

LETTER TO STAKEHOLDERS

The Japanese economy for the current accounting period registered a trend of moderate recovery with improved corporate business performance and the personal spending aided by government's stimulative measures.

Yet, the economic outlook remains obscure due, among others, to the continuing price hikes of energy and raw materials. Furthermore, the anti-regime movements in the Middle East and unstable situations in East Asia and Ukraine added to the uncertainty of the global economic climate.

Regarding the domestic textile industry, one of our major customers, they further stepped up offshore production, and big companies shut down unprofitable operations while medium/small customers go out of business, thus leaving the situation critical as ever. Overseas, however, thanks to the economic recovery in the U.S., our business with China and Asian countries enjoyed brisk performance. On the other hand, Europe remains yet to improve.

As for the non-textile field in Japan, we stepped up production for the automotive industry which took a fair advantage of pre-consumption tax hike demand. Our housing-related business was active due, mainly, to post-quake recovery and urban renovation projects. Abroad, our automotive items are selling consistently.

Under the circumstances, we worked hard to keep up our sales and profit by developing high-quality and low-priced goods and also by quick response to the market. The continuing trend of weaker yen currency since the previous business term substantially favored our export business activities.

All in all, our consolidated sales stood at ¥30,129 million(\$292,517 thousand)(110.4% of last year on yen basis), operating income at ¥4,085 million(\$39,662 thousand)(170.9%) and net income at ¥3,490 million(\$33,880 thousand)(217.8%), respectively.

Geographically, Japan represented consolidated sales of ¥29,419 million(\$285,623 thousand)(110.5%), and segment income of ¥4,023 million(\$39,057 thousand)(177.1%).

For the anionic surfactant segment, we managed to achieve a fair performance despite a sluggish local market. Overseas, we put a pointed emphasis on the synthetic fiber manufacturers in China and managed to achieve sales recovery in volume from the dormant activities for the first half of the year. Overall, Japan sold as much as ¥3,158 million(\$30,663 thousand)(109.4%).

The nonionic surfactant segment locally suffered output decline in the textile market because of poor consumption and price deterioration. Carbon fibers picked up for aircraft use in the main. Overseas, certain textile segments saw improved sales. Overall, sales for the segment stood at ¥17,574 million(\$170,618 thousand)(112.6%).

Regarding the cationic and amphotenic surfactant, we managed favorable negotiations with the chemical industry accounting for price hikes on raw materials. We sold as much as ¥1,092 million(\$10,606 thousand)(110.5%).

The high polymer and inorganic chemical segment registered moderate sales decline on textile-related merchandise. As for non-textile fields, the market gradually improved with capital investments picking up and cosmetics doing fine. Sales amounted to ¥7,595 million(\$73,736 thousand)(106.5%).

Indonesia represents another business segment with consolidated sales of ¥710 million(\$6,895 thousand)(106.7%) and segment income of ¥78 million(\$759 thousand)(124.7%)

The nonionic surfactant business registered some partial decline in volume but secured increase in value of sales, which stood at ¥340 million(\$3,299 thousand)(109.2%).

For the high polymer and inorganic chemicals, business picked up for the second half of the year, Sales were ¥361 million(\$3,507 thousand)(104.6%).

Regarding the anionic as well as the cationic and amphotenic surfactants respectively, no remarkable growth was seen, with respective sales at ¥6 million(\$57 thousand)(95.2%) and ¥3 million(\$30 thousand)(114.7%).

Our business environment remains tough with, among others, price hikes on energy and raw materials.

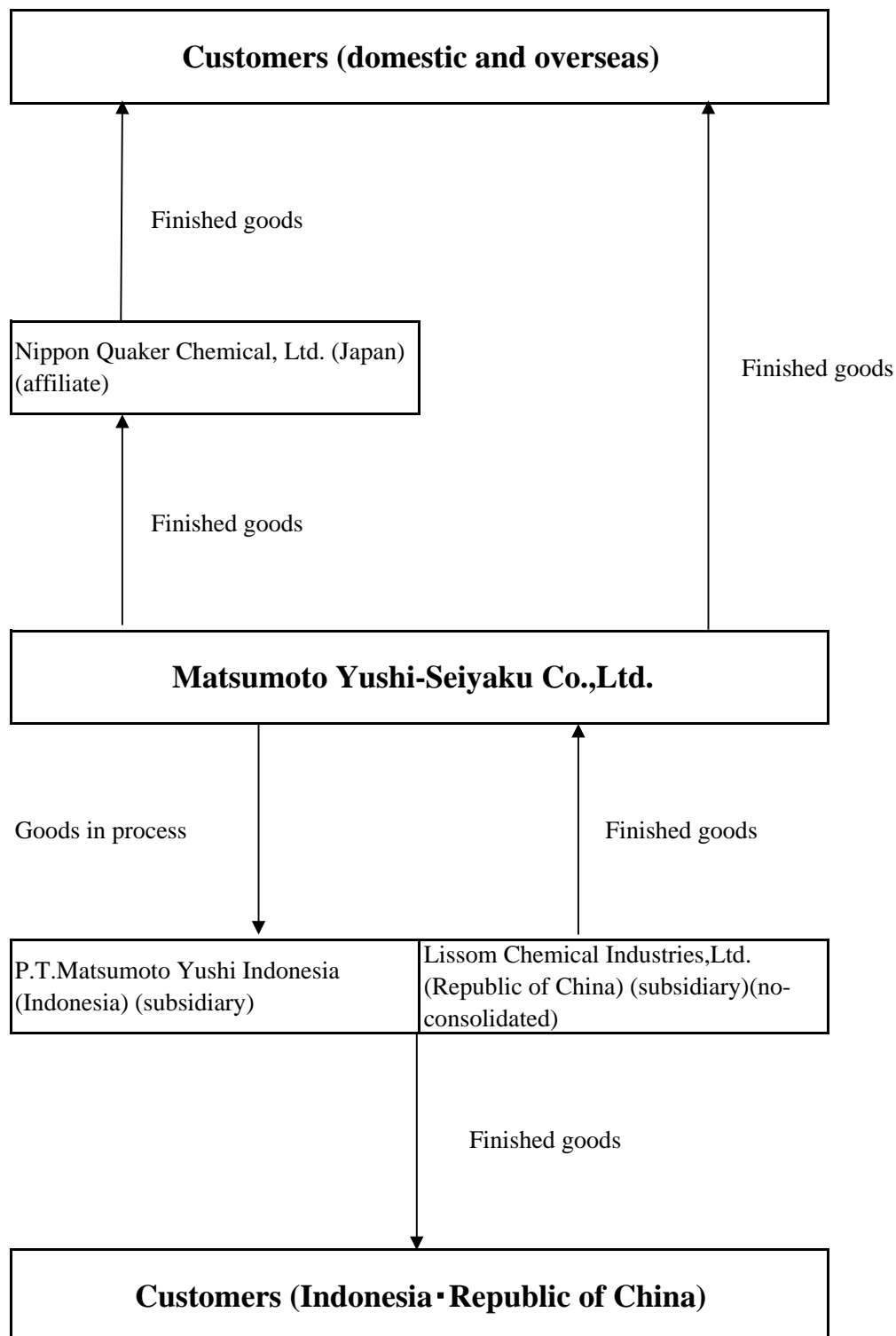
Here, we commit ourselves to our solid principles to enhance competitive products development, expansion of sales activities network, and rationalization of our own systems and organization, hence furthering corporate growth and profitability.

We very much appreciate your continued support, as always.

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>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>	<u>2010</u>
Results for the year (millions of Yen):					
Net Sales	30,129	27,284	27,038	26,557	23,552
Cost of sales	22,186	21,062	21,902	21,510	18,692
Gross profit	7,944	6,222	5,136	5,046	4,859
Selling, general and administrative expenses	3,858	3,831	3,816	3,876	3,871
Operating income	4,085	2,391	1,321	1,170	988
Other income(expenses)	1,513	141	(178)	(52)	103
Income before income taxes and minority interests	5,599	2,531	1,142	1,118	1,091
Income taxes					
current	1,895	1,019	417	343	640
deferred	189	(137)	92	47	(287)
Minority interests in subsidiary	25	48	7	14	31
Net income	3,490	1,602	626	714	707
Acquisition of property, plant and equipment	438	393	303	406	370
Depreciation and amortization	693	705	790	830	846
Per share of common stock(Yen):					
Net income	380.53	161.39	61.52	70.17	69.46
Cash dividends	100.00	60.00	50.00	50.00	50.00
Year-end financial position(millions of Yen):					
Total current assets	37,967	33,257	32,713	30,660	28,946
Total property, plant and equipment	4,222	4,519	4,761	5,250	5,681
Total investments and other assets	9,627	9,185	8,665	10,591	11,028
Total current liabilities	9,367	8,141	7,647	8,357	7,393
Total long-term liabilities	990	587	438	418	350
Minority interests	218	227	173	186	200
Foreign currency translation adjustments	206	216	217	205	188
Total net assets	41,459	38,233	38,055	37,726	37,913
Other year-end data:					
Number of shares issued(thousands)	11,282	11,282	11,282	11,282	11,282
Number of shareholders	603	612	617	628	645

MATSUMOTO YUSHI-SEIYAKU CO.,LTD. AND A SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
MARCH 31, 2014 and 2013

ASSETS	Millions of yen		Thousands of U.S.dollars (Note 1)		LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2014	2013	2014	2013		2014	2013	2014	2013
Current assets:					Current liabilities:				
Cash and cash equivalents(Note 3)	¥ 22,841	¥ 18,098	\$ 221,753	\$ 175,713	Short-term bank loans (Note 3,6)	¥ 700	¥ 700	\$ 6,796	\$ 6,796
Short-term investments (Note 3,4)	2,920	3,520	28,350	34,175	Accounts payable(Note 3):				
Notes and accounts receivable(Note 3):					Trade	5,326	4,750	51,710	46,120
Trade	6,536	6,146	63,452	59,666	Associates	711	569	6,900	5,523
Associates	1,946	1,717	18,896	16,669	Other	899	1,001	8,730	9,722
Other	29	3	282	26	Accrued income taxes	1,422	817	13,803	7,936
Allowance for doubtful accounts	(2)	(3)	(22)	(26)	Accrued bonuses to employees	275	274	2,674	2,658
	8,509	7,862	82,609	76,335	Other current liabilities	33	29	324	283
Inventories (Note 5)	3,327	3,364	32,303	32,659	Total current liabilities	9,367	8,141	90,937	79,038
Deferred income taxes (Note 10)	318	345	3,083	3,346	Long-term liabilities				
Other current assets	53	67	514	655	Allowance for retirement benefits(Note 7)	—	292	—	2,835
Total current assets	37,967	33,257	368,611	322,883	Net defined benefit liabilities(Note 7)	270	—	2,625	—
Property, plant and equipment :					Asset retirement obligations(Note 16)	100	97	970	942
Land	531	530	5,159	5,150	Deferred income taxes (Note 10)	524	103	5,088	1,000
Building and structures	6,629	6,428	64,359	62,411	Other liabilities	96	95	930	922
Machinery and equipment	11,755	11,603	114,130	112,648	Total long-term liabilities	990	587	9,612	5,699
Construction in progress	28	68	267	665	Total liabilities	10,357	8,728	100,550	84,738
	18,943	18,630	183,915	180,873	Contingencies (Note 8)				
Accumulated depreciation	(14,722)	(14,111)	(142,928)	(136,997)	Net assets:				
	4,222	4,519	40,987	43,876	Shareholders' equity				
Investments and other assets:					Common stock				
Investments in affiliates	726	581	7,047	5,639	Authorized 40,000,000 shares				
Investments in securities (Note 3,4)	8,205	8,012	79,665	77,786	Issued 2014- 11,281,629 shares	6,090	6,090	59,126	59,126
Long-term loans(Note 3)	2	1	18	12	Capital surplus	6,518	6,518	63,284	63,279
Deferred income taxes(Note 10)	3	4	26	43	Retained earnings	31,717	28,778	307,934	279,396
Other (Note 9)	696	591	6,762	5,740	Less, treasury stock, at cost:	(3,600)	(3,599)	(34,955)	(34,939)
Allowance for doubtful accounts	(6)	(5)	(54)	(48)	Total Shareholders' equity	40,725	37,787	395,390	366,862
	9,627	9,185	93,462	89,172	Valuation and translation adjustments				
	¥ 51,815	¥ 46,961	\$ 503,061	\$ 455,930	Unrealized gain (loss) on available-for-sale securities	719	434	6,979	4,216
					Foreign currency translation adjustments	(206)	(216)	(2,001)	(2,092)
					Remeasurements of defined benefit plans	3	—	33	—
					Total Valuation and translation adjustments	516	219	5,011	2,123
					Minority interests	218	227	2,112	2,207
					Total net assets	41,459	38,233	402,511	371,193
						¥ 51,815	¥ 46,961	\$ 503,061	\$ 455,930

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, 2014 and 2013**

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2014	2013	2014	2013
Net sales(Note 11,12)	¥ 30,129	¥ 27,284	\$ 292,517	\$ 264,897
Cost of sales(Note 11)	22,186	21,062	215,395	204,485
Gross profit	7,944	6,222	77,123	60,412
Selling, general and administrative expenses (Note 11)	3,858	3,831	37,460	37,199
Operating income	4,085	2,391	39,662	23,213
Other income (expenses):				
Interest and dividend income	161	119	1,566	1,157
Interest expenses	(5)	(6)	(50)	(54)
Investment profit (Loss) on equity method	149	85	1,451	828
Foreign exchange profit (Loss)	840	311	8,154	3,022
Gain (Loss) on disposal of property and equipment	(1)	(9)	(11)	(86)
Gain (Loss) on sale of securities	238	—	2,308	—
Gain (Loss) on sale of affiliates stocks	—	12	—	120
Loss from revaluation of securities	—	(211)	—	(2,049)
Loss on revaluation of membership rights of golf-club	—	(1)	—	(8)
Advanced depreciation deduction of property and	—	(0)	—	(0)
Profit (Loss) on redemption of securities	—	—	—	—
Governmental subsidy	—	22	—	214
Other, net	131	(183)	1,274	(1,779)
Income before income taxes and minority interests	5,599	2,531	54,355	24,577
Income taxes (Note 10):				
Current	1,895	1,019	18,396	9,897
Deferred	189	(137)	1,834	(1,334)
	2,084	882	20,231	8,563
Income before minority interests	3,515	1,649	34,124	16,014
Minority interests in subsidiary	(25)	(48)	(245)	(462)
Net income	¥ 3,490	¥ 1,602	\$ 33,880	\$ 15,552

	Yen		U.S. dollars (Note 1)	
	2014	2013	2014	2013
Net income per share:				
Basic(Note 15)	¥ 380.53	¥ 161.39	\$ 3.694	\$ 1.567
Cash dividends per share(Note 14)	100.00	60.00	0.971	0.583

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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)	
	2014	2013	2014	2013
Income before minority interests	¥ 3,515	¥ 1,649	\$ 34,124	\$ 16,014
Other comprehensive income				
Unrealized gains (losses) on available-for-sale securities	284	883	2,756	8,569
Foreign currency translation adjustments	(19)	13	(186)	124
Share of other comprehensive income of associates accounted for using equity method	19	(5)	189	(52)
Total other comprehensive income (loss) (Note)	284	890	2,759	8,640
Comprehensive income	<u>¥ 3,799</u>	<u>¥ 2,539</u>	<u>\$ 36,884</u>	<u>\$ 24,654</u>
Comprehensive income attributable to:				
Owners of the parent company	3,784	2,485	36,734	24,129
Minority interests	15	54	150	525

**MATSUMOTO YUSHI-SEIYAKU CO.,LTD
AND A SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
YEARS ENDED MARCH 31, 2014 and 2013**

	Millions of yen											
	Shareholders' equity						Accumulated other comprehensive income					Total net assets
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulator other comprehensive income	Minority interests	
Balance at March 31, 2012	11,282	6,090	6,518	27,685	(3,599)	36,694	(448)	(217)	-	(665)	173	
Cash dividends				(509)		(509)						(509)
Net income for the year				1,602		1,602						1,602
Purchase of treasury stock												
Net change of items other than shareholders' equity							882	2		883	54	937
Balance at March 31, 2013	11,282	6,090	6,518	28,778	(3,599)	37,787	434	(216)	-	219	227	38,233
Cash dividends				(550)		(550)						(550)
Net income for the year				3,490		3,490						3,490
Purchase of treasury stock			0		(2)	(1)						(1)
Net change of items other than shareholders' equity							285	9	3	297	(10)	288
Balance at March 31, 2014	<u>11,282</u>	<u>¥ 6,090</u>	<u>¥ 6,518</u>	<u>¥ 31,717</u>	<u>¥ (3,600)</u>	<u>¥ 40,725</u>	<u>¥ 719</u>	<u>¥ (206)</u>	<u>¥ 3</u>	<u>¥ 516</u>	<u>¥ 218</u>	<u>¥ 41,459</u>

Thousands of U.S. dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income						Total net assets
	Number of shares issued (thousands)	Common stock	Capital surplus	Retained earnings	Treasury stock	Total Shareholders' equity	Unrealized gain (loss) on other securities	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Total Accumulator other comprehensive income	Minority interests	
Balance at March 31, 2012	11,282	\$ 59,126	\$ 63,279	\$ 268,784	\$ (34,939)	\$ 356,251	\$ (4,346)	\$ (2,107)	-	\$ (6,454)	\$ 1,682	\$ 351,479
Cash dividends				(4,940)		(4,940)						(4,940)
Net income for the year				15,552		15,552						15,552
Purchase of treasury stock												
Net change of items other than shareholders' equity							8,562	15		8,577	525	9,102
Balance at March 31, 2013	11,282	\$ 59,126	\$ 63,279	\$ 279,396	\$ (34,939)	\$ 366,862	\$ 4,216	\$ (2,092)	-	\$ 2,123	\$ 2,207	\$ 371,193
Cash dividends				(5,342)		(5,342)						(5,342)
Net income for the year				33,880		33,880						33,880
Purchase of treasury stock			5		(16)	(11)						(11)
Net change of items other than shareholders' equity							2,763	91	33	2,887	(95)	2,792
Balance at March 31, 2014	<u>11,282</u>	<u>\$ 59,126</u>	<u>\$ 63,284</u>	<u>\$ 307,934</u>	<u>\$ (34,955)</u>	<u>\$ 395,389</u>	<u>\$ 6,979</u>	<u>\$ (2,001)</u>	<u>\$ 33</u>	<u>\$ 5,011</u>	<u>\$ 2,112</u>	<u>\$ 402,511</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, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars	
			(Note 1)	
	2014	2013	2014	2013
Cash flows from operating activities:				
Net income before income taxes and minority interests	¥ 5,599	¥ 2,531	\$ 54,355	\$ 24,577
Adjustments for:				
Depreciation and amortization	693	705	6,730	6,847
Loss (gain) on sales and disposal of property,	(19)	7	(181)	63
Loss (gain) on evaluation of securities	—	211	—	2,049
Loss (gain) on sale of securities	(238)	—	(2,308)	—
Loss (gain) on sale of affiliates stocks	—	(12)	—	(120)
Allowance for doubtful accounts	0	(2)	2	(15)
Investment (profit) loss on equity method	(148)	(102)	(1,437)	(987)
Accrued severance indemnities	(14)	40	(140)	387
Accrued bonuses to employees	2	6	16	55
Interest and dividend income	(161)	(119)	(1,566)	(1,157)
Interest expenses	5	6	50	54
Foreign exchange (profit) loss	(829)	(224)	(8,045)	(2,178)
Decrease (Increase) in notes and accounts receivable	(625)	(5)	(6,073)	(47)
Decrease (Increase) in inventories	23	(38)	220	(367)
Increase (Decrease) in accounts payable	725	(231)	7,038	(2,240)
Increase (Decrease) in accrued consumption tax	12	4	113	37
Other, net	(95)	371	(917)	3,604
Sub total	4,929	3,148	47,856	30,565
Interest and dividend income received	183	134	1,774	1,305
Interest expenses paid	(3)	(6)	(33)	(58)
Income taxes paid	(1,299)	(472)	(12,616)	(4,579)
Income taxes refund	—	—	—	—
Net cash provided by operating activities	3,809	2,805	36,981	27,232
Cash flows from investing activities:				
Repayment of maturity of time deposits	(6,540)	(9,040)	(63,495)	(87,767)
Proceeds from maturity of time deposits	7,140	10,240	69,320	99,418
Receipt from sale of short-term investments	—	282	—	2,741
Receipt from sale of affiliates stocks	—	14	—	135
Payments for purchase of property, plant and equipment	(438)	(393)	(4,252)	(3,814)
Receipt from sale of investments in securities	1,105	5	10,724	49
Payments for purchase of investments in securities	(620)	(73)	(6,022)	(708)
Decrease (Increase) of loans receivable	(1)	187	(6)	1,815
Other, net	(79)	22	(764)	209
Net cash provided by (used in) investing activities	567	1,244	5,506	12,078
Cash flows from financing activities:				
Increase (Decrease) in short-term bank loans, net	—	—	—	—
Cash dividends paid	(550)	(509)	(5,344)	(4,944)
Cash dividends paid to minority shareholders	(25)	—	(242)	—
Purchase of treasury stock	(1)	(1,852)	(11)	(17,984)
Net cash used in financing activities	(577)	(2,362)	(5,597)	(22,928)
Effect of exchange rate changes on cash and cash equivalents	942	771	9,150	7,488
Net increase (decrease) in cash and cash equivalents	4,742	2,459	46,040	23,870
Cash and cash equivalents at beginning of year	18,098	15,640	175,713	151,844
Cash and cash equivalents at end of year (Note)	¥ 22,841	¥ 18,098	\$ 221,753	\$ 175,713

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, 2014 and 2013

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, 2014, which was ¥103 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 "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 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 9,170 thousand and 9,926 thousand for the periods ended March 31, 2014 and 2013, 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 how retirement obligations and current service costs should be determined.

(2) Application due date

These standards become effective for the fiscal year beginning on or after April 1, 2014.

(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, 2014 and 2013 consisted of the following:

	millions of yen		
	2014		
	Book Value	Fair Value	Differences
Cash and cash equivalents	¥ 22,841	¥ 22,841	¥ -
Notes and accounts receivable	8,509	8,509	-
Short-term investments and investments in securities	11,125	11,125	-
Long-term loans	2	1	△0
Total assets	¥ 42,477	¥ 42,476	¥ △0
Accounts payable	6,936	6,936	-
Short-term bank loans	700	700	-
Total liabilities	¥ 7,636	¥ 7,636	¥ -

	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	11,532	11,532	-
Long-term loans	1	1	0
Total assets	¥ 37,493	¥ 37,493	¥ 0
Accounts payable	6,321	6,321	-
Short-term bank loans	700	700	-
Total liabilities	¥ 7,021	¥ 7,021	¥ -

	thousands of U.S.dollars(Note 1)		
	2014		
	Book Value	Fair Value	Differences
Cash and cash equivalents	\$ 221,753	\$ 221,753	\$ -
Notes and accounts receivable	82,609	82,609	-
Short-term investments and investments in securities	108,014	108,014	-
Long-term loans	18	13	△5
Total assets	\$ 412,394	\$ 412,389	\$ △5
Accounts payable	67,340	67,340	-
Short-term bank loans	6,796	6,796	-
Total liabilities	\$ 74,136	\$ 74,136	\$ -

4. Short-term Investments and Investments in Securities

Short-term investment at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
	Other securities:		
Bonds and debentures	¥ -	¥ -	\$ -
Time deposits	2,920	3,520	28,350
	<u>¥ 2,920</u>	<u>¥ 3,520</u>	<u>\$ 28,350</u>

The following is a summary of investments in securities at March 31, 2014 and 2013 respectively:

	Millions of yen				
	March 31, 2014				
	Other securities				
Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)		
Equity securities	¥ 1,596	¥ 1,705	¥ (7)	¥ 3,294	
Bonds and debentures	1,299	21	(64)	1,255	
Other	1,842	300	(403)	1,739	
	<u>¥ 4,737</u>	<u>¥ 2,026</u>	<u>¥ (474)</u>	<u>¥ 6,288</u>	
Add: Securities without readily determinable fair value				1,917	
				<u>¥ 8,205</u>	

	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)	¥ 3,017	
Bonds and debentures	1,000	-	(145)	855	
Other	2,142	339	(255)	2,226	
	<u>¥ 4,945</u>	<u>¥ 1,670</u>	<u>¥ (518)</u>	<u>¥ 6,098</u>	
Add: Securities without readily determinable fair value				1,914	
				<u>¥ 8,012</u>	

Thousands of U.S.dollars(Note 1)				
March 31, 2014				
Other securities				
	Cost	Gross unrealized gains	Gross unrealized losses	Book Value (Estimated fair value)
Equity securities	\$ 15,494	\$ 16,554	\$ (72)	\$ 31,976
Debt securities	12,614	200	(625)	12,189
Other	17,881	2,912	(3,909)	16,884
	<u>\$ 45,989</u>	<u>\$ 19,666</u>	<u>\$ (4,606)</u>	<u>\$ 61,049</u>
Add: Securities without readily determinable fair value				18,616
				<u>\$ 79,665</u>

5. Inventories

Inventories at March 31, 2014 and 2013 comprise the following:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Finished goods	¥ 1,818	¥ 1,887	\$ 17,649
Work in process	453	415	4,395
Raw materials and supplies	1,057	1,062	10,258
	<u>¥ 3,327</u>	<u>¥ 3,364</u>	<u>\$ 32,303</u>

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

The annual average interest rates applicable to short-term bank loans at March 31, 2014 is 0.65 %

Short-term Bank Loans and Long-term debt at March 31, 2014 and 2013 consisted of the following respectively:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Loans from banks:			
Unsecured loans, maturing in 2014	¥ (700)	¥ (700)	\$ (6,796)
Total	(700)	(700)	(6,796)
Less: current portion	(700)	(700)	(6,796)
Long-term debt, less current portion	<u>¥ -</u>	<u>¥ -</u>	<u>\$ -</u>

7. Retirement And Pension Plans

For the years ended March 31, 2013

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

	Millions of yen	Thousands of U.S. dollars(Note 1)
	2013	2013
Benefit obligation at end of years	¥ (1,218)	\$ (11,825)
Fair value of plan assets at end of years	828	8,039
Benefit obligation in excess of plan assets	(390)	(3,786)
Unrecognized actuarial loss	98	951
Allowance for retirement benefits	<u>¥ (292)</u>	<u>\$ (2,835)</u>

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

	Millions of yen	Thousands of U.S. dollars(Note 1)
	<u>2013</u>	<u>2013</u>
Service cost	¥ 66	\$ 641
Interest cost	20	194
Expected return on plan assets	(15)	(146)
Amortization: Actuarial losses	58	563
Benefit expenses	<u>¥ 130</u>	<u>\$ 1,262</u>

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

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

For the years ended March 31, 2014

The following tables set forth the changes in benefit obligation, and plan assets of the Company at March 31, 2014 and respectively:

(1) Changes in Benefit Obligations

	Millions of yen	Thousands of U.S. dollars(Note 1)
	<u>2014</u>	<u>2014</u>
Beginning balance of benefit obligations	¥ 1,218	\$ 11,827
Service costs	70	683
Interest costs	19	189
Actuarial differences arising during the year	(14)	(137)
Retirement benefits paid	(171)	(1,663)
Ending balance of benefit obligations	<u>¥ 1,123</u>	<u>\$ 10,899</u>

(2) Changes in Pension Assets

	Millions of yen	Thousands of U.S. dollars(Note 1)
	<u>2014</u>	<u>2014</u>
Beginning balance of pension assets	¥ 828	\$ 8,038
Expected return on pension assets	17	169
Actuarial differences arising during the year	59	573
Contributions made by the Company and consolidated subsidiaries	82	796
Retirement benefits paid	(134)	(1,301)
Ending balance of pension assets	<u>¥ 852</u>	<u>\$ 8,274</u>

(3) Reconciliation of benefit obligations and pension assets with net defined benefit liability and asset on the Consolidated Balance Sheets

	<u>Millions of yen</u> <u>2014</u>	<u>Thousands of U.S.</u> <u>dollars(Note 1)</u> <u>2014</u>
Funded benefit obligations	¥ 1,123	\$ 10,899
Pension assets	(852)	(8,274)
Net amount of liability and asset on Consolidated Balance Sheets	<u>¥ 270</u>	<u>\$ 2,625</u>

	<u>Millions of yen</u> <u>2014</u>	<u>Thousands of U.S.</u> <u>dollars(Note 1)</u> <u>2014</u>
Net defined benefit asset	¥ -	\$ -
Net defined benefit liability	270	2,625
Net amount of liability and asset on Consolidated Balance Sheets	<u>¥ 270</u>	<u>\$ 2,625</u>

(4) Retirement Benefit Expenses

	<u>Millions of yen</u> <u>2014</u>	<u>Thousands of U.S.</u> <u>dollars(Note 1)</u> <u>2014</u>
Service costs	¥ 70	\$ 682
Interest costs	19	189
Expected return on pension assets	(17)	(169)
Amortization of actuarial differences	32	315
Retirement benefit expenses for defined benefit pension plans	<u>¥ 105</u>	<u>\$ 1,018</u>

(5) Remeasurements of Defined Benefit Plans

Breakdown of remeasurements of defined benefit plans (before deduction of tax effects)

	<u>Millions of yen</u> <u>2014</u>	<u>Thousands of U.S.</u> <u>dollars(Note 1)</u> <u>2014</u>
Unrecognized actuarial differences	¥ 7	\$ 71
Total	<u>¥ 7</u>	<u>\$ 71</u>

(6) Pension Assets

Breakdown of pension assets

	<u>2014</u>
Bonds	22.8%
Stocks	30.9%
Other	46.3%
Total	<u>100.0%</u>

Rate of expected return on pension assets

The expected return on pension assets is determined based on the current and estimated future rates of return on various pension assets.

(7) Basic Assumptions for Calculating Benefit Obligations

	<u>2014</u>
Discount rate	1.8%
Expected rate of return on pension assets	2.1%

8. Contingencies

The Group was contingently liable as guarantor of indebtedness of affiliates for ¥101 million (U.S.\$982thousand) and ¥353 million (U.S.\$3,753thousand) at March 31, 2014 and 2013 respectively.

9. Research and Development and Computer Software

Research and development expenditure charged to income was ¥816 million(U.S.\$7,922 thousand) and ¥864 million (U.S.\$9,191thousand) for the year ended March 31, 2014 and 2013, respectively.

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

	Millions of yen		Thousands of U.S.
	2014	2013	dollars(Note 1)
Balance of beginning of year	¥ 9	¥ 5	\$ 88
Additions	-	9	-
Amortization	(3)	(4)	(31)
Balance at end of year	¥ 6	¥ 9	\$ 57

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% for the years ended March 31, 2014 and 2013. Foreign subsidiary is subject to income taxes of the country in which it operates.

The effective rate for the two years ended March 31, 2014 and 2013 differs from the Company's statutory tax rate for the following reasons:

	2014	2013
Statutory tax rate	38.0	38.0
Permanently nondeductible expenses	0.3	0.7
Permanently nontaxable dividends received	(0.4)	(0.7)
Per capital levy of residents tax	0.3	0.6
Reserve for special depreciation	(1.2)	(2.7)
Additional tax on retained earnings	1.2	1.2
Adjustment on deferred tax assets due to change in income tax-rate	0.3	-
Effect due to consolidation	0.0	0.1
Difference of tax rates of overseas subsidiary	(0.1)	(1.0)
Elimination of intercompany dividend income	(0.2)	-
Valuation allowance	(0.1)	(0.1)
Other	(0.9)	(1.3)
Effective tax rate	37.2	34.8

The significant components of deferred tax assets and deferred tax liabilities at March 31, 2014 and 2013 are presented below:

	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Deferred tax assets:			
Accrued severance indemnities	¥ —	¥ 102	\$ —
Net defined benefit liability	94	—	915
Accrued employee bonuses	98	104	952
Unrealized losses on inventories	9	14	89
Net unrealized holding losses on securities	255	321	2,476
Other	262	439	2,544
Gross deferred tax assets	718	980	6,975
Valuation allowance	(192)	(139)	(1,863)
Total deferred tax assets	527	841	5,113
Deferred tax liabilities:			
Net unrealized holding profits on securities	(730)	(595)	(7,092)
Reserve for special depreciation	—	—	—
Total deferred tax liabilities	(730)	(595)	(7,092)
Net deferred tax assets	(204)	246	(1,979)

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, 2014 and 2013 consisted of the following respectively:

	Millions of yen		
	2014		
	Japan	Indonesia	Total segments
Sales			
External customers	¥ 29,419	¥ 710	¥ 30,129
Inter-segment	260	44	303
Total sales	¥ 29,679	¥ 754	¥ 30,433
Segment income	4,023	78	4,101
Total assets	50,908	581	51,489
Total liabilities	10,270	193	10,463
Other			
Depreciation	¥ 688	¥ 5	¥ 693
Capital expenditure	398	—	398

	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
Total assets	46,188	589	46,777
Total liabilities	8,646	182	8,829
Other			
Depreciation	¥ 701	¥ 4	¥ 705
Capital expenditure	470	10	480

	Thousands of U.S.dollars		
	2014		
	Japan	Indonesia	Total segments
Sales			
External customers	\$ 285,623	\$ 6,895	\$ 292,517
Inter-segment	2,524	422	2,946
Total sales	\$ 288,146	\$ 7,317	\$ 295,463
Segment income	39,057	759	39,817
Total assets	494,251	5,640	499,891
Total liabilities	99,708	1,871	101,579
Other			
Depreciation	\$ 6,679	\$ 51	\$ 6,730
Capital expenditure	3,862	—	3,862

(2) Adjustments and eliminations

Reconciliation of sales	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Segment sales	¥ 30,433	¥ 27,511	\$ 295,463
Inter-segment transactions (elimination)	(303)	(227)	(2,946)
Group sales	¥ 30,129	¥ 27,284	\$ 292,517

Reconciliation of income	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Segment income	¥ 4,101	¥ 2,334	\$ 39,817
Inter-segment transactions (elimination)	(14)	45	(132)
Adjustment of inventory	(2)	12	(22)
Group operating income	¥ 4,085	¥ 2,391	\$ 39,662

Reconciliation of assets	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Segment operating assets	¥ 51,489	¥ 46,777	\$ 499,891
Inter-segment transactions (elimination)	(99)	(101)	(965)
Adjustment of inventory	(6)	(5)	(57)
Other adjustments	432	289	4,192
Group assets	¥ 51,815	¥ 46,961	\$ 503,061

Reconciliation of liabilities	Millions of yen		Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Segment operating liabilities	¥ 10,463	¥ 8,829	\$ 101,579
Inter-segment transactions (elimination)	(106)	(101)	(1,029)
Group liabilities	<u>¥ 10,357</u>	<u>¥ 8,728</u>	<u>\$ 100,550</u>

(3) Related information

Products and Services information	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Sales to external customers			
Surfactant	¥ 22,173	¥ 19,805	\$ 215,275
Other	7,956	7,479	77,242
Total	<u>¥ 30,129</u>	<u>¥ 27,284</u>	<u>\$ 292,517</u>

Geographic information	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Sales to external customers			
Japan	¥ 14,811	¥ 14,157	\$ 143,798
Asia	13,968	11,942	135,616
Other	1,350	1,186	13,103
Total	<u>¥ 30,129</u>	<u>¥ 27,284</u>	<u>\$ 292,517</u>

Main customers information	Millions of yen	Millions of yen	Thousands of U.S. dollars(Note 1)
	2014	2013	2014
Sales			
Nippon Quaker Chemical,Ltd.	¥ 4,546	¥ 4,261	\$ 44,137
Marubeni Chemix Corporation	4,710	3,590	45,730

12. Related Party Transactions

Principal transactions between the Company and its affiliate for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S.dollars
	2014	2013	2014
Sales(Nippon Quaker Chemical,Ltd.)	¥ 4,546	¥ 4,261	\$ 44,137
Purchase(Nippon Quaker Chemical,Ltd.)	1,725	1,733	16,747

13. Subsidiaries

The Company's subsidiaries are as follows:

Name	Ownership Interest	Country of Incorporation
P.T.Matsumoto-Yushi Indonesia	49%	Indonesia

14. Subsequent Event

The following appropriations of the Company's retained earnings in respect of the yearended March 31, 2014 were proposed by the Board of Directors and approved by the shareholders at the annual general meeting held on June 27, 2014:

<u>Appropriations</u>	<u>Millions of yen</u>	<u>Thousands of U.S.dollars</u>
Cash dividends (¥100.0per share)	¥ 917	\$ 8,903

15. Net income Per Share

	<u>Millions of yen</u>		<u>Thousands of U.S dollars</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>
Net income	¥ 3,490	¥ 1,602	\$ 33,880
Net income available to common shareholders	3,490	1,602	33,880

	<u>Thousand Shares</u>	
	<u>2014</u>	<u>2013</u>
The weighted average number of shares of common stock outstanding	9,170	9,926

	<u>yen</u>		<u>U.S.dollars</u>
	<u>2014</u>	<u>2013</u>	<u>2014</u>
Net income per share	¥ 380.53	¥ 161.39	\$ 3.694

16. Asset Retirement Obligations

Asset retirement obligations for the year ended March 31, 2014 and 2013 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>2014</u>	<u>2013</u>	<u>2014</u>
Balance at beginning of year	¥ 97	¥ 95	\$ 940
Payments for purchase of property, plant and equipment	1	1	13
Interest cost	2	2	17
Balance at end of year	<u>¥ 100</u>	<u>¥ 97</u>	<u>\$ 970</u>