Ishihara Sangyo Kaisha

Annual Report 2010

Year Ended March 31, 2010

Challenge for Growth and Evolution

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Highlights

For the years ended March 31, 2010, 2009 and 2008

	Millions of yen			Thousands of U.S. dollars (Note)
	2010	2009	2008	2010
For the years ended March 31,				
Net sales:				
Domestic	¥ 51,801	¥ 43,053	¥ 50,839	$ 556,747
Overseas	52,711	61,609	66,439	566,552
Total	104,512	104,662	117,278	1,123,299
Sales classified by business segment:				
Inorganic chemicals	46,289	47,306	59,410	497,518
Organic chemicals	42,987	50,192	48,893	462,027
Construction	14,244	6,153	7,764	153,089
Other businesses	992	1,011	1,211	10,665
Total	104,512	104,662	117,278	1,123,299
Operating income	5,481	5,384	16,013	58,912
Net (loss) income	(1,323)	(422)	2,643	(14,224)
Depreciation and amortization of property, plant and equipment	5,474	5,275	5,023	58,834
Research and development costs	6,406	6,502	6,457	68,857
At the year end				
Current assets	92,950	86,441	103,065	999,035
Total assets	174,381	163,805	177,407	1,874,260
Current liabilities	68,226	72,297	82,299	733,294
Net assets	44,811	45,372	46,814	481,633

	Yen			U.S. dollars (Note)
Per share data				
Net (loss) income	¥ (3.30)	¥ (1.07)	¥ 6.87	$ (0.0355)
Net assets	111.87	113.25	121.65	1.2024

Number of employees (as of March 31)	1,878	1,851	1,852	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥93.04 = U.S.$1.00, the rate of exchange prevailing on March 31, 2010.

Forward-Looking Statements

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

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To Our Shareholders and Friends

Kenzo Oda
President & CEO

In fiscal 2009, ended March 31, 2010, the world economy generally showed moderate recovery after emerging from deep recession sparked by the global financial crisis, although the some nations and regions displayed signs of weakness. Asian economies were particularly healthy, driven mainly by internal demand in China, with economies recovering elsewhere in Asia as well. However, the economies of Europe and North America remained difficult overall, despite a modest turnaround in the United States and signs that the European economy has bottomed.

The Japanese economy saw steady recovery, characterized by an upturn in production activities and other factors, but was underpinned mainly by exports, especially to Asia, as well as economic stimulus measures. Accordingly, the domestic economy failed to enter a phase of powerful, self-sustaining recovery.

In the ISK Group's titanium oxide business, the trend of declining demand stemming from economic recession reached bottom at the beginning of the period, both in Japan and overseas. Due to the modest pace of domestic economic recovery, however, overall demand in volume terms was insufficient, falling below the previous year's level. In the agrochemicals business, two years ago we enjoyed a rapid increase in demand in the wake of growing demand for grain and rising prices. Since then, however, our business has stagnated due to the impact of plummeting grain prices and other factors, with global shipments down year-on-year for the first time in three years since 2006.

Addressing this market environment, the ISK Group promoted production activities driven by an optimal supply-demand balance and business operations focusing on extensive cost-cutting and other actions to boost cash flows. However, both our organic and inorganic chemicals businesses failed overcome the impact of declining demand for mainstay products.

As a result, consolidated net sales amounted to ¥104.5 billion (US$1,123 million) and operating income totaled ¥5.5 billion (US$59 million)-both figures largely unchanged from the previous year. However, income before extraordinary gains and losses declined ¥0.3 billion, to ¥2.7 billion (US$29 million), due to our worsening performance in non-operating income and expenses. Among extraordinary items, the Group reported extraordinary losses in the form of a business structure improvement expenses associated with integration of production facilities of consolidated subsidiaries in Japan and overseas, as well as an impairment loss on fixed assets. Accordingly, the Group posted a net loss of ¥1.3 billion (US$14 million), compared with a net loss of ¥0.4 billion in the previous fiscal year.

In April 2009, the Group launched its fourth medium-term management plan, covering the three-year period from April 2009 to March 2012. The plan sets out a vision for the next 10 years aimed at delivering sustainable growth and weathering the increasingly turbulent business environment. In the year under review, the Group took the first steps toward achieving the targets set out in the plan.

ISK as envisioned within 10 years

Under the slogan of "Challenge for 2020," we will establish a business foundation to ensure continued growth and stable earnings by 2020, our 100th anniversary. We will transform ourselves into *a strong and responsible chemical company with excellent brand power*.

As a "strong chemical company" we will:

- Develop businesses with a global competitive edge based on our unique technologies.
- Develop high-value-added and highly profitable businesses that will ensure continued growth and stable profits supported by innovative technologies.

As a "responsible chemical company" we will:

- Engage in environmental and social contribution activities as a good corporate citizen, keep an open dialogue with local communities, attach importance to increasing value for stakeholders, and be a corporation in which employees take pride.

The targets for each business segment are outlined below.

In the agrochemical business, we have set a consolidated sales target of ¥70.0 billion (US$752 million) in fiscal 2013. Our vision for this business is to "Make a contribution to society through the continued development and supply of totally safe and highly effective new products for the purpose of protecting agricultural commodities and the environment."

To this end, we will build our own self-promotion structure and new sales channels. By adhering to our independence, we aim to establish a sales system that achieves a balance between Japan, Europe, and the United States.

We will also strive to strengthen product lifecycles, research and development capabilities, and our product pipeline. We will work to generate profits, engage in cost-effective manufacturing, and maintain and boost our international competitiveness. Other initiatives for this segment are to introduce safety and security initiatives for agrochemicals, and expand our operations through M&As and alliances with other companies.

In the inorganic chemicals business, which covers the titanium dioxide and functional materials businesses, our vision is to "Develop technical capabilities supporting the TIPAQUE brand to supply high-valued-added products for the market, and thereby help realize an affluent society."

In the titanium dioxide business, where we have set an operating margin target of 5% or higher, we will upgrade our technological capabilities, develop specialty products for customers, and accelerate product development in the field of differentiated premium products. While emphasizing profitability both in Japan and overseas, we will work hard to maintain and increase our domestic and overseas market shares through sales expansion activities in markets where our products are competitive. We will reinforce the business by establishing a strategic product portfolio with an optimum mix of general-use and premium products. At the same time, we will build the best possible production system for titanium dioxide, ensure that manufacturing is both safe and environmentally friendly, and pursue M&As and alliances with other companies.

In the functional materials business, we have set a sales target of ¥15.0 billion (US$161 million). Here, we will focus on generating sustainable growth in the inorganic chemicals business and enhancing the value of the segment as a whole. Our strategies call for the concentrated allocation of management resources in eco-related businesses, as well as business expansion and maximization of product value.

The Group has formulated a "Basic Philosophy" and "Code of Conduct" to represent the fundamental and universal values shared by all its employees in the execution of their work activities. Following "compliance checks" of all Group employees undertaken in March 2008, we partially revised the content and wording in June 2008 to better reflect the birth of a new ISK.

Basic Philosophy

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

Code of Conduct

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

Under ISK's new medium-term management plan, our goal is to regain the trust of society by conducting operations based on the principle of compliance. We aim to restore the earnings capabilities of the entire Group. To this end, we will ensure the sustainable growth of the agrochemicals business, and in order to restore the earnings base of the inorganic chemicals business, we will adopt a "select and concentrate" strategy in fields where we can differentiate our products. Through the growth and evolution of our businesses and the management that supports them, we hope to build a sound financial position by eradicating our cumulative losses as soon as possible and resume dividend payments.

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

Kenzo Oda
President & CEO

Business Overview

■ Organic Chemicals

Our core agrochemicals business generated a year-on-year increase in domestic revenue thanks to generally healthy sales of mainstay chemical products. Despite an increase in sales of fungicides to customers in South America, however, revenue and earnings from our overseas agrochemicals business declined. This was due mainly to a decrease in sales of fungicides in Europe stemming from weather-related factors, as well as the impact of the yen's appreciation against European currencies.

In the pharmaceuticals business, we posted a revenue decline as sales of an active pharmaceutical ingredient that ISK manufactures under consignment were delayed until the next fiscal year.

As a result, total segment sales declined ¥7.2 billion, to ¥43.0 billion (US$462 million). Operating income slipped ¥2.8 billion, to ¥9.0 billion (US$97 million).

■ Inorganic Chemicals

Our titanium dioxide business benefited from a clear recovery in demand, centering on the Asian region, as well as a tightening of the supply-demand situation. In Japan, however, recovery in major sectors was limited and moderate scope, leading to a slight overall increase in sales volume.

In the functional and electronic materials business, the sales volume increased thanks to a recovery in sales of products used in electronic components.

Although segment earnings were impacted by production adjustments in the previous fiscal year, our efforts to set more appropriate prices in Japan and overseas helped reduce the operating loss this segment.

As a result, segment sales declined ¥1.0 billion, to ¥46.3 billion (US$498 million). The segment operating loss was ¥2.5 billion (US$27 million), down from ¥5.0 billion in the previous fiscal year.

■ Construction

Sales in the construction segment increased ¥8.1 billion year-on-year, to ¥14.2 billion (US$153 million), thanks to the completion of large-scale projects previously in progress. Segment operating income grew ¥0.2 billion, to ¥1.6 billion (US$17 million).

■ Other Businesses

In the year under review, the Group's other businesses posted sales of ¥1.0 billion (US$11 million) and operating income of ¥0.1 billion (US$2 million). Both figures are largely unchanged from the previous fiscal year.

Issues to Address

When formulating our fourth medium-term management plan in the previous fiscal year, we established our ideal vision for the ISK Group in 2020, which coincides with our 100th anniversary. We then took the first steps towards realizing the plan's vision. In the year ended March 2010, the first year of the plan, our financial results fell below our targets for the year. However, we have not changed our basic management policies or business strategies and, going forward, we will pursue activities in line with the plan while responding to changes in the operating environment.

Our most important challenge is to raise the Group's overall profitability, and we recognize that success here will depend on ensuring a swift recovery of the earnings foundation of our inorganic chemicals business. In the first year of the plan, we faced extremely difficult market conditions, including stepped-up production adjustments to deal with the sharp decline in demand. Nevertheless, we took measures to reinforce our production infrastructure, such as by integrating the production facilities of consolidated subsidiaries, both in Japan and overseas. In the second year of the plan, we will strive to expand overall sales to address recovery in demand. Accompanying these efforts, we will aggressively promote increased sales of premium products (high-value-added items) in order to improve our product portfolio. In May 2009, we established the Battery Materials Commercialization Division, which is working to swiftly commercialize battery materials, including by supplying sample products to current users. By implementing these key measures, we will work to overcome the current challenges and transform our business structure so that it becomes impervious to changing economic conditions.

In our organic chemicals business, which has been highly profitable to date, a number of issues remain. These include competition from generic versions of our mainstay products, as well as increasing R&D costs associated with development of new products. In the first year of the plan, demand for organic chemicals fell below our expectations due to the low disease outbreaks stemming from weather-related factors in Europe. In the second year of the plan, we will work to broaden the geographic scope of our current sales initiatives and boost sales of existing products through mixed formulation. At the same time, we will reduce manufacturing costs, including through optimal relocation of production facilities, in order to reinforce profitability. In addition, we will strive to alleviate the burden of R&D expenses in the short term and subsequently enter markets for new chemicals, with the aim of keeping the Group on a steady growth trajectory.

Consolidated Balance Sheets

As of March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Assets			
Current assets:			
Cash and deposits (Notes 7,14 and 17)	¥ 18,387	¥ 12,681	$ 197,626
Trade receivables (Note 14):			
Notes	2,569	2,290	27,612
Accounts	27,093	21,042	291,197
	29,662	23,332	318,809
Less allowance for doubtful receivables	(311)	(289)	(3,344)
Trade receivables, net	29,351	23,043	315,465
Inventories (Note 5)	40,649	41,587	436,902
Deferred income taxes (Note 10)	2,413	3,303	25,934
Other current assets	2,150	5,827	23,108
Total current assets	92,950	86,441	999,035
Property, plant and equipment:			
Land	7,469	6,326	80,273
Buildings and structures (Notes 6 and 8)	50,665	49,159	544,552
Machinery and equipment (Notes 6 and 8)	127,110	122,802	1,366,190
Leased assets (Note 13)	5,225	3,439	56,157
Construction in progress	3,748	4,565	40,287
	194,217	186,291	2,087,459
Less accumulated depreciation	(135,971)	(130,561)	(1,461,424)
Property, plant and equipment, net	58,246	55,730	626,035
Investments and other assets:			
Investments in securities (Notes 4,7 and 14):			
Unconsolidated subsidiaries and affiliates	3,550	3,335	38,155
Other	2,279	2,138	24,496
Total investments in securities	5,829	5,473	62,651
Long-term loans	102	109	1,099
Goodwill	47	70	502
Deferred income taxes (Note 10)	15,685	15,323	168,581
Other	1,522	659	16,357
Total investments and other assets	23,185	21,634	249,190
Total assets	¥174,381	¥163,805	$1,874,260

	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 1) 2010
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 7 and 14)	¥ 26,342	¥ 25,665	$ 283,125
Current portion of long-term debt (Notes 7 and 14)	12,928	12,652	138,948
Trade payables:			
Notes	4,558	3,141	48,991
Accounts	11,371	11,340	122,217
	15,929	14,481	171,208
Lease obligations (Notes 13 and 14)	790	500	8,495
Accrued income taxes (Note 10)	656	455	7,050
Accrued expenses	4,095	4,044	44,016
Advances received	284	5,135	3,050
Accrued bonuses	540	566	5,804
Reserve for Ferosilt removal	2,701	4,927	29,030
Reserve for implementation of environmental and safety arrangements	34	62	360
Provision for business structure improvement	216	—	2,316
Other current liabilities (Note 8)	3,711	3,810	39,892
Total current liabilities	68,226	72,297	733,294
Long-term liabilities:			
Long-term debt (Notes 7 and 14)	29,126	16,972	313,051
Bonds (Notes 7 and 14)	2,000	—	21,496
Lease obligations less current portion (Notes 13 and 14)	1,991	1,237	21,399
Accrued retirement benefits for employees (Note 9)	7,777	7,185	83,589
Accrued retirement benefits for directors and corporate auditors	—	90	—
Deferred income taxes (Note 10)	79	299	847
Long-term deposits received (Note 8)	6,279	6,794	67,485
Reserve for Ferosilt removal	11,410	12,317	122,639
Reserve for implementation of environmental and safety arrangements	562	400	6,038
Other long-term liabilities	2,120	842	22,789
Total long-term liabilities	61,344	46,136	659,333
Contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity (Note 11):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 403,839,431 shares in 2010 and 2009	43,421	43,421	466,687
Capital surplus	10,625	10,625	114,206
Accumulated deficit	(6,321)	(4,998)	(67,942)
Less treasury stock, at cost:			
3,601,931 shares in 2010	(664)	(656)	(7,138)
3,515,620 shares in 2009			
Total shareholders' equity	47,061	48,392	505,813
Valuation, translation adjustments and other:			
Net unrealized holding gain (loss) on securities (Note 4)	50	(43)	546
Unrealized deferred loss on hedges	(0)	(1)	(5)
Translation adjustments	(2,366)	(3,038)	(25,427)
Adjustment for projected benefit obligation of an overseas subsidiary	30	30	321
Total valuation, translation adjustments and other	(2,286)	(3,052)	(24,565)
Minority interests in consolidated subsidiaries	36	32	385
Total net assets	44,811	45,372	481,633
Total liabilities and net assets	¥174,381	¥163,805	$1,874,260

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

Consolidated Statements of Operations

For the years ended March 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Net sales (Note 21)	¥104,512	¥104,662	$1,123,299
Cost of sales (Note 12)	78,527	77,698	844,018
Gross profit	25,985	26,964	279,281
Selling, general and administrative expenses (Note 12)	20,504	21,580	220,369
Operating income (Note 21)	5,481	5,384	58,912
Other income:			
Interest and dividend income	70	254	749
Equity in earnings of affiliates	410	364	4,412
Other	212	340	2,279
	692	958	7,440
Other expenses:			
Interest expense	1,727	1,775	18,567
Retirement benefit expense	427	430	4,585
Foreign exchange loss	472	408	5,078
Other	876	795	9,417
	3,502	3,408	37,647
Income before extraordinary gains and losses	2,671	2,934	28,705
Extraordinary gains:			
Gain on prior-year adjustment	87	102	934
Gain on sales of investments in securities	—	0	—
Reversal of reserve for Ferosilt removal	1	14	12
Gain on insurance claim	96	134	1,028
Gain on reversal of accrual for litigation	—	428	—
Reversal of accrual of periodic repairs	—	186	—
Gain on insurance settlement of legal fees	—	112	—
Other	80	56	870
	264	1,032	2,844
Extraordinary losses:			
Loss on disposal of fixed assets	640	389	6,883
Loss on impairment of fixed assets (Note 6)	682	172	7,330
Business structure improvement expenses (Notes 6 and 21)	1,239	—	13,314
Loss on devaluation of investments in securities	—	134	—
Loss on environmental clean-up	—	353	—
Reserve for implementation of environmental and safety arrangements	162	—	1,739
Other	49	135	532
	2,772	1,183	29,798
Income before income taxes and minority interests	163	2,783	1,751
Income taxes (Note 10):			
Current	962	994	10,340
Prior year	—	142	—
Deferred	522	2,065	5,609
Minority interests	2	4	26
Net loss	¥ (1,323)	¥ (422)	$ (14,224)

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, 2010 and 2009

		Millions of yen									
		Shareholders' equity				Valuation, translation adjustments and other					
	Number of shares of common stock in issue	Common stock	Capital surplus	Accumulated deficit	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Unrealized deferred loss on hedges	Translation adjust-ments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2008	387,839,431	¥42,029	¥ 9,231	¥(4,672)	¥(632)	¥ 289	¥—	¥ 495	¥36	¥38	¥46,814
Net loss	—	—	—	(422)	—	—	—	—	—	—	(422)
Issuance of common stock	16,000,000	1,392	1,392	—	—	—	—	—	—	—	2,784
Changes due to a merger	—	—	—	96	—	—	—	—	—	—	96
Acquisition of treasury stock	—	—	—	—	(26)	—	—	—	—	—	(26)
Disposition of treasury stock	—	—	2	—	2	—	—	—	—	—	4
Other changes	—	—	—	—	—	(332)	(1)	(3,533)	(6)	(6)	(3,878)
Balance at March 31, 2009	403,839,431	¥43,421	¥10,625	¥(4,998)	¥(656)	¥ (43)	¥ (1)	¥(3,038)	¥30	¥32	¥45,372
Net loss	—	—	—	(1,323)	—	—	—	—	—	—	(1,323)
Acquisition of treasury stock	—	—	—	—	(8)	—	—	—	—	—	(8)
Disposition of treasury stock	—	—	0	—	0	—	—	—	—	—	0
Other changes	—	—	—	—	—	93	1	672	(0)	4	770
Balance at March 31, 2010	403,839,431	¥43,421	¥10,625	¥(6,321)	¥(664)	¥ 50	¥ (0)	¥(2,366)	¥30	¥36	¥44,811

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, 2010 and 2009

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity				Valuation, translation adjustments and other					
	Common stock	Capital surplus	Accumulated deficit	Treasury stock, at cost	Net unrealized holding gain (loss) on securities	Unrealized deferred loss on hedges	Translation adjustments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2009	$466,687	$114,201	$(53,718)	$(7,057)	$ (455)	$(11)	$(32,655)	$321	$348	$487,661
Net loss	—	—	(14,224)	—	—	—	—	—	—	(14,224)
Acquisition of treasury stock	—	—	—	(90)	—	—	—	—	—	(90)
Disposition of treasury stock	—	5	—	9	—	—	—	—	—	14
Other changes	—	—	—	—	1,001	6	7,228	0	37	8,272
Balance at March 31, 2010	$466,687	$114,206	$(67,942)	$(7,138)	$ 546	$ (5)	$(25,427)	$321	$385	$481,633

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

Consolidated Statements of Cash Flows

For the years ended March 31, 20010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2010	2009	2010
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 163	¥ 2,783	$ 1,751
Adjustments to reconcile income before income taxes and minority interests to net cash used in operating activities:			
Depreciation and amortization	5,474	5,275	58,834
Loss on disposal or sales of fixed assets, net	231	215	2,481
Loss on devaluation of investments in securities	—	134	—
Loss on impairment of fixed assets	1,702	172	18,289
Foreign exchange loss, net	(56)	273	(598)
Gain on sales of investments in securities	—	(0)	—
Provisions for accrued retirement benefits for employees, directors and corporate auditors	526	328	5,658
Reversal of reserve for Ferosilt removal	(3,132)	(9,766)	(33,667)
Reserve for (reversal of) implementation of environmental and safety arrangements	133	(118)	1,429
Interest and dividend income	(70)	(254)	(749)
Interest expense	1,727	1,775	18,567
Equity in earnings of affiliates	(195)	(208)	(2,094)
Other	124	(366)	1,332
Changes in operating assets and liabilities:			
Trade receivables	(6,044)	4,800	(64,966)
Inventories	1,196	(9,481)	12,850
Other current assets	537	416	5,776
Trade payables	983	(646)	10,566
Accrued expenses and other current liabilities	(2,053)	(58)	(22,071)
Subtotal	1,246	(4,726)	13,388
Interest and dividends received	70	230	754
Interest paid	(1,696)	(1,749)	(18,229)
Gain on insurance claim	96	134	1,028
Income taxes paid	(595)	(1,214)	(6,389)
Net cash used in operating activities	(879)	(7,325)	(9,448)
Cash flows from investing activities			
Increase in time deposits	(20)	(20)	(215)
Decrease in time deposits	20	20	215
Purchases of property, plant and equipment	(7,798)	(7,542)	(83,809)
Purchases of short-term investments and investments in securities	(12)	(1,313)	(129)
Proceeds from sales of property, plant and equipment	268	483	2,878
Proceeds from redemption and sales of short-term investments and investments in securities	8	0	83
Loans made	(250)	(52)	(2,690)
Collection of loans made	336	159	3,614
Proceeds from distribution of surplus assets	22	—	234
Net cash used in investing activities	(7,426)	(8,265)	(79,819)
Cash flows from financing activities			
Increase (decrease) in short-term bank loans, net	658	(3,487)	7,066
Proceeds from long-term debt	25,497	5,223	274,045
Repayment of long-term debt	(13,085)	(9,841)	(140,644)
Repayments of lease obligations	(681)	(454)	(7,326)
Proceeds from transfer of the industrial power generation business	—	6,928	—
Repayments of long-term deposits received	(525)	(386)	(5,640)
Proceeds from issuance of bonds	2,000	—	21,496
Proceeds from issuance of common stock	—	2,784	—
Purchases of treasury stock	(8)	(26)	(90)
Proceeds from sales of treasury stock	0	4	14
Net cash provided by financing activities	13,856	745	148,921
Effect of exchange rate changes on cash and cash equivalents	104	(1,029)	1,133
Increase (decrease) in cash and cash equivalents	5,655	(15,874)	60,787
Increase in cash and cash equivalents resulting from a merger	—	150	—
Cash and cash equivalents at beginning of year	12,649	28,373	135,948
Cash and cash equivalents at end of year (Note 17)	¥18,304	¥12,649	$196,735

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

Notes to Consolidated Financial Statements

Years ended March 31, 2010 and 2009

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 Act of Japan.

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

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥93.04 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2010. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and its 14 significant consolidated subsidiaries, consisting of ISK Bioscience K.K., ISK SINGAPORE PTE. LTD., the ISK AMERICAS INCORPORATED Group (5 subsidiaries), the ISK BIOSCIENCES EUROPE S.A. Group (3 subsidiaries), ISK Taiwan Co., Ltd., Fuji Titanium Industry Co., Ltd., Ishihara Techno Corporation and ISK Engineering Corporation.

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 5 years to 20 years on a straight-line basis 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 significant affiliates 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 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 stated at lower of cost or net selling value, cost being determined by the gross average method. Overseas consolidated subsidiaries, except for ISK SINGAPORE PTE. LTD., are stated at lower of cost or market, cost being determined by the gross average method. Inventories of ISK SINGAPORE PTE. LTD. are stated at lower of cost or market, cost being determined by the moving average method.

(e) Securities

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

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

(f) Derivatives and hedging activities

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

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

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

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

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

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

(Additional information)

Effective the year ended March 31, 2009, based on the revision of the Corporation Tax Law of Japan, the Company and its domestic consolidated subsidiaries changed the useful life of machinery from 9 years to 8 years to reflect a more realistic useful life.

As a result, operating income, income before extraordinary gains and losses and income before income taxes and minority interests decreased by ¥226 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

The effect on segment information was disclosed in 'Segment Information' (Note 21).

(h) Leased assets

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

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

(i) Revenue recognition for construction contracts

Revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of the total costs required to complete the contract. The completed-contract method continues to be applied for contracts for which the percentage-of-completion cannot be reliably estimated.

(j) 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.

(k) Allowance for doubtful receivables

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

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

(l) 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.

(m) Reserve for implementation of environmental and safety arrangements

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

(n) Provision for business structure improvement

The company and its consolidated subsidiaries have provided for expenses and losses on business structure improvement at estimates of anticipated future expenses and losses on business structure improvement programs.

(o) 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 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.

(p) Retirement benefits for directors and corporate auditors

Until the year ended March 31, 2009, the Company's domestic consolidated subsidiaries had a retirement benefit plan for payment to directors and corporate auditors ("officers") which was stated at an amount equal to an estimate of the amounts which would be payable based on corporate internal rules if the officers were to retire at the balance sheet date.

For the year ended March 31, 2010, the Company's domestic consolidated subsidiaries determined to abolish the internal rule for retirement benefits for officers. As a result, the outstanding balance accrued in the retirement benefits plan less the payment to officers has been reclassified as "other long-term liabilities" in the accompanying consolidated balance sheet at March 31, 2010.

(q) Income taxes

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

3. Changes in Accounting Policies

(a) Changes in method of accounting standard for retirement benefits

Effective the year ended March 31, 2010, the Company has adopted "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Accounting Standards Board of Japan ("ASBJ") Statement No. 19 issued on July 31,2008) .

This change had no effect on the Company's operating results and segment information for the year ended March 31, 2010.

(b) Application of accounting standards for construction contract

Until the year ended March 31, 2009, the Company's consolidated subsidiary had adopted the completed-contract method as the accounting standard for revenue recognition of construction contracts. Effective April 1, 2009, the Company's consolidated subsidiary has adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18 issued on December 27, 2007). Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or after April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. To estimate the progress of such construction projects, the Company measures the percentage of completion by comparing costs incurred to date with the most recent estimate of the total costs required to complete the contract. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.

As a result of this adoption, net sales increased by ¥1,471 million ($15,810 thousand) and operating income, income before extraordinary gains and losses and income before income taxes increased by ¥134 million ($1,439 thousand) for the year ended March 31, 2010 from the corresponding amounts which would have been recorded under the method applied in the previous year.

The effect on segment information is disclosed in 'Segment Information' (Note 21).

(c) Changes in method of accounting for measuring of inventories

Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted “Accounting Standard for Measurement of Inventories” (ASBJ Statement No.9 issued on July 5, 2006). As a result, operating income, income before extraordinary gains and losses and income before income taxes and minority interests decreased by ¥1,491 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

The effect on segment information is disclosed in ‘Segment Information’ (Note 21).

(d) Application of accounting standards for leases

Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries adopted “Accounting Standard for Lease Transactions” (ASBJ Statement No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by ASBJ on March 30, 2007) and “Guidance on Accounting Standard for Lease Transactions” (ASBJ Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by ASBJ on March 30, 2007). According to this accounting standard, lease transactions were accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee.

The effect of this change on operating results and segment information was immaterial for the year ended March 31, 2009.

(e) Accounting policies applied to overseas subsidiaries

Effective the year ended March 31, 2009, the Company and its overseas consolidated subsidiaries adopted “Practical Solution on Unification of Accounting Policies applied to Foreign Subsidiaries for Consolidated Financial Statements ASBJ Practical Issues Task Force No.18 issued on May 17, 2006).

The effect of this change on operating results and segment information was immaterial for the year ended March 31, 2009.

4. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2010 and 2009 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			2010		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Securities whose carrying value does not exceed their estimated fair value	¥10	¥10	¥0	¥10	¥10	¥0	$108	$108	$0
Total	¥10	¥10	¥0	¥10	¥10	¥0	$108	$108	$0

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			2010		
	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	¥571	¥731	¥ 160	¥234	¥361	¥127	$6,136	$7,863	$1,727
Subtotal	571	731	160	234	361	127	6,136	7,863	1,727
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	195	156	(39)	523	372	(151)	2,092	1,675	(417)
Subtotal	195	156	(39)	523	372	(151)	2,092	1,675	(417)
Total	¥766	¥887	¥121	¥757	¥733	¥ (24)	$8,228	$9,538	$1,310

The carrying value of the principal investments in non-marketable securities at March 31, 2009 is summarized as follows (Information for the current period is disclosed in "Financial Instruments" (Note 14)):

	Millions of yen
	2009
Other securities:	
Unlisted equity securities	¥1,301
Investments in limited partnerships	95

Proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Proceeds from sales	¥8	¥0	$83
Gross realized gain	0	0	0

The redemption schedule at March 31, 2010 for held-to-maturity debt securities classified as other securities is described in Note 14.

5. Inventories

Inventories at March 31, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Finished goods and merchandise	¥21,580	¥22,715	$231,947
Work in process	6,603	7,699	70,973
Raw materials and supplies	12,466	11,173	133,982
Total	¥40,649	¥41,587	$436,902

6. Loss on Impairment of Fixed Assets

For the year ended March 31, 2010, the Company recorded a loss on impairment of fixed assets. The main components of loss on impairment of fixed assets are as follows:

			Millions of yen	Thousands of U.S. dollars
Location	Major use	Classification	2010	2010
Singapore plant (Singapore)	Production equipment	Machinery and equipment	¥ 658	$ 7,075
Hiratsuka Plant (Hiratsuka City, Kanagawa Prefecture)	Production equipment	Machinery and equipment	635	6,827
Takao Plant (Takao City, Taiwan)	Production equipment	Buildings and structures	385	4,133

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

As a result of business structure improvement at the consolidated subsidiaries, the Company recognized loss on impairment related to idle production equipment and operating production equipment for which investment costs are deemed to be irrecoverable within the remaining useful life due to the deterioration of the economic situation resulting from changes in foreign exchange rates and so forth.

The recoverable amount is determined based on net selling prices for idle assets and at the higher of the value in use or net selling price for other operating production equipment. The value in use is computed using a discount rate of 10.0%.

The breakdown of loss on impairment by classification of fixed assets for the year ended March 31, 2010 is as follows:

	Millions of yen	Thousands of U.S. dollars
Classification	2010	2010
Buildings and structures	¥ 379	$ 4,077
Machinery and equipment	978	10,510
Other fixed assets	38	412
Other	26	275
Removal costs	281	3,015
	¥1,702	$18,289

Loss on impairment of fixed assets of ¥1,020 million ($10,959 thousand) is included in "Business structure improvement expenses" under extraordinary losses in the consolidated statement of operations for the year ended March 31, 2010.

For the year ended March 31, 2009, the Company recorded a loss on impairment of fixed assets of ¥172 million. Detailed information on loss on impairment of fixed assets for the year ended March 31, 2009 was omitted because the amount was immaterial.

7. Short-Term Bank Loans, Long-Term Debt and Bonds

The average annual interest rate on short-term bank loans at March 31, 2010 and 2009 was 1.5%.

Long-term debt, including the current portion of long-term debt, at March 31, 2010 and 2009 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Secured bank loans	¥14,618	¥11,427	$157,115
Unsecured bank loans	27,436	18,197	294,884
	42,054	29,624	451,999
Less amounts due within one year	(12,928)	(12,652)	(138,948)
Total	¥29,126	¥16,972	$313,051

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, 2010 and 2009.

These bank loans become due through 2017.

Bonds at March 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Unsecured bonds, payable in yen, at rate of 0.557%, due 2015	¥2,000	¥ –	$21,496

Information for the aggregate annual maturities of long-term debt and bonds subsequent to March 31, 2010 is described in Note 14.

At March 31, 2010, 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
Property, plant and equipment, net of accumulated depreciation	¥34,581	$371,675
Investments in securities	464	4,986
Cash and time deposits	225	2,422
Total	¥35,270	$379,083

Short-term bank loans, the current portion of long-term debt and long-term debt secured by such collateral at March 31, 2010 were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term bank loans	¥12,497	$134,319
Current portion of long-term debt	3,191	34,299
Long-term debt	11,427	122,816
Total	¥27,115	$291,434

In addition, investments in securities of ¥598 million ($6,427 thousand) were pledged as collateral to secure loans of an affiliated company from certain financial institutions at March 31, 2010.

Also, buildings and structures of ¥103 million ($1,105 thousand) and land of ¥219 million ($2,354 thousand) were pledged as collateral to secure future loans from certain financial institutions at March 31, 2010. However, there were no corresponding liabilities at March 31, 2010.

8. Transfer of Industrial Power Generation Facilities

On June 27, 2008, the Company made an agreement with Yokkaichi Energy Service Co., Ltd., a subsidiary of the Japan Energy Network Co., Ltd., to transfer facilities for industrial power generation on June 30, 2008. Since the Company accounted for this transfer as a financial transaction under accounting principles generally accepted in Japan, the following transferred assets and liabilities were retained on the Company's consolidated balance sheets at March 31, 2010 and 2009.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Buildings and structures	¥ 218	¥ 234	$ 2,344
Machinery and equipment	4,350	4,678	46,753
Other current liabilities	536	534	5,757
Long-term deposit received	5,481	6,008	58,911

9. 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, 2010 and 2009 for the Company's and the accompanying consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Retirement benefit obligation	¥(12,086)	¥(11,709)	$(129,898)
Plan assets at fair value	703	617	7,552
Unfunded retirement benefit obligation	(11,383)	(11,092)	(122,346)
Unrecognized net retirement benefit obligation at transition	2,150	2,581	23,110
Unrecognized actuarial loss	1,257	1,115	13,509
Unrecognized prior service cost	148	161	1,593
Net retirement benefit obligation	(7,828)	(7,235)	(84,134)
Adjustment for projected benefit obligation of an overseas subsidiary	51	50	545
Accrued retirement benefits	¥ (7,777)	¥ (7,185)	$ (83,589)

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, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Service cost	¥ 569	¥ 575	$ 6,115
Interest cost	202	252	2,174
Expected return on plan assets	(16)	26	(172)
Amortization of retirement benefit obligation at transition	430	492	4,622
Amortization of unrecognized actuarial loss	79	3	843
Amortization of unrecognized prior service cost	12	12	134
Retirement benefit expense	¥1,276	¥1,360	$13,716

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

Other than the above retirement benefits expense, premium severance payment of ¥160 million ($1,720 thousand) is included in "Business structure improvement expenses" under extraordinary losses in the consolidated statement of operations for the year ended March 31,2010.

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	1.8%	1.8%
Expected rate of return on plan assets	2.5%	2.5%

10. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2010 and 2009 was, in the aggregate, approximately 40.1%.

The effective tax rates reflected in the accompanying consolidated statements of operations for the years ended March 31, 2010 and 2009 differ for the above statutory tax rate for the following reasons:

	2010	2009
Statutory tax rate	40.1%	40.1%
Permanently non-deductible expenses	116.1	1.9
Permanently non-taxable income	(76.8)	(12.9)
Per capita portion of inhabitants' taxes	18.5	1.1
Foreign income taxes	2.1	5.2
Changes in valuation allowance	634.0	43.5
Tax rate differences of consolidated subsidiaries	147.6	8.1
Unrealized loss on intercompany transactions	(9.5)	(8.7)
Differences resulting from the changes in the effective tax rate in foreign subsidiaries	35.7	—
Other	3.2	36.7
Effective tax rates	911.0%	115.0%

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, 2010 and 2009 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Deferred tax assets:			
Tax loss carryforwards	¥13,743	¥12,881	$ 147,706
Retirement benefits	3,054	2,800	32,823
Unrealized gain on intercompany transactions	1,346	953	14,467
Write-downs of marketable and investment securities	115	113	1,239
Accrued expenses	737	583	7,920
Write-downs of inventories	163	116	1,752
Accrued bonuses	216	227	2,327
Write-downs of property, plant and equipment	123	124	1,326
Reserve for Ferosilt removal	5,659	6,915	60,819
Loss on impairment of fixed assets	455	—	4,890
Other	2,636	3,078	28,330
Gross deferred tax assets	28,247	27,790	303,599
Less valuation allowance	(9,818)	(9,093)	(105,525)
Total deferred tax assets	18,429	18,697	198,074
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(222)
Unrealized holding gain on securities	(43)	(3)	(460)
Other	(346)	(346)	(3,724)
Total deferred tax liabilities	(410)	(370)	(4,406)
Net deferred tax assets	¥18,019	¥18,327	$193,668

11. 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, 2010 and 2009 amounted to ¥ 270 million ($2,900 thousand).

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

Treasury stock

Movements in treasury stock during the years ended March 31, 2010 and 2009 are summarized as follows:

	Number of shares			
	2010			
	March 31, 2009	Increase	Decrease	March 31, 2010
Treasury stock	3,515,620	103,830	17,519	3,601,931

	Number of shares			
	2009			
	March 31, 2008	Increase	Decrease	March 31, 2009
Treasury stock	3,345,349	210,794	40,523	3,515,620

12. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2010 and 2009 totaled ¥6,406 million ($68,857 thousand) and ¥6,502 million, respectively.

13. Leases

(a) Finance lease transactions

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets under finance lease contracts that do not transfer ownership to the lessee at March 31, 2010 and 2009, 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						
	2010				2009		
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥ 1,209	¥ 731	¥ 9	¥ 469	¥ 2,191	¥ 1,422	¥ 769
Other	796	574	6	216	994	652	342
Total	¥ 2,005	¥ 1,305	¥ 15	¥ 685	¥ 3,185	¥ 2,074	¥ 1,111

	Thousands of U.S. dollars			
	2010			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
Machinery and equipment	$ 12,991	$ 7,857	$ 92	$ 5,042
Other	8,555	6,173	61	2,321
Total	$ 21,546	$ 14,030	$ 153	$ 7,363

For finance lease transactions commencing on or before March 31, 2008 other than those in which the ownership of the leased assets is transferred to the lessee, lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2010 and 2009 amounted to ¥412 million ($4,424 thousand) and ¥494 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2010 and 2009 amounted to ¥412 million ($4,424 thousand) and ¥494 million, respectively. Loss on impairment of fixed assets of the leased assets for the year ended March 31, 2010 amounted to ¥15 million ($153 thousand).

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥320	$3,437
2012 and thereafter	378	4,062
Total	¥698	$7,499

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2010 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2011	¥ 55	$ 593
2012 and thereafter	119	1,277
Total	¥174	$1,870

14. Financial Instruments

Effective the year ended March 31, 2010, the Company and its domestic consolidated subsidiaries have applied “Accounting Standard for Financial Instruments” (ASBJ Statement No. 10 issued on March 10, 2008) and “Guidance on Disclosures about Fair Value of Financial Instruments” (ASBJ Guidance No.19 issued on March 10, 2008).

Overview

(1) Policy for financial instruments

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

(2) Types of financial instruments and related risk

Trade receivables-trade notes and accounts receivable-are exposed to credit risk in relation to customers. In addition, the Group has global operations, and as a result, the Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies.

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

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

A portion of bank loans and bonds has some financial covenants, which may result in the risk of early repayment depending on the fluctuation of the financial position of the Group. Long-term debt with variable interest rates is exposed to interest rate fluctuation risk. The repayment dates of the debt extend up to 7 years from the balance sheet date.

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies. The Group also enters into interest rate swap transactions to reduce fluctuation risk deriving from interest payable for long-term debt bearing interest at variable rates. Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and the assessment of the effectiveness of hedging activities is found in Notes 2(f) and 15.

(3) Risk management for financial instruments

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

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

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

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

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

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

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

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

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

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

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 15 are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheet as of March 31, 2010 and unrealized gains (losses) are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value. (Please refer to Note (b) below).

(a) Estimated fair value of financial instruments

	Millions of yen			Thousands of U.S. dollars		
	2010			2010		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Assets:						
(1) Cash and deposits	¥18,387	¥18,387	¥ —	$ 197,626	$ 197,626	$ —
(2) Notes and accounts receivable	29,662	29,662	—	318,809	318,809	—
(3) Investments in securities						
Held to-maturity debt securities	10	10	0	108	108	0
Other securities	887	887	—	9,538	9,538	—
Total assets	¥48,946	¥48,946	¥ 0	$ 526,081	$ 526,081	$ 0
Liabilities:						
(1) Notes and accounts payable	15,929	15,929	—	171,208	171,208	—
(2) Short-term bank loans	26,342	26,342	—	283,125	283,125	—
(3) Current portion of long-term debt	12,928	13,051	(123)	138,948	140,270	(1,322)
(4) Long-term debt	29,126	29,021	105	313,051	311,926	1,125
Total liabilities	¥84,325	¥84,343	¥ (18)	$ 906,332	$ 906,529	$ (197)
Derivatives (*)	¥ (39)	¥ (39)	¥ —	$ (419)	$ (419)	$ —

* Assets and liabilities arising from derivatives are shown at net value with the amount in parentheses representing net liability position.
Note 1: Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions are as follows;

Assets:

(1) Cash and deposits and (2) Notes and accounts receivable

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

(3) Investments in securities

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

Liabilities:

(1) Notes and accounts payable and (2) Short-term bank loans

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

(3) Current portion of long-term debt and (4) Long-term debt

For long-term debt with floating interest rates, their carrying value approximates fair value because their interest rate reflects on market interest rate.

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

Derivatives:

Please refer to Note 15 “Derivatives”.

(b) Financial instruments at March 31, 2010, whose fair values were extremely difficult to determine, were as follows:

	Millions of yen	Thousands of U.S. dollars
	Carrying value	Carrying value
Unlisted equity securities	¥4,339	$ 46,636
Investments in limited partnerships	93	995
Preferred securities	500	5,374

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

(c) Redemption date of monetary assets, receivables and securities with maturities

	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 after ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
Deposits	¥18,378	¥ —	—	—	$ 197,528	$ —	—	—
Notes and accounts receivable	29,662	—	—	—	318,809	—	—	—
Investments in securities								
Held to-maturity debt securities	—	10	—	—	—	108	—	—
Total	¥ 48,040	¥ 10	—	—	$516,337	$108	—	—

(d) Repayment schedule of long-term debt, bonds lease obligations and others

	Millions of yen					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term debt	¥12,928	¥7,418	¥7,708	¥7,377	¥5,141	¥1,482
Bonds	—	200	200	200	1,400	—
Lease obligations	790	709	548	402	207	125
Others	2,104	527	517	509	501	3,427
Total	¥15,822	¥8,854	¥8,973	¥8,488	¥7,249	¥5,034

	Thousands of U.S. dollars					
	Due in one year or less	Due after one year through two years	Due after two years through three years	Due after three years through four years	Due after four years through five years	Due after five years
Long-term debt	$ 138,948	$ 79,730	$ 82,849	$ 79,289	$ 55,256	$ 15,927
Bonds	—	2,150	2,150	2,150	15,046	—
Lease obligations	8,495	7,621	5,892	4,316	2,225	1,345
Others	22,610	5,659	5,558	5,467	5,389	36,838
Total	$ 170,053	$ 95,160	$ 96,449	$ 91,222	$ 77,916	$ 54,110

15. 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, 2010 and 2009 were as follows:

(a) Currency-related transactions

	Millions of yen						Thousands of U.S. dollars		
	2010			2009			2010		
	Notional amount	Estimated fair value	Unrealized loss (gain)	Notional amount	Estimated fair value	Unrealized gain	Notional amount	Estimated fair value	Unrealized loss (gain)
Forward foreign exchange contracts									
Sell:									
Euro	¥2,843	¥98	¥98	¥4,746	¥4,791	¥(45)	$30,560	$1,054	$1,054
U.S. dollars	115	(1)	(1)	3	3	(0)	1,234	(5)	(5)
Buy:									
Japanese yen	676	(19)	(19)	—	—	—	7,263	(208)	(208)
Total	¥3,634	¥78	¥78	¥4,749	¥4,794	¥(45)	$39,057	$ 841	$ 841

(b) Interest-related transactions

	Millions of yen							
	2010				2009			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Interest rate swap contracts:								
Receive/floating and pay/fixed	¥615	¥520	¥(39)	¥(39)	¥ –	¥ –	¥ –	¥ –
Total	¥615	¥520	¥(39)	¥(39)	¥ –	¥ –	¥ –	¥ –

	Thousands of U.S. dollars			
	2010			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Interest rate swap contracts:				
Receive/floating and pay/fixed	$6,615	$5,589	$(422)	$(422)
Total	$6,615	$5,589	$(422)	$(422)

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

The notional amounts and the estimated fair value of the derivative instruments outstanding which qualify for deferral hedge accounting at March 31, 2010 were as follows:

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

Forward foreign exchange contracts:

			Millions of yen			Thousands of U.S. dollars		
			2010			2010		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value	Notional amount	Notional amount (over one year)	Estimated fair value
The allocation method	Buy: U.S. dollars	Accounts payable	¥ 10	¥ –	¥ 0 (*)	$110	$ –	$ 0 (*)

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

The estimated fair value of forward foreign currency exchange contracts is computed using prices provided by counter party financial institutions.

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

Interest rate swap contracts:

			Millions of yen			Thousands of U.S. dollars		
			2010			2010		
Method of accounting	Classification	Hedged item	Notional amount	Notional amount (over one year)	Estimated fair value	Notional amount	Notional amount (over one year)	Estimated fair value
The special method	Receive/floating and pay/fixed	Long-term debt	¥8,230	¥445	(*)	$88,457	$4,783	(*)

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

16. Contingent Liabilities

(a) Guarantees

At March 31, 2010, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥215	$2,312
As guarantor for borrowings of unconsolidated subsidiaries	160	1,722
Total	¥375	$4,034

(b) Remediation measures in response to soil and underground water contamination, and waste assumed to be buried at the Yokkaichi plant

As a result of a boring survey at the Yokkaichi plant of the Company and after an assessment by a comprehensive compliance test that evaluated the level of contamination of hazardous substances, soil contamination exceeding the environmental standards was detected. In response, the Company established an Environmental Expert Committee (the "Committee") comprised of third-party academic advisors, and conducted a soil and underground water survey of the entire Yokkaichi plant site under the guidance and advice of this Committee. The survey identified contamination that exceeded the environmental standards, the primary cause of which was seems to be related to the past production activities at the plant. In accordance with the "Ordinance for Conservation of the Living Environment" enacted by Mie Prefecture, the Company submitted documents to Yokkaichi City, which has jurisdiction over the matter notifying the authorities of these findings.

In conjunction with continuing the in-depth survey, the Company is undertaking to draft specific remediation measures and will reach a conclusion on specific remediation measures in fiscal year 2010. However, the Company is not able to estimate the related costs reasonably at March 31, 2010. In addition, the following information regarding the buried material that must be removed from the Yokkaichi plant has been officially announced in connection with the assessment of the comprehensive compliance test. The measures required to remove the buried waste will probably have an impact on the Company's business performance in the future. At present, given that the specific details of the waste to be removed, such as the type, properties and volume have yet to be determined, the Company is not able to estimate the related costs reasonably.

(1) Buried waste in area No. 2

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

As a result of trial boring survey, certain buried waste (metals) was identified. The Company is planning to determine the location and extent of the buried waste and study the appropriate removal method during the years from fiscal year 2010 through fiscal year 2013. The Company believes that this process will enable the Company to estimate the overall situation involving the buried waste.

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

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

As a result of our comprehensive review of the schedule considering the fact that the buried waste has not yet impacted to the surrounding areas and its feasibility, the Company believes that the timing that the overall situation involving the buried waste will be clarified is subsequent to fiscal year 2011.

17. Supplemental Information to Consolidated Statements of Cash Flows

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets as of March 31, 2010 and 2009 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Cash and deposits	¥18,387	¥12,681	$197,626
Time deposits with a maturity in excess of three months	(20)	(20)	(215)
Bank deposit restricted on withdrawals	(63)	(12)	(676)
Cash and cash equivalents	¥18,304	¥12,649	$196,735

18. Amounts per Share

	Yen		U.S. dollars
	2010	2009	2010
Net loss per share	¥ 3.30	¥ 1.07	$0.0355
Net assets per share	111.87	113.25	1.2024

Net loss per share is based on the net 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 are based on the number of shares of common stock outstanding at the year end.

No diluted net income per share for the years ended March 31, 2010 and 2009 is presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net loss per share for the years ended March 31, 2010 and 2009 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Information on basic net loss per share:			
Net loss	¥(1,323)	¥(422)	$(14,224)
Adjusted net loss attributable to common shareholders	¥(1,323)	¥(422)	$(14,224)

	Thousands of shares	
	2010	2009
Weighted-average number of shares of common stock outstanding during the year	400,277	393,023

The financial data for the computation of net assets per share at March 31, 2010 and 2009 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Total net assets	¥44,811	¥45,372	$481,633
Deductions from total net assets:			
Minority interests:	(36)	(32)	(385)
Total net assets used in the calculation of net assets per share	¥44,775	¥45,340	$481,248

	Thousands of shares	
	2010	2009
Number of shares used in the calculation of net assets per share	400,238	400,324

19. Related Party Transactions

Major transactions and balances between the Company and its principal shareholder as of and for the years ended March 31, 2010 and 2009 were as follows:

		Transactions			Balances			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Name of principal shareholder	Type of transaction	2010	2009	2010	Account	2010	2009	2010
MITSUI & CO., LTD.	Sales of products	¥8,697	¥7,941	$93,477	Trade receivables	¥2,401	¥1,916	$25,806
	Purchases of raw materials	4,751	4,657	51,066	Trade payables	2,085	2,281	22,409

Major transactions and balances between the Company and an affiliated company as of and for the years ended March 31, 2010 and 2009 were as follows:

Name of affiliated company	Type of transaction	Transactions: Millions of yen 2010	Transactions: Millions of yen 2009	Transactions: Thousands of U.S. dollars 2010	Account	Balances: Millions of yen 2010	Balances: Millions of yen 2009	Balances: Thousands of U.S. dollars 2010
Yokkaichi Energy Services Co., Ltd.	Transfer of industrial power generation facilities	¥ —	¥6,919	$ —	Other current liabilities	¥ 536	¥ 534	$ 5,757
	Repayment of deposits received	525	386	5,640				
	Payment of interests	175	127	1,881	Long-term deposits received	5,481	6,008	58,911
	Payment for service fee of utility supply	2,377	2,690	25,550	Accrued expenses	312	371	3,351

Major transactions and balances between the consolidated subsidiaries and the principal shareholder as of and for the years ended March 31, 2010 and 2009 were as follows:

Name of principal shareholder	Type of transaction	Transactions: Millions of yen 2010	Transactions: Millions of yen 2009	Transactions: Thousands of U.S. dollars 2010	Account	Balances: Millions of yen 2010	Balances: Millions of yen 2009	Balances: Thousands of U.S. dollars 2010
MITSUI & CO., LTD.	Sales of products	¥1,221	¥1,353	$13,123	Trade receivables	¥271	¥174	$2,917
	Purchases of raw materials	179	112	1,923	Trade payables	53	29	573

Major transactions and balances between the consolidated subsidiaries and an affiliated company as of and for the years ended March 31, 2010 and 2009 were as follows:

Name of affiliated company	Type of transaction	Transactions: Millions of yen 2010	Transactions: Millions of yen 2009	Transactions: Thousands of U.S. dollars 2010	Account	Balances: Millions of yen 2010	Balances: Millions of yen 2009	Balances: Thousands of U.S. dollars 2010
BELCHIM CROP PROTECTION S.A.	Sales of products	¥8,257	¥8,057	$88,749	Trade receivables	¥2,975	¥2,133	$31,981

The condensed financial information of BELCHIM CROP PROTECTION S.A. as the significant related party, as of and for the year ended September 30, 2009 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥19,883	$213,697
Fixed assets	3,353	36,040
Total assets	¥23,236	249,737
Current liabilities	¥17,263	$185,544
Long-term liabilities	780	8,380
Total liabilities	18,043	193,924
Total net assets	5,193	55,813
Total liabilities and net assets	¥23,236	$249,737
Net sales	¥26,054	$280,033
Income before income taxes	1,575	16,931
Net income	995	10,690

20. Business Conbination

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 properly assigning each business function. 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
Current assets	¥14
Fixed assets	2,673
Total assets	¥2,687
Current liabilities	¥1,544
Long-term liabilities	389
Total liabilities	1,933
Total net assets	754
Total liabilities and net assets	¥2,687

21. Segment Information

(a) 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, functional materials which are value-added products designed to take advantage of the characteristics of titanium dioxide such as electronic 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 and so forth.

A summary of financial information by business segment for the years ended March 31, 2010 and 2009 is as follows:

	Millions of yen						
	2010						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	¥46,289	¥42,987	¥14,244	¥ 992	¥104,512	¥ —	¥104,512
Intersegment	—	—	6,058	895	6,953	(6,953)	—
Net sales	46,289	42,987	20,302	1,887	111,465	(6,953)	104,512
Operating expenses	48,810	33,974	18,712	1,744	103,240	(4,209)	99,031
Operating (loss) income	¥(2,521)	¥ 9,013	¥ 1,590	¥ 143	¥ 8,225	¥ (2,744)	¥ 5,481
Total assets	¥70,621	¥50,030	¥ 9,500	¥ 970	¥131,121	¥43,260	¥174,381
Depreciation and amortization	4,308	891	115	6	5,320	80	5,400
Loss on impairment of fixed assets	1,678	—	—	—	1,678	24	1,702
Capital expenditures	6,055	3,779	76	1	9,911	38	9,949

	Millions of yen						
	2009						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	¥47,306	¥50,192	¥ 6,153	¥1,011	¥104,662	¥ —	¥104,662
Intersegment	—	—	7,401	1,273	8,674	(8,674)	—
Net sales	47,306	50,192	13,554	2,284	113,336	(8,674)	104,662
Operating expenses	52,258	38,343	12,146	2,193	104,940	(5,662)	99,278
Operating (loss) income	¥(4,952)	¥11,849	¥ 1,408	¥ 91	¥ 8,396	¥ (3,012)	¥ 5,384
Total assets	¥69,751	¥43,451	¥10,730	¥ 917	¥124,849	¥38,956	¥163,805
Depreciation and amortization	4,022	751	102	6	4,881	153	5,034
Loss on impairment of fixed assets	172	—	—	—	172	—	172
Capital expenditures	6,613	1,658	439	3	8,713	(402)	8,311

	Thousands of U.S. dollars						
	2010						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	$497,518	$462,027	$153,089	$10,665	$1,123,299	$ —	$1,123,299
Intersegment	—	—	65,107	9,622	74,729	(74,729)	—
Net sales	497,518	462,027	218,196	20,287	1,198,028	(74,729)	1,123,299
Operating expenses	524,613	365,159	201,115	18,740	1,109,627	(45,240)	1,064,387
Operating (loss) income	$(27,095)	$ 96,868	$ 17,081	$ 1,547	$ 88,401	$ (29,489)	$ 58,912
Total assets	$759,044	$537,727	$102,108	$10,427	$1,409,306	$464,954	$1,874,260
Depreciation and amortization	46,298	9,573	1,237	59	57,167	855	58,022
Loss on impairment of fixed assets	18,035	—	—	—	18,035	254	18,289
Capital expenditures	65,080	40,622	816	9	106,527	407	106,934

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,796 million ($30,047 thousand) and ¥2,770 million for the years ended March 31, 2010 and 2009, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally of the Company's cash and deposits and investments in securities.

As described in Note 3 (b), the Company's consolidated subsidiary has adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ, Guidance No.18 issued on December 27, 2007). As a result, net sales and operating income in the construction segment increased by ¥1,471 million ($15,810 thousand) and ¥134 million ($1,439 thousand), respectively for the year ended March 31, 2010 from the corresponding amounts which would have been recorded under the method applied in the previous year.

Loss on impairment of fixed assets in inorganic chemicals segment of ¥1,020 million ($10,959 thousand) is included in "Business structure improvement expenses" in the consolidated statement of operations for the year ended March 31, 2010.

As described in Note 3 (d), the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating loss in the inorganic chemicals segment increased by ¥1,276 million and operating income in the organic chemicals decreased by ¥214 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 2 (g), the Company and its domestic consolidated subsidiaries changed the useful life of machinery. As a result, operating loss in the inorganic chemicals segment increased by ¥222 million and operating income in the organic chemicals decreased by ¥4 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(b) 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						
	2010						
	Japan	Asia	America	Europe	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income (loss):							
Net sales:							
External customers	¥ 72,713	¥ 7,797	¥3,498	¥20,504	¥104,512	¥ —	¥104,512
Intersegment	24,804	4,309	6	110	29,229	(29,229)	—
Net sales	97,517	12,106	3,504	20,614	133,741	(29,229)	104,512
Operating expenses	88,846	12,428	3,568	20,229	125,071	(26,040)	99,031
Operating income (loss)	¥8,671	¥ (322)	¥ (64)	¥ 385	¥ 8,670	¥ (3,189)	¥ 5,481
Total assets	¥126,379	¥17,336	¥3,553	¥11,265	¥158,533	¥15,849	¥174,381

	Millions of yen						
	2009						
	Japan	Asia	America	Europe	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income (loss):							
Net sales:							
External customers	¥ 63,893	¥ 8,844	¥3,923	¥28,002	¥104,662	¥ —	¥104,662
Intersegment	29,609	4,665	25	124	34,423	(34,423)	—
Net sales	93,502	13,509	3,948	28,126	139,085	(34,423)	104,662
Operating expenses	84,907	14,434	4,078	27,743	131,162	(31,884)	99,278
Operating income (loss)	¥8,595	¥ (925)	¥ (130)	¥ 383	¥ 7,923	¥ (2,539)	¥ 5,384
Total assets	¥121,931	¥15,661	¥2,742	¥10,326	¥150,660	¥13,145	¥163,805

	Thousands of U.S. dollars						
	2010						
	Japan	Asia	America	Europe	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income (loss):							
Net sales:							
External customers	$ 781,524	$ 83,798	$37,595	$220,382	$1,123,299	$ —	$1,123,299
Intersegment	266,592	46,317	66	1,181	314,156	(314,156)	—
Net sales	1,048,116	130,115	37,661	221,563	1,437,455	(314,156)	1,123,299
Operating expenses	954,919	133,581	38,352	217,416	1,344,268	(279,881)	1,064,387
Operating income (loss)	$ 93,197	$ (3,466)	$ (691)	$ 4,147	$ 93,187	$ (34,275)	$ 58,912
Total assets	$1,358,331	$186,325	$38,185	$121,079	$1,703,920	$170,340	$1,874,260

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,796 million ($30,047 thousand) and ¥2,770 million for the years ended March 31, 2010 and 2009, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally of the Company's cash and deposits and investments in securities.

As described in Note 3 (b), the Company's consolidated subsidiary has adopted "Accounting Standard for Construction Contracts" (ASBJ Statement No. 15 issued on December 27,2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ, Guidance No.18 issued on December 27,2007). As a result, net sales and operating income in the Japan segment increased by ¥1,471 million ($15,810 thousand) and ¥134 million ($1,439 thousand), respectively, for the year ended March 31, 2010 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 3 (d), the Company and its domestic consolidated subsidiaries adopted "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating income in the Japan segment decreased by ¥1,491 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 2 (g), the Company and its domestic consolidated subsidiaries changed the useful life of machinery. As a result, operating income in the Japan segment decreased by ¥226 million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year

(c) 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				
	2010				
	Asia	America	Europe	Other	Total
Overseas net sales	¥21,501	¥8,448	¥22,430	¥332	¥ 52,711
Consolidated net sales					104,512
Overseas net sales as a percentage of consolidated net sales	20.6%	8.1%	21.4%	0.3%	50.4%

	Millions of yen				
	2009				
	Asia	America	Europe	Other	Total
Overseas net sales	¥21,917	¥9,814	¥29,455	¥423	¥ 61,609
Consolidated net sales					104,662
Overseas net sales as a percentage of consolidated net sales	20.9%	9.4%	28.2%	0.4%	58.9%

	Thousands of U.S. dollars				
	2010				
	Asia	America	Europe	Other	Total
Overseas net sales	$231,099	$90,802	$241,083	$3,568	$ 566,552
Consolidated net sales					1,123,299
Overseas net sales as a percentage of consolidated net sales	20.6%	8.1%	21.4%	0.3%	50.4%

22. Subsequent Event

At the meeting of the Board of Directors held on April 9, 2010, the Company has determined to change a part of its retirement benefit pension plan from a tax-qualified pension plan to a defined contribution pension plan effective from October 1, 2011. The Company plans to adopt "Guidance on Accounting for Transfers between Retirement Benefit Plans" (ASBJ Guidance No. 1 issued on January 31, 2002).

Ernst & Young ShinNihon LLC

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, 2010 and 2009, 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, 2010 and 2009, 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 16(b), the Company is currently examining certain remediation measures in response to soil and underground water contamination, and waste assumed to be buried at the Yokkaichi plant.

As described in Note 3(d), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries adopted an accounting standard for the measurement of inventories.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 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.

June 29, 2010

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

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(As of June 29, 2010)

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