Ishihara Sangyo Kaisha

Annual Report 2013

Year Ended March 31, 2013

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

ISK

Forward-Looking Statements

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

Contents

Consolidated Financial Highlights

For the year ended March 31, 2013

	Millions of yen			Thousands of U.S.dollars (Note)
	2013	2012	2011	2013
For the years ended March 31,				
Net sales:				
Domestic	¥ 48,053	¥ 48,425	¥ 46,408	$ 510,876
Overseas	52,388	53,954	52,649	556,964
Total	100,441	102,379	99,057	1,067,840
Sales classified by business segment:				
Inorganic chemicals	52,824	58,005	52,126	561,599
Organic chemicals	43,282	40,391	39,573	460,153
Construction	3,331	2,949	6,352	35,414
Other businesses	1,004	1,034	1,006	10,674
Total	100,441	102,379	99,057	1,067,840
Operating income	2,792	9,761	9,039	29,683
Net income	926	2,952	4,850	9,845
Depreciation and amortization of property, plant and equipment	5,786	5,691	5,710	61,514
Research and development costs	8,451	7,885	6,776	89,847
As of March 31,				
Current assets	105,571	104,507	96,072	1,122,379
Total assets	177,316	175,433	172,429	1,885,137
Current liabilities	64,713	65,713	58,113	687,997
Net assets	53,065	50,281	48,158	564,161

	Yen			U.S.dollars (Note)
Per share data				
Net income	¥ 2.31	¥ 7.38	¥ 12.12	$ 0.0246
Net assets	132.65	125.64	120.32	1.4103
Number of employees (as of March 31)	1,908	1,923	1,915	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥94.06 =U.S.$1.00, the rate of exchange prevailing on March 31, 2013.

To Our Shareholders and Friends

Kazutaka Fujii
President & CEO

In fiscal 2012, ended March 31, 2013, the world economy remained weak in the ongoing aftermath of the financial crisis in Europe. This was despite a relatively healthy situation in the United States, which showed recoveries in housing investments and personal consumption. Conditions in Asia remained sluggish, impacted by a slowdown in growth in China. In Japan, the economy continued displaying weakness in the first half of the year as exports were affected by the economic slowdown overseas. Following the start of a new political administration at the end of the calendar year, however, proactive monetary easing measures led to a weaker yen and higher stock prices. By fiscal year-end, therefore, bright signs had appeared on the horizon.

With respect to the market environment surrounding the ISK Group, in the inorganic business, the demands of titanium dioxide in domestic market were almost the same as the previous year. However, the overseas demand dropped drastically due to such factors as economic retraction in Europe and the slowdown in China. As a result, overseas market conditions, which were improved following a dramatic surge in prices of ore in the previous year, sharply deteriorated from the 2012 summer.

In the agrochemicals business, the shipment value of agrochemicals in Japan remained mostly unchanged. Overseas, however, prices of agrochemicals soared and the area of cultivated land increased on the back of growing global demand. Accordingly, the worldwide shipment value of agrochemicals reached record-high levels.

Under these conditions, the ISK Group worked hard to improve its business performance, including through rigorous reductions in operating expenses and curtailment of investments. Due to the severe impact of the deteriorating titanium dioxide business, however, consolidated net sales declined ¥1.9 billion year-on-year, to ¥100.4 billion (US$1,068 million), and operating income fell ¥7.0 billion, to ¥2.8billion (US$30 million), representing a significant drop in earnings. Other income and expenses showed improvement due to a foreign exchange gain resulting from the depreciation of the yen around fiscal year-end. Accordingly, ordinary income decreased ¥4.5 billion, to ¥3.5 billion (US$38 million). Net income for the year declined ¥2.0 billion, to ¥0.9 billion (US$10 million).

Fiscal 2012 was the first year of the Group's fifth medium-term management plan, the slogan of which is "Building a solid foundation toward becoming a strong global chemical company." Under the plan, we are working to transform ourselves as we head toward our 100th anniversary in 2020. To this end, we are strengthening our global business advancement capabilities in both inorganic and organic chemicals, enhancing our cost-competitiveness and promoting research and development that will become growth engines in the future. In fiscal 2012, the first year of the plan, we achieved our operating income target in the organic chemicals business despite a decline in sales vis-à-vis our medium-term target. However, the inorganic chemicals business suffered a loss, falling well below our mid-term target. This was due to the strong impact of deterioration in sales conditions for titanium dioxide overseas, as well as the difficulty in passing surging prices of titanium ore to customers. In spite of the implementation of the Group formulated emergency measures that included rigorous cost reductions and curtailed investments, the Group fell well below its revenue and earnings targets set for the first year of the plan.

In fiscal 2013, the ISK Group does not expect any major improvement in conditions for its overseas titanium dioxide business. In response, we will step up efforts to squeeze and cut costs across the board. At the same time, we will continue adopting emergency measures, including more meticulous selection criteria for investments in capital equipment and R&D.

For the time being, our most important priority is to rebuild the earnings power of our inorganic chemicals business, which is troubled by operating losses, and we will speed up our response to this issue as outlined in the medium-term management plan. On the production side, our main tasks are to address soaring prices of titanium ore by expanding use of low-priced ore. We will also work harder than ever to reinforce our cost-competitiveness, including through the practical application of technologies to recover useful substances from waste materials. On the sales side, we will step up efforts to tap demand in high-value-added fields. We are already earning strong acclaim from customers for our products that feature higher weather-resistance and heat-shield characteristics than existing general-purpose grades, and sales are growing in these areas. Going forward, we will continue striving to develop applications in high-value-added fields and expand sales with the aim of bolstering earnings.

In the organic chemicals business, we will maintain our current trajectory of improvements in sales and income on our way to achieving our medium-term target of ¥70 billion in consolidated annual segment sales. In the period covered by our medium-term management plan, we are focusing on three objectives: take measures to counter and establish a competitive advantage over generic products, reinforce our business platforms in growth markets, and innovate molecule discovery technologies and strengthen product formulation technologies. These efforts are yielding steady results. In measures to counter generic products, for example, we are developing new formulations that are more convenient for farmers, as well as low-priced admixtures that will help lower their production costs, and we are pursuing focused sales initiatives. In the growth market of Brazil, meanwhile, sales of fungicides exceeded our target for the first year of the plan. In research and development, we have identified a number of candidate molecules to be used in the development of new herbicides. Together with other new molecules currently under development, we will work to obtain registration as agrochemicals as early as possible.

In the battery materials, full-scale lithium titanate market launch is taking longer than expected. Nevertheless, we will deploy industrial powder manufacturing technologies amassed in our titanium dioxide business to tap new markets while proposing materials with competitive edge to customers.

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

Basic Philosophy

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

Code of Conduct

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

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

We look forward to your ongoing support and understanding.

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Kazutaka Fujii
President & CEO

Business Overview

Inorganic Chemicals

In the year under review, domestic sales of titanium dioxide remained mostly unchanged from the previous year, buoyed by firm internal demand. However, overseas sales declined in both volume and value terms, impacted by weak demand in the key Asian market and sudden deterioration in overseas market conditions in the summer and thereafter. Accordingly, overall sales of titanium dioxide declined ¥5.1 billion, to ¥45.1 billion (US$479 million).

Sales of functional materials were largely unchanged, at ¥7.7 billion (US$82 million), as healthy sales of materials used in cosmetic products and electronic components compensated for a year-on-year decline in sales for use in DeNOx catalysts.

With respect to earnings, profitability declined significantly due to various factors that pushed up costs. In addition to sudden deterioration in overseas market conditions in the summer and thereafter, these included sharp increases in raw materials costs—stemming from surging prices of titanium ore, a main material—as well as further production reductions in response to languishing demand.

As a result, segment sales declined ¥5.2 billion, to ¥52.8 billion (US$561 million), and operating income fell ¥8.8 billion, to ¥0.9 billion (US$10 million) in loss.

Organic Chemicals

Domestic sales of agrochemicals edged up slightly despite a difficult market environment with no expectations for increases in demand. With respect to overseas sales of agrochemicals, sales in Europe fell marginally below the previous year's level as they were impacted by distribution inventory adjustments for herbicides. Owing to efforts over a number of years to address growth markets, however, we reported increased sales of fungicides in Brazil and insecticides in Asia, resulting in higher overseas sales overall. Several new agrochemicals are also under development. These include a fungicide for treating powdery mildew in plants. In the year under review, we started selling this product in nations where registration has been completed.

Sales of pharmaceutical ingredients manufactured by ISK under consignment were delayed until the following fiscal year, causing overall sales of pharmaceuticals to decline.

With respect to earnings, we reported a year-on-year increase in development expenses incurred in the registration process for new agrochemicals. However, this was outweighed by an increase in sales volume, a weakening of the yen toward fiscal year-end, and a decline in manufacturing costs, resulting in higher segment income.

Accordingly, total segment sales increased ¥2.9 billion, to ¥43.3 billion (US$460 million), and operating income rose ¥1.9 billion, to ¥5.8 billion (US$62 million).

Construction

Sales in the construction segment edged up ¥0.4 billion, to ¥3.3 billion (US$35 million), and the operating loss remained mostly unchanged, at ¥0.4 billion (US$4 million).

Other Businesses

In the year under review, the Group's other businesses posted sales of ¥1.0 billion (US$11 million) and operating income of ¥0.1 billion (US$1 million). Both figures are largely unchanged from the previous fiscal year.

Consolidated Balance Sheet

As of March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Assets			
Current assets:			
Cash and deposits (Notes 4, 9 and 17)	¥17,312	¥22,195	$ 184,053
Trade receivables (Note 17):			
Notes (Note 5)	2,678	3,022	28,471
Accounts	22,933	23,139	243,813
	25,611	26,161	272,284
Less allowance for doubtful receivables	(178)	(188)	(1,893)
Trade receivables, net	25,433	25,973	270,391
Inventories (Note 7)	59,159	52,442	628,950
Deferred income taxes (Note 13)	1,877	2,229	19,955
Other current assets	1,790	1,668	19,030
Total current assets	105,571	104,507	1,122,379
Property, plant and equipment:			
Land (Note 9)	6,328	6,327	67,276
Buildings and structures (Notes 8 and 9)	51,420	49,881	546,672
Machinery and equipment (Notes 8 and 9)	130,234	125,305	1,384,584
Leased assets (Note 8)	7,718	6,487	82,054
Construction in progress	2,311	3,022	24,570
	198,011	191,022	2,105,156
Less accumulated depreciation	(142,965)	(137,118)	(1,519,934)
Property, plant and equipment, net (Note 24)	55,046	53,904	585,222
Investments and other assets:			
Investments in securities (Notes 6, 9 and 17):			
Unconsolidated subsidiaries and affiliates	2,681	2,407	28,503
Other	2,204	2,047	23,432
Total investments in securities	4,885	4,454	51,935
Deferred income taxes (Note 13)	9,106	10,279	96,811
Other	2,708	2,289	28,790
Total investments and other assets	16,699	17,022	177,536
Total assets (Note 24)	¥177,316	¥175,433	$1,885,137

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 9 and 17)	¥24,542	¥22,031	$260,919
Current portion of long-term bank loans (Notes 9 and 17)	14,804	12,474	157,389
Current portion of bonds (Notes 9 and 17)	200	200	2,126
Trade payables (Note 17):			
Notes (Note 5)	1,704	2,236	18,116
Accounts	10,235	16,930	108,814
	11,939	19,166	126,930
Lease obligations (Notes 9 and 17)	935	859	9,940
Accrued income taxes (Note 13)	224	324	2,381
Accrued expenses	4,014	3,714	42,675
Accrued bonuses for employees	479	572	5,092
Reserve for sales returns	52	86	553
Provision for loss on construction contracts	8	98	85
Reserve for Ferosilt removal	2,467	2,131	26,228
Reserve for implementation of environmental and safety arrangements	60	238	638
Provision for maintenance	—	85	—
Other current liabilities	4,989	3,735	53,041
Total current liabilities	64,713	65,713	687,997
Long-term liabilities:			
Long-term bank loans (Notes 9 and 17)	39,326	36,180	418,095
Bonds (Notes 9 and 17)	1,400	1,600	14,884
Lease obligations less current portion (Notes 9 and 17)	1,767	1,692	18,786
Accrued retirement benefits for employees (Note 11)	8,634	7,952	91,792
Deferred income taxes (Note 13)	23	9	245
Long-term deposits received	766	745	8,144
Reserve for Ferosilt removal	5,394	7,852	57,346
Reserve for implementation of environmental and safety arrangements	543	555	5,773
Provision for maintenance	48	—	510
Asset retirement obligations (Note 10)	849	859	9,026
Other long-term liabilities	788	1,995	8,378
Total long-term liabilities	59,538	59,439	632,979
Contingent liabilities (Note 12)			
Net assets:			
Shareholders' equity (Note 14):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 403,839,431 shares in 2013 and 2012	43,421	43,421	461,631
Capital surplus	10,626	10,625	112,970
Retained earnings	2,164	1,238	23,007
Less treasury stock, at cost:			
3,808,379 shares in 2013 and 3,753,154 shares in 2012	(681)	(677)	(7,240)
Total shareholders' equity	55,530	54,607	590,368
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities	245	60	2,605
Unrealized deferred loss on hedges	(64)	(77)	(681)
Translation adjustments	(2,675)	(4,352)	(28,439)
Adjustment for projected benefit obligation of an overseas subsidiary	29	28	308
Total accumulated other comprehensive loss	(2,465)	(4,341)	(26,207)
Minority interests	—	15	—
Total net assets	53,065	50,281	564,161
Total liabilities and net assets	¥177,316	¥175,433	$1,885,137

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

Consolidated Statement of Income

For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Net sales (Note 24)	¥100,441	¥102,379	$1,067,840
Cost of sales (Note 15)	76,225	71,809	810,387
Gross profit	24,216	30,570	257,453
Selling, general and administrative expenses (Note 15)	21,424	20,809	227,770
Operating income (Note 24)	2,792	9,761	29,683
Other income:			
Interest and dividend income	340	142	3,615
Equity in earnings of affiliates	303	364	3,221
Foreign exchange gain, net	2,393	249	25,441
Other	575	297	6,113
	3,611	1,052	38,390
Other expenses:			
Interest expense	1,849	1,757	19,658
Retirement benefit expense	356	391	3,785
Other	657	653	6,984
	2,862	2,801	30,427
Ordinary income	3,541	8,012	37,646
Extraordinary gains:			
Gain on insurance claim	—	46	—
Gain on dispute settlement	—	38	—
	—	84	—
Extraordinary losses:			
Loss on disposal of fixed assets	578	622	6,145
Loss on impairment of fixed assets (Note 8)	—	429	—
Provision of reserve for implementation of environmental and safety arrangements	—	225	—
Environmental measures expenses	—	16	—
Other	35	119	372
	613	1,411	6,517
Income before income taxes and minority interests	2,928	6,685	31,129
Income taxes (Note 13):			
Current	402	429	4,274
Deferred	1,600	3,304	17,010
Income before minority interests	926	2,952	9,845
Minority interests	(0)	0	(0)
Net income	¥ 926	¥ 2,952	$ 9,845

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

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Income before minority interests	¥ 926	¥2,952	$ 9,845
Other comprehensive income (loss) (Note 19):			
Net unrealized holding gain (loss) on securities	185	(2)	1,967
Unrealized deferred gain (loss) on hedges	13	(77)	138
Translation adjustments	1,705	(682)	18,126
Adjustment for projected benefit obligation of an overseas subsidiary	1	(5)	11
Other comprehensive loss of affiliates accounted for by the equity method attributable to the Company	(26)	(59)	(276)
Comprehensive income	¥2,804	¥2,127	$29,811

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Comprehensive income (loss) attributable to:			
Shareholders of Ishihara Sangyo Kaisha, Ltd.	¥2,802	¥2,127	$29,790
Minority interests	2	(0)	21

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

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2013

	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 loss on hedges	Translation adjustments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests	Total net assets
Balance at April 1, 2011	403,839,431	¥43,421	¥10,625	¥(1,714)	¥(673)	¥ 62	¥ —	¥(3,612)	¥33	¥16	¥48,158
Net income	—	—	—	2,952	—	—	—	—	—	—	2,952
Acquisition of treasury stock	—	—	—	—	(5)	—	—	—	—	—	(5)
Disposition of treasury stock	—	—	0	—	1	—	—	—	—	—	1
Other changes	—	—	—	—	—	(2)	(77)	(740)	(5)	(1)	(825)
Balance at April 1, 2012	403,839,431	¥43,421	¥10,625	¥1,238	¥(677)	¥ 60	¥(77)	¥(4,352)	¥28	¥15	¥50,281
Net income	—	—	—	926	—	—	—	—	—	—	926
Acquisition of treasury stock	—	—	—	—	(4)	—	—	—	—	—	(4)
Disposition of treasury stock	—	—	1	—	0	—	—	—	—	—	1
Other changes	—	—	—	—	—	185	13	1,677	1	(15)	1,861
Balance at March 31, 2013	403,839,431	¥43,421	¥10,626	¥2,164	¥(681)	¥245	¥(64)	¥(2,675)	¥29	¥—	¥53,065

	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 loss on hedges	Translation adjustments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests	Total net assets
Balance at April 1, 2012	$461,631	$112,960	$13,162	$(7,198)	$ 638	$(818)	$(46,268)	$297	$159	$534,563
Net income	—	—	9,845	—	—	—	—	—	—	9,845
Acquisition of treasury stock	—	—	—	(42)	—	—	—	—	—	(42)
Disposition of treasury stock	—	10	—	0	—	—	—	—	—	10
Other changes	—	—	—	—	1,967	137	17,829	11	(159)	19,785
Balance at March 31, 2013	$461,631	$112,970	$23,007	$(7,240)	$2,605	$(681)	$(28,439)	$308	$ —	$564,161

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

Consolidated Statement of Cash Flows

For the year ended March 31, 2013

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2013	2012	2013
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 2,928	¥ 6,685	$ 31,129
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	5,786	5,691	61,514
Loss on disposal or sales of fixed assets, net	261	219	2,775
Loss on impairment of fixed assets	—	429	—
Foreign exchange loss (gain), net	7	(2)	74
Increase (decrease) in provisions for accrued retirement benefits for employees	670	(453)	7,123
Reversal of reserve for Ferosilt removal	(2,122)	(2,492)	(22,560)
(Decrease) increase in reserve for implementation of environmental and safety arrangements	(189)	161	(2,009)
Interest and dividend income	(340)	(142)	(3,615)
Interest expense	1,849	1,757	19,658
Equity in earnings of affiliates, net	(235)	(291)	(2,498)
Gain on changes in payment plan from installment payment to lump-sum payment	(321)	—	(3,413)
Other	(306)	(711)	(3,253)
Changes in operating assets and liabilities:			
Trade receivables	1,285	1,094	13,661
Inventories	(4,586)	(11,192)	(48,756)
Other current assets	79	143	840
Trade payables	(9,530)	6,448	(101,318)
Accrued expenses and other current liabilities	(453)	940	(4,817)
Subtotal	(5,217)	8,284	(55,465)
Interest and dividends received	331	142	3,519
Interest paid	(1,832)	(1,722)	(19,477)
Insurance claim received	24	690	255
Income taxes (paid) refunded	(504)	42	(5,358)
Net cash (used in) provided by operating activities	(7,198)	7,436	(76,526)
Cash flows from investing activities:			
Increase in time deposits	(80)	(612)	(851)
Decrease in time deposits	227	482	2,413
Purchases of property, plant and equipment	(6,400)	(5,073)	(68,042)
Proceeds from sales of property, plant and equipment	464	352	4,933
Increase in long-term loans receivable	(395)	(404)	(4,199)
Collection of long-term loans receivables	387	413	4,115
Proceeds from redemption of share capital of a subsidiary	—	748	—
Other	63	(146)	670
Net cash used in investing activities	(5,734)	(4,240)	(60,961)
Cash flows from financing activities:			
Redemption of bonds	(200)	(200)	(2,126)
Increase (decrease) in short-term bank loans, net	2,423	(1,484)	25,760
Proceeds from long-term bank loans	17,972	12,781	191,070
Repayment of long-term bank loans	(12,529)	(12,924)	(133,202)
Repayment of lease obligations	(950)	(938)	(10,100)
Proceeds from deposits received	2,420	—	25,728
Repayment of deposits received	(1,374)	—	(14,609)
Repayment of installment payables	—	(158)	—
Purchases of treasury stock	(4)	(5)	(42)
Proceeds from sales of treasury stock	—	1	—
Net cash provided by (used in) financing activities	7,758	(2,927)	82,479
Effect of exchange rate changes on cash and cash equivalents	438	(286)	4,657
Decrease in cash and cash equivalents	(4,736)	(17)	(50,351)
Cash and cash equivalents at beginning of year	21,733	21,750	231,055
Cash and cash equivalents at end of year (Note 4)	¥ 16,997	¥ 21,733	$ 180,704

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

Notes to Consolidated Financial Statements

Year ended March 31, 2013

1. Basis of Preparation of Consolidated Financial Statements

The accompanying consolidated financial statements Ishihara Sangyo Kaisha, Ltd. (the "Company") have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Act of Japan.

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

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥94.06 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2013. 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 14 significant consolidated subsidiaries, consisting of ISK Bioscience K.K., ISK SINGAPORE PTE. LTD., the ISK AMERICAS INCORPORATED Group (5 subsidiaries), the ISK BIOSCIENCES EUROPE S.A. Group (2 subsidiaries), ISK Taiwan Co., Ltd., Fuji Titanium Industry Co., Ltd., Ishihara Techno Corporation, Yokkaichi Energy Service Co., Ltd. and ISK Engineering Partners Corporation.

ISK Engineering Corporation, which had been a consolidated subsidiary, was merged into the Company on April 1, 2012.

IBE FRANCE S.A.R.L., which had been a consolidated subsidiary, was excluded from consolidation due to the sales of its shares during the year ended March 31, 2013.

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

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

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

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

(b) Foreign currency translation

Foreign currency transactions

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

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

Financial statements of overseas consolidated subsidiaries

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

(c) Cash and cash equivalents

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

(d) Inventories

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

(e) Securities

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

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

(f) Derivatives and hedging activities

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

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

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

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

Buildings and structures .... 3 to 55 years
Machinery and equipment .... 2 to 20 years

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

(h) Intangible assets (except for leased assets)

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

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

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

(j) Leased assets

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

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

(k) Goodwill and negative goodwill

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

(l) Allowance for doubtful receivables

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

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

(m) Accrued bonuses for employees

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

(n) Reserve for sales returns

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

(o) Provision for loss on construction contracts

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

(p) Reserve for Ferosilt removal

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

(q) Reserve for implementation of environmental and safety arrangements

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

(r) Provision for maintenance

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

(s) Retirement benefits

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the balance sheet date.

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

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

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

(t) Income taxes

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

(u) Revenue recognition for construction contracts

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

3. Accounting Standards Issued but Not Yet Effective

"Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 issued on May 17, 2012) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on May 17, 2012) have not yet been adopted as of March 31, 2013.

Under these revised accounting standards, unrecognized actuarial gains or losses and prior service costs that are yet to be recognized in profit or loss, after adjusting for tax effects, shall be recognized in the net asset section in the consolidated balance sheet. As a result, the unfunded retirement benefit obligation or plan assets in excess of the retirement benefit obligation shall be recognized as a liability or asset. In addition, the retirement benefit obligation can be attributed to each period by the benefit formula basis or by the straight-line method. The calculation method for the discount rate shall also be changed.

The Company and its consolidated subsidiaries plan to adopt these revised accounting standards effective the year ending

March 31, 2014. Regarding the revision of calculation method of retirement benefit obligation and service costs, the Company and its consolidated subsidiaries plan to adopt them effective April 1, 2015.

As of March 31, 2013, the Company is in the process of measuring the impact on the consolidated financial statements as a result of adoption of the revised accounting standards.

4. Cash and Deposits

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets as of March 31, 2013 and 2012 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Cash and deposits	¥17,312	¥22,195	$184,053
Time deposits with maturities in excess of three months	(315)	(462)	(3,349)
Cash and cash equivalents	¥16,997	¥21,733	$180,704

5. Notes Receivable and Notes Payable

As the balance sheet date for the years ended March 31, 2013 and 2012 fell on a bank holiday, notes receivable, trade of ¥262 million ($2,785 thousand) and ¥253 million and notes payable, trade of ¥546 million ($5,805 thousand) and ¥718 million with due dates of March 31, 2013 and 2012, respectively, were included in the respective balances in the consolidated balance sheet at March 31, 2013 and 2012. These were settled on the next business day.

6. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2013 and 2012 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain (loss)
Securities whose carrying value exceeds their estimated fair value	¥10	¥10	¥(0)	¥10	¥10	¥0	$106	$106	$(0)
Total	¥10	¥10	¥(0)	¥10	¥10	¥0	$106	$106	$(0)

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Equity securities	¥1,073	¥696	¥377	¥719	¥573	¥146	$11,408	$7,400	$4,008
Subtotal	1,073	696	377	719	573	146	11,408	7,400	4,008
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	84	95	(11)	175	205	(30)	893	1,010	(117)
Subtotal	84	95	(11)	175	205	(30)	893	1,008	(117)
Total	¥1,157	¥791	¥366	¥894	¥778	¥116	$12,301	$8,410	$3,891

Proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Proceeds from sales	¥—	¥3	$—
Gross realized gain	—	0	—
Gross realized loss	—	(0)	—

The redemption schedule subsequent to March 31, 2013 for held-to-maturity debt securities classified as other securities is described in Note 17.

7. Inventories

Inventories at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Finished goods and merchandise	¥31,653	¥26,116	$336,519
Work in process	6,823	5,296	72,539
Raw materials and supplies	20,683	21,030	219,892
Total	¥59,159	¥52,442	$628,950

8. Loss on Impairment of Fixed Assets

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

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

			Millions of yen
Location	Major use	Classification	2012
Yokkaichi Plant (Yokkaichi City, Mie Prefecture)	Production equipment	Buildings and structures, machinery, equipment and leased assets	¥405
Hiratsuka Plant (Hiratsuka City, Kanagawa Prefecture)	Production equipment	Machinery and equipment	24
			¥429

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

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

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

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

Classification	Millions of yen 2012
Buildings and structures	¥ 2
Machinery and equipment	344
Leased assets	83
Total	¥429

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

The average annual interest rates on short-term bank loans at March 31, 2013 and 2012 were approximately 1.6% and 1.5%, respectively.

Long-term bank loans, including the current portion of long-term bank loans, at March 31, 2013 and 2012 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Secured bank loans	¥ 20,418	¥ 19,314	$ 217,074
Unsecured bank loans	33,712	29,340	358,410
	54,130	48,654	575,484
Less amounts due within one year	(14,804)	(12,474)	(157,389)
Total	¥ 39,326	¥ 36,180	$ 418,095

Interest rates applicable to long-term bank loans presented in the above table ranged from 1.0% to 6.2% at March 31, 2013 and from 1.0% to 5.9% at March 31, 2012. These bank loans become due from 2014 through to 2020.

Bonds at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Unsecured bonds, payable in yen, at rate of 0.35%, due 2015	¥1,600	¥1,800	$17,010
Less amounts due within one year	(200)	(200)	(2,126)
Total	¥1,400	¥1,600	$14,884

Lease obligations at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Finance lease obligations (ownership transferred to the lessee)	¥ 490	¥ 363	$ 5,209
Finance lease obligations (ownership not transferred to the lessee)	2,212	2,188	23,517
	2,702	2,551	28,726
Less amounts due within one year	(935)	(859)	(9,940)
Total	¥1,767	¥1,692	$18,786

Information for the aggregate annual maturities of long-term bank loans, bonds, and lease obligations subsequent to March 31, 2013 is described in Note 17.

At March 31, 2013 and 2012, 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
	2013	2012	2013
Property, plant and equipment, net of accumulated depreciation	¥36,159	¥37,033	$384,425
Investments in securities	609	494	6,474
Cash and deposits	315	462	3,349
Total	¥37,083	¥37,989	$394,248

Short-term bank loans, the current portion of long-term bank loans and long-term bank loans secured by such collateral at March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Short-term bank loans	¥13,542	¥12,790	$143,972
Current portion of long-term bank loans	5,357	4,556	56,953
Long-term bank loans	15,061	14,758	160,121
Total	¥33,960	¥32,104	$361,046

Also, buildings and structures of ¥99 million ($1,053 thousand) and ¥103 million, land of ¥219 million ($2,328 thousand) and ¥219 million were pledged as collateral to secure future loans from certain financial institutions at March 31, 2013 and 2012, respectively. However, there were no corresponding liabilities at March 31, 2013 and 2012.

10. Asset Retirement Obligations

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

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

The following is a summary of changes in the carrying amounts of the asset retirement obligations for the years ended March 31, 2013 and 2012.

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Asset retirement obligation balance at beginning of year	¥859	¥862	$9,133
Liabilities incurred due to the acquisition of properties, plants and equipment	7	8	74
Accretion expense	0	0	0
Liabilities settled	(17)	(11)	(181)
Asset retirement obligation balance at end of year	¥849	¥859	$9,026

11. Retirement Benefits

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

The funded and accrued status of the employees' retirement benefit plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Retirement benefit obligation	¥(11,214)	¥(10,394)	$(119,222)
Plan assets at fair value	277	219	2,945
Unfunded retirement benefit obligation	(10,937)	(10,175)	(116,277)
Unrecognized net retirement benefit obligation at transition	719	1,079	7,644
Unrecognized actuarial loss	280	123	2,977
Unrecognized prior service cost	1,259	976	13,396
Net retirement benefit obligation	(8,678)	(7,997)	(92,260)
Prepaid pension cost	(2)	0	(21)
Adjustment for projected benefit obligation of an overseas subsidiary	46	45	489
Accrued retirement benefits	¥ (8,634)	¥ (7,952)	$ (91,792)

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

The components of retirement benefit expense for the years ended March 31, 2013 and 2012 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Service cost	¥ 612	¥ 617	$ 6,506
Interest cost	182	194	1,935
Expected return on plan assets	(9)	(13)	(96)
Amortization:			
Retirement benefit obligation at transition	361	395	3,838
Unrecognized actuarial loss	71	88	755
Unrecognized prior service cost	23	13	245
Retirement benefit expense	1,240	1,294	13,183
Net loss on transfer to defined contribution plan	—	86	—
Other	79	35	840
Total	¥1,319	¥1,415	$14,023

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

On September 30, 2011, the Company transferred its pension plan from a tax-qualified defined benefit pension plan to a defined contribution pension plan. As a result of this transfer, the retirement benefit obligation, plan assets at fair value, unrecognized net retirement benefit obligation at transition, unrecognized actuarial loss and accrued retirement benefits decreased by ¥1,910 million, ¥273 million, ¥246 million, ¥476 million and ¥915 million, respectively, for the year ended March 31, 2012.

In addition, as a result of this transfer, plan assets of ¥980 million are scheduled to be transferred over 4 years to the defined contribution pension plan. The amounts not yet transferred were included in "Other current liabilities" in the amounts of ¥230 million ($2,445 thousand) and ¥266 million and in "Other long-term liabilities" in the amounts of ¥208 million ($2,211 thousand) and ¥446 million in the consolidated balance sheets at March 31, 2013 and 2012, respectively.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2013 and 2012 were as follows:

	2013	2012
Discount rate	Principally 1.8%	Principally 1.8%
Expected rates of return on plan assets	Principally 4.5%	Principally 2.5%

12. Contingent Liabilities

(a) Guarantees

At March 31, 2013, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥306	$3,253
As guarantor for borrowings of unconsolidated subsidiaries	122	1,297
Total	¥428	$4,550

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

Regarding costs for remediation measures for contaminated soil and underground water at the Plant and waste assumed to be buried at the Plant, the Company's policy is to record these costs as extraordinary losses, which were paid during the year or reasonably estimated as of the balance sheet date. In the year under review, however, no new costs were incurred; reserves provided for in the previous fiscal and earlier were allocated to the payments made. The Company does not record any costs that cannot be reasonably estimated at the balance sheet date, such as costs for permanent contamination remediation measures and for analyzing and disposing of buried waste.

As a result of soil and underground water surveys conducted at the Plant after an assessment by a comprehensive compliance test, contamination was identified, which seems to be mainly derived from past production activities. In response to this, the Company submitted certain documents to Yokkaichi City, which has jurisdiction over the matter, notifying the authorities of these findings, in accordance with the "Ordinance for Conservation of the Living Environment" enacted by Mie Prefecture. Subsequently, the Company conducted a survey to identify the status and source of the contamination, collected data to design a plan for preventing the expansion of contamination under the guidance and advice from the Environmental Expert Committee, which consists of third-party academic advisors.

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

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

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

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

(1) Buried waste in area No. 2

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

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

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

13. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The applicable statutory tax rates in Japan for the years ended March 31, 2013 and 2012 were, in the aggregate, approximately 37.5% and 40.1%, respectively.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2013 and 2012 differ for the above statutory tax rate for the following reasons:

	2013	2012
Statutory tax rates	37.5%	40.1%
Permanently non-deductible expenses	1.4	2.5
Permanently non-taxable income	(4.3)	(1.1)
Per capita portion of inhabitants' taxes	1.3	0.4
Foreign income taxes	0.3	(0.5)
Changes in valuation allowance	17.8	1.4
Tax rate differences of consolidated subsidiaries	8.1	(4.1)
Unrealized gain on intercompany transactions	0.4	1.4
Decrease of deferred tax assets resulting from change in tax rates	6.0	16.2
Other	(0.1)	(0.5)
Effective tax rates	68.4%	55.8%

Deferred income taxes reflect the net tax effect of the temporary differences between the carrying amounts of the assets and liabilities for financial reporting purposes and the corresponding amounts for income tax purposes. The significant components of the Company's and consolidated subsidiaries' deferred tax assets and liabilities at March 31, 2013 and 2012 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Deferred tax assets:			
Tax loss carryforwards	¥9,744	¥8,617	$103,593
Accrued retirement benefits for employees	3,015	2,795	32,054
Loss on devaluation of inventories	253	59	2,690
Unrealized gain on intercompany transactions	1,461	1,468	15,533
Accrued expenses	617	760	6,560
Accrued bonuses for employees	181	206	1,924
Reserve for Ferosilt removal	2,873	3,713	30,544
Reserve for implementation of environmental and safety arrangements	221	293	2,350
Asset retirement obligations	298	301	3,168
Other	2,555	2,803	27,163
Gross deferred tax assets	21,218	21,015	225,579
Less valuation allowance	(9,833)	(8,190)	(104,539)
Total deferred tax assets	11,385	12,825	121,040
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(223)
Unrealized holding gain on securities	(99)	(28)	(1,053)
Other	(305)	(277)	(3,243)
Total deferred tax liabilities	(425)	(326)	(4,519)
Net deferred tax assets	¥10,960	¥12,499	$116,521

14. Shareholders' Equity

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

The Company's legal reserve included in retained earnings at March 31, 2013 and 2012 amounted to ¥270 million ($2,871 thousand).

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

Treasury stock

Movements in treasury stock during the years ended March 31, 2013 and 2012 are summarized as follows:

	Number of shares			
	2013			
	April 1, 2012	Increase	Decrease	March 31, 2013
Treasury stock	3,753,154	61,656	6,431	3,808,379

	Number of shares			
	2012			
	April 1, 2011	Increase	Decrease	March 31, 2012
Treasury stock	3,709,794	51,413	8,053	3,753,154

The increases in treasury stock were due to purchases of shares of less than one voting unit for the years ended March 31, 2013 and 2012. 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, 2013 and 2012.

15. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2013 and 2012 totaled ¥8,451 million ($89,847 thousand) and ¥7,885 million, respectively.

16. Leases

(a) Finance lease transactions

The following pro forma amounts represent the acquisition costs, accumulated depreciation, accumulated loss on impairment and net book value of the leased assets under finance lease contracts that do not transfer ownership to the lessee at March 31, 2013 and 2012, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen							
	2013				2012			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
Machinery and equipment	¥298	¥245	¥—	¥53	¥680	¥524	¥ 9	¥147
Other	32	30	—	1	102	87	—	15
Total	¥330	¥275	¥—	¥54	¥782	¥611	¥ 9	¥162

	Thousands of U.S. dollars			
	2013			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
Machinery and equipment	$3,168	$2,605	$—	$563
Other	340	319	—	11
Total	$3,508	$2,924	$—	$574

For finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the lessee, lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2013 and 2012 amounted to ¥108 million ($1,148 thousand) and ¥205 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2013 and 2012 amounted to ¥108 million ($1,148 thousand) and ¥205 million, respectively. Reversal of accumulated impairment loss on leased assets for the years ended March 31, 2013 and 2012 amounted to ¥2 million ($21 thousand) and ¥4 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥42	$446
2015 and thereafter	12	128
Total	¥54	$574

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2013 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2014	¥50	$531
2015 and thereafter	22	234
Total	¥72	$765

17. Financial Instruments

Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

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

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

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, 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 which have a sound credit profile.

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

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

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

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

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

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

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

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

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2013 and 2012 and unrealized gains (losses) are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 17(b) below)

(a) Estimated fair value of financial instruments

	Millions of yen					
	2013			2012		
	Carrying value	Estimated fair value	Unrealized gain (loss)	Carrying value	Estimated fair value	Unrealized gain
Assets:						
(1) Cash and deposits	¥17,312	¥17,312	¥—	¥22,195	¥22,195	¥—
(2) Trade receivables	25,611	25,611	—	26,161	26,161	—
(3) Securities and investments in securities:						
Held-to-maturity debt securities	10	10	(0)	10	10	0
Other securities	1,157	1,157	—	894	894	—
Total assets	¥44,090	¥44,090	¥(0)	¥49,260	¥49,260	¥ 0
Liabilities:						
(1) Trade payables	11,939	11,939	—	19,166	19,166	—
(2) Short-term bank loans	24,542	24,542	—	22,031	22,031	—
(3) Long-term bank loans, including current portion	54,130	54,222	92	48,654	48,736	82
Total liabilities	¥90,611	¥90,703	¥92	¥89,851	¥89,933	¥82
Derivatives (*)	¥ (415)	¥ (415)	¥—	¥ (157)	¥ (157)	¥—

	Thousands of U.S. dollars		
	2013		
	Carrying value	Estimated fair value	Unrealized gain (loss)
Assets:			
(1) Cash and deposits	$184,053	$184,053	$ —
(2) Trade receivables	272,284	272,284	—
(3) Securities and investments in securities:			
Held-to-maturity debt securities	106	106	(0)
Other securities	12,300	12,300	—
Total assets	$468,743	$468,743	$ (0)
Liabilities:			
(1) Trade payables	126,930	126,930	—
(2) Short-term bank loans	260,919	260,918	—
(3) Long-term bank loans, including current portion	575,484	576,462	978
Total liabilities	$963,332	$964,310	$978
Derivatives (*)	$ (4,412)	$ (4,412)	$ —

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

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

Assets:

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

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

(3) Securities and investments in securities

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

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

Liabilities:

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

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

(3) Loans and long-term bank loans, including current portion

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

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

Derivatives:

Please refer to Note 18 "Derivatives."

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

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
	Carrying value	Carrying value	Carrying value
Unlisted equity securities	¥3,135	¥2,877	$33,330
Investments in limited partnerships	83	83	882
Preferred securities	500	600	5,316

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							
	2013				2012			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥17,302	¥—	¥—	¥—	¥22,185	¥—	¥—	¥—
Trade receivables	25,611	—	—	—	26,161	—	—	—
Investments in securities:								
Held-to-maturity debt securities	—	—	10	—	10	—	—	—
Total	¥42,913	¥—	¥10	¥—	¥48,356	¥—	¥—	¥—

	Thousands of U.S. dollars			
	2013			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	$183,946	$—	$ —	$—
Trade receivables	272,284	—	—	—
Investments in securities:				
Held-to-maturity debt securities	—	—	106	—
Total	$456,230	$—	$106	$—

(d) Redemption schedule of long-term debt

	Millions of yen					
	2013					
	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	¥14,804	¥14,212	¥11,258	¥6,116	¥5,064	¥2,676
Bonds	200	1,400	—	—	—	—
Lease obligations	935	692	501	317	165	92
Others	1,098	49	—	—	—	—
Total	¥17,037	¥16,353	¥11,759	¥6,433	¥5,229	¥2,768

	Thousands of U.S. dollars					
	2013					
	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	$157,389	$151,095	$119,689	$65,023	$53,838	$28,450
Bonds	2,126	14,884	—	—	—	—
Lease obligations	9,940	7,357	5,327	3,370	1,754	978
Others	11,674	521	—	—	—	—
Total	$181,129	$173,857	$125,016	$68,393	$55,592	$29,428

18. Derivatives

The notional amounts and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at March 31, 2013 and 2012 were as follows:

(a) Currency-related transactions

Forward foreign exchange contracts:

	Millions of yen						Thousands of U.S. dollars		
	2013			2012			2013		
	Notional amount	Estimated fair value	Unrealized loss	Notional amount	Estimated fair value	Unrealized gain (loss)	Notional amount	Estimated fair value	Unrealized loss
Sell:									
Euro	¥5,017	¥(241)	¥(241)	¥4,779	¥ 6	¥ 6	$53,338	$(2,562)	$(2,562)
U.S. dollars	832	(20)	(20)	1,376	(14)	(14)	8,846	(213)	(213)
Buy:									
Japanese yen	415	(25)	(25)	716	6	6	4,412	(266)	(266)
Total	¥6,264	¥(286)	¥(286)	¥6,871	¥ (2)	¥ (2)	$66,596	$(3,041)	$(3,041)

(b) Interest-related transactions

Interest rate swap contracts:

	Millions of yen							
	2013				2012			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Receive/floating and pay/fixed	¥311	¥225	¥(25)	¥(25)	¥360	¥279	¥(31)	¥(31)
Total	¥311	¥225	¥(25)	¥(25)	¥360	¥279	¥(31)	¥(31)

	Thousands of U.S. dollars			
	2013			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Receive/floating and pay/fixed	$3,306	$2,392	$(266)	$(266)
Total	$3,306	$2,392	$(266)	$(266)

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

The notional amounts and the estimated fair value of the derivative instruments outstanding which qualify for deferral hedge accounting at March 31, 2013 and 2012 were as follows:

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

Forward foreign exchange contracts:

			Millions of yen					
			2013			2012		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge	Sell: Euro	Accounts receivable	¥1,285	¥—	¥(19)	¥ —	¥—	¥—
The allocation method	Sell: Euro	Accounts receivable	¥ 69	¥—	(**)	¥ 53	¥—	(**)
	U.S. dollars		71	—	(**)	881	—	(**)
	Buy: Japanese yen	Accounts payable	4	—	(**)	—	—	—
		Total	¥1,429	¥—	¥(19)	¥934	¥—	¥—

			Thousands of U.S. dollars		
			2013		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge	Sell: Euro	Accounts receivable	$13,661	$—	$(202)
The allocation method	Sell: Euro	Accounts receivable	$ 733	$—	(**)
	U.S. dollars		755	—	(**)
	Buy: Japanese yen	Accounts payable	43	—	(**)
		Total	$15,192	$—	$(202)

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

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

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

Interest rate swap contracts:

			Millions of yen					
			2013			2012		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge	Receive/floating and pay/fixed	Long-term bank loans	¥ 3,606	¥ 3,102	¥(85)	¥ 4,110	¥3,606	¥121
The special method	Receive/floating and pay/fixed	Long-term bank loans	9,698	7,772	(**)	6,761	4,733	(**)
		Total	¥13,304	¥10,874	¥(85)	¥10,871	¥8,339	¥121

			Thousands of U.S. dollars		
			2013		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value (*)
Deferral hedge	Receive/floating and pay/fixed	Long-term bank loans	$ 38,338	$ 32,979	$(904)
The special method	Receive/floating and pay/fixed	Long-term bank loans	103,104	82,628	(**)
		Total	$141,442	$115,607	$(904)

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

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

19. Other Comprehensive Income (Loss)

The following table presents reclassification adjustments and tax effects for components of other comprehensive income (loss) for the years ended March 31, 2013 and 2012:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Net unrealized holding gain (loss) on securities:			
Amount arising during the year	¥ 256	¥ (33)	$ 2,722
Reclassification adjustments for losses realized in consolidated statement of income	—	33	—
Before tax effect	256	0	2,722
Tax effect	(71)	(2)	(755)
Total	185	(2)	1,967
Unrealized deferred gain (loss) on hedges:			
Amount arising during the year	20	(124)	213
Reclassification adjustments for (losses) gains realized in consolidated statement of income	(7)	47	(74)
Total	13	(77)	138
Translation adjustment:			
Amount arising during the year	1,705	(682)	18,126
Adjustment for projected benefit obligation of an overseas subsidiary:			
Amount arising during the year	1	(7)	11
Tax effect	(0)	2	(0)
Total	1	(5)	11
Other comprehensive loss of affiliates accounted for by the equity method attributable to the Company	(26)	(59)	(276)
Total other comprehensive income (loss)	¥1,878	¥(825)	$19,966

20. Supplemental Information to Consolidated Statements of Cash Flows

Information on significant non-cash transactions

The Company and its consolidated subsidiaries recorded new leased assets of ¥984 million ($10,461 thousand) and ¥646 million and lease obligations of ¥1,029 million ($10,940 thousand) and ¥721 million under finance leases for the years ended March 31, 2013 and 2012, respectively.

The Company recorded asset retirement obligations in the amount of ¥7 million ($74 thousand) and ¥8 million for the years ended March 31, 2013 and 2012, respectively.

21. Amounts per Share

	Yen		U.S. dollars
	2013	2012	2013
Net income per share	¥2.31	¥7.38	$0.0246
Net assets per share	132.65	125.64	1.4103

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

No diluted net income per share for the years ended March 31, 2013 and 2012 is presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net income per share for the years ended March 31, 2013 and 2012 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Information on basic net income per share:			
Net income	¥926	¥2,952	$9,845
Adjusted net income attributable to common shareholders	¥926	¥2,952	$9,845

	Thousands of shares	
	2013	2012
Weighted-average number of shares of common stock outstanding during the year	400,063	400,109

The financial data for the computation of net assets per share at March 31, 2013 and 2012 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2013	2012	2013
Total net assets	¥53,065	¥50,281	$564,161
Deductions from total net assets:			
Minority interests	—	(15)	—
Total net assets used in the calculation of net assets per share	¥53,065	¥50,266	$564,161

	Thousands of shares	
	2013	2012
Number of shares used in the calculation of net assets per share	400,031	400,086

22. Related Party Transactions

The information on major transactions and balances between the Company and its principal shareholder for the year ended and as of March 31, 2013 is omitted because there were no transactions that meet the disclosure criteria.

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

	Transactions		Balances	
		Millions of yen		Millions of yen
Name of principal shareholder	Type of transaction	2012	Account	2012
MITSUI & CO., LTD.	Sales of products	¥5,801	Trade receivables	¥1,436
	Purchases of raw materials	11,481	Trade payables	6,224

The information on major transactions and balances between the consolidated subsidiaries and its principal shareholder for the year ended and as of March 31, 2013 is omitted because there were no transactions that meet the disclosure criteria.

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

	Transactions		Balances	
		Millions of yen		Millions of yen
Name of principal shareholder	Type of transaction	2012	Account	2012
MITSUI & CO., LTD.	Sales of products	¥2,401	Trade receivables	¥335
	Purchases of raw materials	318	Trade payables	152

Major transactions and balances between the Company and an affiliated company for the years ended and as of March 31, 2013 and 2012 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	2013	2012	2013	Account	2013	2012	2013
BELCHIM CROP PROTECTION S.A.	Sales of products	¥10,515	¥10,254	$111,790	Trade receivables	¥2,224	¥2,963	$23,644

The condensed financial statements of BELCHIM CROP PROTECTION S.A. as the significant related party as of and for the year ended September 30, 2012 are as follows:

	Millions of yen
Current assets	¥26,112
Fixed assets	1,994
Total assets	¥28,106
Current liabilities	¥22,009
Long-term liabilities	1,150
Total liabilities	23,159
Total net assets	4,947
Total liabilities and net assets	¥28,106

	Millions of yen
Net sales	¥30,787
Income before income taxes	1,636
Net income	1,079

23. Business Combination

On April 1, 2012, the Company merged with ISK Engineering Corporation. The purpose of the merger is to strengthen the equipment control business by integrating the engineering and maintenance functions, which had been separated, between the Company and ISK Engineering Corporation.

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

24. Segment Information

(a) Overview of the reportable segments

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

Inorganic chemicals

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

Organic chemicals

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

Construction

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

Other businesses

This reportable segment principally includes the trading business.

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

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

(c) Reportable segment information

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

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

	Thousands of U.S. dollars						
	2013						
	Reportable segments						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:							
Net sales:							
External customers	$561,599	$460,153	$35,414	$10,674	$1,067,840	$ —	$1,067,840
Intersegment	—	—	14,012	10,919	24,931	(24,931)	—
Net sales	561,599	460,153	49,426	21,593	1,092,771	(24,931)	1,067,840
Segment (loss) income	$ (10,004)	$ 61,748	$ (3,785)	$ 1,488	$ 49,447	$ (19,764)	$ 29,683
Segment assets	$967,340	$543,759	$40,368	$11,004	$1,562,471	$322,666	$1,885,137
Other items:							
Depreciation and amortization of intangible assets	45,779	12,428	883	53	59,143	1,457	60,600
Increase in fixed tangible and intangible assets	58,356	6,815	117	32	65,320	542	65,862

(*1) The elimination and corporate applicable to segment income amounted to ¥1,859 million ($19,767 thousand) and ¥1,842 million in the above tables and includes ¥239 million ($2,541 thousand) and ¥239 million of eliminations of intersegment transactions and ¥2,099 million ($22,316 thousand) and ¥2,081 million of corporate expenses, which are not allocable to the reportable segments for the years ended March 31, 2013 and 2012, 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 ¥30,350 million ($322,666 thousand) and ¥35,943 million includes ¥999 million ($10,621 thousand) and ¥1,119 million of corporate assets, which are not allocable to a reportable segment, and ¥31,349 million ($333,287 thousand) and ¥37,062 million of offset of inter-segment receivables and payables as of March 31, 2013 and 2012, respectively. Corporate assets consist of investments of surplus funds (cash and securities), long-term investments (investments in securities), assets of the administration department and so forth.

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

Related information

Products and services information

The information on each product and service is omitted because it is the same as that of reportable segment information for the years ended March 31, 2013 and 2012.

Geographical information

Net sales by geographical segment for the years ended March 31, 2013 and 2012 are summarized as follows:

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

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

	Thousands of U.S. dollars					
	Year ended March 31, 2013					
	Japan	Asia	America	Europe	Other	Total
Net sales	$510,876	$224,272	$134,701	$195,216	$2,775	$1,067,840

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, 2013 and 2012 are summarized as follows:

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

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

	Thousands of U.S. dollars				
	At March 31, 2013				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	$517,138	$60,461	$7,102	$521	$585,222

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

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

Information on sales transactions with major customers

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

		Millions of yen	Thousands of U.S. dollars
Customer's name	Relevant reportable segment	2013	2013
MITSUI & CO., LTD.	Inorganic chemicals and organic chemicals	¥10,581	$112,492

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

Information on loss on impairment of fixed assets by reportable segments

Information on loss on impairment of fixed assets by reportable segments is omitted because an impairment loss was not recorded for the year ended March 31, 2013.

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

Information on goodwill and negative goodwill by reportable segments

Information on goodwill and negative goodwill by reportable segment as of and for the year ended March 31, 2103 is omitted because there were no applicable items to be disclosed.

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

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

Report of Independent Public Accountants

ERNST & YOUNG

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, 2013, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries as at March 31, 2013, and their consolidated financial performance and cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

We have reviewed the translation of these consolidated financial statements into U.S. dollars, presented for the convenience of readers, and, in our opinion, the accompanying consolidated financial statements have been properly translated on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 27, 2013
Osaka, Japan

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(As of June 28, 2013)

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Noriyuki Yonemura
Daizaburo Teranishi

Board of Corporate Auditors

(Standing) Corporate Auditor
Yoshinobu Takahashi

Outside Corporate Auditors
Hiroshi Nishida
Masaaki Harima

Executive Officers

President & Chief Executive Officer
Kazutaka Fujii

Managing Executive Officers
Yoshinari Terakawa
Michiyoshi Arata
Akira Kobayashi
Hideki Sano
Junji Kondo
Tohru Koyanagi
Chimoto Honda
Kenichi Tanaka

Executive Officers
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Ken Kawaguchi
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