Challenge for Growth and Evolution

Ishihara Sangyo Kaisha

Annual Report 2020

Year Ended March 31, 2020

ISK

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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.

Consolidated Financial Highlights

For the year ended March 31, 2020

	Millions of yen			Thousands of U.S. dollars (Note 1)
	2020	2019	2018	2020
For the years ended March 31,				
Net sales:				
Domestic	¥ 51,591	¥ 52,829	¥ 50,309	$ 474,138
Overseas	49,476	53,612	57,692	454,701
Total	101,067	106,441	108,001	928,839
Sales classified by business segment:				
Inorganic chemicals	51,528	54,883	54,441	473,560
Organic chemicals	46,174	47,672	50,461	424,354
Other businesses	3,365	3,886	3,099	30,925
Total	101,067	106,441	108,001	928,839
Operating income	6,189	11,372	10,022	56,879
Net income	2,359	8,683	3,442	21,680
Depreciation and amortization of property, plant and equipment	4,855	4,631	4,639	44,619
Research and development costs	9,150	8,071	8,707	84,092
As of March 31,				
Current assets	110,324	107,080	103,387	1,013,914
Total assets	172,437	168,690	159,767	1,584,753
Current liabilities	43,738	44,712	47,985	401,967
Net assets	76,670	75,335	67,137	704,622

	Yen			U.S. dollars (Note)
Per share data				
Net income	¥ 59.04	¥ 217.26	¥ 86.12	$ 0.54
Net assets	1,918.63	1,885.01	1,679.77	17.63
Number of employees (as of March 31)	1,704	1,642	1,578	–

Note 1: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥108.81 =U.S.$1.00, the rate of exchange prevailing on March 31, 2020.

To Our Shareholders and Friends



Kenichi Tanaka
President & CEO

Looking at global markets during the current fiscal year, overall there was a slowdown driven by the instability internationally, including difficulties in Brexit negotiations, in addition to the protraction of US-China trade tension and the slowdown in China's economy. Despite weakness seen in exports and production, Japan's economy was supported by strong personal consumption buoyed by the improving employment and income environment, but after the consumption tax hike there were growing clouds on the horizon signaling economic stagnation. Moreover, the emergence of the COVID-19 pandemic toward the end of the fiscal year disrupted worldwide economic activities, leading to a rapid deterioration in business sentiment in Japan and around the world.

Under such conditions, during the second year of our 7th Medium-term Business Plan, our Group firmed up its defensive posture while moving ahead with aggressive initiatives aimed at growth, but we faced a severe business situation mainly in the inorganic chemicals business. Looking at the market environment influencing the main operations, in terms of titanium dioxide, domestic demand, which had been firm through the first half, softened after the hike in the consumption tax, while overseas demand declined mainly in Asia following the slowdown in China's economy. Consequently, market conditions were on a downward trend. The worldwide shipment value of agrochemicals continued to recover thanks to strong grain production in Brazil, a major agricultural country. In our Group's mainstay markets of Japan and Europe, shipments were impacted due to extreme weather.

As a result, the current fiscal year resulted in net sales of ¥101.0 billion [US$929 million] (down ¥5.3 billion YoY) and operating income decreased to ¥6.1 billion [US$57 million] (down ¥5.1 billion YoY). In terms of non-operating income, ordinary income was ¥5.3 billion [US$49 million] (down ¥5.7 billion YoY) due to losses on currency exchange compared to profits in the previous year. Net income attributable to owners of parent decreased to ¥2.3 billion [US$22 million] (down ¥6.3 billion YoY).

In 2009, we established "A strong and responsible chemical company with excellent brand power" as the ideal model for our Group to achieve by 2020, our 100th anniversary. Since then, our Group has made steady progress in achieving this vision through its efforts under three different medium-term business plans. Under the 7th Medium-term Business Plan initiated in FY2018, while solidifying our footholds in existing businesses by reinforcing aggressive initiatives for further growth, as the final stage. Our Group initiated growth into "becoming a chemical company that is attractive to all stakeholders" to fulfill its promise of restoring its dividend as quickly as possible during the term of the plan.

In FY2018, the first fiscal year of the plan, the performance greatly outpaced targets, driven by robust demand for titanium dioxide and other products in the inorganic chemicals business. Our Group was able to increase its operating income for the third consecutive year and archive to restore its dividend in June of 2019. However, in FY2019, the second year of the plan, we faced a deteriorating business environment than expected, as performance reversed course and fell below our targets. In the inorganic chemicals business, there was a slowdown in demand and weaker market conditions for titanium dioxide mainly in Asia, while prices of titanium ore, a major raw material, remained elevated. As a result, our Group saw weaker performance in terms of sales and cost price. In the organic chemicals business, sales of main agrochemicals saw some positives, including strong growth in insecticide sales overseas, but overall performance was subdued because of extreme weather that occurred around the world.

In FY2020, the final fiscal year of the plan, we will make steady progress with measures toward our next aggressive approach while further solidifying defensive aspects of our business, despite concerns about the impact on performance from the further spread and protraction of COVID-19.

In the inorganic chemicals business, we will further accelerate initiatives to shift our

focus from commodity to the development and sales of highly functional, high value added products, in order transition to a business structure that can secure stable profits even in challenging business environments.

Specifically, for titanium dioxide, we will step up initiatives aimed at the full-scale sales of finishes products for matte coating, whose evaluation is being progressed by customers, and expand sales overseas of super weatherability pigments, which have seen steady growth in Japan.

For functional materials, we will capture growing demand for high-purity titanium dioxide and barium titanate for electronic products, as well as for electro-conductive materials with antistatic function, driven by advancing automotive electronics and the introduction of 5G (fifth generation technology standard for cellular networks). Toward this end, we will steadily continue establishing development, production, and sales structures.

For organic chemical products, we will work to turnaround the declining trend in sales of main agrochemicals and maximize the value of proprietary agents to quickly return to a growth trajectory.

For sales, we will maximize sales volume by formulating sales strategies tailored to the needs of each region and market, in order to capture growing demand overseas.

In addition, we will work to strengthen development capabilities, including boosting sales coverage and target crops. At the same time, we will expand our product lineup with mixtures and new formulations utilizing our unique characteristic that in-house developed agents occupy a large share of sales. For production, we will work to reduce production costs and improve quality as we increase the cost competitiveness of proprietary agents, in addition to continuously reviewing operations aimed at establishment of optimal production and procurement systems for active ingredients and intermediates.

We will strive to secure increased profitability and sustainable growth by maximizing the value of proprietary agents.

For product segments other than agrochemicals, we will promote market penetration for the world's first anti-pancreatitis drug for dogs, which we launched in Japan, and speed up development aimed at releasing the drug in Europe and North America. The biopharmaceutical HVJ-E we are developing in collaboration with the University of Osaka is steadily progressing with Phase II clinical trials, and we will quickly establish partnerships with external companies to compensate for functions that aren't found in our Group.

The Group has formulated a "Basic Philosophy" and "Code of Conduct" to represent the fundamental and universal values shared by all its members of the group 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

- At Ishihara Group, 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, as well as on worker safety, and will work to prevent any workplace accident or disaster.
- 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, we will promote communication with local communities and society, and will disclose corporate information in a timely and appropriate manner.

With all its members of the group 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.



Kenichi Tanaka
President & CEO

Business Overview

Inorganic Chemicals Business

Net sales of titanium dioxide were ¥39.7 billion [US$365 million] (down ¥2.8 billion YoY). This was attributed to a significant drop in shipment volume on weaker exports throughout the year, despite sales in Japan that were on par with the previous year thanks to a strong first half, which offset the drop in volume leading up to the end of the fiscal year.

Net sales of functional materials were ¥11.7 billion [US$108 million] (down ¥0.5 billion YoY). This was caused by a year-over-year decline due to sluggish demand for electronic components in related sectors, despite a year-over-year increase in sales of electro-conductive materials.

Looking at profits and losses, both sales and cost price exerted downward pressure on profit due to the sustained elevated price of titanium ore, in addition to rising fixed costs from operational adjustments associated with the decline in sales volume of titanium dioxide.

As a result, net sales for the inorganic chemicals business were ¥51.5 billion [US$474 million] (down ¥3.3 billion YoY) and operating income was ¥3.7 billion [US$34 million] (down ¥3.5 billion YoY).

Organic Chemicals Business

Sales of agrochemicals in Japan fell below the previous year given the severe sales environment caused by major damages to agricultural production suffered at the hands of torrential rainfall and typhoons.

Overseas sales also fell year over year after no longer carrying other companies' products, despite an increase in revenue from the full-fledged launch of sales of new products in main markets and significant growth of insecticide sales from their label expansion on crops in Europe.

For product segments other than agrochemicals, sales of animal health products and active pharmaceutical ingredients manufactured on consignment declined year over year.

Looking at profits and losses, overall profits were down due to a decrease in sales and increase in R&D expenses.

As a result, net sales for the organic chemicals business were ¥46.1 billion [US$424 million] (down ¥1.4 billion YoY) and operating income decreased to ¥4.4 billion [US$41 million] (down ¥1.4 billion YoY).

Other Businesses

Net sales of other businesses were ¥3.3 billion [US$31 million] (down ¥0.5 billion YoY) and operating income was ¥0.5 billion [US$5 million] (down ¥70 million YoY).

Consolidated Balance Sheet

As of March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Assets			
Current assets:			
Cash and deposits (Notes 5 and 18)	¥ 20,925	¥ 23,984	$ 192,308
Trade receivables (Notes 18):			
Notes	3,600	3,259	33,085
Accounts	28,460	30,639	261,557
	32,060	33,898	294,642
Less allowance for doubtful receivables	(1,060)	(469)	(9,742)
Trade receivables, net	31,000	33,429	284,900
Inventories (Note 8)	53,715	46,783	493,659
Other current assets	4,684	2,884	43,047
Total current assets	110,324	107,080	1,013,914
Property, plant and equipment:			
Land (Note 10)	5,374	5,399	49,389
Buildings and structures (Note 8 and 10)	39,904	39,583	366,731
Machinery and equipment (Note 8 and 10)	114,970	115,459	1,056,613
Leased assets	2,675	2,615	24,584
Construction in progress	6,633	3,683	60,959
	169,556	166,739	1,558,276
Less accumulated depreciation	(123,285)	(123,572)	(1,133,030)
Property, plant and equipment, net (Notes 24)	46,271	43,167	425,246
Investments and other assets:			
Investments in securities (Notes 6, 10 and 18):			
Unconsolidated subsidiaries and affiliates	2,175	2,248	19,989
Other	3,758	4,771	34,537
Total investments in securities	5,933	7,019	54,526
Deferred income taxes (Notes 14)	8,428	9,604	77,456
Asset for retirement benefits (Note 12)	10	12	92
Other	1,471	1,808	13,519
Total investments and other assets	15,842	18,443	145,593
Total assets (Note 24)	¥ 172,437	¥ 168,690	$ 1,584,753

Consolidated Balance Sheet

As of March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 10 and 18)	¥ 7,932	¥ 8,000	$ 72,898
Current portion of long-term bank loans (Notes 10 and 18)	7,938	10,102	72,953
Current portion of bonds (Notes 10 and 18)	684	390	6,286
Trade payables (Notes 18):			
Notes	2,658	3,537	24,428
Accounts	14,775	11,856	135,787
	17,433	15,393	160,215
Lease obligations (Notes 10, 18 and 21)	468	451	4,301
Accrued income taxes (Note 14)	261	471	2,399
Accrued expenses	4,359	4,547	40,061
Accrued bonuses for employees	667	734	6,130
Reserve for sales returns	24	35	221
Reserve for implementation of environmental and safety arrangements	34	84	312
Provision for maintenance	382	–	3,511
Other current liabilities	3,556	4,505	32,680
Total current liabilities	43,738	44,712	401,967
Long-term liabilities:			
Long-term bank loans (Notes 10 and 18)	28,053	25,698	257,816
Bonds (Notes 10 and 18)	3,036	1,620	27,902
Lease obligations (Notes 10, 18 and 21)	686	616	6,305
Liability for retirement benefits (Note 12)	12,884	12,882	118,408
Reserve for implementation of environmental and safety arrangements	2,052	2,878	18,859
Asset retirement obligations (Note 11)	683	710	6,277
Provision for repairs	–	150	–
Liabilities from application of equity method	400	663	3,676
Other long-term liabilities	4,235	3,426	38,921
Total long-term liabilities	52,029	48,643	478,164
Contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 15):			
Common stock:			
Authorized: 100,000 thousand shares in 2020 and 2019			
Issued: 40,384 thousand shares in 2020 and 2019	43,421	43,421	399,053
Capital surplus	10,627	10,627	97,666
Retained earnings	25,299	23,419	232,506
Less treasury stock, at cost:			
423 thousand shares in 2020 and 418 thousand shares in 2019	(728)	(723)	(6,691)
Total shareholders' equity	78,619	76,744	722,534
Accumulated other comprehensive income (loss):			
Net unrealized holding (loss) gain on securities	(430)	478	(3,952)
Translation adjustments	(1,216)	(1,444)	(11,175)
Retirement benefits liability adjustments	(303)	(443)	(2,785)
Total accumulated other comprehensive loss	(1,949)	(1,409)	(17,912)
Total net assets (Note 22)	76,670	75,335	704,622
Total liabilities and net assets	¥ 172,437	¥ 168,690	1,584,753

Consolidated Statement of Income

For the year ended March 31,2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Net sales (Note 24)	¥ 101,067	¥ 106,441	$ 928,839
Cost of sales (Notes 7 and 16)	69,992	70,668	643,250
Gross profit	31,075	35,773	285,589
Selling, general and administrative expenses (Note 16)	24,886	24,401	228,710
Operating income (Note 24)	6,189	11,372	56,879
Other income:			
Interest and dividend income	343	160	3,152
Equity in earnings of affiliates	215	393	1,976
Foreign exchange gain, net	–	141	–
Commission fee	–	121	–
Gain on sales of raw materials	93	75	855
Other	248	269	2,279
	899	1,159	8,262
Other expenses:			
Interest expense	610	718	5,606
Financial fee	275	388	2,527
Foreign exchange loss, net	490	–	4,503
Other	368	281	3,383
	1,743	1,387	16,019
Ordinary income	5,345	11,144	49,122
Extraordinary gains:			
Gain on sales of fixed assets	–	182	–
Gain on insurance claim	194	63	1,783
	194	245	1,783
Extraordinary losses:			
Loss on disposal of fixed assets	608	729	5,587
Loss on disaster	–	311	–
Loss on impairment of fixed assets (Notes 8 and 24)	420	121	3,860
Loss on liquidation of a subsidiary (Notes 9)	334	–	3,070
Other	81	–	744
	1,443	1,161	13,261
Income before income taxes	4,096	10,228	37,644
Income taxes (Note 14):			
Current	458	1,391	4,209
Deferred	1,279	154	11,755
	1,737	1,545	15,964
Net income (Note 22)	2,359	8,683	21,680
Net income attributable to:			
Owners of parent	¥ 2,359	¥ 8,683	$ 21,680

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1
	2020	2019	2020
Net income	¥ 2,359	¥ 8,683	$ 21,680
Other comprehensive loss (Note 22):			
Net unrealized loss on securities	(907)	(191)	(8,336)
Translation adjustments	167	(379)	1,535
Retirement benefits liability adjustments	140	82	1,287
Share of other comprehensive income of affiliates accounted for by the equity method attributable to the Company	60	6	551
Total other comprehensive loss	(540)	(482)	(4,963)
Comprehensive income	¥ 1,819	¥ 8,201	$ 16,717
Total comprehensive income attributable to:			
Owners of parent	¥ 1,819	¥ 8,201	$ 16,717

Consolidated Statement of Changes in Net Assets

Year ended March 31, 2020

	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	Translation adjustments	Retirement benefits liability adjustments	Total net assets
Balance at April 1, 2018	40,383,943	¥ 43,421	¥ 10,627	¥ 14,736	¥ (720)	¥ 670	¥ (1,072)	¥ (525)	¥ 67,137
Net income attributable to owners of parent for the period	–	–	–	8,683	–	–	–	–	8,683
Acquisition of treasury stock	–	–	–	–	(3)	–	–	–	(3)
Disposition of treasury stock	–	–	0	–	0	–	–	–	0
Other changes	–	–	–	–	–	(192)	(372)	82	(482)
Balance at April 1, 2019	40,383,943	¥ 43,421	¥ 10,627	¥ 23,419	¥ (723)	¥ 478	¥ (1,444)	¥ (443)	¥ 75,335
Dividends paid	–	–	–	(479)	–	–	–	–	(479)
Net income attributable to owners of parent for the period	–	–	–	2,359	–	–	–	–	2,359
Acquisition of treasury stock	–	–	–	–	(5)	–	–	–	(5)
Disposition of treasury stock	–	–	0	–	0	–	–	–	0
Other changes	–	–	–	–	–	(908)	228	140	(540)
Balance at March 31, 2020	40,383,943	¥ 43,421	¥ 10,627	¥ 25,299	¥ (728)	¥ (430)	¥ (1,216)	¥ (303)	¥ 76,670

	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	Translation adjustments	Retirement benefits liability adjustments	Total net assets
Balance at April 1, 2019	$ 399,053	$ 97,666	$ 215,228	$ (6,645)	$ 4,393	$ (13,271)	$ (4,071)	$ 692,353
Dividends paid	–	–	(4,402)	–	–	–	–	(4,402)
Net income attributable to owners of parent for the period	–	–	21,680	–	–	–	–	21,680
Acquisition of treasury stock	–	–	–	(46)	–	–	–	(46)
Disposition of treasury stock	–	0	–	0	–	–	–	0
Other changes	–	–	–	–	(8,345)	2,095	1,287	(4,963)
Balance at March 31, 2020	$ 399,053	$ 97,666	$ 232,506	$ (6,691)	$ (3,952)	$ (11,175)	$ (2,785)	$ 704,622

Consolidated Statement of Cash Flows

For the year ended March 31, 2020

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2020	2019	2020
Cash flows from operating activities			
Income before income taxes	¥ 4,096	¥ 10,228	$ 37,644
Adjustments for:			
Depreciation and amortization	4,856	4,631	44,619
Loss on disaster	–	311	–
Loss on impairment of fixed assets	420	121	3,860
Loss on liquidation of a subsidiary	334	–	3,070
Increase in liabilities for retirement benefits, net	211	234	1,939
Decrease in provision for loss on liquidation of a subsidiary	–	(1)	–
Decrease in reserve for implementation of environmental and safety arrangements	(875)	(813)	(8,042)
Interest and dividend income	(343)	(160)	(3,152)
Interest expense	610	718	5,606
Foreign exchange loss, net	31	142	285
Equity in earnings of affiliates, net	(131)	(352)	(1,204)
Loss (gain) on disposal or sales of fixed assets, net	181	(20)	1,663
Other	476	(270)	4,375
Changes in operating assets and liabilities:			
Trade receivables	1,697	(4,385)	15,596
Inventories	(7,245)	(5,763)	(66,584)
Other current assets	(1,229)	(732)	(11,295)
Trade payables	2,388	3,457	21,946
Accrued expenses and other current liabilities	(920)	369	(8,455)
Subtotal	4,556	7,715	41,871
Interest and dividends received	340	155	3,125
Interest paid	(602)	(739)	(5,533)
Insurance claim received	302	127	2,775
Disaster loss paid	(282)	(49)	(2,592)
Income taxes paid	(997)	(2,302)	(9,162)
Net cash provided by operating activities	¥ 3,317	¥ 4,907	$ 30,484
Cash flows from investing activities			
Purchase of investment securities	¥ (141)	¥ (2,899)	$ (1,296)
Purchases of property, plant and equipment	(6,716)	(6,473)	(61,722)
Proceeds from sales of property, plant and equipment	108	701	993
Increase in long-term loans receivable	(353)	(286)	(3,244)
Collection of long-term loans receivables	159	359	1,461
Other	21	7	193
Net cash used in investing activities	(6,922)	(8,591)	(63,615)
Cash flows from financing activities			
Proceeds from issuance of bonds	2,100	–	19,300
Redemption of bonds	(390)	(390)	(3,584)
Decrease in short-term bank loans, net	(68)	(410)	(625)
Proceeds from long-term bank loans	12,150	15,000	111,662
Repayment of long-term bank loans	(11,959)	(15,313)	(109,907)
Repayment of lease obligations	(534)	(497)	(4,908)
Repayment of installment payable	(262)	(211)	(2,408)
Dividends paid	(480)	–	(4,411)
Proceeds from deposits received	–	1,002	–
Repayment of deposits received	–	(1,652)	–
Increase in treasury stock, net	(5)	(4)	(46)
Net cash provided by (used in) financing activities	552	(2,475)	5,073
Effect of exchange rate changes on cash and cash equivalents	(5)	(154)	(55)
Decrease in cash and cash equivalents	(3,058)	(6,313)	(28,113)
Cash and cash equivalents at the beginning of the year	23,984	30,297	220,421
Cash and cash equivalents at the end of the year (Note5)	¥ 20,925	¥ 23,984	$ 192,308

Notes to Consolidated Financial Statements

Year ended March 31, 2020

1. Basis of Preparation of Consolidated Financial Statements

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

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

Certain amounts in the prior year's consolidated financial statements have been reclassified to conform to the current year's presentation. Such reclassifications had no effect on consolidated profit or net assets.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥108.81 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2020. 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 12 significant consolidated subsidiaries, consisting of ISK Bioscience K.K., the ISK AMERICAS INCORPORATED Group (5 subsidiaries), ISK BIOSCIENCES EUROPE N.V., ISK Taiwan Co., Ltd., Fuji Titanium Industry Co., Ltd., Ishihara Techno Corporation, ISK Engineering Partners Corporation and ISK ANIMAL HEALTH, LLC.

At a meeting on the shareholders of the Company held on December 23, 2019, the dissolution of ISK SINGAPORE PTE. LTD. was resolved, and therefore, it has been excluded from the scope of consolidation.

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

The equity method is applied to investments in three affiliated companies. Those affiliates accounted for under the equity method are BELCHIM CROP PROTECTION N.V., HOKUSAN CO.,LTD and SUMMIT AGRO USA,LLC.

Investments in significant affiliates are stated at their underlying net equity after the elimination of intercompany income.

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

The overseas consolidated subsidiaries are consolidated on the basis of a fiscal period 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 end of these overseas consolidated subsidiaries and the year end of the Company.

(b) Foreign currency translation

Foreign currency transactions

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

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

Financial statements of overseas consolidated subsidiaries

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

(c) Cash and cash equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents consist of cash on hand, cash in banks which can be withdrawn at any time and short-term investments with a maturity of three months or less when purchased which

can easily be converted to cash and are subject to little risk of change in value.

(d) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are principally stated at lower of cost or net selling value, cost being determined by the gross average method.

(e) Securities

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

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

(f) Derivatives and hedging activities

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

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

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

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

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

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

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

(h) Intangible assets (except for leased assets)

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

(i) Research and development costs

Research and development costs are charged to income as incurred.

(j) Leased assets

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

Leased assets under finance lease contracts that do not transfer ownership to the lessee are depreciated to a residual value of zero by the straight-line method using the term of the contract as the useful life.

(k) Allowance for doubtful receivables

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

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

(l) Accrued bonuses for employees

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

(m) Reserve for sales returns

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

(n) Reserve for implementation of environmental and safety arrangements

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

In addition, the Company has also provided the reserve for the expenses related to the remediation of soil and groundwater contamination and measures for buried waste at Yokkaichi Plant.

(o) Provision for maintenance

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

(p) Retirement benefits

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

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

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

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

(q) 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.

(r) Accounting standard issued but not effective

Accounting Standard and Implementation Guidance on Revenue Recognition

On March 30, 2018, Accounting Standards Board of Japan ("ASBJ") issued "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29) and "Implementation Guidance on Accounting Standard for Revenue Recognition" (ASBJ Guidance No. 30).

(1) Overview

This is a comprehensive accounting standard for revenue recognition. Specifically, the accounting standard establishes the following five-step model that will apply to revenue from customers:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections

On March 31, 2020, the ASBJ issued the revised "Accounting Standard for Accounting Policy Disclosures, Accounting Changes and Error Corrections" (ASBJ Statement No.24)

(1) Overview

This accounting standard has been released to provide an outline of the applicable accounting principles and procedures in cases where directly relevant accounting standards are not available.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

Accounting Standard for Disclosure of Accounting Estimates

On March 31, 2020, the ASBJ issued the "Accounting Standard for Disclosure of Accounting Estimates" (ASBJ Statement No.31)

(1) Overview

This accounting standard has been released to provide guidance on disclosure of information that deepens the understanding of users of the financial statements about estimates that embody a risk of a significant impact on the financial statements of the following accounting period.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard from the end of the fiscal year ending March 31, 2021.

- On July 4, 2019, the ASBJ issued "Accounting Standard for Fair Value Measurement" (ASBJ Guidance No. 30)
- On July 4, 2019, the ASBJ issued "Implementation Guidance on Accounting Standard for Fair Value Measurement" (ASBJ Statement No. 31)
- On July 4, 2019, the ASBJ issued "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9)
- On July 4, 2019, the ASBJ issued "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10)
- On March 31, 2020, the ASBJ issued "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19)

(1) Overview

The ASBJ has developed an "Accounting Standard for Fair Value Measurement" and "Implementation Guidance on Accounting Standard for Fair Value Measurement" (hereinafter collectively, the "Fair Value Measurement Standard"), which provide guidance for fair value measurement in order to improve comparability with internationally recognized accounting standards.

The Fair Value Measurement Standard is applied with respect to the fair value of the following items;

- Financial instruments defined in "Accounting Standard for Financial Instruments"
- Inventories held for trading purposes defined in "Accounting Standard for Measurement of Inventories"

Furthermore, "Implementation Guidance on Disclosures about Fair Value of Financial Instruments" has been updated, detail of Fair Value of Financial Instruments by each level is disclosed in Note.

(2) Scheduled date of adoption

The Company expects to adopt the accounting standard and implementation guidance from the beginning of the fiscal year ending March 31, 2022.

(3) Impact of the adoption of accounting standard and implementation guidance

The Company is currently evaluating the effect of the adoption of this accounting standard and implementation guidance on its consolidated financial statements.

3. Change in Accounting Policy and Additional Information

(Application of International Financial Reporting Standards ("IFRS") "Lease"

With regard to certain consolidated subsidiaries applying IFRS 16, the accounting treatment for all recorded leases have been clarified as assets and liabilities in preparing the consolidated financial statements, the Company has applied IFRS 16 from the beginning of the fiscal year ended March 31, 2020, and the effect of the adoption on the consolidated financial statements for the year ended March 31, 2020 was immaterial.

4. Additional Information

Accounting estimates of probable Deferred income taxes receivables are based on the premise that the recovery from the global economic stagnation from COVID-19 outbreak will begin around this summer, the Group will promote strategies for the next fiscal year. In line with this estimation, the impact of COVID-19 outbreak is expected to be immaterial on the consolidated financial statements for the fiscal year ending March 31, 2021.

However, if there are second or third waves of COVID-19 outbreaks, there is a risk of long-term global economic stagnation that may decrease the demand of the Company's products, and that may have a significant effect on the consolidated financial statements for the fiscal year ending March 31, 2021.

5. Cash and Deposits

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets as of March 31, 2020 and 2019 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Cash and deposits	¥ 20,925	¥ 23,984	$ 192,308
Cash and cash equivalents	¥ 20,925	¥ 23,984	$ 192,308

6. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2020 and 2019 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen											
	2020						2019					
	Carrying value		Estimated fair value		Unrealized gain		Carrying value		Estimated fair value		Unrealized gain	
Securities whose estimated fair value exceeds their carrying value	¥	9	¥	10	¥	0	¥	9	¥	10	¥	1
Total	¥	9	¥	10	¥	0	¥	9	¥	10	¥	1

	Thousands of U.S. dollars					
	2020					
	Carrying value		Estimated fair value		Unrealized gain	
Securities whose estimated fair value exceeds their carrying value	$	92	$	92	$	0
Total	$	92	$	92	$	0

(b) Other securities

	Millions of yen					
	2020			2019		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Equity securities	¥ 1,102	¥ 662	¥ 440	¥ 1,326	¥ 651	¥ 675
Subtotal	1,102	662	440	1,326	651	675
Securities whose acquisition cost exceeds their carrying value: Equity securities	96	140	(44)	109	140	(31)
Subtotal	96	140	(44)	109	140	(31)
Total	¥ 1,198	¥ 802	¥ 396	¥ 1,435	¥ 791	¥ 644

	Thousands of U.S. dollars		
	2020		
	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost: Equity securities	$ 10,128	$ 6,084	$ 4,044
Subtotal	10,128	6,084	4,044
Securities whose acquisition cost exceeds their carrying value: Equity securities	882	1,287	(405)
Subtotal	882	1,287	(405)
Total	$ 11,010	$ 7,371	$ 3,639

The redemption schedule subsequent to March 31, 2020 for held-to-maturity debt securities classified as other securities is described in Note 18.

7. Inventories

Inventories at March 31, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Finished goods and merchandise	¥ 32,664	¥ 25,217	$ 300,193
Work in process	6,047	5,976	55,574
Raw materials and supplies	15,004	15,590	137,892
Total	¥ 53,715	¥ 46,783	$ 493,659

Net loss on devaluation of inventories included in cost of sales amounted to ¥584 million ($5,368 thousand) for the years ended March 31, 2020, and net gain on reversal of devaluation of inventories included in cost of sales amounted to ¥277 million for the year ended March 31, 2019.

8. Loss on Impairment of Fixed Assets

For the year ended March 31, 2020, the Company recorded a loss on impairment of fixed assets. The main components of loss on impairment of fixed assets are as follows:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Classification	2020	2020
Yokkaichi Plant (Yokkaichi City, Mie Prefecture)	Production equipment	Buildings and structures	¥ 119	$ 1,094
		Machinery and equipment	298	2,738
		Other	3	28
		Total	¥ 420	$ 3,860

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

As a part of production equipment located at the Yokkaichi Plant in the above table, such as equipment for organic compound, is not anticipated to be utilized in the future, the Company classified the production equipment as idle assets and recorded a loss on impairment and the net book value of these assets were reduced to zero.

For the year ended March 31, 2019, 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	2019
Sasagawa company house (Yokkaichi City, Mie Prefecture)	Company-owned housing	Land	¥ 64
		Buildings and structures	57
		Other	0
		Total	¥ 121

The Company plans to sell land used for company-owned housing as part of Sasagawa company house in the above table. The Company recognized the land as an asset held for sale and recorded a loss on impairment.

The recoverable amount of the land was measured at net selling value, which was reasonably estimated by considering the market value.

9. Loss on Liquidation of Subsidiary

The loss relates to foreign currency translation adjustments accompanying the liquidation of ISK SINGAPORE PTE. LTD., which had been a specified subsidiary of the Company.

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

The average annual interest rate on short-term bank loans at March 31, 2020 and 2019 were approximately 1.0% and 1.2%, respectively.

Long-term bank loans, including the current portion of long-term bank loans, at March 31, 2020 and 2019 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Secured bank loans	¥ 12,165	¥ 14,214	$ 111,800
Unsecured bank loans	23,826	21,586	218,969
Subtotal	35,991	35,800	330,769
Less amounts due within one year	(7,938)	(10,102)	(72,953)
Total	¥ 28,053	¥ 25,698	$ 257,816

The annual average interest rates applicable to long-term bank loans due within one year presented in the above table at March 31, 2020 and 2019 were 1.3% and 1.5%, respectively.

The annual average interest rates applicable to long-term bank loans due after more than one year presented in the above table at March 31, 2020 and 2019 were 1.0% and 1.2%, respectively.

These bank loans become due from April 2021 through to October 2028.

Bonds at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unsecured bonds, payable in yen at rate of 0.27%, due 2027	¥ 3,720	¥ 2,010	$ 34,188
Less amounts due within one year	(684)	(390)	(6,286)
Total	¥ 3,036	¥ 1,620	$ 27,902

Lease obligations at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Finance lease obligations (ownership not transferred to the lessee)	¥ 1,154	¥ 1,067	$ 10,606
Less amounts due within one year	(468)	(451)	(4,301)
Total	¥ 686	¥ 616	$ 6,305

Information on the payment schedules of long-term bank loans, bonds, and lease obligations subsequent to March 31, 2020 is described in Notes 17 and 18.

At March 31, 2020 and 2019, 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
	2020	2019	2020
Property, plant and equipment, net of accumulated depreciation	¥ 24,023	¥ 23,408	$ 220,780
Investments in securities	18	27	165
Total	¥ 24,041	¥ 23,435	$ 220,945

Short-term bank loans, the current portion of long-term bank loans and long-term bank loans secured by such collateral at March 31, 2020 and 2019 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Short-term bank loans	¥ 6,020	¥ 6,020	$ 55,326
Current portion of long-term bank loans	3,850	5,799	35,383
Long-term bank loans	8,315	8,415	76,417
Total	¥ 18,185	¥ 20,234	$ 167,126

11. Asset Retirement Obligations

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

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

The following is a summary of changes in the carrying amounts of the asset retirement obligations for the years ended March 31, 2020 and 2019.

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Asset retirement obligation balance at the beginning of the year	¥ 710	¥ 717	$ 6,525
Accretion expense	0	0	0
Liabilities settled	(27)	(7)	(248)
Asset retirement obligation balance at the end of the year	¥ 683	¥ 710	$ 6,277

12. Retirement Benefits

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

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

The changes in retirement benefit obligations during the years ended March 31, 2020 and 2019 are as follows::

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligations at the beginning of the year	¥ 12,166	¥ 12,068	$ 111,810
Service cost	585	593	5,376
Interest cost	11	11	101
Actuarial gain	(110)	(22)	(1,011)
Retirement benefits paid	(435)	(474)	(3,998)
Other	(7)	(10)	(64)
Retirement benefit obligations at the end of the year	¥ 12,210	¥ 12,166	$ 112,214

The changes in plan assets during the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Plan assets at the beginning of the year	¥ 195	¥ 178	$ 1,793
Expected return on plan assets	1	1	9
Actuarial gain (loss)	1	(6)	9
Contributions paid by the Company and subsidiaries	34	31	312
Retirement benefits paid	(15)	(9)	(138)
Other	–	(0)	–
Plan assets at the end of the year	¥ 216	¥ 195	$ 1,985

The changes in retirement benefit obligations calculated by the Simplified Method during the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Retirement benefit obligations at the beginning of the year	¥ 899	¥ 873	$ 8,263
Retirement benefit expenses	80	82	735
Retirement benefits paid	(98)	(56)	(901)
Retirement benefit obligations at the end of the year	¥ 881	¥ 899	$ 8,097

The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheet as of March 31, 2020 and 2019 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Funded retirement benefit obligation	¥ 420	¥ 335	$ 3,860
Plan assets at fair value	(216)	(195)	(1,985)
	204	140	1,875
Unfunded retirement benefit obligation	12,670	12,730	116,441
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	12,874	12,870	118,316
Liability for retirement benefits	12,884	12,882	118,408
Asset for retirement benefits	(10)	(12)	(92)
Net amount of asset and liability for retirement benefits in the consolidated balance sheet	¥ 12,874	¥ 12,870	$ 118,316

The components of retirement benefit expenses for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Service cost	¥ 585	¥ 593	$ 5,376
Interest cost	11	11	101
Expected return on plan assets	(1)	(1)	(9)
Amortization:			
Actuarial loss	70	83	643
Prior service cost	20	20	184
Retirement benefit expenses calculated by the Simplified Method	80	82	735
Retirement benefit expenses	¥ 765	¥ 788	$ 7,030

The components of retirement benefits liability adjustments included in other comprehensive loss (before tax effect) for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Actuarial gain and loss	¥ 180	¥ 100	$ 1,654
Prior service cost	20	20	184
Others	(1)	(2)	(9)
Total	¥ 199	¥ 118	$ 1,829

The components of retirement benefits liability adjustments included in accumulated other comprehensive income (loss) (before tax effect) as of March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unrecognized actuarial gain and loss	¥ 315	¥ 494	$ 2,894
Unrecognized prior service cost	113	133	1,039
Total	¥ 428	¥ 627	$ 3,933

The fair value of plan assets, by major category, as a percentage of total plan assets as of March 31, 2020 and 2019 are as follows:

	2020	2019
Debt securities	86%	84%
Equity securities	9	10
Cash and deposits	5	6
Total	100%	100%

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

The assumptions used in accounting for the defined benefit plans for the years ended March 31, 2020 and 2019 are as follows:

	2020	2019
Discount rate	Principally 0.1%	Principally 0.1%
Expected long-term rate of return on plan assets	Principally 0.6%	Principally 1.7%
Expected rates of salary increase	Principally 6.1%	Principally 6.3%

Total contributions paid by the Company and certain consolidated subsidiaries to the defined contribution pension plans for the years ended March 31, 2020 and 2019 amounted to ¥92 million ($842 thousand) and ¥89 million, respectively.

13. Contingent Liabilities

Guarantees

At March 31, 2020 and 2019, the Company was contingently liable for the following:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Trade notes receivable discounted with banks	¥ 45	¥ 69	$ 414

Liabilities, such as loans from financial institutions, that the Group guarantees under joint signature for companies and employees are as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
ISK (SHANGHAI) CHEMICAL CO., LTD.	¥ 188	–	$ 1,728

14. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The applicable statutory tax rate in Japan for the years ended March 31, 2020 and 2019 was 30.2%. Overseas subsidiaries are subject to the income taxes of the respective countries in which they operate.

The effective tax rates reflected in the accompanying consolidated statements of income for the years ended March 31, 2020 and 2019 differs from the above statutory tax rate for the following reasons:

	2020	2019
Statutory tax rate	30.2%	30.2%
Permanently non-deductible expenses	1.1	0.3
Permanently non-taxable income	(2.0)	(0.1)
Per capita portion of inhabitants' taxes	1.1	0.3
Tax deduction for experiment and research expenses	(2.7)	(3.5)
Share of profit of equity method affiliates	(1.6)	(1.1)
Unrealized gain on intercompany transactions	0.2	(0.6)
Changes in valuation allowance	9.8	(13.5)
Difference tax rates applied to subsidiaries	(0.3)	(0.3)
Other	6.7	3.4
Effective tax rate	42.4%	15.1%

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, 2020 and 2019 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Deferred tax assets:			
Tax loss carryforwards	¥ 8,399	¥ 10,475	$ 77,190
Liability for retirement benefits	3,895	3,913	35,796
Loss on devaluation of inventories	258	293	2,371
Unrealized gain on intercompany transactions	1,475	1,657	13,556
Accrued expenses	426	518	3,915
Accrued bonuses for employees	204	224	1,875
Asset retirement obligations	206	214	1,893
Reserve for implementation of environmental and safety arrangements	630	895	5,790
Loss on liquidation of a subsidiary	–	16	–
Other	1,968	2,007	18,105
Gross deferred tax assets	17,461	20,212	160,491
Valuation allowance for tax loss carryforwards (Note 2)	(6,048)	(8,562)	(55,592)
Valuation allowance for total future deductible temporary differences etc.	(2,531)	(1,504)	(23,261)
Less: total valuation allowance (Note 1)	(8,579)	(10,066)	(78,853)
Total deferred tax assets	8,882	10,146	81,638
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(193)
Unrealized holding gain on securities	(39)	(126)	(358)
Other	(397)	(409)	(3,649)
Total deferred tax liabilities	(457)	(556)	(4,200)
Net deferred tax assets	¥ 8,426	¥ 9,590	$ 77,438

Note 1: Valuation allowance decreased by ¥1,486 million ($13,657 thousand) in the year ended March 31, 2020. This decrease is mainly due to decrease of the valuation allowance for tax loss carryforwards in the amount of ¥688 million ($6,323 thousand), increase of the valuation allowance for less allowance for doubtful receivables in the amount of ¥178 million ($1,636 thousand), increase of the valuation allowance for other future deductible temporary differences in the amount of ¥346 million ($3,180 thousand), and decrease of the valuation allowance for tax loss carryforwards in the amount of ¥1,671 million ($15,357 thousand) due to liquidation of a consolidated subsidiary, ISK SINGAPORE PTE. LTD.

Note 2: A breakdown of tax loss carryforwards and valuation allowance by expiry date as of March 31, 2020 will expire as follows:

	Millions of yen															
	2020															
	Due in 1 year or less		Due after 1 year through 2 years		Due after 2 years through 3 years		Due after 3 years through 4 years		Due after 4 years through 5 years		Due after 5 years		Total	
Net operating loss carryforwards (*).....	¥	–	¥	–	¥	–	¥	–	¥	4,971	¥	3,428	¥	8,399
Valuation allowance.....		–		–		–		–		(2,620)		(3,428)		(6,048)
Deferred tax assets.....	¥	–	¥	–	¥	–	¥	–	¥	2,351	¥	–	¥	2,351 (**)

	Millions of yen															
	2019															
	Due in 1 year or less		Due after 1 year through 2 years		Due after 2 years through 3 years		Due after 3 years through 4 years		Due after 4 years through 5 years		Due after 5 years		Total	
Net operating loss carryforwards (*).....	¥	–	¥	–	¥	–	¥	–	¥	–	¥	10,475	¥	10,475
Valuation allowance.....		–		–		–		–		–		(8,562)		(8,562)
Deferred tax assets.....	¥	–	¥	–	¥	–	¥	–	¥	–	¥	1,913	¥	1,913 (**)

	Thousands of U.S. dollars															
	2020															
	Due in 1 year or less		Due after 1 year through 2 years		Due after 2 years through 3 years		Due after 3 years through 4 years		Due after 4 years through 5 years		Due after 5 years		Total	
Net operating loss carryforwards (*).....	$	–	$	–	$	–	$	–	$	45,685	$	31,504	$	77,190
Valuation allowance.....		–		–		–		–		(24,083)		(31,509)		(55,592)
Deferred tax assets.....	$	–	$	–	$	–	$	–	$	21,606	$	–	$	21,606 (**)

(*) The amount is determined by multiplying the corresponding net operating loss carryforwards by the effective statutory tax rate.

(**) The Company and consolidated subsidiaries have recorded tax loss carryforwards for the years ended March 31, 2020 and 2019 in the amount of ¥8,399 million ($77,190 thousand) and ¥10,475 million after multiplying statutory tax rates, and recognize deferred tax assets in the amount of ¥2,351 million ($21,606 thousand) and ¥1,913 million for the tax loss carryforwards. These deferred tax assets are all recognized for part of the Company's tax loss carryforwards for the years ended March 31, 2020 and 2019 in the amount of ¥4,971 million ($45,685 thousand) and ¥5,221 million. These tax loss carryforwards, for which the deferred tax assets are recognized, arose mainly due to the taxable loss related to closing of ISK SINGAPORE PTE. LTD., a consolidated subsidiary of the Company, recorded during the year ended March 31, 2016, and were assessed to be recoverable based on the estimated taxable income in the future period.

15. Shareholders' Equity

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

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

Common stock and treasury stock

Movements in common stock and treasury stock during the years ended March 31, 2020 and 2019 are summarized as follows:

	Thousands of shares			
	2020			
	April 1, 2019	Increase	Decrease	March 31, 2020
Common stock	40,384	–	–	40,384
Treasury stock	418	5	0	423

	Thousands of shares			
	2019			
	April 1, 2018	Increase	Decrease	March 31, 2019
Common stock	40,384	–	–	40,384
Treasury stock	416	2	0	418

The increases in treasury stock were due to purchases of shares of less than one voting unit for the years ended March 31, 2020 and 2019. The decrease in treasury stock for the year ended March 31, 2020 and 2019 was mainly due to sales of shares at requests of shareholders who own less than one voting unit.

16. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2020 and 2019 totaled ¥9,150 million ($84,092 thousand) and ¥8,071 million, respectively.

17. Leases

Operating lease transactions

Future minimum lease payments subsequent to March 31, 2020 under non-cancelable operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2021	¥ 233	$ 2,141
2022 and thereafter	209	1,921
Total	¥ 442	$ 4,062

18. Financial Instruments

Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

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

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

Regarding trade payables – trade notes and accounts

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

A portion of bank loans and bonds has some financial covenants, which may result in the risk of early repayment depending on the fluctuation of the financial position of the Group. Short-term and long-term bank loans with variable interest rates are exposed to interest rate fluctuation risk. The repayment dates of the debt extend up to 8 years from the balance sheet date.

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

(3) Risk management for financial instruments

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

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

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

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

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

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

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

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

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

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

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

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

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets, estimated fair value and the differences as of March 31, 2020 and 2019 are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note 18 (b) below)

(a) Estimated fair value of financial instruments

	Millions of yen					
	2020			2019		
	Carrying value	Estimated fair value	Difference	Carrying value	Estimated fair value	Difference
Assets:						
(1) Cash and deposits	¥ 20,925	¥ 20,925	¥ –	¥ 23,984	¥ 23,984	¥ –
(2) Trade receivables	32,060	32,060	–	33,898	33,898	–
(3) Securities and investments in securities:						
Held-to-maturity debt securities	10	10	0	9	10	1
Other securities	1,199	1,199	–	1,435	1,435	–
Total assets	¥ 54,194	¥ 54,194	¥ 0	¥ 59,326	¥ 59,327	¥ 1
Liabilities:						
(1) Trade payables	17,433	17,433	–	15,393	15,393	–
(2) Short-term bank loans	7,932	7,932	–	8,000	8,000	–
(3) Long-term bank loans, including current portion	35,991	36,356	365	35,800	36,211	411
Total liabilities	¥ 61,356	¥ 61,721	¥ 365	¥ 59,193	¥ 59,604	¥ 411
Derivatives (*)	¥ (6)	¥ (6)	¥ –	¥ 5	¥ 5	¥ –

	Thousands of U.S. dollars		
	2020		
	Carrying value	Estimated fair value	Difference
Assets:			
(1) Cash and deposits	$ 192,308	$ 192,308	$ –
(2) Trade receivables	294,642	294,642	–
(3) Securities and investments in securities:			
Held-to-maturity debt securities	92	92	0
Other securities	11,019	11,019	–
Total assets	$ 498,061	$ 498,061	$ 0
Liabilities:			
(1) Trade payables	160,215	160,215	–
(2) Short-term bank loans	72,898	72,898	–
(3) Long-term bank loans, including current portion	330,769	334,123	3,354
Total liabilities	$ 563,882	$ 567,236	$ 3,354
Derivatives (*)	$ (55)	$ (55)	$ –

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

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

Assets:

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

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

(3) Securities and investments in securities

The fair value of equity and debt securities is based on quoted market prices. Regarding the information on securities and investments in securities corresponding to holding purposes, please refer to Note 7.

Liabilities:

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

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

(3) Long-term bank loans, including current portion

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

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

Derivatives:

Please refer to Note 19 “Derivatives.”

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

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Unlisted equity securities	¥ 4,724	¥ 5,572	$ 43,415
Investments in limited partnerships	1	2	9

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

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

	Millions of yen				Millions of yen			
	2020				2019			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Deposits	¥ 20,917	¥ –	¥ –	¥ –	¥ 23,975	¥ –	¥ –	¥ –
Trade receivables	32,060	–	–	–	33,898	–	–	–
Investments in securities:								
Held-to-maturity debt securities	–	10	–	–	–	9	–	–
Total	¥ 52,977	¥ 10	¥ –	¥ –	¥ 57,873	¥ 9	¥ –	¥ –

	Thousands of U.S. dollars			
	2020			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Deposits	$ 192,234	$ –	$ –	$ –
Trade receivables	294,642	–	–	–
Investments in securities:				
Held-to-maturity debt securities	–	92	–	–
Total	$ 486,876	$ 92	$ –	$ –

(d) Redemption schedule of long-term debt

	Millions of yen					
	2020					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term bank loans	¥ 7,938	¥ 7,721	¥ 6,411	¥ 5,294	¥ 2,698	¥ 5,929
Bonds	684	684	684	504	534	630
Lease obligations	468	331	199	87	37	32
Total	¥ 9,089	¥ 8,736	¥ 7,294	¥ 5,885	¥ 3,269	¥ 6,591

	Thousands of U.S. dollars					
	2020					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
Long-term bank loans	$ 72,953	$ 70,959	$ 58,919	$ 48,654	$ 24,796	$ 54,489
Bonds	6,286	6,286	6,286	4,632	4,908	5,790
Lease obligations	4,301	3,042	1,829	800	340	294
Total	$ 83,531	$ 80,287	$ 67,034	$ 54,086	$ 30,044	$ 60,573

19. Derivatives

The notional amounts and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at March 31, 2020 and 2019 were as follows:

(a) Currency-related transactions

Forward foreign exchange contracts:

	Millions of yen											
	2020				2019							
	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Unrealized gain (loss)	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Unrealized gain (loss)				
Buy:												
Japanese yen	¥ 431	¥ –	¥ (6)	¥ (6)	¥ 369	¥ –	¥ 5	¥ 5				
U.S. dollars	42	–	(0)	(0)	39	–	(0)	(0)				
Total	¥ 473	¥ –	¥ (6)	¥ (6)	¥ 408	¥ –	¥ 5	¥ 5				

	Thousands of U.S. dollars			
	2020			
	Notional amount	Notional amount (over one year)	Estimated fair value (*)	Unrealized gain (loss)
Buy:				
Japanese yen	$ 3,961	$ –	$ (55)	$ (55)
U.S. dollars	386	–	(0)	(0)
Total	$ 4,347	$ –	$ (55)	$ (55)

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

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

			Millions of yen					
			2020			2019		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over 1 year)	Estimated fair value (*)	Notional amount	Notional amount (over 1 year)	Estimated fair value (*)
The special method	Receive/ floating and pay/fixed	Long-term bank loans	¥ 5,430	¥ 3,786	¥ (**)	¥ 7,188	¥ 4,280	¥ (**)

			Thousands of U.S. dollars		
			2020		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over 1 year)	Estimated fair value (*)
The special method	Receive/ floating and pay/fixed	Long-term bank loans	$ 49,904	$ 34,795	$ (**)

(*) The estimated fair value of forward foreign currency exchange contracts is computed using prices provided by counterparty financial institutions.
(**) Because interest rate swap agreements are accounted for as if the interest rates applied to the swaps had originally applied to the long-term bank loans, their estimated fair values were included in estimated fair value of long-term bank loans.

20. Other Comprehensive Loss

The following table presents remeasurements and tax effects for components of other comprehensive loss for the years ended March 31, 2020 and 2019:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Net unrealized holding loss on securities:			
Amount arising during the year	¥ (960)	¥ (266)	$ (8,823)
Remeasurements	(34)	–	(312)
Before tax effect	(994)	(266)	(9,135)
Tax effect	87	75	799
Total	(907)	(191)	(8,336)
Translation adjustments:			
Amounts arising during the year	(167)	(379)	(1,535)
Remeasurements	334	–	3,070
Before tax effect	167	(379)	1,535
Tax effect	–	–	–
Total	167	(379)	1,535
Retirement benefits liability adjustments:			
Amount arising during the year	109	13	1,002
Reclassification adjustments for gain and loss included in net income	90	105	827
Before tax effect	199	118	1,829
Tax effect	(59)	(36)	(542)
Total	140	82	1,287
Other comprehensive income of affiliates accounted for by the equity method attributable to the Company	60	6	551
Total other comprehensive loss	¥ (540)	¥ (482)	$ (4,963)

21. Supplemental Information to Consolidated Statements of Cash Flows

Information on significant non-cash transactions

The Company and its consolidated subsidiaries recorded new leased assets of ¥587 million ($5,395 thousand) and ¥366 million and lease obligations of ¥620 million ($5,698 thousand) and ¥395 million under finance leases for the years ended March 31, 2020 and 2019, respectively.

22. Amounts per Share

	Yen		U.S. dollars
	2020	2019	2020
Net assets per share	¥ 1,918.63	¥ 1,885.01	$ 17.63
Net income attributable to owners of parent per share	59.04	217.26	0.54

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

Diluted net income attributable to owners of parent per share for the years ended March 31, 2020 and 2019 is not presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net income attributable to owners of parent per share for the years ended March 31, 2020 and 2019 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Information on basic net income attributable to owners of parent per share:			
Net income attributable to owners of parent	¥ 2,359	¥ 8,683	$ 21,680
Net income not attributable to common shareholders	–	–	–
Adjusted net income attributable to common shareholders	¥ 2,359	¥ 8,683	$ 21,680

	Thousands of shares	
	2020	2019
Weighted-average number of shares of common stock outstanding during the year	39,963	39,967

The financial data for the computation of net assets per share at March 31, 2020 and 2019 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2020	2019	2020
Total net assets	¥ 76,670	¥ 75,335	$ 704,622
Deductions from total net assets:			
Non-controlling interests	–	–	–
Total net assets used in the calculation of net assets per share	¥ 76,670	¥ 75,335	$ 704,622

	Thousands of shares	
	2020	2019
Number of shares used in the calculation of net assets per share	39,961	39,965

23. Related Party Transactions

Major transactions and balances between the Company and an affiliated company for the years ended and as of March 31, 2019 and 2018 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	2020	2019	2020	Account	2020	2019	2020
BELCHIM CROP PROTECTION N.V.	Sales of products	¥ 11,300	¥ 11,267	$103,851	Trade receivables	¥ 2,943	¥ 2,755	$ 27,047

The condensed financial statements of BELCHIM CROP PROTECTION N.V as the significant related party as of and for the years ended March 31, 2020 and 2019 are as follows:

	Millions of yen		Thousands of U.S. dollars
	March 31		March 31
	2020	2019	2020
Current assets	¥ 40,224	¥ 55,839	$ 369,672
Fixed assets	7,041	7,154	64,709
Total assets	¥ 47,265	¥ 62,993	$ 434,381
Current liabilities	¥ 44,129	¥ 57,065	$ 405,560
Long-term liabilities	9,578	11,268	88,025
Total liabilities	53,707	68,333	493,585
Total net assets	(6,442)	(5,340)	(59,204)
Total liabilities and net assets	¥ 47,265	¥ 62,993	$ 434,381

	Millions of yen		Thousands of U.S. dollars
	For the years ended March 31		For the year ended March 31
	2020	2019	2020
Net sales	¥ 54,083	¥ 54,626	$ 497,041
Income before income taxes	(905)	(2,648)	(8,317)
Net loss	(1,331)	(3,504)	(12,232)

24. Segment Information

(a) Overview of the reportable segments

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

Inorganic chemicals

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

Organic chemicals

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

Other businesses

This reportable segment principally includes the trading business and the construction business.

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

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

(c) Reportable segment information

	Millions of yen					
	2020					
	Reportable segments					
	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:						
Net sales:						
External customers	¥ 51,528	¥ 46,174	¥ 3,365	¥ 101,067	¥ –	¥ 101,067
Intersegment	0	–	5,532	5,532	(5,532)	–
Net sales	51,528	46,174	8,897	106,599	(5,532)	101,067
Segment income	¥ 3,734	¥ 4,408	¥ 585	¥ 8,727	¥ (2,538)	¥ 6,189
Segment assets	¥ 83,479	¥ 60,487	¥ 3,851	¥ 147,817	¥ 24,620	¥ 172,437
Other items:						
Depreciation and amortization of intangible assets	3,392	849	53	4,294	152	4,446
Loss on impairment of fixed assets	–	420	–	420	–	420
Increase in fixed tangible and intangible assets	6,585	1,266	53	7,904	394	8,298

	Millions of yen					
	2019					
	Reportable segments					
	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:						
Net sales:						
External customers	¥ 54,883	¥ 47,672	¥ 3,886	¥ 106,441	¥ –	¥ 106,441
Intersegment	–	–	5,538	5,538	(5,538)	–
Net sales	54,883	47,672	9,424	111,979	(5,538)	106,441
Segment income	¥ 7,268	¥ 5,903	¥ 664	¥ 13,835	¥ (2,463)	¥ 11,372
Segment assets	¥ 78,592	¥ 57,746	¥ 3,697	¥ 140,035	¥ 28,655	¥ 168,690
Other items:						
Depreciation and amortization of intangible assets	3,229	851	49	4,129	137	4,266
Loss on impairment of fixed assets	–	–	–	–	121	121
Increase in fixed tangible and intangible assets	6,165	915	96	7,176	63	7,239

	Thousands of U.S. dollars					
	2020					
	Reportable segments					
	Inorganic chemicals	Organic chemicals	Other businesses	Subtotal	Elimination and corporate (*1)	Consolidated (*2)
Net sales and operating income:						
Net sales:						
External customers	$ 473,560	$ 424,354	$ 30,925	$ 928,839	$ –	$ 928,839
Intersegment	–	–	50,841	50,841	(50,841)	–
Net sales	473,560	424,354	81,766	979,680	(50,841)	928,839
Segment income	$ 34,317	$ 40,511	$ 5,376	$ 80,204	$ (23,325)	$ 56,879
Segment assets	$ 767,199	$ 555,896	$ 35,392	$1,358,487	$ 226,266	$1,584,753
Other items:						
Depreciation and amortization of intangible assets	31,173	7,803	487	39,463	1,397	40,860
Loss on impairment of fixed assets	–	3,860	–	3,860	–	3,860
Increase in fixed tangible and intangible assets	60,518	11,635	487	72,640	3,621	76,261

(*1) The elimination and corporate applicable to segment income amounted to ¥2,538 million ($23,325 thousand) and ¥2,463 million in the above tables and includes ¥78 million ($717 thousand) and ¥120 million of eliminations of intersegment transactions and ¥2,460 million ($22,608 thousand) and ¥2,343 million of corporate expenses, which are not allocable to the reportable segments for the years ended March 31, 2020 and 2019, respectively. Corporate expenses mainly comprise expenses incurred by the administration department of the Company, which are not allocable to any reportable segment.

The elimination and corporate applicable to segment assets amounted to ¥24,620 million ($226,266 thousand) and ¥28,655 million includes ¥1,081 million ($9,935 thousand) and ¥1,142 million of offset of inter-segment receivables and payables, and ¥25,701 million ($236,201 thousand) and ¥29,797 million of corporate assets, which are not allocable to a reportable segment as of March 31, 2020 and 2019, respectively. Corporate assets consist of investments of surplus funds (cash and securities), long-term investments (investments in securities), assets of the administration department and so forth.

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

Related information

Products and services information

The information on each product and service is omitted because it is the same as that of reportable segment information for the years ended March 31, 2020 and 2019.

Geographical information

Net sales by geographical segment for the years ended March 31, 2020 and 2019 are summarized as follows:

	Millions of yen					
	Year ended March 31, 2020					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥ 51,591	¥ 20,436	¥ 13,495	¥ 15,391	¥ 154	¥ 101,067

	Millions of yen					
	Year ended March 31, 2019					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥ 52,829	¥ 22,930	¥ 14,955	¥ 15,466	¥ 261	¥ 106,441

	Thousands of U.S. dollars					
	Year ended March 31, 2020					
	Japan	Asia	America	Europe	Other	Total
Net sales	$ 474,138	$ 187,814	$ 124,024	$ 141,448	$ 1,415	$ 928,839

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, Singapore and India
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, 2020 and 2019 are summarized as follows:

	Millions of yen				
	At March 31, 2020				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥ 45,051	¥ 149	¥ 882	¥ 189	¥ 46,271

	Millions of yen				
	At March 31, 2019				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥ 42,180	¥ 133	¥ 827	¥ 27	¥ 43,167

	Thousands of U.S. dollars				
	At March 31, 2020				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	$ 414,034	$ 1,369	$ 8,106	$ 1,737	$ 425,246

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

Asia: Taiwan
America: The United States
Europe: Belgium

Information on sales transactions with major customers

Sales transactions with a major customer for the year ended March 31, 2020 and 2019 are as follows:

		Millions of yen	Thousands of U.S. dollars
Customer name	Relevant reportable segments	2020	2020
NAGASE & CO., LTD.	Inorganic chemicals and Organic chemicals	¥ 10,128	$ 93,080

		Millions of yen
Customer name	Relevant reportable segments	2019
MITSUI & CO., LTD.	Inorganic chemicals and Organic chemicals	¥ 11,920

25. Subsequent Events

Cash dividends

The following distribution of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended March 31, 2020 was approved at a meeting on the shareholders of the Company held on June 25, 2020:

	Millions of yen	Thousands of U.S. dollars
Cash dividends (¥20.00 = US $0.18 per share)	¥ 799	$ 7,343

Report of Independent Public Accountants



Independent Auditor's Report

The Board of Directors
Ishihara Sangyo Kaisha, Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Ishihara Sangyo Kaisha, Ltd. and its consolidated subsidiaries (the Group), which comprise the consolidated balance sheet as at March 31, 2020, and the consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at March 31, 2020, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in Japan. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Japan, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management, the Corporate Auditor and the Board of Corporate Auditors 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 such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern and disclosing, as required by accounting principles generally accepted in Japan, matters related to going concern.

The Corporate Auditor and the Board of Corporate Auditors are responsible for overseeing the Group's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with auditing standards generally accepted in Japan, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- Consider internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances for our risk assessments, while the purpose of the audit of the consolidated financial statements is not expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation in accordance with accounting principles generally accepted in Japan.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Corporate Auditor and the Board of Corporate Auditors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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We also provide the Corporate Auditor and the Board of Corporate Auditors with a statement that we have complied with the ethical requirements regarding independence that are relevant to our audit of the financial statements in Japan, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

Interest Required to Be Disclosed by the Certified Public Accountants Act of Japan

Our firm and its designated engagement partners do not have any interest in the Group which is required to be disclosed pursuant to the provisions of the Certified Public Accountants Act of Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2020 are presented solely for convenience. Our audit also included the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

Ernst & Young ShinNihon LLC
Osaka, Japan
June 25, 2020

Masahiko Inoue
Designated Engagement Partner
Certified Public Accountant

Hiroyuki Kurihara
Designated Engagement Partner
Certified Public Accountant

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(As of June 26, 2020)

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Tatsuo Hanazawa
Satoshi Ando

Board of Corporate Auditors

(Standing) Corporate Auditor
Taizo Kato
Michiyoshi Arata

Outside Corporate Auditors
Yoshitaka Akikuni
Masaaki Harima

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Kenichi Tanaka

Managing Executive Officers
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Kiyomitsu Yoshida
Yasunobu Kawazoe
Hideo Takahashi
Masaki Shimojo

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