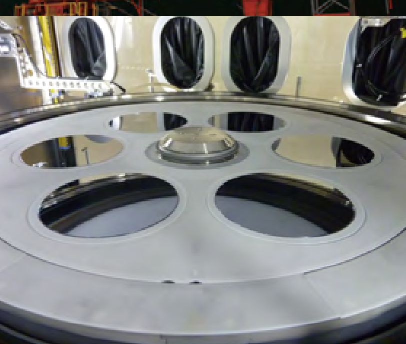
TAIYO NIPPON SANSO

The Road to Growth

Annual Report 2014

Year Ended March 31, 2014



Profile

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

Management Philosophy

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

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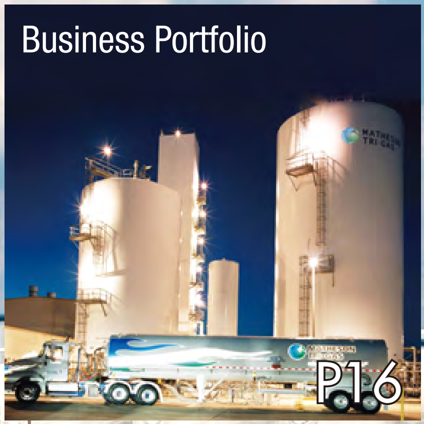
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Strategic Highlights

Japan

Took steps to improve business efficiency

• Establishment of Taiyo Nippon Sanso Gas & Welding (April 2013)

In response to a decline in the number of new vessels under construction by Japanese shipbuilders, a key demand industry, and the steady shift to offshore production by automobile and equipment-related manufacturers, we merged three Taiyo Nippon Sanso Group companies engaged primarily in the provision of cylinder gases and welding materials to form Taiyo Nippon Sanso Gas & Welding Corporation.

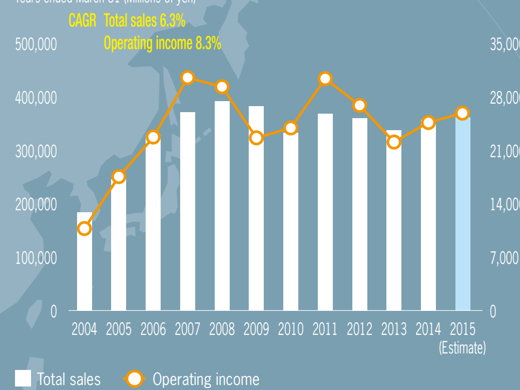
Enhanced medical business

• Acquisition of Pacific Medico (October 2013)

In a bid to enhance our capabilities in the area of respiratory devices, reinforcing our foundation as a manufacturer of medical devices and extending our operations into overseas markets, we acquired a 100% equity stake in Pacific Medico Co., Ltd., Japan's leading name in ventilators and respiratory care devices for home use.

Total Sales and Operating Income in Japan

Years ended March 31 (Millions of yen)



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2014 and estimates for the year ending March 31, 2015.

Made progress in new business development initiatives

• Launch of CryoLibrary CAPS–i3000 cryopreservation and auto pick-up system for medical and pharmaceuticals research applications (May 2013)

In 2009, we launched CryoLibrary, an automated cryopreservation handling system for bioresources that prevents incorrect vial selection and accidental specimen loss. CAPS-i3000 is a new fully automated system featuring technology that is optimal for the cryopreservation of induced pluripotent stem (iPS) cells, enabling highly efficient cryopreservation of large volumes of high-quality cultured cells. A backup freezing tank enables the device to freeze iPS cells in one-fifth the time required by conventional systems, while boosting the survival rate for frozen cells by approximately eight times. We will continue to promote the development of technologies that respond to diverse needs in the healthcare field, including in such areas as regenerative medicine and drug development, and support the evolution of cryopreservation and other systems.

CAPS–i3000 cryopreservation and auto pick-up system

• Start of sales of Hydro Shuttle package-type hydrogen station (August 2013)

With the aim of accelerating general acceptance of hydrogen stations in Japan, we developed the Hydro Shuttle, a low-cost package-type hydrogen station. The Hydro Shuttle integrates the four major components of a hydrogen station—dispenser, pre-cooling device, hydrogen compressor and storage vessel—into a single unit, thereby achieving a significant reduction in costs associated with fabrication and installation. Designed for both stationary and mobile applications, the Hydro Shuttle offers the potential for additional cost reductions thanks to standardization and mass production.

Package-type hydrogen station

North America

Augmented carbon dioxide business

• Acquisition of Continental Carbonic Products (February 2014)

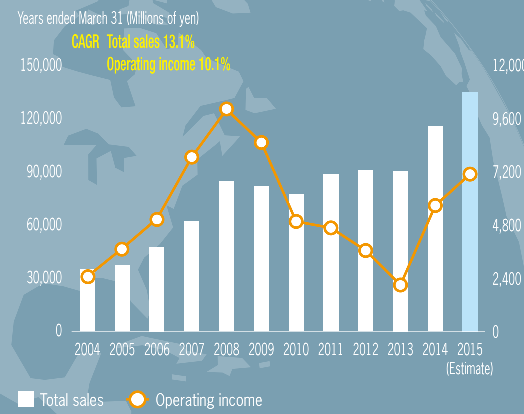
Through the acquisition of Continental Carbonic Products, Inc., of the United States, a manufacturer of carbon dioxide and the number two supplier of dry ice in the North American market, we sought to further augment our presence as a comprehensive provider of industrial gases, as well as to ensure sustainable growth in income.

Expanded liquid gases business

• Completion of the 17th North American air separation unit in Mesa, Arizona (2014)

The completion of our air separation unit in Mesa, Arizona, marked the final step in the construction of our liquid gas production and distribution network in the United States, which spreads from California to Florida. The Mesa plant has enabled us to expand our market coverage and provide efficient distribution in the southern United States.

Total Sales and Operating Income in North America



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2014 and estimates for the year ending March 31, 2015.

Asia

Cultivated new markets

• Establishment of joint venture with Samator Group of Indonesia (February 2014)

Together with subsidiary National Oxygen Limited of Singapore, we established a 50:50 joint venture, capitalized at $6 million, in western Java with PT. Samator Group of Indonesia. Over the short term, the new company will focus on cultivating midstream and downstream markets, focusing on Japanese manufacturers, automakers, oil and gas development, while over the medium to long term it will also accept on-site orders from steelmakers and chemical companies and sell plant equipment to the Samator Group.

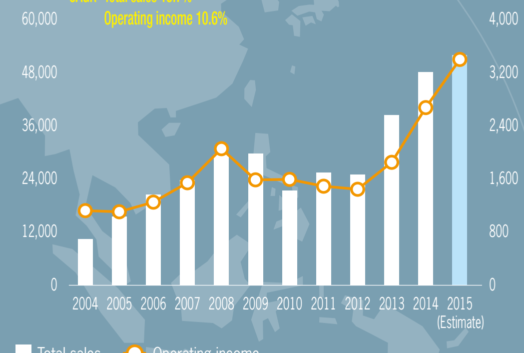
• Acquisition of Sabah Oxygen of Malaysia (November 2013)

Acting through a Malaysian subsidiary of Group company Leeden Limited, we acquired a 100% equity stake in Sabah Oxygen Sdn. Bhd., thereby securing market access in Sabah, in eastern Malaysia. In addition to firm demand for industrial gases from shipyards and for medical applications, Sabah boasts a rich supply of natural gas, which has attracted major petroleum producers. Accordingly, demand for industrial gases is expected to expand. Looking ahead, we will also seek to strengthen the Taiyo Nippon Sanso Group's share of the Malaysian market by expanding sales of Leeden's industrial materials and safety equipment.

• Underwriting portion of capital increase by third-party allotment by Benson Industrial Gases Technology of Taiwan (November 2013)

We acquired a 30% equity stake in Benson Industrial Gases Technology Corporation, a Taiwan-based manufacturer of pressure swing adsorption (PSA)-type gas generators. We will make use of the Benson Industrial Gases' PSA-type gas generator manufacturing, sales and service networks in Southeast Asia and China to accelerate the overseas expansion of our PSA-type gas generator business.

Total Sales and Operating Income in Asia



Note: Compound annual growth is calculated based on actual total sales and operating income figures for the years ended March 31, 2004—2014 and estimates for the year ending March 31, 2015.

Sabah Oxygen production facility

Benson Industrial Gas PSA-type gas generator production facility Suzhou, Jiangsu Province, China

PSA-type gas generator production line

Subsequent Event

Enhanced alliance with Mitsubishi Chemical Holdings

In October 2013, we established a capital alliance with Mitsubishi Chemical Holdings Corporation, issuing new shares by way of a third-party allotment with Mitsubishi Chemical Holdings as the allottee, and disposed of treasury stock. We continue to promote a variety of initiatives aimed at strengthening our domestic operating foundation and advancing our overseas operation and have arrived at a point where we need to make sizeable capital expenditures. Cognizant of the need to reinforce our capital to maintain financial soundness and at the same time ensure long-term, stable access to the funds necessary to grow our businesses, we determined that raising capital through equity financing was the best approach to take.

Following the establishment of the capital alliance, close collaboration between the two companies made it clear that further reinforcement of our respective operating foundations was the most rational strategy to ensure survival in an environment of increasingly intense competition. Accordingly, in May 2014 we approved a proposal for Mitsubishi Chemical Holdings to acquire a majority of voting rights in Taiyo Nippon Sanso through a tender offer, with Mitsubishi Chemical Holding's stake in Taiyo Nippon Sanso after the tender offer to be no lower than 50% and no higher than 51%. In the months ahead, we will complete the necessary procedures to ensure the tender offer is in compliance with competition laws in Japan and overseas. We expect the tender offer to commence in November 2014. As a result of this move, Taiyo Nippon Sanso will become a consolidated subsidiary of Mitsubishi Chemical Holdings.

Despite the change in our relationship with Mitsubishi Chemical Holdings as a result of the tender offer, we will continue to be listed on the Tokyo Stock Exchange and will maintain full autonomy regarding corporate management.

Press conference announcing enhanced alliance with Mitsubishi Chemical Holdings (May 13, 2014)

To Our Stakeholders

Despite a modest recovery in the United States, the global economy remained generally lackluster in fiscal year 2014, ended March 31, 2014, as European economies were slow to rally after appearing to have bottomed out and growth in emerging markets China and India slowed. In Japan, corporate results improved, particularly in export-oriented industries, as monetary easing continued to weaken the yen and push up stock prices, but a full-scale economic recovery failed to materialize.

Our operating environment was characterized by an increase in overall demand for industrial gases, bolstered by the U.S. economic recovery and signs of a rebound in the electronics sector in Taiwan. In Japan, the pace of recovery in demand remained gentle, as trends varied from one sector to another.

Our withdrawal from a monosilane gas production joint venture in Japan resulted in a significant extraordinary loss in fiscal year 2013. To clarify management responsibility for this occurrence, and to provide the focus necessary to respond to dramatic changes in key markets, including electronics, we subsequently installed new management. Thanks to prompt and diligent efforts by the new team to resolve urgent issues and swiftly improve profitability, in fiscal year 2014 we succeeded in boosting operating income approximately 27%.

Having thus accomplished the principal objective of short-term efforts, we then turned our attention to addressing longer-term challenges. To this end, in June 2014 a new management team took the reins.

In fiscal year 2015, we will embark on a new medium-term business plan, dubbed Ortus Stage 1, which we have positioned as the first step in our drive to attain the targets of our long-term vision—net sales of ¥1 trillion, an operating margin of 10%, a return on capital employed (ROCE) of at least 10%, and an overseas sales ratio of 50% or higher—by the end of fiscal year 2023. Guided by the new plan, we will work to solidify our operating foundation, thereby preparing us for the next step forward. In line with this plan, we will promote structural reforms, particularly in Japan, as well as take steps to accelerate the expansion of our operations overseas.

In the near future, our relationship with our principal shareholder, Mitsubishi Chemical Holdings Corporation, will change from that of equity-method affiliate to consolidated subsidiary. We look forward to the strengthening of our alliance with Mitsubishi Chemical Holdings, which we are confident will yield broad synergies. Of particular note, we expect both companies to benefit from the ability to collaborate more closely in a variety of areas, including the supply of industrial gases to overseas sites belonging to the Mitsubishi Chemical Holdings Group and R&D in cutting-edge fields.

In addition to advancing cooperation with Mitsubishi Chemical Holdings, the management and employees of Taiyo Nippon Sanso pledge to work as one to implement the strategies of our new medium-term management plan, with the ultimate aim of realizing our long-term management vision. In these and all of our efforts, we look forward to the ongoing support of our many stakeholders.

June 2014

Yujiro Ichihara
President and CEO

The Road to Growth

An Interview with Yujiro Ichihara

We have positioned our new medium-term business plan, Ortus Stage 1, as the first step in our drive to attain the targets of our long-term vision. Guided by the plan, we will focus on implementing structural reforms and solidifying our operating foundation.

In fiscal year 2014, the Japanese government's economic stimulus policies—nicknamed "Abenomics" after the current prime minister, Shinzo Abe—continued to drive improvements in corporate results in certain export-oriented industries such as automobiles and steel. However, for companies in other industries, including the Taiyo Nippon Sanso Group, the operating environment remains harsh.

Recognizing that the adversity we currently face is an obstacle that must be overcome if we are to achieve sustainable growth, we choose to view the tumultuous changes taking place in our core markets as an opportunity for us to create a stronger, sounder operating foundation. Accordingly, we recently formulated a long-term management vision with the aim of bringing to light urgent issues related to our domestic and overseas operations—issues that tend to remain invisible when business conditions are favorable—and creating a management foundation that enables us to respond flexibly to evolving market conditions, thereby preparing us for robust future growth.

Our new long-term management vision targets 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 the end of fiscal year 2023. In fiscal year 2015, we will embark on a new medium-term management plan, which we have positioned as the first step in our drive to attain the targets of our long-term vision, under which we will focus on implementing structural reforms and solidifying our operating foundation. We have dubbed the new plan Ortus Stage 1, a name derived from the Latin word *ortus*, meaning "birth" or "origin," and evoking our desire to make a fresh start as a new and different company.

The Road to Growth

An Interview with Yujiro Ichihara

Part I: Background to Our Long-Term Management Vision

Q1 What are your goals for the Taiyo Nippon Sanso Group going forward?

"We will achieve the targets of our long-term management vision, namely, consolidated net sales of ¥1 trillion, an operating margin of 10%, an ROCE of at least 10%, and an overseas sales ratio of 50% or higher—by the end of fiscal year 2023."

Allow me to begin by explaining a bit about the background to our long-term vision. A distinguishing feature of industrial gases, our principal business, is that they are secondary materials that are generally consumed where they are produced. We have consistently held the top market share in Japan, but having realized that there was a limit to how long the soaring growth that characterized the Japanese market at the time could be expected to last, in 1980 we began to expand into overseas markets. Today, we have a network of service bases in 42 U.S. states, while in Asia we have operations in Southeast Asia, China, Taiwan, Korea and India, among others, and are the top provider of industrial gases in terms of market share in the Philippines and Vietnam. Although we currently have operations in 17 countries outside of Japan, overseas sales have only just surpassed 30% of our overall sales. In recent years, Japanese manufacturers—our principal domestic customers—have accelerated efforts to shift production offshore to counter unfavorable foreign exchange rates and rising electricity rates in Japan and ensure global competitiveness. Given the current operating environment, it is unlikely that demand in the Japanese industrial gases market will increase significantly. Accordingly, for us to ensure sustainable growth, it is crucial that we expedite the expansion of our overseas operations.

In fiscal year 2014, we reported consolidated net sales of ¥522.7 billion and operating income of ¥31.4 billion. We have set stretch goals for both, which are double and triple the fiscal year 2014 results, respectively. Our commitment to attaining these goals, and to rallying our collective capabilities in this effort, is what underpins our long-term vision.

Part II: Positioning of Our New Medium-Term Business Plan

Q2 What quantitative targets have you set for fiscal year 2017, the final year of your new medium-term business plan?

"The quantitative targets of the plan are summarized in the table."

The operating results targets set forth in our new medium-term business plan are consolidated net sales of ¥600 billion, operating income of ¥45 billion, an ROCE of 8% or higher and an overseas sales ratio of 40% or higher. The plan also outlines targets for financial soundness, namely, net interest-bearing debt of ¥241 billion and a net debt-to-equity ratio of 0.74 times. These targets do not include the impact of the adoption of International Financial Reporting Standards (IFRS) accounting rules.

The strategic priorities of our new medium-term business plan are structural reforms and growth strategies. By implementing measures in line with these priorities, we will work to solidify our operating foundation, a process that will also necessitate advance investments. In fiscal year 2018, we will launch a new plan, the second step in our drive to achieve the goals of our long-term vision, which will center on further expanding our businesses and optimizing our operating foundation.

Quantitative Targets of Ortus Stage 1

(Billions of yen)

Years ending March 31	2014 (Actual)	2015	2016	2017
Net sales	¥522.7	¥550	¥570	¥600
Operating income	¥ 31.4	¥ 35	¥ 38	¥ 45
Operating margin	6.0%	6.4%	6.7%	7.5%
Overseas sales as a percentage of net sales	31.0%	34.0%	36.0%	40.0%
Capital expenditures, investments and lending	¥ 71.3	¥ 47.3	¥ 36.6	¥116.1
Net interest-bearing debt	¥219.7	¥209.0	¥200.3	¥241.0
Net debt-to-equity ratio	0.80 times	0.72 times	0.66 times	0.74 times
ROCE	6.2%	6.5%	7.0%	8.0%

Part III: The Four Core Strategic Policies of Ortus Stage 1

Q3 The first of the four core strategic policies of your new medium-term business plan is "structural reforms." What can you tell us about this?

"The main focus of this policy is our operations in Japan. Our overriding intent is to increase management efficiency."

For the purpose of our new medium-term business plan, we define "structural reforms" as the process of reassessing management resources and reconfiguring organizations to generate value. To rephrase, by revamping our management systems and our operating foundation, we will seek to bolster our organizational capabilities. As part of the menu of structural reforms envisioned in the plan, we have established a new Corporate Planning and Global Operations Division, which is charged with overseeing strategic planning for the Group as a whole. Through these and other measures, we also aim to reduce fixed costs by a total of ¥6 to ¥7 billion from the fiscal year 2014 level by the final year of the plan.

I spoke briefly about our current perception of the business climate for our industrial business in Japan and overseas in response to your question about the background to our long-term management vision. Our ultimate objectives under Ortus Stage 1 are to create a stable earnings base and capitalize fully on growth opportunities, challenges we will address through the implementation of structural reforms in Japan and the targeted investment of management overseas.

Our structural reform program in Japan has three principal components. The first is personnel management, which will involve reducing headcount and more effectively deploying human resources as necessary across the entire domestic Taiyo Nippon Sanso Group—including the parent company and more than 300 Group companies—to better reflect changes in the scale of our various businesses. The second is facility management, the purpose of which is to reduce costs by optimizing operating rates at production facilities nationwide to reflect demand levels. The third component of the program is logistics management, the point of which is to improve the efficiency of our logistics practices.

Concrete measures planned are to review our

Structural Reforms

We will take prompt steps to reduce fixed costs by ¥6–¥7 billion from the fiscal year 2014 level.

Current perception
- Japan: Business growth remains low
- Overseas: Businesses are growing

Objective
- Create a stable earnings foundation
- Capitalize fully on growth opportunities

Measures
- Japan: Improve efficiency and optimize operations
- Overseas: Focus allocation of management resources

corporate organization; improve the efficiency of back-office operations by advancing the use of shared services; strengthen our supply chains; integrate gas engineering functions, which are currently scattered among various Group companies; and realign affiliated companies. Other efforts will include the focused redeployment of personnel to promising overseas businesses.

Q4 The second strategic policy is “innovation.” Can you tell us what this will entail?

“We will continue to actively foster innovation in industrial gases and in other related businesses.”

By “innovation” we mean the creation of truly groundbreaking value based on, for example, pioneering technologies and ideas.

Having recognized the opportunities arising from environmental changes associated with energy-related issues, including the expanded development of conventional natural gas and the increasing importance of shale gas, we will work to cultivate next-generation core businesses. For example, we will take steps to expand our liquid natural gas production and on-site hydrogen plant businesses in the United States in response to rising demand, driven by the shale gas revolution. Through open innovation, we are also developing and expanding sales of high-value-added products and merchandise. Additionally, we are hastening the launch of strategic new products and merchandise in promising markets. These include hydrogen filling stations; superconducting cooling systems; PSA-type gas generators; Water-^{18}O, an oxygen stable isotope; helium containers; and groundbreaking new materials.

We have also strengthened our alliance with Mitsubishi Chemical Holdings and are exploring strategies for maximizing synergies in our overseas on-site plant and medical businesses, among others.

Innovation

Mindful of the impact of a shift in the global energy landscape driven by, among others, the expanded development of natural gas and increasing importance of shale gas, we see the development of groundbreaking new businesses, spearheaded by a dedicated interdisciplinary team, as the cornerstone of our growth strategies.

- Strengthen alliance with Mitsubishi Chemical Holdings and explore strategies for maximizing synergies
  (Overseas on-site plant business, artificial carbonated springs, new materials)
- Promote open innovation
  (Pursue venture capital investments and M&A opportunities with the aim of developing and expanding sales of high-value-added products and merchandise)
- Foster new energy businesses
  (Liquid natural gas, on-site hydrogen plants, shale gas development)
- Launch strategic new products and merchandise in promising markets
  (Hydrogen stations, superconductive refrigeration systems, PSA-type gas generators, oxygen stable isotopes (Water-^{18}O), helium containers, new materials, others)

» The Road to Growth

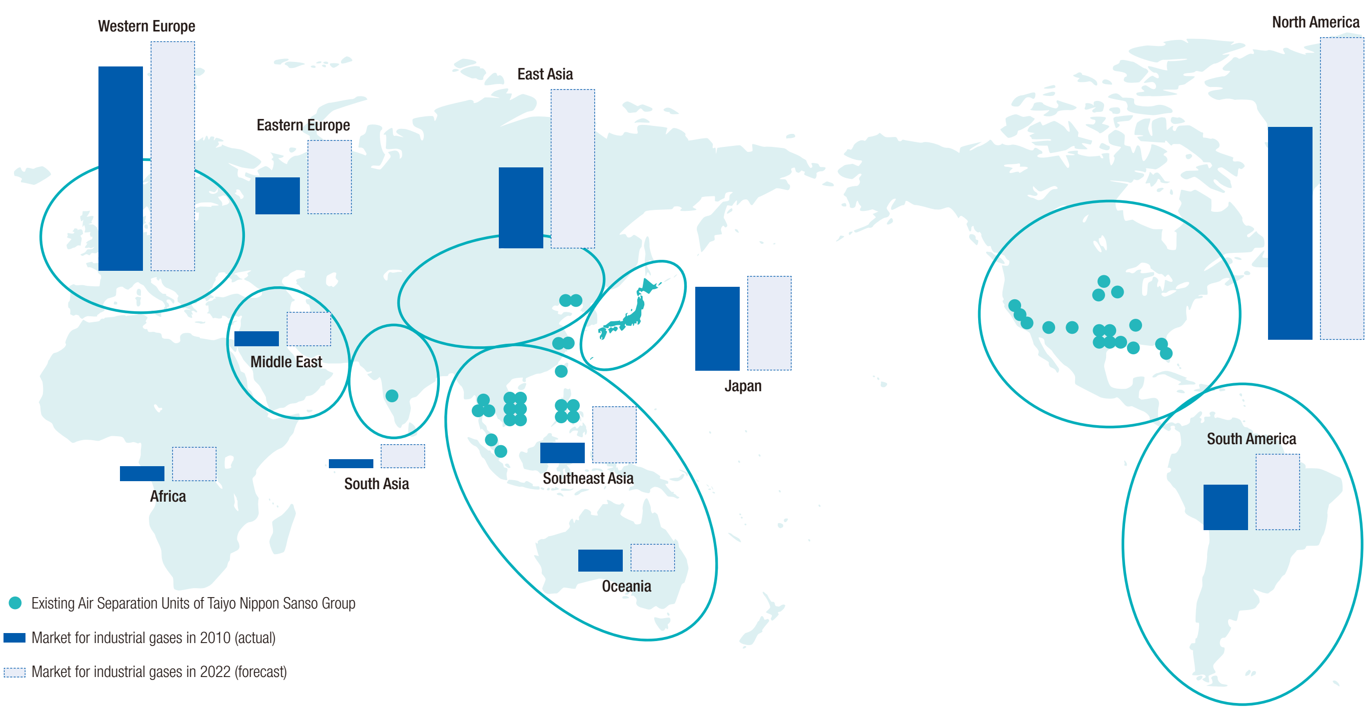
An Interview with Yujiro Ichihara

Q5 Your third strategic policy is "globalization." Can you elaborate on what this will involve?

"To date, we have directed overseas operations from Japan, with the head office acting as a sort of control tower and Japanese management calling the shots. Given the scale and nature of our overseas operations, we recognize the need to rethink this approach."

"Globalization" means recognizing the entire world as a market and determining allocation of management resources accordingly. We currently have operations in 18 countries and territories. At present, senior management positions at overseas Group companies, with the exception of those in the United States, are filled by people dispatched from the head office in Japan. From an operational perspective, we recognize that localizing overseas management is essential to our future success. The localization of management will give us access to know-how and networks only accessible by local individuals, enabling us to capitalize fully on a number of key advantages, including the ability of local employees to spot business opportunities—obviously superior to that of a Japanese national on temporary assignment—and taxation-related benefits. Putting management in local hands will also expedite decision making. We will thus rethink our approach to managing our subsidiaries in Southeast Asia, China and elsewhere.

We will also make infrastructure changes necessary to facilitate globalization. During the three years of our new medium-term business plan, we will adopt IFRS accounting rules, as well as reinforce global-scale management of technology risk.



Sources: 2010 Gas Georama in Japan, K.K. Gas Review, 2009; Taiyo Nippon Sanso estimates for geographic markets in 2022.

Notes:

1. Acting through regional headquarters, the locations of which are indicated here, we are working to localize management and expedite decision making.
2. Graphs indicate the Taiyo Nippon Sanso Group's actual regional industrial gas production capacity in 2010 and forecast for regional industrial gas production capacity in 2022.

Q6 Will you change your approach to employee training and human resources development to facilitate effective globalization?

"We will introduce a global trainee system with the aim of equipping employees with skills that have worldwide currency."

We have been active in overseas markets for more than three decades, but training for "global" human resources still centers on study-based programs conducted in Japan. To ensure the success of our globalization strategy, we intend to introduce a global trainee system, which will involve sending employees to train at Group companies overseas to gain the experience and skills they will need to become successful international businesspeople.

Q7 The fourth strategic policy set forth in Ortus Stage 1 is "M&A." What are your intentions on this front?

"We have created a combined team of Japanese and U.S. staff that is taking decisive steps to seek out promising M&A opportunities."

We view M&A as a means to accelerate business growth by facilitating, among others, our expansion into overseas markets where we do not currently have a presence. We will continue to evaluate M&A opportunities from several key perspectives, including prospects for expanding our sales channels; broadening or optimizing our product or geographic portfolio; improving profitability by enhancing the scale or substance of a business or businesses; and facilitating the acquisition and effective utilization of human resources, technologies and know-how.

Over the medium to long term, the growth potential of the Japanese industrial gases market is limited, but

many overseas markets offer significant promise. Under Ortus Stage 1, we will accelerate efforts to expand our operations by broadening our focus beyond North America and Asia to cultivate and secure access to markets in areas where we do not currently have a presence, including Oceania, the Middle East, South America and Europe. To this end, we have created a team consisting of specialists from Japan and the United States that is charged with seeking out and evaluating favorable M&A opportunities around the world.

Part IV: Investment Plans

Q8 Ortus Stage 1 calls for the investment of ¥200 billion over a period of three years. Can you give us a breakdown of this figure?

"We have earmarked ¥80 billion for ordinary investments and ¥120 billion for M&A in Japan and overseas, major capital expenditures, investments in rationalization and venture capital investments."

We have allocated ¥80 billion to ordinary investments, which are regularly occurring investments—in, for example, facility maintenance—necessary to operations in Japan and overseas, over three years.

M&A investment could exceed expectations if a particularly attractive opportunity was to arise. Because the industrial gases business is in many ways a competition to establish operations in as many areas as possible, we will continue to aggressively expand our operations in our two main existing overseas markets, namely, North America and Asia. To accelerate the expansion of our operations, we will also invest to secure access to markets in which we do not currently have a presence, focusing on those expected to see substantial economic growth in the years ahead.

Ortus Stage 1 envisions two categories of major capital expenditures. The first is investments in the construction of air separation units to accommodate increases in demand for industrial gases attributable to the construction of new large-scale production facilities by customers, a result of, for example, a major domestic customer shifting production offshore or building a major new chemicals plant in response to the expansion of shale gas extraction in North America. The second is investments in air separation units in areas where distributors have used M&A to capture a certain market

Investment Plan Under Ortus Stage 1

Investment by country/region

Japan	¥ 58 billion
United States	77 billion
Asia, others	65 billion
	¥200 billion

Investment by type

Ordinary investments	¥ 80 billion
M&A investments Major capital expenditures/ investments in rationalization Venture investments	120 billion
	¥200 billion

share, thereby enabling us to forge a maker's position in that market. Over the next three years, we plan to make 10 such investments, including in air separation units in the United States and Asia and stable isotope Water-^{18}O, a starting material for diagnostic agents. We will also invest in rationalization, replacing superannuated air separation units with up-to-date alternatives to improve production efficiency.

We have previously made venture capital investments in certain areas of our industrial gases business in the United States. Under our new medium-term business plan, we will promote venture capital investment to access new high-value-added technologies, products and merchandise, and business models, with the aim of exploiting synergies with existing businesses to bolster profitability and cultivating next-generation core businesses.

Q9 What will you do to ensure your financial position is sufficiently sound to support your investment plan? What is your forecast for cash flows from operating activities over the next three years?

We incorporated consideration for our profit levels and financial position into our investment plan. Accordingly, we are confident in its feasibility.

We plan to invest a total of ¥200 billion over the three years of our new medium-term business plan. We expect to fund ¥180 billion of this from cash generated by operating activities. As evidenced by the target we have set for our net debt-to-equity ratio in fiscal year 2017 of 0.74 times, down from 0.80 times in fiscal year 2014, we are confident in our ability to ensure a sound financial position.

Part V: Returns to Shareholders

Q10 In closing, is there anything that you would like to say directly to shareholders?

"We have always placed a high priority on ensuring stable dividends. I see creating a strong earnings base that supports improved returns to shareholders as being one of management's key responsibilities."

As president, I recognize the need to be unyielding in my determination to increase corporate value. I also have a responsibility to ensure that profits are shared equitably with our shareholders. Accordingly, in addition to guiding our efforts to achieve the quantitative targets of Ortus Stage 1, I will continue working to improve returns to shareholders.

The entire Taiyo Nippon Sanso Group family is committed to attaining the targets of our long-term vision and advancing to a new stage in our ongoing evolution. In all of our efforts, we look forward to the support of our shareholders.

Industrial Gas Business

Outline

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

Competitive advantages

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

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

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

  We have established an extensive customer base in North America. In the United States, subsidiary Matheson Tri-Gas, Inc., began shipments of helium through its joint venture with Air Products and Chemicals, Inc., which will enable it to double its output in the near future. In China, India and elsewhere in Asia, we are pressing forward with the construction of helium filling stations with the aim of expanding our supply capabilities.

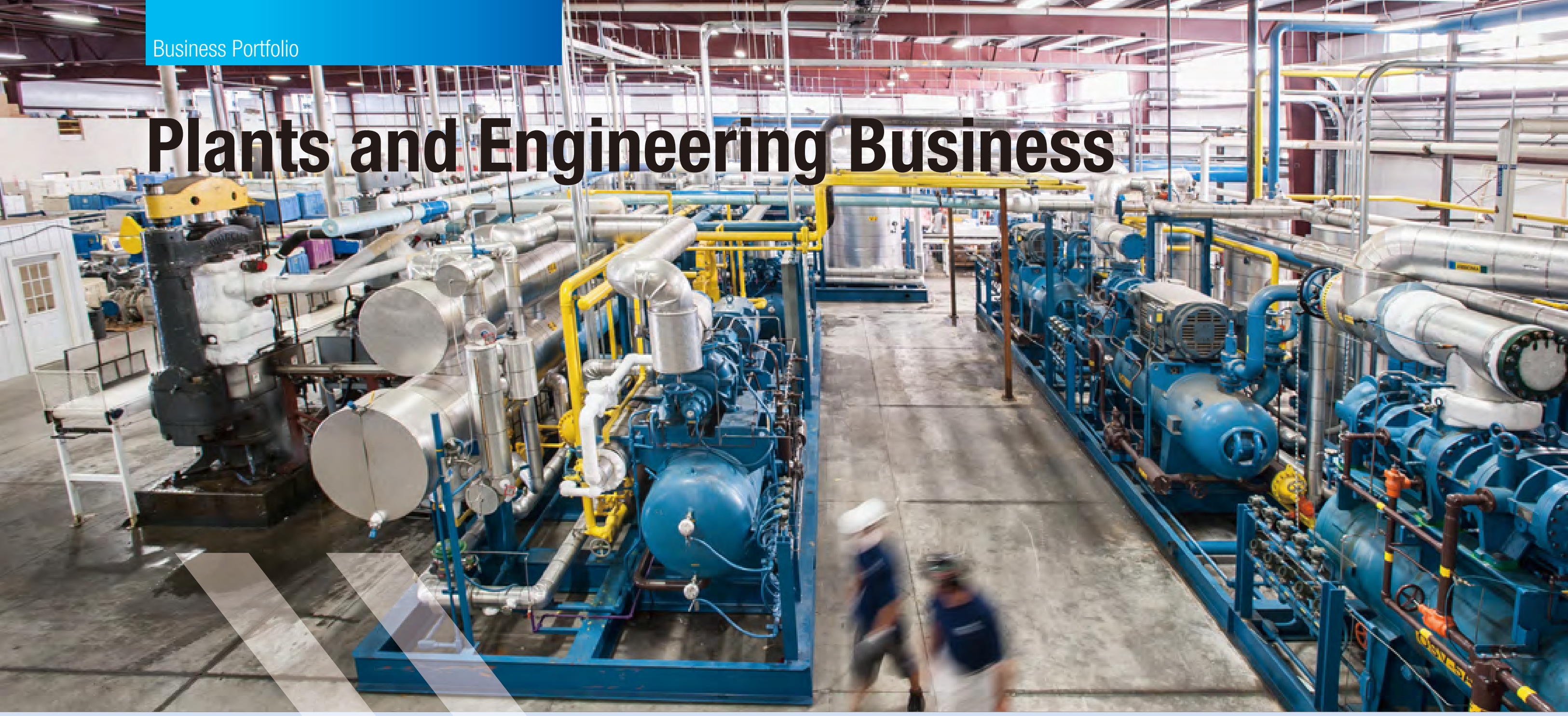
- **Growing network of air separation units in the United States and Asia**

  In the United States, we completed new air separation units in Dickinson, North Dakota and Mesa, Arizona. The former commenced operations in May 2013, while the second will do so before the end of 2014. In Asia, we proceeded with construction of air separation units in northern Vietnam and on the island of Luzon, in the Philippines, which are scheduled to begin operating in January 2015 and July 2014, respectively, and in India, which we plan to complete in the second half of 2014.

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

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

Plants and Engineering Business



Outline

We have built an extensive lineup of plants, which underpin our industrial gas business, ranging from ultrahigh-purity manufacturing equipment for customers in the electronics industry to large-scale plants for steelmakers and specialized containers for the cryogenic transport of helium, and 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.

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

Electronics-related Business

Outline

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

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

Competitive advantages

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

  Solutions include high-purity 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.

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

  This system realizes world-class surface processing performance and can grow on 10 six-inch or six eight-inch wafers in the same growth run. With the aim of hastening the practical development and commercialization of gallium nitride (GaN) semiconductor devices, in 2013 we provided MOCVD systems for a research project at the Nagoya Institute of Technology's Innovation Center for Multi-Business of Nitride Semiconductors.

LP Gas Business

Outline

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

Competitive advantages

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

Medical Business

Outline

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

Competitive advantages

- A world-class 300 kg annual production capacity for Water-^{18}O, a starting material for diagnostic agents used in positron emission tomography (PET) diagnostics in the fourth quarter of fiscal year 2014. We have also begun construction of a third plant (annual capacity: 300 kg) in Japan, which will double our capacity.

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

- Leading market position in Japan for liquid nitrogen dewars for cryopreservation, which are crucial to the biotechnology field, as well as for cell banking systems and auto-pick-up cryopreservation systems (trade name: CryoLibrary), used in cutting-edge areas such as the development of iPS cell therapies.
- Japan's largest network of production bases, filling facilities and distribution bases for medical gases, facilitating stable supplies nationwide
- A well-organized distribution and maintenance network that includes the Medical Technical Service Center, which helps ensure stable supplies to patients' homes and maintain superior product quality
- Rising sales of OXYMED-brand medical gas supply equipment and systems for hospitals, developed through an integrated process that encompasses design, manufacturing, testing and maintenance services

Thermos Business

Outline

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

Competitive advantages

- Products that are developed in Japan, manufactured in Malaysia and China and sold in approximately 120 countries and territories worldwide, a reputation for unconditional commitment to quality and a solid top global market share
- An expanded manufacturing base in China, facilitating responsiveness to growth in the market for stainless steel vacuum bottles worldwide
- Ultralight insulated mug (released in the fall of 2012) that swept markets worldwide thanks to its lightness, compact size and superb design, and new food containers for soup and other hot liquids that are credited with creating and driving the expansion of a new market by offering a brand-new way to enjoy lunch
- Stainless steel baby bottles, baby food refrigeration containers, sippy cups and other products for babies and toddlers that make use of our superior thermal insulation technologies

  Despite falling birth rates in Japan, we continue to see annual growth in shipments in excess of 130%, underscoring confidence that our customer base will continue to expand

Basic Policy

To earn the trust and respond to the expectations of our many stakeholders, including our shareholders, customers, local communities and employees of Taiyo Nippon Sanso Group companies, we have established a compliance framework and work continuously to maintain a management system that ensures fairness, transparency, efficiency and appropriateness, all of which are essential to sustainable growth.

Management Structure

We have adopted a system of internal auditors. Our Board of Directors is composed of 15 directors. To guarantee transparency, one of the directors satisfies the requirements for an outside director. To clarify accountability on a fiscal year basis, the term of office for directors is set at one year. In fiscal year 2014, the Board of Directors met 12 times. The outside director, Shotaro Yoshimura, attended nine of these meetings (75.0%).

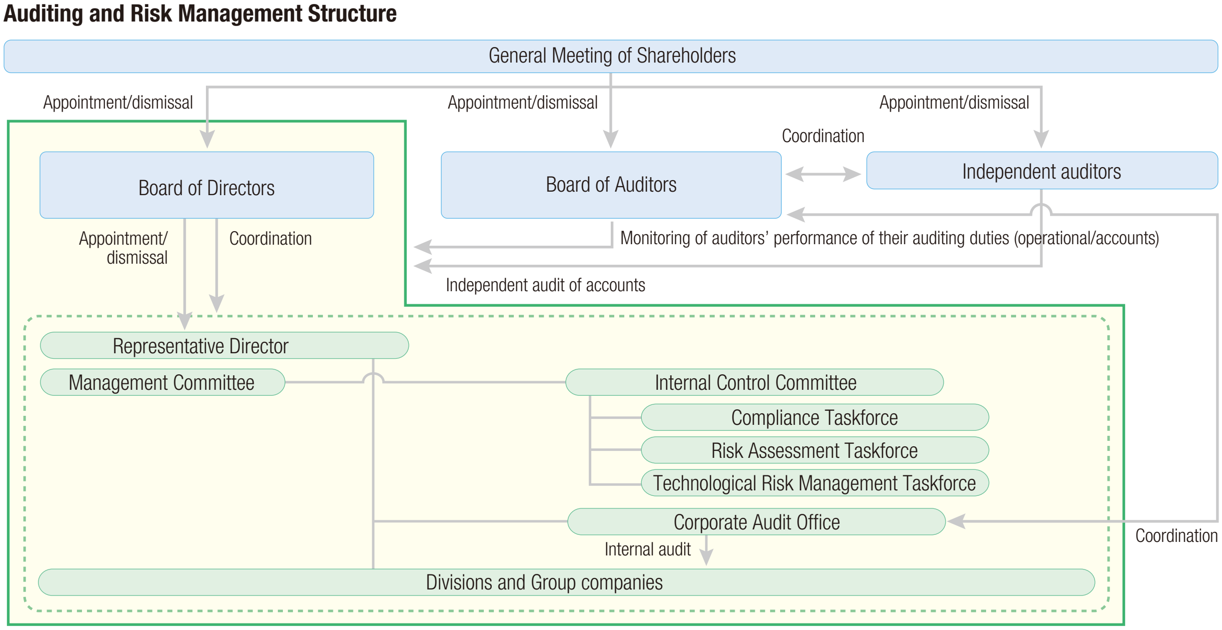
Auditing Structure and Internal Control System

To ensure adequate monitoring capabilities, our Board of Auditors consists of four auditors, three of whom satisfy the requirements for outside auditors, including two who are independent. Auditors communicate with the independent accountants, with whom they hold regular meetings five or more times annually and exchange opinions on key aspects of the auditing process and the assessment of risks associated with auditing from the perspective of internal controls. They are briefed on audit plans and audit results by the internal auditing body, as well as by the Technical Audit Office on annual safety plans and their implementation, and oversee management appropriateness and efficiency.

Remuneration for Directors

In fiscal year 2014, remuneration for 17 directors totaled ¥635 million, while that for five auditors totaled ¥104 million. Remuneration for directors consists of monthly remuneration, performance-linked bonuses and dividend-linked bonuses. Performance-linked bonuses are tied to consolidated operating results.

Auditing and Risk Management Structure



Corporate Social Responsibility

To fulfill the responsibilities implied in our corporate slogan, “The Gas Professionals,” we are committed to operating in a manner that ensures stringent compliance with pertinent laws and regulations, enhances safety management, guarantees superior product quality as well as enables us to contribute to a healthy environment and manage the technology risk associated with use of intellectual property. We recognize effective corporate social responsibility (CSR) as a crucial aspect of management. Through the practical application of our corporate philosophy, “Market-driven collaborative innovation: improving the future through gases,” we will continue working to help address key social imperatives in such areas as the environment, energy and healthcare through the advancement of gas technologies.

Reducing the Carbon Footprint: Promoting the Use of Hydrogen Power

As a leading supplier of industrial gases noted for outstanding gas control technologies used in the compression and supply of hydrogen, we have participated since 1993 in Japan’s national World Energy Network (WE-NET) project, assisting in the development of hydrogen stations for fuel cell vehicles (FCVs). At present, Japan has only 17 hydrogen stations in total. In March 2013, Japan’s Ministry of Economy, Trade and Industry (METI) launched a grant initiative aimed at establishing a viable network of 100 hydrogen stations nationwide within three years. This echoes the Japanese government’s stated goal of achieving an 80% reduction in greenhouse gas emissions associated with logistics, the achievement of which will depend on getting two million FCVs on the road and approximately 1,000 hydrogen stations in operation by 2025, after which further expansion will be left to market forces.

In fiscal year 2014, METI’s initiative advanced from the technological verification stage to actual commercial development. With the aim of expanding the number of hydrogen stations in operation and reducing installation costs, we developed the innovative Hydro Shuttle, which integrates the four major components of a hydrogen station—dispenser, pre-cooling device, hydrogen compressor and storage vessel—into a compact (7 m × 2 m × 2.6 m), portable package-type unit, thereby realizing a significant improvement in cost performance compared with conventional hydrogen stations. Recognizing the potential of the Hydro Shuttle to serve as a model for hydrogen stations worldwide, we will continue to promote the utility of these units, as well as their prospective role in the realization of a low-carbon global economy.

Board of Directors, Corporate Auditors and Corporate Officers

Board of Directors

Chairman
Shotaro Yoshimura

Vice Chairmen
Shinji Tanabe
Kunishi Hazama

President and Chief Executive Officer
Yujiro Ichihara

Vice President
Tadashige Maruyama

Executive Director/Advisor
Hiroshi Taguchi

Senior Managing Directors
Yoshikazu Yamano
Shigeru Amada
William J. Kroll
Hiroshi Katsumata

Managing Directors
Kinji Mizunoe
Akihiko Umekawa
Shin-ichiro Hiramine
Keiki Ariga
Yuki Hajikano
Jun Ishikawa
Yoshihide Kenmochi

Corporate Auditors

Kiyoshi Fujita
Yasufumi Miyazaki*
Ichiro Yumoto*
Kazuo Yoshida*

Corporate Officers

Executive Corporate Officers
Masami Sakaguchi
Shigenobu Somaya
Mikio Yamaguchi
Kazushige Arai
Masahiro Sakamoto
Hiroyuki Tanizawa
Norikazu Ishikawa
Kou Matsumoto

Corporate Officers
Masayuki Taniguchi
Masami Takaine
Kazunori Takeda
Shigeyuki Osawa
Hirohisa Yanagida
Masahisa Kanzaki
Haruhiko Yasuga
Masahiro Uehara
Kenji Nagata
Kunihiro Kobayashi
Junzo Tai
Nobuaki Kobayashi
Masami Myobatake
Hideaki Hirose
Hiroshi Matsuda
Yasuhiko Kawano
Yuki Endo

(As of June 27, 2014)

Note: *Outside Corporate Auditor

Six-Year Summary

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen					
Years ended March 31	**2014**	2013	2012	2011	2010	2009
Net sales	**¥522,746**	¥468,387	¥477,451	¥483,620	¥433,390	¥495,746
Operating income	**31,489**	24,884	31,067	35,468	27,556	29,164
Net income (loss)	**20,194**	(2,071)	21,200	12,736	15,748	16,533
Selling, general and administrative expenses/ Net sales (%)	**26.4%**	26.8%	26.3%	26.1%	27.5%	24.7%
Return on equity (%)	**8.4%**	(1.0)%	10.8%	6.5%	8.3%	8.6%
Return on assets (%)	**2.8%**	(0.3)%	3.5%	2.1%	2.4%	3.1%
Capital expenditures	**32,532**	31,715	31,452	31,991	38,366	66,010
Depreciation and amortization	**33,507**	29,400	30,471	32,167	30,143	28,339
Research and development expenses	**3,170**	3,177	3,458	3,924	4,137	3,936
Interest-bearing debt	**278,063**	253,424	241,121	256,358	259,111	195,678
Total net assets	**298,475**	224,253	219,611	207,416	212,396	194,250
Total assets	**731,677**	615,820	607,024	617,676	617,215	534,350

	Yen					
Per share data:						
Net income (loss)[1]	**¥49.42**	¥ (5.25)	¥53.33	¥31.86	¥39.39	¥41.21
Cash dividends	**12.00**	12.00	12.00	12.00	12.00	12.00

	Times					
Price earnings ratio	**16.33**	—	10.95	21.75	23.20	15.55

[1] Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year, as adjusted retroactively for free share distributions made during the period.

Scope of Consolidation and Application of the Equity Method

As of March 31, 2014, Taiyo Nippon Sanso Corporation had 160 consolidated subsidiaries (71 based in Japan and 89 based overseas), including a newly consolidated joint venture Vietnam Japan Gas Joint Stock Company, and 27 equity-method affiliates (eight based in Japan and 19 based overseas).

A total of 104 consolidated subsidiaries and 12 equity-method affiliates are accounted for in the Industrial Gas segment. The Electronics segment and the Energy segment comprise 14 and five consolidated subsidiaries, respectively. The Other segment encompasses 21 consolidated subsidiaries and 10 equity-method affiliates.

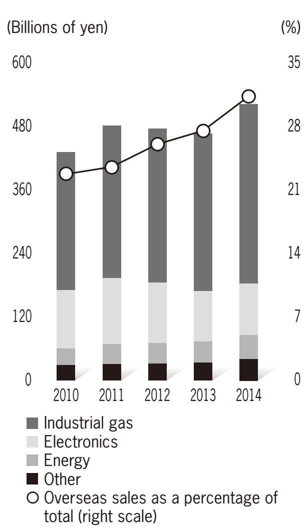
Operating Results

In fiscal year 2014, ended March 31, 2014, consolidated net sales rose 11.6%, to ¥522,746 million. Cost of sales was up 11.0%, to ¥353,204 million, while selling, general and administrative expenses increased 10.0%, to ¥138,052 million. Owing to these and other factors, operating income advanced 26.5%, to ¥31,489 million. The operating margin improved 0.7 percentage point, to 6.0%.

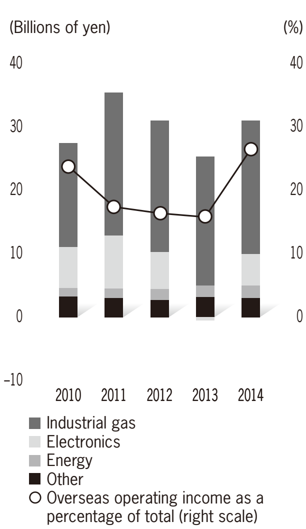
Bolstered by other income of ¥7,488 million, owing to gains on sales of investment securities and of noncurrent assets, net income amounted to ¥20,194 million, compared with a net loss of ¥2,071 million in fiscal year 2013. Net income per share was ¥49.42, while return on equity (ROE) was 8.4%, up from -1.0% in the previous fiscal year. At a general meeting of the Company's shareholders on June 27, 2014, shareholders approved a proposal to pay a year-end dividend of ¥6.00 per share, bringing cash dividends for the term, comprising interim and year-end dividends, to ¥12.00 per share, representing a payout ratio was 24.3%.

Capital expenditures, including the cost of construction, totaled ¥32,532 million, an increase of ¥817 million. Depreciation and amortization rose ¥4,107 million, to ¥33,507 million. Research and development costs declined ¥700 million, to ¥3,170 million, equivalent to approximately 0.6% of net sales.

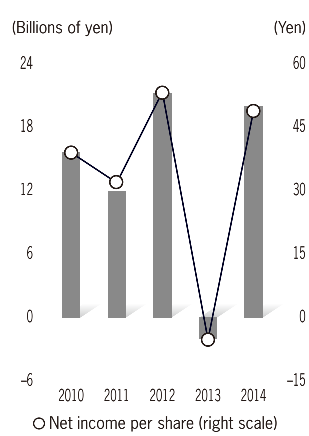
Net Sales



Operating Income



Net Income (Loss)



Results by Segment

Industrial Gases

Sales of oxygen and nitrogen supplied on-site to steelmakers in Japan, key users of industrial gases, were up sharply from fiscal year 2013. In contrast, sales of liquid oxygen, liquid nitrogen and liquid argon edged down. Sales of air separation units decreased, as did sales of cutting and welding equipment, as orders continued to fall. Sales in North America advanced, reflecting the positive impact of yen depreciation—which pushed up the value of sales denominated in other currencies after translation into yen—and economic recovery. In Asia, sales climbed substantially, bolstered by an increase in the scope of consolidation. Owing to these and other factors, sales in the Industrial Gases segment rose 13.6%, to ¥338,616 million. Nonetheless, operating income was held to a 2.9% increase, to ¥21,933 million, owing to a decline in the volume of industrial gases shipped in Japan, an increase in costs attributable to rising electricity rates, and deteriorating profitability for machinery and equipment.

Electronics

Overall demand for semiconductors, liquid crystal displays (LCDs) and solar panels remained weak, although signs of an upturn were seen in certain areas, notably Taiwan. Accordingly, sales of electronics materials gases, electronics-related equipment and installations, and MOCVD systems edged up. As a consequence, the Electronics segment reported a 1.9% increase in sales, to ¥98,399 million, and operating income of ¥5,282 million, compared with an operating loss of ¥536 million in fiscal year 2013.

Energy

Despite sales price hikes implemented in response to higher costs, attributable to yen depreciation, shipments for LP gas remained steady, although fierce summer heat pushed down consumer demand. While these and other factors boosted Energy segment sales 11.2%, to ¥44,511 million, operating income decreased 7.4%, to ¥1,674 million.

Other

In the medical business, sales of medical devices and equipment rose substantially, owing primarily to the addition of the sales of Pacific Medico Co., Ltd., which was acquired in October 2013, although sales of medical-use oxygen slipped. Sales in the Thermos business were also up, owing to strong sales of sports-use vacuum bottles and insulated mugs, as well as to contributions from the sales of new products. Segment sales increased 22.2%, to ¥41,219 million. Operating income advanced 14.9%, to ¥3,782 million.

Financial Position

Total assets as of March 31, 2014, amounted to ¥731,677 million, an increase of 18.8%. Approximately ¥52,800 million of this was attributable to the depreciation of the yen, which was ¥18.81 lower against the U.S. dollar on March 31, 2014, than on the same day a year earlier. The current ratio was 134%, up 19.0 percentage points from the end of fiscal year 2013. Property, plant and equipment, less accumulated depreciation, rose 12.8%, to ¥307,057 million, bolstered primarily by increases in gas supply facilities and transport equipment. Total investments and other assets increased 24.9%, to ¥175,297 million, owing to increases in investment securities.

Total current liabilities, at ¥185,975 million, were up 5.5%, owing largely to an increase in short-term loans payable. Total noncurrent liabilities rose 14.8%, to ¥247,226 million. Total interest-bearing debt thus amounted to ¥278,063 million, an increase of ¥24,639 million.

Total net assets advanced 33.1%, to ¥298,475 million, reflecting the issue of new shares by way of third-party allotment with Mitsubishi Chemical Holdings Corporation as the allottee and the disposal of treasury stock, as a result of which authorized common stock rose ¥10,305 million, to ¥37,344 million and capital surplus was up ¥11,568 million, to ¥56,478 million, while treasury stock, at cost, declined ¥9,052 million, to ¥108 million. Retained earnings rose ¥17,270 million, to ¥177,269 million, owing to changes in net income and dividends paid. Foreign currency translation adjustments shrank ¥22,984 million, to ¥2,035 million. As a consequence, the equity ratio improved 4.4 percentage points, to 37.5%, while net assets per share increased ¥108.31, to ¥633.69.

Cash Flows

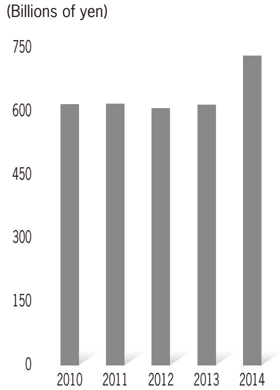
Net cash provided by operating activities in fiscal year 2014 amounted to ¥56,716 million, an increase of ¥22,752 million. Principal factors behind this result included income before income taxes and minority interests and changes in depreciation and amortization, notes and accounts receivable—trade and notes and accounts payable—trade. The interest coverage ratio improved 6.1 points, to 14.3 times.

Net cash used in investing activities, at ¥55,295 million, was up ¥18,070 million. Principal applications of cash included purchases of property, plant and equipment and purchases of investments in subsidiaries resulting in a change in the scope of consolidation.

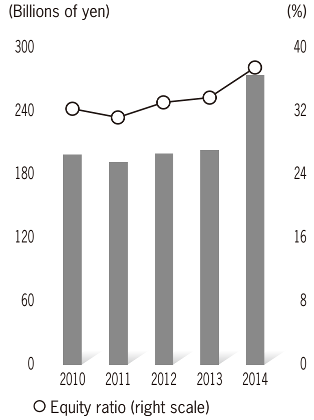
Net cash provided by financing activities came to ¥27,884 million, compared with net cash used in such activities of ¥8,181 million in fiscal year 2013. This result was primarily attributable to proceeds from the issue of shares by third-party allotment, sales of treasury stock and the issuance of bonds.

After factoring in the effect of exchange rate fluctuations on cash and cash equivalents, which totaled ¥485 million, and changes in cash and cash equivalents resulting from changes in the scope of consolidation, operating, investing and financing activities in fiscal year 2014 yielded cash and cash equivalents at end of period of ¥56,088 million, ¥33,367 million higher than at the end of fiscal year 2013.

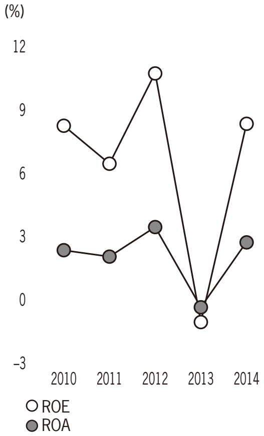
Total Assets



Equity



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



Business Risks

Management Policies, Business-Related Risks

Purchase of Property, Plant and Equipment

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

Reliance on Specific Industries

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

Manufacturing Costs

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

Overseas Factors

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

Technological and Safety Factors

Technological Development

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

Intellectual Property

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

Product Defects

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

Financial Risks and Other Factors

Foreign Exchange Risk

The Company exports products for sale outside of Japan. The Company strives to hedge foreign exchange risks by entering into forward exchange contracts and other 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

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

Legal Issues

Unanticipated changes to existing laws and the introduction of new laws—particularly in countries overseas where the Company maintains operations—may adversely affect the Company's business performance. Revisions to environmental laws that result in a tightening of restrictions may result in an increase in costs to ensure compliance, which may also adversely affect the Company's business performance.

Because the Company does business both in Japan and overseas, there is a risk that it may become involved in legal disputes or be the subject of investigations and/or legal action by relevant authorities in the markets in which it operates. Such legal and regulatory action may adversely affect the Company's operations, business performance, financial condition, reputation and reliability.

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.

Consolidated Balance Sheets

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
March 31	**2014**	2013	**2014**
Assets			
Current assets:			
Cash and deposits (Notes 16 and 24)	**¥ 58,336**	¥ 24,743	**$ 566,809**
Notes and accounts receivable–trade (Notes 7 and 16)	**134,959**	123,282	**1,311,300**
Merchandise and finished goods	**25,954**	22,716	**252,176**
Work in process	**6,640**	7,100	**64,516**
Raw materials and supplies	**9,186**	8,092	**89,254**
Deferred tax assets (Note 11)	**6,698**	7,285	**65,080**
Other	**8,761**	11,007	**85,124**
Allowance for doubtful accounts	**(1,216)**	(850)	**(11,815)**
Total current assets	**249,322**	203,376	**2,422,483**
Property, plant and equipment (Notes 9, 10, 13 and 23)	**780,134**	698,083	**7,580,004**
Accumulated depreciation	**(473,077)**	(425,941)	**(4,596,551)**
Property, plant and equipment, net	**307,057**	272,142	**2,983,453**
Investments and other assets:			
Investment securities (Notes 6 and 16)	**67,321**	60,110	**654,110**
Long-term loans receivable	**390**	642	**3,789**
Goodwill (Notes 23 and 26)	**65,327**	43,561	**634,736**
Other intangible assets	**21,327**	17,213	**207,219**
Prepaid pension cost (Note 14)	**—**	9,804	**—**
Net defined benefit asset (Note 14)	**9,376**	—	**91,100**
Deferred tax assets (Note 11)	**1,976**	2,057	**19,199**
Other	**10,070**	8,532	**97,843**
Valuation allowance for investments	**(20)**	(1,000)	**(194)**
Allowance for doubtful accounts	**(472)**	(618)	**(4,586)**
Total investments and other assets	**175,297**	140,301	**1,703,236**
Total assets	**¥ 731,677**	¥ 615,820	**$ 7,109,182**

See notes to consolidated financial statements.

March 31	Millions of yen 2014	2013	Thousands of U.S. dollars (Note 5) 2014
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable–trade (Notes 9 and 16)	**¥ 70,002**	¥ 70,785	**$ 680,159**
Short-term loans payable (Notes 8, 9 and 16)	**81,508**	75,062	**791,955**
Income taxes payable (Note 11)	**4,492**	2,716	**43,646**
Other	**29,972**	27,676	**291,216**
Total current liabilities	**185,975**	176,242	**1,806,986**
Noncurrent liabilities:			
Long-term loans payable (Notes 8, 9 and 16)	**189,897**	170,806	**1,845,093**
Pension and severance indemnities (Note 14)	**1,296**	4,641	**12,592**
Net defined benefit liability (Note 14)	**6,235**	—	**60,581**
Deferred tax liabilities (Note 11)	**35,764**	27,229	**347,493**
Negative goodwill (Note 23)	**22**	106	**214**
Lease obligations (Note 8)	**4,896**	5,061	**47,571**
Other	**9,112**	7,478	**88,535**
Total noncurrent liabilities	**247,226**	215,324	**2,402,118**
Contingent liabilities (Note 15)			
Total liabilities	**433,201**	391,566	**4,209,104**
Net assets (Notes 12 and 27):			
Shareholders' equity:			
Common stock:			
Authorized—1,600,000,000 shares			
Issued—433,092,837 shares in 2014 and 403,092,837 shares in 2013	**37,344**	27,039	**362,845**
Capital surplus	**56,478**	44,909	**548,756**
Retained earnings	**177,269**	159,999	**1,722,396**
Treasury stock	**(108)**	(9,161)	**(1,049)**
Total shareholders' equity	**270,983**	222,787	**2,632,948**
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	**7,257**	6,322	**70,511**
Deferred gains or losses on hedges	**(7)**	(120)	**(68)**
Foreign currency translation adjustments	**(2,035)**	(25,020)	**(19,773)**
Pension liability adjustment of foreign subsidiaries	**—**	(197)	**—**
Remeasurements of defined benefit plans (Note 14)	**(1,891)**	—	**(18,373)**
Total accumulated other comprehensive income (loss)	**3,323**	(19,016)	**32,287**
Minority interests	**24,168**	20,481	**234,823**
Total net assets	**298,475**	224,253	**2,900,068**
Total liabilities and net assets	**¥731,677**	¥615,820	**$7,109,182**

Consolidated Statements of Operations

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
Years ended March 31	**2014**	2013	**2014**
Net sales (Note 23)	**¥522,746**	¥468,387	**$5,079,149**
Cost of sales (Note 18)	**353,204**	317,999	**3,431,831**
Gross profit	**169,542**	150,388	**1,647,318**
Selling, general and administrative expenses (Note 18)	**138,052**	125,503	**1,341,353**
Operating income	**31,489**	24,884	**305,956**
Other income (expenses):			
Interest and dividend income	**1,372**	970	**13,331**
Interest expenses	**(3,912)**	(4,110)	**(38,010)**
Amortization of negative goodwill	**199**	273	**1,934**
Gain on sales of noncurrent assets (Note 19)	**3,846**	31	**37,369**
Loss on sales and retirement of noncurrent assets	**(656)**	(1,497)	**(6,374)**
Loss on valuation of investment securities	**(199)**	(89)	**(1,934)**
Gain on sales of investment securities	**3,641**	78	**35,377**
Loss on valuation of golf club memberships	**(10)**	(68)	**(97)**
Equity in earnings of affiliates	**1,999**	1,284	**19,423**
Impairment loss (Notes 20 and 23)	**(1,183)**	(50)	**(11,494)**
Provision of valuation allowance for investments	**—**	(135)	**—**
Loss on step acquisitions	**(151)**	—	**(1,467)**
Loss on liquidation of subsidiaries and affiliates	**(451)**	—	**(4,382)**
Loss on liquidation of business (Note 21)	**—**	(23,276)	**—**
Early extra retirement payments	**(1,667)**	—	**(16,197)**
Other	**54**	1,256	**525**
	2,881	(25,334)	**27,993**
Income (loss) before income taxes and minority interests	**34,370**	(450)	**333,949**
Income taxes (Note 11):			
Current	**9,303**	4,588	**90,391**
Deferred	**3,505**	(4,306)	**34,056**
	12,808	281	**124,446**
Income (loss) before minority interests	**21,562**	(731)	**209,503**
Minority interests in income	**1,367**	1,339	**13,282**
Net income (loss)	**¥ 20,194**	¥ (2,071)	**$ 196,211**
	Yen		U.S. dollars (Note 5)
Amounts per share:			
Net assets	**¥633.69**	¥525.38	**$6.16**
Net income (loss)	**49.42**	(5.25)	**0.48**
Cash dividends	**12.00**	12.00	**0.12**

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
Year ended March 31	**2014**	2013	**2014**
Income (loss) before minority interests	**¥21,562**	¥ (731)	**$209,503**
Other comprehensive income (Note 22):			
Valuation difference on available-for-sale securities	**927**	1,853	**9,007**
Deferred gains or losses on hedges	**113**	(93)	**1,098**
Foreign currency translation adjustments	**21,761**	11,075	**211,436**
Pension liability adjustment of foreign subsidiaries	**—**	(3)	**—**
Remeasurements of defined benefit plans	**154**	—	**1,496**
Share of other comprehensive income of associates accounted for using the equity method	**1,992**	1,134	**19,355**
Total other comprehensive income	**24,950**	13,966	**242,421**
Comprehensive income	**¥46,512**	¥13,234	**$451,924**
Total comprehensive income attributable to:			
Owners of the Company	**¥44,383**	¥12,735	**$431,238**
Minority interests	**2,129**	498	**20,686**

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, 2012	403,092,837	¥27,039	¥44,909	¥166,835	¥(4,125)	¥234,659
Issuance of common stock	—	—	—	—	—	—
Disposal of treasury stock	—	—	(0)	—	1	1
Dividends from surplus	—	—	—	(4,764)	—	(4,764)
Net loss	—	—	—	(2,071)	—	(2,071)
Purchase of treasury stock	—	—	—	—	(5,036)	(5,036)
Net changes of items other than shareholders' equity	—	—	—	—	—	—
Balance at March 31, 2013	403,092,837	¥27,039	¥44,909	¥159,999	¥(9,161)	¥222,787
Issuance of common stock	**30,000,000**	**10,305**	**10,305**	**—**	**—**	**20,610**
Disposal of treasury stock	**—**	**—**	**1,263**	**—**	**9,109**	**10,373**
Dividends from surplus	**—**	**—**	**—**	**(4,655)**	**—**	**(4,655)**
Net income	**—**	**—**	**—**	**20,194**	**—**	**20,194**
Change of scope of consolidation	**—**	**—**	**—**	**1,731**	**—**	**1,731**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(57)**	**(57)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2014	**433,092,837**	**¥37,344**	**¥56,478**	**¥177,269**	**¥ (108)**	**¥270,983**

	Millions of yen							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2012	¥4,432	¥ (26)	¥(38,035)	¥(193)	¥ —	¥(33,823)	¥18,775	¥219,611
Issuance of common stock	—	—	—	—	—	—	—	—
Disposal of treasury stock	—	—	—	—	—	—	—	1
Dividends from surplus	—	—	—	—	—	—	—	(4,764)
Net loss	—	—	—	—	—	—	—	(2,071)
Purchase of treasury stock	—	—	—	—	—	—	—	(5,036)
Net changes of items other than shareholders' equity	1,889	(93)	13,015	(3)	—	14,807	1,706	16,513
Balance at March 31, 2013	¥6,322	¥(120)	¥(25,020)	¥(197)	¥ —	¥(19,016)	¥20,481	¥224,253
Issuance of common stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**20,610**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**10,373**
Dividends from surplus	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,655)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**20,194**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**1,731**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(57)**
Net changes of items other than shareholders' equity	**934**	**113**	**22,984**	**197**	**(1,891)**	**22,339**	**3,686**	**26,026**
Balance at March 31, 2014	**¥7,257**	**¥ (7)**	**¥ (2,035)**	**¥ —**	**¥(1,891)**	**¥ 3,323**	**¥24,168**	**¥298,475**

	Thousands of U.S. dollars (Note 5)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at April 1, 2013	$262,719	$436,349	$1,554,596	$(89,011)	$2,164,662
Issuance of common stock	**100,126**	**100,126**	**—**	**—**	**200,253**
Disposal of treasury stock	**—**	**12,272**	**—**	**88,506**	**100,787**
Dividends from surplus	**—**	**—**	**(45,229)**	**—**	**(45,229)**
Net income	**—**	**—**	**196,211**	**—**	**196,211**
Change of scope of consolidation	**—**	**—**	**16,819**	**—**	**16,819**
Purchase of treasury stock	**—**	**—**	**—**	**(554)**	**(554)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**
Balance at March 31, 2014	**$362,845**	**$548,756**	**$1,722,396**	**$ (1,049)**	**$2,632,948**

	Thousands of U.S. dollars (Note 5)							
	Accumulated other comprehensive income							
	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustments	Pension liability adjustment of foreign subsidiaries	Remeasurements of defined benefit plans	Total accumulated other comprehensive income (loss)	Minority interests	Total net assets
Balance at April 1, 2013	$61,426	$(1,166)	$(243,101)	$(1,914)	$ —	$(184,765)	$198,999	$2,178,906
Issuance of common stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**200,253**
Disposal of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**100,787**
Dividends from surplus	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(45,229)**
Net income	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**196,211**
Change of scope of consolidation	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**16,819**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**(554)**
Net changes of items other than shareholders' equity	**9,075**	**1,098**	**223,319**	**1,914**	**(18,373)**	**217,052**	**35,814**	**252,876**
Balance at March 31, 2014	**$70,511**	**$ (68)**	**$ (19,773)**	**$ —**	**$(18,373)**	**$ 32,287**	**$234,823**	**$2,900,068**

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Taiyo Nippon Sanso Corporation and Consolidated Subsidiaries

	Millions of yen		Thousands of U.S. dollars (Note 5)
Years ended March 31	2014	2013	2014
Operating activities			
Income (loss) before income taxes and minority interests	¥ 34,370	¥ (450)	$ 333,949
Depreciation and amortization	33,507	29,400	325,564
Impairment loss	1,183	50	11,494
Amortization of goodwill	3,668	2,719	35,639
Interest and dividends income	(1,372)	(970)	(13,331)
Interest expense	3,912	4,110	38,010
Equity in earnings of affiliates	(1,999)	(1,284)	(19,423)
(Gain) loss on sales and retirement of noncurrent assets	(3,410)	1,262	(33,133)
Gain on sales of investment securities	(3,670)	(68)	(35,659)
Loss on step acquisitions	151	—	1,467
Loss on liquidation of business	—	23,276	—
Loss on liquidation of subsidiaries and affiliates	451	—	4,382
Early extra retirement payments	1,667	—	16,197
(Increase) decrease in notes and accounts receivable—trade	(3,713)	12,403	(36,077)
Decrease (increase) in accounts receivable—other	1,051	(921)	10,212
Increase in advance payments	(537)	(14)	(5,218)
Decrease in inventories	1,351	2,376	13,127
Decrease in notes and accounts payable—trade	(5,995)	(6,930)	(58,249)
Increase (decrease) in accrued expenses	573	(1,124)	5,567
Decrease in advances received	(757)	(266)	(7,355)
Decrease in provision for retirement benefits	—	(255)	—
Decrease in net defined benefit liability	(76)	—	(738)
Decrease in prepaid pension costs	—	985	—
Decrease in net defined benefit asset	428	—	4,159
Other, net	4,253	(2,330)	41,323
	65,036	61,965	631,908
Interest and dividends income received	1,753	1,151	17,033
Interest expenses paid	(3,954)	(4,122)	(38,418)
Payments for loss on liquidation of business	—	(17,059)	—
Income taxes paid	(6,121)	(7,970)	(59,473)
Net cash provided by operating activities	56,716	33,964	551,069
Investing activities			
Decrease (increase) in short-term investments	2,195	(477)	21,327
Purchases of property, plant and equipment	(29,821)	(31,096)	(289,749)
Proceeds from sales of property, plant and equipment	5,559	1,408	54,013
Purchases of intangible assets	(447)	(445)	(4,343)
Purchases of investment securities	(5,276)	(2,139)	(51,263)
Proceeds from sales of investment securities	4,754	152	46,191
Purchases of investments in subsidiaries resulting in change in scope of consolidation (Note 24)	(30,162)	(513)	(293,063)
Payments of loans receivable	(310)	(601)	(3,012)
Payments for assets purchase (Note 24)	—	(2,417)	—
Other, net	(1,785)	(1,094)	(17,344)
Net cash used in investing activities	(55,295)	(37,225)	(537,262)
Financing activities			
Net (decrease) increase in short-term loans payable	¥ (7,921)	¥ 349	$ (76,963)
Proceeds from long-term loans payable	31,808	34,108	309,056
Repayment of long-term loans payable	(43,371)	(30,104)	(421,405)
Proceeds from issuance of bonds	24,857	10,000	241,518
Redemption of bonds	—	(10,000)	—
Repayments of lease obligations	(2,880)	(2,339)	(27,983)
Proceeds from issuance of common stock	20,452	—	198,717
Purchase of treasury stock	(55)	(5,011)	(534)
Proceeds from sales of treasury stock	2	1	19
Proceeds from disposal of treasury stock	10,370	—	100,758
Cash dividends paid	(4,656)	(4,764)	(45,239)
Cash dividends paid to minority shareholders	(722)	(421)	(7,015)
Net cash provided by (used in) financing activities	27,884	(8,181)	270,929
Effect of exchange rate change on cash and cash equivalents	485	888	4,712
Net increase (decrease) in cash and cash equivalents	29,791	(10,554)	289,458
Cash and cash equivalents at beginning of period	22,721	33,275	220,764
Increase in cash and cash equivalents resulting from change of scope of consolidation	3,568	—	34,668
Increase in cash and cash equivalents resulting from merger with unconsolidated subsidiaries	7	—	68
Cash and cash equivalents at end of period (Note 24)	¥ 56,088	¥ 22,721	$ 544,967

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 160 significant subsidiaries. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

(b) Cash equivalents

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

(c) Investment securities

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

(d) Inventories

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

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

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

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

The useful lives are as follows:

Buildings	3 to 50 years
Machinery	4 to 20 years

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

(f) Intangible assets

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

(g) Leases

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

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

(h) Translation of foreign currency transactions

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

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

(i) Pension and severance indemnities

The straight-line method is used as the method of attributing expected benefits to periods through the end of the fiscal year ended March 31, 2014 in calculating projected benefit obligation.

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

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

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

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

The allowance included ¥799 million ($7,763 thousand) and ¥764 million for directors and corporate auditors at March 31, 2014 and 2013, respectively, and included ¥497 million ($4,829 thousand) and ¥550 million for corporate officers at March 31, 2014 and 2013, respectively.

(k) Research and development expenses

Research and development expenses are charged to operations as incurred.

(l) Income taxes

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

(m) Amounts per share

Presentation of diluted net income (loss) per share is not applicable as there were no potentially dilutive securities for the years ended March 31, 2014 and 2013.

(n) Allowance for doubtful accounts

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

(o) Valuation allowance for investments

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

(p) Derivative and hedging transactions

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

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

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

(q) Recognition of revenues and costs of construction contracts

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

3. Changes in Accounting Policies

Effective from the end of the fiscal year ended March 31, 2014, the Company has adopted the "Accounting Standard for Retirement Benefits" (Statement No. 26, issued by the ASBJ on May 17, 2012 (hereinafter, the "Standard No. 26")) and "Guidance on Accounting Standard for Retirement Benefits" (Guidance No. 25, issued by the ASBJ on May 17, 2012 (hereinafter "Guidance No. 25")) (excluding the provisions indicated in the body text of Paragraph 35 of the Standard No. 26 and Paragraph 67 of the Guidance No. 25). Under the standard and the guidance, the Company revised its method of accounting for projected benefit obligation, and the amount deducting the plan assets from these obligations is recorded as net defined benefit asset or net defined benefit liability, and unrecognized actuarial gains or losses and prior service cost are also recorded as net defined benefit liability.

With regard to the adoption of the standard and the guidance, in accordance with the provisions on transitional treatment indicated in Paragraph 37 of the Standard No. 26, the impact of these changes is included in remeasurements of defined benefit plans in accumulated other comprehensive income as of March 31, 2014.

As a result of this change, net defined benefit liability as of March 31, 2014 increased by ¥2,806 million ($27,264 thousand) and accumulated other comprehensive income and minority interests as of March 31, 2014 decreased by ¥1,849 million ($17,965 thousand) and ¥88 million ($855 thousand), respectively. Net defined benefit asset of ¥9,376 million ($91,100 thousand), net defined benefit liability of ¥6,235 million ($60,581 thousand), accumulated other comprehensive income of ¥3,323 million ($32,287 thousand) and minority interests of ¥24,168 million ($234,823 thousand) are recorded as of March 31, 2014. Net assets per share as of March 31, 2014 decreased by ¥4.07 ($0.04) compared with the previous method.

Also, "Pension liability adjustment of foreign subsidiaries" on the consolidated balance sheet as of March 31, 2013 and on the consolidated statement of comprehensive income and the statement of changes in net assets for the year ended March 31, 2013 is presented as "Remeasurements of defined benefit plans" on the consolidated balance sheet as of March 31, 2014 and on the consolidated statement of comprehensive income and the statement of changes in net assets for the year ended March 31, 2014.

4. Accounting Standards Issued but Not Yet Effective

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

(1) Overview
This accounting standard and related guidance were revised mainly focusing on the treatment of actuarial gains or losses and prior service costs, the calculation method of projected benefit obligations and service costs, and enhancement of disclosures.

(2) Expected application date
Amendments relating to the calculation method of projected benefit obligations and current service costs are expected to be applied from the beginning of the year ending March 31, 2015. Retrospective application is not made to the prior periods' consolidated financial statements based on transitional treatment.

(3) Effects of the adoption of the standard and the guidance
The Company is currently evaluating the effects of the change in the calculation method of projected benefit obligations and current service costs on its consolidated results of operations and financial position.

(b) Accounting standards for business combinations
On September 13, 2013, the ASBJ issued "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7), "Revised Accounting Standard for Earnings Per Share" (ASBJ Statement No. 2), "Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10) and "Revised Guidance on Accounting Standard for Earnings Per Share" (ASBJ Guidance No. 4).

(1) Overview
These accounting standards and related guidance were revised mainly focusing on treatments of changes in the parent's ownership interest in a subsidiary while the parent retains its controlling interest in its subsidiary when additional interest is acquired, the corresponding acquisition-related costs, the presentation of net income and the change from "minority interests" to "noncontrolling interests" and provisional accounting procedures.

(2) Expected application date
These standards and related guidance are expected to be applied from the beginning of the year ending March 31, 2016. The treatment under the provisional accounting procedures is expected to be applied effective for business combinations occur on or after the beginning of the year ending March 31, 2016.

(3) Effects of the adoption of the standard and the guidance
The Company is currently evaluating the effects of applying these revised standards on its consolidated financial statements.

5. U.S. Dollar Amounts

The translation of Japanese yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetical computation only, at the rate of ¥102.92=U.S.$1, the approximate rate of exchange at March 31, 2014. The translation should not be construed as a representation that Japanese yen have been, could have been, or could in the future be converted into U.S. dollars at the above or any other rate.

6. Investment Securities

At March 31, 2014 and 2013, 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		
	2014			**2014**		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	**¥27,120**	**¥15,524**	**¥11,596**	**$263,506**	**$150,836**	**$112,670**
Unrecognized loss items: Stock	**10,045**	**10,515**	**(469)**	**97,600**	**102,167**	**(4,557)**
Total	**¥37,166**	**¥26,040**	**¥11,126**	**$361,115**	**$253,012**	**$108,103**

	Millions of yen		
	2013		
	Carrying amount	Acquisition cost	Unrecognized gain (loss)
Unrecognized gain items: Stock	¥23,869	¥12,746	¥11,122
Unrecognized loss items: Stock	9,492	10,932	(1,440)
Total	¥33,361	¥23,679	¥ 9,681

Proceeds from sales of securities classified as available-for-sale securities amounted to ¥4,655 million ($45,229 thousand) and ¥142 million with an aggregate gain on sales of ¥3,653 million ($35,494 thousand) and ¥78 million for the years ended March 31, 2014 and 2013, respectively, and an aggregate loss on sales of nil and ¥9 million for the years ended March 31, 2014 and 2013, respectively.

7. Notes and Accounts Receivable

(a) Notes and accounts receivable liquidated at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Accounts receivable transferred by liquidation	**¥4,742**	¥4,376	**$46,075**
Notes receivable transferred by liquidation	**1,839**	5,665	**17,868**

(b) Notes receivable discounted at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Notes receivable discounted	**¥2**	¥9	**$19**

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

As of March 31, 2014 and 2013, 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
	2014	2013	**2014**
Bank loans	**¥19,677**	¥23,575	**$191,187**
Current portion of long-term loans payable	**46,831**	51,487	**455,023**
1.13% unsecured bonds, payable in yen, due 2014	**15,000**	—	**145,744**
Total	**¥81,508**	¥75,062	**$791,955**

The average interest rates applicable to bank loans outstanding at March 31, 2014 and 2013 are 1.32% and 1.25%, respectively.

Long-term loans payable at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Loans from banks due through 2030 at average interest rates of 1.53% in 2014 and 1.56% in 2013	**¥144,897**	¥135,806	**$1,407,860**
1.13% unsecured bonds, payable in yen, due 2014	**—**	15,000	**—**
0.55% unsecured bonds, payable in yen, due 2017	**10,000**	10,000	**97,163**
0.44% unsecured bonds, payable in yen, due 2017	**10,000**	10,000	**97,163**
0.32% unsecured bonds, payable in yen, due 2019	**15,000**	—	**145,744**
0.56% unsecured bonds, payable in yen, due 2021	**10,000**	—	**97,163**
	¥189,897	¥170,806	**$1,845,093**

Short-term lease obligations at March 31, 2014 and 2013 included in other current liabilities were ¥1,760 million ($17,101 thousand) and ¥2,493 million, respectively.

The annual maturities of long-term loans payable subsequent to March 31, 2014 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥ 46,831	$ 455,023
2016	32,131	312,194
2017	44,876	436,028
2018	34,915	339,244
2019	19,726	191,663
2020 and thereafter	13,248	128,721
	¥191,728	$1,862,884

The annual maturities of lease obligations subsequent to March 31, 2014 are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥1,760	$17,101
2016	1,341	13,030
2017	1,016	9,872
2018	1,149	11,164
2019	208	2,021
2020 and thereafter	1,182	11,485
	¥6,656	$64,672

9. Pledged Assets

Assets pledged as collateral for short-term loans payable of ¥120 million ($1,166 thousand) and ¥96 million, long-term loans payable of ¥197 million ($1,914 thousand) and ¥308 million, accounts payable–trade of ¥5 million ($49 thousand) and ¥132 million and other of ¥47 million ($457 thousand) and ¥91 million at March 31, 2014 and 2013, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment, at net book value	**¥701**	¥799	**$6,811**

10. Assets Replaced by National Subsidy

Assets replaced by national subsidy at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Property, plant and equipment	**¥411**	¥411	**$3,993**

11. Income Taxes

Income taxes applicable to the Company comprise corporation, enterprise and inhabitants' taxes, which, in the aggregate, resulted in a statutory tax rate of 38.01% for the years ended March 31, 2014 and 2013.

Significant components of the Company's deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Current deferred tax assets and liabilities			
Deferred tax assets:			
Accrued bonus	**¥ 2,144**	¥ 1,998	**$ 20,832**
Loss from valuation of inventory	**11**	587	**107**
Accrued expenses	**2,504**	1,618	**24,330**
Net operating loss carryforward for tax purposes	**199**	2,454	**1,934**
Other	**2,096**	1,020	**20,365**
Deferred tax assets—subtotal	**6,956**	7,678	**67,586**
Valuation allowance	**(238)**	(389)	**(2,312)**
Deferred tax assets—net	**6,718**	7,289	**65,274**
Deferred tax liabilities	**(19)**	(4)	**(185)**
Net deferred tax assets	**¥ 6,698**	¥ 7,285	**$ 65,080**
Deferred tax liabilities:			
Adjustment of allowance for doubtful accounts	**¥ (87)**	¥ (71)	**$ (845)**
Deferred tax liabilities—subtotal	**(87)**	(71)	**(845)**
Offset by deferred tax assets	**19**	4	**185**
Net deferred tax liabilities	**¥ (67)**	¥ (66)	**$ (651)**
Noncurrent deferred tax assets and liabilities			
Deferred tax assets:			
Depreciation	**¥ 2,385**	¥ 1,711	**$ 23,173**
Reserve for retirement benefits	**—**	1,215	**—**
Net defined benefit liability	**1,248**	—	**12,126**
Net operating loss carryforward for tax purposes	**—**	2,860	**—**
Other	**7,030**	7,675	**68,305**
Deferred tax assets—subtotal	**10,664**	13,463	**103,614**
Valuation allowance	**(3,961)**	(4,444)	**(38,486)**
Deferred tax assets—net	**6,702**	9,018	**65,119**
Deferred tax liabilities	**(4,726)**	(6,960)	**(45,919)**
Net deferred tax assets	**¥ 1,976**	¥ 2,057	**$ 19,199**
Deferred tax liabilities:			
Valuation difference on available-for-sale securities	**¥ (3,980)**	¥ (3,471)	**$ (38,671)**
Reserve for replacement of fixed assets	**(4,260)**	(4,460)	**(41,391)**
Reserve for special depreciation	**—**	(34)	**—**
Reserve for replacement of fixed assets—special	**(572)**	(389)	**(5,558)**
Depreciation	**(20,166)**	(13,307)	**(195,939)**
Other	**(11,510)**	(12,528)	**(111,834)**
Deferred tax liabilities—subtotal	**(40,490)**	(34,190)	**(393,412)**
Offset by deferred tax assets	**4,726**	6,960	**45,919**
Net deferred tax liabilities	**¥(35,764)**	¥(27,229)	**$(347,493)**

The reconciliation of the difference between the statutory tax rate and the effective tax rate for the year ended March 31, 2014 was not presented since the difference was less than 5% of the statutory tax rate. The reconciliation for the year ended March 31, 2013 was not presented since the Company recorded loss before income taxes and minority interests.

The "Act on Partial Revision of the Income Tax Act" (Act No. 10 of 2014) and the "Cabinet Order on Partial Revision of the Order for Special Reconstruction Corporation Tax" (Cabinet Order No. 151 of 2014) were promulgated on March 31, 2014. Accordingly, the normal effective statutory tax rate used to measure the Company's deferred tax assets and deferred tax liabilities was changed from 38.01% to 35.64% for temporary differences expected to be realized or settled from April 1, 2014 through March 31, 2015.

As a result, deferred tax assets, net of deferred tax liabilities, as of March 31, 2014 decreased by ¥181 million ($1,759 thousand) and income taxes—deferred for the year ended March 31, 2014 increased by the same amount.

12. Shareholders' Equity

(a) Dividends

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

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

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

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

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

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

(c) Treasury stock and treasury stock acquisition rights

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

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

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

As a result, common stock and capital surplus as of March 31, 2014 increased by ¥10,305 million ($100,126 thousand) and ¥11,568 million ($112,398 thousand), respectively, and treasury stock as of March 31, 2014 decreased by ¥9,107 million ($88,486 thousand). Common stock, capital surplus and treasury stock as of March 31, 2014 amounted to ¥37,344 million ($362,845 thousand), ¥56,478 million ($548,756 thousand) and ¥(108) million ($(1,049) thousand), respectively.

13. Leases

(a) The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of leased property at March 31, 2014 and 2013, 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
	2014	2013	**2014**
Acquisition costs:			
Property, plant and equipment	**¥1,274**	¥1,951	**$12,379**
Other assets	**—**	62	**—**
	¥1,274	¥2,014	**$12,379**
Accumulated depreciation:			
Property, plant and equipment	**¥1,087**	¥1,633	**$10,562**
Other assets	**—**	62	**—**
	¥1,087	¥1,697	**$10,562**
Net book value:			
Property, plant and equipment	**¥ 187**	¥ 317	**$ 1,817**
Other assets	**—**	—	**—**
	¥ 187	¥ 317	**$ 1,817**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥94 million ($913 thousand) and ¥211 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, 2014 and 2013, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 and 2013 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
2014		
2015	**¥ 56**	**$ 544**
2016 and thereafter	**131**	**1,273**
Total	**¥187**	**$1,817**
2013		
2014	¥132	
2015 and thereafter	185	
Total	¥317	

(b) Future minimum lease payments subsequent to March 31, 2014 and 2013 for non-cancelable operating leases are summarized as follows:

Years ending March 31	Millions of yen	Thousands of U.S. dollars
2014		
2015	**¥ 1,688**	**$16,401**
2016 and thereafter	**8,590**	**83,463**
Total	**¥10,278**	**$99,864**
2013		
2014	¥ 1,551	
2015 and thereafter	8,639	
Total	¥10,191	

14. Pension and Severance Indemnities

Year ended March 31, 2014

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 obligation for the year ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	**¥32,019**	**$ 311,106**
Service cost	**1,282**	**12,456**
Interest cost	**539**	**5,237**
Actuarial loss	**66**	**641**
Retirement benefits paid	**(2,424)**	**(23,552)**
Other	**185**	**1,798**
Balance at end of year	**¥31,669**	**$(307,705)**

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

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	**¥32,616**	**$316,906**
Expected return on plan assets	**808**	**7,851**
Actuarial gain	**1,832**	**17,800**
Contributions from the employer	**1,603**	**15,575**
Retirement benefits paid	**(2,102)**	**(20,424)**
Other	**49**	**476**
Balance at end of year	**¥34,810**	**$338,224**

(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 sheet as of March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. dollars
Funded projected benefit obligation	**¥ 28,558**	**$ 277,478**
Plan assets at fair market value	**(34,810)**	**(338,224)**
	(6,251)	**(60,736)**
Unfunded retirement benefit liabilities	**3,110**	**30,218**
Net liability and asset recorded on the consolidated balance sheet	**¥ (3,140)**	**$ (30,509)**
Net defined benefit liability	**¥ 6,235**	**$ 60,581**
Net defined benefit asset	**(9,376)**	**(91,100)**
Net liability and asset recorded on the consolidated balance sheet	**¥ (3,140)**	**$ (30,509)**

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

	Millions of yen	Thousands of U.S. dollars
Service cost	**¥ 1,282**	**$ 12,456**
Interest cost	**539**	**5,237**
Expected return on plan assets	**(808)**	**(7,851)**
Amortization of actual loss	**1,043**	**10,134**
Amortization of prior service cost	**(226)**	**(2,196)**
Net loss on change in accounting standard for employees' retirement benefits	**458**	**4,450**
Additional early retirement expenses	**(1,667)**	**(16,197)**
Total	**¥ 3,956**	**$ 38,438**

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) as of March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. dollars
Net unrecognized actuarial losses	**¥ 3,395**	**$ 32,987**
Unrecognized prior service cost	**(1,011)**	**(9,823)**
Unsettled effect of change in accounting standard	**423**	**4,110**
Total	**¥ 2,806**	**$ 27,264**

(f) Information on plan assets for the year ended March 31, 2014 was as follows:

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

Debt securities	**16%**
Equity securities	**40**
Life insurance general accounts	**38**
Cash and cash equivalents	**0**
Others	**6**
Total	**100%**

The retirement benefit trusts established for defined benefit corporate pension plans hold 15% of plan assets.

(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.

(g) The principal assumptions used for the actuarial calculation for the year ended March 31, 2014 were as follows:

Discount rate	**Mainly 2.0%**
Expected long-term rate of return on plan assets	**Mainly 3.0%**

Defined contribution benefit plan
The required contribution amount to the defined contribution benefit plan was ¥1,087 million ($10,562 thousand) for the year ended March 31, 2014.

Year ended March 31, 2013
The Company had the cash balance plan (market-linked pension plan) and the defined contribution benefit plan.

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

Certain consolidated overseas subsidiaries had a defined contribution benefit plan.

The funded status and amounts recognized in the accompanying consolidated balance sheet at March 31, 2013 and the components of net retirement benefit expenses recognized in the accompanying consolidated statement of operations for the year ended March 31, 2013 were summarized as follows:

(a) Retirement benefit liabilities

	Millions of yen
Projected benefit obligation	¥ 32,019
Plan assets at fair market value	(32,616)
Unfunded retirement benefit liabilities	(597)
Net unrecognized actuarial losses	(6,200)
Difference at change of accounting standard	(916)
Unrecognized prior service cost	1,238
Prepaid pension cost	9,804
Allowance for employees' retirement benefits	¥ (3,327)

(b) Net retirement benefit expenses

	Millions of yen
Current service cost	¥1,368
Interest cost	590
Expected return on plan assets	(729)
Expense of actuarial loss	1,406
Net loss on change in accounting standard for employees' retirement benefits	461
Adjustment for prior service cost	(226)
Total of retirement benefit expenses	2,871
Other	951
Total	¥3,822

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

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

15. Contingent Liabilities

At March 31, 2014 and 2013, the Company and certain consolidated subsidiaries had contingent liabilities as guarantor of indebtedness, amounting to ¥2,682 million ($26,059 thousand) and ¥6,173 million, which included reguarantees by joint investors amounting to ¥229 million ($2,225 thousand) and ¥747 million and commitments to guarantees amounting to ¥57 million ($554 thousand) and ¥93 million, and guarantees for employees' bank loans based on employees' house ownership discount policy amounting to ¥890 million ($8,647 thousand) and ¥793 million, respectively.

16. Financial Instruments

(a) Policy for financial instruments

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

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

Notes and accounts receivable–trade are exposed to credit risk in relation to customers. In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors 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 17. “Derivative and Hedging Activities” are not necessarily indicative of the actual market risk involved in derivative transactions.

(1) Fair value of financial instruments

Carrying amount on the consolidated balance sheets as of March 31, 2014 and 2013 and estimated fair value and differences of financial instruments were as follows:

	Millions of yen			Thousands of U.S. dollars		
	2014			2014		
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
Cash and deposits	**¥ 58,336**	**¥ 58,336**	**¥ —**	**$ 566,809**	**$ 566,809**	**$ —**
Notes and accounts receivable–trade	**134,959**	**134,959**	**—**	**1,311,300**	**1,311,300**	**—**
Investment securities:						
Available-for-sale securities	**37,166**	**37,166**	**—**	**361,115**	**361,115**	**—**
Total assets	**¥230,462**	**¥230,462**	**¥ —**	**$2,239,234**	**$2,239,234**	**$ —**
Notes and accounts payable–trade	**¥ 70,002**	**¥ 70,002**	**¥ —**	**$ 680,159**	**$ 680,159**	**$ —**
Short-term loans payable	**19,677**	**19,677**	**—**	**191,187**	**191,187**	**—**
Long-term loans payable	**251,728**	**254,301**	**2,572**	**2,445,861**	**2,470,861**	**24,990**
Total liabilities	**¥341,407**	**¥343,980**	**¥2,572**	**$3,317,208**	**$3,342,208**	**$24,990**

	Millions of yen		
	2013		
	Carrying amount	Fair value	Difference
Cash and deposits	¥ 24,743	¥ 24,743	¥ —
Notes and accounts receivable—trade	123,282	123,282	—
Investment securities:			
Available-for-sale securities	33,361	33,361	—
Total assets	¥181,386	¥181,386	¥ —
Notes and accounts payable—trade	¥ 70,785	¥ 70,785	¥ —
Short-term loans payable	23,575	23,575	—
Long-term loans payable	222,293	225,607	3,313
Total liabilities	¥316,654	¥319,968	¥3,313

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

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

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

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

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

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

(2) Financial instruments as of March 31, 2014 and 2013 for which it is extremely difficult to determine the fair value

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Unlisted stocks	**¥30,154**	¥26,749	**$292,985**

(3) Redemption schedule for financial assets with maturities subsequent to March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
	Due in one year or less		
Cash and deposits	**¥ 58,336**	¥ 24,743	**$ 566,809**
Notes and accounts receivable—trade	**134,959**	123,282	**1,311,300**

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

(5) Unused overdraft agreements and loan commitment lines were ¥51,282 million ($498,271 thousand) and ¥47,295 million as of March 31, 2014 and 2013, respectively.

17. Derivative and Hedging Activities

Derivative transactions for which hedge accounting is applied for the years ended March 31, 2014 and 2013 were as follows:

(a) Currency-related

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

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

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

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

		Thousands of U.S. dollars		
		2014		
	Hedged item	Contract amount	Due after one year	Fair value
Deferral hedge accounting				
Foreign exchange forward contracts:				
Sell:	Accounts receivable—trade			
USD		**$ 5,519**	**$ —**	*
TWD		**39**	**—**	
MYD		**6,490**	**—**	
Buy:	Accounts payable—trade			
USD		**38,885**	**—**	
EUR		**1,079**	**—**	
CHF		**4,955**	**—**	
SGD		**204**	**—**	
TWD		**15,614**	**—**	
MYD		**2,886**	**—**	
Foreign currency swaps:				
Sell:	Long-term loans payable			
USD		**15,313**	**14,584**	
Buy:				
SGD		**1,642**	**291**	
Total		**$92,664**	**$14,885**	

* 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		
		2014			2014		
	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	**¥41,619**	**¥29,297**	*	**$404,382**	**$284,658**	*

		Millions of yen		
		2013		
	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	¥53,646	¥38,028	*

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

18. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2014 and 2013 totaled ¥3,170 million ($30,801 thousand) and ¥3,177 million, respectively.

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

Significant components of the gain on sales of noncurrent assets of ¥3,846 million ($37,369 thousand) and ¥31 million for the years ended March 31, 2014 and 2013, respectively, were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Land and buildings	**¥3,846**	¥31	**$37,369**

20. Impairment Loss

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

For specialty gas production facilities whose future cash flows were below their book values due to a decline in profitability due to changes in the business environment, the book values are written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥1,055 million ($10,251 thousand) for the year ended March 31, 2014. The recoverable amounts for the relevant assets are measured by value in use, calculated by discounting the future cash flows at 6 to 12%.

For business assets affected by a decrease in the fair market value of land, the book values are written down to the recoverable amounts and such write-downs were recorded as impairment loss of ¥127 million ($1,234 thousand) for the year ended March 31, 2014, due to the probability of a recovery in the market value in the near future. The recoverable amounts for the relevant assets are the estimated net selling price (publicly notified land price based on property tax valuation).

For idle assets affected by a decrease in the fair market value of land, the book values are written down to the recoverable amount and such write-downs were recorded as impairment loss of ¥50 million for the year ended March 31, 2013, due to the probability of a recovery in the market value in the near future. The recoverable amounts for the relevant assets are the estimated net selling price (publicly notified land price based on property tax valuation).

21. Loss on Liquidation of Business

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

22. Other Comprehensive Income

Reclassification adjustments and tax effects allocated to each component of other comprehensive income for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Valuation difference on available-for-sale securities:			
Amount arising during the year	**¥ 5,090**	¥ 2,869	**$ 49,456**
Reclassification adjustments for gains and losses included in net income (loss)	**(3,652)**	25	**(35,484)**
Amount before tax effects	**1,438**	2,894	**13,972**
Tax effects	**(511)**	(1,041)	**(4,965)**
Valuation difference on available-for-sale securities	**927**	1,853	**9,007**
Deferred gains or losses on hedges:			
Amount arising during the year	**297**	58	**2,886**
Reclassification adjustments for gains and losses included in net income (loss)	**(119)**	(199)	**(1,156)**
Amount before tax effects	**178**	(140)	**1,729**
Tax effects	**(65)**	47	**(632)**
Deferred gains or losses on hedges	**113**	(93)	**1,098**
Foreign currency translation adjustments:			
Amount arising during the year	**21,761**	11,075	**211,436**
Reclassification adjustments for gains and losses included in net income (loss)	**—**	—	**—**
Amount before tax effects	**21,761**	11,075	**211,436**
Tax effects	**—**	—	**—**
Foreign currency translation adjustments	**21,761**	11,075	**211,436**
Pension liability adjustment of foreign subsidiaries:			
Amount arising during the year	**—**	(34)	**—**
Reclassification adjustments for gains and losses included in net income (loss)	**—**	42	**—**
Amount before tax effects	**—**	8	**—**
Tax effects	**—**	(11)	**—**
Pension liability adjustment of foreign subsidiaries	**—**	(3)	**—**
Remeasurements of defined benefit plans:			
Amount arising during the year	**261**	—	**2,536**
Reclassification adjustments for gains and losses included in net income (loss)	**14**	—	**136**
Amount before tax effects	**275**	—	**2,672**
Tax effects	**(121)**	—	**(1,176)**
Remeasurements of defined benefit plans	**154**	—	**1,496**
Share of other comprehensive income of associates accounted for using the equity method:			
Amount arising during the year	**1,581**	1,134	**15,361**
Reclassification adjustments for gains and losses included in net income (loss)	**411**	—	**3,993**
Share of other comprehensive income of associates accounted for using the equity method	**1,992**	1,134	**19,355**
Total other comprehensive income (loss)	**¥24,950**	¥13,966	**$242,421**

23. Segment Information

(a) Overview of reportable segments

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

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

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

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

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

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

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

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

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

	Millions of yen						
	2014						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**¥338,616**	**¥98,399**	**¥44,511**	**¥41,219**	**¥522,746**	**¥ —**	**¥522,746**
Intersegment sales or transfers	**2,000**	**136**	**2,352**	**3,385**	**7,875**	**(7,875)**	**—**
Total	**340,616**	**98,535**	**46,863**	**44,605**	**530,621**	**(7,875)**	**522,746**
Segment income (operating income)	**¥ 21,933**	**¥ 5,282**	**¥ 1,674**	**¥ 3,782**	**¥ 32,673**	**¥(1,183)**	**¥ 31,489**
Other item:							
Depreciation expenses	**¥ 22,207**	**¥ 9,200**	**¥ 446**	**¥ 1,868**	**¥ 33,722**	**¥ (214)**	**¥ 33,507**

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

	Thousands of U.S. dollars						
	2014						
	Reportable segments						
	Industrial gas	Electronics	Energy	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**$3,290,089**	**$956,073**	**$432,482**	**$400,496**	**$5,079,149**	**$ —**	**$5,079,149**
Intersegment sales or transfers	**19,433**	**1,321**	**22,853**	**32,890**	**76,516**	**(76,516)**	**—**
Total	**3,309,522**	**957,394**	**455,334**	**433,395**	**5,155,665**	**(76,516)**	**5,079,149**
Segment income (operating income)	**$ 213,107**	**$ 51,321**	**$ 16,265**	**$ 36,747**	**$ 317,460**	**$(11,494)**	**$ 305,956**
Other item:							
Depreciation expenses	**$ 215,770**	**$ 89,390**	**$ 4,333**	**$ 18,150**	**$ 327,653**	**$ (2,079)**	**$ 325,564**

Notes: 1. Adjustments for segment income of ¥(1,183) million ($(11,494) thousand) and ¥(1,000) million for the years ended March 31, 2014 and 2013 include intersegment eliminations of ¥371 million ($3,605 thousand) and ¥383 million, and corporate general administration expenses which mainly consisted of basic research and development expenses and are not allocable to each reportable segment of ¥(1,554) million ($(15,099) thousand) and ¥(1,384) million, respectively.
2. The Company does not allocate assets to reportable segments.

(d) Information by geographical area

(1) Net sales

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

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

Thousands of U.S. dollars			
2014			
Japan	The United States	Others	Total
$3,420,803	**$998,562**	**$659,784**	**$5,079,149**

(2) Property, plant and equipment

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

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

Thousands of U.S. dollars			
2014			
Japan	The United States	Others	Total
$1,568,597	**$1,086,407**	**$328,430**	**$2,983,453**

(e) Information about major customers

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

(f) Information on impairment loss by reportable segments

	Millions of yen					
	2014					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	**¥127**	**¥1,055**	**¥—**	**¥—**	**¥—**	**¥1,183**

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

	Thousands of U.S. dollars					
	2014					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Impairment loss	**$1,234**	**$10,251**	**$—**	**$—**	**$—**	**$11,494**

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

	Millions of yen					
	2014					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**¥ 3,471**	**¥—**	**¥159**	**¥ 236**	**¥—**	**¥ 3,868**
Unamortized balance	**62,837**	**—**	**361**	**2,129**	**—**	**65,327**

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

	Thousands of U.S. dollars					
	2014					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**$ 33,725**	**$—**	**$1,545**	**$ 2,293**	**$—**	**$ 37,583**
Unamortized balance	**610,542**	**—**	**3,508**	**20,686**	**—**	**634,736**

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

	Millions of yen					
	2014					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**¥84**	**¥11**	**¥10**	**¥93**	**¥—**	**¥199**
Unamortized balance	**11**	**11**	**—**	**—**	**—**	**22**

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

	Thousands of U.S. dollars					
	2014					
	Industrial gas	Electronics	Energy	Other	Corporate/Eliminations	Total
Amortization	**$816**	**$107**	**$97**	**$904**	**$—**	**$1,934**
Unamortized balance	**107**	**107**	**—**	**—**	**—**	**214**

24. Supplementary Cash Flow Information

Cash and cash equivalents in the consolidated statements of cash flows for the years ended March 31, 2014 and 2013 were reconciled to cash and deposits reported in the consolidated balance sheets as of March 31, 2014 and 2013 as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Cash and deposits	**¥58,336**	¥24,743	**$566,809**
Time deposits with maturities of more than three months	**(2,248)**	(2,022)	**(21,842)**
Cash and cash equivalents	**¥56,088**	¥22,721	**$544,967**

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

	Millions of yen	Thousands of U.S. dollars
Current assets	**¥ 7,181**	**$ 69,773**
Noncurrent assets	**11,307**	**109,862**
Goodwill	**15,665**	**152,206**
Current liabilities	**(1,968)**	**(19,122)**
Noncurrent liabilities	**(312)**	**(3,031)**
Acquisition cost of stock	**(31,873)**	**(309,687)**
Cash and cash equivalents	**1,711**	**16,625**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**¥(30,162)**	**$(293,063)**

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

	Millions of yen
Current assets	¥ 141
Noncurrent assets	616
Goodwill	713
Current liabilities	(220)
Noncurrent liabilities	(698)
Acquisition cost of assets	(549)
Cash and cash equivalents	36
Purchase of investments in subsidiaries resulting in change in scope of consolidation	¥(513)

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

	Millions of yen
Current assets	¥ 341
Noncurrent assets	1,153
Goodwill	974
Current liabilities	(51)
Acquisition cost of assets	(2,417)
Cash and cash equivalents	—
Payments for assets purchase	¥(2,417)

25. Related Party Transactions

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

Related party	Transactions	Millions of yen	Thousands of U.S. dollars
Mitsubishi Chemical Holdings Corporation *1	Third-party allotment *2	**¥20,610**	**$200,253**
	Disposal of treasury stock *2	**10,370**	**100,758**

*1 The Company executed a capital and business alliance agreement with Mitsubishi Chemical Holdings Corporation on September 26, 2013.

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

There were no related party transactions for the year ended March 31, 2013.

26. Business Combinations

Stock acquisition of Pacific Medico Co., Ltd.

On October 1, 2013, the Company acquired all the outstanding shares of Pacific Medico Co., Ltd. (hereinafter "Pacific Medico") and made Pacific Medico a consolidated subsidiary based on resolution of the board of directors' meeting held on September 11, 2013.

(a) Overview of the business combination

(1) Name and description of the business

Name:	Pacific Medico Co., Ltd.
Description of the business:	Manufacture and sale of respiratory care medical equipment, such as ventilator, suction machine, pulse oximeter, etc.

(2) Principal reasons for the business combination

The Company's medical business mainly manufactures and sells medical gas and related equipment, and sells medical equipment used in home oxygen therapy. The Company promotes its business strategies, including targeted M&As and product development, etc., in line with "strengthening the business foundation as a manufacturer" as one of its mid to long-term plans in the medical business.

Pacific Medico has expertise in product development for a wide range of needs in the respiratory care field and is aggressively expanding its business. In particular, Pacific Medico has the top share in Japan providing home respirators for tracheotomy patients and has a product lineup centered on the imported products and is strengthening its position as a manufacturer by acquiring manufacturing facilities. Pacific Medico has extensive experience and achievements in the respiratory care business.

By acquiring Pacific Medico, the Company is making efforts for a full-scale entry into highly advanced medical equipment business, such as respiratory, etc., and aims to expand in the respiratory care business area. Pacific Medico also focuses on the development of diagnostic devices for sleep apnea and the improvement of the diagnostic and care environment and is strengthening its sleep care business.

(3) Date of the business combination

October 1, 2013

(4) Legal form of the business combination

Stock acquisition in exchange for cash consideration

(5) Company name after the business combination

Unchanged

(6) Percentage of voting rights acquired

100.0%

(7) Main reason to determine the acquiring company

The Company acquired all of the outstanding shares of Pacific Medico in exchange for a cash consideration.

(b) Period of results of operations of the acquired company included in the consolidated statement of income

From October 1, 2013 to March 31, 2014

(c) Acquisition cost of the acquired company

¥6,500 million ($63,156 thousand)

(d) Amount of goodwill, reason for goodwill, method and period of amortization

(1) Amount of goodwill

¥2,365 million ($22,979 thousand)

(2) Reason for goodwill

Any excess of the acquisition cost, which was calculated by taking into account projections of the future revenue as of the valuation date, over the net amount of assets acquired and liabilities assumed was recognized as goodwill.

(3) Method and period of amortization

Straight-line method over 5 years

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥4,146	$40,284
Noncurrent assets	387	3,760
Total assets	¥4,533	$44,044
Current liabilities	¥ 358	$ 3,478
Noncurrent liabilities	40	389
Total liabilities	¥ 398	$ 3,867

(f) Estimated impact on the consolidated statement of income for the year ended March 31, 2014 as if the business combination had been completed at the beginning of the fiscal year ended March 31, 2014 and the calculation method

	Millions of yen	Thousands of U.S. dollars
Net sales	¥1,324	$12,864
Operating income	69	670

(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, 2014 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, 2014.

These amounts are not audited by the Company's independent auditor.

Stock acquisition of Continental Carbonic Products, Inc.
On February 12, 2014 (U.S. time), through Matheson Tri-Gas, Inc. (hereinafter "MTG"), its wholly-owned subsidiary, the Company acquired all the outstanding shares of Continental Carbonic Products, Inc. (hereinafter "CCPI") based on a resolution of the Board of Directors' meeting held on December 3, 2013.

(a) Overview of the business combination

(1) Name and description of the business

Name:	Continental Carbonic Products, Inc.
Description of the business:	Manufacture and sale of liquefied carbon dioxide and dry ice

(2) Principal reasons for the business combination

The Company is strengthening the business foundation in North America to expand the business and to improve earnings, and promoting aggressive business strategy including M&As in growth fields as well as the efficient management through rationalization. By MTG's acquisition of CCPI, which is a major carbon dioxide manufacturer in the United States and the second largest supplier in the dry ice business in the United States, carbon dioxide is added to the Company's major products in this market in addition to oxygen, nitrogen, argon, acetylene, hydrogen, and the Company is strengthening its position as a comprehensive gas manufacturer and further expanding its business and to improve sustainable profitability in the United States.

Specifically, the Company is entering into the carbon dioxide and dry ice market in the United States for full-scale in which the demand, mainly for commodities and beverages, is increasing.

The Company aims to expand its business in the United States by achieving cross sales of dry ice, specialty gas, liquefied carbon dioxide and refrigeration equipment, etc. in sales channels of both companies and utilizing the Company's gas application technology.

(3) Date of the business combination

February 12, 2014 (U.S. time)

(4) Legal form of the business combination

Stock acquisition in exchange for a cash consideration

(5) Company name after the business combination

Unchanged

(6) Percentage of voting rights acquired

100.0%

(7) Main reason to determine acquiring company

MTG, a wholly-owned subsidiary of the Company, acquired all of the outstanding shares of CCPI in exchange for a cash consideration.

(b) Period of results of operations of the acquired company included in the consolidated statement of income.

The results of operations of the acquired company were not included in the consolidated statement of income for the year ended March 31, 2014.

(c) Acquisition cost of the acquired company

$234 million

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

(1) Amount of goodwill

$128 million

(2) Reason that goodwill arose

Any excess of the acquisition cost, which was calculated by taking into account projections of the future revenue as of the valuation date, over the net amount of assets acquired and liabilities assumed was recognized as goodwill.

(3) Method and period of amortization

Straight-line method over 20 years

As the allocation of the acquisition cost has not been completed, the Company has used a provisional accounting treatment based on reasonable information currently available.

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

	Millions of U.S. dollars
Current assets	$ 16
Noncurrent assets	96
Total assets	$113
Current liabilities	$ 7
Total liabilities	$ 7

The above are provisional amounts which are reflected in the consolidated financial statements as of March 31, 2014.

(f) Estimated impact on the consolidated statement of income for the year ended March 31, 2014 as if the business combination had been completed at the beginning of the fiscal year ended March 31, 2014 and the calculation method

	Millions of U.S. dollars
Net sales	$115
Operating income	6

(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, 2014 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, 2014.

These amounts are not audited by the Company's independent auditor.

27. Subsequent Events

(a) 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, 2014, were approved at the shareholders' meeting held on June 27, 2014.

	Millions of yen	Thousands of U.S. dollars
Cash dividends—¥6.00 ($0.058) per share	**¥2,598**	**$25,243**

(b) Change in reportable segments

The reportable segments of the Company consist of "Industrial gas," "Electronics," "Energy" and "Other" for the year ended March 31, 2014. The Company decided to change its reportable segments to "Japan gas," "United States gas," "Asia gas" and "Other" from the year ending March 31, 2015.

This change is in accordance with the decision to reorganize for the purpose of "improvement of earnings in domestic business under lower growth" and "focusing its management resources on opportunity for overseas growth" to carry out the management strategy policies set out under the medium-term business plan, "Ortus Stage 1."

Net sales and income (loss) by reportable segment based on the new reportable segment classification for the year ended March 31, 2014 is as follows:

	Millions of yen						
	2014						
	Reportable segments						
	Japan gas	United States gas	Asia gas	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**¥341,883**	**¥107,504**	**¥54,349**	**¥19,010**	**¥522,746**	**¥ —**	**¥522,746**
Intersegment sales or transfers	**5,673**	**4,610**	**897**	**746**	**11,926**	**(11,926)**	**—**
Total	**347,556**	**112,114**	**55,246**	**19,756**	**534,672**	**(11,926)**	**522,746**
Segment income (operating income)	**¥ 22,483**	**¥ 4,842**	**¥ 2,668**	**¥ 3,064**	**¥ 33,058**	**¥ (1,569)**	**¥ 31,489**

	Thousands of U.S. dollars						
	2014						
	Reportable segments						
	Japan gas	United States gas	Asia gas	Other	Total	Adjustments	Consolidated
Net sales:							
Sales to third parties	**$3,321,832**	**$1,044,539**	**$528,070**	**$184,707**	**$5,079,149**	**$ —**	**$5,079,149**
Intersegment sales or transfers	**55,120**	**44,792**	**8,716**	**7,248**	**115,876**	**(115,876)**	**—**
Total	**3,376,953**	**1,089,332**	**536,786**	**191,955**	**5,195,025**	**(115,876)**	**5,079,149**
Segment income (operating income)	**$ 218,451**	**$ 47,046**	**$ 25,923**	**$ 29,771**	**$ 321,201**	**$ (15,245)**	**$ 305,956**

Note: Adjustments for segment income of ¥(1,569) million ($(15,245) thousand) for the year ended March 31, 2014 include intersegment eliminations of ¥(14) million ($(136) thousand) and corporate general administration expenses, which mainly consisted of basic research and development expenses and are not allocable to the reportable segments of ¥(1,554) million ($(15,099) thousand).

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, 2014, 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, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 27, 2014

Investor Information

(At March 31, 2014)

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

Number of Employees:
12,955

Date of Incorporation:
October 1910

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

Minimum Trading Unit:
1,000 shares

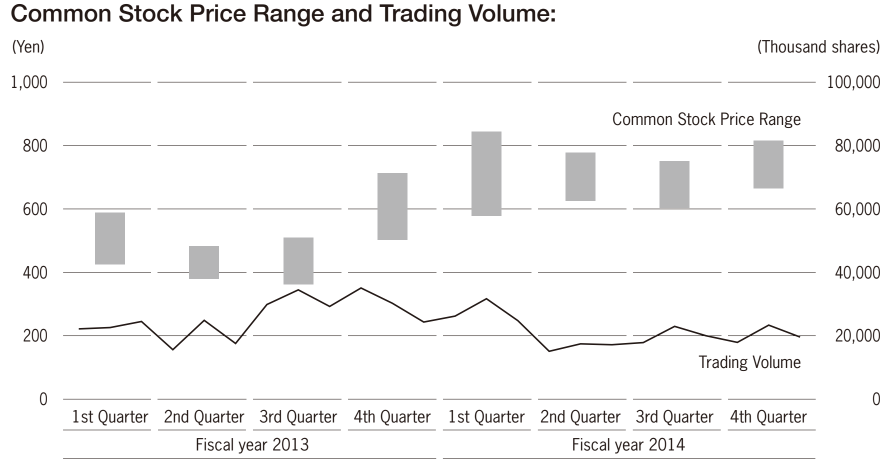
Number of Stockholders:
14,123

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

Major Stockholders:

Major Stockholders	Thousands of Shares Owned	Percentage of Total
Mitsubishi Chemical Corporation	60,947	14.07%
Mitsubishi Chemical Holdings Corporation	55,850	12.90
JFE Steel Corporation	25,254	5.83
Taiyo Nippon Sanso Client Shareholding Society	20,876	4.82
Mizuho Corporate Bank, Ltd.	16,365	3.78
Meiji Yasuda Life Insurance Company	16,007	3.70
The Master Trust Bank of Japan, Ltd. (Trust Account)	10,621	2.45
The Norinchukin Bank	10,000	2.31
Japan Trustee Services Bank, Ltd. (Trust Account)	9,317	2.15
National Mutual Insurance Federation of Agricultural Cooperatives	8,675	2.00
	233,912	54.01%

Common Stock Price Range and Trading Volume:



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The Gas Professionals

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