

**KUREHA CORPORATION**  
**Business Report 2014**

Year ended March 31, 2014



*The Pursuit of **Excellence***

# Growing from Our Roots

Kureha Corporation is a diverse specialty chemicals and plastics manufacturer that leverages its technological development expertise to create original products in such fields as advanced materials, pharmaceuticals, agrochemicals and packaging materials. Since its establishment in 1944, Kureha's growth and expansion has been driven by innovative products developed in-house, rather than a reliance on outside technology.

Over the past decade, Kureha has moved to transform and further strengthen its business portfolio with a global outlook, strategically selecting and focusing on key business areas where the company can benefit from the competitive advantage afforded by its unique technologies and marketing strengths. We have enhanced our production capacity in areas of strength, and taken proactive steps to improve products and services to meet market demands. To ensure sustainable growth, we have also focused on developing new technologies and products, thereby establishing a business foundation to spur Kureha's growth into the future.

The result of these efforts is visible in the formation of a balanced business portfolio that enables us to stand strong amid increasingly fierce global competition. Going forward, to strengthen this foundation and grow at a global level, we will enhance the efficiency of business operations and boost competitiveness.

Kureha's roots, and its strengths, are in technology. Building on unique technological capabilities, we will evolve in response to continually shifting markets and customer needs. Taking to heart Kureha's company mission of "the pursuit of excellence," and offering differentiated products and services through innovation, we are committed to delivering the greatest value to all stakeholders.

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## **> R&D Innovation: The Source of Our Competitiveness**

We pride ourselves on our expertise in polymer engineering and processing as well as organic synthesis and carbon materials development. These technologies provide the base for the development of our original innovative materials and products. We are constantly adding and fusing new ideas to these accumulated technologies, and in the spirit of “if it doesn’t exist, let’s create it,” each day we pursue technology solutions that only Kureha can provide to meet unmet needs.

## ***The Pursuit of Excellence***

### **Three Sources of Kureha’s Strength:**



## **> Global Growth Potential: Further Growth in Global Markets**

Kureha’s overseas sales had reached 28% of total revenue as of March 2014. Along with exports from Japan, we have production, processing and sales locations in the United States, Germany, the Netherlands, France, the U.K., China and Vietnam, enabling an effective response to needs in overseas markets. With continued growth expected in newly emerging countries and many other regions, we are taking active and strategic steps to expand sales of highly competitive products in line with the needs of overseas markets, whether for advanced materials, chemicals, or plastic products.

## **> Balanced Growth Portfolio: Maximization of Earnings and Diversification of Risk**

Our innovative products and services are broadly based but highly specialized, supporting a wide range of industries, including electrical and electronic-appliances, automotive, agriculture, medicine and energy. We maximize earnings and diversify risk through broad-based business development in promising growth fields such as the environment, energy, health and lifestyle. We continuously optimize our portfolio to align with shifting market needs while securing our earnings path.

# At a Glance

## Net Sales/Net Sales Composition

### Advanced Materials

¥32,815 million

22.2%



### Specialty Chemicals

¥36,615 million

24.7%



Net Sales

¥148,124 million

2014

### Specialty Plastics

¥45,291 million

30.6%



### Construction and Other Operations

¥17,238 million

11.6%

(Construction)

¥16,163 million

10.9%

(Other Operations)





# Consolidated Financial Highlights

Kureha Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014 and 2013

## Business Areas

Advanced Plastics  
Carbon Fibers & Products  
Battery Materials

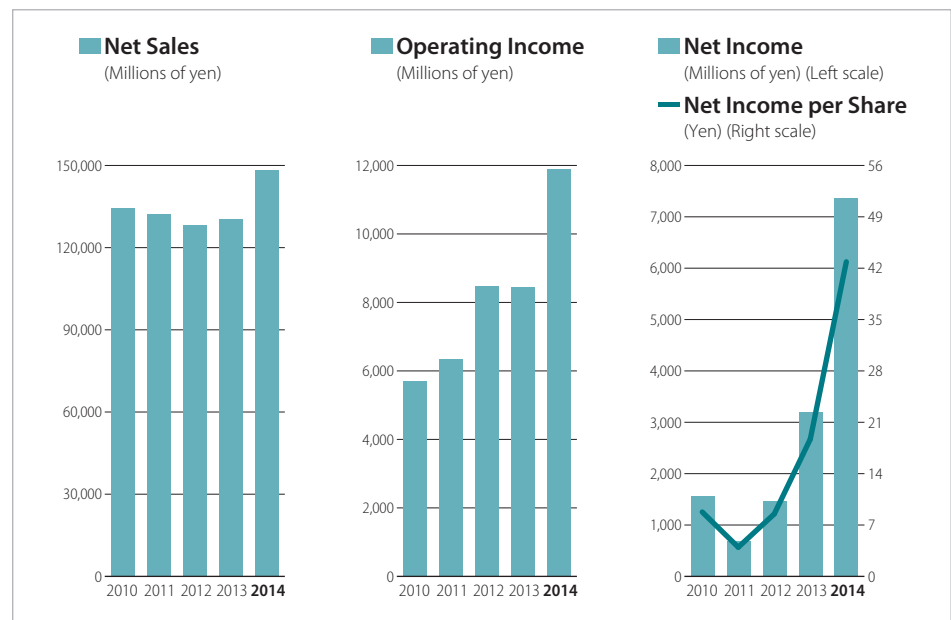
Pharmaceuticals  
Industrial Chemicals  
Agrochemicals

Household Products  
Synthetic Fiber Products  
Packaging Materials

Engineering & Construction  
Environment Management  
Logistics

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>For the year:</b>			
Net sales	¥148,124	¥130,550	\$1,439,214
Operating income	11,902	8,458	115,643
Net income	7,365	3,212	71,560
Capital expenditure	16,468	19,984	160,007
Depreciation	9,096	8,882	88,379
R&D expenses	4,586	4,389	44,558
<b>Year-end:</b>			
Total assets	¥224,459	¥205,284	\$2,180,907
Net assets	106,190	96,211	1,031,772
Interest-bearing debt	77,225	68,448	750,340
		Yen	U.S. dollars
<b>Amounts per share:</b>			
Net income – basic	¥ 42.87	¥ 18.71	\$ 0.41
Net assets	604.00	546.69	5.86
		Percent	
<b>Ratios:</b>			
Net income to net sales	5.0%	2.5%	
Return on equity	7.5	3.5	
Return on assets	5.7	3.4	
Equity ratio	46.2	45.7	

- Notes: 1. For convenience only, U.S. dollar amounts have been translated from Japanese yen at the rate of ¥102.92 to US\$1, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2014.  
2. For amounts per share, see Note 21 of the Notes on Consolidated Financial Statements.  
3. Return on equity = [Net income / (Average net assets - Average minority interests - Average stock acquisition rights)] x 100.  
4. Return on assets = (Recurring income / Average total assets) x 100.





# Kureha Continues to Evolve, Embracing New Challenges

小林 豊

**Yutaka Kobayashi**

President & Chief Executive Officer

Q<sub>1</sub>

**Please summarize the business results for the fiscal year ended March 31, 2014.**

A

Net sales rose 13.5% year on year to ¥148,124 million, with operating income up 40.7% to ¥11,902 million, and ordinary income up 85.8% to ¥12,207 million. Net income more than doubled, rising 129.3% to ¥7,365 million - a new record high since Kureha adopted consolidated accounting in fiscal 1990.

This success was the result of strenuous efforts by Kureha itself, along with contributions from consolidated subsidiaries. The ratio of group consolidated sales to the parent company's sales was on a par with the previous fiscal year at 1.8 times, while the ratio for operating income improved from 1.2 to 1.4 times, and for net income from 0.8 to 1.3 times. The rise in net income, approximately 2.3 times from the previous fiscal year, is due mainly to the fruits of prior investments, along with steady efforts to reverse our fortunes and secure a new growth track.

Q<sub>2</sub>

**What were the major developments in each business segment?**

A

In the Advanced Materials segment, sales were up sharply for advanced plastics. Polyphenylene sulfide (PPS), which is now seeing an increase in automotive applications, polyvinylidene fluoride (PVDF), used as a binder for lithium-ion batteries, and polyglycolic acid (PGA), a material for shale gas and oil extraction, all performed strongly. In carbon products, the segment's other main business pillar, demand increased for anode materials for automobile lithium-ion batteries, but sales continued to be sluggish for insulating materials in furnaces for silicon ingot manufacturing.

In the Specialty Chemicals segment, sales in the pharmaceuticals field rose for *Kremezin*, a therapeutic agent for chronic renal failure, while the agricultural chemicals field was boosted by higher demand for the fungicide *Metconazole* as well as by the weaker yen. In industrial chemicals, sales of organic chemicals were strong.

In the Specialty Plastics segment, sales of *NEW Krewrap* plastic wrap and other products in the consumer goods field rose sharply on a spike in demand ahead of the consumption tax increase in Japan on April 1.

Q<sub>3</sub>

### **The quantitative targets for the new medium-term management plan, Grow Globally II, were revised downward during the fiscal year. How close are you to meeting the new targets?**

A

We announced Grow Globally II, a four-year plan through fiscal 2015 (ending March 2016), in January 2012. However, the business environment has shifted considerably since the launch of the plan, including a slowdown in the solar power market and delays in establishing a market for large lithium-ion batteries.

Immediately after assuming the post of president, I ordered a review of the Grow Globally II plan, directing that it be shifted to a rolling plan as of the end of fiscal 2013. The main point of the revision was to demonstrate a clear commitment to stakeholders, instead of just completing Grow Globally II for the sake of completing a plan.

The revised quantitative targets for fiscal 2015 are sales of ¥165 billion, with operating income of ¥15 billion, and an operating margin of 9%.

We are wholly committed to meeting these new targets. We have directed all business divisions to establish a solid operating foundation able to withstand changes in the business environment. We have launched a reform project under my direct supervision, and set targets to reduce total costs by 10% from fiscal 2012 levels. Together with the effects of these cost reductions in fiscal 2013, results significantly exceeded initial forecasts with net sales of ¥143.0 billion with operating income of ¥9.5 billion.

Q<sub>4</sub>

### **The Advanced Materials segment is a growth engine for Kureha. Is the development of these businesses proceeding smoothly?**

A

The rapid advancement of the Kureha Group depends on the Advanced Materials segment, comprising high-performance materials, battery materials, and PGA. Sales have steadily increased over the last few years, but revenue proportionate to investment is still to come from now.

Regarding PVDF, which is used as a binder for lithium-ion batteries and in the backsheets for solar cell, in July 2014 we will begin commercial production at our plant in Changshu, China. This new factory will more than double our total production capacity, adding 5,000 tonnes to the Iwaki Factory's capacity of 4,000 tonnes. We will also be producing the material nearer to market, allowing us to quickly expand sales as the market becomes established.

As for PGA, which is increasingly being used for shale gas and oil extraction, we have concluded a business tie-up with Magnum Oil Tools International (MOTI), a company with more than two decades of experience manufacturing and marketing tools for oil and gas extraction in North America. We hope to leverage MOTI's expertise and network to develop a business mainly for mold products.

The Kureha Group is the only company in the world that can mass-produce PGA and currently has production capacity in the U.S. for 4,000 tonnes annually. By partnering with MOTI, which holds numerous patents, we can shift to a business model centered on mold products instead of material sales, generating a sufficient profit even at a level of less than 1,000 tonnes. Going forward, we plan to focus on shortening delivery times and providing technical support.

PGA is sold under the brand name *Kuredux*. It has been certified as a biodegradable plastic in Europe, the U.S. and Japan, and in September 2013 received the Monodzukuri Nippon Grand Award from Japan's Ministry of Economy, Trade and Industry. PGA has been widely praised as a high-performance biodegradable plastic that reduces environmental loads, and we are working to develop new applications that take advantage of its superior properties.

In the carbon products field, we expect growth in demand for insulating material used in systems to manufacture silicon ingots solar cells. The Chinese market has been sluggish but is finally beginning to move, and we anticipate that it will regain a full-fledged recovery track within the year.

Demand for carbon products as an anode material for automobile lithium-ion batteries has so far centered on hybrid vehicles in Japan, but there is potential for a major shift to electric vehicles in China, where air pollution from PM2.5 and other harmful particulate matter is becoming a serious concern. We are actively pursuing business tie-ups with major battery manufacturers. The characteristics required for LiB anode materials are ease of charge and discharge, durability and low cost. While Japan has emphasized performance, countries such as China and South Korea have tended to focus on low cost. We are expanding our product lineup with the aim of becoming a "department store for hard carbon" capable of meeting any need.

Q5

### Existing businesses are the foundation for earnings. What are the developments in the pharmaceutical, agrichemicals, and high barrier packaging materials businesses?

A

For existing businesses, we are pursuing cost reductions and profitability improvements that will allow us to secure a certain level of earnings even in a volatile business environment.

In the pharmaceutical and agrichemicals field, we expect steady growth in sales of *KREMEZIN*. However, efforts to reduce medical costs have intensified in Japan, and drug prices are regularly revised. Alongside the increasing sales, there is growing pressure to lower costs.

The agricultural fungicide *Metconazole* has a growing reputation in North America as an effective agricultural chemical for cultivation of corn and wheat. We expect strong sales growth to continue with the growing global demand for food.

High barrier packaging materials comprise two types: Polyvinylidene chloride (PVDC) film, the raw material in *Krewrap* plastic wrap, and multilayer films made with barrier resins.

PVDC film packaging safely preserves the flavor of foods such as fish, pork or chicken sausage. The Japanese market is reaching maturity, but we anticipate demand growth in the Asia region.

Multilayered films made with barrier resins are used to package raw and processed meats, cheese and other foods. To expand sales of *Krehalon ML-40* in Europe, where meat consumption is high and demand for packaging films is increasing, in March 2014 we concluded an agreement with MULTIVAC, a major German packaging machinery manufacturer, granting exclusive sales rights for the ML-40 series of form shrink films. We





are also introducing a new film production line at our manufacturing subsidiary in the Netherlands, and expect to achieve a 20% increase in production capacity by mid-2014 that will help meet rising demand in the region.

## Q6

### **Kureha is well known for its advanced R&D. How do you plan to maintain and enhance this strength?**

A

R&D plays three main roles. It enables us to strengthen competitiveness by improving the performance of existing products, develop the new businesses that will be established within the next 5-10 years, and explore next-generation products and technologies. When you are only chasing what is right in front of you, you fail to sow the seeds for the future, so we strongly emphasize a balance of all three.

Kureha's R&D policy is rooted in in-house development—in short, "if it doesn't exist, let's create it." Looking back on our history, our dedication to a unique style of manufacturing is what has allowed us to accumulate product development expertise and technologies not found elsewhere.

At the same time, a passion for reform and commitment to speed are vital aspects of R&D. While we value the principle of self-sufficiency that underlies our commitment to in-house development, we have also taken steps toward joint development with external institutions in order to generate results more quickly. Of course, simply calling on people will not spur them to action. We are increasing the number of researchers for exploratory fields, an area where we have been shorthanded, and moving to sow seeds in an effort to find the "promising buds" that will bloom in the future. Our priority fields for exploratory research are those linked to global issues, specifically environment, energy and life science (food and medical care).

## Q7

### **Kureha is about to enter a new growth stage. As head of the corporate group, how will you lead this effort?**

A

Since assuming the position of president in September 2012, I have called for the creation of a new corporate culture. The key to that change is "passion and speed."

The former Kureha adhered to the position that as long as the quality was good, someone would buy the product. We lacked the ethos to anticipate the changing times and adapt on our own, embrace new challenges, or take risks. There were even times of frustration at being unable to make the most of opportunities.

We cannot cling to past successes forever. I believe that we must flexibly change our business model to adapt to changes in society and the needs of the market.

There is not a moment to lose. We will be unable to survive in the future unless everyone continually faces challenges with passion, and embraces change with speed.

Kureha will mark the 70th anniversary of its founding this year. We need to once more return to the starting point, and consider the value that Kureha provides to society - namely, to "develop unique materials and technologies in the specialty chemicals field, and bring these to the world."

The Grow Globally II medium-term management plan truly reaches for global growth. We are renewing our commitment to changing the corporate culture, developing human resources able to function effortlessly in world markets, and broadening the scope of our business.

# Revisions to the Medium-Term Management Plan for Fiscal 2012-2015

Kureha announced Grow Globally II, our four-year medium-term business plan for fiscal 2012-2015, in January 2012. Since that time, our business environment has changed considerably, including a slowdown in the solar power market and delays in establishing a market for large lithium-ion batteries (LiB). After reviewing the status of our businesses and considering strategic measures to adapt to the new circumstances, we revised the Grow Globally II plan in November 2013, including setting new quantitative targets. Kureha is now conducting business based on this revised plan.

The revised plan sets new targets for fiscal 2015 including net sales of ¥165.0 billion and operating income of ¥15.0 billion. Our management direction remains unchanged, centered on our two main business strategies: "Develop and promote new businesses while further strengthening existing businesses with a competitive advantage" and "Accelerate global growth by enhancing production capability and new investments."

To secure our path forward, we have also set additional qualitative goals:

- In Advanced Materials (high-performance polymers, battery materials, PGA), which includes new businesses where Kureha is actively investing, we will respond flexibly and swiftly to changes in the business environment, and recover revenues as quickly as possible.
- In other existing businesses, we will implement sweeping cost reduction measures and improve profitability.
- In R&D, we will draw on the strengths of current technologies to achieve further advancements, and seek to acquire and generate new technologies that will meet the anticipated needs of the future.

We will adopt a flexible response to future changes in the business environment and cost reductions to strengthen our earnings base, and move decisively to ensure that we achieve our FY2015 goals.

## Grow Globally-II (2012 – 2015)

Re-strengthen competitive businesses &  
Accelerate development of new businesses

Achieve global business growth through enhanced  
production capability and new investments

### Fiscal 2015 Targets

Net Sales  
**¥165 billion** (¥200 bn)

Operating Income  
**¥15 billion** (¥20 bn)

Operating Margin  
**9%** (10%)

### FY2015 Management Benchmarks

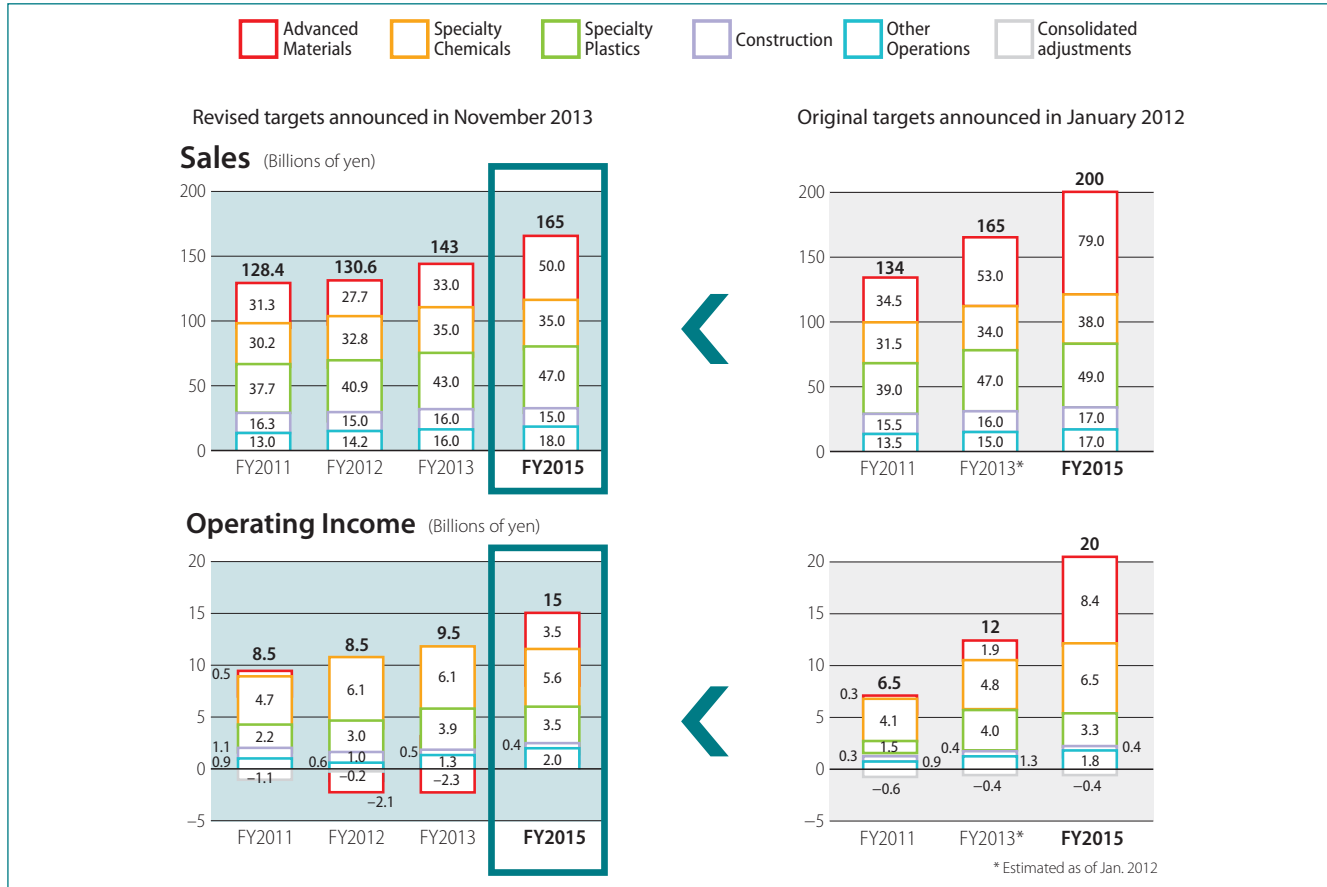
Overseas Sales Ratio **32%** vs. FY2013 29%

Capital Expenditures **¥80 billion** over FY2012-2015

R&D Spending **¥5.4 billion** vs. FY2013 ¥4.6 bn

- Preconditions: Exchange rates at JP¥95/US\$1, JP¥125/EUR€1
- Figures in parenthesis are the original targets announced in Jan. 2012

## Sales and Operating Income Targets by Segment



## Key Growth Drivers



### Advanced Materials

- Polyvinylidene fluoride (PVDF): New China's 5000tpa plant to serve expanded markets of LiB binder and PV backsheet
- Polyglycolic acid (PGA): Accelerating molded products business in shale gas/oil fields through partnership
- Carbon products: Anode materials growth targeted for large-size LiB market, demand recovery for insulation materials in solar cell manufacturing

### Specialty Chemicals

- Pharmaceuticals: Domestic market growth for therapeutic agent for chronic renal failure (*KREMEZIN*)
- Agrochemicals: Global business expansion for agricultural fungicide (*Metconazole*) through partnership



### Specialty Plastics

- Home products: Earnings growth driven by household wrap film (*NEW Krewrap*)



### Other Businesses

- Environment business: Growth of industrial waste treatment business

## September 2013:

### Kureha Receives Japan Monodzukuri Award for PGA

Kureha's researchers were awarded the Minister of Economy, Trade and Industry's Prize at the 5th Monodzukuri Nippon Grand Award for developing the world's first mass-production technology for polyglycolic acid (PGA). The Monodzukuri Nippon Grand Award is an awards program established in 2005, with an aim to acknowledge and motivate individuals or groups of people who excel in various manufacturing (monodzukuri) fields in Japan. The following points were cited for granting the award to the Kureha team:

- Kureha successfully achieved mass production of a new material through an innovative synthesis technique that includes creative use of solvents.
- PGA has been adopted for use in shale gas extraction, utilizing its seemingly contradictory properties of strength and biodegradability.
- Expectations for development of new applications, further reductions in production costs, and the establishment of a strategic value chain that includes production facilities in Japan.



## December 2013:

### Business Collaboration with Magnum Oil Tools International

Kureha concluded a business tie-up with the U.S. firm Magnum Oil Tools International, appointing Magnum's group company Magnum Innovations LLC as its exclusive distributor of polyglycolic acid (PGA) molded products for use in shale oil and gas extraction. This arrangement will broaden the sales channels for PGA molded products, manufactured by solid-state extrusion and machining, in the North American oil and gas industry. It will also allow Kureha to shorten delivery times and enhance technical support services.

**KUREDUX**



## December 2013:

### Science Lessons for Elementary Schools

Kureha employees taught science lessons at elementary schools near the Iwaki Factory. This annual program was launched in 1999 as part of Kureha's social contribution activities to convey to children correct scientific knowledge and the joys of science. For this year's program, the children learned about the properties and functions of various water solutions, and conducted experiments using liquid nitrogen and dry ice.



## April 2014:

### Emerging Research Laboratories Established

Kureha established new Emerging Research Laboratories specializing in exploratory research. Among the three pillars of Kureha's R&D program; "Enhance competitiveness in existing businesses," "Quickly establish and expand new businesses" and "Exploratory research to generate new businesses and products," this new R&D body is devoted to the third pillar, exploring research themes related particularly to energy, environment and life (medical care and foods). From these efforts, Kureha aims to generate new businesses and products that will support the next-generation Kureha.



July 2014:

## New Factory Completed at Kureha (Changshu) Fluoropolymers Co., Ltd.

A new factory for producing polyvinylidene fluoride (PVDF) was completed at Kureha (Changshu) Fluoropolymers Co., Ltd. in Changshu, China. The new factory has an annual production capacity of 5,000 tonnes, and will support such applications as binders for lithium-ion batteries, protective sheets for solar panels and water treatment membranes. Along with the Iwaki Factory, it will provide a stable production structure to meet growing demand in Asia and around the world.



July 2014:

## Sunshine Kureha Co., Ltd. Established

Sunshine Kureha Co., Ltd. was established within Kureha's Iwaki Factory compound for the purpose of assisting the disabled to participate in society and be independent. The company's aim is to allow everyone employed there to have dreams for the future, experience the joy of work, and achieve growth and independence through their occupation. The company also contributes to society through interaction with the local community.



## Product Topics

### PGA: An Innovative Material Enhancing Shale Oil and Gas Extraction Technology

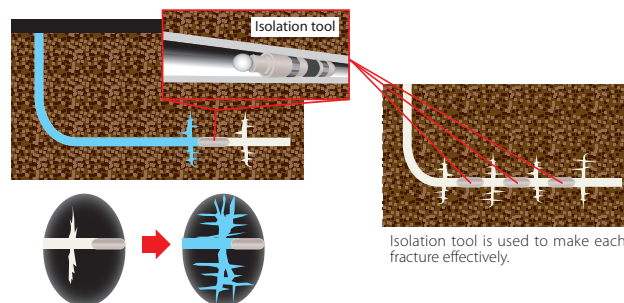
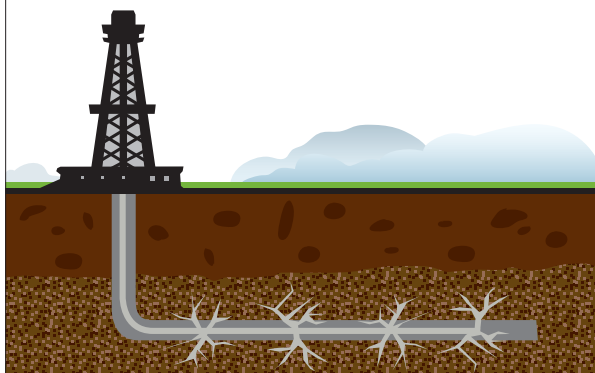
In recent years, new mining technologies have made it possible to extract gas and oil deposits from shale formations, triggering a so-called "Shale Revolution" with the potential to alter energy flows in the world economy. Kureha's innovative biodegradable polymer, PGA (polyglycolic acid) is playing an important role in these game-changing technologies.

Shale gas and oil extraction commonly use a technique called hydraulic fracturing or fracking. This involves drilling a wellbore horizontally in the shale layer, after which water mixed with sand and chemicals is pumped in at high pressure to make fractures in the shale, thereby releasing trapped gas and oil. This process is repeated at calculated intervals along the horizontal wellbore, creating several sections of fractured rock. Isolation tools are used to separate

each segment so that fractures can be created more effectively with greater water pressure.

PGA is very effective for use in these isolation tools. PGA is not only tough and heat-resistant, but is also environmentally compatible because, unlike metals or conventional plastics, it degrades in contact with water, thus requiring no drill-out or removal process after use.

Kureha was first in the world to create the technology to enable mass production of PGA and began commercial production in 2012. Kureha's PGA, traded worldwide under the name *Kuredux*, is a polymer with outstanding properties and environmental compatibility. We are expanding the material's possibilities to deliver value to our customers around the world.

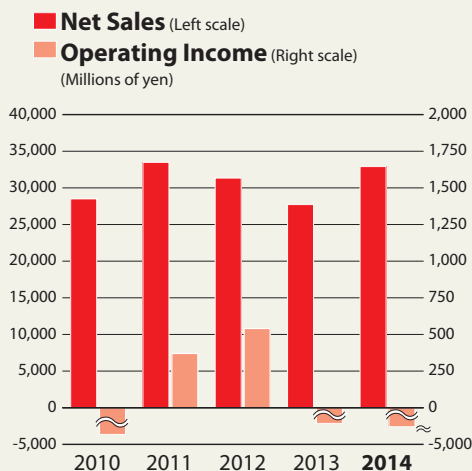


Water mixed with sand and chemicals is pumped in at high pressure to make fractures in the shale.

Isolation tool is used to make each fracture effectively.



## Advanced Materials



### Key products

- Polyphenylene sulfide (PPS)
- Polyvinylidene fluoride (PVDF)
- Polyglycolic acid (PGA)
- Carbon fiber
- Bead-shaped activated carbon
- Specialty carbon material

### Major Product Areas:

#### Advanced plastics (PPS, PVDF, PGA), carbon products

Advanced Materials division sales rose 19% year-on-year to ¥32.8 billion. However, the division reported an operating loss of ¥2.6 billion, largely due to continued weak demand for carbon fiber as an insulating material for silicon ingot manufacturing for solar-powered equipment.

#### Advanced plastics: Operating loss remains flat on sales growth

Sales of advanced plastics recorded low double-digit growth on the back of rising demand for PPS resin, particularly in the automotive sector, and for PVDF resin for use in lithium-ion battery binders for automotive and other commercial applications. There was also an increase in orders for PGA for use in shale gas extraction applications. However, earnings were mostly offset by increased operation costs.

#### Carbon products: Weak demand continues in solar applications

Carbon products sales rose slightly, due to rising sales of carbon materials for use as an anode material in lithium-ion batteries for hybrid-electric vehicles. However carbon fiber demand weakened for use as an insulating material for silicon ingot manufacturing for solar-powered equipment, resulting in a year-on-year widening of the operating loss.

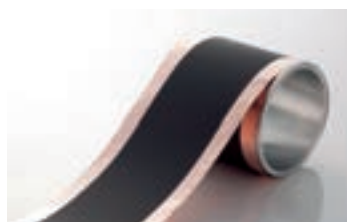
**Outlook:** FY2014 divisional sales are forecast to increase by 10% to ¥36.0 billion, with operating losses halved from ¥2.6 billion to ¥1.3 billion. Sales of advanced plastics are projected to grow further, with Kureha anticipating that the positive growth in demand for PPS resin for automotive applications will continue. With the start of operations at a new plant in Changshu, China, sales of PVDF resin are projected to expand, with further increase in demand for use in lithium-ion battery binders for automotive and other commercial applications. In addition, sales of PGA molded parts are also expected to grow for applications in the oil and gas industry based on alliance marketing in the North America region. Sales of carbon materials are projected to increase significantly on demand growth for anode materials with the expansion of the market for hybrid electric vehicles. In addition, recovery in the solar-powered equipment sector is anticipated in the second half of the year.



Polyvinylidene fluoride (KF Polymer)

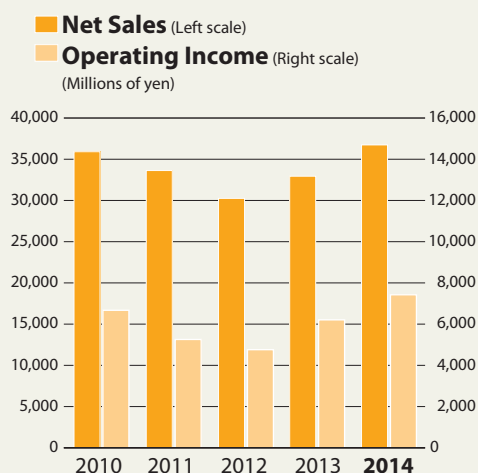


Carbon fiber insulation products (KRECA FR)



Hard carbon anode materials for lithium-ion batteries (CARBOTROM)

## Specialty Chemicals



### Key products

- Caustic soda
- Hydrochloric acid
- Sodium hypochlorite
- Monochlorobenzene
- para-Dichlorobenzene
- ortho-Dichlorobenzene
- Anti-cancer agent
- Therapeutic agent for chronic renal failure
- Agricultural and horticulture fungicide

### Major Product Areas: Industrial chemicals, agrochemicals, pharmaceuticals

Specialty Chemicals division sales were up 12% year-on-year to ¥36.6 billion from ¥32.8 billion. The division continued to see healthy profit growth, with operating income rising 20% to ¥7.3 billion. This was primarily due to the growth of export sales in the agrochemicals business, supported by the depreciating yen.

#### Pharmaceuticals: Sales volumes continue to increase

Sales of pharmaceutical products decreased slightly due to the absence of settlement funds from a patent lawsuit received in the previous period. However, *Kremezin*, a therapeutic agent for chronic renal failure continued to see increasing sales volumes.

#### Industrial chemicals: Continued sales increase

Industrial chemicals recorded moderate sales growth. However, the rise in raw materials and fuel costs continued to negatively impact organic chemicals, which resulted in a decline in operating income.

#### Agrochemicals: Volume growth and a weaker yen drive profit increase

Sales of agrochemical products *Metconazole*, an agricultural fungicide, and *Ipconazole*, a seed treatment fungicide, rose on strong demand in the North America region. The weaker yen further contributed to positive growth in profits.

**Outlook:** Specialty Chemicals divisional sales are projected to grow by a further 9% in FY2014 to ¥40.0 billion, while operating income is forecast to rise by 26% to ¥9.2 billion. Sales of industrial chemicals are projected to record a marginal increase, while Kureha works to maximize revenue through price adjustments to reflect rising raw materials and fuel prices. In the area of agrochemicals products, research and development costs are expected to increase, but Kureha anticipates that this will be offset by an increase in *Metconazole* volumes. Sales of pharmaceutical products are projected to increase with one-time benefits associated with business contracts as well as *Kremezin* sales growth, offsetting the impact of price revisions under the National Health Insurance system.

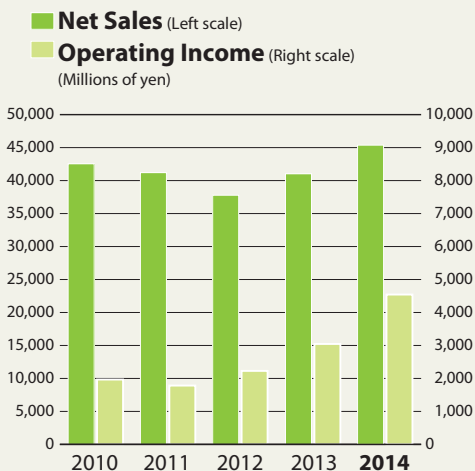


Therapeutic agent for chronic renal failure (*KREMEZIN*)



Agricultural and horticulture fungicide (*Metconazole*)

## Specialty Plastics



### Key products

- Polyvinylidene chloride (PVDC) film
- PVDC compound
- Multilayer shrinkable film
- Multilayer non-shrinkable film
- Multilayer bottle
- Household wrap film
- Plastic containers
- PVDF fishing lines
- Machinery for auto-seal food packaging

### Major Product Areas: Food packaging materials, household packaging products

Specialty Plastics division sales increased by 11% from ¥40.9 billion to ¥45.3 billion, while operating income for the division rose sharply by 51% to ¥4.5 billion, on the back of a demand hike preceding the April 1 consumption tax rise in Japan and improved profitability across major product lines.

#### Household packaging products: *NEW Krewrap* drives continued sales growth

Sales of household products continued to grow, rising 9% in comparison with the previous year. This was due to ongoing efforts to improve profitability across the division as a whole, as well as optimized pricing for *NEW Krewrap*, a key product. *NEW Krewrap* also saw a spike in sales ahead of the April 1 consumption tax increase in Japan.

#### Food packaging materials: Improved sales and profitability

Sales of food packaging materials slightly grew due largely to the favorable currency impact. Profitability also improved on the back of continued cost control efforts and enhanced earnings performance in Japan, Vietnam and European markets.

**Outlook:** FY2014 divisional sales are forecast to increase by 7% to ¥48.5 billion, although operating income is projected to decrease by 13% to ¥3.9 billion. Kureha projects a modest increase in sales of food packaging materials, as the company continues to expand global sales of high-performance films alongside ongoing efforts to improve profitability. Sales of packaging materials and *Seaguar* fishing lines by consolidated subsidiaries in the United States, amounting to approximately ¥1.5 billion, which had previously been recorded by the Advanced Materials division, will be transferred to the Specialty Plastics division from FY2014. In consumer products, Kureha will continue to optimize prices for *NEW Krewrap*, but slow sales are expected as demand normalizes after the spike seen at the end of FY2013 prior to the consumption tax increase. In addition, the PVDC plant now under construction at the Iwaki Factory is scheduled to come online and begin production in 4Q of FY2014.



Household wrap film (*New Krewrap*)



Food packaging film (*Krehalon ML*)



Fishing lines (*Seaguar*)

## Construction and Other Operations



### Major Product Areas: Construction, environmental engineering, transport/ warehousing, and trading related businesses

Construction sales rose by 15% from ¥15.0 billion to ¥17.2 billion, with operating income decreasing by 20% to ¥0.8 billion. Sales of Other Operations increased 14% from ¥14.2 billion to ¥16.2 billion, with operating income of ¥1.6 billion, a 165% increase.

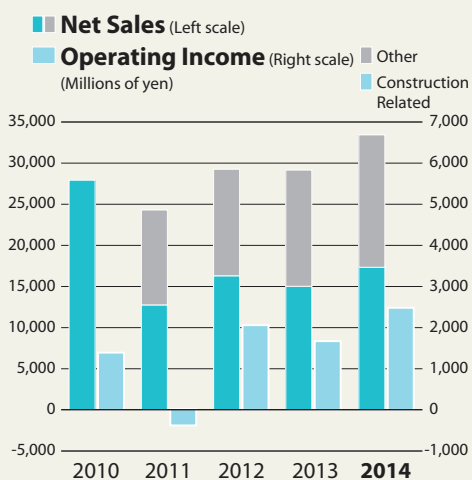
#### Construction: Rising demand but also rising costs

While construction businesses saw higher demand due to an increasing number of earthquake reconstruction projects, higher labor expenses and material costs led to a decrease in operating income.

#### Environmental engineering: Continued demand for industrial waste disposal

Environmental engineering sales rose significantly, due to operational improvements as well as increasing demand for industrial waste treatment.

**Outlook:** FY2014 divisional sales for Construction businesses are projected to decline by 19% to ¥14.0 billion, while operating income is expected to fall by 63% to ¥3.0 billion. Although post-earthquake reconstruction demand is expected to continue, a downturn in plant construction as well as higher labor and materials costs will have a negative impact on operating income. Divisional sales for Other Operations are estimated to increase by 2% to ¥16.5 billion, although operating income is projected to decrease by 13% to ¥14 billion. With disaster-related industrial waste disposal projects coming to an end, Kureha will shift its focus to increasing profitability via high-value operations such as micro-PCB (polychlorinated biphenyls) treatment work.



Note: Construction related business was separated from other business segment from fiscal 2011.

#### Key products and services

- Environmental engineering and industrial waste treatment
- Industrial facility design, construction and management
- Civil engineering and construction
- Transport and warehousing
- Environmental and physiochemical testing and analysis



Construction work



Industrial waste treatment facility





Kureha Corporation performs primary research and development (R&D), providing technology to all of the Kureha Group business. Kureha's R&D, with the aim of providing solutions that benefit the global environment and people's lives, designates priority research areas by identifying fields with a high degree of social value such as the environment, energy and health, and in which Kureha is able to leverage its technological strengths.

The R&D Division comprises four facilities—Research Center, Agrochemical Research Laboratories, Advanced Materials Research Laboratories, and Emerging Research Laboratories. In order to commercialize research outcomes as quickly as possible, each facility is working to promote cooperation with relevant business and manufacturing divisions, enhance operational efficiency, and accelerate the development process.

In the fiscal year ended March 2014, Kureha's R&D spending amounted to ¥4,586 million. An overview of spending is as follows:

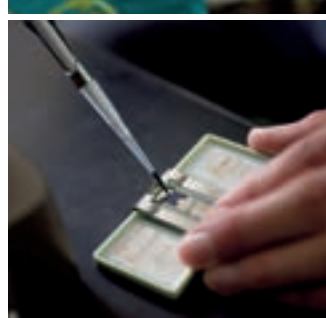


Research Center



Advanced Materials Research Laboratories





## Advanced Materials Division

In advanced plastics, for *Fortron KPS* (PPS), which is widely used in automobiles and electronic devices, Kureha is developing new grades of the material and exploring ways to further raise productivity. For *KF Polymer* (PVDF), we are developing and improving the backsheets used for solar panels.

For *Kuredux* (PGA), Kureha is proactively working to develop new applications. We are making steady progress in the development of applications for shale gas oil drilling and extraction, utilizing PGA's strength and degradability. We are also conducting technical development to expand the range of new applications that take advantage of the resin's various unique properties.

In battery-related materials, to secure our competitive advantage in anode materials for the large-scale lithium-ion batteries used in hybrid and electric vehicles, Kureha is optimizing its production processes, and pursuing R&D aimed at achieving its business plan. We are also developing high-performance grade binders to help maintain and grow market share.

R&D spending in this division amounted to ¥1,727 million.

## Specialty Chemicals Division

In agrochemicals, Kureha is working to expand markets, both in Japan and overseas, for the agricultural fungicide *Metconazole* and the seed treatment fungicide *Ipconazole*. To meet robust demand for *Metconazole*, we are working to enhance productivity, and are providing support for the expansion of production facilities.

In pharmaceuticals, we are providing supporting research at Adsorptive Medicine Technology Center incorporated into the Pharmaceuticals Division to enhance the earnings of *Kremezin*.

R&D spending in this division amounted to ¥1,846 million.

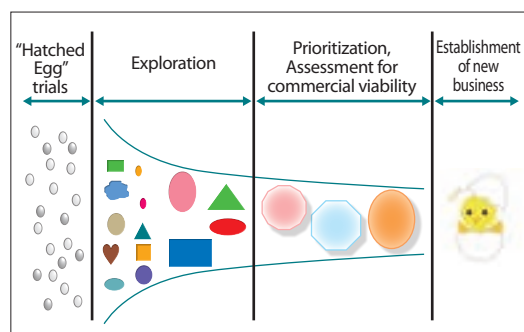
## Specialty Plastics Division

For *Krehalon* (PVDC), Kureha is pursuing technology development to ensure stable supply and improve quality. In addition, to further global business development we are actively providing technical assistance to customers in Japan and overseas.

R&D spending in this division amounted to ¥1,012 million.

## "Hatched Egg" Trials

Since fiscal 2012, Kureha has taken steps to enhance exploratory research for new technologies and products that will support Kureha's next-generation business. One such effort is "hatched egg" trials, in which once a year researchers are invited to present their unrefined ideas for new research themes to peer researchers. Proposed themes and ideas are then scrutinized, explored and further evaluated for commercial value by senior researchers specialized in the field. The aim of 'hatched egg trials' is to identify multiple research themes ("hatched eggs") at an early stage and increase the chance of generating new products and businesses in the future. This also helps researchers to build and strengthen their working network in and outside the company, while also cultivating a corporate culture that encourages open and active communication among researchers.



# Responsible Care



**Kureha, an inaugural member of the Japan Responsible Care Council founded in 1995, continues to pursue Responsible Care initiatives to improve health, safety and environmental performance throughout its operations. We regard our commitment to Responsible Care as an integral part of our corporate responsibility.**



## Responsible Care Implementation

Together, all Kureha group companies have established the All Kureha Responsible Care Committee. Through this committee, the company is working to enhance its efforts in various fields, including environmental protection, security and disaster response, labor safety and hygiene, product safety and quality assurance, logistics safety, energy conservation, and community relations.

Kureha has obtained ISO 14001, the international standard for environmental management, as well as ISO 9001 for product quality management and OHSAS 18001 for labor safety and hygiene management. The Company is further enhancing efforts aimed at improving responsible care activities through a "plan, do, check, act" activity cycle.

## Reducing the Burden on the Environment

Since its establishment, Kureha has developed technologies and products with a view to reducing the burden on the environment. In the case of the Iwaki Factory, Kureha seeks to create a manufacturing facility that minimizes stress on the environment by implementing measures such as air and water pollution prevention,

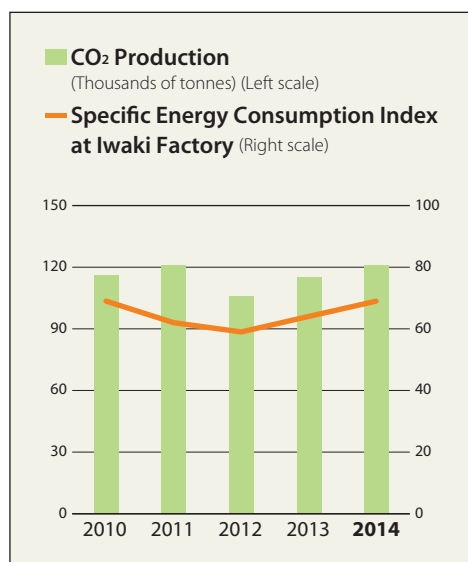
reduction of chemical material and industrial waste, odor control, and adoption of the Energy Consumption Index.

## Disaster Prevention

Safety and disaster prevention are among the most important responsibilities of a manufacturing factory. In order to respond to the trust the community places in the company, Kureha manages its facilities and operations in strict compliance with the relevant laws. In addition, the company implements a safety and disaster prevention program which includes its own voluntary control criteria, activities and training.

## Contributing to the Community

In addition to Kureha General Hospital being used as a community medical facility in the southern part of Iwaki City, Kureha contributes to the local community in a variety of different ways. These include opening company sports facilities for public use, volunteering for clean up activities, offering science classes at elementary schools and holding community meetings to initiate dialogue with local neighborhood associations.



Disaster drill



Wastewater treatment system



Kureha General Hospital

**Maximizing the corporate value of all group companies is a fundamental policy of Kureha. In order to achieve this goal, Kureha is working to enhance governance and other internal control functions, guarantee business transparency and fair disclosure of information, and to implement Responsible Care policies.**

## Management, Execution and Decision-Making Framework

1. Supervisory and executive responsibilities are clearly distinguished to strengthen corporate governance and accelerate managerial decision-making and execution.

The Board of Directors, which includes 2 outside directors who are independent from executive duties and is limited to a maximum of 10 directors in total, currently consists of 6 directors. The Board, presided over by the President & Representative Director, meets once a month in principle, to make decisions on important management issues and supervise execution.

The Executive Committee, chaired by the President & CEO and comprised of executive officers appointed by the President & CEO, meets twice a month in principle. The committee considers basic authoritative policies and mid- and long-term management strategy that cover all aspects of general management. The committee members pass resolutions on issues as authorized in official company regulations and take steps to ensure speedy implementation.

To clarify responsibilities for fiscal year results, a one-year term is given to all directors and executive officers.

The Consolidated Executive Committee, set up to unify the Kureha Group's internal policies and long-term management vision, is chaired by the President & CEO. It serves as a forum to exchange views with representatives from each group company, with the aim of strengthening consolidated management.

2. A total of four corporate auditors (including two external auditors) undertake auditing activities. This group works within a framework that allows them to monitor the deliberation processes of board resolutions and reports, as well as have a representative corporate auditor attend and monitor meetings of the Executive Committee and the Consolidated Executive Committee. In addition, auditors are able to access documentation including all documents requiring senior approval, results of internal audits, and documentation on the status of customer inquiries.

Corporate auditors interact with accounting and internal control functions, for example to exchange opinions on audit planning and progress. They also regularly exchange opinions with the President & Representative Director and outside directors on management matters including corporate governance, business conditions and issues that the company should address.

In addition, the Internal Control and Auditing Department acts independently of other departments and under direct management and supervision of the President & CEO. Based on an annual internal audit plan approved by the Board of Directors, this department assesses the suitability and effectiveness of internal management control systems including compliance and risk management. It then proposes necessary or desired changes and improvements, so as to enhance both management efficiency and public trust in Kureha.

## Internal Control System

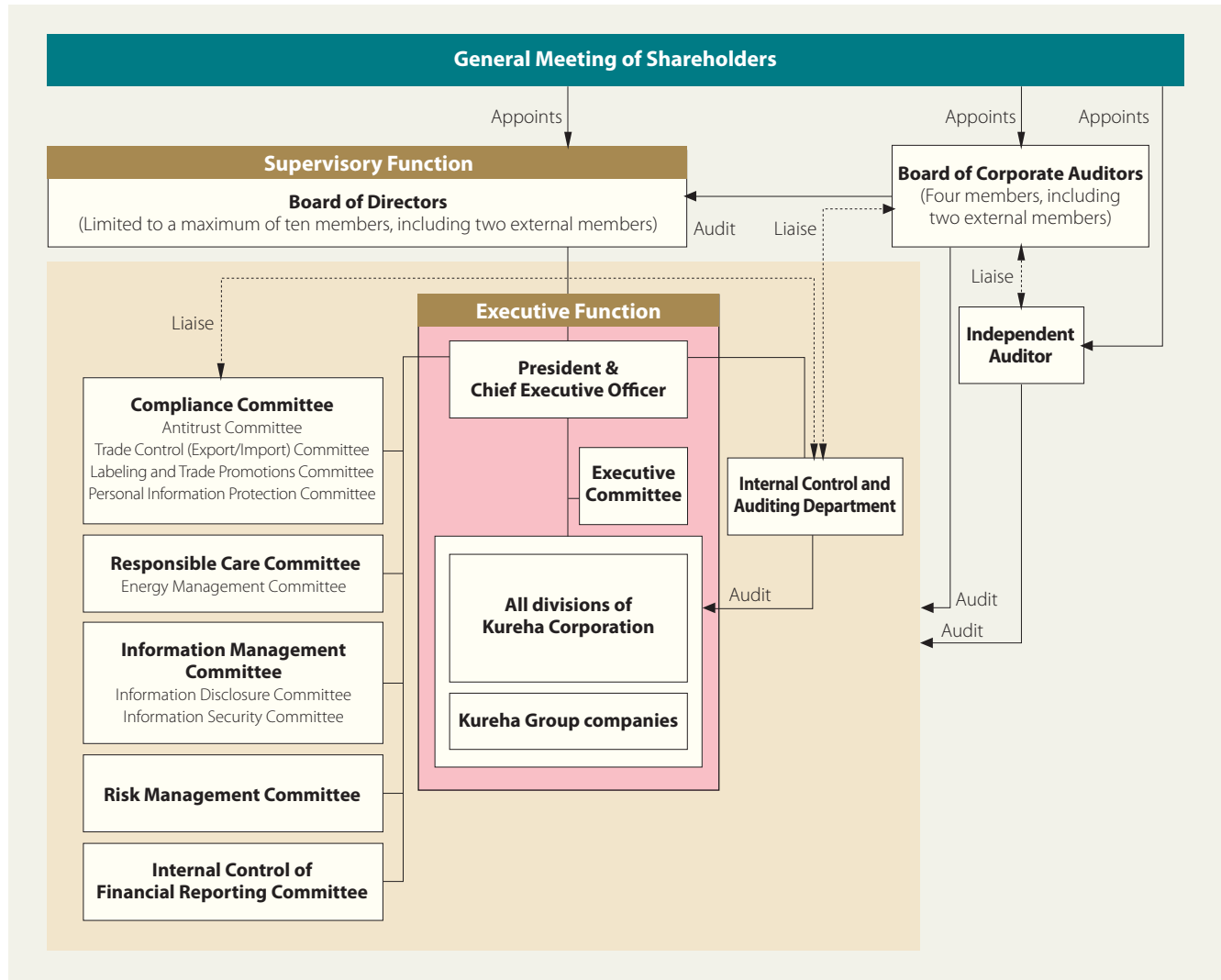
To further strengthen its internal control system, Kureha has established a set of basic policies, committees and internal rules to ensure that it observes laws and regulations and conducts its business operations in an appropriate and fair manner.

Under this system, Kureha publishes Internal Control Reports under the responsibility of the President & CEO. In addition, Kureha has also established a set of Basic Rules for Internal Control of Financial Reports to ensure the reliability of the financial reports and to guarantee implementation of management's assessment and certified public accountant's auditing of the effectiveness of internal control of financial reports, as stipulated in the Financial Instruments and Exchange Law.

## Compliance Program Framework

Kureha has in place a compliance program framework, based on the Kureha Group Ethical Charter and its Compliance Rules. Kureha's compliance objective is to ensure that all executives and employees act in a manner that is consistent with legal compliance and that also meets the standards of our society. This framework is constantly being improved and reinforced so as to cultivate a compliance-focused corporate culture.

Diagram of Internal Control Systems (As of June 30, 2014)



The Compliance Committee, led by the President & Chief Executive Officer (CEO), keeps employees informed of compliance issues through training programs and other activities based on the Compliance Handbook and the Compliance Standards. In addition, direct access to internal and external (legal) advisers for inquiries and reporting on compliance issues is maintained so that legal violations, confirmed or suspected, can be detected and deterred at an early stage.

## Risk Management System

In response to various types of risk accompanying business activities, Kureha has established a risk management structure consisting of a Risk Management Committee, a Responsible Care Committee and an Information Management Committee. Each committee is tasked with recognizing related risks, and proposes concrete measures to the President & Representative Director

aimed at reducing and avoiding risk and manages implementation.

In addition, to respond to unforeseen circumstances, a system is in place for the establishment of an emergency response task force, with the objective of prioritizing the safety of personnel, minimizing economic damage, and ensuring the continuation of corporate activities.

In terms of information management, Kureha works rigorously to ensure appropriate security and disclosure based on its regulations for information control, security and disclosure, with individual committees set up to oversee each of these areas.

To address environmental and safety risks, management procedures for the environment, quality, and labor safety have been established that comply with ISO 14001, ISO 9001, and OHSAS 18001 standards. In addition, Kureha is also continuing with ongoing efforts to improve environmental conservation, quality assurance, and occupational health and safety.

# Directors, Executive Officers and Corporate Auditors

## Board of Directors



**Yutaka Kobayashi**

President & Chief Executive Officer



**Keikichi Munakata**

Senior Executive Vice President  
Chief Financial Officer  
Chief Administrative Officer



**Tadashi Sagawa**

Executive Vice President  
Managing Director of Production and  
Responsible Care, General Manager of  
Iwaki Factory, Manufacturing Sector



**Shusuke Matsuo**

Senior Vice President  
Managing Director of Advanced  
Materials and PGA Businesses



**Tsuneharu Takeda**

Outside Director  
External Board Member, KCJ GROUP INC.  
Senior Advisor and Director, Mandarin  
Oriental, Tokyo K.K.  
Senior Advisor, Seiko Holdings Corporation  
Adviser, Pasona Inc.



**Shigeto Umatani**

Outside Director  
Audit & Supervisory Board Member, The  
Michinoku Bank, LTD.

## Board of Corporate Auditors

**Yoichi Kiyosuke**

**Haruki Yamaguchi**

**Mitsuo Sato**

**Masaru Kitamura**

## Officers

**Yoshiki Shigaki**

Senior Vice President, Managing  
Director of R&D and Engineering,  
General Manager of Engineering  
Division

**Naoki Fukuzawa**

Senior Vice President, General  
Manager of Krehalon Division

**Yoshio Noda**

Senior Vice President, General  
Manager of Corporate Planning  
Division, Project Manager for  
Promotion of Corporate  
Managerial Reform

**Toru Yoshida**

Vice President, General Manager of  
Accounting Center

**Hiroshi Sakabe**

Vice President, General Manager of  
Research & Development Division

**Yoshinori Shiojiri**

Vice President, Deputy General Manager  
of Iwaki Factory

**Hiroyuki Tanaka**

Vice President, General Manager of  
Administration Division

**Michihiro Sato**

Vice President, General Manager of  
Plastics Processing Factory

**Fumihiko Yamada**

Vice President, General Manager of  
Home Products Division

**Katsuhiro Natake**

Vice President, General Manager of  
Advanced Materials Division

**Naomitsu Nishihata**

Vice President, General Manager of  
PGA Division

**Satoshi Yonezawa**

Vice President, General Manager of  
Chemicals & Agrochemicals Division

**Masahiro Namikawa**

Vice President, General Manager of  
Pharmaceuticals Division



# Consolidated Five-Year Summary

Kureha Corporation and Consolidated Subsidiaries  
Years ended March 31, 2014, 2013, 2012, 2011 and 2010

	Millions of yen					Thousands of U.S. dollars (Note 2)
	2014	2013	2012	2011	2010	2014
<b>For the year:</b>						
Net sales:	<b>¥148,124</b>	¥130,550	¥128,358	¥132,309	¥134,606	<b>\$1,439,214</b>
Domestic	<b>105,588</b>	98,269	97,461	101,696	107,740	<b>1,025,923</b>
Overseas	<b>42,534</b>	32,278	30,896	30,613	26,866	<b>413,272</b>
Net sales by segment:						
Advanced materials	<b>32,815</b>	27,650	31,253	33,391	28,423	<b>318,839</b>
Specialty chemicals	<b>36,615</b>	32,833	30,182	33,552	35,831	<b>355,761</b>
Specialty plastics	<b>45,291</b>	40,900	37,672	41,092	42,430	<b>440,060</b>
Other operations	<b>33,401</b>	29,164	29,250	24,274	27,921	<b>324,533</b>
Construction Related	<b>17,238</b>	14,967	16,300	12,760	—	<b>167,489</b>
Other	<b>16,163</b>	14,197	12,950	11,514	—	<b>157,044</b>
Operating income	<b>11,902</b>	8,458	8,472	6,350	5,706	<b>115,643</b>
Advanced materials	<b>(2,625)</b>	(2,131)	534	363	(3,645)	<b>(25,505)</b>
Specialty chemicals	<b>7,341</b>	6,136	4,715	5,203	6,619	<b>71,327</b>
Specialty plastics	<b>4,519</b>	2,988	2,226	1,790	1,948	<b>43,907</b>
Other operations	<b>2,454</b>	1,651	2,046	(348)	1,379	<b>23,843</b>
Construction Related	<b>833</b>	1,038	1,114	(387)	—	<b>8,093</b>
Other	<b>1,621</b>	613	932	39	—	<b>15,750</b>
Elimination or corporate	<b>212</b>	(186)	(1,051)	(658)	(595)	<b>2,059</b>
Net income	<b>7,365</b>	3,212	1,460	692	1,571	<b>71,560</b>
Capital expenditure	<b>16,468</b>	19,984	14,360	14,076	16,943	<b>160,007</b>
Depreciation	<b>9,096</b>	8,882	9,580	10,266	11,126	<b>88,379</b>
R&D expenses	<b>4,586</b>	4,389	5,080	5,502	6,240	<b>44,558</b>
Advanced materials	<b>1,727</b>	1,756	1,933	1,741	1,787	<b>16,780</b>
Specialty chemicals	<b>1,846</b>	1,731	2,293	2,765	3,372	<b>17,936</b>
Specialty plastics	<b>1,012</b>	900	853	996	1,080	<b>9,832</b>
Other operations	<b>—</b>	—	—	—	—	<b>—</b>
Cash flows from operating activities	<b>14,058</b>	10,246	12,144	12,509	15,847	<b>136,591</b>
Cash flows from investing activities	<b>(20,444)</b>	(19,595)	(14,169)	(11,432)	(17,682)	<b>(198,639)</b>
Cash flows from financing activities	<b>4,673</b>	10,264	370	2,720	1,999	<b>45,404</b>
<b>Year-end:</b>						
Total assets	<b>¥224,459</b>	¥205,284	¥186,223	¥181,753	¥184,623	<b>\$2,180,907</b>
Net assets	<b>106,190</b>	96,211	88,554	89,500	96,822	<b>1,031,772</b>
Interest-bearing debt	<b>77,225</b>	68,448	56,683	54,885	47,969	<b>750,340</b>
			Yen			U.S. dollars
<b>Amounts per share:</b>						
Net income – basic	<b>¥ 42.87</b>	¥ 18.71	¥ 8.51	¥ 3.97	¥ 8.77	<b>\$ 0.41</b>
Net assets	<b>604.00</b>	546.69	510.37	517.47	538.1	<b>5.86</b>
Cash dividends	<b>11</b>	10	10	10	10	<b>0.10</b>
			Percent			
<b>Ratios:</b>						
Operating income to net sales	<b>8.0%</b>	6.5%	6.6%	4.8%	4.2%	
Net income to net sales	<b>5.0</b>	2.5	1.1	0.5	1.2	
Return on equity	<b>7.5</b>	3.5	1.7	0.7	1.6	
Return on assets	<b>5.7</b>	3.4	4.3	3.1	3.0	
Equity ratio	<b>46.2</b>	45.7	47.0	48.9	52.2	

Notes: 1. For convenience only, U.S. dollar amounts have been translated from Japanese yen at the rate of ¥102.92 to US\$1, the rate of exchange prevailing on the Tokyo Foreign Exchange Market on March 31, 2014.

2. For amounts per share, see Note 21 of the Notes to Consolidated Financial Statements.

# Management Discussion and Analysis

## Business environment

During the fiscal year ended March 31, 2014, the Japanese economy was on a recovery trend as a result of monetary easing and other economic policies. With regard to the world economy, although China's economic growth slowed, the US economy recovered robustly, European sovereign crisis recurrence risk decreased, and emerging economies were comparatively strong. Thus, there was a positive sign in part of the management environment for the Company.

## Analysis of business results

Net sales in the subject fiscal year increased ¥17,573 million year-on-year to ¥148,124 million. Gross profit increased ¥5,321 million to ¥39,089 million, and the gross profit margin increased from 25.9% in the previous fiscal year to 26.4%. Selling, general and administrative expenses increased ¥1,878 million from the previous fiscal year to ¥27,187 million. Operating income increased ¥3,443 million year-on-year to ¥11,902 million. The operating income ratio increased from 6.5% in the previous fiscal year to 8.0%.

Other expenses (net of other income) for the fiscal year ended March 31, 2014 amounted to ¥1,273 million, a decrease of ¥1,719 million, compared to ¥2,992 million for the fiscal year ended March 31, 2013. As a result of the above, income before income taxes and minority interests increased ¥5,162 million to ¥10,629 million.

Total income taxes amounted to ¥3,023 million. Minority interests amounted to ¥240 million. As a result, net income increased ¥4,152 million from the previous fiscal year to ¥7,365 million.

## Cash flow analysis

The balance of cash and cash equivalents at the end of the subject fiscal year (March 31, 2014) amounted to ¥8,726 million, a decrease of ¥1,228 million from the end of the previous fiscal year (March 31, 2013). An outline of individual cash flows and the main factors affecting each is as follows:

### Cash flow from operating activities

Net cash provided by operating activities amounted to ¥14,058 million, an increase of ¥3,811 million from the previous fiscal year. This was mainly due to an increase in income before income taxes and minority interests and a decrease in payments for trade notes and accounts payable, while trade notes and accounts receivable as well as income taxes paid increased.

### Cash flow from investment activities

Net cash used in investment activities amounted to ¥20,444 million, an increase of ¥849 million from the previous fiscal year. This was mainly due to an increase in payments for purchase of investments in securities, while payments for purchases of property, plant and equipment and intangible fixed assets decreased.

### Cash flow from financing activities

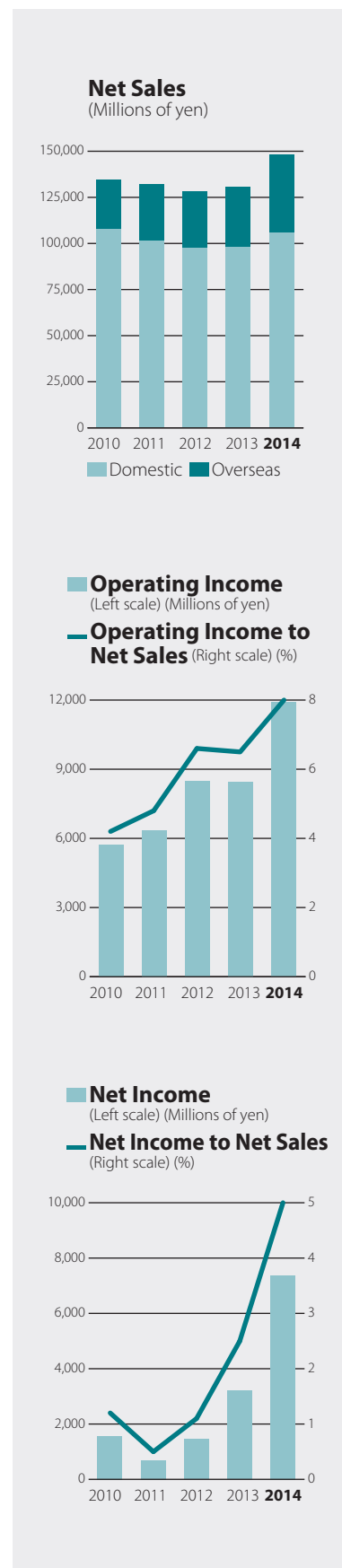
Net cash provided by financing activities amounted to ¥4,673 million, a decrease of ¥5,591 million from the previous fiscal year. This was mainly because there was no proceeds from issuance of bonds with stock acquisition rights, which was recorded in the previous fiscal year, while funds increased due to commercial paper issuance and loans.

## Financial policy

The Kureha Group's basic policy is to maximize cash flows from operating activities by securing earnings in line with its business plan and by enhancing asset efficiency, and to allocate cash with priority given to capital expenditure for new businesses and expansion of existing businesses, investments and loans, research and development, and dividend payments to investors. In line with this policy, Kureha procures required capital with priority given to securing long-term funding, and in consideration of the balance between long- and short-term borrowings.

## Balance sheet analysis

As of March 31, 2014, total assets amounted to ¥224,459 million, an increase of ¥19,174 million from the end of the previous fiscal year (March 31, 2013). Current assets totaled ¥73,429 million, an increase of ¥5,218 million from the end of the previous fiscal year. This was mainly due to an increase in inventories and trade notes and accounts receivable.



Property, plant and equipment, net totaled ¥111,684 million, up ¥12,240 million from a year earlier, due mainly to capital expenditure at the Iwaki Factory.

Total liabilities at the end of the subject fiscal year amounted to ¥118,268 million, an increase of ¥9,194 million from the end of the previous fiscal year. This was mainly because interest-bearing debt increased ¥8,776 million from the end of the previous fiscal year to ¥77,225 million as a result of an increase in loans payable, etc.

Total net assets for the subject fiscal year amounted to ¥106,190 million, an increase of ¥9,979 million from the end of the previous fiscal year. This mainly resulted from net income of ¥7,365 million, dividends paid of ¥1,717 million from retained earnings, and an increase in translation adjustments.

## Overview of capital expenditure

The Kureha Group has designated advanced materials, pharmaceuticals and agrochemicals, and environment-related businesses as core businesses that drive earnings, and as such actively invests in these areas. Total capital expenditure during the fiscal year ended March 31, 2014 amounted to ¥16,468 million.

### Capital expenditure by business division:

The Advanced Materials Division invested ¥4,049 million, mainly for PVDF (polyvinylidene fluoride) resin production facilities (Kureha (Changshu) Fluoropolymers Co., Ltd.), etc.

The Specialty Chemicals Division invested ¥1,004 million, primarily on production facilities for pharmaceuticals (Kureha).

The Specialty Plastics Division invested ¥8,207 million, primarily for manufacturing facilities for polyvinylidene chloride resin (Kureha).

The Construction Related Division invested ¥84 million.

The Other Operations Division invested ¥845 million, mainly on industrial waste processing facilities (Kureha Ecology Management Co., Ltd.).

In addition, as a joint initiative, the Advanced Materials, Specialty Chemicals, and Specialty Plastics Divisions invested ¥2,277 million in such areas as environmental conservation projects (Kureha), and private power plant facilities (Kureha).

Capital required for these investments was procured from cash-at-hand, corporate bonds, and borrowings.

## Business and other risks

The Kureha Group's business operations are diverse, comprising the Advanced Materials Division focused on PPS resin, PVDF resin and carbon products; the Specialty Chemicals Division focused on pharmaceuticals, agrochemicals and industrial chemicals; the Specialty Plastics Division focused on household products and food packaging; the Construction Related Division focused on construction and engineering; and the Other Operations Division including environmental businesses and logistics. By region, the Group conducts business in Japan as well as Europe, North America, and Asia.

The main factors that could affect the operating results, stock price, financial position and other aspects of the Kureha Group are as follows.

Forward-looking statements in this text are based on evaluations made at the time of the Company's securities report filing (June 25, 2014).

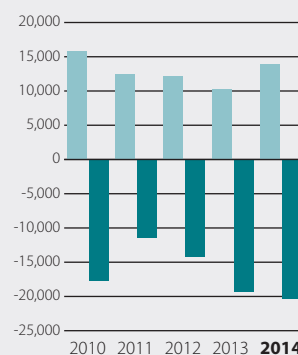
### (1) Changes in the business environment in Japan and overseas; changes in the market price of products

The Kureha Group's business is exposed to external factors such as changes in markets or customers, and intensification of competition with competing companies. Accordingly, changes such as a decrease in demand for the Group's principle products, customers shifting production overseas, and an increase in production capacity by competing firms, could therefore influence the Group's operating results and financial position.

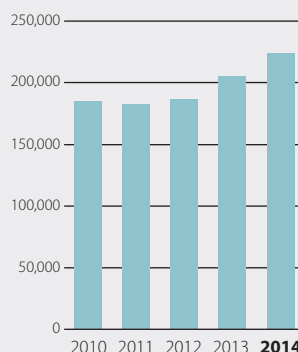
### (2) Changes in fuel and raw material prices

Raw materials such as naphtha and coal used by the Kureha Group, as well as fuel, are susceptible to changes in market conditions. As a result, changes such as an increase in the price of these raw materials, or the inability to shift the additional cost to product prices in a timely and appropriate manner, could have a negative effect on the Group's operating results and financial position.

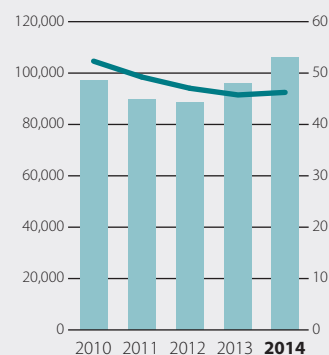
**Cash Flows from Operating Activities**  
**Cash Flows from Investing Activities**  
(Millions of yen)



**Total Assets**  
(Millions of yen)



**Net Assets**  
(Left scale) (Millions of yen)  
**Equity Ratio**  
(Right scale) (%)



### (3) Product liability

The Kureha Group's core business is chemical manufacturing. The Group is acutely aware of the risks connected with its products and the manufacturing process, and is careful to continually exercise Responsible Care (autonomous management for environmental conservation, disaster safety and other measures). However, should a significant, unforeseen quality issue arise, there could be a negative effect on the Group's operating results and financial position.

### (4) The Specialty Chemicals Division's pharmaceutical business

One of the Kureha Group's core businesses is the manufacture and sale of pharmaceuticals. Accordingly, revisions to drug prices under Japan's medical insurance system could have a negative effect on the Group's operating results.

### (5) Country risks for overseas businesses

The Kureha Group conducts business in Europe, North America and Asia. Accordingly, changes such as deterioration in the political or economic situation in these regions, the enactment or abolishment of laws and regulations, international tax practice risks such as transfer price taxation, and deterioration in public safety, as well as unforeseen circumstances such as terrorism, armed conflict or natural disaster, could have a negative effect on the Group's operating results and financial position.

### (6) Currency fluctuations

The items in Kureha Group's financial statements not denominated in yen are susceptible to fluctuations in exchange rates when converted into yen. The Group concludes exchange contracts and takes other steps to minimize the effects of fluctuations in exchange rates. However, fluctuations in exchange rates beyond those predicted could have a negative effect on the Group's operating results and financial position.

### (7) Investment securities

Of the ¥31,682 million in investment in securities, the Kureha Group held a total of ¥21,747 million for the purpose of long-term holdings (9.7% of total assets on a consolidated basis) as of the end of the subject fiscal year. Significant changes in market prices, or in the financial position of the issuing companies, could have a negative effect on the Group's operating results and financial position.

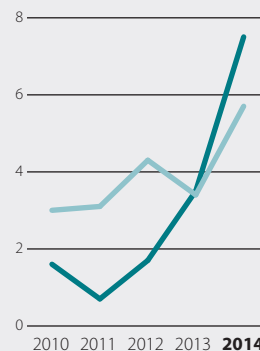
### (8) Occurrence of natural disasters or accidents

Manufacturing for the Kureha Group's principal products is concentrated in the production division of the Iwaki Factory (Iwaki, Fukushima Prefecture), and as such the Company makes continual efforts focused on this facility for environmental conservation and to ensure safety. However, damage to production facilities as a result of natural disasters such as major earthquakes or typhoons, or due to accidents, could have a negative effect on the Group's operating results and financial position.

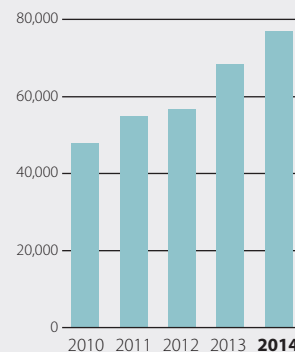
### (9) Litigation

The Kureha Group has established the "Kureha Group Ethical Charter," "Compliance Rules" and "Compliance Standards," and strives to ensure that the Group strictly complies with all laws, regulations and societal norms. However, there is a risk that the Group's domestic or overseas businesses could be the target of lawsuits, administrative measures or other action. A major lawsuit or other action be taken filed against Kureha could have a negative effect on the Group's operating results and financial position.

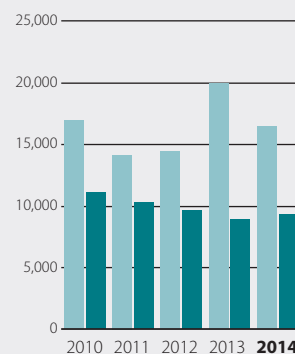
— Return on Assets  
— Return on Equity  
(%)



■ Interest-Bearing Debt  
(Millions of yen)



■ Capital Expenditure  
■ Depreciation  
(Millions of yen)



# Consolidated Balance Sheets

Kureha Corporation and its Consolidated Subsidiaries  
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>ASSETS</b>			
<b>Current assets:</b>			
Cash and time deposits (Notes 5 & 8)	¥ 8,726	¥ 9,954	\$ 84,784
Trade notes and accounts receivable (Notes 6 & 8)	30,445	27,480	295,812
Inventories (Note 7)	28,101	25,318	273,037
Deferred tax assets (Note 14)	2,680	2,129	26,039
Others (Note 8)	3,591	3,418	34,891
Less: Allowance for doubtful accounts (Note 8)	(118)	(92)	(1,146)
Total current assets	73,429	68,210	713,457
<b>Property, plant and equipment, net (Note 11):</b>			
Buildings and structures	33,378	32,176	324,310
Machinery, equipment and vehicles	39,178	35,680	380,664
Land	13,198	13,467	128,235
Construction in progress	23,426	15,681	227,613
Others	2,501	2,438	24,300
Total property, plant and equipment, net	111,684	99,444	1,085,153
<b>Investments and other assets:</b>			
Investments in securities (Notes 8, 9 & 11)	31,682	28,333	307,831
Long-term loans (Note 8)	2,070	2,060	20,112
Net defined benefit asset (Note 13)	34	—	330
Deferred tax assets (Note 14)	1,524	1,371	14,807
Others	4,170	6,033	40,516
Less: Allowance for doubtful accounts	(138)	(169)	(1,340)
Total investments and other assets	39,345	37,629	382,287
<b>Total assets (Note 24)</b>	<b>¥224,459</b>	<b>¥205,284</b>	<b>\$2,180,907</b>

The accompanying notes are an integral part of these statements.



	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>LIABILITIES AND NET ASSETS</b>			
<b>Current liabilities:</b>			
Trade notes and accounts payable (Notes 6, 8 & 11)	¥ 16,453	¥ 15,940	\$ 159,862
Short-term loans payable including current portion of long-term debt (Notes 8, 10 & 11)	18,606	18,088	180,781
Other payables (Note 8)	6,149	7,146	59,745
Accrued income taxes (Note 14)	2,526	1,899	24,543
Accrued expenses	5,347	4,854	51,952
Accrued bonuses	2,591	2,283	25,174
Reserve for environmental measures	21	—	204
Others (Note 14)	5,340	2,665	51,884
Total current liabilities	57,037	52,877	554,187
<b>Long-term liabilities:</b>			
Long-term debt (Notes 8, 10 & 11)	56,619	50,359	550,126
Deferred tax liabilities (Note 14)	1,836	2,794	17,839
Reserve for employees' retirement benefits (Note 13)	—	556	—
Retirement allowance for directors and corporate auditors	284	341	2,759
Asset retirement obligations	792	797	7,695
Reserve for environmental measures	437	474	4,246
Net defined benefit liability (Note 13)	440	—	4,275
Others	819	871	7,957
Total long-term liabilities	61,231	56,195	594,937
Total liabilities	118,268	109,073	1,149,125
<b>Net assets:</b>			
<b>Shareholders' equity (Note 23):</b>			
Capital, non par value			
Authorized: 2014 and 2013 – 600,000,000 shares			
Issued: 181,683,909 shares in 2014 and 2013	12,460	12,460	121,064
Capital surplus	10,013	10,017	97,289
Retained earnings	78,289	72,614	760,678
Less: Treasury stock, at cost	(4,483)	(4,510)	(43,558)
Total shareholders' equity	96,279	90,580	935,474
<b>Accumulated other comprehensive income (loss):</b>			
Unrealized gain on available-for-sale securities (Note 9)	5,649	5,636	54,887
Deferred loss on hedges (Note 20)	(17)	(32)	(165)
Translation adjustments	3,621	(2,300)	35,182
Remeasurements of defined benefit plans (Note 13)	(1,771)	—	(17,207)
Total accumulated other comprehensive income	7,481	3,303	72,687
<b>Stock acquisition rights (Note 16)</b>	<b>51</b>	<b>62</b>	<b>495</b>
<b>Minority interests</b>	<b>2,378</b>	<b>2,264</b>	<b>23,105</b>
Total net assets	106,190	96,211	1,031,772
<b>Total liabilities and net assets</b>	<b>¥224,459</b>	<b>¥205,284</b>	<b>\$2,180,907</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Income

Kureha Corporation and its Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Net sales (Note 24)</b>	<b>¥148,124</b>	¥130,550	<b>\$1,439,214</b>
<b>Cost of sales</b>	<b>109,034</b>	96,782	<b>1,059,405</b>
Gross profit	<b>39,089</b>	33,767	<b>379,799</b>
<b>Selling, general and administrative expenses (Note 17)</b>	<b>27,187</b>	25,309	<b>264,156</b>
Operating income	<b>11,902</b>	8,458	<b>115,643</b>
<b>Other income (expenses):</b>			
Interest and dividend income	<b>660</b>	643	<b>6,412</b>
Interest expense	<b>(732)</b>	(820)	<b>(7,112)</b>
Foreign exchange gains	<b>761</b>	457	<b>7,394</b>
Subsidy income	<b>477</b>	311	<b>4,634</b>
Gain on sales of investments in securities (Note 9)	<b>193</b>	3	<b>1,875</b>
Compensation income	<b>77</b>	148	<b>748</b>
Gain on sales of property, plant and equipment (Note 18)	<b>15</b>	6	<b>145</b>
Loss on disposal and sales of property, plant and equipment (Note 18)	<b>(1,183)</b>	(810)	<b>(11,494)</b>
Advanced depreciation of property, plant and equipment	<b>(424)</b>	(148)	<b>(4,119)</b>
Loss on debt waiver of receivables from affiliates	<b>(300)</b>	—	<b>(2,914)</b>
Impairment loss (Note 19)	<b>(133)</b>	—	<b>(1,292)</b>
Loss due to disaster	<b>(117)</b>	—	<b>(1,136)</b>
Depreciation of idle assets	—	(1,431)	—
Provision for environmental measures	—	(263)	—
Other, net	<b>(570)</b>	(1,091)	<b>(5,538)</b>
Other expenses, net	<b>(1,273)</b>	(2,992)	<b>(12,368)</b>
<b>Income before income taxes and minority interests</b>	<b>10,629</b>	5,466	<b>103,274</b>
<b>Income taxes (Note 14):</b>			
Current	<b>3,647</b>	2,466	<b>35,435</b>
Deferred	<b>(624)</b>	(168)	<b>(6,062)</b>
Total income taxes	<b>3,023</b>	2,297	<b>29,372</b>
<b>Net income before minority interests</b>	<b>7,605</b>	3,168	<b>73,892</b>
<b>Minority interests</b>	<b>240</b>	(44)	<b>2,331</b>
<b>Net income</b>	<b>¥ 7,365</b>	¥ 3,212	<b>\$ 71,560</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Comprehensive Income (Loss)

Kureha Corporation and its Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Net income before minority interests</b>	<b>¥ 7,605</b>	¥3,168	<b>\$ 73,892</b>
<b>Other comprehensive income (loss):</b>			
Unrealized gain on available-for-sale securities	<b>33</b>	2,037	<b>320</b>
Deferred gain (loss) on hedges	<b>15</b>	(26)	<b>145</b>
Translation adjustments	<b>5,396</b>	2,560	<b>52,429</b>
Share of other comprehensive income in affiliates	<b>580</b>	211	<b>5,635</b>
Total other comprehensive income (Note 21)	<b>6,026</b>	4,782	<b>58,550</b>
<b>Comprehensive income</b>	<b>¥13,632</b>	¥7,951	<b>\$132,452</b>
<b>Comprehensive income attributable to:</b>			
Owners of parent	<b>¥13,314</b>	¥7,961	<b>\$129,362</b>
Owners of minority interests	<b>317</b>	(9)	<b>3,080</b>

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Changes in Net Assets

Kureha Corporation and its Consolidated Subsidiaries  
For the year ended March 31, 2014

	Millions of yen					
	<b>Shareholders' equity</b>					
	Number of common stock	Capital	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity
<b>BALANCE-April 1, 2013</b>	181,683,909	¥12,460	¥10,017	¥72,614	¥(4,510)	¥90,580
Change of scope of consolidation		—	—	25	—	25
Dividends paid		—	—	(1,717)	—	(1,717)
Net income		—	—	7,365	—	7,365
Acquisition of treasury stock		—	—	—	(4)	(4)
Disposal of treasury stock		—	(3)	(0)	31	27
Others		—	—	2	—	2
Net changes of items other than shareholders' equity		—	—	—	—	—
<b>BALANCE-MARCH 31, 2014</b>	181,683,909	¥12,460	¥10,013	¥78,289	¥(4,483)	¥96,279

	<b>Accumulated other comprehensive income</b>							
	Unrealized gain on available- for-sale securities	Deferred loss on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
<b>BALANCE-April 1, 2013</b>	¥5,636	¥(32)	¥(2,300)	¥ —	¥3,303	¥62	¥2,264	¥ 96,211
Change of scope of consolidation	—	—	—	—	—	—	—	25
Dividends paid	—	—	—	—	—	—	—	(1,717)
Net income	—	—	—	—	—	—	—	7,365
Acquisition of treasury stock	—	—	—	—	—	—	—	(4)
Disposal of treasury stock	—	—	—	—	—	—	—	27
Others	—	—	—	—	—	—	—	2
Net changes of items other than shareholders' equity	12	15	5,921	(1,771)	4,177	(10)	113	4,280
<b>BALANCE-MARCH 31, 2014</b>	¥5,649	¥(17)	¥ 3,621	¥(1,771)	¥7,481	¥51	¥2,378	¥106,190

	Thousands of U.S. dollars (Note 2)					
	<b>Shareholders' equity</b>					
	Capital	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	
<b>BALANCE-April 1, 2013</b>	\$121,064	\$97,328	\$705,538	\$(43,820)	\$880,101	
Change of scope of consolidation	—	—	242	—	242	
Dividends paid	—	—	(16,682)	—	(16,682)	
Net income	—	—	71,560	—	71,560	
Acquisition of treasury stock	—	—	—	(38)	(38)	
Disposal of treasury stock	—	(29)	(0)	301	262	
Others	—	—	19	—	19	
Net changes of items other than shareholders' equity	—	—	—	—	—	
<b>BALANCE-MARCH 31, 2014</b>	\$121,064	\$97,289	\$760,678	\$(43,558)	\$935,474	

	<b>Accumulated other comprehensive income</b>							
	Unrealized gain on available- for-sale securities	Deferred loss on hedges	Translation adjustments	Remeasurements of defined benefit plans	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
<b>BALANCE-April 1, 2013</b>	\$54,760	\$(310)	\$(22,347)	\$ —	\$32,092	\$602	\$21,997	\$ 934,813
Change of scope of consolidation	—	—	—	—	—	—	—	242
Dividends paid	—	—	—	—	—	—	—	(16,682)
Net income	—	—	—	—	—	—	—	71,560
Acquisition of treasury stock	—	—	—	—	—	—	—	(38)
Disposal of treasury stock	—	—	—	—	—	—	—	262
Others	—	—	—	—	—	—	—	19
Net changes of items other than shareholders' equity	116	145	57,530	(17,207)	40,584	(97)	1,097	41,585
<b>BALANCE-MARCH 31, 2014</b>	\$54,887	\$(165)	\$ 35,182	\$(17,207)	\$72,687	\$495	\$23,105	\$1,031,772

The accompanying notes are an integral part of these statements.

# Consolidated Statements of Cash Flows

Kureha Corporation and its Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
<b>Cash flows from operating activities:</b>			
Income before income taxes and minority interests	¥10,629	¥5,466	\$103,274
Adjustments for:			
Impairment loss	133	—	1,292
Depreciation	9,320	8,882	90,555
Amortization of goodwill	34	77	330
Decrease in allowance for doubtful accounts	(15)	(127)	(145)
Increase in prepaid pension expense	—	(184)	—
Increase in net defined benefit asset	(656)	—	(6,373)
Decrease in reserve for employees' retirement benefits	—	(104)	—
Decrease in net defined benefit liability	(66)	—	(641)
(Decrease) increase in retirement allowance for directors and corporate auditors	(57)	5	(553)
Decrease in allowance for loss due to disaster	—	(579)	—
(Decrease) increase in provision for environmental measures	(15)	311	(145)
Interest and dividend income	(661)	(644)	(6,422)
Interest expense	732	820	7,112
Loss on disposal and sales of property, plant and equipment	1,167	803	11,338
Gain on sales of investments in securities	(193)	(3)	(1,875)
(Increase) decrease in trade notes and accounts receivable	(2,278)	3,027	(22,133)
Increase in inventories	(1,895)	(2,734)	(18,412)
(Increase) decrease in other assets	(177)	198	(1,719)
Decrease in trade notes and accounts payable	(315)	(3,737)	(3,060)
Increase in other liabilities	919	748	8,929
Other, net	(355)	(1,051)	(3,449)
Subtotal	16,248	11,174	157,870
Dividends and interest received	1,525	1,100	14,817
Interest paid	(737)	(830)	(7,160)
Income taxes paid	(2,978)	(1,198)	(28,935)
Net cash provided by operating activities	14,058	10,246	136,591
<b>Cash flows from investing activities:</b>			
Payments for purchases of property, plant and equipment	(18,056)	(18,992)	(175,437)
Proceeds from sales of property, plant and equipment	72	113	699
Payments for disposal of property, plant and equipment	(772)	(538)	(7,500)
Purchase of investments in securities	(2,446)	(243)	(23,766)
Proceeds from sales of investments in securities	1,161	33	11,280
Payments of loans receivable	(332)	(210)	(3,225)
Proceeds from collection of loans receivable	175	315	1,700
Purchase of shares in subsidiaries	(244)	—	(2,370)
Other, net	(0)	(72)	(0)
Net cash used in investing activities	(20,444)	(19,595)	(198,639)
<b>Cash flows from financing activities:</b>			
Net increase in commercial paper	2,000	—	19,432
Net increase in short-term loans payable	1,759	573	17,090
Proceeds from long-term debt	9,598	5,284	93,256
Repayments of long-term debt	(6,826)	(5,070)	(66,323)
Proceeds from issuance of bonds with stock acquisition rights	—	14,923	—
Redemption of bonds	—	(5,000)	—
Proceeds from stock issuance to minority shareholders	33	1,455	320
Dividends paid	(1,717)	(1,716)	(16,682)
Dividends paid to minority shareholders	(12)	(15)	(116)
Other, net	(162)	(169)	(1,574)
Net cash provided by financing activities	4,673	10,264	45,404
<b>Effect of exchange rate changes on cash and cash equivalents</b>	<b>381</b>	<b>181</b>	<b>3,701</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(1,331)</b>	<b>1,097</b>	<b>(12,932)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>9,954</b>	<b>8,857</b>	<b>96,715</b>
<b>Increase in cash and cash equivalents resulting from inclusion of consolidated subsidiaries</b>	<b>102</b>	<b>—</b>	<b>991</b>
<b>Cash and cash equivalents at end of year (Note 5)</b>	<b>¥ 8,726</b>	<b>¥9,954</b>	<b>\$ 84,784</b>

The accompanying notes are an integral part of these statements.

# Notes to Consolidated Financial Statements

Kureha Corporation and its Consolidated Subsidiaries  
For the years ended March 31, 2014 and 2013

## 1. Basis of Presenting Consolidated Financial Statements

The accompanying consolidated financial statements have been prepared based on the accounts maintained by Kureha Corporation (the “Company”) and its consolidated subsidiaries (collectively the “Group”) in accordance with the provisions set forth in the Companies Act and the Financial Instruments and Exchange Act of Japan, and in conformity with accounting principles generally accepted in Japan, which are different, in certain respects, from the application and disclosure requirements of International Financial Reporting Standards.

As permitted by the Financial Instruments and Exchange Act, for the years ended March 31, 2014 and 2013, amounts of less than one million yen have been omitted. Consequently, totals shown in the accompanying consolidated financial statements for the years ended March 31, 2014 and 2013 do not necessarily agree with the sums of the individual amounts.

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

## 2. U.S. Dollar Amounts

The accounts of consolidated financial statements presented herein are originally expressed in Japanese yen. The U.S. dollar amounts shown in the accompanying consolidated financial statements and notes thereto have been translated from Japanese yen into U.S. dollars on the basis of ¥102.92 to U.S. \$1, the rate of exchange prevailing as of March 31, 2014. And, for translation of millions of Japanese yen to thousands of U.S. dollars, amounts of less than one thousand dollar have been omitted. These U.S. dollar amounts are not intended to imply that the Japanese yen amounts have been or could be converted, realized or settled in U.S. dollars at this or any other rate.

## 3. Principles of Consolidation

### I. Scope of consolidation

The Company has consolidated 36 (37 in 2013) subsidiaries and one affiliate (two in 2013) as of March 31, 2014. The accounts of one subsidiary (two in 2013) and three affiliates (three in 2013) were not consolidated and not applied to equity method for the year ended March 31, 2014, as they would not have a material effect on the accompanying consolidated financial statements.

### II. Fiscal terms of consolidated subsidiaries

The fiscal terms of 14 consolidated subsidiaries close their accounts at December 31. In preparing the consolidated financial statements, those accounts at December 31, 2013 are used, but major transactions which were executed during the three months between December 31 and March 31 are adjusted as necessary for consolidation.

## 4. Summary of Significant Accounting Policies

### I. Securities

Securities included in marketable securities and investments in securities are designated as available-for-sale securities and are stated as follows:

Available-for-sale securities with market quotations are stated at the average market price during the month before the balance sheet date.

Valuation difference on these securities is reported at net of taxes as a separate component of net assets.

The cost of securities sold is determined based on the moving average cost at the time of sale.

Available-for-sale securities without market quotations are stated at cost by the moving average method.

### II. Derivatives and hedge accounting

Derivative financial instruments are stated at fair value and any changes in the fair value are recognized as gain or loss.

Interest rate swaps qualified for hedge accounting are measured at fair value, and unrealized gains or losses are deferred until maturity. Interest rate swaps that qualify for hedge accounting and meet specific matching criteria are not re-measured at market value, but the differential paid or received under the swap agreements are recognized and included in the interest expense or income.

The Company and its consolidated subsidiaries utilize foreign exchange forward contracts to avoid the risk from future exchange rate fluctuations in connection with the foreign currency denominated receivables and payables and also interest rate swaps to reduce the financing costs related to long-term debt and short-term borrowings as a means to manage the interest rate risk. Certain foreign exchange forward contracts utilized by the Company and certain consolidated subsidiaries are exposed to an exchange rate fluctuation risk and interest rate risk from the movement of the interest rates is mitigated by converting floating interest rates to fixed interest rates using interest rate swap agreements. The Company and its consolidated subsidiaries use derivatives to hedge risks in accordance with internal rules.

### III. Inventories

Inventories are stated at cost in principle determined by the gross average method. Inventories held for sale in the ordinary course of business are measured at the lower of cost or net selling value, which is defined as the selling price less incremental estimated manufacturing costs and estimated direct selling expenses.



#### **IV. Depreciation and amortization of fixed assets**

##### ***Property, plant and equipment except for leased assets***

Property, plant and equipment are principally stated at cost. Depreciation is computed by the straight-line method based on their estimated useful lives and residual value. Accumulated depreciation which was directly deducted from property, plant and equipment as of March 31, 2014 and 2013 were ¥169,165 million (\$1,643,655 thousand) and ¥162,419 million, respectively.

The useful lives of major property, plant and equipment are summarized as follows:

Buildings and structures	10 to 50 years
Machinery, equipment and vehicles	7 to 20 years
Other (tools, furniture and fixtures)	4 to 10 years

##### ***Intangible fixed assets except for leased assets***

Intangible fixed assets except for software are amortized by the straight-line method based on the estimated useful lives.

Software for in-house use is amortized by the straight-line method based on the estimated useful lives (5 years).

##### ***Leased assets***

Leased assets under finance lease arrangements which do not transfer ownership of the leased assets to the lessee are depreciated by the straight-line method over respective lease periods without salvage value.

#### **V. Allowance for doubtful accounts**

Allowance for doubtful accounts of general receivables was established to provide for future losses, which are estimated based on the past credit loss experience.

In addition, uncollectible amount is estimated individually for doubtful receivables.

#### **VI. Retirement allowance for directors and corporate auditors**

The retirement allowance for directors and statutory auditors is recorded based on the amount that would be required in accordance with the internal rule at the balance sheet date to provide for the payment for the retirement benefits.

#### **VII. Reserve for environmental measures**

Reserve for environmental measures is recorded for disposal of PCB (polychlorinated biphenyl) that would be required by the Waste Disposal Law.

#### **VIII. Accounting treatment for retirement benefits**

(a) Method of attributing the projected benefits to periods of services

In calculating the retirement benefit obligations, the projected benefit obligations attributable up to the end of the fiscal year are accounted for by straight-line basis.

(b) Actuarial gain or loss and past service cost

Past service cost is fully amortized when incurred.

Actuarial gain or loss is amortized in the year following the year in which the gain or loss is recognized, on a straight-line basis over certain periods within the employees' average remaining service years.

(c) Adopting the simplified method for small companies

Certain consolidated subsidiaries calculate their retirement benefit obligations using the liability amount which would be paid if all the employees voluntarily retired at each consolidated balance sheet date.

#### **IX. Cash and cash equivalents**

Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, bank deposits payable on demand and short-term investments due within three months from acquisition with minor value fluctuation risk.

#### **X. Changes in accounting policies**

The Company has adopted "Accounting Standard for Retirement Benefits" (the Accounting Standards Board of Japan (hereinafter "ASBJ") Statement No. 26, May 17, 2012, hereinafter "Retirement Benefits Standard") and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25, May 17, 2012, hereinafter "Retirement Benefits Guidance"), excluding those set forth in paragraph 35 of "Retirement Benefits Standard" and paragraph 67 of "Retirement Benefits Guidance," from the end of the year ended March 31, 2014. The Company changed its accounting to recognize the difference between projected benefit obligations and plan assets as net defined benefit liability and unrecognized actuarial differences are recognized as net defined benefit liability.

The Retirement Benefits Standard and other accounting methods are applied in accordance with the transitional provisions set forth in paragraph 37 of the Retirement Benefits Standard, the effect of the changes in accounting policies is reflected in re-measurements of defined benefit plans under accumulated other comprehensive income at the end of the year ended March 31, 2014.

As a result, net defined benefit asset of ¥34 million (\$330 thousand) and net defined benefit liability of ¥440 million (\$4,275 thousand) are recognized at the end of the year ended March 31, 2014. In addition, accumulated other comprehensive income and minority interests decreased by ¥1,771 million (\$17,207 thousand) and ¥26 million (\$252 thousand), respectively.

The effect of this change on per share information is noted in Note 22.

## XI. Unapplied new accounting standards

“Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012)

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

### A) Overview

The Retirement Benefits Standard and other accounting methods have been revised from the viewpoint of improvements to financial reporting and international convergence, mainly focusing on (a) how unrecognized actuarial differences and prior service cost should be accounted for, (b) how projected benefit obligations and service cost should be determined and (c) enhancement of disclosures.

### B) Date of adoption

The Company and certain consolidated subsidiaries will adopt the amendments to the method for calculating projected benefit obligations and service cost from the beginning of the year ending March 31, 2015.

### C) The effect of adopting the accounting standards

The effect of adopting these accounting standards will be immaterial on operating income and income before income taxes and minority interests for the year ending March 31, 2015.

## 5. Cash and Cash Equivalents

The following table represents a reconciliation of cash and cash equivalents as of March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and time deposits	¥8,726	¥9,954	\$84,784
Cash and cash equivalents	8,726	9,954	84,784

## 6. Trade Notes

Trade notes due at the end of the fiscal year are settled on the date of clearing.

As the end of the year ended March 31, 2013 fell on a bank holiday, the following trade notes due at the end of the fiscal year are included in the balance at the end of the year.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Trade notes receivable	¥—	¥307	\$—
Trade notes payable	—	936	—

## 7. Inventories

Inventories as of March 31, 2014 and 2013, respectively, consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished products and merchandise	¥20,014	¥18,670	\$194,461
Work-in-process	2,776	1,730	26,972
Raw materials and supplies	5,311	4,918	51,603
Total	¥28,101	¥25,318	\$273,037

## 8. Financial Instruments and Related Disclosures

### I. Status of financial instruments

#### A) Group policy for financial instruments

The Group uses financial instruments, mainly bank loans and bonds for the purpose of raising its necessary fund for equipment investment plan. Cash surpluses, if any, are invested only in short-term deposits, etc. Working capital for short-term ongoing operations is procured from short-term bank loans. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described below.

#### B) Nature and extent of risks arising from financial instruments

Receivables such as trade notes and trade accounts are exposed to customer credit risk. Although receivables in foreign currencies are exposed to the market risk of fluctuation in foreign currency exchange rates, the position, net of payables in foreign currencies, is hedged by using forward foreign currency contracts. Investments in securities, equity instruments of customers and suppliers of the Group, are exposed to the risk of market price fluctuations. And long-term receivables are made to the employees.

Payment terms of payables, such as trade notes and trade accounts, are less than one year. Although payables in foreign currencies, partly accompanied by the import of materials, are exposed to the market risk of fluctuation in foreign currency exchange rates, those risks are almost netted against the balance of receivables denominated in the same foreign currency as noted above. And, the payables in Euro are always within the balance of receivables in Euro.

Although a part of such bank loans, bonds and lease obligation, which are mainly for the purpose of equipment investment, are exposed to market risks from changes in variable interest rates; those risks are mitigated by using mostly derivatives of interest-rate swaps.

Derivatives mainly include forward foreign currency contracts and interest-rate swaps, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables, and from changes in interest rates of bank loans. Please see Note 20 for more detail about derivatives.

#### C) Risk management for financial instruments

##### ***Credit risk management (risk of counterparty's failure to repay)***

Credit risk is the risk of economic loss arising from counterparty's failure to repay or service debt according to the contractual terms. The Group manages its credit risk from receivables on the basis of internal guidelines, which include setting up an individual credit limit and monitoring of payment terms and balances of major customers by each business administration department to identify the default risk of customers at an early stage. A credit limit is changed, if necessary, based on a periodic monitoring of customers' financial positions. And the Group manages to mitigate the risk of receivable collection due to deteriorating financial position by utilizing such facilities as credit insurance or factoring. In using derivatives, the Group chooses highly creditworthy financial institutions to avoid counterparty risk.

##### ***Market risk management (foreign exchange risk and interest rate risk)***

The Company and certain consolidated subsidiaries manage market risk resulting from fluctuations in foreign currency exchange rates of foreign currency trade receivables and payables, which are to be identified through management per month and per currency. Such foreign exchange risk is hedged principally by forward foreign currency contracts. Interest-rate swaps are used to manage exposure to market risks from changes in interest rates of bank loans.

Investments in securities are managed by monitoring market values and financial position of issuers on a regular basis.

Basic principles of derivative transactions have been based on the internal guidelines which prescribe the authority and the limit for each transaction. The same principles are applicable to the consolidated subsidiaries.

##### ***Liquidity risk management (risk of the Group's failure to pay at maturity)***

Liquidity risk comprises the risk that the Group cannot meet its contractual obligations in full on maturity dates. The Group manages its liquidity risk by controlling a monthly cash flow plan, and the Company manages it by using commercial paper and commitment line.

#### D) Fair value of financial instruments

Fair values of financial instruments are based on quoted prices in active markets. If quoted prices are not available, other rational valuation techniques are used instead. The fair values hereof may vary upon applying various procedures, as the valuation techniques include variable factors. Also please note that the contract amounts themselves shown in Note 20 Derivatives and Hedging Activities do not imply the market risk exposure regarding derivative transactions.

## II. Fair value of financial instruments

Carrying amount, fair value and the differences as of March 31, 2014 and 2013 are as follows:  
(This information excludes financial instruments whose fair value cannot be reliably determined)

	Millions of yen		
<b>March 31, 2014</b>	Carrying amount	Fair value	Unrealized gain/loss
Cash and time deposits	¥ 8,726	¥ 8,726	¥ —
Trade notes and accounts receivable	30,445		
Allowance for doubtful accounts	(118)		
Sub-total	30,327	30,327	—
Investments in securities			
Available-for-sale securities	20,798	20,798	—
Long-term loans including current portion	2,163	2,311	148
Total assets	¥62,015	¥ 62,163	¥ 148
Trade notes and accounts payable	16,453	16,453	—
Short-term loans payable	13,849	13,849	—
Other payables	6,149	6,149	—
Bonds	20,000	20,431	(431)
Bonds with stock acquisition rights	15,000	18,975	(3,975)
Long-term debt including current portion	26,375	26,470	(95)
Total liabilities	¥97,828	¥102,329	¥(4,501)
Derivatives			
Not qualifying for hedge accounting	¥ (12)	¥ (12)	¥ —
Qualifying for hedge accounting	(28)	(28)	—

	Thousands of U.S. dollars		
<b>March 31, 2014</b>	Carrying amount	Fair value	Unrealized gain/loss
Cash and time deposits	\$ 84,784	\$ 84,784	\$ —
Trade notes and accounts receivable	295,812		
Allowance for doubtful accounts	(1,146)		
Sub-total	294,665	294,665	—
Investments in securities			
Available-for-sale securities	202,079	202,079	—
Long-term loans including current portion	21,016	22,454	1,438
Total assets	\$602,555	\$603,993	\$ 1,438
Trade notes and accounts payable	159,862	159,862	—
Short-term loans payable	134,560	134,560	—
Other payables	59,745	59,745	—
Bonds	194,325	198,513	(4,187)
Bonds with stock acquisition rights	145,744	184,366	(38,622)
Long-term debt including current portion	256,267	257,190	(923)
Total liabilities	\$950,524	\$994,257	\$(43,732)
Derivatives			
Not qualifying for hedge accounting	\$ (116)	\$ (116)	\$ —
Qualifying for hedge accounting	(272)	(272)	—

	Millions of yen		
March 31, 2013	Carrying amount	Fair value	Unrealized gain/loss
Cash and time deposits	¥ 9,954	¥ 9,954	¥ —
Trade notes and accounts receivable	27,480		
Allowance for doubtful accounts	(92)		
Sub-total	27,387	27,387	—
Investments in securities			
Available-for-sale securities	19,312	19,312	—
Long-term loans including current portion	2,157	2,324	166
Total assets	¥58,812	¥58,979	¥ 166
Trade notes and accounts payable	15,940	15,940	—
Short-term loans payable	12,158	12,158	—
Other payables	7,146	7,146	—
Bonds	20,000	20,658	(658)
Bonds with stock acquisition rights	15,000	16,369	(1,369)
Long-term debt including current portion	21,289	20,430	859
Total liabilities	¥91,535	¥92,703	¥(1,167)
Derivatives			
Not qualifying for hedge accounting	¥ 1	¥ 1	¥ —
Qualifying for hedge accounting	(52)	(52)	—

#### A) Method of fair value measurement of financial instruments

##### 1. Asset

##### *Cash and time deposits, and trade notes and accounts receivable*

The carrying amounts of these accounts approximate fair value because of their short maturities.

##### *Investments in securities*

The fair values of investments in securities are measured at the quoted market price of the stock exchange for the equity instruments.

##### *Long-term loans*

The fair values of long-term loans are measured at the present value of the future cash flows discounted by a rate of return, an appropriate rate such as government bond rate added to a credit spread, with respect to each credit risk segment of credit control.

##### 2. Liability

##### *Trade notes and accounts payable, short-term loans payable, and other payable*

The carrying amounts of these accounts approximate fair value because of their short maturities.

##### *Bonds*

The fair values of the bonds issued by the Company are measured based on the market price.

##### *Bonds with stock acquisition rights*

The fair values of bonds with stock acquisition rights are measured based on the prices obtained from the financial institutions with which they are transacted.

##### *Long-term debt*

The fair values of long-term debt are measured by discounting the principal and interest discounted by an assumed new borrowing rate. As a part of long-term debt with floating interest rates are subject to deferral method of interest rate swaps, the fair values of the said interest rate swaps are included in the long-term debt.



B) Carrying amount of financial instruments whose fair value cannot be reliably determined as of March 31, 2014 and 2013

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Investments in equity instruments that do not have a quoted market price in an active market	¥215	¥167	\$2,089

C) The aggregate annual maturities of financial assets and securities with contractual maturities as of March 31, 2014 and 2013

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
<b>March 31, 2014</b>				
Cash and time deposits	¥ 8,726	¥ —	¥ —	¥ —
Trade notes and accounts receivable	30,445	—	—	—
Long-term loans	93	657	757	655
Total	¥39,265	¥657	¥757	¥655

	Thousands of U.S. dollars			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
<b>March 31, 2014</b>				
Cash and time deposits	\$ 84,784	\$ —	\$ —	\$ —
Trade notes and accounts receivable	295,812	—	—	—
Long-term loans	903	6,383	7,355	6,364
Total	\$381,509	\$6,383	\$7,355	\$6,364

	Millions of yen			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
<b>March 31, 2013</b>				
Cash and time deposits	¥ 9,954	¥ —	¥ —	¥ —
Trade notes and accounts receivable	27,480	—	—	—
Long-term loans	96	663	664	733
Total	¥37,531	¥663	¥664	¥733

D) The aggregate annual maturities of bonds and long-term debt as of March 31, 2014 and 2013

	Millions of yen					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
<b>March 31, 2014</b>						
Bonds	¥ —	¥10,000	¥ —	¥ 5,000	¥5,000	¥ —
Bonds with stock acquisition rights	—	—	—	15,000	—	—
Long-term debt	4,756	5,353	5,609	4,635	2,725	3,294
Total	¥4,756	¥15,353	¥5,609	¥24,635	¥7,725	¥3,294

	Thousands of U.S. dollars					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
<b>March 31, 2014</b>						
Bonds	\$ —	\$ 97,162	\$ —	\$ 48,581	\$48,581	\$ —
Bonds with stock acquisition rights	—	—	—	145,744	—	—
Long-term debt	46,210	52,011	54,498	45,034	26,476	32,005
Total	\$46,210	\$149,174	\$54,498	\$239,360	\$75,058	\$32,005

Millions of yen

March 31, 2013	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Bonds	¥ —	¥ —	¥10,000	¥ —	¥ 5,000	¥5,000
Bonds with stock acquisition rights	—	—	—	—	15,000	—
Long-term debt	5,929	4,158	3,998	3,256	2,251	1,695
Total	¥5,929	¥4,158	¥13,998	¥3,256	¥22,251	¥6,695

## 9. Securities

Investments in unconsolidated subsidiaries and affiliates amount to ¥3,607 million (\$35,046 thousand) and ¥3,158 million as of March 31, 2014 and 2013, respectively.

The acquisition cost and carrying amount of available-for-sale securities whose fair value were available as of March 31, 2014 and 2013 were as follows:

March 31, 2014	Acquisition cost	Carrying amount	Unrealized gain (loss)
<b>Securities with unrealized gain:</b>			
Equity securities	¥ 8,768	¥17,973	¥9,204
Sub-total	8,768	17,973	9,204
<b>Securities with unrealized loss:</b>			
Equity securities	3,157	2,824	(332)
Sub-total	3,157	2,824	(332)
Total	¥11,926	¥20,798	¥8,872

Thousands of U.S. dollars

March 31, 2014	Acquisition cost	Carrying amount	Unrealized gain (loss)
<b>Securities with unrealized gain:</b>			
Equity securities	\$ 85,192	\$174,630	\$89,428
Sub-total	85,192	174,630	89,428
<b>Securities with unrealized loss:</b>			
Equity securities	30,674	27,438	(3,225)
Sub-total	30,674	27,438	(3,225)
Total	\$115,876	\$202,079	\$86,202

Millions of yen

March 31, 2013	Acquisition cost	Carrying amount	Unrealized gain (loss)
<b>Securities with unrealized gain:</b>			
Equity securities	¥ 7,960	¥17,114	¥9,154
Sub-total	7,960	17,114	9,154
<b>Securities with unrealized loss:</b>			
Equity securities	2,487	2,197	(289)
Sub-total	2,487	2,197	(289)
Total	¥10,447	¥19,312	¥8,865

Proceeds from sales of available-for-sale securities and related gross realized gain and loss on those sales for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds from sales	¥1,161	¥33	\$11,280
Gross realized gain	193	3	1,875
Gross realized loss	—	—	—

### 10. Short-term Loans Payable, Long-term Debt and Lease Obligations

Short-term loans payable and long-term debt as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term loans with average interest rate of 0.82%	¥13,849	¥12,158	\$134,560
Current portion of long-term debt with average interest rate of 1.24%	4,756	5,929	46,210
Sub-total	18,606	18,088	180,781
Unsecured bonds maturing on June 17, 2015 with the interest rate of 2.06%	10,000	10,000	97,162
Unsecured bonds maturing on September 15, 2017 with the interest rate of 0.95%	5,000	5,000	48,581
Unsecured bonds maturing on October 19, 2018 with the interest rate of 0.82%	5,000	5,000	48,581
Zero coupon convertible bonds due 2018 (bonds with stock acquisition rights) maturing on March 14, 2018 (Note1)	15,000	15,000	145,744
Long-term debt maturing in 2015 through 2028 with average interest rate of 1.24%	21,619	15,359	210,056
Total	¥75,225	¥68,447	\$730,907

(Note 1) Summary of zero coupon convertible bonds due 2018 (bonds with stock acquisition rights)

Type of stock should be issued	Common stock
Issue price of stock acquisition rights	Zero (no consideration)
Initial conversion price	433 yen per share (\$4.20)
Aggregate amount of bond	15,000 million yen (\$145,744 thousand)
Aggregate amount of stock issued by exercising stock acquisition rights	—
Ratio of stock acquisition rights granted	100%
Exercise period	From March 28, 2013 to February 28, 2018 (at the place where the stock acquisition rights is to be exercised)

Note: When the bondholder claims for exercising stock acquisition rights, the amount should be paid for the stocks acquired were fulfilled by substitution of the redemption amount of the bonds. Further, when the stock acquisition rights were exercised, the Company considers as the bondholder has claimed for exercise.

The aggregate annual maturities of long-term debt as of March 31, 2014 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥4,756	\$46,210
2016	5,353	52,011
2017	5,609	54,498
2018	4,635	45,034
2019	2,725	26,476

The aggregate annual maturities of lease obligations as of March 31, 2014 were as follows:

Year ending March 31	Millions of yen	Thousands of U.S. dollars
2015	¥126	\$1,224
2016	97	942
2017	61	592
2018	23	223
2019	8	77

Note: Average interest rate on lease obligations is omitted since above lease obligations recorded in the consolidated balance sheet as of March 31, 2014 include interest equivalent amounts.

### 11. Assets Pledged as Collateral

The following assets of the Group are pledged as collateral for trade notes and accounts payable, short-term loans payable and long-term debt in the amount of ¥1,545 million (\$15,011 thousand) and ¥1,657 million as of March 31, 2014 and 2013, respectively:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	¥16,723	¥17,273	\$162,485
Machinery, equipment and vehicles	12,474	13,627	121,200
Land	3,897	3,897	37,864
Investments in securities	4,452	4,632	43,256
Total	¥37,548	¥ 39,430	\$364,827

### 12. Loan Commitment Agreements

The Company and its consolidated subsidiaries entered into loan commitment agreements and overdraft agreements with the financial institutions. The outstanding balance as of March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total commitment available	¥11,179	¥12,509	\$108,618
Amount utilized	96	143	932
Balance available	¥11,082	¥12,365	\$107,675

### 13. Reserve for Employees' Retirement Benefits and Net Defined Benefit Liabilities

The Company and certain consolidated subsidiaries have adopted funded and unfunded retirement benefit plans to prepare for employees' retirement benefits. And certain consolidated subsidiaries have adopted defined contribution retirement plans.

Under the defined benefit plans, cash balance plan is introduced. Each participant has a hypothetical individual account with the amount equivalent to the reserve for each participant and resource of pension. In hypothetical individual accounts, interest credits based on trends in market interest rates and pay credits based on salary level, etc. are accumulated. Also, in certain

consolidated subsidiaries, employees receive lump-sum payments or payments of pension plans based on salaries and service period.

Under lump-sum retirement benefit plans, employees receive lump-sum payments based on salaries and service period as retirement benefits. In addition, certain subsidiaries that have defined benefit plans and lump-sum retirement benefit plans calculate net defined benefit liability and net pension expenses using the simplified method.

### For the year ended March 31, 2014

#### A. Defined benefit plans

##### (i) Change in projected benefit obligations

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥20,718	\$201,301
Service cost	917	8,909
Interest cost	359	3,488
Actuarial differences	64	621
Benefits paid	(1,797)	(17,460)
Others	82	796
Balance at end of year	¥20,345	\$197,677

##### (ii) Change in plan assets

	Millions of yen	Thousands of U.S. dollars
Balance at beginning of year	¥18,252	\$177,341
Expected return on plan assets	385	3,740
Actuarial differences	837	8,132
Employer contributions	2,188	21,259
Benefits paid	(1,777)	(17,265)
Others	53	514
Balance at end of year	¥19,939	\$193,732

(iii) Projected benefit obligations and plan assets at end of year and reconciliation of net defined benefit liability and net defined benefit asset recognized in the consolidated balance sheet

	Millions of yen	Thousands of U.S. dollars
Funded projected benefit obligations	¥ 20,086	\$ 195,161
Plan assets	(19,939)	(193,732)
	146	1,418
Unfunded projected benefit obligations	259	2,516
Net amount of liability and asset recognized in the consolidated balance sheet	405	3,935
Net defined benefit liability	440	4,275
Net defined benefit asset	34	330
Net amount of liability and asset recognized in the consolidated balance sheet	¥ 405	\$ 3,935

##### (iv) Net pension expenses and its breakdown

	Millions of yen	Thousands of U.S. dollars
Service cost	¥ 917	\$ 8,909
Interest cost	359	3,488
Expected return on plan assets	(385)	(3,740)
Amortization of actuarial differences	594	5,771
Net pension expenses	¥1,485	\$14,428



(v) Re-measurements of defined benefit plans

The components of items recognized in re-measurements of defined benefit plans (pre-tax) were as follows:

	Millions of yen	Thousands of U.S. dollars
Unrecognized actuarial differences	¥2,782	\$27,030
Total	¥2,782	\$27,030

(vi) Plan assets

(a) Percentage by major category of plans assets was as follows:

Bonds	60%
Equities	26%
General account	13%
Others	1%
Total	100%

(b) Determination procedure of long-term expected rate of return on plan assets

In determining long-term expected rate of return on plan assets, the Company and certain consolidated subsidiaries consider the current and projected asset allocations, as well as the current and future long-term rate of returns for various categories of the plan assets.

(vii) Basis for calculation of actuarial assumptions

Basis for calculation of actuarial assumptions at March 31, 2014 was as follows (weighted average):

Discount rate	1.7%
Long-term expected rate of return on plan assets	2.1%

B. Defined contribution pension plans

The amount to be paid by consolidated subsidiaries to the defined contribution pension plans was ¥15 million (\$145 thousand) for the year ended March 31, 2014.

### For the year ended March 31, 2013

The reserve for employees' retirement benefits as of March 31, 2013 consisted of the following:

	Millions of yen
Projected benefit obligations	¥(20,718)
Plan assets	18,252
Funded status	(2,466)
Unrecognized actuarial differences	4,151
Sub-total	1,685
Prepaid pension cost	2,241
Reserve for employees' retirement benefits	¥ (556)

Net pension expenses related to the retirement benefits for the year ended March 31, 2013 was as follows:

	Millions of yen
Service cost	¥ 908
Interest cost	377
Expected return on plan assets	(306)
Amortization of actuarial differences	653
Net pension expenses	¥1,633

Note: In addition to above expenses, the Company and its domestic consolidated subsidiaries recorded merit allowances amounting to ¥18 million for the year ended March 31, 2013.

Assumptions used in calculation of the above information for the year ended March 31, 2013 was as follows:

Discount rate	1.7%
Expected rate of return on plan assets	1.7%
Method of attributing the projected benefits to periods of services	Straight-line basis

#### 14. Income Taxes

The significant components of deferred tax assets and liabilities as of March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Deferred tax assets:</b>			
Tax loss carried forward	¥ 6,307	¥ 5,022	\$ 61,280
Unrealized gain on fixed assets	1,134	1,152	11,018
Accrued bonuses	865	827	8,404
Accrued expenses	596	521	5,790
Accumulated depreciation	516	378	5,013
Others	3,747	3,342	36,406
Sub-total	13,167	11,245	127,934
Valuation allowance	(1,517)	(1,697)	(14,739)
Total deferred tax assets	11,649	9,547	113,184
<b>Deferred tax liabilities:</b>			
Shortfall in depreciation	(5,648)	(4,418)	(54,877)
Net unrealized gain on available-for-sale securities	(3,112)	(3,134)	(30,237)
Others	(527)	(1,289)	(5,120)
Total deferred tax liabilities	(9,287)	(8,841)	(90,235)
Net deferred tax assets	¥ 2,361	¥ 705	\$ 22,940

Deferred tax assets and liabilities as of March 31, 2014 and 2013 are presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets			
Deferred tax assets	¥ 2,680	¥ 2,129	\$ 26,039
Investments and other assets			
Deferred tax assets	1,524	1,371	14,807
Current liabilities			
Others	(5)	(0)	(48)
Long-term liabilities			
Deferred tax liabilities, non-current	(1,836)	(2,794)	(17,839)

Reconciliations of the difference between the statutory income tax rate and the effective income tax rate for the years ended March 31, 2014 and 2013 were as follows:

	2014	2013
<b>Statutory income tax rate:</b>	<b>37.75%</b>	37.75%
Expense not deductible for tax purpose	2.56	5.83
Non-taxable revenue	(1.37)	(1.98)
Tax credit for research and development costs	(7.29)	(10.35)
Amounts recognized unrealized gain tax effect	0.01	1.02
Retained earnings of overseas subsidiaries	0.35	(2.77)
Valuation allowance	(1.69)	12.66
Decrease in deferred tax assets at the end of the year due to changes in tax rate	1.73	—
Others	(3.61)	(0.12)
Effective income tax rate	<b>28.44%</b>	42.04%

(Revisions to amounts of deferred tax assets and deferred tax liabilities due to change in rate of income taxes)

On March 31, 2014, “Partial Amendment of the Income Tax Act” (Act No.10 of 2014), “Partial Amendment of the Local Tax Act” (Act No. 4 of 2014) and “Local Corporate Tax Act” (Act No.11 of 2014) were promulgated, according to which the Special Reconstruction Corporation Tax will no longer be imposed from the consolidated fiscal years beginning on or after April 1, 2014. Accordingly, for temporary differences expected to be reversed in the fiscal year beginning on April 1, 2014, the effective tax rate applied to the calculation of deferred tax assets and liabilities for current fiscal year, will be lowered from 37.75% in prior fiscal year to 35.38%.

The effect of this change is immaterial.

## 15. Commitments and Guarantee Liabilities

The Group guarantees employees’ bank loans to the amounts of ¥86 million (\$835 thousand) and ¥128 million as of March 31, 2014 and 2013, respectively.

## 16. Stock Option Plan

The Company issued stock acquisition rights (stock options) in accordance with the provisions of the Companies Act as follows:

### I. Accounting for stock option related expenses for the years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Share-based compensation included in selling, general and administrative expenses:	¥16	¥17	\$155

### II. Details of stock options, volume and activity

#### A) Detail of stock options

	1 <sup>st</sup> Stock Option Plan
Persons granted	8 directors of the Company
Number of stock options by type of shares	Common stock 47,500 shares
Grant date	July 18, 2007
Vesting conditions	<ul style="list-style-type: none"> <li>a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10<sup>th</sup> day.</li> <li>b. If the eligible director resigned from its position due to certain reasons, the number of stock options may be reduced depending on the service period.</li> <li>c. If the eligible director gives up the acquisition rights, he or she cannot exercise the stock options given up.</li> </ul>
Eligible service period	From June 27, 2007 to June 26, 2008
Exercise period	From July 18, 2007 to July 17, 2037

2 <sup>nd</sup> Stock Option Plan	
Persons granted	8 directors of the Company
Number of stock options by type of shares	Common stock 49,400 shares
Grant date	July 23, 2008
Vesting conditions	<ul style="list-style-type: none"> <li>a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10<sup>th</sup> day.</li> <li>b. If the eligible director resigned from its position due to certain reasons, the number of stock options may be reduced depending on the service period.</li> <li>c. If the eligible director gives up the acquisition rights, he or she cannot exercise the stock options given up.</li> </ul>
Eligible service period	From June 26, 2008 to June 25, 2009
Exercise period	From July 23, 2008 to July 22, 2038

3 <sup>rd</sup> Stock Option Plan	
Persons granted	8 directors of the Company
Number of stock options by type of shares	Common stock 55,500 shares
Grant date	July 22, 2009
Vesting conditions	<ul style="list-style-type: none"> <li>a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10<sup>th</sup> day.</li> <li>b. If the eligible director resigned from its position due to certain reasons, the number of stock options may be reduced depending on the service period.</li> <li>c. If the eligible director gives up the acquisition rights, he or she cannot exercise the stock options given up.</li> </ul>
Eligible service period	From June 25, 2009 to June 24, 2010
Exercise period	From July 22, 2009 to July 21, 2039

4 <sup>th</sup> Stock Option Plan	
Persons granted	8 directors of the Company
Number of stock options by type of shares	Common stock 55,300 shares
Grant date	July 21, 2010
Vesting conditions	<ul style="list-style-type: none"> <li>a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10<sup>th</sup> day.</li> <li>b. If the eligible director resigned from its position due to certain reasons, the number of stock options may be reduced depending on the service period.</li> <li>c. If the eligible director gives up the acquisition rights, he or she cannot exercise the stock options given up.</li> </ul>
Eligible service period	From June 25, 2010 to June 24, 2011
Exercise period	From July 21, 2010 to July 20, 2040

5 <sup>th</sup> Stock Option Plan	
Persons granted	7 directors of the Company
Number of stock options by type of shares	Common stock 56,600 shares
Grant date	July 20, 2011
Vesting conditions	<ul style="list-style-type: none"> <li>a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10<sup>th</sup> day.</li> <li>b. If the eligible director resigned from its position due to certain reasons, the number of stock options may be reduced depending on the service period.</li> <li>c. If the eligible director gives up the acquisition rights, he or she cannot exercise the stock options given up.</li> </ul>
Eligible service period	From June 24, 2011 to June 23, 2012
Exercise period	From July 20, 2011 to July 19, 2041

6 <sup>th</sup> Stock Option Plan	
Persons granted	7 directors of the Company
Number of stock options by type of shares	Common stock 76,500 shares
Grant date	July 18, 2012
Vesting conditions	<ul style="list-style-type: none"> <li>a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10<sup>th</sup> day.</li> <li>b. If the eligible director resigned from its position due to certain reasons, the number of stock options may be reduced depending on the service period.</li> <li>c. If the eligible director gives up the acquisition rights, he or she cannot exercise the stock options given up.</li> </ul>
Eligible service period	From June 26, 2012 to June 25, 2013
Exercise period	From July 18, 2012 to July 17, 2042

7 <sup>th</sup> Stock Option Plan	
Persons granted	4 directors of the Company
Number of stock options by type of shares	Common stock 56,700 shares
Grant date	July 17, 2013
Vesting conditions	<ul style="list-style-type: none"> <li>a. The eligible director shall exercise options collectively during the period from the following day after he or she retired from the position as a director of the Company and through the 10<sup>th</sup> day.</li> <li>b. If the eligible director resigned from its position due to certain reasons, the number of stock options may be reduced depending on the service period.</li> <li>c. If the eligible director gives up the acquisition rights, he or she cannot exercise the stock options given up.</li> </ul>
Eligible service period	From June 25, 2013 to June 24, 2014
Exercise period	From July 17, 2013 to July 16, 2043



B) Volume and activity of stock options for the year ended March 31, 2014:

**Volume of stock options:**

Before vesting:	
As of March 31, 2013	174,600
Granted	56,700
Forfeited	—
Vested	69,100
Outstanding	162,200
After vesting:	
As of March 31, 2013	—
Vested	69,100
Exercised	69,100
Forfeited	—
Outstanding	—

**Price information:**

	Yen		U.S. dollars	
	Exercised	Outstanding	Exercised	Outstanding
Exercise price	¥ 1	¥ 1	\$0.00	\$0.00
Average stock price at the time of exercise	315	—	3.06	—
Fair value at the date of grant	—	344	—	3.34

C) Valuation method for fair value of stock options:

The valuation method for fair value of 2013 stock options granted during the year ended March 31, 2014 is as follows:

Valuation method: Black-Scholes formula

Major basic numerical values and valuation method:

Stock price volatility	35.6%
Expected years to expiration	5.0 years
Expected dividends	¥10 (\$0.09) per share
Risk-free interest rate	0.30%

D) Estimation method for the vested number of stock options

Since it is difficult to make a reasonable estimate on future forfeited stock options, the actual number of forfeited stock options is reflected in the estimation.

**17. Selling, General and Administrative Expenses**

Major components of selling, general and administrative expenses for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Salaries, wages and bonuses	¥7,893	¥7,611	\$76,690
Provision for bonuses	790	623	7,675
Employees' retirement benefit expenses	644	653	6,257
Research and development expenses	4,528	4,389	43,995

## 18. Gain or Loss on Property, Plant and Equipment

Gain on sale of property, plant and equipment and loss on disposal and sales of property, plant and equipment for the years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
<b>Gain on sales of property, plant and equipment:</b>			
Land	¥ 8	¥ —	\$ 77
Machinery, equipment and vehicles	7	6	68
Total	¥ 15	¥ 6	\$ 145
<b>Loss on disposal of property, plant and equipment:</b>			
Machinery, equipment and vehicles	¥ 413	¥413	\$ 4,012
Buildings and structures	699	382	6,791
Others (tools, furniture and fixtures)	65	0	631
Total	¥1,177	¥796	\$11,436
<b>Loss on sales of property, plant and equipment:</b>			
Machinery, equipment and vehicles	¥ 5	¥ 14	48
Total	¥ 5	¥ 14	\$ 48

## 19. Impairment loss

The Group has recognized impairment loss for the following asset group for the year ended March 31, 2014.

Purpose of use	Type of assets	Location
Idle assets	Land	Tanba City, Hyogo Prefecture

In principle, the Group has grouped the operating assets by business units and idle assets by individual properties.

For the above mentioned idle asset for which the market value has been declining, the Group reduced it to the recoverable value and recognized the reduction as impairment loss of ¥133 million (\$1,292 thousand) under other income (expenses). The recoverable value is measured by the net sales price, determined reasonably based on assessed value of fixed assets tax.

## 20. Derivatives and Hedging Activities

I. Derivative contracts to which hedge accounting is not applied as of March 31, 2014 and 2013 are as follows:

	Millions of yen					
	2014			2013		
	Contract amount	Fair value	Unrealized gain (loss)	Contract amount	Fair value	Unrealized gain (loss)
<b>Foreign exchange forward contracts:</b>						
<b>Selling:</b>						
U.S. dollars	¥1,693	¥(14)	¥(14)	¥855	¥0	¥0
Euro	154	(0)	(0)	230	1	1
<b>Buying:</b>						
U.S. dollars	483	2	2	71	0	0
Euro	198	0	0	16	0	0
Total	—	¥(12)	¥(12)	—	¥1	¥1

	Thousands of U.S. dollars		
	2014		
	Contract amount	Fair value	Unrealized gain (loss)
<b>Foreign exchange forward contracts:</b>			
<b>Selling:</b>			
U.S. dollars	\$16,449	\$(136)	\$(136)
Euro	1,496	(0)	(0)
<b>Buying:</b>			
U.S. dollars	4,692	19	19
Euro	1,923	0	0
Total	—	\$(116)	\$(116)

Notes: 1. Fair value is calculated using the forward rates.

2. For foreign exchange forward contracts, unrealized gain (loss) is presented as fair value.

II. Derivative contracts to which hedge accounting is applied as of March 31, 2014 and 2013 are as follows:

A) Currency related

As of March 31, 2014						Millions of yen
Hedge accounting method	Classification of derivative contracts	Major hedged items	Contract amount	Contract amount over one year	Fair value	
Principle processing method	Foreign exchange contract (selling) in Euro	Accounts receivable	¥2,300	¥—	¥(1)	

As of March 31, 2014						Thousands of U.S. dollars
Hedge accounting method	Classification of derivative contracts	Major hedged items	Contract amount	Contract amount over one year	Fair value	
Principle processing method	Foreign exchange contract (selling) in Euro	Accounts receivable	\$22,347	\$—	\$(9)	

As of March 31, 2013						Millions of yen
Hedge accounting method	Classification of derivative contracts	Major hedged items	Contract amount	Contract amount over one year	Fair value	
Principle processing method	Foreign exchange contract (selling) in Euro	Accounts receivable	¥2,285	¥—	¥(12)	

Notes: 1. Fair value is calculated using the forward rates.

2. Contract amount is presented in full amount, and unrealized gain (loss) calculated using investment ratio is presented as fair value.

B) Interest rate related

As of March 31, 2014					Millions of yen
Hedge accounting method	Classification of derivative contracts	Major hedged items	Contract amount	Contract amount over one year	Fair value
Principle processing method	Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥1,580	¥1,580	¥(26)
Interest rate swaps meeting certain conditions	Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	100	—	(Note 2)
Total			¥1,680	¥1,580	¥(26)

As of March 31, 2014					Thousands of U.S. dollars
Hedge accounting method	Classification of derivative contracts	Major hedged items	Contract amount	Contract amount over one year	Fair value
Principle processing method	Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	\$15,351	\$15,351	\$(252)
Interest rate swaps meeting certain conditions	Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	971	—	(Note 2)
Total			\$16,323	\$15,351	\$(252)

As of March 31, 2013					Millions of yen
Hedge accounting method	Classification of derivative contracts	Major hedged items	Contract amount	Contract amount over one year	Fair value
Principle processing method	Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	¥1,298	¥1,298	¥(40)
Interest rate swaps meeting certain conditions	Interest rate swaps: (fixed rate payment, floating rate receipt)	Long-term debt	983	983	(Note 2)
Total			¥2,281	¥2,281	¥(40)

Notes: 1. Fair value is calculated using prices quoted by financial institutions.

2. With respect to interest rate swap contracts which meet certain conditions, fair values of the interest rate swap contracts are included in the fair values of the relevant long-term debt, since they are used for recording long-term debt as hedged items.

## 21. Other comprehensive Income (Loss)

Reclassification adjustments and tax effect amounts of other comprehensive income (loss) for the year ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unrealized gain (loss) on available-for-sale securities			
Amount for the year	¥ 205	¥3,155	\$ 1,991
Reclassification adjustment	(193)	(2)	(1,875)
Amount before tax effect	11	3,152	106
Tax effect amount	22	(1,115)	213
Unrealized gain on available-for-sale securities	33	2,037	320
Deferred gain (loss) on hedges			
Amount for the year	(14)	(29)	(136)
Reclassification adjustment	39	(16)	378
Amount before tax effect	24	(46)	233
Tax effect amount	(9)	19	(87)
Deferred gain (loss) on hedges	15	(26)	145
Translation adjustments			
Amount for the year	5,396	2,560	52,429
Share of other comprehensive income in affiliates			
Amount for the year	580	211	5,635
Total other comprehensive income	¥6,026	¥4,782	\$58,550

## 22. Per Share Information

Net assets per share as of March 31, 2014 and 2013 and net income per share for the years then ended were as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net assets per share	¥604.00	¥546.69	\$5.86
Basic net income per share	42.87	18.71	0.41
Diluted net income per share	35.65	18.51	0.34

Net income per share and diluted net income per share were calculated based on the following data:

	Millions of yen or shares		Thousands of U.S. dollars
	2014	2013	2014
Basic net income per share:			
Net income per consolidated income statements	¥7,365	¥3,212	\$71,560
Net income attributed to common stock	7,365	3,212	71,560
Weighted average number of common stock during the period	171,785,145	171,699,531	—
Diluted net income per share:			
Number of increased common stock used in computing diluted net income per share:			
Bonds with stock acquisition rights	34,799,522	1,900,117	—
Stock acquisition rights	157,490	191,757	—

As described in “Changes in accounting policies,” the Company and certain consolidated subsidiaries have adopted the Retirement Benefits Standard, etc. and accounted for in accordance with the transitional provisions set forth in paragraph 37 of the Retirement Benefits Standard.

As a result, net assets per share declined ¥10.31 (\$0.10) as of March 31, 2014.

## 23. Shareholders' Equity

### For the year ended March 31, 2014

#### I. Issued stock

Type of share	Share at beginning of year	Increase	Decrease	Share at end of year
Common stock	<b>181,683,909</b>	—	—	<b>181,683,909</b>

#### II. Treasury stock

Type of share	Share at beginning of year	Increase	Decrease	Share at end of year
Common stock	<b>9,952,952</b>	9,932	69,880	<b>9,893,004</b>

#### III. Dividends

##### A) Dividends paid

Date of approval	Type of share	Amount (millions of yen)	Amount per share (yen)	Measurement date	Effective Date
April 23, 2013 Board of Directors	Common stock	<b>858</b>	<b>5</b>	March 31, 2013	June 4, 2013
October 15, 2013 Board of Directors	Common stock	<b>858</b>	<b>5</b>	September 30, 2013	December 3, 2013

Date of approval	Type of share	Amount (thousands of U.S. dollars)	Amount per share (U.S. dollars)	Measurement date	Effective Date
April 23, 2013 Board of Directors	Common stock	<b>8,336</b>	<b>0.04</b>	March 31, 2013	June 4, 2013
October 15, 2013 Board of Directors	Common stock	<b>8,336</b>	<b>0.04</b>	September 30, 2013	December 3, 2013

##### B) Dividends declared

Date of approval	Type of share	Source of dividend	Amount (millions of yen)	Amount per share (yen)	Measurement date	Effective Date
April 15, 2014 Board of Directors	Common stock	Retained Earnings	<b>1,030</b>	<b>6</b>	March 31, 2014	June 3, 2014

Date of approval	Type of share	Source of dividend	Amount (thousands of U.S. dollars)	Amount per share (U.S. dollars)	Measurement date	Effective Date
April 15, 2014 Board of Directors	Common stock	Retained Earnings	<b>10,007</b>	<b>0.05</b>	March 31, 2014	June 3, 2014

### For the year ended March 31, 2013

#### IV. Issued stock

Type of share	Share at beginning of year	Increase	Decrease	Share at end of year
Common stock	<b>181,683,909</b>	—	—	<b>181,683,909</b>

#### V. Treasury stock

Type of share	Share at beginning of year	Increase	Decrease	Share at end of year
Common stock	<b>10,031,300</b>	5,152	83,500	<b>9,952,952</b>



## VI. Dividends

### A) Dividends paid

Date of approval	Type of share	Amount		Measurement date	Effective Date
		(millions of yen)	Amount per share (yen)		
April 17, 2012 Board of Directors	Common stock	<b>858</b>	<b>5</b>	March 31, 2012	June 4, 2012
October 16, 2012 Board of Directors	Common stock	<b>858</b>	<b>5</b>	September 30, 2012	December 4, 2012

### B) Dividends declared

Date of approval	Type of share	Source of dividend	Amount		Measurement date	Effective Date
			(millions of yen)	Amount per share (yen)		
April 23, 2013 Board of Directors	Common stock	Retained Earnings	<b>858</b>	<b>5</b>	March 31, 2013	June 4, 2013

## 24. Segment Information

### I. Overview of the reportable segments

The Company's reportable segments are determined on the basis that separate financial information of such segments are available and examined periodically by the Board of Directors to make decisions regarding the allocation of management resources and assess the business performances of such segments within the Group. The Company has separate divisions by product, and each division formulates a comprehensive strategy for business activities in domestic and overseas markets.

Thus, the Company consists of segments by product and service on the basis of the business divisions, and the "Advanced materials," "Specialty chemicals," "Specialty plastics," "Construction related," and "Other operations" are 5 reportable segments. Major products and services for each segment are as follows:

Segment	Products and services
Advanced materials	PPS resin, PVDF resin, carbon fiber, bead-shaped activated carbon, anode materials for lithium ion batteries, PGA (polyglycolic acid) resin
Specialty chemicals	Therapeutic agent for chronic renal failure, anti cancer agent, agricultural and horticultural fungicide, caustic soda, hydrochloric acid, sodium hypochlorite, monochlorobenzene, para-dichlorobenzene, ortho-dichlorobenzene
Specialty plastics	Household plastic wrap, garbage bags for kitchen sink, food containers and cooking paper, PVDF fishing line, PVDC film, PVDC compound, multilayer heat-shrinkable film, multilayer bottle, machinery for auto-seal food packaging
Construction related	Civil engineering and construction contracting business, industrial facility design, construction and management service
Other operations	Environmental engineering and industrial waste management business, transport and warehousing business, laboratory tests, analysis, measurement, and inspection service

### II. Valuation method for reportable segment profit (loss) and asset amounts

The accounting method for reportable business segments is presented in accordance with "Summary of Significant Accounting Policies." The reportable segment profit figures are based on operating profit. Inter-segment internal rates of return and the amounts transferred are presented based on the current market prices at the time of this report.

### III. Segment information by type of business

	Millions of yen								
	2014								
	Reportable segment						Total	Adjustment (Note 1)	Consolidated (Note 2)
Advanced materials	Specialty chemicals	Specialty plastics	Construction related	Other					
<b>Net sales:</b>									
Outside customers	¥32,815	¥36,615	¥45,291	¥17,238	¥16,163	¥148,124	¥ —	¥148,124	
Inter-segment	1,781	311	1,227	5,705	6,650	15,676	(15,676)	—	
Total	34,596	36,926	46,519	22,943	22,814	163,800	(15,676)	148,124	
Operating income (loss)	¥ (2,625)	¥ 7,341	¥ 4,519	¥ 833	¥ 1,621	¥ 11,689	¥ 212	¥ 11,902	
Assets	¥81,360	¥22,028	¥42,973	¥10,394	¥13,684	¥170,441	¥ 54,017	¥224,459	
Depreciation	3,918	1,111	1,608	116	744	7,499	1,596	9,096	
Adjustment for increase in fixed assets	4,049	1,004	8,207	84	845	14,191	2,277	16,468	

	Thousands of U.S. dollars								
	2014								
	Reportable segment						Total	Adjustment (Note 1)	Consolidated (Note 2)
Advanced materials	Specialty chemicals	Specialty plastics	Construction related	Other					
<b>Net sales:</b>									
Outside customers	\$318,839	\$355,761	\$440,060	\$167,489	\$157,044	\$1,439,214	\$ —	\$1,439,214	
Inter-segment	17,304	3,021	11,921	55,431	64,613	152,312	(152,312)	—	
Total	336,144	358,783	451,991	222,920	221,667	1,591,527	(152,312)	1,439,214	
Operating income (loss)	\$ (25,505)	\$ 71,327	\$ 43,907	\$ 8,093	\$ 15,750	\$ 113,573	\$ 2,059	\$ 115,643	
Assets	\$790,516	\$214,030	\$417,537	\$100,991	\$132,957	\$1,656,053	\$ 524,844	\$2,180,907	
Depreciation	38,068	10,794	15,623	1,127	7,228	72,862	15,507	88,379	
Adjustment for increase in fixed assets	39,341	9,755	79,741	816	8,210	137,883	22,123	160,007	

	Millions of yen								
	2013								
	Reportable segment						Total	Adjustment (Note 1)	Consolidated (Note 2)
Advanced materials	Specialty chemicals	Specialty plastics	Construction related	Other					
<b>Net sales:</b>									
Outside customers	¥27,650	¥32,833	¥40,900	¥14,967	¥14,197	¥130,550	¥ —	¥130,550	
Inter-segment	1,525	256	1,103	7,506	7,099	17,491	(17,491)	—	
Total	29,176	33,089	42,004	22,474	21,296	148,041	(17,491)	130,550	
Operating income (loss)	¥ (2,131)	¥ 6,136	¥ 2,988	¥ 1,038	¥ 613	¥ 8,645	¥ (186)	¥ 8,458	
Assets	¥70,462	¥21,865	¥34,579	¥ 9,214	¥13,433	¥149,554	¥55,730	¥205,284	
Depreciation	3,796	1,142	1,441	109	724	7,214	1,668	8,882	
Adjustment for increase in fixed assets	8,740	1,369	6,365	103	947	17,526	2,457	19,984	

Notes: 1. Adjustment for segment operating income (loss) is due to inter-segment elimination.

Adjustment for segment assets includes corporate assets such as cash and cash equivalents, investments in securities, and other corporate shared facilities that are not allocated to each reportable segment.

2. Segment operating income (loss) is adjusted with operating income on the consolidated statements of income.

Geographical segment information of the Company for the year ended March 31, 2014 and 2013 was summarized as follows:

	Millions of yen				
	2014				
	Japan	Europe	Asia	Other	Total
Sales	¥105,588	¥12,712	¥14,184	¥15,638	¥148,124

	Thousands of U.S. dollars				
	2014				
	Japan	Europe	Asia	Other	Total
Sales	\$1,025,923	\$123,513	\$137,815	\$151,943	\$1,439,214

	Millions of yen				
	2013				
	Japan	Europe	Asia	Other	Total
Sales	¥98,269	¥14,631	¥11,370	¥6,277	¥130,550

Note: Sales are categorized by country and regions based on customer's location.

	Millions of yen			
	2014			
	Japan	United States	Other	Total
Property and equipment	¥78,431	¥19,438	¥13,814	¥111,684

	Thousands of U.S. dollars			
	2014			
	Japan	United States	Other	Total
Property and equipment	\$762,057	\$188,865	\$134,220	\$1,085,153

	Millions of yen			
	2013			
	Japan	United States	Other	Total
Property and equipment	¥73,214	¥16,914	¥9,315	¥99,444

Information on impairment loss of fixed assets by reportable segment for the year ended March 31, 2014 and 2013 was summarized as follows:

	Millions of yen							
	2014							
	Reportable segment						Total	Adjustment
Advanced materials	Specialty chemicals	Specialty plastics	Construction related	Other				
Impairment loss	¥—	¥—	¥133	¥—	¥—	¥133	¥—	¥133

	Thousands of U.S. dollars							
	2014							
	Reportable segment						Total	Adjustment
Advanced materials	Specialty chemicals	Specialty plastics	Construction related	Other				
Impairment loss	\$—	\$—	\$1,292	\$—	\$—	\$1,292	\$—	\$1,292

There was no impairment loss for the year ended March 31, 2013.

## 25. Subsequent Events

The following appropriation of retained earnings has been approved by the general meeting of the Board of Directors held on April 15, 2014.

	Millions of yen	Thousands of U.S. dollars
Cash dividends at ¥6.00 (\$0.05) per share	¥1,030	\$10,007

# Kureha Consolidated Subsidiaries and Affiliates

Country	Company Name	Major Business
Japan	Kureha Extech Co., Ltd.	Manufacture/sale of plastic film and products
	Kureha Gohsen Co., Ltd.	Manufacture/sale of plastic fiber and products
	Kureha Extron Co., Ltd.	Manufacture/sale of plastic products
	Kureha Battery Materials Japan Co., Ltd.	Sale of lithium-ion battery materials
	Kureha Unyu Co., Ltd.	Transportation and storage services
	Kurehanishiki Construction Co., Ltd.	Construction
	Kureha Engineering Co., Ltd.	Plant engineering and maintenance
	Kureha Ecology Management Co., Ltd.	Waste treatment and management
	Kureha Special Laboratory Co., Ltd.	Environmental/physiochemical evaluation and analysis
	Kureha Trading Co., Ltd.	Trading of chemical and plastic products
	Resinous Kasei Co., Ltd.	Manufacture/sale of advanced materials
USA	Kureha Service Co., Ltd.	Real estate, travel and welfare services for Kureha Group
	Kureha Staff Service Co., Ltd.	Recruiting and staffing services for Kureha Group
	Kureha America Inc.	Holding company and finance
	Kureha America LLC	Sale of advanced products and packaging materials
	Kureha Advanced Materials LLC	Manufacture/sale of carbon fiber products
	Kureha PGA LLC	Manufacture/sale of PGA resins
Fortron Industries LLC	Manufacture/sale of PPS resins and compounds	
Germany	Kureha GmbH	Sale of advanced products
Netherlands	Kureha Europe B.V.	Holding company and finance
	Krehalon Industrie B.V.	Manufacture/sale of food packaging products
France	Krehalon France & Benelux S.A.S.	Sale of food packaging products
UK	Krehalon UK Ltd.	Sale of food packaging products
China	Kureha (China) Investment Co., Ltd.	Holding company and finance
	Kureha Chemicals Shanghai Co., Ltd.	Manufacture/sale of carbon fiber products
	Kureha (Shanghai) Co., Ltd.	Sale of advanced materials
	Kureha (Changshu) Fluoropolymers Co., Ltd.	Manufacture/sale of PVDF resins and compounds
Nantong SKT New Material Co., Ltd.*	Manufacture/sale of PVDC resins and compounds	
Vietnam	Kureha Vietnam Co., Ltd.	Manufacture/sale of food packaging films

\* Affiliates accounted for by equity method

# Investor Information

(As of March 31, 2014)

## Corporate Data

Corporate Name	Kureha Corporation
Headquarters	3-3-2, Nihonbashi-Hamacho, Chuo-ku, Tokyo 103-8552, Japan Tel: 81-3-3249-4666 Fax: 81-3-3249-4744
Date of Establishment	June 21, 1944
Paid-in Capital	¥12,460 million
Number of Employees	4,080 (consolidated) 1,715 (non-consolidated)
Independent Auditor	Nihombashi Corporation Certified Public Accountants

## Stock Information

Number of Shares of Common Stock Issued	181,683,909 shares
Number of Shareholders	15,207
Number of Shares Held by Foreign Shareholders	37,640,084 (20.72% of total)
Stock Exchange Listings	Tokyo Stock Exchange
Transfer Agent	Mizuho Trust & Banking Co., Ltd.

## Major Stockholders

Meiji Yasuda Life Insurance Company
Tokio Marine & Nichido Fire Insurance Co., Ltd.
The Master Trust Bank of Japan Ltd. (Trust account)
Japan Trustee Services Bank, Ltd. (Trust account)
Daiichi Sankyo Company, Limited
Mizuho Bank, Ltd.
The Nomura Trust and Banking Co., Ltd. (Trust account)
JP Morgan Chase Bank 385166
Mizuho Trust & Banking Co., Ltd.
EVERGREEN

Kureha Corporation  
Headquarters



<http://www.kureha.co.jp/>

**KUREHA**



KUREHA CORPORATION

