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

Ishihara Sangyo Kaisha

Annual Report 2016
Year Ended March 31, 2016

ISK

Forward-Looking Statements

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

Contents

Consolidated Financial Highlights

For the year ended March 31,2016

	Millions of yen			Thousands of U.S. dollars (Note)
	2016	2015	2014	2016
For the years ended March 31,				
Net sales:				
Domestic	¥ 48,982	¥ 50,803	¥ 49,047	$ 434,662
Overseas	53,921	52,528	56,247	478,489
Total	102,903	103,331	105,294	913,151
Sales classified by business segment:				
Inorganic chemicals	49,922	51,342	51,751	443,003
Organic chemicals	49,509	49,031	50,364	439,338
Other businesses	3,472	2,958	3,179	30,810
Total	102,903	103,331	105,294	913,151
Operating income	8,315	11,105	3,039	73,786
Net income (loss)	9,462	6,984	(7,837)	83,965
Depreciation and amortization of property, plant and equipment	5,350	5,561	6,040	47,475
Research and development costs	8,989	9,330	8,965	79,768
As of March 31,				
Current assets	110,484	107,470	97,998	980,424
Total assets	165,051	169,415	165,987	1,464,646
Current liabilities	49,726	56,892	59,496	441,264
Net assets	61,598	53,215	46,710	546,614

	Yen			U.S. dollars (Note)
Per share data				
Net income (loss)	¥ 23.66	¥ 17.46	¥ (19.59)	$ 0.21
Net assets	154.06	133.08	116.79	1.37
Number of employees (as of March 31)	1,604	1,636	1,694	–

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥112.69 =U.S.$1.00, the rate of exchange prevailing on March 31, 2016.

To Our Shareholders and Friends

Kenichi Tanaka
President & CEO

The global markets in fiscal 2015, ended March 2016, saw the USA economy transition towards relatively favorable growth on improved employment and increased consumer spending while the EU economy only achieved mild recovery. At the same time, the economy of China remained unstable due to a slow-down in economic growth and the economies of Southeast Asia, India, Brazil, and other emerging nations declined due to the impact of a drop in resource prices and the appreciation of the US dollar, among other factors. In Japan, although corporate earnings and employment improved, consumer spending remained sluggish and overall the economy lacked the strength necessary to drive recovery.

Amid such conditions, the ISK Group started our sixth medium-term management plan (MTP) but we face a severe market environment due to the decline of economies in emerging nations, which had thus far driven market growth, and a decline in global demand for mainstay products such as titanium dioxide and agrochemicals. Demand for titanium dioxide in Japan was largely unchanged from last year but the overseas market experienced a notable decline due to a decline in the global supply and demand environment triggered by decline in demand within China. Global shipment totals for agrochemicals declined significantly year on year. Already facing declining prices for agricultural products, the impact of an US dollar appreciation and other factors had a further negative impact on economic environments and results in a significant drop in demand in Brazil.

As a result, net sales for the year under review decreased ¥0.4 billion year on year to ¥102.9 billion (US$ 913 million), operating income decreased ¥2.7 billion to ¥8.3 billion (US$ 74 million), and due to non-operating factors such as gains on currency fluctuations from the previous fiscal year transitioning to losses on currency fluctuations, ordinary income decreased ¥4.4 billion to ¥7.3 billion (US$ 65 million). Net income attributable to parent company shareholders increased ¥2.4 billion to ¥9.4 billion (US$ 84 million). This was the result of extraordinary income recorded for gains on the sale of land leasing rights of an overseas subsidiary no longer in use due to the suspension of business activities.

As part of our efforts related to the Ferosilt issue being undertaken since 2005, in December 2015 we completed the transportation and final disposal of all Ferosilt being temporarily stored at our Yokkaichi plant.

Centered on the theme of reforms and actions aimed at becoming a strong chemical company, this MTP focuses on initiatives linked to strengthening existing businesses and strengthening our growth platform. As we head toward our 100th anniversary in 2020, our Group will unite as one towards achieving our ultimate goal of stabilizing earnings and establishing a platform for profitable growth.

In our inorganic chemicals business, we will continue to enhance existing businesses by utilizing our strengths, including developing sales channels in high added-value fields and enhancing customer service capabilities. We integrated domestic and overseas sales organizations as well as strengthen our sales structure for functional material products at our overseas branches. This will enable us to accelerate the overseas development of added-value titanium dioxide products such as lineup of Super Weatherability Grade that are recording sales growth on the Japanese market, and also respond to the trend towards globalization among domestic clients. In February 2016, we reorganized our inorganic materials R&D Division in order to increase our ability to create new cornerstone products. We also established New Business Planning and Developing Division that is charged with fusing inorganic and organic base technologies to establish new businesses in domains not covered by existing businesses.

In our organic chemicals businesses, our mainstay agrochemicals business faces a severe business environment in the immediate future due to the impact of sluggish demand in Brazil and other regions. However, agricultural production in Asia is expanding and demand for agrochemicals is favorable. Capturing demand in these growth markets will prove vital to the growth of this business. In light of this, we established a local subsidiary in India that will mainly be involved in development and registration. Operations at the subsidiary were started in April 2016. In Europe, Japan, and other major regions, we will conduct initiatives, including the aggressive launching of new mixtures that meet region-specific needs, to maintain and strengthen the position of our products. On the production side, we are working to increase competitiveness by achieving additional manufacturing cost reductions.

Outside of agrochemicals, we will continue to conduct aggressive R&D aimed at expanding existing businesses and developing new businesses in new domains such as veterinary drugs and life sciences. In the area of veterinary drugs development, we have completed clinical trials in Japan and have moved into the regulatory approval filing and commercialization stage. This year we will also start overseas development. In the life sciences field, we have entered Phase I clinical trials for three types of cancer – prostate cancer, malignant melanoma, and malignant mesothelioma – for the HVJ-E anti-cancer drug we are developing in collaboration with Osaka University. Also, in March 2016 we filed for domestic approval of a bone cement.

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.

田中健一

Kenichi Tanaka
President & CEO

Business Overview

Inorganic Chemicals

Sales of titanium dioxide fell due to a drop in domestic and overseas demand and declining overseas market conditions. As a result, net sales were down ¥1.1 billion year on year, to ¥38.2 billion (US$ 339 million).

Functional materials were down ¥0.2 billion, to ¥11.7 billion (US$ 104 million). Although sales for electronic components grew and overall product sales were favorable, we experienced a decline in sales following a drop in initial demand for new products launched during the previous year. Income was down year on year. Although a decline in materials costs was a positive factor, fixed costs increased due to an adjustment in operations incidental to the drop in demand for titanium dioxide and we felt the significant impact of inventory valuation losses due to declining conditions on overseas markets.

As a result, segment net sales decreased ¥1.4 billion, to ¥49.9 billion (US$ 443 million) and operating income fell significantly year on year, a drop of ¥3.3 billion to ¥2.5 billion (US$ 23 million).

Organic Chemicals

Domestic sales of agrochemicals were largely on par with the previous year despite the impact of unstable climate conditions during the summer.

Overseas net sales were up year on year. Although shipments to Brazil declined significantly due to the impact of sluggish agrochemical demand, this was made up for by increased sales in Europe, North America, Asia, and other regions thanks to the release of new mixtures to market and aggressive initiatives aimed at expanding the applicability of existing products.

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

As a result, segment net sales increased ¥0.4 billion, to ¥49.5 billion (US$ 439 million) and operating income increased ¥0.5 billion to ¥7.2 billion (US$ 64 million).

Other Businesses

Net sales from other businesses increased ¥0.5 billion to ¥3.4 billion (US$ 31 million) and operating income increased ¥0.2 billion to ¥0.3 billion (US$ 3 million).

Consolidated Balance Sheet

As of March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Assets			
Current assets:			
Cash and deposits (Notes 5, 10 and 18)	¥ 29,399	¥ 21,472	$ 260,884
Trade receivables (Note 18):			
Notes	2,105	2,640	18,680
Accounts	23,121	26,419	205,173
	25,226	29,059	223,853
Less allowance for doubtful receivables	(184)	(188)	(1,633)
Trade receivables, net	25,042	28,871	222,220
Inventories (Note 7)	53,070	53,377	470,938
Deferred income taxes (Note 14)	1,097	2,264	9,735
Other current assets	1,876	1,485	16,647
Total current assets	110,484	107,469	980,424
Property, plant and equipment:			
Land (Notes 8 and 10)	5,411	5,768	48,017
Buildings and structures (Notes 8, 9 and 10)	35,367	49,385	313,843
Machinery and equipment (Notes 8, 9 and 10)	112,934	113,623	1,002,165
Leased assets	3,299	3,498	29,275
Construction in progress	2,129	1,127	18,893
	159,140	173,401	1,412,193
Less accumulated depreciation	(120,406)	(128,876)	(1,068,471)
Property, plant and equipment, net (Note 25)	38,734	44,525	343,722
Investments and other assets:			
Investments in securities (Notes 6, 10 and 18):			
Unconsolidated subsidiaries and affiliates	3,856	3,674	34,218
Other	1,483	1,822	13,160
Total investments in securities	5,339	5,496	47,378
Deferred income taxes (Note 14)	8,015	8,786	71,124
Asset for retirement benefits (Note 12)	16	14	142
Other	2,463	3,125	21,856
Total investments and other assets	15,833	17,421	140,500
Total assets (Note 25)	¥ 165,051	¥ 169,415	$ 1,464,646

See notes to consolidated financial statements.

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 10 and 18)	¥ 13,858	¥ 15,400	$ 122,975
Current portion of long-term bank loans (Notes 10 and 18)	14,093	16,072	125,060
Current portion of bonds (Notes 10 and 18)	280	280	2,485
Trade payables (Note 18):			
Notes	1,393	1,369	12,361
Accounts	8,949	11,040	79,413
	10,342	12,409	91,774
Lease obligations (Notes 10 and 18)	511	549	4,535
Accrued income taxes (Note 14)	500	628	4,437
Accrued expenses	4,481	4,346	39,764
Accrued bonuses for employees	628	670	5,573
Reserve for sales returns	26	33	231
Reserve for Ferosilt removal	–	2,459	–
Reserve for implementation of environmental and safety arrangements	797	25	7,072
Provision for maintenance	223	–	1,979
Provision for loss on liquidation of a subsidiary	24	324	213
Other current liabilities	3,963	3,697	35,166
Total current liabilities	49,726	56,892	441,264
Long-term liabilities:			
Long-term bank loans (Notes 10 and 18)	35,167	42,447	312,069
Bonds (Notes 10 and 18)	560	840	4,970
Lease obligations (Notes10 and 18)	935	897	8,296
Liability for retirement benefits (Note 12)	12,958	12,085	114,988
Deferred income taxes (Note 14)	21	36	186
Long-term deposits received	1,029	880	9,131
Reserve for implementation of environmental and safety arrangements	1,086	807	9,637
Provision for maintenance	–	83	–
Asset retirement obligations (Note 11)	828	840	7,348
Other long-term liabilities	1,143	393	10,143
Total long-term liabilities	53,727	59,308	476,768
Contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 15):			
Common stock:			
Authorized: 1,000,000 thousand shares			
Issued: 403,839 thousand shares in 2016 and 2015	43,421	43,421	385,314
Capital surplus	10,627	10,627	94,303
Retained earnings	10,062	600	89,288
Less treasury stock, at cost:			
4,020 thousand shares in 2016 and 3,973 thousand shares in 2015	(703)	(698)	(6,238)
Total shareholders' equity	63,407	53,950	562,667
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	245	513	2,174
Unrealized deferred gain on hedges	–	0	–
Translation adjustments	(1,273)	(850)	(11,296)
Retirement benefits liability adjustments	(781)	(398)	(6,931)
Total accumulated other comprehensive loss	(1,809)	(735)	(16,053)
Total net assets	61,598	53,215	546,614
Total liabilities and net assets	¥ 165,051	¥ 169,415	$ 1,464,646

See notes to consolidated financial statements.

Consolidated Statement of Income

For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net sales (Note 25)	¥ 102,903	¥ 103,331	$ 913,151
Cost of sales (Notes 7 and 16)	71,534	68,856	634,786
Gross profit	31,369	34,475	278,365
Selling, general and administrative expenses (Note 16)	23,054	23,370	204,579
Operating income (Note 25)	8,315	11,105	73,786
Other income:			
Interest and dividend income	135	194	1,198
Equity in earnings of affiliates	423	385	3,754
Foreign exchange gain, net	–	1,691	–
Reversal of provision for liquidation of a subsidiary	–	759	–
Reversal of reserve for Ferosilt removal	845	–	7,498
Gain on sales of raw materials	198	93	1,757
Other	208	235	1,846
	1,809	3,357	16,053
Other expenses:			
Interest expense	1,398	1,563	12,406
Retirement benefit expense	–	356	–
Foreign exchange loss, net	830	–	7,365
Other	578	779	5,129
	2,806	2,698	24,900
Ordinary income	7,318	11,764	64,939
Extraordinary gains:			
Gain from redemption upon liquidation of a subsidiary	–	312	–
Gain on sales of fixed assets	7,317	–	64,930
Other	16	34	142
	7,333	346	65,072
Extraordinary losses:			
Loss on disposal of fixed assets	377	285	3,345
Reserve for implementation of environmental and safety arrangements	1,186	251	10,524
Loss on impairment of fixed assets (Notes 9 and 25)	716	86	6,354
Other	18	40	160
	2,297	662	20,383
Income before income taxes	12,354	11,448	109,628
Income taxes (Note 14):			
Current	745	860	6,611
Deferred	2,147	3,604	19,052
	2,892	4,464	25,663
Net income (Note 23)	9,462	6,984	83,965
Net income attributable to:			
Owners of parent	¥ 9,462	¥ 6,984	$ 83,965

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2016

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2016	2015	2016
Net income	¥ 9,462	¥ 6,984	$ 83,965
Other comprehensive (loss) income (Note 21):			
Net unrealized holding (loss) gain on securities	(268)	195	(2,378)
Unrealized deferred (loss) gain on hedges	(0)	26	(0)
Translation adjustments	(372)	(518)	(3,301)
Retirement benefits liability adjustments	(383)	463	(3,399)
Other comprehensive (loss) income of affiliates accounted for by the equity method attributable to the Company	(52)	72	(461)
Total other comprehensive (loss) income	(1,075)	238	(9,539)
Comprehensive income	¥ 8,387	¥ 7,222	$ 74,426
Total comprehensive income attributable to:			
Owners of parent	¥ 8,387	¥ 7,222	$ 74,426

See notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2016

	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 on hedges	Translation adjustments	Retirement benefits liability adjustments	Total net assets
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	–	–	–	(711)	–	–	–	–	–	(711)
Restated balance at April 1, 2014	–	43,421	10,627	(6,384)	(692)	318	(26)	(404)	(861)	45,999
Net income attributable to owners of parent for the period	–	–	–	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 April 1, 2015	403,839,431	¥ 43,421	¥ 10,627	¥ 600	¥ (698)	¥ 513	¥ 0	¥ (850)	¥ (398)	¥ 53,215
Net income attributable to owners of parent for the period	–	–	–	9,462	–	–	–	–	–	9,462
Acquisition of treasury stock	–	–	–	–	(5)	–	–	–	–	(5)
Disposition of treasury stock	–	–	0	–	0	–	–	–	–	0
Other changes	–	–	–	–	–	(268)	(0)	(423)	(383)	(1,074)
Balance at March 31, 2016	403,839,431	¥ 43,421	¥ 10,627	¥ 10,062	¥ (703)	¥ 245	¥ –	¥ (1,273)	¥ (781)	¥ 61,598

	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 on hedges	Translation adjustments	Retirement benefits liability adjustments	Total net assets
Balance at April 1, 2015	$ 385,314	$ 94,303	$ 5,323	$ (6,194)	$ 4,552	$ 0	$ (7,543)	$ (3,532)	$ 472,223
Net income attributable to owners of parent for the period	–	–	83,965	–	–	–	–	–	83,965
Acquisition of treasury stock	–	–	–	(44)	–	–	–	–	(44)
Disposition of treasury stock	–	0	–	0	–	–	–	–	0
Other changes	–	–	–	–	(2,378)	(0)	(3,753)	(3,399)	(9,530)
Balance at March 31, 2016	$ 385,314	$ 94,303	$ 89,288	$ (6,238)	$ 2,174	$ –	$ (11,296)	$ (6,931)	$ 546,614

See notes to consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31, 2016

	Millions of yen 2016	Millions of yen 2015	Thousands of U.S. dollars (Note 1) 2016
Cash flows from operating activities			
Income before income taxes	¥ 12,354	¥ 11,448	$ 109,628
Adjustments for:			
Depreciation and amortization	5,350	5,561	47,475
(Gain) loss on disposal or sales of fixed assets, net	(7,106)	150	(63,058)
Loss on impairment of fixed assets	716	86	6,354
Decrease in provision for loss on liquidation of a subsidiary	(288)	(1,990)	(2,556)
Foreign exchange loss (gain), net	368	(1,151)	3,266
Increase in liabilities for retirement benefits, net	356	912	3,159
Reversal of reserve for Ferosilt removal	(2,459)	(2,310)	(21,821)
Increase in reserve for implementation of environmental and safety arrangements	1,051	255	9,326
Interest and dividend income	(135)	(194)	(1,198)
Interest expense	1,398	1,563	12,406
Equity in earnings of affiliates, net	(334)	(294)	(2,964)
Other	193	(292)	1,714
Changes in operating assets and liabilities:			
Trade receivables	3,286	(2,823)	29,160
Inventories	(746)	(1,623)	(6,620)
Other current assets	(287)	277	(2,547)
Trade payables	(1,513)	(1,339)	(13,426)
Accrued expenses and other current liabilities	274	217	2,431
Subtotal	12,478	8,453	110,729
Interest and dividends received	119	148	1,056
Interest paid	(1,441)	(1,623)	(12,788)
Insurance claim received	78	95	692
Income taxes paid	(965)	(722)	(8,563)
Net cash provided by operating activities	¥ 10,269	¥ 6,351	$ 91,126
Cash flows from investing activities			
Increase in time deposits	¥ (0)	¥ –	$ (0)
Decrease in time deposits	–	490	–
Purchases of property, plant and equipment	(3,543)	(4,646)	(31,440)
Proceeds from sales of property, plant and equipment	13,318	72	118,183
Increase in long-term loans receivable	(375)	(208)	(3,328)
Collection of long-term loans receivables	267	190	2,369
Proceeds from liquidation of a subsidiary	41	471	364
Other	(51)	416	(453)
Net cash provided by (used in) investing activities	9,657	(3,215)	85,695
Cash flows from financing activities			
Redemption of bonds	(280)	(280)	(2,485)
Decrease in short-term bank loans, net	(1,542)	(1,120)	(13,684)
Proceeds from long-term bank loans	7,150	18,263	63,448
Repayment of long-term bank loans	(16,409)	(15,635)	(145,612)
Repayment of lease obligations	(569)	(663)	(5,049)
Repayment of installment payable	(18)	–	(160)
Proceeds from deposits received	1,780	2,286	15,796
Repayment of deposits received	(2,028)	(2,073)	(17,996)
Increase in treasury stock, net	(5)	(6)	(44)
Net cash (used in) provided by financing activities	(11,921)	772	(105,786)
Effect of exchange rate changes on cash and cash equivalents	(78)	188	(691)
Increase in cash and cash equivalents	7,927	4,096	70,344
Cash and cash equivalents at beginning of year	21,282	17,186	188,854
Cash and cash equivalents at end of year (Note 5)	¥ 29,209	¥ 21,282	$ 259,198

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Year ended March 31, 2016

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 ¥112.69 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2016. 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 N.V., 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.

Investments in significant affiliates are stated at their 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)
The Company completed the transportation and final disposal of all Ferosilt temporarily stored at its Yokkaichi Plant in December 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)
ISK SINGAPORE PTE. LTD., a consolidated subsidiary of the Company, terminated the operations during the year ended March 31, 2014 and has been under the liquidation proceedings.

(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.

(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. Accounting Standards Issued but Not Yet Effective

Revised Implementation Guidance on recoverability of Deferred Tax Asset

(a) Overview
Regarding the treatment of the recoverability of deferred tax assets, a review was conducted following the framework of the Japanese Institute of Certified Public Accountants Audit Committee Report No.66 “Audit Treatment on Determining the Recoverability of Deferred Tax Assets,” whereby companies are categorized into five categories and deferred tax assets are calculated based on each of these categories:

(1) Treatment of companies that do not satisfy any of the category requirements for (Category 1) through (Category 5)
(2) Category requirements for (Category 2) and (Category 3)
(3) Treatment related to future deductible temporary differences which cannot be scheduled in companies that qualify as (Category 2)
(4) Treatment related to the reasonable estimable period of future pre-adjusted taxable income in companies that qualify as (Category 3)
(5) Treatment in cases that companies that satisfy the category requirement for (Category 4) but qualify as (Category 2) or (Category 3)

(b) Scheduled date of adoption

The Company and its domestic subsidiaries will adopt the revised implementation guidance effective from the beginning of the fiscal year ending March 31, 2017.

(c) Impact of adopting revised implementation guidance

This adoption had no impact on its consolidated financial statements.

4. Accounting Changes

Accounting Standards for Business Combinations

The Company adopted "Revised Accounting Standard for Business Combinations" (Accounting Standards Board of Japan ("ASBJ") Statement No. 21), "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22), "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7) and other relevant revised accounting standard and revised guidance effective from April 1, 2015, and amended the presentation method of profit attributable to owners of parent.

Certain reclassifications were made to the previous year's consolidated financial statements to reflect these changes in presentation.

5. Cash and Deposits

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets as of March 31, 2016 and 2015 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Cash and deposits	¥ 29,399	¥ 21,472	$ 260,884
Time deposits with maturities in excess of three months	(190)	(190)	(1,686)
Cash and cash equivalents	¥ 29,209	¥ 21,282	$ 259,198

6. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2016 and 2015 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen					
	2016			2015		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Securities whose estimated fair value exceeds their carrying value	¥ 10	¥ 10	¥ 0	¥ 10	¥ 10	¥ 0
Total	¥ 10	¥ 10	¥ 0	¥ 10	¥ 10	¥ 0

	Thousands of U.S. dollars		
	2016		
	Carrying value	Estimated fair value	Unrealized gain
Securities whose estimated fair value exceeds their carrying value	$ 89	$ 90	$ 1
Total	$ 89	$ 90	$ 1

(b) Other securities

	Millions of yen					
	2016			2015		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Equity securities	¥ 975	¥ 614	¥ 361	¥ 1,371	¥ 703	¥ 668
Subtotal	975	614	361	1,371	703	668
Securities whose acquisition cost exceeds their carrying value: Equity securities	118	141	(23)	36	40	(4)
Subtotal	118	141	(23)	36	40	(4)
Total	¥ 1,093	¥ 755	¥ 338	¥ 1,407	¥ 743	¥ 664

	Thousands of U.S. dollars		
	2016		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Equity securities	$ 8,652	$ 5,449	$ 3,203
Subtotal	8,652	5,449	3,203
Securities whose acquisition cost exceeds their carrying value: Equity securities	1,047	1,251	(204)
Subtotal	1,047	1,251	(204)
Total	$ 9,699	$ 6,700	$ 2,999

Proceeds from sales of other securities and the aggregate gain for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Proceeds from sales	¥ 9	¥ 3	$ 80
Aggregate gain	7	3	62

The redemption schedule subsequent to March 31, 2016 for held-to-maturity debt securities classified as other securities is described in Note 18.

7. Inventories

Inventories at March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finished goods and merchandise	¥ 34,317	¥ 31,870	$ 304,526
Work in process	3,907	4,149	34,670
Raw materials and supplies	14,846	17,358	131,742
Total	¥ 53,070	¥ 53,377	$ 470,938

Net loss on devaluation of inventories included in cost of sales for the years ended March 31, 2016 and 2015 amounted to ¥1,003 million ($8,901 thousand) and ¥16 million, respectively.

8. Acquisition Costs of property, plant and equipment

The accumulated amount deducted from the acquisition costs of machinery and equipment, receiving government subsidies totaled ¥15 million ($140 thousand) at March 31, 2016.

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 at March 31, 2015.

9. Loss on Impairment of Fixed Assets

For the year ended March 31, 2016, 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	2016	2016
Yokkaichi Plant (Yokkaichi City, Mie Prefecture)	Production equipment	Buildings and structures	¥ 115	$ 1,020
		Machinery and equipment	99	879
		Demobilization cost	468	4,153
		Subtotal	682	6,052
Bunkyo-ku, Tokyo	Office equipment	Buildings and structures	¥ 34	$ 302
		Subtotal	34	302
		Total	¥ 716	$ 6,354

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

As a part of production equipment located at the Yokkaichi Plant in the above table, such as equipment for organic compound, is not anticipated to be utilized in the future, the Company classified the production equipment as idle assets and recognized a loss on impairment. In addition, on March 11, 2016, the board of Directors of the Company approved relocation of Tokyo branch. Therefore, the office equipment of Tokyo branch is not anticipated to be utilized in the future, the Company and its consolidated subsidiary classified it as the assets scheduled for the disposal and recognized a loss on impairment. The Company and its consolidated subsidiary wrote down the book value of these assets to nil.

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
Location	Major use	Classification	2015
Yokkaichi Plant (Yokkaichi City, Mie Prefecture)	Production equipment	Buildings and structures	¥ 35
		Machinery and equipment	51
		Total	¥ 86

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.

10. 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, 2016 and 2015 was approximately 1.5%.

Long-term bank loans, including the current portion of long-term bank loans, at March 31, 2016 and 2015 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Secured bank loans	¥ 19,348	¥ 18,202	$ 171,692
Unsecured bank loans	29,912	40,317	265,436
Subtotal	49,260	58,519	437,128
Less amounts due within one year	(14,093)	(16,072)	(125,059)
Total	¥ 35,167	¥ 42,447	$ 312,069

Interest rates applicable to long-term bank loans presented in the above table ranged from 1.0% to 3.1% at March 31, 2016 and from 1.2% to 5.9% at March 31, 2015. These bank loans become due from 2016 through to 2023.

Bonds at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unsecured bonds, payable in yen at rate of 0.162%, due 2019	¥ 840	¥ 1,120	$ 7,454
Less amounts due within one year	(280)	(280)	(2,485)
Total	¥ 560	¥ 840	$ 4,969

Lease obligations at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Finance lease obligations (ownership not transferred to the lessee)	¥ 1,446	¥ 1,446	$ 12,832
Less amounts due within one year	(511)	(549)	(4,535)
Total	¥ 935	¥ 897	$ 8,297

Information for the payment schedules of long-term bank loans, bonds, and lease obligations subsequent to March 31, 2016 is described in Note 18.

At March 31, 2016 and 2015, 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
	2016	2015	2016
Property, plant and equipment, net of accumulated depreciation	¥ 25,616	¥ 29,765	$ 227,314
Investments in securities	84	105	745
Cash and deposits	190	190	1,686
Total	¥ 25,890	¥ 30,060	$ 229,745

Short-term bank loans, the current portion of long-term bank loans and long-term bank loans secured by such collateral at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Short-term bank loans	¥ 7,530	¥ 12,790	$ 66,820
Current portion of long-term bank loans	5,761	4,717	51,123
Long-term bank loans	13,587	13,485	120,570
Total	¥ 26,878	¥ 30,992	$ 238,513

In addition, buildings and structures of ¥88 million ($781 thousand) and ¥92 million, land of ¥219 million ($1,943 thousand) and ¥219 million were pledged as collateral to secure future loans from certain financial institutions at March 31, 2016 and 2015, respectively. However, there were no corresponding liabilities at March 31, 2016 and 2015.

11. 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, 2016 and 2015.

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Asset retirement obligation balance at the beginning of the year	¥ 840	¥ 841	$ 7,454
Liabilities incurred due to the acquisition of property, plant and equipment	14	5	124
Accretion expense	0	0	0
Liabilities settled	(26)	(6)	(230)
Asset retirement obligation balance at the end of the year	¥ 828	¥ 840	$ 7,348

Disclosure of detailed information on the asset retirement obligations at March 31, 2016 and 2015 was omitted because the total amounts of asset retirement obligations at March 31, 2016 and 2015 were less than 1% of the amount of total liabilities and net assets.

12. 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, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligations at the beginning of the year	¥ 11,405	¥ 10,347	$ 101,207
Cumulative effects of changes in accounting policies	–	1,095	–
Restated balance at the beginning of the year	11,405	11,442	101,207
Service cost	592	612	5,253
Interest cost	108	110	958
Actuarial loss (gain)	589	(273)	5,227
Retirement benefits paid	(479)	(483)	(4,251)
Other	(16)	(3)	(141)
Retirement benefit obligations at the end of the year	¥ 12,199	¥ 11,405	$ 108,253

The changes in plan assets during the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Plan assets at the beginning of the year	¥ 162	¥ 306	$ 1,438
Expected return on plan assets	1	5	9
Actuarial (loss) gain	(9)	15	(80)
Contributions paid by the Company and subsidiaries	24	25	213
Retirement benefits paid	(38)	(181)	(337)
Other	(0)	(8)	(1)
Plan assets at the end of the year	¥ 140	¥ 162	$ 1,242

The changes in retirement benefit obligations calculated by the Simplified Method during the year ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Retirement benefit obligations at the beginning of the year	¥ 828	¥ 761	$ 7,348
Retirement benefit expenses	99	80	879
Retirement benefits paid	(44)	(13)	(391)
Retirement benefit obligations at the end of the year	¥ 883	¥ 828	$ 7,836

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2016 and 2015 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Funded retirement benefit obligation	¥ 243	¥ 276	$ 2,156
Plan assets at fair value	(140)	(162)	(1,242)
	103	114	914
Unfunded retirement benefit obligation	12,839	11,957	113,932
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	12,942	12,071	114,846
Liability for retirement benefits	12,958	12,085	114,988
Asset for retirement benefits	(16)	(14)	(142)
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	¥ 12,942	¥ 12,071	$ 114,846

The components of retirement benefit expenses for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Service cost	¥ 592	¥ 612	$ 5,253
Interest cost	108	110	958
Expected return on plan assets	(1)	(5)	(9)
Amortization:			
Net retirement obligation at transition	–	359	–
Actuarial loss	46	68	408
Prior service cost	19	20	169
Retirement benefit expenses calculated by the Simplified Method	99	80	879
Retirement benefit expenses	¥ 863	¥ 1,244	$ 7,658

The components of retirement benefits liability adjustments included in other comprehensive (loss) income (before tax effect) for the years ended March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Actuarial (loss) gain	¥ (552)	¥ 356	$ (4,898)
Prior service cost	19	20	168
Net retirement obligation at transition	–	359	–
Others	0	15	0
Total	¥ (533)	¥ 750	$ (4,730)

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (before tax effect) as of March 31, 2016 and 2015 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unrecognized actuarial loss	¥ 923	¥ 371	$ 8,191
Unrecognized prior service cost	190	209	1,686
Total	¥ 1,113	¥ 580	$ 9,877

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2016 and 2015 are as follows:

	2016	2015
Debt securities	83%	84%
Equity securities	11	11
Cash and deposits	6	5
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 years ended March 31, 2016 and 2015 are as follows:

	2016	2015
Discount rate	Principally 0.1%	Principally 0.9%
Expected long-term rate of return on plan assets	Principally 2.1%	Principally 1.8%
Expected rates of salary increase	Principally 6.6%	Principally 6.5%

Total contributions paid by the Company and certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2016 and 2015 amounted to ¥86 million ($763 thousand) and ¥85 million, respectively.

13. Contingent Liabilities

(a) Guarantees

At March 31, 2016, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
	2016	2016
Trade notes receivable discounted with banks	¥ 72	$ 639
As guarantor for borrowings of unconsolidated subsidiaries	101	896
Total	¥ 173	$ 1,535

(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")

As a result of soil and underground water surveys conducted at the Plant after an assessment by a comprehensive compliance test in 2008, contamination was identified, which seems to be mainly derived from past production activities. In response to this, the Company submitted certain documents to Yokkaichi City, which has jurisdiction over the matter, notifying the authorities of these findings, in accordance with the "Ordinance for Conservation of the Living Environment" enacted by Mie Prefecture. Subsequently, under the guidance and advice from the Environmental Expert Committee, which consists of academic advisors, the Company conducted a survey to identify the status and source of the contamination and set up pumping and water treatment facilities in order to prevent dispersal of contaminated ground water. While full-scale pumping is continuing, the Company also conducts detailed surveys and considers the appropriate countermeasures. The Company records costs for preventing dispersal of contaminated ground water as extraordinary losses to the extent that 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.

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 in 2008. The measures required to remove the buried waste will probably have an impact on the Company's future business performance, however, the Company had not been able to conduct the detailed investigations efficiently as the vacant area in the Plant was used for temporarily storing removed Ferosilt.

In December 2015, the Company completed the disposal of the removed Ferosilt that had been temporarily stored at the Plant and started to hold discussions on the location, extent, nature and volume of buried waste, and appropriate methods to dispose such waste. The Company has continued discussions with the authorities and plans to start further detailed investigations.

The Company records costs for disposal of inorganic sludge described in (2) below as extraordinary losses to the extent that can be 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 disposal of buried waste.

(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 Synthesis Rutile plant site

The Company has temporarily stored removed Ferosilt at the site. From January 2009, the Company started to carry out the Ferosilt removal and implemented a boring survey in sections as removal was completed, as a result, inorganic sludge was identified from certain bored sections. The Company started to dispose of the sludge from April 2016 and plans to bore the area to survey buried waste after the disposal is completed.

14. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The applicable statutory tax rates in Japan for the years ended March 31, 2016 and 2015 were, in the aggregate, approximately 32.6% and 35.1%, respectively. Overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates reflected in the accompanying consolidated statement of income for the years ended March 31, 2016 and 2015 differs from the above statutory tax rates for the following reasons:

	2016	2015
Statutory tax rate	32.6 %	35.1 %
Permanently non-deductible expenses	0.3	0.3
Permanently non-taxable income	(0.5)	(1.0)
Per capita portion of inhabitants' taxes	0.3	0.3
Tax deduction for experiment and research expenses	(0.7)	(0.9)
Unrealized gain on intercompany transactions	0.1	(0.8)
Changes in valuation allowance	3.4	(3.0)
Decrease of deferred tax assets resulting from change in tax rates	3.7	9.4
Other	(1.5)	(0.4)
Effective tax rate	23.4 %	39.0 %

(*) Difference in subsidiaries' tax rates, which had been presented in Other for the year ended March 31, 2015, was separately stated in the table above for the year ended March 31, 2016 due to an increase in materiality.

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, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Deferred tax assets:			
Tax loss carryforwards	¥ 16,542	¥ 10,317	$ 146,792
Liability for retirement benefits	3,931	3,851	34,883
Loss on devaluation of inventories	185	195	1,642
Unrealized gain on intercompany transactions	1,304	1,631	11,572
Accrued expenses	400	504	3,550
Accrued bonuses for employees	192	216	1,704
Reserve for Ferosilt removal	–	1,033	–
Reserve for implementation of environmental and safety arrangements	598	293	5,307
Asset retirement obligations	249	267	2,210
Loss on liquidation of a subsidiary	16	6,783	142
Other	2,118	1,864	18,793
Gross deferred tax assets	25,535	26,954	226,595
Less valuation allowance	(15,925)	(15,347)	(141,317)
Total deferred tax assets	9,610	11,607	85,278
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(186)
Unrealized holding gain on securities	(73)	(143)	(648)
Other	(425)	(429)	(3,771)
Total deferred tax liabilities	(519)	(593)	(4,605)
Net deferred tax assets	¥ 9,091	¥ 11,014	$ 80,673

The "Act for Partial Amendment of the Income Tax Act, etc." (Act No. 15 of 2016) and the "Act for Partial Amendment of the Local Tax Act, etc." (Act No. 13 of 2016) were enacted in the Japanese Diet session on March 29, 2016. As a result, the effective statutory tax rate used to measure the Company's deferred tax assets and liabilities was changed from 31.8% to 30.4% and 30.2% for the temporary differences expected to be realized or settled in the year beginning April 1, 2016 and for the temporary differences expected to be realized or settled from April 1, 2018, 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 ¥470 million ($4,171 thousand) and increase deferred income tax expense by ¥454 million ($4,029 thousand), as of and for the year ended March 31, 2016.

15. 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, 2016 and 2015 are summarized as follows:

	Thousands of shares			
	2016			
	April 1, 2015	Increase	Decrease	March 31, 2016
Common stock	403,839	–	–	403,839
Treasury stock	3,973	47	0	4,020

	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

The increases in treasury stock were due to purchases of shares of less than one voting unit for the years ended March 31, 2016 and 2015. 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, 2016 and 2015.

16. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2016 and 2015 totaled ¥8,989 million ($79,768 thousand) and ¥9,330 million, respectively.

17. Leases

Operating lease transactions

Future minimum lease payments subsequent to March 31, 2016 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2017	¥ 301	$ 2,671
2018 and thereafter	960	8,519
Total	¥ 1,261	$ 11,190

18. 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 19 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, 2016 and 2015 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 18(b) below)

(a) Estimated fair value of financial instruments

	Millions of yen					
	2016			2015		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
(1) Cash and deposits	¥ 29,399	¥ 29,399	¥ –	¥ 21,472	¥ 21,472	¥ –
(2) Trade receivables	25,226	25,226	–	29,059	29,059	–
(3) Securities and investments in securities:						
Held-to-maturity debt securities	10	10	0	10	10	0
Other securities	1,093	1,093	–	1,407	1,407	–
Total assets	¥ 55,728	¥ 55,728	¥ 0	¥ 51,948	¥ 51,948	¥ 0
Liabilities:						
(1) Trade payables	10,342	10,342	–	12,409	12,409	–
(2) Short-term bank loans	13,858	13,858	–	15,400	15,400	–
(3) Long-term bank loans, including current portion	49,260	49,452	192	58,519	58,536	17
Total liabilities	¥ 73,460	¥ 73,652	¥ 192	¥ 86,328	¥ 86,345	¥ 17
Derivatives (*)	¥ 95	¥ 95	¥ –	¥ 274	¥ 274	¥ –

	Thousands of U.S. dollars		
	2016		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and deposits	$ 260,884	$ 260,884	$ –
(2) Trade receivables	223,853	223,853	–
(3) Securities and investments in securities:			
Held-to-maturity debt securities	89	89	0
Other securities	9,699	9,699	–
Total assets	$ 494,525	$ 494,525	$ 0
Liabilities:			
(1) Trade payables	91,774	91,774	–
(2) Short-term bank loans	122,975	122,975	–
(3) Long-term bank loans, including current portion	437,129	438,832	1,703
Total liabilities	$ 651,878	$ 653,581	$ 1,703
Derivatives (*)	$ 843	$ 843	$ –

(*) 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 6.

Liabilities:

(1) Trade payables and (2) Short-term bank loans
Since these items are settled in a short time period, their carrying value approximates 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 19 "Derivatives."

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

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Unlisted equity securities	¥ 4,204	¥ 4,025	$ 37,306
Investments in limited partnerships	32	55	284

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				Millions of yen			
	2016				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	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	¥ 29,390	¥ –	¥ –	¥ –	¥ 21,462	¥ –	¥ –	¥ –
Trade receivables	25,226	–	–	–	29,059	–	–	–
Investments in securities:								
Held-to-maturity debt securities	–	–	10	–	–	–	10	–
Total	¥ 54,616	¥ –	¥ 10	¥ –	¥ 50,521	¥ –	¥ 10	¥ –

	Thousands of U.S. dollars			
	2016			
	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	$ 260,804	$ –	$ –	$ –
Trade receivables	223,853	–	–	–
Investments in securities:				
Held-to-maturity debt securities	–	–	89	–
Total	$ 484,657	$ –	$ 89	$ –

(d) Redemption schedule of long-term debt

	Millions of yen					
	2016					
	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	¥ 14,093	¥ 13,533	¥ 13,686	¥ 6,046	¥ 1,564	¥ 338
Bonds	280	280	280	–	–	–
Lease obligations	511	370	261	169	95	40
Total	¥ 14,884	¥ 14,183	¥ 14,227	¥ 6,215	¥ 1,659	¥ 378

	Thousands of U.S. dollars					
	2016					
	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	$ 125,060	$ 120,091	$ 121,448	$ 53,652	$ 13,879	$ 2,999
Bonds	2,485	2,485	2,485	–	–	–
Lease obligations	4,535	3,283	2,316	1,500	842	355
Total	$ 132,080	$ 125,859	$ 126,249	$ 55,152	$ 14,721	$ 3,354

19. 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, 2016 and 2015 were as follows:

(a) Currency-related transactions

Forward foreign exchange contracts:

	Millions of yen					
	2016			2015		
	Notional amount	Estimated fair value	Unrealized gain	Notional amount	Estimated fair value	Unrealized gain (loss)
Sell:						
Euro	¥ 4,552	¥ 89	¥ 89	¥ 2,754	¥ 281	¥ 281
Buy:						
Japanese yen	370	5	5	484	(7)	(7)
Total	¥ 4,922	¥ 94	¥ 94	¥ 3,238	¥ 274	¥ 274

	Thousands of U.S. dollars		
	2016		
	Notional amount	Estimated fair value	Unrealized gain
Sell:			
Euro	$ 40,394	$ 790	$ 790
Buy:			
Japanese yen	3,283	44	44
Total	$ 43,677	$ 834	$ 834

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

Forward foreign exchange contracts:

			Millions of yen					
			2016			2015		
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	Buy: U.S. dollars	Accounts payable	¥ –	¥ –	¥ –	¥ 13	¥ –	¥ (**)

(*) 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					
			2016			2015		
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								
The special method	Receive/floating and pay/fixed	Long-term bank loans	¥ 8,732	¥ 6,983	¥ (**)	¥ 9,835	¥ 5,772	¥ (**)

			Thousands of U.S. dollars		
			2016		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge					
The special method	Receive/floating and pay/fixed	Long-term bank loans	$ 77,487	$ 61,966	$ (**)

(*) 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.

20. Gain on Sales of Fixed Assets

The gain on sales of fixed assets for the year ended March 31, 2016 mainly consisted of gain on sales of land and a building at the Company's head office, and gain on sales of land leasing rights of ISK Singapore PTE. Ltd., a consolidated subsidiary of the Company, in the amounts of ¥639 million ($5,671 thousand) and ¥6,661 million ($59,110 thousand), respectively.

21. Other Comprehensive Income (loss)

The following table presents reclassification adjustments and tax effects for components of other comprehensive income (loss) for the years ended March 31, 2016 and 2015:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Net unrealized holding (loss) gain on securities:			
Amount arising during the year	¥ (339)	¥ 218	$ (3,008)
Before tax effect	(339)	218	(3,008)
Tax effect	71	(23)	630
Total	(268)	195	(2,378)
Unrealized deferred (loss) gain on hedges:			
Amounts arising during the year	(0)	0	(0)
Reclassification adjustments for gains and losses included in net income	0	41	0
Before tax effect	(0)	41	(0)
Tax effect	0	(15)	0
Total	(0)	26	(0)
Translation adjustment:			
Amount arising during the year	(372)	(698)	(3,301)
Before tax effect	(372)	(698)	(3,301)
Tax effect	–	180	–
Total	(372)	(518)	(3,301)
Retirement benefits liability adjustments:			
Amount arising during the year	(598)	303	(5,307)
Reclassification adjustments for gains and losses included in net income	65	447	577
Before tax effect	(533)	750	(4,730)
Tax effect	150	(287)	1,331
Total	(383)	463	(3,399)
Other comprehensive (loss) income of affiliates accounted for by the equity method attributable to the Company	(52)	72	(461)
Total other comprehensive (loss) income	¥ (1,075)	¥ 238	$ (9,539)

22. 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 ¥550 million ($4,881 thousand) and ¥371 million and lease obligations of ¥594 million ($5,271 thousand) and ¥400 million under finance leases for the years ended March 31, 2016 and 2015, respectively.

23. Amounts per Share

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥ 154.06	¥ 133.08	$ 1.37
Net income attributable to owners of parent per share	23.66	17.46	0.21

Net income attributable to owners of parent 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 attributable to owners of parent per share for the years ended March 31, 2016 and 2015 is not presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net income attributable to owners of parent per share for the years ended March 31, 2016 and 2015 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Information on basic net income attributable to owners of parent per share:			
Net income attributable to owners of parent	¥ 9,462	¥ 6,984	$ 83,965
Net income not attributable to common shareholders	–	–	–
Adjusted net income attributable to common shareholders	¥ 9,462	¥ 6,984	$ 83,965

	Thousands of shares	
	2016	2015
Weighted-average number of shares of common stock outstanding during the year	399,842	399,901

The financial data for the computation of net assets per share at March 31, 2016 and 2015 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2016	2015	2016
Total net assets	¥ 61,598	¥ 53,215	$ 546,614
Deductions from total net assets:			
Non-controlling interests	–	–	–
Total net assets used in the calculation of net assets per share	¥ 61,598	¥ 53,215	$ 546,614

	Thousands of shares	
	2016	2015
Number of shares used in the calculation of net assets per share	399,819	399,866

24. Related Party Transactions

Major transactions and balances between the Company and an affiliated company for the years ended and as of March 31, 2016 and 2015 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	2016	2015	2016	Account	2016	2015	2016
BELCHIM CROP PROTECTION N.V.	Sales of products	¥471	¥ 48	$ 4,180	Trade receivables	¥ 94	¥ 6	$ 834

Major transactions and balances between a consolidated subsidiary and an affiliated company for the years ended and as of March 31, 2016 and 2015 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	2016	2015	2016	Account	2016	2015	2016
BELCHIM CROP PROTECTION N.V.	Sales of products	¥ 17,152	¥ 16,776	$ 152,205	Trade receivables	¥ 3,109	¥ 4,054	$ 27,589

25. 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.

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 and assets

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

(c) Reportable segment information

	Millions of yen					
	2016					
	Reportable segments					
	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:						
Net sales:						
External customers	¥ 49,922	¥ 49,509	¥ 3,472	¥ 102,903	¥ –	¥ 102,903
Intersegment	–	–	2,962	2,962	(2,962)	–
Net sales	49,922	49,509	6,434	105,865	(2,962)	102,903
Segment income	¥ 2,568	¥ 7,238	¥ 394	¥ 10,200	¥ (1,885)	¥ 8,315
Segment assets	¥ 68,875	¥ 58,665	¥ 3,121	¥ 130,661	¥ 34,390	¥ 165,051
Other items:						
Depreciation and amortization of intangible assets	3,321	966	58	4,345	113	4,458
Loss on impairment of fixed assets	–	682	7	689	27	716
Increase in fixed tangible and intangible assets	3,743	782	20	4,545	110	4,655

	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

	Thousands of U.S. dollars					
	2016					
	Reportable segments					
	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:						
Net sales:						
External customers	$ 443,003	$ 439,338	$ 30,810	$ 913,151	$ –	$ 913,151
Intersegment	–	–	26,285	26,285	(26,285)	–
Net sales	443,003	439,338	57,095	939,436	(26,285)	913,151
Segment income	$ 22,788	$ 64,229	$ 3,496	$ 90,513	$ (16,727)	$ 73,786
Segment assets	$ 611,190	$ 520,587	$ 27,696	$1,159,473	$ 305,173	$1,464,646
Other items:						
Depreciation and amortization of intangible assets	29,470	8,572	515	38,557	1,003	39,560
Loss on impairment of fixed assets	–	6,052	62	6,114	240	6,354
Increase in fixed tangible and intangible assets	33,215	6,939	178	40,332	976	41,308

(*1) The elimination and corporate applicable to segment income amounted to ¥1,885 million ($16,727 thousand) and ¥1,640 million in the above tables and includes ¥71 million ($630 thousand) and ¥165 million of eliminations of intersegment transactions and ¥1,956 million ($17,357 thousand) and ¥1,805 million of corporate expenses, which are not allocable to the reportable segments for the years ended March 31, 2016 and 2015, 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 ¥34,390 million ($305,173 thousand) and ¥34,946 million includes ¥716 million ($6,354 thousand) and ¥828 million of offset of inter-segment receivables and payables, and ¥35,106 million ($311,527 thousand) and ¥35,774 million of corporate assets, which are not allocable to a reportable segment as of March 31, 2016 and 2015, 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 corresponds to operating income in the consolidated statements of income.

Related information

Products and services information

The information on each product and service is omitted because it is the same as that of reportable segment information for the years ended March 31, 2016 and 2015.

Geographical information

Net sales by geographical segment for the years ended March 31, 2016 and 2015 are summarized as follows:

	Millions of yen					
	Year ended March 31, 2016					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥ 48,982	¥ 18,411	¥ 11,293	¥ 23,970	¥ 247	¥ 102,903

	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

	Thousands of U.S. dollars					
	Year ended March 31, 2016					
	Japan	Asia	America	Europe	Other	Total
Net sales	$ 434,661	$ 163,377	$ 100,213	$ 212,707	$ 2,193	$ 913,151

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, 2016 and 2015 are summarized as follows:

	Millions of yen				
	At March 31, 2016				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥ 37,766	¥ 142	¥ 784	¥ 42	¥ 38,734

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

	Thousands of U.S. dollars				
	At March 31, 2016				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	$ 335,132	$ 1,260	$ 6,957	$ 373	$ 343,722

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

Asia: Taiwan
America: The United States
Europe: Belgium

Information on sales transactions with major customers
Sales transactions with major customers for the years ended March 31, 2016 and 2015 are as follows:

		Millions of yen		Thousands of U.S. dollars
Customer name	Relevant reportable segments	2016	2015	2016
MITSUI & CO., LTD.	Inorganic chemicals and Organic chemicals	¥ 10,709	¥ 10,481	$ 95,031

26. Subsequent Event

Consolidation of shares and a change in the number of shares per share trading unit

On May 19, 2016, the board of Directors' meeting resolved to change the number of shares per share trading unit from 1,000 shares to 100 shares to be effective on October 1, 2016. In addition, by resolution at the Company's 93rd Ordinary General Meeting of Shareholders to be held on June 29, 2016, the Company is going to consolidate 10 shares into 1 share also to be effective on October 1, 2016.

(a) Purpose of consolidation of shares and a change in the number of shares per share trading unit

Stock exchanges in Japan including the Tokyo Stock Exchange issued "Action Plan for Consolidating Trading Units" and have aimed to unify the number of common shares per share trading unit of domestic listed companies in Japan at 100 shares. As one of the listed companies on the Tokyo Stock Exchange, the Company has endorsed the purport of the action plan above and is going to change its number of shares per share trading unit to 100 shares and consolidate 10 shares into 1 share considering the appropriate level of the price range of share units (between ¥50 thousand and ¥500 thousand) as encouraged by the stock exchanges.

(b) Details of consolidation of shares

(1) Class of stock to be consolidated: Common stock

(2) Consolidation ratio:
As of October 1, 2016, every 10 shares held by each shareholder are to be consolidated into 1 share based on the number of shares listed in the Company's Register of Shareholders as of the end of the day on September 30, 2016.

(3) Decrease in number of shares due to consolidation of shares

Number of outstanding shares before consolidation (as of March 31, 2016)	403,839,431 shares
Decrease in number of shares after consolidation	363,455,488 shares
Number of outstanding shares after consolidation	40,383,943 shares

Note: "Decrease in number of shares after consolidation" and "Number of outstanding shares after consolidation" are theoretical values calculated based on the number of outstanding shares before consolidation and the consolidation ratio.

(c) Impact on net income and net assets per share

Net income and net assets per share for the years ended March 31, 2016 and 2015 assuming that consolidation of shares had been carried out at the beginning of the year ended March 31, 2015 are as follows:

	Yen		U.S. dollars
	2016	2015	2016
Net assets per share	¥ 1,540.63	¥ 1,330.83	$ 13.67
Net income per share	236.64	174.63	2.10

Note: Diluted net income per share for the years ended March 31, 2016 and 2015 is not presented since no potentially dilutive securities have been issued.

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, 2016, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for designing and operating such internal control as management determines is necessary to enable the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. The purpose of an audit of the consolidated financial statements is not to express an opinion on the effectiveness of the entity's internal control, but in making these risk assessments the auditor considers internal controls relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ishihara Sangyo Kaisha, Ltd. and its consolidated subsidiaries as at March 31, 2016, 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 13(b) to the consolidated financial statements, which states 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 29, 2016
Osaka, Japan

Corporate Data

(As of June 29, 2016)

Head Office

1-3-15 Edobori, Nishi-ku, Osaka 550-0002, Japan
Tel: +81-6-6444-1451(General Affairs Division)
Fax: +81-6-6445-7798(General Affairs Division)

Board of Directors

Executive Director President
Kenichi Tanaka

Directors
Yoshinari Terakawa
Michiyoshi Arata
Chimoto Honda
Yoshiyuki Suzuki

Outside Directors
Noriyuki Yonemura
Daizaburo Teranishi

Board of Corporate Auditors

(Standing) Corporate Auditor
Taizo Kato

Outside Corporate Auditors
Yoshitaka Akikuni
Masaaki Harima

Executive Officers

President & Chief Executive Officer
Kenichi Tanaka

Senior Managing Executive Officers
Yoshinari Terakawa
Michiyoshi Arata

Managing Executive Officers
Chimoto Honda
Yoshiyuki Suzuki

Executive Officers
Teruaki Matsue
Norihiro Kato
Yoichi Kobayashi
Ken Kawaguchi
Masanari Kato
Hideo Takahashi
Kiyomitsu Yoshida
Kiyoshi Masuda
Hiroshi Yoshizawa
Hisashi Takenaka

Overseas Affiliated Companies

ISK Taiwan Co.,Ltd
Empire Bldg., Fl 11-1., 87, Sung Chiang Road
Taipei, Taiwan
Tel: +886-2-2504-5387 Fax: +886-2-2509-4961

ISK KOREA CORPORATION
#421 Cheonggu Blueville, 11-1 Sunae-dong, Bundang-gu
Seongnam-City, Gyeonggi-do,
463-825 Korea
Tel: +82-31-778-6393 Fax: +82-31-778-6392

ISK Biosciences Korea Ltd.
4F Kairos Bldg., 837-2 Yeoksam-dong, Gangnam-gu,
Seoul , 135-937 Korea
Tel: +82-2-555-1401 Fax: +82-2-563-1408

ISK Americas, Incorporated
7474 Auburn Road
Concord, OH 44077-9703, U.S.A.
Tel: +1-440-357-4600 Fax: +1-440-357-4611

ISK Biosciences Corporation
7470 Auburn Road, Suite A
Concord, OH 44077-9703, U.S.A.
Tel: +1-440-357-4640 Fax: +1-440-357-4661

ISK Biocides, Inc.
416 East Brooks Road, Memphis, TN
38109-0158, U.S.A.
Tel: +1-901-344-5350 Fax: +1-901-344-5387

ISHIHARA CORPORATION (U.S.A.)
601 California Street Suite 1700
San Francisco, CA 94108, U.S.A.
Tel: +1-415-421-8207 Fax: +1-415-397-5403

ISK Biosciences Europe N.V.
Pegasus Park Building 6, 4th Floor De
Kleetlaan 12B – Box9 1831 Diegem Belgium
Tel: +32-2-627-8611 Fax: +32-2-627-8600

Ishihara Sangyo Kaisha, Ltd.

Printed in Japan