Financial Section

SIX-YEAR SUMMARY

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2014, 2013, 2012, 2011, 2010 and 2009

	Millions of yen (except per share data)						Thousands of U.S. dollars (except per share data) (Note 1)
	2014	2013	2012	2011	2010	2009	2014
For the year:							
Net sales	¥ 493,766	¥ 464,655	¥ 473,069	¥ 497,452	¥ 455,287	¥ 488,638	$4,793,845
Operating income	27,775	23,559	24,495	43,471	38,341	19,938	269,660
Net income	24,103	18,818	16,427	18,943	23,509	2,740	234,010
Cash dividends	7,497	7,913	7,497	7,497	6,664	6,665	72,786
Capital expenditures	33,492	46,698	37,347	30,432	20,984	35,972	325,165
Depreciation and amortization	24,453	25,255	28,240	28,985	31,666	34,560	237,408
Research and development expenses	26,234	25,534	25,680	26,382	25,402	27,617	254,699
At year-end:							
Total assets	¥ 508,080	¥ 477,880	¥ 440,981	¥ 432,184	¥ 426,586	¥ 391,350	$4,932,816
Total liabilities	171,694	164,476	153,742	141,873	143,984	127,762	1,666,932
Interest-bearing liabilities (Note 2)	57,590	51,077	40,856	27,151	24,557	30,806	559,126
Total net assets (Stockholders' equity)	336,386	313,404	287,239	290,311	282,602	263,588	3,265,884
Per share data:							
Net income (basic)	¥ 115.74	¥ 90.36	¥ 78.88	¥ 90.96	¥ 112.88	¥ 13.15	$ 1.12
Net income (diluted)	—	—	—	—	—	13.15	—
Cash dividends	36.00	38.00	36.00	36.00	32.00	32.00	0.35
Net assets	1,588.09	1,474.11	1,359.33	1,320.30	1,289.11	1,203.92	15.42
Value indicators:							
Operating margin (%)	5.6	5.1	5.2	8.7	8.4	4.1	
Return on sales (%)	4.9	4.0	3.5	3.8	5.2	0.6	
Return on equity (ROE) (%)	7.6	6.4	5.9	7.0	9.1	1.1	
Return on assets (ROA) (%)	4.9	4.1	3.8	4.4	5.7	0.6	
Net worth ratio (Stockholders' equity ratio) (%)	65.1	64.2	64.2	63.6	62.9	64.1	
Debt/Equity ratio (DER) (times)	0.2	0.2	0.1	0.1	0.1	0.1	
Inventory turnover (times)	10.1	10.4	11.7	13.2	12.7	12.4	
Number of employees	18,149	17,732	16,713	15,930	15,267	15,289	

Notes: 1. U.S. dollar amounts in this annual report are translated from yen, solely for the convenience of the reader, at the rate of ¥103=US$1, the approximate exchange rate prevailing on the Tokyo Foreign Exchange Market as of March 31, 2014.
2. Interest-bearing liabilities include trade notes discounted.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCES

For the Year Ended March 31, 2014

RESULTS OF OPERATIONS

Overview of Economic Trends and Business Results

Looking at the world economy during fiscal year 2013, the fiscal year ended March 2014, the U.S. economy continued its gradual recovery on the back of strong consumer spending due to the improved employment environment. In Europe as well, the economy is on the road to recovery from the recession stemming from the sovereign debt crisis. Developing nations, as is evident in China's slowing economic growth, have been undergoing economic expansion at a gentler pace.

In Japan, corrections to the sudden rise in the yen seen at the beginning of 2013, and an upturn in stock prices, have resulted in increased corporate earnings, and a corresponding rise in capital investment. The latter half of the quarter saw increased consumer spending due to last-minute purchases before consumption tax rose, prompting a continuation of the country's economic recovery.

In such an economic climate, the Hitachi Chemical Group steadily increased its earning power and, in order to further strengthen management infrastructure, implemented the medium-term management plan from the beginning of this fiscal year. This strategy comprises 1) the creation of new products and businesses; 2) investment of management resources at key points in the expected future growth fields of environment and energy; and 3) an acceleration in global expansion. In addition, the Group has proactively implemented both a reorganization of business operations in pursuit of more efficient management resources, as well as measures to further reduce costs. One example of this, in the fields of environment and energy, is that production capability for high-capacity lithium-ion batteries for large-scale power storage systems has increased more than four times, and a production system has been established that can respond rapidly to increased customer demand, particularly in the field of renewable energy. In order to thoroughly cater to increasing global demand, we strengthened overseas production systems in a number of areas, including plastic molded products, friction materials, and powder metal products for automobiles, as well as slurry for chemical mechanical planarization for use in semiconductors. In addition, Hitachi Chemical focused on the reorganization of the Group businesses operations. The transfer of the sales, business planning, and research and development departments of Shin-Kobe Electric Machinery Co., Ltd. to Hitachi Chemical was completed on April 1, 2013, in a bid to enhance synergetic effects through business integration, and on April 1, 2014, Hitachi Powdered Metals Co., Ltd. merged by absorption into Hitachi Chemical with the primary aim of improving management resource efficiency in the automotive products business.

As a result, sales and operating income rose steadily on higher demand, and the positive benefits of business integration. Net income, despite increases in impairment losses and amortization of goodwill, was further boosted by compensation from Tokyo Electric Power Company for suspended operations at the Fukushima Dai-ichi Nuclear Power Station.

Net Sales

As a result of the above measures and the effect of foreign exchange rates, consolidated net sales for this fiscal year amounted to ¥493,766 million, an increase of 6.3% from the previous fiscal year. This mainly reflected higher demand in the automotive and semiconductor markets, along with the effects of depreciation of the yen.

By business segment, in the Functional Materials segment, sales amounted to ¥260,800 million yen, an increase of 6.4% from the previous fiscal year.

In the electronics materials field, sales of epoxy molding compounds for semiconductors rose as a result of widespread adoption, as well as the transfer of the molding compounds business from Nitto Denko Corporation on October 1, 2012. Sales of die bonding materials for semiconductors increased on greater adoption for smartphones and tablet PCs. Sales of slurry for chemical mechanical planarization decreased as a result of the impact of slower demand from certain customers. Sales of varnishes increased on high demand for home appliances, stemming from growth in housing starts in Japan.

In the inorganic materials field, sales of carbon anode materials for lithium-ion batteries rose due to an increase in sales for eco-friendly automobiles. Sales of carbon products increased on growth in sales of automobiles in emerging countries.

In the polymer science materials field, sales of functional resins increased due to the positive impact of foreign exchange, despite lower demand for synthetic resins for paints from certain customers. Sales of adhesive films decreased, reflecting lower demand for use in surface protection of the optical sheets used in LCDs. Sales of anisotropic conductive films for displays increased on an upturn in sales for smartphones. Sales of touch panel supporting materials decreased on sluggish demand from certain customers.

In the printed wiring board materials field, sales of copper-clad laminates for printed wiring boards decreased, reflecting a drop in demand for use in personal computers. Sales of photosensitive dry films for printed wiring boards increased on higher sales for use in smartphones and tablet PCs.

In the Advanced Components and Systems segment, sales amounted to ¥232,966 million, an increase of 6.1% from the previous fiscal year.

In the automotive products field, sales of plastic molded products were on a par with the previous fiscal year, due mainly

to the positive effect of foreign exchange rates, which offset a decrease in demand from certain customers. Sales of friction materials increased on higher sales at overseas subsidiaries. Sales of powder metal products increased on rising demand in Japan and North America.

In the energy storage devices and systems field, sales of vehicle batteries increased as overseas production sites began full-scale operations, along with growth in sales of products used in eco-friendly automobiles equipped with Idling Stop Systems. Sales of industrial batteries and systems decreased due to a fall in sales of power supply devices for telecommunications providers. Sales of capacitors were higher on increased sales for use in wind power and photovoltaic power generation systems.

In the electronics components field, sales of printed wiring boards increased on recovery in demand for use in semiconductor testers.

In the "others" field, revenue from diagnostics and instruments remained on a par with the previous fiscal year, as sales of allergy diagnostic kits were stagnant from the beginning of the fiscal year.

Overseas sales amounted to ¥249,661 million, an increase of ¥32,742 million, or 15.1% from the previous fiscal year, with a particularly large gain in Asia. The proportion of overseas sales continued to increase, reaching 50.6% of total net sales, an increase of 3.9 percentage points from a year earlier.

Cost of Sales and Selling, General and Administrative Expenses

Cost of sales amounted to ¥373,940 million, an increase of ¥17,728 million, or 5.0%, compared with the previous fiscal year. This mainly reflected the increase in sales, and higher raw material expenses. The cost of sales ratio to total net sales decreased 1.0 percentage points to 75.7%, from 76.7% in the previous fiscal year.

Selling, general and administrative (SG&A) expenses amounted to ¥92,051 million, an increase of ¥7,167 million, or 8.4%, from the previous fiscal year. SG&A expenses as a ratio to total net sales edged up 0.3 percentage points to 18.6%, from 18.3% in the previous fiscal year.

Operating Income

Operating income amounted to ¥27,775 million, an increase of ¥4,216 million, or 17.9% from the previous fiscal year. This mainly reflected higher demand in the semiconductor and automotive markets, along with the effects of depreciation of the yen. The operating income margin rose 0.5 percentage points to 5.6%, from 5.1% in the previous fiscal year.

In the Functional Materials segment, operating income totaled ¥24,400 million, an increase of ¥3,042 million, or 14.2% from the previous fiscal year. The operating income margin for this segment rose 0.7 percentage points to 9.4%

In the Advanced Components and Systems segment, operating income totaled ¥3,379 million, an increase of ¥1,161 million, or 52.3% from the previous fiscal year. The operating income margin for this segment rose 0.5 percentage points to 1.5%.

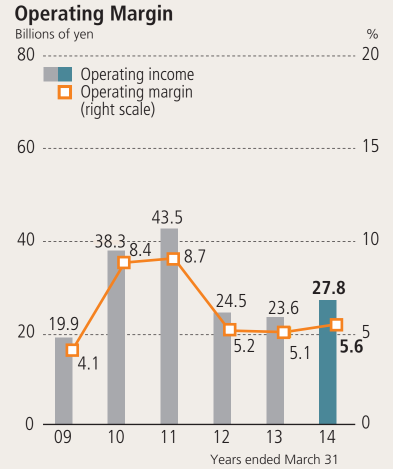
Other Income (Expenses)

Net other income amounted to ¥6,064 million, a decrease of ¥1,403 million from the previous fiscal year. This mainly reflected a ¥1,664 million increase in impairment losses on fixed assets, and the recording in the subject fiscal year of ¥1,146 million for amortization of goodwill and ¥1,484 million for business structure improvement expenses, offsetting a ¥2,370 million increase in compensation income received from Tokyo Electric Power Company, for loss of income during suspended operations due to the Fukushima Dai-ichi Nuclear Power Station accident.

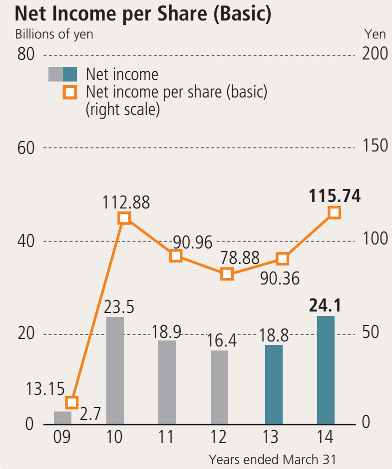
Net Income

As a result, net income amounted to ¥24,103 million, an increase of ¥5,285 million, or 28.1% from the previous fiscal year. As a ratio of net sales, this represented an increase of 0.9 of a percentage point to 4.9%. Return on equity (ROE) increased 1.2 percentage points to 7.6%, and return on assets (ROA) improved 0.8 percentage points to 4.9%. Net income per share (basic) increased to ¥115.74 per share, from ¥90.36 in the previous fiscal year.

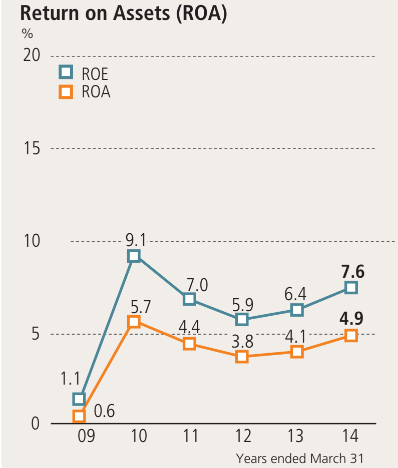
Operating Income / Operating Margin



Net Income / Net Income per Share (Basic)



Return on Equity (ROE) / Return on Assets (ROA)



MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCES

FINANCIAL CONDITION

Cash Flows

Cash and cash equivalents at March 31, 2014, stood at ¥87,652 million, an increase of ¥13,674 million from the end of the previous fiscal year.

Net cash provided by operating activities amounted to ¥51,000 million, an increase of ¥3,069 million from the previous fiscal year. This was due mainly to increases from net income; impairment losses on fixed assets; accounts receivable-other; decrease in trade payables; and the "other" category; offsetting decreases from notes and accounts receivable-trade; and net defined benefit liability.

Net cash used in investing activities amounted to ¥37,088 million, a decrease of ¥16,094 million from the previous fiscal year. This was due mainly to decreases from expenses for property, plant and equipment acquired; purchase of investments in subsidiaries; and the "other" category; offsetting increases from payments into deposit paid in subsidiaries and affiliates.

Net cash used in financing activities amounted to ¥3,028 million, an increase of ¥161 million from the previous fiscal year. This was due mainly to increases from payments on long-term debt; and the "other" category; offsetting decreases from net increase in short-term debt.

Cash Flows
Years ended March 31, Billions of yen

	2014	2013	2012
Cash flows from operating activities	¥ 51.0	¥ 47.9	¥ 42.1
Cash flows from investing activities	(37.1)	(53.2)	(67.2)
Cash flows from financing activities	(3.0)	(2.9)	4.6
Cash and cash equivalents at end of year	87.7	74.0	76.3

Assets, Liabilities, and Net Assets

Assets

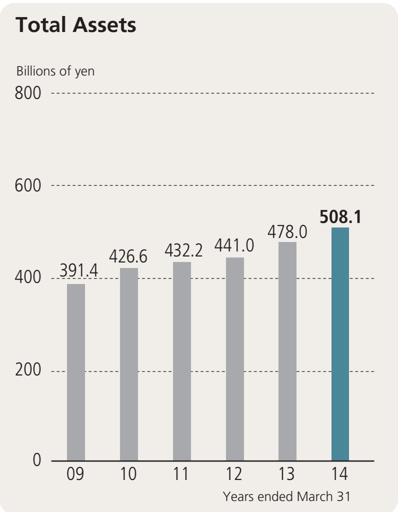
Total assets at March 31, 2014, stood at ¥508,080 million, an increase of ¥30,200 million compared with the previous fiscal year-end. Current assets rose ¥26,734 million on gains in deposit paid in subsidiaries and affiliates, while fixed assets climbed ¥3,466 million, mainly reflecting an increase in total net property, plant and equipment that offset a decrease in goodwill.

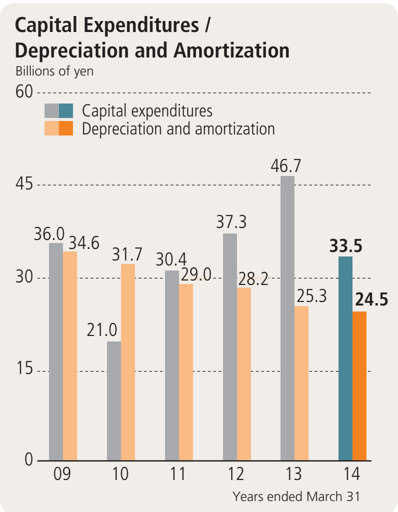
Liabilities

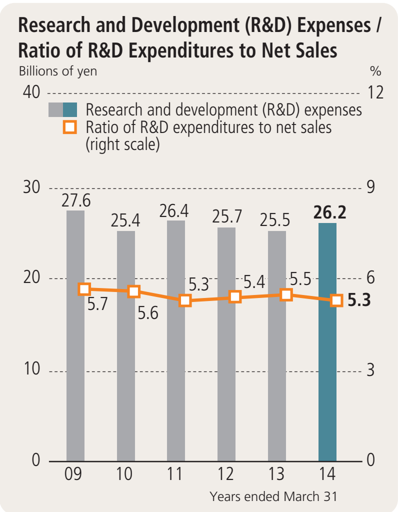
Total liabilities amounted to ¥171,694 million, an increase of ¥7,218 million compared with the end of the previous fiscal year. This was due mainly to increases in short-term and long-term debt.

Net Assets

Total net assets amounted to ¥336,386 million, an increase of ¥22,982 million year on year. This mainly reflected increases







in retained earnings, and foreign currency translation adjustments.

Capital Expenditure, R&D Expenses

Total capital expenditure amounted to ¥33,492 million, a decrease of ¥13,206 million from the previous fiscal year. This mainly reflected the completion of the current round of overseas investment activity. Overseas capital expenditures comprised 46.3% of the total, down from 50.8% a year earlier.

R&D expenses totaled ¥26,234 million, a slight increase from ¥25,534 million in the previous fiscal year. This represented 5.3% of total net sales, down 0.2 percentage points year on year.

BASIC POLICY ON APPROPRIATION OF EARNINGS DIVIDEND FORECAST FOR THE FISCAL YEAR ENDING MARCH 31, 2015

Hitachi Chemical considers its operating environment, performance, future business prospects, and the payout ratio in allocating earnings to dividends and internal capital reserves. The Company uses internal capital reserves to effectively build on its strong financial structures while investing in the R&D of promising new high-value-added products and adding vitality to existing businesses.

For the fiscal year ended March 31, 2014, the Company paid a year-end cash dividend of ¥18 per share. Combined with the payment of the second quarter dividend of ¥18 per share, the annual dividend was ¥36 per share. For the fiscal year ending March, 2015, the Company is forecasting an annual dividend of ¥36 per share, comprising a second quarter dividend of ¥18 yen per share, and year-end dividend of ¥18 yen per share.

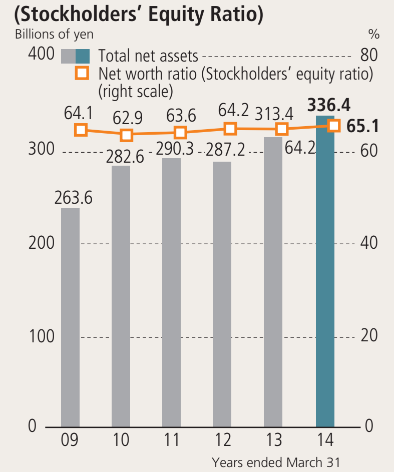
OUTLOOK AND FORECASTS FOR THE FISCAL YEAR ENDING MARCH 31, 2015

The US economy is forecast to continue its growth on the back of a bullish housing market and increasing consumer spending. In Europe, gradual recovery is expected to continue. However, there are concerns of an economic slowdown in developing countries, most particularly China, making the outlook for the world economy unpredictable. In Japan, although economic recovery is expected to continue, the rise in the consumption tax may yet lead to economic decline, and the situation is far from reassuring.

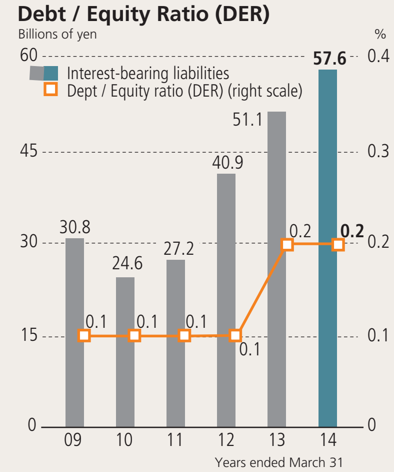
The Hitachi Chemical Group is assessing the trends of the current economic climate. In order to respond flexibly to severe changes, the Group is both pursuing the achievement of the medium-term management plan started in fiscal year 2013, and rapidly implementing measures to build a stable management infrastructure.

For the consolidated fiscal year ending March 31, 2015, the Hitachi Chemical Group is forecasting net sales of ¥525.0 billion (+6.3% year on year), with operating income of ¥36.0 billion (+29.6%), and net income of ¥24.0 billion (-0.4%) (as of April 24, 2014).

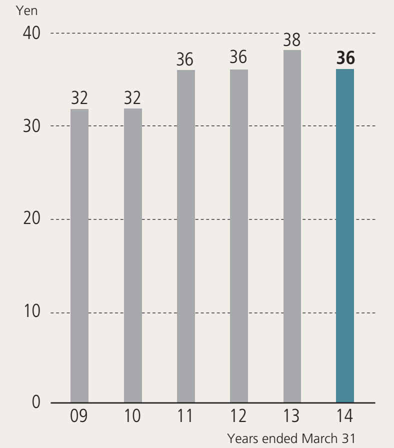
Total Net Assets / Net Worth Ratio (Stockholders' Equity Ratio)



Interest-bearing Liabilities / Debt / Equity Ratio (DER)



Cash Dividends per Share



MANAGEMENT'S DISCUSSION AND ANALYSIS OF OPERATIONS AND FINANCES

BUSINESS AND OTHER RISKS

Hitachi Chemical operates globally in a diverse range of fields, using sophisticated, specialized technologies. For this reason, a variety of factors may materially impact Group operations. These major business and other risks are described below. Statements concerning the future represent the judgment of Hitachi Chemical as of March 31, 2014.

(1) Exchange Rate Fluctuations

Hitachi Chemical holds assets and liabilities from overseas operations that are affected by fluctuations in foreign exchange rates. Due to product exports and raw material imports usually denominated in U.S. dollars, and at times in other local currencies, exchange rate fluctuations may exert a material impact on the performance of the Group. The appreciation of the yen against the U.S. dollar and other currencies may exert a material impact on earnings by weakening the competitiveness of products exported to overseas markets. The Group pursues measures to attenuate the risk from exchange rate fluctuations, but cannot guarantee that exchange rate fluctuations will not affect performance.

(2) Major Raw Material Price Fluctuations

Many of Hitachi Chemical's products use petrochemical products as raw materials. The purchase prices of petrochemical products are susceptible to fluctuations in crude oil prices. In addition, fluctuations in the markets for other raw materials and export regulations in producing countries may increase procurement costs or make it difficult to procure the necessary quantities. These factors may exert a material impact on Group performance.

(3) Acquisitions, Joint Ventures, and Strategic Alliances

Hitachi Chemical may acquire outside companies, establish joint ventures, and implement strategic alliances in order to develop new technologies and products, and raise competitiveness. These complex initiatives involve integration of businesses, technologies, products, and personnel that requires time and expense. Failure to implement these initiatives as planned may exert a material impact on Group operations. The success of these business alliances is determined in part by factors beyond the Group's control including alliance partner decisions and capabilities, and market trends. Implementation of these initiatives may cause the Group to incur acquisition-related expenses including expenses for integration and restructuring of acquired businesses. In addition, the Group cannot guarantee that it will succeed in integrating acquired businesses or that its initiatives will achieve all or part of initial objectives.

(4) Potential Risks in Overseas Activities

Hitachi Chemical produces and sells products in Japan, countries in Asia, the United States, and in other regions. Exposure to political and social risks in these overseas markets may exert a material impact on the financial position and performance of the Group.

(5) Public Regulations

Hitachi Chemical's business activities are subject to various regulations in the countries in which it operates. The regulations include legal obligations related to foreign investment, trade, competition, intellectual properties, taxes, exchange rates, the environment, and recycling. Significant changes to these regulations could restrict operations, increase costs, and exert a material impact on Group performance.

(6) Financial Risk

Hitachi Chemical holds equities and other marketable securities. A decrease in the value of these marketable securities may exert a material impact on the financial position and performance of the Group. In addition, long-term procurement of funds from capital markets exposes the Group to risk associated with interest rate fluctuations and credit.

(7) Retirement Benefit Obligations

Hitachi Chemical bears considerable retirement benefit expense obligations that are computed using actuarial calculations. These appraisals involve important assumptions about conditions for estimating the fair value of pension assets including mortality rates, decrement rates, retirement rates, salary changes, discount rates, and expected rates of return on pension assets. In making these assumptions, the Group must take into account numerous factors including personnel conditions, current market conditions, and future interest rate trends.

Although the Group makes reasonable assumptions about conditions based on key factors, it cannot guarantee that projections will agree with actual results. Lower discount rates lead to an increase in actuarial retirement benefit obligations. An increase or decrease in retirement benefit obligations may influence the actuarial difference amortized over the period of employment. Accordingly, changes in conditions may exert a material impact on the financial position and performance of the Group.

(8) Relationship with the Parent Company

As of March 31, 2014, Hitachi, Ltd., the parent company of Hitachi Chemical Co., Ltd., holds 51.2 percent of the Company's total number of shares issued and 51.4 percent of the total number of shares with voting rights (exclusive of indirect shareholdings). Hitachi, Ltd. oversees numerous associated companies, and engages in a wide variety of operations covering the manufacture, sale, and service of products in five groups: Information & Telecommunication Systems, Infrastructure Systems, Power Systems, Construction Machinery and High Functional Materials & Components. Hitachi Chemical Co., Ltd. is part of the Hitachi Group's High Functional Materials & Components, and two of its nine Directors serve concurrently as Director or Executive Officer of Hitachi, Ltd. (as of June 18, 2014). The close relations between Hitachi Chemical Co., Ltd. and its parent company in areas including technical and personnel cooperation and product supply may lead to situations in which Hitachi Group developments exert a material impact on the management strategy and other policies of Hitachi Chemical.

CONSOLIDATED BALANCE SHEET

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
As of March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
Assets	2014	2013	2014
Current assets:			
Cash and deposits (Notes 3 and 21)	¥ 37,419	¥ 36,955	$ 363,291
Deposits paid in subsidiaries and affiliates (Notes 3, 21 and 24)	57,238	37,317	555,709
Trade receivables (Note 3):			
Notes	8,790	8,778	85,339
Accounts	99,503	96,356	966,049
	108,293	105,134	1,051,388
Short-term investments in securities (Notes 3 and 4)	—	499	—
Inventories (Note 5)	50,335	47,259	488,690
Other current assets (Note 6)	25,916	25,368	251,612
Less allowance for doubtful receivables	(726)	(791)	(7,049)
Total current assets	278,475	251,741	2,703,641
Property, plant and equipment, at cost (Note 7):	622,712	598,507	6,045,747
Less accumulated depreciation	(451,008)	(436,487)	(4,378,718)
Net property, plant and equipment	171,704	162,020	1,667,029
Intangible assets:			
Goodwill	19,079	24,398	185,233
Other intangible assets	5,878	6,080	57,068
Total intangible assets	24,957	30,478	242,301
Investments and other assets:			
Investments in affiliated companies under the equity method	6,980	7,786	67,767
Net defined benefit assets (Note 9)	5,115	—	49,660
Investments in securities (Notes 3 and 4)	6,701	7,473	65,058
Other assets (Notes 6 and 9)	14,962	19,208	145,263
Less allowance for doubtful accounts	(814)	(826)	(7,903)
Total investments and other assets	32,944	33,641	319,845
	¥508,080	¥477,880	$4,932,816

See accompanying notes to consolidated financial statements.

Liabilities and Net Assets	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 2) 2014
Current liabilities:			
Short-term debt (Notes 3 and 8)	¥ 24,615	¥ 20,387	$ 238,981
Trade payables (Note 3):			
Notes	89	103	864
Accounts	49,530	48,509	480,874
	49,619	48,612	481,738
Accrued expenses	20,546	19,521	199,475
Accrued income taxes	5,238	7,778	50,854
Other current liabilities (Note 6)	19,588	17,292	190,175
Total current liabilities	119,606	113,590	1,161,223
Long-term debt (Notes 3 and 8)	30,616	28,053	297,243
Retirement and severance benefits (Note 9)	—	17,111	—
Net defined benefit liability (Note 9)	16,259	—	157,854
Other liabilities (Notes 6 and 10)	5,213	5,722	50,612
Total liabilities	171,694	164,476	1,666,932
Commitments and contingencies (Note 14)			
Net Assets:			
Stockholders' equity:			
Common stock (Note 12)			
Authorized—800,000,000 shares;			
Issued—208,364,913 shares in 2014 and 2013 (Note 11)	15,454	15,454	150,039
Capital surplus (Note 12)	36,113	36,113	350,612
Retained earnings (Note 12)	274,895	259,230	2,668,883
Treasury stock, at cost,			
122,189 shares in 2014 and 117,316 shares in 2013 (Note 13)	(200)	(193)	(1,942)
Total stockholders' equity	326,262	310,604	3,167,592
Accumulated other comprehensive income:			
Valuation difference on available-for-sale securities	1,475	1,077	14,320
Deferred gains or losses on hedges	14	68	136
Foreign currency translation adjustments	2,146	(4,770)	20,835
Remeasurements of defined benefit plans	811	—	7,874
Total accumulated other comprehensive income	4,446	(3,625)	43,165
Minority interests	5,678	6,425	55,127
Total net assets	336,386	313,404	3,265,884
	¥508,080	¥477,880	$4,932,816

CONSOLIDATED STATEMENT OF INCOME AND CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2014 and 2013

(Consolidated Statement of Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Net sales	¥493,766	¥464,655	$4,793,845
Cost of sales (Note 15)	(373,940)	(356,212)	(3,630,486)
Gross profit	119,826	108,443	1,163,359
Selling, general and administrative expenses (Note 15)	(92,051)	(84,884)	(893,699)
Operating income	27,775	23,559	269,660
Other income (expenses):			
Interest income	368	433	3,573
Dividends income	211	178	2,049
Equity in earnings (losses) of affiliated companies	2,486	2,078	24,136
Foreign exchange gains (losses)	1,303	1,949	12,650
Interest expenses	(1,507)	(1,085)	(14,631)
Loss on disposal of property, plant and equipment	(1,014)	(1,193)	(9,845)
Royalty income	1,532	1,389	14,874
Business structure improvement expenses	(1,484)	—	(14,408)
Impairment losses on fixed assets (Note 16)	(2,872)	(1,208)	(27,883)
Amortization of goodwill (Note 17)	(1,146)	—	(11,126)
Compensation income (Note 18)	7,260	4,890	70,485
Other	927	36	9,000
	6,064	7,467	58,874
Income before income taxes and minority interests	33,839	31,026	328,534
Income taxes (Note 6)	(10,334)	(11,579)	(100,330)
Income before minority interests	23,505	19,447	228,204
Minority interests	598	(629)	5,806
Net income	¥ 24,103	¥ 18,818	$ 234,010

	Yen		U.S. dollars (Note 2)
	2014	2013	2014
Basic net income per share (Note 20)	¥ 115.74	¥ 90.36	$ 1.12
Diluted net income per share (Note 20)	¥ —	¥ —	$ —

See accompanying notes to consolidated financial statements.

(Consolidated Statement of Comprehensive Income)

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Income before minority interests	¥ 23,505	¥ 19,447	$ 228,204
Other comprehensive income (Note 19):			
Valuation difference on available-for-sale securities	398	344	3,864
Deferred gains or losses on hedges	(54)	234	(524)
Foreign currency translation adjustments	6,225	12,877	60,437
Remeasurements of defined benefit plans	5,221	—	50,689
Share of other comprehensive income of affiliates accounted for using equity method	720	578	6,990
	12,510	14,033	121,456
Comprehensive income	36,015	33,480	349,660
Comprehensive income attributable to shareholders of the parent	36,584	31,815	355,184
Comprehensive income (loss) attributable to minority interests	¥ (569)	¥ 1,665	$ (5,524)

CONSOLIDATED STATEMENT OF CHANGES IN NET ASSETS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Common stock (Note 11):			
Balance at beginning of year	¥ 15,454	¥ 15,454	$ 150,039
Balance at end of year	15,454	15,454	150,039
Capital surplus:			
Balance at beginning of year	36,113	36,113	350,612
Balance at end of year	36,113	36,113	350,612
Retained earnings:			
Balance at beginning of year	259,230	248,325	2,516,796
Cumulative effect of changes in accounting policies	(941)	—	(9,136)
Restated balance	258,289	248,325	2,507,660
Net income	24,103	18,818	234,010
Cash dividends (Note 12)	(7,497)	(7,913)	(72,787)
Gain (loss) on sale of treasury stock	—	0	—
Balance at end of year	274,895	259,230	2,668,883
Treasury stock (Note 13):			
Balance at beginning of year	(193)	(191)	(1,874)
Purchase of treasury stock	(7)	(2)	(68)
Sale of treasury stock	0	0	0
Balance at end of year	(200)	(193)	(1,942)
Valuation difference on available-for-sale securities:			
Balance at beginning of year	1,077	732	10,456
Net change during the year	398	345	3,864
Balance at end of year	1,475	1,077	14,320
Deferred gains or losses on hedges:			
Balance at beginning of year	68	(166)	660
Net change during the year	(54)	234	(524)
Balance at end of year	14	68	136
Foreign currency translation adjustments:			
Balance at beginning of year	(4,770)	(17,188)	(46,311)
Net change during the year	6,916	12,418	67,146
Balance at end of year	2,146	(4,770)	20,835
Remeasurements of defined benefit plans:			
Balance at beginning of year	—	—	—
Cumulative effect of changes in accounting policies	(4,410)	—	(42,815)
Restated balance	(4,410)	—	(42,815)
Net change during the year	5,221	—	50,689
Balance at end of year	811	—	7,874
Minority interests:			
Balance at beginning of year	6,425	4,160	62,379
Net change during the year	(747)	2,265	(7,252)
Balance at end of year	5,678	6,425	55,127
Total net assets	¥336,386	¥313,404	$3,265,884

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	2014
Cash flows from operating activities (Note 21):			
Net income	¥ 24,103	¥ 18,818	$ 234,010
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation	24,453	25,255	237,408
Amortization of goodwill	4,416	3,725	42,874
Increase (decrease) in allowance for doubtful receivables	(114)	(793)	(1,107)
Equity in (earnings) losses of affiliated companies	(2,486)	(2,078)	(24,136)
Net loss on retirement and sale of property, plant and equipment	911	900	8,845
Impairment losses on fixed assets (Note 16)	2,872	1,208	27,883
Deferred income taxes	(591)	404	(5,738)
Minority interests in income	(598)	629	(5,806)
Decrease (increase) in trade receivables	498	9,800	4,835
Decrease (increase) in inventories	(1,791)	(1,375)	(17,388)
Decrease (increase) in accounts receivable—other	1,629	(1,745)	15,816
Increase (decrease) in trade payables	(1,432)	(8,129)	(13,903)
Increase (decrease) in provision for loss on disaster	—	(12)	—
Increase (decrease) in net defined benefit liability	(1,704)	—	(16,544)
Increase (decrease) in provision for retirement benefits	—	302	—
Other	834	1,022	8,097
Net cash provided by operating activities	51,000	47,931	495,146
Cash flows from investing activities:			
Proceeds from redemption of short-term investments in securities	500	2,110	4,854
Purchases of property, plant and equipment	(33,286)	(48,040)	(323,165)
Proceeds from sale of property, plant and equipment	539	1,149	5,233
Purchases of subsidiaries' and affiliated companies' stock and investments in securities	—	(2,597)	—
Proceeds from sale of subsidiaries' and affiliated companies' stock and investments in securities	2,523	492	24,495
Purchases of investments in subsidiaries resulting in change in scope of consolidation	—	(2,898)	—
Payments into deposits paid in subsidiaries and affiliates	(7,000)	—	(67,961)
Other	(364)	(3,398)	(3,534)
Net cash used in investing activities	(37,088)	(53,182)	(360,078)
Cash flows from financing activities:			
Net increase (decrease) in short-term debt	5,164	(523)	50,136
Proceeds from long-term debt	4,551	5,217	44,184
Payments of long-term debt	(4,617)	(1,621)	(44,825)
Dividends paid to stockholders	(7,497)	(7,913)	(72,787)
Dividends paid to minority stockholders of consolidated subsidiaries	(277)	(98)	(2,689)
Other	(352)	2,071	(3,417)
Net cash used in financing activities	(3,028)	(2,867)	(29,398)
Effect of exchange rate changes on cash and cash equivalents	2,790	5,761	27,087
Net increase (decrease) in cash and cash equivalents	13,674	(2,357)	132,757
Cash and cash equivalents at beginning of year	73,978	76,318	718,233
Increase in cash and cash equivalents from newly consolidated subsidiaries	—	17	—
Cash and cash equivalents at end of year (Note 21)	¥ 87,652	¥ 73,978	$ 850,990

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Hitachi Chemical Co., Ltd. and Consolidated Subsidiaries
For the Years Ended March 31, 2014 and 2013

1. Basis of Presentation and Summary of Significant Accounting Policies

(a) Basis of Presentation

The accompanying consolidated financial statements of Hitachi Chemical Co., Ltd. (the "Company") and consolidated subsidiaries are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

In addition, for the convenience of readers outside Japan, the consolidated financial statements, including the notes to the consolidated financial statements, include certain reclassifications and additional information which is not required under accounting principles generally accepted in Japan.

(b) Principles of Consolidation

The consolidated financial statements include the accounts of the Company and those of its effectively controlled subsidiaries, whether directly or indirectly controlled. All significant intercompany accounts and transactions have been eliminated in consolidation.

Most of the investments in affiliated companies are stated at their underlying equity value, and the appropriate portion of the earnings of such companies is included in consolidated net income. The investments in affiliated companies which do not materially affect earnings and equity are stated at cost.

Goodwill, based on the fair value, acquired by the Company is being amortized on a straight-line basis over their estimated useful period by each individual investment in subsidiaries, not exceeding 20 years or, if the amount is not material, charged immediately to earnings.

(c) Cash and Cash Equivalents

For the purpose of the consolidated statement of cash flows, the Company and its consolidated companies consider all highly liquid investments with insignificant risk of change in value, which have maturities of generally three months or less when purchased, to be cash equivalents.

(d) Allowance for Doubtful Receivables

General provision for doubtful receivables is provided by applying a certain reserve percentage of the receivables based on experience from past transactions. When considered necessary, specific reserves are provided based on the assessment of individual receivables.

(e) Investments in Securities

Securities are to be classified into one of the following two categories and accounted for as follows:

• Securities that the Company has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and measured at amortized cost.

• Securities other than held-to-maturity securities are classified as available-for-sale securities. Unrealized holding gains and losses of available-for-sale securities with fair values are reported as a net amount in a separate component of net assets until realized. Available-for-sale securities without fair values are carried at cost.

In computing realized gain or loss, cost of available-for-sale securities is principally determined by the moving-average method.

(f) Inventories

Inventories are principally stated at cost determined by the moving-average method. When their costs exceed the net realized value, inventories are written down to the net realized value.

(g) Property, Plant and Equipment

Property, plant and equipment is depreciated principally on a straight-line basis over its estimated useful life.

(h) Intangible Assets

Intangible assets are amortized principally on a straight-line basis. Cost incurred for computer software for internal use is capitalized and amortized on a straight-line basis over its estimated useful life.

(i) Impairment of Fixed Assets

Fixed assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. When amounts of undiscounted future cash flows of fixed assets are less than the carrying amounts, the fixed assets are determined to be impaired. Then, an amount by which the carrying amount exceeds the recoverable amount is recognized as an impairment loss in earnings.

The recoverable amount of fixed assets is the greater of the net selling price or the present value of the future cash flows expected to be derived from the fixed assets. The Company and consolidated subsidiaries identify groups of assets by their business location and business division as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

(j) Retirement and Severance Benefits

Allowance for retirement and severance benefits for employees is provided based on the estimated retirement benefit obligation and fair value of the pension assets. In determining the present value of its defined benefit obligations and the related current service cost, the Company and its consolidated companies attribute benefit to periods of service under the plan's benefit formula.

Prior service benefits and costs are recognized as income or expense on a straight-line basis over certain years, principally 10 years, not exceeding the expected average remaining service periods of the employees active at the date of the amendment. Actuarial gains and losses are recognized as income or expense on a straight-line basis from the next year of incurrence over certain years, principally 10 years, not exceeding the expected average remaining service periods of the employees participating in the plans.

The Company and consolidated subsidiaries have adopted "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan (ASBJ) Guidance No. 25, issued on May

17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25, issued on May 17, 2012) as of the beginning of the fiscal year ended March 31, 2014. This accounting standard requires entities to apply a revised method for recording the retirement benefit obligation, after deducting pension plan assets, as net defined benefit liability. Accordingly, unrecognized actuarial differences and unrecognized prior service costs are recorded as net defined benefit liability. In addition, the Company and consolidated subsidiaries changed the method of attributing expected benefit to periods from the straight-line basis to the benefit formula basis using weighted average discount rate based on the expected timing of the benefit payments.

Concerning the application of the standard, based on the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year were adjusted through accumulated other comprehensive income and retained earnings.

As a result, the Company and consolidated subsidiaries recognized net defined benefit liability in the amount of ¥22,405 million ($217,524 thousand), defined benefit assets in the amount of ¥699 million ($6,786 thousand) at April 1, 2013. In addition, accumulated other comprehensive income was decreased by ¥4,410 million ($42,816 thousand), and retained earnings was decreased by ¥941 million ($9,136 thousand) at April 1, 2013. The application of the new accounting standard did not have a material effect on operating income, income before income taxes and minority interests.

(k) Derivative Financial Instruments

In principle, net assets or liabilities arising from derivative financial instruments are measured at fair value, with unrealized gain or loss included in earnings. Hedging transactions, that meet the criteria of hedge accounting as regulated in "Accounting Standard for Financial Instruments," are accounted for using deferral hedge accounting, which requires the unrealized gain or loss to be deferred as net unrealized gains or losses on hedge transactions, component of net assets, until gain or loss relating to the hedge object is recognized.

(l) Foreign Currency Translations

Foreign currency transactions are translated into yen on the basis of the exchange rates in effect at the transaction date. At year-end, monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rates in effect at the balance sheet date. Gains or losses resulting from the translation of foreign currencies, including gains and losses on settlement, are credited or charged to earnings as incurred.

The financial statements of the consolidated foreign subsidiaries are translated into the reporting currency of yen as follows: all assets and liabilities are translated at the exchange rates in effect at the balance sheet date; stockholders' equity accounts are translated at historical rates; income and expenses are translated at an average of the exchange rates in effect during the year; and a comprehensive adjustment resulting from the translation of assets, liabilities and stockholders' equity is included in minority interests and foreign currency translation adjustments as a separate component of net assets.

(m) Income Taxes

Deferred income taxes are accounted for under the asset and liability method, and deferred tax assets and liabilities are recognized for the expected future tax consequences attributable to differences between the financial statement carrying amount of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to be applied to taxable income in the years in which those temporary differences are expected to be reversed.

(n) Consumption Taxes

Transactions subject to consumption taxes are recorded at amounts exclusive of consumption taxes.

(o) Net Income per Share

Basic net income per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during each year. Diluted net income per share reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity.

(p) Reclassifications

Certain reclassifications have been made to the prior year's consolidated financial statements in order to conform to the current year presentations.

(q) Standards Issued but not yet Effective

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

Under these revised accounting standards, the accounting treatment for changes in a parent's ownership interest in a subsidiary when the parent retains control over the subsidiary and the accounting for acquisition-related costs were revised. These standards also revised the presentation of net income and the reference to "minority interests" was changed to "non-controlling interests." The accounting for adjustments to provisional amounts recognized as of the acquisition date was also revised.

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

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

2. Basis of Financial Statement Translation

The accompanying consolidated financial statements are expressed in yen and, solely for the convenience of the reader, have been translated into U.S. dollars at the rate of ¥103=US$1, the approximate exchange rate prevailing at the Tokyo Foreign Exchange Market as of March 31, 2014. This translation should not be construed as a representation that all amounts shown could be converted into U.S. dollars.

3. Financial Instruments

In principle, funds are managed through short-term deposits and are procured through debentures and bank loans. Additionally, derivative financial instruments are used in order to manage the Company's exposure to fluctuation in foreign currency exchange rates, interest rates, and commodity prices.

Trade notes and accounts receivables is subject to the credit risk of customers. In order to minimize this risk, the Company and its subsidiaries periodically monitor the financial condition of customers in accordance with the credit management standards and claims management standards. The Company and its subsidiaries also work to fully grasp the financial condition of customers and manage the settlement terms and balances of each customer.

Short-term investments and investments in securities primarily consist of bonds and equity securities of the trading partners. In principle, only bonds that are highly safe are held, therefore, credit risk is minimal. Equity securities, on the other hand, is subject to risks related to the fluctuation of market value. In order to manage these risks, the Company and its subsidiaries periodically reconfirm the market value of the equity securities held and the financial condition of trading partners, and revaluate the holding of such equity securities while also taking into consideration the relationships with these trading partners.

The following tables represent the carrying amount, the fair value, and the difference between these two items of major financial instruments as of March 31, 2014 and 2013:

	Millions of yen					
	Carrying amount	Fair value	Difference	Carrying amount	Fair value	Difference
		2014			2013	
Assets:						
Cash and deposits	¥ 37,419	¥ 37,419	¥ —	¥ 36,955	¥ 36,955	¥ —
Deposits paid in subsidiaries and affiliates	57,238	57,238	—	37,317	37,317	—
Trade notes and accounts receivables (Note a)	108,293			105,134		
Less allowance for doubtful receivables (Note b)	(723)			(770)		
	107,570	107,565	(5)	104,364	104,353	(11)
Short-term investments and investments in securities						
Held-to-maturity securities	101	100	(1)	101	98	(3)
Available-for-sale securities	5,628	5,628	—	6,164	6,164	—
Total assets	¥207,956	¥207,950	¥ (6)	¥184,901	¥184,887	¥ (14)
Liabilities:						
Trade notes and accounts payables (Note c)	¥ 49,619	¥ 49,619	¥ —	¥ 48,612	¥ 48,612	¥ —
Short-term debt	24,615	24,615	—	20,387	20,387	—
Long-term debt						
Debentures	20,000	20,805	805	20,000	20,945	945
Long-term loans payable	10,616	10,678	62	8,053	8,117	64
Total liabilities	¥104,850	¥105,717	¥867	¥ 97,052	¥ 98,061	¥1,009
Derivative financial instrument transactions (Note d):						
For which hedge accounting is not applied	¥ (1,157)	¥ (1,157)	¥ —	¥ (1,882)	¥ (1,882)	¥ —
For which hedge accounting is applied	22	22	—	109	109	—
Total derivatives	¥ (1,135)	¥ (1,135)	¥ —	¥ (1,773)	¥ (1,773)	¥ —

	Thousands of U.S. dollars		
	Carrying amount	Fair value	Difference
		2014	
Assets:			
Cash and deposits	$ 363,291	$ 363,291	$ —
Deposits paid in subsidiaries and affiliates	555,709	555,709	—
Trade notes and accounts receivables (Note a)	1,051,388		
Less allowance for doubtful receivables (Note b)	(7,019)		
	1,044,369	1,044,321	(48)
Short-term investments and investments in securities			
Held-to-maturity securities	981	971	(10)
Available-for-sale securities	54,640	54,640	—
Total assets	$2,018,990	$2,018,932	$ (58)
Liabilities:			
Trade notes and accounts payables (Note c)	$ 481,738	$ 481,738	$ —
Short-term debt	238,981	238,981	—
Long-term debt			
Debentures	194,174	201,990	7,816
Long-term loans payable	103,068	103,670	602
Total liabilities	$1,017,961	$1,026,379	$8,418
Derivative financial instrument transactions (Note d):			
For which hedge accounting is not applied	$ (11,233)	$ (11,233)	$ —
For which hedge accounting is applied	214	214	—
Total derivatives	$ (11,019)	$ (11,019)	$ —

Notes: a. The hedged foreign currency receivables recorded using forward foreign exchange contract rate is included. The amounts as of March 31, 2014 and 2013 included are ¥1,030 million ($10,000 thousand) and ¥1,146 million, respectively.
b. These amounts are general provision for doubtful receivables and specific reserves for individual receivables associated with trade notes and accounts receivables.
c. The hedged foreign currency payables recorded using forward foreign exchange contract rate is included. The amount as of March 31, 2014 is included ¥47 million ($456 thousand).
d. These represent net assets or liabilities arising from derivative transactions. The figures in parentheses indicate net liabilities.

The method of calculating the fair value of financial instruments is as follows:

Cash and deposits, deposits paid in subsidiaries and affiliates
As these items are settled in the short term, the fair value of these items approximates the book value.

Trade notes and accounts receivables
The fair value of items settled in the short term approximates the book value. The fair value of installment receivables is determined by discounting the amount of receivables by a rate that reflects the credit risk.

Short-term investments and investments in securities
The fair value of equity securities is the quoted market prices on the stock exchange. The fair value of bond is the value provided by the counterparty financial institution.

Trade notes and accounts payables, short-term debt
As these items are settled in the short term, the fair value of these items approximates the book value.

Debentures
The fair value of debentures issued by the Company is the value provided by the counterparty financial institutions.

Long-term loans payable
Loans with floating interest rates reflect market interest rates over the short term, and the Company's credit standing has not changed significantly after the loan was made. The fair value approximates the book value, therefore, the book value is used. The fair value of fixed-rate loans is determined by discounting the total amount of principal and interest by the assumed rate on new borrowings of the same type.

Derivative financial instrument transactions
The fair value of derivative financial instrument transactions is the value provided by the counterparty financial institutions.

The tables above do not include non-marketable securities for which it is extremely difficult in estimating fair value. The carrying amount of non-marketable securities amounted to ¥7,952 million ($77,204 thousand) and ¥9,493 million at March 31, 2014 and 2013, respectively.

Redemption schedules of receivables and securities with a maturity date are as follows:

	Millions of yen							
	Within one year	After one year through five years	After five years through ten years	After ten years	Within one year	After one year through five years	After five years through ten years	After ten years
	2014				2013			
Deposits	¥ 37,391	¥ —	¥—	¥—	¥ 36,608	¥ —	¥—	¥ —
Deposits paid in subsidiaries and affiliates	57,238	—	—	—	37,317	—	—	—
Trade notes and accounts receivables	107,539	31	—	—	104,293	71	—	—
Short-term investments and investments in securities								
Held-to-maturity securities								
Debentures	—	100	—	—	—	100	—	—
Available-for-sale securities								
Debt securities	—	—	—	—	500	—	—	1,000
	¥202,168	¥131	¥—	¥—	¥178,718	¥171	¥—	¥1,000

	Thousands of U.S. dollars			
	Within one year	After one year through five years	After five years through ten years	After ten years
	2014			
Deposits	$ 363,019	$ —	$—	$—
Deposits paid in subsidiaries and affiliates	555,709	—	—	—
Trade notes and accounts receivables	1,044,068	301	—	—
Short-term investments and investments in securities				
Held-to-maturity securities				
Debentures	—	971	—	—
Available-for-sale securities				
Debt securities	—	—	—	—
	$1,962,796	$1,272	$—	$—

4. Short-term Investments and Investments in Securities

Held-to-maturity securities

	Millions of yen					
	Carrying amount	Estimated fair value	Unrealized gains (losses)	Carrying amount	Estimated fair value	Unrealized gains (losses)
	2014			2013		
Held-to-maturity securities with gross unrealized holding losses:						
Government bonds, municipal bonds, and other	¥ —	¥ —	¥—	¥ —	¥—	¥—
Debentures	101	100	(1)	101	98	(3)
Other bonds	—	—	—	—	—	—
	101	100	(1)	101	98	(3)
	¥101	¥100	¥(1)	¥101	¥98	¥(3)

	Thousands of U.S. dollars		
	Carrying amount	Estimated fair value	Unrealized gains (losses)
	2014		
Held-to-maturity securities with gross unrealized holding losses:			
Government bonds, municipal bonds, and other	$ —	$ —	$ —
Debentures	981	971	(10)
Other bonds	—	—	—
	981	971	(10)
	$981	$971	$(10)

Available-for-sale securities

	Millions of yen					
	Carrying amount	Acquisition cost	Unrealized gains (losses)	Carrying amount	Acquisition cost	Unrealized gains (losses)
	2014			2013		
Available-for-sale securities with gross unrealized holding gains:						
Equity securities	¥5,392	¥2,839	¥2,553	¥4,381	¥2,366	¥2,015
Debt securities	—	—	—	1,003	1,000	3
Other securities	—	—	—	—	—	—
	5,392	2,839	2,553	5,384	3,366	2,018
Available-for-sale securities with gross unrealized holding losses:						
Equity securities	106	119	(13)	142	160	(18)
Debt securities	—	—	—	499	500	(1)
Other securities	130	130	—	139	139	—
	236	249	(13)	780	799	(19)
	¥5,628	¥3,088	¥2,540	¥6,164	¥4,165	¥1,999

	Thousands of U.S. dollars		
	Carrying amount	Acquisition cost	Unrealized gains (losses)
	2014		
Available-for-sale securities with gross unrealized holding gains:			
Equity securities	$52,350	$27,563	$24,787
Debt securities	—	—	—
Other securities	—	—	—
	52,350	27,563	24,787
Available-for-sale securities with gross unrealized holding losses:			
Equity securities	1,029	1,156	(127)
Debt securities	0	0	0
Other securities	1,262	1,262	—
	2,291	2,418	(127)
	$54,641	$29,981	$24,660

5. Inventories

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished and semi-finished goods	¥20,921	¥20,163	$203,117
Work in process	13,888	12,006	134,835
Raw materials	15,526	15,090	150,738
	¥50,335	¥47,259	$488,690

6. Income Taxes

The income tax expenses (benefits) reflected in the consolidated statements of income for the years ended March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Current tax expense	¥10,925	¥11,175	$106,068
Deferred tax expense (benefit)	(591)	404	(5,738)
	¥10,334	¥11,579	$100,330

The Company and its domestic subsidiaries are subject to a number of taxes based on income.

Reconciliations between the statutory tax rate and the effective income tax rate as a percentage of income before income taxes and minority interests are as follows:

A corresponding analysis for the year ended March 31, 2013 is omitted as the difference between the statutory tax rate and the effective tax rate was immaterial.

	2014	2013
Statutory tax rate	37.8%	—
Expenses not deductible for tax purposes	1.3	—
Difference in statutory tax rates of foreign subsidiaries	(2.6)	—
Amortization of (negative) goodwill	6.0	—
Tax credit for R&D expenses	(4.9)	—
Change in valuation allowance	(6.8)	—
Decrease in deferred tax assets due to changes in tax rate	1.7	—
Other	(2.0)	—
Effective income tax rate	30.5%	—

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities as of March 31, 2014 and 2013 are presented below:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Retirement and severance benefits	¥ —	¥ 8,074	$ —
Net defined benefit liability	7,678	—	74,544
Accrued bonus	3,064	3,251	29,748
Accrued business tax	606	689	5,883
Allowance for doubtful receivables	352	413	3,417
Other	16,126	16,820	156,563
Total gross deferred tax assets	27,826	29,247	270,155
Valuation allowance	(9,559)	(12,111)	(92,806)
Total deferred tax assets	18,267	17,136	177,349
Deferred tax liabilities:			
Tax purpose reserves regulated by Japanese tax law	(43)	(59)	(416)
Valuation difference on available-for-sale securities	(897)	(698)	(8,709)
Prepaid pension benefit cost	—	(1,569)	—
Net defined benefit assets	(1,811)	—	(17,583)
Other	(987)	(1,135)	(9,583)
Total deferred tax liabilities	(3,738)	(3,461)	(36,291)
Net deferred tax assets	¥14,529	¥13,675	$141,058

Net deferred tax assets as of March 31, 2014 and 2013 are reflected in the consolidated balance sheets under the following captions:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Other current assets	¥ 7,243	¥ 6,259	$ 70,320
Other assets	7,858	8,006	76,291
Other current liabilities	—	(2)	—
Other liabilities	(572)	(588)	(5,553)
Net deferred tax assets	¥14,529	¥13,675	$141,058

Revisions to the amounts of deferred tax assets and liabilities attributable to changes in corporate and other tax rates

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014 and, as a result, the Company is no longer subject to the Special Reconstruction Corporation Tax effective for fiscal years beginning on or after April 1, 2014.

The effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 37.8% to 35.4% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014.

The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets after offsetting deferred tax liabilities by ¥582 million ($5,650 thousand) and increase deferred income taxes by ¥582 million ($5,650 thousand) as of and for the year ended March 31, 2014.

7. Property, Plant and Equipment

Property, plant and equipment, at cost as of March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Buildings and structures	¥161,495	¥146,985	$1,567,913
Machinery and transportation equipment	361,051	339,725	3,505,349
Land	21,577	20,165	209,485
Construction in progress	9,102	23,508	88,369
Other	69,487	68,124	674,631
	¥622,712	¥598,507	$6,045,747

8. Short-term and Long-term Debt

Long-term debt as of March 31, 2014 and 2013 is as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Debentures:			
8th series, due 2016, interest 2.17%	¥10,000	¥10,000	$ 97,087
9th series, due 2022, interest 1.19%	10,000	10,000	97,087
Loans, principally from banks:			
Maturing 2015–2018, interest 4.0% (average)	10,616	8,053	103,069
	¥30,616	¥28,053	$297,243

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

	Millions of yen	Thousands of U.S. dollars
2015	¥ —	$ —
2016	5,694	55,282
2017	1,200	11,651
2018	3,593	34,883
2019	129	1,252
2020 and thereafter	—	—
	¥10,616	$103,068

9. Retirement Benefit Plans

For the year ended March 31, 2013

Defined benefit plans

The Company and certain subsidiaries have defined-benefit corporate pension plans and lump-sum retirement plans to provide retirement and severance benefits to substantially all of their employees.

Funded status of the Company's and subsidiaries' plans as of March 31, 2013 is as follows:

	Millions of yen
	2013
Projected benefit obligations	¥(96,277)
Plan assets at fair value	75,946
Funded status	(20,331)
Unrecognized actuarial loss	7,648
Unrecognized prior service benefit	(230)
Net amount recognized in the consolidated balance sheet	¥(12,913)

Amounts recognized in the consolidated balance sheet consist of:	
Prepaid retirement benefit cost (other assets)	¥ 4,198
Retirement and severance benefits	(17,111)
	¥(12,913)

Net periodic benefit costs for the funded benefit pension plans and the unfunded lump-sum payment plans for the year ended March 31, 2013 consisted of the following components:

	Millions of yen
	2013
Service cost	¥3,039
Interest cost	1,977
Expected return on plan assets	(1,259)
Amortization of unrecognized actuarial loss	1,815
Amortization of unrecognized prior service benefit	(223)
Net periodic benefit cost	¥5,349

Note: In addition to the retirement and severance benefits under the defined benefit pension plans above, special retirement benefits of ¥214 million is charged to earnings during the year ended March 31, 2013.

Actuarial assumptions used in the accounting for the Company's and subsidiaries' plans are principally as follows:

	2013
Discount rate	1.0–2.5%
Expected return rate on plan assets	2.0%

Defined contribution plans

The amount of cost recognized for the Company's and certain subsidiaries' contribution to the plans for the year ended March 31, 2013 is ¥944 million.

For the year ended March 31, 2014

Outline of the adopted retirement benefit plans

The Company and its consolidated subsidiaries have adopted funded and unfunded defined benefit plans and defined contribution plans in order to provide for employees' retirement benefits. The funded defined benefit plans include a defined benefit corporate pension plan and a lump-sum severance indemnity plan for which a retirement benefit trust is established.

The unfunded defined benefit plan is a lump-sum severance indemnity plan for which a retirement benefit trust is not established.

Certain consolidated subsidiaries have adopted the simplified valuation method for the calculation of projected benefit obligations.

On some occasions of an employee's retirement or other termination, special retirement benefits may be provided, which is not included in the retirement benefit obligations based on the actuarial calculation under retirement benefit accounting.

Defined benefits plans

Reconciliation schedule for opening and closing balances of projected benefit obligations

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Projected benefit obligations at April 1, 2013	¥97,699	$948,534
Service cost	3,882	37,689
Interest cost	1,082	10,505
Actuarial gain	(4,549)	(44,165)
Retirement benefits paid	(5,485)	(53,252)
Prior service cost	(355)	(3,447)
Other	1,019	9,893
Projected benefit obligations at March 31, 2014	¥93,293	$905,757

Reconciliation schedule for opening and closing balances of plan assets

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at April 1, 2013	¥75,946	$737,340
Expected return on plan assets	1,389	13,485
Actuarial gain	3,149	30,573
Contributions by the Company	4,040	39,223
Retirement benefits paid	(4,093)	(39,738)
Other	1,718	16,680
Plan assets at March 31, 2014	¥82,149	$797,563

Reconciliation of projected benefit obligations and plan assets at March 31, 2014, and the net defined benefit assets and liabilities recorded in the consolidated balance sheet

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligations	¥82,702	$802,932
Plan assets at fair value	(82,149)	(797,563)
	553	5,369
Unfunded retirement benefit obligations	10,591	102,825
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥11,144	$108,194

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Net defined benefit liabilities	¥16,259	$157,854
Net defined benefit assets	(5,115)	(49,660)
Net amount of liabilities and assets recognized in the consolidated balance sheet	¥11,144	$108,194

The components of retirement benefit expenses are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥3,882	$37,689
Interest cost	1,082	10,505
Expected return on plan assets	(1,389)	(13,485)
Amortization of actuarial loss	476	4,621
Amortization of prior service cost	(193)	(1,874)
Provisional additional severance benefits paid	289	2,806
Subtotal	4,147	40,262
Loss accompanying business structure improvement (Note)	1,413	13,719
Retirement benefits expenses related to defined benefit plans	¥5,560	$53,981

Note: Posted in other income (expenses) "Business structure improvement expenses"

Adjustments related to retirement benefits

The components of the adjustments related to retirement benefits (before tax effect) are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Prior service cost	¥ 159	$ 1,544
Actuarial gain	8,084	78,485
	¥8,243	$80,029

Cumulative adjustments related to retirement benefits

The breakdown of items recorded in cumulative adjustments related to retirement benefits (before tax effect deductions) is as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized prior service cost	¥(389)	$(3,777)
Unrecognized actuarial loss	(516)	(5,009)
	¥(905)	$(8,786)

Items concerning plan assets

(a) Primary breakdown of plan assets

The ratio for each main category with respect to total plan assets is as follows:

	2014
Bonds	61%
Equity securities	22%
Cash and deposits	2%
Other	15%
	100%

Note: Total plan assets include 8% of the retirement benefits trust established with respect to the defined benefit-type retirement benefit plan.

(b) Method for establishing the expected return rate on plan assets

The expected return rate on plan assets is determined considering the current and future allocation of plan assets, and the current and expected return rate from the diverse assets composing the plan assets.

Actuarial assumptions used in the accounting for the Company's and subsidiaries' plans are principally as follows:

	2014
Discount rate	0.8–1.5%
Expected return rate on plan assets	2.0%

Defined contribution plans

The amount of cost recognized for the Company's and certain subsidiaries' contribution to the plans for the year ended March 31, 2014 is ¥1,077 million ($10,456 thousand).

10. Asset Retirement Obligations

The Company has recorded asset retirement obligations pertaining to the legal obligation to eliminate asbestos and other harmful substances present in property, plant and equipment upon their retirement and to the obligation to return offices and other leased facilities to their original condition (restitution obligations) as stated in the lease contracts.

Methods of calculating the amounts for asset retirement obligations in the years ended March 31, 2014 and 2013 are as follows:

	Estimated period of use	Discount rate	Estimated period of use	Discount rate
	2014		2013	
Obligations to eliminate asbestos, etc.	5–35 years	0.5–2.3%	5–35 years	0.5–2.3%
Restitution obligations	8–60 years	1.0–2.4%	8–60 years	1.0–2.4%

Changes in applicable asset retirement obligations in the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balance at beginning of year	¥1,054	¥ 943	$10,233
Increase due to acquisition of property, plant and equipment	108	231	1,049
Adjustment due to passage of time	13	14	126
Decrease due to fulfillment of obligations	(58)	(134)	(563)
Balance at end of year	¥1,117	¥1,054	$10,845

11. Common Stock

Issued shares, changes in shares, and the amount of common stock for the years ended March 31, 2014 and 2013 are as follows:

		Millions of yen	Thousands of U.S. dollars
	Issued shares	Amount	Amount
Balances as of April 1, 2012	208,364,913	¥15,454	
Balances as of March 31, 2013	208,364,913	15,454	$150,039
Balances as of March 31, 2014	208,364,913	¥15,454	$150,039

12. Net Assets and Cash Dividends

The Company's common stock has no par value in accordance with the Japanese Corporate Law (JCL). Under JCL, at least 50% of the amount actually paid in or provided in consideration for newly issued stocks is designated as stated common stock and proceeds in excess of the amount designated as stated common stock are recorded as capital surplus.

The JCL requires an amount equal to at least 10% of distributions of retained earnings to be appropriated as legal reserve, which are included in capital surplus and retained earnings, until legal reserve equals 25% of stated common stock. In addition, common stock, capital surplus, and retained earnings, including legal reserves, can generally be transferred to each other upon resolution of the shareholders' meeting.

Cash dividends during the years ended March 31, 2014 and 2013 in the consolidated statements of changes in net assets represent dividends resolved during those years.

For the year ended March 31, 2014

Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Meeting of the Board of Directors on May 29, 2013	Common stock	¥3,748	$36,388	¥18	$0.17	March 31, 2013	May 30, 2013
Meeting of the Board of Directors on October 25, 2013	Common stock	¥3,748	$36,388	¥18	$0.17	September 30, 2013	November 28, 2013

Dividends with the cut-off date in the year ended March 31, 2014 and the effective date in the year ending March 31, 2015

Resolution	Type of shares	Total dividends (Millions of yen)	Total dividends (Thousands of U.S. dollars)	Source of dividends	Dividends per share (Yen)	Dividends per share (U.S. dollars)	Cut-off date	Effective date
Meeting of the Board of Directors on May 29, 2014	Common stock	¥3,748	$36,388	Retained earnings	¥18	$0.17	March 31, 2014	May 30, 2014

For the year ended March 31, 2013
Dividends paid

Resolution	Type of shares	Total dividends (Millions of yen)	Dividends per share (Yen)	Cut-off date	Effective date
Meeting of the Board of Directors on May 28, 2012	Common stock	¥3,748	¥18	March 31, 2012	May 29, 2012
Meeting of the Board of Directors on October 29, 2012	Common stock	¥4,165	¥20	September 30, 2012	November 28, 2012

Dividends with the cut-off date in the year ended March 31, 2013 and the effective date in the year ended March 31, 2014

Resolution	Type of shares	Total dividends (Millions of yen)	Source of dividends	Dividends per share (Yen)	Cut-off date	Effective date
Meeting of the Board of Directors on May 29, 2013	Common stock	¥3,748	Retained earnings	¥18	March 31, 2013	May 30, 2013

13. Treasury Stock

The Japanese Corporate Law (JCL) allows a company to acquire treasury stocks upon shareholders' approval to the extent that sufficient distributable funds are available. If the Board of Directors' authority is stated in the Articles of Incorporation, a company is allowed to purchase treasury stock only with the Board of Directors' approval. Purchase of treasury stock is authorized with the approval by the Board of Directors under the Company's Articles of Incorporation.

Pursuant to the provisions of the JCL, shareholders may request the Company to acquire their shares below a minimum trading lot (100 shares) as shares below a minimum trading lot cannot be publicly traded and do not carry a voting right. The JCL also states that a shareholder holding shares less than a minimum trading lot is entitled to request the company to sell its treasury stock, if any, to the shareholder up to a minimum trading lot, provided that sale of treasury stock is allowed under the Articles of Incorporation. Sale of treasury stock is allowed under the Company's Articles of Incorporation.

The changes in treasury stock for the years ended March 31, 2014 and 2013 are as follows:

	Shares
Balances as of April 1, 2012	115,612
Purchase of treasury stock	1,818
Sale of treasury stock	(114)
Balances as of March 31, 2013	117,316
Purchase of treasury stock	5,039
Sale of treasury stock	(166)
Balances as of March 31, 2014	**122,189**

14. Commitments and Contingencies

Contingent liabilities related to guarantees for bank loans of employees amounted to ¥105 million ($1,019 thousand) and ¥117 million at March 31, 2014 and 2013, respectively.

It is a common practice in Japan for companies, in the ordinary course of business, to receive promissory notes in the settlement of trade accounts receivable and to transfer them by endorsement to suppliers in the settlement of accounts payable. The Company and its subsidiaries are contingently liable for trade notes endorsed, which amounted to ¥688 million ($6,680 thousand) and ¥679 million at March 31, 2014 and 2013, respectively.

15. Research and Development Expenses

Research and development expenses included in general and administrative expenses and gross production cost for the years ended March 31, 2014 and 2013 amounted to ¥26,234 million ($254,699 thousand) and ¥25,534 million, respectively.

16. Impairment Losses on Fixed Assets

For the year ended March 31, 2014, certain consolidated subsidiaries recognized impairment losses on fixed assets as follows:

Location	Use	Type
China, other	Production facilities and other	Machinery and equipment, and other
India	Other	Goodwill

Production facilities and other assets for which value declined due to decreased profitability were devalued from the carrying amount to the recoverable amount, and resulted in an impairment loss of ¥2,872 million ($27,883 thousand), which was reported in impairment losses on fixed assets in the consolidated statements of income.

The Company and its subsidiaries determine recoverable amount using value in use. Value in use is based on the present value of future cash flows calculated using a discount rate of 6.0–17.0%.

For the year ended March 31, 2013, certain consolidated subsidiaries recognized impairment losses on fixed assets as follows:

Location	Use	Type
Mexico, other	Production facilities and other	Machinery and equipment, and other

Production facilities and other assets for which value declined due to decreased profitability were devalued from the carrying amount to the recoverable amount, and resulted in an impairment loss of ¥1,208 million, which was reported in impairment losses on fixed assets in the consolidated statements of income.

The Company and its subsidiaries determine recoverable amount using either net selling price or value in use. Net selling price is based on the assessed value for property tax purpose, which is adjusted as appropriate. Value in use is based on the present value of future cash flows calculated using a discount rate of 5.0%.

17. Amortization of Goodwill

During the year ended March 31, 2014, the Company accelerated amortization of its goodwill related to subsidiaries and amortized the entire amount because it was deemed impaired, in accordance with Paragraph 32 (1) of JICPA Accounting Committee Report No. 7 "Practical Guidance for Consolidated Procedures Related to Equity Account in Consolidated Financial Statements."

18. Compensation Income

The compensation income for the years ended March 31, 2014 and 2013 represents the amount the Company and its consolidated subsidiaries received from Tokyo Electric Power Company, Incorporated as a compensation for the lost income and certain other additional costs.

19. Reclassification Adjustment and Tax Effect Amounts Relating to Other Comprehensive Income

Reclassification adjustment and tax effect amounts relating to other comprehensive income for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Valuation difference on available-for-sale securities:			
Amount arising during the year	¥ 940	¥ 553	$ 9,126
Reclassification adjustment	(325)	(17)	(3,155)
Amount before tax effect	615	536	5,971
Tax effect	(217)	(192)	(2,107)
Valuation difference on available-for-sale securities	398	344	3,864
Deferred gains or losses on hedges:			
Amount arising during the year	158	185	1,534
Reclassification adjustment	212	295	2,058
Asset acquisition cost adjustment	(457)	(101)	(4,437)
Amount before tax effect	(87)	379	(845)
Tax effect	33	(145)	321
Deferred gains or losses on hedges	(54)	234	(524)
Foreign currency translation adjustments:			
Amount arising during the year	6,263	12,883	60,806
Reclassification adjustment	(38)	(6)	(369)
Foreign currency translation adjustments	6,225	12,877	60,437
Remeasurements of defined benefit plans:			
Amount arising during the year	8,136	—	78,990
Reclassification adjustment	107	—	1,039
Amount before tax effect	8,243	—	80,029
Tax effect	(3,022)	—	(29,340)
Remeasurements of defined benefit plans	5,221	—	50,689
Share of other comprehensive income of associates accounted for using equity method:			
Amount arising during the year	720	578	6,990
Total other comprehensive income	¥12,510	¥14,033	$121,456

20. Amount per Share

The reconciliation of the number of shares and the amounts used in the basic and diluted net income per share computations for the years ended March 31, 2014 and 2013 are as follows:

	Thousands of shares	
	2014	2013
Weighted average number of shares on which basic net income per share is calculated	208,245	208,248
Effect of dilutive securities	—	—
Number of shares on which diluted net income per share is calculated	208,245	208,248

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net income	¥24,103	¥18,818	$234,010
Net income not applicable to common stockholders	—	—	—
Net income on which basic net income per share is calculated	24,103	18,818	234,010
Effect of dilutive securities	—	—	—
Net income on which diluted net income per share is calculated	¥24,103	¥18,818	$234,010

	Yen 2014	Yen 2013	U.S. dollars 2014
Net income per share:			
Basic	¥115.74	¥90.36	$ 1.12
Diluted	¥ —	¥ —	$ —

Net assets per share as of March 31, 2014 and 2013 are as follows:

	Yen 2014	Yen 2013	U.S. dollars 2014
Basic	¥1,588.09	¥1,474.11	$ 15.42

The Company and consolidated subsidiaries have adopted the Accounting Standard for Retirement Benefits (ASBJ Statement No. 26, issued on May 17, 2012, the "Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25, the "Guidance") applicable from the fiscal year ended March 31, 2014 using the transitional treatment stipulated in Paragraph 37 of the Accounting Standard.

As a result, net assets per share as of March 31, 2014 decreased by ¥0.12.

21. Supplementary Cash Flow Information

Cash paid for interest and income taxes for the years ended March 31, 2014 and 2013 are as follows:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Cash paid during the year for:			
Interest	¥ 1,460	¥1,105	$ 14,175
Income taxes	¥14,450	¥8,735	$140,291

The components of cash and cash equivalents as of March 31, 2014 and 2013 are as follows:

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars 2014
Cash and deposits	¥37,419	¥36,955	$363,291
Time deposits with over three months maturity	(5)	(294)	(49)
Deposits paid in subsidiaries and affiliates	57,238	37,317	555,709
Deposits paid in subsidiaries and affiliates with over three months maturity	(7,000)	—	(67,961)
Cash and cash equivalents	¥87,652	¥73,978	$850,990

22. Financial Instruments and Derivative Financial Instruments

The Company and certain subsidiaries operate globally and are exposed to market risks arising from fluctuations in foreign currency exchange rates, interest rates, and commodity prices. In order to manage such risks, the Company and certain subsidiaries enter into various contracts on derivative financial instruments, including forward exchange contracts, currency option contracts, currency swap contracts, interest rate option contracts, and commodity swap contracts. Forward exchange contracts are utilized to manage risks arising from foreign currency receivables from export of finished goods; foreign currency payables from the import of raw materials; and forecasted foreign currency sales and purchase transactions. Currency option contracts, interest rate option contracts, and interest rate swap contracts are utilized to manage foreign currency risk and interest rate risk for debts. Commodity swap contracts are utilized to manage the commodity price fluctuation risk on purchased raw material (lead and copper). The Company and its subsidiaries have no derivative financial instruments for trading purposes. In addition, the Company and its subsidiaries are exposed to potential credit-related losses in the event of non-performance by counterparties to financial instruments and derivative financial instruments, but it is not expected that any counterparties will fail to meet their obligations, because most of the counterparties are financial institutions with a sound credit profile.

The Company and its subsidiaries have also developed hedging policies to control various aspects of derivative financial transactions including authorization levels and transaction volumes. Based on these policies, the Company and its subsidiaries hedge, within certain scopes, risks arising from changes in foreign currency exchange rates, interest rates, and commodity prices. The Company and its subsidiaries review periodically the effectiveness of all the hedge policies to take account of the cumulative cash flows and any changes in the market.

The fair values of the derivative financial instruments for which hedge accounting is not applied as of March 31, 2014 and 2013 are as follows:

	Millions of yen					
	Notional amount	Estimated fair value	Unrealized gains (losses)	Notional amount	Estimated fair value	Unrealized gains (losses)
	2014			2013		
Forward exchange contracts:						
To sell foreign currencies	¥ 6,880	¥ 27	¥ 27	¥16,870	¥ (925)	¥ (925)
To buy foreign currencies	846	(2)	(2)	3,714	64	64
Currency swap contracts:						
To sell foreign currencies	3,527	(1,053)	(1,053)	1,557	(338)	(338)
To buy foreign currencies	600	(150)	(150)	3,267	(678)	(678)
	¥11,853	¥(1,178)	¥(1,178)	¥25,408	¥(1,877)	¥(1,877)

	Thousands of U.S. dollars		
	Notional amount	Estimated fair value	Unrealized gains (losses)
	2014		
Forward exchange contracts:			
To sell foreign currencies	$ 66,796	$ 262	$ 262
To buy foreign currencies	8,214	(19)	(19)
Currency swap contracts:			
To sell foreign currencies	34,243	(10,224)	(10,224)
To buy foreign currencies	5,825	(1,456)	(1,456)
	$115,078	$(11,437)	$(11,437)

The fair values of derivative financial instruments are estimated on the basis of information obtained from counterparty financial institutions.

	Millions of yen			
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
	2014		2013	
Commodity swap contracts:				
Variable receipt and fixed payment	¥—	¥—	¥79	¥ (5)
	¥—	¥—	¥—	¥—

	Thousands of U.S. dollars	
	Notional amount	Estimated fair value
	2014	
Commodity swap contracts:		
Variable receipt and fixed payment	$—	$—
	$—	$—

The fair values of derivative financial instruments are estimated on the basis of information obtained from counterparty financial institutions.

The fair values of the derivative financial instruments for which hedge accounting is applied as of March 31, 2014 and 2013 are as follows:

Processing method in principle

	Millions of yen			
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
	2014		2013	
Currency option contracts:				
To sell foreign currencies	¥—	¥—	¥ —	¥ —
To buy foreign currencies	—	—	—	—
Forward exchange contracts:				
To sell foreign currencies	—	—	2,755	(102)
To buy foreign currencies	—	—	—	—
	¥—	¥—	¥2,755	¥(102)

	Thousands of U.S. dollars	
	Notional amount	Estimated fair value
	2014	
Currency option contracts:		
To sell foreign currencies	$—	$—
To buy foreign currencies	—	—
Forward exchange contracts:		
To sell foreign currencies	—	—
To buy foreign currencies	—	—
	$—	$—

Assigning method of foreign forward exchange contracts

	Millions of yen			
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
	2014		2013	
Forward exchange contracts:				
To sell foreign currencies	¥1,030	¥—	¥1,146	¥—
To buy foreign currencies	47	—	—	—
	¥1,077	¥—	¥1,146	¥—

	Thousands of U.S. dollars	
	Notional amount	Estimated fair value
	2014	
Forward exchange contracts:		
To sell foreign currencies	$10,000	$—
To buy foreign currencies	456	—
	$10,456	$—

The fair values of derivative financial instruments are estimated on the basis of information obtained from counterparty financial institutions.

Forward exchange contracts accounted for under the assigning method are handled together with accounts receivable and accounts payable. Therefore, their fair value is included within the fair value of accounts receivable and accounts payable.

	Millions of yen			
	Notional amount	Estimated fair value	Notional amount	Estimated fair value
	2014		2013	
Commodity swap contracts:				
Variable receipt and fixed payment	**¥1,571**	**¥22**	¥2,251	¥211
	¥1,571	**¥22**	¥2,251	¥211

	Thousands of U.S. dollars	
	Notional amount	Estimated fair value
	2014	
Commodity swap contracts:		
Variable receipt and fixed payment	**$15,252**	**$214**
	$15,252	**$214**

The fair values of derivative financial instruments are estimated on the basis of information obtained from counterparty financial institutions.

23. Leases

Lessee

Future minimum lease payments under non-cancelable operating lease arrangements as of March 31, 2014 are ¥557 million ($5,408 thousand) due within one year and ¥756 million ($7,340 thousand) due after one year.

24. Related Party Transactions

The Company and its consolidated subsidiaries have related party transactions with Hitachi, Ltd., the parent company. The major transactions with Hitachi, Ltd., are as follows;

Transactions between certain subsidiary and related party:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Balances with Hitachi, Ltd.			
Deposits to Hitachi group cash management fund	**¥49,358**	¥30,314	**$479,204**
Transactions with Hitachi, Ltd.			
Net increase (decrease) in deposits to Hitachi group cash management fund	**¥19,044**	¥ (4,854)	**$184,893**

25. Segment Information

The Company's reportable segments are the constituent units of our business, for which separate financial information is available, and whose operating results are reviewed periodically by the Board of Directors of the Company to determine the allocation of management resources and assess their performance.

The Company is developing business activities based on the organizational structure that is categorized depending on the degree of product processing, from materials through components to parts.

Based on the above, according to the degree of product processing, the Company determines two reportable segments, namely categorizing materials as "Functional Materials Segment" and the components and parts as "Advanced Components and Systems Segment" and the main products of each reportable segment are provided on pages 35–38 of this annual report.

Reportable segment information:

	Millions of yen				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2014		
Sales to external customers	¥260,800	¥232,966	¥493,766	¥ —	¥493,766
Intersegment sales	10,452	1,745	12,197	(12,197)	—
	271,252	234,711	505,963	(12,197)	493,766
Operating income	¥ 24,400	¥ 3,379	¥ 27,779	¥ (4)	¥ 27,775
Assets	¥292,946	¥218,073	¥511,019	¥ (2,939)	¥508,080
Other					
Depreciation and amortization	¥ 12,540	¥ 11,913	¥ 24,453	¥ —	¥ 24,453
Investments in equity method affiliates	4,265	2,715	6,980	—	6,980
Increase in property, plant and equipment and intangible assets	13,607	19,885	33,492	—	33,492
Impairment losses on fixed assets	1,602	1,270	2,872	—	2,872
Amortization of goodwill	1,466	2,950	4,416	—	4,416
Goodwill	—	19,079	19,079	—	19,079

	Millions of yen				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2013		
Sales to external customers	¥245,157	¥219,498	¥464,655	¥ —	¥464,655
Intersegment sales	8,101	1,304	9,405	(9,405)	—
	253,258	220,802	474,060	(9,405)	464,655
Operating income	¥ 21,358	¥ 2,218	¥ 23,576	¥ (17)	¥ 23,559
Assets	¥270,357	¥209,587	¥479,944	¥(2,064)	¥477,880
Other					
Depreciation and amortization	¥ 12,804	¥ 12,451	¥ 25,255	¥ —	¥ 25,255
Investments in equity method affiliates	5,666	2,120	7,786	—	7,786
Increase in property, plant and equipment and intangible assets	22,619	27,263	49,882	—	49,882
Impairment losses on fixed assets	—	1,208	1,208	—	1,208
Amortization of goodwill	453	3,272	3,725	—	3,725
Goodwill	1,347	23,051	24,398	—	24,398

	Thousands of U.S. dollars				
	Functional Materials	Advanced Components and Systems	Total	Eliminations	Consolidated
			2014		
Sales to external customers	$2,532,039	$2,261,806	$4,793,845	$ —	$4,793,845
Intersegment sales	101,476	16,942	118,418	(118,418)	—
	2,633,515	2,278,748	4,912,263	(118,418)	4,793,845
Operating income	$ 236,893	$ 32,806	$ 269,699	$ (39)	$ 269,660
Assets	$2,844,136	$2,117,213	$4,961,349	$ (28,534)	$4,932,815
Other					
Depreciation and amortization	$ 121,748	$ 115,660	$ 237,408	$ —	$ 237,408
Investments in equity method affiliates	41,408	26,359	67,767	—	67,767
Increase in property, plant and equipment and intangible assets	132,107	193,058	325,165	—	325,165
Impairment losses on fixed assets	15,553	12,330	27,883	—	27,883
Amortization of goodwill	14,233	28,641	42,874	—	42,874
Goodwill	—	185,233	185,233	—	185,233

Geographic information:

	Millions of yen			
	Japan	Asia	Other areas	Total
	2014			
Net sales	¥244,105	¥215,567	¥34,094	¥493,766
Net property, plant and equipment	¥ 98,663	¥ 63,697	¥ 9,344	¥171,704

	Millions of yen			
	Japan	Asia	Other areas	Total
	2013			
Net sales	¥247,736	¥188,590	¥28,329	¥464,655
Net property, plant and equipment	¥ 96,371	¥ 59,248	¥ 6,401	¥162,020

	Thousands of U.S. dollars			
	Japan	Asia	Other areas	Total
	2014			
Net sales	$2,369,951	$2,092,883	$331,011	$4,793,845
Net property, plant and equipment	$ 957,893	$ 618,417	$ 90,719	$1,667,029

REPORT OF INDEPENDENT AUDITORS

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Independent Auditor's Report

The Board of Directors
Hitachi Chemical Co., Ltd.

We have audited the accompanying consolidated financial statements of Hitachi Chemical Co., Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2014, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

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

Convenience Translation

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

Ernst & Young ShinNihon LLC

June 18, 2014

Tokyo, Japan

Paper Considerations

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Paper from responsible sources
FSC® C017928

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Vegetable oil INK for waterless printing
Non VOC INK Version 2

Only environmentally-friendly, zero-VOC (Volatile organic compounds) 100% vegetable oil inks were used in the printing of this report.

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Issued in July 2014
Printed in Japan