TOKYO OHKA KOGYO CO., LTD.

Challenges Create Opportunities and a Promising Future

Annual Report 2014

Year Ended March 31, 2014

Philosophy

TOK's activities are guided by corporate policies with four core principles: "Continue efforts to enhance our technology," "Raise the quality levels of our products," "Contribute to society" and "Create a frank and open-minded business culture."
We are dedicated to promoting *monozukuri* (the art of manufacturing) to contribute to the creation of the future in harmony with many demands. At the same time, our operations will continue to reflect a firm commitment to corporate social responsibility.
Our objective is to sustain growth in corporate value as we remain an innovative company that can meet the high expectations of all stakeholders.

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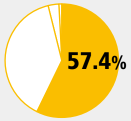
Forward-looking statements
This annual report contains forward-looking statements that describe future prospects of TOKYO OHKA KOGYO CO., LTD. (the Company) in terms of business planning, earnings and management strategies. Such statements are based on management's judgement, derived from information available to it at the time such information was prepared. Readers are cautioned not to rely solely on these forward-looking statements, as actual results and strategies may differ substantially according to changes in the Company's business environment.
Note: The accounting period covers a 12-month period beginning April 1 and ending March 31 the following year. In this annual report, "fiscal 2014" or "FY2014" refers to the 12-month period ended March 31, 2014 (April 1, 2013 – March 31, 2014).

TOK in Brief

Material Business

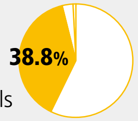
Electronic Functional Materials Division



We offer a diverse range of photoresist*, which is a widely used material that is essential for the microprocesses involved in the manufacture of semiconductors, LCDs, semiconductor packagings and other electronic products. We also supply materials for forming interlayer insulating film and planarizing insulation film, which are required as advanced microprocesses in semiconductors raise the number of layers of circuitry. TOK contributes to progress in the electronics industry by developing and supplying products that offer higher performance and quality.

* Photoresist: A photosensitive resin that acts and changes chemically when exposed to light

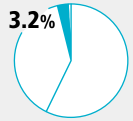
High Purity Chemicals Division



As a comprehensive manufacturer of photoresist, TOK uses its knowledge of this material to supply a wide variety of photoresist-related chemicals such as developing solution, stripping solution, rinsing solution, thinner and other chemicals. In addition, TOK manufactures inorganic and organic chemicals used in a wide range of industries.

Equipment Business

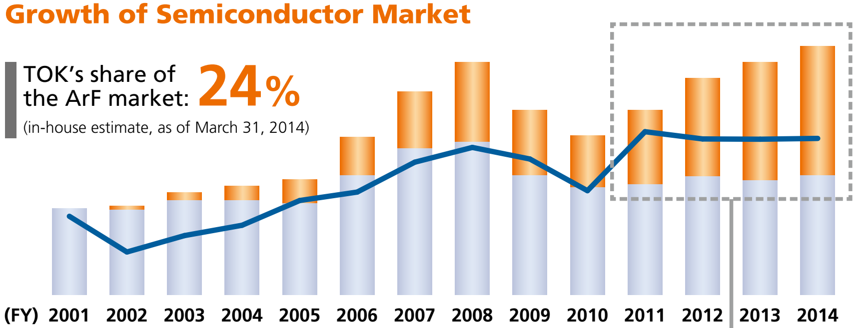
Process Equipment Division



We offer a variety of semiconductor manufacturing equipment and process equipment for LCD panels centered on the Zero Newton® wafer handling system, which enhances the efficiency of 3D-packaging processes while enabling superior cost performance. By developing both equipment and materials, the synergetic effects can be generated to the fullest. In this way, TOK is able to strongly support its customers.

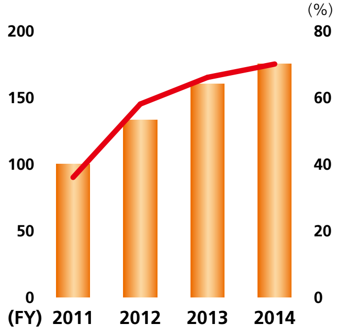
Sales of TOK's ArF and KrF Excimer Laser Photoresists Outpace Growth of Semiconductor Market

TOK's share of the ArF market: **24%**
(in-house estimate, as of March 31, 2014)



In the market for ArF and KrF excimer laser photoresists, which are essential in the advanced areas of semiconductor manufacturing, TOK's sales are seen above to be ahead of the semiconductor market growth rate.

Advanced Products and High Value-added Give Us Our Edge



In the ArF excimer laser photoresist market, advanced immersion-type photoresists needed for several-dozen nanometer features are technologically very challenging and products have high value-added. TOK is increasing production of such devices, and has built up a leading share of the excimer laser photoresist market.

10-Year Summary

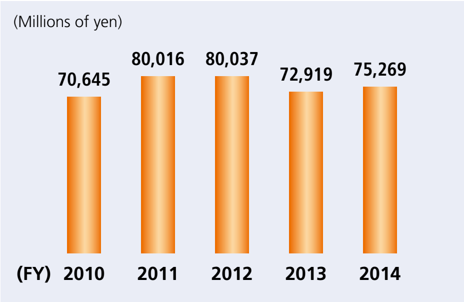
TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / For the Years Ended March 31

	Millions of yen										Thousands of U.S. dollars (Note 1)
	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2014
For the year:											
Net sales	¥ 88,960	¥ 98,514	¥ 101,955	¥ 102,482	¥ 83,850	¥ 70,645	¥ 80,016	¥ 80,037	¥ 72,919	**¥ 75,269**	**$ 737,936**
Material business	71,617	80,338	83,038	86,186	72,589	65,091	71,482	66,645	67,697	**72,866**	**714,381**
Equipment business	17,461	18,252	18,991	16,363	11,350	5,632	8,622	13,500	5,302	**2,484**	**24,354**
Operating income (loss)	7,295	10,544	10,884	8,447	(1,367)	364	6,123	6,102	7,872	**10,025**	**98,289**
Income (loss) before income taxes and minority interests	8,070	11,324	11,119	7,352	(5,325)	114	6,427	6,577	8,031	**11,666**	**114,372**
Net income (loss)	5,088	6,656	6,660	4,259	(4,656)	254	3,649	3,818	5,443	**7,549**	**74,012**
Free cash flow	6,605	(5,797)	(7,078)	(8,169)	8,493	6,504	12,435	(6,641)	12,363	**(2,610)**	**(25,591)**
Investment in plant and equipment	3,631	6,962	8,531	6,574	3,270	1,320	1,699	3,162	5,332	**14,577**	**142,911**
Depreciation and amortization	5,595	5,502	5,931	7,693	7,297	5,418	4,393	4,038	3,758	**2,672**	**26,201**
R&D costs	5,800	5,683	6,487	8,095	8,542	6,949	6,360	6,157	6,211	**6,389**	**62,639**
Per share data (Yen / U.S. Dollars):											
Basic net income (loss)	¥ 109.16	¥ 142.34	¥ 142.37	¥ 91.50	¥ (102.00)	¥ 5.66	¥ 81.08	¥ 84.86	¥ 121.69	**¥ 168.54**	**$ 1.65**
Cash dividends applicable to the year	27	33	36	36	35	30	33	38	44	**52**	**0.51**
Net assets	2,492.60	2,650.50	2,750.81	2,775.38	2,591.43	2,578.30	2,597.72	2,641.28	2,796.37	**3,044.24**	**29,845.49**
At the year-end:											
Total assets	¥ 154,309	¥ 165,681	¥ 166,610	¥ 159,633	¥ 139,388	¥ 138,122	¥ 147,085	¥ 138,767	¥ 145,664	**¥ 155,859**	**$1,528,031**
Total long-term liabilities	7,086	2,222	2,108	2,198	2,205	2,350	2,105	2,613	2,811	**1,518**	**14,888**
Interest-bearing debt	267	249	463	449	458	57	0	610	488	**366**	**3,588**
Total equity	115,564	123,915	131,074	129,834	118,377	117,658	118,567	119,590	127,838	**139,962**	**1,372,184**
Ratios (%):											
Operating margin	8.2	10.7	10.7	8.2	—	0.5	7.7	7.6	10.8	**13.3**	
ROE	4.5	5.6	5.3	3.3	—	0.2	3.1	3.3	4.5	**5.8**	
Ratio of R&D costs to net sales	6.5	5.8	6.4	7.9	10.2	9.8	7.9	7.7	8.5	**8.5**	
Equity ratio	74.9	74.8	77.3	79.9	83.7	84.0	79.5	85.1	85.9	**87.5**	
Debt-to-equity (Times)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.01	0.00	**0.00**	
Payout ratio	24.7	23.2	25.3	39.3	—	530.0	40.7	44.8	36.2	**30.9**	
Industry trend											
Worldwide Semiconductor Market ($ Million), calendar year*	227,484	247,716	255,645	248,603	226,313	298,315	299,521	291,562	305,584		
Exchange rate (¥ / $)	108	117	118	100	98	93	83	82	94	**102**	

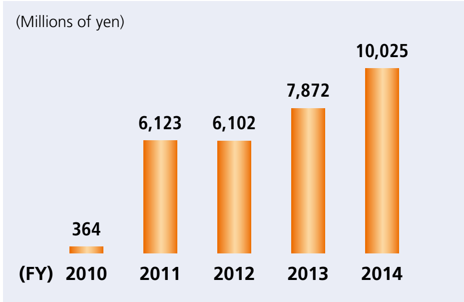
*Source: WSTS

Major Indicators

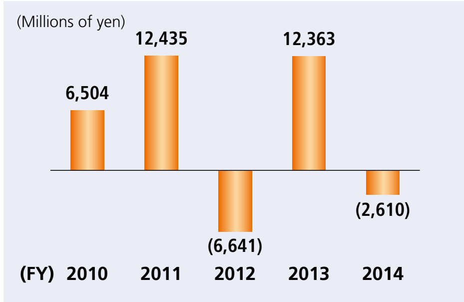
Net sales



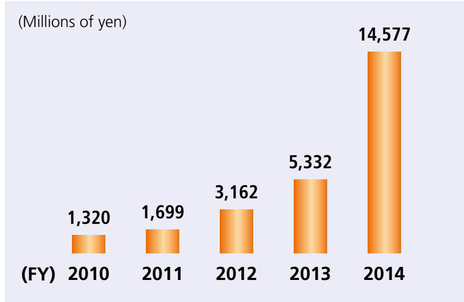
Operating income



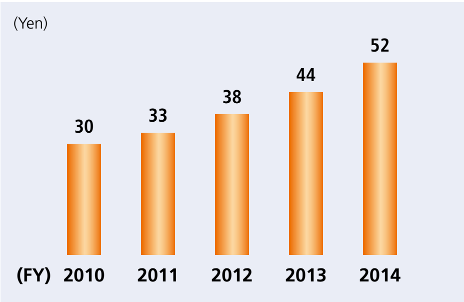
Free cash flow



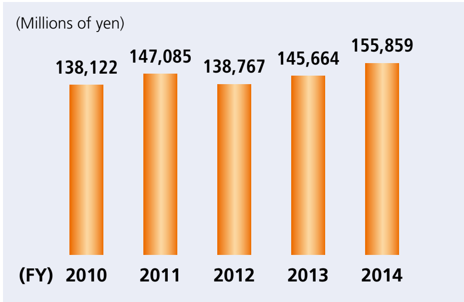
Investment in plant and equipment



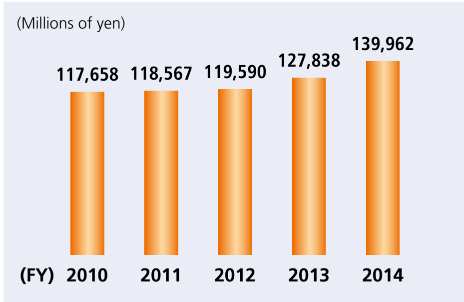
Cash dividends applicable to the year



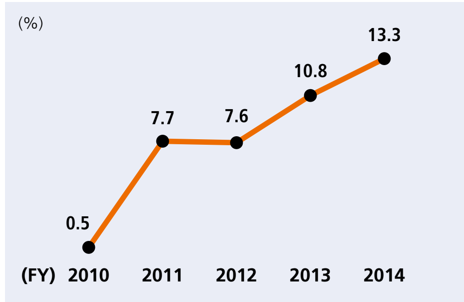
Total assets



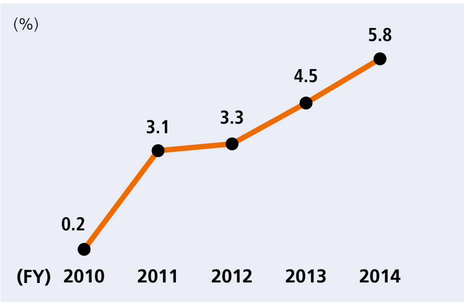
Total equity



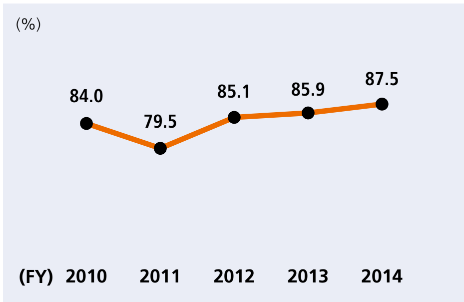
Operating margin



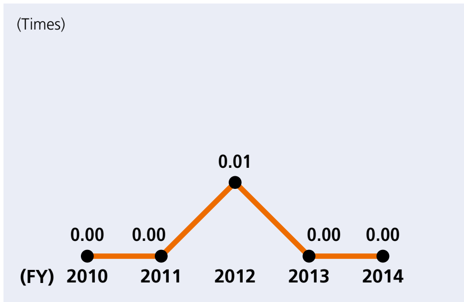
ROE



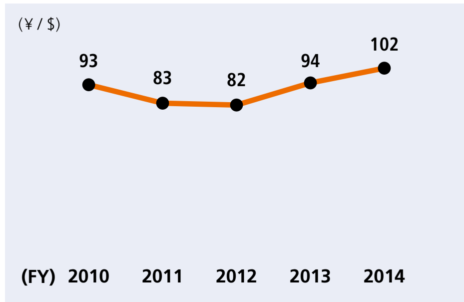
Equity ratio



Debt-to-equity



Exchange rate



A Message from the President

"With our microprocessing technology as our key core competence, we are focusing our energies into initiatives to achieve sustainable growth."

In the fiscal year ended March 2014, which was the first year of our medium-term plan, the Material Business leveraged its strengths to record an increase in sales and income and we achieved our highest ever net income.

I would like to take this opportunity to explain to you our strategy for achieving sustainable growth in the context of the expansion of the semiconductor market and the intensification of competition.

Ikuo Akutsu
President & Chief Executive Officer

Highest ever net income

In the fiscal year ended March 2014, the TOK Group implemented a range of priority measures for the first year of the "TOK Medium-Term Plan 2015" and achieved growth in the high value-added fields that are our strength. Through advanced processes for manufacturing semiconductors, this growth included for ArF excimer laser photoresists, for which demand continues to grow; for photoresists for high-resolution displays for smartphones and tablet devices; and for high purity chemicals. As a result, the Material Business recorded net sales of ¥72,866 million and segment income of ¥14,086 million, both of which were its highest totals since the Lehman Shock. Unfortunately, the Equipment Business posted an operating loss of ¥889 million, but this was covered by the growth in the Material Business, and consequently, consolidated operating income grew 27.3% year on year to ¥10,025 million, the second consecutive fiscal year it has increased. When items such as foreign exchange gains were added, our net income became ¥7,549 million, which was an increase of 38.7% year on year and represents our highest ever total since the fiscal year ended March 1998. We also increased dividends for the fourth consecutive fiscal year and provided our shareholders with an annual dividend per share of ¥52, our highest ever.

❑ Consolidated performance

(Millions of yen)

Years Ended March 31	2013	2014		
			Increase	%
Net Sales	72,919	**75,269**	2,349	3.2
Operating Income	7,872	**10,025**	2,152	27.3
Net Income	5,443	7,549	2,106	38.7

Record high

A Summary of the "TOK Medium-Term Plan 2015" and a Progress Report

❑ Summary of the "TOK Medium-Term Plan 2015"

Management Vision

- "Aim to be a globally trusted corporate group by inspiring customers with high value-added products that have satisfying features, low cost and superior quality."
- Consolidated operating income: ¥20,000 million (fiscal 2021 target)

Management Objectives

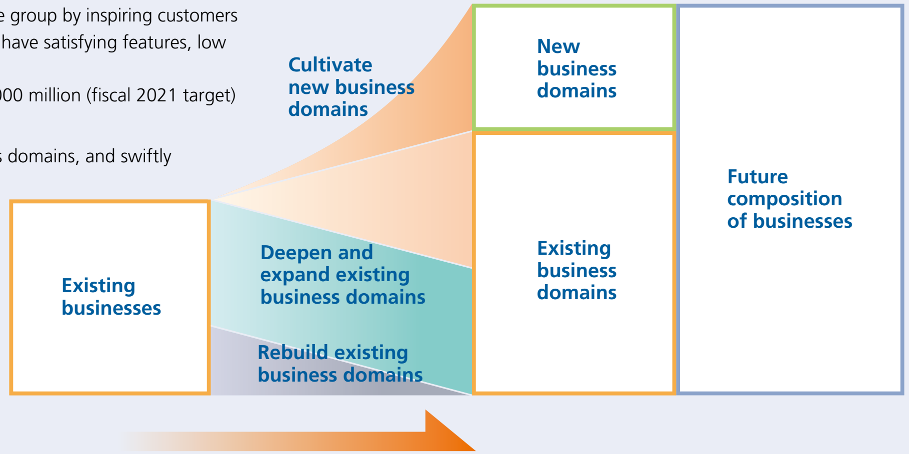
- "Deepen and expand existing business domains, and swiftly launch new business domains."

Numerical targets (fiscal year ending March 2016)

- Net sales: ¥99,000 million
- Operating income: ¥15,000 million

Features of the "TOK Medium-Term Plan 2015"

- "Surpass record-high earnings"
- "Enhance business foundations"
- "Expanding business domains"



In the "TOK Medium-Term Plan 2015," launched in April of last year, we have set the numerical targets for the final fiscal year ending March 2016, of net sales of ¥99,000 million and operating income of ¥15,000 million. Our progress rate* toward achieving these targets in the fiscal year ended March 2014 was 9% of the net sales target and 30% of the operating income target. In the second year of the plan, the fiscal year ending March 2015, on the one hand we expect sales of high purity chemicals to continue to trend at a high level and to maintain their increase, but on the other hand, we are anticipating a delay to the start-up of the through-silicon-via (TSV) market in the Equipment Business, delays in developing new businesses, and an increase in depreciation and amortization in the Material Business. Due to these and other factors, we are forecasting a progress rate of only 41% for net sales and 27% for operating income. Therefore, I have to say that we are slightly behind schedule toward achieving our target of operating income of ¥15,000 million in the fiscal year ending March 2016.

However, I am absolutely not pessimistic about our situation. The reason is that at the current time, we are starting to see the results of the regional-based strategy launched by the Material Business last year, and in addition, the Equipment

Business is making steady progress toward improving its profitability through reducing costs. In our new businesses also, we are developing new businesses with enormous potential, including the TSV process system and Si photovoltaic related materials. While it is highly possible that we will have to shift the time scale to achieve our quantitative targets, we have been continuously and steadily implementing initiatives in the correct direction toward realizing sustainable growth. We will continue to press ahead with initiatives to achieve our highest ever operating income of ¥15,000 million.

* Progress rate: rate of increases of net sales and operating income during the fiscal year ended March 2014 relative to an increase in net sales of +¥26,080 million (compared to FY2013/3) and an increase in operating income of +¥7,127 million (compared to FY2013/3) that are required to accomplish the goals for the final year of the Medium-Term Plan.

Trends in the semiconductor-related market and TOK's competition strategy

Currently, global demand for semiconductors is continuing to expand, centered on products for smartphones, tablet devices, and vehicles. In addition to this, the semiconductor market is expected to maintain upward growth in the future due to the acceleration of the growth in demand for devices that have as a prerequisite an Internet connection, cloud services, and big data, such as wearable devices, communication infrastructure, and health and medical equipment. The driving force behind this market expansion is high-performance semiconductors that are able to process larger volumes of data at higher speeds and using less electricity. Every semiconductor manufacturer is investing a great deal of their management resources into this advanced area, but as we approach the physical limit for the feasible level of microprocessing, difficulties in maintaining yield are set to increase. Therefore, photoresist manufacturers must meet demand for products that are more and more advanced and diversified. Whether or not they can meet this demand will determine who will be the winners and the losers in the competition among photoresist manufacturers.

The Material Business: Further strengthening our advanced semiconductor processes

We have therefore launched in earnest a regional-based strategy of development and production together with local, overseas semiconductor manufacturers, using the opportunity provided by the start of operations in July 2013 of TOK Advanced Materials Co., Ltd., which we established as a joint venture with Samsung C&T Corporation. We are working on establishing the latest advanced technologies, including to maintain yields on mass-production lines. Through this regional-based strategy and the microprocessing technology that is unique to our company, we will continue to provide high valued-added, advanced materials and contribute to value creation of semiconductor manufacturers. This is our competition strategy toward achieving sustainable growth even in the rapidly changing semiconductor market.

In the Material Business, we are further increasing our strength in high value-added fields, such as ArF excimer laser photoresists and high-density integration materials. We are developing our regional-based strategy in Asia, the United States, and Europe, and based on trends in the markets and customer needs, we are constructing an optimum system based on the key words of "speed," "quality" and "response," and also accelerating the strengthening of our development and sales. Through these efforts, we are building solid business foundations for advanced semiconductor processes, such as increasing our market share of ArF excimer laser photoresists, which is the TOK Group's flagship product.

New business Domains: Developing businesses on a scale of ¥5,000 million to become pillars of the company

In new businesses, we are aiming to expand our business domains through our diversified development of microprocessing technology and collaborations and alliances with external organizations, such as laboratories within universities. First, in the field of semiconductor manufacturing equipment, our TSV process system, Zero Newton®, which is our original process technology that precisely reflects customer needs, has already received high acclaim and we are working on increasing its sales. In addition, in the renewable energy field, our Si photovoltaic related material EPLUS® is contributing to the simplification of manufacturing processes and improvements to production efficiency, and we are expanding its sales using these selling points. Moreover, in the future we have high hopes for our developments of compound-based photovoltaic related materials and solar thermal development-related materials. We are also actively developing new businesses on other themes, including rechargeable batteries, optoelectronics, and life sciences.

From among these, we will select the new business on a scale of ¥5,000 million that can become the pillar of our company and develop a number of them to reach our goal of new businesses worth ¥50,000 million by fiscal 2021.

The Equipment Business: Accelerating the transformation of our business structure to realize our M&E strategy

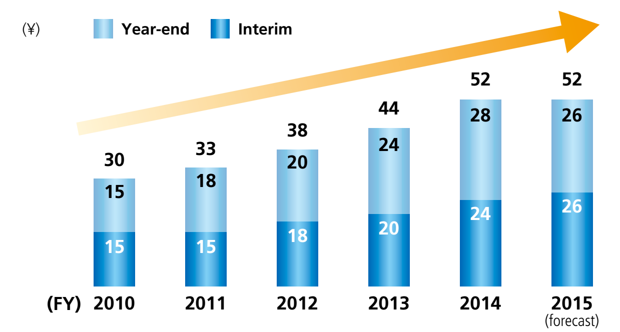
In the Equipment Business, the situation is that we have to review our sales plan due to the delay among customers of starting-up the TSV market. However, we remain convinced about the growth potential of this business. The reason for this conviction is that to respond to increasingly-sophisticated and diversifying customer needs with high value-added solutions that are unique to TOK, it is vital for us to realize our M&E (Materials & Equipment) strategy that is developed in union by the Material Business and the Equipment Business, through rationally and originally consolidating the advanced technologies in the semiconductor- and liquid crystal-related fields that we have cultivated over the course of many years. For this purpose, we are currently looking again at the ordering environment we had previously assumed and advancing measures to strengthen our businesses so they reflect a new business environment. Through reviewing designs and raw materials, we have drastically reduced our raw materials cost ratio, and in addition, we are strengthening our sales capabilities through organizational reforms. In such ways, we are preparing for the fully fledged launch of the TSV market that should arrive in the near future and steadily transforming our business structure with this in mind. Moreover, by searching for new fields in the Equipment Business, we are aiming to stabilize earnings through expanding our lineup of new products, including next generation display manufacturing equipment and UV curing machines.

Policy of returns to shareholders: Formulating a new policy and continuing with a payout ratio of above 30%

At TOK, we consider returning profits to shareholders to be one of our most important management objectives, and while taking a long-term perspective, we return profits to shareholders based on a comprehensive consideration of factors such as our financial position and business performance. In the past, our basic policy has been to continuously maintain a consolidated dividend payout ratio of above 20%, but from the perspective of more clearly strengthening our returns to shareholders, we have changed one part of this policy.

Going forward, as before it will be based on a comprehensive consideration of factors such as our financial position and business performance and we will also continue to

❑ Annual dividends per share and payout ratio



	2010	2011	2012	2013	2014	2015 (forecast)
Payout ratio (%)	530.0	40.7	44.8	36.2	30.9	31.5

ensure sufficient internal reserves necessary for us to become increasingly competitive and profitable. But while considering the current level of dividends, we have decided to set a new policy of continuously distributing dividends with a consolidated dividend payout ratio of above 30%.

Based on this policy, we have distributed dividends of ¥52 per share for the fiscal year ended March 2014, which is an increase of ¥8 year on year, for a dividend payout ratio of 30.9%. In the fiscal year ending March 2015, based on the performance forecasts shown below, we plan to distribute an annual dividend per share of ¥52, for a dividend payout ratio of 31.5%, which we expect to divide equally between interim and year-end dividends of ¥26.

❑ Forecasts for consolidated performance in the fiscal year ending March 2015

(Millions of yen)

	FY2014 (result)	FY2015 (forecast)		
			Increase (decrease)	%
Net Sales	75,269	**83,500**	8,230	10.9
Operating Income	10,025	**9,800**	(225)	(2.2)
Net Income	7,549	**7,400**	(149)	(2.0)

In conclusion

Shigemasa Mukai, who established our company in 1940, established our basic philosophy to be as follows; "We conduct manufacturing that is characteristic of us and that cannot be easily imitated by other companies," "We do not imitate others either," "Our lineup will be composed primarily of high-purity products," and "We will cultivate advanced technological capabilities." Based on this philosophy, we expanded our businesses by launching products that did not exist in our domestic market. Even today, this approach constitutes the DNA of TOK and it is present at all times within our company. Including our microprocessing technologies, we use the technologies unique to TOK to create high value-added products that incorporate our desire to inspire our customers, and the management vision in the "TOK Medium-Term Plan 2015" incorporates this language of inspiring our customers. Going forward, we will continue to manufacture products that move our customers to say, "We can create great products by teaming up with TOK," and this will enable us to achieve our highest ever income and to realize sustainable growth.

As we work toward achieving these goals, we kindly request your continued support and understanding.

"We will achieve sustainable growth by inspiring customers by providing them with high value-added products"

Ikuo Akutsu
President & Chief Executive Officer

TOK is aiming for the top market share of ArF excimer laser photoresists

The market for ArF excimer laser photoresists is expected to grow at a higher rate than the semiconductor market

In semiconductor production, technologies are becoming more complex and the number of manufacturing processes is increasing for cutting-edge products. For this reason, the need for photoresists for cutting-edge microprocesses is growing, and market growth higher than the growth rate of the semiconductor market and the consumption of silicon wafers is expected.

Furthermore, the commercialization of EUV lithography technologies, which are expected to be the next generation of exposure technologies, has been delayed so a variety of life extension measures have been taken for ArF excimer laser photoresists and there is a possibility that a market which is said to be currently worth ¥40 billion - ¥45 billion will grow to ¥70 billion in the future.

TOK boasts a sales ratio higher than the market average in a growth domain

Of the ArF excimer laser photoresists, immersion ArF excimer laser photoresists are used in cutting-edge microprocesses for 50nm node or less. The ratio of immersion ArF excimer laser photoresists in the overall market for ArF excimer laser photoresists is estimated to be about 60% currently, but going forward that ratio is expected to continue increasing. The sales ratio of TOK's ArF excimer laser photoresists accounted for by immersion ArF excimer laser photoresists is approximately 70%, so TOK boasts a higher sales ratio than the market average in this growth domain.

Note that at the end of the fiscal year ended March 2014 the Company's market share of ArF excimer laser photoresists was estimated to be approximately 24%, and due to the increase in the number of our customers' manufacturing processes adopting these products our market share is expected to expand to approximately 26% by the end of the fiscal year ending March 2015.

Fighting to win with the 1Xnm node which is expected to be the final generation

The basic development of a photoresist compatible with the 1Xnm node will be completed during the period of the "TOK Medium-Term Plan 2015" and we anticipate commencing mass production from 2016. It is said that the microprocesses using ArF excimer laser photoresists will reach their limit with the 1Xnm node; therefore we believe that the products adopted in the final generation will continue to be used subsequently as well. In other words, after the final generation, new competition will not arise, and no major product switches will be carried out, so capturing 1Xnm node market share is extremely valuable for photoresist manufacturers.

Currently, in cutting-edge semiconductor manufacturing processes the 2Xnm node is being mass produced, and the Company is working at top speed to develop a photoresist compatible with the 1Xnm node. In addition to research and development in the Sagami Operation Center in Japan, we have commenced research and development activities from January 2014 in TOK Advanced Materials Co., Ltd., a subsidiary we have newly established in Korea, a major semiconductor production hub. Through quick customer service utilizing the advantages of our regional-based strategy, we will capture market share in the 1Xnm node and push toward achieving a worldwide market share in excess of 30%.

Work toward a global market

ArF share of 30%

Marketing

Expand our market share by building a close relationship with customers leveraging TOK Advanced Materials Co., Ltd.

Kobun Iwasaki

Director, Senior Executive Officer, Department Manager, Marketing Dept., President and CEO of TOK Advanced Materials Co., Ltd.

The presence of the Korean market is growing in the semiconductor market

Over the last 15 years the contours of the semiconductor manufacturing industry have been redrawn, with other Asian manufacturers making great strides instead of the Japanese manufacturers. In cutting-edge semiconductor manufacturing, close and frequent interactions with the customers have become more essential than previously, and for the Company, which has an overseas sales ratio in excess of 70%, strengthening the overseas development is a natural evolution.

In this kind of environment, the most important objective of TOK Advanced Materials Co., Ltd. (TOKAM), which we established in Korea in August 2012, is to win trust by building a structure that can quickly respond to the demands of the customers in the large Korean market. In Korea, which is promoting the domestic production of materials using the catchphrase "Buy Korea," the establishment of a local site is extremely valuable.

It is said that within a few years 40% of the 12-inch wafers used in the world will be consumed in Korea. In this market, further growth is expected due to the wide-ranging product line-up, including memory and logic chips, so all of our competitors are devising strategies to ensure their products are adopted. Furthermore, given the tendency for Korean customers to place importance on introducing domestically produced products, Korean manufacturers are also entering the market.

Gaining a head start on our competitors in the strategy of building a close relationship with customers

TOK has a high market share of the cutting-edge photoresists and bump photoresists market in Korea, but localizing manufacturing, development, and sales is necessary and will be our biggest weapon for maintaining and expanding this market share with next generation devices as well. What our customers want is of course supply chain stabilization through local production, but they also want there to be photoresist manufacturers that are capable of realizing the necessary features as photoresist samples in the shortest possible time. In response to these needs, TOK is getting a head start on our competitors by producing a response in the form of TOKAM. TOKAM, which has evaluation equipment that is comparable to that of our customers and greater than that of Japanese domestic sites, has started development based on a close relationship with our customers, and good results have already been produced. It is aiming to increase sales in the Korean market by 1.5 to 2 times compared to current sales in fiscal 2021, and has the goal of achieving a market share of 50% or greater in the market for cutting-edge KrF and ArF excimer laser photoresists in Korea.

On the other hand, our customers around the world are requesting the construction of advanced photoresist production sites outside Japan as a part of their Business Continuity Plans (BCPs), and we believe that TOKAM is also able to sufficiently fulfil the purposes of the BCPs as well.

Rapidly meeting the needs of joint development and building relationships of trust with our customers

In the history of the development of semiconductor materials by the Company we have expanded and enhanced our products by deeply exploring the potential of joint development with our customers and then carrying out horizontal development, and in TOKAM, we will recreate a similar approach. By rapidly meeting the needs of joint development with delimited deadlines, we will build relationships of trust in which our customers operating on the cutting edge of the industry will ask us to meet their future needs and will say "if we need photoresists the first company we should call is TOK!"

R&D

Working toward winning market share in the 1Xnm node: the final generation of immersion ArF excimer laser photoresists

Harutoshi Sato

Director, Officer, Department Manager, Research and Development Dept.

Further strengthening microprocessing technologies, our core competence

The research and development of the TOK Group is mainly focused on research into high functional polymer materials and related applied technologies. In particular, we have positioned the cutting-edge electronics field as a priority field, in which further growth is expected in the future, and we are working on further strengthening microprocessing technologies, our core competence. The outcomes of these initiatives go beyond the development of materials to also include the development of high performance chemicals and equipment for taking full advantage of the attributes of the materials, and even the development of production technologies.

The TOK Group is promoting research and development based on a structure under which the sales engineers, the manufacturing technicians, and the research and development staffs work together. We regard the information obtained by the domestic and overseas sales engineers through their close interactions with the customers as particularly important for advancing research and development.

Working toward winning market share in the 1Xnm node, which is thought be the final generation of immersion ArF excimer laser photoresists

In miniaturization processes of 1Xnm or less, the processing measurements are approaching the size of an atomic radius, and circuit formation is difficult with a simple single exposure, so process technologies such as double patterning and multiple exposure, etc. have been constructed. For this reason, compatibility with the process materials, simplification of the photolithography processes, and other advances are required for photoresists.

Given this situation, the following kinds of advanced technologies are required in the development of the cutting-edge photoresists field.

(i) Technologies to develop basic materials taking into consideration features that meet customer needs

(ii) Integration technologies to create photoresists that are combined with the technologies in (i) above

(iii) Manufacturing technologies and quality control technologies for stable manufacturing of sophisticated photoresists

Meticulous management based on the way the photoresists are used by the customers is required particularly in quality control, and this cannot be achieved overnight. Going forward, demands with respect to quality control will become even stricter so we will continuously make up-front investments in order to meet those demands and maintain our competitive advantage against our competitors. Moreover, we will accelerate our efforts to win market share in the 1Xnm generation, which is expected to be the final generation of immersion ArF excimer laser photoresists.

A strategy of building a close relationship with customers in research and development

TOKAM, a subsidiary that we established in Incheon Metropolitan City (a free economic zone) in Korea as a part of our strategy of building a close relationship with customers, started research and development of ArF and KrF excimer laser photoresists for our Korean customers in January 2014. TOKAM has introduced the most cutting-edge exposure, evaluation and other equipment in the TOK Group. With these facilities, TOKAM is capable of developing cutting-edge photoresists including 1Xnm nodes, and performing fine tuning.

Manufacturing

Working toward high level stabilization of quality

Jun Iwasa
Director, Officer, Department Manager, Manufacturing Dept.

Responding reliably to more higher quality requirements

In cutting-edge miniaturization processes of 2Xnm or less in semiconductor manufacturing, the quality required for photoresists is very different from what it used to be. The Manufacturing Department that controls production is continuously approaching this problem from the directions of "raw materials," "manufacturing processes," "testing/analysis," and "quality control." Through the findings we have accumulated to date and collaboration with our customers, we will clarify the points that must be strengthened and introduce the improvements to the production processes.

Working toward developing higher quality raw materials

Regarding the quality level of the raw materials used in cutting-edge products, even if the raw materials are the same as previously a much higher quality is required. Management of the raw materials which is upstream of the production processes will become even more important going forward, so we are promoting initiatives as follows:

(i) Demands to the suppliers of raw materials to strengthen management (demands and guidance for the improvement of testing precision and management)

(ii) High level stabilization of material quality (construction of a production line capable of stable supply of high quality raw materials)

(iii) Shift to a high level of purity processing inside the Company (high purity processing of the delivered raw materials inside the Company)

Working toward the realization of a contamination-free production environment

In manufacturing of cutting-edge products, contamination and metallic impurities, etc. have a direct impact on the performance of the products, so, of course, we are controlling and managing them from the aspect of the manufacturing facilities, and we are also utilizing conventional technical findings about manufacturing to work toward high level stabilization of quality.

In order to achieve this, the Koriyama Plant, a production plant for cutting-edge products, and TOKAM work to realize a contamination-free production environment by developing manufacturing technologies and designing processes for cutting-edge products, including closing off production lines, strict management of wetted part material quality and improving cleanliness standards in the mixing room.

Working toward improving testing sensitivity and analytical technological capacity

In order to achieve the quality demanded by our customers and moreover to handle next generation processes we are aiming to improve testing sensitivity and our analytical technological capacity. In order to achieve this we are strengthening our structural analysis capacity and high sensitivity analysis through the introduction of cutting-edge testing equipment and the development of our testing environment, and in the microanalysis of metallic impurities, we are capable of analyses at the ppt* level and have realized highly sensitive defect testing.

* ppt: parts per trillion

Identifying quality risks at an upstream stage

When improving the quality of advanced materials, we are aiming for quality control at further upstream stage. In order to achieve this, we have built a quality control structure under which risks are identified at an early stage by involving the Manufacturing Technology Division and the Quality Assurance Division from the product development stage, so the transition into mass production can be carried out more quickly.

Through these various initiatives, TOK is meeting the advanced needs of its customers, and moreover is able to launch on the market products with a quality level that is compatible with next generation processes.

Review of Operations

Material Business

Leading the growth of the TOK Group as the largest driver of earnings

FY2014 Performance

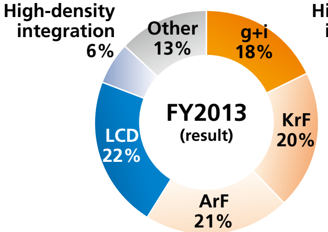
The material business is mainly comprised of electronic functional materials and high purity chemicals, and is the segment that will lead the TOK Group as the largest growth driver aimed at achievement of the targets in the "TOK Medium-Term Plan 2015."

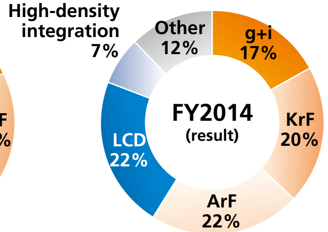
Net sales for the fiscal year ended March 31, 2014 increased by ¥5,169 million (7.6%) year on year to ¥72,866 million. This was due to the fact that in the electronic functional materials business, although semiconductor photoresists were affected temporarily in accounting terms because of the change in sales channels, the actual sales performed strongly and sales of high-density integration materials were strong, as well as sales of CF resists for use in the high resolution displays of smartphones and tablet devices also increased in the LCD materials business. In addition, the fact that in high purity chemicals high value-added products grew substantially in Asia and other factors also contributed.

Note that if we look at sales of semiconductor photoresists, our flagship product, by product, sales of ArF excimer laser photoresists increased 10% and sales of KrF excimer laser photoresists increased 5%. Looking at the results by region, sales to the Asian market rose by 3 percentage points to 59% while sales to the Japanese market fell 3 percentage points to 23% due to the impact of our customers' factory consolidation and reducing their rates of operation, and other factors.

Segment income increased ¥3,369 million (31.4%) year on year to ¥14,086 million. Although expenses increased by ¥500 million, the impact of the increase in net sales and other related factors was ¥2,080 million and there was a leverage effect of ¥1,810 million because the effect of the depreciation of the yen compensated for discounted selling prices.

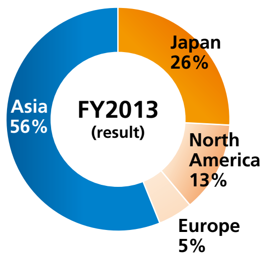
❑ Sales Composition of Electronic Functional Materials by Type

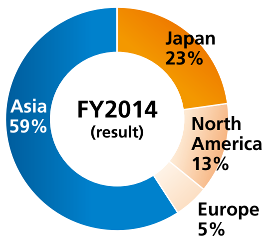




(Note) High–density integration: resist materials, MEMS materials, and WHS materials

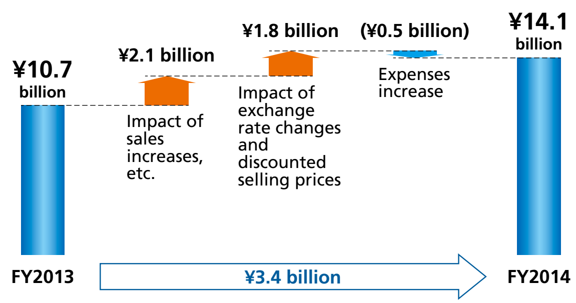
❑ Sales Composition of Semiconductor Photoresist by Region





(Note) For the Sales Composition of Electronic Functional Materials by Type (FY2014) and Sales Composition of Semiconductor Photoresist by Region (FY2014) we have used figures that take into consideration the impact on net sales resulting from the changes to the sales channels.

❑ Breakdown of the Change in Segment Income in the Material Business



Business environment

In the semiconductor market, against a background of the continuing trend of a gradual recovery in the global economy and stable growth in the electronic devices market, sales are expected to grow by 6.5% year on year in 2014. Subsequently gradual growth will continue in 2015 at 3.3% and 2016 at 4.3%, and in 2016 the size of the market is forecast to reach US$350.5 billion. In particular it is forecast that the annual average growth rate in the Asia Pacific region which is the focus of TOK will be 5.9%, higher than the overall global average (4.7%), and that this region will be the largest market, accounting for 59% of the entire global market.

(Source: WSTS Semiconductor Market Forecast — published June 3, 2014)

Furthermore, year on year growth of 5% is expected in the LCD TV market in 2014.
(Source: DisplaySearch's Quarterly Advanced Global TV Shipment and Forecast Report)

Priority measures for FY2015

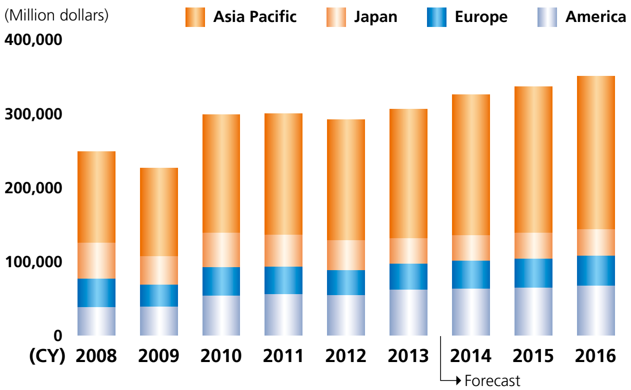
We will continue to push toward expanded sales of high value-added products. For example, we will keep working hard to expand our share of the market for ArF excimer laser photoresists. In capital investments, in order to meet the advanced requirements for the 1Xnm generation and later, we are reviewing and augmenting our domestic and overseas manufacturing facilities and proceeding with the introduction of evaluation equipment. In research and development, we are accelerating our initiatives at the Korean subsidiary and our initiatives aimed at capturing market share in the 1Xnm generation market.

Performance outlook for FY2015

Net sales in the fiscal year ending March 31, 2015 are forecast to increase ¥5,733 million (7.9%) year on year to ¥78,600 million. In particular net sales of electronic functional materials are forecast to increase by ¥3,638 million (8.4%) year on year to ¥46,900 million as we expect our market share in the ArF market to rise by approximately 2 percentage points. Net sales of high purity chemicals are forecast to increase ¥2,405 million (8.2%) year on year to ¥31,600 million as we expect an increase in shipments of developing fluid and thinner to Asia.

Segment income is forecast to decrease ¥1,686 million (12.0%) year on year to ¥12,400 million. Although the benefits of a sales increase higher than the impact of discounted selling prices and other factors are expected, there will be an increase in depreciation expenses centered on TOK Advanced Materials Co., Ltd.

❑ Outlook for the Global Semiconductor Market (Overall and by Region)



(Source: WSTS Semiconductor Market Forecast — published June 3, 2014)

❑ Net Sales and Segment Income

(Millions of yen)

	FY2013 (result)	FY2014 (result)			FY2015 (forecast)		
			Change	Change %		Change	Change %
Net sales	67,697	**72,866**	5,169	7.6%	78,600	5,733	+7.9%
Electronic functional materials	43,116	**43,261**	145	0.3%	46,900	3,638	+8.4%
High purity chemicals	24,144	**29,194**	5,049	20.9%	31,600	2,405	+8.2%
Other	435	**410**	(24)	(5.6)%			
Segment income	10,716	**14,086**	3,369	31.4%	12,400	(1,686)	(12.0)%

❑ Capital Investments

(Millions of yen)

	Company	Location	Details of the investment	Amount
FY2014	TOK Advanced Materials Co., Ltd.	Korea	New photoresist manufacturing equipment, etc.	14,348
FY2015 (Continuing)	TOK TAIWAN CO.,LTD.	Taiwan	Electronic functional materials manufacturing equipment, etc.	6,000

❑ Major Affiliates

KUMAGAYA OHKA CO., LTD., TOKYO OHKA KOGYO AMERICA, INC., TOK TAIWAN CO., LTD., CHANG CHUN TOK (CHANGSHU) CO., LTD., TOKYO OHKA KOGYO EUROPE B.V., TOK Advanced Materials Co., Ltd.

Equipment Business

Focus on strengthening our technological advantage and cost competitiveness as we work toward the forthcoming 3D packaging market

FY2014 Performance

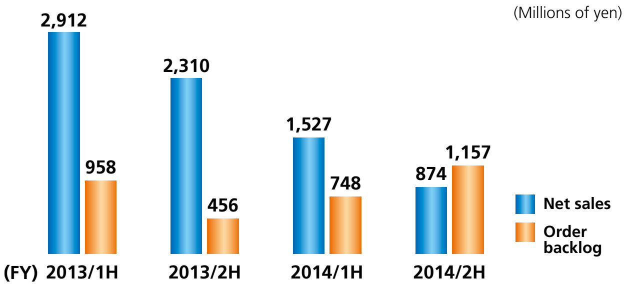
The equipment business is mainly involved in the manufacturing, sales, and maintenance of semiconductor manufacturing equipment and LCD manufacturing equipment, and it is aiming to contribute to achieving the targets in the "TOK Medium-Term Plan 2015" by maximizing synergies with the material business to offer total support to its customers.

Net sales for the fiscal year ended March 31, 2014 decreased by ¥2,818 million (53.2%) year on year to ¥2,484 million. This was because orders were lower than anticipated due to the delay in the rise of TSV demand in the 3D packaging market related to semiconductor manufacturing. The order backlog was ¥748 million in the first half and ¥1,157 million in the second half. Going forward, we intend to steadily increase orders.

Business environment

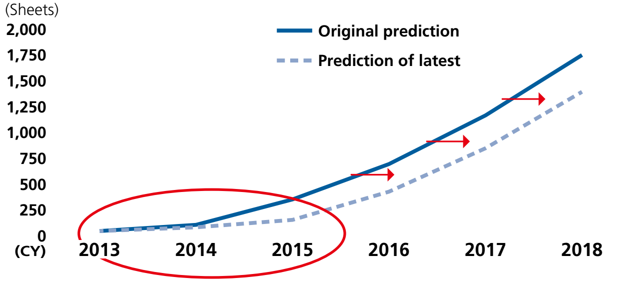
For semiconductor manufacturing processes, which have progressed by using nanoscale microprocessing, the multi-layering of semiconductors is at a major crossroads and in the context of the current trend to layer semiconductor chips in the vertical direction to raise the density per chip, TSV is one of the centerpiece technologies. In the outlook at the time when we established the "TOK Medium-Term Plan 2015," we anticipated that test production demand in the TSV market would rise from the fiscal year ended March 31, 2014 but the actual result was that there was almost no demand for prototypes. Although we continue to receive many inquiries from our customers about the evaluation of prototypes, in the short term, production is expected to center on high-end 2.5D interposers for games, networks, and servers. The trends regarding applications using semiconductors made with 3D packaging using TSV are still unclear. Therefore, regarding the outlook for the new orders environment going forward we have revised our view and now expect that mass production demand in the TSV market will increase gradually from 2015 onwards. We believe that when aiming for a breakthrough in this business, strengthening of competitiveness tailored to the full-scale rise of the TSV market from 2015 onwards is important.

❑ Net Sales and Order Backlog of the Equipment Business



❑ Outlook for the Global TSV Market

Total TSV Wafers (k/month), Excludes MEMS and CMOS Image Sensors*



(Source: Gartner – January 2014) *300mm Equivalent Wafers

FY2015 priority measures

Our flagship product Zero Newton® TSV process system is an equipment for handling wafers with technology that introduces multi-layer wiring to semiconductor chips using a hole that passes through the chip. In the fiscal year ending March 31, 2015, we will focus on expanding sales of this equipment with the aim of breaking away from our tough financial situation and preparing for the mass production demand expected to increase gradually from 2015 onwards. We will strengthen our technological advantage and steadily proceed with our drastic cost reduction measures. Our raw material expenses ratio has greatly improved due to our initiatives including fundamental design changes, and we will endeavor to achieve further cost reductions. Regarding organizational aspects, we have strengthened the sales structure by integrating the equipment marketing organizations in the Process Equipment Manufacturing Dept. from April 2014.

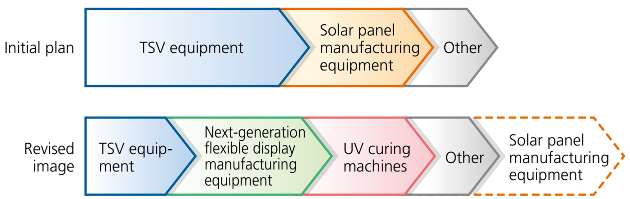
Furthermore, in addition to the revision of outlook for the TSV orders environment as stated above, we will change our product mix to increase the ratio of next-generation flexible display manufacturing equipment and UV curing machines as we work toward achieving our targets for the fiscal year ending March 31, 2016, the final year of the medium-term plan. In the area of next-generation flexible display manufacturing equipment, we are working on process development using coating machines, bake machines, and stripping systems. In the area of UV curing machines, we are focusing our energies on further strengthening the competitiveness and expanding the sales of the TUV ssi series of UV curing machines that combine improved heat resistance and dry etch resistance while maintaining detachability.

FY2015 performance outlook

Net sales in the fiscal year ending March 31, 2015 are forecast to increase ¥2,497 million (103.9%) year on year to ¥4,900 million as we expect an increase in shipments of TSV equipment.

Segment income is forecast to increase by ¥1,489 million from the operating loss of ¥889 million last year to a segment income of ¥600 million as we expect an increase in shipments of TSV equipment and cost reductions.

❑ Image of the Product Mix in the Final Fiscal Year of the "TOK Medium-Term Plan 2015"



(Note) The size of the figure doesn't show the sales volume.

❑ Net Sales and Segment Income

(Millions of yen)

	FY2013 (result)	FY2014 (result)			FY2015 (forecast)		
			Change	Change %		Change	Change %
Net sales	5,302	2,484	(2,818)	(53.2)%	4,900	2,497	+103.9%
Segment income (loss)	232	(889)	(1,121)	–	600	1,489	–

* The forecast net sales for FY2015 is the figure after elimination of inter-segment sales

❑ Capital Investments

(Millions of yen)

	Operation center name	Location	Details of the investment	Amount
FY2014	Shonan Operation Center	Japan	Research and development investment	174

❑ Major Affiliates

TOK ENGINEERING CO., LTD., TOK TECHNO SERVICE CO., LTD.

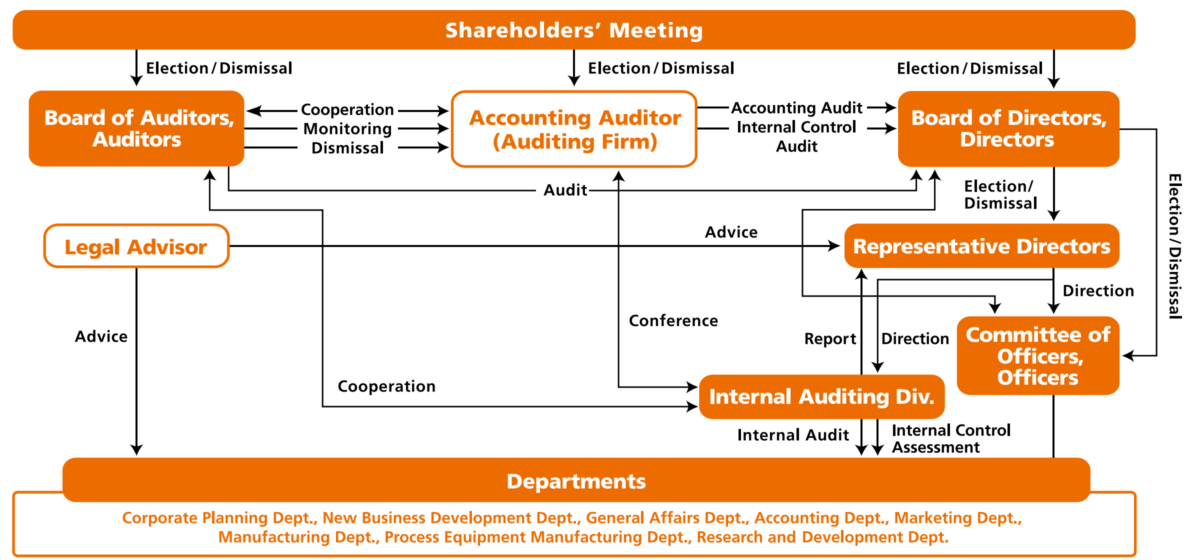
Corporate Governance

Basic Concept

We have a management vision of aiming to be a globally trusted corporate group by inspiring customers with high-value-added products that have satisfying features, low cost and superior quality, under our business principles since our establishment ("Continue efforts to enhance our technology," "Raise the quality levels of our products," "Contribute to society," and "Create a frank and open-minded business culture.") We believe that realizing this will lead to benefits shared by shareholders and all other stakeholders and will improve corporate value. Realizing the management vision is the means to maintain a sound and transparent management and to enhance operational efficiency with speeding up of the decision-making process as one of the most important management issues.

Corporate Governance System

As a company with corporate auditors, TOK employs the corporate auditor system. We are taking actions to strengthen audits performed by the corporate auditors with the greater authority endowed by the Companies Act of Japan. In addition, TOK is taking advantage of the benefits of reforms to its Board of Directors, establishment of the officer system, and the election of an independent outside director to fortify the management decision-making and supervisory function and the business execution function while clarifying responsibility for performing these functions. We are convinced that these measures are the most effective means to upgrade our corporate governance.



(As of June 26, 2014)

Directors and Board of Directors

As of June 26, 2014, we had seven directors, including one outside director. The tenure of the directors is one year. This permits quickly responding to changes in the operating environment and clarifies accountability for the directors concerning operating results in each fiscal year. To make the activities of the directors more transparent and reinforce the Board's supervisory function, there is one independent outside director. In addition, the director system has a flat structure with two levels: representative directors and directors. This creates a framework that allows the Board of Directors to fulfill its responsibilities by effectively reaching management decisions and supervising the Company's management.

Officers and Committee of Officers

As of June 26, 2014, we had 14 officers, including six officers also serving as directors. While taking steps to strengthen the Board of Directors' functions in management decision making and supervision, TOK has the Committee of Officers made up of officers to reinforce its business execution capabilities. The committee members include the chief executive officer, the chief operating officer, senior executive officers, executive officers and officers. Those officers' ranks derive from differences in business responsibilities and other considerations.

Corporate Governance

Auditors and Board of Auditors

As of June 26, 2014, we had four auditors, three of whom were outside auditors. The auditors attend meetings of the Board of Directors, the Committee of Officers, and other important meetings. These duties are performed in accordance with auditing standards (Corporate Auditor Auditing Regulations), the auditing policy, the division of tasks, and other considerations.

In addition, the auditors check the performance of directors by receiving reports from directors and other corporate staff, and requesting an explanation if necessary. For financial audits, the auditors receive reports from the accounting auditor and use other means, including requesting an explanation if necessary, to verify the suitability of financial accounting methods and the results of these audits.

Internal Auditing Division

The Internal Auditing Division, under the direct control of the President, comprised five full-time staff members as of June 26, 2014. In addition to internal audits, this division offers suggestions, proposals, and advice for continuous improvement through evaluations of the effectiveness of internal controls in financial reporting.

Our relationship with outside director and outside auditors

- Outside director Hiroshi Kurimoto is Director & Senior Advisor at OILES CORPORATION. The Company has no business relationship with OILES CORPORATION, and therefore this has no effect on the independence of Kurimoto as an outside director.
- Outside auditor Yukio Muro is the President of Ryoshin DC Card Co., Ltd. The Company has no business relationship with Ryoshin DC Card Co., Ltd. and therefore this has no effect on the independence of Muro as an outside auditor. Also, he was formerly employed by Mitsubishi UFJ Trust and Banking Corporation, with which the Company conducts business, under regular and standard terms and conditions, relating to the deposits of funds and outsourcing of work for stock operations. But in the context of the nature and scale of this business relationship, this business has no effect on the independence of Muro as an outside auditor.
- Outside auditor Seiichi Shimbo was formerly employed by Tokio Marine & Nichido Fire Insurance Co., Ltd., with which the Company conducts insurance-related business under regular and standard terms and conditions. But in the context of the nature and scale of this business relationship, this business has no effect on the independence of Shimbo as an outside auditor.
- Outside auditor Katsumi Yoneda was formerly employed by Meiji Yasuda Life Insurance Company, with which the Company conducts insurance-related business under regular and standard terms and conditions. But in the context of the nature and scale of this business relationship, this business has no effect on the independence of Yoneda as an outside auditor.

The main activities of outside director and outside auditors

Name	Attendance Record at Board of Directors and Auditors Meetings
Jiro Makino (Outside Director)	Attended 13 of 14 Board of Directors meetings during the fiscal year ended March 2014 (attendance rate, 93%). Based mainly on his wealth of experience and extensive knowledge as the president of a listed company, he spoke when necessary at discussions on measures.
Yukio Muro (Outside Auditor)	Attended 14 of 14 Board of Directors meetings and 16 of 16 Board of Auditors meetings during the fiscal year ended March 2014 (attendance rate, 100%). Based mainly on his wealth of experience in finance institutions and other companies and his extensive knowledge as a management executive and as an auditor, he expressed his views and asked questions when appropriate.
Seiichi Shimbo (Outside Auditor)	Attended 10 of 10 Board of Directors meetings and 12 of 12 Board of Auditors meetings since his appointment on June 26, 2013 (attendance rate, 100%). Based mainly on his wealth of experience in finance institutions and other companies and his extensive knowledge as a management executive, he expressed his views and asked questions when appropriate.
Katsumi Yoneda (Outside Auditor)	Attended 10 of 10 Board of Directors meetings and 12 of 12 Board of Auditors meetings since his appointment on June 26, 2013 (attendance rate, 100%). Based mainly on his wealth of experience in finance institutions and other companies and his extensive knowledge as a management executive, he expressed his views and asked questions when appropriate.

Officers' Remuneration

Directors' Remuneration

Company directors' remuneration consists of fixed-salary basic remuneration, performance-related bonus for each fiscal year, and medium- to long-term performance-related stock options (subscription warrants).

The fixed-salary remuneration is decided and paid within the remuneration framework approved at the General Meeting of Shareholders (¥420 million per year) based on specific standards established by the Company's Board of Directors.

The bonus is paid within the remuneration framework mentioned above (¥420 million per year) based on the decisions by the Board of Directors as to whether to pay and the amount taking into consideration the performance of the Company and the individual.

Stock options (subscription warrants) consist of regular stock options and shared-based stock options. Regular stock options are granted to directors within the remuneration framework approved at the 82nd Ordinary General Meeting of Shareholders held on June 27, 2012 (¥42 million per year) in addition to the above-mentioned remuneration framework, based on the Board of Directors' decision about the number of units of subscription warrants to be allocated to each director.

Under the revised remuneration system approved at the 84th Ordinary General Meeting of Shareholders held on June 26, 2014, share-based stock options are to be granted within the above-mentioned remuneration framework (¥420 million per year) by transferring part of the basic salary based on specific standards established by the Company's Board of Directors, in order to further increase directors' motivation toward increasing the share price and improving the Company's long-term results and corporate value as well as to boost their morale. Outside directors do not receive stock options (subscription warrants) in consideration of their roles.

Auditors' Remuneration

Auditors are responsible for supervising and auditing the execution of responsibilities by the directors, in a position that is independent of the Board of Directors. They receive only a fixed-salary basic remuneration, which is decided on and paid out following discussions among the auditors, within the remuneration framework approved at the General Meeting of Shareholders.

❑ Remuneration totals paid to directors and auditors
(fiscal year ended March 2014)

Position	Total Remuneration (Millions of yen)	Total of various types of remuneration (Millions of yen)			Number of eligible personnel
		Basic remuneration	Stock options	Bonuses	
Directors (Excluding outside director)	224	200	8	15	8
Auditors (Excluding outside auditors)	21	21	–	–	1
Outside personnel	31	31	–	0	5

1. The amounts for Total remuneration and Total of various types of remuneration for directors (excluding outside directors) do not include the portion paid as salary for employee activities undertaken in parallel with director activities.
2. The amounts for Total remuneration and Total of various types of remuneration for directors (excluding outside directors) and outside personnel include payments to two directors and one outside auditor who retired at the end of the 83rd Ordinary General Meeting of Shareholders held on June 26, 2013 ("83rd Ordinary General Meeting of Shareholders").
3. In addition to the above, director's retirement benefit was paid to one director who retired at the end of the 83rd Ordinary General Meeting of Shareholders, based on a final payment resolution passed in connection with the scrapping of the directors' retirement benefit system at the 78th Ordinary General Meeting of Shareholders held on June 26, 2008. The said director's retirement benefit has been booked as the liability for retirement benefit for prior years.

Message from an Outside Director

Hiroshi Kurimoto
Outside Director

I have been appointed an outside director by the General Meeting of Shareholders. An outside director wears two hats—performing a role as both an outsider and as a director. My duty in the former capacity is to supervise the Board of Directors and the performance of business duties by the directors. This is generally the role of the outside director. At the same time, as a director, I believe that I should express my opinions when necessary for the growth of the Company, based on my experience to date, since it is a basic role of a director to help increase corporate value even without having a knowledge of business operations as detailed as that of internal directors.

Because I consistently believe that business management means taking risks on a day-to-day basis, I proactively support any kind of business risk-taking that could spur growth for the Company. At the same time, I will develop my own knowledge, learning in depth from internal directors and auditors what kind of corporate governance we should be aiming for.

Compliance

TOK is committed to raising awareness among all Company executives and employees of the importance of compliance. It has drawn up the TOK Group Compliance Standards of Conduct, setting forth a shared value set and code of conduct. In addition, it has created a system to ensure that all executives and employees observe laws and regulations, our articles of incorporation, and Company regulations.

In addition, the internal reporting system facilitates the early detection and resolution of violations of laws, regulations, and standards of conduct. Reports can be submitted using an internal route, the corporate auditors, or an external route (legal advisor). We have a clear policy of preventing dismissals and negative consequences for individuals who submit reports, except in cases where reports are dishonest or inappropriate.

In the event of a violation of laws, regulations, the standards of conduct, and other guidelines, the Compliance Committee, which is chaired by the Company President, conducts an investigation. Based on the result, disciplinary action is taken as required. In addition, the committee determines measures to prevent a reoccurrence of such incidents and ensures full understanding by all Company employees.

Moreover, the Company arranges compliance training and education for executives and employees, and is working to raise their awareness of the importance of compliance.

TOK Group Compliance
Standards of Conduct Handbook

Measures to Strengthen Risk Management

To preempt various risk events that could affect the business operations of the TOK Group, and to minimize the impact of their materialization, the Group has strengthened its risk management, focusing on mitigation of risk factors and preemptive measures.

In addition, we have established a contingency management framework to mitigate damage resulting from emergencies.

Contingency Management

In addition to establishing a Contingency Management Committee of operating department managers and office managers, TOK has established a subordinate Contingency Management Secretariat, and has made revisions to the Group's contingency management procedures, with formulation of contingency management policies.

We have also set up a Contingency Management Conference as a cross-departmental organization covering the whole Group, which identifies risks that could have a significant effect on business activities, establishes preventive measures and formulates responses in the event of a crisis.

In addition, we have further improved and strengthened our risk management systems by introducing a plan, do, check, act (PDCA) cycle of verification and appraisal at all bases including those overseas. This helps us carry out risk appraisal and analysis, and take measures against particularly dangerous risks.

Risk Management System

In the belief that the Company must continuously develop ways of accurately dealing with risk that threatens to have severe impact on business operations, we have compiled contingency management regulations and a contingency management manual and categorized potentially significant risk into various categories—business risk, public risk, disaster and accident risk, manufacturing risk and environmental risk—based on the manual. We ensure preventive measures are normally in place by carrying out risk analysis and risk countermeasure formulation while at the same time carrying out appraisals and other forms of risk management.

In the event that a risk event occurs despite our best efforts, leading to an emergency situation as specified above, we have created frameworks for responding rapidly and appropriately based on the manual.

❑ Risk Management Organization

Business Continuity Plan (BCP)

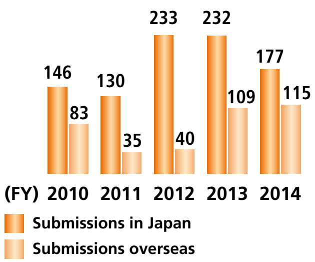
Drawing on the lessons we learned from the Great East Japan Earthquake, we have revised our Business Continuity Plan (BCP) to deal with a scenario in which our headquarters and multiple business locations are simultaneously devastated by an earthquake occurring directly under Tokyo, resulting in disruption of order processing and product shipment, and severance of essential supply lines.

Intellectual Property Strategy

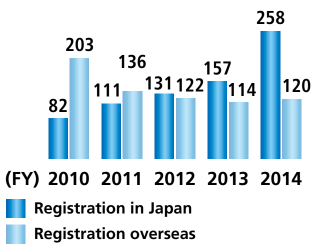
TOK's intellectual property strategy includes the following elements: 1) aggressively protecting our intellectual property, 2) avoiding infringing on the rights of other companies, and 3) proactively utilizing the intellectual property that we have created.

We view intellectual property as a critical resource for ensuring market supremacy as well as freedom to evolve our business. By proactively applying for patents on the fruits of our R&D activities, we aim to appropriately protect this intellectual property and put it to effective use, and this should bolster our competitive strength. We have adopted comprehensive measures to ensure that we do not infringe on the intellectual property rights of other companies. At the same time, if another company should infringe on our rights, we will address this by exercising our rights or making strategic use of licensing agreements.

❑ Number of Patent Applications Submitted



❑ Number of Patents Registered



Information management initiatives

In recent years, the global environment surrounding information management has undergone major changes, including the frequent occurrence of serious incidents and court cases related to information leakages. For the Group the leakage of information assets greatly damages the competitive advantage we have built up over time and could even become a situation that threatens the survival of the Company.

When developing corporate activities, information management is an important business management issue from the two perspectives of "enhancing corporate value" and "fulfilling social responsibility."

Last year the Group revised its Information Management Policies and the executives and all of the other employees have been taking organized measures through the Information Management Committee to strengthen the Group's information management structure in accordance with the revised policies.

Information Management Policies

Preamble and scope of application

The TOKYO OHKA KOGYO CO., LTD. Group (the corporate group comprised of TOKYO OHKA KOGYO CO., LTD. and its subsidiaries, hereinafter referred to as the "TOK Group") have positioned risk management related to information assets as an important business management issue for realizing corporate social responsibility, and are taking a range of measures in accordance with the following policies.

Definition, protection, and effective utilization of information assets

(i) With respect to all information assets held by the TOK Group, including managerial, client, marketing, personal, and technical information, the group will comply with laws and regulations related to information security, other social norms and in-house rules, etc., protect the information appropriately, and shall only use the information in order to efficiently execute the operations of the group, within the stipulated scope of authority, and for the prescribed purpose.

Organizational structure and organized activities

(ii) The TOK Group has established an Information Management Committee and will continue to build, maintain, and promote an information assets management structure for the overall group.

Completeness, confidentiality, and availability

(iii) The TOK Group will implement appropriate management through a range of human, physical, organizational and IT-based measures in order to prevent leakage, falsification, theft, destruction, etc. of the information assets held by the TOK Group.

Education

(iv) The TOK Group will implement in-house education regularly and continuously and work to raise awareness and keep everyone well informed of the in-house rules, etc.

Incident response

(v) In the case that accidents, etc. related to information security occur, the TOK Group will endeavor to minimize the damage from the accidents, etc. and implement measures to prevent their recurrence.

Audits and continuous improvement

(vi) The TOK Group will implement regular audits and make continuous improvements as a part of its management of information assets.

Based on these policies, the Group is working on the following matters.

1. Appropriate protection and management of information assets
2. Enhance and expand the human, physical, organizational and IT-based information security operating structure
3. Awareness raising and educational activities
4. Responses to minimize harm in the case that an information leakage occurs
5. Establishment of an auditing structure, etc.

Corporate Social Responsibility

The TOK Group regards creating public value out of products that only we can provide, based on our unique strengths, as our best avenue for maximizing our contribution to the community.

Our basic CSR goal is to enhance corporate value by identifying which parts of the value chain we can best influence, and focusing our specialized corporate activities there, taking account of both the customer and the public benefit as a whole, while working for social progress together with our stakeholders.

We are also committed to environmental protection, through activities such as the "3R (reduce, reuse, recycle) Campaign" and energy-saving initiatives, with the aim of fostering the emergence of a recycling-oriented, zero-emission societal model. Likewise, we are creating compliance, information management, contingency management and other frameworks, while committing to human resource development and creation of a pleasant workplace for all our employees.

Our initiatives are outlined in our annual CSR Report and on our website.

CSR Report 2014

Board of Directors / Corporate Auditors and Officers

(As of June 27, 2014)

Board of Directors

Representative Director, President & Chief Executive Officer
Ikuo Akutsu

Director, Senior Executive Officer
Kobun Iwasaki
Department Manager, Marketing Dept.

Director, Officer
Hiroji Komano
Department Manager, New Business Development Dept.

Director, Officer
Harutoshi Sato
Department Manager, Research and Development Dept.

Director, Officer
Jun Iwasa
Department Manager, Manufacturing Dept.

Director, Officer
Kunio Mizuki
Department Manager, General Affairs Dept.

Outside Director
Hiroshi Kurimoto
(Director & Senior Advisor, OILES CORPORATION)

Corporate Auditors

Standing Statutory Auditor
Kenji Tazawa

Outside Auditor
Yukio Muro
(President, Ryoshin DC Card Co., Ltd.)

Outside Auditor
Seiichi Shimbo

Outside Auditor
Katsumi Yoneda

Officers

Executive Officer
Yoichi Shibamura
Department Manager, Accounting Dept.

Executive Officer
Yoshio Hagiwara
Department Manager, Corporate Planning Dept.

Officer
Atsuro Shibagaki
Deputy Department Manager, Marketing Dept.

Officer
Hajime Fujishita
Department Manager, Process Equipment Manufacturing Dept.

Officer
Jun Jang
Vice President, TOK Advanced Materials Co., Ltd.

Officer
Keiichi Yamada
Deputy Department Manager, Marketing Dept.

Officer
Nobuo Tokutake
Deputy Department Manager, Manufacturing Dept.

Officer
Kazufumi Sato
Deputy Department Manager, Research and Development Dept.

Notes:
The Company has designated Hiroshi Kurimoto outside director, Yukio Muro, Seiichi Shimbo and Katsumi Yoneda outside auditors in accordance with regulations of the Tokyo Stock Exchange and notified therein.

Management's Discussion and Analysis

Results of Operations

Net Sales

In the fiscal year ended March 31, 2014, consolidated net sales increased ¥2,349 million or 3.2% from the previous fiscal year, to ¥75,269 million. Net sales in the first half increased ¥2,417 million or 6.6% to ¥39,071 million, and in the second half decreased ¥67 million or 0.2% ¥36,197 million.

The electronics industry, the leading source of demand for our products, had a good year overall, with expansion of demand for smartphones and tablet devices, despite the ongoing slump in PC sales.

Cost of Sales, SG&A Expenses and Operating Income

Cost of sales fell ¥1,015 million or 2.1%, to ¥46,550 million year on year, with declines in depreciation and amortization and in loss on disposal of inventory more than offsetting increases in utilities costs (water, gas and electricity) and employee compensation. The cost of sales ratio declined 3.4 percentage points year on year to 61.8%. As a result, the gross profit increased by ¥3,365 million or 13.3% to ¥28,718 million.

Selling, general and administrative (SG&A) expenses increased ¥1,212 million or 6.9% to ¥18,693 million, due partly to an increase in costs for supplies used in research activities, which offset the decline in depreciation and amortization.

Operating income increased ¥2,152 million or 27.3% to ¥10,025 million, due to an increase in gross profit, which outweighed the increases in SG&A expenses.

Income before Income Taxes and Minority Interests and Net Income

Income before income taxes and minority interests increased ¥3,634 million or 45.3% from the previous fiscal year to ¥11,666 million, due to an increase in foreign exchange gains and insurance payment and dividend income, which outweighed an increase in impairment loss and other factors.

Net income for the year increased ¥2,106 million or 38.7% to ¥7,549 million, a record high.

Overview of Each Segment

* Intersegment sales or transfers have not been eliminated.

Results by Business Segment

[Material Business]

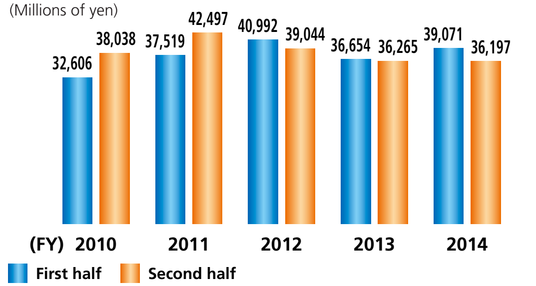
Sales in the material business increased ¥5,169 million or 7.6% from the previous fiscal year to ¥72,866 million. Segment income increased ¥3,369 million or 31.4%, to ¥14,086 million, due to an increase in sales of high value-added products and foreign exchange fluctuation gains.

Electronic Functional Materials Division

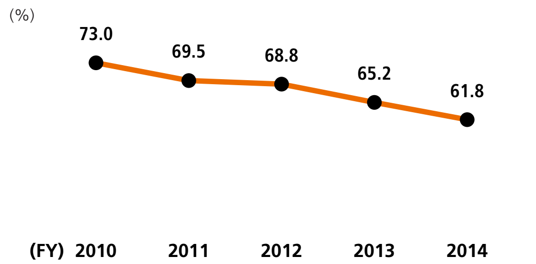
In the electronic functional materials division, sales increased ¥145 million or 0.3% to ¥43,261 million.

Sales of photoresists used to manufacture semiconductors declined due to restructuring and similar measures at

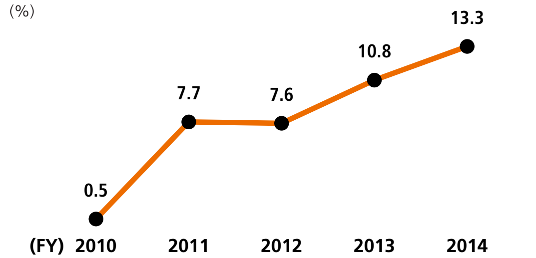
❑ Net Sales (Half yearly basis)



❑ Cost of Sales Ratio



❑ Operating Margin



production facilities of users in Japan, but sales of excimer laser photoresists increased overseas, mainly in the Asian region, against a background of expanding demand for smartphones and tablet devices. For this reason, underlying sales were solid, despite the temporary impact of accounting changes regarding the change in sales channels. However, sales of photoresists for LCDs were down somewhat year on year. Although sales increased to high-definition display manufacturers, we were impacted by a fall in sales of general-purpose products due to the impact of changes in the demand environment and the partial switch to a license-business format. Additionally, with the greater versatility of existing businesses, we were able to increase sales, mainly in Asia, of photoresists for image sensors, an expected growth product, and high density packaging materials that contribute to lighter, thinner and smaller smartphones and tablet devices.

High Purity Chemicals Division

Sales in the high purity chemicals division increased ¥5,049 million or 20.9% year on year to ¥29,194 billion.

Sales of photoresist chemicals used to manufacture semiconductors grew significantly, on a buoyant performance of high-quality products meeting exacting user needs in the Japanese market despite the highly competitive environment, reinforced by strong performance overseas against a backdrop of increasing demand in the Asian region. Additionally, sales of photoresist-related chemicals used to manufacture LCDs increased on a strong performance in the Japanese and Asian marketplaces, amid signs of a firming up of the limp LCD television market.

[Equipment Business]

Process Equipment Division

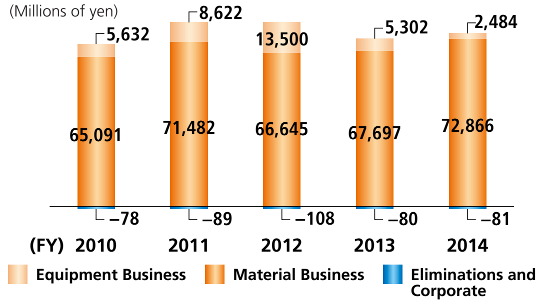
The Zero Newton® TSV process system, expected to be a mainstream packaging product going forward, has a good reputation as a proprietary process technology that fully meets user needs. But both orders and actual sales were sluggish in the year under review, amid delay in the takeoff of the 3D packaging market, despite measures to maintain our technological advantage and reduce manufacturing costs. As a result, development of Zero Newton® has been difficult. Sales of LCD panel manufacturing equipment were also significantly down from the previous fiscal year, reflecting a drop in orders.

As a result, sales in the equipment business decreased ¥2,818 million or 53.2% to ¥2,484 million year on year. A segment loss of ¥889 million was booked, compared with income of ¥232 million in the previous fiscal year—a setback of ¥1,121 million.

Orders increased only ¥491 million year on year or 34.7% to ¥1,906 million, because of the delay in the takeoff of the 3D packaging market. Orders in the first half totaled ¥748 million and in the second half ¥1,157 million. The year-end order backlog declined ¥496 million or 32.1% to ¥1,051 million.

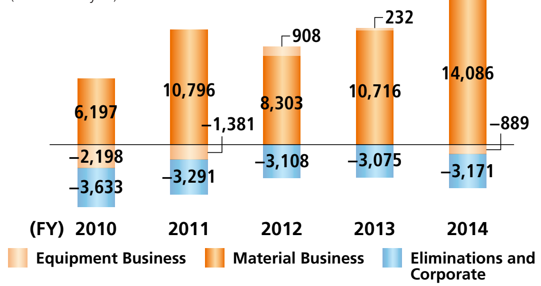
Net Sales by Business Segment

(Millions of yen)



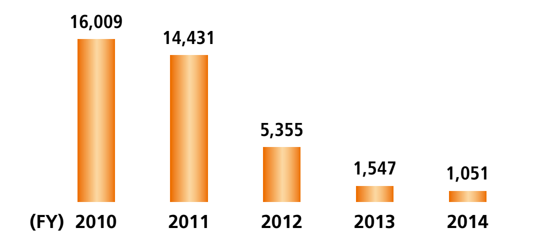
Segment Income (Loss)

(Millions of yen)



Order Backlog of Equipment Business

(Millions of yen)



Financial Condition and Cash Flows

Balance Sheet

Total assets as of March 31, 2014 increased ¥10,194 million from the previous fiscal year-end to ¥155,859 million.

Total current assets declined ¥3,611 million to ¥83,247 million year on year. Trade notes and accounts receivable increased ¥335 million, and deferred tax assets by ¥137 million, but cash and cash equivalents and time deposits declined ¥3,699 million, and Other in current assets fell ¥399 million due to a decline in income taxes receivable, etc.

Net property, plant and equipment increased ¥13,520 million from the previous fiscal year-end to ¥44,577 million. The main factor was an increase of ¥10,189 million in construction in progress.

Total investments and other assets increased ¥287 million from the previous fiscal year-end to ¥ 28,034 million. The main factors were ¥896 million in net defined benefit asset and an increase of ¥260 million in investments in and advances to an unconsolidated subsidiary and associated companies. These factors offset a decline of ¥1,199 million in deferred tax assets.

Total liabilities decreased ¥1,929 million to ¥15,896 million year on year. The main factors were declines of ¥652 million in advances from customers, ¥164 million in deferred tax liabilities (current), ¥148 million in trade notes and accounts and ¥1,645 million in allowance for retirement benefits (long-term liabilities), which offset increases of ¥337 million in income taxes payable, and ¥334 million in deferred tax liabilities (long-term).

As a result, total equity increased ¥12,124 million to ¥139,962 million year on year. Cash dividends paid of ¥2,160 million were offset by net income of ¥7,549 million, foreign currency translation adjustments of ¥4,104 million, remeasurements of defined benefit plans of ¥1,380 million and an increase of ¥288 million in unrealized gain on available-for-sale securities.

As a result, the equity ratio stood at 87.5% at the end of the fiscal year.

Cash Flows

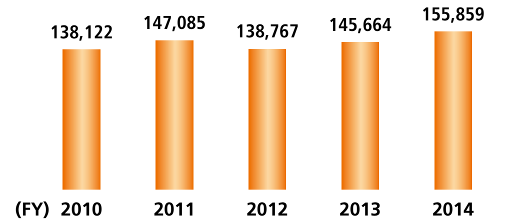
Net cash provided by operating activities during the year under review came to ¥11,881 million, a decrease of ¥556 million from the previous fiscal year-end. An increase in income taxes paid, a decrease in provision for doubtful accounts, and a decrease in advances from customers more than offset an increase in income before income taxes and minority interests and a decrease in inventories.

Net cash used in investing activities was ¥14,491 million, an increase of ¥14,416 million year on year, due to capital expenditures at TOK Advanced Materials, which offset inflows from proceeds from sales of investment securities.

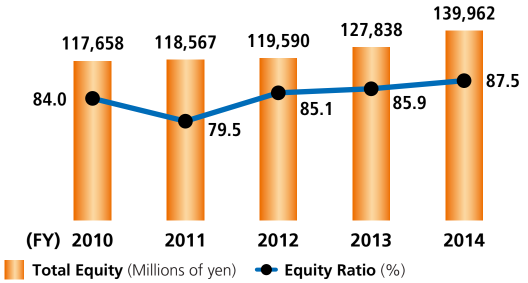
Net cash used in financing activities totaled ¥2,471 million, an increase of ¥1,085 million year on year due partly to dividends paid, which outweighed inflows from disposal of treasury stock.

As a result of the foregoing, cash and cash equivalents on March 31, 2014 decreased ¥4,023 million to ¥39,157 million, from ¥43,181 million at the end of the previous fiscal year.

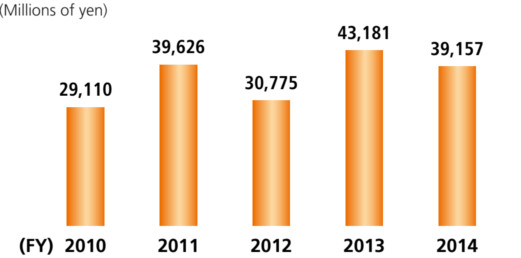
❑ Total Assets
(Millions of yen)



❑ Total Equity / Equity Ratio



❑ Cash and Cash Equivalents at the Year-End
(Millions of yen)



Risk Information

The TOK Group conducts business activities in every region of the world in a diverse range of fields. When carrying out these business activities, it encounters a variety of risk factors that may have a detrimental impact on its financial conditions and management performance. The risks described below are solely those that the Group judged to be most significant as of March 31, 2014 and do not constitute all of its risk factors.

1 Industrial and economic change-related risk

The Group conducts its business within the electronics industry and a characteristic of this industry's market is its major cyclical changes in demand. In particular, materials and devices for semiconductors and LCDs are extremely affected by such demand trends. Also, due to the rapid speed of technological innovation in this industry and the complexity and diversity of user needs, market conditions often changes, as do prices in response to these changes. These factors may have an impact on the Group's business results.

2 Exchange rate fluctuation-related risk

The Group is focusing its energies into developing its businesses in the markets of North America, Europe, and Asia, which are expected to expand in the future, and has production and sales bases in these regions. Some of the Group's overseas transactions are yen-denominated, while for others it carries out risk hedging through forward exchange contracts. However, if exchange rate fluctuations are greater than forecast, this may have an impact on the Group's business results.

3 Research and development-related risk

In order for the Group to maintain its competitiveness in the electronics industry, where technological innovation occurs at a rapid pace, it carries out R&D to provide products that precisely reflect user needs. However, realizing technological innovation and anticipating changes to user needs are not easy tasks and regardless of how much management resources it invests into R&D, due to unforeseeable reasons it may not produce the hoped-for results. This may have an impact on the Group's business results.

4 Intellectual property-related risk

In carrying out its business activities, the Group has acquired a diverse portfolio of intellectual property, to which it grants licenses to third parties. Also, when it deems it necessary or useful to do so, it acquires licenses from third parties in order to use their intellectual property. If the Group is unable to safeguard and maintain its own intellectual property rights or acquire third party rights as anticipated, it may become a party in a dispute or lawsuit relating to these rights. The costs incurred due to these events may have an impact on the Group's business results.

5 Raw material procurement-related risk

The Group uses various raw materials in its production activities and it aims to stably procure these materials by maintaining a network of multiple suppliers. However, its production activities may be affected by a delay or suspension in the supply of raw materials due to problems at the manufacturers of these materials. This may have an impact on the Group's business results. In addition, an increase in the price of raw materials may have an impact on its business results.

6 Product liability-related risk

Within the process in which the Group supplies its products to customers who then use them, problems may occur that originate in a product defect. The Group has insurance to cover product liability compensation payments, but insurance may not be able to cover the entire amount that have to be paid. Therefore, if such a problem occurs it may have an impact on the Group's business results.

7 Natural disaster and accident-related risk

The Group has established manufacturing plants both within Japan and overseas. In the event of a natural disaster, such as an earthquake, or an unforeseen accident, such as a fire or an explosion, it may have to suspend its production activities and delay product shipments. The Group may also have to pay repair or replacement costs at the damaged plant. These events may have an impact on the Group's business results.

8 Environment-related risk

The Group uses various types of chemical substance within its production activities and has strict rules to ensure they are handled safely. However, in the event of an accident involving the leakage of chemical substances, the Group's reputation within society may be affected, it may have to pay costs as compensation or in order to carry out counter measures, and it may have to suspend production activities. These factors may have an impact on the Group's business results.

In addition, the Group always observes the various environment-related laws and regulations in each country where it conducts its business activities. However, in the future these laws and regulations may be made stricter the Group may be forced to pay additional costs or limit its business activities. These factors may have an impact on the Group's business results.

9 Legal risk

When conducting its business activities throughout the world, the Group must acquire approval for business and investment activities and observe each government's regulations relating to restrictions on imports and exports. In addition, it must observe laws and regulations relating to trade, monopolies, international taxation, the environment, and recycling. If there are major revisions to any of these laws and regulations, or if the Group fails to precisely understand their requirements, or if for any reason it is unable to observe them, then this may have an impact on the Group's business results.

10 Overseas business activity-related risk

The Group carries out production and sales activities in North America and Asia and sales activities in Europe. However, in its overseas business activities it constantly faces the following types of risk; unexpected revisions to laws and regulations; a weakening of the industrial base; difficulties in securing the required personnel; and the possibility of terrorist attacks, conflicts, and natural disasters. If any of these risks are actualized, it may obstruct the Group's overseas business activities and have an impact on its business results.

11 Information leakage risk

The Group possesses confidential business information and also information relating to various other companies and individuals. It implements thorough measures to ensure the security of all the information it handles, but if due to some unforeseeable event information leaks outside of the Group, this may damage its reputation within society and it may have to pay liability payments for the damage caused to a company or individual whose information was leaked. These factors may have an impact on the Group's business results.

Consolidated Balance Sheets

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2014**	2013	**2014**
CURRENT ASSETS:			
Cash and cash equivalents (Note 17)	**¥ 39,157**	¥ 43,181	**$ 383,898**
Time deposits (Note 17)	**14,213**	13,890	**139,349**
Receivables:			
Trade notes and accounts (Note 17)	**16,623**	16,287	**162,976**
Other	**526**	383	**5,159**
Allowance for doubtful accounts	**(154)**	(223)	**(1,516)**
Inventories (Note 6)	**10,446**	10,499	**102,415**
Deferred tax assets (Note 14)	**1,563**	1,426	**15,331**
Prepaid expenses and other current assets	**871**	1,413	**8,541**
Total current assets	**83,247**	86,859	**816,156**
PROPERTY, PLANT AND EQUIPMENT (Note 7)**:**			
Land	**9,014**	8,241	**88,379**
Buildings and structures	**52,936**	50,427	**518,984**
Machinery and equipment	**42,519**	40,390	**416,856**
Furniture and fixtures	**15,687**	15,237	**153,795**
Construction in progress	**13,892**	3,703	**136,196**
Total	**134,049**	117,999	**1,314,211**
Accumulated depreciation	**(89,472)**	(86,942)	**(877,180)**
Net property, plant and equipment	**44,577**	31,057	**437,030**
INVESTMENTS AND OTHER ASSETS:			
Investment securities (Notes 5 and 17)	**6,635**	6,503	**65,054**
Investments in and advances to an unconsolidated subsidiary and associated companies	**920**	660	**9,026**
Net defined benefit asset (Note 9)	**896**	—	**8,787**
Long-term time deposits (Note 17)	**18,000**	18,000	**176,470**
Deferred tax assets (Note 14)	**424**	1,623	**4,158**
Other assets	**1,157**	960	**11,346**
Total investments and other assets	**28,034**	27,747	**274,844**
TOTAL	**¥155,859**	¥145,664	**$1,528,031**

	Millions of yen		Thousands of U.S. dollars (Note 1)
LIABILITIES AND EQUITY	**2014**	2013	**2014**
CURRENT LIABILITIES:			
Payables:			
Trade notes and accounts (Note 17)	**¥ 5,744**	¥ 5,892	**$ 56,313**
Construction and other	**2,600**	2,594	**25,493**
Income taxes payable	**1,988**	1,650	**19,495**
Accrued expenses	**3,018**	2,961	**29,595**
Advances from customers	**706**	1,359	**6,928**
Deferred tax liabilities (Note 14)	**4**	168	**42**
Other current liabilities (Notes 8 and 17)	**314**	386	**3,087**
Total current liabilities	**14,377**	15,013	**140,958**
LONG-TERM LIABILITIES:			
Long-term loans payable (Notes 8 and 17)	**244**	366	**2,392**
Allowance for retirement benefits (Note 9)	**8**	1,653	**84**
Deferred tax liabilities (Note 14)	**1,034**	699	**10,137**
Net defined benefit liability (Note 9)	**93**	—	**919**
Other long-term liabilities	**138**	92	**1,354**
Total long-term liabilities	**1,518**	2,811	**14,888**
EQUITY (Notes 12 and 20)**:**			
Common stock—authorized, 197,000,000 shares; issued, 46,600,000 shares	**14,640**	14,640	**143,533**
Capital surplus	**15,207**	15,207	**149,097**
Retained earnings	**103,162**	97,773	**1,011,397**
Treasury stock—at cost, 1,597,486 shares in 2014 and 1,596,629 shares in 2013	**(3,280)**	(3,398)	**(32,158)**
Accumulated other comprehensive income (loss):			
Unrealized gain on available-for-sale securities	**2,406**	2,117	**23,590**
Foreign currency translation adjustments	**2,936**	(1,168)	**28,790**
Remeasurements of defined benefit plans	**1,380**	—	**13,532**
Total	**136,453**	125,172	**1,337,782**
Stock acquisition rights	**83**	17	**815**
Minority interests	**3,425**	2,649	**33,586**
Total equity	**139,962**	127,838	**1,372,184**
TOTAL	**¥155,859**	¥145,664	**$1,528,031**

See notes to consolidated financial statements.

Consolidated Statements of Income

TOKYO OHKA KOGYO 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	¥75,269	¥72,919	$737,936
COST OF SALES (Notes 9 and 15)	46,550	47,566	456,378
Gross profit	28,718	25,353	281,558
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 15)	18,693	17,480	183,269
Operating income	10,025	7,872	98,289
OTHER INCOME (EXPENSES):			
Interest and dividend income	309	272	3,034
Foreign exchange gain—net	1,391	216	13,639
Insurance payment and dividend income	279	75	2,741
Loss on impairment of long-lived assets (Note 7)	(856)	(256)	(8,399)
Loss on devaluation of investment securities	—	(286)	—
Other—net	516	137	5,067
Other income (expenses)—net	1,640	158	16,083
INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS	11,666	8,031	114,372
INCOME TAXES (Note 14):			
Current	3,148	2,227	30,868
Prior years	75	3	738
Deferred	333	10	3,269
Total income taxes	3,557	2,242	34,876
NET INCOME BEFORE MINORITY INTERESTS	8,108	5,789	79,496
MINORITY INTERESTS IN NET INCOME	(559)	(346)	(5,483)
NET INCOME	¥ 7,549	¥ 5,443	$ 74,012

	Yen		U.S. dollars
	2014	2013	2014
PER SHARE OF COMMON STOCK (Notes 13 and 20):			
Basic net income	¥168.54	¥121.69	$1.65
Diluted net income	168.41	—	1.65
Cash dividends applicable to the year	52.00	44.00	0.51

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

TOKYO OHKA KOGYO 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 INCOME BEFORE MINORITY INTERESTS	¥ 8,108	¥5,789	$ 79,496
OTHER COMPREHENSIVE INCOME (Note 19):			
Unrealized loss on available-for-sale securities	288	1,019	2,832
Foreign currency translation adjustments	4,544	2,619	44,553
Share of other comprehensive loss in associates	107	55	1,058
Total other comprehensive income (loss)	4,941	3,694	48,445
COMPREHENSIVE INCOME (Note 19)	¥13,050	¥9,483	$127,941
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO (Note 19):			
Owners of the parent	¥11,943	¥8,793	$117,088
Minority interests	1,106	690	10,852

See notes to consolidated financial statements.

Consolidated Statements of Changes in Equity

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

	Thousands	Millions of yen										
						Accumulated other comprehensive income (loss)						
	Number of shares of common stock outstanding	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Subscription rights to shares	Minority interests	Total equity
BALANCE, APRIL 1, 2012	44,690	¥14,640	¥15,207	¥ 94,131	¥(3,537)	¥1,098	¥(3,499)	¥ —	¥118,041	¥—	¥1,548	¥119,590
Net income	—	—	—	5,443	—	—	—	—	5,443	—	—	5,443
Cash dividends paid:												
Final for prior year, ¥20.0 per share	—	—	—	(900)	—	—	—	—	(900)	—	—	(900)
Interim for current year, ¥20.0 per share	—	—	—	(900)	—	—	—	—	(900)	—	—	(900)
Purchase of treasury stock	(0)	—	—	—	(1)	—	—	—	(1)	—	—	(1)
Disposal of treasury stock	72	—	—	—	139	—	—	—	139	—	—	139
Others	—	—	—	(1)	—	—	—	—	(1)	—	—	(1)
Net change in the year	—	—	—	—	—	1,019	2,331	—	3,350	17	1,100	4,468
BALANCE, MARCH 31, 2013	44,762	14,640	15,207	97,773	(3,398)	2,117	(1,168)	—	125,172	17	2,649	127,838
Net income	—	—	—	7,549	—	—	—	—	7,549	—	—	7,549
Cash dividends paid:												
Final for prior year, ¥24.0 per share	—	—	—	(1,080)	—	—	—	—	(1,080)	—	—	(1,080)
Interim for current year, ¥24.0 per share	—	—	—	(1,080)	—	—	—	—	(1,080)	—	—	(1,080)
Purchase of treasury stock	(0)	—	—	—	(1)	—	—	—	(1)	—	—	(1)
Disposal of treasury stock	62	—	—	—	120	—	—	—	120	—	—	120
Net change in the year	—	—	—	—	—	288	4,104	1,380	5,774	65	776	6,616
BALANCE, MARCH 31, 2014	44,823	¥14,640	¥15,207	¥103,162	¥(3,280)	¥2,406	¥2,936	¥1,380	¥136,453	¥83	¥3,425	¥139,962

	Thousands of U.S. dollars (Note 1)										
					Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock	Unrealized gain on available-for-sale securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total	Subscription rights to shares	Minority interests	Total equity
BALANCE, MARCH 31, 2013	$143,533	$149,097	$ 958,562	$(33,320)	$20,758	$(11,452)	$ —	$1,227,179	$170	$25,971	$1,253,320
Net income	—	—	74,012	—	—	—	—	74,012	—	—	74,012
Cash dividends paid:											
Final for prior year, $0.23 per share	—	—	(10,589)	—	—	—	—	(10,589)	—	—	(10,589)
Interim for current year, $0.23 per share	—	—	(10,588)	—	—	—	—	(10,588)	—	—	(10,588)
Purchase of treasury stock	—	—	—	(17)	—	—	—	(17)	—	—	(17)
Disposal of treasury stock	—	—	—	1,179	—	—	—	1,179	—	—	1,179
Net change in the year	—	—	—	—	2,832	40,243	13,532	56,608	645	7,615	64,868
BALANCE, MARCH 31, 2014	$143,533	$149,097	$1,011,397	$(32,158)	$23,590	$28,790	$13,532	$1,337,782	$815	$33,586	$1,372,184

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

TOKYO OHKA KOGYO 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	¥11,666	¥ 8,031	$114,372
Adjustments for:			
Income taxes paid	(2,583)	(1,225)	(25,326)
Depreciation and amortization	2,672	3,758	26,201
Provision for doubtful accounts	(925)	(118)	(9,075)
Foreign exchange (gain) loss —net	(970)	(573)	(9,509)
Loss on impairment of long-lived assets	856	256	8,399
Loss on devaluation of investment securities	—	286	—
(Decrease) increase in allowance for retirement benefits	(45)	245	(450)
Increase in net defined benefit asset	(297)	—	(2,913)
Decrease in trade notes and accounts receivable	720	3,458	7,065
Decrease in inventories	1,018	1,633	9,988
Decrease in trade notes and accounts payable	(449)	(922)	(4,409)
Decrease in advances from customers	(652)	(1,989)	(6,399)
Other—net	871	(403)	8,541
Net cash provided by operating activities	11,881	12,438	116,485
INVESTING ACTIVITIES:			
(Deposit) disbursements for time deposits—net	(157)	1,075	(1,541)
Purchases of property, plant and equipment	(14,616)	(5,377)	(143,295)
Purchases of intangible assets	(424)	(218)	(4,163)
Payments into long-term time deposits	(13,000)	(13,000)	(127,450)
Withdrawal of long-term time deposits	13,000	17,500	127,450
Purchases of investment securities	—	(257)	—
Proceeds from sales of investment securities	382	—	3,750
Other—net	323	202	3,173
Net cash used in investing activities	(14,491)	(75)	(142,077)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
FINANCING ACTIVITIES:			
Repayment of long-term loans payable	(122)	(122)	(1,196)
Dividends paid	(2,155)	(1,796)	(21,128)
Dividends paid for minority shareholder	(330)	(218)	(3,237)
Proceeds from issuance of common stock to minority shareholder	—	628	—
Disposal of treasury stock	133	122	1,306
Purchases of treasury stock	(1)	(1)	(17)
Other—net	4	0	39
Net cash used in financing activities	(2,471)	(1,386)	(24,234)
FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS	1,058	1,429	10,380
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,023)	12,405	(39,445)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	43,181	30,775	423,344
CASH AND CASH EQUIVALENTS, END OF YEAR	¥39,157	¥43,181	$383,898

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

1. BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with the provisions set forth in the Japanese Financial Instruments and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan. In addition, certain amounts reported in prior years have been reclassified to conform to the current year's presentation.

The consolidated financial statements are stated in Japanese yen, the currency of the country in which TOKYO OHKA KOGYO CO., LTD. (the "Company") is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥102 to $1, the approximate rate of exchange at March 31, 2014. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

Amounts of less than one million yen have been rounded off. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a. Consolidation—The consolidated financial statements include the accounts of the Company and its eight significant subsidiaries (together, the "Group"). TOK KOREA Co., LTD. is excluded from the consolidation due to the conclusion of liquidation but the Company's consolidated financial statements reflect the results of TOK KOREA Co., LTD. until the conclusion of liquidation.

Under the control or influence concept, those companies in which the Company, directly or indirectly, is able to exercise control over operations are fully consolidated, and those companies over which the Group has the ability to exercise significant influence are accounted for by the equity method.

Investment in one associated company is accounted for by the equity method. Investments in the remaining one unconsolidated subsidiary and another associated company are stated at cost. If the equity method of accounting had been applied to the investments in these companies, the effect on the accompanying consolidated financial statements would not be material.

All significant intercompany balances and transactions have been eliminated in consolidation. All material unrealized profit included in assets resulting from transactions within the Group is eliminated.

b. Cash Equivalents—Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with original maturities of three months or less that are readily convertible into cash and exposed to insignificant risk of changes in value.

c. Allowance for Doubtful Accounts—The allowance for doubtful accounts is stated in amounts considered to be appropriate based on the Group's past credit loss experience and an evaluation of potential losses in the receivables outstanding.

d. Inventories—Merchandise, work in process, raw materials and supplies are stated at the lower of cost, determined by the first-in, first-out method, or net selling value. Finished products are stated at the lower of cost, determined by the average method, or net selling value. Inventories of manufacturing equipment are stated at the lower of cost, determined by the specific identification method, or net selling value, which are included in raw materials, work in process and finished products.

e. Investment Securities—Investment securities are classified and accounted for, depending on management's intent, as follows: (i) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity, are reported at amortized cost and (ii) available-for-sale securities, other than (i), are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at cost determined by the moving-average method.

For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

f. Property, Plant and Equipment—Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, except for lease assets, of the Company and its consolidated domestic subsidiaries is computed by the straight-line method. The range of useful lives is principally from 10 to 50 years for buildings and structures, and from 3 to 8 years for machinery and equipment, and furniture and fixtures.

g. Long-Lived Assets—The Group reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

h. Other Assets—Intangible assets are stated at cost less accumulated amortization, which is calculated by the straight-line method principally over 5 years.

i. Retirement Benefits

Retirement benefits to employees (including officers)—The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The companies principally accounted for the retirement benefit obligations based on the projected benefit obligations and plan assets at each balance sheet date.

Prior service cost is amortized by the straight-line method over 10 years. Actuarial gains and losses are amortized by the straight-line method over 10 years from the next period in which they arise.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plan for officers on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible officers as of the termination date of the plans for the payment upon their retirement.

Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

Retirement benefits to directors and corporate auditors—Retirement benefits to directors and corporate auditors are provided to state the liability at the amount that would be required if all of them retired at the balance sheet date.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plans for directors and corporate auditors on June 26, 2008. Accordingly, allowance is provided in the amount payable to the eligible directors and corporate auditors as of the termination date of the plans for the payment upon their retirement.

j. Asset Retirement Obligations—The Group recognizes assets retirement obligation for buildings and sub stations in the domestic offices in accordance with the relevant laws. The amount of the asset retirement obligations is calculated with the estimated usable years of eight to 50 years from the acquisition and the discount rate ranging from 0.4% to 2.3%.

k. Research and Development Costs—Research and development costs are charged to income as incurred.

l. Leases—Leased assets under the finance lease arrangements where the ownership is not transferred to lessees at the end of lease terms are capitalized to recognize lease assets and lease obligations in the balance sheet, except for leases which existed at April 1, 2008 and do not transfer ownership of the leased property to the lessee which are accounted for as operating lease transactions.

All other leases are accounted for as operating leases.

m. Bonuses to Directors and Corporate Auditors—Bonuses to directors and corporate auditors are accrued at the year-end to which such bonuses are attributable.

n. Income Taxes—The provision for income taxes is computed based on the pretax income included in the consolidated statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

o. Foreign Currency Transactions—All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the current exchange rates as of the balance sheet date. The foreign exchange gains and losses from translation are recognized in the consolidated statements of income to the extent that they are not hedged by forward exchange contracts.

p. Foreign Currency Financial Statements—The balance sheet accounts of the consolidated foreign subsidiaries are translated into Japanese yen at the current exchange rate as of the balance sheet date except for equity, which is translated at the historical rate. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate during the period. Differences arising from such translation were recorded in "Foreign currency translation adjustments" and "Minority interests" in Equity.

q. Derivative and Hedging Activities—The Group uses derivative financial instruments to manage its exposures to the fluctuation in foreign currency exchange. Foreign currency forward contracts are utilized by the Group to hedge foreign exchange risk. The Group does not enter into derivatives for trading or speculative purposes.

Trade receivables and payables denominated in foreign currencies for which foreign currency forward contracts are used to hedge foreign exchange risk are translated at the contracted rate if the forward contracts qualify for hedge accounting.

r. Per Share Information—Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding during the period.

Diluted net income per share reflects the potential dilution that could occur if securities with dilutive effects were exercised. Diluted net income per share of common stock assumes full exercise of outstanding warrants at the beginning of the year.

Cash dividends per share presented in the accompanying consolidated statements of income are dividends attributable to the respective years including dividends to be paid after the end of the year.

3. CHANGES IN ACCOUNTING POLICIES

(Depreciation method of property, plant and equipment)

The Company and certain domestic consolidated subsidiaries changed the depreciation method for property, plant and equipment from the declining balance method to straight-line method in order to reflect the Company's economic substance more properly.

As a result of this change, depreciation expenses decreased by ¥934 million ($9,162 thousand), operating income increased by ¥854 million ($8,380 thousand), and income before income taxes and minority interests increased by ¥871 million ($8,546 thousand).

(Adoption of accounting standard for retirement benefits)

Effective March 31, 2014, the Company adopted ASBJ Statement No. 26, "Accounting Standard for Retirement Benefits" issued on May 17, 2012 and ASBJ Guidance No. 25 "Guidance on Accounting Standard for Retirement Benefits" issued on May 17, 2012, except for the matters provided in the main clause of Article 35 of Accounting Standard for Retirement Benefits and Article 67 of Guidance on Accounting Standard for Retirement Benefits, and modified to record retirement benefit obligations net of pension assets as net defined benefit liability or net defined benefit asset, and record unrecognized actuarial differences and unrecognized prior service cost as net defined benefit liability or net defined benefit asset.

The Company applied the transitional treatment provided in Article 37 of Accounting Standard for Retirement Benefits, and any impact as a result of this change is recorded in remeasurements of defined benefit plans in accumulated other comprehensive income.

As a result, the Company recorded net defined benefit asset of ¥896 million ($8,787 thousand) and net defined benefit liability of ¥93 million ($919 thousand), and accumulated other comprehensive income increased by ¥1,380 million ($13,532 thousand).

Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

4. ACCOUNTING PRONOUNCEMENTS NOT YET APPLIED

1. "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26 issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012).

(1) Outline

Accounting treatments for unrecognized actuarial differences and unrecognized prior service cost, the calculation method of retirement benefit obligations and service cost and the scope of disclosure have been revised.

(2) Date of application

The Company will apply the revised calculation method for retirement benefit obligations and service cost effective April 1, 2014.

In accordance with the transitional treatment, the amendment will not be applied to the prior year's consolidated financial statements retrospectively.

(3) Effects of adoption of the revised accounting standard

Due to the revision, the calculation method of retirement benefit obligations and service cost has been changed; and as a result, net defined benefit asset is expected to increase by ¥200 million ($1,969 thousand) and the beginning balance of retained earnings is expected to increase by ¥129 million ($1,274 thousand). The impact from the change of calculation method of service cost on the consolidated statement of income is expected to be insignificant.

2. "Practical Treatment for Transactions to Issue Own Shares to Employees through Trusts" (Practical Issue Task Force No. 30 issued on December 25, 2013)

(1) Outline

The pronouncement stipulates the accounting treatment for the transactions to issue own shares to employees or employees share ownership plans through trusts and transactions to issue own shares to employees with rights to receive the shares through trusts.

(2) Date of application

The Company will apply the treatment effective April 1, 2014.

(3) Effects of adoption of the accounting pronouncement

The impact on the consolidated financial statements is insignificant.

5. INVESTMENT SECURITIES

Investment securities as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Non-current:			
Marketable equity securities	**¥6,594**	¥6,291	**$64,648**
Corporate bond	**—**	170	**—**
Total	**¥6,594**	¥6,461	**$64,648**

The costs and aggregate fair values of investment securities at March 31, 2014 and 2013 were as follows:

	Millions of yen			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale	**¥3,022**	**¥3,571**	**¥0**	**¥6,594**

	Millions of yen			
March 31, 2013	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Held-to-maturity	¥ 170	¥ 2	¥—	¥ 172
Available-for-sale	3,156	3,147	11	6,291

	Thousands of U.S. dollars			
March 31, 2014	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale	**$29,631**	**$35,018**	**$1**	**$64,648**

The difference between the sum of the above fair values of the available-for-sale securities and cost of the held-to-maturity securities, and the amounts shown in the accompanying consolidated balance sheets consists of nonmarketable securities whose fair values are not readily determinable.

Available-for-sale securities sold during the year ended March 31, 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Amount sold	**¥212**	¥—	**$2,083**
Total gains	**87**	—	**857**
Total losses	**(8)**	—	**(84)**

Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

6. INVENTORIES

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Merchandise and finished products	¥ 5,038	¥ 5,154	$ 49,393
Work in process	2,057	1,858	20,170
Raw materials and supplies	3,350	3,486	32,850
Total	¥10,446	¥10,499	$102,415

7. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2014 and 2013, and recognized impairment losses of ¥856 million ($8,399 thousand) and ¥256 million, respectively for the following assets. The carrying amount of those assets was written down to the recoverable amount.

For the year ended March 31, 2014

Use	Type of assets	Location (Prefecture/Country)	Amount Millions of yen	Amount Thousands of U.S. dollars
Idle assets	Buildings and structures, Land	Kumamoto	¥ 71	$ 701
Idle assets	Buildings and structures, Land	Kanagawa	507	4,972
Idle assets	Buildings and structures, Land	Hokkaido	38	381
Idle assets	Machinery and equipment	Kanagawa	41	403
Idle assets	Land	Hyogo	169	1,661
Idle assets	Furniture and fixtures	Taiwan	28	278
	Total		¥856	$8,399

For the year ended March 31, 2013

Use	Type of assets	Location (Prefecture)	Amount Millions of yen
Company dormitory	Buildings and structures, Land	Fukushima	¥256

For the purpose of evaluating and measuring impairment, assets used for business are considered to constitute a group by each business unit. Idle properties are individually evaluated.

The recoverable amount of land was measured by their net selling price based on estimated selling price or appraised value used in calculation of inheritance tax. The recoverable amount of the other assets was measured at their value in use based on reminder price.

8. SHORT-TERM LOANS PAYABLE AND LONG-TERM LOANS PAYABLE

Short-term loans payable, included in "Other current liabilities" in the consolidated balance sheets, at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unsecured loan from a bank, with average interest rate of 0.56% and 0.60% for the years ended March 31, 2014 and 2013, respectively	¥122	¥122	$1,196
Total	¥122	¥122	$1,196

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unsecured loan from a bank, with average interest rate of 0.56% and 0.60% for the years ended March 31, 2014 and 2013, respectively	¥244	¥366	$2,392
Total	¥244	¥366	$2,392

The aggregate annual maturities of long-term loans payable during the next five years are summarized below:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥122	$1,196
2016	122	1,196
2017	122	1,196
2018	—	—
2019	—	—

9. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have funded defined benefit pension plans and lump-sum retirement payment plans.

The defined benefit corporate pension plans provide lump-sum payment or pension based on salary and service period.

The lump-sum retirement payment plans provide lump-sum payment as retirement benefit based on factors such as service period.

As the decision to introduce a new retirement benefit plan effective April 1, 2014 was made in December 2013, prior service cost (reduction in obligations) incurred.

The details of the plans are as follows:

Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

For the year ended March 31, 2014

(1) Retirement benefit obligations

	Millions of yen 2014	Thousands of U.S. dollars 2014
Beginning balance	¥17,934	$175,826
Service cost	757	7,422
Interest cost	258	2,538
Actuarial differences incurred during the year	169	1,662
Payment of retirement benefit	(448)	(4,400)
Prior service cost incurred during the year	(2,884)	(28,278)
Ending balance	¥15,786	$154,770

Note: Certain consolidated subsidiaries apply a simplified method to calculate retirement benefit obligations.

(2) Pension assets

	Millions of yen 2014	Thousands of U.S. dollars 2014
Beginning balance	¥10,081	$ 98,838
Expected return on plan assets	251	2,463
Actuarial differences incurred during the year	712	6,983
Contributions from employer	815	7,994
Payment of retirement benefit	(372)	(3,655)
Ending balance	¥11,487	$112,624

(3) Employee retirement benefit trust

	Millions of yen 2014	Thousands of U.S. dollars 2014
Beginning balance	¥5,095	$49,956
Expected return on plan assets	25	249
Actuarial differences incurred during the year	(19)	(192)
Ending balance	¥5,101	$50,013

(4) Reconciliation between ending balance of retirement benefit obligations and pension assets and net defined benefit liability and net defined benefit asset recorded on the consolidated balance sheet

	Millions of yen 2014	Thousands of U.S. dollars 2014
Retirement benefit obligations under the funded plan	¥15,692	$153,850
Pension assets	(11,487)	(112,624)
Employee retirement benefit trust	(5,101)	(50,013)
	(896)	(8,787)
Retirement benefit obligations under the unfunded plan	93	919
Net liabilities or assets recorded on the consolidated balance sheet	(802)	(7,868)
Net defined benefit liability	93	919
Net defined benefit asset	(896)	(8,787)
Net liabilities or assets recorded on the consolidated balance sheet	¥ (802)	$ (7,868)

(5) Net periodic benefit cost and its components

	Millions of yen 2014	Thousands of U.S. dollars 2014
Service cost	¥757	$7,422
Interest cost	258	2,538
Expected return on plan assets	(276)	(2,713)
Amortized actuarial differences	87	853
Amortized prior service cost	(209)	(2,058)
Net periodic benefit cost of defined benefit plan	¥616	$6,042

Note: Net periodic benefit cost of consolidated subsidiaries applying the simplified method is recorded as "Service cost."

(6) Remeasurements of defined benefit plans

	Millions of yen 2014	Thousands of U.S. dollars 2014
Unrecognized prior service cost	¥2,915	$28,585
Unrecognized actuarial differences	(788)	(7,734)
Total	¥2,126	$20,850

(7) Plan assets and employee retirement benefit trust

(a) Components of plan assets

	2014
Debt securities	31%
Equity securities	46%
Other	23%
Total	100%

(b) Components of employee retirement benefit trust

	2014
Debt securities	95%
Other	5%
Total	100%

(c) Long-term rate of return

Long-term rate of return on plan assets and employee retirement benefit trust is determined based on the current and expected allocation of plan assets and employee retirement benefit trust and current and expected long-term rate of return of various assets composing plan assets and employee retirement benefit trust.

(8) Basis for calculation of actuarial differences

	2014
Discount rate	1.50%
Long-term expected rate of return	
Defined benefit corporate pension plan	2.50%
Employee retirement benefit trust	0.50%

For the year ended March 31, 2013

(1) Retirement benefit obligations

	Millions of yen
	2013
Retirement benefit obligation	¥17,934
Fair value of plan assets	(10,081)
Employee retirement benefit trust	(5,095)
Unrecognized prior service cost	241
Unrecognized actuarial loss	(1,399)
Allowance for retirement benefit	¥ 1,599

(2) Net periodic benefit costs

	Millions of yen
	2013
Service cost	¥ 759
Interest cost	256
Expected return on plan assets	(130)
Amortized prior service cost	(137)
Amortized actuarial loss	398
Net periodic benefit costs	¥1,146

(3) Basis for calculation of retirement benefit obligations

	2013
Discount rate	1.50%
Expected rate of return on plan assets:	
Defined benefit corporate pension plan	1.25%
Employee retirement benefit trust	0.50%
Amortization period of prior service cost	10 years
Amortization period of actuarial gain/loss	10 years

The amount of allowance for retirement benefits at March 31, 2013 on the consolidated balance sheets includes those for directors and corporate auditors of ¥54 million. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

10. EMPLOYEE STOCK OWNERSHIP PLAN TRUST

Pursuant to the resolution by the meeting of the Board of Directors held on January 11, 2012, the Company has introduced an employee incentive plan, "Employee Stock Ownership Plan (ESOP) Trust ("Plan")" for the purpose of enhancing benefit programs for the employees who will support future growth of the Company as well as increasing employees' incentive to work and awareness of management participation through granting incentive to raise stock price and improving corporate value for the medium and long-term perspective.

Under the Plan, the Company will establish a trust ("Trust") for certain employees who participate in the "Tokyo Ohka Employee Stock Ownership Plan ("Company's ESOP")" and meet certain requirements as its beneficiaries. The Trust will acquire the total number of the Company's shares expected to be acquired by the Company's ESOP over five years in advance, and subsequently sell these shares to the Company's ESOP on a certain date of every month.

Acquisition and sales of the Company's shares are accounted for under the assumption that the Company and the Trust are the same entity.

Accordingly, assets, including the Company's shares owned by the Trust, and liabilities, and profits and loss of the Trust are included in the Company's consolidated balance sheet, consolidated statement of income and consolidated statement of changes in equity.

The number of treasury stocks as of March 31, 2014 is as follows:

The number of treasury stocks:	1,776,486 shares
Of which, held by the Company:	1,597,486 shares
Of which, held by the Trust:	179,000 shares

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TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

11. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations during the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balance at beginning of year	¥86	¥85	$846
Adjustments associated with passage of time	1	1	9
Others	1	—	14
Balance at end of year	¥88	¥86	$870

12. EQUITY

Japanese companies are subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

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

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

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

b. Increases/Decreases and Transfer of Common Stock, Reserve and Surplus—The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

c. Treasury Stock and Treasury Stock Acquisition Rights—The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are presented as a separate component of equity.

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

13. STOCK OPTIONS

(1) Share-based compensation expenses which were accounted for as cost of sales and selling, general and administrative expenses

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cost of sales	¥17	¥ 5	$171
Selling, general and administrative expenses	48	12	472

(2) Outline, number and changes of stock options

(a) Outline of stock options

Stock options outstanding as of March 31, 2014 were as follows:

Stock option: 2013 Stock option

Category and number of eligible person: 2 representative directors of the Company
4 directors of the Company
7 executive officers of the Company
200 employees of the Company

Number of options granted: 484,000 shares

Date of Grant: January 10, 2013

Service period: From January 10, 2013 to May 31, 2016

Exercise period: From June 1, 2016 to May 31, 2019

Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

(b) Number and price of stock options

	Shares	Yen	U.S. dollars
	2013	2013	2013
Unvested stock options:			
As of March 31, 2013	484,000		
Granted	—		
Forfeited	1,500		
Vested	—		
Unvested options as of March 31, 2014	482,500		
Vested stock options:			
As of March 31, 2013	—		
Vested	—		
Exercised	—		
Forfeited	—		
Unexercised options as of March 31, 2014	—		
Exercise price		¥1,759	$17.24
Average share price at the time of exercise		¥ —	$ —
Fair value per share at grant date		¥ 417	$ 4.08

(3) Method of estimating number of stock options vested

Only the actual number of forfeited stock options is reflected because it is difficult to reasonably estimate the number of future forfeitures.

14. INCOME TAXES

The Company and its domestic subsidiaries are subject to Japanese national and local income taxes which, in the aggregate, resulted in a normal effective statutory tax rate of approximately 38.1% for the years ended March 31, 2014 and 2013. Foreign subsidiaries are subject to income taxes of the countries in which they operate.

The tax effects of significant temporary differences and tax loss carryforwards, which resulted in deferred tax assets and liabilities at March 31, 2014 and 2013, are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current assets:			
Deferred tax assets:			
Accrued bonuses for employees	¥ 571	¥ 583	$ 5,598
Unrealized gains on finished goods	597	338	5,859
Loss on valuation of inventories	122	214	1,196
Other	312	343	3,064
Less valuation allowance	(5)	(4)	(53)
Total	1,597	1,475	15,666
Deferred tax liabilities—other	34	48	334
Total	34	48	334
Net deferred tax assets	¥1,563	¥1,426	$15,331
Non-current assets:			
Deferred tax assets:			
Allowance for retirement benefits	¥ —	¥2,317	$ —
Net defined benefit liability and asset	1,489	—	14,601
Tax loss carryforwards	24	33	241
Loss on devaluation of investment securities	336	357	3,296
Subsidy income	136	189	1,342
Allowance for doubtful accounts	76	279	745
Loss on impairment of long-lived assets	340	244	3,340
Other	230	191	2,258
Less valuation allowance	(707)	(615)	(6,939)
Total	1,926	2,999	18,886
Deferred tax liabilities:			
Reserve for advanced depreciation	331	351	3,247
Unrealized gain on available-for-sale securities	1,165	1,018	11,426
Other	5	6	54
Total	1,502	1,376	14,727
Net deferred tax assets	¥ 424	¥1,623	$ 4,158
Current liabilities—Deferred tax liabilities	¥ 4	¥ 168	$ 42
Non-current liabilities:			
Deferred tax liabilities:			
Undistributed earnings of foreign subsidiaries	¥ 983	¥ 666	$ 9,639
Accelerated depreciation	175	134	1,717
Total	1,158	801	11,357
Deferred tax assets—other	(124)	(101)	(1,219)
Net deferred tax liabilities	¥1,034	¥ 699	$10,137

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TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

Reconciliation between the normal effective statutory tax rates and the actual effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2014 and 2013 is as follows:

	2014	2013
Normal effective statutory tax rate	**38.1%**	38.1%
Adjustments:		
Non-taxable dividend income	**(6.3)**	(4.4)
Different income tax rates applicable to income in certain foreign countries	**(6.0)**	(4.0)
Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes	**5.8**	4.1
Valuation allowance	**0.9**	0.5
Tax credit for research and development costs	**(4.1)**	(4.4)
Tax loss carryforwards of subsidiaries	**0.0**	(2.9)
Other—net	**2.1**	0.9
Actual effective tax rate	**30.5%**	27.9%

At March 31, 2014, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥84 million ($826 thousand) which are available to be offset against taxable income of the Company and such subsidiaries in future years. These tax loss carryforwards, if not utilized, will expire as follows:

Years ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥19	$191
2017	60	589
2018	4	44
Total	¥84	$826

"Act for Partial Amendment of the Income Tax Law (Law No. 10/2014)" was promulgated on March 31, 2014, and the special corporate tax for reconstruction will no longer be levied for the fiscal year beginning on or after April 1, 2014. As a result, the normal effective statutory tax rate used to calculate deferred tax assets and liabilities will be changed from 38.1% to 35.3% for a temporary difference which is expected to be reversed during the period from the fiscal year beginning on April 1, 2014.

As a result of this change, deferred tax assets (net of deferred tax liabilities) decreased by ¥87 million ($860 thousand) and income tax –deferred increased by the same amount.

15. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Selling, general and administrative expenses	**¥6,261**	¥6,141	**$61,385**
Cost of sales	**127**	70	**1,253**
Total	**¥6,389**	¥6,211	**$62,639**

16. LEASES

The Group leases certain buildings and structures, machinery, computer hardware, software and other assets.

The minimum rental commitments under non-cancelable operating leases at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Due within one year	**¥ 79**	¥ 66	**$ 782**
Due after one year	**163**	192	**1,604**
Total	**¥243**	¥258	**$2,387**

17. FINANCIAL INSTRUMENTS

(1) Group Policy for Financial Instruments

The Group invests cash surpluses in low risk financial assets. Such surpluses are generated from the Group's own operations. Derivatives are used, not for speculative purposes, but to manage exposure to financial risks as described in (2) below.

(2) Nature and Extent of Risks Arising from Financial Instruments

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

Payment terms of payables, such as trade notes and accounts, are less than one year.

Derivatives mainly include foreign currency forward contracts, which are used to manage exposure to market risks from changes in foreign exchange rates of receivables and payables. Please see Note 18 for more detail about derivatives.

(3) Risk Management for Financial Instruments

Credit risk management

The Group manages its credit risk from receivables in accordance with internal guidelines, which include monitoring of payment terms and balances of major customers by the credit administration department to identify the default risk of customers in the early stages. With respect to held-to-maturity securities, the Group manages its exposure to credit risk by limiting its holdings to high credit rating bonds. With respect to derivatives, the Group manages its exposure to credit risk by limiting its counterparties to major and creditworthy international financial institutions.

The maximum credit risk exposure of financial assets is limited to their carrying amounts as of March 31, 2014.

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Market risk management (foreign exchange risk)

Foreign currency trade receivables and payables are exposed to market risk resulting from fluctuations in foreign currency exchange rates. Such foreign exchange risk, which is managed monthly by currency, is hedged principally by foreign currency forward contracts. In addition, foreign currency forward contracts may be used at the maximum of expected amounts of foreign currency trade receivables and payables.

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

(4) Fair Values of Financial Instruments

Fair values of financial instruments are based on quoted price in active markets. When quoted price is not available, other values calculated using reasonable valuation techniques are used. Please see Note 18 for the detail of fair value for derivatives.

(a) Fair value of financial instruments

	Millions of yen		
March 31, 2014	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**¥39,157**	**¥39,157**	**¥—**
Time deposits	**14,213**	**14,213**	**—**
Receivables—Trade notes and accounts	**16,623**	**16,623**	**—**
Investment securities:			
Available-for-sale securities	**6,594**	**6,594**	**—**
Long-term time deposits	**18,000**	**17,994**	**(5)**
Total	**¥94,589**	**¥94,583**	**¥(5)**
Payables—Trade notes and accounts	**¥ 5,744**	**¥ 5,744**	**¥—**
Short-term loans payable	**122**	**122**	**—**
Long-term loans payable	**244**	**244**	**—**
Total	**¥ 6,110**	**¥ 6,110**	**¥—**

	Millions of yen		
March 31, 2013	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	¥43,181	¥43,181	¥—
Time deposits	13,890	13,890	—
Receivables—Trade notes and accounts	16,287	16,287	—
Investment securities:			
Held-to-maturity securities	170	172	2
Available-for-sale securities	6,291	6,291	—
Long-term time deposits	18,000	17,997	(2)
Total	¥97,821	¥97,820	¥(0)
Payables—Trade notes and accounts	¥ 5,892	¥ 5,892	¥—
Short-term loans payable	122	122	—
Long-term loans payable	366	366	—
Total	¥ 6,380	¥ 6,380	¥—

	Thousands of U.S. dollars		
March 31, 2014	Carrying amount	Fair value	Unrealized gain/loss
Cash and cash equivalents	**$383,898**	**$383,898**	**$ —**
Time deposits	**139,349**	**139,349**	**—**
Receivables—Trade notes and accounts	**162,976**	**162,976**	**—**
Investment securities:			
Available-for-sale securities	**64,648**	**64,648**	**—**
Long-term time deposits	**176,470**	**176,415**	**(54)**
Total	**$927,344**	**$927,289**	**$(54)**
Payables—Trade notes and accounts	**$ 56,313**	**$ 56,313**	**$ —**
Short-term loans payable	**1,196**	**1,196**	**—**
Long-term loans payable	**2,392**	**2,392**	**—**
Total	**$ 59,902**	**$ 59,902**	**$ —**

Cash and Cash Equivalents, and Time Deposits

The carrying values of cash and cash equivalents, and time deposits approximate fair value because of their short maturities.

Receivables—Trade Notes and Accounts

The carrying values of receivables—trade notes and accounts approximate fair value because of their short maturities.

Investment Securities

The fair values of investment securities are measured at the quoted market price of the stock exchange for the equity instruments, and at the quoted price obtained from the financial institution for certain debt instruments. The information of the fair value for the marketable and investment securities by classification is included in Note 5.

Long-term Time Deposits

Long-term time deposits are measured at fair value using the discounted cash flow on deposits held at banks. The discounted rate used is the deposit interest rate assuming the same period.

Payables—Trade Notes and Accounts

The carrying values of payables—trade notes and accounts approximate fair value because of their short maturities.

Short-term Loans Payable

The carrying values of short-term loans payables approximate fair value because of their short maturities.

Long-term Loans payable

As long-term loans payable bears floating interest, the carrying values approximate fair value.

Derivatives

The information of the fair value for derivatives is included in Note 18.

(b) Financial instruments whose fair value cannot be reliably determined

	Carrying amount		
	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Investments in equity instruments that do not have a quoted market price in an active market	**¥657**	¥397	**$6,441**

(5) Maturity Analysis for Financial Assets and Securities with Contractual Maturities

	Millions of yen		
March 31, 2014	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and cash equivalents	**¥39,157**	**¥ —**	**¥—**
Time deposits	**14,213**	**—**	**—**
Receivables—Trade notes and accounts	**16,623**	**—**	**—**
Long-term time deposits	**—**	**18,000**	**—**
Total	**¥69,994**	**¥18,000**	**¥—**

	Millions of yen		
March 31, 2013	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and cash equivalents	¥43,181	¥ —	¥ —
Time deposits	13,890	—	—
Receivables—Trade notes and accounts	16,287	—	—
Held-to-maturity securities	—	—	170
Long-term time deposits	—	18,000	—
Total	¥73,359	¥18,000	¥170

	Thousands of U.S. dollars		
March 31, 2014	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years
Cash and cash equivalents	**$383,898**	**$ —**	**$—**
Time deposits	**139,349**	**—**	**—**
Receivables—Trade notes and accounts	**162,976**	**—**	**—**
Long-term time deposits	**—**	**176,470**	**—**
Total	**$686,224**	**$176,470**	**$—**

18. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign exchange risk associated with certain assets and liabilities denominated in foreign currencies.

All derivative transactions are entered into to hedge foreign currency exposures incorporated within its business. Accordingly, market risk in these derivatives is basically offset by opposite movements in the value of hedged assets or liabilities.

Because the counterparties to these derivatives are limited to major international financial institutions, the Group does not anticipate any losses arising from credit risk.

Derivative transactions entered into by the Group have been made in accordance with internal policies which regulate the authorization and credit limit amounts.

Derivative Transactions to Which Hedge Accounting is Applied

		Millions of yen		
March 31, 2014	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	**¥3,127**	**¥—**	*****
Selling EUR	Receivables—Trade accounts	**189**	**—**	*****
Selling NT$	Receivables—Trade accounts	**371**	**—**	*****

		Millions of yen		
March 31, 2013	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	¥2,954	¥—	*
Selling EUR	Receivables—Trade accounts	158	—	*
Selling NT$	Receivables—Trade accounts	376	—	*

		Thousands of U.S. dollars		
March 31, 2014	Hedged item	Contract amount	Contract amount due after one year	Fair value
Foreign currency forward contracts:				
Selling U.S.$	Receivables—Trade accounts	**$30,663**	**$—**	*****
Selling EUR	Receivables—Trade accounts	**1,856**	**—**	*****
Selling NT$	Receivables—Trade accounts	**3,645**	**—**	*****

* The fair value of such foreign currency forward contracts is included in that of the hedged items (i.e., receivables—trade accounts).

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19. COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding 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**
Unrealized gain on available-for-sale securities:			
Recognized during the year	**¥ 514**	¥1,144	**$ 5,047**
Reclassification adjustments	**(78)**	286	**(773)**
Before tax effects adjustment	**435**	1,430	**4,274**
Tax effects	**(147)**	(411)	**(1,441)**
Unrealized gain on available-for-sale securities	**288**	1,019	**2,832**
Foreign currency translation adjustments:			
Recognized during the year	**4,716**	2,619	**46,244**
Reclassification adjustments	**(172)**	—	**(1,690)**
Foreign currency translation adjustments	**4,544**	2,619	**44,553**
Share of other comprehensive loss in companies accounted for by the equity method:			
Recognized during the year	**107**	55	**1,058**
Total other comprehensive income	**¥4,941**	¥3,694	**$48,445**

20. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2014 and 2013 is as follows:

	Yen		U.S. Dollars
	2014	2013	**2014**
Basic EPS	**¥168.54**	¥121.69	**$1.65**
Diluted EPS	**168.41**	—	**1.65**

Diluted net income per share for the year ended March 31, 2013 is not disclosed because there were no dilutive shares.

Basis for the calculation of basic and diluted net income per share is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Net income attributable to common stock	**¥7,549**	¥5,443	**$74,012**

	Thousands of shares	
	2014	2013
Earnings per share:		
Weighted-average number of shares*	**44,791**	44,725
Diluted earnings per share:		
Increase in number of common stock	**33**	—
(Of those, new share subscription rights)	**33**	—

* Weighted-average shares for the years ended March 31, 2014 and 2013 excluded the Company's shares held by the Employee Stock Ownership Plan Trust.

21. SEGMENT INFORMATION

For the Years Ended March 31, 2014 and 2013

(1) Description of reportable segments

The Group's reportable segments are those for which separate financial information is available and regular evaluation by the Company's management is being performed in order to decide resources allocation within the Group and to evaluate performance. Therefore, the Group consists of the Material Business and Equipment Business. The Material Business consists of photoresists and related materials and specialty chemicals. The Equipment Business consists of semiconductor manufacturing equipment and LCD manufacturing equipment.

(2) Methods of measurement for the amounts of sales, profit (loss), assets and other items for each reportable segment

The accounting policies of each reportable segment are consistent with those disclosed in Note 2, "Summary of Significant Accounting Policies."

(3) Information about sales, profit (loss), assets and other items is as follows:

	Millions of yen				
	2014				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	¥72,866	¥2,402	¥75,269	¥ —	¥ 75,269
Intersegment sales or transfers	—	81	81	(81)	—
Total sales	¥72,866	¥2,484	¥75,351	¥ (81)	¥ 75,269
Segment income (loss)	¥14,086	¥ (889)	¥13,197	¥ (3,171)	¥ 10,025
Segment assets	79,147	4,168	83,316	72,542	155,859
Other:					
Depreciation	2,241	204	2,445	226	2,672
Increase in property, plant and equipment and intangible assets	14,720	174	14,895	105	15,001

Note: Reconciliations to

— Segment income (loss) amounting to ¥(3,171) million ($(31,096) thousand) includes common costs of ¥(3,171) million ($(31,096) thousand), which are not allocated to reportable segments.

— Segment assets amounting to ¥72,542 million ($711,201 thousand) include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥66,098 million ($648,022 thousand), which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥105 million ($1,037 thousand) is related to common assets.

	Millions of yen				
	2013				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	¥67,697	¥5,222	¥72,919	¥ —	¥ 72,919
Intersegment sales or transfers	0	80	80	(80)	—
Total sales	¥67,697	¥5,302	¥73,000	¥ (80)	¥ 72,919
Segment income	¥10,716	¥ 232	¥10,948	¥ (3,075)	¥ 7,872
Segment assets	68,686	4,553	73,240	72,423	145,664
Other:					
Depreciation	3,221	254	3,475	283	3,758
Increase in property, plant and equipment and intangible assets	5,215	81	5,297	230	5,527

Note: Reconciliations to

— Segment income amounting to ¥(3,075) million includes common costs of ¥(3,075) million, which are not allocated to reportable segments.

— Segment assets amounting to ¥72,423 million include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥64,155 million, which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥230 million is related to common assets.

	Thousands of U.S. dollars				
	2014				
	Reportable segment				
	Material business	Equipment business	Total	Reconciliations	Consolidated
Sales:					
Sales to customers	$714,381	$23,555	$737,936	$ —	$ 737,936
Intersegment sales or transfers	—	799	799	(799)	—
Total sales	$714,381	$24,354	$738,735	$ (799)	$ 737,936
Segment income (loss)	$138,102	$(8,716)	$129,385	$ (31,096)	$ 98,289
Segment assets	775,959	40,870	816,829	711,201	1,528,031
Other:					
Depreciation	21,971	2,007	23,979	2,222	26,201
Increase in property, plant and equipment and intangible assets	144,321	1,712	146,034	1,037	147,071

Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2014 and 2013

Related Information

For the Years Ended March 31, 2014 and 2013

(1) Information about geographical areas

(a) Sales

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥21,427**	¥22,454	**$210,074**
Taiwan	**23,196**	19,249	**227,421**
Korea	**11,129**	12,681	**109,109**
U.S.A.	**8,812**	9,157	**86,395**
Other areas	**10,703**	9,376	**104,936**
Total	**¥75,269**	¥72,919	**$737,936**

Note: Sales are classified in countries or regions based on location of customers.

(b) Property, Plant and Equipment

	Millions of yen		Thousands of U.S. dollars
	2014	2013	**2014**
Japan	**¥23,677**	¥25,140	**$232,128**
Korea	**16,614**	3,157	**162,887**
U.S.A.	**3,169**	2,401	**31,076**
Other areas	**1,115**	357	**10,937**
Total	**¥44,577**	¥31,057	**$437,030**

(2) Information about major customers

For the Years Ended March 31, 2014 and 2013

		Sales amount		
		Millions of yen		Thousands of U.S. dollars
Name of customers	Relevant segment	**2014**	2013	**2014**
Taiwan Semiconductor Manufacturing Company, Ltd.	Material Business	**¥9,934**	¥7,195	**$97,392**

22. SUBSEQUENT EVENT

(1) Transition to defined contribution pension plan

Effective April 1, 2014, a part of the Company's corporate pension plans was transferred to defined contribution pension plan, and ASBJ Guidance No. 1, "Accounting for transfers between retirement benefit plans" was applied. Extraordinary gains of ¥623 million ($6,108 thousand) arising from reduction in retirement benefit obligations due to this transfer is expected to be recorded for the year ending March 31, 2015.

(2) Dividends

At the general shareholders meeting held on June 26, 2014, the Company's shareholders approved the following appropriation of retained earnings:

	Millions of yen	Thousands of U.S. dollars
Cash dividends, ¥28 ($0.27) per share	**¥1,260**	**$12,353**

CAUTIONARY STATEMENT

The Company's financial statements in English have not been audited by independent auditors. However, the original Japanese financial statements on which they are based have been audited by independent auditors.

Corporate Information

Corporate Data (As of March 31, 2014)

Corporate Name	TOKYO OHKA KOGYO CO., LTD.
Established	October 25, 1940
Headquarters	150 Nakamaruko, Nakahara-ku, Kawasaki, Kanagawa 211-0012, JAPAN
Number of Employees	1,576 (Consolidated)
Paid-in Capital	¥14,640 million
Web Site	http://www.tok.co.jp/eng
Stock Listing	Tokyo
Investor Relations Contact	Public Relations Division 150 Nakamaruko, Nakahara-ku, Kawasaki, Kanagawa 211-0012, JAPAN TEL. +81-44-435-3000 FAX. +81-44-435-3020

Global Network (As of March 31, 2014)

1 TOKYO OHKA KOGYO CO., LTD.

TOKYO OHKA KOGYO AMERICA, INC.
2 Headquarters / Oregon Plant (Oregon)
3 Corporate Sales Office (California)
4 Texas Sales Office (Texas)

5 TOKYO OHKA KOGYO EUROPE B.V.
Headquarters (The Netherlands)

6 TOK TAIWAN CO., LTD.
Headquarters (Hsinchu)
Miaoli Plant (Miaoli)

7 CHANG CHUN TOK (CHANGSHU) CO., LTD.
Headquarters / Changshu Plant (China)

8 TOK Advanced Materials Co., Ltd.
Headquarters / Incheon Plant (Korea)

9 Singapore Office

10 Shanghai Representative Office