

LETTER TO STAKEHOLDERS

Since the political party change of the nation's administration last December, the Japanese economy witnessed some improvements on the foreign exchange and the stock market. On the other hand, however, looming hikes in energy and raw materials cost threatens to oppress the domestic industries at large. Overall, the domestic economic outlook remains hard to tell.

On the global economic horizon, the financial crises in Europe and the critical situations in the Middle East, coupled with their adverse effects upon the Chinese and other emerging economies, jointly rendered the world economy losing impetus.

Regarding the domestic textile industry as one of our major markets, they stepped up shift to offshore production, thus cutting down on the local production. The European debt problems have triggered a sluggish economic climate over China and the neighboring regions, hence poor hope for our sales growth for a while.

As for the non-textile local market, the automobile manufacture has registered steady recovery after the mega-quake in March, 2011. Housing repair/maintenance parts and materials enjoy brisk demands. Overseas, our auto-related merchandise for China showed no growth, due to dull economic atmosphere there.

Under the aforementioned circumstances, we endeavored to keep up our sales and profit by developing high-quality and low-priced goods and also by quick response to the market. Challenged by the shift to offshore production and the soaring yen appreciation, we exerted real agonizing sales endeavor over our volume and profit performance through December 2012, when abrupt yen depreciation greatly helped improve our export activities and profitability. We managed to earn sales in yen amount as much as last year, but fell short in terms of quantity sold.

As a result, our consolidated sales stood at ¥27,284 million(\$290,255 thousand)(100.9% of last year), operating income at ¥2,390 million(\$25,426 thousand)(181.1%), and net income at ¥1,601 million(\$17,032 thousand)(255.8%), respectively.

Geographically, Japan represented consolidated sales of ¥26,619 million (\$283,181 thousand) (100.7%), operating income of ¥2,271 million (\$24,160 thousand) (175.0%).

For the anionic surfactant segment, we managed to secure a stable local business. Overseas, we launched aggressive campaigns to the manufacturers in China, which fortunately made up for the sluggish performance for the first half of the reported year. Our sales for the segment was ¥2,886 million (\$30,702 thousand) (100.0%).

The nonionic surfactant segment locally suffered decline due to poor market demand and price competitions on the part of the textile products market. For the overseas market, we saw some sales growth in quantity in the textile field. All in all, our consolidated sales for the segment stood at ¥15,610 million (\$166,064 thousand) (100.8%).

Regarding the cationic and amphoteric surfactant, we had successful price negotiations with the chemical industry, while the textile-related merchandise business generally remained stagnant. Our sales here was ¥988 million (\$10,511 thousand) (102.9%).

Our high polymer and inorganic chemicals segment had certain setbacks on textile-related merchandise, but performed favorably with cosmetics, housing and automobile industries. The segment sales for the year was ¥7,134 million (\$75,894 thousand) (100.2%)

Indonesia represents another business segment with consolidated sales of ¥665 million (\$7,074 thousand) (112.4%), and operating income of ¥62 million (\$660 thousand) (133.6%).

The nonionic surfactant business saw some partial decline in quantity but secured increase in value of sales, which stood at ¥311million(\$3,309 thousand)(115.1%).

For the high polymer and inorganic chemicals, our on-site endeavor acquired certain new customers accounts and also introduced new products to the market, thus selling as much as ¥345 million(\$3,670 thousand)(110.1%).

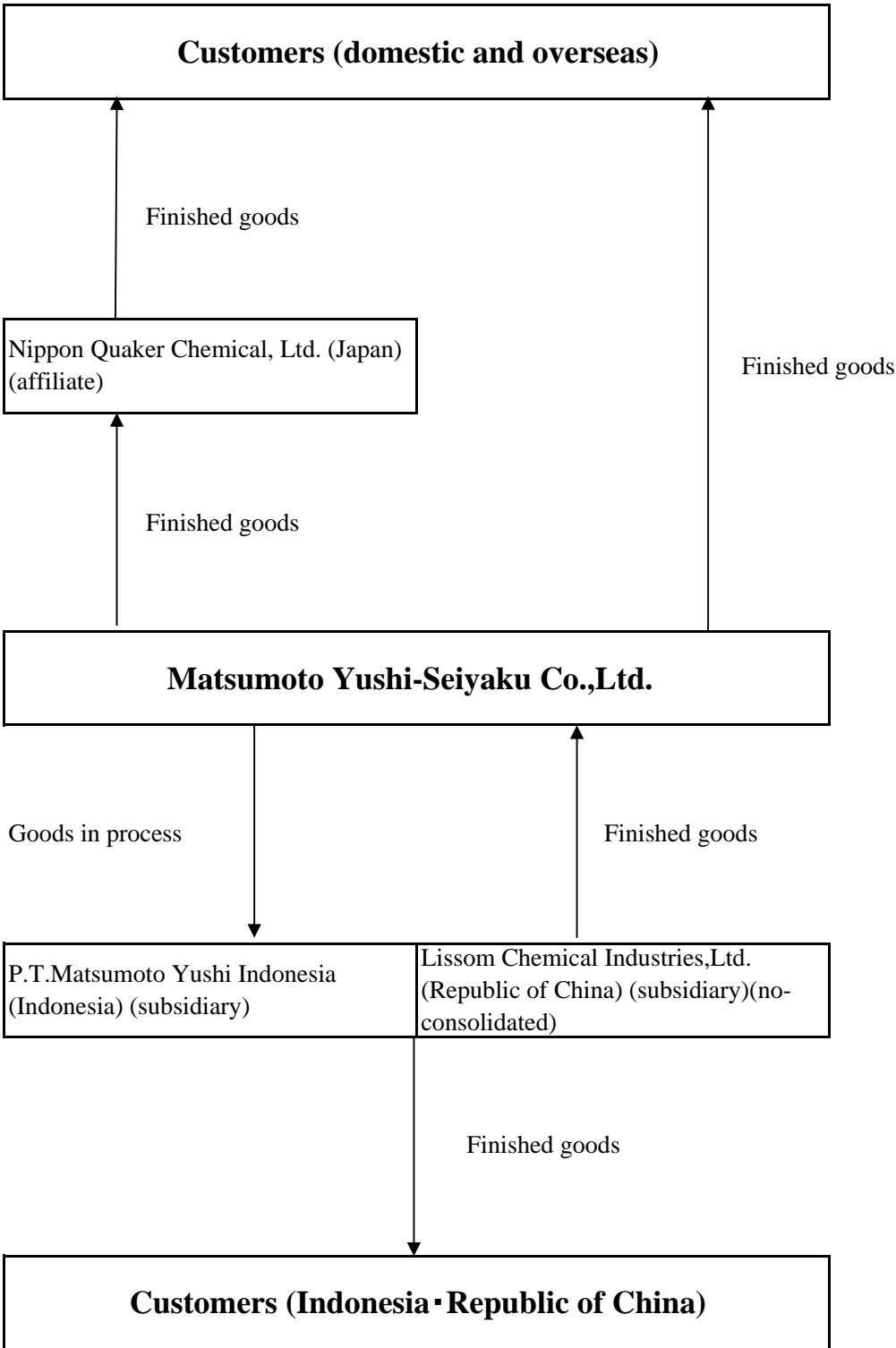
The Japanese economy currently shows some tentative signs of recovery, which seems to reflect temporary public expectation of the new government administration. In fact, our economy is exposed to certain negative elements like cost hikes on energy due to suspension of nuclear power generation and also on imported raw materials because of the yen currency depreciation. All in all, our business climate remains vulnerable.

Again, we commit ourselves to our solid principles to enhance competitive products development, expansion of sales activities network, and rationalization of our own systems and organization. We further commit ourselves to our continued endeavor to stay proactive on R&D operations and management.

As always, we very much appreciate your continued support.

Sincerely,
NAOKI KIMURA
President and CEO

Holding Company Configuration and Highlights of Business



CORPORATE GOVERNANCE

Matsumoto Yushi-Seiyaku Co.,Ltd. has been making every effort to realize stable and continuous improvement of enterprise value. Directors who decide rules of finance and business well understand our management concept, various sources of enterprise value and mutually supportive relationship between Matsumoto Yushi-Seiyaku Co.,Ltd. and stakeholders, and are committed to jointly improving our enterprise value. Thus, we are firmly dedicated to long-term shareholders' interest.

The board of directors meets once a month regularly and also on ad-hoc basis to stand ready for timely corporate decision making. Directors, statutory auditors and the chiefs of department have a joint meeting once in a week. They insure legal compliance and the legitimate execution of business.

The board of statutory auditors deliberates and decides on substantive issues relative to auditing. They also attend the director meetings and other major discussions to watch appropriateness of managerial business execution.

Internal auditing is a corporate function. An ad-hoc staff team is organized to assist the internal auditing when necessary. The board of statutory auditors and the independent auditor may have meetings as need be to exchange views and opinions.

MATSUMOTO YUSHI-SEIYAKU CO., LTD. AND A SUBSIDIARY**Selected Financial Data****Years ended March 31**

	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Results for the year (millions of Yen):					
Net Sales	27,284	27,038	26,557	23,552	24,359
Cost of sales	21,062	21,902	21,510	18,692	19,888
Gross profit	6,222	5,136	5,046	4,859	4,470
Selling, general and administrative expenses	3,831	3,816	3,876	3,871	4,099
Operating income	2,391	1,321	1,170	988	371
Other income(expenses)	141	(178)	(52)	103	39
Income before income taxes and minority interests	2,531	1,142	1,118	1,091	410
Income taxes					
current	1,019	417	343	640	43
deferred	(137)	92	47	(287)	173
Minority interests in subsidiary	48	7	14	31	52
Net income	1,602	626	714	707	142
Acquisition of property, plant and equipment	393	303	406	370	2,958
Depreciation and amortization	705	790	830	846	845
Per share of common stock(Yen):					
Net income	161.39	61.52	70.17	69.46	13.29
Cash dividends	60.00	50.00	50.00	50.00	50.00
Year-end financial position(millions of Yen):					
Total current assets	33,257	32,713	30,660	28,946	26,813
Total property, plant and equipment	4,519	4,761	5,250	5,681	6,146
Total investments and other assets	9,185	8,665	10,591	11,028	10,676
Total current liabilities	8,141	7,647	8,357	7,393	5,886
Total long-term liabilities	587	438	418	350	315
Minority interests	227	173	186	200	155
Foreign currency translation adjustments	216	217	205	188	209
Total net assets	38,233	38,055	37,726	37,913	37,435
Other year-end data:					
Number of shares issued(thousands)	11,282	11,282	11,282	11,282	11,282
Number of shareholders	612	617	628	645	675

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2013 and 2012

ASSETS	Millions of yen		Thousands of U.S.dollars (Note 1)	
	2013	2012	2013	2012
Current assets:				
Cash and cash equivalents(Note 3)	¥ 18,098	¥ 16,239	\$ 192,537	\$ 172,756
Short-term investments (Note 3,4)	3,520	4,720	37,447	50,213
Notes and accounts receivable(Note 3):				
Trade	6,146	6,068	65,378	64,557
Associates	1,717	1,785	18,265	18,994
Other	3	8	28	87
Allowance for doubtful accounts	(3)	(4)	(29)	(44)
	<u>7,862</u>	<u>7,858</u>	<u>83,643</u>	<u>83,594</u>
Inventories (Note 5)	3,364	3,318	35,786	35,302
Deferred income taxes (Note 10)	345	513	3,666	5,456
Other current assets	67	65	717	693
Total current assets	<u>33,257</u>	<u>32,713</u>	<u>353,797</u>	<u>348,014</u>
Property, plant and equipment :				
Land	530	530	5,643	5,636
Building and structures	6,428	6,320	68,386	67,233
Machinery and equipment	11,603	11,347	123,434	120,711
Construction in progress	68	79	728	842
	<u>18,630</u>	<u>18,276</u>	<u>198,191</u>	<u>194,423</u>
Accumulated depreciation	(14,111)	(13,514)	(150,114)	(143,770)
	<u>4,519</u>	<u>4,761</u>	<u>48,077</u>	<u>50,653</u>
Investments and other assets:				
Investments in affiliates (Note 13)	581	501	6,178	5,331
Investments in securities (Note 3,4)	8,012	7,178	85,234	76,364
Long-term loans(Note 3)	1	168	13	1,791
Deferred income taxes(Note 10)	4	236	48	2,514
Other (Note 9)	591	581	6,289	6,186
Allowance for doubtful accounts	(5)	—	(52)	—
	<u>9,185</u>	<u>8,665</u>	<u>97,709</u>	<u>92,186</u>
	<u>¥ 46,961</u>	<u>¥ 46,140</u>	<u>\$ 499,583</u>	<u>\$ 490,853</u>

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2013	2012	2013	2012
Current liabilities:				
Short-term bank loans (Note 3,6)	¥ 700	¥ 700	\$ 7,447	\$ 7,447
Accounts payable(Note 3):				
Trade	4,750	4,888	50,536	51,998
Associates	569	658	6,052	7,002
Other	1,001	834	10,652	8,875
Accrued income taxes	817	267	8,696	2,842
Accrued bonuses to employees	274	268	2,913	2,852
Other current liabilities	29	32	310	340
Total current liabilities	<u>8,141</u>	<u>7,647</u>	<u>86,606</u>	<u>81,355</u>
Long-term liabilities				
Allowance for retirement benefits(Note 7)	292	252	3,109	2,679
Asset retirement obligations	97	95	1,030	1,006
Deferred income taxes (Note 10)	103	—	1,096	—
Other liabilities	95	92	1,011	976
Total long-term liabilities	<u>587</u>	<u>438</u>	<u>6,245</u>	<u>4,661</u>
Total liabilities	<u>8,728</u>	<u>8,086</u>	<u>92,851</u>	<u>86,016</u>
Contingencies (Note 8)				
Net assets:				
Shareholders' equity				
Common stock				
Authorized 40,000,000 shares				
Issued 2013- 11,281,629 shares	6,090	6,090	64,788	64,788
Capital surplus	6,518	6,518	69,337	69,337
Retained earnings	28,778	27,685	306,147	294,519
Less, treasury stock, at cost:	(3,599)	(1,746)	(38,284)	(18,578)
Total Shareholders' equity	<u>37,787</u>	<u>38,546</u>	<u>401,988</u>	<u>410,066</u>
Valuation and translation adjustments				
Unrealized gain (loss) on available-for-sale securities	434	(448)	4,619	(4,762)
Foreign currency translation adjustments	(216)	(217)	(2,293)	(2,309)
Total Valuation and translation adjustments	<u>219</u>	<u>(665)</u>	<u>2,327</u>	<u>(7,072)</u>
Minority interests	227	173	2,418	1,843
Total net assets	<u>38,233</u>	<u>38,055</u>	<u>406,732</u>	<u>404,837</u>
	<u>¥ 46,961</u>	<u>¥ 46,140</u>	<u>\$ 499,583</u>	<u>\$ 490,853</u>

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED MARCH 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2013	2012	2013	2012
Net sales(Note 11,12)	¥ 27,284	¥ 27,038	\$ 290,259	\$ 287,641
Cost of sales(Note 11)	21,062	21,902	224,063	233,001
Gross profit	6,222	5,136	66,196	54,640
Selling, general and administrative expenses (Note 11)	3,831	3,816	40,760	40,591
Operating income	2,391	1,321	25,436	14,049
Other income (expenses):				
Interest and dividend income	119	162	1,268	1,719
Interest expenses	(6)	(8)	(59)	(87)
Investment profit (Loss) on equity method	85	57	907	611
Foreign exchange profit (Loss)	311	111	3,311	1,181
Gain (Loss) on disposal of property and equipment	(9)	(3)	(94)	(29)
Gain (Loss) on sale of securities	—	(36)	—	(380)
Gain (Loss) on sale of affiliates stocks	12	—	131	—
Loss from revaluation of securities	(211)	(297)	(2,245)	(3,156)
Loss on revaluation of membership rights of golf-club	(1)	(11)	(9)	(112)
Advanced depreciation deduction of property and	(0)	(134)	(0)	(1,421)
Profit (Loss) on redemption of securities	—	17	—	184
Governmental subsidy	22	—	234	—
Other, net	(183)	(38)	(1,950)	(408)
Income before income taxes and minority interests	2,531	1,142	26,931	12,152
Income taxes (Note 10):				
Current	1,019	417	10,844	4,435
Deferred	(137)	92	(1,461)	981
	882	509	9,383	5,416
Income before minority interests	1,649	633	17,548	6,735
Minority interests in subsidiary	(48)	(7)	(506)	(74)
Net income	¥ 1,602	¥ 626	\$ 17,042	\$ 6,661

	Yen		U.S. dollars (Note 1)	
	2013	2012	2013	2012
Net income per share:				
Basic	¥ 161.39	¥ 61.52	\$ 1.717	\$ 0.654
Cash dividends per share	60.00	50.00	0.638	0.532

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
YEARS ENDED MARCH 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2013	2012	2013	2012
Income before minority interests	¥ 1,649	¥ 633	\$ 17,548	\$ 6,736
Other comprehensive income				
Unrealized gains (losses) on available-for-sale securities	883	238	9,389	2,531
Foreign currency translation adjustments	13	(20)	136	(215)
Share of other comprehensive income of associates accounted for using equity method	(5)	(2)	(57)	(23)
Total other comprehensive income (loss) (Note)	890	215	9,467	2,292
Comprehensive income	<u>¥ 2,539</u>	<u>¥ 849</u>	<u>\$ 27,015</u>	<u>\$ 9,028</u>
Comprehensive income attributable to:				
Owners of the parent company	2,485	852	26,440	9,064
Minority interests	54	(3)	575	(36)

**MATSUMOTO YUSHI-SEIYAKU CO.,LTD
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2013 and 2012**

	Millions of yen										
	Number of shares issued (thousands)	Shareholders' equity					Accumulated other comprehensive income			Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Total Accumulator other comprehensive income		
Balance at March 31, 2011	11,282	6,090	6,518	27,568	(1,745)	38,431	(686)	(205)	(891)	186	37,726
Cash dividends				(509)		(509)					(509)
Net income for the year				626		626					626
Purchase of treasury stock					(2)	(2)					(2)
Net change of items other than shareholders' equity							238	(12)	226	(12)	213
Balance at March 31, 2012	11,282	6,090	6,518	27,685	(1,746)	38,546	(448)	(217)	(665)	173	38,055
Cash dividends				(509)		(509)					(509)
Net income for the year				1,602		1,602					1,602
Purchase of treasury stock					(1,852)	(1,852)					(1,852)
Net change of items other than shareholders' equity							882	2	883	54	937
Balance at March 31, 2013	<u>11,282</u>	<u>¥ 6,090</u>	<u>¥ 6,518</u>	<u>¥ 28,778</u>	<u>¥ (3,599)</u>	<u>¥ 37,787</u>	<u>¥ 434</u>	<u>¥ (216)</u>	<u>¥ 219</u>	<u>¥ 227</u>	<u>¥ 38,233</u>

	Thousands of U.S. dollars (Note 1)										
	Number of shares issued (thousands)	Shareholders' equity					Accumulated other comprehensive income			Minority interests	Total net assets
		Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Total Accumulator other comprehensive income		
Balance at March 31, 2011	11,282	\$ 64,788	\$ 69,337	\$ 293,272	\$ (18,559)	\$ 408,838	\$ (7,293)	\$ (2,180)	\$ (9,473)	\$ 1,975	\$ 401,339
Cash dividends				(5,414)		(5,414)					(5,414)
Net income for the year				6,661		6,661					6,661
Purchase of treasury stock					(19)	(19)					(19)
Net change of items other than shareholders' equity							2,531	(129)	2,402	(132)	2,270
Balance at March 31, 2012	11,282	\$ 64,788	\$ 69,337	\$ 294,519	\$ (18,578)	\$ 410,066	\$ (4,762)	\$ (2,309)	\$ (7,072)	\$ 1,843	\$ 404,837
Cash dividends				(5,414)		(5,414)					(5,414)
Net income for the year				17,042		17,042					17,042
Purchase of treasury stock					(19,706)	(19,706)					(19,706)
Net change of items other than shareholders' equity							9,382	16	9,398	575	9,973
Balance at March 31, 2013	<u>11,282</u>	<u>\$ 64,788</u>	<u>\$ 69,337</u>	<u>\$ 306,147</u>	<u>\$ (38,284)</u>	<u>\$ 401,988</u>	<u>\$ 4,619</u>	<u>\$ (2,293)</u>	<u>\$ 2,327</u>	<u>\$ 2,418</u>	<u>\$ 406,733</u>

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED MARCH 31, 2013 and 2012

	Millions of yen		Thousands of U.S. dollars	
			(Note 1)	
	2013	2012	2013	2012
Cash flows from operating activities:				
Net income before income taxes and minority interests	¥ 2,531	¥ 1,142	\$ 26,931	\$ 12,152
Adjustments for:				
Depreciation and amortization	705	790	7,503	8,407
Loss (gain) on sales and disposal of property,	7	3	69	29
Loss (gain) on evaluation of securities	211	297	2,245	3,156
Loss (gain) on sale of securities	—	36	—	380
Loss (gain) on sale of affiliates stocks	(12)	—	(131)	—
Allowance for doubtful accounts	(2)	3	(17)	32
Investment (profit) loss on equity method	(102)	(57)	(1,081)	(611)
Accrued severance indemnities	40	13	424	141
Accrued bonuses to employees	6	(3)	61	(31)
Interest and dividend income	(119)	(162)	(1,268)	(1,719)
Interest expenses	6	8	59	87
Foreign exchange (profit) loss	(224)	12	(2,386)	122
Decrease (Increase) in notes and accounts receivable	(5)	(251)	(52)	(2,665)
Decrease (Increase) in inventories	(38)	(25)	(402)	(263)
Increase (Decrease) in accounts payable	(231)	(905)	(2,454)	(9,631)
Increase (Decrease) in accrued consumption tax	4	54	41	580
Other, net	371	360	3,949	3,831
Sub total	3,148	1,316	33,492	13,997
Interest and dividend income received	134	166	1,429	1,770
Interest expenses paid	(6)	(8)	(64)	(82)
Income taxes paid	(472)	(199)	(5,018)	(2,120)
Income taxes refund	—	15	—	156
Net cash provided by operating activities	2,805	1,290	29,839	13,721
Cash flows from investing activities:				
Repayment of maturity of time deposits	(9,040)	(3,810)	(96,170)	(40,532)
Proceeds from maturity of time deposits	10,240	—	108,936	—
Receipt from sale of short-term investments	282	—	3,003	—
Receipt from sale of affiliates stocks	14	—	148	—
Payments for purchase of property, plant and equipment	(393)	(303)	(4,179)	(3,225)
Receipt from sale of investments in securities	5	291	53	3,097
Payments for purchase of investments in securities	(73)	(17)	(776)	(186)
Decrease (Increase) of loans receivable	187	15	1,989	164
Other, net	22	621	229	6,604
Net cash provided by (used in) investing activities	1,244	(3,203)	13,234	(34,078)
Cash flows from financing activities:				
Increase (Decrease) in short-term bank loans, net	—	(100)	—	(1,064)
Cash dividends paid	(509)	(509)	(5,417)	(5,414)
Cash dividends paid to minority shareholders	—	(9)	—	(96)
Purchase of treasury stock	(1,852)	(2)	(19,706)	(19)
Net cash used in financing activities	(2,362)	(620)	(25,123)	(6,593)
Effect of exchange rate changes on cash and cash equivalents	771	(28)	8,205	(294)
Net increase (decrease) in cash and cash equivalents	2,459	(2,561)	26,155	(27,244)
Cash and cash equivalents at beginning of year	15,640	18,201	166,382	193,626
Cash and cash equivalents at end of year (Note)	¥ 18,098	¥ 15,640	\$ 192,537	\$ 166,382

The accompanying notes are an integral part of these statements.

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY

Notes to Financial Statements Years Ended March 31, 2013 and 2012

1. Basis of Presenting Consolidated Financial Statements

Matsumoto Yushi-Seiyaku Co.,Ltd.(the "Company") maintains its accounts and records in accordance with the provisions set forth in the Company Code of Japan (the "Code") and the Financial Instruments and Exchange Act and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Accounting Standards.

The Company's overseas subsidiary maintains its accounts and records in conformity with generally accepted accounting principles and practices prevailing in its country of domicile.

The accompanying consolidated financial statements are prepared based on the consolidated financial statements of the Company and its subsidiary (the "Group") which were filed with the Director of Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Act.

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

The translation of the Japanese yen amounts into U.S. dollars is included solely for the convenience of the reader, using the approximate exchange rate at March 31, 2013, which was ¥94 to U.S.\$1.00. These translations for convenience should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into U.S. dollars at this or any other rate of exchange.

2. Summary of Significant Accounting Policies

(a) Consolidation Principles

Lissom Chemical Industries, Ltd. which was a unconsolidated subsidiary becomes an affiliate from this fiscal year, because the Company transferred a certain portion of the equity of Lissom Chemical Industries, Ltd..

The consolidated financial statements include the accounts of the Company's subsidiary. All significant inter-company transactions and accounts are eliminated.

Investments in affiliates are accounted for by the equity method whereby the group includes in net income its share of income or losses of these companies, and records its investments at cost adjusted for its share of income, losses or dividends received.

Generally, companies that are owned more than 50% fall under the category of subsidiaries and companies that are owned 20% or more but not more than 50% fall under the category of affiliates, respectively.

However, companies that are owned 40% to 50% may also fall under the category of subsidiaries and companies that are owned 15% or more but not more than 20% may also fall under the category of affiliates, respectively, if the Company substantially controls the investees' management or has significant influence and relationship with the investees.

(b) Translation of Foreign Currencies

Foreign currency receivables and payables are translated into Japanese yen at the exchange rates in effect on the balance sheet date, and translation gains or losses are charged to income in the year incurred.

Assets, liabilities, revenue and expenses of overseas subsidiary are translated into Japanese yen at the exchange rates in effect on balance sheet date and shareholders' equity is translated into Japanese yen at historical rates. Differences arising from translation are presented as "Minority interests" and

"Foreign currency translation adjustments" in the accompanying consolidated balance sheets.

(c) Consolidated Statement of Cash Flows

For the purposes of cash flow statements, cash and cash equivalents comprise cash on hand, deposits held at call with banks, net of overdrafts and all highly liquid investments with maturities of three months or less.

(d) Short-term Investments and Investments in Securities

In accordance with the Financial Instruments and Exchange Act, securities should be classified into four categories: trading securities, held-to-maturities securities, equity investments in an affiliate and other securities. Equity and debt securities are classified as other securities.

Marketable equity and debt securities are stated at fair value with unrealized gains and losses, net of applicable income taxes, reported as a separate component of shareholders' equity. Gains and losses are credited or charged to income when realized, with cost determined by the weighted average method.

However, if the fair value falls below 50% of cost and if there is no prospect of recovery, the unrealized losses have to be charged to income.

(e) Inventories

Finished products, work in process and purchased merchandise are stated at cost determined (net realized value method) by the weighted average method. Raw materials are stated at cost determined (net realized value method) by the weighted average method. Supplies and containers are stated at the most recent purchase prices.

(f) Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment are as follows:

Buildings	i Buildings acquired before March 31, 1998 Declining-balance method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
	ii Buildings acquired after April 1, 1998 Straight-line method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
Structures	Declining-balance method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
Machinery	Straight-line method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law
Equipment	Declining-balance method based on the estimated useful lives of the respective assets same as determined by Japanese Income Tax Law

(g) Intangible Assets

Amortization of intangible assets is computed by the straight-line method. Computer software is recorded as intangible assets as per the Financial Instruments and Exchange Act in Japan.

(h)Accrued Severance Indemnities

In accordance with the Accounting Standards for Retirement Benefit accrued severance indemnities are provided based on the amount of projected benefit obligation reduced by pension plan assets at fair value at the end of the period.

Employees' retirement benefits, covering employees of the Company, are provided through unfunded lump-sum benefit plans and funded noncontributory pension plans. Under the plans, eligible employees are entitled, under most circumstances, to severance payments based on compensation at the time of severance and year of service.

Actuarial losses shall be amortized over five years beginning with the next year.

(i)Research and Development and Computer Software

Research and development expenditure is charged to income when incurred.

Expenditure relating to computer software developed for internal use is charged to income when incurred. When it contributes to the generation of income or to future cost savings, such expenditure is capitalized as an asset and is amortized using the straight-line method over its estimated useful life, namely, 5 years.

(j)Allowance for Doubtful Accounts

In accordance with the Accounting Standards for Financial Instruments, allowance for doubtful accounts is provided by actual bad debt expense ratio to normal receivables and by specific examination of collectability to bad debt.

(k)Consumption Tax

The consumption tax is imposed at the flat rate of 5% on the Company's sales to customers and purchases of goods and services. The consumption tax thus withheld on sales and paid on purchases by the Company is not included in the amounts of revenue and expense items.

Under the consumption tax law, the tax paid on purchases can generally be deducted from the tax withheld.

(l)Accrued Bonuses to Employees

As a general practice in Japan, bonuses are normally payable to employees in early summer and early winter covering the first and second half of the year, respectively. The Company records such accrued bonus liabilities as at March 31. Yet its subsidiary does not record such accrued bonuses liabilities.

(m)Income Taxes

Deferred tax assets and liabilities are determined based on the differences between financial statements and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to be settled.

(n)Per Share Information

The computation of basic net income per share is based on net income available to common shareholders and the weighted average number of shares of common stock outstanding during each period. The average number of shares used in the computation was 9,926 thousand and 10,178 thousand for the periods ended March 31, 2013 and 2012, respectively.

Cash dividends per share shown in the statements of income are the amounts applicable to the respective years.

(o)Standards Issued But Not Effective Yet

• Accounting Standard for Retirement Benefits and its Implementation Guidance

(1)Outline

These standards were revised from the viewpoint of improvements to financial reporting and

international convergence, with major emphasis on (i) how actuarial gains and losses and past service costs should be accounted for. (ii) how retirement obligations and current service costs should be determined and (iii) enhancement of disclosures.

(2)Application due date

These standards become effective for the fiscal year beginning on or after April 1, 2013 for items (i) and (iii), and April 1, 2014 for (ii), respectively.

(3)The effect from applying these standards

The effect of applying these standards is yet to be determined at the time of this reporting.

3.Financial Instrument

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

	millions of yen		
	2013		
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 18,098	¥ 18,098	¥ -
Notes and accounts receivable	7,862	7,862	-
Short-term investments and investments in securities	6,098	6,098	-
Long-term loans	1	1	0
Total assets	¥ 32,059	¥ 32,059	¥ 0
Accounts payable	6,321	6,321	-
Short-term bank loans	700	700	-
Total liabilities	¥ 7,021	¥ 7,021	¥ -

	millions of yen		
	2012		
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 16,239	¥ 16,239	¥ -
Notes and accounts receivable	7,858	7,858	-
Short-term investments and investments in securities	4,720	4,720	-
Long-term loans	168	145	(23)
Total assets	¥ 28,985	¥ 28,962	¥ (23)
Accounts payable	6,380	6,380	-
Short-term bank loans	700	700	-
Total liabilities	¥ 7,080	¥ 7,080	¥ -

	thousands of U.S.dollars(Note 1)		
	2013		
	Book Value	Fair Value	Differences
Cash and cash equivalents	\$ 192,537	\$ 192,537	\$ -
Notes and accounts receivable	83,643	83,643	-
Short-term investments and investments in securities	64,868	64,868	-
Long-term loans	13	12	0
Total assets	\$ 341,061	\$ 341,060	\$ 0
Accounts payable	67,240	67,240	-
Short-term bank loans	7,447	7,447	-
Total liabilities	\$ 74,687	\$ 74,687	\$ -

4. Short-term Investments and Investments in Securities

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

	Millions of yen		Thousands of U.S.
	2013	2012	dollars(Note 1)
			2013

Other securities:			
Bonds and debentures	¥	-	¥ -
Time deposits		3,520	4,720
	¥	3,520	¥ 4,720
			\$ 37,447
			\$ 37,447

The following is a summary of investments in securities at March 31, 2013 and 2012 respectively:

Millions of yen			
March 31, 2013			
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	¥ 1,803	¥ 1,332	¥ (118)
Bonds and debentures	1,000	-	(145)
Other	2,142	339	(255)
	¥ 4,945	¥ 1,670	¥ (518)
Add: Securities without readily determinable fair value			1,914
			¥ 8,012

Millions of yen			
March 31, 2012			
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	¥ 1,730	¥ 740	¥ (133)
Bonds and debentures	1,000	-	(253)
Other	2,353	197	(371)
	¥ 5,083	¥ 937	¥ (757)
Add: Securities without readily determinable fair value			1,915
			¥ 7,178

Thousands of U.S.dollars(Note 1)			
March 31, 2013			
Other securities			
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	\$ 19,180	\$ 14,168	\$ (1,254)
Debt securities	10,638	-	(1,543)
Other	22,789	3,602	(2,714)
	\$ 52,608	\$ 17,771	\$ (5,511)
Add: Securities without readily determinable fair value			20,366
			\$ 85,234

5. Inventories

Inventories at March 31, 2013 and 2012 comprise the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2013	2012	2013
Finished goods	¥ 1,887	¥ 1,760	\$ 20,073
Work in process	415	442	4,413
Raw materials and supplies	1,062	1,116	11,301
	¥ 3,364	¥ 3,318	\$ 35,786

6. Short-term Bank Loans and Long-term Debt

The annual average interest rates applicable to short-term bank loans at March 31, 2013 is 0.67 %

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

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2013	2012	2013
Loans from banks:			
Unsecured loans, maturing in 2013	¥ (700)	¥ (700)	\$ (7,447)
Total	(700)	(700)	(7,447)
Less: current portion	(700)	(700)	(7,447)
Long-term debt, less current portion	¥ -	¥ -	\$ -

7. Allowance for retirement benefits

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2013 and 2012 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2013	2012	2013
Benefit obligation at end of years	¥ (1,218)	¥ (1,127)	\$ (12,959)
Fair value of plan assets at end of years	828	832	8,808
Benefit obligation in excess of plan assets	(390)	(295)	(4,152)
Unrecognized actuarial loss	98	43	1,043
Allowance for retirement benefits	¥ (292)	¥ (252)	\$ (3,109)

Benefit expenses of the Company included the following components for the year ended March 31, 2013 and 2012 respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2013	2012	2013
Service cost	¥ 66	¥ 60	\$ 701
Interest cost	20	20	218
Expected return on plan assets	(15)	(17)	(159)
Amortization: Actuarial losses	58	46	617
Benefit expenses	¥ 130	¥ 109	\$ 1,378

Assumption used in the accounting for the defined benefit plans for the year ended March 31, 2013 and 2012 is as follows:

	2013	2012
Method of attributing benefit to periods of service	straight-line basis	straight-line basis
Discount rate	1.8%	1.8%
Long-term rate of return on fund assets	1.8%	1.9%
Amortization period for actuarial losses	5years	5years

8. Contingencies

The Group was contingently liable as guarantor of indebtedness of affiliates for ¥353 million (U.S.\$3,753thousand) and ¥312 million (U.S.\$3,324thousand) at March 31, 2013 and 2012 respectively.

9. Research and Development and Computer Software

Research and development expenditure charged to income was ¥864 million(U.S.\$9,191 thousand) and ¥897 million (U.S.\$9,546thousand) for the year ended March 31, 2013 and 2012, respectively.

Capitalized expenditure for the development of computer software was as follows:

Thousands of U.S.

	Millions of yen		dollars(Note 1)
	2013	2012	2013
Balance of beginning of year	¥ 5	¥ 9	\$ 50
Additions	9	-	91
Amortization	(4)	(4)	(44)
Balance at end of year	¥ 9	¥ 5	\$ 96

10. Income taxes

The Company is subject to several taxes based on income, which in the aggregate resulted in statutory tax rates of approximately 38.0% and 40.7% for the years ended March 31, 2013 and 2012. Foreign subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2013 and 2012 differs from the Company's statutory tax rate for the following reasons:

	2013	2012
Statutory tax rate	38.0	40.7
Permanently nondeductible expenses	0.7	1.9
Permanently nontaxable dividends received	(0.7)	(1.6)
Per capital levy of residents tax	0.6	1.4
Reserve for special depreciation	(2.7)	(6.7)
Additional tax on retained earnings	1.2	-
Adjustment on deferred tax assets due to change in income tax-rate	-	4.6
Effect due to consolidation	0.1	0.0
Difference of tax rates of overseas subsidiary	(1.0)	0.2
Valuation allowance	(0.1)	4.9
Other	(1.3)	(0.8)
Effective tax rate	34.8	44.6

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2013 and 2012 are presented below:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2013	2012	2013
Deferred tax assets:			
Accrued severance indemnities	¥ 102	¥ 88	\$ 1,088
Accrued employee bonuses	104	102	1,107
Unrealized losses on inventories	14	15	147
Net unrealized holding losses on securities	321	557	3,417
Other	439	320	4,669
Gross deferred tax assets	980	1,082	10,429
Valuation allowance	(139)	(56)	(1,480)
Total deferred tax assets	841	1,026	8,949
Deferred tax liabilities:			
Net unrealized holding profits on securities	(595)	(274)	(6,331)
Reserve for special depreciation	-	(2)	-
Total deferred tax liabilities	(595)	(276)	(6,331)
Net deferred tax assets	246	749	2,618

11. Segment Information

Our Group consists of two geographic segments, namely, Japan and Indonesia, each comprising manufacturing and selling functions. Each reported segment majors in the anionic surfactant, together with other sundry items.

Matsumoto Yushi-Seiyaku Co., Ltd. For Japan segment, and P.T. Matsumoto Yushi Indonesia for Indonesian segment, respectively, functions as an independent business entity developing comprehensive strategies and promoting business operations.

The reported segments are individually accounted for, with separate financial data available, and are subject to periodical scrutiny by the Board of Directors for performance evaluation and resources assignment.

(1) Segment information

Segment information for the years ended March 31, 2013 and 2012 consisted of the following respectively:

	Millions of yen		
	2013		
	Japan	Indonesia	Total segments
Sales			
External customers	¥ 26,619	¥ 665	¥ 27,284
Inter-segment	189	38	227
Total sales	¥ 26,808	¥ 703	¥ 27,511
Segment income	2,271	63	2,334
Operating assets	46,188	589	46,777
Operating liabilities	8,646	182	8,829
Other			
Depreciation	¥ 701	¥ 4	¥ 705
Capital expenditure	470	10	480

	Millions of yen		
	2012		
	Japan	Indonesia	Total segments
Sales			
External customers	¥ 26,446	¥ 592	¥ 27,038
Inter-segment	254	51	305
Total sales	¥ 26,700	¥ 643	¥ 27,343
Segment income	1,298	47	1,345
Operating assets	45,707	481	46,188
Operating liabilities	8,033	180	8,213
Other			
Depreciation	¥ 780	¥ 10	¥ 790
Capital expenditure	299	4	303

	Thousands of U.S.dollars		
	2013		
	Japan	Indonesia	Total segments
Sales			
External customers	\$ 283,181	\$ 7,078	\$ 290,259
Inter-segment	2,007	406	2,413
Total sales	\$ 285,188	\$ 7,484	\$ 292,672
Segment income	24,162	667	24,829
Operating assets	491,361	6,270	497,632
Operating liabilities	91,984	1,938	93,922
Other			
Depreciation	\$ 7,461	\$ 42	\$ 7,503
Capital expenditure	5,000	101	5,101

(2) Adjustments and eliminations

Reconciliation of sales	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Segment sales	¥ 27,511	¥ 27,343	\$ 292,672
Inter-segment transactions (elimination)	(227)	(305)	(2,413)
Group sales	¥ 27,284	¥ 27,038	\$ 290,259

Reconciliation of income	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013

Segment income	¥	2,334	¥	1,345	\$	24,829
Inter-segment transactions (elimination)		45		(23)		474
Adjustment of inventory		12		(1)		132
Group income	¥	<u>2,391</u>	¥	<u>1,321</u>	\$	<u>25,436</u>

Reconciliation of assets	Millions of yen		Thousands of U.S. dollars(Note 1)			
	2013	2012	2013			
Segment operating assets	¥	46,777	¥	46,188	\$	497,632
Inter-segment transactions (elimination)		(101)		(128)		(1,071)
Adjustment of inventory		(5)		(29)		(55)
Other adjustments		289		109		3,077
Group operating assets	¥	<u>46,961</u>	¥	<u>46,140</u>	\$	<u>499,583</u>

Reconciliation of liabilities	Millions of yen		Thousands of U.S. dollars(Note 1)			
	2013	2012	2013			
Segment operating liabilities	¥	8,829	¥	8,213	\$	93,922
Inter-segment transactions (elimination)		(101)		(128)		(1,071)
Group operating liabilities	¥	<u>8,728</u>	¥	<u>8,086</u>	\$	<u>92,851</u>

(3) Related information

Products and Services information	Millions of yen		Thousands of U.S. dollars(Note 1)			
	2013	2012	2013			
Sales to external customers						
Surfactant	¥	19,805	¥	19,608	\$	210,690
Other		7,479		7,430		79,569
Total	¥	<u>27,284</u>	¥	<u>27,038</u>	\$	<u>290,259</u>

Geographic information	Millions of yen		Thousands of U.S. dollars(Note 1)			
	2013	2012	2013			
Sales to external customers						
Japan	¥	14,157	¥	14,719	\$	150,602
Asia		11,942		11,267		127,044
Other		1,186		1,052		12,613
Total	¥	<u>27,284</u>	¥	<u>27,038</u>	\$	<u>290,259</u>

Main customers information	Millions of yen		Thousands of U.S. dollars(Note 1)			
	2013	2012	2013			
Sales						
Nippon Quaker Chemical,Ltd.	¥	4,261	¥	4,552	\$	45,327
Marubeni Chemix Corporation		3,590		3,570		38,191

12. Related Party Transactions

Principal transactions between the Company and its affiliate for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars			
	2013	2012	2013			
Sales(Nippon Quaker Chemical,Ltd.)	¥	4,261	¥	4,552	\$	45,327
Purchase(Nippon Quaker Chemical,Ltd.)		1,733		1,791		18,439

13. Subsidiaries

The Company's subsidiaries are as follows:

Ownership

<u>Name</u>	<u>Interest</u>	<u>Country of Incorporation</u>
P.T.Matsumoto-Yushi Indonesia	49%	Indonesia

14. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the year ended March 31, 2013 were proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 27, 2013:

<u>Appropriations</u>	<u>Millions of yen</u>	<u>Thousands of U.S.dollars</u>
Cash dividends (¥60.0per share)	¥ 550	\$ 5,851

15. Net income Per Share

	<u>Millions of yen</u>		<u>Thousands of U.S dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Net income	¥ 1,602	¥ 626	\$ 17,042
Net income available to common shareholders	1,602	626	17,042
	<u>Thousand Shares</u>		
	<u>2013</u>	<u>2012</u>	
The weighted average number of shares of common stock outstanding	9,926	10,178	
	<u>yen</u>		<u>U.S.dollars</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Net income per share	¥ 161.39	¥ 61.52	\$ 1.717

16. Asset Retirement Obligations

Asset retirement obligations for the year ended March 31, 2013 and 2012 consisted of the following respectively:

	<u>Millions of yen</u>	<u>Millions of yen</u>	<u>Thousands of U.S. dollars(Note 1)</u>
	<u>2013</u>	<u>2012</u>	<u>2013</u>
Balance at beginning of year	¥ 95	¥ 92	\$ 1,006
Payments for purchase of property, plant and equipment	1	1	5
Interest cost	2	2	18
Balance at end of year	¥ 97	¥ 95	\$ 1,030