation units with high-efficiency units. We also recently formed a joint venture with a leading steelmaker—a major demand source which to date has produced its own industrial gases—whereby we will replace the company's existing plant. These developments underscore the fact that our domestic industrial gases business continues to grow despite minimal growth in the market. Another focus of investment is innovation, notably in our Water-^{18}O stable isotope business.

In the United States, the world's largest industrial gases market, we will invest in the establishment of new air separation units, the acquisition of distributors and the construction of new major on-site plants, against a backdrop of steady economic growth. We will also promote assertive capital expenditures and acquisitions in high-growth markets in Asia and Oceania with the goal of further expanding our operations.

We currently envision a 1:3 ratio for domestic and overseas investments as we prioritize selected investments in high-growth overseas markets.

Investment Strategy: Investments and Write-Offs

Years ended/ending March 31 (Billions of yen)



Notes: 1. We have not disclosed a forecast for investments and financing in fiscal year 2017.
2. With the adoption of IFRS, effective from fiscal year 2017, goodwill will no longer be amortized.

Gas Business in Japan

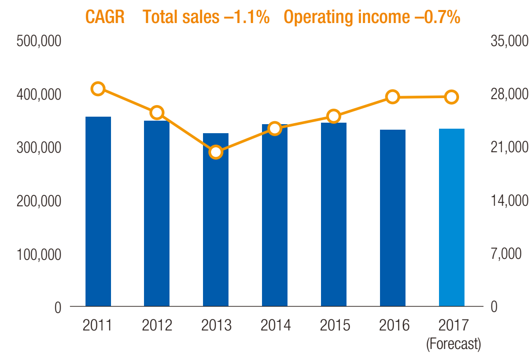
As Japan's leading manufacturer of industrial gases, we have an extensive nationwide network of production and sales bases, enabling us to provide industrial gases to a wide range of customers, including manufacturers in the steel, chemicals, electronics and transportation equipment industries. Formats for delivering gases include on-site plants, that is, air separation units built on or adjacent to customers' production facilities from which we supply separated gases directly via pipeline; and tanker trucks, which enable us to supply liquid gases in bulk. Sales in Japan account for approximately 60% of the Taiyo Nippon Sanso Group's overall sales.

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

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

Total Sales and Operating Income

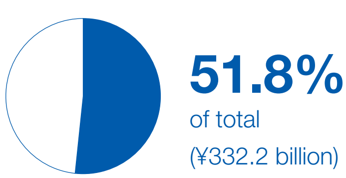
Years ended/ending March 31 (Millions of yen)

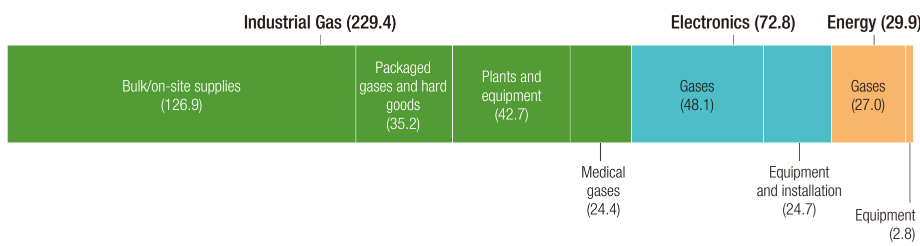


Note: Forecasts for fiscal year 2017 are based on IFRS.

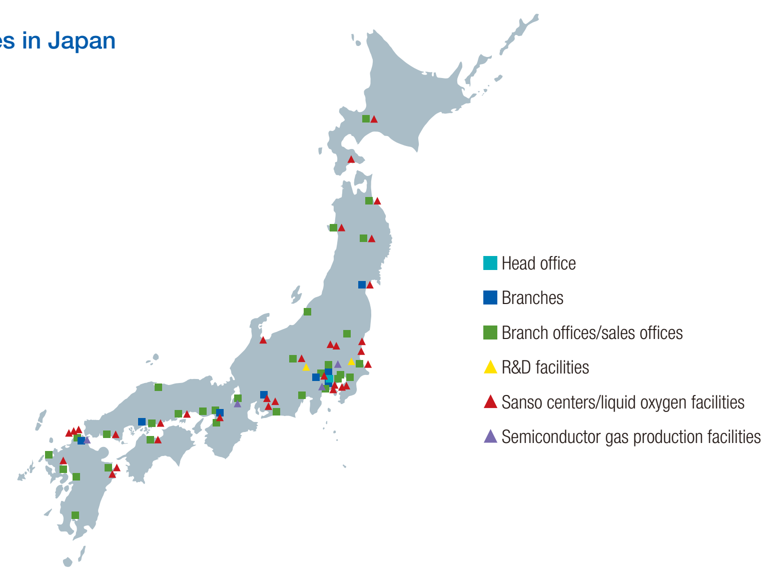
Breakdown of fiscal year 2016 sales by business segment

(Billions of yen)





Business sites in Japan



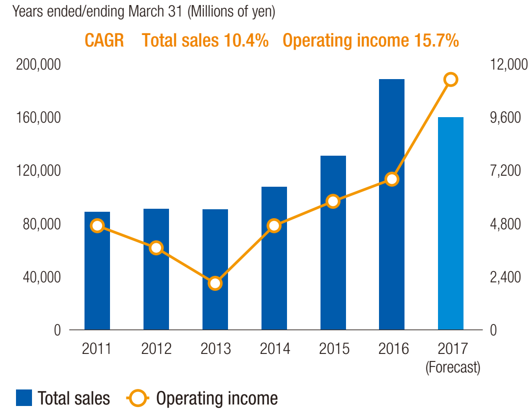
Gas Business in the United States

Efforts to expand our U.S. presence, which began in the 1980s with the acquisition of a local company, initially focused on the southern states. Since 2004, we have reinforced our operations across the country through strategic acquisitions of varying scales and the construction of plants. These moves have helped us more than triple our annual sales of industrial gases in the United States, to approximately ¥150 billion in fiscal year 2016, discounting the impact of a change in accounting period by certain subsidiaries, which resulted in the inclusion of 15 months of results for these companies.

Our principal business in the United States is the supply of packaged and bulk gases. We also provide a range of original cutting and welding equipment and other related items, another area in which we have secured a substantial market share. In recent years, we have diversified our product lineup through the acquisition of acetylene and carbon dioxide gas producers.

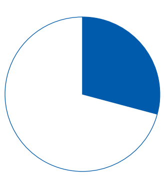
We continue to expand our U.S. operations through a two-pronged strategy of M&A activities and active investments. We start by acquiring a distributor in a new area. Once we have secured a market position, we install air separation units and commence sales of products through our local sales channels. Multiple subsequent acquisitions and/or investments increase the density of our operations, helping to reduce costs related to production, purchasing and transport, and enhancing our competitiveness and profitability in that area. Thanks to these efforts, as of March 31, 2016, we had bases in 43 states and 18 air separation units. We are also taking steps to grow our distribution networks, thereby increasing our presence and positioning us to accept major on-site orders. In January 2015, we accepted our first such order in the United States, from Sasol Chemicals (USA) in Louisiana. Looking ahead, we will work to further grow our U.S. operations by capitalizing on M&A opportunities to expand our customer reach, installing new air separation units and securing additional major on-site orders.

Total Sales and Operating Income

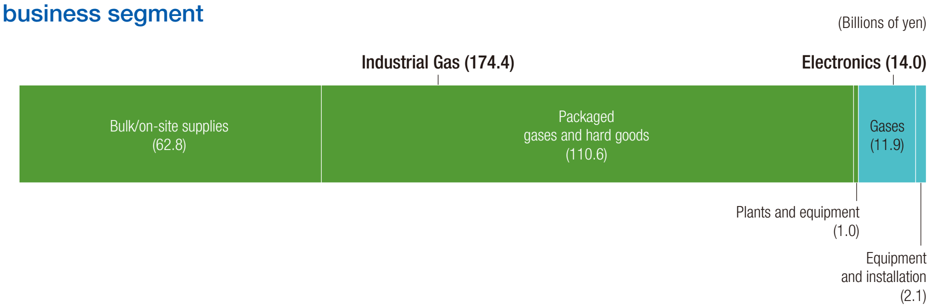


Note: Forecasts for fiscal year 2017 are based on IFRS.

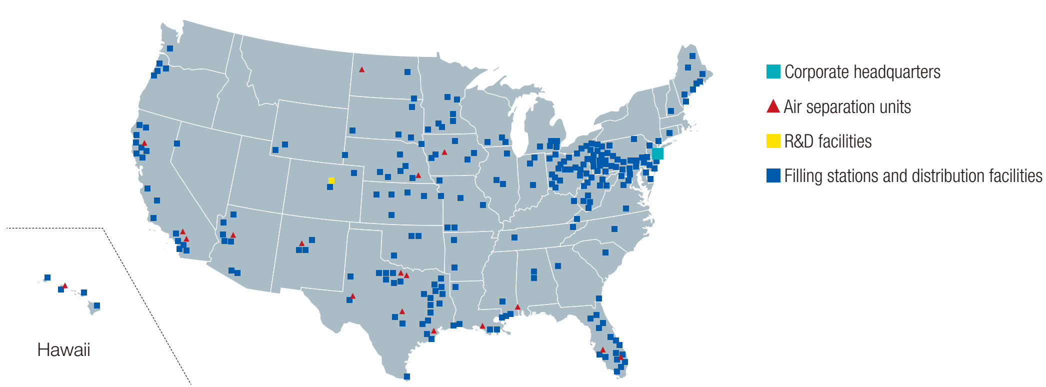
Breakdown of fiscal year 2016 sales by business segment



29.4%
of total
(¥188.5 billion)



Business sites in the United States

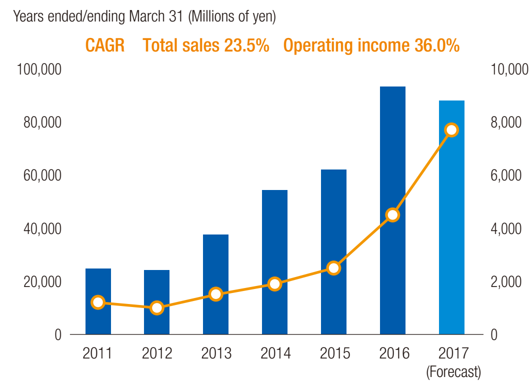


Gas Business in Asia and Oceania

Our operations in Asia center on the supply of industrial gases to manufacturers in Southeast Asia, China and India, and on electronics-related businesses in China, Taiwan and South Korea. We entered the Singaporean market in the early 1980s by establishing National Oxygen Pte. Ltd. Since then, we have gradually expanded our presence across the region. We also established a presence in the Philippines and Vietnam and are now the top producer of liquid gases in both countries in terms of production capacity, an achievement facilitated by the creation of a robust operating infrastructure. We continue to seek out promising investment opportunities in this region that will position us to capitalize on opportunities arising from brisk economic growth.

In 2012, we acquired Singapore-based Leeden Limited, a company with a broad Southeast Asia-wide network. In addition to packaged gases, Leeden is also a leading provider of cutting and welding equipment and safety-related products. We merged Leeden and National Oxygen in September 2014, integrating the extensive networks of these two companies and strengthening our industrial gases business in Singapore and Malaysia. We have also broadened our geographic reach. In February 2014, we established a base in Indonesia, Southeast Asia's largest market for industrial gases. In May 2015, we transformed a Thai affiliate into a consolidated subsidiary, while in July of the same year we acquired a distributor in Australia. Going forward, we will pursue additional decisive measures—including acquisitions—aimed at expanding our operations in this strategically important region.

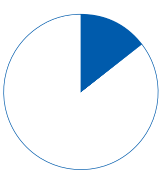
Total Sales and Operating Income



Note: Forecasts for fiscal year 2017 are based on IFRS.

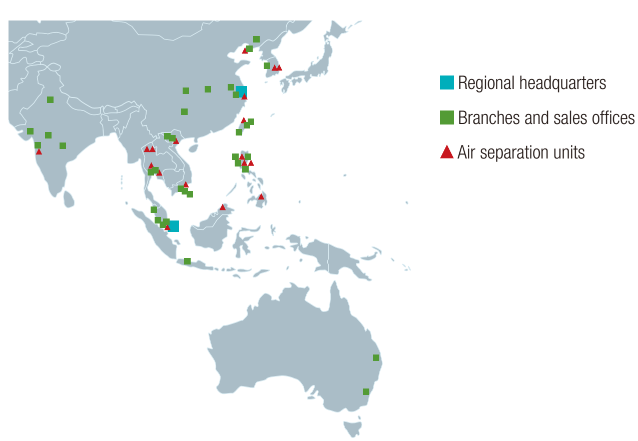
Breakdown of fiscal year 2016 sales by business segment

(Billions of yen)



14.5%
of total
(¥93.1 billion)

Business sites in Asia and Oceania



Thermos and Other Businesses

Our Thermos business dates back to 1978, when predecessor Nippon Sanso, seeking to diversify into new businesses in which it could leverage its existing technologies, developed a stainless steel high vacuum insulated bottle. In 1989, Nippon Sanso acquired the Thermos Group from a U.S. firm and commenced sales of Thermos-brand stainless steel vacuum insulated bottles.

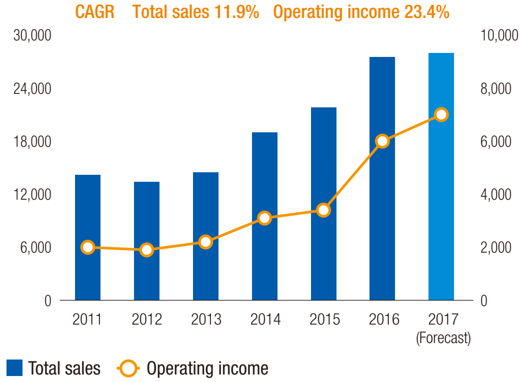
In the years since, Thermos K.K. has promoted effective advertising that has increased brand recognition and conferred highly positive status on Thermos-brand products. Thermos has also leveraged its outstanding product development capabilities to launch a steady stream of attractive new products. Today, new products account for approximately 30% of the company's annual production. These efforts have enabled Thermos to continue posting outstanding growth.

Today, Thermos boasts production facilities in Malaysia, China and the Philippines, giving it a robust manufacturing configuration, from which it supplies products to markets around the world, including Japan, the United States and China.

Looking ahead, Thermos will commence operations at a new production facility in the Philippines in the near future, further reinforcing its global production capabilities. The company will also continue to stimulate demand in the market by implementing regular product launches with the aim of achieving further growth.

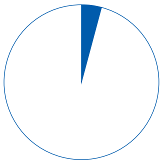
Total Sales and Operating Income

Years ended/ending March 31 (Millions of yen)



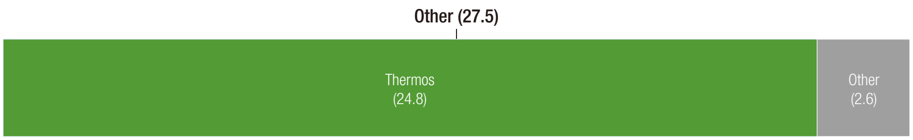
Note: Forecasts for fiscal year 2017 are based on IFRS.

Breakdown of fiscal year 2016 sales by business segment

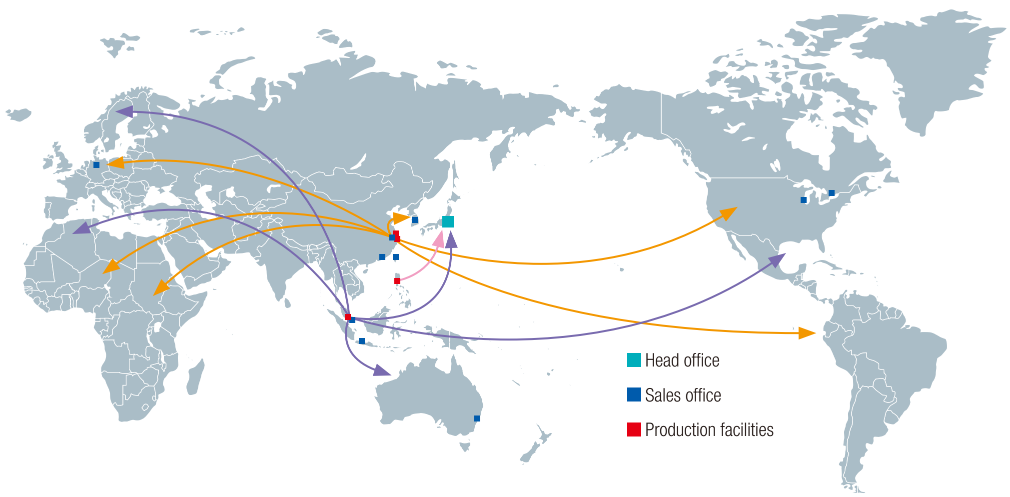


4.3%
of total
(¥27.5 billion)

(Billions of yen)



The Thermos Group's global network



Industrial Gas Business

We have industrial gas production and supply capabilities in Japan, the United States, Asia—including in China and India—and Oceania. This enables us to ensure safe and stable supplies to a wide range of 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 steel, chemicals, automobile, construction, shipbuilding, food, medicine and aerospace.

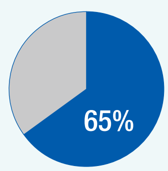
Breakdown by product

Years ended March 31 (Billions of yen)	2015	2016
Bulk gases	¥131.6	**¥159.8**
On-site gases	59.3	**58.1**
Packaged gases	64.2	**83.7**
Hard goods	66.9	**77.5**
Gas equipment	34.5	**41.7**
Total	¥356.8	**¥421.0**

Percentage of net sales

¥421.0 billion

(Fiscal year 2016)



Competitive advantages

- **Top share of Japan's market for industrial gases; optimal production and supply configuration, facilitating safe and stable supplies**
  We enjoy a 40% share of Japan's market for industrial gases. Our extensive domestic distribution network includes more than 30 liquid gas production facilities and 200 filling stations. At our liquid gas production facilities, we are steadily replacing equipment with state-of-the-art, high-efficiency air separation units. We have recently secured new orders for on-site supplies for, among others, Nippon Steel & Sumitomo Metal Corporation's Yawata Works, JFE Steel Corporation's West Japan Works (Kurashiki Area).
- **A growing network of air separation units in the United States and Asia**
  We expect to complete construction of air separation units in Vernon, California, and Sabah, Malaysia, in December 2016.
- **Increased overseas market thanks to acquisition of U.S. industrial gases companies**
  In the United States, we recently acquired a gas business and related assets, including air separation units, from Air Liquide. In Australia, we acquired distributor Renegade Gas Pty Ltd, securing a bridgehead into Oceania.
- **Establishment of new carbon dioxide gas production facilities in Japan and Singapore**
  With raw materials sources declining in Japan, we are in the process of building a plant for the production of carbon dioxide at Mitsubishi Chemical Corporation's Mizushima Plant.

Plants and Engineering Business

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

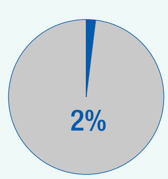
Breakdown by product

Years ended March 31 (Billions of yen)	2015	2016
Plant engineering	¥13.3	**¥12.3**
Total	¥13.3	**¥12.3**

Percentage of net sales

¥12.3 billion

(Fiscal year 2016)



Competitive advantages

- **Top share of Japan's market for air separation units**
- **A wealth of accumulated cryogenic and adsorption technologies, which we are leveraging to reduce consumption of electricity and cost per unit of production, as well as to increase the quality and size of plants**
- **Cutting-edge simulation technologies that ensure the optimal operation of air separation units in response to different requirements**
- **One of only three helium container manufacturers worldwide and the only one in Japan**
  We are expanding our manufacturing containers that facilitate the cryogenic transport of helium over long distances to capitalize on rising global demand.

Electronics-related Business

Operating in an industry that is increasingly characterized by global-scale competition and cooperation, electronics manufacturers today strive constantly to enhance both the efficiency and stability of their production processes. 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 enable us to respond to customer needs around-the-clock. 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.

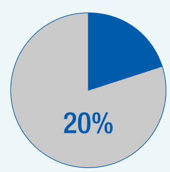
Breakdown by product

Years ended March 31 (Billions of yen)	2015	2016
Gases	¥ 78.2	**¥ 94.6**
Equipment and installation	25.3	**31.4**
Total	¥103.6	**¥126.1**

Percentage of net sales

¥126.1 billion

(Fiscal year 2016)



Competitive advantages

- **World-class total gas and equipment solutions made possible by stringent quality control and clean technologies**
  Solutions include high-purity gas piping systems.
- **Supply structure encompassing key global markets**
  Our supply structure covers Japan, East Asia (South Korea, China and Taiwan), Southeast Asia and the United States. Our global network enables us to optimize production, procurement and transport.
- **Rising sales of MOCVD systems in cutting-edge fields**
  We recently provided a fully integrated SR-4000HT MOCVD system to Sandia National Laboratories, a global leader in research in the area of compound semiconductors. In addition, we delivered an MOCVD system for use in R&D to the University of California's Solid State Lighting & Energy Electronics Center and a next-generation system for research applications to Nagoya University (Professor Hiroshi Amano).

LP Gas Business

Our LP gas, supplied to customers across Japan through a proprietary network, is an environment-friendly fuel with minimal emissions of CO_2, a key cause of global warming,

In the event of a major natural disaster, LP gas supplies can be restarted more quickly than many other lifelines. We provide safe supplies of LP gas to production facilities for industrial applications and to fueling stations for taxis and other vehicles, as well as for use as propellants for insecticides and other aerosols and for various purposes by restaurants and other commercial customers and residential users.

Our operations also include sales of a variety of related products, including gas heat pumps and other air conditioning equipment, fuel cells for household use, and hot water heaters, as well as a full range of engineering, installation and after-sales services for supply facilities such as LP gas filling dispensers.

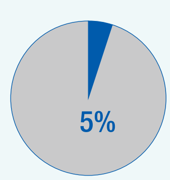
Breakdown by product

Years ended March 31 (Billions of yen)	2015	2016
LP gas	¥36.0	**¥27.0**
LP gas equipment	3.2	**2.8**
Total	¥39.3	**¥29.9**

Percentage of net sales

¥29.9 billion

(Fiscal year 2016)



Competitive advantages

- **Ranked seventh in Japan in terms of market share, with an annual LP gas supply capacity of 360,000 tons**
- **Ability to provide stable LP gas supplies to approximately 100,000 households; increasingly strong and efficient network in Japan for supplying commercial users thanks to the integration and/or expansion of sales and delivery sites**
  We merged five LP gas subsidiaries to create Taiyo Nippon Sanso Energy Corporation, a move aimed at reinforcing our operating foundation and expanding our operations in this area.

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 used in hospitals, as well as in home healthcare.

Applying our advanced gas technologies, we provide products for the biotechnology field, including cryopreservation containers for living cells, vaccines, and blood products, among others, as well as stable isotopes for use in advanced diagnostics and medical treatment.

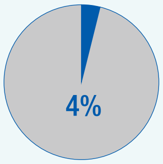
Breakdown by product

Years ended March 31 (Billions of yen)	2015	2016
Medical gases	¥ 7.9	**¥ 7.6**
Medical gases equipment	16.5	**16.8**
Total	¥24.4	**¥24.4**

Percentage of net sales

¥24.4 billion

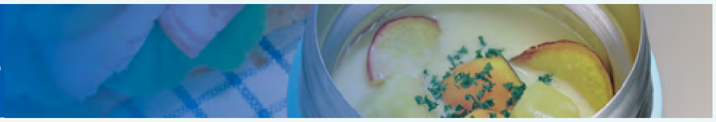
(Fiscal year 2016)



Competitive advantages

- **A world-class 600 kg annual production capacity for stable isotope Water-^{18}O, a starting material for agents used in positron emission tomography (PET) cancer diagnostics produced through the application of air separation technologies**
  The recent start of operations at a third plant in Japan has expanded the scale of our stable isotopes business.
- **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 various cutting-edge areas**
- **Japan's largest network of production bases, filling facilities, and distribution and maintenance bases, ensuring stable supplies of high-grade medical gases and equipment nationwide**
- **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 and Other Businesses



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. The company has established its own stringent quality standards and created an integrated production system that encompasses planning, development, manufacturing and sales, positioning it to further enhance brand value and expand sales.

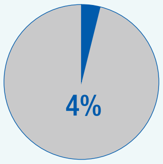
Breakdown by product

Years ended March 31 (Billions of yen)	2015	2016
Thermos	¥19.1	**¥24.8**
Others	2.6	**2.6**
Total	¥21.7	**¥27.5**

Percentage of net sales

¥27.5 billion

(Fiscal year 2016)



Competitive advantages

- **Products that are developed in Japan, manufactured in Southeast Asia and sold in approximately 120 countries and territories worldwide; a reputation for unconditional commitment to quality and a solid top global market share**
  Against a backdrop of rising demand for compact, ultralight steel vacuum bottles, we commenced production at a new facility in the Philippines, which has expanded our annual production capacity to 50 million units.
- **Ultralight tumbler that has swept markets worldwide thanks to its lightness, compact size and superb design**
- **Entry into the market for insulated wireless portable speakers thanks to the application of our vacuum insulation technologies in this area**

Corporate Governance

Principles of Corporate Governance

• Basic philosophy

From the perspective of ensuring sustainable growth for the Taiyo Nippon Sanso Group and increasing corporate value over the long term, and taking into account the positions of shareholders, customers, employees and local communities, we strive to guarantee the transparency and fairness of management. We believe that the essence of corporate governance is ensuring the effective use of available management resources, while at the same time bolstering the strength of management through prompt and decisive decision making. In October 2015, we adopted the following principles of corporate governance.

• Ensuring shareholder rights and equality

With the aim of giving shareholders sufficient time to consider proposals to be voted on at the ordinary general meeting of shareholders and enabling them to exercise their voting rights appropriately, we will send a notice of convocation approximately three weeks prior to the date of the meeting. We will also post this notice on our corporate website.

• Ethical standards

In discharging their various duties, directors, auditors, executive officers and employees are required to observe our Code of Conduct, which sets forth guidelines that enable them to act in accordance with relevant laws and ethical principles. Individuals can anonymously report any illegal or unethical acts to the Chief Compliance Officer (CCO), the Audit & Supervisory Board or a designated law office. In principle, the Board of Directors receives an account of the substance of such reports and the results of subsequent investigations once every six months.

• Composition and role of the Board of Directors

Our Board of Directors is composed of no fewer than three and no more than 15 members, at least two of whom are independent outside directors. Executive matters requiring a resolution by the Board of Directors include major M&As, significant capital investments and sizeable loans. Decisions on other executive matters are the responsibility of the president (CEO). To ensure the separation of supervisory and executive functions, the position of chairman of the Board of Directors is filled by a director other than the CEO.

• Establishment of the Advisory Committee on Appointments and Remuneration

The Board of Directors has established the Advisory Committee on Appointments and Remuneration, a discretionary advisory body that is charged with advising the Board on the appointment of and remuneration for members. The committee consists of the chairman, the president (CEO) and the independent outside directors.

• Period of appointment for independent outside directors and restrictions on concurrent appointments

Outside directors who have served on the Board of Directors and auditors who have served on the Audit & Supervisory Board for more than eight years shall not be considered for the position of independent outside director or independent outside auditor. Independent outside directors and independent outside auditors must not serve concurrently in the same capacity at more than three other listed companies.

• Selection of candidates for the position of director, auditor and executive officer

In selecting candidates for the position of director, auditor and executive officer, the Board of Directors consults with the Advisory Committee on Appointments and Remuneration. The committee draws up a list of candidates for these positions, giving due consideration to the composition of the Board of Directors and the Audit & Supervisory Board and to the qualities required of directors, auditors and executive officers, which it submits to the Board of Directors.

• Succession plan for the CEO

The president (CEO) takes care to ensure that potential successors are able to cultivate the necessary knowledge, experience and abilities. The Board of Directors supervises this process to ensure that due steps are being taken. Should the president (CEO) resign from the position, the Board of Directors consults directly with the Advisory Committee on Appointments and Remuneration, which submits the name of a candidate for successor.

• Setting the agenda for meetings of the Board of Directors and other issues

At a meeting held on an appropriate date, the chairman of the Board of Directors, having consulted with the president (CEO) and taken into account proposals and opinions put forth by other directors, determines important matters pertaining to business strategies, risk management and internal controls to be addressed at the meetings of the Board of Directors in the subsequent year.

• Access to internal information by independent outside directors and auditors

When necessary, independent outside directors and auditors may demand that internal directors, executive officers or employees submit an explanation, report or relevant internal materials.

• Evaluation by the Board of Directors

Based on self-evaluations conducted by individual directors, the Board of Directors conducts an annual analysis and evaluation of its overall effectiveness. The results of this evaluation are disclosed publicly in a timely manner.

• Remuneration for directors

Compensation for directors is determined by the president (CEO) in accordance with internal regulations governing the activities of the Board of Directors. Before it makes any revisions to these internal regulations, the Board of Directors consults with the Advisory Committee on Appointments and Remuneration, which submits a draft of proposed changes to the Board. Remuneration for independent outside directors reflects the time commitment and responsibilities of the individual and does not include stock-related or other performance-linked compensation.

• Dialogue with shareholders

We have established and published our disclosure policy, a basic policy on creating a framework and undertaking initiatives aimed at encouraging constructive dialogue with shareholders.

Management Structure

We have adopted an internal auditing system and clarified accountability on a fiscal year basis by setting the term of office for our directors at one year. In fiscal year 2016, our Board of Directors met 14 times to discuss important matters and hear reports on the status of business activities. We also established the Advisory Committee on Appointments and Remuneration, a discretionary committee under the Board of Directors consisting of the chairman of the Board of Directors, the president (CEO) and independent outside directors.

The Board of Directors consults with the Advisory Committee on Appointments and Remuneration to select candidates for the position of director, Audit & Supervisory Board member and executive officer and candidates to succeed the president (CEO), as well as regarding revisions to the internal regulations governing the Board of Directors, thereby ensuring the transparency and objectivity of decision making. In addition, we have established a Management Committee, which meets as necessary, helping to facilitate swift management decisions.

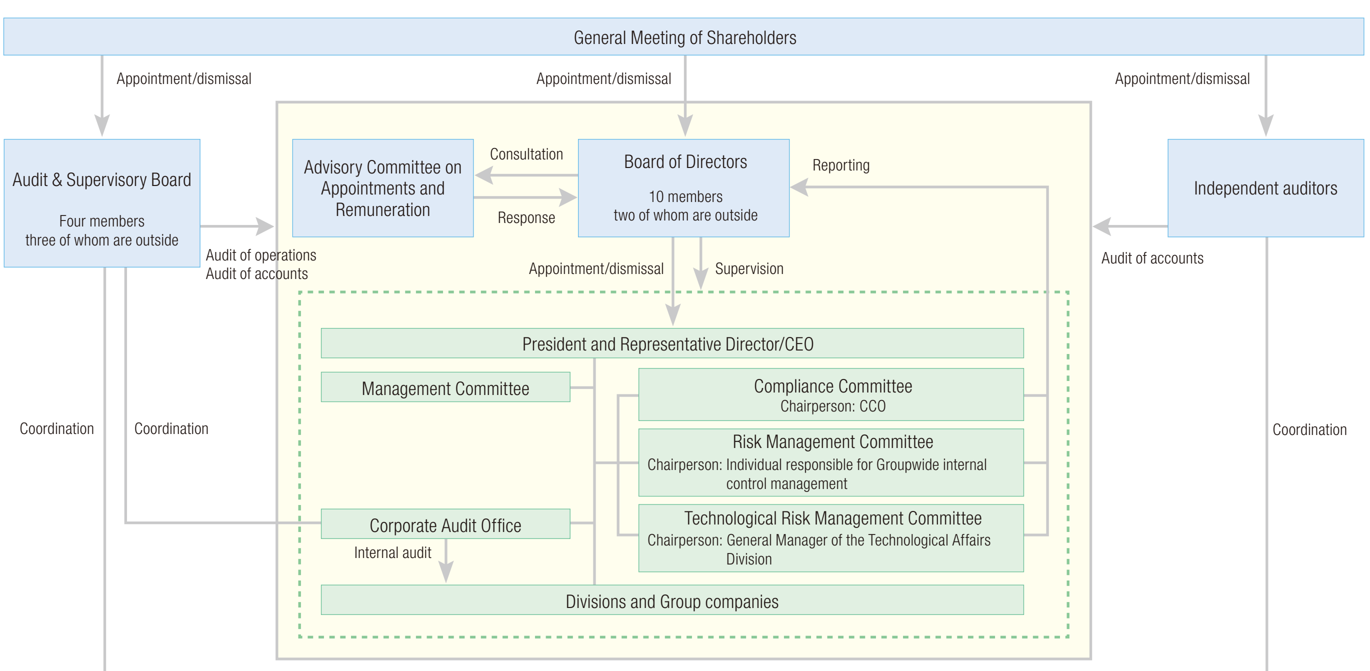
Auditing Structure and Internal Control System

To ensure adequate monitoring capabilities, our Audit & Supervisory Board has four members, three of whom satisfy the requirements of outside auditors, including two who are independent. In fiscal year 2016, the three outside auditors attended all 14 meetings of the Board of Directors. The Audit & Supervisory Board members meet with the independent auditors 12 times annually and accompany the independent accountants on their periodic site audits. This enables them to keep abreast of the implementation status and to exchange opinions with the independent accountants on key aspects of the auditing process and on the assessment of internal control risks associated with auditing. They are briefed on audit plans and audit results by the Corporate Audit Office, an internal auditing body, as well as by the Technical Audit Office on annual safety plans and their implementation. They also oversee management appropriateness and efficiency.

Remuneration for Directors

In fiscal year 2016, remuneration for 20 directors totaled ¥625 million, while that for four auditors totaled ¥105 million (including remuneration for nine directors who retired during the period). From fiscal year 2017 forward, remuneration for directors will consist of basic remuneration and performance-linked bonuses (medium- and short-term). Medium-term performance-linked bonuses are tied to degree of achievements of medium-term business plan targets, while short-term performance-linked bonuses are tied to year-on-year improvements in consolidated operating results.

Auditing and Risk Management Structure



Messages from Outside Directors

Akio Yamada
Outside Director

Changes in Taiyo Nippon Sanso's operating environment reflect swings in the operating environment of companies on the demand side. I am particularly impressed with the Company's efforts to implement transformation initiatives so that they are not driven by trends in the Japanese economy and to promote the expansion of their high-growth overseas business.

In 2015, an issue concerning the transmission of nonpublic information within the Company led to a violation of insider trading regulations. The independent third-party committee investigating the incident published its report in May 2015. I also appreciate that the Company has accepted the report's analysis of factors behind the violation and suggestions for measures to prevent recurrence and that management and employees are working as one to reform the corporate culture.

Since 2015, the Board of Directors has encouraged active debate with the aim of clarifying and strengthening corporate governance. This resulted in the formulation of new principles of corporate governance. Concurrently, we have reviewed and revamped other rules and practices.

To guarantee the separation of execution and supervision, we have revised the Rules for Directors and formulated rules governing the dispatch of directors to affiliated companies in a bid to improve management efficiency and transform the corporate culture. Rigorous recommendations from the Audit & Supervisory Board were very helpful in this process. The Board of Directors is also promoting the free and candid exchange of opinions on the evaluation of its performance and implementing reforms to ensure it functions as it should.

The Board of Directors encourages outside directors to speak freely from their own perspectives and takes our proposals and requests very seriously. I offer opinions from the perspective of shareholders and users of the Company's products and services. I have ample opportunity to exchange opinions with the chairman of the board and the president. I am keenly aware that the Company expects a great deal from its outside directors and I will continue to do my best to respond.

Taiyo Nippon Sanso is striving to achieve sustainable growth as a global concern by expanding its overseas operations and promoting the strategic allocation of management resources. The Company is currently taking steps to broaden its footprint in the United States, Asia and Australia. Accordingly, enhancing its global organization and management configuration and fostering human resources have become an increasingly critical challenge, as have creating standards of conduct suitable for a global corporation and auditing adherence thereto, and controlling overall risk. I look forward to pointing out issues and offering proposals from my particular perspective at meetings of the Board of Directors and whenever else the opportunity arises.

Mitsuhiro Katsumaru
Outside Director

Taiyo Nippon Sanso has achieved tremendous growth to date through an aggressive program of mergers with affiliates and competitors, particularly in the industrial gases business, and reorganization. Today, the Company is a multifaceted organization with an extensive group of subsidiaries and affiliates in Japan, as well as in the United States, Asia and elsewhere. By providing a stable supply of industrial gases, the Company supports a wide range of business activities. These efforts also support advanced medicine and environmental preservation and thus play a crucial role in society.

Japan's new Corporate Governance Code took effect June 2015. Taiyo Nippon Sanso responded promptly, setting its own internal corporate governance rules in October. Incorporating opinions expressed by the outside directors to a significant extent, the Company also established rules governing the dispatch of directors to affiliated companies, thereby improving the level of governance across the Taiyo Nippon Sanso Group. Strengthening overall governance is all the more important because this is an extensive Group with a long history.

Outside directors have multiple roles, but their key role is to create an atmosphere that encourages the free exchange of opinions at the Board of Directors' meetings. It is sometimes (always?) said that the opinions of outside directors tend to be off the mark; if that is the case, I want directors to chime in with their views, because diversity of opinion drives positive change. A particularly memorable episode occurred at a Board of Directors' meeting in March 2016, during a debate pertaining to board evaluation-reviews. While the chairman of the Company, who is also chairman of the Board of Directors, proposed the debate, I was particularly impressed to see each of the directors state their opinions passionately and purposefully, as the president listened intently. The Board of Directors is without a doubt more lively and active than it was in the past and is contributing positively to ensuring continued compliance.

Taiyo Nippon Sanso's overseas operations will continue to expand in the years ahead. CSR initiatives are also taking on increasing importance. Achieving sustainability and bolstering corporate value over the medium to long term will depend to a considerable degree on the Company's ability to ensure accurate disclosure of information both within the Group and to external audiences, and to enhance internal controls for the Group as a whole. Beyond that, the Company must be willing to take risks. I look forward to playing a role in helping to manage the Company in a manner worthy of the confidence of shareholders and other stakeholders.

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

(As of June 21, 2016)

Members of the Board of Directors

Member of the Board, Chairman
Shotaro Yoshimura

Member of the Board, Vice Chairman
Kunishi Hazama

Representative Director, President and Chief Executive Officer
Yujiro Ichihara

Representative Director, Executive Vice President
Tadashige Maruyama

Members of the Board, Senior Managing Executive Officers
Shigeru Amada
William J. Kroll
Hiroshi Katsumata

Members of the Board
Akio Yamada*
Mitsuhiro Katsumaru*
Masanori Karatsu

Audit & Supervisory Board Members

Yasufumi Miyazaki**
Kinji Mizunoe
Kazunari Higuchi**
Naoya Fujimori**

Note: *Outside Director
**Outside Auditor

Executive Officers

Managing Executive Officers
Akihiko Umekawa
Shinichiro Hiramine
Yuki Hajikano
Jun Ishikawa

Senior Executive Officers
Shigenobu Somaya
Mikio Yamaguchi
Masahiro Sakamoto
Hiroyuki Tanizawa
Norikazu Ishikawa
Kou Matsumoto
Hirohisa Yanagida
Masahiro Uehara
Haruhiko Yasuga
Kenji Nagata

Executive Officers
Shigeyuki Osawa
Masahisa Kanzaki
Kunihiro Kobayashi
Junzo Tai
Nobuaki Kobayashi
Masami Myobatake
Yasuhiko Kawano
Yuki Endo
Toshikazu Kurishita
Satoshi Wataru
Tsutomu Moroishi
Toshihiro Fukagawa
Toyoyuki Sato
Yasushi Nagaoka
Masaharu Takagi

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2016**	2015	2014	2013	2012	2011
For the year:						
Net sales	**¥641,516**	¥559,373	¥522,746	¥468,387	¥477,451	¥483,620
Operating income	**43,362**	35,297	31,489	24,884	31,067	35,468
Net income (loss) attributable to owners of the parent	**25,845**	20,764	20,194	(2,071)	21,200	12,736
Capital expenditures	**53,611**	35,201	32,532	31,715	31,452	31,991
Investments and loans	**32,941**	5,710	35,749	5,672	8,035	15,171
Depreciation and amortization	**44,864**	35,568	33,507	29,400	30,471	32,167
Amortization of goodwill	**7,352**	4,959	3,668	2,719	2,472	3,635
Research and development expenses	**3,348**	3,430	3,170	3,177	3,458	3,924
At year-end:						
Interest-bearing debt	**274,424**	266,276	278,063	253,424	241,121	256,358
Net interest-bearing debt	**223,638**	212,855	219,727	228,681	206,524	211,808
Total net assets	**337,974**	341,207	298,475	224,253	219,611	207,416
Total assets	**783,248**	782,357	731,677	615,820	607,024	617,676
Financial indicator:						
Selling, general and administrative expenses/ Net sales (%)	**28.4%**	26.7%	26.4%	26.8%	26.3%	26.1%
Return on equity[1] (%)	**8.2%**	7.0%	8.4%	(1.0)%	10.8%	6.5%
Return on capital employed[2] (%)	**7.4%**	6.2%	6.2%	5.5%	7.0%	7.8%
Net debt-to-equity (times)	**0.71**	0.67	0.80	1.12	1.03	1.10
	Yen					
Amounts of per share of common stock:						
Net income (loss)[3]	**¥59.72**	¥47.98	¥49.42	¥ (5.25)	¥53.33	¥31.86
Cash dividends	**16.00**	13.00	12.00	12.00	12.00	12.00
Dividends payout ratio (%)	**26.8%**	27.1%	24.3%	—%	22.5%	37.7%
Price earnings ratio (times)	**17.88**	34.16	16.43	—	10.95	21.75

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

Management's Analysis of Operating Results and Financial Position

Change in Fiscal Year End of Certain Consolidated Subsidiaries

In fiscal year 2016, ended March 31, 2016, subsidiary Matheson Tri-Gas, Inc. and its 15 consolidated subsidiaries, Leeden National Oxygen Ltd. and its 49 consolidated subsidiaries, and Taiyo Nippon Sanso (China) Investment Co., Ltd., and its seven consolidated subsidiaries changed their fiscal year end from December 31 to March 31, resulting in a 15-month transitional accounting period for the settlement of accounts on a provisional basis using the extended period. Operating results for the period under review thus include 15 months of results for these companies, as a result of which consolidated net sales and consolidated operating income were ¥51,374 million and ¥2,976 million higher, respectively, than they would have been if this change had not occurred.

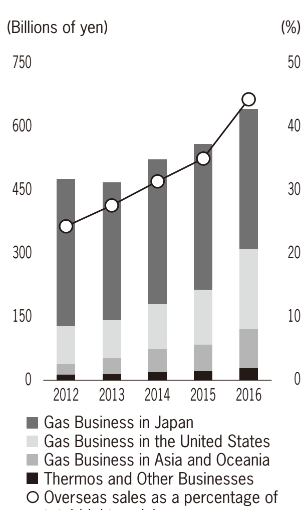
Operating Results

In fiscal year 2016, consolidated net sales rose 14.7%, to ¥641,516 million. Cost of sales increased 11.0%, to ¥416,102 million and selling, general and administrative expenses were up 22.1%, to ¥182,051 million. As a consequence, operating income advanced 22.8%, to ¥43,362 million, while the operating margin improved 0.5 percentage points, to 6.8%. Net income attributable to owners of the parent climbed 24.5%, to ¥25,845 million, bolstered by equity in earnings of affiliates of ¥2,626 million. Net income per share amounted to ¥59.72, an increase of ¥11.74, while return on capital employed (ROCE), at 7.4%, was up 1.2 percentage points.

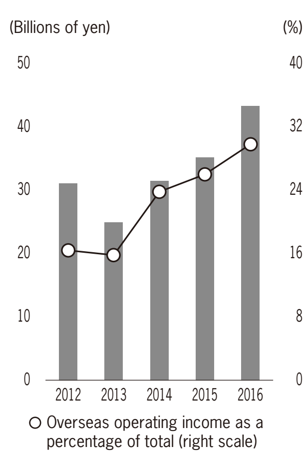
At the general meeting of shareholders held on June 21, 2016, shareholders approved a proposal to pay a year-end dividend of ¥9.00 per share, an increase of ¥2.00, bringing cash dividends for the period, comprising interim and year-end dividends, to ¥16.00 per share. This represented a payout ratio of 26.8%, or 28.3% discounting the impact of a change in accounting period by certain subsidiaries.

Capital expenditures, on a final acceptance basis, totaled ¥53,611 million, an increase of ¥18,410 million. Depreciation and amortization, at ¥44,864 million, was up ¥9,296 million. Research and development expenses declined ¥82 million, to ¥3,348 million, equivalent to approximately 0.5% of consolidated net sales.

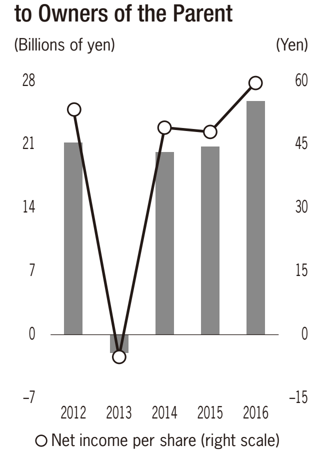
Net Sales



Operating Income



Net Income (Loss) Attributable to Owners of the Parent



Results by Segment

Gas Business in Japan

In the area of industrial gases, sales of our core separated gases (oxygen, nitrogen and argon) were down, despite firm demand from the shipbuilding and transportation equipment industries, as demand from the steel and chemicals industries declined. Sales of gas equipment rose substantially, with results particularly strong for hydrogen stations. Among electronics-related products, sales of electronics materials gases fell below the level of the previous year, owing to a decrease in demand from electronics, liquid crystal display (LCD) and semiconductor manufacturers. Sales of equipment and installation services for the electronics industry were up, supported by several major orders. In the energy field, sales of LP gas fell sharply, owing to declining import prices. Owing to these and other factors, segment sales declined 3.6%, to ¥332,247 million. In contrast, operating income rose 10.0%, to ¥27,539 million, thanks in part to cost reductions resulting from falling crude oil prices.

Gas Business in the United States

Sales of industrial gases were affected by declines in sales of packaged gases and hard goods. In electronics-related products, sales of electronics materials gases reflected robust shipments to key customers in the United States, as well as brisk exports. Foreign exchange translation gains and the inclusion of 15 months of results for Matheson Tri-Gas, owing to a change in the company's fiscal year, also pushed sales up significantly above the fiscal year 2015 level. Segment sales jumped 44.0%, to ¥188,566 million. Operating income advanced 17.6%, to ¥6,812 million.

Gas Business in Asia and Oceania

Robust sales in Vietnam and the Philippines pushed up sales in the area of industrial gases. During the period, Air Products Industry Co., Ltd. in Thailand and Renegade Gas Pty Ltd in Australia were made consolidated subsidiaries in May and July 2015, respectively. Sales in the area of electronics-related products rose substantially, underpinned by persistently strong demand in Taiwan, China and South Korea, which pushed up sales of electronics materials gases and gas equipment. The inclusion of 15 months of results for Singapore subsidiary Leeden National Oxygen also affected segment sales, which climbed 50.3%, to ¥93,174 million, and operating income, which soared 80.7%, to ¥4,461 million.

Thermos and Other Businesses

Sales of Thermos products remained strong, led by new products, underpinning a substantial increase in segment sales, which rose 26.5%, to ¥27,528 million. Operating income grew 74.3%, to ¥5,993 million.

Financial Position

Total assets as of March 31, 2016, amounted to ¥783,248 million, an increase of 0.1%. The appreciation of the yen, which was ¥7.87 higher against the U.S. dollar on March 31, 2016, than on the same day a year earlier, had a negative impact of approximately ¥24,300 million. The current ratio was 122%, down 23.0 percentage points. Property, plant and equipment, net, rose 4.4%, to ¥339,096 million, owing largely to increases in construction in process. Total investments and other assets declined 3.8%, to ¥182,260 million, primarily reflecting a decrease in investment securities.

Total current liabilities advanced 16.0%, to ¥214,145 million, as short-term loans payable increased ¥27,461 million. Total noncurrent liabilities were ¥231,128 million, down 9.9%, a result mainly of decreases in long-term loans payable of ¥21,321 million and deferred tax liabilities of ¥8,522 million. As a consequence, total interest-bearing debt rose ¥8,148 million, to ¥274,424 million. Total net assets stood at ¥337,974 million, a decrease of ¥3,233 million. Principal factors behind this result were a ¥19,954 million increase in retained earnings, to ¥210,911 million, reflecting changes in net income attributable to owners of the parent and dividends from surplus, and a ¥14,989 million decline in foreign currency translation adjustments, to ¥5,078 million, owing to yen appreciation. As a consequence, the equity ratio edged down 0.5 percentage points, to 40.0%, while net assets per share decreased ¥8.71, to ¥724.33.

Financial Strategy

We continue to adjust the balance of short-term funds flexibly through the issue of commercial paper and short-term loans payable while promoting the procurement of low-cost funds. Strategies for long-term funds focus on borrowings and the issue of corporate bonds, while we hedge interest rate risk by choosing fixed rates.

Our current medium-term business plan, Ortus Stage 1, anticipates cash generated by operating activities of ¥180 billion in over three years. Accordingly, even if investments require the entire ¥200 billion envisioned under the plan, obliging us to raise funds, there is no fear of our financial health deteriorating. Should we need to raise funds for a major acquisition, for example, we will be selective in the methods we use to minimize the financial impact thereof. Net cash provided by operating activities amounted to approximately ¥60 billion in fiscal year 2015 and around ¥80 billion in fiscal year 2016, exceeding our initial Ortus Stage 1 forecasts. Owing to an increase in shareholders' equity, our net debt-to-equity ratio began showing signs of improvement, reaching 0.71 times in fiscal year 2016.

Going forward, we will continue to make decisive investments in growth while continuing to prioritize an abundant cash flow from operating activities and a stable financial base.

Business Risks

Management Policy- and Business-Related Risks

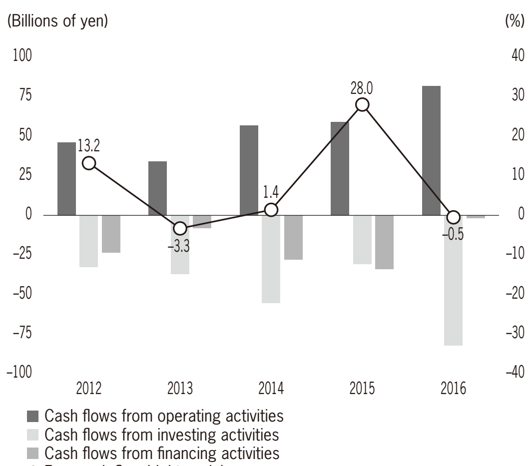
Purchase of Property, Plant and Equipment

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

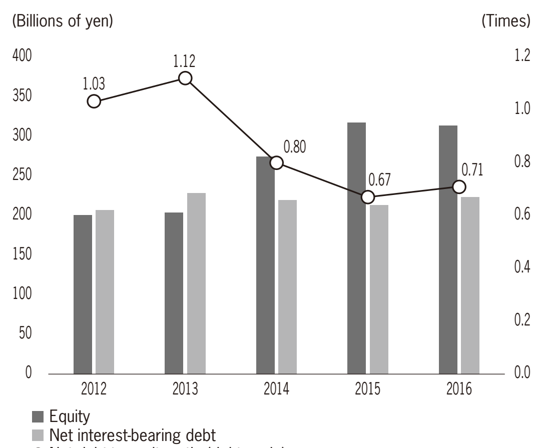
Manufacturing Costs

Electricity is the major component of the cost for 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.

Cash Flows



Net Debt-to-Equity Ratio



Overseas Factors
The Company maintains operations overseas, particularly in the United States and Asia. 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 Company actively promotes technological development activities aimed at facilitating future business expansion. However, the creation of new products and technologies entails various risks.

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, including toxic and flammable gases used in semiconductor fabrication. While the Company strives to ensure the effective management of related risks, it cannot guarantee that all of its products are free of defects.

Financial Risks and Other Factors

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

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

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

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

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

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

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
March 31	**2016**	2015	**2016**
Assets			
Current assets:			
Cash and deposits (Notes 15 and 21)	**¥ 50,785**	¥ 53,420	**$ 450,701**
Notes and accounts receivable—trade (Notes 6 and 15)	**146,460**	150,552	**1,299,787**
Merchandise and finished goods	**30,877**	30,252	**274,024**
Work in process	**11,406**	8,758	**101,225**
Raw materials and supplies	**10,827**	9,782	**96,086**
Deferred tax assets (Note 10)	**4,467**	8,387	**39,643**
Other	**9,130**	9,470	**81,026**
Allowance for doubtful accounts	**(2,063)**	(2,520)	**(18,308)**
Total current assets	**261,891**	268,105	**2,324,201**
Property, plant and equipment (Notes 8, 9 and 20)	**868,802**	828,957	**7,710,348**
Accumulated depreciation	**(529,706)**	(504,115)	**(4,700,976)**
Property, plant and equipment, net	**339,096**	324,842	**3,009,372**
Investments and other assets:			
Investment securities (Notes 5 and 15)	**60,275**	75,377	**534,922**
Long-term loans receivable	**3,421**	1,199	**30,360**
Goodwill (Notes 20 and 23)	**75,323**	66,471	**668,468**
Other intangible assets	**22,827**	25,701	**202,583**
Net defined benefit asset (Note 13)	**6,499**	8,396	**57,677**
Deferred tax assets (Note 10)	**2,302**	2,073	**20,430**
Other	**12,038**	10,542	**106,834**
Valuation allowance for investments	**(20)**	(20)	**(177)**
Allowance for doubtful accounts	**(406)**	(333)	**(3,603)**
Total investments and other assets	**182,260**	189,408	**1,617,501**
Total assets	**¥ 783,248**	¥ 782,357	**$ 6,951,083**

See notes to consolidated financial statements.

March 31	Millions of yen 2016	2015	Thousands of U.S. dollars (Note 4) 2016
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable—trade (Note 15)	**¥ 72,987**	¥ 77,036	**$ 647,737**
Short-term loans payable (Notes 7, 8 and 15)	**93,207**	65,746	**827,183**
Income taxes payable (Note 10)	**8,199**	7,113	**72,764**
Other (Notes 7, 8 and 10)	**39,752**	34,673	**352,787**
Total current liabilities	**214,145**	184,570	**1,900,470**
Noncurrent liabilities:			
Long-term loans payable (Notes 7 and 15)	**172,583**	193,904	**1,531,621**
Provision for directors' and corporate auditors' retirement benefits	**1,312**	1,230	**11,644**
Net defined benefit liability (Note 13)	**3,867**	3,824	**34,318**
Deferred tax liabilities (Note 10)	**34,929**	43,451	**309,984**
Lease obligations (Note 7)	**5,813**	4,779	**51,589**
Other	**12,621**	9,387	**112,007**
Total noncurrent liabilities	**231,128**	256,579	**2,051,189**
Contingent liabilities (Note 14)			
Total liabilities	**445,274**	441,149	**3,951,668**
Net assets (Notes 11 and 24):			
Shareholders' equity:			
Common stock:			
Authorized—1,600,000,000 shares			
Issued—433,092,837 shares in 2016 and 2015	**37,344**	37,344	**331,416**
Capital surplus	**55,537**	55,955	**492,874**
Retained earnings	**210,911**	190,957	**1,871,770**
Treasury stock	**(244)**	(232)	**(2,165)**
Total shareholders' equity	**303,549**	284,025	**2,693,903**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**5,445**	12,777	**48,323**
Deferred gains or losses on hedges	**(62)**	(461)	**(550)**
Foreign currency translation adjustments	**5,078**	20,067	**45,066**
Remeasurements of defined benefit plans (Note 13)	**(546)**	835	**(4,846)**
Total accumulated other comprehensive income	**9,916**	33,219	**88,001**
Non-controlling interests	**24,508**	23,963	**217,501**
Total net assets	**337,974**	341,207	**2,999,414**
Total liabilities and net assets	**¥783,248**	¥782,357	**$6,951,083**

Consolidated Statements of Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 4)
Years ended March 31	2016	2015	2016
Net sales (Note 20)	¥641,516	¥559,373	$5,693,255
Cost of sales (Note 17)	416,102	374,923	3,692,776
Gross profit	225,413	184,449	2,000,470
Selling, general and administrative expenses (Note 17)	182,051	149,151	1,615,646
Operating income	43,362	35,297	384,824
Other income (expenses):			
Interest and dividend income	1,316	1,259	11,679
Interest expenses	(4,214)	(3,508)	(37,398)
Amortization of negative goodwill	—	23	—
Loss on sales and retirement of noncurrent assets	(1,122)	(832)	(9,957)
Subsidy income	572	—	5,076
Gain on sales of investment securities	287	2,491	2,547
Equity in earnings of affiliates	2,626	2,500	23,305
Impairment loss (Notes 18 and 20)	(1,654)	(2,266)	(14,679)
Gain on step acquisitions	1,813	—	16,090
Loss on reduction of property, plant and equipment	(572)	—	(5,076)
Other	1,201	(457)	10,659
	254	(789)	2,254
Income before income taxes	43,616	34,507	387,078
Income taxes (Note 10):			
Current	17,419	12,856	154,588
Deferred	(1,199)	(482)	(10,641)
	16,219	12,373	143,939
Net income	27,396	22,133	243,131
Net income attributable to non-controlling interests	1,551	1,369	13,765
Net income attributable to owners of parent	¥ 25,845	¥ 20,764	$ 229,366
	Yen		U.S. dollars (Note 4)
Amounts per share:			
Net assets	¥724.33	¥733.04	$6.43
Net income attributable to owners of parent	59.72	47.98	0.53
Cash dividends	16.00	13.00	0.14

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	2016	2015	2016
Net income	¥ 27,396	¥22,133	$ 243,131
Other comprehensive income (Note 19):			
Valuation difference on available-for-sale securities	(7,328)	5,547	(65,034)
Deferred gains or losses on hedges	399	(454)	3,541
Foreign currency translation adjustments	(15,453)	21,559	(137,141)
Remeasurements of defined benefit plans	(1,403)	2,764	(12,451)
Share of other comprehensive income (loss) of associates accounted for using the equity method	(586)	1,416	(5,201)
Total other comprehensive income (loss)	(24,372)	30,831	(216,294)
Comprehensive income	¥ 3,024	¥52,965	$ 26,837
Total comprehensive income attributable to:			
Owners of parent	¥ 2,543	¥50,660	$ 22,568
Non-controlling interests	481	2,305	4,269

See notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

		Millions of yen				
		Shareholders' equity				
	Number of shares of common stock	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2014	433,092,837	¥37,344	¥56,478	¥177,269	¥(108)	¥270,983
Cumulative effects of changes in accounting policies	—	—	—	(1,539)	—	(1,539)
Restated balance at April 1, 2014	433,092,837	¥37,344	¥56,478	¥175,730	¥(108)	¥269,444
Dividends from surplus	—	—	—	(5,196)	—	(5,196)
Net income attributable to owners of parent	—	—	—	20,764	—	20,764
Change of scope of consolidation	—	—	—	(341)	—	(341)
Purchase of treasury stock	—	—	—	—	(148)	(148)
Disposal of treasury stock	—	—	12	—	31	43
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	(534)	—	—	(534)
Change in treasury stock arising from change in equity in entities account for using equity method	—	—	—	—	(6)	(6)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2015	433,092,837	¥37,344	¥55,955	¥190,957	¥(232)	¥284,025
Dividends from surplus	**—**	**—**	**—**	**(6,060)**	**—**	**(6,060)**
Net income attributable to owners of parent	**—**	**—**	**—**	**25,845**	**—**	**25,845**
Change of scope of consolidation	**—**	**—**	**—**	**169**	**—**	**169**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(11)**	**(11)**
Disposal of treasury stock	**—**	**—**	**0**	**—**	**0**	**0**
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**—**	**—**	**(418)**	**—**	**—**	**(418)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2016	**433,092,837**	**¥37,344**	**¥55,537**	**¥210,911**	**¥(244)**	**¥303,549**

	Millions of yen						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2014	¥ 7,257	¥ (7)	¥ (2,035)	¥(1,891)	¥ 3,323	¥24,168	¥298,475
Cumulative effects of changes in accounting policies	—	—	—	—	—	(47)	(1,587)
Restated balance at April 1, 2014	¥ 7,257	¥ (7)	¥ (2,035)	¥(1,891)	¥ 3,323	¥24,120	¥296,888
Dividends from surplus	—	—	—	—	—	—	(5,196)
Net income attributable to owners of parent	—	—	—	—	—	—	20,764
Change of scope of consolidation	—	—	—	—	—	—	(341)
Purchase of treasury stock	—	—	—	—	—	—	(148)
Disposal of treasury stock	—	—	—	—	—	—	43
Change in treasury shares of parent arising from transactions with non-controlling shareholders	—	—	—	—	—	—	(534)
Change in treasury stock arising from change in equity in entities account for using equity method	—	—	—	—	—	—	(6)
Net changes of items other than shareholders' equity	5,520	(454)	22,103	2,727	29,895	(157)	29,738
Balance at March 31, 2015	¥12,777	¥(461)	¥ 20,067	¥ 835	¥ 33,219	¥23,963	¥341,207
Dividends from surplus	**—**	**—**	**—**	**—**	**—**	**—**	**(6,060)**
Net income attributable to owners of parent	**—**	**—**	**—**	**—**	**—**	**—**	**25,845**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**169**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(11)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**(418)**
Net changes of items other than shareholders' equity	**(7,331)**	**399**	**(14,989)**	**(1,381)**	**(23,302)**	**544**	**(22,757)**
Balance at March 31, 2016	**¥ 5,445**	**¥ (62)**	**¥ 5,078**	**¥ (546)**	**¥ 9,916**	**¥24,508**	**¥337,974**

	Thousands of U.S. dollars (Note 4)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2015	$331,416	$496,583	$1,694,684	$(2,059)	$2,520,634
Dividends from surplus	**—**	**—**	**(53,781)**	**—**	**(53,781)**
Net income attributable to owners of parent	**—**	**—**	**229,366**	**—**	**229,366**
Change of scope of consolidation	**—**	**—**	**1,500**	**—**	**1,500**
Purchase of treasury stock	**—**	**—**	**—**	**(98)**	**(98)**
Disposal of treasury stock	**—**	**0**	**—**	**0**	**0**
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**—**	**(3,710)**	**—**	**—**	**(3,710)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2016	**$331,416**	**$492,874**	**$1,871,770**	**$(2,165)**	**$2,693,903**

	Thousands of U.S. dollars (Note 4)						
	Accumulated other comprehensive income						
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Non-controlling interests	Total net assets
Balance at April 1, 2015	$113,392	$(4,091)	$ 178,088	$ 7,410	$ 294,808	$212,664	$3,028,106
Dividends from surplus	**—**	**—**	**—**	**—**	**—**	**—**	**(53,781)**
Net income attributable to owners of parent	**—**	**—**	**—**	**—**	**—**	**—**	**229,366**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**1,500**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**(98)**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**0**
Change in treasury shares of parent arising from transactions with non-controlling shareholders	**—**	**—**	**—**	**—**	**—**	**—**	**(3,710)**
Net changes of items other than shareholders' equity	**(65,060)**	**3,541**	**(133,023)**	**(12,256)**	**(206,798)**	**4,828**	**(201,961)**
Balance at March 31, 2016	**$ 48,323**	**$ (550)**	**$ 45,066**	**$ (4,846)**	**$ 88,001**	**$217,501**	**$2,999,414**

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	2016	2015	2016
Operating activities			
Income before income taxes	¥ 43,616	¥ 34,507	$ 387,078
Depreciation and amortization	44,864	35,568	398,154
Impairment loss	1,654	2,266	14,679
Amortization of goodwill	7,352	4,959	65,247
Interest and dividends income	(1,316)	(1,259)	(11,679)
Interest expense	4,214	3,508	37,398
Equity in earnings of affiliates	(2,626)	(2,500)	(23,305)
Loss on sales and retirement of noncurrent assets	794	634	7,047
Gain on sales of investment securities	(287)	(2,506)	(2,547)
Gain on step acquisitions	(1,813)	—	(16,090)
Loss on reduction of property, plant and equipment	572	—	5,076
Subsidy income	(572)	—	(5,076)
Decrease (increase) in notes and accounts receivable—trade	6,079	(11,080)	53,949
Increase in accounts receivable—other	(541)	(175)	(4,801)
Decrease in advance payments	499	53	4,428
Increase in inventories	(3,632)	(3,931)	(32,233)
(Decrease) increase in notes and accounts payable—trade	(4,932)	4,979	(43,770)
Increase in accrued expenses	2,098	2,203	18,619
Increase in advances received	873	876	7,748
Decrease in net defined benefit liability	(18)	(43)	(160)
(Increase) decrease in net defined benefit asset	(217)	489	(1,926)
Other, net	829	2,424	7,357
	97,492	70,973	865,211
Interest and dividends income received	3,584	2,851	31,807
Interest expenses paid	(4,242)	(3,521)	(37,646)
Payments for early extra retirement payments	—	(1,398)	—
Income taxes paid	(15,278)	(10,290)	(135,588)
Net cash provided by operating activities	81,555	58,615	723,775
Investing activities			
Decrease in time deposits	247	804	2,192
Purchases of property, plant and equipment	(52,556)	(33,357)	(466,418)
Proceeds from sales of property, plant and equipment	1,592	2,035	14,129
Purchases of intangible assets	(590)	(886)	(5,236)
Purchases of investment securities	(1,060)	(3,038)	(9,407)
Proceeds from sales of investment securities	1,373	6,411	12,185
Purchases of shares of subsidiaries resulting in change in scope of consolidation (Note 21)	(25,429)	—	(225,674)
Payments of loans receivable	(2,536)	(1,084)	(22,506)
Payments for assets purchase (Note 21)	(1,690)	(78)	(14,998)
Proceeds from subsidy income	572	—	5,076
Other, net	(2,051)	(1,389)	(18,202)
Net cash used in investing activities	(82,130)	(30,583)	(728,878)
Financing activities			
Net increase in short-term loans payable	2,034	7,265	18,051
Proceeds from long-term loans payable	49,878	36,987	442,652
Repayment of long-term loans payable	(42,816)	(53,339)	(379,979)
Redemption of bonds	—	(15,000)	—
Purchases of investments in subsidiaries not resulting in change in scope of consolidation	(2,224)	(1,586)	(19,737)
Repayments of lease obligations	(2,213)	(2,049)	(19,640)
Proceeds from share issuance to non-controlling shareholders	242	—	2,148
Purchase of treasury stock	(16)	(182)	(142)
Proceeds from sales of treasury stock	0	12	0
Proceeds from disposal of treasury stock	—	21	—
Cash dividends paid	(6,060)	(5,196)	(53,781)
Cash dividends paid to non-controlling interests	(650)	(799)	(5,769)
Net cash used in financing activities	(1,825)	(33,866)	(16,196)
Effect of exchange rate change on cash and cash equivalents	(174)	1,287	(1,544)
Net decrease in cash and cash equivalents	(2,575)	(4,546)	(22,852)
Cash and cash equivalents at beginning of period	51,547	56,088	457,464
Increase in cash and cash equivalents resulting from change of scope of consolidation	307	5	2,725
Cash and cash equivalents at end of period (Note 21)	¥ 49,279	¥ 51,547	$ 437,336

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

1. Basis of Consolidated Financial Statements

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

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

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

2. Summary of Significant Accounting Policies

(a) Consolidation

The accompanying consolidated financial statements include the accounts of the Company and its 163 significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

From the year ended March 31, 2016, Matheson Tri-Gas, Inc. and its 15 consolidated subsidiaries, Leeden National Oxygen Ltd. and its 49 consolidated subsidiaries and Taiyo Nippon Sanso (China) Investment Co., Ltd. and its 7 consolidated subsidiaries, which previously closed their accounts at December 31, either changed the fiscal year-end to March 31 or changed the method of consolidation to provisional close of accounts complying regular settlement of accounts performed at March 31, which is the consolidated fiscal year-end.

As a result, financial statements of the above consolidated subsidiaries for 15 months from January 1, 2015 to March 31, 2016 were consolidated for the year ended March 31, 2016, and the effects of this change is adjusted in the consolidated statements of income. Net sales, operating income and income before income taxes for the period from January 1, 2015 to March 31, 2015 of the consolidated subsidiaries which changed fiscal year-end were ¥51,374 million ($455,928 thousand), ¥2,976 million ($26,411 thousand), and ¥2,522 million ($22,382 thousand), respectively.

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

(e) Property, plant and equipment (except for 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	3 to 20 years

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

(f) Intangible assets

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

(g) Leases

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

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

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

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

(i) Pension and severance indemnities
The benefit formula method is used as the method of attributing expected benefits to periods through the end of the fiscal year ended March 31, 2016 in calculating the projected benefit obligation.

Actuarial gains or losses and prior service cost are recognized for each defined benefit plan over a period not exceeding the expected average remaining service years of the employees participating in the plan. The Company and its consolidated domestic subsidiaries amortize actuarial gains or losses using the straight-line method over 12 to 16 years following the respective fiscal years when such gains or losses are recognized. Prior service cost is amortized using the straight-line method over 13 to 16 years.

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

(j) Provision 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 ¥801 million ($7,109 thousand) and ¥810 million for directors and corporate auditors at March 31, 2016 and 2015, respectively, and included ¥510 million ($4,526 thousand) and ¥420 million for corporate officers at March 31, 2016 and 2015, 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 attributable to owners of parent per share is not applicable as there were no potentially dilutive securities for the years ended March 31, 2016 and 2015.

(n) Allowance for doubtful accounts
To cover possible losses on collection of receivables, the Company and its consolidated subsidiaries provided for an allowance based on historical bad debt ratios for ordinary receivables, and based on estimated write-off amounts, after considering the likelihood of recovery on an individual basis for specific debts of which recovery is doubtful.

(o) Valuation allowance for investments
To state the investment amount fairly, the allowance is provided by considering the related parties' assets and other factors.

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

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

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

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

(r) Change in presentation
Effective from the year ended March 31, 2016, the Company has adopted the Paragraph 39 of the "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, issued on September 13, 2013). As a result, the Company changed the presentation of net income and the term "non-controlling interests" is used instead of "minority interests". Certain comparative information for the prior year was reclassified to reflect such changes in the current year presentation.

3. Accounting Standards Issued but Not Yet Effective

On March 28, 2016, the ASBJ issued "Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26).

(a) Overview

Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five categories, the following treatments were changed as necessary:

(1) Treatment for an entity that does not meet any of the criteria in categories 1 to 5;
(2) Criteria for categories 2 and 3;
(3) Treatment for deductible temporary differences which an entity classified as category 2 is unable to schedule;
(4) Treatment for the period which an entity classified as category 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
(5) Treatment when an entity classified as category 4 also meets the criteria for categories 2 or 3.

(b) Expected application date and effect of application

The Company does not plan to adopt this implementation guidance as the Group voluntarily adopts the International Financial Reporting Standards ("IFRS") effective from the first quarter of the year ending March 31, 2017. The effects of applying this implementation guidance on its consolidated financial statements are not evaluated.

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 ¥112.68 = U.S.$1, the approximate rate of exchange at March 31, 2016. 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, 2016 and 2015, 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		
	2016			**2016**		
	Carrying amount	Acquisition cost	Unrealized gain (loss)	Carrying amount	Acquisition cost	Unrealized gain (loss)
Unrealized gain items: Stock	**¥19,981**	**¥ 8,881**	**¥11,099**	**$177,325**	**$ 78,816**	**$ 98,500**
Unrealized loss items: Stock	**10,746**	**13,851**	**(3,105)**	**95,367**	**122,923**	**(27,556)**
Total	**¥30,728**	**¥22,733**	**¥ 7,994**	**$272,701**	**$201,748**	**$ 70,944**

	Millions of yen		
	2015		
	Carrying amount	Acquisition cost	Unrealized gain (loss)
Unrealized gain items: Stock	¥41,480	¥22,483	¥18,996
Unrealized loss items: Stock	191	228	(36)
Total	¥41,672	¥22,712	¥18,959

Proceeds from sales of securities classified as available-for-sale securities amounted to ¥1,237 million ($10,978 thousand) and ¥6,198 million with an aggregate gain on sales of ¥421 million ($3,736 thousand) and ¥2,535 million for the years ended March 31, 2016 and 2015, respectively, and an aggregate loss on sales of ¥0 million ($0 thousand) and nil for the years ended March 31, 2016 and 2015, respectively.

6. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Notes receivable transferred by liquidation	**¥1,720**	¥1,791	**$15,264**

(b) Notes receivable discounted at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Notes receivable discounted	**¥—**	¥2	**$—**

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

As of March 31, 2016 and 2015, 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
	2016	2015	**2016**
Bank loans	**¥30,678**	¥28,827	**$272,258**
Current portion of long-term loans payable	**52,528**	36,919	**466,170**
0.55% unsecured bonds, payable in yen, due 2017	**10,000**	—	**88,747**
Total	**¥93,207**	¥65,746	**$827,183**

The average interest rates applicable to bank loans outstanding at March 31, 2016 and 2015 were 1.41% and 1.10%, respectively.

Long-term loans payable at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Loans from banks due through 2035 at average interest rates of 1.33% in 2016 and 1.32% in 2015	**¥137,583**	¥148,904	**$1,221,006**
0.55% unsecured bonds, payable in yen, due 2017	**—**	10,000	**—**
0.44% unsecured bonds, payable in yen, due 2017	**10,000**	10,000	**88,747**
0.32% unsecured bonds, payable in yen, due 2019	**15,000**	15,000	**133,120**
0.56% unsecured bonds, payable in yen, due 2021	**10,000**	10,000	**88,747**
	¥172,583	¥193,904	**$1,531,621**

Short-term lease obligations at March 31, 2016 and 2015 included in other current liabilities were ¥2,820 million ($25,027 thousand) and ¥1,843 million, respectively.

The annual maturities of long-term loans payable subsequent to March 31, 2016 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥ 52,528	$ 466,170
2018	36,674	325,470
2019	30,328	269,152
2020	30,110	267,217
2021	30,598	271,548
2022 and thereafter	9,870	87,593
	¥190,112	$1,687,185

The annual maturities of lease obligations subsequent to March 31, 2016 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2017	¥2,820	$25,027
2018	2,354	20,891
2019	1,464	12,993
2020	1,059	9,398
2021	203	1,802
2022 and thereafter	731	6,487
	¥8,633	$76,615

8. Pledged Assets

Assets pledged as collateral for short-term loans payable of nil and ¥10 million and other of ¥18 million ($160 thousand) and ¥31 million at March 31, 2016 and 2015, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Property, plant and equipment, at net book value	**¥102**	¥491	**$905**

9. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Property, plant and equipment	**¥983**	¥411	**$8,724**

The amount of the reduction from the acquisition cost of property, plant and equipment, which were newly acquired during the year ended March 31, 2016, was ¥572 million ($5,076 thousand) for machinery and equipment.

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 33.06% and 35.64% for the years ended March 31, 2016 and 2015, respectively.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥ 2,203**	¥ 2,100	**$ 19,551**
Loss from valuation of inventory	**13**	26	**115**
Accrued expenses	**1,097**	4,220	**9,736**
Net operating loss carryforward for tax purposes	**23**	97	**204**
Other	**1,152**	2,256	**10,224**
Deferred tax assets—subtotal	**4,491**	8,701	**39,856**
Valuation allowance	**(23)**	(312)	**(204)**
Deferred tax assets—net	**4,467**	8,389	**39,643**
Offset by deferred tax liabilities	**(0)**	(1)	**(0)**
Net deferred tax assets	**¥ 4,467**	¥ 8,387	**$ 39,643**
Deferred tax liabilities:			
Other	**¥ (0)**	¥ (1)	**$ (0)**
Deferred tax liabilities—subtotal	**(0)**	(1)	**(0)**
Offset by deferred tax assets	**0**	1	**0**
Net deferred tax liabilities	**¥ (0)**	¥ —	**$ (0)**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 2,144**	¥ 2,191	**$ 19,027**
Net defined benefit liability	**1,290**	1,168	**11,448**
Other	**11,873**	7,211	**105,369**
Deferred tax assets—subtotal	**15,308**	10,570	**135,854**
Valuation allowance	**(4,803)**	(4,082)	**(42,625)**
Deferred tax assets—net	**10,505**	6,488	**93,229**
Offset by deferred tax liabilities	**(8,203)**	(4,414)	**(72,799)**
Net deferred tax assets	**¥ 2,302**	¥ 2,073	**$ 20,430**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**¥ (2,460)**	¥ (6,120)	**$ (21,832)**
Reserve for replacement of fixed assets	**(3,133)**	(3,471)	**(27,804)**
Reserve for special depreciation	**—**	(55)	**—**
Reserve for replacement of fixed assets—special	**(586)**	(656)	**(5,201)**
Depreciation	**(28,373)**	(29,750)	**(251,802)**
Other	**(8,578)**	(7,811)	**(76,127)**
Deferred tax liabilities—subtotal	**(43,132)**	(47,865)	**(382,783)**
Offset by deferred tax assets	**8,203**	4,414	**72,799**
Net deferred tax liabilities	**¥(34,929)**	¥(43,451)	**$(309,984)**

Reconciliation between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statements of income for the year ended March 31, 2016 was as follows:

	2016
Statutory tax rate	**33.06%**
Entertainment expenses and others not deductible permanently	**0.65**
Dividends received and others	**(0.24)**
Valuation allowance for deferred tax assets	**0.99**
Gain on step acquisitions	**(1.37)**
Amortization of goodwill	**1.89**
Difference in tax rates for overseas consolidated subsidiaries	**1.11**
Income tax rate changes	**(0.33)**
Other	**1.43**
Effective tax rates	**37.19%**

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

The "Act on Partial Revision of the Income Tax Act" (Act No. 15 of 2016) and the "Act on Partial Revision of Local Tax Act" (Act No. 13 of 2016) were passed by the National Diet on March 29, 2016 and income tax rates will be reduced effective from years beginning on or after April 1, 2016. Accordingly, the normal effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 32.34% to 30.86% and 30.62% for the temporary differences expected to be realized or settled from years beginning April 1, 2016 and 2017, and from years beginning April 1, 2018, respectively.

As a result, deferred tax liabilities, net of deferred tax assets, as of March 31, 2016 decreased by ¥279 million ($2,476 thousand) and income taxes—deferred, deferred gains on hedges and remeasurements of defined benefit plans decreased by ¥144 million ($1,278 thousand), ¥1 million ($9 thousand) and ¥6 million ($53 thousand), respectively, and valuation difference on available-for-sale securities increased by ¥143 million ($1,269 thousand) as of and for the year ended March 31, 2016.

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.

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, 2016 and 2015, 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
	2016	2015	**2016**
Acquisition costs:			
Property, plant and equipment	**¥580**	¥993	**$5,147**
Accumulated depreciation:			
Property, plant and equipment	**494**	859	**4,384**
Net book value:			
Property, plant and equipment	**¥ 86**	¥133	**$ 763**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥53 million ($470 thousand) and ¥59 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, 2016 and 2015, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2016 and 2015 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
2016		
2017	**¥ 51**	**$453**
2018 and thereafter	**34**	**302**
Total	**¥ 86**	**$763**
2015		
2016	¥ 51	
2017 and thereafter	82	
Total	¥133	

(b) Future minimum lease payments subsequent to March 31, 2016 and 2015 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2016		
2017	**¥ 2,732**	**$ 24,246**
2018 and thereafter	**10,984**	**97,480**
Total	**¥13,716**	**$121,725**
2015		
2016	¥ 2,607	
2017 and thereafter	9,971	
Total	¥12,579	

13. Pension and Severance Indemnities

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

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

Certain defined benefit corporate pension plans establish retirement benefit trusts.

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

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

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

Defined benefit plans

(a) The changes in projected benefit obligations for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of the year	**¥32,982**	¥31,669	**$292,705**
Cumulative effects of changes in accounting policies	**—**	2,319	**—**
Restated balance at beginning of the year	**¥32,982**	¥33,988	**$292,705**
Service cost	**1,361**	1,435	**12,078**
Interest cost	**253**	350	**2,245**
Actuarial loss	**553**	2	**4,908**
Retirement benefits paid	**(1,856)**	(2,814)	**(16,471)**
Other	**—**	19	**—**
Balance at end of the year	**¥33,294**	¥32,982	**$295,474**

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

(b) The changes in plan assets for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Balance at beginning of the year	**¥37,554**	¥34,810	**$333,280**
Expected return on plan assets	**625**	837	**5,547**
Actuarial (loss) gain	**(1,882)**	3,110	**(16,702)**
Contributions from the employer	**1,256**	1,122	**11,147**
Retirement benefits paid	**(1,627)**	(2,327)	**(14,439)**
Other	**—**	2	**—**
Balance at end of the year	**¥35,926**	¥37,554	**$318,832**

(c) The reconciliation between the balances of projected benefit obligation and plan assets and net defined benefit liability and the funded net defined benefit asset recorded on the consolidated balance sheets as of March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Funded projected benefit obligation	**¥ 29,808**	¥ 29,725	**$ 264,537**
Plan assets at fair market value	**(35,926)**	(37,554)	**(318,832)**
	(6,118)	(7,829)	**(54,295)**
Unfunded retirement benefit liabilities	**3,486**	3,257	**30,937**
Net liability and asset recorded on the consolidated balance sheet	**¥ (2,631)**	¥ (4,572)	**$ (23,349)**
Net defined benefit liability	**¥ 3,867**	¥ 3,824	**$ 34,318**
Net defined benefit asset	**(6,499)**	(8,396)	**(57,677)**
Net liability and asset recorded on the consolidated balance sheet	**¥ (2,631)**	¥ (4,572)	**$ (23,349)**

(d) The components of retirement benefit expenses for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Service cost	**¥1,361**	¥1,435	**$12,078**
Interest cost	**253**	350	**2,245**
Expected return on plan assets	**(625)**	(837)	**(5,547)**
Amortization of actual loss	**612**	891	**5,431**
Amortization of prior service cost	**(226)**	(226)	**(2,006)**
Net loss on change in accounting standard for employees' retirement benefits	**—**	461	**—**
Total	**¥1,375**	¥2,074	**$12,203**

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

(e) The components of remeasurements of defined benefit plans (before applicable tax effects) in other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Actuarial (loss) gain	**¥(1,823)**	¥3,999	**$(16,179)**
Prior service cost	**(226)**	(226)	**(2,006)**
Effect of change in accounting standard	**—**	423	**—**
Other	**—**	(74)	**—**
Total	**¥(2,050)**	¥4,121	**$(18,193)**

(f) The components of remeasurements of defined benefit plans (before applicable tax effects) in accumulated other comprehensive income as of March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Net unrecognized actuarial gain (loss)	**¥1,219**	¥ (604)	**$10,818**
Unrecognized prior service cost	**(558)**	(785)	**(4,952)**
Total	**¥ 660**	¥(1,389)	**$ 5,857**

(g) Information on plan assets for the years ended March 31, 2016 and 2015 was as follows:

(1) Components of plan assets as of March 31, 2016 and 2015 were as follows:

	2016	2015
Debt securities	**40%**	33%
Equity securities	**16**	25
Life insurance general accounts	**10**	31
Cash and cash equivalents	**33**	2
Others	**—**	9
Total	**100%**	100%

The retirement benefit trusts established for defined benefit corporate pension plans hold 15% and 17% of plan assets as of March 31, 2016 and 2015, respectively.

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

(h) The principal assumptions used for the actuarial calculation for the years ended March 31, 2016 and 2015 were as follows:

	2016	2015
Discount rates	**Mainly 0.6%**	Mainly 0.9%
Expected long-term rate of return on plan assets	**Mainly 2.5%**	Mainly 3.0%
Expected rate of salary increase	**Mainly 5.3%**	Mainly 5.3%

Defined contribution benefit plan
The required contributions to the defined contribution benefit plan were ¥2,460 million ($21,832 thousand) and ¥1,285 million for the years ended March 31, 2016 and 2015, respectively.

14. Contingent Liabilities

At March 31, 2016 and 2015, the Company and certain consolidated subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥2,359 million ($20,935 thousand) and ¥2,473 million, which included reguarantees by joint investors amounting to ¥173 million ($1,535 thousand) and ¥163 million and commitments to guarantees amounting to ¥79 million ($701 thousand) and ¥39 million, and guarantees for employees' bank loans based on employees' house ownership discount policy amounting to ¥959 million ($8,511 thousand) and ¥970 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, 2016 and 2015 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2016			**2016**		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and deposits	**¥ 50,785**	**¥ 50,785**	**¥ —**	**$ 450,701**	**$ 450,701**	**$ —**
Notes and accounts receivable—trade	**146,460**	**146,460**	**—**	**1,299,787**	**1,299,787**	**—**
Investment securities:						
Available-for-sale securities	**30,728**	**30,728**	**—**	**272,701**	**272,701**	**—**
Total assets	**¥227,974**	**¥227,974**	**¥ —**	**$2,023,198**	**$2,023,198**	**$ —**
Notes and accounts payable—trade	**¥ 72,987**	**¥ 72,987**	**¥ —**	**$ 647,737**	**$ 647,737**	**$ —**
Short-term loans payable	**30,678**	**30,678**	**—**	**272,258**	**272,258**	**—**
Long-term loans payable	**235,112**	**238,391**	**3,278**	**2,086,546**	**2,115,646**	**29,091**
Total liabilities	**¥338,777**	**¥342,056**	**¥3,278**	**$3,006,541**	**$3,035,641**	**$29,091**

	Millions of yen		
	2015		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 53,420	¥ 53,420	¥ —
Notes and accounts receivable—trade	150,552	150,552	—
Investment securities:			
Available-for-sale securities	41,672	41,672	—
Total assets	¥245,645	¥245,645	¥ —
Notes and accounts payable—trade	¥ 77,036	¥ 77,036	¥ —
Short-term loans payable	28,827	28,827	—
Long-term loans payable	230,824	232,437	1,613
Total liabilities	¥336,688	¥338,301	¥1,613

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, 2016 and 2015 for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Unlisted stocks	**¥29,547**	¥33,705	**$262,220**

(3) Redemption schedule for financial assets with maturities subsequent to March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
	Due in one year or less		
Cash and deposits	**¥ 50,785**	¥ 53,420	**$ 450,701**
Notes and accounts receivable—trade	**146,460**	150,552	**1,299,787**

(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 ¥48,374 million ($429,304 thousand) and ¥56,376 million as of March 31, 2016 and 2015, respectively.

16. Derivative and Hedging Activities

Derivative transactions for which hedge accounting is applied for the years ended March 31, 2016 and 2015 were as follows:

(a) Currency-related

		Millions of yen		
		2016		
	Hedged item	Contract amount	Due after one year	Fair value
Allocation method				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**¥ 1,403**	**¥—**	*
TWD		**3**	**—**	
Buy:	Accounts payable—trade			
USD		**7,128**	**—**	
EUR		**131**	**—**	
CHF		**292**	**—**	
SGD		**31**	**—**	
TWD		**1,576**	**—**	
Total		**¥10,565**	**¥—**	

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

		Thousands of U.S. dollars		
		2016		
	Hedged item	Contract amount	Due after one year	Fair value
Allocation method				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**$12,451**	**$—**	*
TWD		**27**	**—**	
Buy:	Accounts payable—trade			
USD		**63,259**	**—**	
EUR		**1,163**	**—**	
CHF		**2,591**	**—**	
SGD		**275**	**—**	
TWD		**13,987**	**—**	
Total		**$93,761**	**$—**	

* 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

		Millions of yen			Thousands of U.S. dollars		
		2016			2016		
	Hedged item	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	**¥36,997**	**¥27,480**	*****	**$328,337**	**$243,876**	*****

		Millions of yen		
		2015		
	Hedged item	Contract amount	Due after one year	Fair value
Short-cut method				
Interest-rate swap agreements:				
Receive floating/Pay fix	Long-term loans payable	¥47,252	¥35,224	*

*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, 2016 and 2015 totaled ¥3,348 million ($29,712 thousand) and ¥3,430 million, respectively.

18. Impairment Loss

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

Components of impairment loss for the years ended March 31, 2016 and 2015, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Buildings	**¥ —**	¥ 113	**$ —**
Machinery	**1,386**	2,152	**12,300**
Land	**267**	—	**2,370**
Total	**¥1,654**	¥2,266	**$14,679**

For gas production facilities whose profitability has declined due to changes in the business environment and whose future cash flows have proven to be below their book values, the book values were written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥1,386 million ($12,300 thousand) for the year ended March 31, 2016. The recoverable amounts of these assets were measured by value in use, calculated by discounting the future cash flows at 10.1%.

For idle assets affected by a decrease in the fair market value of land, the book values were written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥267 million ($2,370 thousand) for the year ended March 31, 2016. The recoverable amounts of these assets were measured based on the net realizable value using publicly notified land price based on property tax valuation.

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

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

19. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥(10,968)**	¥10,059	**$ (97,338)**
Reclassification adjustments for gains and losses included in net income	**(113)**	(2,351)	**(1,003)**
Amount before tax effects	**(11,081)**	7,707	**(98,340)**
Tax effects	**3,753**	(2,160)	**33,307**
Valuation difference on available-for-sale securities	**(7,328)**	5,547	**(65,034)**
Deferred gains or losses on hedges:			
Amount arising during the year	**(167)**	(479)	**(1,482)**
Reclassification adjustments for gains and losses included in net income	**770**	(200)	**6,834**
Amount before tax effects	**602**	(680)	**5,343**
Tax effects	**(203)**	225	**(1,802)**
Deferred gains or losses on hedges	**399**	(454)	**3,541**
Foreign currency translation adjustments:			
Amount arising during the year	**(15,453)**	21,559	**(137,141)**
Reclassification adjustments for gains and losses included in net income	**—**	—	**—**
Amount before tax effects	**(15,453)**	21,559	**(137,141)**
Tax effects	**—**	—	**—**
Foreign currency translation adjustments	**(15,453)**	21,559	**(137,141)**
Remeasurements of defined benefit plans:			
Amount arising during the year	**(2,436)**	3,033	**(21,619)**
Reclassification adjustments for gains and losses included in net income	**386**	1,088	**3,426**
Amount before tax effects	**(2,050)**	4,121	**(18,193)**
Tax effects	**646**	(1,357)	**5,733**
Remeasurements of defined benefit plans	**(1,403)**	2,764	**(12,451)**
Share of other comprehensive income (loss) of associates accounted for using the equity method:			
Amount arising during the year	**(91)**	1,427	**(808)**
Reclassification adjustments for gains and losses included in net income	**(494)**	(11)	**(4,384)**
Share of other comprehensive income (loss) of associates accounted for using the equity method	**(586)**	1,416	**(5,201)**
Total other comprehensive income (loss)	**¥(24,372)**	¥30,831	**$(216,294)**

20. Segment Information

(a) Overview of reportable segments

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

The Company operates gas businesses in Japan and overseas, mainly for customers in the steel, chemical and electronics industries, and it has established sales and production platforms for its main products in Japan, the United States, Asia and Oceania. The Company also operates businesses including production and sales of household goods such as stainless steel thermos, and real estate rental, etc. Therefore, the Company has determined its four reportable segments as "Gas Business in Japan," "Gas Business in the United States," "Gas Business in Asia and Oceania" and "Thermos and Other Businesses."

The Company has renamed its reportable segments from "Gas Business in Asia" to "Gas Business in Asia and Oceania" and from "Other Businesses" to "Thermos and Other Businesses" from the year ended March 31, 2016. This was merely a change in the name of the reportable segments and there were no impacts on segment information.

Segment information for the year ended March 31, 2015 has been disclosed under the new reportable segment names to conform to the new segmentation.

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

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

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

	Millions of yen						
	2016						
	Reportable segments						
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia and Oceania	Thermos and Other Businesses	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**¥332,247**	**¥188,566**	**¥93,174**	**¥27,528**	**¥641,516**	**¥ —**	**¥641,516**
Intersegment sales or transfers	**7,792**	**8,185**	**3,615**	**632**	**20,226**	**(20,226)**	**—**
Total	**340,039**	**196,751**	**96,789**	**28,160**	**661,742**	**(20,226)**	**641,516**
Segment income (operating income)	**¥ 27,539**	**¥ 6,812**	**¥ 4,461**	**¥ 5,993**	**¥ 44,807**	**¥ (1,445)**	**¥ 43,362**
Other item:							
Depreciation expenses	**¥ 16,619**	**¥ 21,148**	**¥ 6,503**	**¥ 708**	**¥ 44,979**	**¥ (115)**	**¥ 44,864**

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

	Thousands of U.S. dollars						
	2016						
	Reportable segments						
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia and Oceania	Thermos and Other Businesses	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**$2,948,589**	**$1,673,465**	**$826,890**	**$244,302**	**$5,693,255**	**$ —**	**$5,693,255**
Intersegment sales or transfers	**69,152**	**72,639**	**32,082**	**5,609**	**179,499**	**(179,499)**	**—**
Total	**3,017,741**	**1,746,104**	**858,972**	**249,911**	**5,872,755**	**(179,499)**	**5,693,255**
Segment income (operating income)	**$ 244,400**	**$ 60,454**	**$ 39,590**	**$ 53,186**	**$ 397,648**	**$ (12,824)**	**$ 384,824**
Other item:							
Depreciation expenses	**$ 147,488**	**$ 187,682**	**$ 57,712**	**$ 6,283**	**$ 399,175**	**$ (1,021)**	**$ 398,154**

Notes: 1. Adjustments for segment income of ¥(1,445) million ($(12,824) thousand) and ¥(1,449) million for the years ended March 31, 2016 and 2015 include intersegment eliminations of ¥58 million ($515 thousand) and ¥(72) million, and corporate general administration expenses which mainly consisted of basic research and development expenses and are not allocable to each reportable segment of ¥(1,503) million ($(13,339) thousand) and ¥(1,377) million, respectively.

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

3. As described in Note 2, "Summary of Significant Accounting Policies," profit and loss of certain overseas consolidated subsidiaries for 15 months are consolidated for the year ended March 31, 2016.

(d) Information by geographical area

(1) Net sales

Millions of yen			
2016			
Japan	The United States	Others	Total
¥350,842	**¥180,327**	**¥110,346**	**¥641,516**

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

Thousands of U.S. dollars			
2016			
Japan	The United States	Others	Total
$3,113,614	**$1,600,346**	**$979,286**	**$5,693,255**

(2) Property, plant and equipment

Millions of yen			
2016			
Japan	The United States	Others	Total
¥147,890	**¥133,023**	**¥58,182**	**¥339,096**

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

Thousands of U.S. dollars			
2016			
Japan	The United States	Others	Total
$1,312,478	**$1,180,538**	**$516,347**	**$3,009,372**

(e) Information about major customers

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

(f) Information on impairment loss by reportable segments

	Millions of yen					
	2016					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia and Oceania	Thermos and Other Businesses	Corporate/Eliminations	Total
Impairment loss	**¥267**	**¥—**	**¥1,386**	**¥—**	**¥—**	**¥1,654**

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

	Thousands of U.S. dollars					
	2016					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia and Oceania	Thermos and Other Businesses	Corporate/Eliminations	Total
Impairment loss	**$ 2,370**	**$—**	**$12,300**	**$—**	**$—**	**$14,679**

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

	Millions of yen					
	2016					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia and Oceania	Thermos and Other Businesses	Corporate/Eliminations	Total
Amortization	**¥ 796**	**¥ 5,976**	**¥ 579**	**¥—**	**¥—**	**¥ 7,352**
Unamortized balance	**1,991**	**58,165**	**15,166**	**—**	**—**	**75,323**

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

	Thousands of U.S. dollars					
	2016					
	Gas Business in Japan	Gas Business in the United States	Gas Business in Asia and Oceania	Thermos and Other Businesses	Corporate/Eliminations	Total
Amortization	**$ 7,064**	**$ 53,035**	**$ 5,138**	**$—**	**$—**	**$ 65,247**
Unamortized balance	**17,670**	**516,196**	**134,594**	**—**	**—**	**668,468**

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

There was no amortization and unamortized balance of negative goodwill which resulted from business combinations prior to April 1, 2010 for the year ended March 31, 2016.

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

21. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2016 and 2015 were reconciled to cash and deposits reported in the consolidated balance sheets as of March 31, 2016 and 2015 as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	**2016**
Cash and deposits	**¥50,785**	¥53,420	**$450,701**
Time deposits with maturities of more than three months	**(1,506)**	(1,873)	**(13,365)**
Cash and cash equivalents	**¥49,279**	¥51,547	**$437,336**

The acquisition cost and net payments for assets and liabilities of Renegade Gas Pty Ltd acquired through a stock purchase and a stock exchange, in the year ended March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
Current assets	**¥ 1,954**	**$ 17,341**
Noncurrent assets	**8,487**	**75,319**
Goodwill	**10,939**	**97,080**
Current liabilities	**(1,796)**	**(15,939)**
Noncurrent liabilities	**(4,623)**	**(41,028)**
Acquisition cost of stock	**(14,961)**	**(132,774)**
Stock issued for stock exchange	**2,244**	**19,915**
Cash and cash equivalents	**249**	**2,210**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**¥(12,468)**	**$(110,650)**

The acquisition cost and net payments for assets and liabilities of Air Products Industry Co., Ltd., Sims Welding Supply Co., Inc., 3-D Welding & Industrial Supply Inc. and Mega Mount Industrial Gases Sdn. Bhd. acquired through a stock purchase in the year ended March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
Current assets	**¥ 5,265**	**$ 46,725**
Noncurrent assets	**7,339**	**65,131**
Goodwill	**9,451**	**83,875**
Current liabilities	**(698)**	**(6,195)**
Noncurrent liabilities	**(5,525)**	**(49,033)**
Non-controlling interests	**(124)**	**(1,100)**
Acquisition cost of stock	**(15,708)**	**(139,404)**
Equity in earnings until the acquisition date	**486**	**4,313**
Gain on step acquisition	**1,813**	**16,090**
Cash and cash equivalents	**448**	**3,976**
Purchase of shares of subsidiaries resulting in change in scope of consolidation	**¥(12,961)**	**$(115,025)**

There were no acquisitions through a stock purchase in the year ended March 31, 2015.

The acquisition cost and net payments for assets and liabilities of gas businesses in Hawaii of Air Liquide America, L.P. acquired by Matheson Tri-Gas, Inc., a consolidated subsidiary of the Company, through an asset purchase in the year ended March 31, 2016 were as follows:

	Millions of yen	Thousands of U.S. dollars
	2016	**2016**
Current assets	**¥ 303**	**$ 2,689**
Noncurrent assets	**1,192**	**10,579**
Goodwill	**195**	**1,731**
Acquisition cost of assets	**(1,690)**	**(14,998)**
Cash and cash equivalents	**—**	**—**
Payments for assets purchase	**¥(1,690)**	**$(14,998)**

The acquisition cost and net payments for assets and liabilities through an asset purchase in the year ended March 31, 2015 were not disclosed due to immateriality.

22. Related Party Transactions

There were no related party transactions for the year ended March 31, 2016.

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

Related party	Transactions	Millions of yen
		2015
Mitsubishi Chemical Holdings Corporation	Sale of parent company's stock	¥5,923
	Gain on sale of parent company's stock	2,332

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

23. Business Combinations

(Business combination through acquisition)

(a) Overview of business combination

(1) Name and description of business of the acquired company
Name: Renegade Gas Pty Ltd
Business description: Filling and selling LPG and various industrial gases, selling and renting related equipment

(2) Principal reasons for the business combination
The Company is seeking opportunities for business expansion to new markets to expand the business area and in order to achieve globalization, which is one of the Company's strategies under mid-term management plan "Ortus Stage 1".

Australia has the 12th largest economy in the world by GDP. Its economic growth is expected to be around 3% per year for the next several years due mainly to increases in housing investment and consumer spending. These trends are supported by an annual population growth of 1-2% which is relatively high compared with other developed countries. The Industrial gas market in Australia is expected to grow steadily through construction and infrastructure developments. In addition, new industrial gas demand from mining and energy sectors is also expected in Australia.

Through the acquisition of Renegade Gas Pty Ltd, the Company establishes the first footprint in the Australian and Oceanian industrial gas market. The Company plans to increase sales of industrial gas products using Renegade Gas Pty Ltd's existing distribution network and expand its business by creating synergies with group companies. The Company aims to establish a firm presence in the market.

(3) Date of the business combination
July 31, 2015

(4) Legal form of the business combination
Stock acquisition in exchange for a cash consideration and stock exchange in exchange for stock of TNSC (Australia) Pty Ltd. by TNSC (Australia) Pty Ltd, a subsidiary of the Company.

(5) Company name after business combination
Renegade Gas Pty Ltd

(6) Percentage of voting rights acquired
100.00%

(7) Main reason to determine the acquiring company
TNSC (Australia) Pty Ltd, a subsidiary of the Company, acquired all of the outstanding shares of Renegade Gas Pty Ltd in exchange for a cash consideration and stock exchange in exchange for stock of TNSC (Australia) Pty Ltd.

(b) Period of results of operations of the acquired company included in the consolidated statement of income
The fiscal year-end of the acquired company is June 30 and there is a nine-month difference with fiscal year-end of the consolidated financial statements. The deemed acquisition date of the business combination is June 30, 2015, therefore, a provisional settlement of accounts has been made and the operating results from July 1, 2015 to December 31, 2015 are included in the year ended March 31, 2016.

(c) Acquisition cost of the acquired company and details of consideration

		Millions of Australian dollars	Millions of yen	Thousands of U.S. dollars
Consideration for acquisition	Cash	$142	¥12,717	$112,859
	Stock of TNSC (Australia) Pty Ltd	25	2,244	19,915
Acquisition cost		$167	¥14,961	$132,774

(d) Exchange ratio of stock by class, calculation method of the exchange ratio of stock and number of stock issued

(1) Exchange ratio of stock by class
1 common stock of Renegade Gas Pty Ltd for 100 common stocks of TNSC (Australia) Pty Ltd

(2) Calculation method of the exchange ratio of stock
The exchange ratio was calculated based on negotiations among the parties concerned with reference to stock value evaluation reports, etc. obtained from third-party organizations.

(3) Number of stock issued
15,868,013 shares of TNSC (Australia) Pty Ltd

(e) The details and the amount of major acquisition-related costs

	Millions of yen	Thousands of U.S. dollars
Fees and commissions, etc. paid to financial advisories	¥226	$ 2,006
Fees and commissions, etc. paid to lawyers	79	701

(f) Amount of goodwill, reason that goodwill arose, method and period of amortization

(1) Amount of goodwill
124 million Australian dollars (¥10,939 million ($97,080 thousand))

(2) Reason that goodwill arose
Mainly excess earning power in the future expected from the business expansion

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

(g) Assets acquired and liabilities assumed at the date of the business combination

	Millions of Australian dollars	Millions of yen	Thousands of U.S. dollars
Current assets	$ 20	¥ 1,954	$17,341
Noncurrent assets	91	8,487	75,319
Total assets	$111	¥10,441	$92,661
Current liabilities	$ 19	¥ 1,796	$15,939
Noncurrent liabilities	49	4,623	41,028
Total liabilities	$ 68	¥ 6,419	$56,967

(h) Estimated impact on the consolidated statement of income for the year ended March 31, 2016 as if the business combination had been completed at the beginning of the fiscal year ended March 31, 2016 and the calculation method

	Millions of Australian dollars	Millions of yen	Thousands of U.S. dollars
Sales	$43	¥3,920	$34,789
Operating income	6	630	5,591
Income before income taxes	4	426	3,781
Net income attributable to owners of parent	1	128	1,136

(Calculation method of the estimated impact)
The estimated impact amounts were calculated as the difference between sales and other profits or losses assuming that the business combination was completed at the beginning of the year ended March 31, 2016 and the Company's sales and other profits or losses on the consolidated financial statement of income. The amortization of goodwill was calculated assuming that the goodwill, which was recognized at the date of the business combination, had arisen at the beginning of the year ended March 31, 2016.

24. Subsequent Events

(1) 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, 2016, were approved at the shareholders' meeting held on June 21, 2016.

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥9.00 ($0.080) per share	**¥3,896**	**$34,576**

(2) Business acquisition from Air Liquide Industrial U.S. LP and Airgas, Inc.

At the Board of Directors' meeting held on April 28, 2016, the acquisition of the industrial gas business in the U.S. and related business assets of Air Liquide Industrial U.S. LP and Airgas, Inc. through Matheson Tri-Gas, Inc., a wholly-owned subsidiary of the Company, was resolved. Following this resolution, the Company concluded the agreement.

On May 13, 2016, the U.S. Federal Trade Commission ("FTC") approved the acquisition of Airgas, Inc. by American Air Liquide holdings, Inc. under the condition that the acquired business shall be partially transferred to the third party. The execution of this business acquisition is subject to FTC approval.

(a) Purpose of business acquisition
To establish our position as a nationwide supplier as well as strengthening our position as a manufacturer, and improving stable supply and credibility towards customers in the U.S. by expanding the industrial gas business in the U.S.

(b) Name of the counterparty of the business acquisition
Air Liquide Industrial U.S. LP and Airgas, Inc.

(c) Description of the acquiring business
Separate gas business, carbon dioxide gas business, package gas business and nitrous oxide business

(d) Amount of assets acquired and liabilities assumed pertaining to the acquiring business and consideration for the acquisition
Amount of assets and liabilities are currently not determined. Consideration for the acquisition is not disclosed according to non-disclosure agreement with the counterparty.

(e) Date of business acquisition
After the approval of FTC

(f) Procurement of funds and payment method
The Company expects to use its own funds and external financing.

EY
Building a better working world

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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, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of TAIYO NIPPON SANSO CORPORATION and its consolidated subsidiaries as at March 31, 2016, 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 21, 2016

Investor Information

(At March 31, 2016)

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

Number of Employees:
14,127

Date of Incorporation:
October 1910

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

Minimum Trading Unit:
100 shares

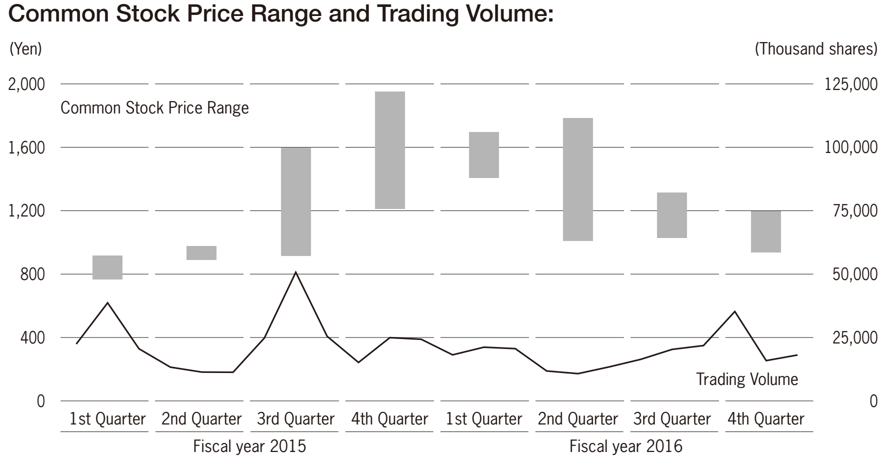
Number of Stockholders:
17,921

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

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Holdings Corporation	158,048	36.49%
Mitsubishi Chemical Corporation	60,947	14.07
Taiyo Nippon Sanso Client Shareholding Society	19,033	4.39
Mizuho Bank, Ltd.	16,365	3.78
JFE Steel Corporation	15,254	3.52
Meiji Yasuda Life Insurance Company	10,007	2.31
Japan Trustee Services Bank, Ltd. (Trust Account)	7,169	1.66
The Norinchukin Bank	7,000	1.62
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,291	1.22
TAIYO NIPPON SANSO CORPORATION Employee Shareholding Association	3,640	0.84
	302,760	69.91%

Common Stock Price Range and Trading Volume:



THE KAITEKI COMPANY
Mitsubishi Chemical Holdings Group

TAIYO NIPPON SANSO
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