TOKYO OHKA KOGYO CO., LTD.

Challenges Create Opportunities and a Promising Future

# Annual Report 2013

Year Ended March 31, 2013

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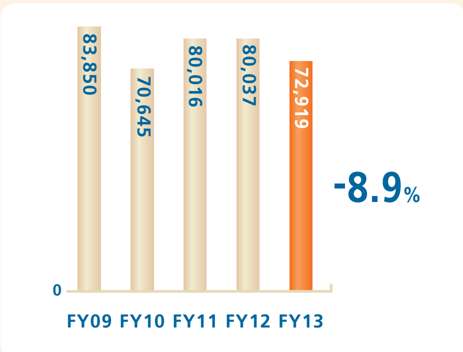
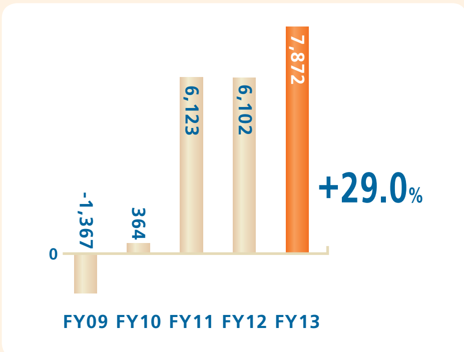
# Financial **Highlights**

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

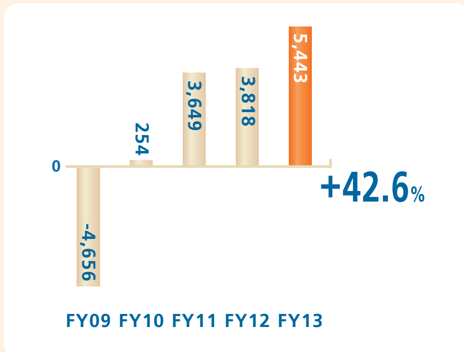
### Net Sales
Millions of Yen



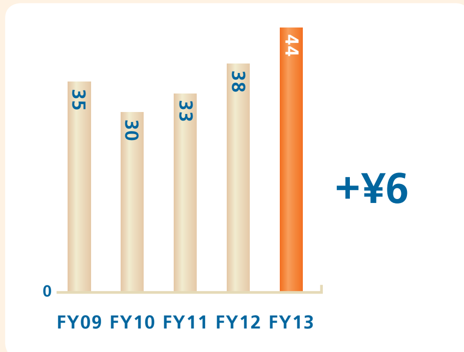

### Operating Income (Loss)
Millions of Yen




### Net Income (Loss)
Millions of Yen




### Cash Dividends per Share
Yen



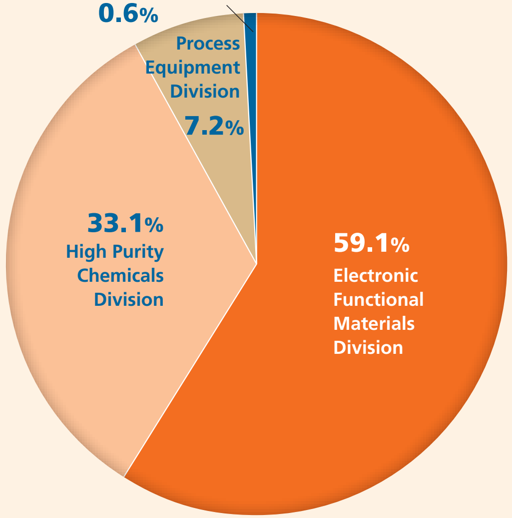

Note: Technology support fees, which have previously been presented as part of non-operating income, have been presented as part of net sales since the second quarter of FY12. As a result of this change, the technology support fees are presented as part of net sales from the first quarter of FY13. Therefore, the figures in this report are the figures after retroactive adjustments reflecting this change in presentation method have been made for the previous fiscal years as well.

# TOK at a Glance

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.




## 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.

### 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 2013" refers to the 12-month period ended March 31, 2013 (April 1, 2012 – March 31, 2013).

# A Message from the **President**



## *Working toward Record Profits under New Medium-Term Plan*

**Ikuo Akutsu**
*President & Chief Executive Officer*

## Operating Results for the Fiscal Year Ended March 31, 2013

### Despite a harsh business environment, we increased profits and continued on path to profits recovery

In the fiscal year ended March 31, 2013, even though the U.S. remained on a modest recovery track, the global economic slowdown spread into the Eurozone, with the debt crisis and high unemployment rates, and into China, where the growth rate has slackened. In the electronics industry, which serves as the major customer for our Group's products, although sales of smartphones and tablet devices increased, semiconductor and LCD markets generally underperformed due to sluggish sales of PCs and LCD televisions.

Under these circumstances, consolidated net sales for the fiscal year ended March 31, 2013 decreased 8.9% year on year to ¥72,919 million. Owing to increased sales of high value-added products, operating income climbed 29.0% to ¥7,872 million and net income jumped 42.6% to ¥5,443 million.

## Material Business

### Higher profits on improved product mix

In the material business, sales increased 1.6% year on year to ¥67,697 million. Although sales of high purity chemicals increased ¥1,355 million, or 5.9%, on favorable sales in Asia and North America, electronic functional materials slipped ¥130 million, or 0.3%, mainly due to lower operating rates at LCD panel manufacturers.

However, sales of high value-added products experienced steady growth. For example, in photoresists used to manufacture semiconductors, with demand for smartphones, tablet devices, and other products growing, the sales growth rate of ArF excimer laser photoresist remained high, and sales of photoresists used to manufacture LCDs increased for high resolution displays. Moreover, sales of image sensor photoresists, which have growth potential, and photoresists used to manufacture Micro Electro Mechanical Systems (MEMS) increased.

As a result of improving the product mix through higher sales of these high value-added products and a decrease in the provision made to allowance for doubtful accounts, operating income increased 29.1% to ¥10,716 million.

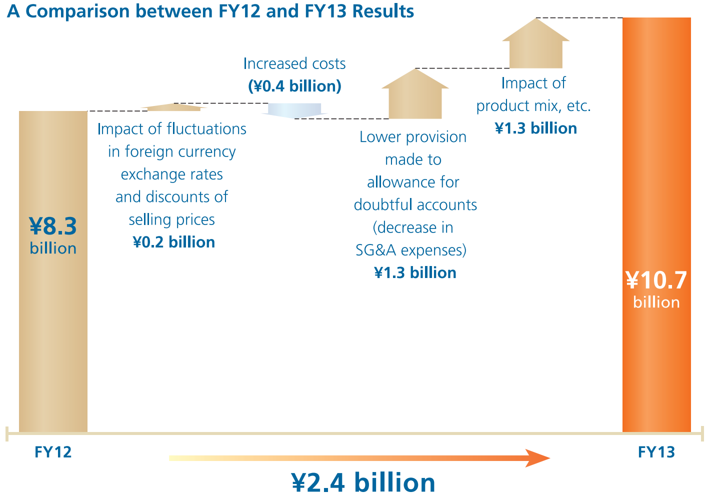
## Equipment Business

### Sales below previous year's, but operating income was positive

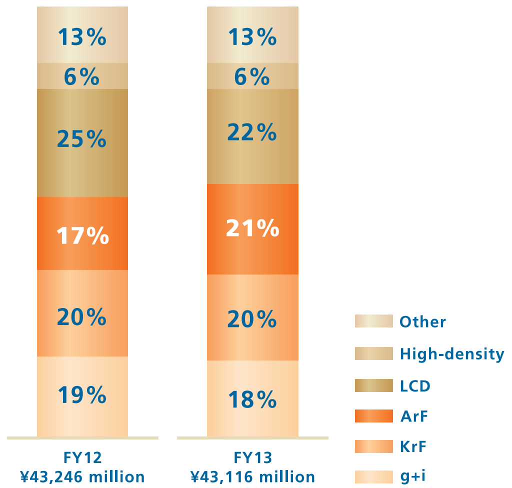
Sales decreased 60.7% to ¥5,302 million due to the delayed startup of 3D packaging market. Further, the order backlog stood at ¥1,547 million, a decrease of ¥3,807 million. Nevertheless, not only has equipment business remained in the black for a second straight year, it was highly acclaimed for its proprietary process technology, which is precisely tailored to customer needs, and the outlook for its rollout was encouraging.

**Breakdown of Changes in Operating Income in Material Business**

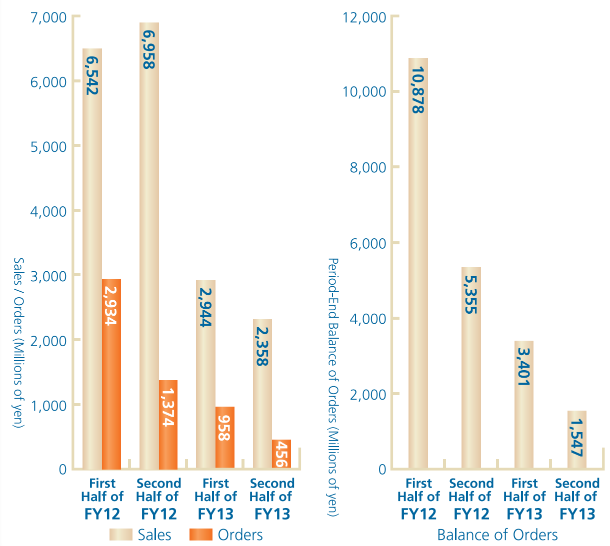
A Comparison between FY12 and FY13 Results




**Composition of Electronic Functional Material Sales**




**Trends in the Equipment Business**



## Outlook for the Fiscal Year Ending March 31, 2014

### Five consecutive profitable years expected thanks to material business

In Japan, movement toward economic recovery on the back of an improved export environment and economic stimulus effects is expected. The global economy should, on the whole, be steady, with modest recovery in the U.S. and economic expansion in China expected. However, with concerns of a continuing debt crisis and high unemployment rates in the Eurozone, the situation will likely remain unpredictable.

Under these circumstances, sales and profits are expected to increase on rising sales of high value-added products, the new product launches, and a boost from a downward correction in the yen's high value. Amid growing demand for smartphones and tablet devices, strong growth in ArF excimer laser photoresists and photoresists for high resolutions displays is expected. A further increase in shipments of high purity chemicals is also anticipated. Further, sales and profits as a whole are expected to rise on increased sales of high-density package materials due to higher mass production of semiconductor packages by MEMS and advanced packaging technology.

In the equipment business, though burdened by TSV process development costs, operating income should remain in the black mainly due to increased sales from the startup of the 3D packaging market and winning new orders.

## Working toward Record Profits under New Medium-Term Plan

To inaugurate the "Rebirth of TOK," we changed over to a business framework that can remain profitable even in a harsh business environment. To further solidify this framework, we formulated "TOK Medium-Term Plan 2015," our new medium-term plan, under which we began working from April 2013 to achieve record profits.

Management's vision for the plan is "Aim to be a globally trusted corporate group by developing high value-added products that inspire customers." For the Group's future growth, it is essential that we be recognized by customers for our high technological capabilities that differentiate us from competitors and that we provide high value-added products that inspire customers. To turn this vision into reality, we will strengthen our core competencies, embrace a flexible, outside-of-the-box way of thinking, deepen and expand existing business domains, and swiftly launch new business domains.

Through these efforts, we aim to achieve record profits by March 2016 through steady product enhancements so they become profit drivers under the medium-term plan. We will also steadily promote measures that help increase profits after fiscal 2016 and strengthen our business base to enable continuous growth.

### Results of Business Structural Reforms

**The "key" performance drivers outlined in the new medium-term plan**

**Completing the transformation to a "solid framework"**
>Withdrew from DFR production, transferred the printing material business
>Improved the break-even sales (Non-consolidated: down 40% from FY2009)

**Enhancing the business foundation for photoresists used to manufacture semiconductors**
>Increased profits accompanying higher ArF market share

**Expanding sales based on developing multiple applications for existing technologies**
>Resists materials, MEMS materials, image sensor materials

**Accumulating TSV technology and strengthening relationships with customers**
>Began receiving orders for TSV equipment in FY2011

## To our Shareholders and Investors

### In addition to promoting sustained corporate value growth, we will continuously return profits to shareholders

Distributing profits to shareholders is one of our highest priorities. Our basic policy is to maintain dividend payouts by taking into consideration performance trends and general financial conditions as well as the current level of distribution, while ensuring sufficient internal reserves necessary for the Company to become increasingly competitive and profitable.

For the fiscal year ended March 31, 2013, we increased the dividend per share by ¥6 to ¥44.

Through the execution of " TOK Medium-Term Plan 2015," we will further increase corporate value and take steps so that we remain a corporate group that is highly trusted by many stakeholders including shareholders and investors.

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

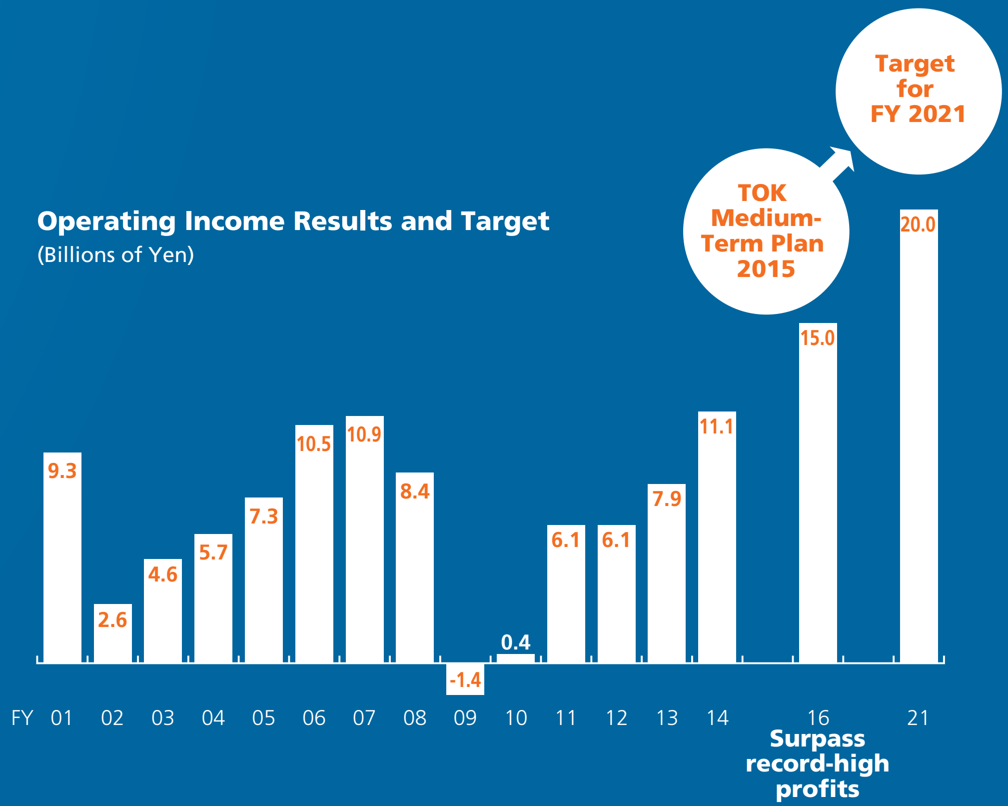
**Ikuo Akutsu**
*President & Chief Executive Officer*

# Challenges Create Opportunities and a Promising Future

## Objectives of the TOK Medium-Term Plan 2015

1. **Surpass record-high earnings (fiscal year ending March 31, 2016)**
2. **Enhance a business foundation that supports continuous growth**
3. **Expand business domains to include the renewable energy field**

**Operating Income Results and Target**
(Billions of Yen)



# Management Vision, Management Objective, Numerical Targets

## Management Vision

"Aim to be a globally trusted corporate group by inspiring users with high-value-added products that have satisfying features, low cost and superior quality."

## Management Objectives and Strategies

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

### Numerical Targets: Achieve net sales of ¥99 billion for the fiscal year ending March 31, 2016

TOK aims to achieve net sales of ¥99 billion by enhancing the business foundation for photoresists used to manufacture semiconductors; expanding sales based on developing multiple applications for existing technologies; accumulating TSV technologies; and strengthening relationships with customers.

(Millions of Yen)

| | FY13 | FY16 | CAGR |
|---|---|---|---|
| Net sales | 72,919 | 99,000 | +10.7% |
| Operating income | 7,872 | 15,000 | +24.0% |
| Ordinary income | 8,617 | 15,000 | +20.3% |
| Net income | 5,443 | 11,000 | +26.4% |
| Exchange rate (¥/US$) | 81.9 | 92.0 | – |

### Investment in Plant and Equipment / Depreciation and Amortization / R&D Costs

Investment in plant and equipment extending over the three years of this medium-term plan are projected to be ¥33.5 billion for TOK's South Korean subsidiary as well as existing and new businesses. In addition, TOK will proactively invest in R&D activities.

(Millions of Yen)

| Period total | FY11-FY13 | FY14-FY16 | Change (total comparison) |
|---|---|---|---|
| Investment in plant and equipment | 10,195 | 33,500 | +23,304 |
| Depreciation and amortization | 12,190 | 17,000 | +4,809 |
| R&D costs | 18,729 | 22,500 | +3,770 |

### Companywide Strategies

#### >Build close relationships with regional users

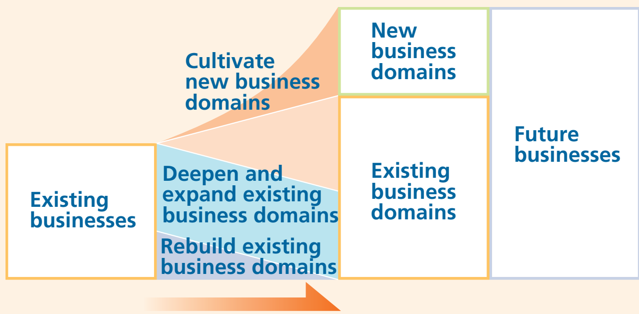
Build close relationships with users worldwide by creating mechanisms that identify a greater number of needs while rapidly providing products and services that satisfy users.

#### >Reform business portfolios

Reform business portfolios by cultivating new business domains and increasing the ratio of high-value-added products.

#### >Develop global personnel

Formulate and implement programs that develop personnel able to perform on the global stage.



# Key Strategy: Drivers to Improve Earnings

**Below lists the important earnings drivers for surpassing the Company's record-high operating income of ¥15 billion.**

## Continual growth of photoresists used to manufacture semiconductors

Business growth based on the expansion of immersion ArF excimer laser photoresist

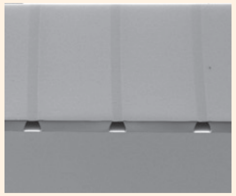
▶ Please see page 10 for more details

## Acquire business related to materials used in advanced packaging processes

### Focus on new semiconductor packaging materials markets

We expect demand for related process materials to increase accompanying rising needs for advanced packaging technology, including 3D packaging, as smartphones and tablet devices become more compact and thin. TOK will work to acquire businesses not undertaken to date regarding its high-density package materials by leveraging their superior positive-type, high-resolution and high-stripability characteristics.

### Increase sales of new materials to Micro Electro Mechanical Systems (MEMS) users



MEMS resist pattern

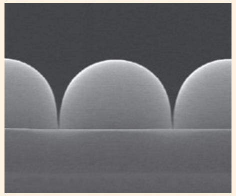
## Expand LCD materials by capturing demand for high-resolution panels used in smartphones and tablet devices

### Increase market share mainly by expanding customer base

The need to increase the brightness of LCDs is higher than ever for smartphones and tablet devices, which are used far more frequently outdoors than televisions and personal computers. TOK's black resist for color filter Black Matrix forming contributes to improvements in high-resolution LCD panels by realizing thinning while retaining contrast. We aim to increase sales further while maintaining our high market share.

## Increase sales by continuously expanding the diversity of existing technology

Image sensor materials, Si solar cell related materials, etc.



A micro lens used in image sensors

## Restore earnings in the equipment business and fully commercialize TSV process

### >Approach to 2.5D, 3D-IC test lines
### >Strengthen responsiveness in overseas regions

Regarding TSV equipment, market formation for which is anticipated to occur early, we expect an increase in demand immediately preceding the commencement of full-scale production of 3D semiconductor packaging and other advanced packaging technologies. TSV equipment contains TOK process technology that accurately meets user needs thanks to the synergy effect of combining packaging and material technologies cultivated over many years. This process technology has received favorable ratings and shows great promise in the years ahead. With demand for TSV equipment expected worldwide, particularly in Asia, we will work to capture an overwhelming market share of this product by forging close connections with local customers.

# Boost Business Potential

## Accelerate development and retain market share of ArF (1Xnm)

▶ Please see page 10 for more details

## Develop next-generation stripping solution

As photoresists continue to evolve, there is a need for high-performance photoresist-related chemicals. We are continuing R&D into next-generation stripping solution and boosting the potential of this business under the assumption that mass production will begin in the fiscal year ending March 31, 2017.

## Develop new materials mainly for the renewable energy field

We are promoting the simultaneous development, refinement and commercialization of new materials in order to expand into new business domains. In the renewable energy field, we are accelerating new material development in such areas as solar cells and rechargeable batteries with the aim of releasing products as early as the fiscal year ending March 31, 2015.

### >Solar cell materials

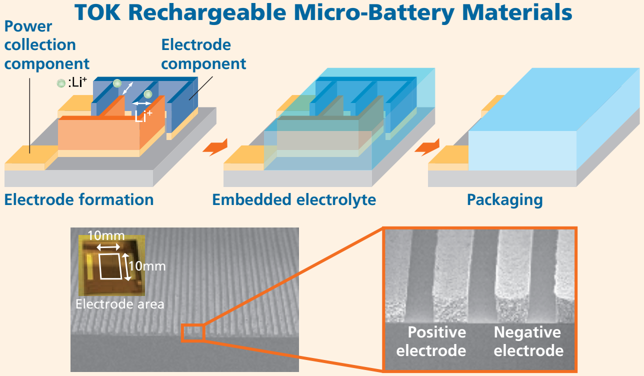
In collaboration with IBM and solar cell panel manufacturers, we are progressing with the development of CZTS* solar cells. Not only does the manufacturing process for CZTS solar cells include material development, it also involves developing equipment based on coating technology cultivated in LCD coating machine.

* CZTS (copper, zinc, tin, sulfur, selenium) is a composite material used in the form of a polycrystalline thin film to make solar cells.

### >Rechargeable micro-batteries

We are promoting R&D targeting rechargeable micro-batteries using independent wireless sensor networks that combine energy harvesting technologies. These batteries store electricity converted from minimal amounts of light and vibration. Using the electricity stored in these batteries enables sensors to detect sound, light and temperature, raising expectations for various applications in such areas as building management and security.

**TOK Rechargeable Micro-Battery Materials**




Anticipated demand in the wireless sensor network field

## Entering into the optoelectronics field OLED lighting

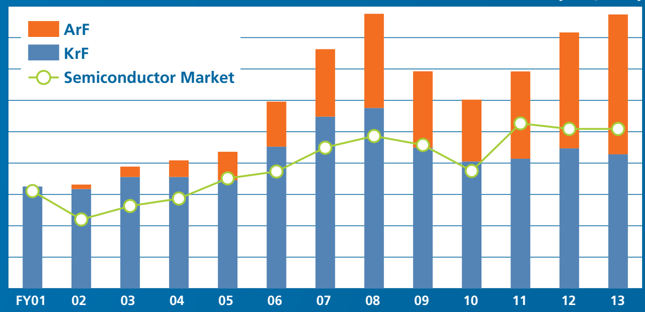
OLED lighting can be used in thin lighting equipment and features superior aesthetic design. Generating a low level of heat, OLED lighting is highly effective at reducing energy consumption, raising expectations of future market expansion. However, challenges remain, which include improving luminance efficiency, increasing lifespan and developing high-yield manufacturing processes. In response, TOK is conducting R&D into materials with high and low refractive index to improve the effectiveness of light output.

# Concentrating on ArF Photoresists

## The growing ArF excimer laser photoresists market

The ArF excimer laser photoresists market was initially formed at the beginning of the 2000s and its current market size is estimated at between ¥35 billion and ¥40 billion. The market is expected to continue growing amid an ongoing race to develop miniaturization technology. In current highly advanced semiconductor manufacturing, the process for 2Xnm node has entered mass production, and we are already concentrating on accelerating the development of photoresists for the upcoming 1Xnm node.

**Trends of Semiconductor Market Size and TOK's Net Sales (ArF, KrF)**




Semiconductor market: Silicon wafer shipping volume
Shipping volume unit: Million Square Inches (MSI)
Source : SEMI
Worldwide Silicon Shipment Statistics
About the SEMI Silicon Manufacturers' Group (SMG)

## Take the lead in 1Xnm node

We are developing resists compatible with 1Xnm node under the assumption that full-scale production will commence in 2016, the final year of this medium-term plan. Capturing the dominant share of 1Xnm node is very meaningful for increasing TOK's overall market share. TOK obtained a No. 1 share by cornering the market for the final generation of KrF excimer laser photoresists. In the same way, we aim to surpass a 30% market share worldwide by capturing an overwhelming share of 1Xnm node.

Work toward a global market

**ArF share of 30%**

## Undertake capital expenditures and strengthen foundations to boost market share

### >Enhanced the Koriyama Plant (November 2011)

| | |
|---|---|
| Location | Koriyama City, Fukushima Prefecture |
| Items produced | Mass production of immersion ArF excimer laser photoresists |
| Characteristics | Completely contamination free workplace environment, including clean room facilities across the entire manufacturing area and automated photoresist filling operations |

### >TOK Advanced Materials Co., Ltd. (established in August 2012)

| | |
|---|---|
| Location | Incheon Metropolitan City, South Korea |
| Business description | R&D, manufacture and sale of photoresists and sale of photoresist-related chemicals |
| Capital | 90.0 billion KRW (approx. ¥6.3 billion) |
| Investment ratio | TOKYO OHKA KOGYO CO., LTD. (90%)<br>SAMSUNG C&T CORPORATION CO., LTD. (10%) |
| Commenced operations | July 2013 |

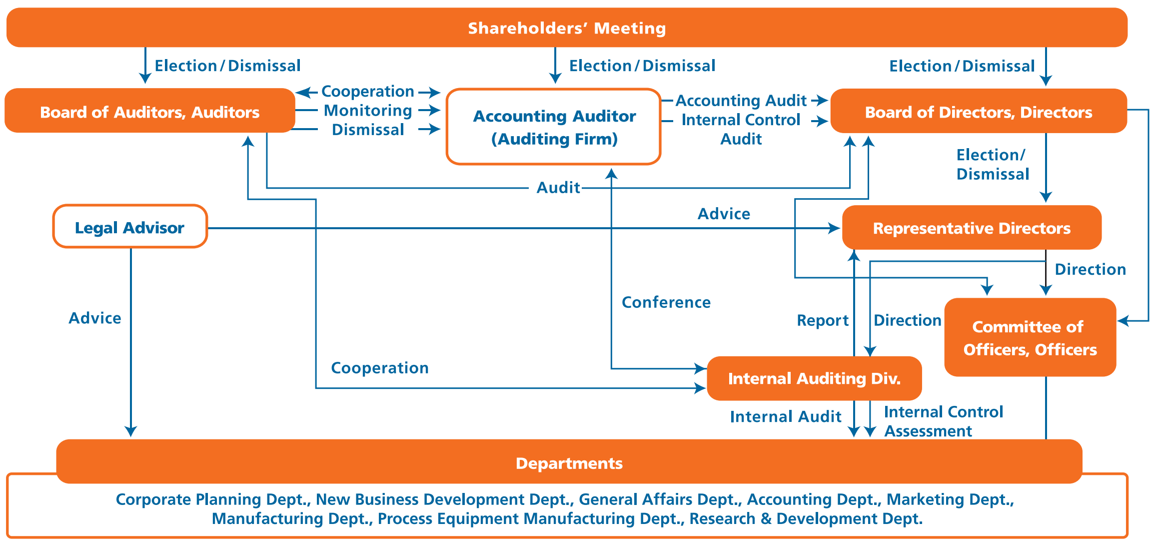
# Corporate **Governance**

## Basic Concept

Aiming to become a company that earns the trust of all stakeholders, TOK regards the establishment of corporate governance: that is the means to maintain a sound and transparent management and to enhance its 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 Japanese Companies Act. 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, 2013)

## [ Directors and Board of Directors ]

As of June 26, 2013, 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, 2013, we had 13 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.

## [ Auditors and Board of Auditors ]

As of June 26, 2013, 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, 2013. 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.

## Status of Outside Director and Outside Auditors

## [ Our relationship with outside director and outside auditors ]

▶ Outside director Mr. Jiro Makino is the President of Makino Milling Machine Co., Ltd. The Company has no business relationship with Makino Milling Machine Co., Ltd. and therefore this has no effect on the independence of Makino as an outside director.

▶ Outside auditor Mr. 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 Mr. 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 Mr. Katsumi Yoneda is the Deputy President of Meiji Yasuda General Insurance Co., Ltd. The Company has no business relationship with Meiji Yasuda General Insurance Co., Ltd. and therefore this has no effect on the independence of Yoneda as an outside auditor. Also, he 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 at Board of Directors and Board of Auditors meetings |
|---|---|
| Jiro Makino (outside director) | Attended 16 of 16 Board of Directors meetings during the fiscal year ended March 2013 (attendance rate, 100%). Based mainly on his wealth of experience and extensive knowledge as the president of a listed company, he has spoken when necessary at discussions on measures. |
| Haruhiko Gyoda (outside auditor) | Attended 16 of 16 Board of Directors meetings and 14 of 14 Board of Auditors meetings during the fiscal year ended March 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. |
| Yukio Muro (outside auditor) | Attended 15 of 16 Board of Directors meetings (attendance rate, 94%) and 14 of 14 Board of Auditors meetings during the fiscal year ended March 2013 (attendance rate, 100%). Based mainly on his wealth of experience in financial institutions, his experience as an auditor, 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 remuneration, company performance-related remuneration, and subscription warrants (stock options).

Within the remuneration framework approved by the General Meeting of Shareholders, the Board of Directors decides a fixed amount of remuneration based on certain criteria established by the Company, and this is paid to directors.

Of these, the company performance-related remuneration is a bonus payment, with the amount being based on the company's fiscal year results. Within the remuneration framework approved at the General Meeting of Shareholders, the Board of Directors discusses both the performance of the Company and the individual to decide if a bonus is appropriate and if so, the amount. The purpose of subscription warrants (stock options) is to further increase directors' motivation toward improving the Company's results and corporate value and also to boost their morale. Directors receive subscription warrants following discussions

# CSR / Compliance / Risk Management



among the Board of Directors to decide on the appropriate number of rights to be allocated to each director within the remuneration framework approved at the General Meeting of Shareholders. Outside directors do not receive subscription warrants (stock options).

### Auditors' Remuneration

In view of the job responsibilities of overseeing and auditing the directors' execution of business independent of the Board of Directors, remuneration within the remuneration framework approved by the General Meeting of Shareholders is decided in consultation with auditors, and this is paid to auditors.

**Remuneration totals paid to directors and auditors** (fiscal year ended March 2013)

| Position | Number of directors and auditors | Total Remuneration |
|---|---|---|
| Directors | 9 | ¥281 million |
| Auditors | 4 | ¥ 37 million |
| Total | 13 | ¥318 million |

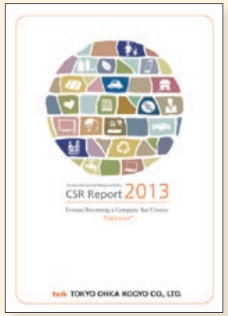
Notes:
1. The above table includes two directors and one auditor who retired on the conclusion of the 82nd Ordinary General Meeting of Shareholders.
2. The directors' remuneration total does not include the part paid to directors as their employee salary and employee bonus when they also hold the position of employee.
3. The directors' remuneration total includes ¥24 million of provision for directors' bonuses to seven directors (of whom, one was an outside director) for operations during the fiscal year.
4. Payments to directors include ¥1 million in expenses recorded in the fiscal year under review for subscription warrants allocated as compensation in stock options to six directors excluding outside directors.
5. Within the amounts listed above, the total remuneration paid to the one outside director and two outside auditors was ¥24 million.

## 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.



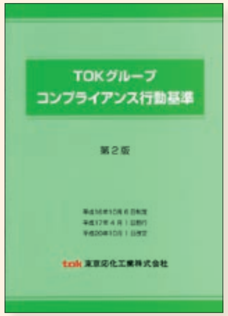

CSR Report 2013

## 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.



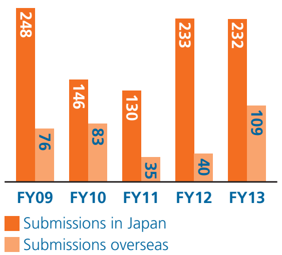

TOK Group Compliance Standards of Conduct Handbook (Second edition)

## Intellectual Property Strategy

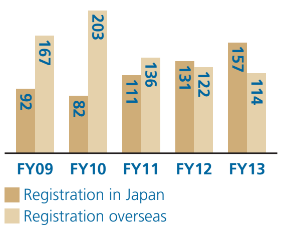
TOK's intellectual property strategy includes the following elements: 1) aggressively protecting our intellectual property, 2) avoiding infringing on the rights of other companies, and 3) proactively utilizing the intellectual property that we have created.

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**




## 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.

## Information Security

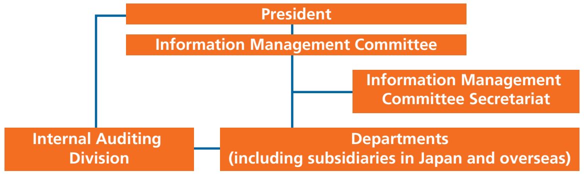
For management purposes, we have centered information security measures on our Information Systems Division. We have set up an Information Management Committee chaired by the manager of the General Affairs Department and comprising departmental managers of Group companies including overseas affiliates and subsidiaries, since our subsidiaries for overseas product development, manufacturing and marketing use cutting-edge technologies.

(1) Strengthen information protection and management
(2) Respond to leakage of information
(3) Use information resources

For the purposes of (1)-(3), we will strengthen our information management system on a Group-wide basis, by broadening operational frameworks for information security in terms of materiel, personnel and IT to create an inventory of information assets, while launching training activities for the whole Group and establishing an auditing system.

In addition, we have taken measures to strengthen internal checks and balances, management frameworks and countermeasures, with the Internal Auditing Division carrying out audits into compliance with Information Management Committee directives and information security standards.

**Information Management Committee Framework**




## Development of Standards for Countermeasures and Progress in Implementation

Based on the new committee structure, we are revising and standardizing countermeasures for maintenance of information security. We are also stepping up and continuously promoting educational activities, including tools such as e-learning, for all Group executives and employees. Our aim is to raise awareness of the importance of personal data confidentiality and avoidance of leakages, and of compliance with management procedures.

# Board of **Directors** / Corporate **Auditors** and **Officers**



## Board of Directors, Corporate Auditors and Officers

(As of June 26, 2013)

### 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
**Jiro Makino**
(President, Makino Milling Machine Co., Ltd.)

### 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**
(Deputy President, Meiji Yasuda General Insurance Co., Ltd.)

### Officers

Executive Officer
**Yoichi Shibamura**
Department Manager, Accounting Dept.

Officer
**Atsuro Shibagaki**
Deputy Department Manager, Marketing Dept.

Officer
**Hajime Fujishita**
Department Manager,
Process Equipment Manufacturing Dept.

Officer
**Yoshio Hagiwara**
Department Manager, Corporate Planning 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.

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

# Five-Year **Summary**

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries
For the Years Ended March 31, 2009, 2010, 2011, 2012, and 2013

| | Millions of Yen | | | | | Thousands of U.S. Dollars |
|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | **2013** | **2013** |
| **For the year:** | | | | | | |
| Net sales | ¥ 83,850 | ¥ 70,645 | ¥ 80,016 | ¥ 80,037 | **¥ 72,919** | **$ 775,741** |
| Material business | 72,589 | 65,091 | 71,482 | 66,645 | **67,697** | **720,184** |
| Equipment business | 11,350 | 5,632 | 8,622 | 13,500 | **5,302** | **56,414** |
| Operating income (loss) | (1,367) | 364 | 6,123 | 6,102 | **7,872** | **83,755** |
| Income (loss) before income taxes and minority interests | (5,325) | 114 | 6,427 | 6,577 | **8,031** | **85,440** |
| Net income (loss) | (4,656) | 254 | 3,649 | 3,818 | **5,443** | **57,905** |
| Investment in plant and equipment | 3,270 | 1,320 | 1,699 | 3,162 | **5,332** | **56,733** |
| Depreciation and amortization | 7,297 | 5,418 | 4,393 | 4,038 | **3,758** | **39,985** |
| R&D costs | 8,542 | 6,949 | 6,360 | 6,157 | **6,211** | **66,078** |
| **Per share data** (Yen / U.S. Dollars)**:** | | | | | | |
| Basic net income (loss) | ¥ (102.00) | ¥ 5.66 | ¥ 81.08 | ¥ 84.86 | **¥ 121.69** | **$ 1.29** |
| Cash dividends applicable to the year | 35.00 | 30.00 | 33.00 | 38.00 | **44.00** | **0.46** |
| Net assets | 2,591.43 | 2,578.30 | 2,597.72 | 2,641.28 | **2,796.37** | **29.74** |
| **At the year-end:** | | | | | | |
| Total assets | ¥139,338 | ¥138,122 | ¥147,085 | ¥ 138,767 | **¥ 145,664** | **$ 1,549,624** |
| Total long-term liabilities | 2,205 | 2,350 | 2,105 | 2,613 | **2,811** | **29,914** |
| Total equity | 118,377 | 117,658 | 118,567 | 119,590 | **127,838** | **1,359,986** |
| **Ratios** (%)**:** | | | | | | |
| Operating margin (loss) | (1.6) | 0.5 | 7.7 | 7.6 | **10.8** | |
| Ratio of R&D costs to net sales | 10.2 | 9.8 | 7.9 | 7.7 | **8.5** | |
| Return (loss) on equity | (3.8) | 0.2 | 3.1 | 3.3 | **4.5** | |
| Equity ratio | 83.7 | 84.0 | 79.5 | 85.1 | **85.9** | |

Notes: 1. U.S. dollar amounts have been translated from yen, for convenience only, at the rate of ¥94 to US$1, the approximate Tokyo foreign exchange market rate as of March 29, 2013.
2. Net sales by business segment include intersegment sales.
3. Technology support fees, which have previously been presented as part of non-operating income, have been presented as part of net sales since the second quarter of FY12. As a result of this change, the technology support fees are presented as part of net sales from the first quarter of FY13. Therefore, the figures in this report are the figures after retroactive adjustments reflecting this change in presentation method have been made for the previous fiscal years as well.

# Management's **Discussion** and **Analysis**



## Results of Operations

### Net Sales

In the fiscal year ended March 31, 2013, consolidated net sales decreased ¥7,117 million, or 8.9%, from the previous fiscal year, to ¥72,919 million. Net sales in the first half decreased ¥4,337 million, or 10.6%, to ¥36,654 million and net sales in the second half decreased ¥2,779 million, or 7.1%, to ¥36,265 million.

In the electronics industry, the leading source of demand for TOK products, demand for smartphones and tablet devices expanded while sales of PCs and LCD TVs continued to struggle, and the semiconductor and LCD markets were both generally weaker overall.

### Cost of Sales, SG&A Expenses and Operating Income

Cost of sales fell ¥7,474 million, or 13.6%, to ¥47,566 million and the cost of sales ratio decreased 3.5 percentage points to 65.2%, a reflection of the decreased net sales in the equipment business which more than offset the increase in the loss on disposal of inventories, supplies expenses, and other costs. As a result, gross profit increased ¥357 million, or 1.4%, to ¥25,353 million.

Selling, general and administrative (SG&A) expenses decreased ¥1,413 million, or 7.5%, to ¥17,480 million due to decreases in the provision made to allowance for doubtful accounts and storage and transportation expenses.

Operating income increased ¥1,770 million, or 29.0%, to an income of ¥7,872 million due to an increase in gross profit and lower SG&A expenses.

### Income before Income Taxes and Minority Interests and Net Income

Although there were increases in compensation expenses, impairment loss and losses on devaluation of investment securities, income before income taxes and minority interests increased ¥1,454 million, or 22.1%, to an income of ¥8,031 million due to an increase in foreign exchange gains and other factors.

Net income improved ¥1,624 million, or 42.6%, to an income of ¥5,443 million.

### Overview of Each Segment

* Intersegment sales or transfers have not been eliminated.

## Results by Business Segment

**[Material Business]**

Sales in the material business rose ¥1,052 million, or 1.6%, to ¥67,697 million. Operating income increased ¥2,413 million, or 29.1%, to ¥10,716 million due to the impact of an increase in high value-added products and a decrease in the provision made to allowance for doubtful accounts.

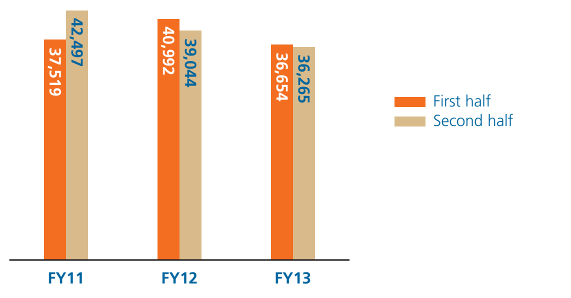
### Electronic Functional Materials Division

In the electronic functional materials division, sales decreased ¥130 million, or 0.3%, to ¥43,116 million.

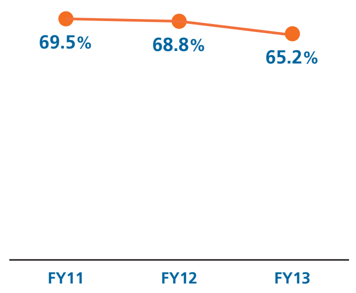
Sales of photoresists used to manufacture semiconductors decreased due to domestic users closing factories and reducing

**Net Sales (Half yearly basis)**

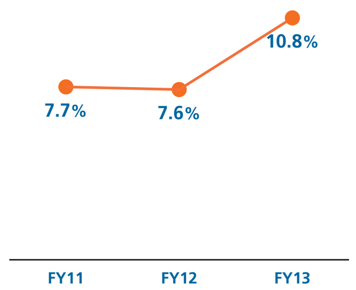
(Millions of Yen)




**Ratio of Cost of Sales to Net Sales**




**Operating Margin**



their rates of operation but against a background of increased demand for smartphones and tablet devices sales of excimer laser photoresists in Asia and North America increased, so as a result sales were strong. On the other hand, sales of photoresists used to manufacture LCDs were generally weak. Although sales of products for high definition displays increased, sales of general-purpose products fell substantially due to the impact of the declining rates of operation of LCD panel manufacturers, and the partial switch of our corporate structure to a license business which we implemented in the previous fiscal year, among other factors. Sales of image sensor photoresists and Micro Electro Mechanical systems (MEMS) photoresists, which are expected to achieve growth going forward, expanded especially in Asia.

### High Purity Chemicals Division

In the high purity chemicals division, sales increased ¥1,355 million, or 5.9%, to ¥24,144 million.

Sales of photoresist-related chemicals used to manufacture semiconductors grew. Although there was an impact from domestic users closing factories and reducing their rates of operation, sales in Asia and North America were strong. Sales of photoresist-related chemicals used to manufacture LCDs remained weak due to the effects of the stagnant demand for LCD TVs.

## [Equipment Business]

### Process Equipment Division

Zero Newton® Through Silicon Via (TSV) process system, that is expected to be a flagship product going forward, saw sluggish sales due to the impact of the delay in the establishment of the 3D packaging market, among other factors. However, its unique process technology precisely meeting the needs of users has been very well received and it has a lot of promise for the future. Sales of LCD panel manufacturing equipment were much lower than in the previous fiscal year due to factors such as a decrease in orders and delays in the inspections of shipped products.

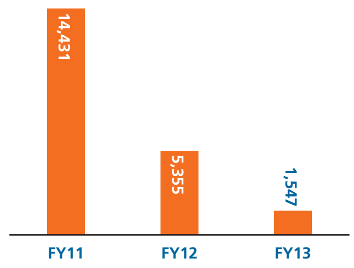
As a result, sales in the equipment business decreased ¥8,197 million, or 60.7%, to ¥5,302 million. Operating income decreased ¥676 million to ¥232 million.

Orders decreased ¥2,893 million, or 67.2%, to ¥1,414 million due to the delay in the establishment of the 3D packaging market and other factors. First half orders totaled ¥958 million and second half orders totaled ¥456 million. The year-end order backlog totaled ¥1,547 million, down ¥3,807 million, or 71.1%, from the previous fiscal year.

**Net Sales by Business Segment** (Millions of Yen)


**Operating Income (Loss) by Business Segment** (Millions of Yen)


**Order Backlog of Equipment Business** (Millions of Yen)



## Financial Condition and Cash Flows

### Balance Sheet

Total assets increased ¥6,896 million from the previous fiscal year-end, to ¥145,664 million at the end of March 2013.

Total current assets increased ¥3,903 million to ¥86,859 million. Trade notes and accounts decreased ¥2,796 million and inventories decreased ¥1,156 million. However, cash and cash equivalents and time deposits increased ¥6,997 million.

Net property, plant and equipment increased ¥1,875 million due to an increase in construction in progress. In investments and other assets, deferred tax assets decreased ¥312 million but investment securities increased ¥1,402 million.

Total liabilities decreased ¥1,351 million to ¥17,825 million. In current liabilities, income taxes payable increased ¥1,250 million but advances from customers decreased ¥1,989 million and trade notes and accounts decreased ¥729 million and, in long-term liabilities, long-term loans payable decreased ¥122 million. Total equity increased ¥8,248 million to ¥127,838 million. Although there were dividend payments of ¥1,800 million and an increase in foreign currency translation adjustments of ¥2,331 million, the company recorded net income of ¥5,443 million and as a result retained earnings increased ¥3,641 million.

As a result, the equity ratio was 85.9% at the end of the fiscal year.

### Cash Flows

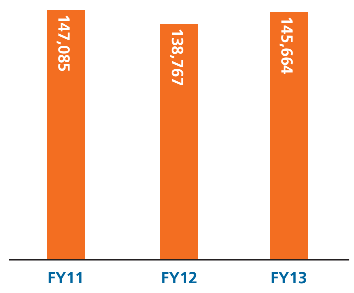
Net cash provided by operating activities was ¥12,438 million, an increase of ¥555 million from the previous fiscal year, due to income before income taxes and minority interests, depreciation and amortization, and a decrease of trade notes and accounts receivable, in spite of a decrease in advances from customers, a decrease in trade notes and accounts payable, and payment of income taxes.

Net cash used in investing activities was ¥75 million, a decrease of ¥18,448 million from the previous fiscal year, due to payments into long-term time deposits, expenditure on purchases of property, plant and equipment, and expenditure on purchases of investment securities, in spite of inflow from withdrawal of long-term time deposits and a net increase in time deposits.

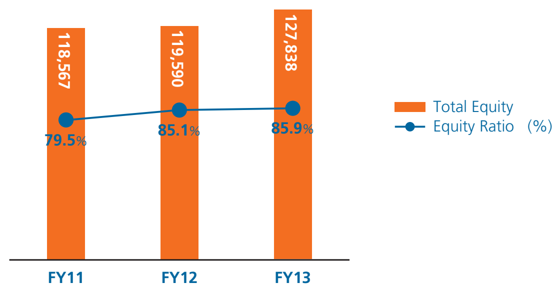
Net cash used in financing activities was ¥1,386 million, a decrease of ¥457 million from the previous fiscal year, due to dividends paid and other expenses in spite of inflow from issuance of common stock to minority shareholder and inflow from the sale of treasury stock.

As a result, cash and cash equivalents on March 31, 2013 increased ¥12,405 million to ¥43,181 million from ¥30,775 million at the end of the previous fiscal year.

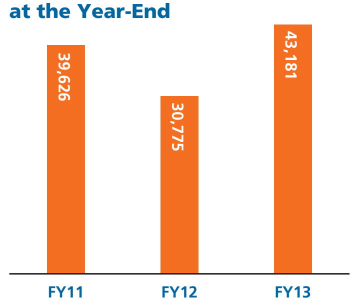
**Total Assets** (Millions of Yen)




**Total Equity / Equity Ratio** (Millions of Yen)




**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, 2013 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, 2013 and 2012

| ASSETS | Millions of Yen 2013 | Millions of Yen 2012 | Thousands of U.S. Dollars (Note 1) 2013 |
|---|---|---|---|
| **CURRENT ASSETS:** | | | |
| Cash and cash equivalents (Note 14) | ¥ 43,181 | ¥ 30,775 | $ 459,373 |
| Time deposits (Note 14) | 13,890 | 19,298 | 147,766 |
| Receivables: | | | |
| Trade notes and accounts (Note 14) | 16,287 | 19,084 | 173,276 |
| Other | 383 | 483 | 4,076 |
| Allowance for doubtful accounts | (223) | (334) | (2,376) |
| Inventories (Note 4) | 10,499 | 11,655 | 111,699 |
| Deferred tax assets (Note 11) | 1,426 | 1,391 | 15,175 |
| Prepaid expenses and other current assets | 1,413 | 601 | 15,040 |
| Total current assets | 86,859 | 82,955 | 924,032 |
| **PROPERTY, PLANT AND EQUIPMENT** (Note 5)**:** | | | |
| Land | 8,241 | 8,358 | 87,677 |
| Buildings and structures | 50,427 | 49,928 | 536,457 |
| Machinery and equipment | 40,390 | 39,992 | 429,685 |
| Furniture and fixtures | 15,237 | 14,417 | 162,097 |
| Construction in progress | 3,703 | 491 | 39,399 |
| Total | 117,999 | 113,188 | 1,255,318 |
| Accumulated depreciation | (86,942) | (84,005) | (924,917) |
| Net property, plant and equipment | 31,057 | 29,182 | 330,400 |
| **INVESTMENTS AND OTHER ASSETS:** | | | |
| Investment securities (Notes 3 and 14) | 6,503 | 5,101 | 69,184 |
| Investments in and advanced to an unconsolidated subsidiary and associated companies | 660 | 472 | 7,030 |
| Long-term time deposits (Note 14) | 18,000 | 18,000 | 191,489 |
| Deferred tax assets (Note 11) | 1,623 | 1,935 | 17,271 |
| Other assets | 960 | 1,119 | 10,216 |
| Total investments and other assets | 27,747 | 26,630 | 295,190 |
| **TOTAL** | ¥145,664 | ¥138,767 | $1,549,624 |

| LIABILITIES AND EQUITY | Millions of Yen 2013 | Millions of Yen 2012 | Thousands of U.S. Dollars (Note 1) 2013 |
|---|---|---|---|
| **CURRENT LIABILITIES:** | | | |
| Payables: | | | |
| Trade notes and accounts (Note 14) | ¥ 5,892 | ¥ 6,622 | $ 62,682 |
| Construction and other | 2,594 | 2,562 | 27,604 |
| Income taxes payable | 1,650 | 400 | 17,562 |
| Accrued expenses | 2,961 | 2,924 | 31,509 |
| Advances from customers | 1,359 | 3,348 | 14,461 |
| Deferred tax liabilities (Note 11) | 168 | 118 | 1,792 |
| Other current liabilities (Notes 6 and 14) | 386 | 587 | 4,109 |
| Total current liabilities | 15,013 | 16,564 | 159,723 |
| **LONG-TERM LIABILITIES:** | | | |
| Long-term loans payable (Notes 6 and 14) | 366 | 488 | 3,893 |
| Liability for retirement benefits (Note 7) | 1,653 | 1,408 | 17,594 |
| Deferred tax liabilities (Note 11) | 699 | 617 | 7,446 |
| Other long-term liabilities | 92 | 99 | 980 |
| Total long-term liabilities | 2,811 | 2,613 | 29,914 |
| **COMMITMENTS** (Note 13) | | | |
| **EQUITY** (Notes 9 and 18)**:** | | | |
| Common stock—authorized, 197,000,000 shares; issued, 46,600,000 shares | 14,640 | 14,640 | 155,749 |
| Capital surplus | 15,207 | 15,207 | 161,786 |
| Retained earnings | 97,773 | 94,131 | 1,040,142 |
| Treasury stock—at cost, 1,596,629 shares in 2013 and 1,595,776 shares in 2012 | (3,398) | (3,537) | (36,155) |
| Accumulated other comprehensive income (loss): | | | |
| Unrealized gain on available-for-sale securities | 2,117 | 1,098 | 22,525 |
| Foreign currency translation adjustments | (1,168) | (3,499) | (12,427) |
| Total | 125,172 | 118,041 | 1,331,619 |
| Subscription rights to shares | 17 | — | 184 |
| Minority interests | 2,649 | 1,548 | 28,181 |
| Total equity | 127,838 | 119,590 | 1,359,986 |
| **TOTAL** | ¥145,664 | ¥138,767 | $1,549,624 |

See notes to consolidated financial statements.

## Consolidated Statements of Income

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2013 and 2012

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **NET SALES** | ¥72,919 | ¥80,037 | $775,741 |
| **COST OF SALES** (Notes 7, 12 and 13) | 47,566 | 55,040 | 506,023 |
| Gross profit | 25,353 | 24,996 | 269,718 |
| **SELLING, GENERAL AND ADMINISTRATIVE EXPENSES** (Notes 7, 12 and 13) | 17,480 | 18,893 | 185,963 |
| Operating income | 7,872 | 6,102 | 83,755 |
| **OTHER INCOME (EXPENSES):** | | | |
| Interest and dividend income | 272 | 246 | 2,900 |
| Foreign exchange gain—net | 216 | 104 | 2,306 |
| Subsidy income | 131 | 130 | 1,399 |
| Loss on impairment of long-lived assets (Note 5) | (256) | (73) | (2,731) |
| Equity in earnings of affiliate | 132 | 117 | 1,405 |
| Loss on devaluation of investment securities | (286) | (26) | (3,047) |
| Other—net | (51) | (25) | (548) |
| Other income (expenses)—net | 158 | 474 | 1,684 |
| **INCOME BEFORE INCOME TAXES AND MINORITY INTERESTS** | 8,031 | 6,577 | 85,440 |
| **INCOME TAXES** (Note 11)**:** | | | |
| Current | 2,227 | 867 | 23,702 |
| Prior years | 3 | — | 33 |
| Deferred | 10 | 1,660 | 115 |
| Total income taxes | 2,242 | 2,527 | 23,851 |
| **NET INCOME BEFORE MINORITY INTERESTS** | 5,789 | 4,049 | 61,588 |
| **MINORITY INTERESTS IN NET INCOME** | (346) | (231) | (3,683) |
| **NET INCOME** | ¥ 5,443 | ¥ 3,818 | $ 57,905 |

| | Yen | | U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **PER SHARE OF COMMON STOCK** (Notes 2.u and 17)**:** | | | |
| Basic net income | ¥121.69 | ¥84.86 | $1.29 |
| Cash dividends applicable to the year | 44.00 | 38.00 | 0.46 |

See notes to consolidated financial statements.

## Consolidated Statements of Comprehensive Income

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2013 and 2012

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **NET INCOME BEFORE MINORITY INTERESTS** | ¥5,789 | ¥4,049 | $ 61,588 |
| **OTHER COMPREHENSIVE INCOME** (Note 16)**:** | | | |
| Unrealized loss on available-for-sale securities | 1,019 | 144 | 10,843 |
| Foreign currency translation adjustments | 2,619 | (701) | 27,865 |
| Share of other comprehensive loss in associates | 55 | (11) | 594 |
| Total other comprehensive income (loss) | 3,694 | (568) | 39,303 |
| **COMPREHENSIVE INCOME** (Note 16) | ¥9,483 | ¥3,481 | $100,892 |
| **TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO** (Note 16)**:** | | | |
| Owners of the parent | ¥8,793 | ¥3,359 | $ 93,550 |
| Minority interests | 690 | 121 | 7,341 |

See notes to consolidated financial statements.

# Consolidated Statements of Changes in Equity

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2013 and 2012

| | 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 | Total | Subscription Rights to Shares | Minority Interests | Total Equity |
| **BALANCE, APRIL 1, 2011** | 45,004 | ¥14,640 | ¥15,207 | ¥91,933 | ¥(2,929) | ¥ 953 | ¥(2,896) | ¥116,910 | ¥— | ¥1,657 | ¥118,567 |
| Net income | — | — | — | 3,818 | — | — | — | 3,818 | — | — | 3,818 |
| Cash dividends paid: | | | | | | | | | | | |
| Final for prior year, ¥18.0 per share | — | — | — | (810) | — | — | — | (810) | — | — | (810) |
| Interim for current year, ¥18.0 per share | — | — | — | (810) | — | — | — | (810) | — | — | (810) |
| Purchase of treasury stock | (316) | — | — | — | (613) | — | — | (613) | — | — | (613) |
| Disposal of treasury stock | 2 | — | — | (0) | 5 | — | — | 5 | — | — | 5 |
| Net change in the year | — | — | — | — | — | 144 | (603) | (458) | — | (108) | (567) |
| **BALANCE, MARCH 31, 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 |

| | 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 | Total | Subscription Rights to Shares | Minority Interests | Total Equity |
| **BALANCE, MARCH 31, 2012** | $155,749 | $161,786 | $1,001,401 | $(37,627) | $11,682 | $(37,229) | $1,255,761 | $ — | $16,478 | $1,272,240 |
| Net income | — | — | 57,905 | — | — | — | 57,905 | — | — | 57,905 |
| Cash dividends paid: | | | | | | | | | | |
| Final for prior year, $0.21 per share | — | — | (9,575) | — | — | — | (9,575) | — | — | (9,575) |
| Interim for current year, $0.21 per share | — | — | (9,575) | — | — | — | (9,575) | — | — | (9,575) |
| Purchase of treasury stock | — | — | — | (15) | — | — | (15) | — | — | (15) |
| Disposal of treasury stock | — | — | — | 1,487 | — | — | 1,487 | — | — | 1,487 |
| Others | — | — | (13) | — | — | — | (13) | — | — | (13) |
| Net change in the year | — | — | — | — | 10,843 | 24,801 | 35,645 | 184 | 11,703 | 47,532 |
| **BALANCE, MARCH 31, 2013** | $155,749 | $161,786 | $1,040,142 | $(36,155) | $22,525 | $(12,427) | $1,331,619 | $184 | $28,181 | $1,359,986 |

See notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2013 and 2012

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **OPERATING ACTIVITIES:** | | | |
| Income before income taxes and minority interests | ¥ 8,031 | ¥ 6,577 | $ 85,440 |
| Adjustments for: | | | |
| Income taxes paid | (1,225) | (1,008) | (13,040) |
| Depreciation and amortization | 3,758 | 4,038 | 39,985 |
| Provision for doubtful accounts | (118) | 795 | (1,255) |
| Liability for retirement benefits | 245 | 63 | 2,608 |
| Foreign exchange (gain) loss —net | (573) | 282 | (6,102) |
| Loss on impairment of long-lived assets | 256 | 73 | 2,731 |
| Losses on devaluation of investment securities | 286 | 26 | 3,047 |
| Changes in assets and liabilities: | | | |
| Decrease in trade notes and accounts receivable | 3,458 | 1,995 | 36,791 |
| Decrease in inventories | 1,633 | 8,414 | 17,380 |
| Decrease in trade notes and accounts payable | (922) | (1,709) | (9,817) |
| Decrease in advances from customers | (1,989) | (7,829) | (21,160) |
| Other—net | (403) | 165 | (4,288) |
| Net cash provided by operating activities | 12,438 | 11,882 | 132,320 |
| **INVESTING ACTIVITIES:** | | | |
| (Deposit) disbursements for time deposits—net | 1,075 | (9) | 11,440 |
| Purchases of property, plant and equipment | (5,377) | (3,118) | (57,210) |
| Purchases of intangible assets | (218) | (72) | (2,321) |
| Payments into long-term time deposits | (13,000) | (21,500) | (138,297) |
| Withdrawal of long-term time deposits | 17,500 | 6,500 | 186,170 |
| Purchase of investment securities | (257) | (422) | (2,741) |
| Other—net | 202 | 99 | 2,154 |
| Net cash used in investing activities | (75) | (18,523) | (806) |

| | Millions of Yen | | Thousands of U.S. Dollars (Note 1) |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| **FINANCING ACTIVITIES:** | | | |
| Proceed from long-term loans payable | — | 610 | — |
| Repayment of long-term loans payable | (122) | — | (1,297) |
| Dividends paid | (1,796) | (1,616) | (19,109) |
| Dividends paid for minority shareholder | (218) | (230) | (2,326) |
| Proceed from issuance of common stock to minority shareholder | 628 | — | 6,687 |
| Disposal of treasury stock | 122 | 5 | 1,303 |
| Payments for purchase of treasury stock | (1) | (613) | (15) |
| Other—net | 0 | 0 | 4 |
| Net cash used in financing activities | (1,386) | (1,844) | (14,753) |
| **FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS** | 1,429 | (365) | 15,211 |
| **NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS** | 12,405 | (8,851) | 131,972 |
| **CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR** | 30,775 | 39,626 | 327,400 |
| **CASH AND CASH EQUIVALENTS, END OF YEAR** | ¥43,181 | ¥30,775 | $459,373 |

See notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

TOKYO OHKA KOGYO CO., LTD. and Consolidated Subsidiaries / Years Ended March 31, 2013 and 2012

## 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.

Under Japanese GAAP, a consolidated statement of comprehensive income is required from the fiscal year ended March 31, 2011 and has been presented herein. Accordingly, accumulated other comprehensive income is presented in the consolidated balance sheet and the consolidated statement of changes in equity. Information with respect to other comprehensive income for the years ended March 31, 2013 and 2012 is disclosed in Note 16. In addition, "net income before minority interests" is disclosed in the consolidated statement of income from the year ended March 31, 2011.

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 ¥94 to $1, the approximate rate of exchange at March 29, 2013. 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 nine significant subsidiaries (together, the "Group"). A newly established company TOK Advanced Materials Co., Ltd. is included in the consolidation from the year ended March 31, 2013. Yamanashi Ohka Co., Ltd. is excluded from the consolidation due to the conclusion of liquidation but the Company's consolidated financial statements reflect the results of Yamanashi Ohka 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. Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements**—In May 2006, the Accounting Standards Board of Japan (the "ASBJ") issued ASBJ Practical Issues Task Force ("PITF") No. 18, "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for the Consolidated Financial Statements." PITF No. 18 prescribes (1) the accounting policies and procedures applied to a parent company and its subsidiaries for similar transactions and events under similar circumstances should in principle be unified for the preparation of the consolidated financial statements, (2) financial statements prepared by foreign subsidiaries in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used for the consolidation process, (3) however, the following items should be adjusted in the consolidation process so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (a) amortization of goodwill; (b) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (c) expensing capitalized development costs of R&D; (d) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (e) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to financial statements have been incorporated; and (f) exclusion of minority interests from net income, if contained.

**c. Unification of Accounting Policies Applied to Foreign Associated Companies for the Equity Method—**In March 2008, the ASBJ issued ASBJ Statement No. 16, "Accounting Standard for Equity Method of Accounting for Investments." The new standard requires adjustments to be made to conform the associate's accounting policies for similar transactions and events under similar circumstances to those of the parent company when the associate's financial statements are used in applying the equity method unless it is impracticable to determine adjustments. In addition, financial statements prepared by foreign associated companies in accordance with either International Financial Reporting Standards or the generally accepted accounting principles in the United States of America tentatively may be used in applying the equity method if the following items are adjusted so that net income is accounted for in accordance with Japanese GAAP unless they are not material: (1) amortization of goodwill; (2) scheduled amortization of actuarial gain or loss of pensions that has been directly recorded in the equity; (3) expensing capitalized development costs of R&D; (4) cancellation of the fair value model accounting for property, plant and equipment and investment properties and incorporation of the cost model accounting; (5) recording the prior years' effects of changes in accounting policies in the income statement where retrospective adjustments to the financial statements have been incorporated; and (6) exclusion of minority interests from net income, if contained. This standard was applicable to equity method of accounting for fiscal years beginning on or after April 1, 2010. The Company applied this accounting standard effective April 1, 2010.

**d. Business Combination—**In October 2003, the Business Accounting Council issued a Statement of Opinion, "Accounting for Business Combinations," and in December 2005, the ASBJ issued ASBJ Statement No. 7, "Accounting Standard for Business Divestitures" and ASBJ Guidance No. 10, "Guidance for Accounting Standard for Business Combinations and Business Divestitures." The accounting standard for business combinations allows companies to apply the pooling of interests method of accounting only when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. For business combinations that do not meet the uniting-of-interests criteria, the business combination is considered to be an acquisition and the purchase method of accounting is required. This standard also prescribes the accounting for combinations of entities under common control and for joint ventures. In December 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations." Major accounting changes under the revised accounting standard are as follows: (1) The revised standard requires accounting for business combinations only by the purchase method. As a result, the pooling of interests method of accounting is no longer allowed. (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard, in-process research and development (IPR&D) acquired in the business combination is capitalized as an intangible asset. (3) The previous accounting standard provided for a bargain purchase gain (negative goodwill) to be systematically amortized over a period not exceeding 20 years. Under the revised standard, the acquirer recognizes the bargain purchase gain in profit or loss immediately on the acquisition date after reassessing and confirming that all of the assets acquired and all of the liabilities assumed have been identified after a review of the procedures used in the purchase allocation. This standard was applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

**e. Cash Equivalents—**Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value. Cash equivalents include time deposits which mature within three months of the date of acquisition.

**f. 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.

**g. 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.

**h. 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.

**i. Property, Plant and Equipment—**Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment of the Company and its consolidated domestic subsidiaries is computed substantially by the declining-balance method based on the estimated useful lives of the assets, while the straight-line method is applied to buildings acquired after April 1, 1998 and lease assets of the Company and its consolidated domestic subsidiaries, and all property, plant and equipment of consolidated foreign subsidiaries. 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. The useful lives for lease assets are the terms of the respective leases.

**j. 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.

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

**l. Retirement and Pension Plans**

Retirement benefits to employees (including officers)—The Company and its certain consolidated subsidiaries have contributory funded pension plans and unfunded retirement benefit plans as defined benefit plans.

The companies principally accounted for the liability for retirement benefits based on the projected benefit obligations and plan assets at each balance sheet date, while retirement benefits to officers are provided to state the liability at the amount that would be required if all officers retired at the 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, respectively.

The Company and certain consolidated subsidiaries terminated their unfunded retirement allowance plan for officers on June 26, 2008.

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.

**m. Asset Retirement Obligations—**In March 2008, the ASBJ published the accounting standard for asset retirement obligations, ASBJ Statement No. 18, "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21, "Guidance on Accounting Standard for Asset Retirement Obligations." Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard was effective for fiscal years beginning on or after April 1, 2010.

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

**o. Leases—**In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions," which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions was effective for fiscal years beginning on or after April 1, 2008.

Under the previous accounting standard, finance leases that were deemed to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information was disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions.

The Company and its consolidated domestic subsidiaries applied the revised accounting standard effective April 1, 2008. In addition, the Company and its consolidated domestic subsidiaries accounted for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions.

All other leases are accounted for as operating leases.

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

**q. 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.

**r. 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.

**s. 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. Differences arising from such translation were shown as "Foreign currency translation adjustments" under accumulated other comprehensive income (loss) in a separate component of equity. Revenue and expense accounts of consolidated foreign subsidiaries are translated into Japanese yen at the average exchange rate.

**t. 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 currency 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 currency exchange risk are translated at the contracted rate if the forward contracts qualify for hedge accounting.

**u. 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 for the period.

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

For the years ended March 31, 2013 and 2012, diluted net income per share is not disclosed because it is anti-dilutive.

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

**v. New Accounting Pronouncements**

**Accounting Standard for Retirement Benefits**—"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

Under the revised accounting standard, actuarial gains and losses and unrecognized prior service costs that are yet to be recognized in profit or loss shall be recognized within net assets (accumulated other comprehensive income), net of tax, and deficit or surplus representing the funding status shall be recognized as liability or asset. Retirement benefit obligation can be attributed to each period by either the straight-line method or the benefit formula basis, and the calculation method for the discount rate was also revised.

(2) Date of application

The Company expects to apply the revised accounting standard from the fiscal year ending March 31, 2014 and apply the revised calculation method for the projected benefit obligation from the beginning of the fiscal year ending March 31, 2015. The standard will not be applied retrospectively as the transitional treatment is set forth.

(3) Effects of adoption of the revised accounting standard

As of March 31, 2013, the Company is assessing the effects of applying the revised accounting standard on the financial statements.

**w. Additional Information**

**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, 2013 is as follows:

The number of treasury stocks: 1,837,729 shares
Of which, held by the Company: 1,596,629 shares
Of which, held by the Trust: 241,100 shares

## 3. INVESTMENT SECURITIES

Investment securities as of March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Non-current: | | | |
| Marketable equity securities | ¥6,291 | ¥4,890 | $66,935 |
| Corporate bond | 170 | 170 | 1,808 |
| Total | ¥6,461 | ¥5,060 | $68,743 |

The costs and aggregate fair values of investment securities at March 31, 2013 and 2012 were as follows:

| | 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 |

| | Millions of Yen | | | |
|---|---|---|---|---|
| March 31, 2012 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Held-to-maturity | ¥ 170 | ¥ 4 | ¥ — | ¥ 174 |
| Available-for-sale | 3,184 | 1,966 | 261 | 4,890 |

| | Thousands of U.S. Dollars | | | |
|---|---|---|---|---|
| March 31, 2013 | Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Securities classified as: | | | | |
| Held-to-maturity | $ 1,808 | $ 26 | $ — | $ 1,834 |
| Available-for-sale | 33,576 | 33,479 | 120 | 66,935 |

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

## 4. INVENTORIES

Inventories at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Merchandise and finished products | ¥ 5,154 | ¥ 6,540 | $ 54,834 |
| Work in process | 1,858 | 2,230 | 19,776 |
| Raw materials and supplies | 3,486 | 2,884 | 37,089 |
| Total | ¥10,499 | ¥11,655 | $111,699 |

## 5. LONG-LIVED ASSETS

The Group reviewed its long-lived assets for impairment as of March 31, 2013 and 2012, and, as a result, recognized impairment losses of ¥256 million ($2,731 thousand) and ¥73 million as other expense. The carrying amount of those assets was written down to the recoverable amount. The Group recognized impairment losses on the following assets for the year ended March 31, 2013:

| | | | Amount | |
|---|---|---|---|---|
| Use | Type of Assets | Location (Prefecture) | Millions of Yen | Thousands of U.S. dollars |
| Company dormitory | Land, buildings and structures | Fukushima | ¥256 | $2,731 |

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 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.

## 6. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The amounts of short-term borrowings are included in "Other current liabilities" of the consolidated balance sheets.

Short-term borrowings at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Unsecured loan from a bank, with average interest rate of 0.60% and 0.69% for the years ended March 31, 2013 and 2012, respectively | ¥122 | ¥122 | $1,297 |
| Total | ¥122 | ¥122 | $1,297 |

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

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Unsecured loan from a bank, with average interest rate of 0.60% | ¥366 | ¥488 | $3,893 |
| Total | ¥366 | ¥488 | $3,893 |

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

| Years ending March 31, | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| 2015 | ¥122 | $1,297 |
| 2016 | 122 | 1,297 |
| 2017 | 122 | 1,297 |

## 7. RETIREMENT AND PENSION PLANS

The Company and its certain consolidated subsidiaries have contributory funded pension plans and unfunded retirement benefit plans as defined benefit plans for employees. The Company has severance payment plans for directors and corporate auditors.

Under most circumstances, employees terminating their employment are entitled to retirement benefits determined based on their rate of pay at the time of termination, their average pay during employment, years of service and certain other factors. Such retirement benefits are made in the form of a lump-sum severance payment from the Company or from certain consolidated subsidiaries and annuity payments from a trustee.

The liability for employees' retirement benefits at March 31, 2013 and 2012 consisted of the following:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Projected benefit obligation | ¥17,934 | ¥17,217 | $190,790 |
| Fair value of plan assets | (10,081) | (8,454) | (107,249) |
| Employee retirement benefit trust | (5,095) | (5,007) | (54,208) |
| Unrecognized prior service cost | 241 | 379 | 2,566 |
| Unrecognized actuarial loss | (1,399) | (2,838) | (14,884) |
| Net liability | ¥ 1,599 | ¥ 1,296 | $ 17,013 |

The components of net periodic benefit costs for the years ended March 31, 2013 and 2012 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Service cost | ¥ 759 | ¥623 | $ 8,080 |
| Interest cost | 256 | 318 | 2,730 |
| Expected return on plan assets | (130) | (122) | (1,387) |
| Amortization of prior service cost | (137) | (138) | (1,466) |
| Recognized actuarial loss | 398 | 216 | 4,240 |
| Net periodic benefit costs | ¥1,146 | ¥898 | $12,197 |

Assumptions used for the years ended March 31, 2013 and 2012 are set forth as follows:

| | 2013 | 2012 |
|---|---|---|
| Discount rate | 1.50% | 1.50% |
| Expected rate of return on plan assets: | | |
| Contributory pension plan | 1.25% | 1.25% |
| Employee retirement benefit trust | 0.50% | 0.50% |
| Amortization period of prior service cost | 10 years | 10 years |
| Recognition period of actuarial gain/loss | 10 years | 10 years |

The liabilities for retirement benefits at March 31, 2013 and 2012 for directors and corporate auditors are ¥54 million ($580 thousand) and ¥112 million, respectively. The retirement benefits for directors and corporate auditors are paid subject to the approval of the shareholders.

## 8. ASSET RETIREMENT OBLIGATIONS

The changes in asset retirement obligations for the years ended March 31, 2013 and 2012 are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Balance at beginning of year | ¥85 | ¥86 | $905 |
| Reconciliation associated with passage of time | 1 | 0 | 13 |
| Others | — | (2) | — |
| Balance at end of year | ¥86 | ¥85 | $918 |

## 9. 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 Subscription Rights to Shares—**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, subscription rights to shares are presented as a separate component of equity.

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

## 10. 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 |
|---|---|---|
| | 2013 | 2013 |
| Cost of sales | ¥ 5 | $ 55 |
| Selling, general and administrative expenses | 12 | 128 |

### (2) Outline, number and changes of stock options

*(a) Outline of stock options*

**Stock options outstanding as of March 31, 2013 were as follows:**

Stock option: 2013 Stock option

Category and number of eligible person: two representative directors of the Company
four directors of the Company
seven 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: January 10, 2013 to May 31, 2016

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

*(b) Number and changes of stock options*

| | Shares | Yen | U.S. Dollars |
|---|---|---|---|
| | 2013 | 2013 | 2013 |
| Unvested stock options: | | | |
| As of March 31, 2012 | — | | |
| Granted | 484,000 | | |
| Forfeited | — | | |
| Vested | — | | |
| Unvested options as of March 31, 2013 | 484,000 | | |
| Vested stock options: | | | |
| As of March 31, 2012 | — | | |
| Vested | — | | |
| Exercised | — | | |
| Forfeited | — | | |
| Unexercised options as of March 31, 2013 | — | | |
| Exercise price | | ¥1,759 | $18.71 |
| Average share price at the time of exercise | | ¥ — | $ — |
| Fair value per share at grant date | | ¥ 417 | $ 4.43 |

### (3) Valuation technique used to estimate fair value of stock options

Stock options granted during the year ended March 31, 2013 were valued using the Black-Scholes option pricing model based on the following principal parameters.

| Stock Option | Share Price Volatility (Note 1) | Estimated Remaining Period (Note 2) | Expected Dividends (Note 3) | Risk-Free Interest Rate (Note 4) |
|---|---|---|---|---|
| 2013 Stock option | 34.727% | 4.9 years | ¥40 ($0.42) per share | 0.194% |

Notes: 1. Calculated based on the actual share price for four years and 11 months (from February 2008 to January 2013)
2. Based on the assumption that stock option is exercised at the midpoint of the exercisable period as it is difficult to reasonably estimate the remaining period due to insufficient data
3. Based on the actual dividends paid over the past year (year-end dividend of ¥20 for the year ended March 31, 2012, interim dividend of ¥20 for the year ended March 31, 2013)
4. Average JGB yield for the period corresponding to the estimated remaining period

### (4) 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.

## 11. 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% and 40.3% for the years ended March 31, 2013 and 2012, respectively. 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, 2013 and 2012, are as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Current assets: | | | |
| Deferred tax assets: | | | |
| Accrued expense for bonuses to employees | ¥ 583 | ¥ 544 | $6,210 |
| Loss on valuation of inventories | 214 | 385 | 2,283 |
| Unrealized gains on inventories | 338 | 301 | 3,597 |
| Other | 343 | 291 | 3,656 |
| Less valuation allowance | (4) | (72) | (51) |
| Total | 1,475 | 1,451 | 15,695 |
| Deferred tax liabilities—other | 48 | 59 | 520 |
| Total | 48 | 59 | 520 |
| Net deferred tax assets | ¥1,426 | ¥1,391 | $15,175 |
| Non-current assets: | | | |
| Deferred tax assets: | | | |
| Liability for retirement benefits | ¥2,317 | ¥2,190 | $24,657 |
| Tax loss carryforwards | 33 | 330 | 354 |
| Loss on devaluation of investment securities | 357 | 259 | 3,807 |
| Subsidy income | 189 | 239 | 2,019 |
| Allowance for doubtful accounts | 279 | 218 | 2,977 |
| Loss on impairment of long-lived assets | 244 | 172 | 2,605 |
| Other | 191 | 214 | 2,033 |
| Less valuation allowance | (615) | (703) | (6,544) |
| Total | 2,999 | 2,921 | 31,910 |
| Deferred tax liabilities: | | | |
| Property and equipment | 351 | 371 | 3,740 |
| Unrealized gain on available-for-sale securities | 1,018 | 606 | 10,834 |
| Other | 6 | 6 | 64 |
| Total | 1,376 | 985 | 14,639 |
| Net deferred tax assets | ¥1,623 | ¥1,935 | $17,271 |
| Current liabilities—Deferred tax liabilities | ¥ 168 | ¥ 118 | $ 1,792 |

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Non-current liabilities: | | | |
| Deferred tax liabilities: | | | |
| Undistributed earnings of foreign subsidiaries | ¥ 666 | ¥ 567 | $ 7,094 |
| Property and equipment | 134 | 142 | 1,435 |
| Total | 801 | 709 | 8,530 |
| Deferred tax assets—other | (101) | (92) | (1,084) |
| Net deferred tax liabilities | ¥ 699 | ¥ 617 | $ 7,446 |

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, 2013 and 2012 is as follows:

| | 2013 | 2012 |
|---|---|---|
| Normal effective statutory tax rate | 38.1% | 40.3% |
| Non-taxable dividend income | (4.4) | (6.3) |
| Different income tax rates applicable to income in certain foreign countries | (4.0) | (7.1) |
| Dividends from consolidated foreign subsidiaries eliminated for consolidation purposes | 4.1 | 6.2 |
| Adjustment for decrease in ending balance of deferred tax assets due to changes in tax rates | — | 6.0 |
| Equity in earnings of affiliate | — | (0.7) |
| Valuation allowance | 0.5 | (0.2) |
| Tax credit for research and development costs | (4.4) | (0.9) |
| Tax loss carryforwards of subsidiaries | (2.9) | — |
| Other—net | 0.9 | 1.1 |
| Actual effective tax rate | 27.9% | 38.4% |

At March 31, 2013, the Company and certain subsidiaries have tax loss carryforwards aggregating approximately ¥94 million ($1,005 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 |
|---|---|---|
| 2015 | ¥ 9 | $ 97 |
| 2016 | 20 | 218 |
| 2017 | 60 | 639 |
| 2018 and thereafter | 4 | 48 |
| Total | ¥94 | $1,005 |

## 12. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Selling, general and administrative expenses | **¥6,141** | ¥6,101 | **$65,330** |
| Cost of sales | **70** | 56 | **747** |
| Total | **¥6,211** | ¥6,157 | **$66,078** |

## 13. LEASES

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

The minimum rental commitments under noncancelable operating leases at March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Due within one year | **¥ 66** | ¥ 58 | **$ 705** |
| Due after one year | **192** | 184 | **2,044** |
| Total | **¥258** | ¥242 | **$2,749** |

Disclosure about finance lease is omitted due to its immateriality.

## 14. FINANCIAL INSTRUMENTS

In March 2008, the ASBJ revised ASBJ Statement No. 10, "Accounting Standard for Financial Instruments" and issued ASBJ Guidance No. 19, "Guidance on Accounting Standard for Financial Instruments and Related Disclosures." This accounting standard and the guidance were applicable to financial instruments and related disclosures at the end of the fiscal years ending on or after March 31, 2010. The Group applied the revised accounting standard and the guidance effective March 31, 2010.

### (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 forward foreign currency 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 forward foreign currency contracts, which are used to manage exposure to market risks from changes in foreign currency exchange rates of receivables and payables. Please see Note 15 for more detail about derivatives.

### (3) Risk Management for Financial Instruments

Credit risk management

The Group manages its credit risk from receivables on the basis of 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 funding to high credit rating bonds. With respect to derivatives, the Group manages its exposure to credit risk by limiting its contracts 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, 2013.

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 forward foreign currency contracts. In addition, forward foreign currency 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. If quoted price is not available, other rational valuation techniques are used instead. Also please see Note 15 for the detail of fair value for derivatives.

*(a) Fair value of financial instruments*

| | 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 | ¥— |

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2012 | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and cash equivalents | ¥30,775 | ¥30,775 | ¥ — |
| Time deposits | 19,298 | 19,298 | — |
| Receivables—Trade notes and accounts | 19,084 | 19,084 | — |
| Investment securities: | | | |
| Held-to-maturity securities | 170 | 174 | 4 |
| Available-for-sale securities | 4,890 | 4,890 | — |
| Long-term time deposits | 18,000 | 17,963 | (36) |
| Total | ¥92,217 | ¥92,185 | ¥(31) |
| Payables—Trade notes and accounts | ¥ 6,622 | ¥ 6,622 | ¥ — |
| Short-term loans payable | 122 | 122 | — |
| Long-term loans payable | 488 | 488 | — |
| Total | ¥ 7,232 | ¥ 7,232 | ¥ — |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| March 31, 2013 | Carrying Amount | Fair Value | Unrealized Gain/Loss |
| Cash and cash equivalents | $ 459,373 | $ 459,373 | $— |
| Time deposits | 147,766 | 147,766 | — |
| Receivables—Trade notes and accounts | 173,276 | 173,276 | — |
| Investment securities: | | | |
| Held-to-maturity securities | 1,808 | 1,834 | 26 |
| Available-for-sale securities | 66,935 | 66,935 | — |
| Long-term time deposits | 191,489 | 191,460 | (29) |
| Total | $1,040,649 | $1,040,646 | $ (3) |
| Payables—Trade notes and accounts | $ 62,682 | $ 62,682 | $— |
| Short-term loans payable | 1,297 | 1,297 | — |
| Long-term loans payable | 3,893 | 3,893 | — |
| Total | $ 67,873 | $ 67,873 | $— |

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 3.

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 Debts

Long-term debts bear floating interest, and therefore, the carrying values approximate fair value.

Derivatives

The information of the fair value for derivatives is included in Note 15.

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

| | Carrying Amount | | |
|---|---|---|---|
| | Millions of Yen | | Thousands of U.S. Dollars |
| | **2013** | 2012 | **2013** |
| Investments in equity instruments that do not have a quoted market price in an active market | **¥397** | ¥209 | **$4,225** |

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

| | 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** |

| | Millions of Yen | | |
|---|---|---|---|
| March 31, 2012 | Due in 1 Year or Less | Due after 1 Year through 5 Years | Due after 5 Years through 10 Years |
| Cash and cash equivalents | ¥30,775 | ¥ — | ¥ — |
| Time deposits | 19,298 | — | — |
| Receivables—Trade notes and accounts | 19,084 | — | — |
| Held-to-maturity securities | — | — | 170 |
| Long-term time deposits | — | 18,000 | — |
| Total | ¥69,158 | ¥18,000 | ¥170 |

| | Thousands of U.S. Dollars | | |
|---|---|---|---|
| **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 | **$459,373** | **$ —** | **$ —** |
| Time deposits | **147,766** | **—** | **—** |
| Receivables—Trade notes and accounts | **173,276** | **—** | **—** |
| Held-to-maturity securities | **—** | **—** | **1,808** |
| Long-term time deposits | **—** | **191,489** | **—** |
| Total | **$780,416** | **$191,489** | **$1,808** |

## 15. DERIVATIVES

The Group enters into foreign currency forward contracts to hedge foreign currency 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, 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** | **—** | * |

| | | Millions of Yen | | |
|---|---|---|---|---|
| March 31, 2012 | Hedged Item | Contract Amount | Contract Amount Due after One Year | Fair Value |
| Foreign currency forward contracts: | | | | |
| Selling U.S.$ | Receivables—Trade accounts | ¥2,567 | ¥— | * |
| Selling EUR | Receivables—Trade accounts | 159 | — | * |
| Selling NT$ | Receivables—Trade accounts | 408 | — | * |

| | | Thousands of U.S. Dollars | | |
|---|---|---|---|---|
| **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 | **$31,428** | **$—** | * |
| Selling EUR | Receivables—Trade accounts | **1,688** | **—** | * |
| Selling NT$ | Receivables—Trade accounts | **4,007** | **—** | * |

* The fair value of such foreign currency forward contracts in Note 15 is included in that of the hedged items (i.e., receivables—trade accounts).

## 16. COMPREHENSIVE INCOME

Reclassification adjustments and tax effects regarding other comprehensive income for the years ended March 31, 2013 and 2012 were as follows:

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | **2013** | 2012 | **2013** |
| Unrealized gain on available-for-sale securities: | | | |
| Recognized during the year | **¥1,144** | ¥ 45 | **$12,172** |
| Reclassification adjustments | **286** | 26 | **3,047** |
| Before tax effects adjustment | **1,430** | 72 | **15,220** |
| Tax effects | **(411)** | 72 | **(4,377)** |
| Unrealized gain on available-for-sale securities | **1,019** | 144 | **10,843** |
| Foreign currency translation adjustments: | | | |
| Recognized during the year | **2,619** | (701) | **27,865** |
| Tax effects | **—** | — | **—** |
| Foreign currency translation adjustments | **2,619** | (701) | **27,865** |
| Share of other comprehensive loss in companies accounted for by the equity method: | | | |
| Recognized during the year | **55** | (11) | **594** |
| Total other comprehensive income | **¥3,694** | ¥(568) | **$39,303** |

## 17. NET INCOME PER SHARE

Basic net income per share ("EPS") for the years ended March 31, 2013 and 2012 is as follows:

| | Millions of Yen | Thousands of Shares | Yen | U.S. Dollars |
|---|---|---|---|---|
| **Year Ended March 31, 2013** | Net Income | Weighted-Average Shares | EPS | |
| Basic EPS—Net income available to common shareholders | **¥5,443** | **44,725*** | **¥121.69** | **$1.29** |

| | Millions of Yen | Thousands of Shares | Yen |
|---|---|---|---|
| Year Ended March 31, 2012 | Net Income | Weighted-Average Shares | EPS |
| Basic EPS—Net income available to common shareholders | ¥3,818 | 44,990* | ¥84.86 |

* Weighted-average shares for the years ended March 31, 2013 and 2012 excluded the Company's shares held by the Employee Stock Ownership Plan Trust.

## 18. SUBSEQUENT EVENT

At the general shareholders meeting held on June 26, 2013, the Company's shareholders approved the following appropriation of retained earnings:

| | Millions of Yen | Thousands of U.S. Dollars |
|---|---|---|
| Cash dividends, ¥24 ($0.25) per share | **¥1,080** | **$11,490** |

## 19. SEGMENT INFORMATION

For the Years Ended March 31, 2013 and 2012

(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 how resources are allocated among the Group. 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 to 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 | | | | |
|---|---|---|---|---|---|
| | **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** |
| Operating income (loss) | **¥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 of

— Operating income (loss) amounting to ¥(3,075) million ($(32,722) thousand) include common costs of ¥(3,075) million ($(32,722) thousand), which are not allocated to reportable segments.

— Segment assets amounting to ¥72,423 million ($770,466 thousand) include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥64,155 million ($682,502 thousand), which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥230 million ($2,447 thousand) is relevant to common assets.

| | Millions of Yen | | | | |
|---|---|---|---|---|---|
| | 2012 | | | | |
| | Reportable Segment | | | | |
| | Material Business | Equipment Business | Total | Reconciliations | Consolidated |
| Sales: | | | | | |
| Sales to customers | ¥66,644 | ¥13,392 | ¥80,037 | ¥ — | ¥ 80,037 |
| Intersegment sales or transfers | 0 | 108 | 108 | (108) | — |
| Total sales | ¥66,645 | ¥13,500 | ¥80,145 | ¥ (108) | ¥ 80,037 |
| Operating income (loss) | ¥ 8,303 | ¥ 908 | ¥ 9,211 | ¥ (3,108) | ¥ 6,102 |
| Segment assets | 57,798 | 6,954 | 64,753 | 74,014 | 138,767 |
| Other: | | | | | |
| Depreciation | 3,526 | 203 | 3,729 | 309 | 4,038 |
| Increase in property, plant and equipment and intangible assets | 3,007 | 138 | 3,145 | 127 | 3,273 |

Note: Reconciliations of

— Operating income (loss) amounting to ¥(3,108) million include common costs of ¥(3,108) million, which are not allocated to reportable segments.

— Segment assets amounting to ¥74,014 million include working capital (the Company's cash, deposits, and long-term time deposits) and investment securities of ¥65,810 million, which are not allocated to reportable segments.

— Increase in property, plant and equipment and intangible assets of ¥127 million is relevant to common assets.

| | Thousands of U.S. Dollars | | | | |
|---|---|---|---|---|---|
| | 2013 | | | | |
| | Reportable Segment | | | | |
| | Material Business | Equipment Business | Total | Reconciliations | Consolidated |
| Sales: | | | | | |
| Sales to customers | $720,181 | $55,559 | $775,741 | $ — | $ 775,741 |
| Intersegment sales or transfers | 2 | 854 | 857 | (857) | — |
| Total sales | $720,184 | $56,414 | $776,599 | $ (857) | $ 775,741 |
| Operating income (loss) | $114,006 | $ 2,471 | $116,477 | $ (32,722) | $ 83,755 |
| Segment assets | 730,711 | 48,446 | 779,157 | 770,466 | 1,549,624 |
| Other: | | | | | |
| Depreciation | 34,265 | 2,704 | 36,970 | 3,014 | 39,985 |
| Increase in property, plant and equipment and intangible assets | 55,487 | 865 | 56,352 | 2,447 | 58,799 |

### *Related Information*

For the Years Ended March 31, 2013 and 2012

**(1) Information about geographical areas**

*(a) Sales*

| | Millions of Yen | | Thousands of U.S. Dollars |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Japan | ¥22,454 | ¥27,142 | $238,882 |
| Taiwan | 19,249 | 18,931 | 204,781 |
| Korea | 12,681 | 16,541 | 134,904 |
| U.S.A. | 9,157 | 8,477 | 97,419 |
| Other areas | 9,376 | 8,944 | 99,753 |
| Total | ¥72,919 | ¥80,037 | $775,741 |

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 |
|---|---|---|---|
| | 2013 | 2012 | 2013 |
| Japan | ¥25,140 | ¥26,616 | $267,457 |
| U.S.A. | 2,401 | 2,190 | 25,550 |
| Other areas | 3,514 | 375 | 37,393 |
| Total | ¥31,057 | ¥29,182 | $330,400 |

### (2) Information about major customers

For the years ended March 31, 2013 and 2012

Information is omitted as no single customer accounted for more than 10% of total consolidated sales.

**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**

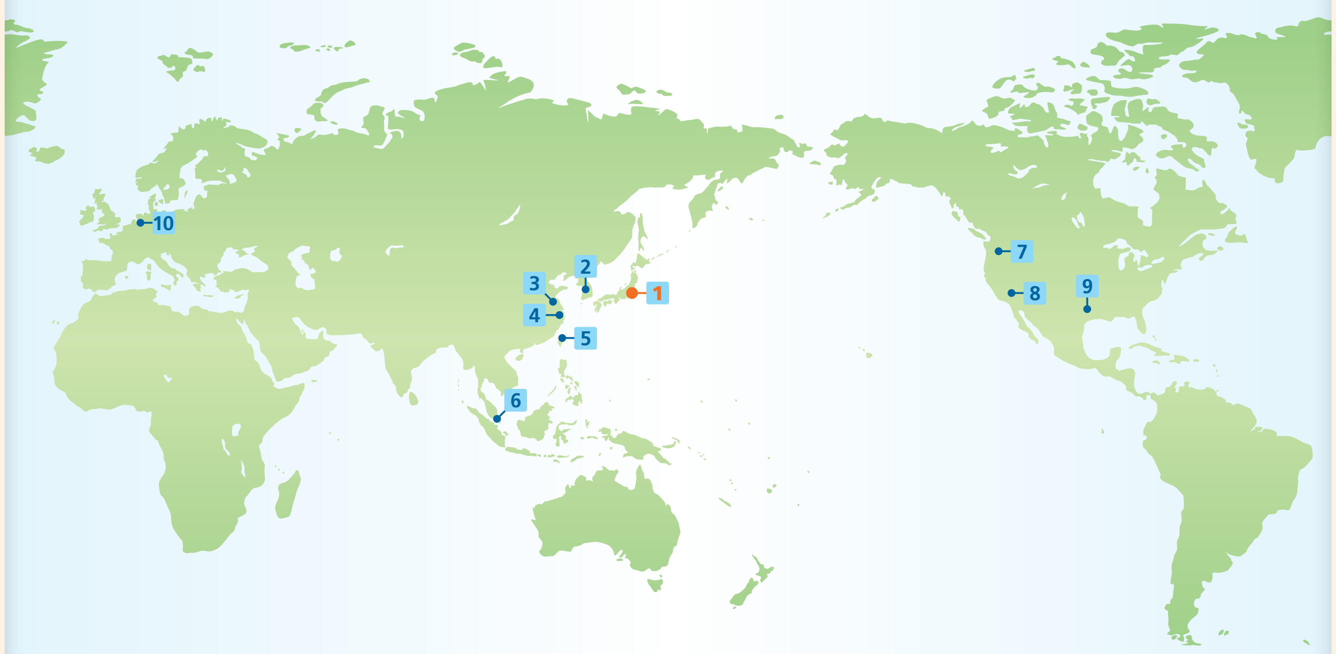
## Corporate Data

As of March 31, 2013

| | |
|---|---|
| **Corporate Name** | TOKYO OHKA KOGYO CO., LTD. |
| **Established** | October 25, 1940 |
| **Corporate Headquarters** | 150 Nakamaruko, Nakahara-ku, Kawasaki, Kanagawa 211-0012, JAPAN |
| **Number of Employees** | 1,557 (Consolidated) |
| **Paid-in Capital** | ¥14,640 million |
| **Web Site** | http://www.tok.co.jp/en/ |
| **Stock Listing** | Tokyo |
| **Investor Relations Contact** | Public Relations Division<br>150 Nakamaruko, Nakahara-ku,<br>Kawasaki, Kanagawa 211-0012, JAPAN<br>TEL. +81-44-435-3000<br>FAX. +81-44-435-3020 |

## Global Network

As of March 31, 2013




| | | |
|---|---|---|
| **1 TOKYO OHKA KOGYO CO., LTD.** | 4 Shanghai Representative Office | **TOKYO OHKA KOGYO AMERICA, INC.**<br>7 Headquarters / Oregon Plant (Oregon)<br>8 Corporate Sales Office (California)<br>9 Texas Sales Office (Texas) |
| 2 **TOK Advanced Materials Co., Ltd.**<br>Headquarters / Incheon Plant (Incheon) | 5 **TOK TAIWAN CO., LTD.**<br>Headquarters (Hsinchu)<br>Miaoli Plant (Miaoli) | |
| 3 **CHANG CHUN TOK (CHANGSHU) CO., LTD.**<br>Headquarters / Changshu Plant (Changshu) | 6 Singapore Office | 10 **TOKYO OHKA KOGYO EUROPE B.V.**<br>Headquarters (The Netherlands) |