Annual Report 2014

TechnoAmenity

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

NIPPON SHOKUBAI

Nippon Shokubai Group Mission:

TechnoAmenity

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

Management Commitment:

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

Corporate Credo

Safety takes priority over production.

Code of Conduct:

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 in the "Nippon Shokubai Code of Conduct."

1. Guided by Nippon Shokubai Group Mission 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 protect 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
¥302,136 million
12.1% Up

Operating income
¥13,752 million
37.0% Up

Total assets
¥398,396 million
13.1% Up

Net assets
¥242,193 million
10.0% Up

ROA
4.4%
0.5points Up

Sales increased across all segments

The recovery and resumption of operations at all Himeji plants that had ceased production as a result of the accident, and reinforced acrylic acid and superabsorbent polymers production facilities in Indonesia leading to the start of commercial production from October 2013.

The ongoing depreciation of the yen brought greater sales of export sales and sales of overseas subsidiaries as a result of foreign currency translation.

The effect of higher volumes and improved spreads
>
increased production expenses of new facilities and the recommencement of operations at Himeji Plants.

The lower technology licensing income and a decrease in equity earnings
>
improved foreign exchange income

“Gain on insurance adjustment” and “Insurance income”
<
Expenses such as “Loss on explosion and fire”, “Loss on liquidation of business” and “Income taxes”

Messages from President

To achieve the "Reborn Nippon Shokubai"

Masanori Ikeda
President

Nippon Shokubai starts its new long-term business plan for the fiscal years 2014 to 2020, entitled "Reborn Nippon Shokubai 2020," along with the medium-term business plan, which will specify an action plan for the initial three years of the period (fiscal 2014 to 2016).

We reconfirm our intention to follow our corporate credo: "Safety takes priority over production," and we are making every effort to implement the preventive/corrective measures learned from the accident that occurred at the Himeji Plant in 2012. We believe that only through these actions, will we be able to regain the confidence of stake holders as a chemical company.

We will deliver the products and services that provide affluence and comfort to people and society, and we will strive as a team to achieve the "Reborn Nippon Shokubai"— a company*) that everybody can be proud of.

*) A company that promotes work safety and peace of mind
A company that rewards people who make their best efforts and achieve results
A company that people can be proud to work for

We repositioned "**TechnoAmenity**" which was formerly our corporate mission, as the Group mission. This was done to ensure a greater focus on a coordinated group wide effort to execute the corporate social mission expressed by this Group Mission statement.

We reconfirmed "Safety takes priority over production" as our corporate credo, and we pledge to maintain an awareness of the lessons learned from the Himeji accident. With this emphasis on safety, we are now determined to ensure that a tragic accident such as the explosion and fire at the Himeji Plant never occurs again.

We are united in striving for measures to prevent the recurrence of such an accident with the aim of truly achieving "to regain the confidence of stake holders as chemical company". In April 2013, we established our Safety Reinforcement Team led by the director of the Responsible Care Division with a cross-company membership drawn from specialist departments, including the Environmental Safety Department and the Production Engineering Department. The Safety Reinforcement Team is working to (1) develop measures to prevent the recurrence of such an accident (certain implementation of risk assessment/collection, sharing and utilization of information on safety technology and enhancement of education and training); (2) strengthen the culture of safety first; and (3) verify the implementation status of safety measures (in-house verification and third-party verification by outside experts) as it promotes measures to prevent a recurrence of the accident and verifies implementation of such measures.

Special Feature

New Long-term Business Plan "Reborn Nippon Shokubai 2020" and Corresponding Medium-term Business Plan

TOKYO/OSAKA, April 17, 2014—Nippon Shokubai today announced its new long-term business plan for the fiscal years 2014 to 2020, entitled "Reborn Nippon Shokubai 2020," along with the medium-term business plan, which will specify an action plan for the initial three years of the period (fiscal 2014 to 2016).

1 Mission, Management Commitment and Corporate Credo

We repositioned "TechnoAmenity," which was formerly our corporate mission, as the Group mission. This was done to ensure a greater focus on a coordinated group wide effort to execute the corporate social mission expressed by this Group Mission statement.

We reconfirmed "Safety takes priority over production" as our corporate credo, and we pledge to maintain an awareness of the lessons learned from the Himeji accident. With this emphasis on safety, we are now determined to ensure that a tragic accident such as the explosion and fire at the Himeji Plant never occurs again.

Mission/Management Commitment

Nippon Shokubai Group Mission

TechnoAmenity

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

Management Commitment

We conduct all of our corporate activities based upon a deep respect for humanity.
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2
"Reborn Nippon Shokubai 2020," the new long-term business plan

We reassessed the long-term 2025 Vision outlined in the previous business plan and we have set the target 2020 as a milestone for the 2025 Vision.

"Reborn Nippon Shokubai 2020" is designed to ensure safe, reliable production activities. The plan also highlights profitability over sales, setting goals for strengthening existing and core businesses, establishing new businesses as soon as possible, and launching new products to the market quickly.

Vision for 2025

An innovative chemical company that provides new value for people's lives

We;

- Take on the challenge of creating new value by developing new products and business through our advanced technologies and our creativity
- Deliver the new values globally through our unique products and technologies
- Manufacture products that embody new value and feature the highest safety and productivity
- Create new value that contributes to the global environment
- Create new value by promoting dynamism and diversity in the workplace throughout all Group companies

Business Activities

a) Positioning acrylic acid (AA) and superabsorbent polymers (SAP) as its main businesses, ethylene oxide (EO) and other existing businesses will be even stronger than today. Performance chemicals, new energy materials, and/or health and medical materials will be established as the next drivers of business expansion. We will also be germinating the seeds of new businesses continuously.

b) Accelerate business development continuously throughout the global market

c) Employ our competencies in R&D, production technologies and marketing and maximize the synergy from such activities

Targets for 2020

The targets for 2020 have been set as a milestone for the 2025 Vision.

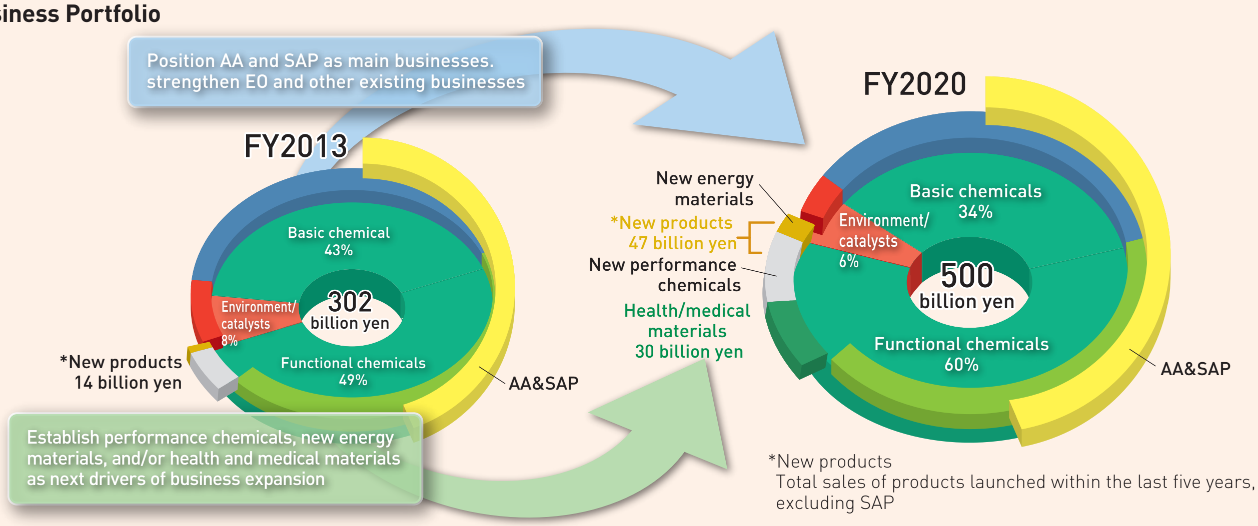
Management Indexes and Numerical Targets

(Unit: Billion yen)

	Sales	Ordinary income	ROA[1]	Sales for new products[2]
FY2020 long-term target figures	500	50	9.5%	47
FY2016 medium-term target figures	393	34	8.5%	29

1 Return of assets (ROA), ratio of ordinary income to total assets
2 Total sales of products launched within the last five years, excluding SAP
Assumptions: Domestic naphtha price 65,000 yen/kl, exchange rate 100 yen/US$, 130 yen/EUR

Business Portfolio



*New products
Total sales of products launched within the last five years, excluding SAP

Strategies by Business area

In order to meet targets for 2020, we have adopted the following basic strategies for each business area.

(1) Acrylic business

We will work to maintain its top share of the global market and world-class technologies in the superabsorbent polymers business. We also aim to be a leading global player in the acrylic monomer business. We will focus on maintaining and strengthening our competitiveness—a strength that will make sustainable growth and global business development possible.

(2) Performance chemicals business

We aim to position ourselves as a top global supplier to explore new markets and access growth markets through our original products and technologies. We will focus on expanding our line of unique chemicals, using materials created in house, to form the next mainstay of corporate profits.

(3) Ethylene oxide business

For ethylene oxide and its derivatives, we will strengthen the foundation of this core business by changing the product portfolio and entering growth markets, thereby maintaining a steady cash flow.

(4) New energy materials/catalyst business

We will position new energy-related materials as one of our next core businesses by accelerating the development and marketing of these materials. We aim to develop a material that will become the de facto standard in the new energy markets.

(5) New businesses

We will add the health and medical materials sector as a new business area that will provide growth opportunities. We will establish a new business footprint by seeking out business partnerships and/or mergers and acquisitions. In working to create our next new businesses, we will continuously survey changes in the business environment and customer needs in order to pursue potential business opportunities where we can utilize and apply our competencies.

Capital and Strategic Investment

In order to further strengthen our core products and quickly develop new businesses, we will actively pursue the following investment strategies.

	Long-Term Business Plan	
	Medium-Term Business Plan FY2014-2016	FY2017-2020
Capital investment	60 billion yen	140 billion yen
Strategic investment	50 billion yen	

In the initial three years of our long-term business plan, we will concentrate on further boosting the competitiveness of existing products. During this period, we will focus on operating all plants at a high production rate, including the new facilities that were planned and completed under the previous business plan. At the same time, we will decide on our next expansion plans.

Corporate-level challenges to be addressed for further growth

(1) Enhance the confidence of stakeholders

We will ensure that all of the safety measures are properly in place and operated effectively, and we will reinforce our operational capacity, making sure that appropriate resources are applied, promoting a safety mindset among employees, and securing a sustainable, environment-friendly supply chain. Furthermore, we recognize the importance of maintaining good communications with the stakeholders.

(2) Develop an active corporate team and organization

We believe that no sustainable growth can be made without having corporate management promote people's talent. We launched the Corporate Culture Renovation Committee in April, which will be responsible for implementing necessary actions to promote and accelerate the education of people and the renovation of corporate culture. Concurrently, we will reinforce the functions and responsibilities of each business unit, and cross-functional projects will be delegated at various work levels.

(3) Strengthen Group management

We recognize that it is even more important to strengthen the business foundations of Group companies that are operating under volatile business conditions, including increasing competition in worldwide markets. We will utilize the Group's core competencies in order to maximize the synergy of Group companies and boost corporate value.

(4) Accelerate R&D and new business development

We recognize that there can be no further growth without the development of new business and new products. Both long-term R&D, based on future needs, and shortand medium-term development focusing on commercial potential and marketability are necessary. We will always seek open innovation opportunities to cooperate with partners to develop and quickly launch new products.

Description of Business

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 acids and acrylates increased significantly, despite a slight decline in sales volume, due to the ongoing depreciation of the yen and sales prices that were revised upward in line with a rise in raw materials costs.

Sales of ethylene oxide and ethylene glycol increased substantially. In addition to higher sales volumes, this was the result of the ongoing depreciation of the yen and sales prices that were revised higher due to increased raw materials costs.

Sales of higher alcohol increased. This was on account of revisions to sales prices to reflect higher raw materials costs, despite sales volumes that were essentially flat.

Sales of ethanolamine fell due to lower sales volumes, despite sales prices that were revised upwards to keep track with higher raw materials costs.

As a result of the above, net sales in the basic chemicals segment increased 14.0% year-on-year to 129,842 million yen.

Operating income rose 55.0% year-on-year to 3,250 million yen. This was on account of an increase in sales volumes, as well as the impact of the depreciating yen and improved spreads, and it comes despite increased processing costs due to facility enhancements in Indonesia and other factors.

Functional Chemicals

Sales of superabsorbent polymers increased as the above-mentioned new facilities in Indonesia and resumption of suspended operations at a plant in the United States were able to recover to a certain extent, in terms of volume, from the impact of the suspended production that resulted from the accident at the Himeji Plant. Other contributing factors include the impact of the depreciating yen and sales prices that were revised upward in line with increased raw materials costs.

Sales of polymer for concrete admixture and special esters rose, despite reduced sales volumes on the impact of production suspension due to the Himeji Plant accident, on account of the effect of the depreciating yen and sales prices that were revised upward to reflect higher raw materials costs.

Sales of maleic anhydride, electronics information materials as well as processed adhesive products and resins for paints increased on the back of growing sales volumes.

Sales of ethyleneimine derivatives, resin modifiers and iodine compounds rose on revised sales prices, even though sales volumes decreased.

Sales of water-soluble polymers for raw materials of detergents fell due to a significant decline in sales volumes on account of the suspension of production after the accident at the Himeji Plant, though sales prices were tried to revise upward.

Sales of processed adhesive products declined because of lower sales volumes.

As a result of the above, net sales in the functional chemicals segment rose 7.2% year-on-year to 146,857 million yen.

Operating income increased 21.5% year-on-year to 8,239 million yen. Despite the increase in processing costs resulting from investment in the new facilities in Indonesia and the resumption of operations in the United States, mentioned above, there was the effect of increased production that resulted from these activities, as well as the depreciating yen and improved spreads.

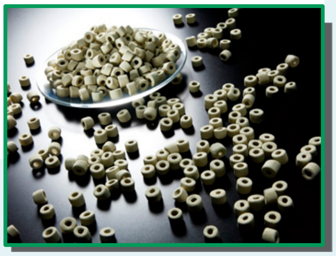
Environment & Catalysts

Sales of process catalysts, wet oxidation catalysts, De-NOx catalysts, dioxins decomposition catalysts, fuel cell materials and polymer for lithium-ion batteries increased on higher sales volumes.

Sales of automotive catalysts rose due to increased sales volumes and sale prices that were set higher in line with rising precious metals costs.

As a result, sales in the environment and catalysts segment rose 36.4% year-on-year to 25,436 million yen.

Operating income increased 42.8% to 2,044 million yen year-on-year owing to growth in sales volumes.

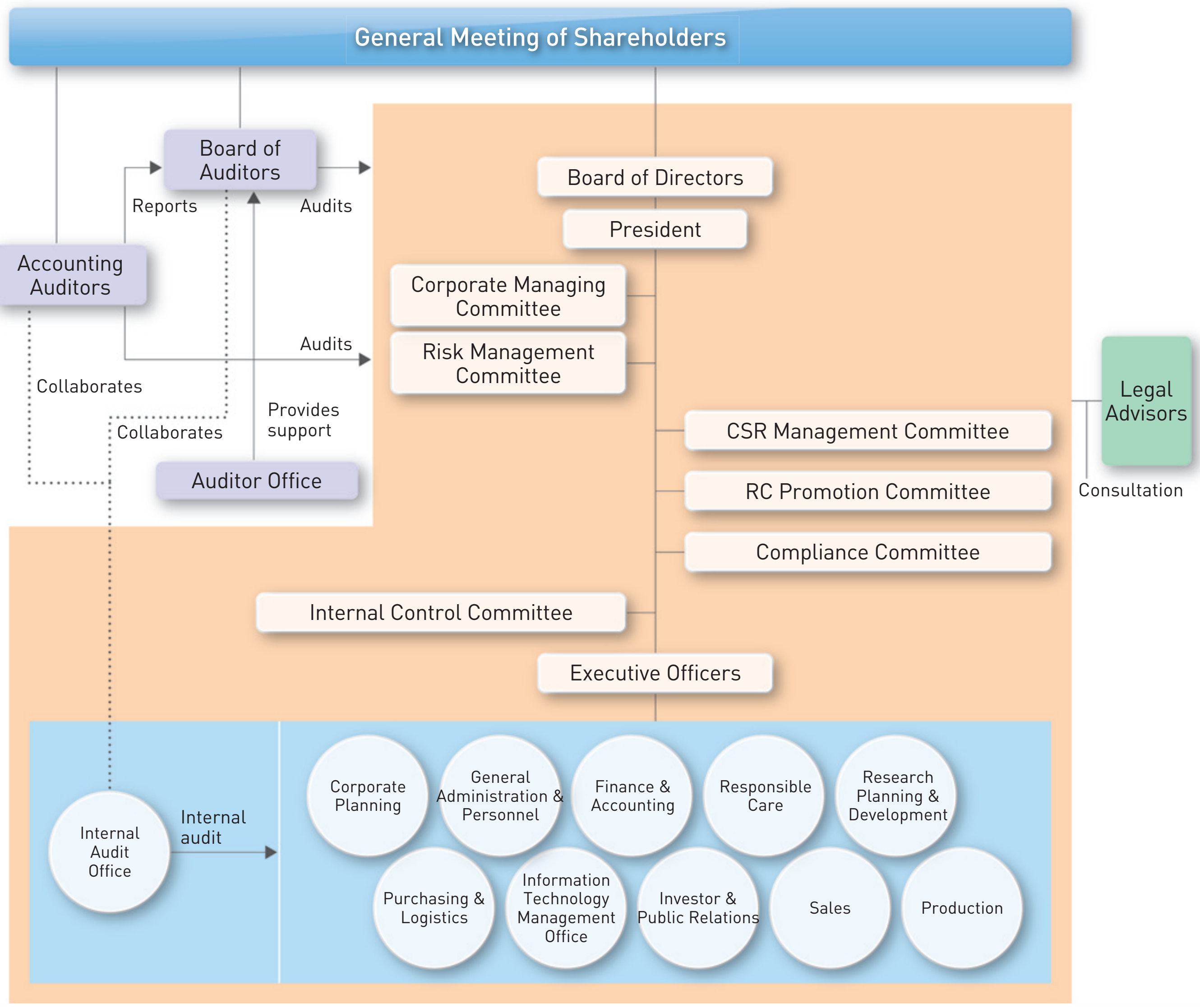


Governance System

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.

Our Corporate Governance System



Corporate Managing Committee

As an advisory body to the president, this committee deliberates on basic management policies and related matters. It also consults on the execution of important divisional matters.

RC Promotion Committee

Chaired by the president, this committee promotes the company's Responsible Care activities. It formulates the RC Promotion Basic Plan and works to further improve safety, quality, and environmental issues.

Risk Management Committee

Chaired by the president, this committee implements periodic measures in response to various wide-ranging risks to which the company is exposed.

Compliance Committee

Chaired by the president, this committee improves and strengthens the company's overall corporate ethics and systems for compliance with laws and regulations.

CSR Management Committee

Chaired by the president, this committee determines the company's CSR direction and promotes CSR initiatives that contribute to the interests of stakeholders while maintaining coordination with the other committees.

Internal Control Committee

This committee, in full operation since April 2008 under the chairmanship of the president, has established a system to ensure the reliability of financial reporting as enforced by the Financial Instruments and Exchange Act. It also seeks to process company operations more efficiently and effectively.

Outside Members of the Board and Outside Corporate Auditors

Hidetoshi Nakatani

(Outside Member of the Board)

Mr. Hidetoshi Nakatani is Councilor of Osaka Gas Co., Ltd. He attended all 13 meetings of the Board that were held during the fiscal year 2013. Due to his experience as an executive of a company that is a manufacturer and has a strong commitment to public service, he provides useful advice concerning the Company's management and supervises the Company's management from an independent perspective.

Koichi Miura

(Outside Member of the Board)

Mr. Koichi Miura is Emeritus Professor of Kyoto University, Specially Appointed Professor of Institute of Advanced Energy, Kyoto University. He attended all 9 meetings of the Board that were held during the fiscal year 2013 following his election as a Member of the Board. From his viewpoint as a specialist in chemical engineering who is familiar with the chemical industry, he provides useful advice concerning the Company's management and supervises the Company's management from an independent perspective.

Kozo Arao

(Outside Corporate Auditor)

Mr. Kozo Arao is Attorney-at-law. He attended all 13 meetings of the Board that were held during the fiscal year 2013. At these meetings, he provides his views from the perspective of an attorney as required.

Mr. Arao also attended all 13 meetings of the Corporate Auditors that were held during the fiscal year, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

Akira Omachi

(Outside Corporate Auditor)

Mr. Akira Omachi is Director and Senior Vice President of JX Holdings, Inc. He attended 12 of the 13 meetings of the Board that were held during the fiscal year 2013. At these meetings, he provides his views from the perspective of a corporate executive as required.

Mr. Omachi also attended all 13 meetings of the Corporate Auditors that were held during the fiscal year, exchanged opinions with respect to the results of audits and discussed important issues regarding such audits. Furthermore, he periodically exchanged opinions with the senior management.

CSR Based on Responsible Care Concept

CSR Concept

In accordance with the Nippon Shokubai Group Mission, **TechnoAmenity** and the Corporate Credo, "Safety takes priority over production", instituted in 1973, Nippon Shokubai established a Management Commitment and Code of Conduct to comprehensively view our corporate conduct from economic, social and environmental perspectives, setting out our corporate ethics, Responsible Care (RC), human rights and labor, information disclosure, social contribution and corporate governance as our management's top priority issues and implementing our activities to enhance our corporate value via continuing dialogue with various stakeholders, including our customers, business partners, shareholders/investors, public administration, employees and local communities.

Based on this concept of CSR, we will strive to contribute to the development of a sustainable society by implementing our long-term management plan, "Reborn Nippon Shokubai 2020," as part of our efforts to achieve our vision for 2025.

CSR Implementation Structure

CSR Management Committee	Determines overall policy for CSR initiatives.
RC Promotion Committee	Determines overall policy for RC activities and implements the PDCA cycle.
Compliance Committee	Determines comprehensive policies for corporate ethics and implements the PDCA cycle.
Disclosure Committee	Implements the PDCA cycle related to information disclosure in an effort to enhance communication with society.
CSR Promotion Office	Establishes a CSR implementation structure and implements the PDCA cycle for social contribution initiatives.

Basic Policy on Responsible Care

In conformity with our Corporate mission, Management commitment and the Nippon Shokubai Code of Conduct, we rank it as an important management measure to provide products and technologies that contribute to society and environmental protection. In addition, while paying due respect to the principle of Sustainable Development, we are determined to conduct all activities in accordance with the following policy related to environmental protection, safety and product quality that will bring our business operations into harmony with the global environment.

1. Aim at environmental protection and reduction of negative environmental impact throughout the entire life cycle of a product, from development to disposal.
2. Ensure the safety of our employees and our communities by targeting zero accidents and zero disasters with a commitment to the principle “Safety takes priority over production.”
3. Confirm the safety of chemical materials, intermediates and products, and consider the health of our customers, employees of our logistics subcontractors, our employees, and others.
4. Stably supply products and associated services that meet customer satisfaction and inspire their trust.
5. Publicly announce the results of these activities and make an effort to communicate for proper understanding.

Ten-Years Summary

	FY2004	FY2005	FY2006
Operating results			
Net sales	¥197,222	¥232,441	¥266,513
Operating income	22,212	23,228	19,429
Net income (loss)	15,705	16,257	13,988
Financial position			
Total assets	249,349	291,564	323,675
Net assets	144,660	164,631	179,368
Cash flows			
Cash flows from operating activities	22,161	17,468	16,087
Cash flows from investment activities	-16,934	-20,663	-23,109
Cash flows from financing activities	-861	-2,562	4,037
Cash and cash equivalents	24,160	19,856	16,991
Per share			
Net income (loss)	¥ 81.37	¥ 85.89	¥ 74.92
Net assets	757.72	875.00	948.34
Cash dividends	13.0	16.0	16.0
Shareholders' equity ratio (%)	58.02	56.46	54.08
ROE (%)	11.4	10.5	8.2
ROA (%)	10.1	9.7	7.4
Liquidity ratio (%)	176	156	146
PER (%)	11.92	16.29	16.98
Dividend payout ratio (%)	16.0	18.6	21.4
Market data			
Exchange rate, average (¥/$)	107.52	113.35	117.00
Naphtha price (¥/kl)	32,200	42,400	50,000
Share Price (¥) (Closing)	970	1,399	1,272
(High)	1,017	1,426	1,503
(Low)	690	851	1,152

FY2007	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2013
(Millions of yen)							(Millions of U.S. dollars)
¥302,669	¥289,102	¥244,317	¥288,345	¥320,704	¥269,520	¥302,136	$2,936
18,379	622	13,881	29,813	31,100	10,034	13,752	134
11,875	-5,307	10,832	21,119	21,257	8,401	10,503	102
352,783	302,948	310,946	329,332	356,407	352,373	398,396	3,871
175,634	151,662	163,781	194,266	209,070	220,248	242,193	2,353
20,129	17,613	44,346	31,706	43,857	27,322	16,992	165
-33,100	-16,675	-23,850	-16,696	-21,747	-31,878	-25,141	-244
17,495	8,099	-21,772	-3,050	-9,671	81	-2,519	-24
21,371	29,450	28,234	39,174	50,812	47,801	39,619	385
¥ 64.91	¥ -29.61	¥ 60.85	¥ 110.30	¥ 104.71	¥ 41.38	¥ 51.74	$ 0.5
947.34	831.11	898.33	938.67	1,006.48	1,059.85	1,164.10	11.3
16.0	15.5	14.0	22.0	22.0	16.0	16.0	0.2
48.61	48.83	51.43	57.86	57.33	61.05	59.31	—
6.9	-3.3	7.0	12.1	10.8	4.0	4.7	—
6.1	0.2	4.9	9.7	9.7	3.9	4.4	—
150	159	155	197	174	189	168	—
10.18	—	13.89	9.45	9.16	19.94	23.56	—
24.6	—	23.0	19.9	21.0	38.7	30.9	—
114.38	100.58	92.88	85.72	79.07	83.09	100.21	—
61,400	58,900	41,200	47,500	54,900	57,500	67,300	654.0
661	622	845	1,042	959	825	1219	11.8
1,316	866	920	1,047	1,100	987	1286	12.5
626	442	600	682	764	738	791	7.7

Notes: Conversions into USD are just for indication only. The exchange rate is the rate at March 31, 2014. (¥102.92 / $1.00) Figures are rounded off.

Management Discussion and Analysis of Operation

Fiscal 2013 Performance

In the current fiscal year , Japan's economy entered into a gradual recovery, despite the impact of decelerating growth in China's economic expansion and concerns about a downward swing in economies outside of Japan due to the impact of financial problems associated with indebted countries in Europe and other factors. Further monetary easing and other economic and financial policies were the backdrop for a depreciating yen that led to signs of gradual increases in production and improvements to corporate earnings, and a return of growth in consumer consumption owing to higher stock prices. In addition, economic recovery trends in the United States gained momentum.

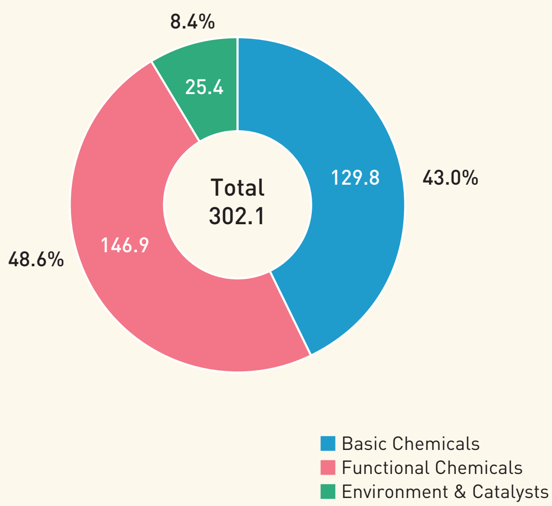
In the chemicals industry, the outlook remained unclear due to elevated raw materials costs on the back of high crude oil prices, a result of the tense situation in the Middle East, and other factors.

On September 29, 2012, an explosion and fire occurred at NIPPON SHOKUBAI's Himeji Plant. Accordingly, the Company had received orders from the relevant authority to suspend operation of all the facilities of hazardous materials in the Himeji Plant and the facilities of an affiliated company which was next to the Plant. Since November 1, 2012, the Company had received some lifts of restrictions for related facilities in the Plant from the relevant authority.

Accordingly, production of following items was started at facilities in the Plant: automotive catalysts and other catalysts, and resins for paints in November 2012; electronic information materials and resin modifiers in December 2012; maleic anhydride and polymer for concrete admixture in January 2013. Entering into the fiscal year 2013, the Company began a steady return to production. In June 2013, it once again began to produce acrylic acid and superabsorbent polymers, and in July 2013, it resumed production of special esters and water-soluble polymers for raw materials of detergents and then acrylates in August 2013.

On December 18, 2013, the Company received notification that all orders to suspend operations had been lifted. Subsequently, in February 2014, the acrylic acid plant, which had maintained the suspension until the final notification, went back online, marking the recovery and resumption of operations at all plants that had ceased production as a result of the accident.

Segment Sales
(¥billion)



Financial position

Under these conditions, the Group's consolidated net sales rose 12.1% year-on-year, to 302,136 million yen (+32,616 million yen) in the current fiscal year. The above-mentioned accident did have an impact, but other factors contributing to this result included reinforced acrylic acid production facilities in Indonesia, which also added new facilities to produce superabsorbent polymers, leading to the start of commercial production from October 2013, as well as a return to production, from December 2012 to November 2013, of superabsorbent polymers facilities in the Unites States that had been suspended operation. These and other factors helped overseas-based Group companies contribute to tapering falling sales volumes. In addition, there was the ongoing depreciation of the yen and revisions to sales prices in line with the increased costs of raw materials.

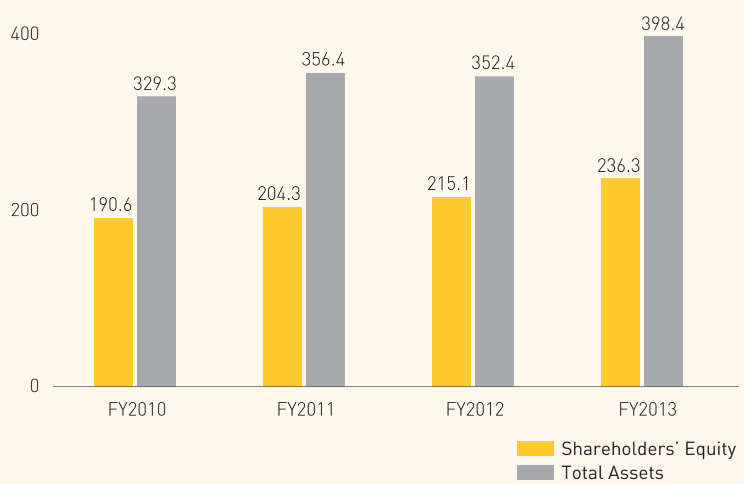
With regard to profits, operating income increased 37.0% year-on-year to 13,752 million yen (+3,718 million yen). Although the new facilities and the recommencement of operations mentioned above did lead to an increase in fixed costs, the effect of higher volumes, together with improved spreads, contributed to this result.

Ordinary income rose 20.4% year-on-year to 16,647 million yen (+2,823 million yen). This result was due to improved foreign exchange income as a result of the depreciation of the yen, and it comes despite a non-operating income decline of 894 million yen due to lower technology licensing income and a decrease in equity earnings of affiliates.

Extraordinary income and loss improved year-on-year by 384 million yen. This was the result of 11,512 million yen booked as insurance income related to the accident, while fixed costs during the plant's suspension were reclassified as "suspension fixed costs" and booked as an extraordinary loss of 12,177 million yen.

Net income rose 25.0% year-on-year to 10,503 million yen (+2,102 million yen).

Shareholders' Equity and Total Assets
(¥billion)



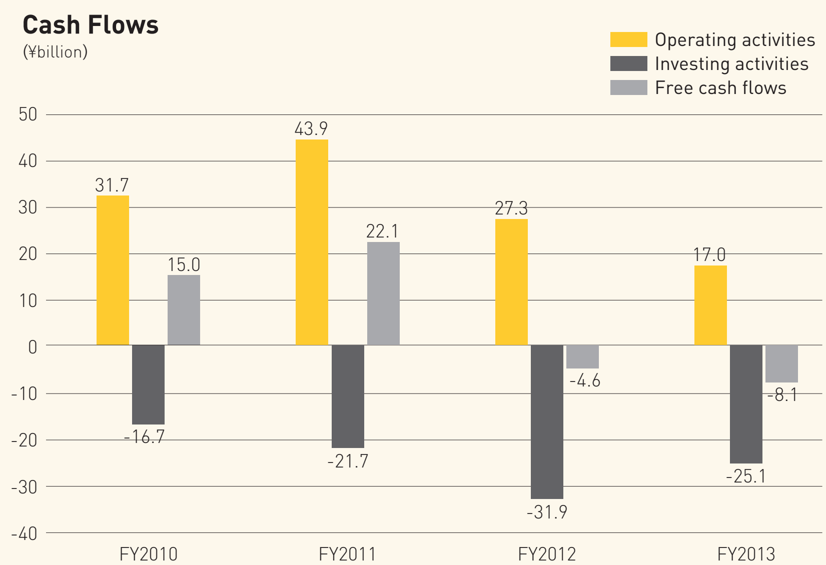
Cash Flows

Cash and cash equivalents at the end of the current fiscal year decreased by 8,182 million yen over the end of the previous fiscal year to 39,619 million yen, as cash flow used in investing activities (capital investment, etc.) and the payment of dividends and other financing activities exceeded cash flow provided by operating activities and the effect of exchange rate change on cash and cash equivalents.

Net cash provided by operating activities totaled 16,992 million yen (27,322 million yen provided in the previous fiscal year). This was due to a decline of 10,330 million yen from the previous fiscal year as a result of increased outlays associated with trade notes and accounts receivable, inventories, notes and accounts payable-trade, with accompanying the resumption of facility operations at the Himeji Plant and improved earnings before taxes, depreciation and amortization.

Net cash used in investing activities totaled 25,141 million yen (31,878 million yen used in the previous fiscal year). This was due to a decline of 6,737 million yen in outlays for the purchase of property, plant and equipment.

Net cash used in financing activities totaled 2,519 million yen (81 million yen provided in the previous fiscal year). Although there were the absenceno outlays for the redemption of bonds, lower proceeds from long-term loans payable resulted in a decline of 2,600 million yen.



Basic Policy on the Distribution of Profits, and Dividends

Nippon Shokubai has positioned the return of profits to shareholders as an important management theme, and, in consideration of the dividend payout ratio, distributes dividends under a basic policy of aiming to improve medium- to long-term dividend levels in line with projected trends in consolidated earnings, while at the same time taking an overall view to expand the business and strengthen the corporate structure. In addition to dividend distributions, the Company intends to continue stock buybacks to raise the value per share.

The Company will continue to distribute profits by taking into careful consideration a balance between the critical need to maintain competitiveness and continue growth into the future by aggressively investing in equipment, R&D and other areas, with the need to accomplish these investments, recognizing the importance of keeping on hand a sufficient level of retained earnings.

The Company pays dividends twice a year, once at the end of the interim period and once at the end of the fiscal year.

Based on the above basic policy, the Company plans to pay a year-end dividend of 8 yen per share for FY 2013, taking into consideration the business environment, earnings results and future prospects for business growth. As a result, annual dividends will total 16 yen per share for a consolidated payout ratio of 30.9%.

For FY 2014, the Company plans annual dividends of 22 yen per share, consisting of interim and year-end dividends of 11 yen each, based on the above basic policy and taking into consideration progress in achieving its forecasted profits.

Fiscal 2014 Outlook

Projected earnings in the next fiscal year are based on exchange rates of 100 yen to the U.S. dollar and 130 yen to the euro, and naphtha prices of 65,000 yen/kl. With all plants back on line and the full contributions of increased facilities at subsidiaries based outside of Japan, sales volumes are anticipated to increase, primarily in the functional chemicals segment. We therefore forecast consolidated net sales to increase 19.2% to 360,000 million yen (+57,864 million yen), with 170,000 million yen in the first half.

With regard to profits, the Company projects that anticipated higher sales volumes will lead to an increase in operating income by 89.1%, to 26,000 million yen (+12,248 million yen), with 9,500 million yen in the first half, along with growth in ordinary income of 71.2%, to 28,500 million yen (+11,853 million yen), with 10,500 million yen in the first half, and an increase in net income of 90.4%, to 20,000 million yen (+9,497 million yen), with 7,000 million yen in the first half.

Financial Statements

Consolidated Balance Sheet

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31, 2014	March 31, 2013	2014
Assets	*(Millions of yen)*		*(Thousands of U.S. dollars) (Note 2)*
Current assets:			
Cash and cash equivalents (*Note 4*)	**¥ 39,619**	¥ 47,801	**$ 384,949**
Time deposits (*Notes 4 and 9*)	**3,636**	2,046	**35,328**
Notes and accounts receivable (*Notes 3 and 4*):			
Unconsolidated subsidiaries and affiliates	**6,544**	6,382	**63,583**
Trade	**63,420**	46,197	**616,207**
Allowance for doubtful receivables	**(192)**	(49)	**(1,866)**
Inventories (*Note 6*)	**58,624**	42,209	**569,607**
Deferred income taxes (*Note 11*)	**4,377**	2,918	**42,528**
Other current assets (*Note 7*)	**10,315**	11,548	**100,225**
Total current assets	**186,343**	159,052	**1,810,561**
Property, plant and equipment, at cost (*Notes 8, 9 and 22*):			
Land	**32,392**	32,396	**314,730**
Buildings and structures	**94,610**	87,770	**919,258**
Machinery and equipment	**357,052**	313,622	**3,469,219**
Construction in progress	**8,657**	25,321	**84,114**
Leased assets	**711**	616	**6,908**
Accumulated depreciation	**(341,284)**	(321,224)	**(3,316,012)**
Property, plant and equipment, net	**152,138**	138,501	**1,478,217**
Investments and other assets:			
Investments in securities (*Notes 4 and 5*)	**25,292**	22,536	**245,744**
Investments in unconsolidated subsidiaries and affiliates	**22,924**	19,545	**222,736**
Deferred income taxes (*Note 11*)	**2,458**	3,793	**23,883**
Prepaid pension cost (*Note 10*)	**–**	3,538	**–**
Asset for retirement benefits (*Note 10*)	**2,507**	–	**24,359**
Other assets (*Notes 9*)	**6,734**	5,408	**65,429**
Total investments and other assets	**59,915**	54,820	**582,151**
Total assets	**¥ 398,396**	¥ 352,373	**$ 3,870,929**

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	March 31, 2014	2013	2014
Liabilities and Net Assets	*(Millions of yen)*		*(Thousands of U.S. dollars) (Note 2)*
Current liabilities:			
Short-term bank loans (*Notes 4 and 9*)	¥ 17,604	¥ 14,533	$ 171,045
Current portion of long-term debt (*Notes 4 and 9*)	18,028	14,080	175,165
Notes and accounts payable (*Notes 3 and 4*):			
Unconsolidated subsidiaries and affiliates	5,444	4,488	52,895
Trade	47,323	34,927	459,804
Lease obligations (*Notes 9*)	30	36	291
Accrued income taxes (*Note 11*)	3,917	751	38,059
Accrued bonuses to employees	2,639	2,597	25,641
Accrued bonuses to directors and corporate auditors	125	23	1,215
Reserve for periodic repairs	2,845	2,680	27,643
Reserve for loss on disaster	–	45	–
Other current liabilities	13,182	10,048	128,081
Total current liabilities	111,137	84,208	1,079,839
Long-term liabilities:			
Long-term debt (*Notes 4 and 9*)	32,716	36,060	317,878
Lease obligations (*Notes 9*)	175	164	1,700
Deferred income taxes (*Note 11*)	284	222	2,759
Accrued retirement benefits for employees (*Note 10*)	–	10,418	–
Liability for retirement benefits (*Note 10*)	10,800	–	104,936
Other	1,091	1,053	10,601
Total long-term liabilities	45,066	47,917	437,874
Contingent liabilities (*Note 19*)			
Net assets:			
Shareholders' equity (*Note 12*):			
Common stock:			
Authorized – 636,000,000 shares			
Issued – 204,000,000 shares in 2014 and 2013	25,038	25,038	243,276
Capital surplus	22,083	22,083	214,565
Retained earnings	180,240	172,375	1,751,263
Less treasury stock, at cost	(924)	(897)	(8,978)
Total shareholders' equity	226,437	218,599	2,200,126
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	4,454	2,846	43,276
Translation adjustments	6,344	(6,309)	61,641
Net unrealized deferred gain on hedges	9	1	87
Retirement benefit liability adjustments	(970)	–	(9,425)
Total accumulated other comprehensive income (loss), net	9,837	(3,462)	95,579
Minority interests	5,919	5,111	57,511
Total net assets	242,193	220,248	2,353,216
Total liabilities and net assets	¥ 398,396	¥ 352,373	$ 3,870,929

See accompanying notes to consolidated financial statements.

Consolidated Statement of Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Net sales (*Note 22*)	**¥ 302,136**	¥ 269,520	**$ 2,935,639**
Cost of sales (*Note 13*)	**253,181**	224,901	**2,459,978**
Gross profit	**48,955**	44,619	**475,661**
Selling, general and administrative expenses (*Note 13*)	**35,203**	34,585	**342,043**
Operating income (*Note 22*)	**13,752**	10,034	**133,618**
Other income (expenses):			
Interest and dividend income	**1,031**	1,032	**10,017**
Interest expense	**(599)**	(674)	**(5,820)**
Royalty income	**369**	1,291	**3,585**
Equity in earnings of an unconsolidated subsidiary and affiliates	**1,105**	1,371	**10,736**
Loss on impairment of property and equipment (*Notes 8 and 22*)	**(394)**	(89)	**(3,828)**
Rent income from real estate	**1,112**	1,066	**10,805**
Gain on insurance claims (*Note 14*)	**9,179**	8,231	**89,186**
Gain on insurance adjustment	**2,275**	–	**22,105**
Loss on reduction of property, plant and equipment	**(2,128)**	(47)	**(20,676)**
Loss on disposal of property, plant and equipment	**(64)**	(20)	**(622)**
Loss on discontinued operations (*Note 16*)	**(867)**	–	**(8,424)**
Loss on devaluation of investments in unconsolidated subsidiaries and affiliates	**–**	(264)	**–**
Loss on explosion and fire accident (*Note 15*)	**(8,323)**	(8,882)	**(80,869)**
Loss on cancellation of retirement benefit trust	**(414)**	–	**(4,023)**
Loss on devaluation of investments in an unconsolidated subsidiary	**(50)**	–	**(486)**
Other, net	**(2)**	(274)	**(18)**
Income before income taxes and minority interests	**15,982**	12,775	**155,286**
Income taxes (*Note 11*):			
Current	**5,489**	3,343	**53,333**
Deferred	**(373)**	872	**(3,624)**
	5,116	4,215	**49,709**
Income before minority interests	**10,866**	8,560	**105,577**
Minority interests	**(363)**	(159)	**(3,527)**
Net income	**¥ 10,503**	¥ 8,401	**$ 102,050**

See accompanying notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31,		
	2014	2013	**2014**
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Income before minority interests	**¥ 10,866**	¥ 8,560	**$ 105,577**
Other comprehensive income			
Net unrealized holding gain on securities	**1,602**	1,486	**15,565**
Net unrealized deferred gain on hedges	**8**	3	**78**
Translation adjustments	**10,736**	3,911	**104,314**
Other comprehensive income of equity method affiliates attributable to the Company	**2,301**	1,736	**22,357**
Total other comprehensive income (Note 17):	**14,647**	7,136	**142,314**
Comprehensive income	**¥ 25,513**	¥ 15,696	**$ 247,891**
Comprehensive income attributable to:			
Shareholders of the Company	**¥ 24,663**	¥ 15,297	**$ 239,633**
Minority interests	**850**	399	**8,258**

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, 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	–	–	–	–	–
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	Retirement benefit liability adjustments	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	–	–	–	–	–	–	–
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

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, 2013	¥ 25,038	¥ 22,083	¥ 172,375	¥ (897)	¥ 218,599
Changes during the year:					
Cash dividends	–	–	(2,638)	–	(2,638)
Net income	–	–	10,503	–	10,503
Purchases of treasury stock	–	–	–	(30)	(30)
Disposition of treasury stock	–	0	–	3	3
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	0	7,865	(27)	7,838
Balance at March 31, 2014	¥ 25,038	¥ 22,083	¥ 180,240	¥ (924)	¥ 226,437

	Accumulated other comprehensive income (loss)						
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Minority interests	Total net assets
				(Millions of yen)			
Balance at April 1, 2013	¥ 2,846	¥ (6,309)	¥ 1	¥ –	¥ (3,462)	¥ 5,111	¥ 220,248
Changes during the year:							
Cash dividends	–	–	–	–	–	–	(2,638)
Net income	–	–	–	–	–	–	10,503
Purchases of treasury stock	–	–	–	–	–	–	(30)
Disposition of treasury stock	–	–	–	–	–	–	3
Net changes in items other than shareholders' equity	1,608	12,653	8	(970)	13,299	808	14,107
Total changes during the year	1,608	12,653	8	(970)	13,299	808	21,945
Balance at March 31, 2014	¥ 4,454	¥ 6,344	¥ 9	¥ (970)	¥ 9,837	¥ 5,919	¥ 242,193

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	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, 2013	$ 243,276	$ 214,565	$1,674,845	$ (8,716)	$2,123,970
Changes during the year:					
Cash dividends	–	–	(25,632)	–	(25,632)
Net income	–	–	102,050	–	102,050
Purchases of treasury stock	–	–	–	(291)	(291)
Disposition of treasury stock	–	0	–	29	29
Net changes in items other than shareholders' equity	–	–	–	–	–
Total changes during the year	–	0	76,418	(262)	76,156
Balance at March 31, 2014	$ 243,276	$ 214,565	$1,751,263	$ (8,978)	$2,200,126

	Accumulated other comprehensive income (loss)						
	Net unrealized holding gain on securities	Translation adjustments	Net unrealized deferred gain on hedges	Retirement benefit liability adjustments	Total accumulated other comprehensive loss, net	Minority interests	Total net assets
	(Thousands of U.S. dollars) (Note 2)						
Balance at April 1, 2013	$ 27,652	$ (61,299)	$ 9	$ –	$ (33,638)	$ 49,660	$2,139,992
Changes during the year:							
Cash dividends	–	–	–	–	–	–	(25,632)
Net income	–	–	–	–	–	–	102,050
Purchases of treasury stock	–	–	–	–	–	–	(291)
Disposition of treasury stock	–	–	–	–	–	–	29
Net changes in items other than shareholders' equity	15,624	122,940	78	(9,425)	129,217	7,851	137,068
Total changes during the year	15,624	122,940	78	(9,425)	129,217	7,851	213,224
Balance at March 31, 2014	$ 43,276	$ 61,641	$ 87	$ (9,425)	$ 95,579	$ 57,511	$2,353,216

See accompanying notes to consolidated financial statements.

Consolidated Statement of Cash Flows

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Year ended March 31, 2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars) (Note 2)
Operating activities:			
Income before income taxes and minority interests	¥ 15,982	¥ 12,775	$ 155,286
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	16,995	15,402	165,128
Loss on devaluation of investments in an unconsolidated subsidiary	50	–	486
Loss on devaluation of investments in unconsolidated subsidiaries and affiliates	–	264	–
Loss on reduction of property, plant and equipment	2,128	47	20,676
Loss on discontinued operations	725	–	7,044
Loss on impairment of property, plant and equipment	394	89	3,828
Gain on insurance claims	(9,192)	(8,231)	(89,312)
Gain on insurance adjustment	(2,275)	–	(22,105)
Increase in accrued retirement benefits for employees	–	157	–
Increase in liability for retirement benefits, net	232	–	2,254
Interest and dividend income	(1,031)	(1,032)	(10,017)
Interest expense	599	674	5,820
Equity in earnings of an unconsolidated subsidiary and affiliates	(1,105)	(1,371)	(10,736)
Loss on disposal of property, plant and equipment	64	23	622
Other, net	(2,441)	(5,544)	(23,717)
Changes in operating assets and liabilities:			
Notes and accounts receivable	(16,215)	26,919	(157,550)
Inventories	(14,393)	3,030	(139,846)
Notes and accounts payable	12,386	(14,869)	120,346
Other current liabilities	(657)	(269)	(6,384)
Subtotal	2,246	28,064	21,823
Interest and dividends received	1,953	2,799	18,976
Interest paid	(614)	(691)	(5,966)
Proceeds from insurance claims	14,639	8,231	142,237
Payment of income taxes	(1,226)	(11,081)	(11,913)
Payment for liquidation of business	(6)	–	(58)
Net cash provided by operating activities	16,992	27,322	165,099
Investing activities:			
Purchases of property, plant and equipment	(22,395)	(29,382)	(217,596)
Proceeds from sales of property, plant and equipment	109	12	1,059
Purchase of intangible assets	(933)	(239)	(9,065)
Purchases of investments in securities	(742)	(521)	(7,209)
Proceeds from sales of investments in securities	328	216	3,187
Payments for purchases of shares of affiliates	(9)	(984)	(87)
Initiation of loans receivable	(600)	(1,299)	(5,830)
Collection of loans receivable	184	177	1,788
Other, net	(1,084)	142	(10,533)
Net cash used in investing activities	¥ (25,142)	¥ (31,878)	$ (244,286)

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

	Years ended March 31, 2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars) (Note 2)*
Financing activities:			
Increase (Decrease) in short-term bank loans, net	**¥ 2,918**	¥ (299)	**$ 28,352**
Proceeds from long-term debt	**11,400**	19,687	**110,766**
Repayment of long-term debt	**(14,100)**	(9,743)	**(137,000)**
Repayments of bonds	**–**	(5,000)	**–**
Cash dividends paid	**(2,639)**	(4,467)	**(25,641)**
Proceeds from sales of treasury stock	**3**	–	**29**
Purchases of treasury stock	**(30)**	(7)	**(291)**
Other, net	**(71)**	(90)	**(690)**
Net cash (used in) provided by financing activities	**(2,519)**	81	**(24,475)**
Effect of exchange rate changes on cash and cash equivalents	**2,487**	1,464	**24,163**
Decrease in cash and cash equivalents	**(8,182)**	(3,011)	**(79,499)**
Cash and cash equivalents at beginning of year	**47,801**	50,812	**464,448**
Cash and cash equivalents at end of year	**¥ 39,619**	¥ 47,801	**$ 384,949**

Notes to Consolidated Financial Statements

Nippon Shokubai Co., Ltd. and Consolidated Subsidiaries

March 31, 2014

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.

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassifications had no effect on consolidated net income or net assets.

(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, 2014 and 2013.

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) 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) Retirement benefits

The liability for retirement benefits is provided based on the retirement benefit obligation reduced by the pension plan assets at fair value at the end of the year.

The retirement benefits are attributed to periods corresponding to the service years of eligible employees based on the straight-line method.

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

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

(q) 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).

(r) 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.

(s) Change in Accounting Policy

Accounting Standard for Retirement Benefits

Effective March 31, 2014, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012), except provisions set forth in paragraph 35 of ASBJ Statement No. 26 and paragraph 67 of ASBJ Guidance No. 25.

In accordance with the adoption, the retirement benefit obligations after the fair value of the pension plan assets are deducted, actuarial gains and losses and prior service costs that have yet to be recognized in profit or loss are recorded as "Liability for retirement benefits."

The adoption of these standards follows transitional provisions set forth in paragraph 37 of ASBJ Statement No. 26, and the effect of this change is included in accumulated other comprehensive income (loss) as "Retirement benefit liability adjustments."

As a result of this change, accumulated other comprehensive income decreased by ¥817 million ($7,938 thousand) and net assets per share decreased by ¥4.03 ($0.04) as of March 31, 2014 from the corresponding amounts which would have been decreased recorded under the previous method.

(t) Accounting standards issued but not yet effective

(Accounting Standard for Retirement Benefits)

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

(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.

(2) Planned date of adoption

The revised accounting standard and guidance for the accounting for unrecognized actuarial gains or losses and unrecognized prior service costs and enhancement of disclosures were adopted as of the end of the fiscal year ended March 31, 2014. However, revisions to the calculation methods for the retirement benefit obligation and service costs are scheduled to be adopted from the beginning of the fiscal year ending March 31, 2015.

(3) Effect of adoption of these accounting standards

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

(Accounting Standards for Business Combinations)

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

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised. In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and transitional provisions for these accounting standards were also defined.

The Company expects to adopt these revised accounting standards and guidance from the beginning of the fiscal year ending March 31, 2016.

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 ¥102.92 = U.S. $1.00, the approximate rate of exchange in effect on March 31, 2014. 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 date for the year ended March 31, 2013 fell on a bank holiday. Consequently, notes receivable, trade of ¥178 million, notes payable, trade of ¥152 million and notes payable of ¥110 million included in other current liabilities with maturity dates of March 31, 2013 were included in the respective balances in the consolidated balance sheet at March 31, 2013 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 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 or loss on financial instruments at March 31, 2014 and 2013 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.

	2014			2013		
	(Millions of yen)					
	Carrying value	Fair value	Unrealized loss	Carrying value	Fair value	Unrealized gain
Assets:						
i) Cash and cash equivalents, and time deposits	**¥ 43,255**	**¥ 43,255**	**¥ –**	¥ 49,847	¥ 49,847	¥ –
ii) Notes and accounts receivable	**69,964**	**69,964**	**–**	52,579	52,579	–
iii) Investments in securities:						
Other securities	**24,667**	**24,667**	**–**	21,831	21,831	–
Total assets	**¥ 137,886**	**¥ 137,886**	**¥ –**	¥ 124,257	¥ 124,257	¥ –
Liabilities:						
iv) Notes and accounts payable	**¥ 52,767**	**¥ 52,767**	**¥ –**	¥ 39,415	¥ 39,415	¥ –
v) Short-term bank loans	**17,604**	**17,604**	**–**	14,533	14,533	–
vi) Current portion of long-term loans	**8,028**	**8,006**	**(22)**	14,080	14,154	74
vii) Long-term loans	**32,716**	**32,637**	**(79)**	26,060	26,090	30
Total liabilities	**¥ 111,115**	**¥ 111,014**	**¥ (101)**	¥ 94,088	¥ 94,192	¥ 104
Derivatives	**¥ 14**	**¥ 14**	**¥ –**	¥ 1	¥ 1	¥ –

	2014		
	(Thousands of U.S. dollars)		
	Carrying value	Fair value	Unrealized loss
Assets:			
i) Cash and cash equivalents, and time deposits	**$ 420,277**	**$ 420,277**	**$ –**
ii) Notes and accounts receivable	**679,790**	**679,790**	**–**
iii) Investments in securities:			
Other securities	**239,672**	**239,672**	**–**
Total assets	**$1,339,739**	**$1,339,739**	**$ –**

	2014		
	(Thousands of U.S. dollars)		
	Carrying value	Fair value	Unrealized loss
Liabilities:			
iv) Notes and accounts payable	**$ 512,699**	**$ 512,699**	**$ –**
v) Short-term bank loans	**171,045**	**171,045**	**–**
vi) Current portion of long-term loans	**78,002**	**77,789**	**(213)**
vii) Long-term loans	**317,878**	**317,110**	**(768)**
Total liabilities	**$1,079,624**	**$1,078,643**	**$ (981)**
Derivatives	**$ 136**	**$ 136**	**$ –**

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, 2014 and 2013 are presented as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Unlisted securities and other	**¥ 625**	¥ 705	**$ 6,073**

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 with maturity dates as of March 31, 2014 and 2013 is as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
	Due within one year	Due within one year	Due within one year
Cash and cash equivalents, and time deposits	¥ 43,255	¥ 49,847	$ 420,277
Notes and accounts receivable	69,964	52,579	679,790
	¥ 113,219	¥ 102,426	$ 1,100,067

5. Investments in Securities

Marketable securities classified as other securities at March 31, 2014 and 2013 are summarized as follows:

	2014			2013		
	(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	¥ 18,191	¥ 11,131	¥ 7,060	¥ 15,297	¥ 9,315	¥ 5,982
Subtotal	18,191	11,131	7,060	15,927	9,315	5,982
Securities whose cost exceeds their fair market value:						
Equity securities	6,476	6,933	(457)	6,534	8,242	(1,708)
Subtotal	6,476	6,933	(457)	6,534	8,242	(1,708)
Total	¥ 24,667	¥ 18,064	¥ 6,603	¥ 21,831	¥ 17,557	¥ 4,274

	2014		
	(Thousands of U.S. dollars)		
	Book value (fair market value)	Cost	Unrealized gain (loss)
Securities whose fair market value exceeds their cost:			
Equity securities	$ 176,749	$ 108,152	$ 68,597
Subtotal	176,749	108,152	68,597
Securities whose cost exceeds their fair market value:			
Equity securities	62,923	67,363	(4,440)
Subtotal	62,923	67,363	(4,440)
Total	$ 239,672	$ 175,515	$ 64,157

Sales of other securities for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Proceeds	¥ 93	¥ 2	$ 904
Gross realized loss	¥ –	¥ 0	$ –

6. Inventories

Inventories at March 31, 2014 and 2013 were as follows:

	2014	2013	**2014**
	(Millions of yen)		(Thousands of U.S. dollars)
Merchandise and finished goods	**¥ 35,455**	¥ 21,468	**$ 344,491**
Raw materials	**11,623**	9,618	**112,932**
Work in process	**6,738**	7,170	**65,468**
Supplies	**4,808**	3,953	**46,716**
Total	**¥ 58,624**	¥ 42,209	**$ 569,607**

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, 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, 2014, market value of equipment used to manufacture polymers for concrete admixture in at a plant in China had decreased significantly in line with decrease in market demand, and a loss on impairment of property and equipment was recognized. 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 ¥394 million ($3,828 thousand).

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.

Details of the loss on impairment of property and equipment for the years ended March 31, 2014 and 2013 are summarized as follows:

2014

Company	Application	Classification	(Millions of yen)	(Thousands of U.S. dollars)
Nisshoku Chemical Industry Co., Ltd.	Equipment to manufacture polymers for concrete admixture	Machinery and equipment, construction in progress, buildings and structures	**¥ 394**	**$ 3,828**
Total			**¥ 394**	**$ 3,828**

2013

Company	Application	Classification	(Millions of yen)
Nippon Shokubai Co., Ltd.	Electronic device manufacturing equipment	Machinery	¥ 89
Total			¥ 89

9. Short-Term Bank Loans, Long-Term Debt and Lease Obligations

Short-term bank loans consisted mainly of unsecured loans. The average interest rates on short-term bank loans outstanding at March 31, 2014 and 2013 were 0.67% and 0.71%, respectively.

Long-term debt and lease obligations at March 31, 2014 and 2013 consisted of the following:

	2014	2013	2014
	(Millions of yen)		*(Thousands of U.S. dollars)*
Unsecured bonds payable in Japanese yen, at rate of 1.66%, due through 2014	¥ 10,000	¥ 10,000	$ 97,163
Unsecured loans from banks and insurance companies, payable in Japanese yen, at rates from 0.40% to 2.03%, due through 2019	15,337	24,709	149,018
Unsecured loans from banks, payable in U.S. dollars, at rates from 0.61% to 1.52%, due through 2020	25,294	15,152	245,764
Unsecured loans from banks, payable in Chinese yuan, at rates from 5.54% to 5.65%, due through 2013	–	49	–
Secured loans from banks payable in Japanese yen, at rates from 1.24% to 1.55%, due through 2016	113	230	1,098
Lease obligations	205	200	1,991
Subtotal	50,949	50,340	495,034
Less current portion	(18,058)	(14,116)	(175,456)
Total	¥ 32,891	¥ 36,224	$ 319,578

The aggregate annual maturities of long-term debt subsequent to March 31, 2014 are summarized below:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2015	¥ 18,028	$ 175,165
2016	6,821	66,275
2017	7,280	70,735
2018	10,745	104,401
2019 and thereafter	7,870	76,467
	¥ 50,744	$ 493,043

The aggregate annual maturities of lease obligations to March 31, 2014 are summarized below:

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2015	¥ 30	$ 291
2016	30	291
2017	29	282
2018	29	282
2019 and thereafter	87	845
	¥ 205	$ 1,991

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, 2014 and 2013 were as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Time deposits	¥ 8	¥ –	$ 78
Land	533	533	5,179
Buildings and structures	102	119	991
Machinery and equipment	199	214	1,934
Other assets	4	12	39
Total	¥ 846	¥ 878	$ 8,221

10. Retirement Benefits

(1) Outline of Retirement Benefit Plans

Employees of the Company and consolidated subsidiaries are mainly covered by funded and unfunded defined benefit plans and defined contribution pension plans to provide for retirement benefits. In funded defined benefit corporate pension plans, lump-sum payments or pensions at retirement based on salary and length of service are paid. In unfunded lump-sum payments plan, lump-sum payments based on salary and length of service are paid as retirement benefit. However, the Company has a cash balance plan for a defined benefit pension plan and retirement lump-sum plan. Under the cash balance plan, each eligible employee has a hypothetical account, which is equivalent to the funded amount as the basis for the pension payment. The hypothetical accounts accumulate contribution credits based on salary level and interest credits based on market interest trends.

Certain defined benefit corporate pension plans adopt an employees' retirement benefit trust. During the year ended March 31, 2014, the Company contributed all assets in the employees' retirement benefit trust to the corporate pension fund and cancelled the employees' retirement benefit of the Company since the objective of the trust was achieved.

Certain consolidated subsidiaries calculate the retirement benefit obligations and retirement benefit expenses for their defined benefit corporate pension plans and lump-sum payments plans based on the amount which would be payable at the year-end if all eligible employees terminated their services voluntarily ("the simplified method").

Certain consolidated subsidiaries participate in a multi-employer pension plan. Since the portion of pension assets of the consolidated subsidiaries held in the multi-employer pension plan could not be reasonably calculated, the required contribution amount is recognized as retirement benefit expense.

(2) For the year ended March 31, 2014

Information on defined benefit pension plans for the year ended March 31, 2014 is as follows:
The change in retirement benefit obligation is outlined as follows (excluding plans to which the simplified method is applied):

	Millions of yen	Thousands of U.S. dollars
	2014	
Retirement benefit obligation at April 1, 2013	¥ 32,096	$ 311,854
Service cost	1,362	13,234
Interest cost	613	5,956
Actuarial gain	29	282
Benefits paid	(1,828)	(17,761)
Prior service cost	87	845
Other	(6)	(59)
Retirement benefit obligation at March 31, 2014	¥ 32,353	$ 314,351

The change in plan assets at fair value is outlined as follows (excluding plans to which the simplified method is applied):

	Millions of yen	Thousands of U.S. dollars
	2014	
Plan assets at fair value at April 1, 2013	¥ 23,693	$ 230,208
Expected return on plan assets	658	6,393
Actuarial gain	759	7,375
Contributions by the employer	1,149	11,164
Benefits paid	(1,185)	(11,514)
Plan assets at fair value at March 31, 2014	¥ 25,074	$ 243,626

The change in liabilities for retirement benefits calculated by the simplified method is outlined as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	
Liabilities for retirement benefits at April 1, 2013	¥ 1,097	$ 10,659
Retirement benefit expenses	84	816
Benefits paid	(108)	(1,049)
Other	(58)	(564)
Liabilities for retirement benefits at March 31, 2014	¥ 1,015	$ 9,862

The reconciliation of the ending balance of the retirement benefit obligation and plan assets to the asset and liability for retirement benefits recognized in the consolidated balance sheet is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	
Funded retirement benefit obligation	¥ 23,792	$ 231,170
Plan assets at fair value	(25,847)	(251,137)
	(2,055)	(19,967)
Unfunded retirement benefit obligation	10,348	100,544
Net amount of liabilities and assets recognized in consolidated balance sheet	8,293	80,577
Liability for retirement benefits	10,800	104,936
Asset for retirement benefits	(2,507)	(24,359)
Net amount of liabilities and assets recognized in consolidated balance sheet	¥ (8,293)	$ (80,577)

Retirement benefit calculated by the simplified method is included in the above table.

The components of retirement benefit expenses for the year ended March 31, 2014 are outlined as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2014	
Service cost	**¥ 1,362**	**$ 13,234**
Interest cost	**613**	**5,956**
Expected return on plan assets	**(658)**	**(6,393)**
Amortization:		
Actuarial loss	**224**	**2,176**
Past service cost	**17**	**165**
Retirement benefit expenses calculated by simplified method	**84**	**816**
Retirement benefit expenses	**¥ 1,642**	**$ 15,954**

Loss on cancellation of the employees' retirement benefit trust of ¥414 million ($4,023 thousand) is not included in the above table and is recorded as an extraordinary loss in the consolidated statement of income for the year ended March 31, 2014.

Retirement benefit liability adjustments included in accumulated other comprehensive income, before the tax effect, are outlined as follows:

	Millions of yen	*Thousands of U.S. dollars*
	2014	
Unrecognized past service cost	**¥ 84**	**$ 816**
Unrecognized actuarial loss	**1,243**	**12,077**
Total	**¥ 1,327**	**$ 12,893**

The breakdown of plan assets by major category is as follows:

	2014
Bonds	**44%**
Equities	**35%**
General accounts	**2%**
Other	**19%**
Total	**100%**

(Note) The breakdown of plan assets in the above table is determined based on the percentage of composition of the various assets in the pension fund. Bonds include alternative investments that are approximately the same as bonds in terms of level of risk.

(Note) A portion of pension assets (0.4%) is in a retirement benefit trust.

The expected long-term rate of return on plan assets is determined as a result of consideration of both the portfolio allocation at present and in the future, and long-term expected rates of return from multiple plan assets at present and in the future.

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2014 are as follows:

	2014
Discount rate	**Principally 1.9%**
Expected long-term rate of return on plan assets	**Principally 3.0%**

The required contributions to defined contribution pension plans for the year ended March 31, 2014 amounted to ¥219 million ($2,128 thousand).

The following table sets forth the status of the multi-employer pension plan at March 31, 2013, the most recent date on which such data was available:

	Millions of yen	*Thousands of U.S. dollars*
Plan assets	**¥ 465,230**	**$ 4,520,307**
Benefit obligation calculated under pension financing	**497,125**	**4,830,208**
Difference	**¥ (31,895)**	**$ (309,901)**

The contribution ratio of the Company and consolidated subsidiaries to the multi-employer plan was 0.5% at March 31, 2014. This percentage is not the same as the Company and consolidated subsidiaries' percentage of obligation.

Additional information
The difference of ¥31,895 million ($309,901 thousand) in the above table is the net amount of the balance of prior service cost of ¥49,514 million ($481,092 thousand) calculated under pension financing and the surplus of the plan of ¥17,618 million ($171,182 thousand) at March 31, 2013. Prior service cost is amortized on a straight-line basis over 9 years as of April 1, 2013, and the Company and consolidated subsidiaries expensed additional payments in the amount of ¥28 million ($272 thousand) for amortization of prior service cost.

(3) For the year ended March 31, 2013

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

	2013
	(Millions of yen)
Retirement benefit obligation at end of year	¥ (33,898)
Fair value of plan assets at end of year	24,394
Unfunded retirement benefit obligation	(9,504)
Unrecognized actuarial loss	2,611
Unrecognized prior service cost	13
Net retirement benefit obligation	(6,880)
Prepaid pension cost	3,538
Accrued retirement benefits	¥ (10,418)

(Note) Certain consolidated subsidiaries have calculated their retirement benefit obligation based on the simplified method.

The component of retirement benefit expenses for the year ended March 31, 2013 is outlined as follows:

	2013
	(Millions of yen)
Service cost	¥ 1,498
Interest cost	605
Expected return on plan assets	(590)
Amortization:	
Prior service cost	3
Actuarial loss	750
Retirement benefit expenses	¥ 2,266

(Note) Service cost includes special premium retirement benefit and retirement benefit expenses under the simplified method.

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

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

11. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2014 and 2013 was, in the aggregate, approximately 38.0%.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013 differed from the above statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	**38.0 %**	38.0 %
Effect of:		
Valuation allowance	**5.3**	1.7
Different tax rate applicable to income of subsidiaries	**(4.2)**	(6.8)
Tax credit for research and development costs	**(5.8)**	(1.8)
Equity in earnings of an unconsolidated subsidiary and affiliates	**(2.6)**	(4.1)
Foreign tax credit	**(0.4)**	(0.5)
Decrease in deferred income tax assets resulting from change in the statutory tax rates	**1.5**	–
Other, net	**0.2**	6.5
Effective tax rates	**32.0 %**	33.0 %

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, 2014 and 2013 are summarized as follows:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Deferred tax assets:			
Depreciation and amortization (including loss on impairment)	¥ 2,733	¥ 3,041	$ 26,555
Accrued retirement benefits for employees	–	2,501	
Liability for retirement benefits for employees	2,508	–	24,368
Tax loss carryforwards	3,709	2,936	36,038
Intercompany profit on inventories and property, plant and equipment	1,440	1,149	13,991
Accrued bonuses to employees	903	960	8,774
Loss on impairment of land	1,042	1,106	10,124
Reserve for periodic repairs	1,013	1,019	9,843
Impairment of investments in securities and other	421	390	4,091
Other	2,702	1,131	26,253
Gross deferred tax assets	16,471	14,233	160,037
Less: Valuation allowance	(5,006)	(4,172)	(48,640)
Total deferred tax assets	11,465	10,061	111,397
Deferred tax liabilities:			
Net unrealized holding gain on securities	(2,052)	(1,312)	(19,938)
Equity in earnings of an overseas affiliate	(1,130)	(879)	(10,979)
Deferred capital gain on property (in overseas subsidiaries)	(320)	(322)	(3,109)
Depreciation and amortization	(291)	(277)	(2,827)
Reserve for depreciation for tax purposes	(11)	(14)	(107)
Other	(1,110)	(768)	(10,785)
Total deferred tax liabilities	(4,914)	(3,572)	(47,745)
Net deferred tax assets	¥ 6,551	¥ 6,489	$ 63,652

The “Act for Partial Amendment of the Income Tax Act, etc.” (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In line with these revisions, the Company changed the statutory tax rate to calculate deferred tax assets and liabilities from 38.0% to 35.6% for temporary differences expected to be realized after April 1, 2014.

As a result of this change, net deferred tax assets (after netting deferred tax liabilities) decreased by ¥243 million ($2,361 thousand), income taxes-deferred increased by ¥243 million ($2,361 thousand), and net unrealized deferred loss on hedges increased ¥0 million ($0 thousand) as of and for the year ended March 31, 2014.

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 ($38,088 thousand) at March 31, 2014 and 2013.

Common stock and treasury stock

Movements in shares of common stock in issue and treasury stock during the years ended March 31, 2014 and 2013 are summarized as follows:

	2014			
	Number of shares *(Thousands)*			
	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	**204,000**	**–**	**–**	**204,000**
Treasury stock	**1,010**	**25**	**2**	**1,033**

	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

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, 2014 and 2013 totaled ¥11,161 million ($108,443 thousand) and ¥11,441 million, respectively.

14. Gain on Insurance Claims

During the year ended March 31, 2014 and 2013, the Company received insurance proceeds in the amount of ¥9,179 million ($89,186 thousand) and ¥8,231 million related to the explosion and fire at the Himeji factory on September 29, 2012, respectively.

15. Loss on Explosion and Fire Accident

Loss on explosion and fire accident for the years ended March 31, 2014 and 2013 in the amount of ¥8,323 million ($80,869 thousand) and in the amount of ¥8,882 million is mainly factory fixed costs due to business suspension resulting from the explosion and fire at the Himeji factory on September 29, 2012, respectively.

16. Loss on Discontinued Operations

For the year ended March 31, 2014, the Company recorded a loss on discontinued operations consisting mainly of the following:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Removal costs	¥ 204	$ 1,982
Loss on disposal of property, plant and equipment	205	1,992
Loss on disposal of inventories	311	3,022

17. 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, 2014 and 2013:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Unrealized holding income (loss) on securities:			
Amount arising during the year	¥ 2,343	¥ 2,211	$ 22,765
Reclassification adjustments	–	0	–
Before tax effects	2,343	2,211	22,765
Tax effects	(741)	(725)	(7,200)
Net unrealized holding income (loss) on securities	1,602	1,486	15,565
Deferred gain on hedges:			
Amount arising during the year	12	5	117
Tax effects	(4)	(2)	(39)
Net deferred gain on hedges	8	3	78
Translation adjustments:			
Amount arising during the year	10,736	3,911	104,314
Other comprehensive income (loss) of equity method affiliates attributable to the Company:			
Amount arising during the year	2,301	1,736	22,357
Total other comprehensive income (loss)	¥ 14,647	¥ 7,136	$ 142,314

18. Lease

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, 2014 and 2013 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:

	2014	2013	2014
	(Millions of yen)		(Thousands of U.S. dollars)
Equipment:			
Acquisition costs	¥ 564	¥ 564	$ 5,480
Accumulated depreciation/amortization	(361)	(303)	(3,508)
Net book value	¥ 203	¥ 261	$ 1,972

Lease payments of the Company and its domestic consolidated subsidiaries relating to finance leases amounted to ¥59 million ($573 thousand) and ¥66 million for the years ended March 31, 2014 and 2013, respectively. Depreciation on these leased assets calculated by the straight-line method would have amounted to ¥59 million ($573 thousand) and ¥66 million for the years ended March 31, 2014 and 2013, 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, 2014 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)
2015	¥ 57	$ 554
2016 and thereafter	146	1,418
	¥ 203	$ 1,972

19. Contingent Liabilities

The Company and one consolidated subsidiary were contingently liable as guarantors of indebtedness of an affiliate at March 31, 2014 and 2013 as follows:

	2014		2013		2014	
	(Millions of yen)				(Thousands of U.S. dollars)	
American Acryl L.P.	¥	1,977	¥	1,995	$	19,209
Re-guaranteed by Arkema Delaware Inc.		988		903		9,600

Two consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed at March 31, 2014 and 2013 as follows:

	2014		2013		2014	
	(Millions of yen)				(Thousands of U.S. dollars)	
Notes discounted with banks	¥	261	¥	423	$	2,536
Notes endorsed		3		3		29

20. Amounts per Share

	2014		2013		2014	
	(Yen)				(U.S. dollars)	
Net income	¥	51.74	¥	41.38	$	0.50
Cash dividends		16.00		16.00		0.16
Net assets		1,164.10		1,059.85		11.31

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, 2014 and 2013 since neither the Company nor any of the consolidated subsidiaries had any potentially dilutive shares at March 31, 2014 and 2013.

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, 2014 and 2013 is summarized as follows:

	2014		2013		2014	
	(Millions of yen)				(Thousands of U.S. dollars)	
Net income	¥	10,503	¥	8,401	$	102,050
Deductions from net income		–		–		–
Adjusted net income available to shareholders of common stock	¥	10,503	¥	8,401	$	102,050
Weighted-average number of shares of common stock outstanding during the year (thousands of shares)		202,981		202,995		

21. Derivatives

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

There were no derivative transactions to which hedge accounting was not applied as of March 31, 2014.

Derivative transactions to which hedge accounting is not applied as of March 31, 2013 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)

(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, 2014 and 2013 are summarized as follows:

Currency-related transactions

			Millions of yen		
			2014		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	**¥ 312**	**¥ –**	**¥ 14**
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	**8,334**	**–**	**(*)**
	Buy	Accounts payable, trade	**26**	**–**	**(*)**

			Millions of yen		
			2013		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	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	–	(*)

			Thousands of U.S. dollars		
			2014		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Maturing within one year	Maturing after one year	Fair value
Deferral hedge	Forward foreign currency exchange contracts:				
	Buy	Accounts payable, trade	**$ 3,031**	**$ –**	**$ 136**
Allocation method	Forward foreign currency exchange contracts:				
	Sell	Accounts receivable, trade	**80,976**	**–**	**(*)**
	Buy	Accounts payable, trade	**253**	**–**	**(*)**

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

			Millions of yen		
			2014		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
Swap rates applied to underlying debt	Interest rate swaps:	Long-term debt, including current portion			
	Receive / floating and pay / fixed		**¥ 5,000**	**¥ 5,000**	**(*)**

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

			Thousands of U.S. dollars		
			2014		
			Contract value		
Method of hedge accounting	Transaction	Major hedged item	Notional amount	More than one year	Fair value
Swap rates applied to underlying debt	Interest rate swaps:	Long-term debt, including current portion			
	Receive / floating and pay / fixed		**$ 48,581**	**$ 48,581**	**(*)**

(*) 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, 2014 and 2013 is outlined as follows:

Year ended March 31, 2014

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consoli-dated
			(Millions of yen)			
Sales to third parties	**¥ 129,842**	**¥ 146,857**	**¥ 25,437**	**¥ 302,136**	**¥ –**	**¥ 302,136**
Intragroup sales and transfers	**24,632**	**2,980**	**626**	**28,238**	**(28,238)**	**–**
Net sales	**154,474**	**149,837**	**26,063**	**330,374**	**(28,238)**	**302,136**
Segment income	**¥ 3,250**	**¥ 8,239**	**¥ 2,044**	**¥ 13,533**	**¥ 219**	**¥ 13,752**
Segment assets	**149,880**	**189,052**	**26,010**	**364,942**	**33,454**	**398,396**
Depreciation and amortization	**9,156**	**7,934**	**554**	**17,644**	**–**	**17,644**
Amortization of goodwill	**–**	**–**	**–**	**–**	**–**	**–**
Increases in property, plant and equipment and other assets	**12,157**	**13,724**	**228**	**26,109**	**–**	**26,109**

Year ended March 31, 2013

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consoli-dated
			(Millions of yen)			
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
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, 2014

	Basic chemicals	Functional chemicals	Environment and catalysts	Total	Adjustments and eliminations	Consoli-dated
			(Thousands of U.S. dollars)			
Sales to third parties	**$ 1,261,582**	**$ 1,426,904**	**$ 247,153**	**$ 2,935,639**	**$ –**	**$ 2,935,639**
Intragroup sales and transfers	**239,331**	**28,955**	**6,082**	**274,368**	**(274,368)**	**–**
Net sales	**1,500,913**	**1,455,859**	**253,235**	**3,210,007**	**(274,368)**	**2,935,639**
Segment income	**$ 31,578**	**$ 80,052**	**$ 19,860**	**$ 131,490**	**$ 2,128**	**$ 133,618**
Segment assets	**1,456,276**	**1,836,883**	**252,721**	**3,545,880**	**325,049**	**3,870,929**
Depreciation and amortization	**88,962**	**77,089**	**5,383**	**171,434**	**–**	**171,434**
Amortization of goodwill	**–**	**–**	**–**	**–**	**–**	**–**
Increases in property, plant and equipment and other assets	**118,121**	**133,346**	**2,215**	**253,682**	**–**	**253,682**

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, 2014 and 2013 are summarized as follows:

Millions of yen

2014					
Japan	Asia	Europe	Americas	Other	Total
¥ 159,211	**¥ 62,328**	**¥ 35,659**	**¥ 28,277**	**¥ 16,661**	**¥ 302,136**

Millions of yen

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

Thousands of U.S. dollars

2014					
Japan	Asia	Europe	Americas	Other	Total
$ 1,546,939	**$ 605,597**	**$ 346,473**	**$ 274,747**	**$ 161,883**	**$ 2,935,639**

"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, 2014 and 2013 is summarized as follow:

Millions of yen

2014				
Japan	Asia	Europe	Other	Total
¥ 104,152	**¥ 32,623**	**¥ 4,373**	**¥ 10,990**	**¥ 152,138**

Millions of yen

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

Thousands of U.S. dollars

2014				
Japan	Asia	Europe	Other	Total
$ 1,011,970	**$ 316,974**	**$ 42,489**	**$ 106,784**	**$ 1,478,217**

(5) Information about loss on impairment

	Millions of yen									
	2014									
	Reporting segments						Adjustments and eliminations		Total	
	Basic chemicals		Functional chemicals		Environment and catalysts					
Loss on impairment	**¥**	**–**	**¥**	**394**	**¥**	**–**	**¥**	**–**	**¥**	**394**

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

	Thousands of U.S. dollars									
	2014									
	Reporting segments						Adjustments and eliminations		Total	
	Basic chemicals		Functional chemicals		Environment and catalysts					
Loss on impairment	**$**	**–**	**$**	**3,828**	**$**	**–**	**$**	**–**	**$**	**3,828**

23. Related Party Transactions

Principal transactions between the Company and its related party for the years ended March 31, 2014 and 2013 are summarized as follows:

	2014		2013		**2014**	
	(Millions of yen)				*(Thousands of U.S. dollars)*	
Umicore Shokubai Co., Ltd.:						
Sales of finished goods	**¥**	**15,326**	¥	6,318	**$**	**148,912**
Purchases of raw materials		**13,159**		4,735		**127,857**

The balances due from and to its related party at March 31, 2014 and 2013 were as follows:

	2014		2013		**2014**	
	(Millions of yen)				*(Thousands of U.S. dollars)*	
Umicore Shokubai Co., Ltd.:						
Notes and accounts receivable	**¥**	**5,593**	¥	5,821	**$**	**54,343**
Notes and accounts payable		**3,678**		2,970		**35,736**

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

Umicore Shokubai Co., Ltd. is a related company in which the Company indirectly owns 40% of the shares.

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, 2014, was approved at a shareholders' meeting held on June 20, 2014:

	(Millions of yen)	*(Thousands of U.S. dollars)*
Cash dividends (¥8.00 = $0.078 per share)	**¥ 1,624**	**$ 15,779**

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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, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Nippon Shokubai Co., Ltd. and consolidated subsidiaries as at March 31, 2014, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

June 20, 2014
Osaka, Japan

Ernst & Young ShinNihon LLC

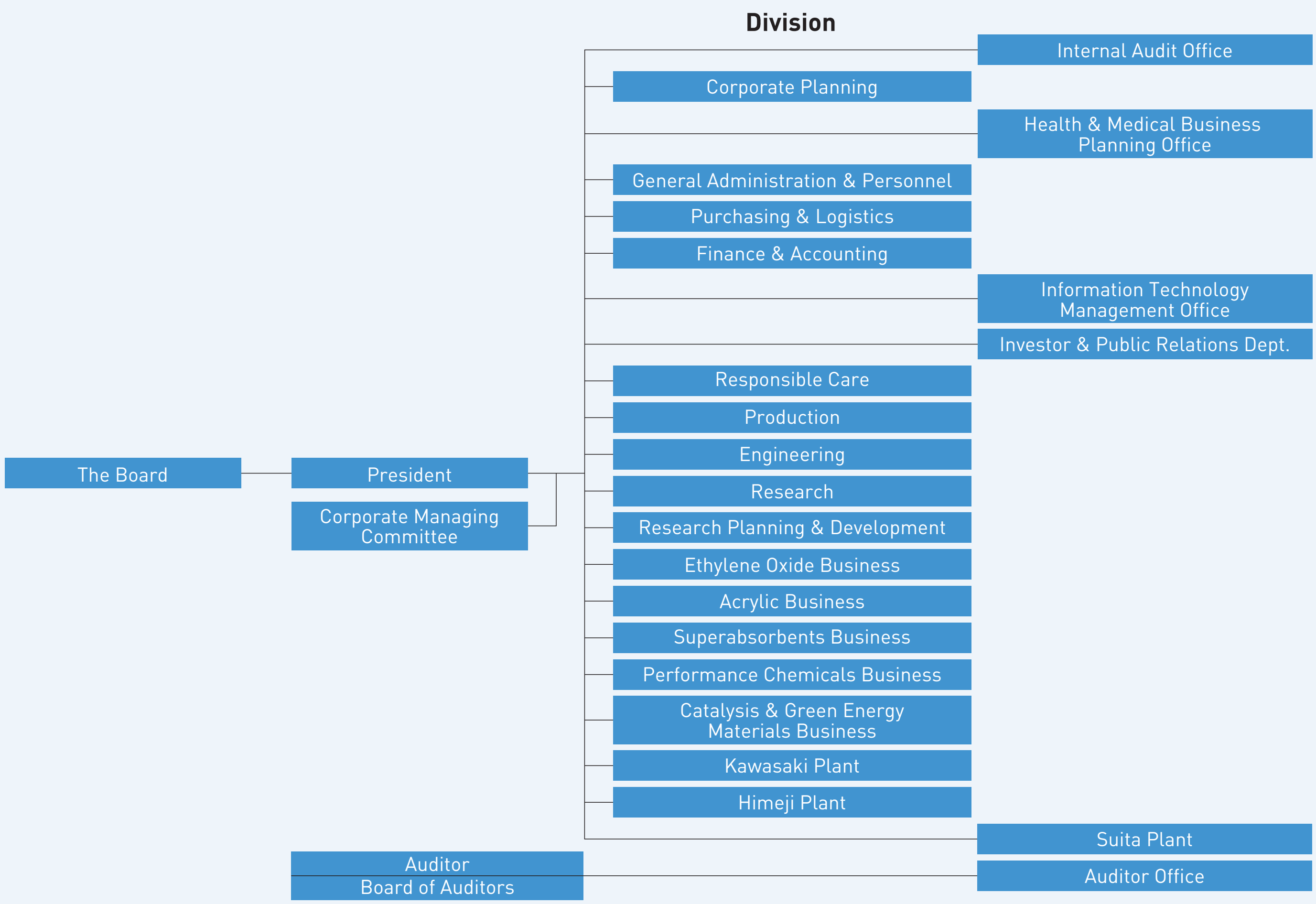
Corporate Data

NIPPON SHOKUBAI CO., LTD. (As of March 31, 2014)

Established: August 21, 1941
Common Stock (Paid in Capital): 25,038 million yen
Number of Shares Issued: 204,000,000 shares
Number of Shares Authorized: 636,000,000 shares
Number of Employees: : 3,955 (Consolidated)
2,029 (Non-consolidated)
Markets listed: Tokyo Stock Exchange; Securities Code: 4114;
ADR (The Bank of New York Mellon Bank);
Checker Symbol: NPSHY

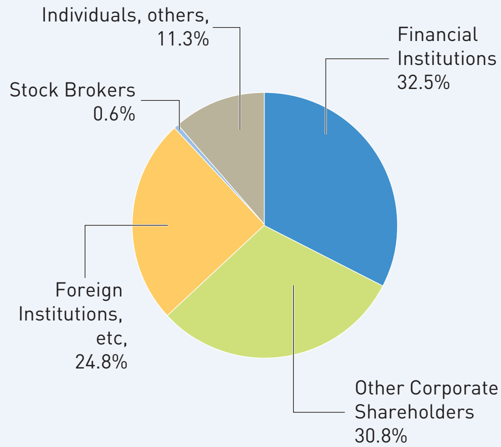
Fiscal Year Ends: March 31
Auditors: Ernst & Young Shin Nihon LLC
Lead Managers (Securities): Nomura Securities Co., ltd.,
Mizuho Securities Co., Ltd.
Stock Transfer Agency: Mitsubishi UFJ Trust and Banking Corporation
Banks: Resona Bank, Limited,
Mizuho Bank, Ltd.,
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Number of shareholders: 10,827

Organization Chart (As of April 1, 2014)



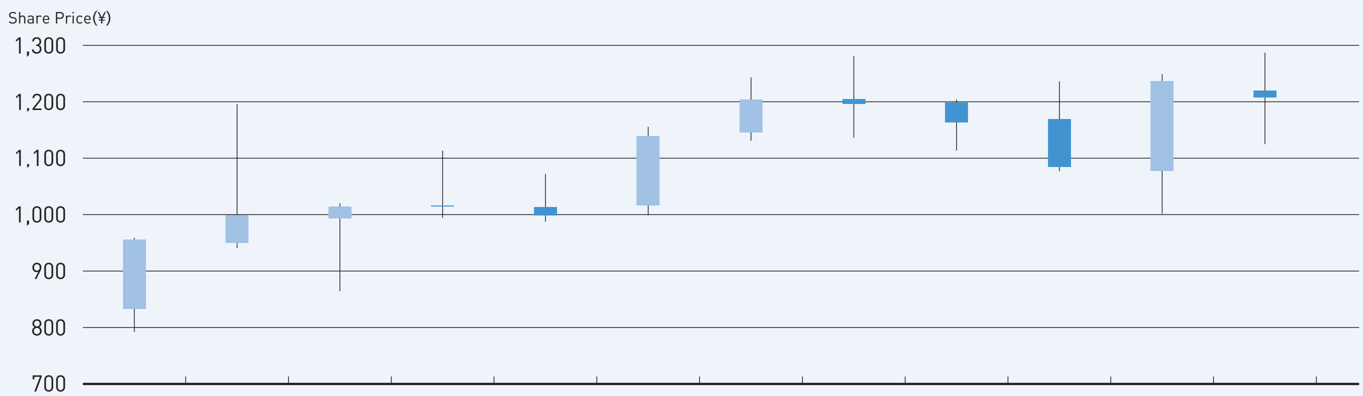
Major Shareholders (As of March 31, 2014)

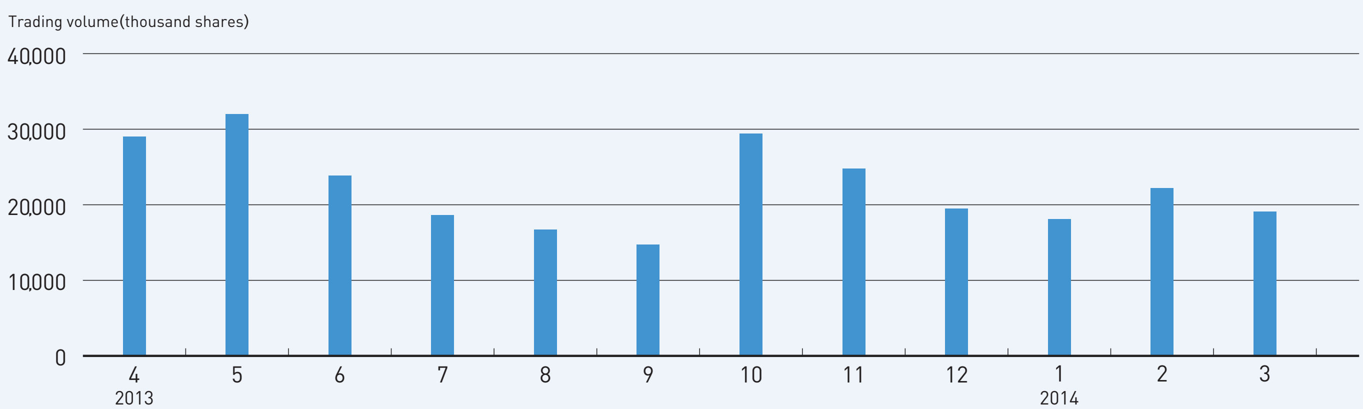
Name	Number of Shares Owned (thousand shares)	Ratio of capital Contribution (%)
Sumitomo Chemical Company, Limited	19,484	9.59
JX Holdings, Inc.	10,645	5.24
Japan Trustee Services Bank, Ltd. (Trust Account)	8,339	4.10
The Master Trust Bank of Japan, Ltd. (Trust Account)	8,142	4.01
Resona Bank, Limited.	6,867	3.38
National Mutual Insurance Federation of Agricultural Cooperatives	6,540	3.22
Sanyo Chemical Industries, Ltd.	6,338	3.12
Mizuho Bank, Ltd.	4,744	2.33
TOYO INK SC HOLDINGS CO., LTD.	4,522	2.22
NIPPONKOA INSURANCE CO., LTD.	2,781	1.37



(Note 1) Other than the above, the Company holds 1,033 thousand shares as treasury stock.
(Note 2) Treasury stock is excluded from the calculation for "Shareholding Ratio of the Total Shares Outstanding" above.
(Note 3) Figures in "Number of Shares Owned" and "Shareholding Ratio of the Total Shares Outstanding" are truncated.

Share Price and Turnover (April 2013- March 2014)





Subsidiaries & Affiliates

Japan

NIPPOH CHEMICALS CO., LTD.	Neo Kawai Bldg.,8-15,4-Chome,Nihonbashi-Honchou, Chuo-Ku, Tokyo 103-0023, Japan TEL +81-3-3270-5341 FAX +81-3-3270-3401 Principle Business: Manufacture and sale of iodine, intermediates for API and agro-chemicals, and photo/electro chemicals
CHUGOKU KAKO CO., LTD.	1575 Mizue, Kurashiki, Okayama 710-0802 Japan TEL +81-86-465-3555 FAX +81-86-465-7843 Principle Business: Manufacture and sale of adhesive tape and fine sphere particles
Nisshoku Butsuryu Co., Ltd.	6F Kogin Bldg., 4-1-1 Koraibashi, Chuo-ku, Osaka 541-0043 Japan TEL +81-6-6202-5267 FAX +81-6-6233-2475 Principle Business: Logistics of chemicals
NIPPON NYUKAZAI CO., LTD.	4-1 Nihonbashi Kobuna-cho, Chuo-ku, Tokyo 103-0024 Japan TEL +81-3-5651-5631 FAX +81-3-5651-5639 Principle Business: Manufacture and sale of surfactant and other chemicals
NIPPON POLYESTER CO., LTD.	2-8-33 Shibata, Kita-ku, Osaka 530-0012 Japan TEL +81-6-6372-4551 FAX +81-6-6376-2079 Principle Business: Manufacture and sale of plastic products for construction, housing, and so on
Tokyo Fine Chemical CO., LTD.	3F Bussan Bldg., 1-4-14 Nishi Shinbashi, Minato-ku, Tokyo 105-0003 Japan TEL +81-3-3506-7666 FAX +81-3-3506-7671 Principle Business: Manufacture and sale of stabilizer of vinyl chloride resin and anti-freeze
NIHON JYORYU KOGYO CO., LTD	9-1 Koutani Shinmachi, Ichikawa, Chiba 272-0011 Japan TEL +81-47-328-1185 FAX +81-47-328-1189 Principle Business: Manufacture and sale of polycyclic aromatic hydrocarbons, (meth)acrylic acid derivatives and photo/electro chemicals
NIPPON SHOKUBAI TRADING CO., LTD.	2F TT-1 Bldg., 1-14-8 Nihonbashi Ningyou-cho, Chuo-ku, Tokyo 103-0013 Japan TEL +81-3-5695-4021 FAX +81-3-5695-4024 Principle Business: Sale of chemical products
NIPPON POLYMER IND. Co., Ltd.	2114 Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-273-4121 FAX +81-79-273-4601 Principle Business: Manufacture and sale of acrylic emulsions
Japan Composite Co., Ltd.	3-2-13 Nihonbashi-Honcho, Chuo-ku, Tokyo 103-0023 Japan TEL +81-3-3516-3002 FAX +81-3-3516-3090 Principle Business: Manufacture and sale of unsaturated polyester resins and plastic molded materials
NS Green Co., Ltd.	992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-273-4744 FAX +81-79-273-4744 Principle Business: Maintenance of green tract of land of plant site
NISSHOKU ENGINEERING SERVICE CO., LTD.	992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1241 Japan TEL +81-79-272-0677 FAX +81-79-271-5188 Principle Business: Design, construction, repair and maintenance of production facilities
NIHON METHACRYL MONOMER CO. LTD.	Sumitomo Twin Bldg., 2-27-1 Shinkawa, Chuo-ku, Tokyo 104-0033 Japan TEL +81-3-5543-5302 FAX +81-3-5543-5907 Principle Business: Manufacture and sale of MAA and MMA

CATOX Co., Ltd.	1-46 Higashi Kaigan-cho, Amagasaki, Hyogo 660-0843 Japan TEL +81-6-6409-1301 FAX +81-6-6409-1302 Principle Business: Development and sale of plant control systems
Umicore Shokubai Japan Co. Ltd	1-25-19 Rinku-cho, Tokoname, Aichi 479-0882 Japan TEL +81-569-38-7670 FAX +81-569-38-7678 Principle Business: Manufacture, R&D and sale of automotive catalysts

Overseas

NA Industries, Inc.	4631 Old Highway 146, Suite A, Pasadena, TX 77507, USA TEL +1-832-284-4033 Principle Business: Manufacture and sale of superabsorbent polymers, polymers for concrete admixture and water soluble polymers
SINGAPORE ACRYLIC PTE LTD	80 Robinson Road #18-02 Singapore 068898 TEL +65-6532-0078 FAX +65-6532-0079 Principle Business: Manufacture and sale of crude acrylic acid
NIPPON SHOKUBAI (ASIA) PTE.LTD.	80 Robinson Road #18-02 Singapore 068898 TEL +65-6532-0078 FAX +65-6532-0079 Principle Business: Manufacture glacial acrylic acid, Sale of chemical products
PT.NIPPON SHOKUBAI INDONESIA	Kawasan Industri Panca Puri Jl. Raya Anyer Km. 122 Ciwandan, Cilegon 42447 Banten, Indonesia TEL +62-254-600-660 FAX +62-254-600-657 Principle Business: Manufacture and sale of acrylic acid, acrylic esters and super absorbent polymers
NIPPON SHOKUBAI EUROPE N.V.	Haven 1053, Nieuwe Weg1, B-2070 Zwijndrecht, Belgium TEL +32-3-250-3705 FAX +32-3-250-3712 Principle Business: Manufacture and sale of superabsorbent polymers
NISSHOKU CHEMICAL INDUSTRY (ZHANGJIAGANG) CO., LTD.	No.19 Changjiang Road (E),Yangtze River International Chemical Industrial Park, Zhangjiagang, Jiangsu, China, 215635 TEL +86-512-5893-7910 FAX +86-512-5893-7912 Principle Business: Manufacture and sale of superabsorbent polymers, polymers for concrete admixture
SINO-JAPAN CHEMICAL CO.,LTD	14Fl, 99, Sec. 2, Jen Ai Rd., Taipei, Taiwan TEL +886-2-2396-6223 FAX +886-2-2396-9076 Principle Business: Manufacture and sale of surfactant and other chemicals
LG MMA Corporation	27F One IFC, 10, Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul 150-876, Korea TEL+82-2-6930-3800 FAX +82-2-6930-3801 Principle Business: Manufacture and sale of MAA and PMMA
American Acryl NA,LLC American Acryl L.P.	4631 Old Highway 146, Suite B, Pasadena, TX 77507, USA Principle Business: Manufacture and sale of acrylic acid
NISSHOKU TRADING (SHANGHAI) CO., LTD	R/No.3604,The Center,989 Changle Road shanghai, China, 200031 TEL +86-21-5407-5959 FAX +86-21-5407-5673 Principle Business: Sale of chemical products
Umicore Shokubai S.A.	L-4940, Bascharage, 5, rue Bommel, Luxembourg Principle Business: Automotive catalyst

Directory

Management

Member of the Board, President
Masanori Ikeda

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

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

Member of the Board
Koichi Miura
Takashi Sakai

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
Takumi Hatsuda
Kin-ya Nagasuna
Yujiro Goto
Masaya Yoshida
Kazukiyo Arakawa

Company Outline

Business establishments

- **Osaka Office**
  Kogin Bldg., 4-1-1 Koraibashi, Chuo-ku, Osaka 541-0043 Japan
  TEL +81-6-6223-9111
  FAX +81-6-6201-3716

- **Tokyo Office**
  Hibiya Dai Bldg., 1-2-2 Uchisaiwai-cho, Chiyoda-ku, Tokyo 100-0011 Japan
  TEL +81-3-3506-7475
  FAX +81-3-3506-7598

- **Kawasaki Plant and Kawasaki Research Center**
  [Chidori Plant]
  14-1 Chidori-cho, Kawasaki-ku, Kawasaki, Kanagawa 210-0865 Japan
  TEL +81-44-288-7366
  [Ukishima Plant]
  10-12 Ukishima-cho, Kawasaki-ku, Kawasaki, Kanagawa 210-0862 Japan
  TEL +81-44-288-5715

- **Himeji Plant and Himeji Research Center**
  992-1 Aza-Nishioki, Okihama, Aboshi-ku, Himeji, Hyogo 671-1282 Japan
  TEL +81-79-273-1131 (Plant)
  +81-79-273-1145 (Research Center)

- **Suita Research Center and Suita Plant**
  5-8 Nishi Otabi-cho, Suita, Osaka 564-8512 Japan
  TEL +81-6-6317-2202 (Plant)
  +81-6-6317-2251 (Research Center)

- **Tsukuba Research Center**
  1-25-12 Kannondai, Tsukuba, Ibaraki 305-0856 Japan
  TEL +81-29-838-2561

Overseas Offices

- **Korea Office**
  4F SH Energy Bldg., 26, Hwangsaeul-ro 200beon-gil, Bundang-gu, Seongnam-si, Gyeonggi-Do, 463-825 Korea
  TEL +82-31-718-9111
  FAX +82-31-718-9693

Research Centers

- **Strategic Technology Research Center**(Suita, Himeji,Tsukuba)
- **Advanced Materials Research Center**(Suita, Himeji)
- **GSC Catalysts Technology Research Center**(Himeji, Kawasaki)
- **Superabsorbents Research Center**(Himeji)
- **Fine & Specialty Chemicals Research Center**(Suita)
- **E&I & Performance Materials Research Center** (Suita, Himeji Tsukuba)
- **Process Technology Center** (Suita, Himeji)

NIPPON SHOKUBAI

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