

NAGASE

Annual Report 2014

Year ended March 31, 2014

A technology- and intelligence-oriented Company
that turns wisdom into business.

NAGASE

NAGASE & CO.,LTD.

<http://www.nagase.co.jp/english/>

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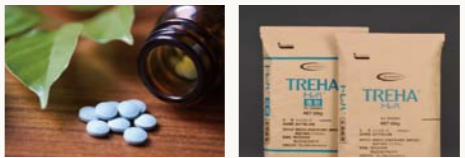
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Forward-Looking Statements
 Non-historic information contained in this annual report related to NAGASE & CO., LTD. and Nagase Group revenue and profit plans, strategies, presumptions, etc. are forward-looking statements that include elements of risk and uncertainty. Actual earnings may differ significantly from forecasts due to changes in these elements. Accordingly, the reader is cautioned to refrain from placing undue reliance on such future forecasts contained in this document. Elements that could impact earnings results are not necessarily limited to those explicitly noted in this document.



Outside Director
Yasuo Nishiguchi

Director and Executive Officer
Mitsuro Naba

Director and Executive Officer
Hiroshi Hanamoto

Representative Director and Managing Executive Officer
Kenichi Matsuki

Representative Director, President and CEO
Hiroshi Nagase

Representative Director and Senior Managing
Executive Officer
Reiji Nagase

Representative Director and Managing
Executive Officer
Toshiro Yamaguchi

Director and Executive Officer
Osamu Morishita

Director and Executive Officer
Kenji Asakura

Outside Director
Hidenori Nishi

“Maintain Good and Fair Business Practices”

We are not satisfied with our fiscal 2013 earnings.

However, we are seeing major changes in our businesses—particularly in those businesses we have identified as core markets. Our employees are dedicated to creating new and exciting opportunities in pursuit of our management philosophy: to maintain good and fair business practices.

Further, our efforts to encourage cooperative business among segments have begun to pay off in tangible ways. We believe that this structure is what will ensure sustainable growth for NAGASE, unshaken by the market changes that come and go. We will walk that good and fair path, managing our business according to the numbers and turning those numbers into earnings success. We thank you and ask for your continued support.

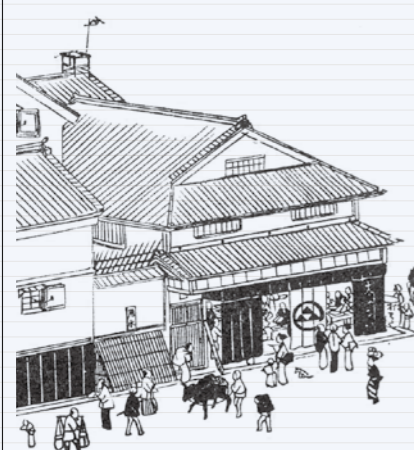
July 2014

The Directors of NAGASE & CO., LTD.

Our History - Evolving Business Model

NAGASE has been in business for 182 years. The Nagase Group began a specialized sales agent company representing the gold standard in the chemicals business, securing exclusive contracts to sell industry-leading products from around the world. Over the years, we leveraged our technology and information gathering expertise, as well as our global network, to transform our business into a hybrid offering superior manufacturing, processing, and R&D functions as well as trading company services. We continue to contribute to our customers as a technology- and intelligence-oriented company that turns wisdom into business.

1832
 • Nagase founded in Kyoto as a dyestuffs trading concern
 Sales of dyestuffs, starches and *funori* seaweed



1898
 Head office moved to Osaka

1900
 • Established business ties with Basel Chemical Co. of Switzerland (now Ciba Specialty Chemicals Ltd.)

1901
 • Opened office in Lyon to work directly with Ciba Specialty Chemicals Ltd.

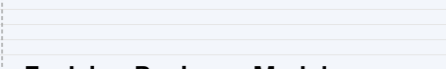


1910
 • Established Tokyo branch office

1911
 • Established Tokyo branch office

1913
 • Opened offices in London, New York

1917
 • Established Nagase Shoten Company (from sole proprietor to corporation)



1980
 • Established **Nagase Chemicals, Ltd.**
 • Established Nagase (Europa) GmbH

1982
 • Established Nagase (Malaysia) Sdn. Bhd.

1985
 • Established Seoul branch office

1988
 • Established Nagase (Taiwan) Co., Ltd.

1989
 • Established Nagase (Thailand) Co., Ltd.
 • Established Nagase Science and Technology Foundation
 • Tokyo branch office became a head office; adoption of Osaka/Tokyo two head office system

1970
 • Established **Nagase-CIBA Ltd.** (now Nagase ChemteX Corporation) jointly with Ciba-Geigy Ltd.
 • Listed Company shares on the Tokyo Stock Exchange

1971
 • Established Nagase (Hong Kong) Ltd. and Nagase America Corp.
 • Established Engineering Plastics, Ltd. jointly with General Electric Co.

1972
 • Established **Nagase Medicals Co., Ltd.**

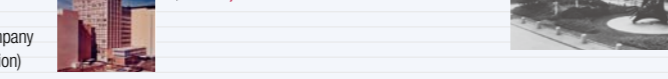
1975
 • Established Nagase Singapore (Pte) Ltd.

1977
 • Established **Nagase Biochemicals, Ltd.**

1923
 • Established business ties with Eastman Kodak Co. of the United States

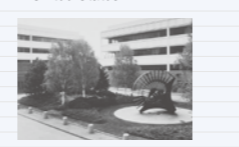
1930
 • Concluded an exclusive distributorship agreement with Union Carbide and Carbon Corp. of the United States

1938
 • Established **Teikoku Chemical Industries Co., Ltd.**



1964
 • Listed Company shares on the Osaka Securities Exchange

1968
 • Concluded an exclusive distributorship agreement with General Electric Co. of the United States



1990
 • Established **Sofix Corp.**
 • Set up the **Nagase R&D Center** in Kobe
 • Established joint venture **Nagase Wahlee Plastics Corp.** (Taiwan)



1997
 • Established Nagase Philippines Corp.
 • Established Shanghai Nagase Trading Co., Ltd.
 • Established **Nagase Engineering Service Korea Co., Ltd.**

1998
 • Established P.T. Nagase Impor-Ekspor Indonesia
 • Established Shanghai Hua Chang Trading Co., Ltd.

2000
 • Changed the name of Nagase-CHIBA, Ltd. to **Nagase ChemteX Corporation**



2001
 • **Nagase ChemteX, Nagase Chemicals, Teikoku Chemical Industries, and Nagase Biochemicals, merged to Nagase ChemteX Corporation**
 • Closed the Seoul branch office and established Nagase Korea Corp.
 • Established **Nagase FineChem Singapore (Pte) Ltd.**

2002
 • Established Guangzhou Nagase Trading Ltd.
 • Established **Nagase ChemteX (Wuxi) Corporation**

2004
 • Established NWP International Trading (Shenzhen) Co., Ltd.

2005
 • Established **Totaku Industries Suzhou Co., Ltd.**
 • Established **Nagase Electronics Technology Co., Ltd.**
 • Established Nagase Philippines International Services Corp.

2006
 • Acquired stock of semiconductor manufacturing equipment maker **Pac Tech-Packaging Technologies GmbH**
 • Established Nagase India Private Ltd.

2007
 • Established **Nagase Application Workshop**

2008
 • Established Sakai Sales Office
 • Established Nagase Vietnam Co., Ltd.

2009
 • Established Dubai branch office



2012
 • Acquired stock of **Engineered Materials Systems Inc.**, U.S.-based maker of formulated epoxy resins
 • Acquired stock of **Hayashibara Co., Ltd.** (Okayama, Japan)
 • Established local entity in Brazil



2014
 • **NAGASE Global HRD Center**



Evolving Business Model

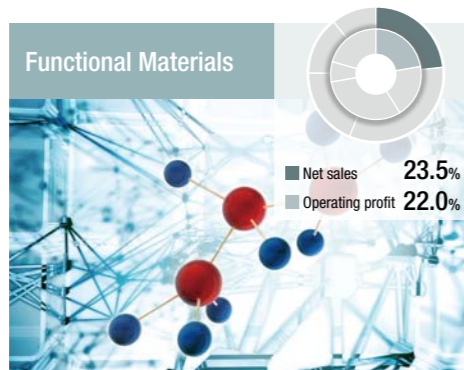
Master Distributor License Business (revenue source: brokerage fees)

Trading Business + Manufacturing Company/Research and Development (revenue source: brokerage fees + high-value-added business creation)

Overseas Expansion (emerging from an export-only business model)

Our Strategy - Nagase Group Businesses

Department Overview



Performance Chemicals Department

A parent department positioned in up-stream petrochemical products, core Nagase materials, the Performance Chemicals Department provides a broad range of goods and services to the global market, from general-purpose petrochemical products to high-value-added products. The department's four mainstay businesses are coating materials, urethane, plastic materials and filters. Each business has established a reputation as a leader in their various markets.

Speciality Chemicals Department

Building total solutions businesses based on a broad range of downstream and upstream information, the Speciality Chemicals Department supplies intermediates and materials with applications in a range of areas—including industrial oil solutions plating chemicals, water processing agents, photosensitizer developer, fluorochemicals and silicones. Further, we are focusing energy on new business products that make the most of the unique technological strengths of our customers and our value chain as well as customer product expansion.



Colors & Imaging Department: Whether analog or digital, data that exists anywhere in the world functions as information only when it is made available to people. Mainly involved in the handling of essential chemicals that are the functional materials that connect information and people, the Colors & Imaging Department contributes to society in a wide range of fields. This department is working to move away from simply selling products and, toward building a network in each of its business area backed by proprietary proposals that leverage the capabilities of the Nagase Application Workshop (NAW).

Polymer Global Account Department: The Polymer Global Account Department provides plastics, related auxiliaries, equipment and facilities to the domestic and international office automation (OA), electric and electronics, and consumer electronics industries. The greatest strength of this department is the sheer number of local staff who maintain networks in Asia, as well as their wealth of experience and knowledge. The department is putting focus and energy into expanding and creating new plastics businesses on the back of Group strategies and cooperative efforts.

Polymer Products Department: The Polymer Products Department mainly sells copolyester resins, functional sheets and films, plastic molding products, and materials for optical functional films made by Eastman Chemical. The department works with Group companies to create a structure for developing new applications as well as original products. In particular, this department is concentrating on developing sheets that use Eastman Chemical resins.

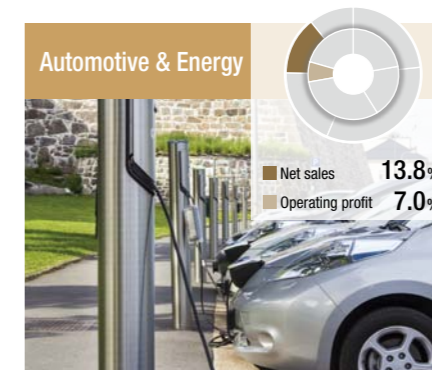


Electronic Chemicals Department

The Electronic Chemicals Department, which comprises eight manufacturing companies in Japan and overseas, manufactures and sells internally developed formulated epoxy resins and high-grade chemicals along with related supply management and manufacturing control systems to the display device, semiconductor, electronic component, automotive, and solar cell industries. This segment also sells non-Group products that meet the needs of the market, combining the functions of both a trading company and a manufacturing company in pursuit of high-profit businesses. At the same time, this department is actively engaged in solving environmental issues, proposing new ways to recycle and conserve resources.

Electronic Materials Department

The Electronic Materials Department leverages its domestic and overseas network to handle sales of display device peripheral components/cases, internal components, and LED-related related materials—which is seeing significant growth—for global smartphone and tablet business brands and materials suppliers. The department proactively conducts trading as well as the manufacture and processing of glass and LED assembly.



Automotive Solutions Department

The Automotive Solutions Department takes advantage of our strong overseas network to sell all types of raw materials, products, and equipment to the rapidly expanding global automobile industry. At the same time, this department is working to help grow component manufacturing functions of our affiliates and joint ventures to meet customer needs. Looking forward to the HEV, EV, and fuel-cell-powered automobiles of the next generation, this department is developing new materials, components and technologies to expand our eco-friendly business.

Energy Business Office

This year marks the third of the Energy Business Office, which brought the Environment & Energy Office and the Energy Device Office under one roof. The Energy Business Offices deals mainly with LiB systems, PV modules, and the component materials used in their manufacture. This office devises marketing strategies that anticipate future needs, dealing in and sharing information covering all aspects of the business from downstream to upstream. The office has developed an energy management system (EMS) combining LiB and PV technologies, which the office intends to launch in the near future.



Life & Healthcare Products Department

The Life & Healthcare Products Department sets its eyes on contributing to food, beauty, and health as a member of the Life & Healthcare segment. This department is developing high-value-added products that help people live better and healthier lives, leveraging the Group's comprehensive strengths in trading, R&D, and manufacturing and processing in the global food materials, pharmaceutical/medical materials, cosmetic materials, household materials, agriculture, fisheries, and livestock fields.

Beauty Care Products Department

In keeping with its business philosophy to provide safe, high-quality products and services that enhance beauty inside and out, the Beauty Care Products Department manufactures and sells cosmetics and health foods led by its rosemary ingredient, which is the result of state-of-the-art research conducted in Japan and overseas. In addition, the department's sales network is comprised of 50,000 personnel who offer advanced counseling and facial care services.

Main Products and Services

Performance Chemicals Department

Plastic materials, plastics and pigments, solvents, additives for paints and inks, urethane materials, plastic additives, flame retardants, polymer filters

Speciality Chemicals Department

Petrochemical products, raw materials for industrial oil solutions, surfactants and surfactant raw materials, fluorochemicals, raw materials for silicone and encapsulants, plating chemicals, electronics chemicals, microorganism pharmaceuticals, nanomaterials, inorganic materials

Colors & Imaging Department

Dyes/additives, functional color pigments, functional dyes, digital print processing materials, organic transparent conductive materials, dyestuffs, fiber processing agents, and auto body repair paint

Polymer Global Account Department

Functional resins, general-purpose resins, auxiliaries, plastic products, plastic-related equipment, devices and moldings

Polymer Products Department

Copolyester resins, functional dyes, organic transparent conductive materials, functional sheets and films, sheet and film surface detection machines, plastic molding products and functional polyester resin master batch

Electronic Chemicals Department

Formulated epoxy resins and related products, chemicals for production of semiconductors and liquid crystals, chemical management equipment for liquid crystal preprocessing

Electronic Materials Department

Surface treatment materials for smartphone and tablet cases, optical films for liquid crystal displays (LCDs), materials for touch panels, glass processing, optical adhesive agents, optical sheets for backlights, abrasives, abrasive pads, electronic paper-related materials, materials for flexible displays, organic light-emitting materials, LED chip-related materials and their assembly and mounting

Automotive Solutions Department

Functional resins, general-purpose resins, automotive interior and exterior components and functional components, lightweight materials and components, electronics components, auxiliaries, plastic-related equipment, devices and moldings

Energy Business Office

Raw materials for lithium ion battery (LiB), photovoltaic (PV) modules, LiB systems, PV materials and Visibility for Power Line Communication (PLC) Systems

Life & Healthcare Products Department

Functional food ingredients (functional saccharides, enzymes, health food materials, and food additives), cosmetic materials (whitening agents, moisturizing agents, UV absorbers, activators, antibacterial agents, and nutritional supplements), pharmaceutical (active pharmaceutical ingredients [APIs], clinical trial APIs, intermediates, raw materials, formulations, additives), invitro diagnostics, medical materials, related materials for agriculture, fisheries, and livestock (agricultural chemicals and materials, fertilizers, feed and feed additives)

Beauty Care Products Department

Cosmetics (including skin care counselling and facial care services), health foods

Customer Industry

Performance Chemicals Department

Paint/ink, resin, synthetic fiber, urethane foam and film industries

Speciality Chemicals Department

Oil solution, surfactant, organic synthesis, electronics materials, and semiconductor industries

Colors & Imaging Department

Dye/pigment, manufacturing/thermal papers, printing and printing materials, fiber processing and auto body repair industry industries

Polymer Global Account Department

Office automation (OA) equipment, electronics and consumer electronics industries

Polymer Products Department

Cosmetics and toiletries, electric and electronics, and sheets and films industries

Electronic Chemicals Department

Display device industry (LCD/organic EL), semiconductor, electronic components, heavy electric machinery, automotive, and solar battery industries

Electronic Materials Department

Smartphone and tablet, display, touch panel, and LED industries

Automotive Solutions Department

Automotive and automotive parts industries

Energy Business Office

Battery, photovoltaic, electric equipment, and automotive and construction industries

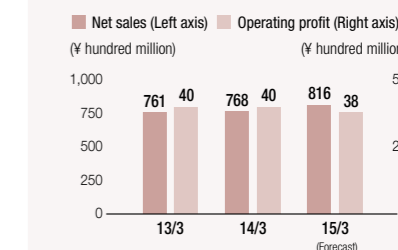
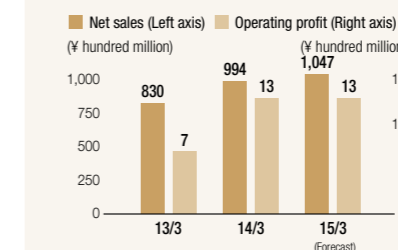
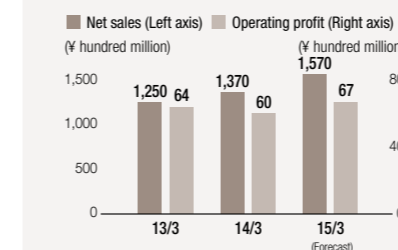
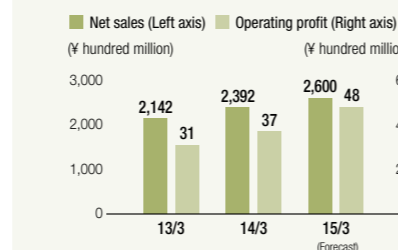
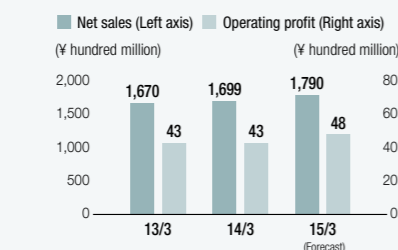
Life & Healthcare Products Department

Food, pharmaceutical and medical, diagnostic drug, cosmetics, household, agricultural, fisheries and livestock industries

Beauty Care Products Department

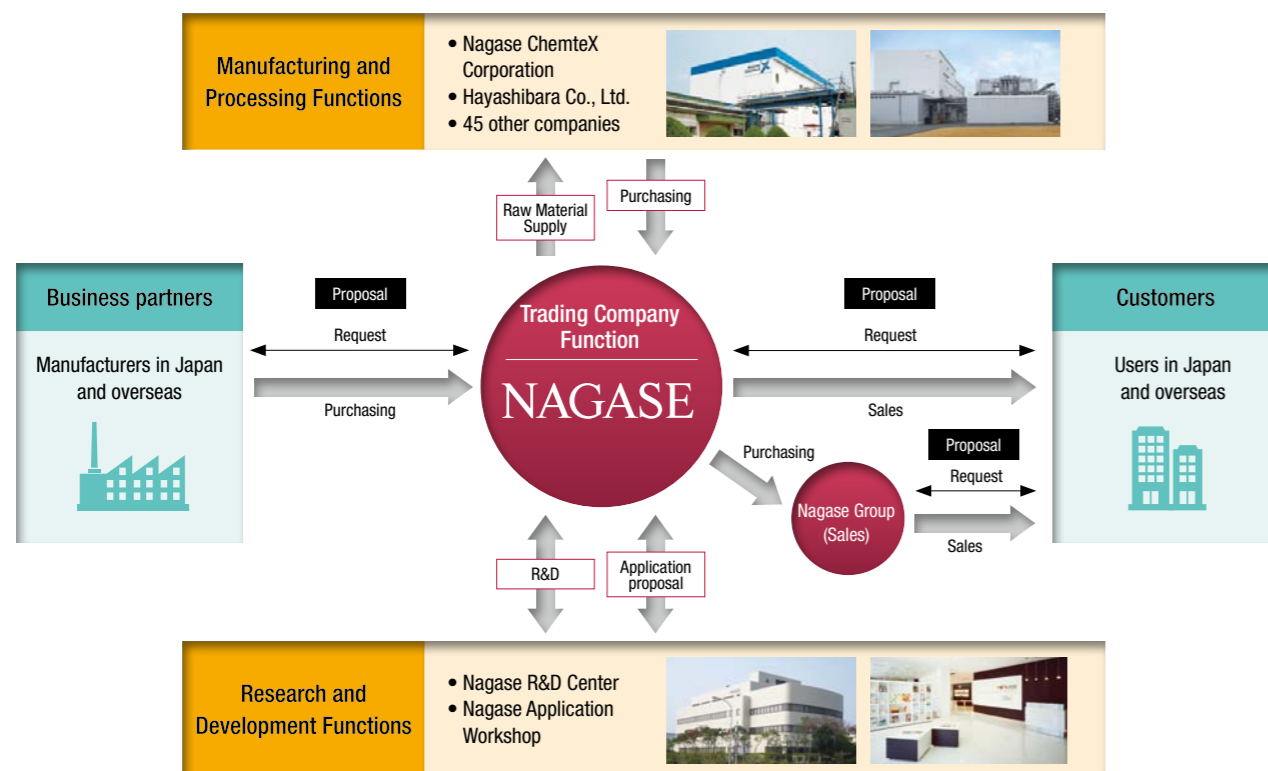
General consumers

Net Sales/Operating Profit



Our Business Model - Much More than a Trading Firm

The Nagase Group creates value through manufacturing, processing, and R&D functions in the chemical value chain. These functions allow us to pursue business models beyond the traditional model of the Japanese trading company.



Typical Trading Company Functions

1 Trade

Our core trading company functions consist of leveraging the supply/demand and information gaps to promote global trade in goods and services. In our trading company aspect, we provide (1) logistics (transport, customs, processing, warehousing); (2) financing (capital acquisition, management, settlements, foreign exchange); (3) insurance (maritime, import/export, fire); and (4) legal/screening services.

2 Information/Research, Market Development

We use our global network to collect and analyze information* about a wide range of global markets. In conducting our analysis, what we look for are gaps between supply and demand in a market. In this way, we are able to create a variety of new markets globally, introduce new technologies, find customers, and offer sales support for new products developed by business partners.

*Industrial/corporate information, advanced technology information, market/marketing information, regional information, legal/tax information, etc.

3 Financing

Trading companies offer a different kind of financing than traditional banking institutions. For example, trading companies can provide business partners with credit services and loan guarantees. Changes in the modern economic environment demand much more of trading companies in terms of financing complexity and diversity.

Unique Functions

Manufacturing and Processing

The Nagase Group has captured a large share of the market for many niche products. We offer manufacturing services that meet needs not covered by the major manufacturers and source goods for our customers that can only be located via information captured through our trading company activities.

R&D

Information is an important tool in offering a consultative sales approach. We take information gathered through research and development activities and then work with our departments to propose new businesses and technological applications.



While the Nagase Group has worked from day one to expand our business as an almost exclusive importer and agent for foreign companies, changes in the market structure of Japan have meant that our competitive advantage in this country has declined gradually. In response to this trend, we defined a new business model for the Nagase Group in the year 2000, strengthening our manufacturing functions to add greater value and improve our business offerings as a technology- and intelligence-oriented company that turns wisdom into business. Today, the Nagase Group counts 47 manufacturing and processing companies in our family. As a Group, we deal in pharmaceutical, functional polymers, electronics materials, plastics, cosmetics, and functional food ingredients production and processing, creating our own-value-added products in addition to intermediary business. In addition, the Nagase Group's R&D Center works closely with Group manufacturing companies in all fields, engaging in research and development activities.

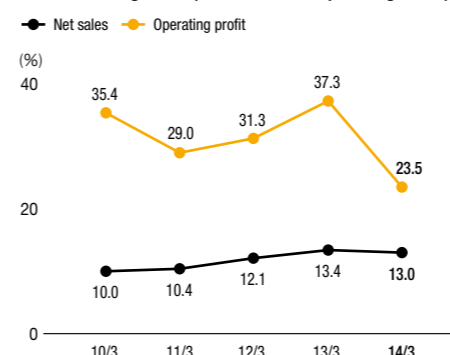
In this way, we integrate our strengths as a trading company with those

of a manufacturing, processing, and R&D firm. Nagase has advanced a switch from our previous sales model that focused on materials exploration to one that is driven by application proposals and joint development. We believe this is the best way to meet the needs of our customers and differentiate ourselves from the competition.

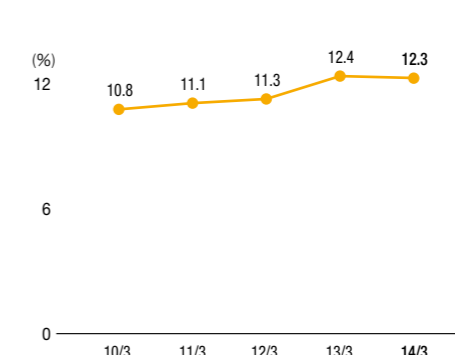
During fiscal 2013, Hayashibara continued scrap and build operations at the Okayama No. 1 Plant to improve manufacturing efficiencies and ensure the stable supply of existing products. These improvements will help us produce more products and add new products to our lineup.

- See page 42 Nagase ChemteX Corporation
- See page 44 Hayashibara Co., Ltd.
- See page 46 Nagase R&D Center
- See page 47 Nagase Application Workshop

Manufacturing Ratio (Net Sales and Operating Profit)



Gross Profit Ratio



The Globally Expanding Nagase Network

The Nagase Group is engaged in activities around the world that rely on the use of chemicals across a wide spectrum of products and services through our Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, and Life & Healthcare segments. These products and services include dyes/pigments, coating materials/inks, surfactants, office automation (OA), electrical equipment, home electronics, automobiles, LCDs, semiconductors, pharmaceutical/medical applications, cosmetics and functional food ingredients.

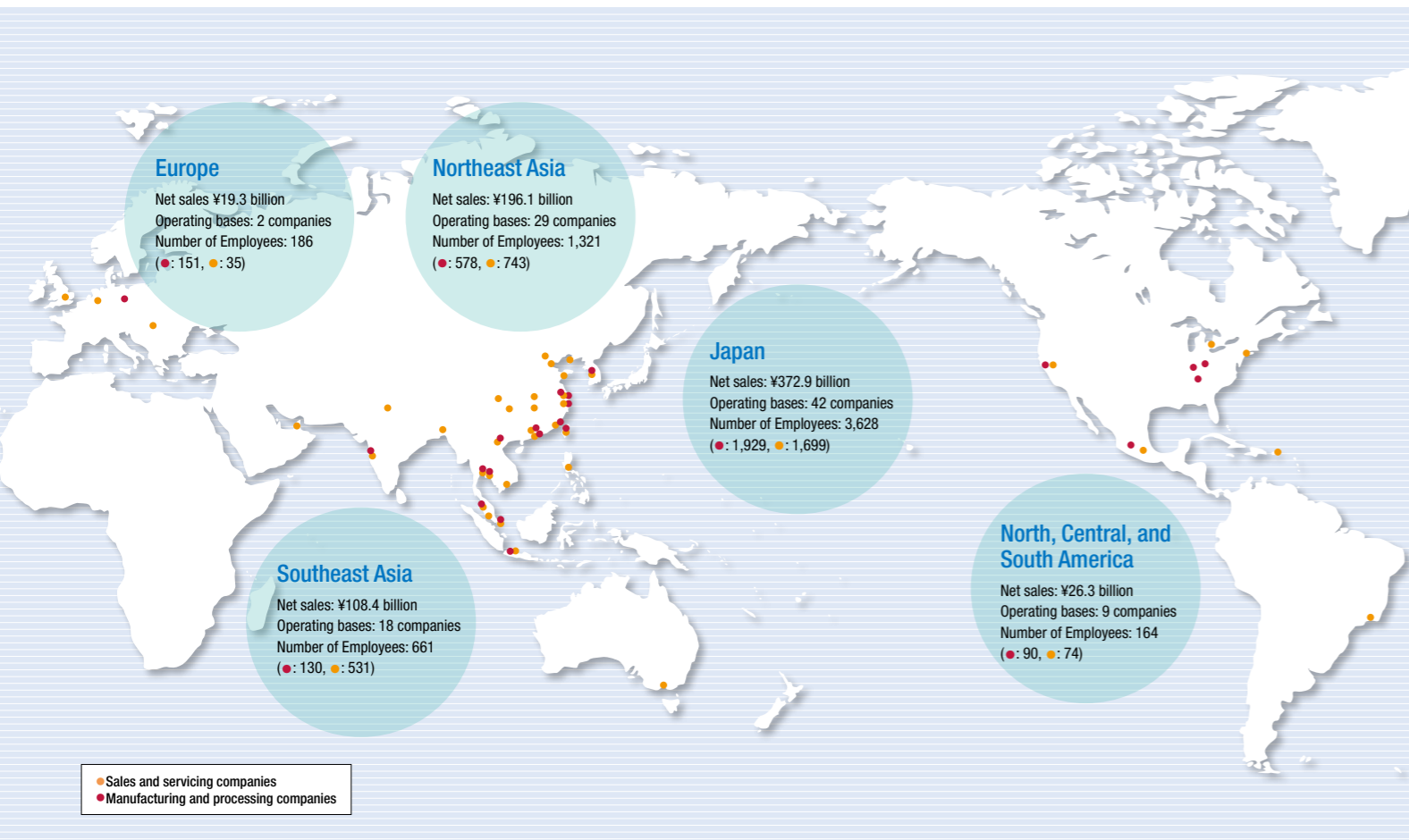
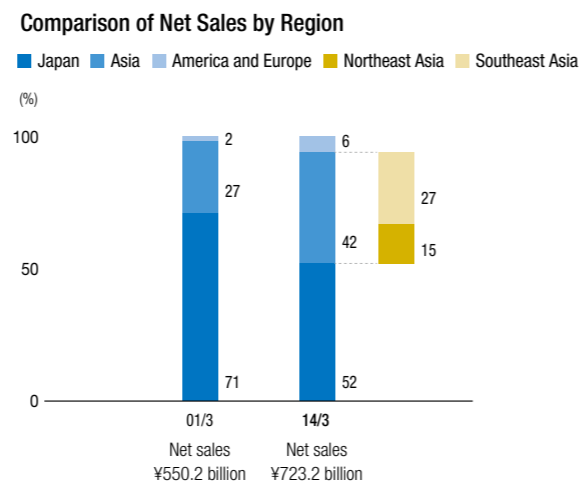
We have grown to become a global technology and information network with 100 companies in 20 overseas countries and 5,960 employees (consolidated) worldwide.

As a result, overseas sales accounted for 48.4% of consolidated net sales. We will continue to pursue a course of stronger marketing in all regions, leveraging investment in growth markets and interregional projects to create new overseas businesses.

During fiscal 2013, Nagase ChemteX (Wuxi) Corporation completed work on a research and development facility for formulated epoxy resin products in China.

Training Global Business Leaders [See page 56](#)

Nearly 60% of all Nagase Group employees hail from a technical background. We count our employees and their understanding of advanced technical information as one of our strengths. By fostering a culture of training and through a mentoring system, we are creating the next generation of global business leaders.



Message from the President



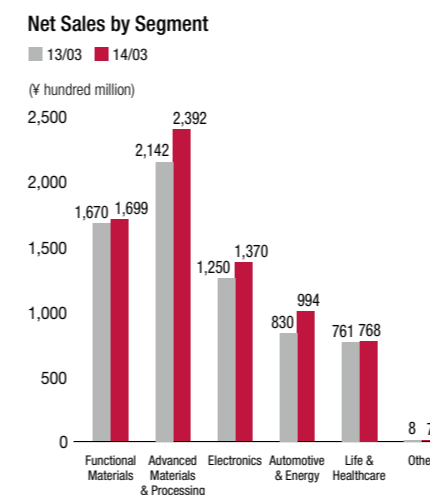
President Hiroshi Nagase

A Look Back on Fiscal 2013

The Nagase Group recorded net sales of ¥723.212 billion for the fiscal year ended March 2014 (an 8.5 % year-on-year increase) with operating profit coming in at ¥15.789 billion (a 1.4 % year-on-year increase). While these results represent year-on-year growth, they significantly underperformed our initial plan for the year. This result was mainly due to expanded net losses at certain of our manufacturing subsidiaries, as well as weakness in our thin glass and other manufacturing and processing businesses.

At the same time, we experienced slow movement in many of the goods handled by the NAGASE & CO.,LTD. (non-consolidated) trading company businesses, with the exception of the comparatively healthy automotive, construction, and smartphone/tablet-related businesses. The 180-year history of Nagase is the history of our trading company business—trading is the foundation of who we are. We have been discussing and analyzing this weakness in performance since it first appeared during the summer, and we will not rest until we find and implement a solution.

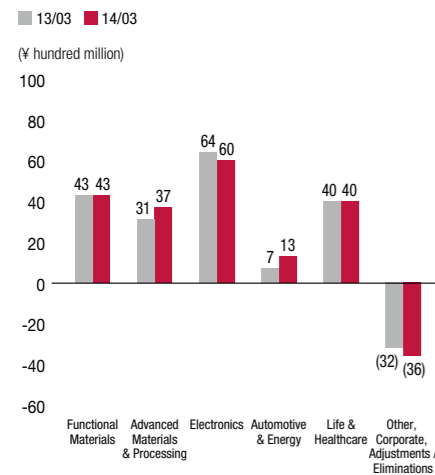
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Our History – Evolving Business Model



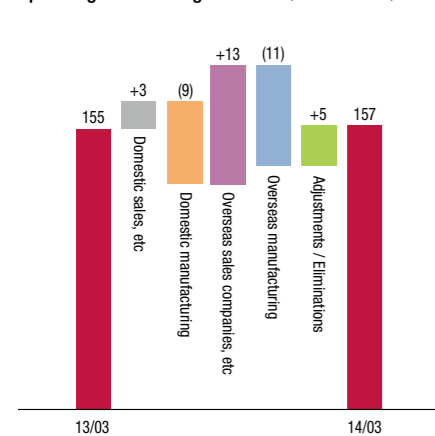
Functional Materials

Our mainstream segment, Functional Materials, sells the majority of its products and services to the Japanese market; earnings for this segment in Japan were relatively stable for the fiscal year. However, this segment underperformed plan significantly when looking at our

Operating Profit by Segment



Operating Profit Change Factors



ambitious worldwide sales targets. It goes without saying that we will review operations in this segment with a great sense of urgency. It is not easy to take a business model made for the peculiar characteristics of the Japanese market and apply it to markets around with world without modification. We believe we can find growth through greater cooperation with other segments and alliances with local entities overseas.

See page 20
Functional Materials

Advanced Materials & Processing

Our Advanced Materials & Processing segment had strategic growth plans that came to a near standstill due to our unprofitable manufacturing subsidiaries. One of those companies was a leading color former* firm, Fukui Yamada Chemical Co.,Ltd. This company drastically cut costs and rationalized its manufacturing processes in the fast lane. While Fukui Yamada Chemical Co.,Ltd. reported a net loss for the period, they have narrowed their losses, and I personally believe the company's future is looking brighter. Setsunan Kasei Co., Ltd. is another company that reported losses for the year. This company performs coloring for plastics. The decline in customer contracts was the primary factor on this company's earnings. However, a year of re-focus on quality and costs management leads us to believe that this company will see improvements moving forward.

*Heat-sensitive dyes for printing on the de-facto thermal paper used for receipts at convenience stores, taxis, and other similar outlets

See page 24
Advanced Materials & Processing

Electronics

As everyone knows, the markets targeted by the Electronics segment are subject to wide swings between strength and weakness. However, the fact is that the segment has so many technologies in development and develops with such swiftness that I believe there is still much more room for growth in the future. While Nagase met some challenges in the market with our epoxy resins, we have made changes to the development structure at our Nagase ChemteX manufacturing subsidiary that I believe will put things back on the growth track in the future.

We have also taken measures with respect to our thin glass processing business, mentioned previously, which I believe will lead to steady improvement. Further, we converted our Pac Tech-Packaging Technologies GmbH manufacturing subsidiary in Germany (semiconductor wafer bumping, etc.) to a wholly owned subsidiary, complete with a new president. I think we can confidently say that this move has only strengthened our consolidated structure as a group.

See page 28
Electronics

Automotive & Energy

Our Automotive & Energy segment experienced a shift in the types of products handled by Nagase in the automotive industry. While plastics accounted for the majority of our revenues in this segment, we haven't ignored the rapidly evolving electronification of cars around the world. We accounted for this market change in our medium-term management plan **Change-S2014**, and now car electronics revenues are growing into a business to rival that of our plastics. With our ability to sell to the automotive markets, we have been able to enjoy the benefits of the growth in that industry.

See page 32
Automotive & Energy



Progress in Core Markets

Bio

- Expansion of Hayashibara products to overseas markets. New application and new customer development through reviews of sales agent selection processes in each region and establishment of Application Lab.
- Nagase R&D Center reorganized to focus on fundamental research and technologies in the biotechnologies field.

Energy & Environment

- The Feed-in tariff scheme for renewable energy has led to increase in sales of photovoltaic panels for solar power generation systems.
- Work to accelerate development focused on niche areas in the increasingly competitive storage battery market.

Electronics

- Lateral expansion of electronics components and products for the smartphone and tablet markets.
- Component and materials development for car electronics.

Life & Healthcare

In our Life & Healthcare segment, we added more personnel and local business partners (sales agents) to restructure the overseas sales structure for trehalose, a product with very high market potential. In the future, we plan to engage in marketing activities that will further raise our brand presence in overseas markets. Hayashibara has begun construction on a new plant to take over existing production, scheduled to be completed in March 2015.

See page 36
Life & Healthcare

Progress in the second year of **Change-S2014**

Our **Change-S2014** medium-term management plan focused on the bio, environment/energy, and electronics fields.

In biotechnology, we are focused on (1) restructuring our overseas sales structure for trehalose and (2) building a more robust research and development function at the Nagase R&D Center specialized in biotechnology. We have already started seeing the tangible benefits of our efforts. Moving forward, we will be taking the steps necessary to make Hayashibara one of the Group's central entities.

While we are selling more Photovoltaic Panel related to our environment/energy business goals, at the same time we have a backlog in projects for eco-friendly vehicles. Still, we have been able to plant many seeds for future business, and now we need to begin the selection and focus process. We will use these seeds to move forward one step at a time, acknowledging that it may take some time to accomplish our goals.

With respect to our electronics business, we are enjoying a period of strength for components and materials in the smartphone and tablet markets, driven by our own global consulting and procurement activities. For more on our progress, please refer to the chart on the left.

See page 44 Hayashibara Co., Ltd.
See page 46 Nagase R&D Center

Value Chain Strategies: Intersegment Cooperation

The Nagase Group has identified five strategic segments aligned with the global chemical value chain (complete upstream to downstream): Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, and Life & Healthcare. These five segments work to collect and analyze information concerning the latest market and technology trends, working in cooperation with other segments in the Group to create new materials that lead to new products and services.

Here is a real-world example. An upstream Functional Materials segment employee told a downstream Electronics segment employee about a functional coating material that could be used to win more materials orders from major smartphone and tablet manufacturers in the United States. That Electronics segment employee took the new material to the manufacturer and made a presentation, which led to new business. This kind of case is what a company can do when it has the kind of access to global market and technology information like Nagase. We see more such examples in the electronics and automotive industries, stemming from increasingly frequent communications and coordination among our segments in Japan and overseas. This trend gives me great confidence about our bright future.

See page 6 Our Strategy - Nagase Group Businesses
See page 10 Global Network

Foundation for Achieving Plan Targets: Human Resources Development

Under our current medium-term management plan, we are pursuing a value chain strategy that relies on intersegment cooperation. This kind of cooperation is also the foundation for achieving our plan targets. In this sense, we believe that every single Nagase Group employee is busily engaged in cooperation with employees in other segments.

Nagase employees across the globe are involved in workshops to study our products, from coatings to plastics, from automotive to flat panel displays, semiconductors, pharmaceuticals, and more. Some meetings are multi-day inter-group exchanges, attended by more than 100 employees from our businesses around the world.

Our human resources, finance, IT, and other administrative divisions are no exception, participating in more global interchange designed to standardize corporate policies and rules for the Nagase Group. We offer human resources training programs for employees based on seniority and position—as well as certain invitation-only training—available to both Japanese and global employees.

In my experience, every one of these intersegment cooperation, workshops, and human resources trainings improves the atmosphere and culture with the Group. At this point, when I visit one of our local entities overseas, they tell me that they want Japanese employees to move faster, with more urgency.

See page 54
Human Rights/Employment Practices

FYE March 2015 Earnings Forecasts

Our earnings forecast for the next fiscal year have been informed by the strength of the economies overseas, particularly in North America, which we believe will drive continued growth in the office equipment and appliances business and as well as in the LCD film-related business. Accordingly, we project consolidated net sales of ¥783.0 billion, which will represent an 8.3% year-on-year gain. By segment, we forecast net sales of ¥179.0 billion (5.3% year-on-year gain) in our Functional Materials segment, ¥260.0 billion (8.7% increase) in our Advanced Materials & Processing segment, ¥157.0 billion (14.6% increase) in our Electronics segment, ¥104.7 billion (5.3% increase) in our Automotive & Energy segment, and ¥81.6 billion (6.2% increase) in our Life & Healthcare segment.

We project gross profit of ¥94.7 billion (6.5% year-on-year increase), with operating profit of ¥19.0 billion (20.3% increase), the result of gains in net sales and gross profit, as well as a decrease in retirement benefit costs due to amortizing retirement benefit obligation actuarial differences. As a result of the preceding, we project ordinary income of ¥21.5 billion (20.1% increase) and net income of ¥14.2 billion (21.8% increase).

Our earnings forecasts are based on an assumed currency exchange rate of ¥103 to one U.S. dollar.

Corporate Governance, Dividends, and Shareholders' Equity Policies

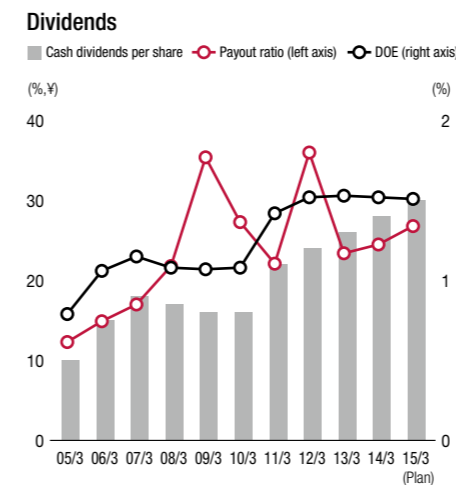
The Nagase Group believes that a strong corporate governance function is an important management issue. As such, the Group actively works to bring in outside directors who have an extensive knowledge of the petrochemical and manu-

facturing industries, as well as a wealth of management experience in business.

Beginning fiscal 2014, in addition to Yasuo Nishiguchi (from KYOCERA Corporation), the Nagase Group welcomed Hidenori Nishi (from KAGOME CO., LTD.) as a new outside director to strengthen our Board.

Lately, there has been a general call for more diversity within the ranks of Japan's boards of directors. I believe that naming two individuals as outside directors will do much to prevent board homogeneity and encourage debate among people holding different philosophies. The Nagase Board of Directors has already been a place where directors come to meetings fully briefed and prepared to seriously discuss resolutions and other matters. In this sense, I believe that the wealth of experience and knowledge these two individuals bring to our Board of Directors will be a valuable source of practical insight and advice. Mr. Nishiguchi, in particular, offers insight into the business of manufacturing, while Mr. Nishi has extensive corporate branding and marketing experience in the food industry.

See page 48 Organization Governance
See page 52 Four Questions for NAGASE Outside Directors



Dividends, Shareholders' Equity Policies

Our basic policy concerning dividends is to continue to make stable payments to our shareholders based on consolidated achievements, reflecting improving earnings capacity and corporate infrastructural integrity. Given this policy, we have committed to an end-of-year per-share dividend of ¥14 (full-year dividend of ¥28 per share, including a ¥14 per share interim dividend). This decision was based on considerations of the consolidated payout ratio, consolidated debt-to-equity ratio, and a corporate goal to pay increasing dividends.

Based on the preceding policies, the Group has set a goal to improve the dividend on equity (DOE) ratio over the medium term, working to improve Group-wide business and operations quality under the guidance of our **Change-S2014** medium-term management plan, increasing dividends per share through stronger earnings.

The Nagase Group strives to improve overall returns to our shareholder, balancing investment for continued business growth with direct shareholder returns such as dividends and stock sales or buybacks.

I wish to thank all of our shareholders for their medium- and long-term view of the Nagase Group business, and I ask for your continued support.

See page 18
Financial Foundation Supporting Business Growth

July 2014

Hiroshi Nagase
President

13-Year Financial Highlights

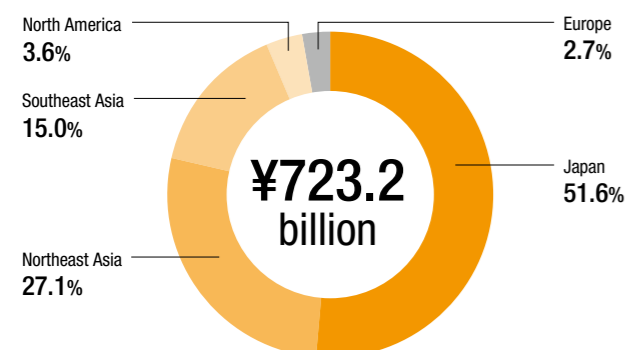
NAGASE & CO., Ltd. and Consolidated Subsidiaries (Years Ended March 31)

(Millions of Yen)							(Millions of Yen)						
2002/3	2003/3	2004/3	2005/3	2006/3	2007/3	2008/3	2009/3	2010/3	2011/3	2012/3	2013/3	2014/3	
WIT2000 (Reform)			WIT21 (Promotion)			WIT2008 (Reinforcement)			"CHANGE"11 (Improving quality of our business and operations)			Change-S2014	
Investment Amount: ¥20.2 billion (3 years)			Investment Amount: ¥23.7 billion			Investment Amount: ¥27.7 billion			Investment Amount: ¥107.4 billion			Investment Amount: ¥12.0 billion	
Performance (Accounting Fiscal Year)													
Net Sales	¥ 490,583	¥ 503,688	¥ 533,301	¥ 575,636	¥ 648,023	¥ 701,321	¥ 764,755	¥ 715,238	¥ 603,949	¥ 660,213	¥ 631,854	¥ 666,272	¥ 723,212
Segments													
Functional Materials (formerly Chemicals)	218,524	223,656	231,360	251,725	222,282	247,094	267,836	248,461	237,124	253,290	177,126	167,017	169,973
Advanced Materials & Processing (formerly Plastics)	175,252	165,810	170,996	188,456	229,278	244,681	274,660	253,029	192,569	222,100	217,929	214,214	239,224
Electronics	83,660	99,759	118,978	122,632	132,086	150,796	163,833	153,255	117,591	133,640	110,495	125,014	137,026
Automotive & Energy	—	—	—	—	—	—	—	—	—	—	76,113	83,068	99,441
Life & Healthcare (former Healthcare/Other)	13,146	14,461	11,966	12,821	56,404	53,556	56,489	58,905	55,542	50,247	49,170	76,116	76,810
Other	—	—	—	—	7,972	5,191	1,934	1,585	1,121	934	1,018	841	737
Regions													
Domestic	341,102	337,531	349,557	363,708	388,470	410,789	432,813	394,874	360,382	389,379	366,369	361,971	372,939
Overseas	149,481	166,157	183,744	211,928	259,553	290,532	331,942	320,364	243,567	270,833	265,484	304,301	350,272
Gross Profit	46,976	51,899	53,494	61,960	67,640	73,639	80,506	71,527	65,415	73,008	71,628	82,583	88,936
Operating Income	1,673	8,433	10,244	13,256	17,596	21,669	23,063	12,522	13,128	18,732	13,427	15,578	15,789
Net Income (Loss)	(2,097)	4,186	7,010	10,384	12,892	13,567	10,005	5,808	7,537	12,823	8,570	14,182	11,663
Financial Condition:													
Total Assets	¥ 300,073	¥ 284,800	¥ 310,793	¥ 335,290	¥ 396,773	¥ 422,859	¥ 419,869	¥ 340,968	¥ 368,088	¥ 375,336	¥ 450,842	¥ 486,747	¥ 498,141
Equity Capital	144,176	140,944	156,210	167,092	196,620	205,083	200,554	184,599	195,344	201,516	204,706	228,505	246,723
Interest-Bearing Debt	19,677	16,578	16,417	14,019	24,834	20,491	33,342	31,340	21,886	27,125	88,710	98,425	92,828
Per Share Data:													
Net Income (Basic)	¥ (15.39)	¥ 31.72	¥ 54.69	¥ 81.00	¥ 100.32	¥ 105.84	¥ 77.86	¥ 45.17	¥ 58.64	¥ 99.76	¥ 66.69	¥ 111.31	¥ 91.86
Net Assets	1,082.16	1,107.55	1,227.82	1,311.37	1,535.70	1,597.27	1,559.97	1,435.88	1,519.61	1,568.04	1,592.87	1,803.31	1,942.20
Cash Dividends	8.0	8.0	9.0	10.0	15.0	18.0	17.0	16.0	16.0	22.0	24.0	26.0	28.0
Payout Ratio (%)	—	24.3	16.3	12.3	14.9	17.0	21.8	35.4	27.3	22.1	36.0	23.4	30.5
Shareholders' Equity Dividend Rate (%)	0.72	0.71	0.77	0.79	1.06	1.15	1.08	1.07	1.08	1.42	1.52	1.52	1.50
Ratios:													
Overseas Sales to Net Sales	30.5	33.0	34.5	36.8	40.1	41.4	43.4	44.8	40.3	41.0	42.0	45.7	48.4
Manufacturing Ratio (Operating Income)	(9.6)	21.4	19.2	16.4	20.5	22.3	24.4	15.5	35.4	29.0	31.3	37.3	23.5
Operating Margin (Operating Income/Net Sales)	0.3	1.7	1.9	2.3	2.7	3.1	3.0	1.8	2.2	2.8	2.1	2.3	2.2
Return on Equity (ROE)	(1.4)	2.9	4.7	6.4	7.1	6.8	4.9	3.0	4.0	6.5	4.2	6.5	4.9
Net Worth Ratio	48.0	49.5	50.3	49.8	49.6	48.5	47.8	54.1	53.1	53.7	45.4	46.9	49.5
Debt Equity Ratio (Times)	0.14	0.12	0.11	0.08	0.13	0.10	0.17	0.17	0.11	0.13	0.43	0.43	0.38

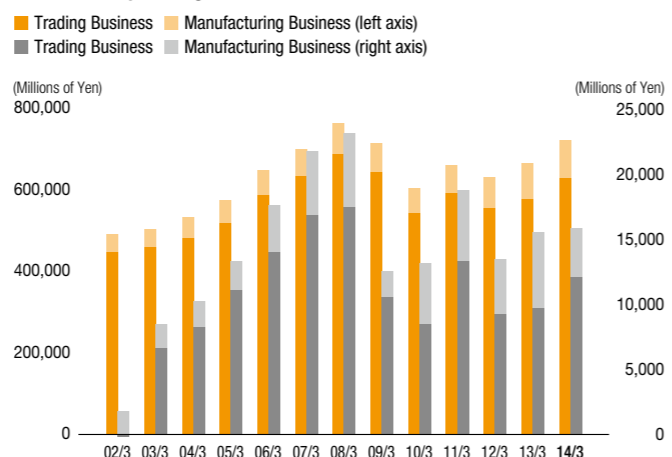
(Note 1) In the fiscal year ended March 2006, the Fine Chemicals Department (part of the Chemicals segment) was integrated with the Healthcare segment. The combined organization is now known as the Life Sciences segment.
 (Note 2) Beginning with the fiscal year ended March 2010, the Company has moved its information and functional materials businesses handling materials related to insulating materials and fluoroplastic-related materials from the Electronics segment to the Chemicals segment. Businesses handling surface detection machines for functional films and sheets have been moved under the Plastics segment.

(Note 3) During the fiscal year ended March 2013, the Nagase Group reorganized its four business segments into five business segments (Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, and Life & Healthcare) to more fully reflect the respective positions of each business in the value chain. For comparative purposes, fiscal 2011 figures have been calculated using the new business segments. The Colors & Imaging Department formerly under the Chemicals segment has been moved under the Advanced Materials & Processing segment. The Automotive & Energy segment was organized out of the Automotive Solutions Department (belonging to the Plastic segment) and the Energy Business Office, which was launched as an integrated entity from the Environment & Energy Office (under Other) and the Energy Device Office.
 (Note 4) Beginning fiscal 2013, the Group moved its abrasives business for semiconductor and HDD industries from the Functional Materials segment to the Electronics segment. The Company also moved its raw materials sales business for the cosmetics industries from the Functional Materials segment to the Life & Healthcare segment. For comparative purposes, fiscal 2012 earnings were calculated reflecting these changes.

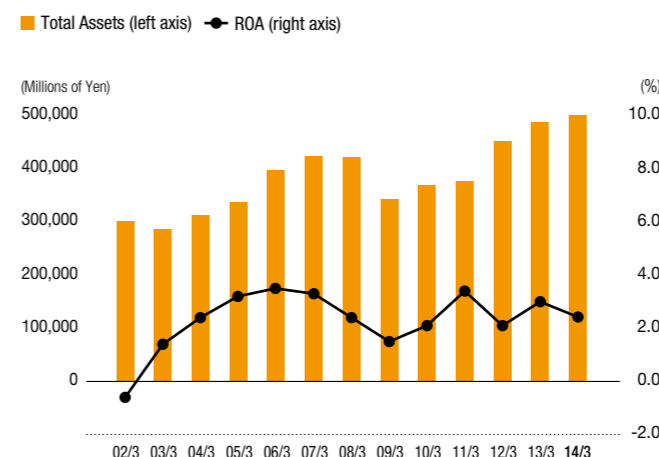
Composition Ratio of Net Sales by Region



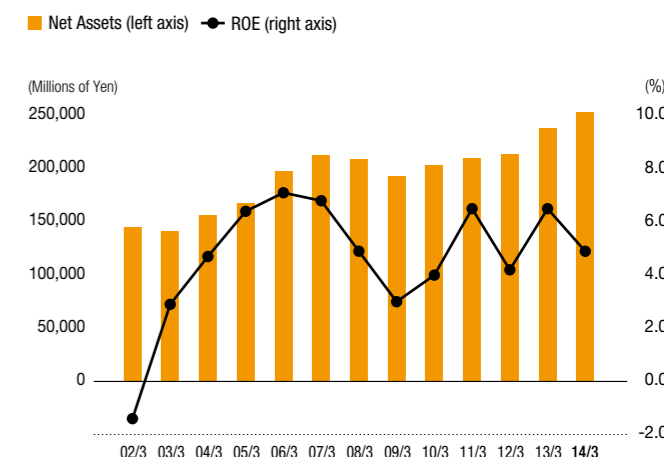
Net Sales/ Operating Profit



Total Assets/ROA



Net Assets/ROE





Investing for Greater Corporate Value

The Nagase Group does not engage in investment or financing for purposes of speculative income generation. Through manufacturing, R&D, technology, business intelligence, and a global network—what we perceive as our competitive strengths along our Group value chain (See page 8) Our Business Model – Much More than a Trading Firm—we create unique and highly competitive businesses. These businesses allow us to improve our service quality and value as a corporation. Our **Change-S2014** medium-term management plan (fiscal 2012 through fiscal 2014) calls for ¥40.0 billion in investments and financing. We intend to follow these policies to continue to grow as a business.

When investing, we will always improve cash flows of the businesses, enhancing systems in order to understand efficiency and effectiveness of investment, and raising corporate value. In order to maintain stable financial strength, we have determined D/(D+E) = 33% (D:E = 1:2) as the maximum limit of debt to equity and will try to raise corporate value by maintaining or even improving our rating.

Liabilities and interest-bearing debt grew significantly during fiscal 2011. These funds were raised from financial institutions or through the issuance of unsecured bonds for the purpose of acquiring of Hayashibara Co., Ltd. and the conversion of that company to a Group subsidiary. Despite the increase in liabilities, the Group maintained a financially sound net worth ratio of 49.5% (as of March 31, 2014).

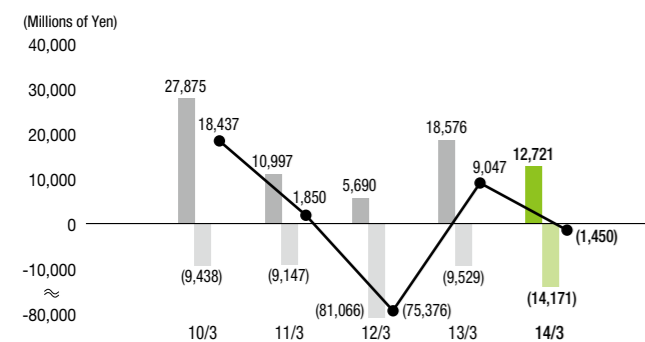
*** D/(D+E) Ratio: Interest-bearing debt (D)/(Interest-bearing debt (D)+Owned capital (E))**

The Nagase group uses the D/(D+E) ratio as an indicator for understanding the balance of financial resources. Utilization of interest-bearing debt is necessary for effective investment, but maintaining a sound financial basis is indispensable for continuous development of our business. We therefore have determined D/(D+E) ratio = 33% (Interest-bearing debt: Owned capital = 1:2) as the maximum limit of debt to equity.

Rating		
Agency	Type	Rating
Rating and Investment Information, Inc.	Issuer credit rating	A

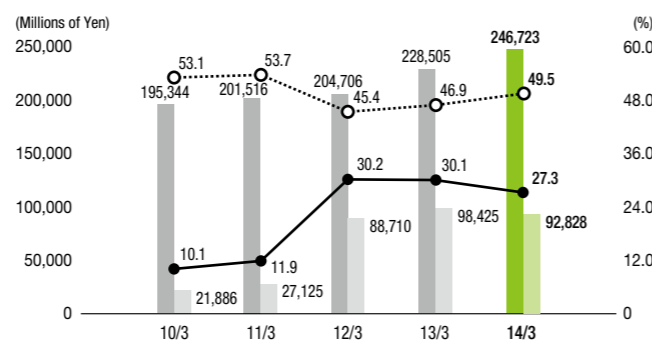
Cash Flows

■ Cash flows from operating activities ■ Cash flows from investing activities ● Free cash flows

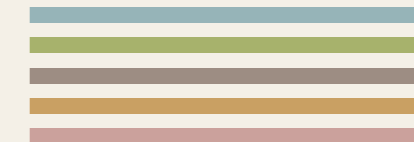


Owned Capital / Interest-bearing Debt / D/(D+E) Ratio* / Net Worth Ratio

■ Owned capital ■ Interest-bearing debt ● D/(D+E) Ratio ● Net Worth Ratio



Business Report



Functional Materials



Functional Materials Segment

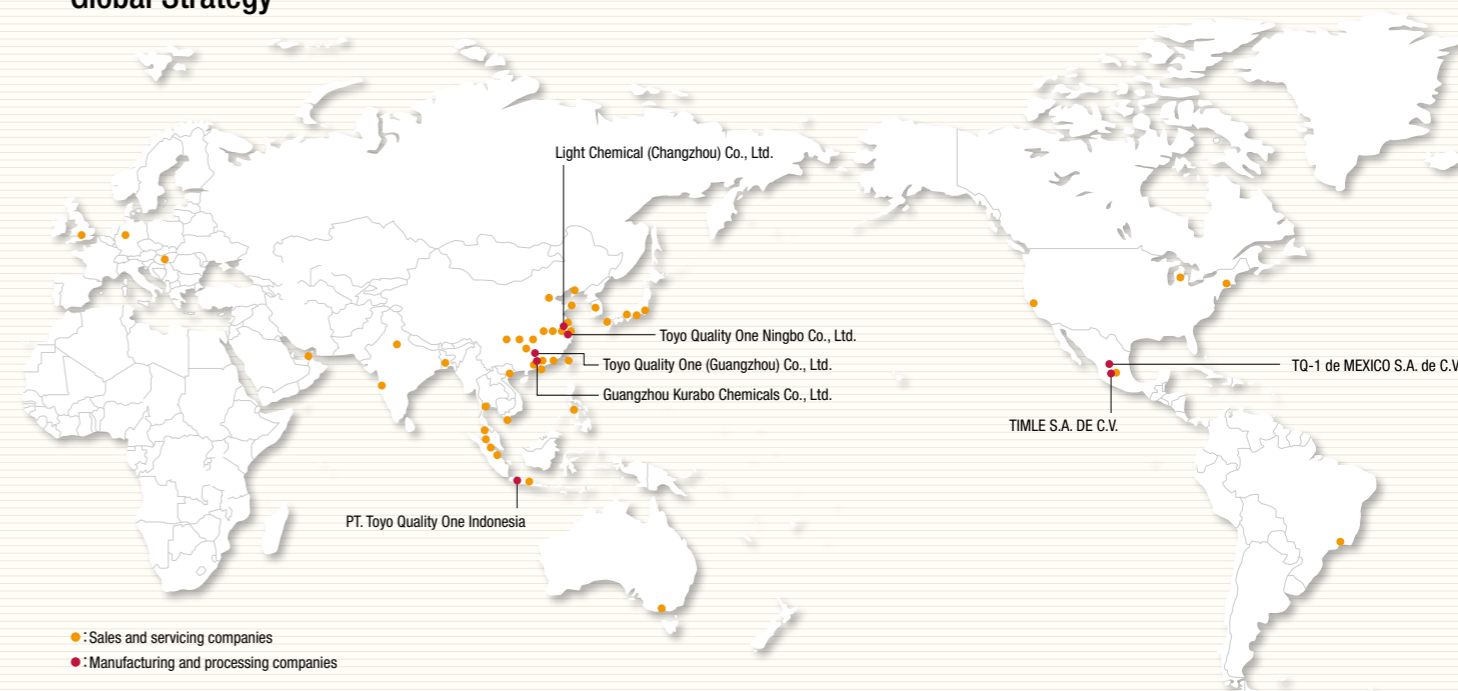
As Nagase's parent division, we have accepted the challenge of creating new value to respond to the needs of the times, contributing to the value chain in order to offer complete peace of mind to all our customers.



Toshiro Yamaguchi
Representative Director and Managing Executive Officer

Functional Materials Segment

Global Strategy



► Medium- and Long-Term Business Environment

The Functional Materials segment (1) earns the majority of its sales in Japan and (2) handles a large volume of raw materials that lie close to the upstream industry sectors. Accordingly, we anticipate growth in the domestic market and a challenging external business environment

- Important to anticipate environmental changes (e.g. fossil industry consolidation, shift to overseas production)
- More opportunities to let local entities overseas operate more independently from Japan

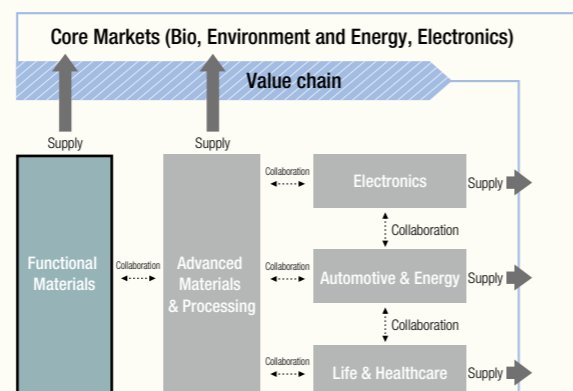
► Overseas Expansion

- Build new business in India, Turkey, Mexico, Thailand, and other emerging countries for local automotive and construction industries
- Chemical sourcing has been in China mainly; based on trends in Japan's fossil industry, we plan to procure downstream materials from a wider area (including the Middle East)

Segment Overview (Functions)

Our operating words in the Functional Materials Segment are safe, stable, and unique. Developing materials and applications meeting these standards in this business is our primary focus. We offer high-function materials to industries and Group segments across the bio, environment/energy, and electronics fields.

Working closely with our customers, we are able to offer solutions that meet their unique needs, expanding the markets for all parties. We balance the seeds-oriented and needs-oriented approaches to create maximum opportunity.



Segment Strengths (Businesses)

- A business model working closely with customers, offering high levels of satisfaction, tremendous sales capabilities, and the ability to collect and share technological information globally among customers and manufacturers
- Collaboration with our Nagase ChemteX Corporation manufacturing subsidiary
- Global Network
- A foundation and strong presence in the chemicals industry
- Enhanced management systems for chemicals-related regulations and security trade

Primary Businesses

- 1 Understand needs of strategic customer business
- 2 Strengthen overseas networks
- 3 Greater collaboration with Nagase ChemteX Corporation
- 4 Development, manufacturing, and after-sales service for polymer filter business (filter contaminants out of resins)
- 5 Create new environmentally-friendly businesses
- 6 Bio business

Performance Chemicals Department

Executive Officer,
GM, Performance Chemicals Department **Kohei Sato**



Major Industry Trends

Demand in Japan recovered during the fiscal year ended March 2014, with the automobile and construction industries being particularly strong. China recovered from last year's weakness, and the economies of the ASEAN nations continued to grow at a rapid clip.

Meanwhile, many companies in Japan's petrochemical industry idled operations due to overproduction, hastening industry restructuring. While the economy will suffer a hit from the impact of higher consumption taxes during the first quarter of the fiscal year, we expect to see a gradual recovery beginning in the second quarter of the fiscal year ending March 2015.

Major Manufacturers

• Nagase Filters Co., Ltd. • Toyo Quality One Ningbo Co., Ltd. • Guangzhou Kurabo Chemicals Co., Ltd. • P.T. Toyo Quality One Indonesia • TIMLE S.A. DE C.V. • TQ-1 de MEXICOS.A DE C.V. • Light Chemical (Changzhou) Co., Ltd.

TOPICS

Tying CS Activities to Greater Customer Satisfaction

Objective:

- ▶ Build and strengthen our customer base, according to "Understanding needs of strategic customer business" across our "Primary Businesses"
- ▶ Identify the gap between our current and ideal corporate structure, identifying the needs that are most important to (1) our customers and (2) their current satisfaction levels

Goal:

- ▶ Become a company that customers look to for new ideas

Survey:

- ▶ We surveyed customers in our functional chemicals business and Nagase Chemical Co., Ltd. Chemicals Dept.

Methodology:

- ▶ Questionnaires and interviews

• Questionnaire Response: 530 (79.9% response rate)

Results and Analysis:

- ▶ Almost 90% of respondents said that they are satisfied with Nagase
- ▶ NAGASE's strengths lie in our honesty, speed, and understanding of the customer
- ▶ We can contribute to customer satisfaction significantly by anticipating future needs

Issues:

- ▶ Improve awareness of Nagase Group analytical, manufacturing functions
- ▶ Produce proposals that anticipate customer needs

Fiscal 2013 Strategies and Results

During fiscal 2013, the Company focused on (1) building strength in our customer base, (2) expanding our overseas business, (3) developing our bio-related business, and (4) improving our filters business. We are expanding customer service activities to improve customer satisfaction throughout the Group. Our focus here is to respond accurately to customer needs and offer better service as an integrated entity. Internationally, we are building more production facilities for our urethane business in Mexico and Thailand. Our filter business worked to develop new applications and related products to add to existing optical applications. We have seen the structural changes occurring in the petrochemical industry. In response, we have integrated the existing technological functions inside the Group (both domestic and international) in pursuit of bio-based chemicals development.

The segment reported higher revenues and profits on a consolidated basis, mainly due to strong performance in automotive and housing-related businesses in Japan, as well as growth in the Asian markets.

Fiscal 2014 Strategies

Fiscal 2014 represents the third year of our **Change-S2014** business plan. This plan also calls for us to strengthen our customer base to improve levels of customer satisfaction. We are making a vigorous push to take advantage of our Group value chain to allow us to anticipate future customer needs. We also continue to take measures to strengthen our overseas, bio-related, and filter businesses.

We are also looking at the implications of major shifts in the supply chain related to Japan's fossil industry restructuring, seeking out new business opportunities over the medium and long term. Executing on these initiatives, we believe we can further strengthen the Nagase brand in the chemical industry as well as create new value globally.

Speciality Chemicals Department

GM, Speciality Chemicals Department **Gen Hirao**



Major Industry Trends

The Nagase Group is involved in a wide array of businesses. One of our priorities is the automotive industry. We expect to see a decline in Japanese auto production and an accelerating shift to move production for industrial oils and plating chemicals overseas, where we can expect to see lower production in Japan. The devaluation of the yen against world currencies has helped us compete in the textile oil market, where we expect to see export growth.

The electronics industry should see a recovery in capital investment, which will lead to demand for equipment and related products. We also project higher demand for functional materials, even though there will likely be strong price competition.

Major Manufacturers

• Nagase ChemteX Corporation

TOPICS

WAGNER Micro-Ceramic Oil Sales

WAGNER has been selling micro-ceramic oils to German auto makers for the past 20 years. Micro-ceramic oil is a pure engine coating material that protects engines, improves fuel efficiency, and allows for extra torque.

Micro-ceramic oil—also used as an industrial lubricating oil—is one of the main environmental business products in the Speciality Chemicals department.

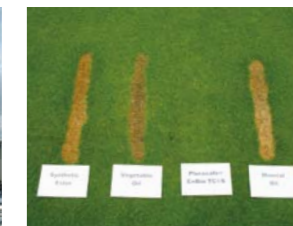


NAGASE ECO

- Marketing Green Denacol (made from natural materials) in Europe
- Equipment to recover environmentally unhealthy NOx (nitrogen compounds) from factory exhaust gases
- Lawn mower hydraulic fluid that doesn't kill grass



NOx Recovery Equipment



Biodegradable hydraulic fluid

Advanced Materials & Processing



Advanced Materials & Processing Segment

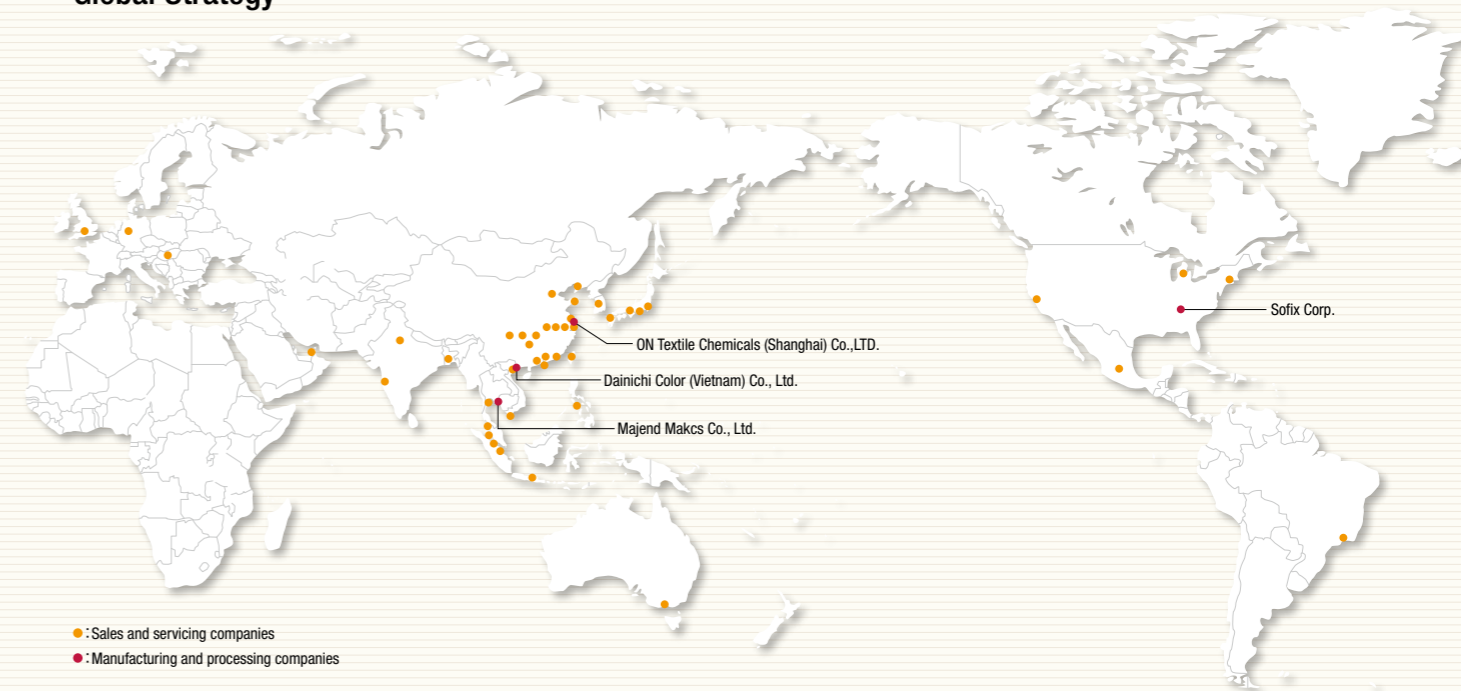
This business segment contributes to society through the growth of the Nagase Group, as we pursue a global business model that links materials with application development, expanding our expertise and experience in plastics, dyes, and processing technologies.



Hiroshi Hanamoto
Director and Executive Officer

Advanced Materials & Processing Segment

Global Strategy



► Medium- and Long-Term Business Environment

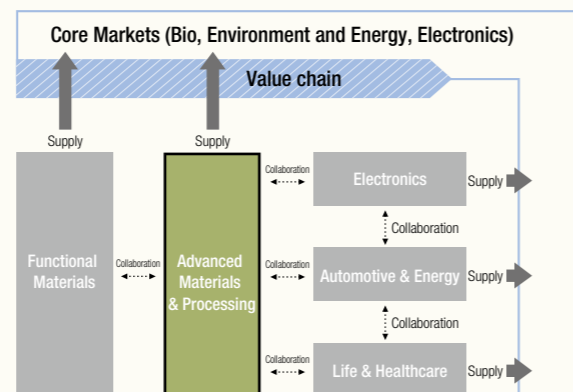
- Changes in the supply environment related to China's environmental regulations and price increases
- Bipolarization between China and non-Chinese economic regions
- More diversified demand in Japan

► Overseas Expansion

- Faster move to product business equipment and textiles overseas; our response to market differentiation between Chinese/non-Chinese markets
- Develop stronger presence in Chinese market; higher demand for improved functions in Southeast Asia, South Asia
- Move to procure chemical materials from markets outside of China

Segment Overview (Functions)

The Advanced Materials & Processing Segment is positioned along the next step in the value chain of added-value creation. The goal of this segment is to propose added function, design, and functionality solutions to the Nagase Group as a whole through dispersion, filmification, molding, and other processing technologies.



Segment Strengths (Businesses)

- Offer the strength of the Nagase Group, coordinating with customers on everything from raw materials insights to application development
- Major overseas business partners: SABIC IP, BASF, Eastman Chemical
- Application development functions: NAW (Nagase Application Workshop), Shanghai Techno Center, Color Lab

Primary Businesses

- 1 Propose materials and application solutions to the business equipment industry
- 2 Expand business via strategy coordination with core suppliers
- 3 Expand overseas business
- 4 Strengthen integrated management activities with affiliates
- 5 Building a stronger presence in the packaging materials/containers/packaging industries

Colors & Imaging Department



Executive Officer;
GM, Colors & Imaging Department

Mitsuru Kanno

Major Industry Trends

Performance in Japan's coating, inks, and plastic coloring markets is directly influenced by general business conditions. Accordingly, these markets have benefitted from Japan's ongoing recovery, and we expect them to continue to improve. On the other hand, the markets for chemical and digital printing for thermal paper are more greatly affected by worldwide business conditions. This means that the devaluation of the yen has been a two-edged sword for these products. Despite this fact, we saw improved export profits during the fiscal year ended March 2014. We expect to see the same trends continue throughout the next fiscal year.

Major Manufacturers

• Fukui Yamada Chemical Co., Ltd. • Sofix Corp. • Nagase ChemteX Corporation • Hayashibara Co., Ltd.

Fiscal 2013 Strategies and Results

Our most important tasks for medium-term management planning can be summarized as (1) expanding existing business and (2) project-by-project development. As for the existing business, as we made progress in working together with our strategic partners, we also saw cost improvements in our color former business, which helped earnings outperform the prior fiscal year. We expect to see continued performance strength throughout next fiscal year. Regarding the project-by-project development, our digital printing system for textiles is becoming more popular among customers as we add improvements in a few systems we brought to the market. The IM-Mold transfer printing film business was repositioned in line with our plan, and now we are conducting development activities in earnest. Despite the positive news, both of these projects underperformed initial sales targets; we will make changes and execute plans toward better performance during the next fiscal year. As a result of these developments, earnings for the fiscal year ended March 2014 were essentially level with the prior fiscal year.

Polymer Global Account Department



Executive Officer;
GM, Polymer Global Account Department;
CEO, ASEAN/India

Ichiro Wakabayashi

Major Industry Trends

More than 60% of the consolidated net sales generated by the Polymer Global Account Department are in overseas markets. In China and the inland regions, we have noted growth in the number of production centers operated by our clients. In ASEAN, new investment from Japan and the shift of production centers from China have been particularly notable. We believe that both of these factors will lead to growth markets and new business opportunities in emerging countries. In Japan, we plan to grow this business through super engineering plastics sales and by leveraging the Group network.

Major Manufacturers

• Setsunan Kasei Co., Ltd. • Dainichi Color Vietnam Co., Ltd. • Majend Makcs Co., Ltd.

Fiscal 2013 Strategies and Results

During fiscal 2013 our major management policies called for cultivating more non-Japanese clients in terms of customer strategy. In terms of regional strategy, we focused on strengthening our Chinese inland operating bases, committing more management resources to emerging countries in ASEAN, and applications and elemental technologies in new business.

We worked to put proposals that highlight our capabilities and unique functional materials in front of more non-Japanese customers.

At the same time, we have achieved growth in our inland-China business by offering our logistics and warehousing services to customers in these regions. Our investment of business resources in the newly emerging ASEAN nations includes adding and training sales staff to support our compound business in Vietnam. We are also pursuing initiatives in the overseas packaging materials business to develop new applications and develop new elemental technologies, while also seeing positive results from our work in selling super engineering plastics in Japan.

As a result of these activities, we recorded higher year-on-year revenues and profits for the fiscal year ended March 2014.

Polymer Products Department



Executive Officer;
GM, Polymer Products Department

Kenji Nagafusa

Major Industry Trends

The cosmetics, toiletries, and food businesses represent our highest priorities within the Life & Healthcare segment. Here, we have seen growth in sales of the Eastman Chemical plastics. We have also identified the medical industry as a priority moving forward, and we have started marketing activities to potential customers. In a joint project with the Functional Film Division, which was transferred over from the Colors & Imaging Department, we have started developing functional dyes for use in LCD light fixtures, marketing flame-retardant film, and selling packaging materials and optical protective films in Asia.

Major Manufacturers

• Totaku Industries, Inc. • Sun Delta Corporation • Kotobuki Kasei Corp. • Nagase ChemteX Corporation

Fiscal 2013 Strategies and Results

Under **Change-S2014**, the strategies in this department call for developing original products, strengthening our core businesses, and creating synergies with other group companies.

We saw growth in Eastman Chemical plastics sales for fiscal 2013, mainly in our strategic products related to cosmetics, toiletries, and beverage containers. We have been able to identify new customer needs in connection with Denaito Ace™ sheets and films based on Eastman Chemical's copolyester. We will be doing more moving forward to capitalize on this development.

Sun Delta Corporation reported lower year-on-year sales due to intense competition in the TV market. Our SCANTEC™ surface detection machines also experienced weak performance.

Slower growth in the LCD/TV markets and design changes to cut costs caused sales of anti-reflective sheet materials to fall significantly. Anti-reflective materials are the mainstay product of the Functional Film Division, which joined this segment during fiscal 2013.

As a result of these circumstances, we experienced lower revenues and profits for fiscal 2013. In other news, we began operations at the Vietnam factory (Dong Nai Province) built as a joint venture with Fukui Chemical Industry Co., Ltd. in October 2013. We believe this factory will lead to new growth opportunities overseas.



NAGASE ECO

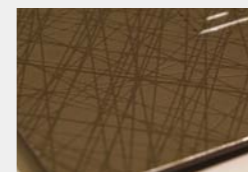
Zero-Emission IJ Printer System

The Zero-Emission IJ Printer system offers low-bleed printing without the need for pre-processing (resin processing) with recycled PES fiber or cotton. After printing, heated drying is the only process needed to complete the work.



TOPICS

The IMP development team manufactures and sells proprietary IM-Mold transfer foils. The team manages the entire process from formulation development of Nagase Application Workshop coating materials to transfer foil production, printing, dies and molding, offering total surface treatment and molding product solutions.



Fiscal 2014 Strategies

The fiscal year ending March 2015 is the final year of our current medium-term management plan. During the upcoming year, we plan to (1) grow existing businesses through stronger relationships with our customers; (2) select and focus development projects to bring current projects to the market faster and more clearly define our business portfolio. We recognize that human resources development is vital to business growth. Here, we plan to put specific programs in place to help employees be more effective in their tasks. Looking at the devaluation of the yen, issues in the Chinese market, and other recent trends, we believe that exports to newly emerging countries will drive our growth strategy. Among the Nagase Group manufacturing companies, those that work closely with our department are perhaps the most characteristic. We plan, leveraging the functions of these companies, to gain greater access to newly emerging markets overseas and build a foundation for our next medium-term management plan.



NAGASE ECO

EPEAT is a comprehensive environmental rating system for electronics. Compliance with EPEAT includes demand for using more post-consumer recycled materials in applications for TVs, PCs, office equipment, and other electronics. EPEAT is a comprehensive environmental rating system for electronics. Compliance with EPEAT includes demand for using more post-consumer recycled materials in applications for TVs, PCs, office equipment, and other electronics.

TOPICS

With more customers moving their production to inland China, we opened a branch of Shanghai Hua Chang Trading Co., Ltd. in Chengdu in 2011, and another branch in Chong Qing in 2013. Our business in inland China has grown significantly since we began offering logistics and warehousing services as part of our new-market strategy.

New Bases of Operations for the Nagase Wahlee Plastics Group



Fiscal 2014 Strategies

Two major goals for the next fiscal year will be to grow our resin sales business and bring new solutions to market.

To grow our resin sales, in terms of customer strategy, we plan to (1) work with major EMS manufacturers; (2) focus on potential customers in leading Taiwanese, Chinese, and Korean companies; (3) leverage our close relationships with customers in Japan to develop more Japanese-affiliated customers and suppliers around the world. Geographically, we intend to (1) find new customers in the newly developing markets in China's inland regions; (2) capture new demand in the emerging economics of Southeast Asia; and (3) work in cooperation with Nagase Plastics to grow our business in Japan.

We believe that we can accelerate new solutions to the market by establishing overseas production for our packaging materials business. While we were not able to bring new LED-related business to the market during this past fiscal year, we expect further market acceptance overseas for materials, dies, machinery, and other products as customers have the chance to use them and spread the word.

TOPICS

Eastman Chemical's Copolyester Tritan™

Copolyester is known for being glass-like and highly chemical resistant. Eastman Chemical has been able to retain these features, while adding heat resistance of more than 100°C to a truly unique plastic product. BPA-free Tritan™ copolyester offers tremendous strength and transparency, making it perfect for applications in household products and the medical industry.



Fiscal 2014 Strategies

One initiative in original product creation is developing added functionality for Denaito Ace™ and derivatives. Denaito Ace™ films and sheets are based on the Eastman Chemical copolyester. We are executing on policies from Eastman Chemical to expand sales in the cosmetics and toiletries markets for products that represent our core business. Our plan with respect to Sun Delta Corporation is to market and sell new product lines in close coordination with other business divisions, while the same time growing sales of our core products. To improve the profitability of our SCANTEC™ business, we will build on prior year efforts to create an organization that more rationally aligns with the market and market conditions. We are working in with local Nagase entities to sell functional materials to film manufacturers and film processors in China and Taiwan to build greater revenues for film and related products.

To create more synergies among Group companies, we are actively pursuing greater cooperation in terms of manufacturing, processing, and sales together with Totaku Industries, Inc., Kotobuki Kasei Corp., Setsunan Kasei Co., Ltd., and Nagase Plastics Co., Ltd.

Electronics



Electronics Segment

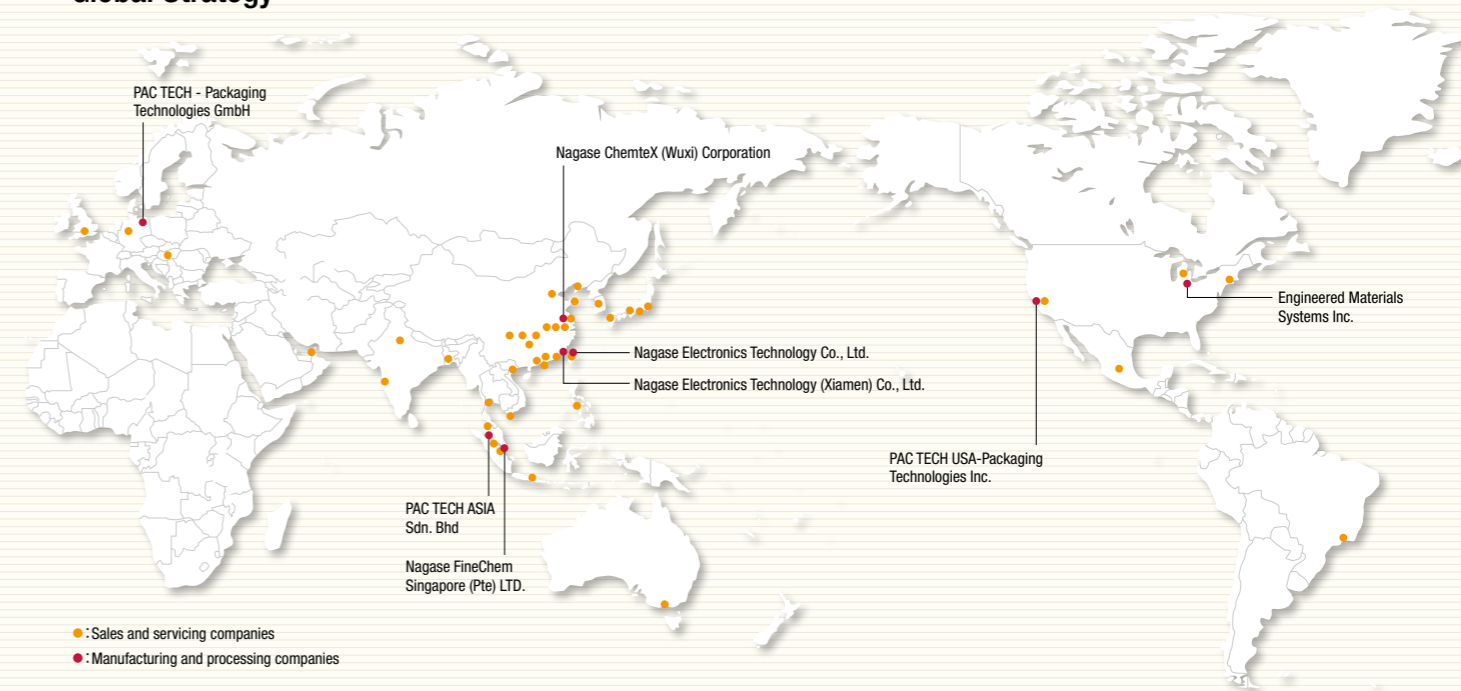
We offer electronics industry worldwide solutions through a leading business model that predicts and understands technological and service needs in the market, utilizing the Nagase Group and partner resources. We believe this business model will lead to sustained growth in our segment.



Kenji Asakura
Director and Executive Officer

Electronics Segment

Global Strategy



► Medium- and Long-Term Business Environment

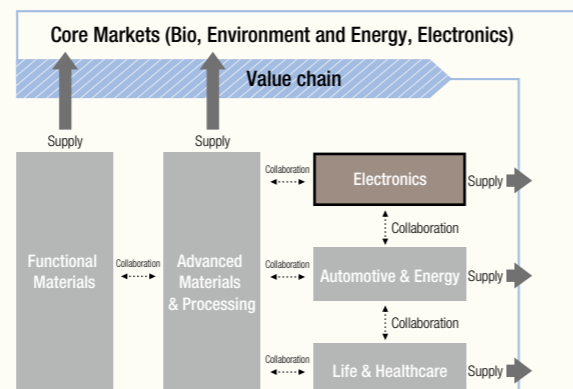
- Greater polarization between high-quality and low-cost products in the smartphone and tablet markets; characteristic in related components likely to mirror this development
- China serves as the center of LCD display production growth
- Higher expectations for car multimedia components, materials

► Overseas Expansion

- Establish a stable, waste-free business by quickly identifying market trends for the display market in general and developing closer ties between North America, Asia, and Japan
- Make full use of epoxy business production facilities in Japan, North America, and China to provide customer-focused service in each region

Segment Overview (Functions)

The Electronics Segment offers original products and services, anticipating big demand in the electronics, while at the same time offering information from downstream sources to other Group segments.



Segment Strengths (Businesses)

- Domestic and international manufacturing/processing functions in the electronics industry
- Greater product and development capacity, concentrating on Nagase ChemteX Corporation products
- In-channel information collection, marketing functions
- Solutions proposal (business planning, creation) function

Primary Businesses

- 1 Smartphone and tablet businesses
- 2 Next-generation display business
- 3 Epoxy business
- 4 Semiconductor postprocessing
- 5 Environment and energy business

Electronic Chemicals Department



Executive Officer;
GM, Electronic Chemicals Department **Shinji Nakamura**

Major Industry Trends

The correction in the valuation of the Japanese yen has helped Japanese semiconductor, LCD panel, and electronic components become competitive once again, leading to a trending recovery. As well, the popularity of smartphones and tablets, together with ongoing incorporation of technology in vehicles, has resulted in continued growth for touch panels, communication devices, and all manner of sensors. We expect to see higher revenues as our products are adopted for these uses in the future.

However, Japan's semiconductor and other high-tech production has moved to China and other countries in Asia. This trend, combined with more intense price competition and other dramatic shifts in the market have us asking how we can differentiate ourselves from the competition and how we can continue to offer Group company products to our customers.

Given these circumstances, we believe that the heavy electrical business, on the other hand, will enjoy comparatively stable growth, driven by demand for infrastructure in newly emerging countries and the commercialization of the linear motor car in Japan. Facing two radically different market conditions in one business unit, the Electronic Chemicals Department may experience some structural changes, but this should not affect our profit structure stability.

Major Manufacturers

• Nagase ChemteX Corporation • Nagase ChemteX (Wuxi) Corporation • Engineered Materials Systems Inc. • Nagase Techno-Engineering Co., Ltd. • Pac Tech-Packaging Technologies GmbH • Nagase Finechem Singapore (Pte) Ltd.

Fiscal 2013 Strategies and Results

This department consists mainly of two businesses, one being our formulated epoxy business and the other being our chemicals business (high-grade chemicals used in the manufacture of semiconductors and LCD panels; chemical supply management and recycling systems).

During fiscal 2013, our formulated epoxy business saw strong performance in sheet materials for communication devices and heavy electrical materials. However, we did not find the type of growth we had planned for semiconductor materials, due to delays in market conditions related to customer next-generation packages. As a result, we reported higher earnings in year-on-year terms, but in figures that were below plan. Meanwhile, our chemicals business earnings greatly outperformed both prior-year numbers and plan. This result was mainly due to strong LCD panel sales in Japan, growth in chemicals for touch panels, and higher sales of associated chemical management systems.

Overseas manufacturing subsidiary Pac Tech Asia reported significantly higher results for sales of proprietary laser soldering equipment for hard disk drives, in figures that greatly outperformed both prior-year numbers and plan.

Considering the Japanese market conditions, we decided to withdraw from semiconductor bump molding services through nonelectrolytic metal plating, reallocating our resources to more promising businesses.

Fiscal 2014 Strategies

This department deals in the rapidly evolving display device (LCD panels, organic EL), semiconductor, and solar panel businesses. In order to build core epoxy business earnings among local entities, our goal is to improve the development and manufacturing systems at our bases of operations in Japan, the United States, Europe and Asia, utilizing Nagase ChemteX elemental technologies (epoxy, photosensitive materials and related chemicals, specialty coatings) to operate a locally autonomous business model, establishing a robust foundation for our display, electronic devices, semiconductor manufacturing processes and environmental businesses. As we create a business to win in world markets, we plan to review these strategies to determine whether they are appropriate to our goals. Having conducted our review, we will have more clarity on which businesses to select and focus on in the next medium-term management plan under fiscal 2014 policies. We will be allocating more resources to staffing and training in the United States and Taiwan as we execute specific plans to guide our future direction in those markets.

TOPICS

Functional Epoxy Sheets for Communication Devices

Sheet epoxy encapsulant materials represent a product that we developed based on our storehouse of epoxy resin composition technologies, dense-pack filler technologies, rheology control technologies, dispersion technologies, and sheet formation technologies. This product is making significant contributions to small and higher-functioning high-frequency devices used in smartphones and tablets, offering a high degree of fluidity control.



Electronic Materials Department



Executive Officer;
GM, Electronic Materials Department **Masatoshi Kamada**

Major Industry Trends

Smartphone and tablet devices are becoming incredibly popular across the world. While ultra-book computers have not gained as much traction as originally expected, we have seen an increase in the number of low-priced goods aimed at expanding the markets in newly emerging economies, resulting in increasingly intense competition. The LED lighting market is also expected to continue to grow, with attendant cost competition as these products become more commoditized.

Major Manufacturers

• Nagase Electronics Technology Co., Ltd. • Nagase Electronics Technology (Xiamen) Co., Ltd.

TOPICS

Contribution of Surface Treatment Materials for Smartphone and Tablet Cases

These products for an America's leading smartphone and tablet manufacturer have made a notable contribution to Group profits, which was the direct result of making significant improvements to our employee structure and logistics functions, as well as the impact of the devaluation of the yen against other world currencies.



Fiscal 2013 Strategies and Results

Fiscal 2013 saw a higher presence for smartphones and tables in the newly emerging economies of the world. Where Apple Inc. and Samsung Electronics Co., Ltd. have enjoyed an overwhelming market share for these devices, a large number of new players have emerged out of the United States, Europe, and Asia (particularly China), all carving out a growing market share in the industry. Also, driven by growth in the industry as a whole, demand for touch panels grew strongly.

In response to these changes in the environment, this department set three strategic policies to execute: (1) Launch an end-user-focused program to further strengthen marketing and sales to the world's smartphone and train and improve sales staff skills both in Japan and at overseas entities; (2) dedicate more staff to uncovering new products based on market needs and future products seeds; and (3) expand our sales and processing capacity for the challenging panel industry.

Despite these market trends, this department reported lower revenues and profits year on year, mainly due to the decline of the thin glass panel business associated with the shift in medium and small format LCD demand from Taiwan to China and Japan, as well as the impact of unstable demand from existing end users.

Fiscal 2014 Strategies

Under **Change-S2014**, the goal of this department was to learn true customer needs directly from smartphone and tablet brand owners, putting ourselves into a position to pursue joint development projects and leading to the continued creation of high-value-added businesses.

Guided by this goal, we will continue to improve our global cooperative business structure and human resources training at local sales and manufacturing entities in Japan, Europe, the United States, China and other Asian regions, South Korea, and ASEAN regions. In addition, as a business located near downstream products, we believe that one of the most important things we can do is to promote cooperative business ventures with other Group segments.

We are working to develop a new customer base and secure stability for our LED lighting business by improving our sales structure and systems in Japan.

In our thin glass panel business, we are looking to make existing factories more efficient and flexible, while working to open new factories as quickly as possible.

We are also focused on development related to wearables, car multimedia, and health applications, preparing for market trends of the near future.

ECO NAGASE ECO

This department deals in high-grade chemicals used in the manufacture of semiconductors and LCD panels and chemical supply management and recycling systems.

Panel production, in particular, involves a large volume of high-grade chemicals used in large substrate products (up to three square meters). Since the early 1990s when small sized substrate products were used, our value proposition has been to balance the reduction of chemicals (related to environmental considerations) with our need to grow our chemicals business.

Today, our Chemical Management System (CMS) equipment enjoys popularity in the market due to its ability to provide proper process controls for the major chemicals used in developer, stripping agents, etc. as well as to reduce the overall amount of chemicals needed. We have sold several hundred CMS packages on a cumulative basis.

We are presently developing other related equipment and processes to grow this business in the future.



Developer Control Equipment



Developer Filtering System

Automotive & Energy



Automotive & Energy Segment

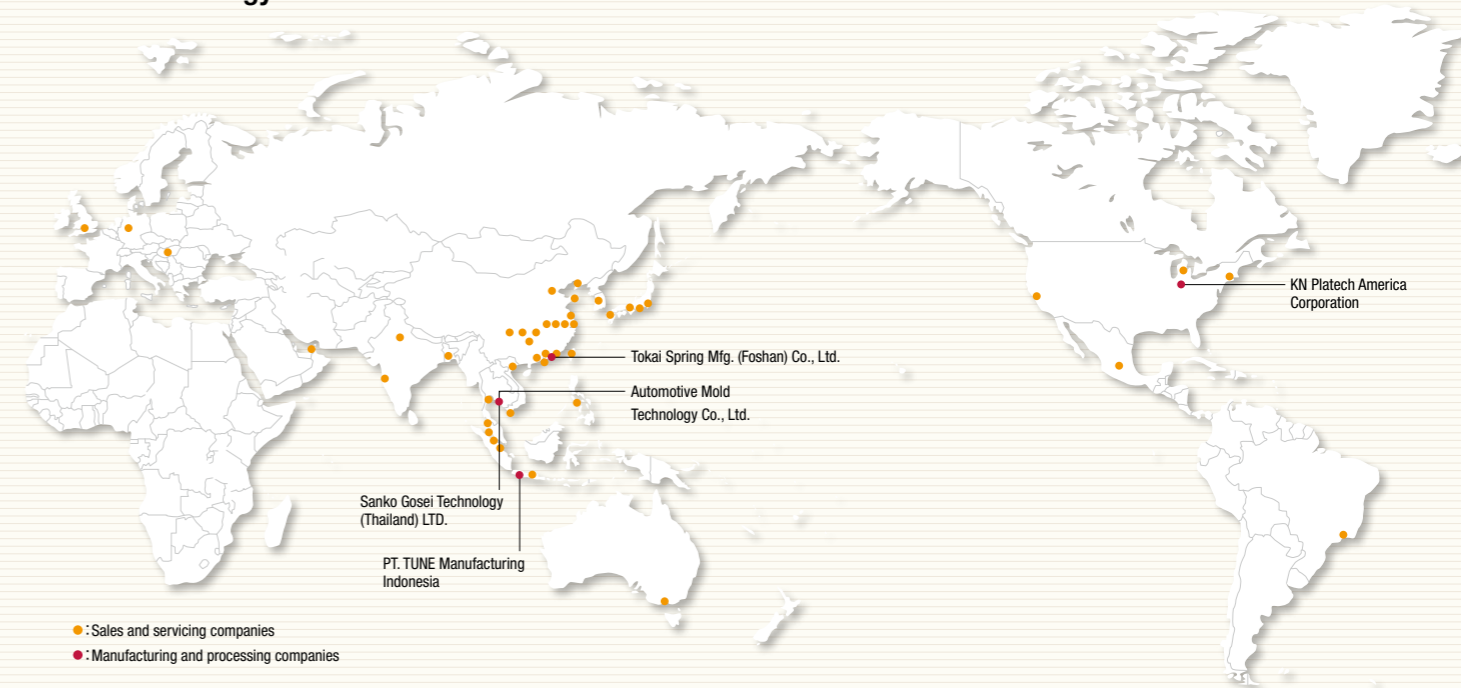
Our goal is to capture growing demand in emerging countries, as we contribute to the advancement of new car societies through the expansion of our plastics and other foundation businesses. We are also looking to grow in energy management-related businesses, focusing on the application of our proprietary technologies in the rechargeable battery business.



Kenji Asakura
Director and Executive Officer

Automotive & Energy Segment

Global Strategy



► Medium- and Long-Term Business Environment

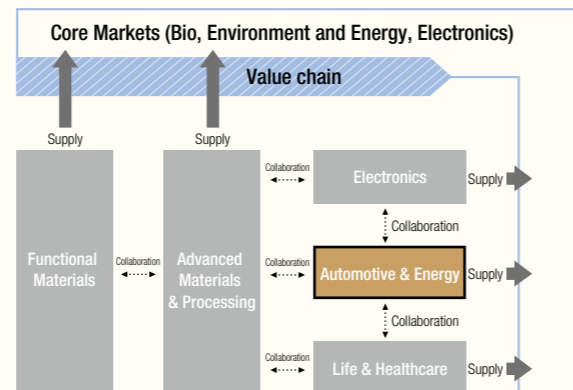
- More eco-friendly vehicles (hybrid, EV, FCV) toward 2020
- Increasing global production yearly. Slowly decreasing production expected in Japan
- More attention to local production/local consumption of energy associated with 2016 electric power deregulation

► Overseas Expansion

- Searching for ways to expand business in Central/South America, Middle East markets for our global automobile-related business
- Increase opportunities to work with European auto makers who have superior technologies
- Market Japanese LIB materials to China, Korea

Segment Overview (Functions)

In our Automotive & Energy Segment, we are pursuing original technological innovation in plastic components and storage battery systems in the automobile and other environmentally-friendly energy business sectors. In doing so, we believe we create new business models.



Segment Strengths (Businesses)

- Marketing capabilities that uncover the needs and provide new products to the automobile industry
- Close coordination between overseas networks and Group departments
- Relationships of trust with customers build on our understanding industry and expert knowledge
- CAPTEX's storage battery technologies, other partner company expertise and manufacturing development functions

Primary Businesses

- 1 Resins related business
- 2 Car electronics business
- 3 Energy storage business
- 4 Energy creation/energy conservation business

Automotive Solutions Department



GM, Automotive Solutions Department Masaya Ikemoto

Major Industry Trends

For fiscal 2013, the Thai market, the strongest in ASEAN, experienced weaker performance due to the end of eco-car tax credits. While the Thai market may recover during fiscal 2014, the recovery is not expected to surpass prior year results. At the same time, Japan's market is expected to stagnate, while China and North America are projected to enjoy continued strong demand.

Major Manufacturers

• Sanko Gosei Technology (Thailand) Ltd. • Automotive Mold Technology Co., Ltd. • KN Platch America Corporation • PT. TUNE Manufacturing Indonesia • Tokai Spring Mfg. (Foshan) Co., Ltd.

TOPICS

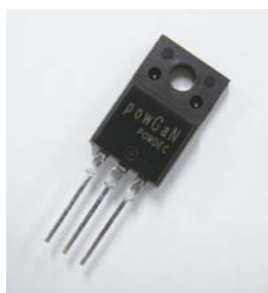
Global Growth

With the surge in car electronics application development, business in electrical component materials has grown in both Japan and worldwide.



NAGASE ECO

We invested in Powdec, a company conducting development of low-consumption gallium nitride power devices that we believe will contribute to future generations of eco-friendly vehicles.



Fiscal 2013 Strategies and Results

Fiscal 2013 was the second year of **Change-S2014**—a year in which we strengthened our car electronics business, resins related business, and operational foundation.

In our car electronics business, we created stronger relationships with joint ventures and affiliated companies, conducting focused development for strategic customers in western Japan and adopting products for eco-friendly vehicles. Our resins related business saw significant growth in China and North America, where the market is adopting engineering plastics. In Japan, North America, and China, we are beginning to see large orders for components to be used in cars designed for world markets. All the while, we have worked to establish a stronger operational foundation as a global manufacturing company.

The department recorded higher revenues and profits owing to a weaker yen, rapid recovery in China's auto industry, and strength in the North American markets.

Fiscal 2014 Strategies

During the final year of the medium-term management plan **Change-S2014**, our task in this department is to provide technologies and products necessary for the new environmentally friendly car society, contributing to the global society while at the same time creating a business model supporting the next generation of products and services in the auto industry through our Automotive & Energy segment.

While the resins business has been a traditional strength, we plan to add to the value of this business through converting metal components to plastics and developing our own light-weight materials and technologies. We expect the markets of India, Mexico, and Turkey to continue to lead growth among emerging economies, and we plan activities to strengthen our presence in those countries.

In the car electronics field, we are working toward creating a global procurement and supply structure for battery motor power modules components and materials—products in which Japan has particular strengths. In pursuit of this goal, we will be working even more closely with Group operating bases around the world. We also intend to develop functional products that match the needs of the market by creating stronger cooperative ventures within our own Group and with joint venture partners, as well as making new equity investments and manufacturing joint ventures.

We forecast another year of revenue and profit growth for this department, driven by world car production in Japan, North America, and China.

Energy Business Office



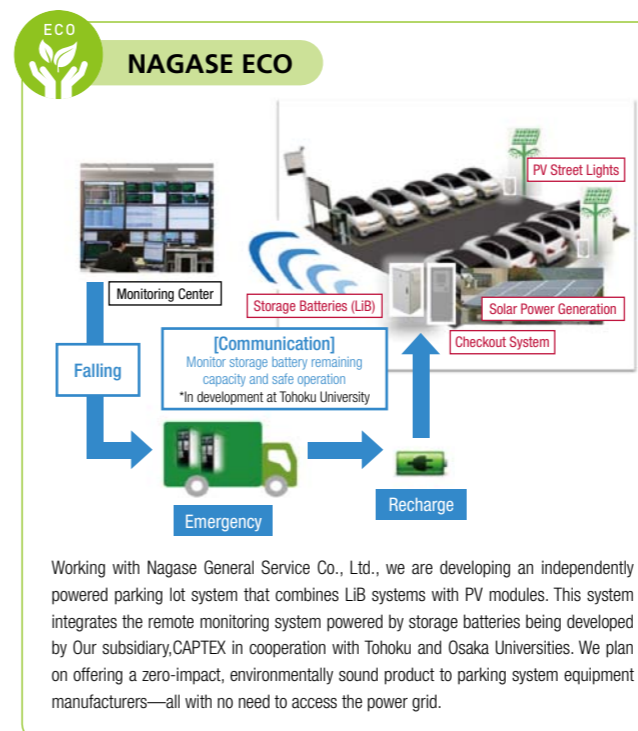
GM, Energy Business Office Kiyoshi Sato

Major Industry Trends

The weak yen has resulted in soaring prices for fossil fuel-based energy in Japan. The upcoming Tokyo Olympics and retail electricity deregulation are two other factors that will have a major impact on pricing and availability. Given these conditions, we see strong interest among our customers for energy management and BCP-compatible rechargeable batteries. More public works projects, expanded subsidies, and deregulation have combined to create greater demand for lithium-ion battery systems (LiB), photovoltaic (solar power) systems, and combinations thereof. As such, we forecast significant market growth in this area in the upcoming fiscal year.

Major Manufacturers

• CAPTEX Co., Ltd.



Fiscal 2013 Strategies and Results

During Fiscal 2013 Japan saw the continuation of the Feed-in Tariff related to industrial photovoltaic energy. For our part, we saw sales revenues of PV modules at 150% compared to the prior fiscal year. However, we experienced stiff competition with low-priced Chinese manufacturers and Japanese makers who have added significant production capacity. As a result, our performance missed plan targets by a wide margin. Due to strong sales of hybrid vehicles and electric vehicles in the market, we did see favorable sales of battery materials for LiB used in those applications as well. Revenues for these products came in at 134% versus prior year and 112% versus plan.

During the March 11 earthquake in northeastern Japan, power outages and resulting systems crashes meant that cars parked in coin-operated parking lots could not be removed by their owners. In response to these needs, the Energy Business Office developed and marketed compact power systems for emergency use. Development delays, however, led to our missing sales plan targets by a significant amount. Meanwhile, we worked with equipment manufacturers to develop these compact storage batteries and combine them with PV modules for independent solar-powered street lights and entry/exit gate systems. So far, sales of these products indicate a bright future for this market. These compact storage batteries are manufactured by our wholly owned CAPTEX subsidiary.

Fiscal 2014 Strategies

During fiscal 2014, we will give extra attention to getting our storage battery systems business off the ground and running. Having received a standard safety certification for 1.5kWh medium-sized storage batteries, we have already started mass production for these products. We plan on acquiring the certification for 10kWh large-scale storage batteries in July 2014, and then we will begin high-volume production and marketing for these batteries in August. These large-scale batteries have been used at the NAGASE Global HRD Center. We have received dozens of inquiries about these large-scale batteries for use in EMS applications, and CAPTEX is enjoying more interest from the markets than ever before.

Under the umbrella of lithium-ion battery and photovoltaic component sales, we plan to adopt a consultative sales model which will allow us to take the initiative in total energy management and business continuity planning markets, focusing on lithium-ion battery systems and photovoltaic systems as our main business, while establishing a stable foundation for business going forward.

TOPICS

Energy Management System used in the NAGASE Global HRD Center

The NAGASE Global HRD Center is equipped with an energy management system that combines our LiB system and PV modules. We plan to conduct real-world testing of this system, confirming its usefulness as part of a larger business continuity plan.



Life & Healthcare



Life & Healthcare Segment

Our philosophy is to contribute to a healthier and richer lifestyle. We have identified our primary markets as the food products/beverages, cosmetics/toiletries, and pharmaceuticals/medical materials fields, utilizing Group resources and technologies (saccharides, enzymes, formulation, and compounds) to open global markets.

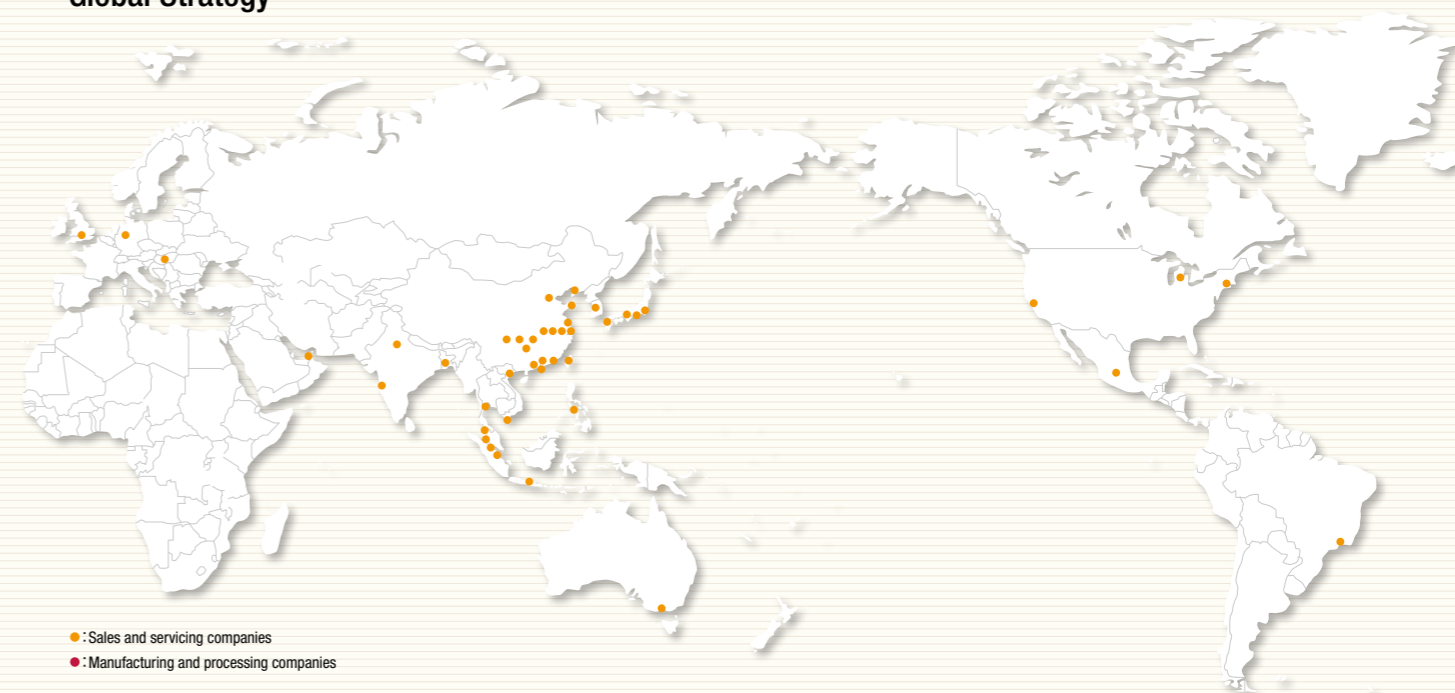
We believe that we will create maximum business value by delivering safe food, health, and beauty to consumers.



Osamu Morishita
Director and Executive Officer

Life & Healthcare Segment

Global Strategy



● Sales and servicing companies
● Manufacturing and processing companies

▶ Medium- and Long-Term Business Environment

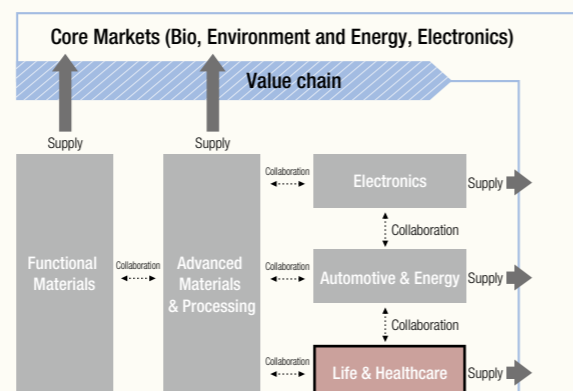
- The improvement in living standards across the world has also resulted in the rapid spread of lifestyle related diseases, raising more awareness of health issues
- Beginning with expectations concerning the health and safety of food, recent years have seen growing interest in beauty, health, and innovative medical technologies

▶ Overseas Expansion

- Leverage Japan's advanced technology levels to develop our global saccharides and enzyme induction products
- Expand our business fields by offering technology services tailored to the local market culture and characteristics to win share of the major local markets

Segment Overview (Functions)

In the Life & Healthcare Segment, we are committed to information collection, technological advancement, and manufacturing activities that contribute to a richer and healthier lifestyle for our customers. By creating new value in this area, we work together with our customers and other Group companies to contribute to a better society, becoming a corporate group with a more visible and respected presence. We are creating new value, cultivating biotechnology advancement and advancing in developing new functional materials in anticipation of future human needs.



Segment Strengths (Businesses)

- Our R&D and manufacturing functions related to saccharides, enzymes, formulations, and compounds
- A global network extending throughout Asia, ASEAN, the Middle East, Europe, and North America
- A successful history in the medical business related to pharmaceutical administration systems and global compliance serving as the foundation
- A network of sales agents throughout Japan (saccharides, cosmetics)

Primary Businesses

- 1 Deploy saccharide and enzyme businesses to food products and beverages
- 2 Grow the cosmetics and toiletries businesses
- 3 Expand the pharmaceuticals and medical materials businesses globally
- 4 Extend our business to the agriculture, fisheries, and livestock industry (saccharides, enzymes)
- 5 Build a stronger foundation for beauty care products, expand our customer base

Life & Healthcare Products Department



GM, Life & Healthcare Product Department **Naoki Yasuba**

Major Industry Trends

The business environment among newly emerging countries continues to change, spurred by a new awareness of living standards. These markets will need even more in the way of high-value food materials, as well as safer and higher-function cosmetics, pharmaceuticals, and medical materials. We are working to create a seamless organization that combines our global network of local entities overseas and affiliated companies to uncover customer needs at the local level.

Major Manufacturers

- Hayashibara Co., Ltd. • Nagase ChemteX Corporation • Nagase Medicals Co., Ltd.
- Kawai Hiryo Corporation • Nihon Bio Fertilizer Co., Ltd. • Uma Yasai Farm Corporation

TOPICS

Global Meeting

This Life & Healthcare department held a global meeting for seamless group operations, inviting personnel from affiliated companies and local entities overseas to attend. The meeting was run via formal agenda (see below), which serves as the basis for thorough discussions.

- (1) How to build seamless team operations, including department, affiliate, and local entities overseas
- (2) Quickly solving the issues in two-way global information sharing
- (3) How to leverage the diversity of ideas to create something new



Fiscal 2013 Strategies and Results

During fiscal 2013, Hayashibara Co., Ltd. joined the Nagase Group, marketing products across the food products and beverages, cosmetics and toiletries, and pharmaceuticals and medical materials businesses in Japan and around the world. As for the food materials field, Hayashibara successfully reorganized its sales and marketing network in overseas markets to grow sales of its trehalose (functional saccharide) product in Asia and other markets. To accelerate sales of enzymes on a global scale, Hayashibara obtained Kosher and Halal certification, as well as other local governmental certifications. In the cosmetics field, Hayashibara was able to establish relationships with global customers for its whitening agent (AA2G) and solidify its position in both the Japanese and international perfumes and cosmetics markets. The pharmaceuticals business is making steady progress. Here, we identified priorities in our development pipeline that will lead to continued growth for the segment, including Nagase anticancer drugs and generics. Hayashibara is working to quickly build a cooperative sales structure with NAGASE & CO. LTD., particularly one that will support ongoing sales internationally.

By clearly identifying our core businesses, building a more robust sales structure, and working more cooperatively with other Nagase Group entities, we were able to report higher year-on-year sales for fiscal 2013.

Fiscal 2014 Strategies

Fiscal 2014 is the last year of our **Change-S2014** medium-term management plan. This year, we plan to integrate our trading company and manufacturing company functions to create the foundation of a new business model and accelerate the business expansion globally, targeting faster growth in the food products, beverages, cosmetics, toiletries, pharmaceuticals, and medical materials markets. To accomplish this, we must keep our eyes locked on market and customer trends, working more closely with affiliates, and investing the proper planning and resources to train our employees. We aim to build a stronger presence in the foods industry by expanding sales and developing applications for trehalose and other functional saccharides overseas, as well as finding new sales channels and synergies for enzyme products. In the perfumes and cosmetics field, we are creating a foundation as a global distributor, providing support for Japanese brand-name manufacturers as they grow their businesses across the planet. We are working with a sense of greater urgency to add to the number of successes in the development pipeline for strategic product categories in our pharmaceuticals business.

In the agriculture, fisheries, and livestock fields, we continue to engage in activities designed to create group synergies with affiliated companies.

Moving forward, we plan to further strengthen and maximize opportunities for the technologies, intellectual assets, personnel, and organizational foundations that we have created to date. Working in seamless coordination with affiliates and local entities overseas, we will build sustainable growth in the global market, delivering business models that contribute to a richer and healthier lifestyle through stronger marketing and clear business unit strategies.

Beauty Care Products Department



Executive Officer;
GM, Beauty Care Products Department **Takaaki Hirai**

Major Industry Trends

The cosmetics market grew at a 1% crawl during the year. However, rising needs in the health foods market drive annual growth of between 3% and 5%. In the door-to-door cosmetics sales market, we see growth in the small local salon business, which is finding new ways to interact with customers. Meanwhile, traditional door-to-door type businesses are struggling.

Major Manufacturers

- Nagase Medicals Co., Ltd. • Toyo Beauty Supply Corp.

TOPICS

A New Truth about the Skin Pigment Mechanism for Adults with Onset Skin Discoloration Introducing Nagase White Program Essence V

We created Nagase Program Essence V by researching how to clear up skin metabolism and turn the melanin-forming mechanism off. Our new approach blocks age spots from forming—a new evolution in adult skin whitening. Now available with blue mint extract.



Nagase White Program Essence V (Quasi-Drug Product)

- Part 1 Powder 0.5g x 4 bottles
- Part 2 Solution 7mL x 4 bottles
- ¥20,572 (including 8% consumption tax)

Fiscal 2013 Strategies and Results

This department is working towards sustained growth in the door-to-door sales business under the guidance of **Change-S2014**. To accomplish this, we have adopted five strategies: (1) Improving Nagase brand recognition in the market with advertising and promotional videos; (2) speeding up the pace of sales agent training through a revised sales system; (3) extending the effectiveness of our human resources through the adoption of the Nagase Brush-Up System training and human resources development program; (4) engaging in research based on the theory of herb sciences and technology and clarifying the direction of our product research; and, (5) working to extend our reach into new regions through development teams directed from our headquarters. Additionally, we have dedicated time and focus to attracting general customers to NALPHAS, a chain of outlet managed directly by Nagase headquarters. As a result, fiscal 2013 showed higher revenues and profits, driven not only by the success of our new Nagase White Program Essence V and a variety of monitored product trials, but also due to higher demand prior to the increase in Japan's consumption tax.

Fiscal 2014 Strategies

To establish sustainable growth in the door-to-door sales market for fiscal 2014, the department will pursue a six-point plan, (1) improving Nagase brand recognition in the markets through advertising and public relations activities; (2) generating more activities and new sales in existing regions, including a review of offices nationwide; (3) speeding up the pace of sales agent training through a revised sales system; (4) expanding the number of Nagase partners by actively teaching and using the new Nagase Brush-Up System (new technique training, staff education program); (5) promoting research and product development according to the theory of herb sciences and technology; and (6) moving into new areas via business development teams under new headquarters projects.



NAGASE ECO

Beverage Bottle Recycling

We encourage recycling by including a flyer and a C.O.D. coupon (for returning bottles) with the beverage bottle at the time of purchase. (Nearly 150,000 bottles recycled during fiscal 2012)

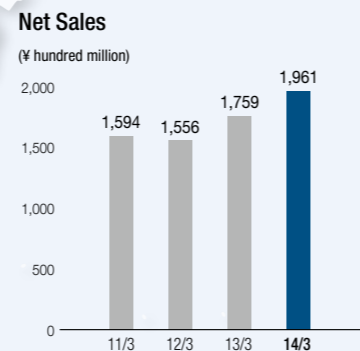


Greater China



Executive Officer;
CEO, Greater China
Katsuhisa Yamaguchi

The Nagase Group has more than 40 locations throughout Greater China (Mainland China, Hong Kong, Taiwan), including sales companies, manufacturing companies, branches, and offices. We forecast fiscal 2014 net sales for the region at approximately ¥226 billion. Here, we are engaged in business activities tied closely with customers and markets, while at the same time creating a business model that maximizes the comprehensive power of the Nagase Group.



Major Market Trends

The Chinese GDP grew at a brisk 7.7 percent for 2013. Rebounding from the political friction between Japan and China, the automotive industry recovered throughout the year, and appears to be on course for stable growth throughout 2014 as well. While the Electronics market is enjoying explosive growth driven by smartphone and tablet sales, supply/demand imbalances and costs for popular products and components fluctuate dramatically in rapid turns, making the industry unpredictable and difficult to work in. The office equipment and home appliance markets have been comparatively stable, while a notable trend has been the shift in some supply chains including the electronics supply chain to the China Plus One nations in the ASEAN region. Fiscal 2013 continued to be challenging for the solar battery industry, but we believe we will see the markets for solar bounce back during fiscal 2014. Rising income levels and cultural maturity in China have resulted in diversified interests across the food and other life and health markets, which we believe will continue to grow in that nation.

TOPICS

Completion of Epoxy Resin Research and Development Facility

At the end of 2013, we completed work on our new epoxy resin research and development facility in Wuxi. We will continue to build a structure here in China that allows us to interact with customers on a more technical basis, delivering products with applications tailored to their needs.



ECO NAGASE ECO

China and Taiwan serve as a global production center for solar cells and lithium ion batteries. We are developing components and materials related to these markets for silicon wafers, cell modules, external resin coatings, silver paste, cathode materials, and more.



Fiscal 2013 Results

The recovery in the automotive industry and growth in electronics components and materials markets combined to help net sales reach ¥196.1 billion (11.5 percent year-on-year increase) for fiscal 2013. During the year we executed a number of cross-regional projects in Greater China, including our China End User Project (marketing unique Japanese components and materials to leading smartphone, tablet, and notebook PC brands in China/Taiwan), our China Sourcing Project (setting up strategic partnerships with globally competitive Chinese chemical manufacturers to leverage our international network), and the formation of our Hayashibara Business Development Team.

Fiscal 2014 Strategies

In Greater China, we are growing our business in targeted fields and optimizing our business portfolio through better customer response and added services.

Our Hayashibara business is set up for permanent operations with the establishment of the L' Plaza facility in Shanghai and the assignment of Hayashibara engineers. We also plan to build a demonstration room for our semiconductor and electronics components and an applications lab for smartphones and tablets. Following our new resins and fine chemicals contract manufacturing plant in Changzhou, our plant in Xiamen has started full operations for thin glass processing for use in displays, adding to our overall production capabilities.

We are expanding our abilities to export to foreign markets out of China. In addition to quality inspection at our Shanghai analysis lab, we have added other quality assurance functions, including factory audits and on-site management for Chinese manufacturers.

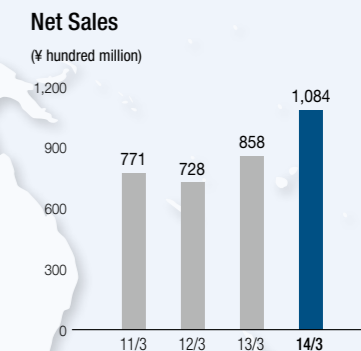
We are working more closely with and providing logistics services to local resins customers in core automotive and office equipment and home appliance manufacturers markets. At the same time, we are developing new applications and building a new non-Japanese client base, as well as exploring new global joint business ventures.

ASEAN and the Middle East



Executive Officer;
CEO, ASEAN/India;
GM, Polymer Global Account Department
Ichiro Wakabayashi

Many countries and regions across the world are experiencing slowing economic growth. However, the ASEAN nations continue to enjoy strong economies and a growing middle- and upper-class population drives rapid growth and awareness of the consumer markets. Cambodia, Laos, Myanmar, and other Mekong region nations are emerging as interesting investment targets. Our ASEAN businesses now encompass additional ten countries, including India, the Middle East and Oceania (nine sales companies, nine branch offices and nine manufacturing companies), and this Group network serves as the foundation for our growth across a great regional span.



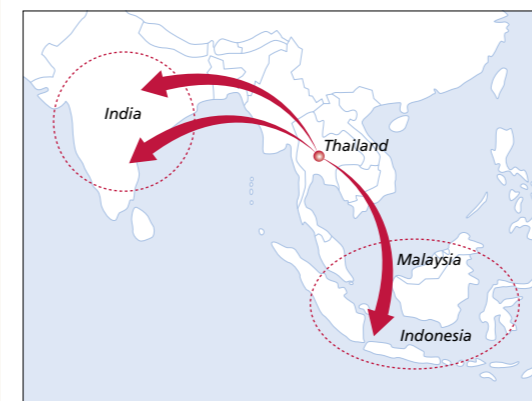
Major Market Trends

Japan's office equipment manufacturers are accelerating their investment in Vietnam and the Philippines. At the same time, ASEAN new car sales grew by 2 percent, reaching 3.55 million units. Despite a 9 percent decline in new car sales in India (3.24 million units), as a whole, auto production in the region grew a strong 5 percent year-on-year, reaching 4.44 million units. While the economic future of advanced nations remains cloudy, we project that active investment by foreign companies and an expanding middle class will drive strong economic growth in ASEAN during fiscal 2014, resulting in higher revenues for the Group.

TOPICS

Regional Development of our Thailand Spec Business

The consolidation of operations and R&D functions for automotive and component makers in Thailand means that more specifications for global car models are being determined in Thailand. We are building stronger intra-region coordination via the Regional Operating TOPICS Centre (ROC), which should help us create even more successes in Thailand.



Fiscal 2013 Results

Fiscal 2013 showed significant gains despite deceleration in the important Thai automotive market and weakness in the Singaporean and Malaysian electronics business. This growth was mainly due to gains in the VIP (Vietnam, Indonesia, Philippines) region—areas we are looking to for ongoing growth.

Meanwhile, we continued to bolster cross-regional marketing for Hayashibara business, intra-region growth in our packaging business, and concentrated purchasing of resins, utilizing our Regional Operating Centre, which offers integrated inter-regional functions. Further, we installed unified core IT systems and improved human resources systems across the region, leading to continued consistent operations management. In terms of revenues, we recorded ¥108.4 billion in net sales (26 percent year-on-year increase), owing much to higher sales in office equipment and appliances and automotive-related materials.

Fiscal 2014 Strategies

The goal under **Change-S2014** for this segment is to grow our resin-related business, while at the same time accelerating the pace of growth in other fields (electronics, chemicals, life sciences) as we balance our businesses and the geographical regions in which we operate.

During fiscal 2014, we intend to increase coordination between Japan and China in our functional and processing materials business, while maintaining strong relationships with leading suppliers to develop more business in the Middle East. In the office equipment and resins businesses, we will continue to expand our sourcing options to capture more business from companies investing in the region.

At the same time, our strategies for growing our nascent businesses include, (1) stronger intra-regional development of our packaging materials business throughout China; (2) continued roll-out of our Thai Spec business (Automotive & Energy) to Indonesia and India; (3) more sales of our own Group products (Electronics), targeting Malaysia and Singapore; and (4) greater sales of Hayashibara products, leveraging regional lab functions. Further, we plan to strengthen our presence in the growing VIP nations (Vietnam, Indonesia, Philippines), while accelerating our push into Bangladesh and the Mekong nations (Cambodia, Laos, Myanmar), where we are still gaining a foothold.

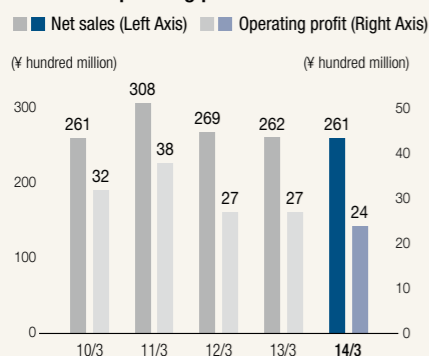
Nagase ChemteX Corporation



Nagase ChemteX Corporation
Representative Director, President
Kazuo Mitsuhashi

Nagase ChemteX Corporation occupies the central role in Group manufacturing. Leveraging our long-accumulated, proprietary technologies of synthesis, compounding, biotechnology and evaluation—this company is a chemicals manufacturer offering a unique line of products posting high market share in niche categories. By creating deeper expertise and integrating these core technologies, we are able to offer highly technical services supporting new development and small-run production capabilities to meet the needs of our users. As we improve our various foundational technologies, adding high functionality and differentiation in various niche markets, we will build on the foundation of trust with our users, developing high-function, high-value-added products and services for our end users and biotechnology, environment, energy, and electronics applications. In addition, this company plays a lead role in safety, environmental compliance, quality assurance, and regulatory compliance for Group manufacturing.

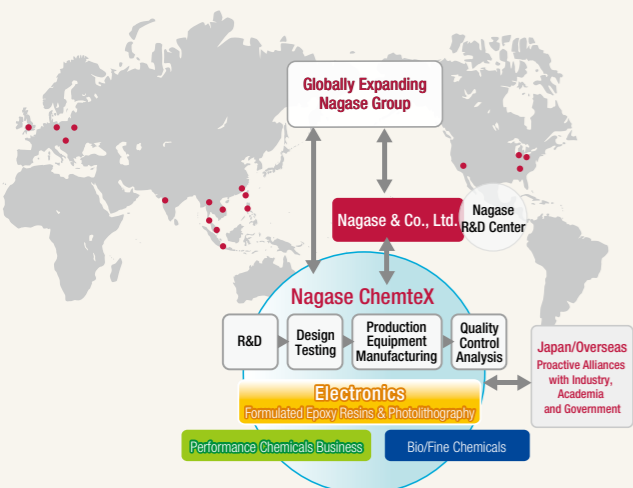
Net sales/Operating profit



Major Market Trends

The electronics field experienced growth in medium to small-format displays for smartphones and tablets, but large-format displays for PCs and TVs experienced significant weakness, resulting in a 10 percent year-on-year decline. Net sales of materials for semiconductor applications likewise fell, 3 percent lower year-on-year.

While we forecast a moderate recovery during 2014, uncertainties in world conditions mean that the outcome could be unpredictable.



Fiscal 2013 Results

Net sales for fiscal 2013 amounted to ¥26.13 billion (5.4 percent year-on-year decrease), while operating profit came in at ¥2.4 billion (12.3 percent decline). While sales of formulated epoxy resin for heavy electrical and vehicles performed well, sales and profits fell, due to price decreases of materials for semiconductors and displays and delays in bringing new products to market.

Production System

The Fukuchiyama Plant, which produces enzymes, fermentation products, and other life sciences-related products, began production at its new enzymes facility in compliance with Kosher and Halal certification, which should help expand overseas exports.

The Harima Plant manufactures a wide variety of electronics and functional chemicals products. Here, we completed extension work for more capacity at a new production line for microelectronics-related products, beginning full production.

Further, we have launched new productivity improvement activities to increase customer satisfaction in terms of quality and cost competitiveness. We began activities for OHSAS18001 compliance during fiscal 2013 as part of maintaining a safe workplace for our employees. During fiscal 2014, we will establish a practical safety training facility to improve safety awareness among all personnel.

Overseas, at Nagase ChemteX (Wuxi) Corporation, in addition to our manufacturing facility for formulated epoxy resin products, we completed work on an R&D center to expand research and development functions.



Harima Plant: New Microelectronics Production Facility (exterior)



Harima Plant: New Microelectronics Production Facility (internal equipment)



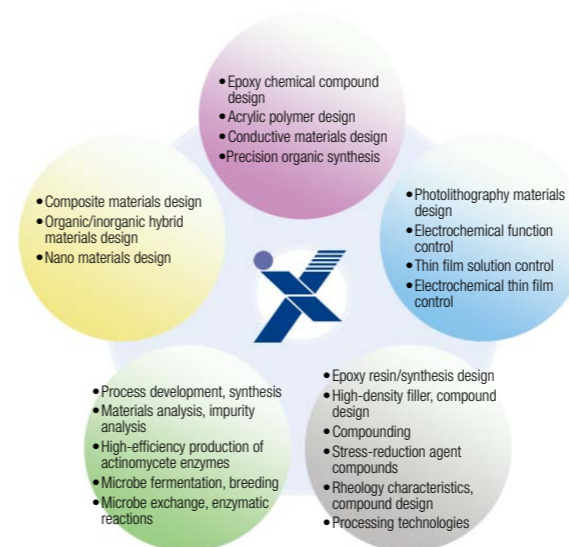
Fukuchiyama Plant: New Enzyme Production Building



China: Nagase ChemteX (Wuxi) Corporation R&D Facilities

Research and Development System

A total of 140 individuals are assigned to the various product development departments within each business head office and the research and development head office charged with creating new businesses and providing technological support to the business head offices. Our business head office product development departments are busy developing new products and improving existing products that are tailored specifically to individual client needs. The research and development head office engages in elemental technology development to help the Group maintain the technology advantage in existing business fields. The research and development head office supports business head offices, while at the same time creating opportunities to enter new markets. As a whole, the Nagase Group sets research priorities in response to perceived market needs, engaging actively with universities and research institutions for joint development. The Group saw significant breakthroughs during fiscal 2013 in new fields such as medical materials.



Nagase ChemteX Corporation Component Technologies

Fiscal 2013 Operations

Electronics Business

The Electronics business performs product development and production based on advanced formulated epoxy technologies and chemical formulation technologies. The formulated epoxy business performed well in terms of epoxy resins for vehicles and heavy electrical applications; however, epoxy resin sales for semiconductors and smartphones underperformed prior-year results. Our photolithography chemicals business reported strong results, particularly in for touch panels and processing chemicals for LCD displays.

Nagase ChemteX (Wuxi) completed work on their R&D Center, and has formed a medium to long-term growth strategy based on the work of its applications laboratory.



Performance Chemicals Business

In our Performance Chemicals business, we were able to expand our offerings of functional materials based on unique organic synthesis technologies, polymer synthesis technologies, and a variety of formulation technologies. With respect to epichlorohydrin conductors, we developed and rolled out unique grades of transparency, light resistance, heat resistance, and low dissipation factors to grow our existing business and provide new applications. We have also developed well-received nanomaterials that are highly transparent with added high refractive index patterning. We have developed and rolled out high-function products for new applications in special acrylic rubber. We have also been very active in developing highly conductive types of conductive polymer Denatron, not only for use in displays, but for new applications that make use of these characteristic features.

Bio/Fine Chemicals Business

In this business, we have focused on application development for our own enzyme products for use in the food industry, offering valuable ideas to our clients and marking a steady series of successes, particularly in overseas markets. Our new enzyme plant is now operating, and has been designed to produce enzymes manufactured in compliance with Kosher and Halal certification.

Our phospholipid products use our own phospholipid converting enzymes and include a phosphatidylserine product we have taken over from its former company. We are putting together a structure to build sales for this product in Japan and around the world.

Change-S2014 and Fiscal 2014 Strategies

Started during fiscal 2012, fiscal 2014 marks the final year of our **Change-S2014** medium-term management plan. We intend to continue to follow the basic policies outlined in **Change-S2014**, making further improvements in our foundational management practices.

In research and development projects, we intend to create new business and new products based on our unique development capabilities built on numerous elemental technologies in order to meet the diverse range of needs in the markets. At the same time, we will focus on research and future growth areas, leveraging domestic and international network of the Nagase Group and the wealth of information available, aiming to solidify our core businesses, elemental technologies, and core materials over the medium and long term. Further, we intend to improve productivity and strengthen our production foundation as a manufacturer, exemplifying operational safety, production technologies, and quality assurance. We will play a central role in the R&D and manufacturing functions of the Nagase Group, looking to improve the quality of our technology management.



The Performance Chemicals head office conducts epoxy emulsion and organic EL illumination materials development. Epoxy emulsion development includes epoxides such as functional types that use biogenic raw materials, eco-friendly low-chlorinated types for use as electronics materials, and low-volatile organic compounds. The enzymes business provides enzymes and catalase that allow for the eco-friendly breakdown of hydrogen peroxide output from industrial facilities. These materials contribute to a significant decrease in the amount of chemicals traditionally used in this process.

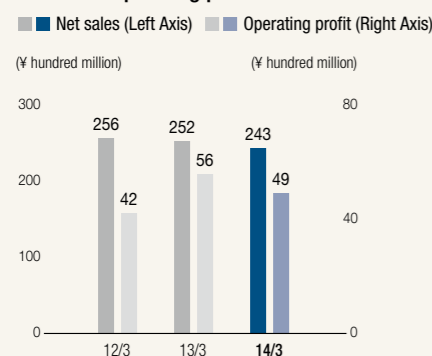


Hayashibara Co., Ltd.
Representative Director, President
Reiji Nagase

Our business is divided mainly into two categories. Our functional saccharides business leverages biotechnology to manufacture and sell functional saccharides, including food materials (TREHA™, Saccharide-Coated Glucosyl Hesperidin), cosmetics materials (AA2G™, stabilized vitamin C), and pharmaceutical materials (Maltose). Our functional dyes business utilizes organic synthetic technologies to offer products in commercial photography and display, as well as pharmaceuticals (LUMIN™A), and in-vitro diagnostics in the life sciences field.

As member of the Nagase Group, we will focus more management resources on our own research and development to speed development of new products, while promoting global standards in food safety and quality management through greater improvements in our production functions, showing that our commitment extends beyond just ensuring a stable supply of product.

Net sales/Operating profit



Major Market Trends

Our products receive high marks not only for their physical properties, but also for their functionality. We have extended our product line from the food and cosmetics markets to the medical and industrial fields. In particular, recent consumer interest in health and the demographic shift toward an aging population lead us to project much higher demand in functional raw materials for the health, nutrition, and beauty sectors. Here, we believe our superior products will meet the needs of these markets.



Functional saccharide manufacturing plant



Trehalose (powder)



Trehalose (crystal)



Imabou Plant (working name, concept art)



Fujisaki Plant (working name, concept art)

Fiscal 2013 Results

Net sales for fiscal 2013 amounted to ¥24.3 billion, representing a 4 percent year-on-year decrease. This result was mainly due to our review and divestment of unprofitable products. Sales of our mainstay TREHA™ product within our food materials business, which accounts for 70 percent of worldwide sales, increased by 9 percent compared with the prior fiscal year. Meanwhile, performance in functional dyes business and pharmaceutical business were weak.

Production System

During fiscal 2012, we became certified under the FSSC22000 global food safety standards at the plant manufacturing TREHA™ functional saccharides. Looking to even higher levels of quality and customer satisfaction, we acquired ISO9001 certification during fiscal 2013, and we are presently engaged in other corporate-wide initiatives, including programs related to the functional dyes business. In addition, we are working towards Kosher and Halal certification to increase opportunities for sales in overseas markets.

We are planning to complete construction on a new plant to take over the Okayama No.1 Plant's operations in March 2015. This new plant will not only ensure the stable supply of existing products, but it will also function as a pilot plant for new product development. The plant features advanced energy-saving functions that offer flexibility in manufacturing a number of different types of products.

Research and Development System

Microorganism screening and other new technologies derived from years of expertise have put us on the course to developing new saccharides that utilize new enzymes that we have researched. By pursuing unique technologies and materials at the same time that we identify market needs, we can capture users across a variety of sectors, including food, cosmetics, pharmaceuticals, and commerce. Working closely with our customers, we can act with speed and efficiency in bringing products to market, while making strategic use of the intellectual assets produced through our research.



Microorganism screening

One of our most recent discoveries was the effect of trehalose on preventing metabolic syndrome. We published our findings at the Japan Society for the Study of Obesity in October 2013.

Fiscal 2013 Operations

Functional Saccharides Business

Our functional saccharides business makes use of the functions at the Tokyo Laboratory, L'Plaza where we develop recipes that maximize the functionality of our saccharide products. Our goal is to expand the applications of the saccharides beyond those mainly associated with confectionary to cooked rice, bread, noodles and other staple foods, as well as prepared foods, beverages, and processed foods.

This fiscal year, we plan to roll out fertilizer, feed, and other products that have been combined with TREHA™, leveraging this functionality in these new fields. We are working toward lateral extension of these products, appointing managers to the highest-priority of these new fields, charged with growing new business. In addition, we plan on expanding applications for foods for specified health uses that utilize the effects of our Saccharide-Coated Glucosyl Hesperidin product in reducing neutral fats in blood. We are also in application development preparing to market Highly Branched Glucan (isomaltodextrin), which we published at the Japan Society for Bioscience, Biotechnology, and Agrochemistry last year.

Beginning fiscal 2013, we moved sales operations (excluding domestic food operations) under NAGASE & CO.,LTD. management to take better advantage of global opportunities. Now, we are working with the Nagase Group across the board, sharing domestic and international strategies with the NAGASE Life & Healthcare department and local entities, exhibiting our products at the L' Plaza, receiving sales support in terms of marketing material production, and working closely with the Research and Development head office to develop new functions for existing saccharide products.



TREHA™



Saccharide-Coated Glucosyl Hesperidin



Marketing Pamphlet (multi-language)

Functional Dyes Business

In our functional dyes business, we have successfully extended applications of the dyes we manufacture beyond photography and printing plate commercial sectors into test agents and other life science fields. We will be expanding into the display business, beginning with promising polarizer products. Further, as we work on dyes business projects in cooperation with other Nagase Group affiliates, we will find ways to meet client needs through the development of new materials. Our LUMIN™A dye formulation has enjoyed many regular customers who have relied on this product as a pharmaceutical. Moving forward, we plan to redesign our marketing materials and work more closely with sales agents to add a new customer base on top of our regular customers.



Organic EL display



LUMIN™A

Change-S2014 and Fiscal 2014 Strategies

To bring the entire Nagase Group resources to bear on sales functions, we moved overseas sales functions for the food sector and both overseas and domestic management functions for the cosmetics/medical sector of the saccharides business to NAGASE & CO. during fiscal 2013.

This year marked the second since this transfer. We intend to strengthen our domestic sales structure and global product branding in the food sector, improving production functions, quality assurance, and research and development.

We will review our production facilities to ensure a stable supply of product and to offer uninterrupted improvements in safety, quality, and technology. We also plan to make capital investments in our facilities (including new plants in the planning stages), keeping a careful eye on demand projections. Further, we intend to make the investments necessary to adopt new technologies that support forward-looking research and development activities.

ECO NAGASE ECO

Pullulan is made from starches, acting as a natural polysaccharide offering reliable maltotriose properties of bonding, adhesion, coatability, lubricity, and caking, as derived from a type of black yeast. Of these characteristics, we focus on bonding and caking, attempting to apply this substance as a binder when compressing wooden powder for use as a biodegradable plastic.

The preserving properties of trehalose makes it effective in extending the use-by dates of products, which we believe can make a contribution to improving food conditions around the world.



Pullulan/Biodegradable Plastic (Top: combined with cypress; Bottom: unmixed pullulan)



The Nagase R&D Center is responsible for the technologies that drive the Nagase Group manufacturing, processing, research, development, marketing, and trading functions. The Center is the organization that drives us to create value-added business that differentiate Nagase from our competition. Unique, independent, pioneering. These are the concepts at the heart of our mission to develop products and services based on foundational biotechnologies and biotechnology development that keep the Nagase Group at the forefront of our industry. We will continue to work in close coordination with each department and sales representatives to understand the needs of the market and our customers, offering technology-based solutions.

The R&D Center will push on with research and development to advance our Life & Healthcare segment, introducing new cosmetics, health foods, medical materials, and clinical testing tools.

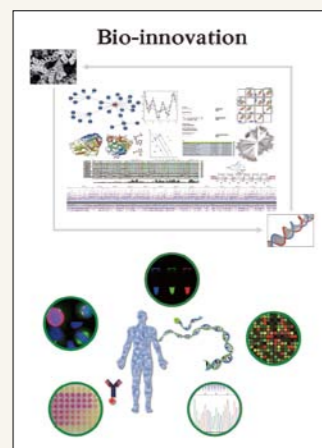
Biotechnology (microorganisms) and Topics

- 1 Physical production technologies using actinomycete microorganisms
- 2 Genetic analysis of physical highly productive strain utilizing bioinformatics
- 3 Development production technologies for useful chemicals based on metabolic engineering
- 4 Practical production technology research in non-petroleum dependent and biochemicals
- 5 Development and application of naturally bioactive components for cosmetics and functional food materials
- 6 Research and development of clinical testing tools
- 7 Research and development of chemically defined materials contributing to the advancement of regenerative medicine/biomedicine
- 8 Drug delivery system (DDS) development
- 9 Bio-themed research related to ecological and resource conservation

Achievements in Fiscal 2013

Technological Results

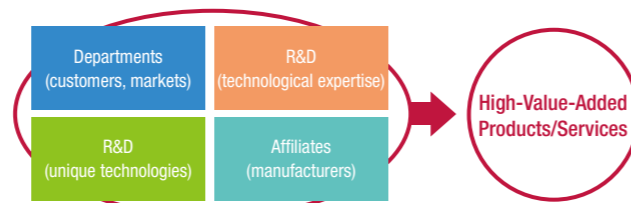
- 1 Development of cosmetics and perfumes materials based on biotechnologies
- 2 Development of new non-naturally occurring amino acids substance
- 3 Development of bio materials via utilization of lactic acid bacteria
- 4 Research into the bioactivity and action mechanisms of substance produced via fermentation technologies
- 5 Deciphering genetic information of physical highly productive microorganism (conference presentation)
- 6 Development of a rare metal recovery processing utilizing microorganisms (conference presentation)
- 7 Nagase Group intellectual property activities (patent search, patent applications, etc.)



Fiscal 2014 Strategies

Beginning with fiscal 2013, we narrowed the focus of the R&D Center to bio-related technologies, delving into our own feature technologies and associated application development.

Specifically, we are working to further advance our strengths in genetic engineering and bioinformatics technologies, which we hope will lead to the rapid commercialization of effective non-petroleum-dependent chemical compounds based on our proprietary actinomycete physical production technologies. In particular, the R&D Center will work closely with university and other external research institutions related to metabolic engineering, making the most of the research resources owned by such institutions, while incorporating the latest technologies into our programs. Meanwhile, we will exercise our ability to judge and perform feasibility studies on promising biotechnologies to create new areas of technology research to industrialize and productize. These new products will go on to become the basis for new businesses, as we continue to work closely with business departments and affiliated manufacturing companies.



Intellectual Property Administration and Usage

Beginning in fiscal 2014, we will assign an intellectual property manager for the R&D Center. At the same time, we will apply for patents for the results of our research and development, treating these results as the intellectual assets they are. These activities are part of our efforts to expand the tools we offer in support of the Nagase businesses. In addition, with respect to the management and utilization of intellectual property, we will work with the Intellectual Property office to secure patent rights, as well as coordinate strategically with departments at various affiliated companies.

	Fiscal 2013		Cumulative Total (to Fiscal 2013)	
	In Japan	Overseas ²	In Japan	Overseas ²
Patent applications ¹	12	12	861	418
Patents ¹	9	3	199	207

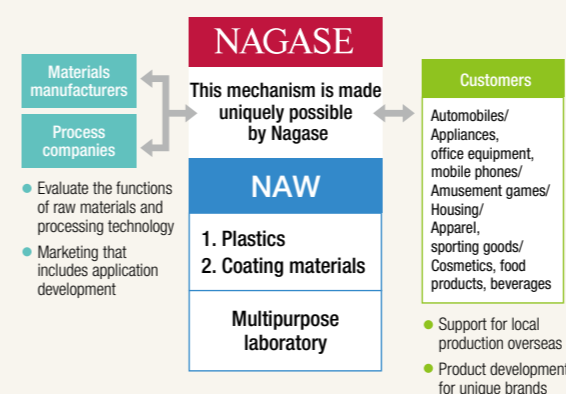
¹ The number of patents in the name of the Nagase R&D Center. Licenses and other intellectual property rights are not included.

² Figures include applications for international patents.



The Nagase Application Workshop (NAW) facility is where, jointly with customers, we engage in activities that range from function and application development of raw materials related to plastics and coating materials to the formulation development of finished products that use such raw materials. NAW was born of necessity in the course of adding R&D, manufacturing and processing functions to our conventional base as a trading company. Accordingly, NAW is an important tool for advancing a switch from our previous sales model that focused on materials exploration to one that is driven by application proposals and joint development. In offering such technological support, NAW is providing unparalleled functions that only Nagase is capable of providing.

The NAW is home to a multi-purpose testing lab which acts as a technology incubator. Here, we support next-generation business development for our business departments and affiliated companies, utilizing the NAW facilities and our development staff's experience and expertise to create new and unique Nagase businesses.



Principal Functions

1. Plastics

Formula design function carried out by expert technicians, test production of compounds centered on a twin-screw extruder, properties assessed using all types of assessment equipment

Equipment •Twin-screw extruders (18 mm L/D = 44 and 26 mm L/D = 64) •Henschel mixers •Injection molding machines (80 t and 110 t) •Analytical equipment (thermal analysis equipment, FT-IR, etc.) •Physical property measurement equipment (tensile strength, bending, shock testing equipment, HDT testers, etc.) •CCM (computer color matching system)

2. Coating Materials

Coating and ink composition design function carried out by expert technicians, test production of coatings and inks using all types of assessment equipment, properties assessed using all types of assessment equipment

Equipment •Painting booths •Dispenser (paint conditioner, horizontal, vertical bead mill) •UV curing system, drying oven •Age testing equipment (xenon WOM, SUV weathering test equipment, constant temperature/humidity oven, etc.)

3. Multipurpose laboratory

By assigning technical staff from departments, related companies, and affiliates to the NAW multipurpose laboratory to work with respect to themes related to plastic, coating, ink, and other compounding technologies, dyes/additives, filler, and other materials technologies, and color, surface treatment, and printing technologies within various themes developed within the Nagase Group, NAW facilities and NAW staff-provided technical support are effectively used, leading to faster development speed.

Current Major Themes •Development of digital printing technologies •Development of coating agent formulation for thermal paper •Development of in-mold transfer foils manufacturing technologies •Development of LED UV lamp-compatible UV-cured ink/paint materials •Development of LED lighting module components

Throughout fiscal 2013, we received a number of inquiries and requests from customers, materials manufacturers, and processing companies. More than 120 different companies visited our offices, and we fielded more than 150 requests for test development.

Plastics

- Development of plastic materials for molding with automotive industry parts makers (Tier1, Tier2). Weight savings, high-grade treatment (under discussion), improvement in scratch resistance, etc.
- Development of functional additive masterbatches that expand degrees of freedom for plastic materials procurement by parts makers overseas
- Development of the original plastic grades that make use of recycled materials from OA manufacturers
- Improvement of the breathability of polyurethane products
- Development of transparent, rigid resins for use in cosmetics and medical materials

Coatings

- Sales of coating raw materials in overseas markets, particularly effective technical support of proposals for functional materials contributed quicker development and greater sales.
- Development of thermal shielding coatings, special coatings using nano-silver particles, and functional coating materials jointly with external partners
- Development of new radiant materials, pigment dispersants, etc. in cooperation with raw materials manufacturers
- Support for application development for overseas raw materials makers in the Japanese market

Fiscal 2014 Strategies

The NAW is solidifying its reputation as an outlet for unique, original Nagase functions, fully providing continuing development functions and technical customer/user support befitting a development partner of choice as a plastic and coating applied technology development center.

During fiscal 2014, we plan to add more urgency to creating marketable results from application development presently in the works with Nagase departments and affiliate companies and development of new businesses. In particular, we will concentrate on surface treatment technologies for the automotive and electronics devices industries, aiming to commercialize composite technologies in plastics, coatings, and printing.

Our goal is to uncover new elemental technologies and functional materials more quickly than any other company in the world, working every day to offer the right decisions and NAW that we can propose to customers.

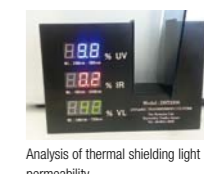


Development of Thermal Shielding Coatings

A coating that shields out heat during the summer to keep indoor temperatures cool. During the winter, this coating reduces heat escaping from windows to save energy.

We are developing a coating that offers transparency while shielding out near infrared rays. We suspend antimony tin oxide (an ultrafine metallic oxide particle that cuts near infrared rays) in between glass and highly adhesive resin, keeping a low dispersion of the antimony tin oxide.

The coatings materials division of the performance chemicals department is continuing development work with NAW, looking to take this product to market. The photo shows a sample of this coating being tested for light permeability. The test indicates, from the top, 9.8 percent ultraviolet permeability, 0.2 percent infrared permeability, and 42 percent visible light permeability.



Organization Governance

Directors, Audit & Supervisory Board Members and Executive Officers (As of July 1, 2014)

Directors



Hiroshi Nagase

Representative Director, President and CEO



Reiji Nagase

Representative Director and Senior Managing Executive Officer
Hayashibara Co., Ltd.



Kenichi Matsuki

Representative Director and Managing Executive Officer
Human Resources & General Affairs Div., Legal & Credit Div., Logistics Management Div., GM Intellectual Property Office, Audit Office



Toshiro Yamaguchi

Representative Director and Managing Executive Officer
Functional Materials Segment, Greater China/ASEAN/India



Hiroshi Hanamoto

Director and Executive Officer
Advanced Materials & Processing Segment, Nagase Application Workshop



Osamu Morishita

Director and Executive Officer
Life & Healthcare Segment, R&D Center, Osaka Region



Mitsuro Naba

Director and Executive Officer
Business Administrative Div., Finance Div., Accounting Div., Corporate Planning Office, Information Technology Div.



Kenji Asakura

Director and Executive Officer
Electronics Segment, Automotive & Energy Segment, America, Europe, South Korea Nagoya Branch

Outside Directors



Yasuo Nishiguchi

Outside Director
1975 Joined Kyoto Ceramic Co., Ltd. (currently KYOCERA Corporation)
1987 Director, KYOCERA Corporation
1992 Representative Director, Managing Director, KYOCERA Corporation
1997 Representative Director, Vice President, KYOCERA Corporation
1999 Representative Director, President, KYOCERA Corporation
2003 Representative Director President and Managing Executive Officer, KYOCERA Corporation
2005 Representative Director, Chairman and CEO, KYOCERA Corporation
2006 Director, Consultant, KYOCERA Corporation
2007 Consultant, KYOCERA Corporation
2009 Retired from KYOCERA Corporation
2012 Current position



Hidenori Nishi

Outside Director
1975 Joined KAGOME CO.,LTD.
2000 Director, KAGOME CO.,LTD.
2003 Director, Executive Officer, KAGOME CO.,LTD.
2005 Director, Managing Executive Officer, KAGOME CO.,LTD.
2008 Director, Senior Managing Executive Officer, KAGOME CO.,LTD.
2009 Representative Director, President, KAGOME CO.,LTD.
2014 Representative Director, Chairman, KAGOME CO.,LTD.
2014 Current position

Executive Officers

Kazuo Mitsuhashi

Managing Executive Officer
Nagase ChemteX Corporation

Ichiro Wakabayashi

Executive Officer
GM, Polymer Global Account Dept.
CEO, ASEAN/India

Takaaki Hirai

Executive Officer
GM, Beauty Care Products Dept.

Kohei Sato

Executive Officer
GM, Performance Chemicals Dept.

Kenji Nagafusa

Executive Officer
GM, Polymer Products Dept.

Katsuhisa Yamaguchi

Executive Officer
CEO, Greater China

Mitsuru Kanno

Executive Officer
GM, Colors and Imaging Dept.

Shinji Nakamura

Executive Officer
GM, Electronic Chemicals Department

Kenichi Horie

Executive Officer
GM, Corporate Strategy Office

Masatoshi Kamada

Executive Officer
GM, Electronic Materials Dept.

Masanori Furukawa

Executive Officer
Hayashibara Co., Ltd.

Takanori Yamauchi

Executive Officer
GM, Human Resources and General Affairs Division

Satoshi Morita

Executive Officer
Nagase ChemteX Corporation

Audit & Supervisory Board Members



Hideo Yamashita

External Audit & Supervisory Board Member
1972 Joined The Sumitomo Bank, Limited (currently Sumitomo Mitsui Banking Corporation)
2000 Head Office Senior Management Staff and, General Manager, Kanda Corporate Banking Dept at The Sumitomo Bank Limited
2004 Retired from the Sumitomo Mitsui Banking Corporation
2004 Current position



Masao Hidaka

Audit & Supervisory Board Member
1973 Joined NAGASE & CO., LTD.
2011 Current position



Masahiko Hamaguchi

Audit & Supervisory Board Member
1982 Joined NAGASE & CO., LTD.
2013 Current position



Toshio Takano

External Audit & Supervisory Board Member (part-time)
1987 Deputy General Manager of the Special Investigation Department of the Tokyo District Public Prosecutors Office
2001 Superintendent Public Prosecutor of the Sendai High Public Prosecutors Office
2004 Superintendent Public Prosecutor of the Nagoya High Public Prosecutors Office
2006 Takano Law Firm
2008 Current position

Corporate Governance

Corporate Governance Structure

Under a corporate system that adopts an Audit & Supervisory Board, Nagase introduced the executive officer system in June 2001. The Company's current management framework consists of ten directors (including two outside directors), 21 executive officers (eight of whom concurrently serve as directors), and four Audit & Supervisory Board Members (including two External). The Board of Directors is clearly positioned as the body in charge of making decisions on management policies and strategies, and it supervises the execution of operations. Holding a regular monthly meeting, the Board of Directors reviews and formulates measures regarding important decisions and tracks business performance.

In accordance with audit policy and standards for responsible work set at meetings of the Audit & Supervisory Board, Audit & Supervisory Board Members attend important meetings, such as Board of Directors' meetings, and conduct audits of the execution of duties of directors and executive officers based on reports solicited from subsidiaries on an as-needed basis.

Executive officers determine specific measures for sales-related administrative matters by attending divisional general managers' meetings and supervisors' meetings and discussing each division's status report.

Furthermore, Nagase established the following committees to reinforce its corporate governance function.

Director Compensation Committee:

With the majority of its members made up of outside directors, the Compensation Committee ensures the objectivity and transparency of the Company's directors and executive officers in the decision-making process regarding compensation by screening the appropriateness of every compensation level and the compensation system to report and make recommendations to the Board of Directors.

Corporate Governance Structure

Institutional Format	Corporation with Board of Directors and Audit & Supervisory Board Members (Audit & Supervisory Board)
Total Number of Directors	10
Number of Outside Directors	2
Total Number of Audit & Supervisory Board Members	4
Number of Outside Audit & Supervisory Board Members	2
Number of Independent Directors	4 (all outside directors)
Director Term of Service	One year (same for outside directors)
Executive Officer System Adopted	Yes
Independent Auditors	Ernst & Young ShinNihonn LLC
Compensation Committee	Yes
Number of Board of Directors Meetings	14
Outside Director Attendance Percentage	Mr. Yasuo Nishiguchi 100%; Mr. Hidenori Nishi was named an outside director on June 25, 2014
Outside Audit & Supervisory Board Member Attendance Percentage	Mr. Hideo Yamashita, 100%; Mr. Toshio Takano, 93%
Number of Audit & Supervisory Board Meetings	12
Audit & Supervisory Board Meeting Attendance Percentage	Mr. Hideo Yamashita, 100%; Mr. Toshio Takano, 100%

Risk Management & Compliance Committee:

As a consultative body for the Board of Directors, the Risk Management & Compliance Committee establishes and strengthens risk management and compliance systems that cover not only legal compliance but also corporate ethics. The Committee also maintains ISO environmental management standards and promotes energy conservation initiatives.

Internal Control Committee:

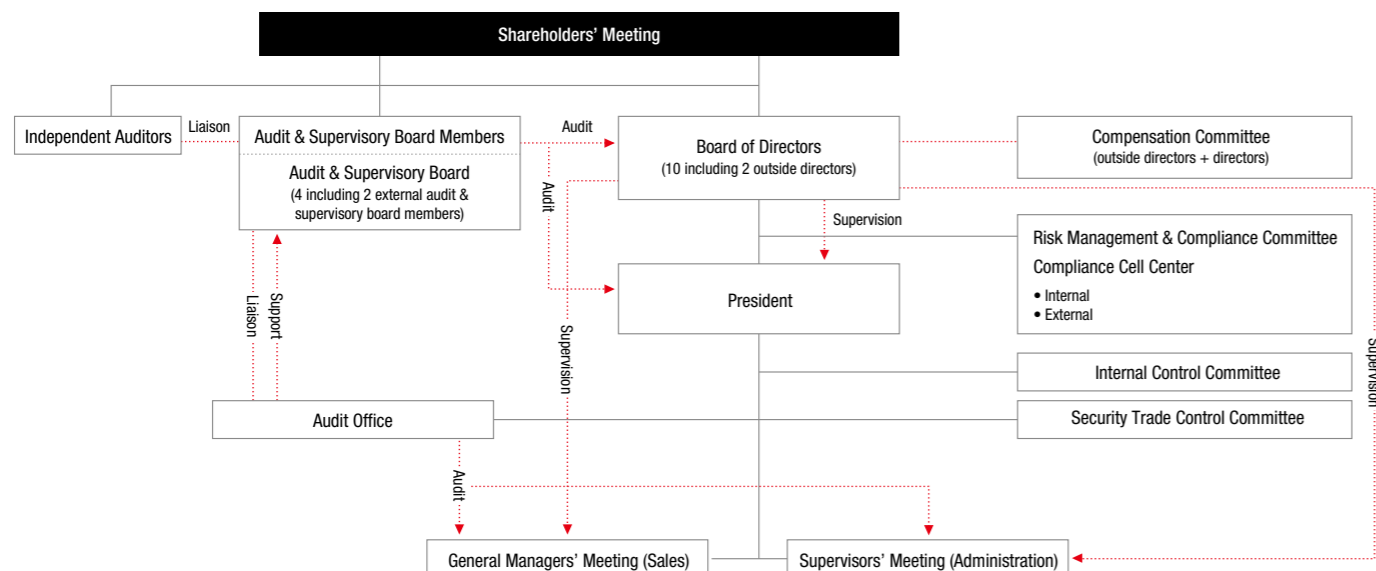
The Internal Control Committee documents the companywide internal control conditions and financial statement preparation process to further enhance its financial reporting credibility, while maintaining and strengthening a structure to carry out evaluation and improvements.

Security Trade Control Committee:

The Security Trade Control Committee thoroughly complies with export related laws and regulations in relation to foreign currency exchange and foreign trade for its trading of cargos and technologies covered by such laws and regulations.

Under the executive officer system, Nagase's corporate governance system collaborates with the abovementioned committees to appoint outside directors and members to the Audit & Supervisory Board as well as to reinforce its corporate governance system. Having secured supervision and auditing functions that operate from diversified perspectives, including from outside the Company, Nagase believes the current corporate governance system is more rational than ever. We will increase our efforts to further reinforce our corporate governance system to secure stakeholders' trust.

Nagase's Corporate Governance System



Director Compensation

Director compensation (excluding outside directors and audit & supervisory board members) consists of basic salary and performance incentives (bonuses). The Company calculates compensation based on director compensation rules, contingent on approval by the Board of Directors. Performance incentive (bonus) amounts are determined according to a basic payment amount based on Company earnings for the period in question. The Company considers individual performance based on the Goal Management System when determining basic salary and director bonuses.

The Compensation Committee, at least half of whose members are outside directors, assesses the validity of compensation standards and systems, reporting to and advising the Board of Directors. This ensures improved objectivity and transparency in the director compensation decision-making process.

Total Director Compensation by Title, Total Compensation by Type, Number of Eligible Directors

Title	Total Compensation	Total Compensation by Type		Number of Eligible Directors
		Basic Compensation	Bonus	
Directors (excluding Outside Directors)	284	181	103	10
Audit & Supervisory Board Members (excluding external audit & supervisory board members)	43	43	—	3
Outside Officers	46	46	—	4

Important Matters regarding Employee Bonuses for Employees Also Serving as Directors

Total	Number of Eligible Directors	Comments
49	6	Paid in an amount equivalent to employee bonus

Internal Audit System

The Audit Office is in charge of internal audits, including audits to assess the appropriateness and efficiency of the Company's business activities including affiliated companies. The Audit Office is staffed by twelve employees, including certified public accountants, certified internal auditors (CIA), qualified internal auditors (QIA) and other individuals who possess specialized knowledge in internal audits. The Audit & Supervisory Board consists of four corporate auditors (including two outside corporate auditors) who have a considerable amount of knowledge about finance, accounting, general corporate management, compliance and governance.

The Company established the Audit Office to also ensure audit & supervisory board members' auditing effectiveness, supplying staff upon request to support the corporate auditors' work. The Audit Office and the Audit & Supervisory Board regularly exchange information regarding internal audits and audits of domestic and overseas subsidiaries, while holding meetings twice a year with affiliate companies' auditors. In addition, they perform wide-ranging liaison activities, including receiving regular reports from Ernst & Young ShinNihon LLC, Nagase's independent auditors, regarding accounting matters and associated internal controls; maintaining a presence during accounting audits; and cooperating as needed with audits conducted at affiliated companies, including those located overseas. In addition to discussing individual matters with corporate auditors on a daily basis, independent auditors also hold meetings twice a year with the Audit & Supervisory Board.

Nagase established the Internal Control Committee and the Committee Affairs Bureau in its internal control section, and the Audit Office serves as the Company's independent internal auditor.

The Audit Office reports results of its internal operational audits to the Internal Controls Committee. The Internal Controls Committee regularly reports on the status of internal controls to the Audit & Supervisory Board and the Company's external auditor.

Audits by certified public accounts are performed in a fair and unbiased manner by a staff of 40, which includes the following specified limited-liability partners and accountant trainees.

Certified Public Accountants	Auditing Firm	
Specified limited-liability partners Managing partners	Takao Okamoto	Ernst & Young ShinNihon LLC
	Yuka Hayashi	
	Hideo Yamamoto	

Category	Name	Reason for Appointment	Major Actions in Fiscal 2013
Outside Directors	Yasuo Nishiguchi	Mr. Nishiguchi has served in management positions at KYOCERA Corporation. He has a wealth of knowledge and experience to call on in offering expert industry management advice to the Company, which we expect will lead to stronger corporate governance.	Mr. Nishiguchi attended all 14 Board of Directors meetings (100% attendance), offering appropriate opinions and advice.
	Hidenori Nishi	Mr. Nishi has a wealth of knowledge and experience in corporate management, serving for many years in management positions at Kagome Co., Ltd. We believe he will be able to call on in offering expert industry management advice to the Company, which we expect will lead to stronger corporate governance.	—
External Audit & Supervisory Board Members	Hideo Yamashita	Mr. Yamashita has a wealth of knowledge and experience in the workings of financial institutions, serving many years in various positions in Japan and overseas. We believe he will be able to call on this wisdom and experience to properly conduct his duties as an outside corporate auditor.	Mr. Yamashita attended all 14 Board of Directors meetings (100% attendance), as well as all 12 Audit & Supervisory Board meetings. Mr. Yamashita offered appropriate opinions based on his breadth of knowledge from serving in financial institutions overseas.
	Toshio Takano	Mr. Takano served many years in the Lawyers Association gaining experience and knowledge. We believe he will be able to call on his expertise to properly conduct his duties as an outside corporate auditor.	Mr. Takano attended 13 Board of Directors meetings (93% attendance), as well as all 12 Audit & Supervisory Board meetings (100% attendance). Mr. Takano offered appropriate opinions based on his expertise as an attorney.

(Note) The number of Board of Directors meetings noted above does not include resolutions made in writing.

Policies related to Company Information Disclosure

We engage in continuing communications with society through the Nagase Group Compliance Behavior Standards and timely disclosure of important information through proper channels. Through the establishment of the Nagase Group Code of Conduct and the timely disclosure via proper channels of information needed by society, we engage in continuing communication

Independence Standards and Policies for Outside Directors

At present, the Company has not established standards or policies for outside directors' independence; however, the Company does take into consideration independence standards and disclosure requirements determined by securities exchanges when outside directors are selected.

The Company has designated a total of four outside directors as Independent Directors: Mr. Yasuo Nishiguchi and Mr. Hidenori Nishi as outside directors, and Mr. Hideo Yamamoto and Mr. Toshio Takano as outside auditors.

with society. In this way, we maintain a fair, transparent dialogue, never allowing corporate activities to deviate from socially accepted norms.

This basic philosophy guides us as we conduct timely, appropriate, and fair disclosure of information through IR activities, public relations programs, and websites for our shareholders and investors to improve management transparency and accountability.

See Timely Disclosure System on our corporate website for more.

Business Continuity Planning

Fiscal 2013 Results

During September 2013, the Group conducted initial response training at the Tokyo Headquarters, Osaka Headquarters, and Nagoya branch office. The training tested the response of the Fire Prevention Headquarters, Self-Defense Squad, Facilities Confirmation Team, Information Systems Team, and Logistics Confirmation Team during a simulated emergency. In February 2014, the Group held a workshop to discuss issues related to business continuity plans drawn up by each department.

Fiscal 2014 Initiatives

As in fiscal 2013, we will continue to conduct emergency response training to improve initial response quality and speed. Further, we intend to hold training during the year for the Fire Prevention Headquarters Office to test response during a simulated emergency happening during a weekend/holiday.

We plan to encourage business continuity planning at all Group sales companies and manufacturing companies to improve the Group's ability to maintain continuity along the entire value chain.

Q1 Tell us how you came to be an outside director at NAGASE.

When I was a young researcher, we purchased Kodak photoresist chemicals from NAGASE, so I've known the name for quite a while. So, when I was first approached about becoming a director, I immediately recognized the name.

After I completed my duties at KYOCERA, I went to graduate school to earn a Ph.D. in technology management. I learned about management from an academic and theoretical perspective. Today, Japanese growth companies tend to first focus on sales, and then later focus on production. It's no longer a time where good products will sell well. Rather, it's a time where sellable products sell. In that sense, I think that NAGASE & CO.,LTD. is a company that has grown while existing in the sales phase as a trading company. Now, the Company is shifting more to focus on manufacturing. I think this gives NAGASE much more room for growth. I spoke with President Nagase about my interest in this area and expressed my ready acceptance to serve as an outside director.

Q2 What are your thoughts on the significance of the role of an outside director?

What is the difference between managers and outside directors? Managers are completely responsible for executing on their proposals. In contrast, external directors don't actually carry out any of the work—they really have no responsibility for the outcome. So, how does an outside director best help a company? Outside directors stand outside the hierarchical structure of a company, so they can look at issues and express their opinions on both sides of an issue from a neutral standpoint, which is very valuable to a company.

Q1 Tell us how you came to be an outside director at NAGASE.

I had an interesting conversation with President Nagase in which I could see many commonalities between NAGASE & CO.,LTD. and Kagome. I also saw many differences. Both companies have a long tradition, many ups and downs, and a history of technological innovations. You can't stay in business for more than 100 years if you don't have honest management. Those are the similarities between our companies.

We have differences, too. Kagome is in the food manufacturing industry, while Nagase is more of a trading Company. But even though Nagase is a traditional trading company, recently the company has focused on R&D and manufacturing, which is where I think I can also help. That is why I happily accepted the invitation to become an outside director at Nagase.

Q2 What are your thoughts on the significance of the role of an outside director?

Kagome introduced outside directors just this year, so I can't speak from

experience, but in general, the role of the outside director is to represent regular shareholders, acting as a monitor to prevent damage to corporate value. To be honest, however, I'm not completely sure how much influence two or three outside directors have. Today, Kagome has about 200,000 shareholders. In terms of our monitoring, our employees and management are quite aware that they could be within view of our shareholders at any time, in public or private. I think that understanding makes for a workplace that motivates self-discipline. In other words, I think this awareness is the most important type of governance. So, when I think about the role of an outside director, I think it's important to also offer advisory services in addition to the generally understood role.

More recently we hear about the need for diversity on corporate boards. I don't think diversity is necessarily limited to adding women or non-Japanese to the board. I think people such as myself and Mr. Nishiguchi fit the meaning. If people from different backgrounds can bring their experience and wisdom to help create corporate value, then that's a good thing.

Four Questions for

NAGASE Outside Directors



“ Improve manufacturing business profitability to create true sustainable growth. ”

Former CEO, KYOCERA Corporation
Yasuo Nishiguchi

“ A Company has to clearly define the core driver of its value proposition. ”

CHAIRMAN, KAGOME CO.,LTD.
Hidenori Nishi



Q3 What is your outlook on the future of NAGASE & CO.,LTD.?

NAGASE & CO.,LTD. began as a sales company. As a relatively young manufacturer, there is still plenty of room for improvement. The manufacturing industry involves many more elements and moving parts than a traditional trading company has to deal with. For example, you have to look at market trends for clues about product development; what you should be making, what technologies do you use or develop, what kind of production system are you going to use, and how are you going to make the product? What sales channel are you going to use? There are a lot of decisions involved. The skills involved take more than just a few years to master. However, NAGASE & CO.,LTD. has an advantage compared to other manufacturing companies in experience with the essentials of sales: what to sell and how to sell it. NAGASE is in a position to leverage

this experience to put the foundations in place to see the needs of the market, and then develop and manufacture accordingly. The next step is to optimize and maximize.

Q4 What do you hope to see happen during fiscal 2014?

Manufacturing earnings (for fiscal 2013) were not impressive—I can tell that there were issues that have yet to be resolved. Fixing issues fixes your numbers. For this upcoming period, I think the single biggest issue is improving profitability in NAGASE's manufacturing businesses. If NAGASE can overcome these challenges, then I think the combination of trading business and manufacturing business will result in truly sustainable growth for Nagase.

Q3 What is your outlook on the future of NAGASE & CO.,LTD.?

In a word, NAGASE is a unique company. Most trading firms will specialize in one area along the value chain, and participate through joint ventures or minority holdings. In the case of NAGASE, the Company has identified the entire value chain as its business domain, participating as a majority shareholder. To this, the Company adds R&D and manufacturing functions, which you don't typically see in a regular trading company.

The current competitive landscape is similar to that of the food industry. The focus has shifted from a product differentiation strategy to one of investing resources into the core driver of corporate value to create greater value. I think the NAGASE & CO.,LTD. approach is close to this idea. A company has to clearly define the core driver of its value proposition.

Q4 What do you hope to see happen during fiscal 2014?

This will be my first time to serve as an outside director at a company, so I'm not sure I'm in a position to make any bold statements. However, from the standpoint of management, I would encourage boldness in decision-making, while of course balancing risk and reward. I believe outside directors should be a bit more objective in their approach. Boldness is for those executing the business plans. In that sense, it's important for others to provide a viewpoint that is cool, objective, and fair. Obviously, I think I will be able to provide value as someone who has had experience in creating a corporate brand as strong as Kagome.

Human Rights, Employment Practices

Respect for Human Rights

Respect for Human Rights

The Nagase Group has a Code of Conduct which defines our respect for human rights and our refusal to discriminate against individuals or groups in any manner. As a corporate group doing business around the globe, the Nagase Group respects the history, culture, and customs of every region, and we do not engage in harassment or discrimination based on race, creed, sex,

religion, nationality, language, physical characteristics, wealth, or place of birth. This Code of Conduct is available in Japanese, English, Chinese, and German, distributed as a booklet and available through our corporate intranet for the reference of all Group employees. We require every Nagase Group employee to comply with this Code of Conduct. In the event of an incident of discrimination, the Group will take immediate steps to investigate the situation, taking steps to help the affected individual(s) and to prevent any recurrence.

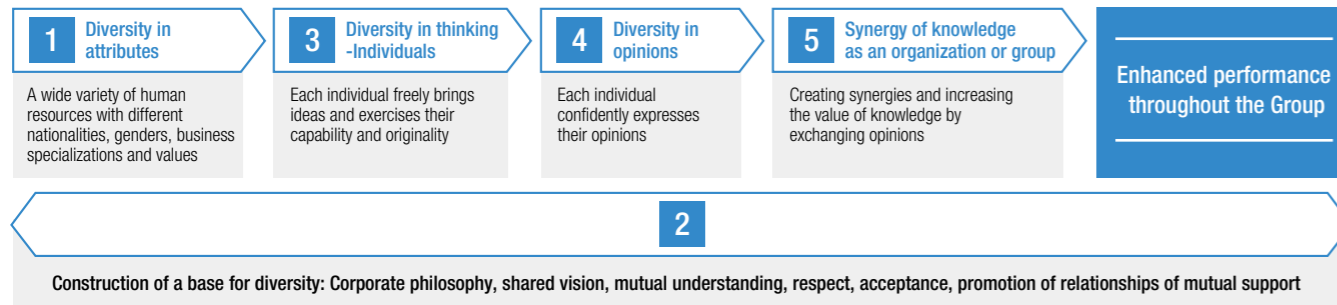
Diversity

1 Basic Stance on Diversity

The Nagase Group currently employs a diverse range of workers who differ in terms of gender, nationality, age, values and lifestyles. The Group considers that the development of corporate culture will lead to the creation of new businesses as well as the improvement of business performance throughout

the Group. These objectives involve the development of a corporate culture in which a diverse range of workers can share ideas, build shared acceptance through mutual understanding and help each other perform tasks while working vigorously and generating new synergies by exchanging values. Accordingly, the Nagase Group positions diversity as one of its important corporate strategies.

Objectives to Achieve through the Promotion of Employee Diversity



Themes for Diversity Promotion

- 1 Sharing corporate philosophy and vision
- 2 Enhancement of transparency
- 3 Reinforcing relationships of friendly competition
- 4 Encouraging a breakthrough to the current situation
- 5 Eliminating a mindset that leads to gender bias
- 6 Creating a work environment in which employees feel free to utilize the in-house benefit system

1. In-house education

- 1 Periodic messages from top management Broadcasts of related information
- 2 Instill deeply into Management Philosophy, Nagase Way, Direction, Current Conditions

2. Diversity in organization and individuals

- 3 Improve global communications
- 4 Support for employees' career development
- 5 Continue employing non-Japanese, women for managerial positions; improve culture

3. Development of comfortable workplace

- 6 Instill awareness and activate initiatives for continuity and productivity improvements
- 7 Support employees who are dealing with home care or other challenges

2 Diversity Initiatives

Our diversity initiatives began in earnest in fiscal 2008 with the launch of the Diversity Promotion Committee. We conducted a second annual survey during fiscal 2011, and will continue to monitor our progress over a three-year span as we introduced new activities in fiscal 2012.

During fiscal 2013, we focused on the theme of supporting the success of mid-career hires. We held a subcommittee meeting to draw up a Mid-Career Hire Support System. We designed this system to help mid-career hires understand our Group Philosophy and Vision and to be able to quickly apply their experience and skills for maximum benefit.

We also completed the Career Support Program trial started in fiscal 2012. Based on the feedback we received, we are currently revising this program and making plans to adopt it as an official corporate initiative.

Work-Life Balance

1 Basic Stance on Work-Life Balance

Striking a balance between work and life is indispensable to the promotion of employee diversity. Therefore, the Group maintains a comfortable workplace for employees with diverse characteristics to realize a good work-life balance. Nagase believes a good balance between work and life will bring benefits to both the Company and employees, and thus strives to raise awareness in house and develop work-life balance-related systems.

Professional Development

1 The Nagase Group Professional Development Policy

The Nagase Group Approach to Professional Development

The Nagase Group professional development program consists of a natural combination of on-the-job and off-the-job training. On-the-job training lets employees experience real-world work in a variety of roles to gain new knowledge and skills. Off-the-job training also involves training and gaining skills through both formal classes and self-directed learning.

The general consensus is that on-the-job training is an extremely important part of professional growth. However, we believe that on-the-job training can't be effective without adding new knowledge, skills, and systems for understanding them. The Nagase Group promotes on-the-job training, while at the same time ensuring employees are able to learn knowledge and skills for their continued growth. These programs include rank-specific, position-specific, and elective training, and other education opportunities.

Promoting Group Functions through Organization-Wide Human Resources Development

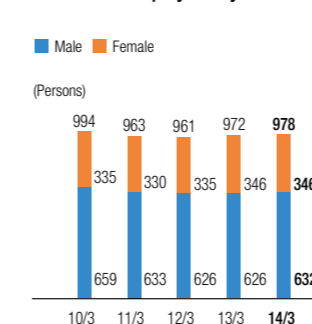
Under our *Change-S2014* medium-term business plan, our basic strategy is to bring to bear the total strength of the Nagase Group into the important fields along our value chain. The plan also defines Group-wide education programs based on rank, as well as improved headquarters-based training for overseas national staff.

Instilling Our Management Philosophy and the Nagase Way

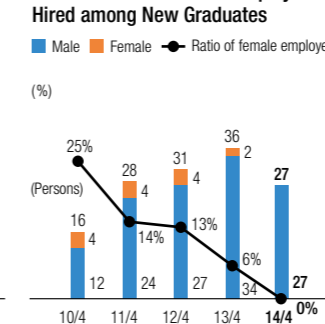
The Nagase Way is a common code of conduct that guides Nagase Group employees in our management philosophy, vision, and strategy.

Rank-specific Nagase Way training and Nagase Way workshops at domestic affiliates and overseas local entities are two ways that we continue to instill a better understanding of the Nagase Way among employees.

Number of Employees by Gender



Number of Career-track Employees Hired among New Graduates



2 Work-Life Balance Initiatives

During fiscal 2013, we have continued to offer home care seminars in conjunction with a third-party not-for-profit organization as one means to educate employees about corporate benefits. In addition, labor and management have come together to address the issue of excessive work hours, aiming to achieve a more comfortable work environment for our employees.



2 Major Topics under *Change-S2014* for Nagase & Co

Promoting globalization in our employees and sponsoring management training to create leaders with business skills

We have identified two major topics under *Change-S2014* for professional development.

1 Promote globalization	Overseas business school enrollment for division managers, overseas business on-the-job training for senior career-track employees, intercultural education programs
2 Train managers	Division manager/section manager training courses, basic MBA skills for senior career-track employees

We will continue to revise Group education and training programs according to changes in the external business environment and Nagase Group strategy.

Number of Participants at Main Training Programs

Training Program	Fiscal 2011	Fiscal 2012	Fiscal 2013
Rank-specific	486	527	801
Elective	15	14	10
Overseas	5	15	19
The Business Leadership Program for Overseas National Staff	29	46	33

Completion of NAGASE Global HRD Center



In March 2014, we completed construction of the NAGASE Global HRD Center in Sendagaya, Tokyo. This Center will serve as the base of our human resources education programs for sustainable Nagase Group growth. Here, we will train new hires, offer rank-specific training, educate staff from overseas, hold global meetings, sponsor recruiting seminars, and more. This building includes training, short-term accommodation and corporate housing facilities, and features our own storage battery and rooftop solar panel system. This facility was also designed to be part of our business continuity plan, with the ability to support Tokyo headquarters operations, store power during an emergency, and feed 150 people for up to three days.



Jeremy Smith
Nagase America Corporation
(New York), Sales &
Marketing Manager

Company Information

Nagase America (NAM) is active in the five Group business segments and adds value in both distribution and manufacturing capacities. NAM offices geographically span the western hemisphere and are located in the US, Mexico, and Brazil. NAM has an energetic attitude focused on growth, expanding the Nagase brand, and leading the Nagase Group into new markets and technologies.

Post-Training Reflections

The experience and content of BMP training is key for understanding Nagase, as well as identifying crucial new opportunities and models for creating value that fit within the Nagase Group.

My Goals

My goal is to help NAM achieve aggressive mid-term sales & profit targets by focusing on providing solutions to customers, emphasizing Nagase Group products, and identifying and cultivating opportunities for high value activities such as manufacturing.



Attila Komlos
Nagase (Europa) GmbH
Hungarian Representative
Office, Marketing Manager

Company Information

Established in 2002, Nagase (Europa) GmbH Hungarian Representative Office is currently importing, stocking, and distributing automotive grade materials, especially engineering plastics. In the recent years we started to concentrate on portfolio diversification and exploring opportunities that point beyond the conventional buy-sell business scheme.

Post-Training Reflections

BMP training provided good opportunity to learn more about the activities of different departments, meet fellow Nagase members both from Japan and overseas, and create bonds of collegiality through unforgettable memories and shared fate. During the course I have learned that events like BMP/NMP/GMP, where education, networking, and information-sharing happens, are of utmost importance for a company whose main asset is its people.

My Goals

For European customers, the conventional role of a trading company is hard to justify. To create a strong foothold in the European market, strategic investment in related industries is needed. Besides maintaining our core business and expanding our activities beyond the EU, my goal is to identify opportunities and create businesses that not only have long-term, stable profitability potential, but also add value to the Nagase group.



Yuki Ruan
Finance and Administration
Division-HR & Administration
Section/Manager

Company Information

Guangzhou Nagase was founded in 2002, focusing on the automotive business. With the rapid growth in the Chinese market, Guangzhou Nagase has expanded its core business to important regions, setting up offices in Wuhan, Chongqing, Chengdu and Changsha.

Post-Training Reflections

Through BMP, I learned more about HQ functions and the Nagase corporate history. This has helped me when I orient new employees as part of my job. BMP group discussions with Nagase colleagues from around the world has helped me see new ways of thinking and understand different cultures. I enjoyed the experience and gained a lot of value from it.

My Goals

As a member of Nagase Group, I hope we can create more relationships with other companies of the Nagase network, improving ourselves by learning from others and making greater contributions to the Company. As an HR manager of Nagase Guangzhou, my goal is to help develop our staff as the company grows and have each employee find fulfillment in their work.



Libo.Cheng
Electronics Department/Manager

Company Information

Shanghai Nagase is growing just as fast as the city of Shanghai. There are now more than 140 local staff, all working towards the same goal & direction—the Nagase Way.

Post-Training Reflections

I received headquarters training for one month. There, I learned various methods of management, communications skills, and how to identify new business opportunities. I think that I can apply all of this new knowledge to my day-to-day job.

My Goals

As a member of Nagase Group, I hope to continue to attend regular trainings, not only to improve my professional knowledge, but also to participate in the management of the company. In the coming days, I believe I can grow together with NAGASE.

Training Global Business Leaders

NMP
(Nagase Management Program)

•Participants
Nagase Group managers expected to become the next generation of Nagase leadership

•Details
Teach marketing and leadership to the next generation of Nagase Group leaders at overseas business schools to develop the knowledge and skills necessary to manage a business of the future. Hold post-training group discussions to understand Group-wide management issues and discuss strategic solutions.

•Objective
Train the next generation of leaders in comprehensive strategic business thinking; how to see the overall picture from a more objective standpoint.

GMP
(General Management Program)

•Participants
Overseas General Managers and General Manager Candidates

•Details
Train participants in finance, marketing, the Nagase management philosophy, and the Nagase Way. Have participants present issues in their local markets/operations, future measures and outlook, business targets, etc. Certain elements of the program to be conducted in cooperation with headquarters and Japan Group company employees.

•Objective
Train the next generation of Nagase business leaders (future general managers and higher) through education in our management philosophy, the Nagase Way, and proposed future strategic measures in local markets.

BMP
(Basic Management Program)

•Participants
Overseas Local Entity Managers and Manager Candidates

•Details
Educate participants in Group organizations and businesses, including the Group Management Philosophy, the Nagase Way, domestic manufacturing Group companies, the Nagase R&D Center, NAW, and headquarters administration activities. Study management strategy and marketing; establish strategies to implement locally. Participate with headquarters and domestic Group employees to learn how to work successfully with people of different values, business customs, and communication styles.

•Objective
Train managers and future Nagase business leaders in the Nagase Management Philosophy, the Nagase Way, our organization, and businesses. Generate strategies to implement locally.



Chutapat Mongkolchaitawon
Nagase (Thailand) Co., Ltd.
Advanced Materials
Division Manager

Company Information

Nagase Thailand Co., Ltd. is the leader in SEA subsidiaries. We have a big growth opportunity market in the automotive, office automation, home appliance, and food industries. We have two branches located in Thailand (Bangkok office and Eastern office), and we are a shareholder in several manufacturing and processing companies: Sanko Gosei Technology (Thailand) Ltd. (automotive business), Automotive Mold Technology Co., Ltd. (automotive business), Nafuko Co., Ltd. (packaging business), and Majend Makcs Co., Ltd. (packaging business).

Post-Training Reflections

I completed the BMP and GMP training programs. These programs updated my business knowledge and gave me insight in how to share this knowledge with my team to help them improve. Nagase is an enormous company with many kinds of business. I think it is important that we understand all of the Nagase group businesses to identify what opportunities there are for cooperative ventures and synergies.

My Goals

My goal is to implement the Nagase in my own team to promote good teamwork, cohesiveness, and growth as the Company grows. I hope Nagase becomes a top global company in the days, weeks, and years to come.



Misa Tamura
NAGASE & CO.
Public & Investor Relations
Section of the Finance Division

Q1. What type of training did you participate in?
① **Six Months, Nagase Group Accounting Standards Promotion in ASEAN**

To improve management transparency and trust, we unified accounting policies and engaged in activities to promote the adoption of the same. Group accounting policies allow us to measure results by the same standards to understand what is happening in any of our businesses around the world, not to mention allowing us to work more effectively with local auditing firms. Our goal was to unify all accounting policies by the end of fiscal 2013.

② **Understanding Local Administration and Management Operations**

I studied local management operations with a local manager. I also met with the ASEAN management team to learn about the conditions in each country, as well as how decisions are made in each location.

Q2. How will, or how should, the results of this training be applied to operations?

I was able to understand opinions from an on-site perspective, which I never would have learned without actually going out into the field. I hope to use this new understanding in the future. I was also able to communicate with local staff, which has been extremely valuable for me.

Staff Development Program

	Rank-specific, Position-specific, Elective	For Admin Staff	Other	For National Staff	
General Manager	Overseas Business School Enrollment				
Department Manager	Department Manager Education Program (Domestic/International Business School Enrollment)				
	Department Manager Training Program (Coaching)				
Manager	NMP (Nagase Management Program)			NMP (Nagase Management Program)	
	Manager Training			GMP (General Management Program)	
Section Staff	Management Skills Seminar		Pre-assignment training Elected training	BMP (Basic Management Program)	
	MBA Basics Education Program				
	Strategic Planning Training	Specific Activity Training (Promotion)			
	MBA Basics Education Program	Overseas Business On-the-Job Training			
	Strategic Planning Basics (Sixth Year)				
	Core/Skill Training (Second Year)	Clerical Position Business Skills Training (Second Year)			
New employees	Follow-Up Training	Follow-Up Training			
	Core Businesses Training	Office Systems Training			
	On-the-job Training	Introductory Training			
	Introductory Training				

VOICE Department Manager Overseas Business School Training



Takanori Yamauchi
Executive Officer
GM, Human Resources and
General Affairs Division

Q1. Tell us about the school you attended and the coursework.
Harvard Business School
AMP Advanced Management Program

Q2. What types of classes did you take, and what did you learn?
I was one of more than 160 business leaders from over 40 countries to attend. We went through case study discussions and heard presentations from top executives, giving us insight into the meaning of business leadership and business frameworks.

I was exposed to a global perspective and a variety of different approaches, which allowed me to look at my own experience and skills and reflect on the role of leadership. It was also a valuable opportunity to take a look at my own career as a professional.

Although I rarely have the chance to speak English, this course required reading 20 to 30 pages of English text every night, listening to eight weeks of lectures by native speakers, and participating in daily discussions. My team members hailed from the United Kingdom, the U.S., Australia, Switzerland, Panama, and the UAE—everyone a strong and distinct personality. We sponsored a Japan Night which more than half of the participants attended. We were able to demonstrate the essence of Japanese-style hospitality. Coincidentally, this was right around the time that Tokyo was chosen to host the 2020 Olympics.

Q3. How do you think you will apply what you learned to your work?

I learned that ultimately interpersonal skills, rather than the technical analytical skills, are what's most needed in the world of business. I want to be that kind of leader.

VOICE Department Manager Education Program (Domestic/International Business School Enrollment)



Koichi Sagawa
General Manager
Shanghai Hua Chang
Trading Co., Ltd.

Q1. Tell us about the school you attended and the coursework.
Columbia Business School
Columbia Senior Executive Program (CSEP)

Q2. What types of classes did you take, and what did you learn?

The course was attended by 28 managers from around the world, representing a range of different-sized companies. We spent four weeks gaining an appreciation of each others' culture and lifestyles, while learning leadership skills, how to adapt to changing conditions, and how to make innovative leaps forward.

Q3. How do you think you will apply what you learned to your work?

During the course we came up with our own Leadership Credo, which I am using as the basis for the Shanghai national staff and our operations.

Nagase Group Sustainability

Environment

Environment Management

Nagase Group Environmental Management Structure

NAGASE began building an environmental management structure in May 1999 by establishing an Environmental Protection Committee, a role currently assumed by the Risk Management & Compliance Committee. Relatively earlier than other trading companies in Japan, NAGASE obtained ISO 14001 certification for its environmental management system in April 2000 in response to societal demands. Since then, the Environmental Protection Committee has offered affiliated companies advice and support for obtaining ISO certifications and thereby expanded the scope of certification. We conduct activities together with six sales companies, Nagase Chemical Co., Ltd., Nagase Plastics Co., Ltd., Nagase Abrasive Materials Co., Ltd., Nishinohon Nagase Co., Ltd., Nagase Elex Co., Ltd. and Nagase-OG Colors & Chemiclac Co., Ltd. under the Environmental ISO Management Organization.

In addition, many domestic Nagase Group manufacturing, processing, services, sales and other Group companies, having acquired certification independently, including Nagase ChemteX Corporation, Nagase Medicals Co., Ltd., Setsunan Kasei Co., Ltd., Totaku Industries, Inc., Nagase Techno-Engineering Co., Ltd., Nagase Logistics Co., Ltd., and Hoei Techno Service Co., Ltd. are conducting their own environmental activities.

We will continue with activities to improve the environmental management systems among certified Group companies.

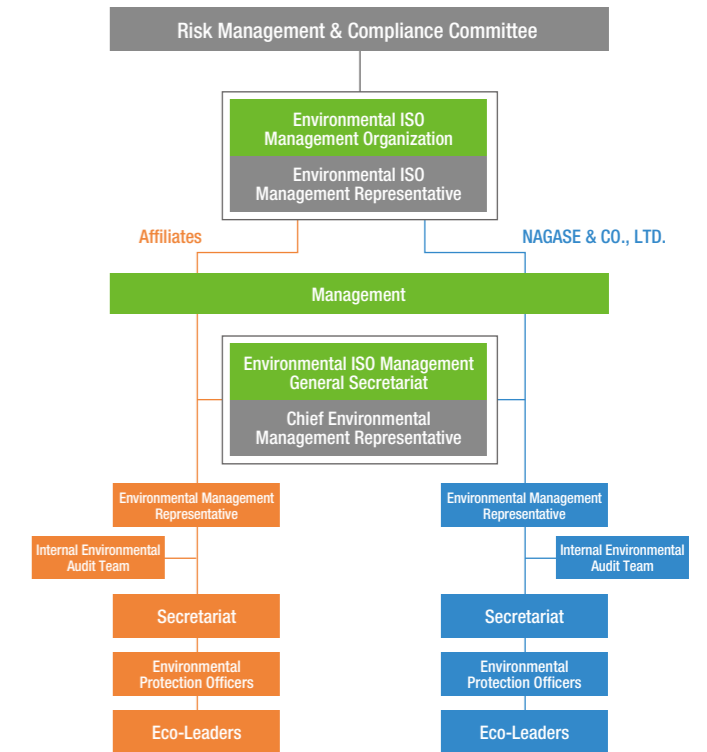
Environmental Management Activities

NAGASE bases its environmental management activities on daily operations. Specific activities include the promotion of environmental businesses (See NAGASE ECO) and energy conservation activities, as well as the enhancement of operational efficiency.

Our environmental businesses encompass renewable energy, energy storage, energy/resource conservation, regulated materials replacements, recycling/reuse, and measures to combat global warming. Under our three-year plan **Change-S2014**, Nagase emphasized creating and expanding environmental and energy technology. By promoting information sharing and complementing functions among its departments and business groups, the Company will further reinforce the business structure required for the efficient and flexible provision of products and services that contribute to the realization of a sustainable, recycling-oriented and low-carbon society.

In addition, NAGASE is promoting activities aimed at reducing the environmental impact of its business operations. Still, we believe that we can

Environmental Management Structure



reduce the environmental impact of our business activities by, for example, improving the efficiency of our logistics operations. Acting on this belief, we developed the Nagase Energy Calculation Online (NECO) System, which enables the automatic calculation of domestic cargo transport volume using distribution receipt data managed by our sales control system, bringing it on line in August 2008.

This system makes it possible not only to calculate our annual cargo transport volume and CO₂ emissions but to analyze transport routes for optimization, which also helps reduce our CO₂ emissions. In such ways, the Nagase Group is striving to reduce energy consumption in its logistics operations, thereby contributing to the prevention of global warming.

Beginning fiscal 2012, we have held regular Safety Patrols and Energy Conservation and Recycling Patrols in buildings owned by the Company. These patrols ensure safety in the workplace and promote energy savings awareness within the Company.

Environmental Policy

1. Comply with all environmental laws, regulations and other rules

- We will observe all environmental laws, municipal bylaws, environmental regulations and other rules as we conduct our business activities.

4. Establish and continually improve an environmental management system

- We will work to construct an environmental management system in order to fully achieve the objectives set out in this Policy. We will continuously make improvements to this system by setting concrete goals and working to fulfill them.

2. Develop businesses that give full consideration to environmental issues

- We will conduct our business activities in full awareness of the need to preserve the ecosystem and protect the environment, and we will make every possible effort to give full consideration to the environment within the limits of technological and economic feasibility.

5. Disclose and make the relevant parties fully aware of our Environmental Policy

- We will disclose the Policy to the public and make all who work for the Nagase Group fully aware of its contents.

3. Fulfill our responsibilities as a good corporate citizen

- As a good corporate citizen we will work together with public institutions, industry, and local communities to promote environmental conservation measures that are suitable for the Nagase Group.

Environmental Burden Reduction Activities

Together with efforts to reduce its environmental impact, NAGASE & CO., LTD., the core company of the Nagase Group, intends to “develop businesses that give full consideration to environmental issues” as one important element of its environmental policy. NAGASE contributes to reducing environmental burden through the discovery and development at Group manufacturing companies of environment-oriented products and materials that are vital to society.

In line with revisions made to the Act on the Rational Use of Energy, NAGASE has been designated as a “specified corporation” by the Bureau of Economy, Trade and Industry since its energy usage exceeds fixed levels. Consequently, since fiscal 2011, we have compiled data on the amount of energy consumed at every facility, formulated medium- and long-term energy reduction plans, and submitted regular reports to the Bureau of Economy, Trade and Industry.

In conjunction with upgrading the centralized monitoring equipment at the Nagase Tokyo head office, we have also adopted a building energy management system, which began full operations during fiscal 2013. We use automated controls and energy conversation operations during summer peak usage times to keep environmental settings within target levels. The building energy management system gives us more visibility in building operations, allowing us to publish electricity usage to company personnel in real time, helping employees understand the need for and status of our energy conservation.

Environmental Performance Data

Electricity Usage

	Fiscal 2011	Fiscal 2012	Fiscal 2013
Electricity Usage (kWh)	27,024,091	28,029,476	27,710,904

Waste, Recycling

	Fiscal 2011	Fiscal 2012	Fiscal 2013
Waste (t)	6,471	6,394	7,034
Recycling (t)	3,675	3,613	4,030
Recycling Ratio	36%	36%	36%

Participating Companies: NAGASE & Co., LTD., Nagase ChemteX Corporation, Nagase Application Workshop
 Period: April 2011 to March 2014
 *Paper Usage and CO₂ Output from Logistics Activities applicable to NAGASE & CO., LTD. only.

Activities Undertaken by Nagase ChemteX

Nagase ChemteX Corporation, a core manufacturing subsidiary of the Nagase Group, is promoting energy conservation activities by developing an energy-saving framework at all its facilities. Nagase ChemteX is also working to reduce greenhouse gases. To this end, Nagase ChemteX has undertaken the following key energy-conservation measures: formulated and monitored energy conservation targets at each department based on the efforts of all employees; established a system to improve energy conservation-related proposals; and improved capital investment activities undertaken by Energy Conservation Committee staff members.

Once again in fiscal 2013, the Kansai Electric Power Co. Inc. asked Nagase to cooperate with energy-saving measures during the hot summer months. In September, we signed a special peak-time adjustment contract to cut 10% of used electricity. We achieved that goal for all three months of the contract, earning a discount on electricity fees.

Our Fukuchiyama Plant No. 1 received subsidies to implement energy conservation measures, and the plant was recognized as a successful case of METI Kansai energy conservation subsidy activities. (Energy savings via high-efficiency boilers, inverter-equipped water cooling equipment, high-efficiency compressors)



CO₂ Output

	Fiscal 2011	Fiscal 2012	Fiscal 2013
CO ₂ Output (t-CO ₂)	14,720	19,079	20,822

Paper Usage

	Fiscal 2011	Fiscal 2012	Fiscal 2013
Paper Usage (sheets: 1,000)	7,877	7,951	7,720
Paper Usage (t)	33.6	34.0	33.0

CO₂ Output from Logistics Activities

	Fiscal 2011	Fiscal 2012	Fiscal 2013
CO ₂ Output (t-CO ₂)	1,565	1,746	1,831

Nagase Group Sustainability

Fair Business Practices

Risk Management and Compliance

Comprehensive Identification, Understanding and Control of Risks

The Company established the Risk Management & Compliance Committee to put in place a comprehensive structure for risk management as well as to monitor risk management and compliance as an advisory body to the Board of Directors. This Committee determines committee member functions and authority, creating a structure of clearly defined roles and responsibilities. Under the committee's leadership, department managers address risks in their particular areas by formulating rules and implementing training. The Company also works through the Risk Management & Compliance Committee to develop systems and departments responsible for additional risks that materialize and strives to lower the risks that could impact the Company's business.

In addition, the Risk Management & Compliance Committee formulates the basic compliance policy to develop and maintain the Company's compliance system and uses regular workshops and other initiatives to ensure that corporate activities are strictly in line with the Nagase Group Code of Conduct. Should employees of Nagase or its Group companies become aware of legal or other compliance issues, they report to the Risk Management & Compliance Committee, which immediately reports to the Audit & Supervisory Board. In addition, the Company has introduced an internal reporting system wherein employees and others can report or discuss issues directly. The Company revised the Nagase Group Code of Conduct in November 2012, distributing the document to all employees throughout the entire domestic and international Nagase organization.

Basic Compliance Policy

As a member of world society, the Nagase Group must maintain good and fair business practices and, through continued growth and development, provide society with the goods and services needed while improving the welfare of its employees. Based on this corporate philosophy, Nagase has adopted and will implement the following Basic Compliance Policy.

This policy defines the behavior standards that NAGASE and its officers and employees will observe as it carries out its various business activities.

1. Compliance with laws, regulations and internal rules and regulations

- Corporate activities will be conducted fairly and in good faith, in accordance with laws and rules, and without any deviation from social standards.
- Business activities will be conducted in accordance with the rules of the international community to ensure the continuing growth and development of Nagase as a global enterprise.

2. Elimination of anti-social elements

- Anti-social elements that threaten public order and safety will be met with firmness and resolutely eliminated.

3. Provision of goods and services that are useful to society

- NAGASE will contribute to society by supplying goods and services that are useful to society.

4. Respect for the qualities and individuality of employees

- NAGASE will respect the autonomy and creativity of every employee and foster a corporate culture in which those qualities can be applied to corporate activities.
- NAGASE will protect its employees' health, respect their human rights, treat them fairly and without discrimination, and secure and provide safe and enriching work environments.

5. Disclosure of information to stakeholders

- NAGASE will strive to ensure transparency by fairly and actively disclosing corporate information to stakeholders, including customers, suppliers, employees and shareholders.

6. Preserving the global environment

- NAGASE recognizes its responsibility to maintain the global environment in a better condition and will act in accordance with that responsibility.

1 Fair Business Practice Initiatives

1. Basic Approach

The risk of cartel enforcement, particularly surcharges, under the Antimonopoly Act can have a major impact on a business. Since cartel regulations can be an issue, particularly for manufacturing firms, the Nagase Group actively conducts education activities, mainly for our manufacturing companies.

Our sales companies (including NAGASE & CO.,LTD.), must be continually aware of the risks associated with violating sales agent regulations and subcontractor risks under the Antimonopoly Act. As such, we hold regular education activities through a variety of means to keep this risk in the forefront of the minds of our employees.

Moving forward, we will continue to educate our employees about laws related to fair business practices, particularly those directly affecting our business. During fiscal 2014, we intend to focus our education efforts on anti-bribery regulations.

2. Education Activities (2012 -)

September 2012

Company Training on Collusion, Cartels, and the Subcontract Act (NAGASE & CO.,LTD.)

Seminar regarding legal remedies and business-related risks in connection with the Antimonopoly Act and the Subcontract Act. Sales personnel (including managers and sales staff) required to attend. Seminars held at the Tokyo headquarters five times, and twice at the Osaka headquarters and Nagoya branch office.

October 2012

Company Training on the Antimonopoly Act (Totaku Industries)

Seminar on business-related risks in connection with the Antimonopoly Act for Totaku Industries employees and management (20 attendees).

January 2013

Company Training on the Subcontract Act (Hayashibara)

Seminar on business-related risks in connection with the Subcontract Act for purchasing and sales personnel, held twice in Okayama.

February 2013

Company Director Training on the Antimonopoly Act (NAGASE & CO.,LTD.)

Seminar on the Antimonopoly Act and related legal remedies, conducted for NAGASE & CO.,LTD. directors and employees (31 attendees) by Mr. Osanai, NAGASE in-house attorney.

July 2013

Company Training on the Antimonopoly Act and Subcontract Act (Nagase ChemteX)

Seminar on business-related risks in connection with the Antimonopoly Act and Subcontract Act, conducted once each at Harima and Fukuchiyama for a total of 71 attendees.

October 15 through 29, 2013; November 6 through 20, 2013

E-Learning on the Subcontract Act (NAGASE & CO.,LTD. Affiliated Companies)

Subcontract Act E-Learning training for all NAGASE employees and interested affiliated company employees. Final test, eight correct answers to questions required to complete the course. Of 987 NAGASE employees, 957 passed the course (97% pass rate). Of 465 affiliated company employees, 459 pass the course (98.7% pass rate).

November 2013

Company Training on the Antimonopoly Act (Hayashibara)

Seminar on business-related risks in connection with the Antimonopoly Act conducted for Hayashibara employees once each in Okayama and Tokyo. Reviewed topics covered during January 2013 seminar and discussed regulations related to sales agents (resale price maintenance, etc.).

2 Specific Measures Taken for Individual Risks: Product Safety and Quality Control

As the Nagase Group accelerates business globalization, the volume of off-shore transactions it engages in as well as exports to and imports from China and other rapidly growing countries is increasing. The Company's principal suppliers to date have been major chemical manufacturers in Europe and the United States, which differ from new suppliers in emerging countries in that transactions with the latter require that initiatives be put in place to ensure quality management and prevent the occurrence of other issues due to legal and regulatory differences between Japan and the countries in question. Therefore, Nagase recognizes the increasing importance of encouraging overseas suppliers to conduct sound quality management.

We have also worked on test programs to strengthen and expand Group-wide research, development, and manufacturing functions, recognizing the importance of continuing quality improvement for the Group as a whole.

Accordingly, pursuant to the Nagase Group Product Safety Principles, formulated in October 2008, the Company is promoting the formulation of Group-wide rules regarding quality management and product quality assurance while providing its employees with educational programs. Through these activities, we are working to ensure the safety of the products handled throughout the Group.

In tandem with its growth as a business engaged in manufacturing, Nagase will increasingly be called upon to assume responsibility for quality assurance. To assist in this area, the Company established the Quality Assurance Support Team within the Intellectual Property Office in December 2010. Quality Assurance Support manages vendors and contract manufacturers, supporting Group manufacturing companies, as well as providing internal education and other services for sales divisions.

Security Trade Controls

As a trading company specializing in technology and information and which also carries out export business activities, mainly of chemical products and precision equipment components, Nagase has set up its own Security Trade Control Regulations and established the Security Trade Control Committee to appropriately implement security trade control. Furthermore, the Company has established a department-level Security Trade Control Office within the Logistics Management Division to specialize in export controls and act as the Security Trade Control Committee's secretariat.

The Security Trade Control Committee meets once quarterly, while the Export Management Council meets on a monthly basis. At these meetings, the Security Trade Control Committee works to understand the export control situation, the latest revisions to the Foreign Exchange and Foreign Trade Control Law and to ascertain a detailed picture of export controls across the entire Group while formulating related Group policies.

The Export Management Council is in charge of directing and educating each business division and Group company in the matters and statute updates determined by the Security Trade Control Committee. It is the responsibility of the Export Management Council to protect the Company and affiliates against the risk of illegal acts with respect to export controls.

Specific Management Framework

At NAGASE, with regard to all products for export, the Compliance Program Procedural Administration System (CP-PAS) for goods and technology is employed to record data on export products and overseas customers. Furthermore, these activities are regulated by the Foreign Exchange and Foreign Trade Control Law and the United States' Export Administration Regulations (EAR), while the Sales Division and export control officers confirm whether or not permission to export is required. This system is designed to ensure that only those products approved by the Security Trade Control Office are available for export.

Moreover, going one step beyond mere adherence to the law, we define policies of the entire Nagase Group associated with security export controls that prohibit trade in products that are military-related items or that have military applications. We also make the Nagase Group fully aware of Group policies to prevent any exposure to security export control risks.

Efforts to Promote Personnel Development

Every year, the practical business of security trade controls becomes ever more complex. To keep pace with developments, the Nagase Group encourages its employees—primarily those involved in export operations—to become Security Trade Control (STC) Associates by taking the exam offered by the Center for Information on Security Trade Controls (CISTEC). As of March 2014, the Company had 666 qualified STC Associates in 20 Group companies. We continue to strive to foster personnel with a high level of knowledge and expertise.

Aiming to Raise Awareness of Security Trade Controls

At NAGASE, internal security trade control training is provided to all employees, and the Human Resources & General Affairs Division offers various training opportunities such as orientation for new employees, personnel training according to level, and the implementation of other activities that educate and instill knowledge. In addition, we hold lectures for domestic subsidiaries and affiliates as well as overseas-based subsidiaries, with the entire Group participating. During fiscal 2013, a total of 1,010 individuals participated in training lectures.

Regulatory Compliance in Products

Because of a rising awareness of safety and security in the international community, and against the backdrop of increasing concern with regard to chemical substances, including those that are used in finished products, Nagase continues in efforts to improve chemicals management and compliance with related laws, as well as to centralize information management. This strengthens the Company's internal logistics management systems for handling chemicals and managing products in compliance with relevant laws and regulations.

Framework for Compliance with Product Laws and Regulations

Every time Nagase begins handling a new product, it conducts stringent investigations into the chemical components involved and regulated effects in connection with related laws and regulations, while efficiently managing data compiled through such investigations using the above mentioned CP-PAS system. In this way, we are able to swiftly confirm which products contain regulated materials and ingredients, complying as appropriate to related regulations and providing our customers with the information they require to confirm compliance with revised laws in Japan and abroad. To meet our own and customers' green procurement requirements, we established Green Procurement Management Regulations, providing for the procurement/supply of appropriate goods after verification.

In addition, because we distribute information on the chemical substances contained in products along the supply chain, we endeavor to pass on accurate information by participating in the Joint Article Management Promotion-consortium (JAMP) and by using specialized tools for products containing chemical substances, such as MSDS Plus and AIS.

Strategic Approach to International Chemical Management (SAICM)

The action plan adopted at the 2002 World Summit on Sustainable Development—also known as the Johannesburg Summit—is aimed at ensuring that, by the year 2020, chemicals are produced and used in ways that minimize significant adverse impacts on the environment and human health. In accordance with this policy, the entire world is accelerating the tightening and standardization of regulations concerning chemical management. Consequently, each nation is witnessing dynamic changes in applicable laws and regulations.

Also, the Registration, Evaluation, Assessment of Chemicals (REACH) regulations took effect in Europe in 2007. Following this, from 2009, China, South Korea, Taiwan, Malaysia and other countries bolstered their respective regulatory systems relating to chemical management. In such an environment, as a company promoting business worldwide, Nagase is providing support to its overseas subsidiaries in responding to these legal and regulatory developments.

These legal and regulatory developments naturally affect the finished products in which Nagase products are used. Therefore, it is important for the Nagase Group to offer its customers relevant information, and the Company works to ensure an accurate understanding of worldwide legal and regulatory trends with regard to chemical management. At the same time, with the aim of establishing a system to facilitate the global management of information related to the chemical products and chemical substances used in our products, we are providing product management education and guidance to our overseas counterparts.

Consumer Issues

Food Materials

Basic Approach to Quality Management (Food Safety)

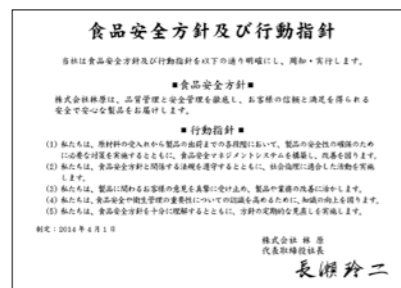
Our Hayashibara businesses products include food, pharmaceuticals, and cosmetics—products that are consumed or used on the human body. In recognition of the importance of product quality, Hayashibara has acquired FSSC22000 and ISO9001 international certification as part of our process to continue to improve product quality. We do not deal with quality issues in a passive manner to merely respond to regulatory requirements. We are actively engaged in a continual process of improvement, implementing measures that assure compliance with global standards. In this manner, we believe we will enjoy the acceptance of society and our end users. We also believe that this is the basis for surviving in today's competitive marketplaces.

Specific Quality Management Initiatives

On April 1, 2014, we launched the Quality Management Office, which reports directly to the president of the Company. This Office is charged with driving the continual improvement of our quality management systems, based on FSSC22000 and ISO9001. In preparation for this organizational change, we separated the quality assurance operations and quality management operations from manufacturing and sales functions, where they had been conducted on an individual basis within our manufacturing head office and the functional dyes business. Our ISO9001 program is now a Group-wide initiative, applicable to both manufacturing and non-manufacturing operations. We are conducting activities to raise the awareness of ISO9001 throughout the entire Group.



ISO9001



Cosmetics Materials

Basic Approach

We sell beauty care business department products mainly through a direct consumer sales organization, managed by Nagase Beauty Care. Because these products are cosmetics or health foods that come in direct contact with the human body, product manufacturing must adhere to the strictest quality control standards. Our highest priority is offering safe, secure products and services to our customers, both old and new.

Specific Initiatives

Our research and development pursues herb sciences and technology, selecting materials from a variety of plants, seeking out those that combine safety and functionality. The plant materials coming out of our research are used as the raw materials of end products, which are in turn subject to strict quality management systems in connection with the product creation process. At the same time, we are incorporating universal design for ease of use, ease of reading, and ease of understanding to respond to the shift in age demographics in our direct sales organization. We are working in close coordination with Nagase Beauty Care to provide customers with after-sales support (support office). This support office is staffed with experienced beauty instructors and professionals well-versed in customer support, working directly with customers. This new office has been invaluable in raising the quality of our products and services in response to customer feedback.



Nagase Beauty Care Customer Support

Community Involvement

Contribution to the Advancement of Science and Technology

NAGASE has a long history of technological development beyond chemicals. We have also been very active in technological and application development for enzymes and organic compounds used in the pharmaceuticals markets. We believe in the importance of fundamental research in the biochemistry and organic chemistry fields, and that offering subsidies through research and development and international exchange leads to the advancement of science and technology. As part of our contribution to societal progress, we

established the Nagase Science and Technology Foundation in 1989.

This organization has provided research subsidies to 412 researchers and projects to date, as well as 178 international exchange programs (international exchange support was suspended beginning March 2005). In total, we have provided ¥1.07 billion in funding.

Beginning with fiscal 2011, the Nagase Science and Technology Foundation was reorganized as a charitable organization, continuing to offer research subsidies as well as the Nagase Research Promotion Award.

Fiscal 2013 Subsidy Awards

Name	Present office	Position	Subject matter
Biochemistry			
Yoshiteru Aoi	Institute for Sustainable Science and Development, Hiroshima University	Assistant Professor	Awakening from dormancy by inter-species interactions - Cultivation of unculturable
Hiroshi Abe	Faculty of Pharmaceutical Sciences, Hokkaido University	Assistant Professor	Rolling circle translation of circular RNA
Kazunori Imaizumi	Graduate School of Biomedical & Health Sciences, Hiroshima University	Professor	Development of novel therapeutic strategies for cancers by regulation of endoplasmic reticulum stress response
Toshio Iwasaki	Department of Biochemistry and Molecular Biology, Nippon Medical School	Group Leader and Lecturer	Probing redox roles of bacterial mitoNEET homologs
Hiroshi Ueda	Chemical Resources Laboratory, Tokyo Institute of Technology	Professor	Development of manufacturing method for fluoroimmunoassay probes using native antibody
Satoshi Okabe	Faculty of Engineering, Hokkaido University	Professor	Cell density-dependent regulation of activity and niche differentiation of anaerobic ammonium oxidizing bacteria
Tatsuo Kurihara	Institute for Chemical Research, Kyoto University	Professor	Studies on the function of polyunsaturated fatty acids in the formation of higher-order structures of membrane proteins and their post-translational modification
Yukiko Goto	Graduate School of Pharmaceutical Sciences, The University of Tokyo	Professor	Differential control of interferon and apoptotic responses to viral infection
Hirohide Saito	The Hakubi Center for Advanced Research & Center for IPS Cell Research and Application (CIRA), Kyoto University	Associate Professor	Controlling cell fate by using synthetic RNA nanosystems
Susumu Mitsutake	Faculty of Agriculture, Saga University	Associate Professor	Regulation system of cells through the plasma membrane-lipid dynamics, and pathogenic mechanisms of related disease
Hisakazu Mihara	Graduate School of Bioscience and Biotechnology, Tokyo Institute of Technology	Professor	Development of cell-analyzing biochips
Nobuyuki Yoshida	Graduate School of Engineering, Shizuoka University	Associate Professor	Studies on low-energy type carbon dioxide fixation system in an extremely oligotrophic bacterium
Daisuke Watanabe	Graduate School of Biological Sciences, Nara Institute of Science and Technology	Assistant Professor	Analysis and application of organic acid stress responses via the ubiquitin system of the yeast <i>Saccharomyces cerevisiae</i>
Organic chemistry			
Masayuki Inoue	Graduate School of Pharmaceutical Sciences, The University of Tokyo	Professor	Development of new convergent strategy for total synthesis of complex natural products
Masami Kamigaito	Graduate School of Engineering, Nagoya University	Professor	Development of novel bio-based polymers via precision polymerization of pinocarvone derived from α -pinene
Ken Kamikawa	Graduate School of Science, Osaka Prefecture University	Associate Professor	Free construction of three dimensional chiral network based on asymmetric carbon-carbon bond formation by transition metal catalysis
Hiroyuki Kusama	Faculty of Science, Gakushuin University	Professor	Development of new methodologies for construction of heterocyclic compounds using photo-induced carbene formation
Koichi Fukase	Graduate School of Science, Osaka University	Professor	Development of selective inhibitors for fucosyl transferase 8 and its application to cancer immunotherapies
Takamitsu Hosoya	Institute of Biomaterials and Bioengineering, Tokyo Medical and Dental University	Professor	Azido-type selective reactions for innovative synthetic method of multifunctional molecular probes
Yoshihiro Matano	Faculty of Science, Niigata University	Professor	Novel π -expanded diazaporphyrin derivatives: synthesis and application to dye-sensitized solar cells

TABLE FOR TWO Initiative

In October 2008, Nagase Tokyo Head Office participated in the TABLE FOR TWO (TFT) program operated by the NPO organization TABLE FOR TWO International as part of its employee-participatory social contribution activities. The Osaka Head Office also took part in the TFT program in January 2009. TFT was launched to reduce the incidence of lifestyle-related diseases caused by overeating and obesity in advanced countries including Japan, while extending food assistance to developing countries where people suffer from the shortage of food.

Every time a TFT healthy meal—a meal that includes an ample portion of vegetables—is bought at our employee dining halls, the employee who makes the purchase and the Company each donate 10 yen to the TFT office. This buys one highly nutritious school meal for a child in

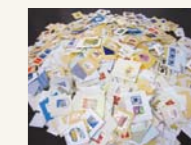


the developing world. The total number of meals donated was 76,491 as of February 2014.

As there is no employee dining hall in the Nagoya Branch, the facility participates in TFT activities via vending machines. Purchasing beverages at special vending machines results in a contribution of a percentage of the sale. The Osaka branch has also installed TFT vending machines, making more opportunities available for social contributions outside the employee dining hall.

Collecting Used Stamps and Prepaid Cards

All NAGASE locations have a place for collecting used stamps and prepaid cards. These items are regularly donated to the Japan Overseas Christian Medical Cooperative Service, which uses them to support overseas medical activities.



Six-Year Summary NAGASE & CO., LTD. and Consolidated Subsidiaries (Fiscal years ended March 31, 2009–2014)

	(Millions of yen)					Thousands of U.S. Dollars (Note 1)	
	2009	2010	2011	2012	2013	2014	2014
For the Fiscal Year:							
Net Sales	¥715,238	¥603,949	¥660,213	¥631,854	¥666,272	¥723,212	\$7,026,933
Domestic	394,874	360,382	389,379	366,369	361,971	372,939	3,623,581
Overseas	320,364	243,567	270,833	265,485	304,301	350,272	3,403,342
Gross Profit	71,527	65,415	73,008	71,628	82,583	88,936	864,127
Operating Income	12,522	13,128	18,732	13,427	15,578	15,789	153,410
Income before Income Taxes and Minority Interest	11,183	13,534	20,918	16,536	19,458	18,353	178,322
Net Income	5,808	7,537	12,823	8,570	14,182	11,663	113,321
As of the Fiscal Year-End:							
Total Assets	¥340,968	¥368,088	¥375,336	¥450,842	¥486,747	498,141	\$4,840,079
Net Assets	191,931	202,753	209,316	212,744	237,806	251,892	2,447,454
Interest-Bearing Debt	31,340	21,886	27,125	88,710	98,425	92,828	901,943
Share Price (Yen)	761	1,169	990	1,024	1,147	1,275	12.39
Market Value	105,328	161,799	137,024	141,730	158,754	176,470	1,714,632
Number of Shares Issued and Outstanding (Thousands of Shares)	138,408	138,408	138,408	138,408	138,408	138,408	—
Number of Shareholders	5,801	5,446	5,136	6,124	6,921	6,984	—
Number of Employees	4,506	4,469	4,693	5,545	5,897	5,960	—

	(Yen)					U.S. Dollars (Note 1)	
	2009	2010	2011	2012	2013	2014	2014
Per Share Data:							
Net Income	¥ 45.17	¥ 58.64	¥ 99.76	¥ 66.69	¥ 111.31	¥ 91.86	\$ 0.89
Net Assets	1,435.88	1,519.61	1,568.04	1,592.87	1,803.31	1,942.20	18.87
Cash Dividends	16.00	16.00	22.00	24.00	26.00	28.00	0.27
Ratios:							
Operating Margin (Operating Income / Net Sales) (%)	1.8	2.2	2.8	2.1	2.3	2.2	—
Ratio of Income before Income Taxes and Minority Interests to Net Sales (%)	1.6	2.2	3.2	2.6	2.9	2.5	—
Return on Sales (ROS) (%)	0.8	1.2	1.9	1.4	2.1	1.6	—
Total Assets Turnover (Times)	1.9	1.7	1.8	1.5	1.4	1.5	—
Return on Assets (ROA) (%)	1.5	2.1	3.4	2.1	3.0	2.4	—
Return on Equity (ROE) (%)	3.0	4.0	6.5	4.2	6.5	4.9	—
Shareholders' Equity Ratio (%)	54.1	53.1	53.7	45.4	46.9	49.5	—
Debt to Equity Ratio (Times)	0.17	0.11	0.13	0.43	0.43	0.38	—
Current Ratio (%)	197.3	195.3	200.2	155.4	184.4	187.2	—
Interest Coverage Ratio (Times) (Note 2)	13.5	23.2	35.4	21.26	15.46	15.80	—

Note: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥102.92=U.S. \$1.00, the approximate rate of exchange prevailing on March 31, 2014.

Note: 2. Interest coverage ratio is calculated as (operating profit + interest income + dividend income)/interest expense.

Management's Discussion and Analysis of Operations and Finances

Business Lines and Scope of Consolidation

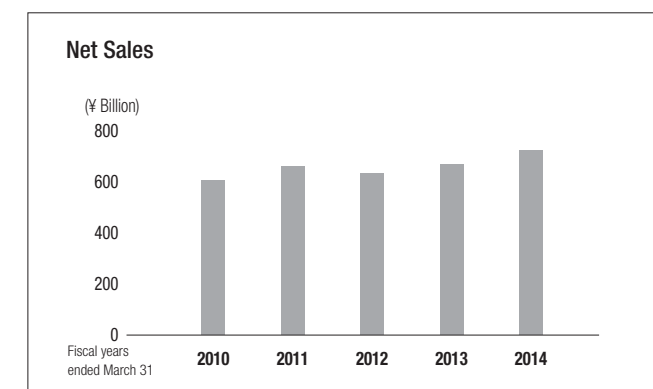
The Nagase Group imports and exports a diverse array of products and engages in domestic transactions, with NAGASE & CO., LTD. (the "Company" or "NAGASE") at its center. In addition, the Nagase Group manufactures and sells products and provides services. These businesses are conducted by 100 related companies, consisting of 72 subsidiaries and 28 affiliates. The scope of consolidation includes 60 subsidiaries as well as 25 affiliates, which are accounted for by the equity method.

Overview of Results

Net Sales

During the period under review, Japanese government and central bank economic policies continued to drive the yen lower and stock prices higher. At the same time, the economy experienced signs of a moderate recovery, with improvement in both capital investment and personal consumption. Globally, the economies of the United States and Europe also showed signs of gradual improvement. At the same time, China (which showed signs of economic decline) and the rest of the world's emerging economies experienced slowing growth.

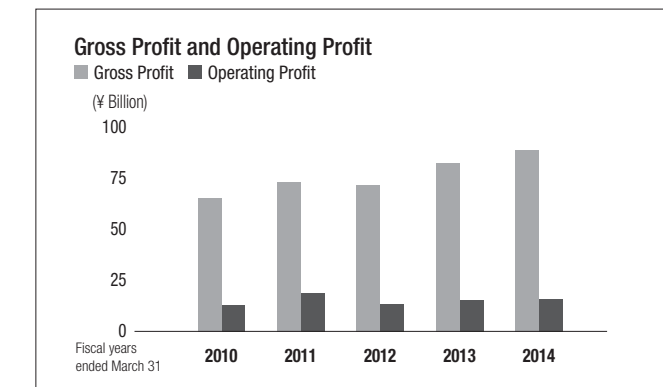
In this environment, the Company recorded domestic sales of ¥372.93 billion (3.0% year-on-year increase) and overseas sales of ¥350.27 billion (15.1% increase), resulting in total net sales of ¥723.21 billion, representing an 8.5% increase year on year.



Gross Profit and Net Income

Strong performance in the automobile-related business and office equipment and appliances business and higher net sales in film used in LCDs led to gross profit of ¥88.93 billion (7.7% year-on-year increase). As a result, our gross profit ratio decreased 0.1 points to 12.3%.

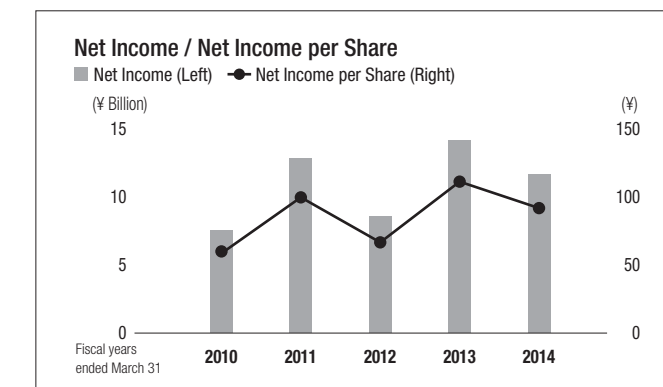
Operating profit amounted to ¥15.78 billion (1.4% increase), due in part to an increase in retirement benefit costs related to amortization of actuarial differences in retirement benefit obligations. The Group's operating margin decreased 0.1 points compared to the prior fiscal year, amounting to 2.2%.



The Company recorded ordinary income in the amount of ¥17.9 billion (0.1% year-on-year decrease), reflecting increased foreign exchange gains offset by a decrease in gain on investment in equity method affiliates. Net sales Ordinary Income ratio decreased 0.2% compared to the prior fiscal year, amounting to 2.5%.

Net income before income taxes and minority interest amounted to ¥18.35 billion, which was a 5.7% year-on-year decrease. Net sales Ratio of Income before Income Taxes and Minority Interests to Net Sales decreased 0.4 points to 2.5%.

As a result, the Group recorded net income of ¥11.66 billion, a 17.8% year-on-year decrease. Return on sales (ROS) decreased 0.5 points to 1.6%. Net income per share fell from ¥111.31 in the prior fiscal year to ¥91.86 for the year under review.



Results by Business Segment

Functional Materials		
Fiscal years ended March 31	(¥ Million)	
	2013	2014
Net Sales	167,017	169,973
Segment Profit	4,368	4,328
Segment Assets	76,779	75,491
Depreciation and Amortization	418	407
Amortization of Goodwill	—	—
Goodwill	—	—
Investments in Equity Affiliates	1,781	1,850
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	612	399

Functional Materials saw overall gains in net sales. Net sales fell in Southeast Asia, while net sales in Japan and Northeast Asia performed well.

The performance chemicals business recorded higher overall net sales compared to the prior fiscal year. While sales of basic chemicals in Southeast Asia and additives for the Middle East struggled, production recoveries among Japanese automobile manufacturers in China and strong demand for housing-related services in Japan drove performance growth in urethane materials and coating raw materials revenues.

In our specialty chemicals business, the group recorded lower comparative net sales. Despite solid results related to special epoxy resin exports, sales of raw materials for fluorochemical materials and electronics materials were weak.

As a result, net sales for the Functional Materials segment amounted to ¥169.97 billion, which was a ¥2.95 billion (1.8%) increase year on year. Operating profit for the segment came in at ¥4.32 billion, representing a ¥30 million (0.9%) year-on-year decline. This was due to increased gross profit in Japan and Northeast Asia offset by decreased gross profit of manufacturing subsidiaries.

Advanced Materials & Processing		
Fiscal years ended March 31	(¥ Million)	
	2013	2014
Net Sales	214,214	239,224
Segment Profit	3,171	3,707
Segment Assets	108,713	119,202
Depreciation and Amortization	553	647
Amortization of Goodwill	—	—
Goodwill	—	—
Investments in Equity Affiliates	1,545	2,245
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	863	862

Advanced Materials & Processing reported higher overall net sales for the period, driven by higher performance in Japan, Northeast Asia, Southeast Asia, Europe, and the United States.

The colors and imaging business experienced overall year-on-year growth for the year, with strong gains in sales of dyes/additives business and information printing materials.

Our office equipment and appliance business reported higher net sales on the whole. This result stems mainly from increased plastics sales in Japan, as well as

in Northeast Asia and Southeast Asia.

Our business focusing on functional films and sheets and plastic molding products showed lower net sales overall, caused mainly by lower year-on-year performance in anti-reflective materials for LCD TVs and anti-reflective sheets for game devices, more than offsetting gains in sales of synthetic resins.

As a result, net sales for the Advanced Materials & Processing segment amounted to ¥239.22 billion, which was a ¥25 billion (11.7%) increase year on year. Operating profit increased ¥530 million (16.9%), reaching ¥3.7 billion, mainly due to higher gross profit from revenue gains and better profitability among manufacturing subsidiaries that operate in the colors and imaging business.

Electronics		
Fiscal years ended March 31	(¥ Million)	
	2013	2014
Net Sales	125,014	137,026
Segment Profit	6,421	6,067
Segment Assets	65,453	69,824
Depreciation and Amortization	1,508	2,323
Amortization of Goodwill	96	169
Goodwill	2,046	2,617
Investments in Equity Affiliates	56	75
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	2,788	2,015

The Electronics segment reported higher overall revenues, driven by growth in Japan, Northeast Asia, and Southeast Asia, which all outperformed lower results in the United States and Europe.

The electronic chemicals business experienced overall sales gains year. While formulated epoxy resin for the semiconductor industry showed lower net sales, the decrease was more than offset by higher sales in chemicals used in the manufacture of LCD panels.

Net sales in our electronic materials business were level with the prior fiscal year. Sales in film for LCDs were strong, while touch-panel materials experienced gains as well. However, these gains were offset by declines in the sales of LED-related materials.

As a result, we recorded total net sales of ¥137.02 billion in this segment, representing a ¥12.01 billion (9.6%) increase year on year. Operating profit amounted to ¥6.06 billion—a ¥350 million (5.5%) decrease compared to the prior consolidated fiscal year, mainly due to weak performance in thin-glass processing revenues in Northeast Asia that offset gross profit gains owing to higher touch panel materials sales.

Automotive & Energy		
Fiscal years ended March 31	(¥ Million)	
	2013	2014
Net Sales	83,068	99,441
Segment Profit	763	1,381
Segment Assets	37,387	40,792
Depreciation and Amortization	250	262
Amortization of Goodwill	—	—
Goodwill	—	—
Investments in Equity Affiliates	1,613	1,777
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	92	369

Automotive & Energy saw overall gains in net sales, with solid gains in automotive-related business revenues in Northeast Asia, the United States, Europe, and Japan, as well as growth in battery-related materials revenues.

Our automobile-related business recorded overall net sales improvements compared to the prior fiscal year. This result was mainly due to improved revenues from light/small automobiles in Japan, as well as significantly higher revenues related to resin sales to Japanese car manufacturers in China. The Company also recorded improved sales of products and services to North America.

In our energy business, higher year-on-year performance in solar power related products and products for lithium ion batteries lifted net sales higher for the business as a whole.

As a result, segment net sales for the fiscal year amounted to ¥99.44 billion, representing a ¥16.37 billion (19.7%) increase year on year. Operating profit increase ¥610 million (80.9%) compared to the prior fiscal year, reaching ¥1.38 billion for the segment.

Life & Healthcare		
Fiscal years ended March 31	(¥ Million)	
	2013	2014
Net Sales	76,116	76,810
Segment Profit	4,093	4,000
Segment Assets	95,735	96,205
Depreciation and Amortization	2,025	2,993
Amortization of Goodwill	1,516	1,516
Goodwill	28,679	27,163
Investments in Equity Affiliates	1,856	2,070
Increase in Property, Plant, and Equipment and Intangible Fixed Assets	3,028	4,488

The Company's Life & Healthcare business experienced higher net sales as a whole, driving mainly by sales of functional saccharides to the food industry in Japan and overseas and revenues from sales of cosmetics and health foods in Japan.

Sales of trehalose and other functional saccharides to the food materials industry in Japan and overseas drove strong performance and higher revenues. Despite a contraction in Japan's whitening cosmetics market, the Company recorded year-on-year gains in sales of raw materials to the toiletries market in the skin care and toiletries business. However, sales of pharmaceutical raw materials, intermediates and reagents in the pharmaceuticals and medical fields were level with the prior year.

Our beauty care products business includes sales of cosmetics and health foods. Sales for this business grew overall, owing to strong performance of new products in whitening cosmetics and health foods, as well as increased purchasing demand in advance of Japan's increase in consumption tax rates.

As a result, segment net sales amounted to ¥76.81 billion for the fiscal year, which was a ¥690 million (0.9%) increase year on year. Operating profit fell to ¥4.0 billion, ¥90 million (2.3%) lower than the prior fiscal year. This decrease was mainly due to higher general and administrative expenses.

Other

The Other business segment saw lower revenues and lower profits for the fiscal period under review. Net sales amounted to ¥0.73 billion (¥0.1 billion decrease;

12.4%), while operating profit showed a ¥0.05 billion year-on-year decrease (18.9%) to ¥0.21 billion.

Financial Condition

(Summary of Consolidated Cash Flows)

Cash and cash equivalents at the end of the year decreased by ¥11.99 billion (26.2%) compared to the prior fiscal year, amounting to ¥33.82 billion.

■ Cash Flows from Operating Activities

Cash flows from operating activities amounted to ¥12.72 billion for the fiscal year under review. This increase was mainly due to net income before income taxes and minority interests of ¥18.35 billion, offsetting ¥6.31 billion in income tax payments. In addition, the Company recorded ¥8.63 billion in depreciation and amortization, which has no effect on cash flows

■ Cash Flows from Investing Activities

Cash used in investing activities amounted to ¥14.17 billion for the fiscal year under review. This was mainly due to payments of ¥11.8 billion for the acquisition of tangible and intangible fixed assets and ¥3.36 billion in purchases of investment securities, offsetting ¥1.83 billion in cash from the sale of investment securities.

■ Cash flows from Financing Activities

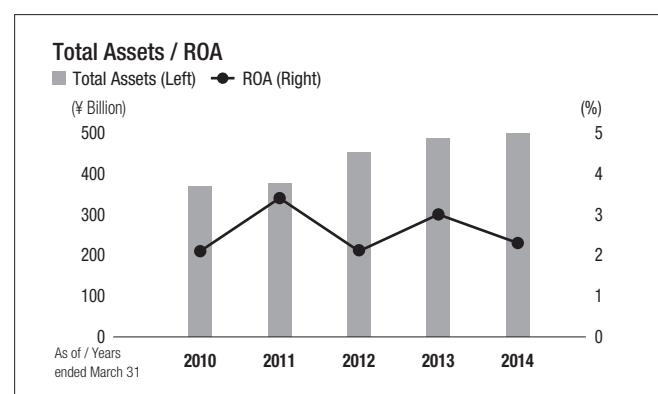
Cash used in financing activities amounted to ¥11.83 billion for the fiscal year under review. This result was mainly due to cash outlays of ¥10.48 billion in repayments of long-term debt and ¥3.42 billion in cash dividends paid.

Cash Flow Summary					
Fiscal years ended March 31	(¥ Million)				
	2010	2011	2012	2013	2014
Cash Flows from Operating Activities	27,875	10,997	5,690	18,576	12,721
Cash Flows from Investing Activities	(9,438)	(9,147)	(81,066)	(9,529)	(14,171)
Cash flows from Financing Activities	(11,753)	3,564	56,961	1,164	(11,833)

Summary of Consolidated Balance Sheets

■ Assets

Total assets at the end of the fiscal year amounted to ¥498.14 billion, which was an increase of ¥11.39 billion compared to the end of the prior fiscal year. Current assets amounted to ¥306.36 billion. This represents an increase of ¥610 million compared to the end of the prior consolidated fiscal year. This increase was mainly due to a decrease in cash and time deposits associated with repayments of loans, offset by increases in accounts receivable and inventories. Non-current assets increased ¥10.78 billion compared to the end of the prior fiscal year, reaching ¥191.77 billion. This increase was mainly due to gains in investments in securities, due to market price improvements.



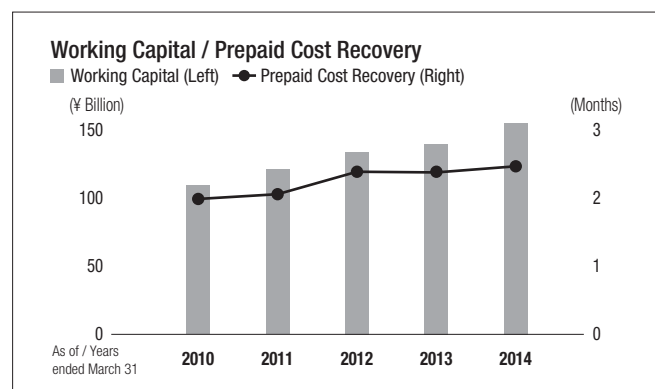
■ Liabilities

The Company recorded liabilities in the amount of ¥246.24 billion, representing a ¥2.69 billion decrease compared to the end of the prior fiscal year. This decrease was mainly due to decreased accounts payable and loans outpacing the increase in deferred tax liabilities due to unrealized holding gains on securities.

Current liabilities decreased by ¥2.16 billion, amounting to ¥163.64 billion at the end of the year. This increase was mainly due to decreases in trade payables and current portion of long-term debt.

Long-term liabilities amounted to ¥82.6 billion, representing a ¥520 million decline compared to the end of the prior fiscal year. While deferred tax liabilities and net defined benefit liabilities increased year-on-year, the company was able to pay down long-term debt.

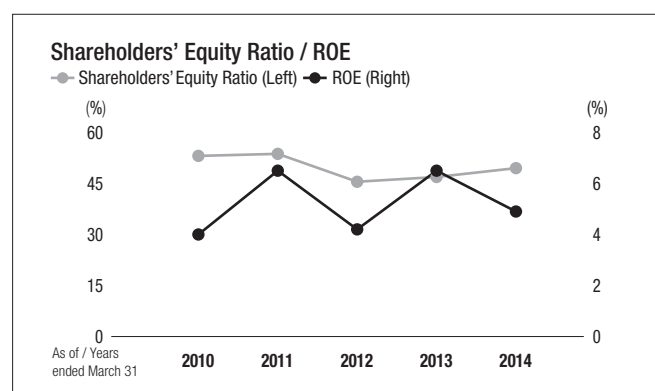
As a result, working capital rose from ¥139.92 billion at the beginning of the year to ¥155.44 billion at the end of the year. Prepaid cost recovery fell by 0.09 months. Current ratio improved 2.8 points, compared to last year's 184.4%, rising to 187.2%.



■ Net Assets

Net assets amounted to ¥251.89 billion at the end of the fiscal year under review, representing an increase of ¥14.08 billion compared to the end of the prior year. This increase was mainly due to net income of ¥11.66 billion, an increase in unrealized holding gain on securities, and improvements in foreign currency translation adjustments.

As a result, the Company experienced a 2.6-point increase in shareholders' equity ratio, up to 49.5% as of the end of the fiscal year under review.



Capital Investment

Capital investment (including intangible fixed assets) during the fiscal period under review amounted to ¥11.11 billion, mainly stemming from investments in domestic manufacturing subsidiaries.

Functional Materials-related capital investment amounted to ¥390 million, used for improvements and upgrades at Group manufacturing subsidiaries.

The Group added another ¥860 million in capital investment to acquire equipment for improving manufacturing processes related to advanced materials and processing at manufacturing subsidiaries.

Electronics-related capital investment amounted to ¥2.01 billion for LCD panel processing equipment at manufacturing subsidiaries.

Energy-related capital investment amounted to ¥360 million related to purchasing dies at another party and manufacturing subsidiaries.

In the Life & Healthcare business, the Group committed ¥4.48 billion in capital funds to build new functional saccharide product manufacturing lines.

The Group also invested ¥2.92 billion to acquire multi-use training facilities from another party.

In the Other segment, the Group invested ¥0.04 billion.

Cash on hand and capital acquired from outside sources were used as funding for these capital investments.

Research Costs

To leverage the total capacity of the Group and create new business opportunities, the Nagase Group engages in research activities designed for marketing driven development of new technologies and products, as well as to gather and share technological information.

The Nagase R&D Center is engaged in research designed to create new high-value-added bio businesses. During the current fiscal year, we have started to narrow the focus of our research to bio-related technology, developing a system to produce unique technologies and technological applications.

More specifically, we plan to further develop our strong genetic engineering and bioinformatics technologies to rapidly commercialize useful non-petroleum-dependent compound production from our unique actinomycete technologies researched to date. At the same time, we will work with universities and other outside research institutions, particularly in metabolic engineering, maximizing the use of those research resources, while at the same time strengthening adoption of leading edge technologies. Further, we plan to transfer the process development for pharmaceuticals and medical intermediates utilizing organic synthesis technologies, development of enzymes and enzyme products using microbe-based technologies conducted by the Nagase R&D Center to our major manufacturing subsidiary Nagase ChemteX Corporation in order to speed up the launch of new products. We have forged deeper ties with the Hayashibara R&D Center to drive synergies in our business. We are presently applying for numerous patents to add to our catalog of intellectual property. These patents concern inventions related to manufacturing methods for new biochemical production, chiral synthesis technologies for manufacturing non-natural amino acids, new enzyme development (research, manufacturing, application), and applications to cosmetics and health foods incorporating natural extracts. Our customers and the markets are recognizing our ability to engage in technological development through new product launches based on patented technologies. In this way, we demonstrate the Nagase R&D Center mission to develop basic biotechnologies that guide the Group's existing businesses and new products and services based on biotechnology.

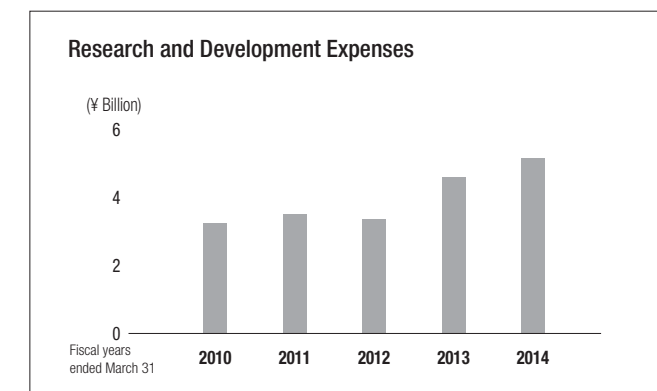
The Nagase Application Workshop (NAW) is home to expert technical staff, processing facilities, and assessment equipment related to plastics and coating materials. The Nagase Group sales network brings in many different suggestions for development and technical support services related to information devices, autos, cosmetics containers, and more from their interaction with customers and vendors. The NAW looks closely at each idea, working to solve customer needs through technical development.

Nagase ChemteX Corporation focuses on electronics, life science, automotive, and environment/energy fields. ChemteX staff, in a cross-organization research and development division, and product development departments in each Group business work together to develop new products, leveraging proprietary Nagase synthesis, compounding, and bio-technologies, as well as assessment technologies—all developed over many years of technological experience. In particular, Nagase ChemteX is actively engaged in development for solar cells, hybrid vehicles, wind power, bio-materials and other environment/energy-related fields, producing high-function, high-value-added products and solutions designed to meet

market demands for lighter weight, enhanced durability, and recyclability.

Hayashibara conducts research and development into functional saccharides and functional dyes. The functional saccharides business consists of screening for microbes leading to the discovery and analysis of new enzyme-producing bacteria and research and development into unique functional saccharides produced from these enzyme-producing bacteria. The Nagase Group functional saccharides have applications and usages in a wide variety of fields, from foods to cosmetics and perfumes, pharmaceuticals, health, agriculture, and industry. On top of our long history of technological development, we continue to explore and adopt new methods. This work has resulted in products such as TREHA™, AA2G™, and a new generation of powerful functional saccharide products. We continue to pursue research and development programs that create new products and applications, from basic research to applied research, from application development to patents, all linked in a cohesive intellectual property strategy. In functional dyes business, we are making use of the extensive Hayashibara functional dyes library, pursuing development to offer products and new applications in photo and printing plate and other commercial fields, as well as in Life Sciences fields such as pharmaceuticals.

The Group incurred a total of ¥5.16 billion in consolidated research costs for the fiscal year under review.



Outlook for the Year Ending March 31, 2015

As for the business environment for the fiscal year ending March 2015, we forecast the business conditions will continue to improve gradually over the next fiscal year, despite negative factors such as the demand in Japan early in the year to make purchased prior to the increase in the consumption tax which will likely lead to lower purchases of automobiles and fewer housing starts. Meanwhile, stability in North America and Southeast Asia contrast with slower growth and financial problems in China. Europe is showing signs of recovering from its fiscal crisis, but concerns remain as to how conditions in Ukraine will affect the regional economy.

In light of these conditions, we have set expectations for earnings at ¥783.0 billion in consolidated net sales (8.3% year-on-year growth), with gross profit at ¥94.7 billion (6.5% increase). At the same time we predict higher net sales and gross profit, we also expect lower retirement benefit costs associated with amortizing actuarial differences in retirement benefit obligations. Accordingly, we have set our projections for operating profit as ¥19 billion (20.3% year-on-year gain),

with ordinary income projected to be ¥21.5 billion (20.1% increase), and net income to come in at ¥14.2 billion (21.8% increase).

The figures above have been calculated using a currency conversion rate of ¥103 to the US dollar.

(Announced on May 9, 2014)

Year ending March 31, 2015 (Projected)	Net Sales	Operating Profit	Ordinary Income	Net Income (¥ Million)
Year ending March 31, 2015 (Projected)	783,000	19,000	21,500	14,200
Year ended March 31, 2014 (Actual)	723,212	15,789	17,905	11,663
Change	+8.3%	+20.3%	+20.1%	+21.8%

Profit Sharing Policy

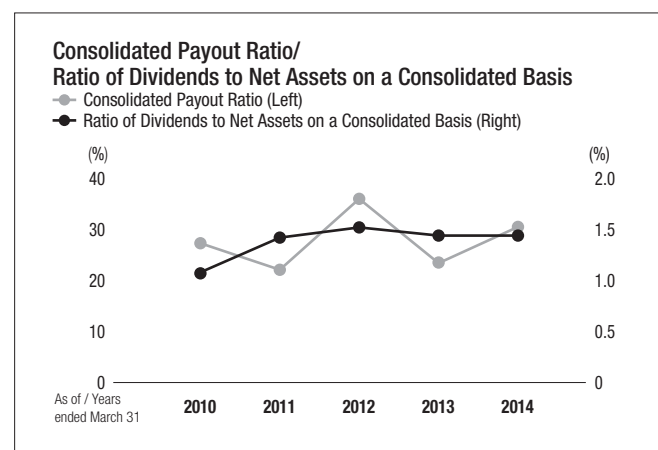
■ Dividend Policy

Our basic policy is to continue paying a stable dividend to our shareholders in line with our consolidated results as we improve our earnings power and management structure. We look to improve per-share dividends based on considerations of consolidated payout ratio and consolidated dividend to equity ratio. We also plan to use funds from internal reserves effectively in our business activities and to build a stronger management foundation.

In addition, the Company has determined in its articles of incorporation allowances or interim dividend payments according to the provisions of article 454 paragraph 5 of the Companies Act. Accordingly, the Company's board of directors has resolved to adopt a dividend policy calling for two dividend payments every year, one at interim subject to board of director resolution and one at the end of the fiscal year, subject to approval by the general meeting of shareholders.

The Nagase Group declared a year-end dividend of ¥14.00 per share based on this policy, resulting in a scheduled full-year cash dividend of ¥28.00 per share. The consolidated payout ratio increased to 30.5% from 23.4% for the previous fiscal year.

We forecast a full-year dividend of ¥30.00 per share for the next fiscal year, consisting of a ¥15.00 per share interim dividend and a ¥15.00 per share year-end dividend.



Statements made in this document with respect to the Nagase Group's performance outlook contain forward-looking statements based on assumptions, projections and plans of the Company as of May 9, 2014. Forecasts in connection with the Group's future performance are subject to a variety of risks and uncertainties including those outlined as follows. As a result, readers are advised that actual results may differ from projections.

■ Operating and Other Risks

The Nagase Group is engaged in trading, marketing, research and development, manufacturing and processing in six business segments across the world: Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy, Life & Healthcare, and Other. The nature of these businesses entails various risks that may have a material effect on investment decisions. We provide a discussion of the major risks below

Any forward-looking statements are based on management decisions as of the end of fiscal year under review

(1) Overall Operating Risk

The Nagase Group is engaged in activities that rely on the use of chemicals across a wide spectrum of products and services through our Functional Materials, Advanced Materials & Processing, Electronics, Automotive & Energy and Life & Healthcare business. These products and services include dyes/pigments, coating materials/inks, surfactants, OA, electrical equipment, home electronics, automobiles, LCDs, semiconductors, and pharmaceutical/medical applications. Accordingly, significant changes in domestic and international commercial chemicals industry could affect the Nagase Group's earnings and financial condition

(2) Product Market Conditions

The Nagase Group relies heavily on petrochemicals manufactured from naphtha in our Functional Materials, Advanced Materials & Processing, and Automotive & Energy segments. Raw materials markets and demand-supply balance are two factors that result in unique market circumstances for each of our products. Fluctuations in these factors could affect our revenues and profits in related product lines.

Some products manufactured by the Group use raw materials derived from grains. Raw materials costs fluctuate widely due to changes in grain market prices; we may not be able to pass on increased raw materials costs through higher sales prices, which could affect our profits in related product lined

(3) Impact of Fluctuations in Foreign Currency Exchange Rates

The Nagase Group conducts import/export as well as non-trade business transactions denominated in foreign currencies. Fluctuations in currency markets have a significant impact when prices are converted to yen. While the Group executes exchange contract hedges for these transactions to minimize exchange rate risk to the greatest extent possible, currency exchange rate fluctuations could have a significant impact on Group earnings and financial conditions. The Nagase Group owns foreign-domiciled corporations whose financial statements are prepared using local currencies. The conversion of these currencies to Japanese yen for consolidated reporting purposes entails currency conversion risk due to fluctuating exchange rates.

(4) Impact of Fluctuations in Interest Rates

The Nagase Group obtains funds for operating and financing activities through loans from financial institutions; some of these loans are interest-bearing debt including variable interest terms. The Group reduces interest rate fluctuation risk related to variable interest loans by utilizing interest-rate swap contracts. Group earnings and financial conditions may be affected by future interest rate trends.

(5) Risks Involved in Operating Overseas

A significant and increasing percentage of Nagase Group sales and manufacturing are conducted overseas in locations such as China, Southeast Asia, Europe, and the United States. While Group management keeps a close eye on local trends and conditions in order to respond appropriately, unforeseen events stemming from local government regulations, business customs, or other influences could have a significant impact on Group business performance and financial conditions.

(6) Impact of Changes in Stock Prices

The Nagase Group maintains a portfolio of marketable securities, primarily equity shares of companies doing business with the Group. These equity investments are subject to share price fluctuation risks. As a matter of policy, the Nagase Group reduces risk by continuously reviewing and reorganizing its shareholdings. However, changes in share prices could impact Group earnings and financial condition. A decline in share prices could damage the value of pension plan assets managed by the Group, increasing retirement benefit costs and thereby reducing Group profits.

(7) Counterparty Credit Risk

The Nagase Group extends credit to domestic and overseas purchasers in connection with various transactions. As a matter of policy, the Nagase Group reduces credit risk by obtaining guarantees and collateral according to the financial condition of the purchaser. Although the Nagase Group strives to ensure stable, uninterrupted product procurement, financial weakness or bankruptcies among suppliers or others could damage the Group's ability to procure goods. Such circumstances could have a significant impact on the Group's earnings and financial condition.

(8) Risk of Investments

The Nagase Group business is based on brokered transactions. At the same time, the Group continues to look for new high-value business opportunities. Accordingly, we support the Nagase R&D Center and domestic manufacturing subsidiaries in their pursuit of new business through proactive investment and strategic mergers and acquisitions, using advanced technologies and information-gathering capabilities as leverage. As a result of pursuing new business, the Group will be exposed to greater risk than were we to follow a conventional brokered business model. The book value of business assets and intangible fixed assets (goodwill, etc.) when acquiring other companies becomes an important management topic. If future cash flows from new businesses underperform projections, and the Group records correlating impairment losses, such losses may have a significant impact on Group earnings and financial condition.

(9) Product Quality Risk

The Nagase Group operates the Nagase R&D Center and domestic manufacturing subsidiaries to offer high-value-added products to our customers. We pay detailed attention to the quality of the technologies and products that bear the name of Nagase and our affiliates. We also bear manufacturers' liability for products that we handle as an importer, and accordingly treat these products with the same attention to detail and quality as if they were made in our own facilities. However, product defects could result in cessation of sales and/or product recalls, exposing the Nagase Group to liability for damages, which could have a significant impact on Group earnings and financial conditions.

(10) Risks related to Product Laws

The Nagase Group imports, exports, and sells domestically a wide variety of chemicals and other products for a broad range of uses. To maintain international peace and safety, the chemicals and other items we export are subject to different laws, including the Foreign Exchange and Foreign Trade Control Law and the Export Trade Control Order. Imports and domestic sales are subject to the Chemical Substances Control Law and other related statutes, as well as similar regulations in foreign jurisdictions. To ensure compliance, the Group has established internal Security Trade Control Regulations and Chemical/Product Control Regulations. However, a violation of such laws and statutes could result in restrictions on Group business activities, having a significant impact on Group earnings and financial condition.

(11) Risk of Natural Disasters

The Nagase Group has put emergency response systems in place, including the creation of a business contingency plan, the adoption of safety confirmation systems, the creation of a disaster-response manual, earthquake-response measures, disaster-response training, and other measures to deal with natural disasters. However, as we conduct business across a great number of countries and regions, we are exposed to the risk of major natural disasters, H1N1 influenza and other communicable diseases, and other emergencies that could disrupt our supply chain. Such disruptions could prevent us from selling our products or damage the manufacturing capabilities of important Group facilities. Such interruptions would result in opportunity loss, and could have a significant impact on Group earnings and financial condition.

Consolidated Balance Sheets

Nagase & Co., Ltd. and Consolidated Subsidiaries (March 31, 2014 and 2013)

ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current assets:			
Cash and time deposits (Notes 15 and 21)	¥ 34,980	¥ 46,693	\$ 339,876
Notes and accounts receivable (Notes 15 and 24)	202,996	196,001	1,972,367
Inventories (Note 5)	57,460	51,863	558,298
Deferred tax assets (Note 11)	4,537	4,282	44,083
Other current assets	7,324	7,967	71,162
Less allowance for doubtful accounts	(936)	(1,057)	(9,094)
Total current assets	306,362	305,751	2,976,700
Property, plant and equipment, at cost (Note 6):			
Land	19,171	19,441	186,271
Buildings and structures	51,526	50,057	500,641
Machinery, equipment and vehicles	79,542	77,351	772,853
Leased assets	532	537	5,169
Construction in progress	4,247	1,833	41,265
	155,019	149,221	1,506,209
Less accumulated depreciation	(91,104)	(88,254)	(885,192)
Property, plant and equipment, net (Note 22)	63,914	60,967	621,007
Investments and other assets:			
Investments in securities (Notes 7 and 15):			
Unconsolidated subsidiaries and affiliates (Note 22)	7,549	7,770	73,348
Other	58,725	49,099	570,589
	66,275	56,870	643,947
Long-term loans receivable	1,168	837	11,349
Goodwill (Note 22)	29,780	30,726	289,351
Technology-based assets	18,517	20,093	179,916
Asset for retirement benefits (Note 10)	113	—	1,098
Deferred tax assets (Note 11)	2,702	2,249	26,253
Other assets (Note 6)	9,525	9,542	92,548
Less allowance for doubtful accounts	(218)	(289)	(2,118)
Total investments and other assets	127,863	120,029	1,242,353
Total assets (Note 22)	¥498,141	¥486,747	\$4,840,080

See accompanying notes to consolidated financial statements.

LIABILITIES AND NET ASSETS	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Current liabilities:			
Notes and accounts payable (Notes 15 and 24)	¥105,014	¥107,941	\$1,020,346
Short-term loans (Notes 8 and 15)	28,818	25,061	280,004
Current portion of long-term loans and finance lease obligations (Notes 8 and 15)	6,642	10,473	64,536
Accrued income taxes (Note 11)	3,720	2,947	36,145
Deferred tax liabilities (Note 11)	24	21	233
Accrued expenses	3,493	3,538	33,939
Accrued bonuses for employees	4,045	3,968	39,302
Accrued bonuses for directors	232	219	2,254
Other current liabilities	11,655	11,641	113,243
Total current liabilities	163,646	165,812	1,590,031
Long-term liabilities:			
Bonds (Notes 8 and 15)	30,000	30,000	291,489
Long-term loans and finance lease obligations (Notes 8 and 15)	27,367	32,890	265,906
Deferred tax liabilities (Note 11)	12,506	9,251	121,512
Accrued retirement benefits for employees (Note 10)	—	10,283	—
Liability for retirement benefits (Note 10)	11,875	—	115,381
Other long-term liabilities	853	703	8,288
Total long-term liabilities	82,603	83,129	802,594
Contingent liabilities (Note 19)			
Net assets:			
Shareholders' equity (Note 12):			
Common stock:			
Authorized—346,980,000 shares			
Issued—138,408,285 shares in 2014 and 2013	9,699	9,699	94,238
Capital surplus	10,242	10,041	99,514
Retained earnings (Note 25)	206,351	199,160	2,004,965
Less treasury stock, at cost (Note 13)			
—11,375,631 shares in 2014 and 11,693,809 shares in 2013	(6,916)	(7,109)	(67,198)
Total shareholders' equity	219,377	211,792	2,131,529
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities (Note 7)	24,725	17,943	240,235
Deferred loss on hedges (Note 15(c))	(0)	(6)	(0)
Retirement benefit liability adjustments	380	—	3,692
Translation adjustments	2,239	(1,223)	21,755
Total accumulated other comprehensive income	27,346	16,712	265,702
Stock acquisition rights	—	50	—
Minority interests	5,168	9,250	50,214
Total net assets	251,892	237,806	2,447,454
Total liabilities and net assets	¥498,141	¥486,747	\$4,840,080

Consolidated Statements of Income

Nagase & Co., Ltd. and Consolidated Subsidiaries (Years ended March 31, 2014 and 2013)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales (Note 22)	¥723,212	¥666,272	\$7,026,934
Cost of sales (Note 17)	634,276	583,689	6,162,806
Gross profit	88,936	82,583	864,127
Selling, general and administrative expenses (Note 17)	73,146	67,004	710,707
Operating income (Note 22)	15,789	15,578	153,410
Other income (expenses):			
Interest and dividend income	1,304	1,416	12,670
Interest expense	(1,082)	(1,099)	(10,513)
Equity in earnings of affiliates	654	933	6,354
Gain on sales of investments in securities	867	801	8,424
Loss on devaluation of investments in securities	(3)	(45)	(29)
Gain on sales of property, plant and equipment	519	3,358	5,043
Loss on sales of property, plant and equipment	(45)	(98)	(437)
Loss on disposal of property, plant and equipment	(154)	(196)	(1,496)
Loss on impairment of fixed assets (Notes 6 and 22)	(1,314)	(1,896)	(12,767)
Gain on bargain purchase of subsidiaries' shares (Note 22)	528	—	5,130
Other, net	1,289	707	12,524
Income before income taxes and minority interests	18,353	19,458	178,323
Income taxes (Note 11):			
Current	7,128	6,417	69,258
Deferred	(906)	(2,004)	(8,803)
Income before minority interests	12,131	15,044	117,868
Minority interests	468	862	4,547
Net income	¥ 11,663	¥ 14,182	\$ 113,321

See accompanying notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

Nagase & Co., Ltd. and Consolidated Subsidiaries (Years ended March 31, 2014 and 2013)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Income before minority interests	¥12,131	¥15,044	\$117,868
Other comprehensive income (Note 9):			
Net unrealized holding gain on securities	6,780	5,212	65,876
Deferred gain on hedges	6	15	58
Translation adjustments	3,549	6,181	34,483
Retirement benefit liability adjustments	1,368	—	13,292
Share of other comprehensive income of affiliates accounted for by the equity method	198	768	1,924
Comprehensive income	¥24,035	¥27,222	\$233,531
Comprehensive income attributable to:			
Shareholders of the Company	¥23,163	¥25,674	\$225,058
Minority interests	871	1,548	8,463

See accompanying notes to consolidated financial statements.

Consolidated Statements of Changes in Net Assets

Nagase & Co., Ltd. and Consolidated Subsidiaries (Years ended March 31, 2014 and 2013)

	Millions of yen												
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Retirement benefit liability adjustment (Note10)	Translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2012	¥9,699	¥10,041	¥186,907	¥(5,460)	¥201,188	¥12,731	¥(21)	¥ —	¥(9,191)	¥ 3,518	¥110	¥ 7,927	¥212,744
Net income for the year	—	—	14,182	—	14,182	—	—	—	—	—	—	—	14,182
Gain on sales of treasury stock	—	0	—	—	0	—	—	—	—	—	—	—	0
Cash dividends	—	—	(3,189)	—	(3,189)	—	—	—	—	—	—	—	(3,189)
Purchases of treasury stock	—	—	—	(1,649)	(1,649)	—	—	—	—	—	—	—	(1,649)
Disposition of treasury stock	—	—	—	0	0	—	—	—	—	—	—	—	0
Decrease in retained earnings resulting from changes in scope of consolidation	—	—	(66)	—	(66)	—	—	—	—	—	—	—	(66)
Adjustments due to change in scope of application of equity method	—	—	717	—	717	—	—	—	—	—	—	—	717
Changes in fiscal year-end of consolidated subsidiaries	—	—	609	—	609	—	—	—	—	—	—	—	609
Other	—	—	—	—	—	5,211	15	—	7,967	13,194	(60)	1,322	14,457
Balance at April 1, 2013	9,699	10,041	199,160	(7,109)	211,792	17,943	(6)	—	(1,223)	16,712	50	9,250	237,806
Cumulative effects of changes in accounting policies (Note 3)	—	—	(671)	—	(671)	—	—	(982)	—	(982)	—	(5)	(1,659)
Adjusted balance at April 1, 2013	9,699	10,041	198,489	(7,109)	211,120	17,943	(6)	(982)	(1,223)	15,730	50	9,244	236,146
Net income for the year	—	—	11,663	—	11,663	—	—	—	—	—	—	—	11,663
Gain on sales of treasury stock	—	201	—	—	201	—	—	—	—	—	—	—	201
Cash dividends	—	—	(3,425)	—	(3,425)	—	—	—	—	—	—	—	(3,425)
Purchases of treasury stock	—	—	—	(1)	(1)	—	—	—	—	—	—	—	(1)
Disposition of treasury stock	—	—	—	194	194	—	—	—	—	—	—	—	194
Decrease in retained earnings resulting from changes in scope of consolidation	—	—	(220)	—	(220)	—	—	—	—	—	—	—	(220)
Adjustments due to change in scope of application of equity method	—	—	(154)	—	(154)	—	—	—	—	—	—	—	(154)
Other	—	—	—	—	—	6,782	6	1,362	3,463	11,615	(50)	(4,075)	7,488
Balance at March 31, 2014	¥9,699	¥10,242	¥206,351	¥(6,916)	¥219,377	¥24,725	¥ 0	¥ 380	¥ 2,239	¥27,346	¥ —	¥ 5,168	¥251,892

	Thousands of U.S. dollars (Note 1)												
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Deferred loss on hedges	Retirement benefit liability adjustment (Note10)	Translation adjustments	Total accumulated other comprehensive income	Stock acquisition rights	Minority interests	Total net assets
Balance at April 1, 2013	\$94,238	\$97,561	\$1,935,095	\$(69,073)	\$2,057,831	\$174,339	\$(58)	\$ —	\$(11,883)	\$162,379	\$ 486	\$ 89,876	\$2,310,591
Cumulative effects of changes in accounting policies (Note 3)	—	—	(6,520)	—	(6,520)	—	—	(9,541)	—	(9,541)	—	(49)	(16,119)
Adjusted balance at April 1, 2013	94,238	97,561	1,928,576	(69,073)	2,051,302	174,339	(58)	(9,541)	(11,883)	152,837	486	89,817	2,294,462
Net income for the year	—	—	113,321	—	113,321	—	—	—	—	—	—	—	113,321
Gain on sales of treasury stock	—	1,953	—	—	1,953	—	—	—	—	—	—	—	1,953
Cash dividends	—	—	(33,278)	—	(33,278)	—	—	—	—	—	—	—	(33,278)
Purchases of treasury stock	—	—	—	(10)	(10)	—	—	—	—	—	—	—	(10)
Disposition of treasury stock	—	—	—	1,885	1,885	—	—	—	—	—	—	—	1,885
Decrease in retained earnings resulting from changes in scope of consolidation	—	—	(2,138)	—	(2,138)	—	—	—	—	—	—	—	(2,138)
Adjustments due to change in scope of application of equity method	—	—	(1,496)	—	(1,496)	—	—	—	—	—	—	—	(1,496)
Other	—	—	—	—	—	65,896	58	13,234	33,647	112,855	(486)	(39,594)	72,756
Balance at March 31, 2014	\$94,238	\$99,514	\$2,004,965	\$(67,198)	\$2,131,529	\$240,235	\$ 0	\$ 3,692	\$ 21,755	\$265,702	\$ —	\$ 50,214	\$2,447,454

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Nagase & Co., Ltd. and Consolidated Subsidiaries (Years ended March 31, 2014 and 2013)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Operating activities			
Income before income taxes and minority interests	¥ 18,353	¥ 19,458	\$ 178,323
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization other than amortization of goodwill	8,634	7,445	83,890
Amortization of goodwill	1,685	1,612	16,372
Loss on impairment of fixed assets	1,314	1,896	12,767
Provision for accrued retirement benefits for employees, net of payments	—	205	—
Increase in liability for retirement benefits	1,128	—	10,960
Interest and dividend income	(1,304)	(1,416)	(12,670)
Interest expense	1,082	1,099	10,513
Exchange loss (gain), net	296	(1,032)	2,876
Gain on sales of property, plant and equipment, net	(473)	(3,259)	(4,596)
Gain on sales of investments in securities, net	(840)	(800)	(8,162)
Changes in operating assets and liabilities:			
Notes and accounts receivable	(1,983)	10,357	(19,267)
Inventories	(3,274)	(1,490)	(31,811)
Notes and accounts payable	(6,488)	(8,771)	(63,039)
Other, net	281	(1,015)	2,730
Subtotal	18,412	24,289	178,896
Interest and dividends received	1,750	1,724	17,003
Interest paid	(1,122)	(1,050)	(10,902)
Income taxes paid	(6,319)	(6,387)	(61,397)
Net cash provided by operating activities	12,721	18,576	123,601
Investing activities			
Purchases of property, plant and equipment	(10,131)	(10,551)	(98,436)
Proceeds from sales of property, plant and equipment	812	3,235	7,890
Purchases of investments in securities	(3,360)	(214)	(32,647)
Proceeds from sales of investments in securities	1,832	1,200	17,800
Purchases of investments in capital included in other assets	(1,143)	(646)	(11,106)
Increase in short-term loans receivable included in other current assets, net	(542)	(380)	(5,266)
Purchases of intangible fixed assets included in other assets	(1,669)	(1,709)	(16,216)
Other, net	31	(464)	301
Net cash used in investing activities	(14,171)	(9,529)	(137,689)
Financing activities			
Increase (decrease) in short-term loans payable, net	1,337	(16,273)	12,991
Proceeds from long-term loans	999	4,665	9,707
Repayments of long-term loans	(10,484)	(11,564)	(101,866)
Proceeds from issuance of bonds	—	29,855	—
Purchase of treasury stock	(1)	(1,649)	(10)
Cash dividends paid	(3,425)	(3,189)	(33,278)
Cash dividends paid to minority shareholders	(545)	(540)	(5,295)
Other, net	286	(139)	2,779
Net cash (used in) provided by financing activities	(11,833)	1,164	(114,973)
Effect of exchange rate changes on cash and cash equivalents	1,179	2,451	11,455
Net (decrease) increase in cash and cash equivalents	(12,103)	12,662	(117,596)
Cash and cash equivalents at beginning of the year	45,816	28,517	445,161
Increase in cash and cash equivalents resulting from inclusion of subsidiaries in consolidation	113	915	1,098
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries in consolidation	(1)	—	(10)
Increase in cash and cash equivalents resulting from changes in fiscal year-end of consolidated subsidiaries	—	3,721	—
Cash and cash equivalents at end of the year (Note 21)	¥ 33,825	¥ 45,816	\$ 328,653

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Nagase & Co., Ltd. and Consolidated Subsidiaries (March 31, 2014)

1. BASIS OF PREPARATION

The accompanying consolidated financial statements of NAGASE & CO., LTD. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

In addition, a certain reclassification of previously stated amounts has been made to conform the consolidated financial statements for the year ended March 31, 2013 to the 2014 presentation. Such reclassification had no effect on consolidated net income

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Company and significant companies that it controls directly or indirectly. Significant affiliates over which the Company exercises significant influence in terms of their operating and financial policies have been accounted for by the equity method. All significant intercompany balances and transactions have been eliminated in consolidation.

For consolidation purposes, the financial statements of the consolidated subsidiaries whose fiscal year end date differs from that of the Company have been included in consolidation based on a provisional statement of accounts for a full fiscal year ending March 31.

Unrealized intercompany gains among the Company and the consolidated subsidiaries have been entirely eliminated and the portion attributable to minority interests has been charged to minority interests.

(b) Foreign Currency Translation

All monetary assets and liabilities denominated in foreign currencies are translated into yen at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding contract rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates. Gain or loss on each translation is credited or charged to income.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the period in which such gain or loss is recognized for financial reporting purposes.

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests, net unrealized holding gain on securities, and deferred loss on hedges are translated at their historical exchange rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Adjustments resulting from translating financial statements whose accounts are denominated in foreign currencies are not included in the determination of net income but are reported as "Translation adjustments" as a component of accumulated other comprehensive income (loss) in the accompanying consolidated balance sheets.

(c) Cash and Cash Equivalents

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

(d) Inventories

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

(e) Investments in Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities or other securities. Trading securities, consisting of debt and marketable equity securities, are stated at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are stated at their

or net assets.

The U.S. dollar amounts in the accompanying consolidated financial statements have been translated from yen amounts solely for the convenience of the reader, as a matter of arithmetic computation only, at ¥102.92 = U.S.\$1.00, the rate of exchange prevailing on March 31, 2014. This translation should not be construed as a representation that the yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

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

amortized cost. Marketable securities classified as other securities are carried at fair value with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). Non-marketable securities classified as other securities are carried at cost determined by the moving-average method.

(f) Property, Plant and Equipment and Depreciation (except for leased assets)

Property, plant and equipment are stated at cost.

Depreciation of property, plant and equipment is calculated by the straight-line method based on the estimated useful lives of the respective assets.

The estimated useful lives of the principal assets are as follows:

Buildings (other than structures attached to the buildings)	15 to 50 years
Machinery and equipment	2 to 17 years

(g) Intangible Assets (except for leased assets)

Costs incurred for computer software obtained for internal use are capitalized and amortized on a straight-line basis over an estimated useful life of 5 years.

Technology-based assets recognized upon acquisition are amortized on a straight-line basis over 13 to 17 years.

(h) Goodwill

Goodwill is amortized over a period not exceeding 20 years on a straight-line basis. When immaterial, goodwill is charged to income as incurred.

(i) Leased Assets

Leased assets under finance lease contracts which do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method over the respective lease terms.

(j) Allowance for Doubtful Accounts

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

(k) Income Taxes

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

(l) Accrued Bonuses for Employees

Accrued bonuses for employees are provided based on the estimated amount of bonuses to be paid to employees in the following fiscal year which is attributable to the current fiscal year.

(m) Accrued Bonuses for Directors

Accrued bonuses for directors are provided based on the estimated amount of bonuses to be paid to directors in the following fiscal year which is attributable to the current fiscal year.

(n) Liabilities for Retirement Benefits

Liabilities for retirement benefits are provided based on the amount of the retirement

benefit obligation less estimated pension plan assets at the end of the fiscal year. The estimated benefit is attributed to each period based on the plan's benefit formula.

Prior service cost is charged to income in the fiscal year in which such cost is recognized for financial reporting purposes. Actuarial gain or loss is principally credited or charged to income in the fiscal year following the fiscal year in which such gain or loss is recognized for financial reporting purposes.

(o) Derivatives and Hedging Activities

Derivatives positions are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred as a component of net assets. Receivables and payables hedged by qualified foreign currency forward exchange contracts are translated at the corresponding foreign exchange contract rates ("Allocation method"). Interest-rate swaps which meet certain conditions are accounted for as if the interest rates applied to the swaps had originally applied to the underlying loans.

Derivative financial instruments are utilized principally in order to manage the risk arising from adverse fluctuation in foreign currency exchange rates and the Company also conducts interest-rate swap to mitigate the risk of fluctuation in interest rates on loans. Hedging instruments are foreign currency forward exchange contracts and interest-rate swaps. Hedged items are foreign currency assets, liabilities, forecast transac-

3. ACCOUNTING CHANGES

Accounting Standards for Retirement Benefits

Effective April 1, 2013, the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 issued on May 17, 2012) and "Guidance on Accounting Standards for Retirement Benefits" (ASBJ Guidance No.25 issued on May 17, 2012).

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

The calculation methods for retirement benefits and service cost were revised, and the attribution method was changed to the plan's benefit formula basis from the straight-line method. In addition, the method of calculating the discount rate was revised.

The adoption of these standards follows transitional provisions set forth in para-

4. ACCOUNTING STANDARDS ISSUED BUT NOT YET EFFECTIVE

Accounting Standard for Business Combinations

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

(1) Overview

Under these revised accounting standards, the accounting treatment for any changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the corresponding accounting for acquisition-related costs were revised.

tions and interest rates on loans from financial institutions.

The Company manages its derivative transactions in accordance with its internal management rules. Under these rules, the Company conducts foreign currency forward exchange contracts within a certain range of actual demand of accounts receivable, accounts payable and actual transactions in foreign currencies. Execution and management of interest-rate swap are based on internal management rules and hedged items of interest-rate swap are identified by individual contracts.

The Company assesses the effectiveness of the hedging activities based on a comparison of the accumulated fluctuations of the hedged items and those of the hedging instruments in the period from the start of the hedging activities to the assessment date. However, with regard to interest-rate swaps which meet certain conditions, the evaluation of effectiveness is omitted.

(p) Research and Development Costs

Research and development costs are charged to income when incurred.

(q) Distributions of Retained Earnings

Dividends and other distributions of retained earnings are approved by the shareholders at a meeting held subsequent to the end of the fiscal year to which such distributions are applicable. The accompanying consolidated financial statements do not, however, reflect the applicable distributions of retained earnings as approved by the shareholders subsequent to the fiscal year end. (Refer to Note 25.)

graph 37 of the ASBJ Statement No.26, effective April 1, 2013. The effect of this change is included in accumulated other comprehensive income as "Retirement benefit liability adjustments."

The Company adjusted the balance of retained earnings at April 1, 2013 in order to reflect the cumulative effects of changes in the method of calculating the retirement benefit obligations and service cost.

As a result, effective April 1, 2013, "Liability for retirement benefits" was recorded in the amount of ¥2,562 million (\$24,893 thousand), accumulated other comprehensive income decreased by ¥982 million (\$9,541 thousand) and retained earnings decreased by ¥671 million (\$6,520 thousand) from the corresponding amounts which would have been recorded under the previous method.

In addition, for the year ended March 31, 2014, retirement benefit expense including service cost and interest cost decreased from the corresponding amounts which would have been recorded under the previous method. However, the effect on operating income and income before income taxes and minority interests is immaterial.

In addition, the presentation method of net income was amended, the reference to "minority interests" was changed to "non-controlling interests," and transitional provisions for these accounting standards were also defined.

(2) Scheduled date of adoption

The Company expects to adopt these revised accounting standards and guidance with respect to the accounting treatment for any changes in a parent's ownership interest, the accounting for acquisition-related costs, and transitional provisions from the beginning of the fiscal year ending March 31, 2015 and with respect to the presentation method of net income and the reference to "non-controlling interests" from the beginning of the fiscal year ending March 31, 2016, respectively.

(3) Impact of adopting revised accounting standards and guidance

The Company is currently evaluating the effect of adopting these revised standards on its consolidated financial statements.

5. INVENTORIES

Inventories at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise and finished goods	¥53,075	¥47,104	\$515,692
Work in process	1,344	1,554	13,059
Raw materials and supplies	3,039	3,204	29,528
Total	¥57,460	¥51,863	\$558,298

6. LOSS ON IMPAIRMENT OF FIXED ASSETS

Loss on impairment of fixed assets for the years ended March 31, 2014 and 2013 was as follows:

Major use	Classification	Area	Millions of yen	Thousands of U.S. dollars
			2014	2014
Business-use assets for manufacturing and selling of rechargeable battery systems	Land, buildings and structures, machinery, equipment and vehicles, leased assets, construction in progress, intangible assets included in other assets	Tokai	¥1,039	\$10,095
Business-use assets for car electronics	Machinery, equipment and vehicles, intangible assets in other assets	Kanto	40	389
Processing equipment for software duplication business	Land	Kanto	194	1,885
Idle assets	Land, construction in progress	Kanto, Kinki	40	389
Total			¥1,314	\$12,767

Major use	Classification	Area	Millions of yen
			2013
Processing equipment for plastic materials	Land, buildings and structures, machinery, equipment and vehicles	Kinki	¥1,252
Coating equipment for semiconductor wafer	Machinery, equipment and vehicles	Kinki	269
Manufacturing facility for pharmaceutical intermediates	Buildings and structures, machinery, equipment and vehicles	Kinki	196
Manufacturing equipment for resin plastic tray products for transport use	Buildings and structures, machinery, equipment and vehicles	Shanghai, China	94
Processing facility for optical films for liquid crystal displays (LCDs)	Buildings and structures, machinery, equipment and vehicles	Guangdong, China	56
Idle assets	Land, intangible assets included in other assets	Kinki	27
Total			¥1,896

The Company and its consolidated subsidiaries group fixed assets for business use principally based on its business management segment. They also group fixed assets to be disposed of and idle assets at each asset individually as smallest cash-generating units.

For the year ended March 31, 2014, due to decreasing profitability of manufacturing and selling facilities for rechargeable battery systems and due to a cessation in development activities of car electronics business, the carrying value was reduced to their recoverable amounts.

Due to declining fair value, the carrying values of certain common-use assets in processing equipment for software duplication business were reduced to their recoverable amounts.

Due to declining fair value, the carrying values of idle assets were reduced to their recoverable amounts.

The recoverable amounts were measured at net selling value or value in use. Net selling value was calculated based on the appraisal value published by the tax authorities or the real estate appraisers. Net selling value for assets to be disposed of was set at zero since it is difficult to sell them or use them for any purpose other than their original purpose.

For the year ended March 31, 2013, accompanied with the withdrawal from the corresponding businesses, the carrying values of manufacturing equipment for resin plastic tray products for transport use, coating equipment for semiconductor wafer, and a processing facility for optical films for LCDs were reduced to their recoverable amounts.

Due to decreasing profitability in response to the drastic change in the business environment, the carrying values of processing equipment for plastic materials, and a manufacturing facility for pharmaceutical intermediates were reduced to their recoverable amounts.

The recoverable amounts were measured at the higher of net selling value and value in use. Net selling value for assets to be disposed of was set at zero since it is difficult to sell them or use them for any purpose other than their original purpose. Value in use for the measurement of recoverable amounts is based on the present value of the future cash flow with the discount rate of 1.239%.

Due to decreasing land prices, the carrying values of idle assets were reduced to their recoverable amounts and a loss on impairment was recognized. The recoverable amounts were calculated based on the appraisal value published by the tax authorities.

7. INVESTMENTS IN SECURITIES

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

	Millions of yen					
	2014			2013		
	Carrying value	Acquisition costs	Unrealized gain (loss)	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:						
Equity securities	¥53,938	¥16,394	¥37,543	¥43,727	¥16,433	¥27,293
Securities whose carrying value does not exceed their acquisition costs:						
Equity securities	571	620	(49)	1,196	1,369	(172)
Total	¥54,509	¥17,015	¥37,494	¥44,923	¥17,802	¥27,121

	Thousands of U.S. dollars		
	2014		
	Carrying value	Acquisition costs	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition costs:			
Equity securities	\$524,077	\$159,289	\$364,778
Securities whose carrying value does not exceed their acquisition costs:			
Equity securities	5,548	6,024	(476)
Total	\$529,625	\$165,323	\$364,302

The Company and its consolidated subsidiaries recognized impairment losses on valuation of marketable securities of nil and ¥38 million for the years ended March 31, 2014 and 2013.

(b) Securities classified as other securities for which market value was not determinable at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Carrying value	Carrying value	Carrying value
Market value not determinable:			
Equity securities	¥4,216	¥4,176	\$40,964
Total	¥4,216	¥4,176	\$40,964

Please refer to Note 15 (c).

(c) Proceeds from sales of, and gross realized gain and loss on, other securities for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Carrying value	Carrying value	Carrying value
Proceeds from sales	¥1,675	¥1,199	\$16,275
Gain on sales	856	801	8,317
Loss on sales	2	0	19

8. SHORT-TERM LOANS, BONDS, LONG-TERM LOANS AND FINANCE LEASE OBLIGATIONS

Short-term loans at March 31, 2014 and 2013, principally represented notes and loans in the form of deeds at weighted-average annual interest rates of 1.69% and 1.97% per annum, respectively.

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
	Carrying value	Carrying value	Carrying value
Unsecured loans from banks and insurance companies, payable in Yen, U.S. dollars, Euro, Malaysian ringgit and RMB, due through 2019, at rates from 0.55% to 5.84%	¥33,736	¥43,022	\$327,789
Unsecured bonds in Yen, due 2015, at a rate of 0.306%	10,000	10,000	97,163
Unsecured bonds in Yen, due 2017, at a rate of 0.442%	10,000	10,000	97,163
Unsecured bonds in Yen, due 2019, at a rate of 0.753%	10,000	10,000	97,163
Lease obligations	273	341	2,653
	64,010	73,364	621,939
Less current portion	(6,642)	(10,473)	(64,536)
Total	¥57,367	¥62,890	\$557,394

The aggregate annual maturities of bonds, long-term loans and finance lease obligations subsequent to March 31, 2014 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 6,642	\$ 64,536
2016	15,943	154,907
2017	8,701	84,541
2018	12,300	119,510
2019	10,297	100,049
2020 and thereafter	10,124	98,368
Total	¥64,010	\$621,939

In order to achieve more efficient and flexible financing, the Company has concluded line-of-credit agreements with certain financial institutions. The status of these lines of credit at March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Lines of credit	¥13,000	¥13,000	\$126,312
Credit utilized	—	—	—

9. OTHER COMPREHENSIVE INCOME

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized holding gain on investments in securities:			
Amount arising during the year	¥11,258	¥ 8,420	\$109,386
Reclassification adjustments for gains and losses realized in the statement of income	(853)	(747)	(8,288)
Amount before tax effect	10,404	7,672	101,088
Tax effect	(3,624)	(2,459)	(35,212)
Net unrealized holding gain on investments in securities	6,780	5,212	65,876
Deferred gain (loss) on hedges:			
Amount arising during the year	(124)	(202)	(1,205)
Reclassification adjustments for gains and losses realized in the statement of income	134	226	1,302
Amount before tax effect	10	24	97
Tax effect	(3)	(9)	(29)
Deferred gain on hedges	6	15	58
Translation adjustments:			
Amount arising during the year	3,549	6,181	34,483
Retirement benefits liability adjustments:			
Amount arising during the year	553	—	5,373
Reclassification adjustments for gains and losses realized in the statement of income	1,554	—	15,099
Amount before tax effect	2,108	—	20,482
Tax effect	(739)	—	(7,180)
Retirement benefits liability adjustments	1,368	—	13,292
Share of other comprehensive income of affiliates accounted for by the equity method:			
Amount arising during the year	198	768	1,924
Other comprehensive income, net	¥11,903	¥12,178	\$115,653

10. RETIREMENT BENEFITS

(a) Outline of retirement benefits for employees

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit pension plans and lump-sum payment plans. Certain overseas consolidated subsidiaries also have defined benefit pension plans. Also, the Company and certain domestic consolidated subsidiaries have defined contribution pension plans. In addition to the retirement benefit plans described above, the Company and its consolidated subsidiaries pay additional retirement benefits under certain conditions.

(b) Defined benefit pension plans for the year ended March 31, 2014

The changes in the retirement benefit obligation during the year ended March 31, 2014 are as follows:

	Thousands of U.S. dollars	
	2014	2014
Retirement benefit obligation at April 1, 2013	¥28,103	\$273,057
Cumulative effects of changes in accounting policies	1,043	10,134
Adjusted balance at April 1, 2013	29,146	283,191
Service cost	1,362	13,234
Interest cost	371	3,605
Actuarial differences	41	398
Retirement benefits paid	(1,617)	(15,711)
Other	17	165
Retirement benefit obligation at March 31, 2014	¥29,321	\$284,891

The changes in plan assets during the year ended March 31, 2014 are as follows:

	Thousands of U.S. dollars	
	2014	2014
Plan assets at April 1, 2013	¥16,392	\$159,269
Expected return on plan assets	368	3,576
Actuarial differences	596	5,791
Contributions by the Company	1,086	10,552
Retirement benefits paid	(889)	(8,638)
Other	6	58
Plan assets at March 31, 2014	¥17,559	\$170,608

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Thousands of U.S. dollars	
	2014	2014
Funded retirement benefit obligation	¥19,346	\$187,971
Plan assets at fair value	(17,559)	(170,608)
Unfunded retirement benefit obligation	1,786	17,353
Net liability for retirement benefits in the balance sheet	11,761	114,273
Liability for retirement benefits	11,875	115,381
Asset for retirement benefits	(113)	(1,098)
Net liability for retirement benefits in the balance sheet	¥11,761	\$114,273

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

	Thousands of U.S. dollars	
	2014	2014
Service cost	¥1,362	\$13,234
Interest cost	371	3,605
Expected return on plan assets	(368)	(3,576)
Amortization of actuarial differences	1,554	15,099
Other	27	262
Retirement benefit expense	¥2,947	\$28,634

Actuarial differences included in other comprehensive income (before tax effect) for the year ended March 31, 2014 is as follows:

	Thousands of U.S. dollars	
	2014	2014
Actuarial differences	¥2,108	\$20,482

Unrecognized actuarial differences included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 is as follows:

	Thousands of U.S. dollars	
	2014	2014
Unrecognized actuarial differences	¥591	\$5,742

The allocation of plan assets, by major category, as a percentage of total plan assets at fair value as of March 31, 2014 is as follows:

	2014
Bonds	68%
Stocks	17
Other	15
Total	100%

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

The assumptions used in accounting for the above plans were as follows:

	2014
Discount rate	1.4%
Expected long-term rate of return on plan assets	2.1%

(c) Defined contribution pension plans for the year ended March 31, 2014

	Thousands of U.S. dollars	
	2014	2014
Contributions to defined contribution pension plans	¥251	\$2,439

(d) Accrued retirement benefits for employees for the year ended March 31, 2013

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

	Millions of yen	
	2013	2013
Retirement benefit obligation	¥(28,103)	
Plan assets at fair value	16,392	
Unfunded retirement benefit obligation	(11,710)	
Unrecognized actuarial differences	1,516	
Prepaid pension cost	(89)	
Accrued retirement benefits recognized in the consolidated balance sheets	¥(10,283)	

The components of retirement benefit expenses of the Company and the consolidated subsidiaries for the year ended March 31, 2013 are outlined as follows:

	Millions of yen	
	2013	2013
Service cost	¥1,226	
Interest cost	513	
Expected return on plan assets	(322)	
Amortization of actuarial differences	694	
Contributions to defined contribution pension plans	237	
Amortization of prior service cost	92	
Retirement benefit expenses	¥2,442	

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

	2013
Discount rate	Mainly 1.7%
Expected rate of return on plan assets	Mainly 2.1%

11. INCOME TAXES

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

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

	2014	2013
Statutory tax rate	38.0%	38.0%
Adjustments for:		
Expenses not deductible for income tax purposes	2.9	2.4
Dividends and other income deductible for income tax purposes	(12.9)	(11.0)
Net adjustment resulting from elimination of dividend income upon consolidation	12.8	10
Different tax rates applied at overseas subsidiaries	(7.5)	(5.7)
Tax credit	(0.5)	(0.6)
Amortization of goodwill	3.5	3.2
Valuation allowance	(4.4)	(11.7)
Other, net	2.0	(1.9)
Effective tax rates	33.9%	22.7%

The significant components of the Company's and its consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Accrued bonuses for employees	¥ 1,283	¥ 1,363	\$ 12,466
Allowance for doubtful accounts	234	598	2,274
Unrealized gain on inventories	501	522	4,868
Accrued enterprise taxes	288	221	2,798
Tax loss carryforwards	17,008	18,192	165,255
Accrued retirement benefits for employees	—	3,639	—
Liability for retirement benefits	4,160	—	40,420
Investments in securities	1,010	1,818	9,813
Loss on impairment of fixed assets	998	601	9,697
Other	2,298	2,064	22,328
Gross deferred tax assets	27,785	29,022	269,967
Valuation allowance	(10,157)	(11,779)	(98,688)
Total deferred tax assets	¥ 17,628	¥ 17,243	\$ 171,279
Deferred tax liabilities:			
Technology-based assets	¥ (6,551)	¥ (7,183)	\$ (63,651)
Deferred capital gain on property	(2,062)	(1,974)	(20,035)
Reserve for special depreciation	(422)	(728)	(4,100)
Undistributed earnings of overseas subsidiaries	(400)	(442)	(3,887)
Revaluation of land	(378)	(359)	(3,673)
Net unrealized holding gain on securities	(12,792)	(9,168)	(124,291)
Other	(311)	(127)	(3,022)
Total deferred tax liabilities	(22,920)	(19,985)	(222,697)
Net deferred tax liabilities	¥ (5,291)	¥ (2,741)	\$ (51,409)

For the year ended March 31, 2014, the "Act for Partial Amendment of the Income Tax Act, etc." (Act No.10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company and its domestic consolidated subsidiaries are no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014. In addition, the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.4 of 2014) and the "Act for Partial Amendment of the Local Corporate Tax Act, etc." (Act No.11 of 2014) were promulgated on March 31, 2014, and the Company and its

domestic consolidated subsidiaries are subject to the amended Local Corporate Tax effective for fiscal years beginning on or after April 1, 2015.

As a result, the effective statutory tax rate used to measure deferred tax assets and liabilities of the Company and its domestic consolidated subsidiaries was changed from 38.0% to 35.6% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014. The effect of this change on the accompanying consolidated financial statements of the Company was immaterial.

12. SHAREHOLDERS' EQUITY

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account.

Such distributions can be made at any time by resolution of the shareholders, or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2014 and 2013 amounted to ¥2,424 million (\$23,552 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding 50% of the proceeds of the sale of new shares as additional paid-in capital.

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

	Number of shares			
	2014			
	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	138,408,285	—	—	138,408,285
2013				
	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	138,408,285	—	—	138,408,285

13. TREASURY STOCK

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

	Number of shares			
	2014			
	April 1, 2013	Increase	Decrease	March 31, 2014
Treasury stock	11,693,809	922	319,100	11,375,631
2013				
	April 1, 2012	Increase	Decrease	March 31, 2013
Treasury stock	9,893,787	1,800,372	350	11,693,809

The increases in treasury stock were due to purchase of shares of less than one voting unit for the year ended March 31, 2014. The decreases in treasury stock consist of 319,000 shares resulting from the exercise of stock option plans and 100 shares resulting from the disposition of shares less than one voting unit for the year March 31, 2014.

The increases in treasury stock consist of 1,800,000 shares resulting from purchase by the resolution of Board of Directors and 372 shares resulting from purchase of shares of less than one voting unit for the year ended March 31, 2013. The decreases in treasury stock were due to the disposition of shares less than one voting unit for the year March 31, 2013.

14. SHARE-BASED COMPENSATION

The 2008 stock option plan (the 2008 plan) was approved by shareholders of the Company on June 26, 2008. The 2008 plan provided for granting options to purchase 421,000 shares of common stock to directors, executive officers, technology officers and certain key employees of the Company and directors of certain subsidiaries. The

exercise price was ¥1,114 (\$10.82) per share at March 31, 2014. The options became exercisable on August 1, 2010 and expired on July 31, 2013.

Information regarding the Company's stock option plans is summarized as follows:

	The 2008 plan
Number of shares:	
Outstanding at March 31, 2012	414,000
Granted	—
Expired	(5,000)
Exercised	—
Outstanding at March 31, 2013	409,000
Granted	—
Expired	(90,000)
Exercised	(319,000)
Outstanding at March 31, 2014	—
	Yen
Fair value of options as of the grant date	¥124
	U.S. dollars
Fair value of options as of the grant date	\$1.20

15. FINANCIAL INSTRUMENTS

(a) Policy for Financial Instruments

The Company and its consolidated subsidiaries invest excess funds in highly secure and short-term financial assets, whose principal is guaranteed to be recoverable. With regard to financing, short-term working funds are raised by bank borrowings or issuance of commercial paper and the Group policy is to procure long-term funds with bank borrowings and through the issuance of bonds. The purpose of entering into derivative transactions is to mitigate the foreign currency exchange rate fluctuation risk arising

from the receivables and payables denominated in foreign currencies, and fluctuation risk related to interest rates with respect to loans payable, and derivative transactions are not carried out for speculative purposes.

(b) Types of Financial Instruments, Related Risk and Risk Management for Financial Instruments

Receivables such as trade notes and accounts receivable are exposed to customers' credit risks. With regard to this risk, the Group manages the settlement date by each

customer, and establishes credit limits by each customer based on the Group's internal credit rating policy and monitors outstanding balances in conjunction with an established system under which the credit status by each customer is reviewed at least once a year and the sales limit amount updated as necessary.

In the cases of those receivables and liabilities denominated in foreign currencies, foreign currency forward exchange contracts are used to hedge the risk of fluctuation. However, for foreign currency transactions denominated in the same currency involving either payables or receivables, foreign currency forward exchange contracts are used solely for the netted position.

Investments in securities are subject to market price fluctuation risk. However, these are mainly equity securities of other companies with which the Group has business relationships. The Group regularly monitors both their fair value and the financial condition of the issuer. The Group also reviews as needed the condition of its holdings with concern to the status of sales and financial transactions.

Short-term loans are raised primarily in connection with business activities and bridge loans relating to investments and financing. Long-term loans and bonds are

taken out principally for the purpose of making capital spending, investments and financing. Loans with variable interest rates are subject to the risk of fluctuating interest rates. However, to reduce such risk, the Group utilizes derivatives (interest-rate swap transactions) as a hedging instrument.

Derivatives include foreign currency forward exchange contracts to manage the market risk of fluctuation in foreign currency exchange rates and interest-rate swaps to manage the market risk of fluctuating interest rates related to the interest payments for bank loans.

In addition, operating liabilities and bank loans are exposed to liquidity risk. However, the Group monitors the balance of inflow and outflow of cash, managing such risk by establishing liquidity on hand in excess of half of the amount of monthly net sales.

(c) Market Value of Financial Instruments

Carrying amount, estimated fair value and difference as of March 31, 2014 and 2013 are as follows. Financial instruments for which fair value is deemed extremely difficult to determine are not included.

	Millions of yen		
	2014		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash and time deposits	¥ 34,980	¥ 34,980	¥ —
Notes and accounts receivable	202,996	202,996	—
Investments in securities			
Other securities	54,509	54,509	—
Total assets	¥292,486	¥292,486	¥ —
Liabilities			
Notes and accounts payable	¥105,014	¥105,014	¥ (0)
Short-term loans	28,818	28,818	—
Current portion of long-term loans	6,596	6,596	—
Bonds	30,000	30,215	215
Long-term loans	27,140	27,412	272
Total liabilities	¥197,569	¥198,056	¥487
Derivatives (*)			
Not subject to hedge accounting	¥ (76)	¥ (76)	¥ —
Subject to hedge accounting	(1)	(1)	—
Total derivative transactions	¥ (78)	¥ (78)	¥ —

	Millions of yen		
	2013		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash and time deposits	¥ 46,693	¥ 46,693	¥ —
Notes and accounts receivable	196,001	196,001	(0)
Investments in securities			
Other securities	44,923	44,923	—
Total assets	¥287,618	¥287,618	¥ (0)
Liabilities			
Notes and accounts payable	¥107,941	¥107,941	¥ (0)
Short-term loans	25,061	25,061	—
Current portion of long-term loans	10,408	10,408	—
Bonds	30,000	30,266	266
Long-term loans	32,614	32,994	380
Total liabilities	¥206,024	¥206,671	¥646
Derivatives (*)			
Not subject to hedge accounting	¥ (385)	¥ (385)	¥ —
Subject to hedge accounting	(9)	(9)	—
Total derivative transactions	¥ (395)	¥ (395)	¥ —

	Thousands of U.S. dollars		
	2014		
	Carrying amount	Estimated fair value	Difference
Assets			
Cash and time deposits	\$ 339,876	\$ 339,876	\$ —
Notes and accounts receivable	1,972,367	1,972,367	—
Investments in securities			
Other securities	529,625	529,625	—
Total assets	\$2,841,877	\$2,841,877	\$ —
Liabilities			
Notes and accounts payable	\$1,020,346	\$1,020,346	\$ (0)
Short-term loans	280,004	280,004	—
Current portion of long-term loans	64,089	64,089	—
Bonds	291,489	293,578	2,089
Long-term loans	263,700	266,343	2,643
Total liabilities	\$1,919,637	\$1,924,368	\$4,732
Derivatives (*)			
Not subject to hedge accounting	\$ (738)	\$ (738)	\$ —
Subject to hedge accounting	(10)	(10)	—
Total derivative transactions	\$ (758)	\$ (758)	\$ —

*Receivables and payables arising from derivative transactions are presented as a net amount. Net payables are presented in parentheses.

The calculation methods of fair values of financial instruments and securities and derivative transactions are as follows:

Cash and time deposits

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

Notes and accounts receivable

The fair value of trade notes and accounts receivable is estimated as the present value of future cash flow of each receivable classified by settlement date and discounted at the market rate of interest at the reporting date.

Investments in securities

The fair value of investment in securities is based on quoted market prices. Please refer to Note 7 regarding information on securities by holding objective.

Notes and accounts payable

The fair value of trade notes and accounts payable is estimated as the present value of future cash flow of each payable classified by settlement date and discounted at the market rate of interest at the reporting date.

Short-term loans and current portion of long-term loans

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

Bonds

The fair value of bonds is based on the market price.

Long-term loans

The fair value of long-term loans with fixed interest rates is based on the present value of the total of principal and interest discounted by the interest rate to be applied assuming new loans under similar conditions to existing loans are made. Floating interest rates for long-term loans are hedged by interest-rate swap agreements and accounted for as loans with fixed interest rates. The fair value of those long-term loans is based on the present value of the total of principals, interests and net cash flows of swap agreements discounted by the interest rates, estimated reasonably, applicable to new loans under similar conditions.

Derivative transactions

Please refer to Note 16.

The carrying value of financial instruments without determinable market value at March 31, 2014 and 2013 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted equity securities	¥ 4,216	¥ 4,176	\$ 40,964
Investments in unconsolidated subsidiaries and affiliates	7,549	7,770	73,348
Total	¥11,765	¥11,947	\$114,312

For the above securities, there is no market price and it is difficult to determine the fair value. Therefore, the fair value of the securities is not included in investments in securities in the summary table of financial instruments.

The redemption schedule for time deposits and notes and accounts receivable with maturity dates at March 31, 2014 is summarized as follows:

	Millions of yen	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	¥ 34,758	¥—
Notes and accounts receivable	202,996	—
Total	¥237,755	¥—

	Thousands of U.S. dollars	
	Within 1 year	Over 1 year and less than 5 years
Time deposits	\$ 337,719	\$—
Notes and accounts receivable	1,972,367	—
Total	\$2,310,095	\$—

With respect to the redemption schedule of bonds, long-term loans and finance lease obligations, please refer to Note 8.

16. DERIVATIVES AND HEDGING ACTIVITIES

The open currency-related derivatives positions not designated as hedging instruments at March 31, 2014 and 2013 are as follows:

	Type	Millions of yen			
		2014			
		Contract value	Contract value over one year	Estimated fair value	Unrecognized gain (loss)
Foreign currency forward exchange contracts:					
Selling:					
	U.S. dollars	¥ 7,102	¥—	¥(56)	¥(56)
	Yen	326	—	(8)	(8)
	Euro	864	—	(5)	(5)
	RMB	506	—	10	10
	Others	17	—	(0)	(0)
Buying:					
	U.S. dollars	1,975	—	(4)	(4)
	Yen	1,494	—	(11)	(11)
	Euro	52	—	0	0
	Others	9	—	0	0
Total		¥12,348	¥—	¥(76)	¥(76)

	Type	Millions of yen			
		2013			
		Contract value	Contract value over one year	Estimated fair value	Unrecognized gain (loss)
Foreign currency forward exchange contracts:					
Selling:					
	U.S. dollars	¥ 6,392	¥—	¥(303)	¥(303)
	Yen	48	—	(0)	(0)
	Euro	832	—	(7)	(7)
	RMB	174	—	1	1
	Others	83	—	6	6
Buying:					
	U.S. dollars	2,067	—	(23)	(23)
	Yen	1,651	—	(58)	(58)
	Euro	42	—	(0)	(0)
	Others	1	—	0	0
Total		¥11,292	¥—	¥(385)	¥(385)

	Type	Thousands of U.S. dollars			
		2014			
		Contract value	Contract value over one year	Estimated fair value	Unrecognized gain (loss)
Foreign currency forward exchange contracts:					
Selling:					
	U.S. dollars	\$ 69,005	\$—	\$(544)	\$(544)
	Yen	3,168	—	(78)	(78)
	Euro	8,395	—	(49)	(49)
	RMB	4,916	—	97	97
	Others	165	—	(0)	(0)
Buying:					
	U.S. dollars	19,190	—	(39)	(39)
	Yen	14,516	—	(107)	(107)
	Euro	505	—	0	0
	Others	87	—	0	0
Total		\$119,977	\$—	\$(738)	\$(738)

Fair value is based on the prices obtained from financial institutions.

The open currency-related derivatives positions designated as hedging instruments at March 31, 2014 and 2013 are as follows:

	Method for hedge accounting	Type of derivative transaction	Major hedged item	Millions of yen		
				2014		
				Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Foreign currency forward exchange contracts:						
Selling:						
		U.S. dollars		¥ 51	¥—	¥(0)
		Euro	Accounts receivable	544	—	(3)
		Others		63	—	1
Buying:						
		U.S. dollars		27	—	0
		Euro	Accounts payable	66	—	0
		Others		29	—	0
Foreign currency forward exchange contracts:						
Selling:						
		Euro	Accounts receivable	15	—	(*)
		Others		11	—	(*)
Buying:						
		Euro	Accounts payable	17	—	(*)
Total				¥827	¥—	¥(1)

	Method for hedge accounting	Type of derivative transaction	Major hedged item	Millions of yen		
				2013		
				Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Foreign currency forward exchange contracts:						
Selling:						
		U.S. dollars		¥221	¥10	¥(8)
		Euro	Accounts receivable	332	—	(3)
		Others		3	—	(0)
Buying:						
		U.S. dollars		24	—	2
		Euro	Accounts payable	44	—	(0)
		Others		12	—	0
Foreign currency forward exchange contracts:						
Selling:						
		Euro	Accounts receivable	13	—	(*)
		Others		1	—	(*)
Buying:						
		Euro	Accounts payable	48	—	(*)
		Others		0	—	(*)
Total				¥703	¥10	¥(9)

Thousands of U.S. dollars					
2014					
Method for hedge accounting	Type of derivative transaction	Major hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
	Foreign currency forward exchange contracts:				
	Selling:				
	U.S. dollars		\$ 496	\$—	\$ (0)
	Euro	Accounts receivable	5,286	—	(29)
	Others		612	—	10
Deferral hedge accounting	Buying:				
	U.S. dollars		262	—	0
	Euro	Accounts payable	641	—	0
	Others		282	—	0
	Foreign currency forward exchange contracts:				
	Selling:				
Allocation method for foreign currency forward exchange contracts (Note 2(o))	Euro	Accounts receivable	146	—	(*)
	Others		107	—	(*)
	Buying:				
	Euro	Accounts payable	165	—	(*)
Total			\$8,035	\$—	\$(10)

Fair value is based on the prices obtained from financial institutions.

(*):The fair value of foreign currency forward exchange contracts that qualify for the allocation method is included in the estimated fair value of the underlying accounts receivables and accounts payables.

The open interest-related derivatives positions designated as hedging instruments at March 31, 2014 and 2013 are as follows.

Millions of yen					
2014					
Method for hedge accounting	Type of derivative transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Swap rates applied to underlying loans	Interest-rate swap transactions (pay-fixed, receive-variable)	Long-term loans	¥26,580	¥21,720	(**)

Millions of yen					
2013					
Method for hedge accounting	Type of derivative transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Swap rates applied to underlying loans	Interest-rate swap transactions (pay-fixed, receive-variable)	Long-term loans	¥35,840	¥26,580	(**)

Thousands of U.S. dollars					
2014					
Method for hedge accounting	Type of derivative transaction	Hedged item	Contract value (notional principal amount)	Contract value (notional principal amount over one year)	Estimated fair value
Swap rates applied to underlying loans	Interest-rate swap transactions (pay-fixed, receive-variable)	Long-term loans	\$258,259	\$211,038	(**)

(**): Since interest-rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the underlying long-term loans, their fair values were included in estimated fair value of long-term loans.

17. RESEARCH AND DEVELOPMENT COSTS

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended March 31, 2014 and 2013 totaled ¥5,165 million (\$50,185 thousand) and ¥4,610 million, respectively.

18. OPERATING LEASES

Future minimum lease payments subsequent to March 31, 2014 under operating leases are as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 413	\$ 4,013
2016 and thereafter	838	8,142
Total	¥1,252	\$12,165

19. CONTINGENT LIABILITIES

At March 31, 2014, the Company and its consolidated subsidiaries were contingently liable as guarantors of loans of customers and other in the aggregate amount of ¥1,486 million (\$14,438 thousand) and as guarantors of housing loans of employees in the aggregate amount of ¥8 million (\$78 thousand).

In addition, at March 31, 2014, the Company and its consolidated subsidiaries had contingent liabilities arising from notes discounted with banks and notes endorsed for a total amount of ¥280 million (\$2,721 thousand).

20. AMOUNTS PER SHARE

Amounts per share at March 31, 2014 and 2013 and for the years then ended are as follows:

	Yen		U.S. dollars
	2014	2013	2014
Net income:			
Basic	¥ 91.86	¥ 111.31	\$ 0.89
Diluted	—	—	—
Net assets	1,942.20	1,803.31	18.87
Cash dividends applicable to the year	28.00	26.00	0.27

Basic net income per share has been computed based on the net income available for distribution to the shareholders of common stock and the weighted-average number of shares of common stock outstanding during the year.

Diluted net income per share for the years ended March 31, 2014 and 2013 has not been presented because no potentially dilutive shares of common stock were outstanding.

The amounts per share of net assets have been computed based on the number of

shares of common stock outstanding at the year end.

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

The financial data used in the computation of basic net income per share for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net income	¥11,663	¥14,182	\$113,321
Adjusted net income available for distribution to shareholders of common stock	¥11,663	¥14,182	\$113,321
Weighted-average number of shares	126,971,429	127,406,786	

21. CASH AND TIME DEPOSITS

A reconciliation of cash and time deposits in the accompanying consolidated balance sheets at March 31, 2014 and 2013 and cash and cash equivalents in the accompanying consolidated statements of cash flows for the years then ended is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and time deposits	¥34,980	¥46,693	\$339,876
Time deposits with maturities of more than three months	(1,154)	(876)	(11,213)
Cash and cash equivalents	¥33,825	¥45,816	\$328,653

22. SEGMENT INFORMATION

(a) Overview of reportable segments

The reportable segments of the Company comprise those entities for which obtaining separate financial reports is possible and that are subject to regular review by the Board of Directors, which decides upon the distribution of management resources to said segments.

Reflecting the respective positions of each business in the value chain, as well as identifying the most closely aligned industries, the Company defined five segment categories: Functional Materials (located at the top of the value chain), Advanced Materials & Processing (located in the next stage of the value chain), Electronics, Automotive & Energy, and Life & Healthcare (functioning within the corresponding industries).

For the year ended March 31, 2014, the Company has moved its abrasives business for semiconductor and HDD industries from the Functional Materials segment to the Electronics segment in order to develop new markets and expand applications in a segment aligned more closely with the end user. Similarly, the Company has moved its raw materials business for the cosmetics industries from the Functional Materials segment to the Life & Healthcare segment. This move was made to capitalize on synergies with products created by Hayashibara Co., Ltd.

The segment information for the year ended March 31, 2013 was restated to conform to the change in the segmentation in the current year.

The following describes the major products and services handled by each reportable segment.

The Functional Materials segment is engaged in the sales of materials for paints/inks, urethane materials, plastic materials, plastic adhesives, industrial oil solutions, surfactants, fluorochemicals, encapsulment materials, silicone materials, and more to the industries of the paints/inks, resins, urethane foam, organic synthesis, surfactants, semiconductor.

The Advanced Materials & Processing segment is engaged in the sales of dyestuffs, dyes, functional dyes, information printing products, thermoplastic resins, thermosetting

resins, synthetic rubber, inorganic materials, plastics products, resins molding tools/dies, and external inspection equipment, and more to the industries of dye/additive, information printing, textile processing, raw resin material, resin molding, and functional film and sheet.

The Electronics segment is engaged in the sales of pre-processing materials and devices for LCD/semiconductors, materials for LCD panels, materials and devices for semiconductor assembly, low-temperatures/vacuum equipment, high-function epoxy resins, precision electronics abrasives, and more to the industries of the display, touch panel, LCD, semiconductor, HDD, electronic components, heavy electrical, and other.

The Automotive & Energy segment is engaged in sales of plastics products, thermoplastic resins, thermosetting resins, resins molding tools/dies, battery materials, solar cell/secondary battery-related materials, and more to the industries of the automotive, automotive component, and energy.

The Life & Healthcare segment is engaged in the sales of pharmaceutical/agricultural chemicals and materials, research products, in vitro diagnostics, enzymes, food additives, additives for cosmetics, and feeds/fertilizers and radiation measurement services to the industries of the pharmaceutical, food, cosmetics, and other. In addition, this segment sells cosmetics, health foods, and beauty foods directly to consumers.

(b) Calculation methods of net sales, income or loss, assets, and other items by reportable segments

Accounting methods for reportable segments are generally the same as those listed in Note 2. Reportable segment income corresponds to operating income in the consolidated statements of income. Intersegment internal income and transfers are determined based on the values of transactions at actual market prices.

(c) Information on net sales, income or loss, assets and other items for each reportable segment

Information by reportable segments for the year ended March 31, 2014 is as follows:

	Millions of yen										
	2014										
	Reportable Segments					Total	Others	Total	Corporate	Adjustments	Consolidated
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare							
Sales to customers	¥169,973	¥239,224	¥137,026	¥99,441	¥76,810	¥722,475	¥737	¥723,212	¥—	¥—	¥723,212
Intersegment sales and transfers	2,966	2,212	674	1,886	418	8,158	5,773	13,932	—	(13,932)	—
Net sales	172,939	241,436	137,700	101,328	77,228	730,633	6,510	737,144	—	(13,932)	723,212
Segment income	¥4,328	¥3,707	¥6,067	¥1,381	¥4,000	¥19,485	¥215	¥19,701	¥(4,364)	¥452	¥15,789
Segment assets	¥75,491	¥119,202	¥69,824	¥40,792	¥96,205	¥401,516	¥7,124	¥408,640	¥124,035	¥(34,533)	¥498,141
Other items											
Depreciation and amortization other than amortization of goodwill	¥407	¥647	¥2,323	¥262	¥2,993	¥6,634	¥193	¥6,827	¥1,806	¥—	¥8,634
Amortization of goodwill	—	—	169	—	1,516	1,685	—	1,685	—	—	1,685
Unamortized balance of goodwill	—	—	2,617	—	27,163	29,780	—	29,780	—	—	29,780
Investments in affiliates accounted for by the equity method	1,850	2,245	75	1,777	2,070	8,018	1,838	9,856	—	(54)	9,801
Increase in tangible and intangible fixed assets	399	862	2,015	369	4,488	8,134	49	8,184	2,929	—	11,113

Under the new segmentation policy adopted by the Company, information by reportable segments for the year ended March 31, 2013 would have been as follows:

	Millions of yen										
	2013										
	Reportable Segments					Total	Others	Total	Corporate	Adjustments	Consolidated
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare							
Sales to customers	¥167,017	¥214,214	¥125,014	¥83,068	¥76,116	¥665,431	¥841	¥666,272	¥—	¥—	¥666,272
Intersegment sales and transfers	2,373	1,133	724	1,384	830	6,445	5,523	11,968	—	(11,968)	—
Net sales	169,390	215,347	125,738	84,453	76,947	671,877	6,364	678,241	—	(11,968)	666,272
Segment income	¥4,368	¥3,171	¥6,421	¥763	¥4,093	¥18,818	¥265	¥19,083	¥(3,672)	¥167	¥15,578
Segment assets	¥76,779	¥108,713	¥65,453	¥37,387	¥95,735	¥384,069	¥6,489	¥390,558	¥127,891	¥(31,702)	¥486,747
Other items											
Depreciation and amortization other than amortization of goodwill	¥418	¥553	¥1,508	¥250	¥2,025	¥4,756	¥202	¥4,959	¥2,486	¥—	¥7,445
Amortization of goodwill	—	—	96	—	1,516	1,612	—	1,612	—	—	1,612
Unamortized balance of goodwill	—	—	2,046	—	28,679	30,726	—	30,726	—	—	30,726
Investments in affiliates accounted for by the equity method	1,781	1,545	56	1,613	1,856	6,854	1,793	8,648	—	—	8,648
Increase in tangible and intangible fixed assets	612	863	2,788	92	3,028	7,385	436	7,821	3,870	—	11,691

	Thousands of U.S. dollars										
	2014										
	Reportable Segments					Total	Others	Total	Corporate	Adjustments	Consolidated
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare							
Sales to customers	\$1,651,506	\$2,324,368	\$1,331,384	\$966,197	\$746,308	\$7,019,773	\$7,161	\$7,026,934	\$—	\$—	\$7,026,934
Intersegment sales and transfers	28,818	21,492	6,549	18,325	4,061	79,265	56,092	135,367	—	(135,367)	—
Net sales	1,680,325	2,345,861	1,337,932	984,532	750,369	7,099,038	63,253	7,162,301	—	(135,367)	7,026,934
Segment income	\$42,052	\$36,018	\$58,949	\$13,418	\$38,865	\$189,322	\$2,089	\$191,421	\$ (42,402)	\$4,392	\$153,410
Segment assets	\$733,492	\$1,158,201	\$678,430	\$396,347	\$934,755	\$3,901,244	\$69,219	\$3,970,462	\$1,205,159	\$ (335,532)	\$4,840,080
Other items											
Depreciation and amortization other than amortization of goodwill	\$3,955	\$6,286	\$22,571	\$2,546	\$29,081	\$64,458	\$1,875	\$66,333	\$17,548	\$—	\$83,890
Amortization of goodwill	—	—	1,642	—	14,730	16,372	—	16,372	—	—	16,372
Unamortized balance of goodwill	—	—	25,428	—	263,923	289,351	—	289,351	—	—	289,351
Investments in affiliates accounted for by the equity method	17,975	21,813	729	17,266	20,113	77,905	17,859	95,764	—	(525)	95,229
Increase in tangible and intangible fixed assets	3,877	8,375	19,578	3,585	43,607	79,032	476	79,518	28,459	—	107,977

(d) Geographical information

Net sales for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Japan	¥372,939	¥361,971	\$3,623,581
China	152,373	133,076	1,480,499
Other	197,899	171,224	1,922,843
Total	¥723,212	¥666,272	\$7,026,934

Net sales are classified by country or region based on locations of customers.

Property, plant and equipment as of March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Japan	¥56,862	¥54,619	\$552,487
Other	7,051	6,347	68,510
Total	¥63,914	¥60,967	\$621,007

Independent Auditor's Report

(e) Information on loss on impairment of fixed assets per reportable segments

Loss on impairment of fixed assets for the years ended March 31, 2014 and 2013 is as follows:

Millions of yen									
2014									
Reportable Segments									
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total	
Loss on impairment of fixed assets	¥—	¥—	¥221	¥1,080	¥—	¥1,301	¥—	¥12	¥1,314

Millions of yen									
2013									
Reportable Segments									
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total	
Loss on impairment of fixed assets	¥—	¥1,359	¥326	¥—	¥211	¥1,896	¥—	¥—	¥1,896

Thousands of U.S. dollars									
2014									
Reportable Segments									
Functional Materials	Advanced Materials & Processing	Electronics	Automotive & Energy	Life & Healthcare	Total	Others	Eliminations or corporate	Total	
Loss on impairment of fixed assets	\$—	\$—	\$2,147	\$10,494	\$—	\$12,641	\$—	\$117	\$12,767

(f) Information on gain on bargain purchase per reportable segments

The Company additionally acquired shares of certain consolidated subsidiaries. As a result, the Company recorded gain on bargain purchase of ¥431 million (\$4,188 thousand) in the Functional Materials segment and ¥96 million (\$933 thousand) in the Electronics segment for the year ended March 31, 2014.

23. RELATED PARTY TRANSACTION

On August 10, 2012, the Company acquired treasury stock from Mr. Reiji Nagase, a representative director of the Company, and his relatives Ms. Reiko Nagase and Ms. Yoshiko Umezono as determined by a resolution at the Board of Directors' meeting held on August 9, 2012 through the off-auction own share repurchase trading system (ToSTNeT-3) on the Tokyo Stock Exchange at ¥913 per share, the closing price on August 9, 2012.

The Company and its subsidiary's transactions with these related parties for the year ended March 31, 2013 were as follows:

Millions of yen	
2013	
Transactions:	
With Mr. Reiji Nagase -Acquisition of treasury stock	¥584
With Ms. Reiko Nagase - Acquisition of treasury stock	442
With Ms. Yoshiko Umezono -Acquisition of treasury stock	456

24. EFFECT OF BANK HOLIDAY

As the balance sheet date fell on a bank holiday, the following notes receivable and notes payable with due dates of March 31, 2013 were included in the respective balances and were settled on the next business day.

Millions of yen	
2013	
Notes receivable	¥2,146
Notes payable	579

25. SUBSEQUENT EVENT

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2014, was approved at a meeting of the shareholders held on June 25, 2014:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥14.0 = U.S.\$0.14 per share)	¥1,778	\$17,276



Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
NAGASE & CO., LTD.

We have audited the accompanying consolidated financial statements of NAGASE & CO., LTD. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 26, 2014
Osaka, Japan

Consolidated Subsidiaries, Affiliates and Offices

● Consolidated subsidiary ● Company accounted for under the equity method

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Japan					
Manufacturing and Processing					
●	Nagase ChemteX Corporation	Research, manufacture, and sale of enzymes, fermented products, pharmaceutical intermediates, disinfecting agents, functional polymers, epichlorohydrine derivatives, electronics materials, etc.	Osaka Pref.	1970	100.0
●	Hayashibara Co., Ltd.	Development, manufacture, and sale of food raw materials, pharmaceutical raw materials, cosmetics raw materials, health foods raw materials, functional dyes, etc.	Okayama Pref.	1932	100.0
●	Nagase Medicals Co., Ltd.	Manufacture and sale of pharmaceuticals, animal drugs, health foods, and cosmetics	Hyogo Pref.	1972	100.0
●	Setsunan Kasei Co., Ltd.	Coloring and sale of plastics	Osaka Pref.	1966	100.0
●	Totaku Industries, Inc.	Manufacture and sale of plastic products	Osaka Pref.	1952	99.9
●	Kotobuki Kasei Corp.	Molding, processing and sale of plastic products	Tochigi Pref.	1972	100.0 (42.5)
●	Nagase Techno-Engineering Co., Ltd.	Manufacture, sale and maintenance of low-temperature vacuum equipment, systems for chemical supply management and recycling processes, inspection systems, and the peripheral equipment for each of these.	Tokyo Pref.	1989	100.0
●	Fukui Yamada Chemical Co., Ltd.	Manufacture of color former	Fukui Pref.	1985	90.0
●	Nagase Filters Co., Ltd.	Planning, production, processing, quality testing and sale of metal filters	Osaka Pref.	2006	100.0
●	CAPEX Co., Ltd.	Manufacture and development of battery power source controllers, battery power sources and power source peripheral equipment	Aichi Pref.	2004	100.0
●	Kawai Hiryo Corporation	Manufacture and sale of organic fertilizers and agricultural chemicals and materials	Shizuoka Pref.	1981	100.0 (33.3)
●	Sun Delta Corporation	Development of applications for synthetic plastic products and manufacture and sale of processed products	Tokyo Pref.	2005	50.0
●	Honshu Rheem Co., Ltd.	Manufacture and sale of fiber drums, import and sale of food processing machines and materials	Kanagawa Pref.	1968	40.0
●	Toyo Beauty Supply Corp.	Contract manufacture of cosmetics and health foods	Tokyo Pref.	1964	40.0
●	eX. Grade Co., Ltd.	Development, manufacture and sale of components for electronic equipment	Osaka Pref.	2003	30.4
●	SN Tech Corporation	Manufacture of developer, recycling business	Osaka Pref.	2008	40.0 (5.0)
	Nihon Bio Fertilizer Co., Ltd.	Manufacture and sale of organic fertilizer	Shizuoka Pref.	1986	100.0 (100.0)
	Uma Yasai Farm Corporation	Processing and sales of agricultural and livestock goods	Shizuoka Pref.	2008	100.0 (100.0)
Servicing					
●	Nagase Logistics Co., Ltd.	Warehousing and distribution	Hyogo Pref.	1982	100.0
●	Hoei Techno Service Co., Ltd.	Sales of BPO services, catalog & online commerce, recordable media, RFID; logistics services	Chiba Pref.	1991	100.0
●	Nagase General Service Co., Ltd.	Sale and lease of various goods, real estate administration	Tokyo Pref.	1983	100.0
●	Nagase Information Development, Ltd.	Software development and maintenance	Tokyo Pref.	1987	100.0
●	Nagase Trade Management Co., Ltd.	Business agent for foreign trade documentation	Tokyo Pref.	1996	100.0
●	Nippon Vopac Co., Ltd.	Warehousing, motor truck carrier business and freight transportation services	Tokyo Pref.	1966	20.0
●	Nagase Landauer, Ltd.	Radiation measuring services	Ibaraki Pref.	1974	50.0
●	TAGCyx Biotechnologies	High-function materials using artificial bases, reagent kits, diagnostic products, pharmaceuticals	Kanagawa Pref.	2007	36.5
	Nagase Logistics Support Co., Ltd.	An exclusive stevedore for Nagase Logistics Co., Ltd.	Hyogo Pref.	1954	100.0 (100.0)
	Choko Co., Ltd.	Insurance agency	Osaka Pref.	1971	44.6

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Sales					
●	Nagase Chemical Co., Ltd.	Sale of dyestuffs, industrial chemicals, chemicals for manufacturing paper, plastics and machinery	Tokyo Pref.	1995	100.0
●	Nagase Plastics Co., Ltd.	Sale of raw materials for plastics and plastic products	Osaka Pref.	1975	100.0
●	Hoei Sangyo Co., Ltd.	Sale of film materials, magnetic products, information imaging materials, etc.	Tokyo Pref.	1974	100.0
●	Nagase Beauty Care Co., Ltd.	Sale of cosmetics and health foods	Tokyo Pref.	1991	100.0
●	Nishinohon Nagase Co., Ltd.	Sale of dyestuffs, auxiliaries, industrial chemicals and plastics	Fukuoka Pref.	1969	100.0
●	Nagase Elex Co., Ltd.	Sale of raw materials for plastics and plastic products	Tokyo Pref.	1979	100.0
●	Nagase Abrasive Materials Co., Ltd.	Sale of abrasives, inorganic materials and related equipment	Osaka Pref.	1955	100.0
●	Nagase Sanbio Co., Ltd.	Sales of medicine for agriculture and additives for fertilizers, feed and food	Tokyo Pref.	1987	100.0 (13.0)
●	Nagase Chemspec Co., Ltd.	Sale and technological servicing of chemicals	Tokyo Pref.	1976	100.0
●	Nagase Tool Matex Co., Ltd.	Sale of auto models, test production materials, and carbon fiber composites	Tokyo Pref.	1965	100.0
●	Nagase-OG Colors & Chemicals Co., Ltd.	Purchasing and information services related to dyes, industrial chemicals, etc.	Osaka Pref.	1957	50.0
●	OnFine Co., Ltd.	Manufacture and sale of electronics and fluorine and polysilane variants for use in materials	Osaka Pref.	2002	50.0 (25.0)
	Nihon UNF Co., Ltd.	Manufacture, sale, import/export, management consulting, and investment in pharmaceuticals and non-pharmaceuticals	Shizuoka Pref.	2001	20.0
GREATER CHINA AND KOREA					
Manufacturing and Processing					
●	Nagase ChemteX (Wuxi) Corporation	Plastic manufacture and sale of adhesives and high-tech chemical products for electronics, technology services	China	2002	100.0 (50.0)
●	Totaku Industries Suzhou Co., Ltd.	Manufacture and sale of plastic products	China	2005	100.0 (100.0)
●	Nagase Electronics Technology Co., Ltd.	Chemical etching of liquid crystal glass panel units	Taiwan	2005	71.0 (11.0)
●	Nagase Engineering Service Korea Co., Ltd.	Equipment maintenance service and engineering	Korea	1997	100.0 (100.0)
●	Nagase Electronics Technology (Xiamen) Co., Ltd.	Chemical etching of liquid crystal glass panel units	China	2010	100.0 (100.0)
●	Guangzhou Kurabo Chemicals Co., Ltd.	Manufacture of molded urethane products for automobiles	China	2001	20.0
●	Toyo Quality One (Guangzhou) Co., Ltd.	Research and development, manufacturing, processing, sale, technology consulting, and after-sale service for major automotive parts	China	2004	20.0
●	Toyo Quality One Ningbo Co., Ltd.	Manufacture and sale of polyurethane foam	China	1993	24.2
●	Tokai Spring Mfg. (Foshan) Co., Ltd.	Development, manufacture, and sale of precision press products, spring, and standard molds	China	2005	27.3
●	Light Chemical (Changzhou) Co., Ltd.	Research, development, and afterservice for high-function composites and intermediates; sales of internally developed products	China	2011	33.4
	ON Textile Chemicals (Shanghai) Co., LTD.	Manufacture, sales, and export/import of textile-related products, dyeing processing agents	China	2003	50.0 (50.0)
Servicing					
	Nagase Marketing and Service (Shenzhen) Ltd.	Customer services	China	2006	100.0 (100.0)
	Nagase CMS Technology (Shanghai) Co., Ltd.	Construction and maintenance of chemical supply and management equipment	China	2006	100.0 (60.0)
	NW Consultant Service (Shenzhen) Ltd.	Print quality management consultant	China	2008	60.0 (30.0)
	Nagase Business Management and Planning (Shanghai) Co., Ltd.	Management of Nagase Group operations and promotion of business strategies related to Greater China	China	2011	100.0

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Sales					
●	Nagase (Hong Kong) Ltd.	Import/export, domestic sales, marketing	China	1971	100.0
●	Shanghai Hua Chang Trading Co., Ltd.	Sale of resins and related products	China	1998	70.0 (53.8)
	Suzhou Branch Office/Ningbo Branch Office		China		
	Chengdu Branch Office/ Chongqing Branch Office		China		
●	Shanghai Nagase Trading Co., Ltd.	Import/export, domestic sales, marketing	China	1997	100.0
●	Nagase Wahlee Plastics Corp.	Sale of plastics and related products	Taiwan	1990	60.0 (5.0)
	Taichung Office		Taiwan		
	Gangshan Office		Taiwan		
●	NWP (B.V.) Corporation	Vehicle for investments into China from Taiwan	British Virgin Islands	2007	100.0 (100.0)
●	Guangzhou Nagase Trading Ltd.	Import/export, domestic sales, marketing	China	2002	100.0 (100.0)
	Wuhan Branch Office/Chongqing Branch Office		China		
	Chengdu Branch Office/Changsha Branch Office		China		
●	Nagase (Taiwan) Co., Ltd.	Import/export, domestic sales, marketing	Taiwan	1988	100.0
	Xiamen Representative Office		China		
●	Tianjin Nagase International Trading Co., Ltd.	Import/export, domestic sales, marketing	China	2003	100.0
	Dalian Branch Office/Qingdao Branch Office		China		
	Changchun Branch Office		China		
●	NWP International Trading (Shenzhen) Co., Ltd.	Sale of plastic products in South China	China	2004	100.0 (100.0)
	Dongguan Branch Office		China		
	Guangzhou Branch Office		China		
●	Nagase Korea Corp.	General import/export trading, retailing/wholeselling, import/export trade agency	Korea	2001	100.0
●	Xiamen Nagase International Trading Co., Ltd.	Import/export, domestic sales, marketing	China	2011	100.0 (100.0)
	ON Colors & Chemicals (Shanghai) Co., Ltd.	Sales of textile-related products, dyeing processing agents, related equipment; export/import and technology consulting, technological development of dyeing processing	China	2002	50.0 (50.0)
ASEAN AND THE MIDDLE EAST					
Manufacturing and Processing					
●	Nagase Finechem Singapore (Pte) Ltd.	Manufacture and recycling of chemical agents for liquid crystals	Singapore	2001	100.0 (40.0)
●	Pac Tech Asia Sdn. Bhd.	Manufacture and sale of semiconductor manufacturing equipment, semiconductor wafer bumping contract manufacturing	Malaysia	2006	100.0 (100.0)
●	Sanko Gosei Technology (Thailand) Ltd.	Manufacture of automobile components	Thailand	1994	40.0
	Bangkok Design Office		Thailand		
●	Automotive Mold Technology Co., Ltd.	Manufacture of automotive molds and dies	Thailand	2000	32.1
●	Nafuko Co., Ltd.	Manufacture, import/export and sale of packaging materials and related equipment	Thailand	1996	28.0 (28.0)
●	Dainichi Color Vietnam Co., Ltd.	Manufacture and sale of color masterbatch blend for plastic	Vietnam	2005	40.0
●	P.T. Toyo Quality One Indonesia	Manufacture of flame lamination products	Indonesia	2008	25.0
●	Majend Makcs Co., Ltd.	Plastic film processing	Thailand	2002	30.0 (30.0)
●	PT. TUNE Manufacturing Indonesia	Painting and sales of exterior auto parts	Indonesia	2013	35.0 (25.0)

Category	Company name	Description of business	Location	Year of establishment	Equity ownership (%) (* indicates indirect investment)
Sales					
●	Nagase (Thailand) Co., Ltd.	Import/export, domestic sales, marketing	Thailand	1989	100.0
	Eastern Office		Thailand		
●	Nagase Singapore (Pte) Ltd.	Import/export, domestic sales, marketing	Singapore	1975	100.0
	Australia Branch		Australia		
	Bangladesh Liaison Office		Bangladesh		
●	Nagase (Malaysia) Sdn. Bhd.	Import/export, domestic sales, marketing	Malaysia	1981	100.0
	Johor Bahru Office		Malaysia		
	Penang Office		Malaysia		
●	P.T. Nagase Impor-Ekspor Indonesia	Import/export, domestic sales, marketing	Indonesia	1998	99.8
●	Nagase Philippines Corp.	Import/export, domestic sales, marketing	Philippines	1997	100.0
●	Nagase Philippines International Services Corp.	Domestic sales, import/export	Philippines	2005	100.0
●	Nagase Vietnam Co., Ltd.	Import/export, domestic sales, marketing	Vietnam	2008	100.0
	Ho Chi Minh City Branch		Vietnam		
●	Nagase India Private Ltd.	Import/export, domestic sales, marketing	India	2006	100.0 (0.1)
	North India Branch (Gurgaon)		India		
	Nagase (Siam) Co., Ltd.	Contract services for Group companies	Thailand	2000	49.0 (49.0)
—	Nagase Middle East Branch	Branch	United Arab Emirates		
AMERICAS					
Manufacturing and Processing					
●	Engineered Materials Systems Inc.	Research and development, manufacture, and sales of materials for commercial adhesives, conductive adhesives	America	1993	100.0 (50.0)
●	Pac Tech USA-Packaging Technologies Inc.	Semiconductor wafer bumping, manufacture and sale of semiconductor manufacturing equipment	America	2001	100.0 (100.0)
●	Sofix Corp.	Manufacture and sale of color formers	America	1990	100.0
●	KN Plotech America Corporation	Manufacture and sale of blow-formed plastic components and products	America	2010	50.0
●	TIMLE S.A. DE C.V.	Manufacture and sale of automotive laminated frames sale of automotive urethane foam	Mexico	2010	15.0
●	TQ-1 de MEXICO S.A. DE C.V.	Manufacture and sale of urethane for automotive seat pads	Mexico	2012	25.0
Sales					
●	Nagase America Corp.	Import/export, domestic sales, marketing	America	1971	100.0
	Michigan Branch		America		
	California Branch		America		
●	Nagase Enterprise Mexico S.A. de C.V.	Import/export sales, intermediate trade, market development, information collection	Mexico	2010	100.0 (100.0)
	NAGASE DO BRASIL REPRESENTAÇÃO COMERCIAL LTDA.	Survey biomedical businesses in Brazil and South America; review other development businesses in the region	Brazil	2012	100.0 (0.1)
Europe					
Manufacturing and Processing					
●	Pac Tech-Packaging Technologies GmbH	Semiconductor wafer bumping, manufacture and sale of semiconductor manufacturing equipment	Germany	1995	97.2
Sales					
●	Nagase (Europa) GmbH	Import/export, domestic sales, marketing	Germany	1980	100.0
	Hungary Representative Office		Hungary		
	London Branch		England		

Overview

Company Name	NAGASE & CO., LTD.	
Founded	June 18, 1832	
Establishment	December 9, 1917	
Capital	¥9,699 million	
Employees	978 (Consolidated: 5,960)	
Main Business	Import/export and domestic sales of dyestuffs, chemicals, plastics, machinery, electronics materials, cosmetics and health foods	
Main Banks	Sumitomo Mitsui Banking Corporation, The Bank of Tokyo-Mitsubishi UFJ, Ltd., Mizuho Bank, Ltd. Sumitomo Mitsui Trust Bank, Limited	
Main Offices	Osaka Head Office	1-1-17, Shinmachi, Nishi-ku, Osaka City, Osaka, 550-8668 Tel: (81) 6-6535-2114
	Tokyo Head Office	5-1, Nihonbashi-Kobunacho, Chuo-ku, Tokyo, 103-8355 Tel: (81) 3-3665-3021
	Nagoya Branch Office	3-14-18, Marunouchi, Naka-ku, Nagoya City, 460-8560 Tel: (81) 52-963-5615
	Nagase R&D Center	Kobe High Tech Park, 2-2-3, Murotani, Nishi-ku, Kobe City, 651-2241 Tel: (81) 78-992-3162
	Nagase Application Workshop	2-4-45, Higashitsukaguchicho, Amagasaki City, 661-0011 Tel: (81) 6-4961-6730

Organization (as of April 1, 2014)



Stock Exchange Listings Tokyo (First Sections)

Code 8012

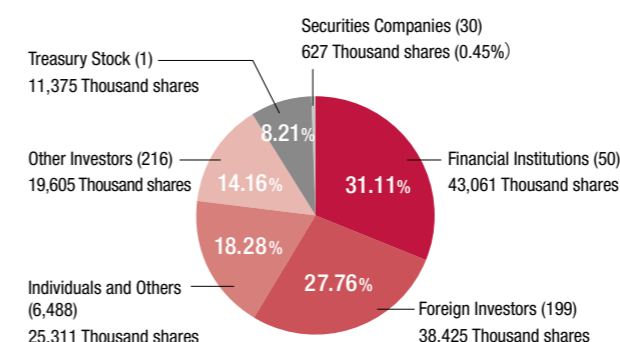
Authorized Number of Shares 346,980,000
Issued Number of Shares 138,408,285

Number of Shareholders 6,984

Principal Shareholders

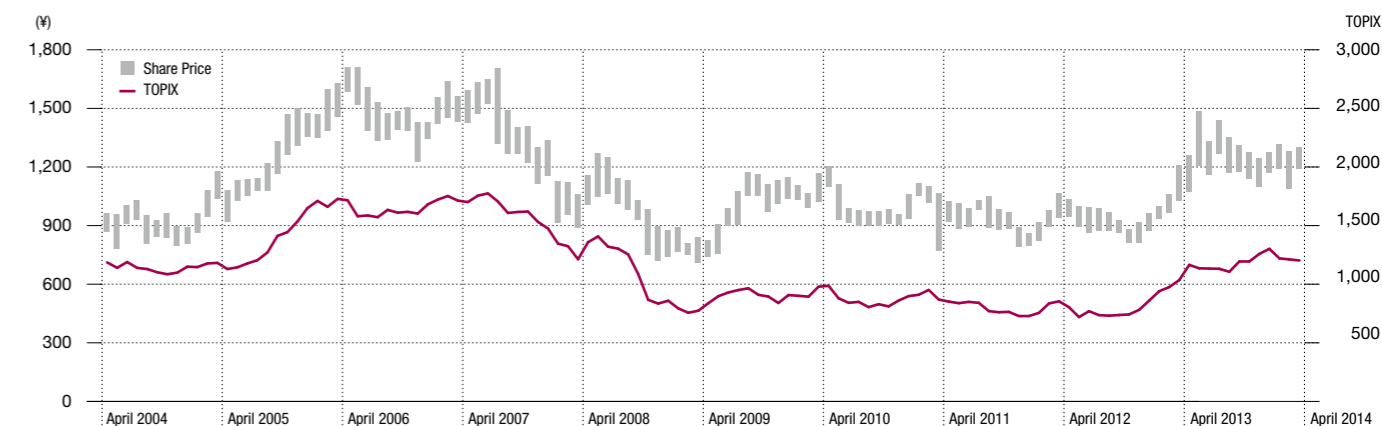
Name	Number of Shares Held (thousands)	Percentage of Total Shares Outstanding (%)
NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	6,028	4.36
Sumitomo Mitsui Trust Bank, Limited.	5,776	4.17
The Master Trust Bank of Japan, Ltd. (Trust Account)	5,549	4.01
Sumitomo Mitsui Banking Corporation	4,377	3.16
Japan Trustee Services Bank, Ltd. (Trust Account)	4,303	3.11
NORTHERN TRUST CO. (AVFC) SUB A/C NON TREATY	4,296	3.10
Hiroshi Nagase	4,142	2.99
Nippon Life Insurance Company	4,037	2.92
Reiko Nagase	3,573	2.58
NORTHERN TRUST CO. (AVFC) RE U.S. TAX EXEMPTED PENSION FUNDS	3,539	2.56

Composition of Shareholders



Notes: 1. In addition to the above, the Company holds 11,375 thousand shares of treasury stock (8.21%) without voting rights.
 2. Shares owned by Hiroshi Nagase include shares nominally owned by NAGASE & CO., LTD.

Monthly Share Price Range of Nagase



Monthly Trading Volume

