Challenge for **Growth** and **Evolution**

Ishihara Sangyo Kaisha

Annual Report 2015

Year Ended March 31, 2015

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, 2015

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2015	2014	2013	2015
For the years ended March 31,				
Net sales:				
Domestic	¥ 50,803	¥ 49,047	¥ 48,053	$ 422,374
Overseas	52,528	56,247	52,388	436,713
Total	103,331	105,294	100,441	859,087
Sales classified by business segment (Note 2):				
Inorganic chemicals	51,342	51,751	52,824	426,854
Organic chemicals	49,031	50,364	43,282	407,640
Other businesses	2,958	3,179	4,335	24,593
Total	103,331	105,294	100,441	859,087
Operating income	11,105	3,039	2,792	92,326
Net income (loss)	6,984	(7,837)	926	58,065
Depreciation and amortization of property, plant and equipment	5,561	6,040	5,786	46,234
Research and development costs	9,330	8,965	8,451	77,569
As of March 31,				
Current assets	107,470	97,998	105,571	893,499
Total assets	169,415	165,987	177,316	1,408,505
Current liabilities	56,892	59,496	64,713	472,996
Net assets	53,215	46,710	53,065	442,426

	Yen			U.S. dollars (Note 1)
Per share data				
Net income (loss)	¥ 17.46	(¥ 19.59)	¥ 2.31	$ 0.15
Net assets	133.08	116.79	132.65	1.11
Number of employees (as of March 31)	1,636	1,694	1,908	—

Note 1: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥120.28 =U.S.$1.00, the rate of exchange prevailing on March 31, 2015.

Note 2: From current accounting period, we have revised our reporting segment categories. The previous “Construction” category is now included under “Other businesses.”

To Our Shareholders and Friends

Kenichi Tanaka
President & CEO

The global markets in fiscal 2014, ended March 2015, saw the USA economy transition towards favorable growth while the decline of the EU economy continued. At the same time, the economies of China and countries in Southeast Asia continued to experience a slow-down in growth. In Japan, despite a decline in personal consumption due to the consumption tax rate hike, factors such as improvements in corporate earnings and a continuing trend towards improvement in employment and wages have led to an overall trend towards recovery.

With respect to the market environment surrounding the ISK Group, although domestic demand for titanium dioxide showed signs of a mild decline heading into the end of the fiscal period, overall market conditions were favorable. On the overseas market, while we saw an increase in supply particularly in emerging markets, stagnant demand growth resulted in market conditions that remain unfavorable. In the agrochemicals business, global markets saw continued growth driven by increased demand in the emerging nations of South America but the growing popularity of generic agrochemicals has led to increased pricing competition among companies and products.

Amid such conditions, the ISK Group worked to improve earnings by focusing our efforts on restoring profitability for titanium dioxide and other products in our inorganic chemicals business, placing maintaining and expanding sales for existing agrochemicals as well as the development and promotion of new products as our highest management priority for our organic chemicals business, while also working to improve earnings through cost reductions.

As a result, consolidated net sales for the year under review decreased ¥2.0 billion year-on-year, to ¥103.3 billion (US$ 859 million), operating income increased ¥8.1 billion, to ¥11.1 billion (US$ 92 million), and ordinary income increased ¥8.8 billion, to ¥11.8 billion (US$ 98 million). Extraordinary losses improved greatly due to the elimination of liquidation losses for affiliates recorded as extraordinary losses during the previous fiscal year. However, the Group reversed deferred tax assets due to tax code revisions and other factors. As a result, net income for the year was ¥7.0 billion (US$ 58 million) (net losses for the previous year were ¥7.8 billion).

As we head toward our 100th anniversary in 2020, under the slogan of “Challenge for 2020,” we will strive to become a strong and responsible chemical company with excellent brand power. To achieve this goal, we established our sixth medium-term management plan (fiscal 2015-2017) (hereinafter, MTP), our three-year plan to be initiated from fiscal 2015.

The aims and ideals the Group hopes to achieve by its 100th anniversary in 2020

A strong and responsible chemical company with excellent brand power

As a “strong chemical company”

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

As a “responsible chemical company”

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

Policy concerning MTP initiatives

This MTP will be to focus on initiatives linked to “strengthening existing businesses” and “strengthening our growth platform”, our ultimate goal being the immediate stabilization of earnings and the establishment of a platform for profitable growth.

In our inorganic chemicals business, reducing overseas sales of titanium dioxide, a segment that is seeing a decline in profitability, and favorable sales for functional materials resulted in a profit during fiscal 2014. However, prices for titanium ore remain high and thus market conditions for general-purpose applications remain unfavorable. The MTP outlines a strategy of “applying our advantages to strengthen existing business”. To this end, our titanium dioxide business will apply our advantage of having the No. 1 share of the domestic market combined with our industry-leading technology to focus on sales that emphasize quality (added-value products) and establish a business structure that is not easily influenced by market conditions and other external factors. For functional materials, we will focus our sales force on growth markets such as electronic materials, electro-conductive materials, cosmetic materials, and other lifestyle, environment, and energy sector products as we look to increase the ratio of value-added products we offer. We also will focus on initiatives aimed at “applying our existing technology toward the early commercialization of new materials and next-generation technology development” in order to create new products that will serve as a powerful driving force for business growth.

The organic chemicals business is expected to see a medium to long-term increase in demand for agrochemicals due to a global increase in agricultural production. At the same time, development costs are increasing due to stricter registration regulations caused by growing demand for safer, eco-friendly agrochemicals. Also, the market has seen an influx of cheap generic agrochemicals that have grabbed a major share of the market and made cost competitiveness increasingly important. The MTP outlines a strategy of “strengthening the profitability of existing businesses” by launching new mixtures and other initiatives aimed maintaining and improving our product positions in major markets such as Japan and the EU in order to maximize the value of existing products. At the same time, we will expand sales in Asia and other regions where our development has fallen behind and work to achieve further reductions in manufacturing costs in order to increase our competitiveness in emerging markets. To “strengthen and solidify our growth platform”, we will launch new original products and implement other strategies to promote future profitable growth while also committing to the aggressive injection of management resources for R&D in the life sciences field as we seek to accelerate our expansion into the bio-pharma and medical device markets and propel the growth of our organic chemicals businesses.

Management targets (consolidated)

	100 millions of yen			Millions of U.S. dollars (Note)		
	FY2015 target	FY2016 target	FY2017 target	FY2015 target	FY2016 target	FY2017 target
Net sales	¥ 1,100	¥ 1,150	¥ 1,190	$ 957	$ 1,000	$ 1,035
Operating income (margin)	82 (7%)	94 (8%)	111 (9%)	71 (7%)	82 (8%)	97 (9%)
Ordinary income	61	80	100	53	70	87
Net income returned to parent company	52	70	80	45	61	70
ROE (return on equity)	9%	11%	11%	9%	11%	11%

Note: The U.S. dollar amounts indicated in this table are converted based on the three-year assumed rate of ¥115.00 = U.S.$ 1.00 for FY2015-FY2017.

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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Kenichi Tanaka
President & CEO

Business Overview

From current consolidated accounting period, we have revised our reporting segment categories. The previous "Construction" category is now included under "Other businesses."

Inorganic Chemicals

Domestic sales of titanium dioxide were on par with the previous year in terms of both volume and amounts. However, overseas sales decline greatly compared to the previous year in terms of both volume and amounts due to shutting down production at our Singapore subsidiary and the transition to an emphasis on profitable sales. As a result, overall net sales declined ¥3.2 billion, to ¥39.3 billion (US$ 327 million).

Among functional materials, sales of materials for DeNOx catalysts declined due to intensifying price competition overseas but sales of materials for electronic components and electro-conductive materials were strong. This segment also was propelled by new products during the fiscal year. As a result, net sales were ¥12.0 billion (US$ 100 million) (a ¥2.8 billion increase year-on-year).

With respect to earnings, we achieved profitability for the first time in three years. This was the result of factors such as a scale-down in overseas sales of titanium dioxide, a segment that has declined in profitability, and reduced manufacturing costs, which declined thanks to a drop in titanium ore prices that, although still high, have fallen compared to when market prices were abnormally high.

As a result, segment net sales decreased ¥0.4 billion, to ¥51.3 billion (US$ 427 million) and operating income improved greatly to ¥5.9 billion (US$ 49 million) (losses for the previous year were ¥1.1 billion).

Organic Chemicals

Domestic sales of agrochemicals were impacted during the first half by the adverse decline in demand following the consumption tax rate hike. However, during the second half, our sales efforts, including the launch of a new powdery mildew fungicide, helped us maintain net sales that were on par with the previous fiscal year.

Overseas sales of fungicides increased following a summer of moist weather in Europe and sales in Asia and Oceana increased due in part to the launch of a new pesticide in Australia. However, dry climate and intensifying competition resulted in a decline in sales of fungicides to South America and we were impacted by revisions to sales structure changes that resulting in a decline in herbicides to the European market. As a result, overall net sales declined compared to the previous fiscal year.

Net sales of medical products declined compared to the previous fiscal year. This was the result of a decline in orders due to sales from contracted pharmaceutical ingredients carrying over from the previous fiscal year.

Income declined due to lower sales volume and increases in R&D expenses resulting from the start of full-scale trials of medical-use HVJ-E. However, the improvement in unrealized gains resulting from internal transactions with overseas subsidiaries exceeded those losses.

As a result, segment sales decreased ¥1.3 billion, to ¥49.0 billion (US$ 408 million) and operating income increased ¥1.2 billion, to ¥6.7 billion (US$ 56 million).

Other businesses

In the year under review, the Group's other businesses posted sales of ¥3.0 billion (US$ 25 million) (a ¥0.2 billion decrease year-on-year) and operating income of ¥0.2 billion (US$ 1 million) (a ¥0.1 billion decrease year-on-year).

Consolidated Balance Sheet

As of March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Assets			
Current assets:			
Cash and deposits (Notes 4, 9 and 17)	¥ 21,472	¥ 17,851	$ 178,517
Trade receivables (Note 17):			
Notes	2,640	2,599	21,949
Accounts	26,419	23,272	219,646
	29,059	25,871	241,595
Less allowance for doubtful receivables	(188)	(181)	(1,563)
Trade receivables, net	28,871	25,690	240,032
Inventories (Note 6)	53,377	51,091	443,773
Deferred income taxes (Note 13)	2,264	1,676	18,823
Other current assets	1,485	1,690	12,346
Total current assets	107,469	97,998	893,491
Property, plant and equipment:			
Land (Notes 7 and 9)	5,768	6,332	47,955
Buildings and structures (Notes 7, 8 and 9)	49,385	53,525	410,584
Machinery and equipment (Notes 8 and 9)	113,623	138,507	944,654
Leased assets (Note 8)	3,498	3,818	29,082
Construction in progress	1,127	2,065	9,369
	173,401	204,247	1,441,644
Less accumulated depreciation	(128,876)	(157,087)	(1,071,466)
Property, plant and equipment, net (Note 24)	44,525	47,160	370,178
Investments and other assets:			
Investments in securities (Notes 5, 9 and 17):			
Unconsolidated subsidiaries and affiliates	3,674	3,285	30,545
Other	1,822	2,111	15,148
Total investments in securities	5,496	5,396	45,693
Deferred income taxes (Note 13)	8,786	12,708	73,046
Asset for retirement benefits (Note 11)	14	9	116
Other	3,125	2,716	25,981
Total investments and other assets	17,421	20,829	144,836
Total assets (Note 24)	¥ 169,415	¥ 165,987	$ 1,408,505

See notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 9 and 17)	¥ 15,400	¥ 16,520	$ 128,035
Current portion of long-term bank loans (Notes 9 and 17)	16,072	15,269	133,622
Current portion of bonds (Notes 9 and 17)	280	280	2,328
Trade payables (Note 17):			
Notes	1,369	1,061	11,382
Accounts	11,040	12,164	91,786
	12,409	13,225	103,168
Lease obligations (Notes 9 and 17)	549	638	4,564
Accrued income taxes (Note 13)	628	463	5,221
Accrued expenses	4,346	3,944	36,132
Accrued bonuses for employees	670	483	5,570
Reserve for sales returns	33	34	274
Provision for loss on construction contracts	—	4	—
Reserve for Ferosilt removal	2,459	2,061	20,444
Reserve for implementation of environmental and safety arrangements	25	35	208
Provision for maintenance	—	142	—
Provision for loss on liquidation of a subsidiary	324	2,241	2,694
Other current liabilities	3,697	4,157	30,736
Total current liabilities	56,892	59,496	472,996
Long-term liabilities:			
Long-term bank loans (Notes 9 and 17)	42,447	40,622	352,902
Bonds (Notes 9 and 17)	840	1,120	6,984
Lease obligations (Notes 9 and 17)	897	1,092	7,458
Liability for retirement benefits (Note 11)	12,085	10,811	100,474
Deferred income taxes (Note 13)	36	13	299
Long-term deposits received	880	730	7,316
Reserve for Ferosilt removal	—	3,526	—
Reserve for implementation of environmental and safety arrangements	807	544	6,709
Provision for maintenance	83	42	690
Asset retirement obligations (Note 10)	840	841	6,984
Other long-term liabilities	393	440	3,267
Total long-term liabilities	59,308	59,781	493,083
Contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized: 1,000,000 thousand shares			
Issued: 403,839 thousand shares in 2015 and 2014	43,421	43,421	360,999
Capital surplus	10,627	10,627	88,352
Retained earnings	600	(5,673)	4,989
Less treasury stock, at cost:			
3,973 thousand shares in 2015 and 3,909 thousand shares in 2014	(698)	(692)	(5,803)
Total shareholders' equity	53,950	47,683	448,537
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	513	318	4,265
Unrealized deferred gain (loss) on hedges	0	(26)	0
Translation adjustments	(850)	(404)	(7,067)
Retirement benefits liability adjustments	(398)	(861)	(3,309)
Total accumulated other comprehensive loss	(735)	(973)	(6,111)
Total net assets	53,215	46,710	442,426
Total liabilities and net assets	¥ 169,415	¥ 165,987	$ 1,408,505

See notes to consolidated financial statements.

Consolidated Statement of Operations

For the year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Net sales (Note 24)	¥ 103,331	¥ 105,294	$ 859,087
Cost of sales (Notes 6 and 15)	68,856	79,567	572,464
Gross profit	34,475	25,727	286,623
Selling, general and administrative expenses (Note 15)	23,370	22,688	194,297
Operating income (Note 24)	11,105	3,039	92,326
Other income:			
Interest and dividend income	194	151	1,613
Equity in earnings of affiliates	385	428	3,201
Foreign exchange gain, net	1,691	1,836	14,059
Reversal of provision for liquidation of a subsidiary	759	—	6,310
Other	328	276	2,727
	3,357	2,691	27,910
Other expenses:			
Interest expense	1,563	1,747	12,995
Retirement benefit expense	356	356	2,960
Other	779	661	6,476
	2,698	2,764	22,431
Ordinary income	11,764	2,966	97,805
Extraordinary gains:			
Gain from redemption upon liquidation of a subsidiary	312	—	2,594
Gain on sales of non-current assets	—	22	—
Other	34	—	283
	346	22	2,877
Extraordinary losses:			
Loss on disposal of fixed assets	285	286	2,369
Reserve for implementation of environmental and safety arrangements	251	—	2,087
Loss on liquidation of a subsidiary (Notes 6, 8 and 19)	—	12,777	—
Loss on impairment of fixed assets (Notes 8 and 24)	86	—	715
Other	40	115	333
	662	13,178	5,504
Income (loss) before income taxes	11,448	(10,190)	95,178
Income taxes (Note 13):			
Current	860	696	7,150
Deferred	3,604	(3,049)	29,963
Net income (loss) (Note 22)	¥ 6,984	¥ (7,837)	$ 58,065

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income (Loss)

For the year ended March 31, 2015

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2015		2014		2015	
Net income (loss)	¥	6,984	¥	(7,837)	$	58,065
Other comprehensive income (Note 20):						
Net unrealized holding gain on securities		195		73		1,621
Unrealized deferred gain on hedges		26		38		216
Translation adjustments		(518)		2,000		(4,307)
Adjustment for projected benefit obligation of an overseas subsidiary		–		(29)		–
Retirement benefits liability adjustments		463		138		3,849
Other comprehensive income of affiliates accounted for by the equity method attributable to the Company		72		271		599
Total other comprehensive income		238		2,491		1,978
Comprehensive income (loss)	¥	7,222	¥	(5,346)	$	60,043

	Millions of yen				Thousands of U.S. dollars (Note 1)	
	2015		2014		2015	
Comprehensive income (loss) attributable to:						
Shareholders of Ishihara Sangyo Kaisha, Ltd.	¥	7,222	¥	(5,346)	$	60,043
	¥	7,222	¥	(5,346)	$	60,043

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2015

	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	Total net assets
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 April 1, 2014	403,839,431	¥43,421	¥10,627	¥ (5,673)	¥ (692)	¥ 318	¥ (26)	¥ (404)	¥ –	¥ (861)	¥ 46,710
Cumulative effects of changes in accounting policies (Note 3)	–	–	–	(711)	–	–	–	–	–	–	(711)
Restated balance at April, 1, 2014	–	43,421	10,627	(6,384)	(692)	318	(26)	(404)	–	(861)	45,999
Net income	–	–	–	6,984	–	–	–	–	–	–	6,984
Acquisition of treasury stock	–	–	–	–	(6)	–	–	–	–	–	(6)
Disposition of treasury stock	–	–	0	–	0	–	–	–	–	–	0
Other changes	–	–	–	–	–	195	26	(446)	–	463	238
Balance at March 31, 2015	403,839,431	¥43,421	¥10,627	¥ 600	¥ (698)	¥ 513	¥ 0	¥ (850)	¥ –	¥ (398)	¥ 53,215

	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	Total net assets
Balance at April 1, 2014	$360,999	$ 88,352	$ (47,165)	$ (5,753)	$ 2,644	$ (216)	$ (3,359)	$ –	$ (7,158)	$388,344
Cumulative effects of changes in accounting policies (Note 3)	–	–	(5,911)	–	–	–	–	–	–	(5,911)
Restated balance at April, 1, 2014	360,999	88,352	(53,076)	(5,753)	2,644	(216)	(3,359)	–	(7,158)	382,433
Net income	–	–	58,065	–	–	–	–	–	–	58,065
Acquisition of treasury stock	–	–	–	(50)	–	–	–	–	–	(50)
Disposition of treasury stock	–	0	–	0	–	–	–	–	–	0
Other changes	–	–	–	–	1,621	216	(3,708)	–	3,849	1,978
Balance at March 31, 2015	$360,999	$ 88,352	$ 4,989	$ (5,803)	$ 4,265	$ 0	$ (7,067)	$ –	$ (3,309)	$442,426

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31, 2015

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2015	2014	2015
Cash flows from operating activities			
Income (loss) before income taxes	¥ 11,448	¥ (10,190)	$ 95,178
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,561	6,040	46,234
Loss on disposal or sales of fixed assets, net	150	97	1,247
Loss on impairment of fixed assets	86	5,808	715
(Decrease) increase in provision for loss on liquidation of a subsidiary	(1,990)	2,241	(16,545)
Foreign exchange gain, net	(1,151)	(18)	(9,569)
Decrease in provisions for accrued retirement benefits for employees	–	(8,687)	–
Increase in liabilities for retirement benefits, net	912	9,950	7,582
Reversal of reserve for Ferosilt removal	(2,310)	(2,274)	(19,205)
Increase (decrease) in reserve for implementation of environmental and safety arrangements	255	(25)	2,120
Interest and dividend income	(194)	(151)	(1,613)
Interest expense	1,563	1,747	12,995
Equity in earnings of affiliates, net	(294)	(343)	(2,444)
Other	(292)	142	(2,428)
Changes in operating assets and liabilities:			
Trade receivables	(2,823)	875	(23,470)
Inventories	(1,623)	10,967	(13,494)
Other current assets	277	240	2,303
Trade payables	(1,339)	(1,099)	(11,132)
Accrued expenses and other current liabilities	217	(1,306)	1,804
Subtotal	8,453	14,014	70,278
Interest and dividends received	148	160	1,230
Interest paid	(1,623)	(1,709)	(13,493)
Insurance claim received	95	26	790
Income taxes paid	(722)	(424)	(6,003)
Net cash provided by operating activities	6,351	12,067	52,802
Cash flows from investing activities			
Increase in time deposits	–	(350)	–
Decrease in time deposits	490	–	4,074
Purchases of property, plant and equipment	(4,646)	(4,278)	(38,628)
Proceeds from sales of property, plant and equipment	72	370	599
Increase in long-term loans receivable	(208)	(250)	(1,729)
Collection of long-term loans receivables	190	154	1,580
Proceeds from liquidation of a subsidiary	471	–	3,916
Other	416	228	3,459
Net cash used in investing activities	(3,215)	(4,126)	(26,729)
Cash flows from financing activities			
Proceeds from issuance of bonds	–	1,400	–
Redemption of bonds	(280)	(1,600)	(2,328)
Decrease in short-term bank loans, net	(1,120)	(8,115)	(9,312)
Proceeds from long-term bank loans	18,263	17,073	151,837
Repayment of long-term bank loans	(15,635)	(15,344)	(129,988)
Repayment of lease obligations	(663)	(1,286)	(5,512)
Proceeds from deposits received	2,286	1,953	19,006
Repayment of deposits received	(2,073)	(2,526)	(17,235)
Purchases of treasury stock	(6)	(10)	(50)
Net cash provided by (used in) financing activities	772	(8,455)	6,418
Effect of exchange rate changes on cash and cash equivalents	188	703	1,563
Increase in cash and cash equivalents	4,096	189	34,054
Cash and cash equivalents at beginning of year	17,186	16,997	142,883
Cash and cash equivalents at end of year (Note 4)	¥ 21,282	¥ 17,186	$ 176,937

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended March 31, 2015

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 ¥120.28 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2015. 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.

The Company's remaining subsidiaries, including ISK BIOSCIENCES KOREA 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 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 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.

(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.

(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) 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.

(Additional information)
Removal of Ferosilt was completed at all construction regions and disposal locations in March 2015.

(o) Reserve for implementation of environmental and safety arrangements
The Company has provided the reserve for estimated expenditures to promote environmental and safety arrangements.

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

(q) 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.

(r) 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 employees is attributed to each period by the straight-line method over the estimated years of service of the eligible employees.

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.

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.

The net retirement benefit obligation at transition is being amortized by the straight-line method over a period of 15 years.

(s) 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.

3. Changes in Accounting Policies

The Company and its domestic subsidiaries adopted the main clause of Paragraph 35 of “Accounting Standard for Retirement Benefits” (Accounting Standards Board of Japan (“ASBJ”) Statement No.26 of May 17, 2012) and the main clause of Paragraph 67 of “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No.25 of March 26, 2015) effective from April 1, 2014. As a result, the methods for calculating the retirement benefit obligation and service cost have been revised in the following respect: the method for determining the discount rate has been changed to the use of a single weighted-average discount rate reflecting the expected timing and amount of benefit payments.

The cumulative effects of changing the methods for calculating the retirement benefit obligation and service cost were recognized by adjusting retained earnings at April 1, 2014, in accordance with the transitional treatment provided in Paragraph 37 of Accounting Standard for Retirement Benefits.

As a result, the liability for retirement benefits increased by ¥1,095 million ($9,104 thousand) and retained earnings decreased by ¥711 million ($5,911 thousand) at April 1, 2014, and the impacts on consolidated operating income, ordinary income and income before income taxes for the year ended March 31, 2015 were immaterial. Also, net assets per share at March 31, 2015 decreased by ¥1.77 ($0.01) and the impact on basic net income per share was immaterial.

4. Cash and Deposits

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets as of March 31, 2015 and 2014 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Cash and deposits	¥ 21,472	¥ 17,851	$ 178,517
Time deposits with maturities in excess of three months	(190)	(665)	(1,580)
Cash and cash equivalents	¥ 21,282	¥ 17,186	$ 176,937

5. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2015 and 2014 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen					
	2015			2014		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value	¥ 10	¥ 10	¥ 0	¥ –	¥ –	¥ –
Total	¥ 10	¥ 10	¥ 0	¥ –	¥ –	¥ –
Securities whose carrying value exceeds their estimated fair value	¥ –	¥ –	¥ –	¥ 10	¥ 10	¥ (0)
Total	¥ –	¥ –	¥ –	¥ 10	¥ 10	¥ (0)

	Thousands of U.S. dollars		
	2015		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose estimated fair value exceeds their carrying value	$ 83	$ 83	$ 0
Total	$ 83	$ 83	$ 0

(b) Other securities

	Millions of yen					
	2015			2014		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Equity securities	¥ 1,371	¥703	¥ 668	¥ 1,099	¥ 626	¥ 473
Subtotal	1,371	703	668	1,099	626	473
Securities whose acquisition cost exceeds their carrying value: Equity securities	36	40	(4)	78	91	(13)
Subtotal	36	40	(4)	78	91	(13)
Total	¥ 1,407	¥ 743	¥ 664	¥ 1,177	¥ 717	¥ 460

	Thousands of U.S. dollars		
	2015		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Equity securities	$ 11,398	$ 5,845	$ 5,553
Subtotal	11,398	5,845	5,553
Securities whose acquisition cost exceeds their carrying value: Equity securities	299	332	(33)
Subtotal	299	332	(33)
Total	$ 11,697	$ 6,177	$ 5,520

Proceeds from sales of other securities and the aggregate gain and loss for the years ended March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Proceeds from sales	¥ 3	¥ 219	$ 25
Aggregate gain	3	48	25
Aggregate loss	–	(19)	–

The redemption schedule subsequent to March 31, 2015 for held-to-maturity debt securities classified as other securities is described in Note 17.

6. Inventories

Inventories at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Finished goods and merchandise	¥ 31,870	¥ 30,798	$ 264,965
Work in process	4,149	4,047	34,495
Raw materials and supplies	17,358	16,246	144,313
Total	¥ 53,377	¥ 51,091	$ 443,773

Net loss on devaluation of inventories included in cost of sales for the years ended March 31, 2015 and 2014 amounted to ¥16 million ($133 thousand) and ¥100 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 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 as of March 31, 2014.

7. Acquisition Costs of Land and Buildings

The accumulated amount deducted from the acquisition costs of land and buildings, resulting from the exchange of rights on an urban area redevelopment project totaled ¥923 million ($7,674 thousand) at March 31, 2015 and 2014, respectively.

8. Loss on Impairment of Fixed Assets

For the year ended March 31, 2015, the Company recorded a loss on impairment of fixed assets. The main components of loss on impairment of fixed assets are as follows:

			Millions of yen		Thousands of U.S. dollars	
Location	Major use	Classification		2015		2015
Yokkaichi Plant (Yokkaichi City, Mie Prefecture)	Production equipment	Buildings and structures	¥	35	$	291
		Machinery and equipment		51		424
		Total	¥	86	$	715

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

As the production equipment located at the Yokkaichi Plant in the above table, such as equipment for liquid ammonia and fuel oil, is not anticipated to be utilized in the future, the Company recognized the production equipment as idle assets and recognized a loss on impairment. The Company wrote down the book value of these assets to nil.

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 of fixed assets are as follows:

			Millions of yen	
Location	Major use	Classification		2014
Singapore Plant (Singapore)	Production equipment	Buildings and structures	¥	514
		Machinery and equipment		2,630
		Leased assets		2,464
		Other		200
		Total	¥	5,808

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.

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

The average annual interest rate on short-term bank loans at March 31, 2015 and 2014 was approximately 1.5%.

Long-term bank loans, including the current portion of long-term bank loans, at March 31, 2015 and 2014 consisted of the following:

	Millions of yen				Thousands of U.S. dollars	
		2015		2014		2015
Secured bank loans	¥	18,202	¥	18,646	$	151,330
Unsecured bank loans		40,317		37,245		335,194
Subtotal		58,519		55,891		486,524
Less amounts due within one year		(16,072)		(15,269)		(133,622)
Total	¥	42,447	¥	40,622	$	352,902

Interest rates applicable to long-term bank loans presented in the above table ranged from 1.2% to 5.9% at March 31, 2015 and from 1.0% to 5.9% at March 31, 2014. These bank loans become due from 2015 through to 2022.

Bonds at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unsecured bonds, payable in yen at rate of 0.257%, due 2019	¥ 1,120	¥ 1,400	$ 9,312
Less amounts due within one year	(280)	(280)	(2,328)
Total	¥ 840	¥ 1,120	$ 6,984

Lease obligations at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Finance lease obligations (ownership not transferred to the lessee)	¥ 1,446	¥ 1,730	$ 12,022
Less amounts due within one year	(549)	(638)	(4,564)
Total	¥ 897	¥ 1,092	$ 7,458

Information for the payment schedules of long-term bank loans, bonds, and lease obligations subsequent to March 31, 2015 is described in Note 17.

At March 31, 2015 and 2014, 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
	2015	2014	2015
Property, plant and equipment, net of accumulated depreciation	¥ 29,765	¥ 33,141	$ 247,464
Investments in securities	105	74	873
Cash and deposits	190	532	1,580
Total	¥ 30,060	¥ 33,747	$ 249,917

Short-term bank loans, the current portion of long-term bank loans and long-term bank loans secured by such collateral at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Short-term bank loans	¥ 12,790	¥ 13,030	$ 106,335
Current portion of long-term bank loans	4,717	5,046	39,217
Long-term bank loans	13,485	13,600	112,113
Total	¥ 30,992	¥ 31,676	$ 257,665

In addition, cash and deposits of nil and ¥133 million, buildings and structures of ¥92 million ($765 thousand) and ¥97 million, land of ¥219 million ($1,821 thousand) and ¥219 million were pledged as collateral to secure future loans from certain financial institutions at March 31, 2015 and 2014, respectively. However, there were no corresponding liabilities at March 31, 2015 and 2014.

10. Asset Retirement Obligations

The asset retirement obligations include legal obligations for disposal of items including polychlorobiphenyl pursuant to the "Law Concerning Special Measures Against PCB Waste" and other legal obligations for the removal of leasehold improvements and restoration of premises around the Yokkaichi Plant to their original condition upon termination of 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, 2015 and 2014.

	Millions of yen				Thousands of U.S. dollars	
		2015		2014		2015
Asset retirement obligation balance at the beginning of the year	¥	841	¥	849	$	6,992
Liabilities incurred due to the acquisition of property, plant and equipment		5		–		42
Accretion expense		0		1		0
Liabilities settled		(6)		(9)		(50)
Asset retirement obligation balance at the end of the year	¥	840	¥	841	$	6,984

Disclosure of detailed information on the asset retirement obligations at March 31, 2015 and 2014 were omitted because the total amounts of asset retirement obligations at March 31, 2015 and 2014 were less than 1% of the amount of total liabilities and net assets.

11. 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.

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 obligations during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen				Thousands of U.S. dollars	
		2015		2014		2015
Retirement benefit obligations at the beginning of the year	¥	10,347	¥	10,370	$	86,024
Cumulative effects of changes in accounting policies		1,095		–		9,104
Restated balance at the beginning of the year		11,442		10,370		95,128
Service cost		612		567		5,088
Interest cost		110		190		915
Actuarial gain		(273)		(303)		(2,270)
Retirement benefits paid		(483)		(502)		(4,016)
Prior service cost		–		(24)		–
Other		(3)		49		(24)
Retirement benefit obligations at the end of the year	¥	11,405	¥	10,347	$	94,821

The changes in plan assets during the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen				Thousands of U.S. dollars	
		2015		2014		2015
Plan assets at the beginning of the year	¥	306	¥	276	$	2,544
Expected return on plan assets		5		5		42
Actuarial gain		15		63		125
Contributions paid by the Company and subsidiaries		25		26		207
Retirement benefits paid		(181)		(70)		(1,505)
Other		(8)		6		(66)
Plan assets at the end of the year	¥	162	¥	306	$	1,347

The changes in retirement benefit obligations calculated by the Simplified Method during the year ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Retirement benefit obligations at the beginning of the year	¥ 761	¥ 843	$ 6,327
Retirement benefit expenses	80	75	665
Retirement benefits paid	(13)	(157)	(108)
Retirement benefit obligations at the end of the year	¥ 828	¥ 761	$ 6,884

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2015 and 2014 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Funded retirement benefit obligation	¥ 276	¥ 363	$ 2,295
Plan assets at fair value	(162)	(306)	(1,347)
	114	57	948
Unfunded retirement benefit obligation	11,957	10,745	99,410
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	12,071	10,802	100,358
Liability for retirement benefits	12,085	10,811	100,474
Asset for retirement benefits	(14)	(9)	(116)
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	¥ 12,071	¥ 10,802	$ 100,358

The components of retirement benefit expenses for the years ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Service cost	¥ 612	¥ 567	$ 5,088
Interest cost	110	190	915
Expected return on plan assets	(5)	(5)	(42)
Amortization:			
Net retirement obligation at transition	359	359	2,986
Actuarial loss	68	153	565
Prior service cost	20	24	166
Retirement benefit expenses calculated by the Simplified Method	80	75	665
Retirement benefit expenses	¥ 1,244	¥ 1,363	$ 10,343

The components of retirement benefits liability adjustments included in other comprehensive income (before tax effect) for the year ended March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Actuarial loss	¥ 356	¥ 181	$ 2,959
Prior service cost	20	25	166
Net retirement obligation at transition	359	–	2,986
Others	15	–	124
Total	¥ 750	¥ 206	$ 6,235

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2015 and 2014 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unrecognized actuarial loss	¥ 371	¥ 739	$ 3,084
Unrecognized prior service cost	209	232	1,738
Unrecognized net retirement obligation at transition	–	359	–
Total	¥ 580	¥ 1,330	$ 4,822

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2015 and 2014 are as follows:

	2015	2014
Debt securities	84%	84%
Equity securities	11	9
Cash and deposits	5	6
Others	–	1
Total	100%	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, 2015 and 2014 are as follows:

	2015	2014
Discount rate	Principally 0.9%	Principally 1.8%
Expected long-term rate of return on plan assets	Principally 1.8%	Principally 3.0%
Rates of salary increase	Principally 6.5%	Principally 6.7%

Total contributions paid by the Company and certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2015 and 2014 amounted to ¥85 million ($707 thousand) and ¥83 million, respectively.

12. Contingent Liabilities

(a) Guarantees

At March 31, 2015, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
	2015	2015
Trade notes receivable discounted with banks	¥ 130	$ 1,081
As guarantor for borrowings of unconsolidated subsidiaries	106	881
Total	¥ 236	$ 1,962

(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 in 2008, 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 has kept conducting full-scale pumping.

Thereafter, full-scale pumping will be continued, which includes installments of additional pumping and purification equipment and adopting local applications based on the results of trial insolubilizing measures based on the results of the surveys and trials in prior years.

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.

13. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The applicable statutory tax rate in Japan for the years ended March 31, 2015 and 2014 was, in the aggregate, approximately 35.1%. Overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2015 differs from the above statutory tax rate for the following reasons:

	2015
Statutory tax rate	35.1 %
Permanently non-deductible expenses	0.3
Permanently non-taxable income	(1.0)
Per capita portion of inhabitants' taxes	0.3
Tax deduction for experiment and research expenses	(0.9)
Unrealized gain on intercompany transactions	(0.8)
Changes in valuation allowance	(3.0)
Decrease of deferred tax assets resulting from change in tax rates	9.4
Other	(0.4)
Effective tax rate	39.0 %

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.

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, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Deferred tax assets:			
Tax loss carryforwards	¥ 10,317	¥ 10,948	$ 85,775
Liability for retirement benefits	3,851	3,794	32,017
Loss on devaluation of inventories	195	441	1,621
Unrealized gain on intercompany transactions	1,631	1,902	13,560
Accrued expenses	504	532	4,190
Accrued bonuses for employees	216	178	1,796
Reserve for Ferosilt removal	1,033	1,961	8,588
Reserve for implementation of environmental and safety arrangements	293	203	2,436
Asset retirement obligations	267	294	2,220
Loss on liquidation of a subsidiary	6,783	7,466	56,393
Other	1,864	1,922	15,498
Gross deferred tax assets	26,954	29,641	224,094
Less valuation allowance	(15,347)	(14,572)	(127,594)
Total deferred tax assets	11,607	15,069	96,500
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(175)
Unrealized holding gain on securities	(143)	(120)	(1,189)
Translation adjustments	–	(180)	–
Other	(429)	(382)	(3,566)
Total deferred tax liabilities	(593)	(703)	(4,930)
Net deferred tax assets	¥ 11,014	¥ 14,366	$ 91,570

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No.9 of 2015) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No.2 of 2015) were promulgated on March 31, 2015. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 35.1% to 32.6% and 31.8% for the temporary differences expected to be realized or settled in the year beginning April 1, 2015 and for the temporary differences expected to be realized or settled from April 1, 2016, respectively. The effect of the announced reduction of the effective statutory tax rate was to decrease deferred tax assets, after offsetting deferred tax liabilities, by ¥1,039 million ($8,638 thousand) and increase deferred income tax expense by ¥1,080 million ($8,979 thousand), as of and for the year ended March 31, 2015.

14. 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, 2015 and 2014 are summarized as follows:

	Thousands of shares			
	2015			
	April 1, 2014	Increase	Decrease	March 31, 2015
Common stock	403,839	–	–	403,839
Treasury stock	3,909	65	1	3,973

	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

The increases in treasury stock were due to purchases of shares of less than one voting unit for the years ended March 31, 2015 and 2014. 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, 2015 and 2014.

15. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2015 and 2014 totaled ¥9,330 million ($77,569 thousand) and ¥8,965 million, respectively.

16. Leases

Operating lease transactions

Future minimum lease payments subsequent to March 31, 2015 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2016	¥ 57	$ 474
2017 and thereafter	130	1,081
Total	¥ 187	$ 1,555

17. Financial Instruments

Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

Trade receivables – trade notes and accounts receivable – are exposed to credit risk in relation to customers. In addition, the Group has global operations and the percentage of sales transactions denominated in foreign 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 18 are not necessarily indicative of the actual market risk involved in the derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets, estimated fair value and the differences as of March 31, 2015 and 2014 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 17(b) below)

(a) Estimated fair value of financial instruments

	Millions of yen					
	2015			2014		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
(1) Cash and deposits	¥ 21,472	¥ 21,472	¥ –	¥ 17,851	¥ 17,851	¥ –
(2) Trade receivables	29,059	29,059	–	25,871	25,871	–
(3) Securities and investments in securities:						
Held-to-maturity debt securities	10	10	0	10	10	(0)
Other securities	1,406	1,406	–	1,177	1,177	–
Total assets	¥ 51,947	¥ 51,947	¥ 0	¥ 44,909	¥ 44,909	¥ (0)
Liabilities:						
(1) Trade payables	12,409	12,409	–	13,225	13,225	–
(2) Short-term bank loans	15,400	15,400	–	16,520	16,520	–
(3) Long-term bank loans, including current portion	58,519	58,536	17	55,891	55,937	46
Total liabilities	¥ 86,328	¥ 86,345	¥ 17	¥ 85,636	¥ 85,682	¥ 46
Derivatives (*)	¥ 274	¥ 274	¥ –	¥ (135)	¥ (135)	¥ –

	Thousands of U.S. dollars		
	2015		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and deposits	$ 178,517	$ 178,517	$ –
(2) Trade receivables	241,595	241,595	–
(3) Securities and investments in securities:			
Held-to-maturity debt securities	83	83	0
Other securities	11,689	11,689	–
Total assets	$ 431,884	$ 431,884	$ 0
Liabilities:			
(1) Trade payables	103,168	103,168	–
(2) Short-term bank loans	128,035	128,035	–
(3) Long-term bank loans, including current portion	486,524	486,665	141
Total liabilities	$ 717,727	$ 717,868	$ 141
Derivatives (*)	$ 2,278	$ 2,278	$ –

(*) 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 5.

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 18 “Derivatives.”

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

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Unlisted equity securities	¥ 4,025	¥ 3,636	$ 33,464
Investments in limited partnerships	55	73	457
Preferred securities	–	500	–

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							
	2015				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	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	¥ 21,462	¥ –	¥ –	¥ –	¥ 17,841	¥ –	¥ –	¥ –
Trade receivables	29,059	–	–	–	25,871	–	–	–
Investments in securities:								
Held-to-maturity debt securities	–	–	10	–	–	–	10	–
Total	¥ 50,521	¥ –	¥ 10	¥ –	¥ 43,712	¥ –	¥ 10	¥ –

	Thousands of U.S. dollars			
	2015			
	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	$ 178,433	$ –	$ –	$ –
Trade receivables	241,595	–	–	–
Investments in securities:				
Held-to-maturity debt securities	–	–	83	–
Total	$ 420,028	$ –	$ 83	$ –

(d) *Redemption schedule of long-term debt*

	Millions of yen					
	2015					
	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	¥ 16,072	¥ 13,483	¥ 12,328	¥ 11,251	¥ 4,844	¥ 541
Bonds	280	280	280	280	–	–
Lease obligations	549	391	252	144	70	40
Total	¥ 16,901	¥ 14,154	¥ 12,860	¥ 11,675	¥ 4,914	¥ 581

	Thousands of U.S. dollars					
	2015					
	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	$ 133,622	$ 112,097	$ 102,494	$ 93,540	$ 40,273	$ 4,498
Bonds	2,328	2,328	2,328	2,328	–	–
Lease obligations	4,564	3,251	2,095	1,197	582	333
Total	$ 140,514	$ 117,676	$ 106,917	$ 97,065	$ 40,855	$ 4,831

18. Derivatives

The notional amounts and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at March 31, 2015 and 2014 were as follows:

(a) Currency-related transactions

Forward foreign exchange contracts:

	Millions of yen					
	2015			2014		
	Notional amount	Estimated fair value	Unrealized gain (loss)	Notional amount	Estimated fair value	Unrealized loss
Sell:						
Euro	¥ 2,754	¥ 281	¥ 281	¥ 6,171	¥ (80)	¥ (80)
U.S. dollars	–	–	–	466	2	2
Buy:						
Japanese yen	484	(7)	(7)	446	(16)	(16)
Total	¥ 3,238	¥ 274	¥ 274	¥ 7,083	¥ (94)	¥ (94)

	Thousands of U.S. dollars		
	2015		
	Notional amount	Estimated fair value	Unrealized gain (loss)
Sell:			
Euro	$ 22,897	$ 2,336	$ 2,336
U.S. dollars	–	–	–
Buy:			
Japanese yen	4,024	(58)	(58)
Total	$ 26,921	$ 2,278	$ 2,278

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

Forward foreign exchange contracts:

			Millions of yen					
			2015			2014		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Notional amount	Notional amount (over one year)	Estimated fair value (*)
The allocation method	Sell: U.S. dollars	Accounts receivable	¥ –	¥ –	¥ (**)	¥ 464	¥ –	¥ (**)
	Buy: U.S. dollars	Accounts payable	13	–	(**)	2	–	(**)
		Total	¥ 13	¥ –	¥ –	¥ 464	¥ –	¥ –

			Thousands of U.S. dollars		
			2015		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)
The allocation method	Sell: U.S. dollars	Accounts receivable	$ –	$ –	$ (**)
	Buy: U.S. dollars	Accounts payable	108	–	(**)
		Total	$ 108	$ –	$ –

(*) 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.

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

			Millions of yen					
			2015			2014		
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)
The special method	Receive/ floating and pay/fixed	Long-term bank loans	9,835	5,772	(**)	7,921	5,802	(**)
		Total	¥ 9,835	¥ 5,772	¥ –	¥ 11,023	¥ 5,802	¥ (41)

			Thousands of U.S. dollars		
			2015		
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	$ –	$ –	$ –
The special method	Receive/ floating and pay/fixed	Long-term bank loans	81,768	47,988	(**)
		Total	$ 81,768	$ 47,988	$ –

(*) 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.

19. 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, which consisted of impairment loss of fixed assets amounting to ¥5,808 million, loss on devaluation of inventories amounting to ¥2,754 million and other losses amounting to ¥4,215 million.

20. Other Comprehensive Income

The following table presents reclassification adjustments and tax effects for components of other comprehensive income for the years ended March 31, 2015 and 2014:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Net unrealized holding gain on securities:			
Amount arising during the year	¥ 218	¥ 140	$ 1,812
Reclassification adjustments for gains realized in consolidated statement of operations	–	(46)	–
Before tax effect	218	94	1,812
Tax effect	(23)	(21)	(191)
Total	195	73	1,621
Unrealized deferred gain on hedges:			
Amounts arising during the year	0	1	0
Reclassification adjustments for losses realized in consolidated statement of operations	41	62	341
Tax effect	(15)	(25)	(125)
Total	26	38	216
Translation adjustment:			
Amount arising during the year	(698)	2,179	(5,803)
Tax effect	180	(179)	1,496
Total	(518)	2,000	(4,307)
Adjustment for projected benefit obligation of an overseas subsidiary:			
Amount arising during the year	–	(43)	–
Tax effect	–	14	–
Total	–	(29)	–
Retirement benefits liability adjustments:			
Amount arising during the year	303	206	2,519
Reclassification adjustments for gains realized in consolidated statement of operations	447	–	3,716
Before tax effect	750	–	6,235
Tax effect	(287)	(68)	(2,386)
Total	463	138	3,849
Other comprehensive income of affiliates accounted for by the equity method attributable to the Company	72	271	599
Total other comprehensive income	¥ 238	¥ 2,491	$ 1,978

21. 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 ¥371 million ($3,084 thousand) and ¥297 million and lease obligations of ¥400 million ($3,326 thousand) and ¥312 million under finance leases for the years ended March 31, 2015 and 2014, respectively.

22. Amounts per Share

	Yen		U.S. dollars
	2015	2014	2015
Net income (loss) per share	¥ 17.46	¥ (19.59)	$ 0.15
Net assets per share	133.08	116.79	1.11

Net income (loss) 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, 2015 and 2014 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, 2015 and 2014 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Information on basic net income per share:			
Net income (loss)	¥ 6,984	¥ (7,837)	$ 58,065
Net income (loss) not attributable to common shareholders	–	–	–
Adjusted net income (loss) attributable to common shareholders	¥ 6,984	¥ (7,837)	$ 58,065

	Thousands of shares	
	2015	2014
Weighted-average number of shares of common stock outstanding during the year	399,901	399,987

The financial data for the computation of net assets per share at March 31, 2015 and 2014 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Total net assets	¥ 53,215	¥ 46,710	$ 442,426
Deductions from total net assets:			
Minority interests	–	–	–
Total net assets used in the calculation of net assets per share	¥ 53,215	¥ 46,710	$ 442,426

	Thousands of shares	
	2015	2014
Number of shares used in the calculation of net assets per share	399,866	399,930

23. Related Party Transactions

Major transactions and balances between the Company and an affiliated company for the years ended and as of March 31, 2015 and 2014 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	2015	2014	2015	Account	2015	2014	2015
BELCHIM CROP PROTECTION N.V.	Sales of products	¥ 48	¥ 63	$ 399	Trade receivables	¥ 6	¥ –	$ 50

Major transactions and balances between a consolidated subsidiary and an affiliated company for the years ended and as of March 31, 2015 and 2014 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	2015	2014	2015	Account	2015	2014	2015
BELCHIM CROP PROTECTION N.V.	Sales of products	¥ 16,776	¥ 13,412	$ 139,475	Trade receivables	¥ 4,054	¥ 4,124	$ 33,705

24. Segment Information

(a) Overview of the reportable segments

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

(Change in Reportable Segments)

Effective April 1, 2014 the Company has included the reportable segment of "Construction" in the "Other businesses" segment due to a decrease in materiality. Along with this change in reportable segments, the Company has reclassified the segment information for the previous year.

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 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.

Other businesses

This reportable segment principally includes the trading business and the construction 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. In accordance with the changes in accounting policies described in Note 3, the calculation method of the retirement benefits obligation and service costs for each reportable segment was revised. The impact on segment income for each reportable business segment was immaterial.

(c) Reportable segment information

	Millions of yen					
	2015					
	Reportable segments					
	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:						
Net sales:						
External customers	¥ 51,342	¥ 49,031	¥ 2,958	¥ 103,331	¥ –	¥ 103,331
Intersegment	–	–	2,026	2,026	(2,026)	–
Net sales	51,342	49,031	4,984	105,357	(2,026)	103,331
Segment income	¥ 5,895	¥ 6,698	¥ 152	¥ 12,745	¥ (1,640)	¥ 11,105
Segment assets	¥ 73,143	¥ 58,753	¥ 2,573	¥ 134,469	¥ 34,946	¥ 169,415
Other items:						
Depreciation and amortization of intangible assets	3,495	1,015	62	4,572	185	4,757
Loss on impairment of fixed assets	86	–	–	86	–	86
Increase in fixed tangible and intangible assets	2,282	627	44	2,953	137	3,090

	Millions of yen					
	2014					
	Reportable segments					
	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:						
Net sales:						
External customers	¥ 51,751	¥ 50,364	¥ 3,179	¥ 105,294	¥ –	¥ 105,294
Intersegment	1	–	1,893	1,894	(1,894)	–
Net sales	51,752	50,364	5,072	107,188	(1,894)	105,294
Segment (loss) income	¥ (1,086)	¥ 5,462	¥ 291	¥ 4,667	¥ (1,628)	¥ 3,039
Segment assets	¥ 73,264	¥ 54,706	¥ 3,873	¥ 131,843	¥ 34,144	¥ 165,987
Other items:						
Depreciation and amortization of intangible assets	3,944	1,108	74	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	6	2,646	148	2,794

	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
	Thousands of U.S. dollars					
	2015					
	Reportable segments					
Net sales and operating income:						
Net sales:						
External customers	$ 426,854	$ 407,640	$ 24,593	$ 859,087	$ –	$ 859,087
Intersegment	–	–	16,844	16,844	(16,844)	–
Net sales	426,854	407,640	41,437	875,931	(16,844)	859,087
Segment income	$ 49,010	$ 55,687	$ 1,264	$ 105,961	$ (13,635)	$ 92,326
Segment assets	$ 608,105	$ 488,469	$ 21,392	$1,117,966	$ 290,539	$1,408,505
Other items:						
Depreciation and amortization of intangible assets	29,057	8,439	515	38,011	1,538	39,549
Loss on impairment of fixed assets	715	–	–	715	–	715
Increase in fixed tangible and intangible assets	18,972	5,213	366	24,551	1,139	25,690

(*1) The elimination and corporate applicable to segment income(loss) amounted to ¥1,640 million ($13,635 thousand) and ¥1,628 million in the above tables and includes ¥165 million ($1,372 thousand) and ¥158 million of eliminations of intersegment transactions and ¥1,805 million ($15,007 thousand) and ¥1,786 million of corporate expenses, which are not allocable to the reportable segments for the years ended March 31, 2015 and 2014, 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 to ¥34,946 million ($290,539 thousand) and ¥34,144 million includes ¥828 million ($6,884 thousand) and ¥981 million of offset of inter-segment receivables and payables, and ¥35,774 million ($297,423 thousand) and ¥35,125 million of corporate assets, which are not allocable to a reportable segment as of March 31, 2015 and 2014, 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 operations.

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, 2015 and 2014.

Geographical information

Net sales by geographical segment for the years ended March 31, 2015 and 2014 are summarized as follows:

	Millions of yen					
	Year ended March 31, 2015					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥ 50,803	¥ 17,511	¥ 12,946	¥ 21,643	¥ 428	¥ 103,331

	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

	Thousands of U.S. dollars					
	Year ended March 31, 2015					
	Japan	Asia	America	Europe	Other	Total
Net sales	$ 422,374	$ 145,585	$ 107,632	$ 179,938	$ 3,558	$ 859,087

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, 2015 and 2014 are summarized as follows:

	Millions of yen				
	At March 31, 2015				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥ 43,518	¥ 150	¥ 816	¥ 41	¥ 44,525

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

	Thousands of U.S. dollars				
	At March 31, 2015				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	$ 361,806	$ 1,247	$ 6,784	$ 341	$ 370,178

Geographical information 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

Sales transactions with major customers for the year ended March 31, 2015 are as follows:

Customer name	Relevant reportable segments	Millions of yen 2015	Thousands of U.S. dollars 2015
MITSUI & CO., LTD.	Inorganic chemicals and organic chemicals..	¥ 10,481	$ 87,138

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.

25. Subsequent Event

ISK SINGAPORE PTE. LTD. (hereafter "ISK-S"), a wholly owned subsidiary of the Company, has been undergoing liquidation proceedings including sales of commercial land lease rights.

On June 3, 2015, ISK-S reached agreements for the partial sale of the above rights. Detailed information on the transaction is summarized as follows

(a) Reason for sale

Due to the termination of business activities, ISK-S is selling its idle assets.

(b) Details of assets sold

Asset details and location	Land lease rights	(Location) Tuas, Singapore

(c) Overview of parties involved

Company name and location	JTC Corporation (Location) Singapore
Relationship with the Group	ISK-S has concluded a sales agreement for land lease rights with JTC Corporation. There are no other capital, personal or business relationships, or any other relationship as a related party.

Company name and location	A distribution company (name withheld) (Location) Singapore
Relationship with the Group	ISK-S has concluded a sales agreement for land lease rights with the Company. There are no other capital, personal or business relationships, or any other relationship as a related party.

(d) Sale price

Approximately ¥4.2 billion ($34,919 million)

(Note) The above is an approximate amount based on the total combined transaction price for both companies and converted based on the most recent currency rate.

(e) Timing of sale

July 2015 (planned)

(f) Financial impact

Gains on sales of land lease rights in the amount of ¥4.2 billion ($34,919 million) will be recorded as an extraordinary gain for the year ending March 31, 2016.

Report of Independent Public Accountants

Ernst & Young ShinNihon LLC

Independent Auditor's Report

The Board of Directors
Ishihara Sangyo Kaisha, Ltd.

We have audited the accompanying consolidated financial statements of Ishihara Sangyo Kaisha, Ltd. and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2015, and the consolidated statements of operations, comprehensive income (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 its consolidated subsidiaries as at March 31, 2015, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Emphasis of Matter

We draw attention to Note 12(b) to the consolidated financial statements, which state 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 26, 2015
Osaka, Japan

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(As of June 26, 2015)

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Chimoto Honda
Yoshiyuki Suzuki

Outside Directors
Noriyuki Yonemura
Daizaburo Teranishi

Board of Corporate Auditors

(Standing) Corporate Auditor
Keiji Higashiyama

Outside Corporate Auditors
Yoshitaka Akikuni
Masaaki Harima

Executive Officers

President & Chief Executive Officer
Kenichi Tanaka

Senior Managing Executive Officer
Yoshinari Terakawa

Managing Executive Officers
Michiyoshi Arata
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Chimoto Honda
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Printed in Japan