Ishihara Sangyo Kaisha

Annual Report 2008

Year Ended March 31, 2008

ISK

Contents

Consolidated Financial Highlights

For the years ended March 31, 2008, 2007 and 2006

	Millions of yen			Thousands of U.S. dollars (Note)
	2008	2007	2006	2008
For the years ended March 31,				
Net sales:				
Domestic	¥ 50,839	¥ 46,376	¥ 46,671	$ 507,531
Overseas	66,439	59,785	57,696	663,262
Total	117,278	106,161	104,367	1,170,793
Sales classified by business segment:				
Inorganic chemicals	59,410	57,641	55,825	593,093
Organic chemicals	48,893	43,196	42,180	488,096
Construction	7,764	3,933	4,789	77,505
Other businesses	1,211	1,391	1,573	12,099
Total	117,278	106,161	104,367	1,170,793
Operating income	16,013	12,711	13,392	159,856
Net income (loss)	2,643	(3,935)	(10,774)	26,385
Depreciation and amortization of property, plant and equipment	5,023	5,179	5,307	50,146
Research and development costs	6,457	6,398	5,900	64,459
At the year end				
Current assets	103,065	115,861	100,041	1,028,904
Total assets	177,407	193,176	170,489	1,771,059
Current liabilities	82,299	88,728	85,902	821,593
Net assets	46,814	45,692	47,678	467,342

	Yen			U.S. dollars (Note)
Per share data				
Net income (loss)	¥ 6.87	¥ (10.54)	¥ (28.93)	$ 0.0686
Net assets	121.65	118.28	127.20	1.2144

Number of employees (as of March 31)	1,852	1,851	1,882	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥100.17 = U.S.$1.00, the rate of exchange prevailing on March 31, 2008.

Kenzo Oda
President

In fiscal 2007, there were growing signs of a global economic slowdown on the back of a significant decline in housing investment and worsening confusion in financial markets, stemming from the subprime mortgage crisis in the United States. Asian economies grew steadily overall, although the second half of the fiscal year brought signs of declines in investments and exports from China, whose economy appeared to overheat. In Europe, economic conditions were healthy, driven by solid capital spending, but slackened moderately in the second half of the fiscal year.

In the Japanese economy, exports increased, mainly to developing countries, although domestic demand slumped due to a decline in construction starts and other factors. In the second half of the year, corporate earnings worsened due to falling share prices and the yen's appreciation, as well as the growing fallout from the subprime mortgage problem and soaring prices of primary products. As a result, the economy showed signs of slowing, making the corporate business climate even more challenging.

Against this backdrop, the Group continued implementing its third medium-term management plan, covering the three-year period from April 2006 to March 2009. During the year, we pursued business developments in accordance with initiatives outlined in the medium-term plan.

Sales of inorganic chemicals increased, with the titanium dioxide business posting higher exports to Asia and the functional and electronic materials business benefiting from higher sales of TiO_2 for deNOx catalyst. However, surging energy costs and soaring prices of raw materials and auxiliary materials drove costs up, leading to a decline in earnings.

In organic chemicals, we recorded increases in both sales and income. This was attributable to healthy overseas sales of proprietary agrochemicals, a major income source for the Group, and to strong currencies in Europe, our principal export market.

Other income and expenses deteriorated due to a number of factors. These included higher interest payments stemming from increased interest rates and a syndicate loan taken out at the end of the previous fiscal year, as well as a foreign exchange loss stemming from the yen's appreciation at the end of the fiscal year.

Among extraordinary gains and losses, the Company generated proceeds from sales of investments in securities, but also made an additional provision for losses in association with the Ferosilt recovery. Nevertheless, there was a significant improvement in extraordinary gains and losses compared with the previous year.

As a result of the above, consolidated net sales increased ¥11,117 million year-on-year, to ¥117,278 million (US$1,171 million). Operating income grew ¥3,302 million, to

¥16,013 million (US$160 million), and income before extraordinary gains and losses rose ¥2,144 million, to ¥13,206 million (US$132 million). Net income rose by ¥6,578 million, to ¥2,643 million (US$26 million), representing a return to profitability for the first time in three years.

The Company expresses its sincerest apologies to shareholders, business partners, and all concerned parties for the repeated losses incurred as a result of the Ferosilt recovery issue. However, we are pleased to report that with the additional allocation of ¥8,739million (US$87 million) for recovery work, we have reached the final stage with respect to the allocation of funds for this purpose.

The above-mentioned results for net sales, operating income, and income before extraordinary gains and losses have enabled the Company to meet the targets set under its third medium-term management plan. This success is attributable to reforms to our corporate foundation and the steady implementation of growth strategies for ISK's various business segments, despite the extreme and unprecedented difficulties experienced in connection with the Ferosilt issue.

Unfortunately, the Company has yet to achieve another important task, which is to regain the trust of society. In September 2007, ISK discovered that some executives and employees had been responsible for the illegal dumping of industrial waste containing organic residue, a by-product of the process of synthesizing organic intermediates. Although we immediately made this public, the incident has once more greatly damaged public confidence in the Company. In January 2008, it was found that ISK had failed to report to authorities that its smoke generating facility had exceeded emission standards in the previous fiscal year. To put an end to this sort of transgression, in October 2007 we established an investigation committee made up of external lawyers to conduct a thorough investigation of the causes. Based on the Committee's report, we took punitive action against those concerned. In March 2008, ISK voluntarily implemented a "compliance check" of all Group employees. Seven cases of inappropriate activities revealed as a result of the check have been reported to the relevant authorities and have been made public in a press release issued in May 2008.

Most of the inappropriate activities uncovered by the compliance checks have already been dealt with or are subject to measures being initiated under guidance from authorities. In fiscal 2008, ISK will work as one to resolve any problems and ensure that there is no recurrence of such incidents. We will endeavor to regain the trust of society and the people of Yokkaichi City, which has been damaged by successive transgressions following the Ferosilt incident.

Next, I would like to announce policies for each of the Company's business segments.

Our titanium dioxide business enjoys an unassailable position as leader in Japan. Nonetheless, the profitability of the business has been severely compromised by sudden and considerable increases in the price of raw materials, fuel, and shipping costs in recent years. For the time being, therefore, we will strive to revise selling prices and focus on profitability rather than expanding volume.

In functional and electronic materials, we forecast an increase in sales of TiO2 for deNOx catalyst. Positioned as our third core business, this is a development-led, highly profitable business that contributes to the growth of the inorganic materials business and corporate value. However, the performance of this segment is not satisfactory.

In the field of electronic materials, we will continue the smooth transition to next-generation products that anticipate customer needs. At the same time, we will accelerate development activities with the aim of expediting the establishment of new businesses and stimulating demand for new materials developed through the Group's technological capabilities.

In agrochemicals, we aim to achieve sales of ¥70,000 million (US$699 million) in its second phase of growth. By increasing the registration of strategic products and adopting appropriate plans for generic products, we will strive to expand sales of existing mainstay chemicals and achieve profits and competitiveness through strengthened cost-cutting initiatives. We will also work to broaden our lineup by introducing products made by other companies and by swiftly launching newly developed products in the market.

In fiscal 2008, the Group will formulate its next medium-term management plan. Despite the challenges experienced over the past three years, we will put all of these problems behind us and once again move ahead with the aim of ensuring sustainable growth and earnings by harnessing the Company's true technological capabilities.

We look forward to your ongoing support and understanding as we work toward these goals.

Kenzo Oda
President

Inorganic Chemicals

In the titanium dioxide business, tight supply and demand, primarily in Asia, led to a recovery in market prices. In this environment, we actively promoted sales activities while taking steps to revise our selling prices. As a result, sales increased to the Group's core export market of Asia, centered on China, while higher selling prices also bolstered segment revenue.

In the functional and electronic materials business, we strove to increase sales in a diverse range of product applications. Higher sales of TiO_2 for deNOx catalyst contributed to segment sales growth. In both businesses, earnings were adversely affected by higher manufacturing costs accompanying rising energy costs and soaring raw material prices. This was despite efforts to reduce costs and revise selling prices.

As a result, segment sales, including sales of other inorganic chemicals, rose ¥1,769 million, to ¥59,410 million (US$593 million). Operating income declined ¥1,395 million year-on-year, to ¥2,704 million (US$27 million).

Organic Chemicals

The global agrochemicals market experienced a reshuffling among European and U.S. conglomerates, the emergence of oligopolies, and an increasingly evident difference in business scale. Such restructuring took place in Japan as well, creating a challenging operating environment. Under these circumstances, the Group worked to achieve its second phase of growth by developing new global markets for existing and new products, centering on our proprietary compounds, which are internationally competitive. We also aim to reinforce our own promotional structure, which includes potential business alliances with other companies.

During the year, ISK posted substantial growth in sales of agrochemicals. We benefited from enormous demand for fungicides as a result of abnormal weather conditions (sustained rain and cool temperatures) in Europe, as well as the introduction of proprietary insecticides and strong European currencies. We recorded an increase in overall sales, owing to steady sales growth in the United States centering on herbicides, despite a fall in sales in Asia. In Japan, sales dipped slightly due to a decrease in sales of chemicals developed by other companies amid a difficult sales environment. However, the Company posted substantial increases in combined domestic and overseas sales and profit for agrochemicals.

In the pharmaceuticals business, we posted higher sales of an active pharmaceutical ingredient that ISK manufactures under consignment.

As a result, segment sales, including intermediates, increased ¥5,697 million, to ¥48,893 million (US$488 million). Operating income grew ¥4,457 million, to ¥15,123 million (US$151 million).

Construction

Sales in the construction business increased, boosted by orders received for large projects for new plant facilities. As a result, segment sales increased ¥3,831 million, to ¥7,764 million (US$78 million), and operating income rose ¥207 million, to ¥1,143 million (US$11 million).

Other Businesses

The Company's other businesses center on the activities of our trading company subsidiaries. In the year under review, sales fell ¥180 million, to ¥1,211 million (US$12 million), and operating income decreased ¥161 million, to ¥217 million (US$2 million).

Consolidated Balance Sheets

As of March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Assets			
Current assets:			
Cash and time deposits (Notes 5 and 14)	¥28,393	¥ 42,349	$ 283,452
Trade receivables:			
Notes	2,681	3,758	26,769
Accounts	27,639	28,617	275,923
	30,320	32,375	302,692
Less allowance for doubtful receivables	(438)	(425)	(4,371)
Trade receivables, net	29,882	31,950	298,321
Inventories (Note 4)	34,308	30,527	342,496
Deferred income taxes (Note 9)	7,103	8,233	70,912
Other current assets	3,379	2,802	33,723
Total current assets	103,065	115,861	1,028,904
Property, plant and equipment (Note 5):			
Land	6,411	6,430	64,005
Buildings and structures	49,364	48,764	492,806
Machinery and equipment	126,990	125,153	1,267,743
Construction in progress	3,712	2,980	37,057
	186,477	183,327	1,861,611
Less accumulated depreciation	(132,012)	(129,029)	(1,317,882)
Property, plant and equipment, net	54,465	54,298	543,729
Investments and other assets:			
Investments in securities (Notes 3 and 5):			
Unconsolidated subsidiaries and affiliates	2,023	1,813	20,198
Other	2,741	6,129	27,363
Total investments in securities	4,764	7,942	47,561
Long-term loans	297	400	2,964
Goodwill	438	634	4,372
Deferred income taxes (Note 9)	13,651	13,210	136,283
Other	727	831	7,246
Total investments and other assets	19,877	23,017	198,426
Total assets	¥177,407	¥193,176	$ 1,771,059

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

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Note 5)	¥ 29,241	¥ 28,529	$ 291,909
Current portion of long-term debt (Note 5)	9,594	10,716	95,777
Trade payables:			
Notes	3,157	6,119	31,517
Accounts	15,259	13,243	152,330
	18,416	19,362	183,847
Accrued income taxes (Note 9)	493	707	4,924
Accrued expenses	5,055	6,242	50,460
Accrued bonuses	585	582	5,838
Accrual for periodic repairs	177	61	1,763
Reserve for Ferosilt removal	14,019	16,591	139,956
Reserve for implementation of environmental and safety arrangements	180	—	1,797
Other current liabilities	4,539	5,938	45,322
Total current liabilities	82,299	88,728	821,593
Long-term liabilities:			
Long-term debt (Note 5)	24,710	33,044	246,680
Accrued retirement benefits for employees (Note 7)	6,895	6,696	68,832
Accrued retirement benefits for directors and corporate auditors	91	372	907
Deferred income taxes (Note 9)	318	116	3,175
Reserve for Ferosilt removal	12,990	15,266	129,680
Reserve for implementation of environmental and safety arrangements	400	—	3,993
Other long-term liabilities	2,890	3,262	28,857
Total long-term liabilities	48,294	58,756	482,124
Contingent liabilities (Note 13)			
Net assets:			
Shareholders' equity (Note 10):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 387,839,431 shares in 2008			
384,360,431 shares in 2007	42,029	42,029	419,572
Capital surplus	9,231	8,594	92,158
Retained earnings deficit	(4,672)	(7,315)	(46,641)
Less treasury stock, at cost:			
3,345,349 shares in 2008	(632)	(33)	(6,316)
139,211 shares in 2007			
Total shareholders' equity	45,956	43,275	458,773
Valuation, translation adjustments and other:			
Net unrealized holding gain on securities (Note 3)	289	1,974	2,890
Unrealized deferred gain on hedges	—	3	—
Translation adjustments	495	192	4,943
Adjustment for projected benefit obligation of an overseas subsidiary	36	—	355
Total valuation, translation adjustments and other	820	2,169	8,188
Minority interests in consolidated subsidiaries	38	248	381
Total net assets	46,814	45,692	467,342
Total liabilities and net assets	¥177,407	¥193,176	$1,771,059

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

Consolidated Statements of Operations

For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Net sales (Note 18)	¥ 117,278	¥106,161	$1,170,793
Cost of sales (Note 6)	78,945	72,650	788,113
Gross profit	38,333	33,511	382,680
Selling, general and administrative expenses (Note 6)	22,320	20,800	222,824
Operating income (Note 18)	16,013	12,711	159,856
Other income:			
Interest and dividend income	323	291	3,224
Equity in earnings of affiliates	440	252	4,389
Foreign exchange gain	—	274	—
Other	359	209	3,588
	1,122	1,026	11,201
Other expenses:			
Interest expense	1,938	1,280	19,348
Loss on disposition of inventories	63	275	624
Retirement benefit expense	430	434	4,293
Foreign exchange loss	949	—	9,472
Other	549	686	5,479
	3,929	2,675	39,216
Income before extraordinary gains and losses	13,206	11,062	131,841
Extraordinary gains:			
Gain on prior-year adjustment	54	—	539
Gain on sales of investments in securities	1,336	2,198	13,339
Reversal of reserve for Ferosilt removal	28	254	278
Gain on insurance claim	827	—	8,255
Other	11	28	109
	2,256	2,480	22,520
Extraordinary losses:			
Loss on disposal of fixed assets	353	269	3,523
Loss on impairment of fixed assets (Note 8)	31	1,006	309
Loss on devaluation of investments in securities	352	48	3,517
Reserve for Ferosilt removal	8,739	18,907	87,242
Reserve for implementation of environmental and safety arrangements	580	—	5,790
Other	167	124	1,666
	10,222	20,354	102,047
Income (loss) before income taxes and minority interests	5,240	(6,812)	52,314
Income taxes (Note 9):			
Current	866	972	8,648
Deferred	1,726	(3,899)	17,235
Minority interests	5	50	46
Net income (loss)	¥ 2,643	¥ (3,935)	$ 26,385

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

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007

		Millions of yen											
		Shareholders' equity					Valuation, translation adjustments and other						
	Number of shares of common stock in issue	Common stock	Capital surplus	Retained earnings deficit	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Unrealized deferred gain on hedges	Translation adjust-ments	Adjustment for projected benefit obligation of an overseas subsidiary	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2006	384,360,431	¥ 42,029	¥ 8,594	¥ (2,564)	¥ (2,829)	¥ 45,230	¥ 3,188	¥ (2)	¥ (1,063)	¥ —	¥ 2,123	¥ 325	¥ 47,678
Net loss for the year ended March 31, 2007	—	—	—	(3,935)	—	(3,935)	—	—	—	—	—	—	(3,935)
Acquisition of treasury stock	—	—	—	—	(27)	(27)	—	—	—	—	—	—	(27)
Disposition of treasury stock	—	—	(0)	(816)	2,823	2,007	—	—	—	—	—	—	2,007
Other changes	—	—	—	—	—	—	(1,214)	5	1,255	—	46	(77)	(31)
Balance at March 31, 2007	384,360,431	¥ 42,029	¥ 8,594	¥ (7,315)	¥ (33)	¥ 43,275	¥ 1,974	¥ 3	¥ 192	¥ —	¥ 2,169	¥ 248	¥ 45,692
Net income for the year ended March 31, 2008	—	—	—	2,643	—	2,643	—	—	—	—	—	—	2,643
Changes due to a merger	3,479,000	—	637	—	(563)	74	—	—	—	—	—	—	74
Acquisition of treasury stock	—	—	—	—	(38)	(38)	—	—	—	—	—	—	(38)
Disposition of treasury stock	—	—	—	(0)	1	1	—	—	—	—	—	—	1
Other changes	—	—	—	—	—	—	(1,685)	(3)	303	36	(1,349)	(210)	(1,559)
Balance at March 31, 2008	387,839,431	¥ 42,029	¥ 9,231	¥ (4,672)	¥ (632)	¥ 45,956	¥ 289	¥ —	¥ 495	¥ 36	¥ 820	¥ 38	¥ 46,814

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

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2008 and 2007

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Valuation, translation adjustments and other						
	Common stock	Capital surplus	Retained earnings deficit	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding gain on securities	Unrealized deferred gain on hedges	Translation adjust-ments	Adjustment for projected benefit obligation of an overseas subsidiary	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2007	$ 419,572	$ 85,795	$ (73,025)	$ (324)	$ 432,018	$ 19,702	$ 31	$ 1,918	$ —	$ 21,651	$ 2,481	$ 456,150
Net income for the year ended March 31, 2008	—	—	26,385	—	26,385	—	—	—	—	—	—	26,385
Changes due to a merger	—	6,363	—	(5,624)	739	—	—	—	—	—	—	739
Acquisition of treasury stock	—	—	—	(382)	(382)	—	—	—	—	—	—	(382)
Disposition of treasury stock	—	—	(1)	14	13	—	—	—	—	—	—	13
Other changes	—	—	—	—	—	(16,812)	(31)	3,025	355	(13,463)	(2,100)	(15,563)
Balance at March 31, 2008	$ 419,572	$ 92,158	$ (46,641)	$ (6,316)	$ 458,773	$ 2,890	$ —	$ 4,943	$ 355	$ 8,188	$ 381	$ 467,342

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2008 and 2007

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	¥ 5,240	¥ (6,812)	$ 52,314
Adjustments to reconcile income (loss) before income taxes and minority interests to net cash (used in) provided by operating activities:			
Depreciation and amortization	5,023	5,470	50,146
Loss on disposal of fixed assets	117	161	1,167
Loss on devaluation of investments in securities	352	48	3,517
Loss on impairment of fixed assets	31	1,006	309
Foreign exchange loss (gain), net	180	(85)	1,793
Gain on sales of investments in securities	(1,336)	(2,198)	(13,339)
Provisions for accrued retirement benefits for employees, directors and corporate auditors	147	306	1,464
Reserve for Ferosilt removal	(4,848)	2,226	(48,397)
Reserve for implementation of environmental and safety arrangements	580	—	5,790
Interest and dividend income	(323)	(291)	(3,224)
Interest expense	1,938	1,280	19,348
Equity in earnings of affiliates	(339)	(160)	(3,383)
Other	(706)	(5)	(7,048)
Changes in operating assets and liabilities:			
Trade receivables	2,395	1,844	23,911
Inventories	(3,481)	(2,965)	(34,751)
Other current assets	(303)	763	(3,022)
Trade payables	(1,572)	3,735	(15,688)
Accrued expenses and other current liabilities	(3,122)	3,587	(31,172)
Subtotal	(27)	7,910	(265)
Interest and dividends received	322	282	3,214
Interest paid	(1,980)	(1,266)	(19,768)
Gain on insurance claim	706	—	7,047
Income taxes paid	(1,224)	(673)	(12,222)
Net cash (used in) provided by operating activities	(2,203)	6,253	(21,994)
Cash flows from investing activities			
Increase in time deposits	(20)	(100)	(203)
Decrease in time deposits	100	20	1,001
Purchases of property, plant and equipment	(5,353)	(5,645)	(53,435)
Purchases of short-term investments and investments in securities	(792)	(21)	(7,908)
Proceeds from sales of property, plant and equipment	329	113	3,282
Proceeds from maturity and sales of short-term investments and investments in securities	2,730	3,796	27,254
Loans made	(153)	(450)	(1,526)
Collection of loans made	268	193	2,672
Purchases of treasury stock from minority shareholders	—	(250)	—
Other, net	146	—	1,457
Net cash used in investing activities	(2,745)	(2,344)	(27,406)
Cash flows from financing activities			
Increase in short-term bank loans, net	712	111	7,104
Proceeds from long-term bank loans	1,260	16,660	12,579
Repayment of long-term bank loans	(10,724)	(4,125)	(107,049)
Purchases of treasury stock	(38)	(27)	(381)
Proceeds from sales of treasury stock	1	2,008	13
Net cash (used in) provided by financing activities	(8,789)	14,627	(87,734)
Effect of exchange rate changes on cash and cash equivalents	(139)	309	(1,390)
(Decrease) increase in cash and cash equivalents	(13,876)	18,845	(138,524)
Cash and cash equivalents at beginning of year	42,249	23,404	421,773
Cash and cash equivalents at end of year (Note 14)	¥ 28,373	¥ 42,249	$ 283,249

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

Notes to Consolidated Financial Statements

Years ended March 31, 2008 and 2007

1. Basis of Preparation of Consolidated Financial Statements

Ishihara Sangyo Kaisha, Ltd. (the "Company") and its domestic consolidated subsidiaries maintain their accounts and records in accordance with accounting principles generally accepted in Japan. Its overseas consolidated subsidiaries maintain their accounts in conformity with the requirements of their respective countries of domicile. The accompanying consolidated financial statements 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 Law of Japan.

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥100.17 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2008. 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 as of and for the year ended March 31, 2008 consist of the accounts of the Company, ISK Bioscience K.K., ISK Singapore Pte. Ltd., the ISK Americas Incorporated Group (5 subsidiaries), ISK Biosciences Europe S.A. Group (3 subsidiaries), ISK Taiwan Co., Ltd., Fuji Titanium Industry Co., Ltd., Ishihara Techno Corporation, and ISK Engineering Corporation.

Ishihara Enterprise & Co., Inc. and ISK Distribution Service Co., Ltd., which were consolidated subsidiaries, were merged into the Company on May 1, 2007 and October 1, 2007, respectively.

All assets and liabilities of the consolidated subsidiaries are revalued at fair value as of their respective dates of acquisition by the full value method, if applicable. Goodwill and negative goodwill are amortized over periods ranging from five years to twenty years on a straight-line basis in accordance with the accounting practices of their respective countries of domicile if the goodwill and negative goodwill are material, or charged to income when incurred if immaterial.

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

The Company's remaining subsidiaries have not been consolidated because they are not significant in terms of total assets, retained earnings, net sales and net income. Investment in a significant affiliate is stated at its underlying net equity after the elimination of intercompany profit. Investments in unconsolidated subsidiaries and the remaining affiliates companies are stated at cost.

(b) Foreign currency translation

Foreign currency transactions

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

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

Financial statements of overseas consolidated subsidiaries

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

(c) Cash and cash equivalents

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

(d) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are valued at cost determined by the weighted-average method. Inventories of the overseas consolidated subsidiaries are stated at the lower of cost or market, the cost of inventories of ISK Singapore Pte. Ltd. being determined by the moving average method and the cost of those of other subsidiaries, by the weighted-average method.

(e) Securities

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

(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. The Company and its domestic consolidated subsidiaries do not hold or issue derivatives for speculative trading purposes.

The Company and its domestic consolidated subsidiaries are exposed to market risk arising from their forward foreign exchange contracts and interest-rate swap contracts. The Company and its domestic consolidated subsidiaries are also exposed to the risk of credit loss in the event of nonperformance by the counterparties to these contracts; however, they do not anticipate nonperformance by any of these counterparties, all of whom are financial institutions with high credit ratings.

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 net assets. Receivables and payables hedged by forward foreign exchange contracts which meet certain conditions are translated at their contracted rates. 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.

(g) Property, plant and equipment and depreciation

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) Research and development costs and computer software

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

(i) 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.

(j) Accrual for Periodic Repairs

The principal items of equipment of the Company installed are subject to periodic overhaul every two or more years. The Company has provided an accrual for periodic repairs based on the estimated costs for overhauling this equipment.

(k) Reserve for Ferosilt removal

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

(l) Reserve for implementation of environmental and safety arrangements

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

The Company investigated the status of its environmental and safety arrangements in the Yokkaichi factory and determined to record a reserve for implementation of environmental and safety arrangements to provide for future payments related to maintenance of the factory and disposal of idle assets. As a result, income before income taxes and minority interests decreased by ¥580 million ($5,790 thousand) for the year ended March 31, 2008 from the corresponding amount which would have been recorded under the previous method.

(m) Leases

The Company and its domestic consolidated subsidiaries lease certain equipment under non-cancelable lease agreements referred to as finance leases. Finance leases other than those which transfer the ownership of the leased property to the Company and its domestic consolidated subsidiaries are accounted for as operating leases.

The overseas consolidated subsidiaries lease certain equipment under non-cancelable lease agreements. These leased assets are generally classified and accounted for by methods generally accepted in the respective countries in which they are incorporated.

(n) Retirement benefits

The Company and its domestic consolidated subsidiaries have defined benefit pension plans and retirement benefit plans. The retirement benefit plans provide for lump-sum payments to eligible employees upon retirement and are determined by reference to their basic salary, years of service and certain other factors.

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the balance sheet date. The net retirement benefit obligation at transition of ¥6,450 million ($64,395 thousand) is being amortized by the straight-line method over a period of 15 years.

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

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

(o) Retirement benefits for directors and corporate auditors

Until the year ended March 31, 2007, accrued retirement benefits for directors and corporate auditors were recorded at an amount equal to an estimate of the amounts which would be payable to them if they had retired at the balance sheet date.

However, the Company approved a resolution to abolish the internal rule for retirement benefits for directors and corporate auditors and make a final payment at the 84th annual shareholders' meeting held on June 28, 2007. Pursuant to the resolution, the Company reversed accrued retirement benefits for directors and corporate auditors and included the outstanding payables at March 31, 2008 in "Other current liabilities" and "Other long-term liabilities". Its domestic consolidated subsidiaries record accrued retirement benefits for directors and corporate auditors at an amount equal to an estimate of the amounts which would be payable to them based on their internal rules if they were to retire at the balance sheet date.

(p) 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 domestic consolidated subsidiaries recognize the tax effect of such temporary differences in their consolidated financial statements.

3. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2008 and 2007 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized loss	Carrying value	Estimated fair value	Unrealized loss
Securities whose carrying value exceeds their estimated fair value	¥10	¥10	¥(0)	¥10	¥10	¥ (0)	$100	$100	$(0)
Total	¥10	¥10	¥(0)	¥10	¥10	¥ (0)	$100	$100	$(0)

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Equity securities	¥637	¥1,175	¥538	¥2,133	¥5,134	¥3,001	$6,361	$11,724	$5,363
Subtotal	637	1,175	538	2,133	5,134	3,001	6,361	11,724	5,363
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	220	175	(45)	32	31	(1)	2,199	1,747	(452)
Subtotal	220	175	(45)	32	31	(1)	2,199	1,747	(452)
Total	¥857	¥1,350	¥493	¥2,165	¥5,165	¥3,000	$8,560	$13,471	$4,911

The carrying value of the principal investments in non-marketable securities at March 31, 2008 and 2007 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Other securities:			
Unlisted equity securities	¥1,381	¥954	$13,792

Proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Proceeds from sales	¥2,660	¥3,706	$26,552
Gross realized gain	1,336	2,198	13,339

The redemption schedule at March 31, 2008 for held-to-maturity debt securities classified as other securities was as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ —	¥ —	¥ 10	$ —	$ —	$ 100

4. Inventories

Inventories at March 31, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Finished goods	¥15,185	¥15,302	$151,593
Work in process	5,954	5,772	59,442
Raw materials and supplies	13,169	9,453	131,461
	¥34,308	¥30,527	$342,496

5. Short-Term Bank Loans and Long-Term Debt

The average annual interest rates on short-term bank loans at March 31, 2008 and 2007 were 1.9% and 1.8%, respectively.

Long-term debt, including the current portion of long-term debt, at March 31, 2008 and 2007 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Secured bank loans	¥ 9,989	¥12,725	$ 99,720
Unsecured bank loans	24,315	31,035	242,737
	34,304	43,760	342,457
Less amounts due within one year	(9,594)	(10,716)	(95,777)
	¥24,710	¥33,044	$246,680

Interest rates applicable to long-term bank loans presented in the above table fell in the range of 1.0% to 5.9% at March 31, 2008 and 2007.

These bank loans become due through 2017.

The aggregate annual maturities of long-term debt subsequent to March 31, 2008 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 9,594	$ 95,777
2010	11,420	114,002
2011	9,350	93,338
2012	1,229	12,271
2013	833	8,321
2014 and thereafter	1,878	18,749
	¥34,304	$342,458

At March 31, 2008, the following assets were pledged as collateral for short-term bank loans, the current portion of long-term debt and long-term debt:

	Millions of yen	Thousands of U.S. dollars
Cash and time deposits	¥ 80	$ 799
Property, plant and equipment, net of accumulated depreciation	36,081	360,202
Investments in securities	75	746
	¥36,236	$361,747

Short-term bank loans, the current portion of long-term debt and long-term debt secured by such collateral at March 31, 2008 were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term bank loans	¥13,040	$130,179
Current portion of long-term debt	2,329	23,250
Long-term debt	7,660	76,470
	¥23,029	$229,899

In addition, investments in securities of ¥703 million ($7,015 thousand), buildings and structures of ¥798 million ($7,961 thousand), land of ¥561 million ($5,602 thousand) and property, plant and equipment and other of ¥1 million ($11 thousand) were pledged as collateral to secure loans from certain financial institutions at March 31, 2008. However, there were no corresponding liabilities at March 31, 2008.

6. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2008 and 2007 totaled ¥6,457 million ($64,459 thousand) and ¥6,398 million, respectively.

7. Retirement Benefits

The following table sets forth the funded and accrued status of the employees' retirement benefit plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2008 and 2007 for the Company's and the accompanying consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Retirement benefit obligation	¥(10,586)	¥(10,780)	$(105,675)
Plan assets at fair value	592	602	5,908
Unfunded retirement benefit obligation	(9,994)	(10,178)	(99,767)
Unrecognized net retirement benefit obligation at transition	3,010	3,470	30,051
Unrecognized actuarial loss (gain)	12	(52)	114
Unrecognized prior service cost	173	96	1,729
Net retirement benefit obligation	(6,799)	(6,664)	(67,873)
Prepaid pension cost	—	(32)	—
Adjustment for projected benefit obligation of an overseas subsidiary	(96)	—	(959)
Accrued retirement benefits	¥ (6,895)	¥ (6,696)	$ (68,832)

The domestic consolidated subsidiaries have adopted certain simplified methods for calculating their accrued retirement benefits as permitted under the accounting standard for employees' retirement benefits.

The components of retirement benefit expense for the years ended March 31, 2008 and 2007 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Service cost	¥ 577	¥ 606	$ 5,755
Interest cost	246	242	2,457
Expected return on plan assets	23	(10)	231
Amortization of retirement benefit obligation at transition	460	434	4,590
Amortization of unrecognized actuarial (gain) loss	(2)	10	(21)
Amortization of unrecognized prior service cost	12	7	124
Retirement benefit expense	¥ 1,316	¥ 1,289	$ 13,136

The retirement benefit expense of certain domestic consolidated subsidiaries, which calculated the retirement benefit expenses by simplified methods, has been included in service cost in the above table.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2008 and 2007 were as follows:

	2008	2007
Discount rate	2.5%	2.5%
Expected rate of return on plan assets	2.5%	2.5%

8. Loss on Impairment of Fixed Assets

For the year ended March 31, 2007, the Company recorded a loss on impairment of fixed assets. The loss on impairment of fixed assets is summarized as follows:

Location	Major use	Classification	Millions of yen
Yokkaichi Factory (Yokkaichi City, Mie Prefecture)	Idle assets	Structures, machinery and equipment	¥1,006

The aggregate loss on impairment of fixed assets of ¥1,006 million for the year ended March 31, 2007 consisted of ¥65 million on buildings, ¥425 million on machinery, ¥1 million on other assets and ¥515 million on removal expenses.

The Company acknowledges that its oil boiler facilities are unemployed assets and recorded a loss on impairment of the oil boiler facilities as an extraordinary loss since the Company achieved a reduction in energy costs through the operation of its coal boiler facilities which were completed in June 2005, and achieved a stable technical outcome by completing regular repairs to the coal boiler facilities in October 2006. As a result, the Company determined to dismantle the oil boiler facilities which had been idle and were a backup for the coal boiler facilities. The recoverable amount of the oil boiler facilities was based on their net sales price.

For the year ended March 31, 2008, the Company recorded a loss on impairment of fixed assets of ¥31 million ($309 thousand). However, the details of the impaired assets have not been presented because the related amounts of loss on impairment of fixed assets were immaterial.

The Company and its domestic consolidated subsidiaries group their assets in association with their business and production processes. Idle assets which are not anticipated to be utilized in the future and leased property are classified as individual cash-generating units. Assets, which are 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.

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rates in Japan for the years ended March 31, 2008 and 2007 were, in the aggregate, approximately 40.1% and 39.5%, respectively.

The effective tax rate reflected in the accompanying consolidated statement of income for the year ended March 31, 2008 differs for the above statutory tax rate for the following reasons:

	2008
Statutory tax rate	40.1%
Permanently non-deductible expenses	1.1
Permanently non-taxable income	(12.3)
Per capita portion of inhabitants' taxes	0.6
Foreign income taxes	0.1
Changes in valuation allowance	20.4
Tax rate differences of consolidated subsidiaries	(1.2)
Unrealized gain on intercompany transactions	1.0
Other	(0.3)
Effective tax rate	49.5%

A reconciliation of the differences between the statutory tax rate and the effective tax rate for the year ended March 31, 2007 has not been presented because loss before income taxes and minority interests was recorded.

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, 2008 and 2007 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Deferred tax assets:			
Tax loss carryforwards	¥12,842	¥12,621	$128,198
Retirement benefits	2,682	2,666	26,776
Unrealized gain on intercompany transactions	877	1,093	8,756
Write-downs of marketable and investment securities	101	2	1,003
Accrued expenses	709	827	7,076
Write-downs of inventories	154	139	1,539
Accrued bonuses	231	235	2,308
Write-downs of property, plant and equipment	124	131	1,240
Reserve for Ferosilt removal	10,831	12,775	108,124
Other	2,297	2,130	22,933
Gross deferred tax assets	30,848	32,619	307,953
Less valuation allowance	(9,436)	(9,625)	(94,199)
Total deferred tax assets	21,412	22,994	213,754
Deferred tax liabilities:			
Property, plant and equipment	(21)	(206)	(206)
Unrealized holding gain on securities	(176)	(994)	(1,762)
Other	(780)	(474)	(7,778)
Total deferred tax liabilities	(977)	(1,674)	(9,746)
Net deferred tax assets	¥20,435	¥21,320	$204,007

10. Shareholders' Equity

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

The Company's legal reserve included in retained earnings at March 31, 2008 and 2007 amounted to ¥270 million ($ 2,694 thousand) and ¥270 million, respectively.

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

Treasury stock

Movements in treasury stock during the years ended March 31, 2008 and 2007 are summarized as follows:

	Number of shares			
	2008			
	March 31, 2007	Increase	Decrease	March 31, 2008
Treasury stock	139,211	3,212,360	6,222	3,345,349

	Number of shares			
	2007			
	March 31, 2006	Increase	Decrease	March 31, 2007
Treasury stock	12,078,489	157,007	12,096,285	139,211

11. Leases

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets at March 31, 2008 and 2007, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen						Thousands of U.S. dollars		
	2008			2007			2008		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥2,312	¥1,211	¥1,101	¥2,434	¥1,290	¥1,144	$23,084	$12,088	$10,996
Other	1,001	475	526	1,145	623	522	9,991	4,738	5,253
	¥3,313	¥1,686	¥1,627	¥3,579	¥1,913	¥1,666	$33,075	$16,826	$16,249

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2008 and 2007 amounted to ¥591 million ($5,903 thousand) and ¥675 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2008 and 2007 amounted to ¥591 million ($5,903 thousand) and ¥675 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 543	$ 5,423
2010 and thereafter	1,084	10,824
	¥ 1,627	$ 16,247

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2008 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2009	¥ 322	$ 3,219
2010 and thereafter	432	4,316
	¥ 754	$ 7,535

12. 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, 2008 were as follows:

Currency-related transactions	Millions of yen			Thousands of U.S. dollars		
	Notional amount	Estimated fair value	Unrealized loss	Notional amount	Estimated fair value	Unrealized loss
Forward foreign exchange contracts						
Sell:						
U.S. dollars	¥ 1	¥ 1	¥ 0	$ 7	$ 6	$ 0
Buy:						
Japanese yen	716	733	(17)	7,155	7,325	(171)
Total	¥717	¥734	¥(17)	$7,162	$7,331	$(171)

The corresponding presentation at March 31, 2007 of the above table has been omitted since all of the currency-related transactions for the year then ended qualified for deferral hedge accounting.

13. Contingent Liabilities

At March 31, 2008, the Company and its consolidated subsidiaries were contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥219	$2,188
Endorsed notes	11	108
As guarantor for borrowings of unconsolidated subsidiaries	186	1,853
	¥416	$4,149

14. Supplemental Information to Consolidated Statements of Cash Flows

A reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and time deposits in the accompanying consolidated balance sheets as of March 31, 2008 and 2007 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Cash and time deposits	¥28,393	¥42,349	$283,452
Time deposits with a maturity in excess of three months	(20)	(100)	(203)
Cash and cash equivalents	¥28,373	¥42,249	$283,249

15. Amounts per Share

	Yen		U.S. dollars
	2008	2007	2008
Net income (loss) per share	¥ 6.87	¥ (10.54)	$0.0686
Net assets per share	121.65	118.28	1.2144

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

No diluted net income per share for the years ended March 31, 2008 is presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net income (loss) per share for the years ended March 31, 2008 and 2007 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Information on basic net income (loss) per share:			
Net income (loss)	¥2,643	¥(3,935)	$26,385
Adjusted net income (loss) attributable to common shareholders	¥2,643	¥(3,935)	$26,385
	Thousands of shares		
	2008	2007	
Weighted-average number of shares of common stock outstanding during the year	384,501	373,190	

The financial data for the computation of net assets per share at March 31, 2008 and 2007 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2008	2007	2008
Total net assets	¥46,814	¥45,692	$467,342
Deductions from total net assets:			
Minority interests:	(38)	(248)	(381)
Total net assets used in the calculation of net assets per share	¥46,776	¥45,444	$466,961
	Thousands of shares		
	2008	2007	
Number of shares used in the calculation of net assets per share	384,494	384,221	

16. Related Party Transaction

Major transactions with the principal shareholder for the years ended March 31, 2008 and 2007 were as follows:

Name of principal shareholder	Type of transaction	Transactions: Millions of yen 2008	Transactions: Millions of yen 2007	Transactions: Thousands of U.S. dollars 2008	Account name	Remaining balances: Millions of yen 2008	Remaining balances: Millions of yen 2007	Remaining balances: Thousands of U.S. dollars 2008
MITSUI & CO., LTD.	Sales of products	¥10,564	¥10,100	$105,464	Trade receivables	¥2,799	¥2,128	$27,946
	Purchases of raw materials	6,575	6,610	65,639	Trade payables	3,488	3,682	34,822

17. Business Combination

(a) Merger with Ishihara Enterprise & Co., Inc. ("Ishihara Enterprise")

On May 1, 2007, Ishihara Enterprise, a consolidated subsidiary of the Company, was merged into the Company based on a resolution approved at a meeting of the Board of Directors of the Company held on March 7, 2007, pursuant to Article 796, Paragraph 3 of the Corporation Law and a merger agreement entered March 7, 2007. Ishihara Enterprise obtained approval for the merger agreement by resolution of the shareholders at a meeting held on March 23, 2007.

Prior to the merger, Ishihara Enterprise was engaged in the real estate business. The Company determined that the merger would contribute to savings of indirect cost and enhance efficiency in group asset management by integrating the real estate business of common stock of Ishihara Enterprise into the Company's owned assets.

In connection with the merger, the Company issued 3,479,000 shares of common stock of the Company based on a conversion ratio of 3.55 shares of the Company's common stock for each share of Ishihara Enterprise.

The Company has accounted for this business combination as a merger under common control which has been eliminated as an internal transaction pursuant to "Accounting Standard for Business Combinations" (issued on October 31, 2003 by the Business Accounting Council of Japan), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan (ASBJ) Guidance No. 10 issued on December 22, 2006).

The condensed balance sheet of Ishihara Enterprise at April 30, 2007 was as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 81	$ 809
Fixed assets	3,755	37,483
Total assets	¥3,836	$38,292
Current liabilities	¥1,916	$19,129
Long-term liabilities	537	5,359
Total liabilities	2,453	24,488
Total net assets	1,383	13,804
Total liabilities and net assets	¥3,836	$38,292

(b) Merger with ISK Distribution Service Co., Ltd. ("ISK Distribution Service")

On October 1, 2007, ISK Distribution Service Co., Ltd., a consolidated subsidiary of the Company, was merged into the Company based on a merger agreement entered into between the Company and ISK Distribution Service on August 10, 2007, pursuant to Article 796, Paragraph 3 and Article 784, Paragraph 1 of the Corporation Law. ISK Distribution Service was engaged in the distribution business. The Company determined that the merger would enhance efficiency in logistic operations by centralizing its logistics from the receipt of raw materials to the packaging and shipping of products at the Yokkaichi plant of the Company. Since ISK Distribution Service was a wholly-owned subsidiary, the Company did not issue any shares in connection with this merger.

The condensed balance sheet of ISK Distribution Service at September 30, 2007 was as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥675	$6,736
Fixed assets	15	156
Total assets	¥690	$6,892
Current liabilities	¥456	$4,556
Long-term liabilities	13	127
Total liabilities	469	4,683
Total net assets	221	2,209
Total liabilities and net assets	¥690	$6,892

18. Segment Information

Business segments

The Company's and its consolidated subsidiaries' operations are classified into 4 business segments as follows:

Inorganic chemicals

This segment's business involves titanium dioxide and functional materials which are value-added products designed to take advantage of the characteristics of titanium dioxide such as electronic materials, magnetic materials and other inorganic chemicals.

Organic chemicals

This segment's business involves agrochemicals, organic intermediates and active pharmaceutical ingredients.

Construction

This segment's business involves the construction of chemical plants.

Other businesses

This segment principally involves industries which trade and distribute the Company's goods, rent real estate and so forth.

A summary of financial information by business segment for the years ended March 31, 2008 and 2007 is as follows:

	Millions of yen						
	2008						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	¥59,410	¥48,893	¥ 7,764	¥1,211	¥117,278	¥ —	¥117,278
Intersegment	—	—	5,276	3,207	8,483	(8,483)	—
Net sales	59,410	48,893	13,040	4,418	125,761	(8,483)	117,278
Operating expenses	56,706	33,770	11,897	4,201	106,574	(5,309)	101,265
Operating income	¥ 2,704	¥15,123	¥ 1,143	¥ 217	¥ 19,187	¥ (3,174)	¥ 16,013
Total assets	¥73,521	¥43,386	¥ 7,847	¥3,695	¥128,449	¥48,958	¥177,407
Depreciation and amortization	3,815	689	71	35	4,610	165	4,775
Capital expenditures	4,342	1,210	150	32	5,734	(284)	5,450

	Millions of yen						
	2007						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	¥57,641	¥43,196	¥ 3,933	¥1,391	¥106,161	¥ —	¥106,161
Intersegment	—	—	6,841	5,230	12,071	(12,071)	—
Net sales	57,641	43,196	10,774	6,621	118,232	(12,071)	106,161
Operating expenses	53,543	32,529	9,839	6,243	102,154	(8,704)	93,450
Operating income	¥ 4,098	¥10,667	¥ 935	¥ 378	¥ 16,078	¥ (3,367)	¥ 12,711
Total assets	¥69,544	¥40,575	¥ 9,382	¥6,231	¥125,732	¥67,444	¥193,176
Depreciation and amortization	4,124	794	45	42	5,005	218	5,223
Loss on impairment of fixed assets	933	73	—	—	1,006	—	1,006
Capital expenditures	5,359	762	233	21	6,375	(416)	5,959

	Thousands of U.S. dollars						
	2008						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	$ 593,093	$488,096	$ 77,505	$12,099	$1,170,793	$ —	$1,170,793
Intersegment	—	—	52,672	32,010	84,682	(84,682)	—
Net sales	593,093	488,096	130,177	44,109	1,255,475	(84,682)	1,170,793
Operating expenses	566,100	337,118	118,769	41,943	1,063,930	(52,993)	1,010,937
Operating income	$ 26,993	$150,978	$ 11,408	$ 2,166	$ 191,545	$ (31,689)	$ 159,856
Total assets	$ 733,961	$433,125	$ 78,341	$36,881	$1,282,308	$488,751	$1,771,059
Depreciation and amortization	38,086	6,881	705	349	46,021	1,650	47,671
Capital expenditures	43,346	12,084	1,498	313	57,241	(2,833)	54,408

Until the year ended March 31, 2007, the construction segment was accounted for under the other businesses segment. Effective the year ended March 31, 2008, the Construction segment has been presented separately due to an increase in its materiality.

Based on this separate presentation of the construction segment, the Company has restated its previously reported business segment information for the year ended March 31, 2007 to conform it to the 2008 presentation.

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥3,122 million ($31,165 thousand) and ¥3,163 million for the years ended March 31, 2008 and 2007, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally of the Company's cash and time deposits and investments in securities.

Geographical segments

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

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

	Millions of yen						
	2008						
	Japan	Asia	America	Europe	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income (loss):							
Net sales:							
External customers	¥ 75,575	¥10,680	¥ 4,293	¥26,730	¥117,278	¥ —	¥117,278
Intersegment	32,686	5,212	29	150	38,077	(38,077)	—
Net sales	108,261	15,892	4,322	26,880	155,355	(38,077)	117,278
Operating expenses	90,463	15,492	4,496	26,511	136,962	(35,697)	101,265
Operating income (loss)	¥ 17,798	¥ 400	¥ (174)	¥ 369	¥ 18,393	¥ (2,380)	¥ 16,013
Total assets	¥117,282	¥20,184	¥ 3,779	¥14,488	¥155,733	¥ 21,674	¥177,407

	Millions of yen						
	2007						
	Japan	Asia	America	Europe	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income (loss):							
Net sales:							
External customers	¥ 70,026	¥10,043	¥ 5,174	¥20,918	¥106,161	¥ —	¥106,161
Intersegment	27,851	5,127	27	97	33,102	(33,102)	—
Net sales	97,877	15,170	5,201	21,015	139,263	(33,102)	106,161
Operating expenses	82,549	14,921	5,357	20,559	123,386	(29,936)	93,450
Operating income (loss)	¥ 15,328	¥ 249	¥ (156)	¥ 456	¥ 15,877	¥ (3,166)	¥ 12,711
Total assets	¥119,337	¥20,824	¥ 3,651	¥11,423	¥155,235	¥ 37,941	¥193,176

	Thousands of U.S. dollars						
	2008						
	Japan	Asia	America	Europe	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income (loss):							
Net sales:							
External customers	$ 754,472	$106,616	$42,861	$266,844	$1,170,793	$ —	$1,170,793
Intersegment	326,304	52,032	282	1,502	380,120	(380,120)	—
Net sales	1,080,776	158,648	43,143	268,346	1,550,913	(380,120)	1,170,793
Operating expenses	903,100	154,654	44,885	264,660	1,367,299	(356,362)	1,010,937
Operating income (loss)	$ 177,676	$ 3,994	$ (1,742)	$ 3,686	$ 183,614	$ (23,758)	$ 159,856
Total assets	$1,170,826	$201,494	$37,731	$144,635	$1,554,686	$ 216,373	$1,771,059

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥3,122 million ($31,165 thousand) and ¥3,163 million for the years ended March 31, 2008 and 2007, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally of the Company's cash and time deposits and investments in securities.

Overseas sales

The regions are determined on the basis of geographic proximity and the Company's business activities as follows:

Asia: China, Taiwan, South Korea, Thailand, Indonesia and Singapore
America: The United States, Canada, Brazil, Argentina and Mexico
Europe: Germany, the Netherlands, France, the United Kingdom, Belgium, Italy, Eastern Europe and the Middle East
Other: Australia, New Zealand and Africa

	Millions of yen				
	2008				
	Asia	America	Europe	Other	Total
Overseas net sales	¥26,994	¥10,244	¥28,685	¥516	¥66,439
Consolidated net sales					117,278
Overseas net sales as a percentage of consolidated net sales	23.0%	8.7%	24.5%	0.5%	56.7%

	Millions of yen				
	2007				
	Asia	America	Europe	Other	Total
Overseas net sales	¥26,027	¥9,634	¥23,553	¥571	¥59,785
Consolidated net sales					106,161
Overseas net sales as a percentage of consolidated net sales	24.5%	9.1%	22.2%	0.5%	56.3%

	Thousands of U.S. dollars				
	2008				
	Asia	America	Europe	Other	Total
Overseas net sales	$269,486	$102,263	$286,359	$5,154	$ 663,262
Consolidated net sales					1,170,793
Overseas net sales as a percentage of consolidated net sales	23.0%	8.7%	24.5%	0.5%	56.7%

19. Subsequent Events

(a) Merger and business divestiture

Pursuant to a resolution approved by the Board of Directors at a meeting held on February 8, 2008, effective April 1, 2008, Ishihara Techno Corporation, a consolidated subsidiary, changed its company name to Ishihara Trading Co., Ltd. and a new company, Ishihara Techno Corporation was established as a result of a spin off of certain businesses of Ishihara Trading Co., Ltd.

Ishihara Trading Co., Ltd. was merged into the Company on April 1, 2008 pursuant to Article 796, Paragraph 3 and Article 784, Paragraph 1 of the Corporation Law of Japan.

Prior to this merger and business divestiture, the former Ishihara Techno Corporation was engaged in sales and distribution of titanium dioxide products and raw materials, and the real estate rental business. The Company determined that this merger and business divestiture would strengthen its competitive power in the inorganic chemicals business, a core business of Ishihara Techno Corporation, by integrating the real estate rental business into the Company's business, by focusing on trading and specialized sales and distribution of titanium dioxide products and raw materials, by sharing management resources and information and by assigning each function properly. In connection with this merger, Ishihara Trading Co., Ltd. was dissolved.

The Company has accounted for this business combination as a merger under common control which has been eliminated as an internal transaction pursuant to "Accounting Standard for Business Combinations" (issued on October 31, 2003 by the Business Accounting Council of Japan), and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures "(ASBJ Guidance No. 10 issued on December 22, 2006).

Since Ishihara Trading Co., Ltd. was a wholly-owned subsidiary, the Company neither issued any shares nor made payments of cash in connection with this merger.

The condensed balance sheet of Ishihara Trading Co., Ltd. at April 1, 2008 subsequent to the business divestiture was as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 14	$ 141
Fixed assets	2,673	26,687
Total assets	¥2,687	$26,828
Current liabilities	¥1,544	$15,410
Long-term liabilities	389	3,891
Total liabilities	1,933	19,301
Total net assets	754	7,527
Total liabilities and net assets	¥2,687	$26,828

(b) Transfer of Industrial Power Generation Business

At its meeting held on May 26, 2008, the Board of Directors of the Company approved a resolution to transfer the industrial power generation business of the Company's Yokkaichi Plant to Yokkaichi Energy Services Co., Ltd. (the "Transferee"), whose main businesses are to produce, supply and sell industrial electrical power and steam. The Company has also signed a business transfer agreement and a master agreement concerning business operations with the Transferee on May 26, 2008.

The reason for this transfer of business was to foster the efficient use of the Company's assets and reinforce its financial position in accordance with its future business strategy.

The Company has signed a power supply service agreement among Japan Energy Network Co., Ltd., which is to build its own industrial power generation network, and the Transferee, a subsidiary of Japan Energy Network Co., Ltd., for the supply of power to the Company by the Transferee.

The Company and the aforementioned companies will work together to ensure efficient operation of the industrial power generation business, a stable supply of energy at the Company's Yokkaichi Plant, and the realization of cost reductions. Seeking to boost demand, the three companies will collaborate to construct a new industrial power generation facility with the aim of expanding the business to its second phase.

The Company plans to transfer to the Transferee certain industrial power generation facilities (a coal boiler and ancillary equipment, raw materials, inventories and so forth) and a related business whose book value is ¥5,309 million ($52,997 thousand) at March 31, 2008. Consideration value is planned at ¥7,189 million ($71,772 thousand).

On June 27, 2008, the Company acquired 34% of the shares of common stock of the Transferee for ¥580 million ($5,790 thousand) in cash.

On June 30, 2008, the Company plans to transfer the above-mentioned business.

ERNST & YOUNG SHINNIHON

Report of Independent Auditors

The Board of Directors
Ishihara Sangyo Kaisha, Ltd.

We have audited the accompanying consolidated balance sheets of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries at March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Supplemental Information

As described in Note 19(b), on May 26, 2008, the Board of Directors of the Company approved a resolution to transfer the industrial power generation business of the Company's Yokkaichi Plant to Yokkaichi Energy Services Co., Ltd.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon

Osaka, Japan
June 27, 2008

(a) In 1998, the Company sold its U.S. agrochemicals subsidiary, located in Houston, Texas, to Syngenta, which is headquartered in Switzerland, with an agreement of indemnification covering certain environmental liabilities. The Company received a claim from Syngenta concerning our responsibility for a portion of expenses incurred in relation to environmental issues that arose in Houston in 2001. Based on the Stock Purchase Agreement, the Company had been in discussions with Syngenta to reach a resolution. Recently, the Company and Syngenta came to an agreement on the apportionment of specified expenses. Accordingly, this claim is now resolved conclusively.

(b) On January 31, 2007, the Company received a claim for ¥564 million in damages from Nippon Aerosil Co., Ltd., pursuant to the cancellation of a contract with the Company. This suit is currently under deliberation by the Yokkaichi Branch of the Tsu District Court. In accordance with the Company's determination that there are no grounds to this claim, we will deal with the case in a timely and appropriate manner by continuing to argue the validity of the Company's position in court.

(As of June 27, 2008)

Head Office & Directors

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

Executive Director
President & Chief Executive Officer
Kenzo Oda

Executive Director
Senior Managing Executive Officer
Yoshitaka Goto
Tetsuya Okabayashi

Director
Senior Managing Executive Officer
Kazutaka Fujii

Director
Managing Executive Officer
Kazuhiko Yoshida
Yoshinobu Takahashi
Kensuke Kimura
Yoshinari Terakawa
Michiyoshi Arata

Executive Statutory Auditor
Takao Watanabe
Hiroshi Nishida
Kenji Ohara

Managing Executive Officer
Takahiro Haga
Haruo Okuda
Junji Kondo

Executive Officer
Tohru Koyanagi
Akira Kobayashi
Hideki Sano
Yoichi Kobayashi

Overseas Branch

Argentina Branch
Reconquista 656, Piso 9(CP1003), Buenos Aires, Argentina
Tel: +54-11-4312-7877 Fax: +54-11-4312-7910

Overseas Affiliated Companies

ISK SINGAPORE PTE. LTD.
39 Tuas West Drive, Singapore 638406
Tel: +65-6861-2077 Fax: +65-6861-3566

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

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

ISK BIOSCIENCES KOREA LTD.
1612 Union Center, 837-11 Yeoksam 1-dong, Gangnam-gu
135-754 Seoul, Korea
Tel: +82-2-555-1409 Fax: +82-2-555-1401

ISK AMERICAS INCORPORATED
7474 Auburn Road
Concord, OH 44077, USA
Tel: +1-440-357-4600 Fax: +1-440-357-4610

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

ISHIHARA CORPORATION (U.S.A.)
601 California Street, Suite 1700
San Francisco, CA 94104, U.S.A.
Tel: +1-415-421-8207 Fax: +1-415-397-5403

ISK Biosciences Europe S.A.
TOUR ITT 480, Avenue Louise-Bte 12
B-1050 Brussels, Belgium
Tel: +32-2-627-8611 Fax: +32-2-627-8600

Ishihara Sangyo Kaisha, Ltd.

Printed in Japan