Annual Report 2013

TechnoAmenity

"Providing affluence and comfort to people and society, with our unique technology"

NIPPON SHOKUBAI

Corporate Philosophy (Resolved in1991):

TechnoAmenity

Providing affluence and comfort to people and society, with our unique technology.

Management Philosophy (Revised in 2006):

We will conduct all of our corporate activities based upon a deep respect for humanity.
We will aim at coexisting with society, and working in harmony with the environment.
We will pursue innovative technology.
We will act on the global stage.

Nippon Shokubai Corporate Behavior Charter (Resolved in 2007):

In the belief that it is our social responsibility to conduct business based upon the principles of compliance and self-responsibility for the sake of proper social development, we have set forth the following basic corporate behavior guidelines as the "Nippon Shokubai Corporate Behavior Charter."

1. Guided by our corporate philosophy of "TechnoAmenity," we will conduct all of our actions as a good corporate citizen.
2. We will comply with relevant laws both inside and outside of Japan, and act in accordance with in-house regulations.
3. We will create and nurture a sound, vibrant workplace, where each individual can hone their professional competence and find fulfillment in their career.
4. We will develop and market products and services that are both safe and useful, based upon an accurate understanding of social demands.
5. We will commit ourselves to eliminating labor hazards and accidents, and constantly strive to protest the global environment.
6. We will conduct business based on fair and open competition.
7. We will take a firm stance when dealing with unlawful or antisocial groups.
8. We will ensure frequent communications with our shareholders and members of society in general, and guarantee the appropriate disclosure of corporate information.
9. With respect for the culture and customs of every nation/region we serve, we will contribute to their development and wellbeing through community-based business undertakings.
10. We will ensure the solid and sustainable development of the company through business undertakings based soundly upon the above action guidelines.

Contents

Consolidated Financial Highlights

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

Net sales

¥269,520 million

↓ down 16.0%

Operating income

¥10,034 million

↓ down 67.7%

Net assets

¥220,248 million

↑ up 5.3%

Total assets

¥352,373 million

↓ down 1.1%

ROA

3.9%

↓ down 5.8 points

- On September 29, 2012, an explosion and fire at the Himeji Plant, a core facility of the Group, resulted in suspension of operations at that plant and a significant decline in production volume.
- Consolidated net sales declined 16.0% year on year, while operating income fell 67.7%.
- Operating income amounted to ¥10,034 million.
- Net assets grew to ¥220,248 million.
- The decline in total assets stemmed mainly from a decrease in notes and accounts receivable.
- Profitability was affected by declines in both equity capital and total assets.

Messages from President

Masanori Ikeda
President

Regaining Public Trust as a Chemical Company

On September 29, 2012, an explosion and fire occurred at the acrylic acid production facilities in the Himeji Plant of Nippon Shokubai. At the same time, we sincerely apologize to the enormous problems this incident caused for the neighborhood of the plant and to other people associated with this incident. Since 1973, Nippon Shokubai has adopted corporate commitment of "Safety takes priority over production" and has pursued safety initiatives on a company-wide basis. In addition, we have advanced our business as a chemical manufacturing company that build on a platform of proprietary technologies. We deeply regret that our pride in technologies may have made us overconfident and thus caused us to falter in addressing immediate safety concerns.

I do not view it as an isolated incident with the acrylic acid manufacturing facilities of the Himeji Plant, and commit myself to inspect potential risks in all facilities and to take all measures to prevent recurrences. Every employee including myself will elucidate and communicate any latent issues to make improvements with person concerned awareness, as we make a fresh start in our efforts for "Regaining Public Trust as a Chemical Company".

Accident Timeline

September 29, 2012

Explosion and fire broke out

The Company received orders from the relevant authority to temporarily suspend operations at plants handling hazardous materials, resulting in suspension of operations at the Himeji Plant and all the facilities of an affiliated company adjacent to that plant.

October 5, 2012	The Company established an Accident Investigation Committee.
November 2012	Production resumed for automotive catalysts and other catalysts, and resins for paints.
December 2012	Production resumed for electronics & information materials and resin modifiers.
January 2013	Production resumed for maleic anhydride and polymers for concrete admixture.
March 27, 2013	The Company received the investigation report from the Accident Investigation Committee (disclosed on March 29, 2013).
June 2013	Production resumed for acrylic acid and superabsorbent polymers.
September 2013	Production resumed for all kinds of product in the Himeji Plant. **"Safety Pledge" Declaration** * Suspension is not yet lifted for some facilities manufacturing acrylic acid.

Investigation Report

"Nippon Shokubai Co., Ltd. Himeji Plant, Explosion and Fire at Acrylic Acid Production Facility, Investigation Report", March 2013, Accident Investigation Committee, Nippon Shokubai Co., Ltd. (please refer to corporate website)

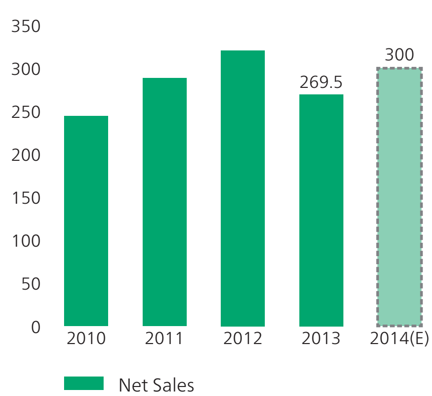
Measures to Prevent Recurrence

1. Lateral deployment of recurrence prevention countermeasures
   (1) Ensure risk assessment implementation
   (2) Collect, share, and effectively use the safety technology information
   (3) Enhance education and training programs
2. Strengthen the culture of safety prioritization
3. Verify the implementation of safety countermeasures

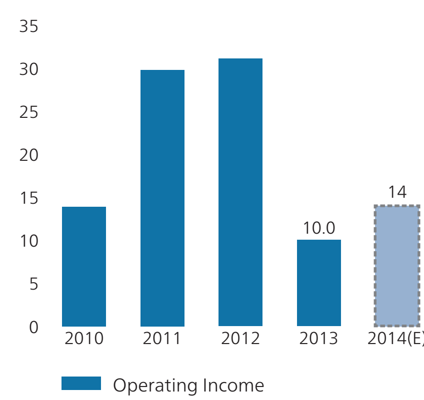
Business Continuity Plan

In light of the Great East Japan Earthquake of 2011 and the recent accident, the Company will strengthen its business continuity plan (BCP) by reassessing its entire supply chain, from procurement of raw materials to sale of final products. At the same time, we will reaffirm the roles we have played in the industry and society through our business activities. We will work as a Group to restore the confidence and trust of all stakeholders, including customers, business partners, shareholders and other investors, governments, local communities, and employees.

Net Sales
(¥ billions)



Operating Income
(¥ billions)



Business Environment and Performance

In fiscal 2012, ended March 31, 2013, the Japanese economy faced difficult conditions due to sharp volatility in foreign exchange rates and slowdown of the global economy. In the chemicals industry, the outlook remained unclear due to elevated raw materials prices and stagnating demand in emerging nations.

In this business environment, the Nippon Shokubai Group posted consolidated net sales of ¥269,520 million, down 16.0% from the previous fiscal year, and operating income of ¥10,034 million, down 67.7%. For the year, sales volumes declined sharply due to the impact of the accident at the Himeji Plant.

In light of its performance in fiscal 2012 and future business advancement plans, the Company declared a year-end dividend of ¥5.00 per share. After accounting for the interim dividend of ¥11.00, this brought total annual dividends to ¥16.00 per share.

Outlook

The Japanese economy has seen improvement in the export environment for manufacturers and a pick-up in domestic production due to the yen's recent depreciation. However, we expect the outlook to remain unclear for some time due to downside concerns about overseas economies.

In the chemicals industry, conditions will remain unpredictable due to several factors, including a slowdown in the Chinese economy, weakness in the domestic market, and concerns of another flare-up in the European crisis.

Under these conditions, the Nippon Shokubai Group expects to recover from the aforementioned accident in fiscal 2013 and looks forward to increases in sales volumes, centering on functional chemicals. We also forecast an increase in net sales, confident of making progress in translating increases in raw materials prices to the final prices of our products.

With respect to earnings, we expect operations at the Himeji Plant to recover in the second half of the year, and the resulting resumption of full-scale production will lead to higher sales volumes. Accordingly, we anticipate year-on-year increases in operating income, ordinary income, and net income.

We look forward to your renewed support and understanding as we embrace the challenges ahead.

池田全徳

Masanori Ikeda
President

Description of Business

From a business management perspective, the Group's products are classified into three segments: Basic Chemicals, Functional Chemicals, and Environment & Catalysts. These products are developed, manufactured, and sold by five business divisions: Ethylene Oxide Business Division, Acrylic Business Division, Performance Chemicals Business Division, E&I Materials Business Division, and Catalysts & Green Energy Materials Division.

Description of Business

	Ethylene Oxide Business Division	Acrylic Business Division	Superabsorbents Business Division	Performance Chemicals Business Division	Catalysts & Green Energy Materials Business Division
Basic Chemicals	•Ethylene oxide (EO) •Ethylene glycol •Ethanolamine •Secondary alcohol ethxylates	•Acrylic acid •Acrylates			
Functional Chemicals	•Polymers for concrete admixture •Water-soluble polymers	•Specialty acrylates •Specialty methacrylates	• Superabsorbent polymers	• Maleic anhydride & Derivatives • Resins for paints & adhesives • Acrylic resin for optical materials	
Environment & Catalysts		•Process catalysts			• Zirconia sheets & cells • Automotive catalysts • De-Nox & dioxins decomposition catalysts

Basic Chemicals

Sales of acrylic acid and acrylates declined sharply, due to a significant drop in sales volumes stemming from lower production output at the Himeji Plant accident, as well as a drop in selling prices due to depressed market conditions. This was despite a surge in market prices in the previous fiscal year.

Sales of ethylene oxide decreased due to a decline in sales volumes. Sales of ethylene glycol declined as falling market prices reduced profitability, together with the impact of lower sales volumes. Sales of higher alcohols increased due to a rise in sales volumes. Sales of ethanolamine decreased as a decline in sales volumes, primarily for exports, offset upward revisions to selling prices to reflect higher raw material prices.

As a result, the Basic Chemicals segment reported a 16.6% decline in sales, to ¥113,862 million, and an 84.3% fall in operating income, to ¥2,097 million.

Functional Chemicals

In fiscal 2012, sales of superabsorbent polymers declined sharply due to a significant drop in sales volumes resulting from the Himeji Plant accident. This was despite higher prices, particularly at overseas subsidiaries, stemming from the yen's depreciation toward fiscal year-end.

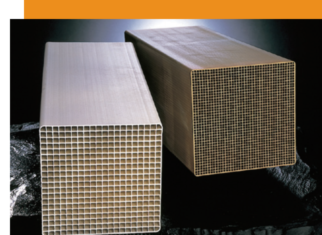
Sales of special esters, raw materials for detergents and other water-soluble polymers, maleic anhydride, polymers for concrete admixture, resin modifiers, and resins for paints also declined due to falls in sales volumes. Sales of ethyleneimine derivatives decreased as upward revisions to selling prices were offset by lower sales volumes. Despite a fall in selling prices, sales of electronic and information materials increased thanks to a rise in sales volumes.

Consequently, the Functional Chemicals segment posted a 14.8% decrease in sales, to ¥137,012 million, and a 59.0% fall in operating income, to ¥6,779 million.

Environment & Catalysts

Sales of De-NOx catalysts and polymer for lithium-ion batteries increased due to a rise in sales volumes. Sales of automotive catalysts declined sharply due to lower sales volumes stemming from the accident at the Himeji Plant, lower selling prices caused by declines in precious metals prices, and a deterioration in the product mix. Sales of process catalysts, dioxins decomposition catalysts, and fuel cell materials decreased due to a decline in sales volumes.

As a result, the Environment & Catalysts segment recorded a 20.2% decrease in sales, to ¥18,646 million, and a 14.4% decline in operating income, to ¥1,431 million.



Governance System

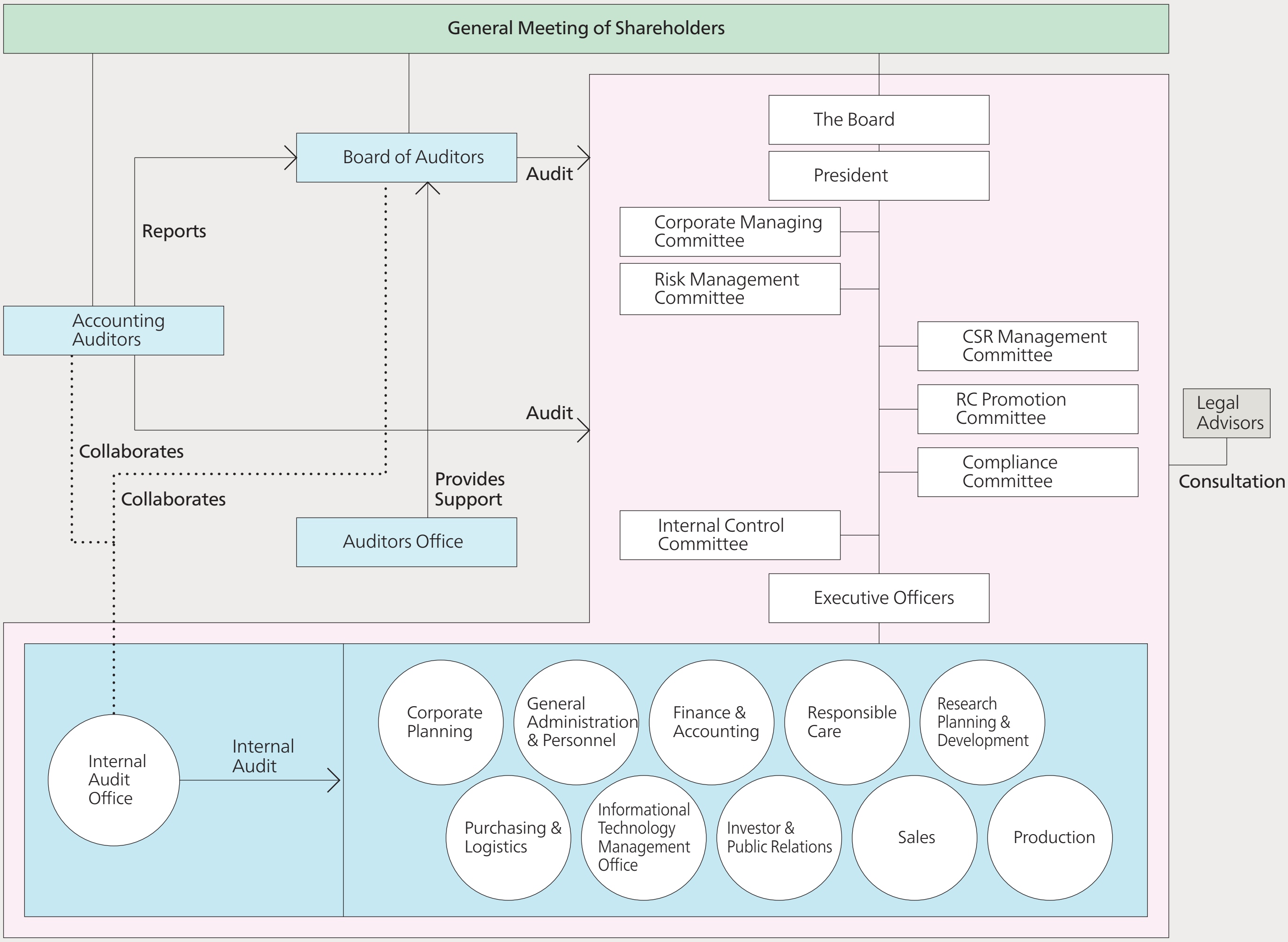
We are working to improve our corporate culture and strengthen our competitiveness in order to respond to global trends. Our approach to corporate governance therefore establishes our foundation. Using the system illustrated in the following diagram, we are taking steps to revitalize our board of directors, strengthen our audit system, improve the efficiency of our management structure, and improve and strengthen our compliance system.

The Board, comprised of 8 members of the board Including two from outside as of June 20, 2013, deliberates and resolves the matter relating to the execution of business operations, and supervises the execution of operation that the Board decided. In principal, the Board convenes once a month, chaired by the president, at which four corporate auditors, including two from outside, are in attendance. The corporate auditors present statement when deemed necessary.

For the purpose of further speeding decision-making involving management and reinforcing the management supervisory role of the Board, the Company started to utilize the corporate officer system from June 22, 2010. This system separates the role of reaching decisions involving management and supervising management, and the role of executing business operations. The number of corporate officers is 16 (7 of those who serve as the director concurrently).

Our Corporate Governance System

(as of July 1, 2013)



Corporate Management Committee, as an advisory organ to the president, deliberates basic management policies, the matters related to the execution of important business operations. Agenda items that come up to this Committee and are regarded as important will be forwarded to the Board for deliberation.

The members of the Corporate Management Committee are the president and corporate officers nominated by the president. In principal, the Committee convenes twice a month.

Board of Corporate Auditors is comprised of four corporate auditors, including two from outside. In principle, the Board convenes once a month to report, discuss and resolve important matters. In addition to attending the Board of Directors, the corporate auditors attend the Corporate Management Committee and other important meetings to monitor the decision making process, and grasp the execution of corporate officers' operation, receive reports from the accounting auditors, corporate officers and others, and put forward an audit opinion following due consultation.

The two current Corporate Auditors from outside have no personal or any other relationship through investments that could create a conflict of interest in the performance of their duties.

Risk Management Committee, chaired by the president, explores and analyzes the risks surrounding the Company. On the basis of the analysis, the Committee discusses the preventive measures or countermeasures for the risks.

CSR(Corporate Social Responsibility) Management Committee, chaired by the president, discusses and decides the CSR policy and activities that would make all the stakeholders beneficial, in cooperation with the other committees such as Risk Management Committee or the Compliance Committee.

Responsible Care Promoting Committee, chaired by the president, discusses and decides the policy and plans of activities for "Responsible Care(RC)" placing a special emphasis on environmental preservation, safety and quality throughout the entire life cycle of our products from the development to disposal. The Committee established the "7th (for FY 2010 to 2012) Medium-term RC Promotion Basic Plan" to reinforce our RC more active. Moreover, Responsible Care Office implements plans and internal audits on responsible care activities in each division.

Compliance Committee, chaired by the president, discusses and decides measures to enhance our companywide compliance management.

The Internal Control Committee concerning financial reporting, chaired by the president, discusses and prepares for the highly efficient Internal Control System enforced by Financial Instruments and Exchange Law as of April 1st 2008, not only aim to ensure the reliability of the company's financial reporting, but also to ensure the effectiveness and efficiency of the company's business activities.

Legal Advisers provide their opinions for us when solicited. None of the Legal Advisors is involved in the management of the Company.

Accounting Auditors perform their services under the Commercial Code and Securities and Exchange Law of Japan, and provide their opinions when we call for it to make decisions on accounting issues. None of the Accounting Auditors is involved in the management of the Company.

Internal Audit Office carries out internal audits (verify the adequacy and effectiveness of the business process in each division and report the results to the directors) in cooperation with the Board of Corporate Auditors and Accounting Auditors.

Outside Members of the Board and Outside Corporate Auditors

Main activities in the year under review and reasons for election

Hidetoshi Nakatani (Outside Member of the Board)

Mr. Nakatani applied his experience as an executive of a manufacturing company with a high public profile to provide useful advice concerning the Company’s management and to perform a supervisory function from an independent perspective.
(Mr. Nakatani attended all 14 meetings of the Board)
(Mr. Nakatani is an adviser to Osaka Gas Co., Ltd.)

(New Appointment)
Kouichi Miura (Outside Member of the Board)

Mr. Miura was nominated as a candidate for the position of outside member of the Board because his expertise in chemical engineering and depth of knowledge of the chemical industry will allow him to provide useful advice concerning the Company’s management and perform a supervisory function from an independent perspective.

Kozo Arao (Outside Corporate Auditor)

Mr. Arao stated his views from the perspective of an expert in legal matters, as needed.
He engaged in discussions concerning audit results, where he expressed his opinion and discussed important audit-related items. Mr. Arao periodically engaged in discussions with the Company’s senior management.
(Mr. Arao attended 12 of the 14 meetings of the Board, and 12 of the 13 Board of Corporate Auditors’ meetings)
(Mr. Arao is an attorney-at-law)

Akira Omachi (Outside Corporate Auditor)

Mr. Omachi stated his views based on his experience as a senior executive of another company, as needed.
He engaged in discussions concerning audit results, where he expressed his opinion and discussed important audit-related items. Mr. Omachi periodically engaged in discussions with the Company’s senior management.
(Mr. Omachi attended 10 of the 11 meetings of the Board held following his appointment, and nine of the ten Board of Corporate Auditors’ meetings held following his appointment.)
(Mr. Omachi is a director and senior vice-president of JX Holdings, Inc.)

CSR Based on Responsible Care Concept

CSR Concept

Nippon Shokubai's corporate philosophy of "TechnoAmenity" is reflected in both its management philosophy and Corporate Behavior Charter. The wide-ranging charter encompasses economic, social, and environmental aspects. The Company has positioned corporate ethics, responsible care, human rights and labor, information disclosure, social contribution, and corporate governance as key management priorities. Nippon Shokubai strives to enhance corporate value while engaging in dialog with all stakeholders, including, customers, business partners, shareholders, investors, government agencies, employees, and local communities.

This concept of CSR underpins Nippon Shokubai's long-term vision, which is encapsulated in the concrete action plans that constitute the Medium-Term Business Plan. Guided by the Plan, we will strive to foster the development of a sustainable society.

CSR Promotion Framework

The CSR Management Committee, which is chaired by the president, oversees the policies and action plans of each committee, as well as their implementation and outcomes, to ensure highly effective CSR management.

- CSR Management Committee (Determines overall policy on CSR activities)
- Responsible Care Promotion Committee (Determines overall policy on responsible care activities and implements the PDCA* cycle)
- Corporate Ethics Committee (Determines policy and implements the PDCA cycle to ensure thorough compliance with corporate ethics)
- Information Disclosure Committee (Implements the PDCA cycle in relation to information disclosure from the perspective of enhancing communication with society)
- CSR Promotion Office (Implements a framework for the promotion of CSR and the PDCA cycle in relation to social contribution activities)

(* PDCA: Plan-Do-Check-Action)

The Company's CSR management is centered on responsible care activities. In addition to setting specific challenges and verifying the results, we receive third-party verification by reporting such activities to the Japan Chemical Industry Association's Japan Responsible Care Council.

Basic Policy on Responsible Care

1. Endeavor to protect the environment and take account of the environmental impact of a product throughout its lifecycle, from development to disposal.
2. Guided by the corporate credo "Safety takes priority over production." endeavor to ensure the safety of employees and society with the aim of zero accidents and zero disasters.
3. Give due consideration to the health of employees, logistics personnel, customers, and all other involved persons by confirming the safety of all chemical substances handled, including raw materials, intermediates, and products.
4. Deliver stable product quality and services that satisfy and earn the trust of customers.
5. Endeavor to engage in open communication with society through disclosure so that society gains an accurate understanding of the outcomes of the above-mentioned activities.

Nippon Shokubai tackles a wide range of challenges and activities in order to comply with its basic policy on responsible care. They include (1) the environmental impact associated with business activities, (2) global warming prevention, (3) eco-friendly logistics, (4) prevention of atmospheric and water pollution, (5) waste reduction, (6) control of chemical substances, (7) environmental accounting, (8) environmental investment, (9) basic stance on safety, (10) promotion of voluntary safety initiatives, (11) ongoing improvements through an occupational health and safety management program, (12) addressing the asbestos problem, (13) logistics safety initiatives, (14) chemical product safety initiatives, and (15) quality assurance initiatives. These activities are undertaken not only by the Company's manufacturing facilities, but also by all domestic and overseas Group companies.

Ten-Years Summary

Years ended March 31,	2004	2005	2006
Operating results			
Net sales	¥169,733	¥197,222	¥232,441
Operating income	15,451	22,212	23,228
Net income (loss)	8,823	15,705	16,257
Financial position			
Total assets	220,186	249,349	291,564
Net assets	131,685	144,660	164,631
Cash flows			
Cash flows from operating activities	16,399	22,161	17,468
Cash flows from investment activities	(9,161)	(16,934)	(20,663)
Cash flows from financing activities	(9,506)	(861)	(2,562)
Cash and cash equivalents	18,654	24,160	19,856
Per share (¥/$)			
Net income (loss)	¥ 45.37	¥ 81.37	¥ 85.89
Net assets	685.2	757.72	875.00
Cash dividends	9.0	13.0	16.0
Shareholders' equity ratio(%)	59.81	58.02	56.46
ROE (%)	7.0	11.4	10.5
ROA(%)	7.9	10.1	9.7
Liquidity ratio(%)	157	176	156
PER(%)	17.99	11.92	16.29
Dividend payout ratio(%)	19.8	16.0	18.6
Market data			
Exchange rate, average (¥/$)	113.11	107.52	113.35
Naphtha price (¥/kl)	25,600	32,200	42,400
Share price(¥) (Closing)	816	970	1,399
(High)	881	1,017	1,426
(Low)	538	690	851

Notes: Conversions into USD are just for indication only. The exchange rate is the rate at March 31, 2013. (¥94.05/$1.00)
Figures are rounded off.

	Millions of yen						Millions of U.S. dollars (Notes)
2007	2008	2009	2010	2011	2012	2013	2013
¥266,513	¥302,669	¥289,102	¥244,317	¥288,345	¥320,704	¥269,520	$2,866
19,429	18,379	622	13,881	29,813	31,100	10,034	107
13,988	11,875	(5,307)	10,832	21,119	21,257	8,401	89
323,675	352,783	302,948	310,946	329,332	356,407	352,373	3,747
179,368	175,634	151,662	163,781	194,266	209,070	220,248	2,341
16,087	20,129	17,613	44,346	31,706	43,857	27,322	291
(23,109)	(33,100)	(16,675)	(23,850)	(16,696)	(21,747)	(31,878)	(339)
4,037	17,495	8,099	(21,772)	(3,050)	(9,671)	81	0.86
16,991	21,371	29,450	28,234	39,174	50,812	47,801	508
¥ 74.92	¥ 64.91	¥ (29.61)	¥ 60.85	¥ 110.3	¥ 104.71	¥ 41.38	$ 0.44
948.34	947.34	831.11	898.33	938.67	1,006.48	1,059.85	11.27
16.0	16.0	15.5	14.0	22.0	22.0	16.0	0.17
54.08	48.61	48.83	51.43	57.86	57.33	61.05	—
8.2	6.9	(3.3)	7.0	12.1	10.8	4.0	—
7.4	6.1	0.2	4.9	9.7	9.7	3.9	—
146	150	159	155	197	174	189	—
16.98	10.18	—	13.89	9.45	9.16	19.94	—
21.4	24.6	—	23.0	19.9	21.0	38.7	—
117.00	114.38	100.58	92.88	85.72	79.07	83.09	—
50,000	61,400	58,900	41,200	47,500	54,900	57,500	611.38
1,272	661	622	845	1,042	959	825	8.77
1,503	1,316	866	920	1,047	1,100	987	10.49
1,152	626	442	600	682	764	738	7.85

Management Discussion and Analysis of Operation

Fiscal 2012 Performance

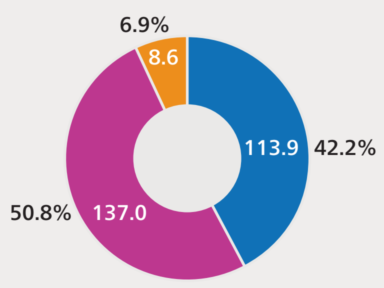
In fiscal 2012, ended March 31, 2013, the Japanese economy faced difficult conditions due to sharp volatility in foreign exchange rates and slowdown of the global economy. In the chemicals industry, the outlook remained unclear due to elevated raw materials prices and stagnating demand in emerging nations.

On September 29, 2012, an explosion and fire occurred in an acrylic acid intermediate tank at the Himeji Plant, a main facility of the Nippon Shokubai. The company consequently received orders from the relevant authority to temporarily suspend operations at plants handling hazardous materials, resulting in suspension of operations at the Himeji Plant and all the facilities of an affiliated company adjacent to that plant. The suspension orders were incrementally lifted starting in November 2012, with permission granted to manufacture all product genres in August 2013. As of October 31, 2013, however, the suspension order remained in place for some facilities manufacturing acrylic acid.

In addition to reduced production capacity stemming from the accident, profitability declined due to weakened market conditions for acrylic acids and acrylates. This was further compounded by a slowdown in global economic growth and an overall decline in sales volumes, resulting in significant decreases in revenue and earnings. Consolidated net sales for the year declined 16.0%, to ¥269,520 million, and operating income fell 67.7%, to ¥10,034 million.

Segment Sales

(¥ billions, year ended 2013)



Financial Position

As of March 31, 2013, total assets amounted to ¥352,373 million, down ¥4,034 million from a year earlier. Within that amount, current assets fell ¥23,828 million, mainly due to a decrease in notes and accounts receivable. Noncurrent assets rose ¥19,794 million, due to capital expenditures and an increase in investment securities from price appreciation.

As the Company expects to receive an insurance payout, the book value of inventories and noncurrent assets lost in the accident, as well as repair expenses for assets damaged related to the explosion and fire at the Himeji Plant on September 29, 2012 totaling ¥2,176 million are booked as a “Fire loss suspense account” within the “Other” category of current assets.

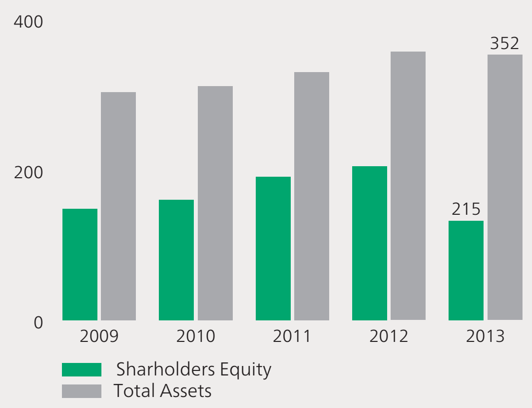
Despite an increase in long-term loans payable, total liabilities declined ¥15,212 million, to ¥132,125 million. This was due mainly to decreases in notes and accounts payable and accrued income taxes, as well as a decline in bonds payable stemming from redemptions.

Net assets were up ¥11,179 million, to ¥220,248 million, owing mainly to increases in retained earnings, and net unrealized holding gain on securities.

As a result, the shareholders’ equity ratio at fiscal year-end was 61.1%, up 3.8 points from 57.3% a year earlier, while net asset per share stood at ¥1,059.85, up ¥53.37.

Sharholders Equity and Total Assets

(¥ billions)



Cash Flows

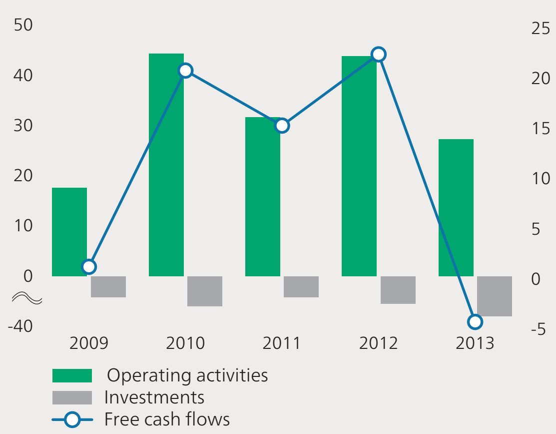
As of March 31, 2013, cash and cash equivalents stood at ¥47,801 million, down ¥3,012 million from a year earlier, as net cash used in investing exceeded the sum of net cash provided by operating activities and net cash provided by financing activities (loans payable, etc.).

Net cash provided by operating activities amounted to ¥27,322 million, down from ¥43,857 million in the previous year. This was mainly due to decreases in notes and accounts payable and income before income taxes and minority interests, although progress was made in collection of notes and accounts receivable.

Net cash used in investing activities totaled ¥31,878 million, up from ¥21,747 million in the previous year. This was mainly due to an increase in purchases of property, plant and equipment.

Net cash provided by financing activities was ¥81 million, compared with net cash used in financing activities of ¥9,671 million in the previous year. This was mainly due to an increase in proceeds from loans payable, which contrasted with outlays for redemption of bonds.

Cash Flows
(Operating activities, Investments and Free cash flows)
(¥ billions)



Profit Appropriation Policy

Returning profits to shareholders is an important management priority. Our basic policy is to make consistent dividend payments over the medium and long terms based on comprehensive consideration of various factors, such as the need to expand our business and strengthen our financial base. We also take into account the payout ratio in determining dividends. In addition to dividend distributions, we will continue conducting share buybacks to increase our share price.

In order to boost shareholder value, underpin our international competitiveness, and deliver continuous growth, we need to make active investments in capital equipment and research and development. We also recognize the importance of bolstering retained earnings to enable such investments, and will carefully consider the most appropriate balance of dividend payments and retained earnings accordingly.

The Company pays dividends twice a year: an interim dividend and a year-end dividend.

Based on the aforementioned basic policy, and considering the regrettable impact of the accident at the Himeji Plant, the Company declared a year-end dividend of ¥5.00 per share. After accounting for the interim dividend of ¥11.00, this brought total annual dividends to ¥16.00 per share.

In fiscal 2013, we plan to pay total annual dividends of ¥16.00 per share, consisting of interim and year-end dividends of ¥8.00 each.

Fiscal 2013 Outlook

Our consolidated forecasts for fiscal 2013 are based on exchange rates of ¥90.00 per U.S. dollar and ¥115.00 per euro, and naphtha prices of ¥65,000 per kiloliter. Operations at the Himeji Plant are expected to recover in the second half of the year, and production capacity should return to pre-accident levels by the fourth quarter. Accordingly, we look forward to higher sales volumes, especially of functional chemicals, and plan to translate increases in raw materials prices to the final prices of our products.

For fiscal 2013, we forecast an 11.3% increase in consolidated net sales, to ¥300 billion; a 49.5% jump in operating income, to ¥15 billion; and a 42.8% rise in net income, to ¥12 billion.

Business Risks

Risks that could have an impact on the business performance and financial position of the Nippon Shokubai Group are described below. The Group aware of potential risks, and works to avoid such risks and minimize their impact should they occur. The items relating to future risks are those identified by the Group when producing this report in the year ending March 31, 2013, and do not represent all the business risks that could affect the Group.

(1) Economic situation

The Group's mainstay business is the manufacture and supply of chemical products, and demand for these products is affected by economic conditions in the countries and regions where they are sold. As a result, economic trends and the accompanying changes in demand in the Group's major markets, including Japan, Asia, Europe, and North America, could have an impact on the Group's business performance and financial position.

(2) Fluctuations in crude oil and naphtha markets

The prices of crude oil and naphtha are subject to fluctuations. If the Nippon Shokubai Group is unable to quickly pass on price changes to its product prices, or maintain a sufficient profit margin, fluctuations in the crude oil and naphtha markets could affect the Group's business performance and financial position.

(3) Foreign currency exchange rate fluctuations

As a manufacturer and supplier of products worldwide, the Nippon Shokubai Group works hard to minimize the impact of short-term fluctuations in exchange rates by entering forward exchange contracts. However, exchange rate fluctuations greater than expected could have an impact on the Group's business performance and financial position. Moreover, the value of overseas operations presented in local currencies that are translated into yen could be affected by exchange rate fluctuations at the time of translation.

(4) Overseas operations

The Nippon Shokubai Group has production and sales operations in North America, Europe, and Asia, with the objective of operating in regions with optimal production conditions. With such overseas operations, there is the risk of the existence or emergence of adverse economic factors, such as unforeseen changes to laws and regulations, weakening of the industrial infrastructure, or difficulties in recruiting or retaining personnel. There is also the risk of social or political upheaval caused by terrorism, war, or other factors. If such risks were to materialize, they could harm the Group's overseas business activities, which could affect the Group's business performance and future business plans.

(5) R&D on new products

The Nippon Shokubai Group strives to accelerate and improve the precision of its research and development by drawing on the strengths it has amassed to date. The Group also aims to cultivate genuine demand through active collaboration with customers, including by promoting joint development activities. However, it is always possible that the development of a new product could become deadlocked, or that a sudden unforeseen change in market demand could occur. Such factors could affect the Group's future business plans.

(6) Intellectual property

The Nippon Shokubai Group's business operations in its existing product fields depend on intellectual property, such as know-how, and the acquisition of many patents as a result of previous R&D activities. Even today, we continue to protect know-how by filing patent applications and appropriately managing information. In cases where another company infringes on a patent held by the Company, we take various measures, such as issuing a warning or pursuing legal action. However, the Group may not be able to prevent another company from investigating and analyzing the Group's patents and products in order to develop a similar product or technology. In new product fields earmarked for new business establishment, the Group fully investigates the intellectual property rights of other companies when developing proprietary technology or new products. However, it is possible that the Group in the future could infringe the intellectual property rights of other companies. Moreover, in countries where there is insufficient infrastructure or penalties relating to intellectual property rights, there is a risk of the appearance of products that imitate the Group's products due to the leaking of so-called trade secrets, including technical secrets, or the outflow of personnel.

(7) Natural disasters and accidents

Committed to the promotion of responsible care, the Nippon Shokubai Group endeavors to earn the full trust of customers and local communities by actively pursuing environmental protection, chemical product safety, public security, disaster prevention, and other activities Groupwide. We have business continuity plans that set out appropriate measures to be taken in the event of a major disaster. However, it is impossible to completely preclude the possibility of difficulties in continuing production activities as a result of a natural disaster, power outage, power shortage, or an accident at a manufacturing site. For example, should a large-scale earthquake, tsunami, accident, or other phenomena that force the disruption of operations occur in the area where the Company's main facilities are located, any significant reduction in production capacity for mainstay products could affect the Group's business performance and future business plans.

(8) Environmental measures

The Nippon Shokubai Group recognizes that contributing to society through the provision of products and technologies that contribute to environmental preservation is an important management priority. At the same time, we promote responsible care based on the principle of protecting the global environment. However, it is conceivable that new social responsibilities as a result of tighter environmental regulations and changes in current approaches to environmental protection could emerge, and that environmental pollution could be caused by past acts that occurred prior to the enactment of laws. Mounting costs associated with such scenarios could affect the Group's business performance and future business plans.

(9) Loss on impairment of manufacturing facilities and other fixed assets

The Nippon Shokubai Group owns many manufacturing facilities and other fixed assets, and adopts the accounting standard for impairment of such assets. In the future, therefore, the Group may incur impairment losses due to such factors as major deterioration in business performance or slump in real estate prices, and such losses could affect its business performance and financial position.

Financial Statements

Consolidated Balance Sheet

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31, 2013	March 31, 2012	2013
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Assets			
Current assets:			
Cash and cash equivalents *(Note 4)*	¥ 47,801	¥ 50,812	$ 508,251
Time deposits *(Notes 4 and 9)*	2,046	952	21,754
Notes and accounts receivable *(Notes 3 and 4)*:			
Unconsolidated subsidiaries and affiliates	6,382	5,486	67,858
Trade	46,197	72,608	491,196
Allowance for doubtful receivables	(49)	(64)	(521)
Inventories *(Note 6)*	42,209	44,012	448,793
Deferred income taxes *(Note 11)*	2,918	3,753	31,026
Other current assets *(Note 7)*	11,548	5,320	122,786
Total current assets	159,052	182,879	1,691,143
Property, plant and equipment, at cost *(Notes 8, 9 and 22)*:			
Land	32,396	32,271	344,455
Buildings and structures	87,770	82,157	933,227
Machinery and equipment	313,622	298,591	3,334,631
Construction in progress	25,321	16,363	269,229
Leased assets	616	542	6,550
Accumulated depreciation	(321,224)	(307,198)	(3,415,460)
Property, plant and equipment, net	138,501	122,726	1,472,632
Investments and other assets:			
Investments in securities *(Notes 4 and 5)*	22,536	20,219	239,617
Investments in unconsolidated subsidiaries and affiliates	19,545	16,851	207,815
Deferred income taxes *(Note 11)*	3,793	4,617	40,330
Prepaid pension cost *(Note 10)*	3,538	3,168	37,618
Other assets *(Notes 8 and 9)*	5,408	5,947	57,501
Total investments and other assets	54,820	50,802	582,881
Total assets	¥ 352,373	¥ 356,407	$ 3,746,656

Liabilities and Net Assets	March 31, 2013 (Millions of yen)	2012 (Millions of yen)	2013 (Thousands of U.S. dollars) (Note 2)
Current liabilities:			
Short-term bank loans *(Notes 4 and 9)*	¥ 14,533	¥ 14,373	$ 154,524
Current portion of long-term debt *(Notes 4 and 9)*	14,080	14,694	149,708
Notes and accounts payable *(Notes 3 and 4)*:			
Unconsolidated subsidiaries and affiliates	4,488	4,571	47,719
Trade	34,927	48,566	371,366
Lease obligations	36	44	383
Accrued bonuses to employees	2,597	2,991	27,613
Accrued bonuses to directors and corporate auditors	23	193	245
Reserve for periodic repairs	2,680	2,359	28,495
Reserve for loss on disaster	45	104	478
Accrued income taxes *(Note 11)*	751	7,144	7,985
Other current liabilities	10,048	10,249	106,838
Total current liabilities	84,208	105,288	895,354
Long-term liabilities:			
Long-term debt *(Notes 4 and 9)*	36,060	30,224	383,413
Lease obligations	164	172	1,744
Accrued retirement benefits for employees *(Note 10)*	10,418	10,251	110,771
Deferred income taxes *(Note 11)*	222	260	2,360
Other	1,053	1,142	11,196
Total long-term liabilities	47,917	42,049	509,484
Contingent liabilities *(Note 19)*			
Net assets:			
Shareholders' equity *(Note 12)*:			
Common stock:			
Authorized – 636,000,000 shares;			
Issued – 204,000,000 shares in 2013 and 2012	25,038	25,038	266,220
Capital surplus	22,083	22,083	234,801
Retained earnings	172,375	168,441	1,832,801
Less treasury stock, at cost	(897)	(890)	(9,537)
Total shareholders' equity	218,599	214,672	2,324,285
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	2,846	1,366	30,260
Translation adjustments	(6,309)	(11,721)	(67,081)
Net unrealized deferred gain (loss) on hedges	1	(2)	11
Total accumulated other comprehensive loss, net	(3,462)	(10,357)	(36,810)
Minority interests	5,111	4,755	54,343
Total net assets	220,248	209,070	2,341,818
Total liabilities and net assets	¥ 352,373	¥ 356,407	$ 3,746,656

Consolidated Statement of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2013	2012	**2013**
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Net sales *(Note 22)*	**¥ 269,520**	¥ 320,704	**$ 2,865,710**
Cost of sales *(Note 13)*	**224,901**	252,363	**2,391,292**
Gross profit	**44,619**	68,341	**474,418**
Selling, general and administrative expenses *(Note 13)*	**34,585**	37,241	**367,730**
Operating income *(Note 22)*	**10,034**	31,100	**106,688**
Other income (expenses):			
Interest and dividend income	**1,032**	958	**10,973**
Interest expense	**(674)**	(735)	**(7,166)**
Royalty income	**1,291**	584	**13,727**
Equity in earnings of an unconsolidated subsidiary and affiliates	**1,371**	2,353	**14,577**
Foreign exchange loss, net	**–**	(840)	**–**
Loss on impairment of property, plant and equipment *(Notes 8 and 22)*	**(89)**	(280)	**(946)**
Rent income from real estate	**1,066**	1,157	**11,334**
Gain on insurance claims *(Note 14)*	**8,231**	1,105	**87,517**
Government subsidies	**–**	100	**–**
Loss on reduction of property, plant and equipment	**(47)**	(449)	**(500)**
Loss on disposal of property, plant and equipment	**(20)**	(264)	**(213)**
Loss on discontinued operations	**–**	(134)	**–**
Loss on devaluation of investments in unconsolidated subsidiaries and affiliates	**(264)**	–	**(2,807)**
Loss on explosion and fire accident *(Note 15)*	**(8,882)**	–	**(94,439)**
Other, net	**(274)**	(1,328)	**(2,913)**
Income before income taxes and minority interests	**12,775**	33,327	**135,832**
Income taxes *(Note 11)*:			
Current	**3,343**	11,778	**35,545**
Deferred	**872**	(158)	**9,272**
	4,215	11,620	**44,817**
Income before minority interests	**8,560**	21,707	**91,015**
Minority interests	**(159)**	(450)	**(1,690)**
Net income	**¥ 8,401**	¥ 21,257	**$ 89,325**

Consolidated Statement of Comprehensive Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Income before minority interests	**¥ 8,560**	¥ 21,707	**$ 91,015**
Other comprehensive income (loss)			
Net unrealized holding gain (loss) on securities	**1,486**	(1,002)	**15,800**
Net unrealized deferred gain on hedges	**3**	1	**32**
Translation adjustments	**3,911**	(1,544)	**41,584**
Other comprehensive income (loss) of equity method affiliates attributable to the Company	**1,736**	(365)	**18,459**
Total other comprehensive income (loss) *(Note 16)*:	**7,136**	(2,910)	**75,875**
Comprehensive income	**¥ 15,696**	¥ 18,797	**$ 166,890**
Comprehensive income attributable to:			
Shareholders of the Company	**¥ 15,297**	¥ 18,435	**$ 162,648**
Minority interests	**399**	362	**4,242**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at April 1, 2011	¥ 25,038	¥ 22,083	¥ 158,961	¥ (7,990)	¥ 198,092
Changes during the year:					
Cash dividends	–	–	(4,669)	–	(4,669)
Net income	–	–	21,257	–	21,257
Purchases of treasury stock	–	–	–	(9)	(9)
Disposition of treasury stock	–	0	(0)	1	1
Retirement of shares of common stock held in treasury	–	(0)	(7,108)	7,108	–
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	(0)	9,480	7,100	16,580
Balance at March 31, 2012	¥ 25,038	¥ 22,083	¥ 168,441	¥ (890)	¥ 214,672

	Accumulated other comprehensive income (loss)					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred loss hedges	Total accumulated other comprehensive loss, net	Minority interests	Total net assets
	(Millions of yen)					
Balance at April 1, 2011	¥ 2,367	¥ (9,885)	¥ (17)	¥ (7,535)	¥ 3,709	¥ 194,266
Changes during the year:						
Cash dividends	–	–	–	–	–	(4,669)
Net income	–	–	–	–	–	21,257
Purchases of treasury stock	–	–	–	–	–	(9)
Disposition of treasury stock	–	–	–	–	–	1
Retirement of shares of common stock held in treasury	–	–	–	–	–	–
Net changes in items other than shareholders' equity	(1,001)	(1,836)	15	(2,822)	1,046	(1,776)
Total changes during the year	(1,001)	(1,836)	15	(2,822)	1,046	14,804
Balance at March 31, 2012	¥ 1,366	¥ (11,721)	¥ (2)	¥ (10,357)	¥ 4,755	¥ 209,070

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Millions of yen)				
Balance at April 1, 2012	¥ 25,038	¥ 22,083	¥ 168,441	¥ (890)	¥ 214,672
Changes during the year:					
Cash dividends	–	–	(4,467)	–	(4,467)
Net income	–	–	8,401	–	8,401
Purchases of treasury stock	–	–	–	(7)	(7)
Disposition of treasury stock	–	–	–	–	–
Retirement of shares of common stock held in treasury	–	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	–	3,934	(7)	3,927
Balance at March 31, 2013	¥ 25,038	¥ 22,083	¥ 172,375	¥ (897)	¥ 218,599

	Accumulated other comprehensive income (loss)					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Total accumulated other comprehensive loss, net	Minority interests	Total net assets
	(Millions of yen)					
Balance at April 1, 2012	¥ 1,366	¥ (11,721)	¥ (2)	¥ (10,357)	¥ 4,755	¥ 209,070
Changes during the year:						
Cash dividends	–	–	–	–	–	(4,467)
Net income	–	–	–	–	–	8,401
Purchases of treasury stock	–	–	–	–	–	(7)
Disposition of treasury stock	–	–	–	–	–	–
Retirement of shares of common stock held in treasury	–	–	–	–	–	–
Net changes in items other than shareholders' equity	1,480	5,412	3	6,895	356	7,251
Total changes during the year	1,480	5,412	3	6,895	356	11,178
Balance at March 31, 2013	¥ 2,846	¥ (6,309)	¥ 1	¥ (3,462)	¥ 5,111	¥ 220,248

	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Less treasury stock, at cost	Total shareholders' equity
	(Thousands of U.S. dollars) (Note 2)				
Balance at April 1, 2012	**$ 266,220**	**$ 234,801**	**$ 1,790,973**	**$ (9,463)**	**$ 2,282,531**
Changes during the year:					
Cash dividends	–	–	**(47,497)**	–	**(47,497)**
Net income	–	–	**89,325**	–	**89,325**
Purchases of treasury stock	–	–	–	**(74)**	**(74)**
Disposition of treasury stock	–	–	–	–	–
Retirement of shares of common stock held in treasury	–	–	–	–	–
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	–	**41,828**	**(74)**	**41,754**
Balance at March 31, 2013	**$ 266,220**	**$ 234,801**	**$ 1,832,801**	**$ (9,537)**	**$ 2,324,285**

	Accumulated other comprehensive income (loss)					
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Total accumulated other comprehensive loss, net	Minority interests	Total net assets
	(Thousands of U.S. dollars) (Note 2)					
Balance at April 1, 2012	**$ 14,524**	**$ (124,625)**	**$ (21)**	**$ (110,122)**	**$ 50,558**	**$ 2,222,967**
Changes during the year:						
Cash dividends	–	–	–	–	–	**(47,497)**
Net income	–	–	–	–	–	**89,325**
Purchases of treasury stock	–	–	–	–	–	**(74)**
Disposition of treasury stock	–	–	–	–	–	–
Retirement of shares of common stock held in treasury	–	–	–	–	–	–
Net changes in items other than shareholders' equity	**15,736**	**57,544**	**32**	**73,312**	**3,785**	**77,097**
Total changes during the year	**15,736**	**57,544**	**32**	**73,312**	**3,785**	**118,851**
Balance at March 31, 2013	**$ 30,260**	**$ (67,081)**	**$ 11**	**$ (36,810)**	**$ 54,343**	**$ 2,341,818**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31,		
	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Operating activities:			
Income before income taxes and minority interests	¥ 12,775	¥ 33,327	$ 135,832
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	15,402	16,767	163,764
Loss on devaluation of investments in unconsolidated subsidiaries and affiliates	264	–	2,807
Loss on discontinued operations	–	134	–
Loss on impairment of property, plant and equipment	89	280	946
Increase in accrued retirement benefits for employees	157	478	1,669
Interest and dividend income	(1,032)	(958)	(10,973)
Interest expense	674	735	7,166
Equity in earnings of an unconsolidated subsidiary and affiliates	(1,371)	(2,353)	(14,577)
Loss on disposal of property, plant and equipment	23	270	245
Loss on reduction of property, plant and equipment	47	449	500
Gain on insurance claims	(8,231)	(1,105)	(87,517)
Government subsidies	–	(100)	–
Other, net	(5,544)	1,832	(58,948)
Changes in operating assets and liabilities:			
Notes and accounts receivable	26,919	(2,534)	286,220
Inventories	3,030	(4,395)	32,217
Notes and accounts payable	(14,869)	10,684	(158,097)
Other current liabilities	(269)	105	(2,860)
Subtotal	28,064	53,616	298,394
Interest and dividends received	2,799	2,022	29,761
Interest paid	(691)	(745)	(7,347)
Proceeds from insurance claims	8,231	1,226	87,517
Proceeds from government subsidies	–	100	–
Payment of income taxes	(11,081)	(12,362)	(117,820)
Net cash provided by operating activities	27,322	43,857	290,505
Investing activities:			
Purchases of property, plant and equipment	(29,382)	(20,883)	(312,408)
Proceeds from sales of property, plant and equipment	12	4	128
Purchases of short-term investments and investments in securities	(521)	(451)	(5,539)
Proceeds from sales of short-term investments and investments in securities	216	193	2,296
Proceeds from redemption of investments in securities	200	200	2,127
Payments for purchases of shares of affiliates	(984)	(18)	(10,463)
Proceeds from purchase of investments in subsidiaries resulting in change in scope of consolidation *(Note 17)*	–	182	–
Increase in loans receivable	(1,299)	–	(13,812)
Collection of loans receivable	177	132	1,882
Other, net	(297)	(1,106)	(3,158)
Net cash used in investing activities	¥(31,878)	¥ (21,747)	$ (338,947)

	Years ended March 31, 2013	2012	2013
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Financing activities:			
Decrease in short-term bank loans, net	**¥ (299)**	¥ (2,587)	**$ (3,179)**
Proceeds from long-term debt	**19,687**	2,542	**209,325**
Repayment of long-term debt	**(9,743)**	(4,872)	**(103,594)**
Repayments of bonds	**(5,000)**	–	**(53,163)**
Cash dividends paid	**(4,467)**	(4,669)	**(47,497)**
Purchases of treasury stock	**(7)**	(9)	**(74)**
Other, net	**(90)**	(76)	**(957)**
Net cash provided by (used in) financing activities	**81**	(9,671)	**861**
Effect of exchange rate changes on cash and cash equivalents	**1,464**	(801)	**15,566**
Decrease (increase) in cash and cash equivalents	**(3,011)**	11,638	**(32,015)**
Cash and cash equivalents at beginning of year	**50,812**	39,174	**540,266**
Cash and cash equivalents at end of year	**¥ 47,801**	¥ 50,812	**$ 508,251**

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of Nippon Shokubai Co., Ltd. (the "Company") and its consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the 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.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a format which is more familiar to readers outside Japan.

(b) Basis of consolidation

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

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, a date which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year end of these overseas consolidated subsidiaries and the year end of the Company.

Investments in an unconsolidated subsidiary and significant affiliates are accounted for by the equity method.

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

(c) Foreign currency translation

The financial statements of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests are translated at their historical exchange rates. Differences resulting from translating the financial statements of the overseas consolidated subsidiaries are not included in the determination of net income but are reported as translation adjustments and minority interests in the accompanying consolidated balance sheets at March 31, 2013 and 2012.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates of exchange in effect at the respective transaction dates.

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date and gain or loss on each translation is credited or charged to income.

(d) Cash and cash equivalents

Cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(e) Allowance for doubtful receivables

The Company and its consolidated subsidiaries provide an allowance for doubtful receivables at an amount calculated based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific bad debts from customers experiencing financial difficulties.

(f) Inventories

Inventories are stated at the lower of cost or net selling value, cost being determined primarily by the moving average method.

(g) Property, plant and equipment

Depreciation is computed principally by the straight-line method over the estimated useful lives of the respective assets except for leased assets.

(h) Leases

Leased assets under finance lease transactions that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the contract term as the useful life.

For finance lease transactions that do not transfer ownership to the lessee, those that started on or before March 31, 2008 continue to be accounted for as operating lease transactions.

(i) Short-term investments and investments in securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are carried at fair value. Gain and loss, both realized and unrealized, are credited and charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(j) Research and development costs and computer software

Research and development costs are charged to income when incurred.

Expenditures relating to the development of computer software intended for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their respective estimated useful lives, generally a period of 5 years.

(k) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Deferred income tax assets and liabilities are computed based on the temporary differences between financial reporting and the tax bases of the assets and liabilities which will result in taxable or tax-deductible amounts in the future. The calculation of deferred income tax assets and liabilities is based on the enacted tax laws.

(l) Hedge accounting

Gain or loss on derivatives positions designated as hedges is deferred until the loss or gain on the respective underlying hedged items is recognized. Interest rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying debt.

Forward foreign currency exchange contracts which meet certain criteria are accounted for by the allocation method which requires that recognized foreign currency receivables or payables be translated at the corresponding contract rates ("Allocation method").

(m) Accrued bonuses to employees

Accrued bonuses to employees are provided based on the estimated amount of bonuses to be paid to employees which is charged to income in the current year.

(n) Accrued bonuses to directors and corporate auditors

Accrued bonuses to directors and corporate auditors are provided at an estimate of the amount to be paid in the following year which has been allocated to the current fiscal year.

(o) Reserve for periodic repairs

The Company and certain consolidated subsidiaries provide a reserve for the cost of periodic repairs to production facilities at plants based on their estimates of the future cost of such repairs.

(p) Reserve for loss on disaster

A domestic consolidated subsidiary has recorded a reserve for loss on disaster at the amount estimated to be necessary to provide for restoration of assets damaged by the Great East Japan Earthquake.

(q) Retirement benefits

Accrued retirement benefits for employees have been provided based on the retirement benefit obligation and the fair value of the pension plan assets as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost.

Prior service cost is amortized principally by the straight-line method over a period of 5 years, which is within the estimated average remaining years of service of the eligible employees.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized principally by the straight-line method over a period of 10 years, which is within the estimated average remaining years of service of the eligible employees.

(r) Distribution of retained earnings

Under the Corporation Law of Japan, the distribution of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of the financial period. The accounts for that period do not, therefore, reflect such distributions (see Note 24).

(s) Recognition of contract revenue and cost

The Company recognizes revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

(t) Accounting standards issued but not yet effective

(Accounting Standard for Retirement Benefits)

Accounting Standard for Retirement Benefits (Statement No. 26 issued by Accounting Standards Board of Japan ("ASBJ") on May 17, 2012)

Guidance on Accounting Standard for Retirement Benefits (Guidance No. 25 issued by ASBJ on May 17, 2012)

(1) Summary

These accounting standards were amended from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on how actuarial gains or losses and prior service costs should be accounted for, how retirement benefit obligations and current service costs should be determined, and enhancement of disclosures.

Under the revised accounting standard, unrecognized actuarial gains or losses and prior service cost shall be recognized within net assets (accumulated other comprehensive income (loss)), after adjusting for tax effects, and the deficit or surplus corresponding to the deference between the retirement benefit obligations and plan assets shall be recognized as a liability or asset. In addition, the retirement benefit obligation can be attributed to each period based on the plan's benefit formula or the straight-line method.

(2) Planned date of adoption

The Company will adopt these accounting standards from the end of the fiscal year ending March 31, 2014.

(3) Effect of adoption of these accounting standards

The impact of the adoption of these accounting standards is currently under assessment.

2. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥94.05 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2013. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

3. Notes Receivable and Notes Payable

The balance sheet dates for the years ended March 31, 2013 and 2012 fell on a bank holiday. Consequently, notes receivable, trade of ¥178 million ($1,893 thousand) and ¥264 million, notes payable, trade of ¥152 million ($1,616 thousand) and ¥362 million and notes payable of ¥110 million ($1,170 thousand) and ¥14 million included in other current liabilities with maturity dates of March 31, 2013 and 2012 were included in the respective balances in the consolidated balance sheets at March 31, 2013 and 2012 and were settled on the next business day.

4. Financial Instruments

(1) Current status of financial instruments

1) Policy for financial instruments

The Group manages temporary surplus funds through short-term bank deposits. The Group raises funds through bank loans. The Group uses derivatives for the purpose of reducing foreign currency exchange rate fluctuation risk or interest rate fluctuation risk, and does not enter into derivatives for speculative or trading purposes.

2) Types of financial instruments and related risk

Notes and accounts receivable, trade are exposed to credit risk in relation to customers. Trade receivables in foreign currencies, arising from export transactions for the global business, are exposed to foreign currency exchange rate fluctuation risk, which are hedged by forward foreign exchange contracts.

Investments in securities are composed of the shares of common stock of other companies with which the Group has business or capital relationships, which are also exposed to market price volatility risk.

Substantially all notes and accounts payable, trade have payment due dates within one year, which are also hedged by forward foreign currency exchange contracts. The loans are taken out principally for the purpose of making capital expenditures. The loans with variable interest rates are exposed to interest rate fluctuation risk. However, the interest rate fluctuation risk is covered by interest rate swap transactions.

Regarding derivatives, the Group enters into forward foreign currency exchange transactions to avoid foreign currency exchange rate fluctuation risk related to trade receivables and trade payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to avoid interest rate fluctuation risk related to the loans.

Further information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities can be found in Note 21.

3) Risk management for financial instruments

i) Monitoring for credit risk (the risk that customers or counterparties may default)

With respect to trade receivables, each related division of the Company monitors the conditions of their main customers periodically, monitors due dates and outstanding balances of individual customers, and evaluates credit worthiness of their main customers semiannually. The consolidated subsidiaries also monitor trade receivables in a same manner.

The Group acquires held-to-maturity debt securities such as corporate bonds or other securities, that have high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as the Group enters into derivative transactions only with financial institutions with high credit ratings.

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

For trade receivables and trade payables in foreign currencies, the Group enters into forward foreign currency exchange contracts.

For investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity should be maintained taking into account their fair values and relationships with the issuers.

For derivative transactions, the finance department of the Company enters into and manages derivative transactions. Results of derivative transactions are reported to the director in charge monthly.

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

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

4) Supplementary explanation of the estimated fair value of financial instruments

The notional amounts of derivatives in the following table are not necessarily indicative of the actual market risk involved in derivative transactions.

(2) Fair value of financial instruments
Carrying value, fair value, and unrealized gain on financial instruments at March 31, 2013 and 2012 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value.

	2013			2012		
	(Millions of yen)					
	Carrying value	Fair value	Unrealized gain	Carrying value	Fair value	Unrealized gain
Assets:						
i) Cash and cash equivalents, and time deposits	¥ 49,847	¥ 49,847	¥ –	¥ 51,764	¥ 51,764	¥ –
ii) Notes and accounts receivable	52,579	52,579	–	78,094	78,094	–
iii) Investments in securities:						
Other securities	21,831	21,831	–	19,332	19,332	–
Total assets	¥ 124,257	¥ 124,257	¥ –	¥ 149,190	¥ 149,190	¥ –

Liabilities:						
iv) Notes and accounts payable	¥ 39,415	¥ 39,415	¥ –	¥ 53,137	¥ 53,137	¥ –
v) Short-term bank loans	14,533	14,533	–	14,373	14,373	–
vi) Current portion of long-term loans	14,080	14,154	74	9,694	9,761	67
vii) Long-term loans	26,060	26,090	30	20,224	20,374	150
Total liabilities	¥ 94,088	¥ 94,192	¥ 104	¥ 97,428	¥ 97,645	¥ 217
Derivatives	¥ 1	¥ 1	¥ –	¥ (3)	¥ (3)	¥ –

	2013		
	(Thousands of U.S. dollars)		
	Carrying value	Fair value	Unrealized gain
Assets:			
i) Cash and cash equivalents, and time deposits	$ 530,005	$ 530,005	$ –
ii) Notes and accounts receivable	559,054	559,054	–
iii) Investments in securities:			
Other securities	232,121	232,121	–
Total assets	$ 1,321,180	$ 1,321,180	$ –
Liabilities:			
iv) Notes and accounts payable	$ 419,085	$ 419,085	$ –
v) Short-term bank loans	154,524	154,524	–
vi) Current portion of long-term loans	49,708	150,494	786
vii)Long-term loans	277,087	277,406	319
Total liabilities	$ 1,000,404	$ 1,001,509	$ 1,105
Derivatives	$ 11	$ 11	$ –

1) Calculation methods of fair value of financial instruments, securities, and derivatives are as follows:

Assets:

i) Cash and cash equivalents, time deposits, and ii) notes and accounts receivable

Since these items are settled in a short period of time, their carrying values approximate the fair value.

iii) Investments in securities

Please refer to Note 1(i).

Liabilities:

iv) Notes and accounts payable, and v) short-term bank loans

Since these items are settled in a short period of time, their carrying values approximate the fair value.

vi) Current portion of long-term debt, and vii) long-term debt

The fair value of long-term debt is based on present value of the total amount including principal and interest, discounted by the expected interest rate in the case of new borrowings under the same conditions and in the same amount of the balance as of the end of the period. Long-term loans with floating interest rates were hedged by interest-rate swap agreements and accounted for as loans with fixed interest rates. The estimated fair value of those long-term loans is reasonably based on the present value of the total of principals, interests and net cash flows of swap agreements discounted by the interest rates, estimated reasonably, applicable to loans made under similar conditions.

Derivative transactions:

Please refer to Note 21.

2) Financial instruments for which it is extremely difficult to determine the fair value:
Other securities whose market value was not determinable at March 31, 2013 and 2012 are presented as follows:

	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted securities and other	¥ 705	¥ 887	$ 7,496

Since there is no market price for unlisted securities and it is difficult to determine the fair value, they are not included in the above iii), "Investments in securities" in the preceding table "(2) Fair value of financial instruments."

3) The redemption schedule for monetary assets and securities classified as held-to-maturity debt securities with maturity dates as of March 31, 2013 and 2012 is as follows:

	2013		2012	
	(Millions of yen)			
	Due within one year	Due after one year through five years	Due within one year	Due after one year through five years
Cash and cash equivalents, and time deposits	¥ 49,847	¥ –	¥ 51,764	¥ –
Notes and accounts receivable	52,579	–	78,094	–
Investments in securities:				
Held-to-maturity debt securities (unlisted foreign debt securities)	–	–	–	200
	¥ 102,426	–	¥ 129,858	¥ 200

	2013	
	(Thousands of U.S. dollars)	
	Due within one year	Due after one year through five years
Cash and cash equivalents, and time deposits	$ 530,005	$ –
Notes and accounts receivable	559,054	–
Investments in securities:		
Held-to-maturity debt securities (unlisted foreign debt securities)	–	–
	$ 1,089,059	–

5. Short-Term Investments and Investments in Securities

Marketable securities classified as other securities at March 31, 2013 and 2012 are summarized as follows:

	2013			2012		
	(Millions of yen)					
	Book value (fair market value)	Cost	Unrealized gain (loss)	Book value (fair market value)	Cost	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:						
Equity securities	¥ 15,297	¥ 9,315	¥ 5,982	¥ 11,887	¥ 8,335	¥ 3,552
Subtotal	15,927	9,315	5,982	11,887	8,335	3,552
Securities whose cost exceeds their fair market value:						
Equity securities	6,534	8,242	(1,708)	7,445	8,917	(1,472)
Subtotal	6,534	8,242	(1,708)	7,445	8,917	(1,472)
Total	¥ 21,831	¥ 17,557	¥ 4,274	¥ 19,332	¥ 17,252	¥ 2,080

	2013		
	(Thousands of U.S. dollars)		
	Book value (fair market value)	Cost	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:			
Equity securities	**$ 162,648**	**$ 99,043**	**$ 63,605**
Subtotal	**162,648**	**99,043**	**63,605**
Securities whose cost exceeds their fair market value:			
Equity securities	**69,473**	**87,634**	**(18,161)**
Subtotal	**69,473**	**87,634**	**(18,161)**
Total	**$ 232,121**	**$ 186,677**	**$ 45,444**

Sales of other securities for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds	**¥ 2**	¥ 193	**$ 21**
Gross realized gain	**–**	6	**–**
Gross realized loss	**¥ 0**	¥ –	**$ 0**

6. Inventories

Inventories at March 31, 2013 and 2012 were as follows:

	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished goods	**¥ 21,468**	¥ 24,291	**$ 228,262**
Raw materials	**9,618**	9,732	**102,265**
Work in process	**7,170**	6,761	**76,236**
Supplies	**3,953**	3,228	**42,030**
Total	**¥ 42,209**	¥ 44,012	**$ 448,793**

7. Other Current Assets

On September 29, 2012, there was an explosion and fire at the Himeji factory in which inventories and property, plant and equipment were damaged or destroyed. The book value of these items and the repair cost of the property, plant and equipment amounted to ¥2,176 million ($23,137 thousand), and was accounted for under an suspense account included in other current assets since the Company expects to receive insurance proceeds from the accident.

8. Loss on Impairment of Property, Plant and Equipment

Property, plant and equipment are primarily grouped based on the business segment categories designated for management control purposes.

For the year ended March 31, 2013, the electronic device material manufacturing equipment in the Suita plant that are not intended to be used in the future and were classified as idle after the production of the manufacturing equipment was discontinued. Accordingly, the Company has written down such assets to their respective net recoverable amounts. The net recoverable amounts of these impaired assets were measured at net selling value in the amount of ¥89 million ($946 thousand).

For the year ended March 31, 2012, the Company determined to discontinue providing Company owned employee housing in Ibaraki prefecture and to sell its land, which had been used since 1987. Accordingly, the Company has written down such assets to their respective net recoverable amounts. The net recoverable amounts of these impaired assets were measured at net selling value based on the appraisal value determined by a real estate agent.

Details of the loss on impairment of property, plant and equipment for the years ended March 31, 2013 and 2012 are summarized as follows:

2013

Company	Application	Classification	(Millions of yen)	(Thousands of U.S. dollars)
Nippon Shokubai Co., Ltd.	Electronic device manufacturing equipment	Machinery	¥ 89	$ 946
Total			¥ 89	$ 946

2012

Company	Application	Classification	(Millions of yen)
Nippon Shokubai Co., Ltd.	Land for company owned housing	Land, buildings and structures and other assets assets	¥ 280
Total			¥ 280

9. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on short-term bank loans outstanding at March 31, 2013 and 2012 were 0.71% and 0.80% respectively.

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

	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Unsecured bonds payable in Japanese yen, at rate of 1.66%, due through 2014	¥ 10,000	¥ 15,000	$ 106,326
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates from 0.40% to 2.03%, due through 2018	24,709	27,138	262,722
Unsecured loans from banks, payable in U.S. dollars, at rates from 0.77% to 1.44%, due through 2020	15,152	2,286	161,106
Unsecured loans from banks, payable in Chinese yuan, at rates from 5.54% to 5.65%, due through 2013	49	92	521
Secured loans from banks payable in Japanese yen, at rates from 1.33% to 1.55%, due through 2015	230	402	2,446
Lease obligations	200	216	2,127
Subtotal	50,340	45,134	535,248
Less current portion	(14,116)	(14,738)	(150,091)
Total	¥ 36,224	¥ 30,396	$ 385,157

The aggregate annual maturities of long-term debt subsequent to March 31, 2013 are summarized below:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2014	¥ 14,080	$ 149,708
2015	16,497	175,407
2016	3,378	35,917
2017	3,337	35,481
2018 and thereafter	12,848	136,608
	¥ 50,140	$ 533,121

The aggregate annual maturities of lease obligations to March 31, 2013 are summarized below:

Year ending March 31,	(Millions of yen)	(Thousands of U.S. dollars)
2014	¥ 36	$ 383
2015	24	255
2016	24	255
2017	23	245
2018 and thereafter	93	989
	¥ 200	$ 2,127

Assets pledged as collateral for short-term bank loans, long-term debt, including the current portion thereof, and notes and accounts payable at March 31, 2013 and 2012 were as follows:

	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Time deposits	**¥ –**	¥ 8	**$ –**
Land	**533**	533	**5,667**
Buildings and structures	**119**	129	**1,265**
Machinery and equipment	**214**	156	**2,275**
Other assets	**12**	5	**128**
Total	**¥ 878**	¥ 831	**$ 9,335**

10. Retirement Benefits

Employees of the Company and domestic consolidated subsidiaries are mainly covered by an employees' retirement benefit plan and an employees' pension plan. In addition, the Company and a domestic consolidated subsidiary have established a retirement benefits trust. The employees' retirement benefit plan provides for lump-sum payments determined by reference to their basic salary, years of service and certain other factors. These plans provide for lump-sum payments and/or annuity payments payable upon termination of employment. Certain domestic consolidated subsidiaries have multi-employer pension plans or defined contribution pension plans.

Certain overseas consolidated subsidiaries have defined benefit/contribution pension plans.

The following table sets forth the funded and accrued status of the pension plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 and 2012 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Retirement benefit obligation at end of year	**¥ (33,898)**	¥ (33,456)	**$ (360,426)**
Fair value of plan assets at end of year	**24,394**	21,577	**259,373**
Unfunded retirement benefit obligation	**(9,504)**	(11,879)	**(101,053)**
Unrecognized actuarial loss	**2,611**	4,779	**27,762**
Unrecognized prior service cost	**13**	17	**138**
Net retirement benefit obligation	**(6,880)**	(7,083)	**(73,153)**
Prepaid pension cost	**3,538**	3,168	**37,618**
Accrued retirement benefits	**¥ (10,418)**	¥ (10,251)	**$ (110,771)**

The components of retirement benefit expenses for the years ended Mar 31, 2013 and 2012 are outlined as follows:

	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Service cost	¥ 1,498	¥ 1,484	$ 15,928
Interest cost	605	599	6,433
Expected return on plan assets	(590)	(578)	(6,273)
Amortization:			
Prior service cost	3	3	32
Actuarial loss	750	1,162	7,974
Retirement benefit expenses	¥ 2,266	¥ 2,670	$ 24,094

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	Principally 1.9%	Principally 1.9%
Expected rate of return on plan assets	Principally 3.0%	Principally 3.0%

The following table sets forth the status of the multi-employer pension plan at March 31, 2012, the most recent date on which such data was available. The contribution ratio of the Group to the multi-employer pension plan as of March 31, 2013 was 0.5%.

	(Millions of yen)	(Thousands of U.S. dollars)
Plan assets at fair value	¥ 414,218	$ 4,404,232
Benefit obligation used in the calculation of pension financing	459,016	4,880,553
Difference	¥ (44,798)	$ (476,321)

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rates in Japan for the years ended March 31, 2013 and 2012 were, in the aggregate, approximately 38.0% and 40.6%.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2013 and 2012 differed from the above statutory tax rate for the following reasons:

	2013	2012
Statutory tax rate	38.0 %	40.6 %
Effect of:		
Valuation allowance	1.7	(1.3)
Different tax rate applicable to income of subsidiaries	(6.8)	(2.8)
Tax credit for research and development costs	(1.8)	(2.9)
Equity in earnings of an unconsolidated subsidiary and affiliates	(4.1)	(2.9)
Foreign tax credit	(0.5)	(0.1)
Decrease in deferred income tax assets resulting from change in the statutory tax rates	–	2.7
Other, net	6.5	1.6
Effective tax rates	33.0 %	34.9 %

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities calculated for financial reporting purposes and the corresponding tax bases reported for income tax purposes. The significant components of the deferred tax assets and liabilities of the Company and its consolidated subsidiaries at March 31, 2013 and 2012 are summarized as follows:

	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Depreciation and amortization (including loss on impairment)	¥ 3,041	¥ 3,177	$ 32,334
Accrued retirement benefits for employees	2,501	2,580	26,592
Tax loss carryforwards	2,936	2,071	31,217
Intercompany profit on inventories and property, plant and equipment	1,149	1,333	12,217
Accrued bonuses to employees	960	1,112	10,207
Loss on impairment of land	1,106	1,107	11,760
Reserve for periodic repairs	1,019	896	10,835
Impairment of investments in securities and other	390	727	4,147
Other	1,131	1,798	12,025
Gross deferred tax assets	14,233	14,801	151,334
Less: Valuation allowance	(4,172)	(3,952)	(44,359)
Total deferred tax assets	10,061	10,849	106,975
Deferred tax liabilities:			
Net unrealized holding gain on securities	(1,312)	(587)	(13,950)
Equity in earnings of an overseas affiliate	(879)	(908)	(9,346)
Deferred capital gain on property (in overseas subsidiaries)	(322)	(328)	(3,424)
Depreciation and amortization	(277)	(277)	(2,945)
Reserve for depreciation for tax purposes	(14)	(1)	(149)
Other	(768)	(638)	(8,165)
Total deferred tax liabilities	(3,572)	(2,739)	(37,979)
Net deferred tax assets	¥ 6,489	¥ 8,110	$ 68,996

12. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

Retained earnings include the legal reserve provided in accordance with the provisions of the Law. The legal reserve of the Company included in retained earnings amounted to ¥3,920 million ($41,680 thousand) and ¥3,920 million at March 31, 2013 and 2012, respectively.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2013 and 2012 are summarized as follows:

	2013			
	Number of shares (Thousands)			
	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	204,000	–	–	204,000
Treasury stock	1,001	9	–	1,010

	2012			
	Number of shares (Thousands)			
	April 1, 2011	Increase	Decrease	March 31, 2012
Common stock	212,000	–	8,000	204,000
Treasury stock	8,992	9	8,000	1,001

13. Research and Development Costs

Research and development costs included in cost of sales and selling, general and administrative expenses for the years ended March 31, 2013 and 2012 totaled ¥11,441 million ($121,648 thousand) and ¥11,938 million, respectively.

14. Gain on Insurance Claims

During the year ended March 31, 2013, the Company received insurance proceeds in the amount of ¥8,231 million ($87,517 thousand) related to the explosion and fire at the Himeji factory on September 29, 2012.

During the year ended March 31, 2012, a domestic consolidated subsidiary received insurance proceeds related to a loss suffered due to the Great East Japan Earthquake in the amount of ¥716 million and an overseas consolidated subsidiary received insurance proceeds related to a loss suffered due to fire at a factory in the amount of ¥389 million.

15. Loss on Explosion and Fire Accident

Loss on explosion and fire accident in the amount of ¥8,882 million ($94,439 thousand) is mainly factory fixed costs due to business suspension resulting from the explosion and fire at the Himeji factory on Sep 29, 2012.

16. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects of components of other comprehensive income (loss) for the years ended March 31, 2013 and 2012:

	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unrealized holding income (loss) on securities:			
Amount arising during the year	**¥ 2,211**	¥ (1,576)	**$ 23,509**
Reclassification adjustments	**0**	(6)	**0**
Before tax effects	**2,211**	(1,582)	**23,509**
Tax effects	**(725)**	580	**(7,709)**
Net unrealized holding income (loss) on securities	**1,486**	(1,002)	**15,800**
Deferred gain on hedges:			
Amount arising during the year	**5**	2	**53**
Tax effects	**(2)**	(1)	**(21)**
Net deferred gain on hedges	**3**	1	**32**
Translation adjustments:			
Amount arising during the year	**3,911**	(1,544)	**41,584**
Other comprehensive income (loss) of equity method affiliates attributable to the Company:			
Amount arising during the year	**1,736**	(365)	**18,459**
Total other comprehensive income (loss)	**¥ 7,136**	¥ (2,910)	**$ 75,875**

17. Supplemental Information to Consolidated Statement of Cash Flows

During the year ended March 31, 2012, the Company acquired shares of Nihon Polymer Industries Co., Ltd. and included it in the scope of consolidation. Assets acquired and liabilities assumed of this subsidiary at the date of commencement of consolidation, acquisition cost of shares and proceeds from purchase of shares are summarized as follows:

	2012
	(Millions of yen)
Current assets	¥ 4,421
Property, plant and equipment	1,671
Negative goodwill	(8)
Current liabilities	(3,586)
Long-term liabilities	(721)
Minority interests	(713)
Acquisition cost of shares the Company purchased previously	(893)
Acquisition cost of shares of Nihon Polymer Industries Co., Ltd.	171
Cash and cash equivalents	353
Proceeds from purchase of investments Nihon Polymer Industries Co., Ltd.	¥ 182

18. Leases

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of property leased to the Company and its domestic consolidated subsidiaries at March 31, 2013 and 2012 which would have been reflected in the accompanying consolidated balance sheets if finance leases, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that started on or before March 31, 2008 (which are currently accounted for as operating leases) had been capitalized:

	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Equipment:			
Acquisition costs	**¥ 564**	¥ 640	**$ 5,997**
Accumulated depreciation/amortization	**(303)**	(313)	**(3,222)**
Net book value	**¥ 261**	¥ 327	**$ 2,775**

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance leases amounted to ¥66 million ($702 thousand) and ¥94 million for the years ended March 31, 2013 and 2012, respectively. Depreciation on these leased assets calculated by the straight-line method would have amounted to ¥66 million ($702 thousand) and ¥94 million for the years ended March 31, 2013 and 2012, respectively, if it had been reflected in the accompanying consolidated balance sheets.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 under finance lease transactions, other than those which transfer the ownership of the leased assets to the Company or its domestic consolidated subsidiaries, that were entered into on or before March 31, 2008 are summarized as follows:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2014	**¥ 59**	**$ 627**
2015 and thereafter	**202**	**2,148**
	¥ 261	**$ 2,775**

19. Contingent Liabilities

At March 31, 2013, the Company and one consolidated subsidiary were contingently liable as guarantors of indebtedness of an affiliate in the aggregate amount of ¥1,995 million ($21,212 thousand). However, ¥903 million ($9,601 thousand) of ¥1,995 million ($21,212 thousand) was re-guaranteed by Arkema Delaware Inc.

In addition, at March 31, 2013, two consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed in the aggregate amount of ¥426 million ($4,530 thousand).

20. Amounts per Share

	2013	2012	2013
	(Yen)		(U.S. dollars)
Net income	¥ 41.38	¥ 104.71	$ 0.44
Cash dividends	16.00	22.00	0.17
Net assets	1,059.85	1,006.48	11.27

Net income per share has been computed based on the net income available to shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year. Diluted net income per share has not been presented for the years ended March 31, 2013 and 2012 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2013 and 2012.

The amounts per share of net assets have been computed based on the number of shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of net income per share for the years ended March 31, 2013 and 2012 is summarized as follows:

	2013	2012	2013
	(Millions of yen)		(Thousands of U.S. dollars)
Net income	¥ 8,401	¥ 21,257	$ 89,325
Deductions from net income	–	–	–
Adjusted net income available to shareholders of common stock	¥ 8,401	¥ 21,257	$ 89,325
Weighted-average number of shares of common stock outstanding during the year *(thousands of shares)*	202,995	203,003	

21. Derivatives

(1) Derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting is not applied as of March 31, 2013 and 2012 are summarized as follows:

		Millions of yen 2013			
		Contract value			
Type	Transaction	Maturing within one year	Maturing after one year	Fair value	Loss
Over-the-counter market	Forward foreign currency exchange contracts:				
	Sell	¥11	¥ –	¥ (1)	¥ (1)

		Millions of yen 2012			
		Contract value			
Type	Transaction	Maturing within one year	Maturing after one year	Fair value	Loss
Over-the-counter market	Forward foreign currency exchange contracts:				
	Sell	¥ 27	¥ –	¥ (0)	¥ (0)

Type	Transaction	Thousands of U.S. dollars 2013 Contract value Maturing within one year	Maturing after one year	Fair value	Loss
Over-the-counter market	Forward foreign currency exchange contracts:				
	Sell	**$ 117**	**$ –**	**$ (11)**	**$ (11)**

(2) Derivative transactions to which hedge accounting is applied

The estimated fair value of the derivatives positions outstanding which qualify for deferral hedge accounting as of March 31, 2013 and 2012 are summarized as follows:

Currency-related transactions

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2013 Contract value Maturing within one year	Maturing after one year	Fair value
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	**¥ 18**	**¥ –**	**¥ 2**
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	**1,114**	**–**	**(*)**
	Buy	Accounts payable, trade	**19**	**–**	**(*)**

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2012 Contract value Maturing within one year	Maturing after one year	Fair value
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	¥ 56	¥ 37	¥ (3)
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	8,278	–	(*)
	Buy	Accounts payable, trade	19	–	(*)

Method of hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars 2013 Contract value Maturing within one year	Maturing after one year	Fair value
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	$ 191	$ –	$ 21
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	11,845	–	(*)
	Buy	Accounts payable, trade	202	–	(*)

Fair value of forward foreign currency exchange contracts is computed using prices provided by counterparty financial institutions.

(*) Fair value of forward foreign currency exchange contracts under the allocation method is included in accounts receivable, trade or accounts payable, trade.

Interest-rate related transactions

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2013 Contract value Notional amount	More than one year	Fair value
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	¥ 5,000	¥ –	(*)

Method of hedge accounting	Transaction	Major hedged item	Millions of yen 2012 Contract value Notional amount	More than one year	Fair value
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	¥ 100	¥ –	(*)

Method of hedge accounting	Transaction	Major hedged item	Thousands of U.S. dollars 2013 Contract value Notional amount	More than one year	Fair value
Swap rates applied to underlying debt	Interest rate swaps: Receive / floating and pay / fixed	Long-term debt, including current portion	$ 53,163	$ –	(*)

(*) Because interest rate swap agreements are accounted for by applying swap rates to underlying long-term debt, their fair value is included in that of the long-term debt disclosed in Note 4.

22. Segment Information

(1) Outline of reporting segments

The Group’s reporting segments are divisions of the Group for which separate financial information is available, and whose operating results are reviewed regularly by the Board of Directors meeting of the Company in order to allocate management resources and assess performance of operations.

The Group's main business lines are divided based on similarities of function and nature and the Company prepares the comprehensive strategy and conducts the business activities corresponding to the products handled by each business line.

Accordingly, the Group has three reporting segments based on product family: Basic chemicals, Functional chemicals, and Environment and catalysts.

Basic chemicals:

Acrylic acids, acrylic ester, ethylene oxides, ethylene glycols, ethanolamine, higher-alcohol and glycol ether

Functional chemicals:

Superabsorbent polymers, pharmaceutical intermediates, polymer for concrete admixture, electronic and information materials, iodine, maleic anhydride, resins for adhesives and paints, plastic molded products and process adhesive products

Environment and catalysts:

Automotive catalysts, De-NOx catalysts, dioxin decomposition catalysts, industrial catalysts, exhaust gas treatment equipment and fuel cell material

(2) Calculation methods used for sales, income or loss, assets, and other items on each reporting segment.
The accounting policies of the segments are substantially the same as those described in the significant accounting policies in Note 1. Intersegment sales and transfers are recorded at the same prices used in transactions with third parties.

(3) Information as to sales, income or loss, assets, and other items on each reporting segment
The segment information of the Company and its consolidated subsidiaries for the years ended March 31, 2013 and 2012 is outlined as follows:

	Year ended March 31, 2013					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
	(Millions of yen)					
Sales and operating income:						
Sales to third parties	¥ 113,862	¥ 137,012	¥ 18,646	¥ 269,520	¥ –	¥ 269,520
Intragroup sales and transfers	20,132	1,263	1,649	23,044	(23,044)	–
Net sales	133,994	138,275	20,295	292,564	(23,044)	269,520
Segment income	¥ 2,097	¥ 6,779	¥ 1,431	¥ 10,307	¥ (273)	¥ 10,034
Segment assets	134,056	149,257	23,742	307,055	45,318	352,373
Other items:						
Depreciation and amortization	¥ 8,634	¥ 6,920	¥ 556	¥ 16,110	¥ –	¥ 16,110
Amortization of goodwill	468	1	–	469	–	469
Increases in property, plant and equipment and other assets	13,334	15,858	350	29,542	–	29,542

	Year ended March 31, 2012					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
	(Millions of yen)					
Sales and operating income:						
Sales to third parties	¥ 136,562	¥ 160,762	¥ 23,380	¥ 320,704	¥ –	¥ 320,704
Intragroup sales and transfers	35,337	1,611	1,880	38,828	(38,828)	–
Net sales	171,899	162,373	25,260	359,532	(38,828)	320,704
Segment income	¥ 13,387	¥ 16,526	¥ 1,671	¥ 31,584	¥ (484)	¥ 31,100
Segment assets	137,775	159,104	23,657	320,536	35,871	356,407
Other items:						
Depreciation and amortization	¥ 9,398	¥ 7,554	¥ 504	¥ 17,456	¥ –	¥ 17,456
Amortization of goodwill	468	13	–	481	–	481
Increases in property, plant and equipment and other assets	8,129	14,247	1,664	24,040	–	24,040

	Year ended March 31, 2013					
	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consolidated
	(Thousands of U.S. dollars)					
Sales and operating income:						
Sales to third parties	**$ 1,210,654**	**$ 1,456,800**	**$ 198,256**	**$ 2,865,710**	**$ –**	**$ 2,865,710**
Intragroup sales and transfers	**214,056**	**13,429**	**17,533**	**245,018**	**(245,018)**	**–**
Net sales	**1,424,710**	**1,470,229**	**215,789**	**3,110,728**	**(245,018)**	**2,865,710**
Segment income	**$ 22,297**	**$ 72,079**	**$ 15,215**	**$ 109,591**	**$ (2,903)**	**$ 106,688**
Segment assets	**1,425,370**	**1,586,996**	**252,440**	**3,264,806**	**481,850**	**3,746,656**
Other items:						
Depreciation and amortization	**$ 91,802**	**$ 73,578**	**$ 5,912**	**$ 171,292**	**$ –**	**$ 171,292**
Amortization of goodwill	**4,976**	**11**	**–**	**4,987**	**–**	**4,987**
Increases in property, plant and equipment and other assets	**141,776**	**168,613**	**3,721**	**314,110**	**–**	**314,110**

Note: The adjustments in segment income are related to the elimination between inter segment transactions. The adjustments in segment assets consist of inter segment elimination and the common properties of the group. The common properties are the investments held by the Company, mainly cash and cash equivalents, and investments in securities.

Note: The amount of long-term prepaid expense and its amortized cost are included in increases in property, plant and equipment and other assets.

(4) Related information

Geographical information

1) Sales

Sales categorized by countries and regions based on locations of customers of the Group for the years ended March 31, 2013 and 2012 are summarized as follows:

Millions of yen					
2013					
Japan	Asia	Europe	Americas	Other	Total
¥ 144,176	**¥ 54,519**	**¥ 39,038**	**¥ 21,376**	**¥ 10,411**	**¥ 269,520**

Millions of yen					
2012					
Japan	Asia	Europe	Americas	Other	Total
¥ 175,316	¥ 60,308	¥ 35,844	¥ 29,944	¥ 19,292	¥ 320,704

Thousands of U.S. dollars					
2013					
Japan	Asia	Europe	Americas	Other	Total
$ 1,532,972	**$ 579,681**	**$415,077**	**$ 227,283**	**$ 110,697**	**$ 2,865,710**

"Asia" includes east and south-east Asia. "Americas" includes U.S.A. and Canada. "Other" includes areas except for Asia, Europe, North America and Japan.

2) Property, plant and equipment

Property, plant and equipment categorized by countries and regions as of March 31, 2013 and 2012 is summarized as follow:

Millions of yen				
2013				
Japan	Asia	Europe	Other	Total
¥ 100,631	**¥ 23,757**	**¥ 4,012**	**¥ 10,101**	**¥ 138,501**

Millions of yen				
2012				
Japan	Asia	Europe	Other	Total
¥ 101,635	¥ 9,945	¥ 3,928	¥ 7,218	¥ 122,726

Thousands of U.S. dollars				
2013				
Japan	Asia	Europe	Other	Total
$ 1,069,973	**$ 252,600**	**$ 42,658**	**$107,401**	**$ 1,472,632**

(5) Information of loss on impairment

	Millions of yen				
	2013				
	Reporting segments				
	Basic chemicals	Functional chemicals	Environment and catalysts	Adjustments and eliminations	Total
Loss on impairment	**¥ –**	**¥ –**	**¥ –**	**¥ 89**	**¥ 89**

	Millions of yen				
	2012				
	Reporting segments				
	Basic chemicals	Functional chemicals	Environment and catalysts	Adjustments and eliminations	Total
Loss on impairment	¥ –	¥ –	¥ –	¥ 280	¥ 280

	Thousands of U.S. dollars				
	2013				
	Reporting segments				
	Basic chemicals	Functional chemicals	Environment and catalysts	Adjustments and eliminations	Total
Loss on impairment	**$ –**	**$ –**	**$ –**	**$ 946**	**$ 946**

(6) Information of amortization and remaining balance of goodwill

	Millions of yen				
	2013				
	Reporting segments				
	Basic chemicals	Functional chemicals	Environment and catalysts	Adjustments and eliminations	Total
Amortization during the year	**¥ 468**	**¥ 1**	**¥ –**	**¥ –**	**¥ 469**
Remaining balance	**¥ –**	**¥ –**	**¥ –**	**¥ –**	**¥ –**

	Millions of yen				
	2012				
	Reporting segments				
	Basic chemicals	Functional chemicals	Environment and catalysts	Adjustments and eliminations	Total
Amortization during the year	¥ 468	¥ 13	¥ –	¥ –	¥ 481
Remaining balance	¥ 468	¥ –	¥ –	¥ –	¥ 468

	Thousands of U.S. dollars				
	2013				
	Reporting segments				
	Basic chemicals	Functional chemicals	Environment and catalysts	Adjustments and eliminations	Total
Amortization during the year	**$ 4,976**	**$ 11**	**$ –**	**$ –**	**$ 4,987**
Remaining balance	**$ –**	**$ –**	**$ –**	**$ –**	**$ –**

23. Related Party Transactions

Principal transactions between the Company and its related party for the years ended March 31, 2013 and 2012 are summarized as follows:

	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Umicore Shokubai Co., Ltd.:			
Sales of finished goods	**¥ 6,318**	¥ –	**$ 67,177**
Purchases of raw materials	**4,735**	–	**50,346**
ICT Co., Ltd.:			
Sales of finished goods	–	16,515	–
Purchases of raw materials	–	14,265	–

The balances due from and to its related party at March 31, 2013 and 2012 were as follows:

	2013	2012	**2013**
	(Millions of yen)		*(Thousands of U.S. dollars)*
***Umicore Shokubai Co., Ltd.*:**			
Notes and accounts receivable	**¥ 5,821**	¥ –	**$ 61,893**
Notes and accounts payable	**2,970**	–	**31,579**
***ICT Co., Ltd.*:**			
Notes and accounts receivable	–	5,102	–
Notes and accounts payable	–	3,157	–

The prices for the above related party transactions were determined in reference to market value and cost.

During the year ended March 31, 2013, the Company acquired 40% of the shares in the wholly-owning parent company of Umicore Shokubai Co., Ltd. Consequently, the Company indirectly owns 40% of shares of Umicore Shokubai Co., Ltd. Umicore Shokubai Co., Ltd. took over operations of ICT Co., Ltd. during 2012.

ICT Co., Ltd., which had been 50% owned by the Company, was liquidated in December 2012 and was excluded from the scope of equity method application from the year ended March 31, 2013.

24. Subsequent Event

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2013, was approved at a shareholders' meeting held on June 20, 2013:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥5.00 = $0.053 per share)	**¥ 1,015**	**$ 10,792**

Ernst & Young

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Nippon Shokubai Co., Ltd.

We have audited the accompanying consolidated financial statements of Nippon Shokubai Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2013, 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 Nippon Shokubai Co., Ltd. and consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 2.

June 20, 2013
Osaka, Japan

Ernst & Young ShinNihon LLP

Corporate Data

NIPPON SHOKUBAI CO., LTD.

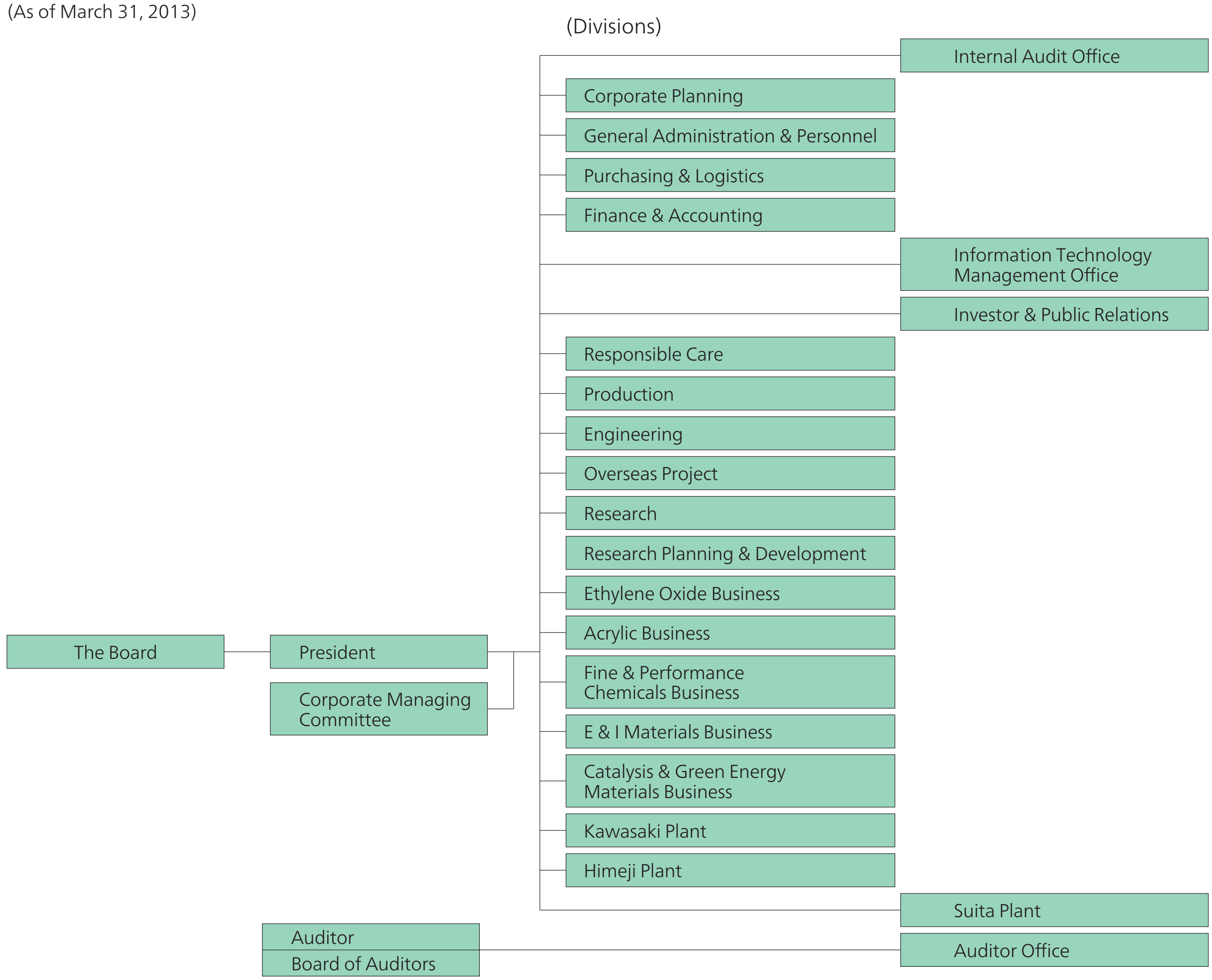
(As of March 31, 2013)

Established: 21st August, 1941
Common Stock (Paid in Capital): ¥25,038 million
Number of Shares Issued: 204 million SHS
Number of Shares Authorized: 636 million SHS
Number of Employees: 1,986 (3,938 Consolidated)
Markets listed: Tokyo Stock Exchange; Securities Code: 4114;
ADR(The Bank of New York Mellon Bank); Checker Symbol: NPSHY
Since 16th July, 2013 Osaka Stock Exchange stopped dealing common stocks

Fiscal Year Ends: 31st March
Auditors: Ernst & Young Shin Nihon LLC
Lead Managers (Securities) : Nomura Securities Co., ltd., Mizuho Securities Co., Ltd.
Stock Transfer Agency: Mitsubishi UFJ Trust and Banking Corporation
Banks: Resona Bank, Limited, Mizuho Bank, Ltd., Bank of Tokyo-Mitsubishi UFJ
Number of shareholders: 13,513

Organization Chart

(As of March 31, 2013)

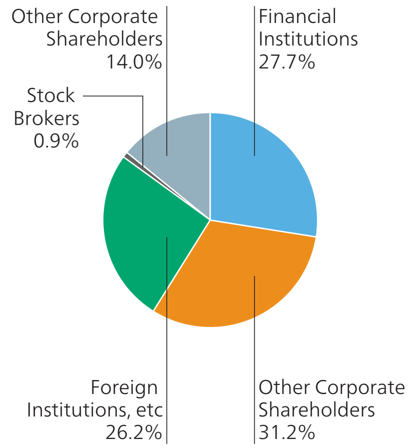


Major Shareholders

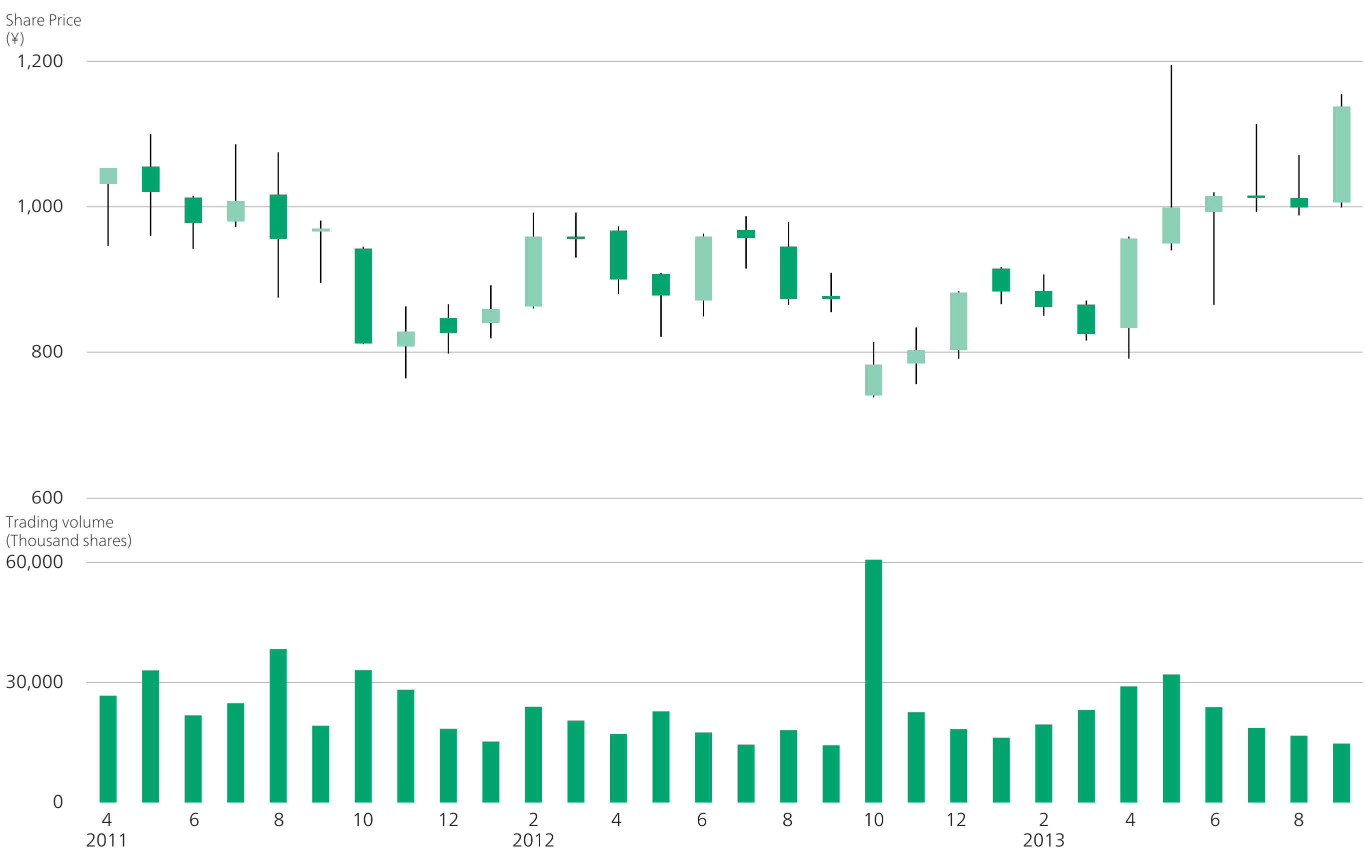
(As of March 31, 2013)

Name of Shareholders	Shareholdings	
	by Number (thousand SHS)	by Ratio(%)
Sumitomo Chemical Company, Limited	19,484	9.59
JX Holdings, Inc.	10,645	5.24
Resona Bank, Ltd.	6,867	3.38
National Mutual Insurance Federation of Agricultural Cooperatives	6,540	3.22
Sanyo Chemical Industries, Ltd.	6,338	3.12
The Master Trust Bank of Japan ,Ltd. (Trustee A/C)	5,011	2.46
Mizuho Corporate Bank, Ltd.	4,744	2.33
Japan Trustee Services Bank, Ltd. (Trustee A/C)	4,587	2.25
Toyo Ink SC Holdings Co., Ltd.	4,522	2.22
THE BANK OF NEW YORK, TREATY JASDEC ACCOUNT	3,918	1.93

1. The Company holds 1,010 thousands shares of treasury stock.
2. Shareholding ratio excludes the treasury stock.
3. Numbers are round down for above table.



Share Price and Turnover (April 2011- September 2013)



Subsidiaries & Affiliates

Japan

NIPPOH CHEMICALS CO., LTD.	Manufacture and sale of iodine, intermediates for API and agro-chemicals, and photo/electro chemicals
CHUGOKU KAKO CO., LTD.	Manufacture and sale of adhesive tapes and fine sphere particles
Nisshoku Butsuryu Co., Ltd.	Logistics of chemical products
NIPPON NYUKAZAI CO., LTD.	Manufacture and sale of surfactant and other chemicals
NIPPON POLYESTER CO., LTD.	Manufacture and sale of plastic products for construction, housing, and so on
Tokyo Fine Chemical CO., LTD.	Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze
NIHON JYORYU KOGYO CO., LTD	Manufacture and sale of polycyclic aromatic hydrocarbons, (meth)acrylic acid derivatives and photo/electro chemicals
NIPPON SHOKUBAI TRADING CO., LTD.	Sale of chemical products
NIPPON POLYMER IND. Co., Ltd.*1	Manufacture and sale of acrylic emulsions
Japan Composite Co., Ltd.*1	Manufacture and sale of unsaturated polyester resins and plastic molded materials
NS Green Co., Ltd.*2	Maintenance of green tract of land of plant site
NISSHOKU ENGINEERING SERVICE CO., LTD.*2	Design, construction, repair and maintenance of production facilities
NIHON METHACRYL MONOMER CO. LTD.*3	Manufacture and sale of MAA and MMA
CATOX Co., Ltd.*3	Development and sale of plant control systems
Umicore Shokubai Japan Co. Ltd*3	Manufacture, R&D and sale of automotive catalysts

Overseas

NA Industries, Inc.	Manufacture and sale of superabsorbent polymers, polymers for concrete admixture and water soluble polymers
SINGAPORE ACRYLIC PTE LTD	Manufacture and sale of crude acrylic acid
PT.NIPPON SHOKUBAI INDONESIA	Manufacture and sale of acrylic acid and acrylic esters
NIPPON SHOKUBAI (ASIA) PTE.LTD.	Manufacture glacial acrylic acid, Sale of chemical products
NIPPON SHOKUBAI EUROPE N.V.	Manufacture and sale of superabsorbent polymers
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD.	Manufacture and sale of superabsorbent polymers, polymers for concrete admixture
SINO-JAPAN CHEMICAL CO.,LTD*4	Manufacture and sale of surfactant and other chemicals
LG MMA Corporation*1	Manufacture and sale of MAA , MMA and PMMA
American Acryl NA,LLC*1	Management of American Acryl L.P.
American Acryl L.P.*1	Manufacture and sale of acrylic acid
NISSHOKU TRADING (SHANGHAI) CO., LTD*2	Sale of chemical products
Umicore Shokubai S.A.*3	Management of automotive catalysts business

Directory

Board of Directors and Corporate Auditors

Member of the Board, President
Masanori Ikeda

Member of the Board, Senior Managing Executive Officer
Yosuke Ogata
Yasuhito Nishii

Member of the Board, Managing Executive Officer
Haruhisa Yamamoto
Masao Yamamoto
Yojiro Takahashi

Member of the Board
Hidetoshi Nakatani
Kouichi Miura

Statutory Corporate Auditor
Shin-ichi Uchida
Masakazu Onishi
Kozo Arao
Akira Omachi

Managing Executive Officer
Hidetaka Yatagai
Koichiro Yamada

Executive Officer
Kenji Rakutani
Nobuyuki Harada
Takehiro Takashima
Takumi Hatsuda
Kin-ya Nagasuna
Yujiro Goto
Masaya Yoshida

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Advanced Materials Research Center (Suita, Himeji)

GSC Catalyst Technology Research Center (Suita, Himeji, Kawasaki, Tsukuba)

Superabsorbents Research Center (Himeji)

Fine & Specialty Chemicals Research Center (Suita, Kawasaki)

E&I Performance Materials Research Center (Suita, Himeji, Tsukuba)

Process Technology Center (Himeji, Suita)

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