Note: This document has been translated from the Japanese original for reference purposes only. In the event of any discrepancy between this translated document and the Japanese original, the original shall prevail.

MEMBERSHIP

February 10, 2015

Consolidated Financial Results for the Fiscal Year Ended December 31, 2014 <under Japanese GAAP>

Company name: **OAT Agrio Co., Ltd.**
Listing: Tokyo Stock Exchange
Securities code: 4979
URL: http://www.oat-agrio.co.jp
Representative: Akihei Mori, President, CEO
Contact: Shuji Kato, Director (Board Member) (responsible for Business Development Division and Accounting Division)
TEL: +81-3-5283-0262

Scheduled date of ordinary general meeting of shareholders: March 20, 2015
Scheduled date to commence dividend payments: March 23, 2015
Scheduled date to file Annual Securities Report: March 23, 2015
Preparation of supplementary material on financial results: None
Holding of financial results presentation meeting: None

(Millions of yen with fractional amounts discarded, unless otherwise noted)

1. Consolidated financial results for the fiscal year ended December 31, 2014 (from January 1, 2014 to December 31, 2014)

(1) Consolidated operating results

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income	
Fiscal year ended	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%
December 31, 2014	11,405	5.1	663	(6.5)	652	(12.1)	348	(25.3)
December 31, 2013	10,856	5.9	709	39.8	743	53.0	466	131.4

Note: Comprehensive income Fiscal year ended December 31, 2014: ¥445 million [27.4%]
Fiscal year ended December 31, 2013: ¥350 million [47.7%]

	Basic earnings per share	Diluted earnings per share	Net income/ equity	Ordinary income/ total assets	Operating income/ net sales
Fiscal year ended	Yen	Yen	%	%	%
December 31, 2014	129.44	122.21	10.1	6.6	5.8
December 31, 2013	167.11	–	15.8	7.8	6.5

Reference: Equity in earnings (losses) of affiliates Fiscal year ended December 31, 2014: ¥– million
Fiscal year ended December 31, 2013: ¥– million

Notes: 1. Diluted earnings per share for the fiscal year ended December 31, 2013 had a balance of subscription rights to shares. However, as the Company's shares were unlisted, the average share price for the fiscal year was not available and therefore no amount is stated.

2. The Company was listed on the Second Section of the Tokyo Stock Exchange on June 25, 2014. Consequently, the amounts of diluted earnings per share for the fiscal year ended December 31, 2014, were calculated with the average share price from the date of this new listing to the final date of the fiscal year ended December 31, 2014, deemed as the average share price during the period.

(2) Consolidated financial position

	Total assets	Net assets	Equity-to-asset ratio	Net assets per share
As of	Millions of yen	Millions of yen	%	Yen
December 31, 2014	9,675	3,852	38.3	1,379.32
December 31, 2013	10,048	3,330	31.8	1,125.60

Reference: Equity As of December 31, 2014: ¥3,710 million
As of December 31, 2013: ¥3,196 million

(3) Consolidated cash flows

	Cash flows from operating activities	Cash flows from investing activities	Cash flows from financing activities	Cash and cash equivalents at end of period
Fiscal year ended	Millions of yen	Millions of yen	Millions of yen	Millions of yen
December 31, 2014	665	(453)	(684)	1,183
December 31, 2013	673	(625)	294	1,619

2. Dividends

	Dividends per share					Total cash dividends (Total)	Dividend payout ratio (Consolidated)	Ratio of dividends to net assets (Consolidated)
	First quarter-end	Second quarter-end	Third quarter-end	Fiscal year-end	Total			
	Yen	Yen	Yen	Yen	Yen	Millions of yen	%	%
Fiscal year ended December 31, 2013	–	0.00	–	0.00	0.00	–	–	–
Fiscal year ended December 31, 2014	–	0.00	–	55.00	55.00	147	42.5	4.4
Fiscal year ending December 31, 2015 (Forecast)	–	0.00	–	55.00	55.00		34.2	

3. Consolidated earnings forecasts for the fiscal year ending December 31, 2015 (from January 1, 2015 to December 31, 2015)

(Percentages indicate year-on-year changes.)

	Net sales		Operating income		Ordinary income		Net income		Basic earnings per share
	Millions of yen	%	Millions of yen	%	Millions of yen	%	Millions of yen	%	Yen
Fiscal year ending December 31, 2015	11,762	3.1	700	5.5	673	3.1	433	24.3	161.03

Note: As the Company manages its operations on an annual basis, consolidated earnings forecasts for the first six months are omitted.

*** Notes**

(1) Changes in significant subsidiaries during the period (changes in specified subsidiaries resulting in the change in scope of consolidation): None

(2) Changes in accounting policies, changes in accounting estimates, and restatement

a. Changes in accounting policies in accordance with changes in accounting standards, etc.: Yes

b. Changes in accounting policies due to other reasons: None

c. Changes in accounting estimates: None

d. Restatement: None

Note: For the details, please refer to "4. Consolidated financial statements, (5) Notes to consolidated financial statements, Changes in accounting policies" on page 22 of the attached materials.

(3) Number of shares issued (common shares)

a. Number of shares issued at the end of the period (including treasury shares)

As of December 31, 2014	2,768,000 shares
As of December 31, 2013	2,840,000 shares

b. Number of treasury shares at the end of the period

As of December 31, 2014	78,000 shares
As of December 31, 2013	– shares

c. Average number of shares outstanding during the period

Fiscal year ended December 31, 2014	2,691,370 shares
Fiscal year ended December 31, 2013	2,792,523 shares

Note: The Company conducted a 1:1,000 share split of its common shares on November 28, 2013. The number of shares issued (common shares) was calculated on the assumption that this share split was conducted at the beginning of the previous fiscal year.

*** Indication regarding execution of audit procedures**

The completion of audit procedures in accordance with the Financial Instruments and Exchange Act is not required for preparing this financial results report. At the time of disclosure of this financial results report, the audit procedures for consolidated financial statements in accordance with the Financial Instruments and Exchange Act are not complete.

*** Proper use of earnings forecasts, and other special matters**

The forward-looking statements, including earnings forecasts, contained in these materials are based on information currently available to the Company and on certain assumptions deemed to be reasonable. Consequently, the statements herein do not constitute assurances regarding the Company's actual results. Actual financial and other results may differ substantially from the statements herein due to various factors.

Attached Materials

Index

1. Analyses of operating results and financial position

(1) Analysis of operating results

In the Japanese economy during the fiscal year under review, not only were there significant advancement in the trend of weakening yen and rising stock price on the back of economic measures by the Japanese government and monetary easing by the Bank of Japan, but also corporate earnings were seen to improve, particularly among the large corporations and exporting companies, and the pullback in demand following a surge caused by the consumption tax hike in April 2014 ran its course. Despite a positive-growth forecast for GDP in the second half of the fiscal year, GDP actually continued in negative growth for two consecutive quarters, and as the domestic economy is clearly at a standstill, uncertainty for the future remains.

In the environment surrounding agriculture, despite forecasts for agricultural demand to increase globally in the future as the world's population increases and income levels in emerging countries rise, Japan continues to face a difficult environment, with challenges such as the aging of agricultural workers and lack of successors, and the future prospects of TPP (Trans-Pacific Partnership) negotiations. In February 2014, parts of the wider Kanto-Koshinetsu region experienced a record-breaking heavy snowfall, causing significant damage to the industry, particularly the greenhouse horticultural farms, whose agricultural facilities including plastic greenhouses were destroyed.

On the other hand, agriculture is receiving renewed attention, with the government-led promotion of "senary" industrialization and new participation in plant factories by companies from other industry sectors.

Operating under these circumstances, OAT Agrio Co., Ltd. (the "Company") became a publicly listed company on the Tokyo Stock Exchange (Second Section) on June 25, 2014 and the focus of efforts was on further strengthening the sales system and streamlining corporate management. However, following the government's unveiling of the introduction of policies concerning new evaluation standards (short-term exposure assessment (Note)) for Japan's registration system for agricultural chemicals, the Company has carried out countermeasures such as making submissions for the removal of a certain number of crops that have the possibility of being applicable from among the crops registered for our core-product insecticide *Oncol* and its mixtures. Moreover, the schedule for registering originally developed products in Europe has been delayed and the initially expected recording of incentive fees accompanying licensing out has been significantly delayed. Also, the registration costs of the originally developed products in the U.S. were increased. All of these factors had an effect in a significantly worsening of conditions in the fiscal year under review.

Note: Short-term exposure assessment: one of the methods for assessing the safety of an agrichemical. Whereas the acceptable daily intake (ADI) is the value that does not affect health even through long-term oral intake, the short-term exposure assessment looks at the acute reference dose (ARfD), which is the value that does not affect health even by short-term oral intake. An assessment carried out by establishing a chemical residue standard for agrichemicals by taking into account this acute reference dose is referred to as a short-term exposure assessment.

As a result of the above business activities, in the fiscal year under review, net sales was ¥11,405 million, up 5.1% year on year, operating income was ¥663 million, down 6.5% year on year, ordinary income was ¥652 million, down 12.1% year on year and net income was ¥348 million, down 25.3% year on year.

By business field, the Company reported the following.

In the agrichemicals field among domestic business domains, there was growth of rice herbicides. Also, the Company launched new insecticides in the second half of the demand period and while preparing for expanded sales in the next fiscal year onward, it carried out aggressive sales of these newly launched products as well as existing products. However, affected by the changes by the aforementioned new registration system for agricultural chemicals, net sales in domestic agrichemicals field was ¥6,762 million, down 4.2% year on year.

In the fertilizer field, advancements are continuing in environment-control technology for greenhouses. Specifically, there was an increase in the number of drip fertigation cultivation systems for fruits and vegetables introduced. However, shipments of existing products were lackluster, and net sales in the domestic fertilizer field was ¥1,899 million, down 1.8% year on year, and domestic net sales for both fields combined was ¥8,661 million, down 3.7% year on year. In addition, OAT Stevia Co., Ltd. was established to manufacture and sell organic agricultural materials.

In overseas business domains, the Company began sales of acaricide *Cyflumetofen* in Brazil and the U.S. as it acquired registration in each country. In Asia and Latin America, sales grew for *Oncol*, while sales began for fertigation fertilizers to China. As a result of the foregoing and other efforts to expand sales channels overseas, net sales significantly increased in overseas business domains, achieving ¥2,180 million, up 62.7% year on year.

In the biostimulant (Note) field, subsidiary Asahi Chemical Mfg. Co., Ltd. carried out sales mainly in Asia and Europe. In the fiscal year under review, shipments were flat in Europe reflecting inventory adjustments, but shipments to Asian countries were robust. As a result, net sales in the biostimulant field was ¥563 million, up 8.4% year on year.

Note: Biostimulant: General name for the materials and technologies that enhance the capacities and functions inherent in plants, and promote cold resistance, heat resistance, pest tolerance and growth stimulation.

(2) Analysis of financial position

a. Position of assets, liabilities, and net assets

(i) Assets

Total assets as of December 31, 2014, was ¥9,675 million, a decrease of ¥373 million compared to December 31, 2013. This was the result of a decrease of ¥498 million in current assets, more than offsetting an increase of ¥125 million in non-current assets.

(Current assets)

Total current assets as of December 31, 2014, was ¥6,983 million, a decrease of ¥498 million compared to December 31, 2013. This was mainly the result of decreases of ¥443 million in cash and deposits and ¥337 million in notes and accounts receivable - trade.

(Non-current assets)

Total non-current assets as of December 31, 2014, was ¥2,691 million, an increase of ¥125 million compared to December 31, 2013. This was mainly the result of an increase of ¥267 million in buildings and structures, more than offsetting a decrease of ¥174 million in goodwill due to amortization.

(ii) Liabilities

(Current liabilities)

Total current liabilities as of December 31, 2014, was ¥4,033 million, a decrease of ¥1,655 million compared to December 31, 2013. This was mainly the result of decreases of ¥167 million in notes and accounts payable - trade and ¥1,531 million in short-term loans payable.

(Non-current liabilities)

Total non-current liabilities as of December 31, 2014, was ¥1,789 million, an increase of ¥759 million compared to December 31, 2013. This was mainly the result of an increase of ¥735 million in long-term loans payable.

(iii) Net assets

Total net assets as of December 31, 2014, was ¥3,852 million, an increase of ¥522 million compared to December 31, 2013. This was mainly the result of an increase of ¥220 million in capital surplus and an increase of ¥348 million in retained earnings due mainly to the recording of net income.

b. Cash flows

Cash and cash equivalents (hereinafter “cash”) as of December 31, 2014 was ¥1,183 million, a decrease of ¥436 million compared to December 31, 2013.

Cash flows during the fiscal year under review and their causes are as follows.

(Cash flows from operating activities)

Net cash provided by operating activities was ¥665 million (¥673 million was provided in the previous fiscal year). The main sources of cash were income before income taxes and minority interests of ¥546 million, amortization of goodwill of ¥174 million, and a decrease in notes and accounts receivable - trade of ¥288 million. The main uses of cash were an increase in inventories of ¥161 million, a decrease in notes and accounts payable - trade of ¥167 million, and income taxes paid of ¥336 million.

(Cash flows from investing activities)

Net cash used in investing activities was ¥453 million (¥625 million was used in the previous fiscal year). The main uses of cash were purchase of property, plant and equipment of ¥251 million and payments of loans receivable from subsidiaries and associates of ¥115 million.

(Cash flows from financing activities)

Net cash used in financing activities was ¥684 million (¥294 million was provided in the previous fiscal year). The main sources of cash were proceeds from long-term loans payable of ¥1,000 million, proceeds from sales of treasury shares of ¥388 million. The main uses of cash were net decrease in short-term loans payable of ¥1,500 million, repayments of long-term loans payable of ¥295 million, and purchase of treasury shares of ¥250 million.

(3) Basic policy on profit distribution and dividends for the fiscal years ended December 31, 2014 and ending December 31, 2015

The Company considers the distribution of profit to shareholders as one of the most important issues for management. Accordingly, the Company's basic policy on profit distribution is to carry out the stable payment of dividends while considering the provision of the necessary internal reserves to strengthen the financial base and proactively develop business. Looking ahead, the Company shall strive for sustainable growth by investing business resources in business fields where growth is expected in the medium- to long-term in order to boost corporate value and increase value for shareholders.

Concerning the dividends from surplus for the fiscal year under review, the Board of Directors resolved at their meeting held February 10, 2015, to pay a dividend of ¥55 per share as per the dividend forecast announced on June 25, 2014.

Concerning the dividends from surplus for the fiscal year ending December 31, 2015, the Company plans to pay an annual dividend of ¥55 per share in accordance with the aforementioned basic policy and the consideration of returning profit to shareholders.

(4) Risks associated with business

The following risks inherent in circumstances with respect to the business, accounting and other practices of OAT Agrio Group (the "Group"), may have a material impact on investor decision-making. In addition, under our policy of proactive information disclosure, these descriptions of risks include issues not necessarily subject to such risk disclosure, but that the Group deems as material to investors in making investment decisions. Nevertheless, the descriptions provided herein do not encompass all conceivable forms of risk associated with investment in the Company's shares.

The Group is fully aware of the potential risks, and as such we are committed to preventing such risks from materializing, and will do our utmost to respond swiftly should any such risk develop; however, it is our view that investors need to make investment decisions concerning the Company's shares upon careful consideration of the issues detailed herein as well as issues outlined elsewhere.

Also, note that the forward-looking statements herein are based on judgments of the Group as of this document's submission date.

1. Risks associated with agriculture market trends

Farmers are the end-consumer of agricultural chemicals and fertilizers, the Group's main product categories. Therefore, trends in the agriculture market may affect the Group's operating results.

In recent years, Japan's agriculture market has experienced falling retail prices for farmed goods, combined with an ongoing trend of gradually decreasing domestic production as the nation's farming population ages with successors to take their place in short supply. The environment surrounding domestic market trends in the years ahead is also likely to remain uncertain in terms of possible developments such as Japan's participation in the TPP (Trans-Pacific Partnership) free trade agreement and the potential direction of associated reforms made to government policy on agriculture. If this external environment or other such factors result in a smaller domestic agriculture market down the road, the operating results of the Group may be adversely affected.

2. Laws and regulations

The Group's main business activities involve production and sales of agricultural chemicals and fertilizers domestically and abroad. As such, the Group is subject to a range of legal regulations which include the Agricultural Chemicals Control Act, Fertilizer Regulation Act, and Product Liability Act. Although the Group engages in initiatives to comply with such laws and regulations by means that include establishing internal control systems and carrying out activities to promote compliance, the Group's operating results could be significantly affected in the event of a future incident involving violation of such laws or regulations, or in the event of a scenario where the government revises laws or regulations, or otherwise establishes new laws or regulations.

3. Registration systems

(i) Registration of agricultural chemicals

The Group's main products, agricultural chemicals, are heavily regulated on the basis of Japan's Agricultural Chemicals Control Act, which covers everything from production processes and imports to sales and product use. A registration system which is central to those regulations acts as a mechanism which generally allows for production, import or sale in Japan exclusively of those agricultural chemicals registered under the Japanese system.

In registering agricultural chemicals, manufacturers and importers of such products must prepare and submit documentation that includes various forms of test results evidencing that quality and safety of such chemicals has been verified, such as with respect to their effect on insect pests, as well as their propensity for causing damage to crops, acting as toxic hazards to humans, and leaving residues on crops. Therefore, any changes or additions to such registration systems, including those involving registration standards, could result in prohibitions against the Company's production, sale or use of its existing chemical agents, or its chemical agents under development, or otherwise could result in additional costs for testing.

(ii) Registration of agricultural chemical production and storage sites

Because registration is also required with respect agricultural chemical production and storage sites, numbers of suppliers, contract manufacturers, production sites and storage locations are limited. Whereas the Group works to line up alternative business counterparties to ensure stable production and sales, if functions of suppliers, outside vendors, production sites or storage locations become disrupted, the Group's capacity for supplying product may be adversely affected.

4. Competing products and companies

The Agricultural Chemicals Control Act, Fertilizer Regulation Act and other such laws and regulations place restrictions on new market entry with respect to the agricultural chemicals and fertilizers that constitute the Group's main product category. Unlike pharmaceutical products, business involving generic agricultural chemicals also faces relatively high barriers to entry given R&D and registration costs equivalent to those incurred with respect to new products. Nevertheless, retail sales prices could fall due to intensifying price competition which may materialize if generic agricultural chemicals appear on the market amid entry of large overseas companies or system reforms. Also, a competitor could develop a new product with overwhelming performance, price or safety advantages. Any such developments could adversely affect the Group's operating results.

5. Major customers

During the fiscal year under review, the Group's sales to the National Federation of Agricultural Cooperative Associations (ZEN-NOH) amounted to ¥1,484 million, which accounts for 13.0% of our total net sales on a consolidated basis. Through efforts to develop new business and cultivate new business counterparties, the Group is working to build a framework that does not rely on specific counterparties in generating earnings, and furthermore intends to maintain favorable relations with existing business counterparties into the future.

However, if there is a change in our relationship with ZEN-NOH for any reason, the operating results of the Group may be adversely affected.

6. Production sites

(i) Lease agreements for property associated with production sites

The Company was established by means of a corporate divestiture from Otsuka Chemical Co., Ltd. ("Otsuka Chemical") as of September 28, 2010, on the basis of which a majority of the Company's real estate assets, including its factories and R&D facilities, were transferred to the Company from Otsuka Chemical. A real estate lease agreement was concluded for the Naruto Factory site with Otsuka Chemical in connection with that transfer. The agreement is in the form of a long-term contract effective until September 27, 2040. Furthermore, we do not anticipate contractual revision or cancellation due the amicable relations we maintain with Otsuka Chemical. However, if circumstances were to make it difficult to continue the contractual relationship for any reason, the research, production and operating results of the Group could be adversely affected.

(ii) Impact of a natural disaster on production sites

The Group's operating results and financial position could be adversely affected if a delay or suspension in product production or sales emerges due to any form of damage such as to manufacturing equipment, as a result of an earthquake, storm or other type of natural disaster, or unanticipated incident, involving a production site of the Group, a contract manufacturer or otherwise. Meanwhile, the Group's operating results could be adversely affected if plant operations become restricted or otherwise restrained due to a lull in economic activity or a power shortage caused by natural disaster or other form of disaster afflicting either a supplier of raw materials, a buyer of our products or other such entity, even if no damage is caused to manufacturing equipment of the Group itself or a contract manufacturer.

7. Country risk associated with overseas business

The Group has been expanding its overseas business. We have established an R&D center in India, and also have a wide range of business counterparties overseas, including suppliers, contract manufacturers and customers. The Group's operating results and financial position could be adversely affected if an unforeseeable situation associated with our overseas business expansion emerges in the future, such that is attributable to issues on a local level with respect to, for instance, geopolitical matters, regulations, taxation, the labor environment or customary practices, or if a situation arises involving social or political turmoil, or other such developments.

8. Agreement for establishing a joint R&D center in India

The Company has established a joint R&D center in India with Insecticides (India) Limited ("IIL").

The R&D center was established in part with the objective of ramping up screening of compounds that make up intermediates, with the aim of developing intermediates that act as active ingredients in agricultural chemicals. IIL and the Company have drawn up contractual provisions with clauses designed to prevent conflicts of interest by designating separate sales territories when placing an agricultural chemical on the market after the R&D phase. We envision scenarios where product sales territories, such that have been determined upon discussion with IIL, do not generate earnings in line with Group expectations. In such cases, the Group's operating results may be adversely affected.

9. Foreign exchange volatility

Some import-export transactions of the Group are denominated in the U.S. dollar, euro and Indian rupee. Currently, around 92.8% of our transactions are denominated in Japanese yen. Moreover, we conduct import-export transactions in yen, to the extent possible, and therefore deem that foreign exchange rate fluctuations will not significantly affect our financial results. Going forward, if we accelerate our pace of expansion in business overseas in line with the Group's policy or engage in more transactions denominated in foreign currencies, the operating results of the Group may be adversely affected by currency market volatility when these items denominated in foreign currencies are translated into yen.

10. Seasonality and weather variability

Periods of agricultural chemical use are contingent on periods of crop cultivation. In Japan this means such chemicals are mainly used from early spring until summer. As such, the Group's sales also tend to be weighted toward the first half of the fiscal year which runs January to June. There is a high probability that the Group will post an operating loss given the tendency for relatively low profitability in the latter half of the fiscal year (particularly in the fourth quarter from October to December).

Moreover, crop growth along with the prevalence of pests and weeds varies greatly depending on weather conditions during a given year, which accordingly has an influence with respect to product demand. Therefore, variation in weather conditions may have an effect the Group's operating results.

Consolidated net sales (Fiscal year ended December 31, 2014)

	Q1 (Jan.-Mar.)	Q2 (Apr.-Jun.)	Q3 (Jul.-Sep.)	Q4 (Oct.-Dec.)	Full year (Jan.-Dec.)
Net sales (Millions of yen)	5,351	2,385	2,055	1,613	11,405
Composition ratio	46.9%	20.9%	18.0%	14.1%	100.0%

11. Damage caused by agricultural chemicals

The Group sells products that have been approved for registration on the basis of adequate assessment regarding product safety. However, incidents involving unforeseen crop damage could arise from incorrect use of the Group's products, abnormal weather conditions or other eventualities, or accidents involving harm to humans and other organisms, or damage to the environment could potentially occur. If the Company incurs legal claims for damages arising from such a contingency, the Group's operating results and financial position could be adversely affected.

12. Resistance to agricultural chemicals

The term "pesticide resistance" refers to the phenomenon whereby an organism accumulates genes resistant to a chemical agent as a result of its use on populations of the organism. This sort of phenomenon could occur, thereby giving rise to a population of weeds or pests that are resistant to a product of the Group. If one of products containing such a chemical agent of the Group becomes ineffective, there is a possibility of impairment to the value of the chemical agent and decreased sales volume of the product.

13. Uncertainties involving R&D

Whereas development of new chemical agents requires substantial R&D investment and longstanding commitments, such development efforts may take longer than expected or could face discontinuation, which might be the case in the event that R&D efforts do not go as planned if, for instance, efficacy and phytotoxicity testing fails to show that a chemical agent delivers beneficial effects. In addition, with respect to the Japanese domestic market and entry into overseas markets, we are subject to legal restrictions stipulated in agricultural chemical control laws of respective countries. As such, there may be cases where market introduction of a new chemical agent must be delayed or abandoned, given the need to obtain approvals on the basis of stringent screening in respective countries for the production of new chemical agents and their sale. Such R&D uncertainties could have a material effect on the Group's operating results and financial position.

Moreover, development costs for new chemical agents could increase if a situation develops where there are growing demands such as with respect to safety evaluations or environmental impact assessments as a result of legal or regulatory revisions or shifting concerns among consumers.

14. Expenses incurred in relation to joint R&D

The Group engages in joint research initiatives with entities that include universities and other such public research institutions as well as other companies, with the aim of finding new agrichemicals. In so doing, the Group incurs some of the expenses in that regard. At times, the Group bears additional costs in response to progress made with joint research initiatives.

The Group intends to continue with its active engagement in joint research with entities that include universities and other such public research institutions as well as other companies, and in so doing plans to help cover reasonable expenses. However, if the Group incurs unplanned expenses stemming from circumstances involving research themes related to joint research or otherwise, the Group's operating results could be adversely affected.

15. Interest rate volatility

The Group procures some of its working capital through loans from financial institutions. Going forward, the Group intends to procure funds through loans from financial institutions to cover part of its need for fresh capital for use toward overseas business expansion and R&D. Accordingly, significant volatility with respect to interest rates on such loans could adversely affect the Group's operating results and financial position.

16. Infringement of intellectual property rights

The Group could face diminishing market share for its products if there is a breach of its intellectual property, resulting in a third party's unapproved use of the Group's technology, coupled with manufacture and sale of similar products.

Conversely, if a product of the Group is found to be in violation of a third party's intellectual property rights, the Group could become subject to lawsuit for damages which could have an adverse effect on the Group's operating results.

17. Human resource development and recruitment

The Group recognizes that one of the critical factors in enabling it to achieve ongoing growth is adequately securing high-caliber human resources and developing their capabilities. To that end, we are endeavoring to gain, develop and make effective use of outstanding personnel, through efforts that include building systems for active employee recruitment and in-house training. However, if we are unable to secure top-notch employees needed by the Company according to plan, the Group's operating results and financial position could be adversely affected.

18. Matters involving high share of fund ownership

As of this document's submission date, the total number of shares issued by the Company combined with its dilutive shares amount to 3,048,000 shares. Of that number, an investment enterprise partnership composed of venture capital (hereinafter "Fund") holds 674,700 shares, equivalent to 22.13% ownership.

Generally, the objective of funds that pursue share ownership is that of obtaining capital gains on sale of those shares. Given that the Fund invests in the Company upon considering factors that include the market environment, market trends, and the balance between supply and demand in trading of our shares, it is likely that the Fund will incrementally sell some or all of its holdings. A sale of the Company's shares by the Fund could cause a short-term imbalance between supply and demand in trading of the Company's shares, which in turn could have an adverse effect on the market value of those shares.

19. Dilution of shares upon exercising subscription rights to shares

The Company grants its officers, employees and others subscription rights to shares with the aim of aligning company interests with those of individuals and fueling motivation with respect to performance of job duties. The number of dilutive shares underlying these stock subscription rights amounts to 280,000 shares as of this document's submission date, thereby comprising 9.19% of the combined total number of shares issued by the Company and its dilutive shares. If these subscription rights to shares are exercised, the per-share value of the Company's stock may become diluted.

2. Status of corporate group

The Group engages in its main businesses that involve conducting leading-edge agricultural chemical and fertilizer R&D, seeking better crop cultivation technologies, manufacturing and domestic and overseas sales under its management philosophy of “contributing to the people of the world with our agritechnology and honesty.”

The Group consists of the Company (OAT Agrio Co., Ltd.), two consolidated subsidiaries (Asahi Chemical Mfg. Co., Ltd. and OAT & IIL India Laboratories Private Limited), and four non-consolidated subsidiaries (Drip Fertigation Research Co., Ltd., OAT Stevia Co., Ltd., Asahi Chemical Europe s.r.o., and OAT Pakistan Private Limited).

The Group has distinctive agricultural chemical and fertilizer products, as well as its own crop cultivation technologies, and provides various forms of support to producers and general consumers. These activities enable us access to feedback with respect to real-world needs of such producers and consumers, which we are able to draw on in pursuing R&D initiatives.

The Group currently offers services that are centered on three technologies, as described below:

(1) Plant protection technologies

The term “plant protection technology” refers collectively to technologies for protecting crops from insect pests that harm crops, as well as to technologies for eliminating unwanted vegetation (weeds, etc.). The Group positions its agricultural chemicals as pharmaceuticals for plants.

(2) Fertilization and irrigation technologies

The term “fertilization and irrigation technology” refers collectively to technologies used to provide nutrients that facilitate crop growth, as well as to technologies that reduce farming workloads and streamline agricultural operations. The Group positions its fertilizers as nourishment for plants, and supplies its Drip Fertigation Cultivation System as a solution for delivering this nourishment to crops.

(3) Biostimulants

The term “biostimulant” refers collectively to substances and technologies that boost the inherent biological capacity and functioning of plants, thereby making them more resistant to cold, heat, disease and pests, and promoting their growth. The Group offers plant growth agents categorized as biostimulants.

The Group is distinguished by its ability to deliver multifaceted solutions geared toward increasing food production, by providing services involving each of the three technologies described above. In that regard, we are working to uncover real-world needs and concerns of farmers who face challenges in terms of protecting the environment and increasing food production, and thereby applying what we learn from them in all areas of our R&D involving agricultural chemicals, fertilizers and biostimulants. Moreover, these efforts will enable us to offer a wider variety of products, and thereby increase our ratio of direct sales made to the general consumer.

In order to provide agricultural chemicals, the Group’s main product, we rely on a research and development framework that is geared toward in-house development of active ingredients referred to as intermediates.

The Group has R&D centers in two locations, one in Japan and the other overseas in the Republic of India.

With respect to the R&D center in Japan, our Naruto Laboratory located in Naruto City, Tokushima Prefecture and established in 1992, engages in compound synthesis and screening to enable our in-house development of intermediates. The Naruto site contains not only a laboratory but also manufacturing facilities that produce intermediates developed by the Group, and is home to the Fertilizer & Cultivation Research Center, which conducts field studies into the efficacy of agricultural chemical and fertilizer products manufactured there.

With respect to our overseas R&D center, in 2013 we established the joint research center OAT & IIL India Laboratories Private Limited with Insecticides (India) Limited in the Republic of India. As with our R&D center in Japan, that facility also engages in compound synthesis and screening.

3. Management policies

(1) Fundamental management policies

Our fundamental management policy is to work toward maximizing our enterprise value in order to gain greater confidence and recognition from our shareholders and customers. To that end, we develop, produce and sell products that include agricultural chemicals, fertilizers, and a proprietary crop cultivation system, on the basis of the Group's corporate philosophy of "contributing to the people of the world with our agritechnology and honesty." In the process, we develop integrated and comprehensive technologies, and create systems in that regard that contribute to higher crop yields, while drawing on these technologies and our accumulated know-how as the basis for developing "new technologies that bring about increases in food production" and thereby help resolve food-related challenges to support an ever-increasing world population.

(2) Target management benchmarks

The Group is committed to increasing enterprise value, and as such sets target management benchmarks particularly with the aim of securing consistent earnings and enhancing profitability. To those ends, we aim to achieve operating income growth while increasing the ratio of operating income to net sales and setting our sights on ROE (ratio of net income to equity) with efforts geared toward making effective use of shareholders' equity.

(3) Medium- and long-term management strategies

The Group's mainstay agricultural chemicals business operates amid a trend of global expansion backed by effective measures for achieving increased food production and consistent supply. On the other hand, focus is being put on crops and cultivation technologies centered on recycling of resources, while technologies required for crop production and consumer preferences are becoming more diverse.

In order for the Group to achieve sustainable business growth while addressing these diversifying markets and consumer demands, we will work to secure consistent revenue streams and expand our operating infrastructure over the mid- to long-term. This will involve meeting customer needs in our three business fields of plant protection technologies (agricultural chemicals), fertilization and irrigation technologies (fertilization and crop cultivation systems), and biostimulants, while also engaging in ongoing product rollout, providing comprehensive technologies, and concentrating our business resources on growth markets or sizeable markets.

In our efforts to achieve such aims, we will take on the following challenges:

a. Increase the pace of development of our overseas business, which is a field of growth for the Group;

b. Develop organic products that make use of unused resources;

c. Streamline our agricultural chemicals business in Japan so that it will act as a stable operating infrastructure.

(4) Issues to be addressed

The Group aims to help bring about an increase in food production through our business expansion in the global agricultural domain, primarily with business involving our plant protection technologies, fertilization and irrigation technologies and biostimulants. We anticipate sustainable growth in the global agricultural chemicals market, given factors that include rising demand in emerging economies and escalating interest in the cultivation of safe and premium-quality crops primarily in Southeast Asia. Moreover, in the domestic market we need to address challenges involving large-scale crop intensification among producers, development of farmers for the future, and measures for Japan's hilly and mountainous areas including those pertaining to environmental conservation and regional sustainability.

Amid these circumstances, we will work to increase our enterprise value by proposing multifaceted solutions with respect to the Group's technologies and product functions, and actively deploying such solutions.

Specific initiatives in that regard include the following:

a. Improvement of earnings from agricultural chemicals

In our agricultural chemicals field, we filed an application for voluntary removal of crops registered with respect to use of the insecticide *Oncol* and its mixtures, due to the new short-term exposure assessment recently adopted by Japan's registration system for agricultural chemicals. This had a substantial impact on our operating results for the fiscal year under review. We aim for a swift recovery of our operating results, and to that end are expanding in overseas markets that are on a growth trajectory, while also working to improve earnings in our core agricultural chemicals business in Japan by striving for higher sales of rice herbicides and our three new insecticides launched in Japan, and through ongoing new product rollout.

b. Multifaceted development of fertilizer as an earnings base

In our fertilizer field, we aim to achieve a greater degree of multifaceted business growth by striving for overseas expansion in our fertilization and irrigation business and building a business framework for collaborative efforts in Japan. At the same time, we will build up the fertilizer business, positioning it as a base for consistent revenue generation, by developing high-performance organic fertilizers, amassing technologies, upgrading distribution and sales networks, and other such efforts geared toward achieving greater competitive advantage in the market.

c. Redoubling efforts in key overseas markets

The Overseas Business Division will move more swiftly with expansion in sizeable growth markets. In that regard, the division aims to strengthen our capacity to compete on price and increase earnings by solidifying our position in Brazil and the U.S., our large markets for our mainstay insecticides, and by designating Asian regions as growth markets, particularly Pakistan where our overseas subsidiary is located. Moreover, the division will push forward in pursuit of a collaborative framework for sales of *Atonik*, a biostimulant marketed globally by our subsidiary Asahi Chemical Mfg. Co., Ltd., and actively engage in sales initiatives in that regard.

d. Acceleration and enhancement of development efforts

The Research and Development Division's efforts to speed up the development process involve initiatives geared toward developing candidate agents, including active support for OAT & IIL India Laboratories Private Limited's search for new compounds. Moreover, the division is moving forward with development of our mainstay products and *Flutianil*, a new fungicide, while accordingly upgrading and expanding efficacy and safety data suitable for Japan's registration system for agricultural chemicals, and working to enhance mechanisms for addressing the anticipated deployment in many more countries through the use of "Codex MRL (Note)" which acts as a global standard.

e. Cost reductions and reinforcement of our financial standing

The Production and Administrative Division will take further steps to reduce costs by streamlining operations, and also through global materials procurement and manufacturing. The division will also work toward reinforcing our financial standing to lay the groundwork for investment in R&D and capital investments.

We will engage in company-wide initiatives to achieve these goals, while reinforcing programs geared toward developing a global workforce focused on growing markets worldwide. Meanwhile, we will take steps to strengthen our systems of corporate governance and compliance in order to uphold our responsibilities to society as a corporation capable of making broad-ranging contributions.

(Note) Codex MRL: The Codex Maximum Residue Limits are internationally-recognized standards with respect to pesticide residues in agricultural products and animal feeds, and veterinary pharmaceutical chemical residues, stipulated by the Codex Alimentarius Commission (CAC), a body of the Food and Agriculture Organization of the United Nations (FAO) and World Health Organization (WHO). In this regard, steps need to be taken to ensure that safety regulations of CAC member nations are consistent with international regulations in order to minimize non-tariff barriers to trade arising from regulatory differences between nations.

4. Consolidated financial statements

(1) Consolidated balance sheet

(Millions of yen)

	As of December 31, 2013	As of December 31, 2014
Assets		
Current assets		
Cash and deposits	1,886	1,442
Notes and accounts receivable - trade	2,738	2,401
Merchandise and finished goods	1,900	2,024
Work in process	377	386
Raw materials	338	364
Advance payments - trade	115	43
Deferred tax assets	1	24
Short-term loans receivable from subsidiaries and associates	–	115
Other	125	195
Allowance for doubtful accounts	(0)	(15)
Total current assets	7,482	6,983
Non-current assets		
Property, plant and equipment		
Buildings and structures	467	735
Machinery, equipment and vehicles	96	121
Land	423	480
Construction in progress	271	35
Other	39	186
Total property, plant and equipment	1,299	1,559
Intangible assets		
Goodwill	508	334
Software	92	93
Other	29	35
Total intangible assets	630	462
Investments and other assets		
Investment securities	165	212
Shares of subsidiaries and associates	39	59
Deferred tax assets	367	297
Claims provable in bankruptcy, claims provable in rehabilitation and other	–	44
Other	63	99
Allowance for doubtful accounts	–	(44)
Total investments and other assets	636	669
Total non-current assets	2,566	2,691
Total assets	10,048	9,675

(Millions of yen)

	As of December 31, 2013	As of December 31, 2014
Liabilities		
Current liabilities		
Notes and accounts payable - trade	1,873	1,705
Short-term loans payable	2,935	1,404
Accounts payable - other	310	458
Income taxes payable	205	84
Deferred tax liabilities	69	–
Provision for sales returns	44	71
Provision for sales rebates	63	51
Provision for bonuses	27	28
Provision for loss on abandonment of returned product	–	33
Other	157	196
Total current liabilities	5,689	4,033
Non-current liabilities		
Long-term loans payable	394	1,130
Long-term deposits received	272	248
Provision for directors' retirement benefits	26	11
Provision for retirement benefits	307	–
Net defined benefit liability	–	374
Other	27	23
Total non-current liabilities	1,029	1,789
Total liabilities	6,718	5,822
Net assets		
Shareholders' equity		
Capital stock	461	461
Capital surplus	2,496	2,717
Retained earnings	358	707
Treasury shares	–	(78)
Total shareholders' equity	3,317	3,808
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(34)	(2)
Foreign currency translation adjustment	(86)	(29)
Remeasurements of defined benefit plans	–	(65)
Total accumulated other comprehensive income	(120)	(97)
Subscription rights to shares	4	3
Minority interests	129	138
Total net assets	3,330	3,852
Total liabilities and net assets	10,048	9,675

(2) Consolidated statement of income and consolidated statement of comprehensive income

Consolidated statement of income

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Net sales	10,856	11,405
Cost of sales	6,499	6,751
Gross profit	4,356	4,654
Selling, general and administrative expenses	3,646	3,990
Operating income	709	663
Non-operating income		
Interest income	24	18
Dividend income	4	4
Foreign exchange gains	36	18
Other	5	4
Total non-operating income	71	45
Non-operating expenses		
Interest expenses	38	33
Going public expenses	–	19
Share issuance cost	–	4
Other	–	0
Total non-operating expenses	38	56
Ordinary income	743	652
Extraordinary losses		
Loss on retirement of non-current assets	0	0
Office transfer expenses	–	8
Company name change expenses	–	16
Loss on valuation of inventories	–	43
Provision for loss on abandonment of returned product	–	33
Other	–	4
Total extraordinary losses	0	106
Income before income taxes and minority interests	743	546
Income taxes - current	271	207
Income taxes - deferred	11	(4)
Total income taxes	283	203
Income before minority interests	459	343
Minority interests in loss	(7)	(5)
Net income	466	348

Consolidated statement of comprehensive income

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Income before minority interests	459	343
Other comprehensive income		
Valuation difference on available-for-sale securities	(1)	31
Foreign currency translation adjustment	(107)	71
Total other comprehensive income	(109)	102
Comprehensive income	350	445
Comprehensive income attributable to		
Comprehensive income attributable to owners of parent	378	436
Comprehensive income attributable to minority interests	(28)	8

(3) Consolidated statement of changes in equity

Fiscal year ended December 31, 2013

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	407	3,441	(1,107)	–	2,741
Changes of items during period					
Issuance of new shares	54	54			108
Transfer to retained earnings from capital surplus		(1,000)	1,000		
Net income			466		466
Purchase of treasury shares					
Retirement of treasury shares					
Disposal of treasury shares					
Net changes of items other than shareholders' equity					
Total changes of items during period	54	(945)	1,466	–	575
Balance at end of current period	461	2,496	358	–	3,317

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total accumu-lated other comprehen-sive income			
Balance at beginning of current period	(32)	–	–	(32)	–	–	2,709
Changes of items during period							
Issuance of new shares							108
Transfer to retained earnings from capital surplus							
Net income							466
Purchase of treasury shares							
Retirement of treasury shares							
Disposal of treasury shares							
Net changes of items other than shareholders' equity	(1)	(86)	–	(87)	4	129	47
Total changes of items during period	(1)	(86)	–	(87)	4	129	621
Balance at end of current period	(34)	(86)	–	(120)	4	129	3,330

Fiscal year ended December 31, 2014

(Millions of yen)

	Shareholders' equity				
	Capital stock	Capital surplus	Retained earnings	Treasury shares	Total shareholders' equity
Balance at beginning of current period	461	2,496	358	–	3,317
Changes of items during period					
Issuance of new shares					
Transfer to retained earnings from capital surplus					
Net income			348		348
Purchase of treasury shares				(250)	(250)
Retirement of treasury shares		(72)		72	
Disposal of treasury shares		292		100	392
Net changes of items other than shareholders' equity					
Total changes of items during period		220	348	(78)	491
Balance at end of current period	461	2,717	707	(78)	3,808

	Accumulated other comprehensive income				Subscription rights to shares	Minority interests	Total net assets
	Valuation difference on available-for-sale securities	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total accumulated other comprehensive income			
Balance at beginning of current period	(34)	(86)	–	(120)	4	129	3,330
Changes of items during period							
Issuance of new shares							
Transfer to retained earnings from capital surplus							
Net income							348
Purchase of treasury shares							(250)
Retirement of treasury shares							
Disposal of treasury shares							392
Net changes of items other than shareholders' equity	31	57	(65)	22	(0)	8	31
Total changes of items during period	31	57	(65)	22	(0)	8	522
Balance at end of current period	(2)	(29)	(65)	(97)	3	138	3,852

(4) Consolidated statement of cash flows

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Cash flows from operating activities		
Income before income taxes and minority interests	743	546
Depreciation	146	137
Amortization of goodwill	174	174
Increase (decrease) in provision for directors' retirement benefits	2	(15)
Increase (decrease) in provision for retirement benefits	(15)	(307)
Increase (decrease) in net defined benefit liability	–	272
Increase (decrease) in allowance for doubtful accounts	(2)	58
Increase (decrease) in provision for sales returns	3	27
Increase (decrease) in provision for sales rebates	15	(10)
Increase (decrease) in provision for loss on abandonment of returned product	–	33
Increase (decrease) in provision for bonuses	(0)	1
Increase (decrease) in provision for settlement package	(60)	–
Interest and dividend income	(29)	(23)
Interest expenses	38	33
Foreign exchange losses (gains)	(38)	(14)
Going public expenses	–	19
Share issuance cost	–	4
Loss on retirement of non-current assets	0	0
Office transfer expenses	–	8
Decrease (increase) in notes and accounts receivable - trade	(192)	288
Decrease (increase) in inventories	(228)	(161)
Decrease (increase) in advance payments	3	72
Increase (decrease) in notes and accounts payable - trade	494	(167)
Increase (decrease) in accounts payable - other	(156)	94
Other, net	(51)	(59)
Subtotal	846	1,012
Interest and dividend income received	16	29
Interest expenses paid	(38)	(32)
Payments of office transfer expenses	–	(8)
Income taxes paid	(150)	(336)
Net cash provided by (used in) operating activities	673	665
Cash flows from investing activities		
Net decrease (increase) in time deposits	(201)	10
Purchase of property, plant and equipment	(351)	(251)
Purchase of intangible assets	(51)	(44)
Purchase of investments in unconsolidated subsidiaries	(19)	(20)
Proceeds from sales of investment securities	–	3
Payments of loans receivable	(1)	–
Payments of loans receivable from subsidiaries and associates	–	(115)
Collection of loans receivable	0	0
Payments for lease deposits	(1)	(39)
Other, net	1	1
Net cash provided by (used in) investing activities	(625)	(453)

(Millions of yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Cash flows from financing activities		
Net increase (decrease) in short-term loans payable	340	(1,500)
Proceeds from long-term loans payable	–	1,000
Repayments of long-term loans payable	(306)	(295)
Repayments of lease obligations	(9)	(7)
Proceeds from issuance of common shares	108	–
Purchase of treasury shares	–	(250)
Proceeds from sales of treasury shares	–	388
Proceeds from issuance of subscription rights to shares	4	–
Proceeds from share issuance to minority shareholders	158	–
Going public expenses	–	(19)
Other, net	–	(0)
Net cash provided by (used in) financing activities	294	(684)
Effect of exchange rate change on cash and cash equivalents	(77)	36
Net increase (decrease) in cash and cash equivalents	265	(436)
Cash and cash equivalents at beginning of period	1,354	1,619
Cash and cash equivalents at end of period	1,619	1,183

(5) Notes to consolidated financial statements

Notes on premise of going concern

No items to report.

Changes in accounting policies

Application of the accounting standard for retirement benefits, etc.

The Company has applied the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, May 17, 2012) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, May 17, 2012), except for the provisions of the main clauses of Paragraph 35 of the Accounting Standard for Retirement Benefits and Paragraph 67 of the Guidance on Accounting Standard for Retirement Benefits, effective from the end of the fiscal year under review. Accordingly, the Company has changed its accounting policy to one that recognizes the difference between retirement benefit obligations and plan assets as net defined benefit liability and recorded unrecognized actuarial gains and losses, unrecognized prior service costs and effect of the changes in accounting policies under net defined benefit liability.

Application of the Accounting Standard for Retirement Benefits and Guidance on Accounting Standard for Retirement Benefits is in line with the transitional measures provided in Paragraph 37 of the Accounting Standard for Retirement Benefits. In accordance with such measures, the effect of the change has been added to or deducted from remeasurements of defined benefit plans under accumulated other comprehensive income as of December 31, 2014.

As a result of the change, as of December 31, 2014, net defined benefit liability of ¥374 million was recorded and accumulated other comprehensive income decreased by ¥65 million.

Segment information, etc.

a. Segment information

As the Group consists of a single business segment, the AgriTechno Business, this information is omitted.

Per share information

(Yen)

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Net assets per share	1,125.60	1,379.32
Net income per share	167.11	129.44
Diluted earnings per share	–	122.21

Notes: 1. Diluted earnings per share for the fiscal year ended December 31, 2013 had a balance of subscription rights to shares. However, as the Company's shares were unlisted, the average share price for the fiscal year was not available and therefore no amount is stated.

2. The basis of calculation of net income per share is as follows.

	Fiscal year ended December 31, 2013	Fiscal year ended December 31, 2014
Net income per share		
Net income (millions of yen)	466	348
Amounts not attributable to common shareholders (millions of yen)	–	–
Net income attributable to common shares (millions of yen)	466	348
Average number of shares outstanding during the period (shares)	2,792,523	2,691,370
Diluted earnings per share		
Adjustments in net income (millions of yen)	–	–
Increase in number of common shares (shares)	–	159,278
[Subscription rights to shares included in the above (shares)]	–	[159,278]
Descriptions of potential shares that were not included in the computation of diluted earnings per share because they do not have dilutive effect.	Subscription rights to shares approved at the Extraordinary General Meeting of Shareholders on August 29, 2013 (308 subscription rights to shares)	–

Significant subsequent events

No items to report.