Ishihara Sangyo Kaisha

Annual Report 2014

Year Ended March 31, 2014

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 year ended March 31,2014

	Millions of yen			Thousands of U.S. dollars (Note)
	2014	2013	2012	2014
For the years ended March 31,				
Net sales:				
Domestic	¥ 49,047	¥ 48,053	¥ 48,425	$ 476,601
Overseas	56,247	52,388	53,954	546,565
Total	105,294	100,441	102,379	1,023,166
Sales classified by business segment:				
Inorganic chemicals	51,751	52,824	58,005	502,876
Organic chemicals	50,364	43,282	40,391	489,399
Construction	2,072	3,331	2,949	20,134
Other businesses	1,107	1,004	1,034	10,757
Total	105,294	100,441	102,379	1,023,166
Operating income	3,039	2,792	9,761	29,531
Net income (loss)	(7,837)	926	2,952	(76,154)
Depreciation and amortization of property, plant and equipment	6,040	5,786	5,691	58,692
Research and development costs	8,965	8,451	7,885	87,115
As of March 31,				
Current assets	97,998	105,571	104,507	952,269
Total assets	165,987	177,316	175,433	1,612,934
Current liabilities	59,496	64,713	65,713	578,136
Net assets	46,710	53,065	50,281	453,892

	Yen			U.S. dollars (Note)
Per share data				
Net income (loss)	(¥ 19.59)	¥ 2.31	¥ 7.38	($ 0.1904)
Net assets	116.79	132.65	125.64	1.1349
Number of employees (as of March 31)	1,694	1,908	1,923	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥102.91 =U.S.$1.00, the rate of exchange prevailing on March 31, 2014.

To Our Shareholders and Friends

Kazutaka Fujii
President & CEO

The global markets in fiscal 2013, ended March 2014, saw the continued mild recovery of economies in the USA, EU, and other advanced nations. However, China, India, and other emerging nations that previously boasted continuous, high-level economic growth began to show signs of a slow-down in growth. In Japan, government economic policy and bold monetary easing by banking regulators have resulted in a trend toward yen depreciation and high stock prices. Combined with the benefits of a surge in consumer activity prior to the consumption tax rate hike, these factors have promoted steady recovery of the Japanese economy.

With respect to the market environment surrounding the ISK Group, in the inorganic chemicals business, the demands of titanium dioxide in domestic market were steady due to what is seen as last-minute demand prior to the consumption tax rate hike. However, the overseas market continued its ongoing trend of stagnancy. In the agrochemicals business, global markets saw continued growth driven by increased demand in South America and other emerging nations. The domestic market saw demand increase in the second half of the year due to last-minute purchases prior to the consumption tax rate hike, which temporarily resulted in a significant surge in shipments.

Under these conditions, in addition to sweeping cost-reduction measures across all levels of operations, the ISK Group has been evaluating measures to improve performance in its inorganic chemicals business, which has recorded losses since the second half of the previous year. As one aspect of these measures, in August of last year we decided to shut down production of titanium dioxide at our Singapore subsidiary and consolidate production at the Yokkaichi Plant.

As a result, consolidated net sales for the year under review increased ¥4.9 billion year-on-year, to ¥105.3 billion (US$ 1,023 million), operating income increased ¥0.2 billion, to ¥3.0 billion (US$ 30 million), and ordinary income, which was impacted by a decline in foreign exchange gains, fell ¥0.6 billion, to ¥3.0 billion (US $29 million). Net losses for the year were ¥7.8 billion (US$ 76 million) (net income for the previous year was ¥0.9 billion). This was due to recording ¥12.8 billion (US$ 124 million) in liquidation losses as extraordinary losses as a result of the termination of production at our Singapore subsidiary.

Since fiscal 2012, the Group has progressed with its fifth medium-term management plan. This three-year plan is designed to help us achieve the ideal situation as we head toward our 100th anniversary in 2020. Focused on the slogan of “Building a Solid Foundation toward Becoming a Strong Global Chemical Company,” the plan outlines the establishment of a mid to long-term business growth platform for emerging nations and the strengthening of our business advancement capabilities and cost competitiveness in order to establish sustainable growth trends. However, for the past two years our inorganic chemicals business has faced extremely difficult market conditions. Prices for the main raw material, titanium ore, have reached historic highs while global demand for titanium dioxide has declined, which has driven down global sales prices. This has made it difficult to correct sales prices to reflect the increase in raw material prices, resulting in significant decline of profitability with operating losses for two years in a row. Faced with such conditions, last year in August we decided on structural reforms that entailed shutting down production at our unprofitable Singapore subsidiary and consolidating those management resources into the Yokkaichi Plant. With our organic chemicals business, we have aimed to secure growing demand in agrochemicals in emerging nations to expand sales and achieve sustainable growth. Although net sales during fiscal 2013 increased year-on-year thanks in part to the benefits of yen depreciation, operating income declined due to the impact of increased R&D expenses resulting from current new molecule development initiatives.

During fiscal 2014, the final year of the current plan, our production, sales, and development teams will unite to achieve profitability for our inorganic chemicals business while also working to build a foundation for our new medium-term management plan set to begin from fiscal 2015. On the sales side, in addition to strong sales of titanium dioxide products that feature excellent weather-resistance and heat-shield characteristics, we will focus on sales in high value-added fields such as functional materials for use in cosmetics and electronic components. We will focus on accelerating the development of highly heat conductive materials and other new materials not limited to titanium dioxide while also working on maximizing production process efficiency and technology for recovering rare earth materials from waste liquid from production processes. On the production side, we will focus on sweeping cost reduction efforts covering all aspects of production, including both variable and fixed costs.

In the organic chemicals business, development related to the registration of new agrochemicals is progressing smoothly but it will take time for these new molecules to contribute to income. As such, we are working to maximize the value of existing agrochemicals. One of the characteristics of our Company is that molecules developed in-house account for a large percentage of our sales. In addition to enhancing our product lineup, which includes mixtures and new formulations that utilize in-house molecules, we will continue with enhanced development aimed at maximizing the applicability of existing agrochemicals. We will aim to maximize sales volume by accurately assessing regional needs, developing sales strategies specific to each market, and enhancing our sales network in order to secure growing overseas demand. On the production side, we will continue with production supply structure improvement initiatives aimed at reducing manufacturing costs and improving quality both internally and at our subcontractors. Through these initiatives aimed at maximizing the value of in-house agrochemicals, we will work to improve profitability and secure sustainable growth.

In research and development, we are progressing with development in not only agrochemical, but also in the medical fields as well. We are working towards submitting an application for manufacturing and marketing approval in fiscal 2014 for bone cements used in artificial joints that is being developed in collaboration with the Graduate School of Medicine, Kyoto University. The Osaka University Hospital proceeded with clinical research for development on HVJ-E, a test reagent manufactured and sold by the Group for many years, as a new bio anticancer drug for prostate cancer and melanoma. In February 2014 the Japan Science and Technology Agency (JST) designated the development of an anticancer agent for prostate cancer as a topic for NexTEP (a program to promote joint research between industry and academia). As the patent holder for HVJ-E, the Group has been designated by JST for research and development and we will collaborate with Osaka University on practical application.

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

Domestic sales of titanium dioxide outperformed the previous year due to strong demand. However, overseas sales continued to be hampered by a stagnant market and the impact of shutting down production at our Singapore subsidiary. As a result, overall net sales declined ¥2.5 billion, to ¥42.6 billion (US$ 414 million).

Sales of functional materials for any application such as in DeNOx catalysts, cosmetics, and electronic components, were mostly strong and outperformed the previous fiscal year by approximately 20% to reach ¥9.2 billion (US$ 89 million) (a ¥1.4 billion increase year-on-year).

In respect to earnings, with slow recovery in overseas markets creating a difficult sales environment, titanium ore acquired during a period of high market prices impacted overall production costs. However, operating losses were on par with the previous fiscal year. This was due to having shut down production at our Singapore subsidiary, which resulted in transitioning from overseas-based sales to domestic exports, improved operability at our Yokkaichi Plant leading to a reduction in fixed costs, and the effects of overall fixed cost reduction efforts.

As a result, segment net sales decreased ¥1.1 billion, to ¥51.8 billion (US$ 503 million) and operating losses were ¥1.1 billion (US$ 11 million) (losses for the previous year were ¥0.9 billion).

Organic Chemicals

Domestic sales of agrochemicals faced a difficult market environment due to intensified competition for our major products from other companies. Despite this, net sales exceeded performance from the previous year. Overseas sales were impacted by a decline in the sales of fungicides due to dry weather in Brazil. However, mass insect outbreaks led to an increase in sales of insecticides and herbicide sales also grew. In Europe, herbicide and insecticide sales grew while fungicides struggled as sales were impacted by the state of the climate and disease outbreaks. However, yen depreciation helped push up sales in each region and overall net sales outperformed the previous year.

Income declined due to increase in R&D expenses resulting from the registration process for new agrochemicals. We are progressing with the development of a new series of molecules and we have completed the registration process in all major countries for a new insecticide that demonstrates efficacy over a wide range of insect species.

Net sales of medical products grew due to having shipped pharmaceutical ingredients manufactured by ISK under consignment for orders received during the current fiscal period as well as orders carried over from the previous year.

As a result, segment sales increased ¥7.1 billion, to ¥50.4 billion (US$ 489 million) and operating income declined ¥0.3 billion, to ¥5.5 billion (US$ 53 million).

Construction

Net sales in our construction segment declined ¥1.3 billion, to ¥2.1 billion (US$ 20 million) and operating income was ¥0.1 billion (US$ 1 million) (previous year recorded operating losses of ¥0.4 billion). This was due to a decline in large-scale projects.

Other businesses

In the year under review, the Group’s other businesses posted sales of ¥1.1 billion (US$ 11 million) (a ¥0.1 billion increase year-on-year) and operating income of ¥0.1 billion (US$ 1 million) (unchanged from previous fiscal year).

Consolidated Balance Sheet

As of March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Assets			
Current assets:			
Cash and deposits (Notes 5, 11 and 19)	¥ 17,851	¥ 17,312	$ 173,462
Trade receivables (Note 19):			
Notes (Note 6)	2,599	2,678	25,255
Accounts	23,272	22,933	226,139
	25,871	25,611	251,394
Less allowance for doubtful receivables	(181)	(178)	(1,758)
Trade receivables, net	25,690	25,433	249,636
Inventories (Note 8)	51,091	59,159	496,463
Deferred income taxes (Note 15)	1,676	1,877	16,286
Other current assets	1,690	1,790	16,422
Total current assets	97,998	105,571	952,269
Property, plant and equipment:			
Land (Notes 9, 10 and 11)	6,332	6,328	61,529
Buildings and structures (Notes 9, 10 and 11)	53,525	51,420	520,115
Machinery and equipment (Notes 10 and 11)	138,507	130,234	1,345,904
Leased assets (Note 10)	3,818	7,718	37,100
Construction in progress	2,065	2,311	20,067
	204,247	198,011	1,984,715
Less accumulated depreciation	(157,087)	(142,965)	(1,526,450)
Property, plant and equipment, net (Note 27)	47,160	55,046	458,265
Investments and other assets:			
Investments in securities (Notes 7, 11 and 19):			
Unconsolidated subsidiaries and affiliates	3,285	2,681	31,921
Other	2,111	2,204	20,513
Total investments in securities	5,396	4,885	52,434
Deferred income taxes (Note 15)	12,708	9,106	123,487
Asset for retirement benefits (Note 13)	9	—	87
Other	2,716	2,708	26,392
Total investments and other assets	20,829	16,699	202,400
Total assets (Note 27)	¥ 165,987	¥ 177,316	$ 1,612,934

See notes to consolidated financial statements.

	Millions of yen 2014	Millions of yen 2013	Thousands of U.S. dollars (Note 1) 2014
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 11 and 19)	¥ 16,520	¥ 24,542	$ 160,529
Current portion of long-term bank loans (Notes 11 and 19)	15,269	14,804	148,372
Current portion of bonds (Notes 11 and 19)	280	200	2,721
Trade payables (Note 19):			
Notes (Note 6)	1,061	1,704	10,310
Accounts	12,164	10,235	118,200
	13,225	11,939	128,510
Lease obligations (Notes 11 and 19)	638	935	6,200
Accrued income taxes (Note 15)	463	224	4,499
Accrued expenses	3,944	4,014	38,325
Accrued bonuses for employees	483	479	4,693
Reserve for sales returns	34	52	330
Provision for loss on construction contracts	4	8	39
Reserve for Ferosilt removal	2,061	2,467	20,027
Reserve for implementation of environmental and safety arrangements	35	60	340
Provision for maintenance	142	—	1,380
Provision for loss on liquidation of a subsidiary	2,241	—	21,776
Other current liabilities	4,157	4,989	40,395
Total current liabilities	59,496	64,713	578,136
Long-term liabilities:			
Long-term bank loans (Notes 11 and 19)	40,622	39,326	394,733
Bonds (Notes 11 and 19)	1,120	1,400	10,884
Lease obligations (Notes 11 and 19)	1,092	1,767	10,611
Accrued retirement benefits for employees (Note 13)	—	8,634	—
Liability for retirement benefits (Note 13)	10,811	—	105,053
Deferred income taxes (Note 15)	13	23	126
Long-term deposits received	730	766	7,094
Reserve for Ferosilt removal	3,526	5,394	34,263
Reserve for implementation of environmental and safety arrangements	544	543	5,287
Provision for maintenance	42	48	407
Asset retirement obligations (Note 12)	841	849	8,172
Other long-term liabilities	440	788	4,276
Total long-term liabilities	59,781	59,538	580,906
Contingent liabilities (Note 14)			
Net assets:			
Shareholders' equity (Note 16):			
Common stock:			
Authorized: 1,000,000 thousand shares			
Issued: 403,839 thousand shares in 2014 and 2013	43,421	43,421	421,932
Capital surplus	10,627	10,626	103,265
Retained earnings	(5,673)	2,164	(55,126)
Less treasury stock, at cost:			
3,909 thousand shares in 2014 and 3,808 thousand shares in 2013	(692)	(681)	(6,724)
Total shareholders' equity	47,683	55,530	463,347
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	318	245	3,090
Unrealized deferred loss on hedges	(26)	(64)	(253)
Translation adjustments	(404)	(2,675)	(3,926)
Adjustment for projected benefit obligation of an overseas subsidiary	—	29	—
Retirement benefits liability adjustments	(861)	—	(8,366)
Total accumulated other comprehensive loss	(973)	(2,465)	(9,455)
Total net assets	46,710	53,065	453,892
Total liabilities and net assets	¥ 165,987	¥ 177,316	$ 1,612,934

See notes to consolidated financial statements.

Consolidated Statement of Operations

For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Net sales (Note 27)	¥ 105,294	¥ 100,441	$ 1,023,166
Cost of sales (Notes 8 and 17)	79,567	76,225	773,171
Gross profit	25,727	24,216	249,995
Selling, general and administrative expenses (Note 17)	22,688	21,424	220,464
Operating income (Note 27)	3,039	2,792	29,531
Other income:			
Interest and dividend income	151	340	1,467
Equity in earnings of affiliates	428	303	4,159
Foreign exchange gain, net	1,836	2,393	17,841
Other	276	575	2,682
	2,691	3,611	26,149
Other expenses:			
Interest expense	1,747	1,849	16,976
Retirement benefit expense	356	356	3,459
Other	661	657	6,423
	2,764	2,862	26,858
Ordinary income	2,966	3,541	28,822
Extraordinary gains:			
Gain on sales of non-current assets	22	—	213
	22	—	213
Extraordinary losses:			
Loss on disposal of fixed assets	286	578	2,779
Loss on liquidation of a subsidiary (Notes 10 and 21)	12,777	—	124,157
Other	115	35	1,118
	13,178	613	128,054
(Loss) income before income taxes and minority interests	(10,190)	2,928	(99,019)
Income taxes (Note 15):			
Current	696	402	6,763
Deferred	(3,049)	1,600	(29,628)
(Loss) income before minority interests	(7,837)	926	(76,154)
Minority interests	—	(0)	—
Net (loss) income	¥ (7,837)	¥ 926	$ (76,154)

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Loss

For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
(Loss) income before minority interests	¥ (7,837)	¥ 926	$ (76,154)
Other comprehensive income (Note 22):			
Net unrealized holding gain on securities	73	185	709
Unrealized deferred gain on hedges	38	13	369
Translation adjustments	2,000	1,705	19,435
Adjustment for projected benefit obligation of an overseas subsidiary	(29)	1	(282)
Retirement benefits liability adjustments	138	—	1,341
Other comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company	271	(26)	2,634
Total other comprehensive income	2,491	1,878	24,206
Comprehensive (loss) income	¥ (5,346)	¥ 2,804	$ (51,948)

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Comprehensive (loss) income attributable to:			
Shareholders of Ishihara Sangyo Kaisha, Ltd.	¥ (5,346)	¥ 2,802	$ (51,948)
Minority interests	—	2	—
	¥ (5,346)	¥ 2,804	$ (51,948)

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2014

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income (loss)						
	Number of shares of common stock in issue	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized deferred gain (loss) on hedges	Translation adjustments	Adjustment for projected benefit obligation of an overseas subsidiary	Retirement benefits liability adjustments	Minority interests	Total net assets
Balance at April 1, 2012	403,839,431	¥43,421	¥10,625	¥1,238	¥ (677)	¥ 60	¥ (77)	¥(4,352)	¥ 28	¥ –	¥ 15	¥50,281
Net income	–	–	–	926	–	–	–	–	–	–	–	926
Acquisition of treasury stock	–	–	–	–	(4)	–	–	–	–	–	–	(4)
Disposition of treasury stock	–	–	1	–	0	–	–	–	–	–	–	1
Other changes	–	–	–	–	–	185	13	1,677	1	–	(15)	1,861
Balance at April 1, 2013	403,839,431	¥43,421	¥10,626	¥2,164	¥(681)	¥245	¥(64)	¥(2,675)	¥ 29	¥ –	¥ –	¥53,065
Net loss	–	–	–	(7,837)	–	–	–	–	–	–	–	(7,837)
Acquisition of treasury stock	–	–	–	–	(11)	–	–	–	–	–	–	(11)
Disposition of treasury stock	–	–	1	–	0	–	–	–	–	–	–	1
Other changes	–	–	–	–	–	73	38	2,271	(29)	(861)	–	1,492
Balance at March 31, 2014	403,839,431	¥43,421	¥10,627	¥(5,673)	¥ (692)	¥ 318	¥ (26)	¥ (404)	¥ –	¥ (861)	¥ –	¥46,710

	Thousands of U.S. dollars (Note 1)										
	Shareholders' equity				Accumulated other comprehensive income (loss)						
	Common stock	Capital surplus	Retained earnings	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized deferred gain (loss) on hedges	Translation adjustments	Adjustment for projected benefit obligation of an overseas subsidiary	Retirement benefits liability adjustments	Minority interests	Total net assets
Balance at April 1, 2013	$421,932	$103,255	$21,028	$(6,617)	$ 2,381	$ (622)	$(25,994)	$ 282	$ –	$ –	$515,645
Net loss	–	–	(76,154)	–	–	–	–	–	–	–	(76,154)
Acquisition of treasury stock	–	–	–	(107)	–	–	–	–	–	–	(107)
Disposition of treasury stock	–	10	–	0	–	–	–	–	–	–	10
Other changes	–	–	–	–	709	369	22,068	(282)	(8,366)	–	14,498
Balance at March 31, 2014	$421,932	$103,265	$(55,126)	$(6,724)	$3,090	$ (253)	$ (3,926)	$ –	$ (8,366)	$ –	$453,892

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31, 2014

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2014	2013	2014
Cash flows from operating activities			
(Loss) income before income taxes and minority interests	¥ (10,190)	¥ 2,928	$ (99,019)
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	6,040	5,786	58,692
Loss on disposal or sales of fixed assets, net	97	261	943
Loss on impairment of fixed assets	5,808	–	56,438
Loss on liquidation of a subsidiary	2,241	–	21,776
Foreign exchange (gain) loss, net	(18)	7	(175)
(Decrease) increase in provisions for accrued retirement benefits for employees	(8,687)	670	(84,414)
Increase in liabilities for retirement benefits, net	9,950	–	96,686
Reversal of reserve for Ferosilt removal	(2,274)	(2,122)	(22,097)
Decrease in reserve for implementation of environmental and safety arrangements	(25)	(189)	(243)
Interest and dividend income	(151)	(340)	(1,467)
Interest expense	1,747	1,849	16,976
Equity in earnings of affiliates, net	(343)	(235)	(3,333)
Gain on changes in payment plan from installment payment to lump-sum payment	–	(321)	–
Other	142	(306)	1,380
Changes in operating assets and liabilities:			
Trade receivables	875	1,285	8,503
Inventories	10,967	(4,586)	106,569
Other current assets	240	79	2,332
Trade payables	(1,099)	(9,530)	(10,679)
Accrued expenses and other current liabilities	(1,306)	(453)	(12,691)
Subtotal	14,014	(5,217)	136,177
Interest and dividends received	160	331	1,555
Interest paid	(1,709)	(1,832)	(16,607)
Insurance claim received	26	24	253
Income taxes paid	(424)	(504)	(4,120)
Net cash provided by (used in) paid operating activities	12,067	(7,198)	117,258
Cash flows from investing activities			
Increase in time deposits	(350)	(80)	(3,401)
Decrease in time deposits	–	227	–
Purchases of property, plant and equipment	(4,278)	(6,400)	(41,570)
Proceeds from sales of property, plant and equipment	370	464	3,595
Increase in long-term loans receivable	(250)	(395)	(2,429)
Collection of long-term loans receivables	154	387	1,496
Other	228	63	2,216
Net cash used in investing activities	(4,126)	(5,734)	(40,093)
Cash flows from financing activities			
Proceeds from issuance of bonds	1,400	–	13,604
Redemption of bonds	(1,600)	(200)	(15,547)
Decrease in short-term bank loans, net	(8,115)	(2,423)	(78,855)
Proceeds from long-term bank loans	17,073	17,972	165,902
Repayment of long-term bank loans	(15,344)	(12,529)	(149,101)
Repayment of lease obligations	(1,286)	(950)	(12,496)
Proceeds from deposits received	1,953	2,420	18,977
Repayment of deposits received	(2,526)	(1,374)	(24,546)
Purchases of treasury stock	(10)	(4)	(97)
Net cash (used in) provided by financing activities	(8,455)	7,758	(82,159)
Effect of exchange rate changes on cash and cash equivalents	703	438	6,830
Increase (decrease) in cash and cash equivalents	189	(4,736)	1,836
Cash and cash equivalents at beginning of year	16,997	21,733	165,164
Cash and cash equivalents at end of year (Note 5)	¥ 17,186	¥ 16,997	$ 167,000

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended March 31, 2014

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements of Ishihara Sangyo Kaisha, Ltd. (the "Company") and its consolidated subsidiaries 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 ¥102.91 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2014. 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 13 significant consolidated subsidiaries, consisting of ISK Bioscience K.K., ISK SINGAPORE PTE. LTD., the ISK AMERICAS INCORPORATED Group (5 subsidiaries), ISK BIOSCIENCES EUROPE S.A., ISK Taiwan Co., Ltd., Fuji Titanium Industry Co., Ltd., Ishihara Techno Corporation, Yokkaichi Energy Service Co., Ltd. and ISK Engineering Partners Corporation.

ISK BIOSCIENCES S.L., which had been a consolidated subsidiary, was excluded from consolidation due to its liquidation during the year ended March 31, 2014.

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

The 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.

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 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 statement of cash flows, cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which can easily be converted to cash and are subject to little risk of change in value.

(d) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are principally 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 principally 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 investment business limited liability partnerships and other similar partnerships, which are deemed to be securities under Article 2, Clause 2 of the Financial Instruments and Exchange Law of Japan, are valued at the amount of the underlying equity in their net assets based on the latest financial statements available as of the closing date stipulated in the partnership agreement.

(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”).

The effectiveness of hedges is assessed based on comparison of the cumulative changes in markets or cash flows of the hedged items and those of the hedging instruments. However, the assessment of interest rate swaps which the special method is applied is omitted.

(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. 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 of 5 years.

(i) Research and development costs

Research and development costs are charged to income as incurred.

(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) 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.

(l) 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.

(m) Reserve for sales returns

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

(n) 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.

(o) Reserve for Ferosilt removal

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

(p) Reserve for implementation of environmental and safety arrangements

The Company has provided the reserve for estimated expenditures to promote environmental and safety arrangements.

(q) Provision for maintenance

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

(r) Provision for loss on liquidation of a subsidiary

Provision for loss on liquidation of a subsidiary is provided based on an estimate of expenditures necessary to complete the process of liquidating of a subsidiary.

(Additional information)

The board of Directors of the Company approved a plan to terminate the operations of ISK SINGAPORE PTE. LTD., a consolidated subsidiary of the Company, and procedures were commenced for its liquidation in August 2013.

(s) Retirement benefits

Liability for retirement benefits is provided at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date.

The retirement benefit obligation for employee is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

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. Changes in Accounting Policies

(1) On June 16, 2011, IAS 19 "Employee Benefits" was revised. Effective on or after January 1, 2013, certain overseas subsidiaries applied this revised accounting standard. The effect of this application on the consolidated financial statements for the year ended March 31, 2014 was immaterial.

(2) Effective the year ended March 31, 2014, the Company and its domestic consolidated subsidiaries have applied "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No.26 revised on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25 revised on May 17, 2012) (except for certain provisions described in the main clause of Section 35 of the standard and in the main clause of Section 67 of the guidance). Under these revised accounting standards, the difference between the retirement benefit obligation and plan assets at fair value is recognized as asset or liability for retirement benefits. In addition, unrecognized net retirement obligation at transition, unrecognized actuarial differences and unrecognized prior service cost are recorded as a liability for retirement benefits. Concerning the application of these revised accounting standards, in accordance with the provisional treatment set out in Clause 37 of the standard, the effects of such changes in the current fiscal year have been recorded in retirement benefits liability adjustments through accumulated other comprehensive income. As a result of this change, asset for retirement benefits was recognized in the amount of ¥9 million ($87 thousand), liability for retirement benefits was recognized in the amount of ¥10,811 million ($105,053 thousand) and accumulated other comprehensive income decreased by ¥998 million ($9,698 thousand) as of March 31, 2014. In addition, net assets per share decreased by ¥2.49 ($0.02). Unrecognized actuarial differences and unrecognized prior service cost of a certain overseas subsidiary were included in retirement benefits liability adjustments effective as of March 31, 2014. These had been recorded as an adjustment for projected benefit obligation of an overseas subsidiary in the consolidated balance sheet and consolidated statement of changes in net assets in prior years.

4. Standards Issued but Not Yet Effective

Accounting standard for retirement benefits

On May 17, 2012, "Accounting Standard for Retirement Benefits" (ASBJ Statement No.26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No.25) were revised. As of March 31, 2014, these accounting standards had not been fully adopted by the Company and its domestic consolidated subsidiaries.

The standards provide guidance for the accounting for unrecognized actuarial differences and unrecognized prior service cost, the calculation method for retirement benefit obligation and service costs, and enhancement of disclosures taking into consideration improvement to financial reporting and international trends.

The amendment of the calculation method for the present value of defined obligations and current service costs will be adopted effective the beginning of the year ending March 31, 2015.

At present, the Company is in the process of evaluating the impact on the consolidated financial statements of the adoption of these accounting standards.

5. 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, 2014 and 2013 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Cash and deposits	¥ 17,851	¥ 17,312	$ 173,462
Time deposits with maturities in excess of three months	(665)	(315)	(6,462)
Cash and cash equivalents	¥ 17,186	¥ 16,997	$ 167,000

6. Notes Receivable and Notes Payable

As the balance sheet date for the year ended March 31, 2013 tell on a bank holiday, notes receivable, trade of ¥262 million and notes payable, trade of ¥546 million with due date of March 31, 2013 were included in the respective balances in the consolidated balance sheet at March 31, 2013. These were settled on the next business day.

7. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2014 and 2013 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			2014		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose carrying value exceeds their estimated fair value	¥ 10	¥ 10	¥ (0)	¥ 10	¥ 10	¥ (0)	$ 97	$ 97	$ (0)
Total	¥ 10	¥ 10	¥ (0)	¥ 10	¥ 10	¥ (0)	$ 97	$ 97	$ (0)

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2014			2013			2014		
	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	¥ 1,099	¥ 626	¥ 473	¥ 1,073	¥ 696	¥ 377	$10,679	$ 6,083	$ 4,596
Subtotal	1,099	626	473	1,073	696	377	10,679	6,083	4,596
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	78	91	(13)	84	95	(11)	758	884	(126)
Subtotal	78	91	(13)	84	95	(11)	758	884	(126)
Total	¥ 1,177	¥ 717	¥ 460	¥ 1,157	¥ 791	¥ 366	$11,437	$ 6,967	$ 4,470

Proceeds from sales of other securities and the aggregate gain and loss for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Proceeds from sales	¥ 219	¥ –	$ 2,128
Aggregate gain	48	–	466
Aggregate loss	(19)	–	(185)

The redemption schedule subsequent to March 31, 2014 for held-to-maturity debt securities classified as other securities is described in Note 19.

8. Inventories

Inventories at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finished goods and merchandise	¥ 30,798	¥ 31,653	$ 299,271
Work in process	4,047	6,823	39,326
Raw materials and supplies	16,246	20,683	157,866
Total	¥ 51,091	¥ 59,159	$ 496,463

Net loss on devaluation of inventories included in cost of sales for the years ended March 31, 2014 and 2013 amounted to ¥100 million ($972 thousand) and ¥849 million, respectively. In addition, net loss on devaluation of inventories included in extraordinary loss, as a component of loss on liquidation of a subsidiary, amounted to ¥2,754 million ($26,761 thousand) for the year ended March 31, 2014.

The Company records inventories on construction contracts and provisions for loss on construction contracts on a gross basis. Inventories for which a provision for loss was recognized on construction contracts were ¥3 million ($29 thousand) and ¥2 million as of March 31, 2014 and 2013, respectively.

9. Acquisition Costs of Land and Buildings

The accumulated amount deducted from the acquisition costs of land and buildings, resulting from exchange of rights on urban area redevelopment project totaled ¥923 million ($8,969 thousand) at March 31, 2014 and 2013, respectively.

10. Loss on Impairment of Fixed Assets

For the year ended March 31, 2014, the Company recorded a loss on impairment of fixed assets and included it in loss on liquidation of a subsidiary. The main components of loss on impairment to fixed assets are as follows:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Classification	2014	2014
Singapore Plant (Singapore)	Production equipment	Buildings and structures	¥ 514	$ 4,995
		Machinery and equipment	2,630	25,556
		Leased assets	2,464	23,943
		Other	200	1,944
		Total	¥ 5,808	$ 56,438

The Company did not record a loss on impairment of fixed assets for the year ended March 31, 2013.

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.

On August 12, 2013, the Board of Directors of the Company approved a plan to terminate the operations of ISK Singapore PTE. Ltd., a consolidated subsidiary involved in the inorganic chemical business, and procedures were commenced for the liquidation. In line with this approval, the Company recorded loss on impairment of fixed assets for the year ended March 31, 2014. The recoverable value of the above impaired fixed assets was measured at estimated net realizable value. The Company wrote down the book value of these assets to nil.

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

The average annual interest rates on short-term bank loans at March 31, 2014 and 2013 were approximately 1.5% and 1.6%, respectively.

Long-term bank loans, including the current portion of long-term bank loans, at March 31, 2014 and 2013 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Secured bank loans	¥ 18,646	¥ 20,418	$ 181,187
Unsecured bank loans	37,245	33,712	361,918
Subtotal	55,891	54,130	543,105
Less amounts due within one year	(15,269)	(14,804)	(148,372)
Total	¥ 40,622	¥ 39,326	$ 394,733

Interest rates applicable to long-term bank loans presented in the above table ranged from 1.0% to 5.9% at March 31, 2014 and from 1.0% to 6.2% at March 31, 2013. These bank loans become due from 2014 through to 2021.

Bonds at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unsecured bonds, payable in yen, at rate of 0.35%, due 2015	¥ –	¥ 1,600	$ –
Unsecured bonds, payable in yen at rate of 0.305%, due 2019	1,400	–	13,605
Subtotal	1,400	1,600	13,605
Less amounts due within one year	(280)	(200)	(2,721)
Total	¥ 1,120	¥ 1,400	$ 10,884

On March 19, 2014, the Company made an early redemption of the unsecured bonds payable due 2015 in the above table.

Lease obligations at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Finance lease obligations (ownership transferred to the lessee)	¥ –	¥ 490	$ –
Finance lease obligations (ownership not transferred to the lessee)	1,730	2,212	16,811
Subtotal	1,730	2,702	16,811
Less amounts due within one year	(638)	(935)	(6,200)
Total	¥ 1,092	¥ 1,767	$ 10,611

Information for the payment schedules of long-term bank loans, bonds, and lease obligations subsequent to March 31, 2014 is described in Note 19.

At March 31, 2014 and 2013, 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
	2014	2013	2014
Property, plant and equipment, net of accumulated depreciation	¥ 33,141	¥ 36,159	$ 322,038
Investments in securities	74	609	719
Cash and deposits	532	315	5,170
Total	¥ 33,747	¥ 37,083	$ 327,927

Short-term bank loans, the current portion of long-term bank loans and long-term bank loans secured by such collateral at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Short-term bank loans	¥ 13,030	¥ 13,542	$ 126,616
Current portion of long-term bank loans	5,046	5,357	49,033
Long-term bank loans	13,600	15,061	132,154
Total	¥ 31,676	¥ 33,960	$ 307,803

In addition, cash and deposits of ¥133 million ($1,292 thousand), buildings and structures of ¥97 million ($943 thousand) and ¥99 million, land of ¥219 million ($2,128 thousand) and ¥219 million were pledged as collateral to secure future loans from certain financial institutions at March 31, 2014 and 2013, respectively. However, there were no corresponding liabilities at March 31, 2014 and 2013.

12. 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 lease contracts.

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, 2014 and 2013.

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Asset retirement obligation balance at beginning of year	¥ 849	¥ 859	$ 8,250
Liabilities incurred due to the acquisition of properties, plants and equipment	–	7	–
Accretion expense	1	0	9
Liabilities settled	(9)	(17)	(87)
Asset retirement obligation balance at end of year	¥ 841	¥ 849	$ 8,172

Disclosure of detailed information on the asset retirement obligations at March 31, 2014 and 2013 were omitted because the total amounts of asset retirement obligations at March 31, 2014 and 2013 were less than 1% of the amount of total liabilities and net assets.

13. Retirement Benefits

The Company and certain consolidated subsidiaries have a lump-sum payment plan as a retirement benefit plan for eligible employees upon retirement. Retirement payments are determined by reference to basic salary, years of service and certain other factors. In addition to this, the Company and certain domestic consolidated subsidiaries have defined contribution pension plans.

For the year ended March 31, 2014

Certain consolidated subsidiaries have calculated their retirement benefit obligations and retirement benefit expenses based on the amount which would be payable at the year end if all eligible employees terminated their services voluntarily (the "Simplified Method").

The changes in retirement benefit obligation during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations at April 1, 2013	¥ 10,370	$ 100,768
Service cost	567	5,510
Interest cost	190	1,846
Actuarial gain	(303)	(2,944)
Retirement benefits paid	(502)	(4,878)
Prior service cost	(24)	(233)
Other	49	475
Retirement benefit obligations at March 31, 2014	¥ 10,347	$ 100,544

The changes in plan assets during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Plan assets at April 1, 2013	¥ 276	$ 2,682
Expected return on plan assets	5	49
Actuarial gain	63	612
Contributions paid by the Company and subsidiaries	26	253
Retirement benefits paid	(70)	(680)
Other	6	57
Plan assets at March 31, 2014	¥ 306	$ 2,973

The changes in retirement benefit obligations calculated by the Simplified Method during the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Retirement benefit obligations at April 1, 2013	¥ 843	$ 8,192
Retirement benefit expenses	75	729
Retirement benefits paid	(157)	(1,526)
Retirement benefit obligations at March 31, 2014	¥ 761	$ 7,395

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Funded retirement benefit obligation	¥ 363	$ 3,527
Plan assets at fair value	(306)	(2,973)
	57	554
Unfunded retirement benefit obligation	10,745	104,412
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	10,802	104,966
Liability for retirement benefits	10,811	105,053
Asset for retirement benefits	(9)	(87)
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	¥ 10,802	$ 104,966

The components of retirement benefit expenses for the year ended March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Service cost	¥ 567	$ 5,510
Interest cost	190	1,846
Expected return on plan assets	(5)	(49)
Amortization:		
Net retirement obligation at transition	359	3,488
Actuarial loss	153	1,487
Prior service cost	24	234
Retirement benefit expenses calculated at the Simplified Method	75	729
Retirement benefit expenses	¥ 1,363	$ 13,245

Unrecognized net retirement obligation at transition, unrecognized prior service cost and unrecognized actuarial loss included in accumulated other comprehensive income (before tax effect) as of March 31, 2014 are as follows:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Unrecognized actuarial loss	¥ 739	$ 7,182
Unrecognized prior service cost	232	2,254
Unrecognized net retirement obligation at transition	359	3,488
Total	¥ 1,330	$ 12,924

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2014 are as follows:

	2014
Debt securities	84%
Equity securities	9
Cash and deposits	6
Other	1
Total	100%

The expected return on plan assets has been estimated based on the anticipated allocation to each asset class at present and in the future and the expected long-term returns on assets held in each category at present and in the future.

The assumptions used in accounting for the defined benefit plans for the year ended March 31, 2014 are as follows:

	2014
Discount rate	Principally 1.8%
Expected long-term rate of return on plan assets	Principally 3.0%

Total contributions paid by the Company and certain consolidated subsidiaries to the defined contribution pension plans for the year ended March 31, 2014 amounted to ¥83 million ($807 thousand).

The funded and accrued status of the employees' retirement benefit plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 are summarized as follows:

	Millions of yen
	2013
Retirement benefit obligation	¥ (11,214)
Plan assets at fair value	277
Unfunded retirement benefit obligation	(10,937)
Unrecognized net retirement benefit obligation at transition	719
Unrecognized actuarial loss	280
Unrecognized prior service cost	1,259
Net retirement benefit obligation	(8,678)
Prepaid pension cost	(2)
Adjustment for projected benefit obligation of an overseas subsidiary	46
Accrued retirement benefits	¥ (8,634)

Certain domestic subsidiaries have calculated their retirement benefit obligation at the Simplified Method.

The components of retirement benefit expenses for the year ended March 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	¥ 612
Interest cost	182
Expected return on plan assets	(9)
Amortization:	
Retirement benefit obligation at transition	361
Unrecognized actuarial loss	71
Unrecognized prior service cost	23
Retirement benefit expenses	1,240
Contributions paid to the defined contribution pension plans	79
Total	¥ 1,319

Retirement benefit expenses for the domestic consolidated subsidiaries, whose benefit obligation is calculated at the Simplified Method, have been fully included in service costs in the above table.

For the year ended March 31, 2012, 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, 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, ¥273 million, ¥246 million, ¥476 million and ¥915 million, respectively, for the year ended March 31, 2012.

In addition, as a result of this transfer, plan assets of ¥980 million are scheduled to be transferred over 4 years to the defined contribution pension plan. The amounts not yet transferred were included in "Other current liabilities" in the amounts of ¥230 million and in "Other long-term liabilities" in the amounts of ¥208 million in the consolidated balance sheets at March 31, 2013.

The assumptions used in accounting for the defined benefit pension plans for the year ended March 31, 2013 were as follows:

	2013
Discount rate	Principally 1.8%
Expected rate of return on plan assets	Principally 4.5%

14. Contingent Liabilities

(a) Guarantees

At March 31, 2014, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
	2014	2014
Trade notes receivable discounted with banks	¥ 304	$ 2,954
As guarantor for borrowings of unconsolidated subsidiaries	112	1,088
Total	¥ 416	$ 4,042

(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's policy is to record these costs as extraordinary losses, which were paid during the year or reasonably estimated as of the balance sheet date. The Company does not record any costs that cannot be reasonably estimated at the balance sheet date, 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.

Until and including the year under review, the Company has undertaken trials aimed at determining a suitable method for removing or insolubilizing causative substances, and set up pumping and water treatment facilities in order to prevent dispersal of contaminated ground water. In the year under review, the Company also commenced full-scale pumping in stages and started undertaking new trials based on assessments and trials conducted to date.

In the next fiscal year, a study of other specific remediation measures will be continued, which includes full-scale enhanced pumping equipment, installments of additional pumping and purification equipment and adopting local applications based on the results of trial insolubilizing measures.

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 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 was identified from certain bored sections.

15. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The applicable statutory tax rates in Japan for the years ended March 31, 2014 and 2013 were, in the aggregate, approximately 35.1% and 37.5%, respectively. Overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The details of the differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2014 have not been presented because the Company and its consolidated subsidiaries recorded a loss before income taxes and minority interests.

The effective tax rates reflected in the accompanying consolidated statement of operations for the year ended March 31, 2013 differ for the above statutory tax rate for the following reasons:

	2013
Statutory tax rate	37.5 %
Permanently non-deductible expenses	1.4
Permanently non-taxable income	(4.3)
Per capita portion of inhabitants' taxes	1.3
Foreign income taxes	0.3
Changes in valuation allowance	17.8
Tax rate differences of consolidated subsidiaries	8.1
Unrealized gain on intercompany transactions	0.4
Decrease of deferred tax assets resulting from change in tax rates	6.0
Other	(0.1)
Effective tax rate	68.4 %

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, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Deferred tax assets:			
Tax loss carryforwards	¥ 10,948	¥ 9,744	$ 106,384
Accrued retirement benefits for employees	–	3,015	–
Liability for retirement benefits	3,794	–	36,867
Loss on devaluation of inventories	441	253	4,285
Unrealized gain on intercompany transactions	1,902	1,461	18,482
Accrued expenses	532	617	5,170
Accrued bonuses for employees	178	181	1,730
Reserve for Ferosilt removal	1,961	2,873	19,055
Reserve for implementation of environmental and safety arrangements	203	221	1,973
Asset retirement obligations	294	298	2,857
Loss on liquidation of a subsidiary	7,466	–	72,549
Other	1,922	2,555	18,676
Gross deferred tax assets	29,641	21,218	288,028
Less valuation allowance	(14,572)	(9,833)	(141,599)
Total deferred tax assets	15,069	11,385	146,429
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(204)
Unrealized holding gain on securities	(120)	(99)	(1,166)
Translation adjustments	(180)	–	(1,749)
Other	(382)	(305)	(3,712)
Total deferred tax liabilities	(703)	(425)	(6,831)
Net deferred tax assets	¥ 14,366	¥ 10,960	$ 139,598

The "Act for Partial Revision of the Income Tax Act, etc." (Act No. 10 of 2014) was promulgated on March 31, 2014, and the Company and its domestic subsidiaries are no longer subject to the Special Reconstruction Corporate Tax effective for fiscal years beginning on or after April 1, 2014. Accordingly, the statutory tax rate used to measure the deferred tax assets and liabilities was changed from 37.5% to 35.1% for the temporary differences expected to be realized or settled from fiscal years beginning April 1, 2014.

As a result of the announced reduction of the effective statutory tax rate, deferred income tax assets after offsetting deferred income tax liabilities, decreased by ¥89 million ($865 thousand) and income taxes – deferred increased by ¥88 million ($855 thousand) as of and for the year ended March 31, 2014.

16. Shareholders' Equity

The Company Act of Japan (the "Act") 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.

Under the Act, 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.

Common stock and treasury stock

Movements in common stock and treasury stock during the years ended March 31, 2014 and 2013 are summarized as follows:

	Thousands of shares			
	2014			
	April 1, 2013	Increase	Decrease	March 31, 2014
Common stock	403,839	–	–	403,839
Treasury stock	3,808	103	2	3,909

	Thousands of shares			
	2013			
	April 1, 2012	Increase	Decrease	March 31, 2013
Common stock	403,839	–	–	403,839
Treasury stock	3,753	62	7	3,808

The increases in treasury stock were due to purchases of shares of less than one voting unit for the years ended March 31, 2014 and 2013. 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, 2014 and 2013.

17. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2014 and 2013 totaled ¥8,965 million ($87,115 thousand) and ¥8,451 million, respectively.

18. Leases

(a) Finance lease transactions

The following pro forma amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets under finance lease contracts that do not transfer ownership to the lessee at March 31, 2014 and 2013, 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					
	2014			2013		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥ 99	¥ 87	¥ 12	¥ 298	¥ 245	¥ 53
Other	–	–	–	32	30	1
Total	¥ 99	¥ 87	¥ 12	¥ 330	¥ 275	¥ 54

	Thousands of U.S. dollars		
	2014		
	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	$ 962	$ 845	$ 117
Other	–	–	–
Total	$ 962	$ 845	$ 117

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, 2014 and 2013 amounted to ¥42 million ($408 thousand) and ¥108 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2014 and 2013 amounted to ¥42 million ($408 thousand) and ¥108 million, respectively. Reversal of accumulated impairment loss on leased assets for the years ended March 31, 2014 and 2013 amounted to nil and ¥2 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2014 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 12	$ 117
Total	¥ 12	$ 117

(b) Operating lease transactions

Future minimum lease payments subsequent to March 31, 2014 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2015	¥ 56	$ 544
2016 and thereafter	149	1,448
Total	¥ 205	$ 1,992

19. 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 currencies 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 and other supplies.

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 are exposed to interest rate fluctuation risk. The repayment dates of the debt extend up to 7 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, managing maturity dates and outstanding amounts, 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 invests 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 or trading companies 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 20 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, estimated fair value and the differences as of March 31, 2014 and 2013 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 19(b) below) *(a) Estimated fair value of financial instruments*

	Millions of yen					
	2014			2013		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
(1) Cash and deposits	¥ 17,851	¥ 17,851	¥ –	¥ 17,312	¥ 17,312	¥ –
(2) Trade receivables	25,871	25,871	–	25,611	25,611	–
(3) Securities and investments in securities:						
Held-to-maturity debt securities	10	10	(0)	10	10	(0)
Other securities	1,177	1,177	–	1,157	1,157	–
Total assets	¥ 44,909	¥ 44,909	¥ (0)	¥ 44,090	¥ 44,090	¥ (0)
Liabilities:						
(1) Trade payables	13,225	13,225	–	11,939	11,939	–
(2) Short-term bank loans	16,520	16,520	–	24,542	24,542	–
(3) Long-term bank loans, including current portion	55,891	55,937	46	54,130	54,222	92
Total liabilities	¥ 85,636	¥ 85,682	¥ 46	¥ 90,611	¥ 90,703	¥ 92
Derivatives (*)	¥ (135)	¥ (135)	¥ –	¥ (415)	¥ (415)	¥ –

	Thousands of U.S. dollars		
	2014		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and deposits	$ 173,462	$ 173,462	$ –
(2) Trade receivables	251,394	251,394	–
(3) Securities and investments in securities:			
Held-to-maturity debt securities	97	97	(0)
Other securities	11,437	11,437	–
Total assets	$ 436,390	$ 436,390	$ (0)
Liabilities:			
(1) Trade payables	128,510	128,510	–
(2) Short-term bank loans	160,529	160,529	–
(3) Long-term bank loans, including current portion	543,105	543,552	447
Total liabilities	$ 832,144	$ 832,591	$ 447
Derivatives (*)	$ (1,312)	$ (1,312)	$ –

(*) 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 estimated 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 7.

Liabilities:

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

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

(3) Long-term bank loans, including current portion
For long-term bank loans with floating interest rates, their carrying value approximates estimated fair value because their interest rate reflects the market interest rate.

The estimated 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 20 "Derivatives."

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

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Unlisted equity securities	¥ 3,636	¥ 3,135	$ 35,332
Investments in limited partnerships	73	83	709
Preferred securities	500	500	4,859

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							
	2014				2013			
	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	¥ 17,841	¥ –	¥ –	¥ –	¥ 17,302	¥ –	¥ –	¥ –
Trade receivables	25,871	–	–	–	25,611	–	–	–
Investments in securities:								
Held-to-maturity debt securities	–	–	10	–	–	–	10	–
Total	¥ 43,712	¥ –	¥ 10	¥ –	¥ 42,913	¥ –	¥ 10	¥ –

	Thousands of U.S. dollars			
	2014			
	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	$ 173,365	$ –	$ –	$ –
Trade receivables	251,394	–	–	–
Investments in securities:				
Held-to-maturity debt securities	–	–	97	–
Total	$ 424,759	$ –	$ 97	$ –

(d) Redemption schedule of long-term debt

	Millions of yen					
	2014					
	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	¥ 15,269	¥ 14,674	¥ 9,508	¥ 8,316	¥ 7,591	¥ 533
Bonds	280	280	280	280	280	–
Lease obligations	638	481	319	176	81	35
Others	522	–	–	–	–	–
Total	¥ 16,709	¥ 15,435	¥ 10,107	¥ 8,772	¥ 7,952	¥ 568

	Thousands of U.S. dollars					
	2014					
	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	$ 148,372	$ 142,590	$ 92,391	$ 80,809	$ 73,763	$ 5,180
Bonds	2,721	2,721	2,721	2,721	2,721	–
Lease obligations	6,200	4,674	3,100	1,710	787	340
Others	5,073	–	–	–	–	–
Total	$ 162,366	$ 149,985	$ 98,212	$ 85,240	$ 77,271	$ 5,520

20. 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, 2014 and 2013 were as follows:

(a) Currency-related transactions

Forward foreign exchange contracts:

	Millions of yen					
	2014			2013		
	Notional amount	Estimated fair value	Unrealized gain (loss)	Notional amount	Estimated fair value	Unrealized loss
Sell:						
Euro	¥ 6,171	¥ (80)	¥ (80)	¥ 5,017	¥ (241)	¥ (241)
U.S. dollars	466	2	2	832	(20)	(20)
Buy:						
Japanese yen	446	(16)	(16)	415	(25)	(25)
Total	¥ 7,083	¥ (94)	¥ (94)	¥ 6,264	¥ (286)	¥ (286)

	Thousands of U.S. dollars		
	2014		
	Notional amount	Estimated fair value	Unrealized gain (loss)
Sell:			
Euro	$ 59,965	$ (777)	$ (777)
U.S. dollars	4,528	19	19
Buy:			
Japanese yen	4,334	(155)	(155)
Total	$ 68,827	$ (913)	$ (913)

(b) Interest-related transactions

There are no applicable interest rate swap contracts at March 31, 2014.

Interest rate swap contracts:

	Millions of yen			
	2013			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Receive/ floating and pay/fixed	¥ 311	¥ 225	¥ (25)	¥ (25)
Total	¥ 311	¥ 225	¥ (25)	¥ (25)

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, 2014 and 2013 were as follows:

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

Forward foreign exchange contracts:

			Millions of yen					
			2014			2013		
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	Sell: Euro	Accounts receivable	¥ –	¥ –	¥ –	¥ 1,285	¥ –	¥ (19)
The allocation method	Sell: Euro	Accounts receivable	¥ –	¥ –	(**)	¥ 69	¥ –	(**)
	U.S. dollars	Accounts receivable	464	–	(**)	71	–	(**)
	Buy: U.S. dollars	Accounts payable	2	–	(**)	–	–	–
	Japanese yen	Accounts payable	–	–	–	4	–	(**)
		Total	¥ 466	¥ –	¥ –	¥ 1,429	¥ –	¥ (19)

			Thousands of U.S. dollars		
			2014		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge	Sell: Euro	Accounts receivable	$ –	$ –	$ –
The allocation method	Sell: Euro	Accounts receivable	$ –	$ –	(**)
	U.S. dollars	Accounts receivable	4,509	–	(**)
	Buy: U.S. dollars	Accounts payable	19	–	(**)
		Total	$ 4,528	$ –	$ –

(*) 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)

			Millions of yen					
			2014			2013		
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	¥ 3,102	¥ –	¥ (41)	¥ 3,606	¥ 3,102	¥ (85)
The special method	Receive/ floating and pay/fixed	Long-term bank loans	7,921	5,802	(**)	9,698	7,772	(**)
		Total	¥ 11,023	¥ 5,802	¥ (41)	¥ 13,304	¥ 10,874	¥ (85)

			Thousands of U.S. dollars		
			2014		
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	$ 30,143	$ –	$ (398)
The special method	Receive/ floating and pay/fixed	Long-term bank loans	76,970	56,379	(**)
		Total	$ 107,113	$ 56,379	$ (398)

(*) 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 estimated fair values were included in estimated fair value of long-term bank loans.

21. Loss on Liquidation of a Subsidiary

During the year ended March 31, 2014, ISK Singapore PTE. Ltd., a consolidated subsidiary of the Company, terminated its operations and commenced procedures for liquidation. As a result, the Company recognized a loss on liquidation of a subsidiary in the amount of ¥12,777 million ($124,157 thousand), which consisted of impairment loss of fixed assets amounting to ¥5,808 million ($56,438 thousand), loss on devaluation of inventories amounting to ¥2,754 million ($26,761 thousand) and other losses amounting to ¥4,215 million ($40,958 thousand).

22. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects for components of other comprehensive income for the years ended March 31, 2014 and 2013:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 140	¥ 256	$ 1,360
Reclassification adjustments for gains realized in consolidated statement of operations	(46)	–	(447)
Before tax effect	94	256	913
Tax effect	(21)	(71)	(204)
Total	73	185	709
Unrealized deferred gain on hedges:			
Amounts arising during the year	1	20	10
Reclassification adjustments for losses realized in consolidated statement of operations	62	–	602
Tax effect	(25)	(7)	(243)
Total	38	13	369
Translation adjustment:			
Amount arising during the year	2,179	1,705	21,174
Tax effect	(179)	–	(1,739)
Total	2,000	1,705	19,435
Adjustment for projected benefit obligation of an overseas subsidiary:			
Amount arising during the year	(43)	1	(418)
Tax effect	14	(0)	136
Total	(29)	1	(282)
Retirement benefits liability adjustments:			
Amount arising during the year	206	–	2,002
Tax effect	(68)	–	(661)
Total	138	–	1,341
Other comprehensive income (loss) of affiliates accounted for by the equity method attributable to the Company	271	(26)	2,634
Total other comprehensive income	¥ 2,491	¥ 1,878	$ 24,206

23. 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 ¥297 million ($2,886 thousand) and ¥984 million and lease obligations of ¥312 million ($3,032 thousand) and ¥1,029 million under finance leases for the years ended March 31, 2014 and 2013, respectively.

The Company did not record asset retirement obligations for the year ended March 31, 2014. The Company recorded asset retirement obligations in the amount of ¥7 million for the year ended March 31, 2013.

24. Amounts per Share

	Yen		U.S. dollars
	2014	2013	2014
Net (loss) income per share	¥ (19.59)	¥ 2.31	$ (0.19)
Net assets per share	116.79	132.65	1.13

Net (loss) 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.

Diluted net income per share for the years ended March 31, 2014 and 2013 is not 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, 2014 and 2013 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Information on basic net income per share:			
Net (loss) income	¥ (7,837)	¥ 926	$ (76,154)
Net (loss) income not attributable to common shareholders	–	–	–
Adjusted net (loss) income attributable to common shareholders	¥ (7,837)	¥ 926	$ (76,154)

	Thousands of shares	
	2014	2013
Weighted-average number of shares of common stock outstanding during the year	399,987	400,063

The financial data for the computation of net assets per share at March 31, 2014 and 2013 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2014	2013	2014
Total net assets	¥ 46,710	¥ 53,065	$ 453,892
Deductions from total net assets:			
Minority interests	–	–	–
Total net assets used in the calculation of net assets per share	¥ 46,710	¥ 53,065	$ 453,892

	Thousands of shares	
	2014	2013
Number of shares used in the calculation of net assets per share	399,930	400,031

25. Related Party Transactions

Major transactions and balances between the Company and an affiliated company for the year ended and as of March 31, 2014 was 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	2014	2013	2014	Account	2014	2013	2014
BELCHIM CROP PROTECTION N.V.	Sales of products	¥ 63	¥ –	$ 612	Trade receivables	¥ –	¥ –	$ –

Major transactions and balances between a consolidated subsidiary and an affiliated company for the years ended and as of March 31, 2014 and 2013 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	2014	2013	2014	Account	2014	2013	2014
BELCHIM CROP PROTECTION N.V.	Sales of products	¥ 13,412	¥ 10,515	$ 130,327	Trade receivables	¥ 4,124	¥ 2,224	$ 40,074

The condensed financial statements of BELCHIM CROP PROTECTION N.V. as the significant related party as of and for the years ended September 30, 2013 and 2012 are as follows:

	Millions of yen		Thousands of U.S. dollars
	September 30		September 30
	2013	2012	2013
Current assets	¥ 38,620	¥ 26,112	$ 375,279
Fixed assets	3,915	1,994	38,043
Total assets	¥ 42,535	¥ 28,106	$ 413,322
Current liabilities	¥ 30,667	¥ 22,009	$ 297,998
Long-term liabilities	4,505	1,150	43,776
Total liabilities	35,172	23,159	341,774
Total net assets	7,363	4,947	71,548
Total liabilities and net assets	¥ 42,535	¥ 28,106	$ 413,322

	Millions of yen		Thousands of U.S. dollars
	For the years ended September 30		For the year ended September 30
	2013	2012	2013
Net sales	¥ 36,935	¥ 30,787	$ 358,906
Income before income taxes	2,298	1,636	22,330
Net income	1,732	1,079	16,830

26. Business Combination

On April 1, 2012, the Company merged with ISK Engineering Corporation. 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) and was eliminated in consolidation as an intercompany transaction.

27. 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						
	2014						
	Reportable segments						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:							
Net sales:							
External customers	¥ 51,751	¥ 50,364	¥ 2,072	¥ 1,107	¥ 105,294	¥ –	¥ 105,294
Intersegment	1	–	1,086	810	1,897	(1,897)	–
Net sales	51,752	50,364	3,158	1,917	107,191	(1,897)	105,294
Segment (loss) income	¥ (1,086)	¥ 5,462	¥ 141	¥ 149	¥ 4,666	¥ (1,627)	¥ 3,039
Segment assets	¥ 73,264	¥ 54,706	¥ 2,795	¥ 1,161	¥ 131,926	¥ 34,061	¥ 165,987
Other items:							
Depreciation and amortization of intangible assets	3,944	1,108	68	6	5,126	145	5,271
Loss on impairment of fixed assets	5,808	–	–	–	5,808	–	5,808
Increase in fixed tangible and intangible assets	1,985	655	2	4	2,646	148	2,794

	Millions of yen						
	2013						
	Reportable segments						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:							
Net sales:							
External customers	¥ 52,824	¥ 43,282	¥ 3,331	¥ 1,004	¥ 100,441	¥ –	¥ 100,441
Intersegment	–	–	1,318	1,027	2,345	(2,345)	–
Net sales	52,824	43,282	4,649	2,031	102,786	(2,345)	100,441
Segment (loss) income	¥ (941)	¥ 5,808	¥ (356)	¥ 140	¥ 4,651	¥ (1,859)	¥ 2,792
Segment assets	¥ 90,988	¥ 51,146	¥ 3,797	¥ 1,035	¥ 146,966	¥ 30,350	¥ 177,316
Other items:							
Depreciation and amortization of intangible assets	4,306	1,169	83	5	5,563	137	5,700
Increase in fixed tangible and intangible assets	5,489	641	11	3	6,144	51	6,195

	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
	Thousands of U.S. dollars						
	2014						
	Reportable segments						
Net sales and operating income:							
Net sales:							
External customers	$ 502,876	$ 489,399	$ 20,134	$ 10,757	$1,023,166	$ –	$1,023,166
Intersegment	10	–	10,553	7,871	18,434	(18,434)	–
Net sales	502,886	489,399	30,687	18,628	1,041,600	(18,434)	1,023,166
Segment (loss) income	$ (10,553)	$ 53,076	$ 1,370	$ 1,448	$ 45,341	$ (15,810)	$ 29,531
Segment assets	$ 711,923	$ 531,591	$ 27,160	$ 11,281	$1,281,955	$ 330,979	$1,612,934
Other items:							
Depreciation and amortization of intangible assets	38,325	10,767	661	58	49,811	1,409	51,220
Loss on impairment of fixed assets	56,438	–	–	–	56,438	–	56,438
Increase in fixed tangible and intangible assets	19,289	6,365	19	39	25,712	1,438	27,150

(*1) The elimination and corporate applicable to segment income (loss) amounted to ¥1,627 million ($15,810 thousand) and ¥1,859 million in the above tables and includes ¥159 million ($1,545 thousand) and ¥239 million of eliminations of intersegment transactions and ¥1,785 million ($17,345 thousand) and ¥2,099 million of corporate expenses, which are not allocable to the reportable segments for the years ended March 31, 2014 and 2013, 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 ¥34,061 million ($330,979 thousand) and ¥30,350 million includes ¥1,064 million ($10,339 thousand) and ¥999 million of offset of inter-segment receivables and payables, and ¥35,124 million ($341,308 thousand) and ¥31,349 million of corporate assets, which are not allocable to a reportable segment as of March 31, 2014 and 2013, respectively. Corporate assets consist of investments of surplus funds (cash and securities), long-term investments (investments in securities), assets of the 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, 2014 and 2013.

Geographical information

Net sales by geographical segment for the years ended March 31, 2014 and 2013 are summarized as follows:

	Millions of yen					
	Year ended March 31, 2014					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥ 49,047	¥ 17,968	¥ 15,229	¥ 22,876	¥ 174	¥ 105,294

	Millions of yen					
	Year ended March 31, 2013					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥ 48,053	¥ 21,095	¥ 12,670	¥ 18,362	¥ 261	¥ 100,441

	Thousands of U.S. dollars					
	Year ended March 31, 2014					
	Japan	Asia	America	Europe	Other	Total
Net sales	$ 476,601	$ 174,599	$ 147,984	$ 222,291	$ 1,691	$1,023,166

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, 2014 and 2013 are summarized as follows:

	Millions of yen				
	At March 31, 2014				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥ 46,208	¥ 141	¥ 765	¥ 46	¥ 47,160

	Millions of yen				
	At March 31, 2013				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥ 48,642	¥ 5,687	¥ 668	¥ 49	¥ 55,046

	Thousands of U.S. dollars				
	At March 31, 2014				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	$ 449,014	$ 1,370	$ 7,434	$ 447	$ 458,265

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

Asia: Taiwan
America: The United States
Europe: Belgium

Information on sales transactions with major customers

Information on sales transactions with major customers for the year ended March 31, 2014 is omitted because there were no sales transactions with major customers which exceed 10% of net sales in the consolidated statement of operations.

Sales transactions with major customers for the year ended March 31, 2013 are as follows:

		Millions of yen
Customer's name	Relevant reportable segment	2013
MITSUI & CO., LTD.	Inorganic chemicals and organic chemicals	¥ 10,581

Report of Independent Public Accountants

Ernst & Young ShinNihon LLC

Building a better working world

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, 2014, and the consolidated statements of operations, comprehensive loss, 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, 2014, 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 14(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.

Ernst & Young ShinNihon LLC

June 27, 2014
Osaka, Japan

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(As of June 27, 2014)

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Daizaburo Teranishi

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(Standing) Corporate Auditor
Yoshinobu Takahashi

Outside Corporate Auditors
Hiroshi Nishida
Masaaki Harima

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President & Chief Executive Officer
Kazutaka Fujii

Managing Executive Officers
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Michiyoshi Arata
Akira Kobayashi
Chimoto Honda
Kenichi Tanaka

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