Ishihara Sangyo Kaisha

Annual Report 2012

Year Ended March 31, 2012

Challenge for Growth and Evolution

ISK

Forward-Looking Statements

Forward-looking statements in this report relating to operational result forecasts are based on certain assumptions that the Company believes are reasonable and involve risks and uncertainties. Actual results may differ significantly from these forecasts, affected by various material factors.

Contents

Consolidated Financial Highlights

For the years ended March 31, 2012, 2011 and 2010

	Millions of yen			Thousands of U.S. dollars (Note)
	2012	2011	2010	2012
For the years ended March 31,				
Net sales:				
Domestic	¥ 48,425	¥ 46,408	¥ 51,801	$ 589,184
Overseas	53,954	52,649	52,711	656,454
Total	102,379	99,057	104,512	1,245,638
Sales classified by business segment:				
Inorganic chemicals	58,005	52,126	46,289	705,743
Organic chemicals	40,391	39,573	42,987	491,434
Construction	2,949	6,352	14,244	35,880
Other businesses	1,034	1,006	992	12,581
Total	102,379	99,057	104,512	1,245,638
Operating income	9,761	9,039	5,481	118,761
Net income (loss)	2,952	4,850	(1,323)	35,917
Depreciation and amortization of property, plant and equipment	5,691	5,710	5,474	69,242
Research and development costs	7,885	6,776	6,406	95,936
At the year end				
Current assets	104,507	96,072	92,950	1,271,529
Total assets	175,433	172,429	174,381	2,134,481
Current liabilities	65,713	58,113	68,226	799,526
Net assets	50,281	48,158	44,811	611,765

	Yen			U.S. dollars (Note)
Per share data				
Net income (loss)	¥ 7.38	¥ 12.12	¥ (3.30)	$ 0.0898
Net assets	125.64	120.32	111.87	1.5287

Number of employees (as of March 31)	1,923	1,915	1,878	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥82.19 = U.S.$1.00, the rate of exchange prevailing on March 31, 2012.

To Our Shareholders and Friends

Kazutaka Fujii
President & CEO

In fiscal 2011, ended March 31, 2012, there was a moderate upturn in the world economy, driven by economic growth in emerging markets in Asia, primarily China. However, by fiscal year-end the outlook for the world economy, including the United States, looked increasingly uncertain due to a number of factors. These included government policies in some emerging economies stemming from inflation concerns to rein in growth, the growing severity of the European debt crisis, and indications from the fall of 2011 that economic activity had slowed in Asia as well. In Japan, the economy showed moderate recovery despite some disruption in the first half of the year stemming from the impact of the Great East Japan Earthquake. Negative factors that emerged later in the year included the prolonged appreciation of the yen to historic levels, as well as a return to soaring crude oil prices due to the political situation in the Middle East.

The operating environment surrounding the ISK Group's leading business segment, the titanium dioxide business, changed greatly over the year. In the first half, market prices improved, mainly overseas, owing to tight global demand and supply. From the fall of 2011, while titanium ore prices continued rising, demand fell in response to the worldwide economic slowdown. In the agrochemicals business, the area of cultivated land increased on the back of higher prices for agricultural products, which is estimated to have boosted the shipment value of agrochemicals by around 20% on a global scale. Meanwhile, growing pressure from farmers for low-cost agricultural materials has escalated competition between companies and between product brands.

Amid this market environment, the ISK Group worked hard to stabilize the earnings base of its inorganic chemicals business and secure ongoing growth in the organic chemicals business. With fiscal 2011 as the final year of the fourth medium-term management plan, these efforts reflected our goal to resuming dividend payments.

As a result, in the year under review consolidated net sales amounted to ¥102.4 billion (US$1,246 million), up ¥3.3 billion from the previous year. Operating income rose ¥0.7 billion year-on-year, to ¥9.8 billion (US$119 million). Ordinary income increased ¥1.8 billion, to ¥8.0 billion (US$97 million), owing to a foreign exchange gain resulting from the depreciation of the yen around fiscal year-end. We recorded net income of ¥3.0 billion (US$36 million), down ¥1.9 billion from the previous year. This was due to the absence of extraordinary income received from the sale of fixed assets, as was the case in fiscal 2010, and a reversal of deferred tax assets accompanying changes to the tax system during the year. As a result, retained earnings went from a negative amount to a positive one.

Under the slogan of "Challenge for 2020," we will transform ourselves into a strong and responsible chemical company with excellent brand power by 2020, our 100th anniversary. To set the Group on the correct course, ISK recently launched its fifth medium-term management plan, which covers the three-year period starting in April 2012.

Since the collapse of Lehman Brothers, the global economy has been driven by economic growth in emerging nations, notably the BRICs (Brazil, Russia, India, and China). Accordingly, the growth engine of the world economy has shifted from the developed world to these emerging nations. Going forward, we expect that the BRICs will be joined by other emerging economies, mainly in Asia, as they continue to propel the world economy.

The key to realizing an ISK Group as envisioned by 2020, the year of our centenary, lies in capturing the "growth demand of emerging economies" in the medium and long terms. Based on this belief, we formulated policies in the new medium-term plan accordingly. Under the policies, we will lay the foundation for global business expansion during the term of the next medium-term management plan, which we will launch in fiscal 2015. To this end, we will strategically allocate management resources to both the organic and inorganic businesses to pursue the following initiatives:

- Reinforce global business capabilities
- Strengthen cost-competitiveness to withstand global competition
- Promote development of businesses identified as future growth drivers

ISK as envisioned in 2020, the centenary of its founding

"A strong and responsible chemical company with excellent brand power"

As a "strong chemical company" we will:

- Develop businesses with a global competitive edge based on our own technologies.
- Develop high-value-added and highly profitable businesses that will ensure continued growth and stable profits supported by innovative technologies.

As a "responsible chemical company" we will:

- Engage in environmental and social contribution activities as a good corporate citizen, keep and open dialogue with local communities, attach importance to increasing value for stakeholders, and be a corporation in which employees take pride.

The targets for each business segment are outlined below.

Organic Chemicals

In the agrochemicals business, which forms the core of this segment, we will renew efforts directed at creating a growth trajectory and achieving a consolidated sales target of ¥70.0 billion (US$852 million) during the next medium-term plan, which starts in fiscal 2015.

During the term of the previous medium-term plan, the performance of the agrochemicals business, which accounts for the bulk of overseas sales, worsened with each successive year. This was due to rising development costs for new agrochemicals on top of lower profitability stemming from the impact of the yen appreciation. Under the current medium-term plan, we will focus strategically on three objectives in order to put the business onto a sturdy growth trajectory once more. Specifically, we will establish a competitive edge and take measures to counter generic products, reinforce our business platforms in growth markets, and innovate molecule discovery echnologies and strengthen product formulation technologies. The consolidated sales target for the next medium-term plan, when new products currently under development will reach the market, is ¥70.0 billion (US$852 million).

Inorganic Chemicals

In this segment, we will focus on building a foundation for stable growth that is sustainable in the long term.

In the current operating environment surrounding the titanium dioxide business, we face challenging conditions, including continuous unprecedented surges in the price of titanium ore, the raw material from which titanium dioxide is derived. Consequently, under the current medium-term plan, we will focus on two

core strategies in order to reinforce the competitiveness of the business from a long-term perspective. Specifically, we will improve our cost structure and strengthen our framework for promoting global businesses. We have positioned the current medium-term plan as an important step for the formulation and implementation of a long-term strategy to capture growth demand in Asia while looking ahead to 2020.
In the functional materials business, we will rebuild our business foundation so that it will become a highly profitable segment. To this end, we have identified three key priority fields: cosmetic materials, electronic materials, and coating business.
Through these measures, in the next medium-term plan we will pursue a long-term strategy underpinned by the achievements of the current medium-term plan.

Developing Businesses into the Growth Engine of the Future

We will work hard to launch a battery materials/lithium titanate business in fiscal 2013. In addition, we will develop a business that utilizes biotechnology-related technology and deploy a new business model in peripheral fields in order to strengthen our core operations.

The Group has formulated a “Basic Philosophy” and “Code of Conduct” to represent the fundamental and universal values shared by all its employees in the execution of their work activities.

Basic Philosophy

- Contribute to social development, protection of life, and environmental preservation
- Respect shareholders, customers, suppliers, local communities, and employees
- Abide by laws and regulations; maintain transparency in business activities

Code of Conduct

- We will strictly observe laws, regulations, social norms, and Company rules while steadfastly adhering to high ethical standards, so as to gain social trust in our business.
- In manufacturing activities, we will place the utmost priority on global environmental protection and worker safety, and will work to prevent any workplace accident or injury.
- On the basis of respect for human rights, we will promote mutual understanding and cooperation among employees, in order to create an open and friendly workplace.
- To maintain transparency in our business activities, as a corporate citizen, we will promote communication with local communities and society, and will disclose corporate information in a timely and appropriate manner.

With all employees constantly mindful of and practicing the Basic Philosophy and Code of Conduct, the ISK Group will strive to foster progress of society through growth as a robust development-oriented corporation that adapts to the changing times and environment.

We look forward to your ongoing support and understanding.

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Kazutaka Fujii
President & CEO

Business Overview

■ Inorganic Chemicals

In the first half of the year, both domestic and overseas sales of titanium dioxide were strong, owing in part to expectations of a buoyant international market. In the second half, however, export volumes declined due to the economic slowdown in China and other parts of Asia. In response to soaring prices of titanium ore, the main raw material of titanium dioxide, during the year we adjusted our product prices a number of times, placing particular emphasis on pricing improvements overseas.

Sales of functional materials, such as barium titanate and products used in electronic components, declined on the back of a slump in the digital home appliance market.

As a result, segment sales increased ¥5.9 billion, to ¥58.0 billion (US$706 million), and operating income grew ¥4.9 billion, to ¥7.9 billion (US$ 96 million).

■ Organic Chemicals

Domestic sales of agrochemicals edged up slightly despite the impact of the Great East Japan Earthquake. Overseas, sales increased year-on-year, thanks to strong demand for herbicides and insecticides in Europe, as well as healthy insecticides sales in the Americas accompanying an increase in land area planted with cotton. On the earnings side, operating income decreased due to several factors. They included a decline in profitability stemming from a sustained high yen, as well as increased development costs needed for filing registration applications for new agrochemical products.

In the pharmaceuticals business, sales of pharmaceutical ingredients manufactured by ISK under consignment declined.

As a result, total segment sales increased ¥0.8 billion, to ¥40.4 billion (US$491 million), and operating income fell ¥3.6 billion, to ¥3.9 billion (US$48 million).

■ Construction

Sales in the construction segment declined ¥3.4 billion, to ¥2.9 billion (US$36 million). The segment recorded an operating loss of ¥0.4 billion (US$4 million), compared with operating income of ¥0.6 billion in the previous fiscal year.

■ Other Businesses

In the year under review, the Group's other businesses posted sales of ¥1.0 billion (US$13 million) and operating income of ¥0.2 billion (US$2 million). Both figures are largely unchanged from the previous fiscal year.

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

As of March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Assets			
Current assets:			
Cash and deposits (Notes 4, 9 and 17)	¥ 22,195	¥ 22,083	$ 270,045
Trade receivables (Note 17):			
Notes (Note 5)	3,022	3,066	36,768
Accounts	23,139	24,611	281,531
	26,161	27,677	318,299
Less allowance for doubtful receivables	(188)	(250)	(2,287)
Trade receivables, net	25,973	27,427	316,012
Inventories (Note 7)	52,442	42,040	638,058
Deferred income taxes (Note 13)	2,229	2,190	27,120
Other current assets	1,668	2,332	20,294
Total current assets	104,507	96,072	1,271,529
Property, plant and equipment:			
Land (Note 9)	6,327	6,329	76,980
Buildings and structures (Notes 8 and 9)	49,881	49,445	606,899
Machinery and equipment (Notes 8 and 9)	125,305	126,540	1,524,577
Leased assets (Note 8)	6,487	6,022	78,927
Construction in progress	3,022	3,320	36,768
	191,022	191,656	2,324,151
Less accumulated depreciation	(137,118)	(135,548)	(1,668,305)
Property, plant and equipment, net (Note 24)	53,904	56,108	655,846
Investments and other assets:			
Investments in securities (Notes 6, 9 and 17):			
Unconsolidated subsidiaries and affiliates	2,407	2,817	29,286
Other	2,047	2,057	24,906
Total investments in securities	4,454	4,874	54,192
Long-term loans receivable	—	100	—
Goodwill	—	23	—
Deferred income taxes (Note 13)	10,279	13,527	125,064
Other	2,289	1,725	27,850
Total investments and other assets	17,022	20,249	207,106
Total assets (Note 24)	¥175,433	¥172,429	$2,134,481

The accompanying notes are an integral part of the consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 9 and 17)	¥ 22,031	¥ 23,513	$ 268,050
Current portion of long-term bank loans (Notes 9 and 17)	12,474	8,772	151,770
Current portion of bonds (Notes 9 and 17)	200	200	2,433
Trade payables (Note 17):			
Notes (Note 5)	2,236	3,000	27,205
Accounts	16,930	11,086	205,986
	19,166	14,086	233,191
Lease obligations (Notes 9 and 17)	859	880	10,452
Accrued income taxes (Note 13)	324	306	3,942
Accrued expenses	3,714	3,714	45,188
Deferred income taxes (Note 13)	—	10	—
Accrued bonuses for employees	572	600	6,960
Reserve for sales returns	86	179	1,046
Provision for loss on construction contracts	98	—	1,192
Reserve for Ferosilt removal	2,131	2,599	25,928
Reserve for implementation of environmental and safety arrangements	238	70	2,896
Provision for maintenance	85	—	1,034
Other current liabilities	3,735	3,184	45,444
Total current liabilities	65,713	58,113	799,526
Long-term liabilities:			
Long-term bank loans (Notes 9 and 17)	36,180	40,041	440,200
Bonds (Notes 9 and 17)	1,600	1,800	19,467
Lease obligations less current portion (Notes 9 and 17)	1,692	1,905	20,586
Accrued retirement benefits for employees (Note 11)	7,952	8,406	96,751
Deferred income taxes (Note 13)	9	—	110
Long-term deposits received	745	763	9,064
Reserve for Ferosilt removal	7,852	9,875	95,535
Reserve for implementation of environmental and safety arrangements	555	562	6,753
Asset retirement obligations (Note 10)	859	862	10,451
Other long-term liabilities	1,995	1,944	24,273
Total long-term liabilities	59,439	66,158	723,190
Contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 403,839,431 shares in 2012 and 2011	43,421	43,421	528,300
Capital surplus	10,625	10,625	129,274
Retained earnings (deficit)	1,238	(1,714)	15,063
Less treasury stock, at cost:			
3,753,154 shares in 2012 and 3,709,794 shares in 2011	(677)	(673)	(8,237)
Total shareholders' equity	54,607	51,659	664,400
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	60	62	730
Unrealized deferred loss on hedges	(77)	—	(937)
Translation adjustments	(4,352)	(3,612)	(52,951)
Adjustment for projected benefit obligation of an overseas subsidiary	28	33	341
Total accumulated other comprehensive loss	(4,341)	(3,517)	(52,817)
Minority interests	15	16	182
Total net assets	50,281	48,158	611,765
Total liabilities and net assets	¥175,433	¥172,429	$2,134,481

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Income

For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Net sales (Note 24)	¥102,379	¥99,057	$1,245,638
Cost of sales (Note 15)	71,809	69,809	873,695
Gross profit	30,570	29,248	371,943
Selling, general and administrative expenses (Note 15)	20,809	20,209	253,182
Operating income (Note 24)	9,761	9,039	118,761
Other income:			
Interest and dividend income	142	125	1,728
Equity in earnings of affiliates	364	387	4,429
Foreign exchange gain	249	—	3,029
Other	297	239	3,614
	1,052	751	12,800
Other expenses:			
Interest expense	1,757	1,836	21,378
Retirement benefit expense	391	427	4,757
Foreign exchange loss	—	831	—
Other	653	533	7,945
	2,801	3,627	34,080
Ordinary income	8,012	6,163	97,481
Extraordinary gains:			
Gain on prior-year adjustment	—	15	—
Gain on sales of fixed assets	—	1,929	—
Gain on insurance claim	46	21	560
Gain on compensation related to transfer of Tokyo branch due to land and building expropriation	—	1,091	—
Gain on dispute settlement	38	—	462
Gain on recognition of negative goodwill	—	39	—
Reversal of provision for business structure improvement	—	135	—
Other	—	123	—
	84	3,353	1,022
Extraordinary losses:			
Loss on disposal of fixed assets	622	894	7,568
Loss on impairment of fixed assets (Note 8)	429	—	5,220
Reserve for implementation of environmental and safety arrangements	225	61	2,737
Environmental measures expenses	16	77	195
Cumulative effect of initial application of accounting standard for asset retirement obligations	—	802	—
Other (Note 11)	119	30	1,447
	1,411	1,864	17,167
Income before income taxes and minority interests	6,685	7,652	81,336
Income taxes (Note 13):			
Current	429	449	5,220
Deferred	3,304	2,368	40,199
Income before minority interests	2,952	4,835	35,917
Minority interests	0	(15)	0
Net income	¥ 2,952	¥ 4,850	$ 35,917

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Income before minority interests	¥2,952	¥4,835	$35,917
Other comprehensive income (loss) (Note 19) :			
Net unrealized holding (loss) gain on securities	(2)	12	(24)
Unrealized deferred (loss) gain on hedges	(77)	0	(937)
Translation adjustments	(682)	(1,176)	(8,298)
Adjustment for projected benefit obligation of an overseas subsidiary	(5)	3	(61)
Other comprehensive loss of affiliates accounted for by the equity method attributable to the Company	(59)	(75)	(718)
Comprehensive income	¥2,127	¥3,599	$25,879

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Comprehensive income (loss) attributable to:			
Shareholders of Ishihara Sangyo Kaisha, Ltd.	¥2,127	¥3,619	$25,879
Minority interests	(0)	(20)	(0)

The accompanying notes are an integral part of the consolidated financial statements.

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2012 and 2011

		Millions of yen									
		Shareholders' equity				Accumulated other comprehensive income (loss)					
	Number of shares of common stock in issue	Common stock	Capital surplus	Retained earnings (deficit)	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized deferred loss on hedges	Translation adjust-ments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests	Total net assets
Balance at April 1, 2010	403,839,431	¥43,421	¥10,625	¥(6,321)	¥(664)	¥50	¥(0)	¥(2,366)	¥30	¥36	¥44,811
Effect of change in accounting policies of an affiliate accounted for by equity method	—	—	—	(243)	—	—	—	—	—	—	(243)
Net income	—	—	—	4,850	—	—	—	—	—	—	4,850
Acquisition of treasury stock	—	—	—	—	(9)	—	—	—	—	—	(9)
Disposition of treasury stock	—	—	0	—	0	—	—	—	—	—	0
Other changes	—	—	—	—	—	12	0	(1,246)	3	(20)	(1,251)
Balance at April 1, 2011	403,839,431	¥43,421	¥10,625	¥(1,714)	¥(673)	¥62	¥ —	¥(3,612)	¥33	¥16	¥48,158
Net income	—	—	—	2,952	—	—	—	—	—	—	2,952
Acquisition of treasury stock	—	—	—	—	(5)	—	—	—	—	—	(5)
Disposition of treasury stock	—	—	0	—	1	—	—	—	—	—	1
Other changes	—	—	—	—	—	(2)	(77)	(740)	(5)	(1)	(825)
Balance at March 31, 2012	403,839,431	¥43,421	¥10,625	¥ 1,238	¥(677)	¥60	¥(77)	¥(4,352)	¥28	¥15	¥50,281

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity				Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Retained earnings (deficit)	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized deferred loss on hedges	Translation adjust-ments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests	Total net assets
Balance at April 1, 2011	$528,300	$129,274	$(20,854)	$(8,188)	$754	$ —	$(43,947)	$402	$194	$585,935
Net income	—	—	35,917	—	—	—	—	—	—	35,917
Acquisition of treasury stock	—	—	—	(61)	—	—	—	—	—	(61)
Disposition of treasury stock	—	0	—	12	—	—	—	—	—	12
Other changes	—	—	—	—	(24)	(937)	(9,004)	(61)	(12)	(10,038)
Balance at March 31, 2012	$528,300	$129,274	$ 15,063	$(8,237)	$730	$(937)	$(52,951)	$341	$182	$611,765

The accompanying notes are an integral part of the consolidated financial statements.

Consolidated Statements of Cash Flows

For the years ended March 31, 2012 and 2011

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2012	2011	2012
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 6,685	¥ 7,652	$ 81,336
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,691	5,410	69,242
Loss (gain) on disposal or sales of fixed assets, net	219	(1,425)	2,665
Loss on impairment of fixed assets	429	—	5,220
Foreign exchange loss, net	(2)	(21)	(24)
(Decrease) increase provisions for accrued retirement benefits for employees	(453)	650	(5,512)
Reversal of reserve for Ferosilt removal	(2,492)	(1,637)	(30,320)
Reserve for implementation of environmental and safety arrangements	161	37	1,959
Interest and dividend income	(142)	(125)	(1,728)
Interest expense	1,757	1,836	21,377
Equity in earnings of affiliates	(291)	(165)	(3,541)
Cumulative effect of initial application of accounting standard for asset retirement obligations	—	802	—
Gain on compensation related to transfer of Tokyo branch due to land and building expropriation	—	(1,091)	—
Other	(711)	(635)	(8,651)
Changes in operating assets and liabilities:			
Trade receivables	1,094	859	13,311
Inventories	(11,192)	(2,252)	(136,172)
Other current assets	143	24	1,740
Trade payables	6,448	(394)	78,452
Accrued expenses and other current liabilities	940	(624)	11,437
Subtotal	8,284	9,201	100,791
Interest and dividends received	142	97	1,728
Interest paid	(1,722)	(1,780)	(20,952)
Insurance claim received	690	238	8,395
Gain on compensation related to transfer of Tokyo branch due to land and building expropriation	—	1,091	—
Income taxes refund (paid)	42	(1,238)	511
Net cash provided by operating activities	¥ 7,436	¥ 7,564	$ 90,473
Cash flows from investing activities:			
Increase in time deposits	(612)	(80)	(7,446)
Decrease in time deposits	482	220	5,864
Purchases of property, plant and equipment	(5,073)	(4,982)	(61,723)
Purchases of short-term investments and investments in securities	—	(14)	—
Proceeds from sales of property, plant and equipment	352	4,301	4,283
Proceeds from redemption and sales of short-term investments and investments in securities	—	220	—
Increase in long-term loans receivable	(404)	(451)	(4,915)
Collection of long-term loans receivables	413	454	5,025
Payment for acquisition of shares of investments in a subsidiary resulting in change in scope of consolidation	—	(1,013)	—
Proceeds from redemption of share capital of a subsidiary	748	—	9,101
Other	(146)	—	(1,776)
Net cash used in investing activities	(4,240)	(1,345)	(51,587)
Cash flows from financing activities:			
Redemption of bonds	(200)	—	(2,433)
Decrease in short-term bank loans, net	(1,484)	(3,238)	(18,056)
Proceeds from long-term bank loans	12,781	15,245	155,506
Repayment of long-term bank loans	(12,924)	(13,285)	(157,246)
Repayment of lease obligations	(938)	(862)	(11,413)
Repayment of installment payables	(158)	(49)	(1,922)
Repayment of long-term deposits received	—	(219)	—
Purchases of treasury stock	(5)	(9)	(61)
Proceeds from sales of treasury stock	1	0	12
Net cash used in financing activities	(2,927)	(2,417)	(35,613)
Effect of exchange rate changes on cash and cash equivalents	(286)	(356)	(3,480)
(Decrease) increase in cash and cash equivalents	(17)	3,446	(207)
Cash and cash equivalents at beginning of year	21,750	18,304	264,631
Cash and cash equivalents at end of year (Note 4)	¥21,733	¥21,750	$264,424

The accompanying notes are an integral part of the consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended March 31, 2012

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements Ishihara Sangyo Kaisha, Ltd. (the "Company") have been 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 Act of Japan.

In preparing the accompanying consolidated financial statements, certain reclassifications and rearrangements have been made to the consolidated financial statements issued in Japan in order to present them in a format which is more familiar to readers outside Japan. In addition, the notes to the consolidated financial statements include information which is not required under accounting principles generally accepted in Japan but is presented herein as additional information.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥82.19 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2012. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and its 16 significant consolidated subsidiaries, consisting of ISK Bioscience K.K., ISK SINGAPORE PTE. LTD., the ISK AMERICAS INCORPORATED Group (5 subsidiaries), the ISK BIOSCIENCES EUROPE S.A. Group (3 subsidiaries), ISK Taiwan Co., Ltd., Fuji Titanium Industry Co., Ltd., Ishihara Techno Corporation, ISK Engineering Corporation, Yokkaichi Energy Service Co., Ltd and ISK Engineering Partners Corporation.

ISK Engineering Partners Corporation was newly established for the year ended March 31, 2012 and included in consolidation.

The Company's remaining subsidiaries have not been consolidated because they are not significant in terms of total assets, retained earnings, net sales and net income.

Investment in significant affiliates is stated at its underlying net equity after the elimination of intercompany income.

Investments in unconsolidated subsidiaries and the remaining affiliate companies are stated at cost.

The overseas consolidated subsidiaries are consolidated on the basis of fiscal periods ending December 31, which differs from the balance sheet date of the Company. As a result, adjustments have been made for any significant intercompany transactions which took place during the period between the year ends of these overseas consolidated subsidiaries and the year end of the Company.

(b) Foreign currency translation

Foreign currency transactions

All monetary assets and liabilities denominated in foreign currencies are translated into yen amounts at the rates of exchange in effect at the balance sheet date, except that receivables and payables hedged by qualified forward foreign exchange contracts are translated at their corresponding contracted rates. All other assets and liabilities denominated in foreign currencies are translated at their historical rates.

Revenue and expense items arising from transactions denominated in foreign currencies are generally translated into yen at the exchange rates in effect at the respective transaction dates. Foreign exchange gain or loss is credited or charged to income in the year in which such gain or loss is recognized for financial reporting purposes.

Financial statements of overseas consolidated subsidiaries

The balance sheet accounts of the overseas consolidated subsidiaries are translated into yen at the rates of exchange in effect at the balance sheet date, except that the components of net assets excluding minority interests in are translated at their historical rates. Revenue and expense accounts are translated at the average rates of exchange in effect during the year. Differences resulting from translating financial statements denominated in foreign currencies have not been included in the determination of net income (loss) but are reported as minority interests and translation adjustments which are components of accumulated other comprehensive income (loss).

(c) Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash on hand and in banks and other highly liquid investments with maturities of three months or less when purchased.

(d) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are stated at lower of cost or net selling value, cost being determined by the gross average method. Overseas consolidated subsidiaries, except for ISK SINGAPORE PTE. LTD., are stated at lower of cost or market, cost being determined by the gross average method. Inventories of ISK SINGAPORE PTE. LTD. are stated at lower of cost or market, cost being determined by the moving average method.

(e) Securities

Securities are classified into three categories: trading securities, held-to-maturity debt securities and other securities. Trading securities, consisting of debt and marketable equity securities, are carried at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of accumulated other comprehensive income (loss). Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

Investments in limited partnerships are stated at the net value of equities based on the most recent financial statements available prepared according to the financial reporting dates specified in the respective partnership agreements.

(f) Derivatives and hedging activities

Derivative financial instruments are utilized by the Company and its domestic consolidated subsidiaries principally in order to manage risk arising from adverse fluctuation in foreign exchange rates and interest rates. The Company and its domestic consolidated subsidiaries have established a control environment which includes policies and procedures for risk assessment, including an assessment of the effectiveness of their hedging activities, and for the approval, reporting and monitoring of transactions involving derivatives.

Derivatives are carried at fair value with any changes in unrealized gain or loss credited or charged to income, except for those which meet the criteria for deferral hedge accounting under which unrealized gain or loss is deferred and reported as a component of accumulated other comprehensive income (loss). Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at their contracted rates (the "allocation method"). Interest-rate swaps which meet certain conditions are accounted for as if the interest rates which apply to the swaps had originally applied to the underlying debt (the "special method").

(g) Property, plant and equipment and depreciation (except for leased assets)

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is recognized primarily by the straight-line method over the estimated useful lives of the respective assets. The useful lives of property, plant and equipment are principally as follows:

Buildings and structures ....3 to 55 years

Machinery and equipment ....2 to 20 years

Costs for maintenance, repairs and minor renewals are charged to income as incurred. Major renewals and betterments are capitalized.

(h) Intangible assets (except for leased assets)

Intangible assets are amortized by the straight-line method over the useful lives of the respective assets.

(i) Research and development costs and computer software (except for leased assets)

Research and development costs are charged to income as incurred. Expenditures relating to computer software developed for internal use are charged to income as incurred, except if these are deemed to contribute to the generation of future income or cost savings. Such expenditures are capitalized as assets and amortized by the straight-line method over their estimated useful lives, generally a period of 5 years.

(j) Leased assets

Leased assets under finance leases that transfer ownership of the assets are depreciated by using the economic useful lives of leased assets.

Leased assets under finance lease contracts that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of the contract as the useful life. Finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the lessee are accounted for in the same manner as operating leases.

(k) Goodwill and negative goodwill

Goodwill is amortized by the straight-line method over a period of 5 years. Negative goodwill arising from transactions that occurred on or before March 31, 2010 is amortized by the straight-line method over 5 years. Negative goodwill arising from transactions that occurred on or after April 1, 2010 is charged to income when incurred.

(l) Allowance for doubtful receivables

The Company and its domestic consolidated subsidiaries have provided an allowance for doubtful receivables based on their historical experience of bad debts on ordinary receivables plus an additional estimate of probable specific doubtful accounts from customers experiencing financial difficulties.

The allowance for doubtful receivables of the overseas consolidated subsidiaries has been provided at the estimated aggregate amount of their probable bad debts.

(m) Accrued bonuses for employees

Accrued employees' bonuses are accounted for at an estimated amount of the bonuses to be paid as allocated to the current fiscal year.

(n) Reserve for sales returns

Reserve for sales returns is provided for losses incurred due to the return of finished goods and merchandise sold during the fiscal year but returned subsequent to the balance sheet date, using the historical rate of such returns in prior years.

(o) Provision for loss on construction contracts

Provision for loss on construction contracts is provided for anticipated future losses, the amounts of which can be reliably estimated, on uncompleted construction projects.

(p) Reserve for Ferosilt removal

The Company has provided a reserve for Ferosilt removal and disposal based on local costs for the removal, transportation and disposal of Ferosilt at each location estimated with reference to the construction region and disposal location.

(q) Reserve for implementation of environmental and safety arrangements

The Company has provided an estimated reserve for future payments to promote environmental and safety arrangements.

(r) Provision for maintenance

Provision for maintenance is provided in an amount estimated to be necessary for the maintenance for certain machinery and equipment

(s) Retirement benefits

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the balance sheet date. The net retirement benefit obligation at transition is being amortized by the straight-line method over a period of 15 years.

Prior service cost is amortized by the straight-line method over the estimated average remaining years of service of the employees participating in the plans.

Actuarial gain or loss is amortized in the year following the year in which such gain or loss is recognized, principally by the straight-line method over the estimated average remaining years of service of the employees participating in the plans.

(t) Income taxes

Income taxes are calculated based on taxable income and charged to income on an accrual basis. Certain temporary differences exist between taxable income and income reported for financial statement purposes which enter into the determination of taxable income in a different period. The Company and its consolidated subsidiaries recognize the tax effect of such temporary differences in their consolidated financial statements.

(u) Revenue recognition for construction contracts

The Company recognizes revenue by applying the percentage-of-completion method for the construction projects for which the outcome of the construction activity is deemed certain at the end of the reporting period. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of total costs required to complete the project (cost to cost basis). For other construction projects where the outcome cannot be reliably measured, the completed-contract method is applied.

3. Additional Information

Adoption of accounting standard for accounting changes and error corrections

Effective April 1, 2011, the Company has adopted "Accounting Standard for Accounting Changes and Error Corrections" (Accounting Statements Board of Japan (ASBJ) Statement No. 24 issued on December 4, 2009) and "Guidance on Accounting Standard for Accounting Changes and Error Corrections" (ASBJ Guidance No. 24 issued on December 4, 2009).

4. Cash and Deposits

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets as of March 31, 2012 and 2011 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Cash and deposits	¥22,195	¥22,083	$270,045
Time deposits with maturities in excess of three months	(462)	(333)	(5,621)
Cash and cash equivalents	¥21,733	¥21,750	$264,424

5. Notes Receivable and Notes Payable

As the balance sheet date for the year ended March 31, 2012 fell on a bank holiday, notes receivable, trade of ¥253 million ($3,078 thousand) and notes payable, trade of ¥718 million ($8,736 thousand) with due dates of March 31, 2012 were included in the respective balances in the consolidated balance sheets at March 31, 2012 and were settled on the next business day.

6. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2012 and 2011 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Securities whose estimated fair value exceeds their carrying value	¥10	¥10	¥0	¥10	¥10	¥0	$122	$122	$0
Total	¥10	¥10	¥0	¥10	¥10	¥0	$122	$122	$0

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Equity securities	¥719	¥573	¥146	¥761	¥607	¥154	$ 8,748	$6,972	$1,776
Subtotal	719	573	146	761	607	154	8,748	6,972	1,776
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	175	205	(30)	127	170	(43)	2,129	2,494	(365)
Subtotal	175	205	(30)	127	170	(43)	2,129	2,494	(365)
Total	¥894	¥778	¥116	¥888	¥777	¥111	$10,877	$9,466	$1,411

Proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Proceeds from sales	¥3	¥220	$ 37
Gross realized gain	0	—	0
Gross realized loss	(0)	—	(0)

The redemption schedule subsequent to March 31, 2012 and 2011 for held-to-maturity debt securities classified as other securities is described in Note 17.

7. Inventories

Inventories at March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finished goods and merchandise	¥26,116	¥24,376	$317,752
Work in process	5,296	6,307	64,436
Raw materials and supplies	21,030	11,357	255,870
Total	¥52,442	¥42,040	$638,058

8. Loss on Impairment of Fixed Assets

For the year ended March 31, 2012, the Company recorded a loss on impairment of fixed assets. The main components of loss on impairment of fixed assets are as follows:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Classification	2012	2012
Yokkaichi Plant (Yokkaichi City, Mie Prefecture)	Production equipment	Buildings and structures, machinery, equipment and leased assets	¥405	$4,928
Hiratsuka Plant (Hiratsuka City, Kanagawa Prefecture)	Production equipment	Machinery and equipment	24	292
			¥429	$5,220

The Company and its consolidated subsidiaries group their assets based on the business segment and production process for assessment of loss on impairment. Idle assets which are not anticipated to be utilized in the future and leased real estate are classified as individual cash-generating units. Assets not definitely linked to a specific business, such as the head-office building, the facilities for research and development and the facilities for welfare, are classified as corporate assets.

As a part of production equipment located at the Yokkaichi Plant is not anticipated to be utilized in the future, the Company recognized its production equipment as idle assets and recognized loss on impairment. In addition, one domestic consolidated subsidiary recognized loss on impairment of production equipment located at the Hiratsuka Plant because it has faced difficulties in recovering the investment within the remaining useful life due to a deterioration of profitability.

The Company wrote down the book values of these assets to memorandum value or nil.

The breakdown of loss on impairment by classification of fixed assets for the year ended March 31, 2012 is as follows:

	Millions of yen	Thousands of U.S. dollars
Classification	2012	2012
Buildings and structures	¥ 2	$ 25
Machinery and equipment	344	4,185
Leased assets	83	1,010
Total	¥429	$5,220

9. Short-Term Bank Loans, Long-Term Bank Loans, Lease Obligations and Bonds

The average annual interest rate on short-term bank loans at March 31, 2012 and 2011 was approximately 1.5%.

Long-term bank loans, including the current portion of long-term bank loans, at March 31, 2012 and 2011 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Secured bank loans	¥19,314	¥19,793	$234,992
Unsecured bank loans	29,340	29,020	356,978
	48,654	48,813	591,970
Less amounts due within one year	(12,474)	(8,772)	(151,770)
Total	¥36,180	¥40,041	$440,200

Interest rates applicable to long-term bank loans presented in the above table ranged from 1.0% to 5.9% at March 31, 2012 and 2011. These bank loans become due from 2013 through to 2019.

Bonds at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Unsecured bonds, payable in yen, at rate of 0.44%, due 2015	¥1,800	¥2,000	$21,900
Less amounts due within one year	(200)	(200)	(2,433)
Total	¥1,600	¥1,800	$19,467

Lease obligations at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Finance lease obligations (ownership transferred to the lessee)	¥ 363	¥ 613	$ 4,417
Finance lease obligations (ownership not transferred to the lessee)	2,188	2,172	26,621
	2,551	2,785	31,038
Less amounts due within one year	(859)	(880)	(10,452)
Total	¥1,692	¥1,905	$20,586

Information for the aggregate annual maturities of long-term bank loans, bonds, and lease obligations subsequent to March 31, 2012 is described in Note 17.

At March 31, 2012 and 2011, the following assets were pledged as collateral for short-term bank loans, the current portion of long-term bank loans and long-term bank loans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Property, plant and equipment, net of accumulated depreciation	¥37,033	¥38,336	$450,578
Investments in securities	494	567	6,010
Cash and deposits	462	438	5,622
Total	¥37,989	¥39,341	$462,210

Short-term bank loans, the current portion of long-term bank loans and long-term bank loans secured by such collateral at March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Short-term bank loans	¥12,790	¥12,970	$155,615
Current portion of long-term bank loans	4,556	4,718	55,432
Long-term bank loans	14,758	15,075	179,560
Total	¥32,104	¥32,763	$390,607

Also, buildings and structures of ¥103 million ($1,253 thousand) and ¥99 million, land of ¥219 million ($2,665 thousand) and ¥219 million were pledged as collateral to secure future loans from certain financial institutions at March 31, 2012 and 2011, respectively. However, there were no corresponding liabilities at March 31, 2012 and 2011.

10. Asset Retirement Obligations

The asset retirement obligations include legal obligations for disposal of items including polychlorobiphenyl pursuant to the "Law Concerning Special Measures Against PCB Waste" and other legal obligations for the removal of leasehold improvements and restoration of premises around the Yokkaichi Plant to their original condition upon termination of leases.

The asset retirement obligations are measured at present value calculated based on the discount rate applicable to government bonds and the assets' useful lives, estimated to be 3 years to 8 years.

The following is a summary of changes in the carrying amounts of the asset retirement obligations for the years ended March 31, 2012 and 2011.

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Asset retirement obligation balance at beginning of year	¥862	¥865	$10,488
Liabilities incurred due to the acquisition of properties, plants and equipment	8	5	97
Accretion expense	0	0	0
Liabilities settled	(11)	(8)	(134)
Asset retirement obligation balance at end of year	¥859	¥862	$10,451

11. Retirement Benefits

The Company and its domestic consolidated subsidiaries have lump-sum payment plan as a retirement benefit plan to eligible employees upon retirement and are determined by reference to their basic salary, years of service and certain other factors. In addition to this, the Company and Fuji Titanium Industry Co., Ltd. have defined contribution pension plan.

The following table sets forth the funded and accrued status of the employees' retirement benefit plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2012 and 2011 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Retirement benefit obligation	¥(10,394)	¥(12,273)	$(126,463)
Plan assets at fair value	219	524	2,664
Unfunded retirement benefit obligation	(10,175)	(11,749)	(123,799)
Unrecognized net retirement benefit obligation at transition	1,079	1,720	13,128
Unrecognized actuarial loss	123	1,433	1,497
Unrecognized prior service cost	976	136	11,875
Net retirement benefit obligation	(7,997)	(8,460)	(97,299)
Adjustment for projected benefit obligation of an overseas subsidiary	45	54	548
Accrued retirement benefits	¥(7,952)	¥(8,406)	$(96,751)

Certain domestic subsidiaries have calculated their retirement benefit obligation based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily.

The components of retirement benefit expense for the years ended March 31, 2012 and 2011 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Service cost	¥ 617	¥ 654	$ 7,507
Interest cost	194	205	2,360
Expected return on plan assets	(13)	(16)	(158)
Amortization of retirement benefit obligation at transition	395	430	4,806
Amortization of unrecognized actuarial loss	88	92	1,071
Amortization of unrecognized prior service cost	13	13	158
Retirement benefit expense	1,294	1,378	15,744
Net loss (gain) on transfer to defined contribution plan	86	(14)	1,046
Other	—	(48)	—
Total	¥1,380	¥1,316	$16,790

Retirement benefit expenses for the domestic consolidated subsidiaries, whose benefit obligation is calculated based on the amount that would be payable at the year end if all eligible employees terminated their services voluntarily, have been fully included in service costs in the above table.

On September 30, 2011, the Company transferred its pension plan from a tax-qualified defined benefit pension plan to a defined contribution pension plan. As a result of this transfer, plan assets of ¥980 million ($11,924 thousand) are scheduled to be transferred over 4 years to the defined contribution pension plan.

The amount to be transferred subsequent to April 1, 2012 was included in "Other current liabilities," and "Other long-term liabilities," in the amounts of ¥266 million ($3,236 thousand) and ¥446 million ($5,426 thousand), respectively, in the consolidated balance sheet at March 31, 2012. The retirement benefit obligation, plan assets at fair value, unrecognized net retirement benefit obligation at transition, unrecognized actuarial loss and accrued retirement benefits decreased by ¥1,910 million ($23,239 thousand), ¥273 million ($3,322 thousand), ¥246 million ($2,993 thousand), ¥476 million ($5,791 thousand) and ¥915 million ($11,133 thousand), respectively, for the year ended March 31, 2012.

In addition, the Company recorded loss on transfer of pension plan of ¥86 million ($1,046 thousand), which is a component of "other" of extraordinary loss for the year ended March 31, 2012.

In January 2011, Fuji Titanium Industry Co., Ltd., a consolidated subsidiary, transferred its pension plan from a tax-qualified defined benefit pension plan to a defined contribution pension plan. As a result of this transfer, plan assets of ¥145 million were transferred to the defined contribution pension plan. The retirement benefit obligation, plan assets at fair value and accrued retirement benefits decreased by ¥160 million, ¥145 million, and ¥15 million, respectively for the year ended March 31, 2011.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2012 and 2011 were as follows:

	2012	2011
Discount rate	Principally 1.8%	Principally 1.8%
Expected rate of return on plan assets	Principally 2.5%	Principally 2.5%

12. Contingent Liabilities

(a) Guarantees

At March 31, 2012, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥693	$ 8,432
As guarantor for borrowings of unconsolidated subsidiaries	135	1,642
Total	¥828	$10,074

(b) Remediation measures in response to contaminated soil and underground water and waste assumed to be buried at Yokkaichi Plant of the Company (the "Plant")

Regarding costs for remediation measures for contaminated soil and underground water at the Plant and waste assumed to be buried at the Plant, the Company recorded these costs as extraordinary losses, which were paid during the year or can be reasonably estimated as of the balance sheet date. The Company does not record any costs that cannot be reasonably estimated at this time, such as costs for permanent contamination remediation measures and for analyzing and disposing of buried waste.

As a result of soil and underground water surveys conducted at the Plant after an assessment by a comprehensive compliance test, contamination was identified, which seems to be mainly derived from past production activities. In response to this, the Company submitted certain documents to Yokkaichi City, which has jurisdiction over the matter, notifying the authorities of these findings, in accordance with the "Ordinance for Conservation of the Living Environment" enacted by Mie Prefecture.

Subsequently, the Company conducted a survey to identify the status and source of the contamination, collected data to design a plan for preventing the expansion of contamination under the guidance and advice from the Environmental Expert Committee, which consists of third-party academic advisors.

In the previous fiscal year, the Company undertook trials aimed at determining a suitable method for removing or insolubilizing causative substances. In the year under review, the Company set up pumping and water treatment facilities in order to prevent dispersal of contaminated ground water, and commenced trial pumping operations.

In the next fiscal year, the Company will install additional pumping equipment based on the results of trial pumping undertaken , with the aim of commencing full-scale pumping in stages. In addition, the Company plans to undertake new trials based on assessments and trials conducted to date, and will continue studying remediation measures of soil and ground water.

The following information on buried waste that must be removed from the Plant has been officially announced in connection with the assessment of the comprehensive compliance test. The measures required to remove the buried waste will probably have an impact on the Company's future business performance. At present, the specific details of the waste to be removed, such as the type, properties and volume have yet to be determined because the vacant area in the Plant is used for temporarily storing removed Ferosilt and therefore the Company cannot comprehensively continue all the necessary detailed surveys.

In light of this situation, the Company will undertake more detailed studies for identifying the location, extent, nature, and volume of buried waste and determine appropriate methods for disposing of such waste in or after fiscal year 2015 once the Company has completed the disposal of Ferosilt. The Company will continually monitor the effects on the environment around the Plant until that time.

(1) Buried waste in area No. 2

Since area No. 2 was previously the site of a sedimentation pond, certain legally permitted waste was also buried there. Consequently, prior to waste removal, the Company will need to distinguish between legally and illegally buried wastes. In the process of identifying the exact location of the inappropriately buried waste, the Company is confirming the presence of underground metallic and type of soil, which is different from other layers.

(2) Inorganic sludge and other substances at a former plant site

The Company temporarily stored removed Ferosilt at the site. From January 2009, the Company started to carry out the Ferosilt removal and a boring survey has been implemented in sections as removal was completed. Inorganic sludge, which may be Ferosilt, was identified from certain bored sections.

13. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The applicable statutory tax rate in Japan for the years ended March 31, 2012 and 2011 was, in the aggregate, approximately 40.1%.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2012 and 2011 differ for the above statutory tax rate for the following reasons:

	2012	2011
Statutory tax rate	40.1%	40.1%
Permanently non-deductible expenses	2.5	2.3
Permanently non-taxable income	(1.1)	(8.0)
Per capita portion of inhabitants' taxes	0.4	0.4
Foreign income taxes	(0.5)	0.3
Changes in valuation allowance	1.4	0.8
Tax rate differences of consolidated subsidiaries	(4.1)	(0.1)
Unrealized gain on intercompany transactions	1.4	0.3
Decrease of deferred tax assets resulting from change in tax rates	16.2	–
Other	(0.5)	0.7
Effective tax rates	55.8%	36.8%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Company's and consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2012 and 2011 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Deferred tax assets:			
Tax loss carryforwards	¥ 8,617	¥10,919	$104,842
Accrued retirement benefits for employees	2,795	3,341	34,007
Unrealized gain on intercompany transactions	1,468	1,077	17,861
Accrued expenses	760	536	9,247
Accrued bonuses for employees	206	242	2,506
Reserve for Ferosilt removal	3,713	5,002	45,176
Loss on impairment of fixed assets	163	320	1,983
Reserve for implementation of environmental and safety arrangements	293	253	3,565
Asset retirement obligations	301	345	3,662
Other	2,699	2,613	32,838
Gross deferred tax assets	21,015	24,648	255,687
Less valuation allowance	(8,190)	(8,549)	(99,647)
Total deferred tax assets	12,825	16,099	156,040
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(256)
Unrealized holding gain on securities	(28)	(26)	(340)
Other	(277)	(345)	(3,370)
Total deferred tax liabilities	(326)	(392)	(3,966)
Net deferred tax assets	¥12,499	¥15,707	$152,074

The "Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Creating Taxation System Responding to Changes in Economic and Social Structures" (Act No. 114 of 2011) and the "Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction from the Great East Japan Earthquake" (Act No. 117 of 2011) were promulgated on December 2, 2011, and the corporation tax rate will be reduced and a special recovery tax will be imposed from fiscal years beginning on or after April 1, 2012. Accordingly, the statutory tax rate used for calculating deferred tax assets and liabilities will be reduced to 37.5% from 40.1% for fiscal years beginning from April 1, 2012 to the fiscal year ending March 31, 2015 for temporary differences that are expected to be realized during this period and subsequently to 35.1% for temporary differences that are expected to be realized on or after April 1, 2015.

As a result of this change in rates, deferred tax assets, net of deferred tax liabilities, decreased by ¥1,074 million ($13,067 thousand) and income taxes — deferred (debit), net and unrealized holding gain on securities increased by ¥1,082 million ($13,165 thousand) and ¥7 million ($85 thousand), respectively, as of and for the year ended March 31, 2012.

14. Shareholders' Equity

The Corporation Law of Japan (the "Law") provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time by resolution of the shareholders or by the Board of Directors if certain conditions are met.

The Company's legal reserve included in retained earnings at March 31, 2012 and 2011 amounted to ¥270 million ($3,285 thousand).

Under the Law, upon the issuance and sale of new shares of common stock, the entire amount of the proceeds is required to be accounted for as common stock, although a company may, by resolution of the Board of Directors, account for an amount not exceeding one-half of the proceeds of the sale of new shares as additional paid-in capital.

Treasury stock

Movements in treasury stock during the years ended March 31, 2012 and 2011 are summarized as follows:

	Number of shares			
	2012			
	March 31, 2011	Increase	Decrease	March 31, 2012
Treasury stock	3,709,794	51,413	8,053	3,753,154

	Number of shares			
	2011			
	March 31, 2010	Increase	Decrease	March 31, 2011
Treasury stock	3,601,931	116,655	8,792	3,709,794

The increases in treasury stock were due to purchases of shares of less than one voting unit for the years ended March 31, 2012 and 2011. The decreases in treasury stock were due to sales of shares at requests of shareholders who own less than one voting unit for the years ended March 31, 2012 and 2011.

15. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2012 and 2011 totaled ¥7,885 million ($95,936 thousand) and ¥6,776 million, respectively.

16. Leases

(a) Finance lease transactions

The following pro forma amounts represent the acquisition costs, accumulated depreciation, accumulated loss on impairment and net book value of the leased assets under finance lease contracts that do not transfer ownership to the lessee at March 31, 2012 and 2011, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen							
	2012				2011			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
Machinery and equipment	¥680	¥524	¥ 9	¥147	¥1,004	¥ 697	¥ 9	¥298
Other	102	87	—	15	394	319	5	70
Total	¥782	¥611	¥ 9	¥162	¥1,398	¥1,016	¥14	¥368

	Thousands of U.S. dollars			
	2012			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
Machinery and equipment	$8,274	$6,375	$110	$1,789
Other	1,241	1,059	—	182
Total	$9,515	$7,434	$110	$1,971

For finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the lessee, lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2012 and 2011 amounted to ¥205 million ($2,494 thousand) and ¥316 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2012 and 2011 amounted to ¥205 million ($2,494 thousand) and ¥316 million, respectively. Reversal of accumulated impairment loss on leased assets for the years ended March 31, 2012 and 2011 amounted to ¥4 million ($49 thousand) and ¥6 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥108	$1,314
2014 and thereafter	54	657
Total	¥162	$1,971

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2012 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2013	¥ 51	$ 620
2014 and thereafter	65	791
Total	¥116	$1,411

17. Financial Instruments

Overview

(1) Policy for financial instruments

In consideration of plans for capital expenditures or cash management, the Company and its consolidated subsidiaries (collectively, the "Group") raise funds through bank loans or issuing bonds for its domestic and overseas business. The Group manages temporary cash surpluses through low-risk financial assets. The Group uses derivatives for the purpose of reducing fluctuation risk of foreign exchange and interest rates. However, the use of derivatives is limited within the extent of risk at the basis of the actual demand and the Group does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables — trade notes and accounts receivable — are exposed to credit risk in relation to customers. In addition, the Group has global operations and the percentage of sales transactions denominated in foreign currency is high. As a result, the Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies.

Marketable securities and investments in securities are exposed to market risk. Those securities are composed of mainly held-to-maturity debt securities and the shares of common stock of other companies with which the Group has business relationships, or affiliated companies. The Group has also loans receivable from other companies with which it has business relationships. These loans receivable are exposed to credit risk.

Regarding trade payables — trade notes and accounts payable — the Group is exposed to the risk of failure of settlement of these payables at the due date because of working capital issue, which may result in loss of credit. The Group is also exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies due to the import of raw materials.

A portion of bank loans and bonds has some financial covenants, which may result in the risk of early repayment depending on the fluctuation of the financial position of the Group. Short-term and long-term bank loans with variable interest rates is exposed to interest rate fluctuation risk. The repayment dates of the debt extend up to 6 years from the balance sheet date.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to reduce fluctuation risk deriving from interest payable for long-term bank loans bearing interest at variable rates. Information regarding the method of hedge accounting is described in Note 2 (f).

(3) Risk management for financial instruments

(a) Monitoring of credit risk (the risk that customers or counterparties may default)

In accordance with the internal policies for credit limit management, the Group reduces certain risks arising from credit transactions with customers by setting credit limits for individual customers, recognizing the existing risks and controlling all receivables appropriately. The Group monitors the financial situation of its main customers periodically and compares outstanding receivables balances with the amounts of credit limit by each customer periodically and confirms that the internal policies are appropriately applied.

In accordance with the internal policies for asset management, the Group invest in held-to-maturity debt securities with high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is insignificant.

The Group also believes that the credit risk of derivatives is insignificant as it enters into derivative transactions only with financial institutions which have a sound credit profile.

(b) Monitoring of market risks (the risks arising from fluctuations in foreign exchange rates, interest rates and others)

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency on a monthly basis and enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the unfavorable impact caused by foreign currency exchange fluctuations on accounts receivable deriving from forecasted export sales transactions, the Group may enter into forward foreign exchange contracts to the extent it is probable that those forecasted export sales take place. In order to mitigate the interest rate risk for loans payable and bonds bearing interest at variable rates, the Group may also enter into interest rate swap transactions.

For marketable securities and investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity debt securities should be maintained taking into account their fair values and the relationships with the issuers.

In conducting derivative transactions, the division in charge of derivative transactions follows the internal policies, and requests divisions that perform such derivative transactions to report these transactions, and reconciles this information with transaction details obtained from financial institutions. The division prepares monthly reports which include actual transaction data, the contracted amounts, principals, fair value of these derivatives and valuation gains or losses. These reports are then submitted to the Board of Directors for their review.

(c) Monitoring of liquidity risk (the risk that the Group may not be able to meet its obligations on scheduled due dates)

Based on the reports from each cash management division, the Group prepares and updates its cash flow plans on a monthly basis to manage liquidity risk. The Group also reports these plans to the Board of Directors and takes actions if necessary to maintain a specified level of cash position.

(4) Supplementary explanation of the estimated fair value of financial instruments

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 18 are not necessarily indicative of the actual market risk involved in the derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2012 and 2011 and unrealized gains are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 17(b) below).

(a) Estimated fair value of financial instruments

	Millions of yen					
	2012			2011		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Assets:						
(1) Cash and deposits	¥22,195	¥22,195	¥—	¥22,083	¥22,083	¥—
(2) Trade receivables	26,161	26,161	—	27,677	27,677	—
(3) Securities and investments in securities:						
Held-to-maturity debt securities	10	10	0	10	10	0
Other securities	894	894	—	888	888	—
Total assets	¥49,260	¥49,260	¥ 0	¥50,658	¥50,658	¥ 0
Liabilities:						
(1) Trade payables	19,166	19,166	—	14,086	14,086	—
(2) Short-term bank loans	22,031	22,031	—	23,513	23,513	—
(3) Current portion of long-term bank loans and Long-term bank loans	48,654	48,736	82	48,813	49,017	204
Total liabilities	¥89,851	¥89,933	¥82	¥86,412	¥86,616	¥204
Derivatives (*)	¥ (157)	¥ (157)	¥—	¥ (308)	¥ (308)	¥ —

	Thousands of U.S. dollars		
	2012		
	Carrying value	Estimated fair value	Unrealized gain
Assets:			
(1) Cash and deposits	$ 270,045	$ 270,045	$ —
(2) Trade receivables	318,299	318,299	—
(3) Securities and investments in securities:			
Held-to-maturity debt securities	122	122	0
Other securities	10,877	10,877	—
Total assets	$ 599,343	$ 599,343	$ 0
Liabilities:			
(1) Trade payables	233,191	233,191	—
(2) Short-term bank loans	268,050	268,050	—
(3) Current portion of long-term bank loans and Long-term bank loans	591,970	592,968	998
Total liabilities	$1,093,211	$1,094,209	$998
Derivatives (*)	$ (1,910)	$ (1,910)	$ —

(*) Assets and liabilities arising from derivatives are shown at net value with the amount in parentheses representing net liability position.

Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions are as follows:

Assets:

(1) Cash and deposits and (2) Trade receivables

Since these items are settled in a short time period, their carrying value approximates fair value.

(3) Securities and investments in securities

The fair value of equity and debt securities is based on quoted market prices.

Regarding the information on securities and investments in securities corresponding to holding purposes, please refer to Note 6.

Liabilities:

(1) Trade payables and (2) Short-term bank loans

Since these items are settled in a short time period, their carrying value approximates fair value.

(3) Current portion of long-term bank loans and long-term bank loans

For long-term bank loans with floating interest rates, their carrying value approximates fair value because their interest rate reflects the market interest rate.

The fair value of long-term bank loans with fixed interest rates is based on the present value of the total of principal and interest discounted by the interest rate to be applied assuming new loans under the similar conditions to existing loans are made.

Derivatives:

Please refer to Note 18 “Derivatives.”

(b) Financial instruments whose fair values were extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
	Carrying value	Carrying value	Carrying value
Unlisted equity securities	¥2,877	¥3,288	$35,004
Investments in limited partnerships	83	88	1,010
Preferred securities	600	600	7,300

Because no quoted market price is available and it is extremely difficult to determine the fair value, the above financial instruments are not included in the preceding table.

(c) Redemption schedule of deposits, monetary receivables and securities with maturities

	Millions of yen							
	2012				2011			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥22,185	¥ —	¥ —	¥ —	¥22,072	¥—	¥—	¥—
Trade receivables	26,161	—	—	—	27,677	—	—	—
Investments in securities:								
Held-to-maturity debt securities	10	—	—	—	—	10	—	—
Total	¥48,356	¥ —	¥ —	¥ —	¥49,749	¥10	¥—	¥—

	Thousands of U.S. dollars			
	2012			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	$269,923	$ —	$ —	$ —
Trade receivables	318,299	—	—	—
Investments in securities:				
Held-to-maturity debt securities	122	—	—	—
Total	$588,344	$ —	$ —	$ —

(d) Redemption schedule of long-term debt

	Millions of yen					
	2012					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term bank loans	¥12,474	¥13,550	¥11,074	¥6,594	¥3,081	¥1,881
Bonds	200	200	1,400	—	—	—
Lease obligations	859	710	488	305	146	43
Others	115	52	49	—	—	—
Total	¥13,648	¥14,512	¥13,011	¥6,899	¥3,227	¥1,924

	Thousands of U.S. dollars					
	2012					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term bank loans	$151,770	$164,862	$134,737	$80,229	$37,486	$22,886
Bonds	2,433	2,433	17,034	—	—	—
Lease obligations	10,452	8,638	5,937	3,711	1,777	523
Others	1,399	633	596	—	—	—
Total	$166,054	$176,566	$158,304	$83,940	$39,263	$23,409

18. Derivatives

The notional amounts and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at March 31, 2012 and 2011 were as follows:

(a) Currency-related transactions

Forward foreign exchange contracts:

	Millions of yen						Thousands of U.S. dollars		
	2012			2011			2012		
	Notional amount	Estimated fair value	Unrealized gain (loss)	Notional amount	Estimated fair value	Unrealized loss	Notional amount	Estimated fair value	Unrealized gain (loss)
Sell:									
Euro	¥4,779	¥6	¥6	¥7,172	¥(253)	¥(253)	$58,146	$ 73	$ 73
U.S. dollars	1,376	(14)	(14)	401	(5)	(5)	16,742	(170)	(170)
Buy:									
Japanese yen	716	6	6	835	(13)	(13)	8,711	73	73
Total	¥6,871	¥(2)	¥(2)	¥8,408	¥(271)	¥(271)	$83,599	$ (24)	$ (24)

(b) Interest-related transactions

Interest rate swap contracts:

	Millions of yen							
	2012				2011			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Receive/floating and pay/fixed	¥360	¥279	¥(31)	¥(31)	¥461	¥377	¥(38)	¥(38)
Total	¥360	¥279	¥(31)	¥(31)	¥461	¥377	¥(38)	¥(38)

	Thousands of U.S. dollars			
	2012			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Receive/floating and pay/fixed	$4,380	$3,395	$(377)	$(377)
Total	$4,380	$3,395	$(377)	$(377)

The estimated fair value of forward foreign currency exchange contracts and interest rate swap contracts are computed using prices provided by counterparty financial institutions.

The notional amounts and the estimated fair value of the derivative instruments outstanding which qualify for deferral hedge accounting at March 31, 2012 and 2011 were as follows:

(c) Currency-related transactions (hedge accounting is applied)

Forward foreign exchange contracts:

			Millions of yen					
			2012			2011		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Notional amount	Notional amount (over one year)	Estimated fair value (*)
The allocation method	Sell:							
	Euro	Accounts receivable	¥ 53	¥—	(**)	¥ 65	¥ —	(**)
	U.S. dollars		881	—	(**)	261	—	(**)
	Buy:							
	U.S. dollars	Accounts payable	—	—	(**)	7	—	(**)
Total			¥934	¥—	—	¥333	¥ —	—

			Thousands of U.S. dollars		
			2012		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)
The allocation method	Sell:				
	Euro	Accounts receivable	$ 645	$ —	(**)
	U.S. dollars		10,719	—	(**)
	Buy:				
	U.S. dollars	Accounts payable	—	—	(**)
Total			$11,364	$ —	—

(*) The estimated fair value of forward foreign currency exchange contracts is computed using prices provided by counterparty financial institutions.

(**) Because forward foreign exchange contracts are accounted for as if the exchange rates applied to the forward foreign exchange contracts had originally applied to the accounts receivable or payable, their fair values were included in accounts receivable or payable.

(d) Interest-related transactions (hedge accounting is applied)

Interest rate swap contracts:

			Millions of yen					
			2012			2011		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge	Receive/floating and pay/fixed	Long-term bank loans	¥ 4,110	¥3,606	¥121	¥ —	¥ —	¥ —
The special method	Receive/floating and pay/fixed	Long-term bank loans	6,761	4,733	(**)	5,868	5,415	(**)
Total			¥10,871	¥8,339	¥121	¥5,868	¥5,415	¥ —

			Thousands of U.S. dollars		
			2012		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge	Receive/floating and pay/fixed	Long-term bank loans	$ 50,006	$ 43,874	$1,472
The special method	Receive/floating and pay/fixed	Long-term bank loans	82,261	57,586	(**)
Total			$132,267	$101,460	$1,472

(*) The estimated fair value of forward foreign currency exchange contracts is computed using prices provided by counterparty financial institutions.

(**) Because interest rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the long-term bank loans, their fair values were included in long-term bank loans.

19. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects for components of other comprehensive loss for the year ended March 31, 2012:

	Millions of yen	Thousands of U.S. dollars
	2012	2012
Net unrealized holding loss on securities:		
Amount arising during the year	¥ (33)	$(402)
Reclassification adjustments for losses realized in consolidated statement of income	33	402
Before tax effect	0	0
Tax effect	(2)	(24)
Total	(2)	(24)
Unrealized deferred loss on hedges:		
Amount arising during the year	(124)	(1,509)
Reclassification adjustments for losses realized in consolidated statement of income	47	572
Total	(77)	(937)
Translation adjustment:		
Amount arising during the year	(682)	(8,298)
Adjustment for projected benefit obligation of an overseas subsidiary:		
Amount arising during the year	(7)	(85)
Tax effect	2	24
Total	(5)	(61)
Other comprehensive loss of affiliates accounted for by the equity method attributable to the Company	(59)	(718)
Total other comprehensive loss	¥(825)	$(10,038)

20. Supplemental Information to Consolidated Statements of Cash Flows

Information on significant non-cash transactions

The Company and its consolidated subsidiaries recorded new leased assets of ¥646 million ($7,860 thousand) and ¥771 million and lease obligations of ¥721 million ($8,772 thousand) and ¥894 million under finance leases for the years ended March 31, 2012 and 2011, respectively.

The Company recorded asset retirement obligations in the amount of ¥8 million ($97 thousand) and ¥869 million for the years ended March 31, 2012 and 2011, respectively.

Assets and liabilities of Yokkaichi Energy Service Co., Ltd. at the time of consolidation

On September 30, 2010, the Company acquired shares of Yokkaichi Energy Service Co., Ltd. and included it in the scope of consolidation for the year ended March 31, 2011. Assets acquired and liabilities assumed of this subsidiary at the date of commencement of consolidation, the related cost of the acquired shares and payments for the acquisition of the shares are summarized as follows:

	Millions of yen
	2011
Current assets	¥1,371
Fixed assets	6,681
Current liabilities	(1,646)
Non-current liabilities	(4,622)
Negative goodwill	(39)
Book value of shares of Yokkaichi Energy Service Co., Ltd. acquired previously	(585)
Acquisition cost of shares of a consolidated subsidiary	1,160
Cash and cash equivalents	(147)
Payment for acquisition of shares of investments in a subsidiary	¥1,013

21. Amounts per Share

	Yen		U.S. dollars
	2012	2011	2012
Net income per share	¥ 7.38	¥ 12.12	$0.0898
Net assets per share	125.64	120.32	1.5287

Net income per share is based on the net income attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Net assets per share are based on the number of shares of common stock outstanding at the year end.

No diluted net income per share for the years ended March 31, 2012 and 2011 is presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net income per share for the years ended March 31, 2012 and 2011 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Information on basic net income per share:			
Net income	¥2,952	¥4,850	$35,917
Adjusted net income attributable to common shareholders	¥2,952	¥4,850	$35,917

	Thousands of Shares	
	2012	2011
Weighted-average number of shares of common stock outstanding during the year	400,109	400,277

The financial data for the computation of net assets per share at March 31, 2012 and 2011 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2012	2011	2012
Total net assets	¥50,281	¥48,158	$611,765
Deductions from total net assets:			
Minority interests	(15)	(16)	(182)
Total net assets used in the calculation of net assets per share	¥50,266	¥48,142	$611,583

	Thousands of Shares	
	2012	2011
Number of shares used in the calculation of net assets per share	400,086	400,130

22. Related Party Transactions

Major transactions and balances between the Company and its principal shareholder for the years ended and as of March 31, 2012 and 2011 were as follows:

	Transactions				Balances			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Name of principal shareholder	Type of transaction	2012	2011	2012	Account	2012	2011	2012
MITSUI & CO., LTD.	Sales of products	¥ 5,801	¥8,956	$ 70,580	Trade receivables	¥1,436	¥2,526	$17,472
	Purchases of raw materials	11,481	4,173	139,689	Trade payables	6,224	2,439	75,727

Major transactions and balances between the consolidated subsidiaries and the principal shareholder for the years ended and as of March 31, 2012 and 2011 were as follows:

		Transactions			Balances			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Name of principal shareholder	Type of transaction	2012	2011	2012	Account	2012	2011	2012
MITSUI & CO., LTD.	Sales of products	¥2,401	¥1,691	$29,213	Trade receivables.....	¥335	¥322	$4,076
	Purchases of raw materials..	318	180	3,869	Trade payables.........	152	53	1,849

Major transactions and balances between the unconsolidated subsidiaries and an affiliated company for the years ended and as of March 31, 2012 and 2011 were as follows:

		Transactions			Balances			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Name of affiliated Company	Type of transaction	2012	2011	2012	Account	2012	2011	2012
BELCHIM CROP-PROTECTION S.A.	Sales of products	¥10,254	¥7,611	$124,760	Trade receivables.....	¥2,963	¥2,458	$36,051

23. Business Combination

On January 4, 2012, ISK Engineering Corporation spun off its plant construction and equipment maintenance business, and ISK Engineering Partners Corporation was newly established to take over the operations. The purpose of the spin-off is to stabilize the revenue base by rendering plant construction and equipment maintenance services required for manufacturing industries based on the rich experience and the technologies cultivated at ISK Engineering Corporation and by starting the business of constructing, maintaining and operating privately-owned electrical power facilities, cooperating with Yokkaichi Energy Service Co., Ltd., a consolidated subsidiary of the Company.

The divestiture was accounted for as transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008) and the "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No.10 issued on December 26, 2008).

24. Segment Information

(a) Overview of the reportable segments

The Company's reportable segments are determined on the basis that such segments provide the Board of Directors with specific information to determine the business activity policy and allocation of management resources and to evaluate their business performance. Consequently, the Company has classified its business into four reportable segments of "Inorganic chemicals," "Organic chemicals," "Construction," and "Other business" based on the properties of products and services sold, manufacturing methods and processes.

Inorganic chemicals

This reportable segment includes the business of manufacturing and sales of titanium dioxide, functional materials, which are value-added products designed to take advantage of the characteristics of titanium dioxide, electronic materials and other inorganic chemicals.

Organic chemicals

This reportable segment includes the business of manufacturing and sales of organic intermediates such as agrochemicals and active pharmaceutical ingredients.

Construction

This reportable segment includes the business of construction and repairs of manufacturing facilities of the Company and its subsidiaries and construction of chemical plants for third parties.

Other businesses

This reportable segment principally includes the trading business.

(b) Valuation method for reportable segment sales, income (loss) and assets

The accounting policies for the reportable business segments are the same as those described in Note 2. Intersegment sales are recorded at the same prices used in transactions with third parties.

(c) Reportable segment information

	Millions of yen						
	2012						
	Reportable segments					Elimination and corporate (*1)	Consolidated (*2)
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal		
Net sales and operating income:							
Net sales:							
External customers	¥58,005	¥40,391	¥2,949	¥1,034	¥102,379	¥ —	¥102,379
Intersegment	—	—	4,461	1,342	5,803	(5,803)	—
Net sales	58,005	40,391	7,410	2,376	108,182	(5,803)	102,379
Segment income (loss)	¥ 7,898	¥ 3,913	¥ (360)	¥ 152	¥ 11,603	¥(1,842)	¥ 9,761
Segment assets	¥84,854	¥49,750	¥3,882	¥1,004	¥139,490	¥35,943	¥175,433
Other items:							
Depreciation and amortization	4,170	1,224	95	5	5,494	103	5,597
Loss on impairment of fixed assets	24	405	—	—	429	—	429
Increase in fixed tangible and intangible assets	3,531	817	10	8	4,366	139	4,505

	Millions of yen						
	2011						
	Reportable segments					Elimination and corporate (*1)	Consolidated (*2)
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal		
Net sales and operating income:							
Net sales:							
External customers	¥52,126	¥39,573	¥6,352	¥1,006	¥ 99,057	¥ —	¥ 99,057
Intersegment	—	—	5,593	1,032	6,625	(6,625)	—
Net sales	52,126	39,573	11,945	2,038	105,682	(6,625)	99,057
Segment income	¥ 2,955	¥ 7,469	¥ 579	¥ 147	¥ 11,150	¥ (2,111)	¥ 9,039
Segment assets	¥71,120	¥51,847	¥5,899	¥1,090	¥129,956	¥42,473	¥172,429
Other items:							
Depreciation and amortization	4,272	1,151	106	5	5,534	93	5,627
Increase in fixed tangible and intangible assets	3,697	1,851	20	4	5,572	(71)	5,501

	Thousands of U.S. dollars						
	2012						
	Reportable segments					Elimination and corporate (*1)	Consolidated (*2)
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal		
Net sales and operating income:							
Net sales:							
External customers	$ 705,743	$491,434	$35,880	$12,581	$1,245,638	$ —	$1,245,638
Intersegment	—	—	54,277	16,328	70,605	(70,605)	—
Net sales	705,743	491,434	90,157	28,909	1,316,243	(70,605)	1,245,638
Segment income (loss)	$ 96,094	$ 47,609	$ (4,380)	$ 1,850	$ 141,173	$ (22,412)	$ 118,761
Segment assets	$1,032,413	$605,305	$47,232	$12,215	$1,697,165	$437,316	$2,134,481
Other items:							
Depreciation and amortization	50,736	14,892	1,156	61	66,845	1,253	68,098
Loss on impairment of fixed assets	292	4,928	—	—	5,220	—	5,220
Increase in fixed tangible and intangible assets	42,961	9,940	122	98	53,121	1,691	54,812

(*1) The elimination and corporate applicable to segment income amounted to ¥1,842 million ($22,412 thousand) and ¥2,111 million in the above tables and includes ¥239 million ($2,907 thousand) and ¥44 million of eliminations of intersegment transactions and ¥2,081 million ($25,319 thousand) and ¥2,155 million of corporate expenses, which are not allocable to the reportable segments for the years ended March 31, 2012 and 2011, respectively. Corporate expenses mainly comprise expenses incurred by the administration department of the Company, which are not allocable to any reportable segment.

The elimination and corporate applicable to segment assets amounted ¥35,943 million ($437,316 thousand) and ¥42,473 million include ¥1,119 million ($13,615 thousand) and ¥1,213 million of corporate assets, which are not allocable to a reportable segment, and ¥37,062 million ($450,931 thousand) and ¥43,686 million of offset of inter-segment receivables and payables as of March 31, 2012 and 2011, respectively.

Corporate assets consist of investments of surplus funds (cash and securities), long-term investment (investments in securities), assets of administration department and so forth.

(*2) Segment income (loss) corresponds to operating income in the consolidated statements of income.

Related information

Products and services information

The information on each product and service is omitted because it is the same as that of reportable segment information for the years ended March 31, 2012 and 2011.

Geographical information

Net sales by geographical segment for the years ended March 31, 2012 and 2011 are summarized as follows:

	Millions of yen					
	Year ended March 31, 2012					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥48,425	¥24,639	¥ 9,653	¥19,393	¥269	¥102,379

	Millions of yen					
	Year ended March 31, 2011					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥46,408	¥23,629	¥10,260	¥18,443	¥317	¥ 99,057

	Thousands of U.S. dollars					
	Year ended March 31, 2012					
	Japan	Asia	America	Europe	Other	Total
Net sales	$589,184	$299,781	$117,447	$235,953	$3,273	$1,245,638

The regions are determined on the basis of geographic proximity and the Company's business activities as follows:

Asia: China, Taiwan, South Korea, Thailand, Indonesia and Singapore
America: The United States, Canada, Brazil, Argentina and Mexico
Europe: Germany, the Netherlands, France, the United Kingdom, Belgium, Italy, Eastern Europe and the Middle East
Other: Australia, New Zealand and Africa

Property, plant and equipment by geographical segment as of March 31, 2012 and 2011 are summarized as follows:

	Millions of yen				
	At March 31, 2012				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥48,329	¥4,907	¥626	¥42	¥53,904

	Millions of yen				
	At March 31, 2011				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥50,005	¥5,398	¥654	¥51	¥56,108

	Thousands of U.S. dollars				
	At March 31, 2012				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	$588,016	$59,703	$7,616	$511	$ 655,846

Geographical segments are determined on the basis of geographic proximity and the Company's business activity as follows:

Asia: Singapore and Taiwan
America: The United States
Europe: Belgium, France and Spain

Information on sales transactions with major customers

Disclosure of sales transactions with major customers for the year ended March 31, 2012 was omitted because there were no items that meet the disclose criteria.

Sales transactions with major customers for the year ended March 31, 2011 are as follows:

		Millions of yen
Customer's name	Relevant reportable segment	2011
MITSUI & CO., LTD.	Inorganic chemicals and organic chemicals	¥11,194

Information on impairment of fixed assets by reportable segments

This information on impairment of fixed assets by reportable segments is omitted because it was identical to that of the reportable segment information for the year ended March 31, 2012.

Information on goodwill and negative goodwill by reportable segments

Information on goodwill and negative goodwill by reportable segment as of and for the years ended March 31, 2012 and 2011 is summarized as follows:

	Millions of yen					
	2012					
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Elimination and corporate	Consolidated
(Goodwill)						
Amortization of goodwill during the year	—	¥23	—	—	—	¥23
Balance at end of year	—	¥—	—	—	—	¥—
(Negative Goodwill)						
Amortization of negative goodwill during the year	—	—	¥23	—	—	¥23
Balance at end of year	—	—	¥—	—	—	¥—

	Millions of yen					
	2011					
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Elimination and corporate	Consolidated
(Goodwill)						
Amortization of goodwill during the year	—	¥23	—	—	—	¥23
Balance at end of year	—	¥23	—	—	—	¥23
(Negative Goodwill)						
Amortization of negative goodwill during the year	—	—	¥23	—	—	¥23
Balance at end of year	—	—	¥23	—	—	¥23

	Thousands of U.S. dollars					
	2012					
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Elimination and corporate	Consolidated
(Goodwill)						
Amortization of goodwill during the year	—	$ 280	—	—	—	$ 280
Balance at end of year	—	$ —	—	—	—	$ —
(Negative Goodwill)						
Amortization of negative goodwill during the year	—	—	$ 280	—	—	$ 280
Balance at end of year	—	—	$ —	—	—	$ —

Information on gain on recognition of negative goodwill

On September 30, 2010, the Company additionally acquired shares of Yokkaichi Energy Service Co., Ltd., resulting in it become a wholly-owned subsidiary of the Company. As a result of the acquisition, the Company recorded gain on recognition of negative goodwill of ¥39 million in the inorganic chemicals segment for the year ended March 31, 2011.

25. Subsequent Event

Pursuant to a resolution approved by the Board of Directors' meeting held on November 7, 2011, the Company merged with the ISK Engineering Corporation on April 1, 2012. The purpose of the merger is to strengthen the equipment control business by integrating the engineering and maintenance functions, which had been separated between the Company and ISK Engineering Corporation.

The merger was accounted for as transaction under common control in accordance with "Accounting Standard for Business Combinations" (ASBJ Statement No.21 issued on December 26, 2008), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (ASBJ Guidance No. 10 issued on December 26, 2008).

ISK Engineering Corporation was a fully-owned subsidiary of the Company. There was no impact on consolidated operating results as a result of this merger.

Report of Independent Public Accountants

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Ishihara Sangyo Kaisha, Ltd.

We have audited the accompanying consolidated financial statements of Ishihara Sangyo Kaisha, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2012, 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 Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries as at March 31, 2012, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 12(b) to the consolidated financial statement, which describes that the Company is currently examining certain remediation measures in response to soil and underground water contamination, and waste assumed to be buried at the Yokkaichi Plant. Our opinion is not qualified in respect of this matter.

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 1.

June 28, 2012
Osaka, Japan

Ernst & Young ShinNihon LLC

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(As of June 29, 2012)

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Yoshinari Terakawa
Michiyoshi Arata

Outside Directors
Shigetoshi Seta
Haruo Ueno

Board of Corporate Auditors

(Standing) Corporate Auditor
Yoshinobu Takahashi

Outside Corporate Auditors
Hiroshi Nishida
Masaaki Harima

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President & Chief Executive Officer
Kazutaka Fujii

Executive Vice President
Tetsuya Okabayashi

Managing Executive Officers
Yoshinari Terakawa
Michiyoshi Arata
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Junji Kondo
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