Ishihara Sangyo Kaisha

Annual Report 2011

Year Ended March 31, 2011

Challenge for Growth and Evolution

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Financial Highlights

For the years ended March 31, 2011, 2010 and 2009

	Millions of yen			Thousands of U.S. dollars (Note)
	2011	2010	2009	2011
For the years ended March 31,				
Net sales:				
Domestic	¥ 46,408	¥ 51,801	¥ 43,053	$ 558,121
Overseas	52,649	52,711	61,609	633,186
Total	99,057	104,512	104,662	1,191,307
Sales classified by business segment:				
Inorganic chemicals	52,126	46,289	47,306	626,896
Organic chemicals	39,573	42,987	50,192	475,925
Construction	6,352	14,244	6,153	76,390
Other businesses	1,006	992	1,011	12,096
Total	99,057	104,512	104,662	1,191,307
Operating income	9,039	5,481	5,384	108,707
Net income (loss)	4,850	(1,323)	(422)	58,334
Depreciation and amortization of property, plant and equipment	5,710	5,474	5,275	68,666
Research and development costs	6,776	6,406	6,502	81,495
At the year end				
Current assets	96,072	92,950	86,441	1,155,409
Total assets	172,429	174,381	163,805	2,073,715
Current liabilities	58,113	68,226	72,297	698,895
Net assets	48,158	44,811	45,372	579,179

	Yen			U.S. dollars (Note)
Per share data				
Net income (loss)	¥ 12.12	¥ (3.30)	¥ (1.07)	$ 0.1458
Net assets	120.32	111.87	113.25	1.4470

Number of employees (as of March 31)	1,915	1,878	1,851	—

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥83.15 = U.S.$1.00, the rate of exchange prevailing on March 31, 2011.

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

Kazutaka Fujii
President & CEO

In fiscal 2010, ended March 31, 2011, the world economy generally showed moderate recovery, sustained by strong economic growth in emerging markets, primarily China, as well as economic stimulus measures implemented by governments worldwide. By the end of fiscal 2010, however, uncertainty regarding the economic outlook had grown due to a range of factors. These included soaring crude oil prices amid civil unrest in the Middle East, the ongoing problem of enormous public debt in Europe, and loss of confidence in the U.S. dollar, the world's key currency.

In Japan, the economy saw steady recovery in the first half of the period, underpinned by growth in individual consumption generated by economic stimulus measures, and an increase in exports. However, in the second half the economy came to a standstill due to declining exports stemming from the appreciation of the yen, as well as a retraction in consumption in response to the end of government schemes to kick-start the economy. This situation was compounded by the Great East Japan Earthquake, which occurred on March 11. The direct impact on production activities caused by damage in affected regions, combined with concerns surrounding protracted power shortages and no immediate end in sight to the nuclear power plant problems, have heightened fears of an economic downturn.

As for the market environment surrounding the ISK Group's titanium dioxide business, supply capacity decreased somewhat due to the closure of unprofitable plants following the collapse of Lehman Brothers. Meanwhile, the combination of demand growth in Asia, particularly China, and a recovery in demand in Europe and the United States, coupled with the inventories of manufacturers worldwide reaching the lowest levels ever recorded, created tight supply-demand conditions even though manufacturers continued to operate at full capacity. In the agrochemicals business, amid expectations that global shipments would increase slightly compared with the previous year, global competition between manufacturers and between agrochemicals became even more intense.

In light of this market environment, the ISK Group positioned reform of the inorganic chemicals business, which had posted significant deficits for two consecutive years, as a top priority for management. Efforts to restore the profitability of this business, buoyed by favorable conditions in that market as mentioned above, achieved some good results in the year under review.

As a result, consolidated net sales amounted to ¥99.1 billion (US$1,191 million), down ¥5.5 billion from the previous fiscal year. By contrast, operating income rose ¥3.6 billion year-on-year, to ¥9.0 billion (US$109 million), and ordinary income increased ¥3.5 billion, to ¥6.2 billion (US$74 million). We recorded net income of ¥4.9 billion (US$58 million), compared with a net loss of ¥1.3 billion in the previous fiscal year. This was due mainly to receipt of extraordinary income from the sale of fixed assets. Significant year-on-year improvements in each income category enabled a return to profitability for the full year.

In April 2009, the Group launched its fourth medium-term management plan, covering the 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. The Group took the first steps toward achieving the targets set out in the plan.

ISK as envisioned in 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$842 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-value-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$180 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.

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Kazutaka Fujii
President & CEO

■ Organic Chemicals

Domestic sales in the agrochemicals business were largely unchanged from the previous fiscal year. Overseas, however, both revenue and earnings declined year-on-year. This was due mainly to lower demand stemming from weather-related factors and intensifying competition against the generic products in Europe, the main market, as well as the yen's appreciation against the euro. By contrast, sales of fungicides in Brazil increased. In addition, there was an increase in R&D expenses for the registration of new agrochemicals currently under development, which also had a negative impact on earnings.

In the pharmaceuticals business, we posted an increase in sales, partly as a result of the carryover from the previous fiscal year of some pharmaceutical ingredients manufactured by ISK under consignment.

As a result, total segment sales declined ¥3.4 billion, to ¥39.6 billion (US$476 million), and operating income slipped ¥1.5 billion, to ¥7.5 billion (US$90 million).

■ Inorganic Chemicals

Our titanium dioxide business posted an increase in sales volume in Japan and overseas buoyed by the economic upturn. Overseas, sales prices in U.S. dollars rose significantly as a reflection of the tight demand-supply situation, and sales increased considerably year-on-year despite further appreciation of the yen.

In the functional and electronic materials business, despite a decline in sales of products used in deNOx catalysts, sales edged up slightly thanks to healthy sales of products used in electronic components in the first half of the fiscal year.

Profit margins in this segment rose substantially thanks to an improvement in operation rates and higher sales prices.

As a result, segment sales increased ¥5.8 billion year-on-year, to ¥52.1 billion (US$627 million). The segment posted operating income of ¥3.0 billion (US$36 million) compared with an operating loss of ¥2.5 billion in the previous fiscal year.

■ Construction

Sales in the construction segment declined ¥7.9 billion year-on-year, to ¥6.4 billion (US$76 million), due to the absence of large-scale projects that had been completed in the previous fiscal year. Operating income fell ¥1.0 billion, to ¥0.6 billion (US$7 million).

■ Other Businesses

In the year under review, the Group's other businesses posted sales of ¥1.0 billion (US$12 million) and operating income of ¥0.1 billion (US$2 million). Both figures are largely unchanged from the previous fiscal year.

■ Issues to Address

Following the formulation and then the announcement of the fourth medium-term management plan in May 2009, our financial results for both the inaugural year of the plan and the second year, the period under review, fell short of the targets. The reason is that the actual operating environment has diverged significantly from the assumptions we based the plan on, which include exchange rates, market conditions, and the supply situation for raw materials. In the year under review, however, we succeeded in bringing the inorganic chemicals business back to profitability, a priority management issue under the plan.

Against this backdrop, the ISK Group has arrived at the final year of its fourth medium-term management plan.

In the inorganic chemicals segment, demand for titanium dioxide is growing in Asia, primarily in China, although this is offset somewhat by the slow and modest recovery of domestic demand, which offers little prospect of a significant increase in demand over the medium and long terms. Nevertheless, there is firm demand for premium high-value-added products with heat shielding, high gloss and weathering properties. Mindful of this operating environment, we will work hard to expand sales while strengthening production systems to meet robust demand for titanium dioxide in Asian markets. At the same time, we will develop new markets for premium high-value-added products to expand sales volumes. In the fiscal year ending March 2012, we will ensure that the earnings foundation that generated the return to profit remains firmly in place, in our quest to achieve an operating margin target of 5% or higher as set under the plan.

In the organic chemicals business, the importance of agrochemicals will increase as climates change in all parts of the world and rising populations spark fears of food shortages. Demand for agrochemicals is expected to recover worldwide in tandem with soaring prices for agricultural produce, although this will be tempered by escalating worldwide competition between leading manufacturers. Faced with this situation, the ISK Group will continue focusing on the three key value drivers of this segment’s high profitability. Namely, we will buttress our own self-promotion structure, commercialize products under development as swiftly as possible, and make the most of the profits and competitiveness acquired through our manufacturing technologies. In the year ending March 2012, we will achieve year-on-year increases in both revenues and earnings with the aim of putting the organic chemicals business back onto its growth track.

The ISK Group as a whole will fulfill the plan’s earnings objectives by working assiduously to achieve these business targets, and in the process will lay a firm foundation for the next medium-term management plan.

Consolidated Balance Sheets

As of March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Assets			
Current assets:			
Cash and deposits (Notes 4, 8 and 16)	¥ 22,083	¥ 18,387	$ 265,576
Trade receivables (Note 16):			
Notes	3,066	2,569	36,876
Accounts	24,611	27,093	295,988
	27,677	29,662	332,864
Less allowance for doubtful receivables	(250)	(311)	(3,004)
Trade receivables, net	27,427	29,351	329,860
Inventories (Note 6)	42,040	40,649	505,594
Deferred income taxes (Note 12)	2,190	2,413	26,339
Other current assets	2,332	2,150	28,040
Total current assets	96,072	92,950	1,155,409
Property, plant and equipment:			
Land (Note 8)	6,329	7,469	76,110
Buildings and structures (Notes 7, 8, 9 and 10)	49,445	50,665	594,649
Machinery and equipment (Notes 7, 8, 9 and 10)	126,540	127,110	1,521,827
Leased assets	6,022	5,225	72,423
Construction in progress	3,320	3,748	39,928
	191,656	194,217	2,304,937
Less accumulated depreciation	(135,548)	(135,971)	(1,630,162)
Property, plant and equipment, net	56,108	58,246	674,775
Investments and other assets:			
Investments in securities (Notes 5, 8 and 16):			
Unconsolidated subsidiaries and affiliates	2,817	3,550	33,881
Other	2,057	2,279	24,741
Total investments in securities	4,874	5,829	58,622
Long-term loans receivable	100	102	1,203
Goodwill	23	47	281
Deferred income taxes (Note 12)	13,527	15,685	162,682
Other	1,725	1,522	20,743
Total investments and other assets	20,249	23,185	243,531
Total assets	¥172,429	¥174,381	$2,073,715

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Notes 8 and 16)	¥ 23,513	¥ 26,342	$ 282,779
Current portion of long-term debt (Notes 8, 10 and 16)	8,772	12,928	105,496
Current portion of bonds (Notes 8 and 16)	200	—	2,405
Trade payables:			
Notes	3,000	4,558	36,079
Accounts	11,086	11,371	133,323
	14,086	15,929	169,402
Lease obligations (Notes 8 and 16)	880	790	10,584
Accrued income taxes (Note 12)	306	656	3,686
Accrued expenses	3,714	4,095	44,663
Advances received	—	284	—
Deferred income taxes (Note 12)	10	—	117
Accrued bonuses	600	540	7,211
Reserve for sales returns	179	199	2,152
Reserve for Ferosilt removal	2,599	2,701	31,261
Reserve for implementation of environmental and safety arrangements	70	34	844
Provision for business structure improvement	—	216	—
Other current liabilities (Note 10)	3,184	3,512	38,295
Total current liabilities	58,113	68,226	698,895
Long-term liabilities:			
Long-term debt (Notes 8, 10 and 16)	40,041	29,126	481,554
Bonds (Notes 8 and 16)	1,800	2,000	21,648
Lease obligations less current portion (Notes 8 and 16)	1,905	1,991	22,907
Accrued retirement benefits for employees (Note 11)	8,406	7,777	101,099
Deferred income taxes (Note 12)	—	79	—
Long-term deposits received (Note 10)	763	6,279	9,177
Reserve for Ferosilt removal	9,875	11,410	118,765
Reserve for implementation of environmental and safety arrangements	562	562	6,756
Asset retirement obligations (Note 9)	862	—	10,364
Other long-term liabilities (Note 10)	1,944	2,120	23,371
Total long-term liabilities	66,158	61,344	795,641
Contingent liabilities (Note 18)			
Net assets:			
Shareholders' equity (Note 13):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 403,839,431 shares in 2011 and 2010	43,421	43,421	522,195
Capital surplus	10,625	10,625	127,793
Accumulated deficit	(1,714)	(6,321)	(20,609)
Less treasury stock, at cost:			
3,709,794 shares in 2011 and 3,601,931 shares in 2010	(673)	(664)	(8,090)
Total shareholders' equity	51,659	47,061	621,289
Accumulated other comprehensive income (loss):			
Net unrealized holding gain on securities (Note 5)	62	50	750
Unrealized deferred loss on hedges	—	(0)	—
Translation adjustments	(3,612)	(2,366)	(43,437)
Adjustment for projected benefit obligation of an overseas subsidiary	33	30	391
Total accumulated other comprehensive loss	(3,517)	(2,286)	(42,296)
Minority interests	16	36	186
Total net assets	48,158	44,811	579,179
Total liabilities and net assets	¥172,429	¥174,381	$2,073,715

Consolidated Statements of Operations

For the years ended March 31, 2011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Net sales (Note 24)	¥99,057	¥104,512	$1,191,307
Cost of sales (Note 14)	69,809	78,527	839,561
Gross profit	29,248	25,985	351,746
Selling, general and administrative expenses (Note 14)	20,209	20,504	243,039
Operating income (Note 24)	9,039	5,481	108,707
Other income:			
Interest and dividend income	125	70	1,501
Equity in earnings of affiliates	387	410	4,654
Other	239	212	2,879
	751	692	9,034
Other expenses:			
Interest expense	1,836	1,727	22,081
Retirement benefit expense	427	427	5,131
Foreign exchange loss	831	472	9,997
Other	533	876	6,408
	3,627	3,502	43,617
Ordinary income	6,163	2,671	74,124
Extraordinary gains:			
Gain on prior-year adjustment	15	87	175
Gain on sales of fixed assets	1,929	—	23,200
Reversal of reserve for Ferosilt removal	—	1	—
Gain on insurance claim	21	96	253
Gain on compensation related to transfer of Tokyo branch due to land and building expropriation	1,091	—	13,118
Gain on recognition of negative goodwill	39	—	464
Reversal of provision for business structure improvement	135	—	1,618
Other	123	80	1,488
	3,353	264	40,316
Extraordinary losses:			
Loss on disposal of fixed assets	894	640	10,749
Loss on impairment of fixed assets (Note 7)	—	682	—
Business structure improvement expenses (Notes 7 and 24)	—	1,239	—
Reserve for implementation of environmental and safety arrangements	61	162	737
Environmental measures expenses	77	—	924
Cumulative effect of initial application of accounting standard for asset retirement obligations	802	—	9,648
Other	30	49	353
	1,864	2,772	22,411
Income before income taxes and minority interests	7,652	163	92,029
Income taxes (Note 12):			
Current	449	962	5,398
Deferred	2,368	522	28,476
Income (loss) before minority interests	4,835	(1,321)	58,155
Minority interests	(15)	2	(179)
Net income (loss)	¥ 4,850	¥ (1,323)	$ 58,334

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

Consolidated Statement of Comprehensive Income

For the year ended March 31, 2011

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Income before minority interests	¥ 4,835	$ 58,155
Other comprehensive income (loss):		
Net unrealized holding gain on securities	12	139
Unrealized deferred gain on hedges	0	6
Translation adjustments	(1,176)	(14,137)
Adjustment for projected benefit obligation of an overseas subsidiary	3	31
Other comprehensive loss of affiliates accounted for by the equity method attributable to the Company	(75)	(914)
Comprehensive income	¥ 3,599	$ 43,280

Comprehensive income (loss) attributable to the shareholders of the Company and minority interests for the year ended March 31, 2011 was as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
	2011	2011
Comprehensive income attributable to shareholders of the Company	¥ 3,619	$43,525
Comprehensive loss attributable to minority interests	(20)	(245)
Total comprehensive income	¥ 3,599	$43,280

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2011 and 2010

		Millions of yen									
		Shareholders' equity				Accumulated other comprehensive income (loss)					
	Number of shares of common stock in issue	Common stock	Capital surplus	Accumulated deficit	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized deferred loss on hedges	Translation adjustments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests in consolidated subsidiaries	Total net assets
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
Effect of change in accounting policies of an affiliate accounted for by equity method	—	—	—	(243)	—	—	—	—	—	—	(243)
Net Income	—	—	—	4,850	—	—	—	—	—	—	4,850
Acquisition of treasury stock	—	—	—	—	(9)	—	—	—	—	—	(9)
Disposition of treasury stock	—	—	0	—	0	—	—	—	—	—	0
Other changes	—	—	—	—	—	12	0	(1,246)	3	(20)	(1,251)
Balance at March 31, 2011	403,839,431	¥43,421	¥10,625	¥(1,714)	¥(673)	¥ 62	¥—	¥(3,612)	¥33	¥16	¥48,158

	Thousands of U.S. dollars (Note 1)									
	Shareholders' equity				Accumulated other comprehensive income (loss)					
	Common stock	Capital surplus	Accumulated deficit	Treasury stock, at cost	Net unrealized holding gain on securities	Unrealized deferred loss on hedges	Translation adjustments	Adjustment for projected benefit obligation of an overseas subsidiary	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2010	$522,195	$127,790	$(76,023)	$(7,987)	$611	$(6)	$(28,452)	$360	$431	$538,919
Effect of change in accounting policies of an affiliate accounted for by equity method	—	—	(2,920)	—	—	—	—	—	—	(2,920)
Net Income	—	—	58,334	—	—	—	—	—	—	58,334
Acquisition of treasury stock	—	—	—	(108)	—	—	—	—	—	(108)
Disposition of treasury stock	—	3	—	5	—	—	—	—	—	8
Other changes	—	—	—	—	139	6	(14,985)	31	(245)	(15,054)
Balance at March 31, 2011	$522,195	$127,793	$(20,609)	$(8,090)	$750	$—	$(43,437)	$391	$186	$579,179

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

Ishihara Sangyo Kaisha, Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

For the years ended March 31, 20011 and 2010

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2011	2010	2011
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 7,652	¥ 163	$ 92,029
Adjustments to reconcile income before income taxes and minority interests to net cash provided by (used in) operating activities:			
Depreciation and amortization	5,710	5,474	68,666
Gain (loss) on disposal or sales of fixed assets, net	(1,425)	231	(17,144)
Loss on impairment of fixed assets	—	1,702	—
Foreign exchange loss, net	(21)	(56)	(247)
Provisions for accrued retirement benefits for employees, directors and corporate auditors	650	526	7,823
Reversal of reserve for Ferosilt removal	(1,637)	(3,132)	(19,683)
Reserve for implementation of environmental and safety arrangements	37	133	441
Interest and dividend income	(125)	(70)	(1,501)
Interest expense	1,836	1,727	22,081
Equity in earnings of affiliates	(165)	(195)	(1,987)
Cumulative effect of initial application of accounting standard for asset retirement obligations	802	—	9,648
Gain on compensation related to transfer of Tokyo branch due to land and building expropriation	(1,091)	—	(13,118)
Other	(635)	124	(7,643)
Changes in operating assets and liabilities:			
Trade receivables	859	(6,044)	10,327
Inventories	(2,252)	1,196	(27,084)
Other current assets	24	537	285
Trade payables	(394)	983	(4,733)
Accrued expenses and other current liabilities	(624)	(2,053)	(7,500)
Subtotal	9,201	1,246	110,660
Interest and dividends received	97	70	1,172
Interest paid	(1,780)	(1,696)	(21,410)
Insurance claim received	238	96	2,865
Gain on compensation related to transfer of Tokyo branch due to land and building expropriation	1,091	—	13,118
Income taxes paid	(1,283)	(595)	(15,439)
Net cash provided by (used in) operating activities	¥ 7,564	¥ (879)	$ 90,966
Cash flows from investing activities:			
Increase in time deposits	¥ (80)	¥ (20)	$ (962)
Decrease in time deposits	220	20	2,648
Purchases of property, plant and equipment	(4,982)	(7,798)	(59,924)
Purchases of short-term investments and investments in securities	(14)	(12)	(170)
Proceeds from sales of property, plant and equipment	4,301	268	51,730
Proceeds from redemption and sales of short-term investments and investments in securities	220	8	2,646
Increase in long-term loans receivables	(451)	(250)	(5,425)
Collection of long-term loans receivables	454	336	5,465
Proceeds from distribution of surplus assets	—	22	—
Payment for acquisition of shares of investments in a subsidiary resulting in change in scope of consolidation	(1,013)	—	(12,189)
Net cash used in investing activities	(1,345)	(7,426)	(16,181)
Cash flows from financing activities:			
(Decrease) increase in short-term bank loans, net	(3,238)	658	(38,946)
Proceeds from long-term debt	15,245	25,497	183,343
Repayment of long-term debt	(13,285)	(13,085)	(159,772)
Repayment of lease obligations	(862)	(681)	(10,369)
Repayment of installment payables	(49)	—	(595)
Repayment of long-term deposits received	(219)	(525)	(2,631)
Proceeds from issuance of bonds	—	2,000	—
Purchases of treasury stock	(9)	(8)	(108)
Proceeds from sales of treasury stock	0	0	8
Net cash (used in) provided by financing activities	(2,417)	13,856	(29,070)
Effect of exchange rate changes on cash and cash equivalents	(356)	104	(4,268)
Increase in cash and cash equivalents	3,446	5,655	41,447
Cash and cash equivalents at beginning of year	18,304	12,649	220,134
Cash and cash equivalents at end of year (Note 4)	¥21,750	¥18,304	$261,581

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

Notes to Consolidated Financial Statements

Years ended March 31, 2011 and 2010

1. Basis of Preparation of Consolidated Financial Statements

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

Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Presentation of Comprehensive Income" (Accounting Standards Board of Japan ("ASBJ") Statement No. 25, issued on June 30, 2010) and the Company was required to present the consolidated statement of comprehensive income. In connection with the application of this standard, the amounts of accumulated other comprehensive income (loss) and total accumulated other comprehensive loss shown in the accompanying consolidated balance sheet as of March 31, 2010 and consolidated statement of changes in net assets for the year then ended had previously been stated as valuation, translation adjustments and total valuation, translation adjustments shown in the consolidated balance sheet as of March 31, 2010 and consolidated statement of changes in net assets for the year then ended, respectively.

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

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

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at ¥83.15 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2011. 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 15 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 ,ISK Engineering Corporation and Yokkaichi Energy Service Co., Ltd.

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 income.

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

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

Until the year ended March 31, 2010, goodwill and negative goodwill were amortized over periods ranging from 5 years to 20 years on a straight-line basis if the goodwill and negative goodwill were material, or charged to income when incurred if immaterial.

Effective the year ended March 31, 2011, goodwill is amortized by the straight-line method over a period of 5 years. Negative goodwill arising from transactions that occurred on or before March 31, 2010 is amortized by the straight-line method over 5 years. Negative goodwill arising from transactions that occurred on or after April 1, 2010 is charged to income when incurred.

(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 accumulated other comprehensive income (loss).

(c) Cash and cash equivalents

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

(d) Inventories

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

(e) Securities

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

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

(f) Derivatives and hedging activities

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

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

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

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

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

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

(h) 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)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.

(j) 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.

(k) Reserve for Ferosilt removal

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

(l) Reserve for implementation of environmental and safety arrangements

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

(m) Reserve for sales returns

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

(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) Accrued Bonuses

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

(p) Retirement benefits

Accrued retirement benefits are provided based on the amount of the projected benefit obligation reduced by the pension plan assets at fair value at the balance sheet date. The net retirement benefit obligation at transition is being amortized by the straight-line method over a period of 15 years.

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

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

(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.

(r) 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.

3. Changes in Accounting Policies

(a) Adoption of accounting standard for equity method of accounting for investments

Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Equity Method of Accounting for Investments" (ASBJ Statement No. 16 issued on March 10, 2008) and "Practical Solution on Unification of Accounting Policies applied to Associates Accounted for Using the Equity Method" (ASBJ Practical Issues Task Force No. 24 issued on March 10, 2008).

As a result of this adoption, accumulated deficit at April 1, 2010 increased by ¥243 million ($2,920 thousand). However, the effect on ordinary income and income before income taxes and minority interests was immaterial for the year ended March 31, 2011.

(b) Adoption of accounting standard for asset retirement obligations

Effective the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Asset Retirement Obligations" (ASBJ Statement No. 18 issued on March 31, 2008) and "Guidance on Accounting Standard for Asset Retirement Obligations" (ASBJ Guidance No. 21 issued on March 31, 2008).

The effect of this adoption on operating income and ordinary income was immaterial, however income before income taxes and minority interests decreased by ¥822 million ($9,886 thousand) for the year ended March 31, 2011.

(c) Adoption of accounting standard for business combination

Effective the year ended March 31, 2011, the Company and its domestic consolidated subsidiaries have adopted "Accounting Standard for Business Combinations" (ASBJ Statement No. 21 issued on December 26, 2008), "Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22 issued on December 26, 2008), “Partial Amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23 issued on December 26, 2008), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7 issued on December 26, 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16 issued on December 26, 2008), and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standards for Business Divestitures” (ASBJ Guidance No. 10 issued on March 31, 2008).

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

Effective the year ended March 31, 2010, the Company adopted “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (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.

(e) Adoption of accounting standard for construction contracts

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 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 these 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 and operating income, ordinary income and income before income taxes and minority interests increased by ¥134 million 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 24).

4. Cash and Deposits

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and deposits in the accompanying consolidated balance sheets as of March 31, 2011 and 2010 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Cash and deposits	¥22,083	¥18,387	$265,576
Time deposits with maturities in excess of three months	(333)	(20)	(3,995)
Bank deposit restricted on withdrawals	—	(63)	—
Cash and cash equivalents	¥21,750	¥18,304	$261,581

5. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2011 and 2010 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2011			2010			2011		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Securities whose estimated fair value exceeds their carrying value	¥10	¥10	¥0	¥10	¥10	¥0	$121	$121	$0
Total	¥10	¥10	¥0	¥10	¥10	¥0	$121	$121	$0

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2011			2010			2011		
	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)	Carrying value	Acquisition cost	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Equity securities	¥761	¥607	¥154	¥731	¥571	¥160	$ 9,150	$7,302	$1,848
Subtotal	761	607	154	731	571	160	9,150	7,302	1,848
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	127	170	(43)	156	195	(39)	1,533	2,047	(514)
Subtotal	127	170	(43)	156	195	(39)	1,533	2,047	(514)
Total	¥888	¥777	¥111	¥887	¥766	¥121	$10,683	$9,349	$1,334

Proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Proceeds from sales	¥220	¥8	$2,646
Gross realized gain	0	0	0

The redemption schedule subsequent to March 31, 2011 for held-to-maturity debt securities classified as other securities is described in Note 16.

6. Inventories

Inventories at March 31, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finished goods and merchandise	¥24,376	¥21,580	$293,162
Work in process	6,307	6,603	75,847
Raw materials and supplies	11,357	12,466	136,585
Total	¥42,040	¥40,649	$505,594

7. 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
Location	Major use	Classification	2010
Singapore plant (Singapore)	Production equipment	Machinery and equipment	¥658
Hiratsuka Plant (Hiratsuka City, Kanagawa Prefecture)	Production equipment	Machinery and equipment	635
Takao Plant (Takao City, Taiwan)	Production equipment	Buildings and structures	385

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
Classification	2010
Buildings and structures	¥ 379
Machinery and equipment	978
Other fixed assets	38
Other	26
Removal costs	281
	¥1,702

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

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

The average annual interest rate on short-term bank loans at March 31, 2011 and 2010 was approximately 1.5%.

Long-term debt, including the current portion of long-term debt, at March 31, 2011 and 2010 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Secured bank loans	¥19,793	¥14,618	$ 238,046
Unsecured bank loans	29,020	27,436	349,004
	48,813	42,054	587,050
Less amounts due within one year	(8,772)	(12,928)	(105,496)
Total	¥40,041	¥29,126	$ 481,554

Interest rates applicable to long-term bank loans presented in the above table fell in the range from 1.0% to 5.9% at March 31, 2011 and 2010. These bank loans become due from 2012 through to 2018.

Bonds at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Unsecured bonds, payable in yen, at rate of 0.45%, due 2015	¥2,000	¥2,000	$24,053
Less amounts due within one year	(200)	—	(2,405)
Total	¥1,800	¥2,000	$21,648

Lease obligations at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Finance lease obligations whose ownership are transferred to the lessee	¥ 613	¥ 876	$ 7,372
Finance lease obligations whose ownership are not transferred to the lessee	2,172	1,905	26,119
	2,785	2,781	33,491
Less amounts due within one year	(880)	(790)	(10,584)
Total	¥1,905	¥1,991	$ 22,907

Information for the aggregate annual maturities of long-term debt, lease obligations and bonds subsequent to March 31, 2011 is described in Note 16.

At March 31, 2011 and 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
	2011	2010	2011
Property, plant and equipment, net of accumulated depreciation	¥38,336	¥34,581	$461,050
Investments in securities	567	464	6,819
Cash and time deposits	438	225	5,266
Total	¥39,341	¥35,270	$473,135

Short-term bank loans, the current portion of long-term debt and long-term debt secured by such collateral at March 31, 2011 and 2010 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Short-term bank loans	¥12,970	¥12,497	$155,983
Current portion of long-term debt	4,718	3,191	56,744
Long-term debt	15,075	11,427	181,302
Total	¥32,763	¥27,115	$394,029

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

Also, buildings and structures of ¥99 million ($1,193 thousand) and ¥103 million, land of ¥219 million ($2,634 thousand) and ¥219 million were pledged as collateral to secure future loans from certain financial institutions at March 31, 2011 and 2010, respectively. However, there were no corresponding liabilities at March 31, 2011 and 2010.

9. Asset Retirement Obligations

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

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

The following is a summary of the change in the carrying amount of the asset retirement obligations for the year ended March 31, 2011.

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Asset retirement obligation balance at beginning of year	¥865	$10,398
Liabilities incurred due to the acquisition of properties, plants and equipment	5	56
Accretion expense	0	0
Liabilities settled	(8)	(90)
Asset retirement obligation balance at end of year	¥862	$10,364

10. 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.

	Millions of yen
	2010
Buildings and structures	¥ 218
Machinery and equipment	4,350
Other current liabilities	536
Long-term deposit received	5,481

During the year ended March 31, 2011, Yokkaichi Energy Service Co., Ltd. became a consolidated subsidiary of the Company, therefore, accounting for the financial transactions is not required for the consolidated financial statements for the year ended 31, 2011.

As a result, deposit received, included in other current liabilities, and long-term deposits received, included in other long-term liabilities, decreased by ¥526 million ($6,332 thousand) and ¥5,054 million ($60,782 thousand) at March 31, 2011, respectively. On the other hand, current portion of long-term debt and long-term debt are recorded at ¥504 million ($6,061 thousand) and ¥4,110 million ($49,429 thousand) at March 31, 2011, respectively.

11. 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.

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, 2011 and 2010 for the Company's and the consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Retirement benefit obligation	¥(12,273)	¥(12,086)	$(147,604)
Plan assets at fair value	524	703	6,306
Unfunded retirement benefit obligation	(11,749)	(11,383)	(141,298)
Unrecognized net retirement benefit obligation at transition	1,720	2,150	20,687
Unrecognized actuarial loss	1,433	1,257	17,235
Unrecognized prior service cost	136	148	1,632
Net retirement benefit obligation	(8,460)	(7,828)	(101,744)
Adjustment for projected benefit obligation of an overseas subsidiary	54	51	645
Accrued retirement benefits	¥ (8,406)	¥ (7,777)	$(101,099)

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

In January 2011, Fuji Titanium Industry Co., Ltd., a consolidated subsidiary, transferred its pension plan from a tax-qualified defined benefit pension plan to a defined contribution pension plan. As a result of this transfer, plan assets of ¥145 million ($1,748 thousand) were transferred to the defined contribution pension plan. The retirement benefit obligation, plan assets at fair value and accrued retirement benefits decreased by ¥160 million ($1,925 thousand), ¥145 million ($1,748 thousand), and ¥15 million ($177 thousand), respectively for the year ended March 31, 2011.

Other than the above retirement benefits expense, premium severance payment of ¥160 million 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, 2011 and 2010 were as follows:

	2011	2010
Discount rate	1.8%	1.8%
Expected rate of return on plan assets	2.5%	2.5%

12. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The applicable statutory tax rate in Japan for the years ended March 31, 2011 and 2010 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, 2011 and 2010 differ for the above statutory tax rate for the following reasons:

	2011	2010
Statutory tax rate	40.1%	40.1%
Permanently non-deductible expenses	2.3	116.1
Permanently non-taxable income	(8.0)	(76.8)
Per capita portion of inhabitants' taxes	0.4	18.5
Foreign income taxes	0.3	2.1
Changes in valuation allowance	0.8	634.0
Tax rate differences of consolidated subsidiaries	(0.1)	147.6
Unrealized gain (loss) on intercompany transactions	0.3	(9.5)
Differences resulting from the changes in the effective tax rate in foreign subsidiaries	0.0	35.7
Other	0.7	3.2
Effective tax rates	36.8%	911.0%

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, 2011 and 2010 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Deferred tax assets:			
Tax loss carryforwards	¥10,919	¥13,743	$131,316
Accrued retirement benefits for employees	3,341	3,054	40,181
Unrealized gain on intercompany transactions	1,077	1,346	12,950
Write-downs of marketable and investment securities	—	115	—
Accrued expenses	536	737	6,442
Write-downs of inventories	—	163	—
Accrued bonuses	242	216	2,912
Write-downs of property, plant and equipment	—	123	—
Reserve for Ferosilt removal	5,002	5,659	60,161
Loss on impairment of fixed assets	320	455	3,847
Reserve for implementation of environmental and safety arrangements	253	—	3,048
Asset retirement obligations	345	—	4,148
Other	2,613	2,636	31,431
Gross deferred tax assets	24,648	28,247	296,436
Less valuation allowance	(8,549)	(9,818)	(102,820)
Total deferred tax assets	16,099	18,429	193,616
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(248)
Unrealized holding gain on securities	(26)	(43)	(312)
Other	(345)	(346)	(4,152)
Total deferred tax liabilities	(392)	(410)	(4,712)
Net deferred tax assets	¥15,707	¥18,019	$188,904

13. 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, 2011 and 2010 amounted to ¥270 million ($3,245 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, 2011 and 2010 are summarized as follows:

	Number of shares			
	2011			
	March 31, 2010	Increase	Decrease	March 31, 2011
Treasury stock	3,601,931	116,655	8,792	3,709,794

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

14. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2011 and 2010 totaled ¥6,776 million ($81,495 thousand) and ¥6,406 million, respectively.

15. Leases

(a) Finance lease transactions

The following pro forma amounts represent the acquisition costs, accumulated depreciation, accumulated loss on impairment and net book value of the leased assets under finance lease contracts that do not transfer ownership to the lessee at March 31, 2011 and 2010, 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							
	2011				2010			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
Machinery and equipment	¥1,004	¥ 697	¥ 9	¥298	¥1,209	¥ 731	¥ 9	¥469
Other	394	319	5	70	796	574	6	216
Total	¥1,398	¥1,016	¥14	¥368	¥2,005	¥1,305	¥15	¥685

	Thousands of U.S. dollars			
	2011			
	Acquisition costs	Accumulated depreciation	Accumulated loss on impairment	Net book value
Machinery and equipment	$12,077	$8,380	$103	$3,594
Other	4,735	3,835	60	840
Total	$16,812	$12,215	$162	$4,434

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, 2011 and 2010 amounted to ¥316 million ($3,805 thousand) and ¥412 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2011 and 2010 amounted to ¥316 million ($3,805 thousand) and ¥412 million, respectively. Reversal of accumulated impairment loss on leased assets for the year ended March 31, 2011 amounted to ¥6 million ($721 thousand). Loss on impairment of fixed assets of the leased assets for the year ended March 31, 2010 amounted to ¥15 million.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥206	$2,474
2013 and thereafter	163	1,960
Total	¥369	$4,434

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2011 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2012	¥ 53	$ 635
2013 and thereafter	110	1,326
Total	¥163	$1,961

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

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 6 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 is found in Notes 2(f).

(3) Risk management for financial instruments

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

In accordance with the internal policies for credit limit management, the Group reduces certain risks arising from credit transactions with customers by setting credit limits for individual customers, recognizing the existing risks and controlling all receivables appropriately. The Group monitors the financial situation of its main customers periodically and 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 invest in held-to-maturity debt securities with high credit ratings. Accordingly, the Group believes that the credit risk deriving from such debt securities is insignificant.

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

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

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency on a monthly basis and enters into forward foreign exchange contracts to hedge such risk. In order to mitigate the unfavorable impact caused by foreign currency exchange fluctuations on accounts receivable deriving from 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 investments in securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities other than those classified as held-to-maturity debt securities should be maintained taking into account their fair values and the relationships with the issuers.

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

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

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

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 17 are not necessarily indicative of the actual market risk involved in the derivative transactions.

Estimated Fair Value of Financial Instruments

The carrying value of financial instruments on the consolidated balance sheets as of March 31, 2011 and 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 16(b) below).

(a) Estimated fair value of financial instruments

	Millions of yen					
	2011			2010		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Assets:						
(1) Cash and deposits	¥22,083	¥22,083	¥ —	¥18,387	¥18,387	¥ —
(2) Notes and accounts receivable	27,677	27,677	—	29,662	29,662	—
(3) Investments in securities:						
Held to-maturity debt securities	10	10	0	10	10	0
Other securities	888	888	—	887	887	—
Total assets	¥50,658	¥50,658	¥ 0	¥48,946	¥48,946	¥ 0
Liabilities:						
(1) Notes and accounts payable	14,086	14,086	—	15,929	15,929	—
(2) Short-term bank loans	23,513	23,513	—	26,342	26,342	—
(3) Current portion of long-term debt	8,772	9,065	293	12,928	13,051	(123)
(4) Long-term debt	40,041	39,952	(89)	29,126	29,021	105
Total liabilities	¥86,412	¥86,616	¥204	¥84,325	¥84,343	¥ (18)
Derivatives (*)	¥ (308)	¥ (308)	¥ —	¥ (39)	¥ (39)	¥ —

	Thousands of U.S. dollars		
	2011		
	Carrying value	Estimated fair value	Unrealized gain
Assets:			
(1) Cash and deposits	$ 265,576	$ 265,576	$ —
(2) Notes and accounts receivable	332,864	332,864	—
(3) Investments in securities			
Held to-maturity debt securities	121	121	0
Other securities	10,683	10,683	—
Total assets	$ 609,244	$ 609,244	$ 0
Liabilities:			
(1) Notes and accounts payable	169,402	169,402	—
(2) Short-term bank loans	282,779	282,779	—
(3) Current portion of long-term debt	105,496	109,021	3,525
(4) Long-term debt	481,554	480,476	(1,078)
Total liabilities	$1,039,231	$1,041,678	$ 2,447
Derivatives (*)	$ (3,710)	$ (3,710)	$ —

* 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 the market interest rate.

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

Derivatives:

Please refer to Note 17 “Derivatives”.

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

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
	Carrying value	Carrying value	Carrying value
Unlisted equity securities	¥3,288	¥4,339	$39,549
Investments in limited partnerships	88	93	1,053
Preferred securities	600	500	7,216

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

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

	Millions of yen							
	2011				2010			
	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	¥22,072	¥ —	¥ —	¥ —	¥18,378	¥—	¥—	¥—
Notes and accounts receivable	27,677	—	—	—	29,662	—	—	—
Investments in securities:								
Held to-maturity debt securities	—	10	—	—	—	10	—	—
Total	¥49,749	¥10	¥ —	¥ —	¥48,040	¥10	¥—	¥—

	Thousands of U.S. dollars			
	2011			
	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	$265,448	$ —	$ —	$ —
Notes and accounts receivable	332,864	—	—	—
Investments in securities:				
Held to-maturity debt securities	—	121	—	—
Total	$598,312	$121	$ —	$ —

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

	Millions of yen					
	2011					
	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	¥ 8,772	¥11,908	¥11,533	¥11,712	¥4,138	¥750
Bonds	200	200	200	1,400	—	—
Lease obligations	880	723	576	350	187	69
Others	1,731	115	52	49	—	—
Total	¥11,583	¥12,946	¥12,361	¥13,511	¥4,325	¥819

	Millions of yen					
	2010					
	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					
	2011					
	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	$105,496	$143,208	$138,703	$140,851	$49,763	$9,029
Bonds	2,405	2,405	2,405	16,838	—	—
Lease obligations	10,584	8,701	6,930	4,211	2,239	826
Others	20,820	1,385	622	586	—	—
Total	$139,305	$155,699	$148,660	$162,486	$52,002	$9,855

17. 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, 2011 and 2010 were as follows:

(a) Currency-related transactions

Forward foreign exchange contracts:

	Millions of yen						Thousands of U.S. dollars		
	2011			2010			2011		
	Notional amount	Estimated fair value	Unrealized loss	Notional amount	Estimated fair value	Unrealized gain (loss)	Notional amount	Estimated fair value	Unrealized loss
Sell:									
Euro	¥7,172	¥(253)	¥(253)	¥2,843	¥98	¥98	$86,257	$(3,042)	$(3,042)
U.S. dollars	401	(5)	(5)	115	(1)	(1)	4,826	(58)	(58)
Buy:									
Japanese yen	835	(13)	(13)	676	(19)	(19)	10,034	(156)	(156)
Total	¥8,408	¥(271)	¥(271)	¥3,634	¥78	¥78	$101,117	$(3,256)	$(3,256)

(b) Interest-related transactions

Interest rate swap contracts:

	Millions of yen							
	2011				2010			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Receive/floating and pay/fixed	¥461	¥377	¥(38)	¥(38)	¥615	¥520	¥(39)	¥(39)
Total	¥461	¥377	¥(38)	¥(38)	¥615	¥520	¥(39)	¥(39)

	Thousands of U.S. dollars			
	2011			
	Notional amount	Notional amount (over one year)	Estimated fair value	Unrealized loss
Receive/floating and pay/fixed	$5,539	$4,530	$(454)	$(454)
Total	$5,539	$4,530	$(454)	$(454)

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

The notional amounts and the estimated fair value of the derivative instruments outstanding which qualify for deferral hedge accounting at March 31, 2011 and 2010 were as follows:

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

Forward foreign exchange contracts:

			Millions of yen					
			2011			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	Sell:							
	Euro	Accounts receivable	¥ 65	¥—	¥ 67(*)	¥ —	¥ —	¥ —
	U.S. dollars		261	—	261(*)	¥ —	¥ —	¥ —
	Buy:							
	U.S. dollars	Accounts payable	7	—	7(*)	¥10	¥ —	¥10(*)
Total			¥333	¥—	¥335	¥10	¥ —	¥10(*)

Method of accounting	Classification	Hedged item	Thousands of U.S. dollars 2011 Notional amount	Notional amount (over one year)	Estimated fair value
The allocation method	Sell:				
	Euro	Accounts receivable	$783	$ —	$802(*)
	U.S. dollars		3,133	—	3,144(*)
	Buy:				
	U.S. dollars	Accounts payable	86	—	88(*)
Total			$4,002	$ —	$4,034

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

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

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

Interest rate swap contracts:

			Millions of yen					
			2011			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	¥5,868	¥5,415	(*)	¥8,230	¥445	(*)

			Thousands of U.S. dollars 2011		
The special method	Receive/floating and pay/fixed	Long-term debt	$70,573	$65,119	(*)

(*) 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.

18. Contingent Liabilities

(a) Guarantees

At March 31, 2011, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥556	$6,686
As guarantor for borrowings of unconsolidated subsidiaries	148	1,774
Total	¥704	$8,460

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

Regarding costs for remediation measures for contaminated soil and underground water at the Plant and waste assumed to be buried at the Plant, the Company recorded these costs as extraordinary losses, which were paid during the year or whose amount can be reasonably estimated as of the balance sheet date, such as trial costs for remediating contaminated soil and underground water. The Company does not record any costs that cannot be reasonably estimated at this time, such as costs for permanent contamination remediation measures and for investigating and disposing of buried waste.

As a result of soil and underground water surveys conducted at the Plant after an assessment by a comprehensive compliance test, contamination was identified, which seems to be mainly derived from past production activities. In response to this, the Company submitted certain documents to Yokkaichi City, which has jurisdiction over the matter, notifying the authorities of these findings, in accordance with the "Ordinance for Conservation of the Living Environment" enacted by Mie Prefecture. After this, the Company conducted a survey to identify the status and source of the contamination, collected data to design a plan for preventing the expansion of contamination and undertook certain trials to remove or to insolubilize fundamental contaminated waste prior to the end of March 31, 2011 under the guidance and advice from Environmental Expert Committee, which consists of third-party academic advisors. The Company plans to continue a detailed investigation considering the result of trials for the year ending March 31, 2012. The Company will phase in measures for remediating the contamination based on the detailed investigation and in consideration of the results subsequent to second-half of the year ending March 31, 2012.

The following information regarding the buried waste that must be removed from the Plant has been officially announced in connection with the assessment of the comprehensive compliance test. The measures required to remove the buried waste will probably have an impact on the Company's 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 because the vacant space in the Plant is used for temporarily storing removed Ferosilt and the Company cannot continue the detailed surveys effectively. Considering the above, the Company revised the schedule to resolve the issues the Plant faces at the present. As a result, the Company has determined to change the timing of specifying the location, extent, nature and volume of other buried waste and to consider the details of methods for disposing of them appropriately subsequent to the year ending March 31, 2015, when the Company will complete the disposal of Ferosilt, which is temporarily stored in the Plant. The Company will continually monitor the effect to the environment around the Plant until this time.

(1) Buried waste in area No. 2

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

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

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

19. Other Comprehensive Income

Other comprehensive income for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Net unrealized holding gain on securities	¥ 93
Unrealized deferred gain on hedges	1
Translation adjustments	651
Adjustment for projected benefit obligation of an overseas subsidiary	(0)
Other comprehensive income of affiliates accounted for by the equity method attributable to the Company	22
Total other comprehensive income	¥767

Comprehensive (loss) income attributable to shareholders of the Company and minority interests for the year ended March 31, 2010 was as follows:

	Millions of yen
	2010
Comprehensive loss attributable to shareholders of the Company	¥(557)
Comprehensive income attributable to minority interests	3
Total comprehensive loss	¥(554)

20. Supplemental Information to Consolidated Statements of Cash Flows

On September 30, 2010, the Company acquired shares of Yokkaichi Energy Service Co., Ltd. and included it in the scope of consolidation for the year ended March 31, 2011. Assets acquired and liabilities assumed of this subsidiary at the date of commencement of consolidation, the related cost of the acquired shares and payments for the acquisition of the shares are summarized as follows:

	Millions of yen	Thousands of U.S. dollars
	2011	2011
Current assets	¥ 1,371	$ 16,493
Fixed assets	6,681	80,353
Current liabilities	(1,646)	(19,798)
Non-current liabilities	(4,622)	(55,588)
Negative goodwill	(39)	(464)
Book value of shares of Yokkaichi Energy Service Co., Ltd. acquired previously	(585)	(7,045)
Acquisition cost of shares of a consolidated subsidiary	1,160	13,951
Cash and cash equivalents	(147)	(1,762)
Payment for acquisition of shares of investments in a subsidiary	¥ 1,013	$ 12,189

21. Amounts per Share

	Yen		U.S. dollars
	2011	2010	2011
Net income (loss) per share	¥ 12.12	¥ (3.30)	$0.1458
Net assets per share	120.32	111.87	1.4470

Net income (loss) per share is based on the net income (loss) attributable to shareholders of common stock and the weighted-average number of shares of common stock outstanding during each year. Net assets per share 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, 2011 and 2010 is presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net income (loss) per share for the years ended March 31, 2011 and 2010 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Information on basic net income (loss) per share:			
Net income (loss)	¥4,850	¥(1,323)	$58,334
Adjusted net income (loss) attributable to common shareholders	¥4,850	¥(1,323)	$58,334

	Thousands of shares	
	2011	2010
Weighted-average number of shares of common stock outstanding during the year	400,190	400,277

The financial data for the computation of net assets per share at March 31, 2011 and 2010 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2011	2010	2011
Total net assets	¥48,158	¥44,811	$579,179
Deductions from total net assets:			
Minority interests	(16)	(36)	(186)
Total net assets used in the calculation of net assets per share	¥48,142	¥44,775	$578,993

	Thousands of shares	
	2011	2010
Number of shares used in the calculation of net assets per share	400,130	400,238

22. Related Party Transactions

Major transactions and balances between the Company and its principal shareholder for the years ended and as of March 31, 2011 and 2010 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	2011	2010	2011	Account	2011	2010	2011
MITSUI & CO., LTD.	Sales of products	¥8,956	¥8,697	$107,714	Trade receivables.....	¥2,526	¥2,401	$30,373
	Purchases of raw materials..	4,173	4,751	50,186	Trade payables.........	2,439	2,085	29,336

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

	Transactions		Balances	
		Millions of yen		Millions of yen
Name of affiliated Company	Type of transaction	2010	Account	2010
Yokkaichi Energy Service Co., Ltd.	Transfer of industrial power generation facilities...	¥ —	Other current liabilities	¥ 536
	Repayment of deposits received	525		
	Payment of interests..	175	Long-term deposits received	5,481
	Payment for service fee of utility supply	2,377	Accrued expenses................................	312

There were no balances or transactions to be disclosed as of and for the year ended March 31, 2011.

Major transactions and balances between the consolidated subsidiaries and the principal shareholder for the years ended and as of March 31, 2011 and 2010 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	2011	2010	2011	Account	2011	2010	2011
MITSUI & CO., LTD.	Sales of products	¥1,691	¥1,221	$20,341	Trade receivables.....	¥322	¥271	$3,875
	Purchases of raw materials..	180	179	2,170	Trade payables.........	53	53	636

Major transactions and balances between the consolidated subsidiaries and an affiliated company for the years ended and as of March 31, 2011 and 2010 were as follows:

	Transactions				Balances			
		Millions of yen		Thousands of U.S. dollars		Millions of yen		Thousands of U.S. dollars
Name of affiliated Company	Type of transaction	2011	2010	2011	Account	2011	2010	2011
BELCHIM CROP-PROTECTION S.A.	Sales of products	¥7,611	¥8,257	$91,531	Trade receivables.....	¥2,458	¥2,975	$29,558

23. Business Combination

On September 30, 2010, the Company additionally acquired 22,400 shares (65.9%) of Yokkaichi Energy Service Co., Ltd. a significant affiliate for ¥1,160 million ($13,951 thousand) in cash and made it into a wholly-owned subsidiary. Yokkaichi Energy Service Co., Ltd. is engaged in the production, supply and sale of electric power and steam for industrial use. The Company determined to undertake this acquisition to achieve stable operation and cost reductions of the Yokkaichi Plant of the Company. The Company included net income in the period from April 1, 2010 to September 30, 2010 of Yokkaichi Energy Service Co., Ltd. by the equity method in the accompanying consolidated statement of operations for the year ended March 31, 2011.

The relationship among the fair value of assets acquired and liabilities assumed of Yokkaichi Energy Service Co., Ltd., the acquisition cost and negative goodwill were as follows:

Fair value of assets acquired and liabilities assumed

	Millions of yen 2011	Thousands of U.S. dollars 2011
Current assets	¥1,371	$16,493
Fixed assets	6,681	80,353
Total assets	¥8,052	$96,846
Current liabilities	¥1,646	$19,798
Long-term liabilities	4,622	55,588
Total liabilities	¥6,268	$75,386
Fair value of net assets at acquisition	¥1,784	$21,460

Acquisition cost

	Millions of yen 2011	Thousands of U.S. dollars 2011
Fair value of shares of Yokkaichi Energy Service Co., Ltd. which the Company owned at acquisition date	¥ 585	$ 7,045
Acquisition cost of shares of Yokkaichi Energy Service Co., Ltd.	1,160	13,951
Total acquisition cost	¥1,745	$20,996
Difference: negative goodwill	¥ 39	$ 464

The effect on the consolidated statement of operations for the year ended March 31, 2011, assuming that this acquisition had been completed at April 1, 2010, was as follows:

	Millions of yen 2011	Thousands of U.S. dollars 2011
(Unaudited)		
Sales	¥252	$3,032

The effect on operating results was immaterial for the year ended March 31, 2011.

24. Segment Information

Effective the year ended March 31, 2011, the Company has adopted "Accounting Standard for Disclosures about Segments of an Enterprise and Related information" (ASBJ Statement No. 17 issued on March 27, 2008) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20 issued on March 21, 2008).

(a) Overview of the reportable segments

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

Inorganic chemicals

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

Organic chemicals

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

Construction

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

Other businesses

This reportable segment principally includes the trading business.

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

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

(c) Reportable segment information

	Millions of yen						
	2011						
	Reportable segments						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	¥52,126	¥39,573	¥ 6,352	¥1,006	¥ 99,057	¥ —	¥ 99,057
Intersegment	—	—	5,593	1,032	6,625	(6,625)	—
Net sales	52,126	39,573	11,945	2,038	105,682	(6,625)	99,057
Segment income	¥ 2,955	¥ 7,469	¥ 579	¥ 147	¥ 11,150	¥ (2,111)	¥ 9,039
Segment assets	¥71,120	¥51,847	¥ 5,899	¥1,090	¥129,956	¥42,473	¥172,429
Other items:							
Depreciation and amortization	4,272	1,151	106	5	5,534	93	5,627
Increase in fixed tangible and intangible assets	3,697	1,851	20	4	5,572	(71)	5,501

	Millions of yen						
	2010						
	Reportable segments						
	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
Segment (loss) income	¥(2,521)	¥ 9,013	¥ 1,590	¥ 143	¥ 8,225	¥ (2,744)	¥ 5,481
Segment assets	¥70,621	¥50,030	¥ 9,500	¥ 970	¥131,121	¥43,260	¥174,381
Other items:							
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
Increase in fixed tangible and intangible assets	6,055	3,779	76	1	9,911	38	9,949

	Thousands of U.S. dollars						
	2011						
	Reportable segments						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	$626,896	$475,925	$76,390	$12,096	$1,191,307	$ —	$1,191,307
Intersegment	—	—	67,260	12,416	79,676	(79,676)	—
Net sales	626,896	475,925	143,650	24,512	1,270,983	(79,676)	1,191,307
Segment income	$ 35,537	$ 89,830	$ 6,963	$ 1,762	$ 134,092	$ (25,385)	$ 108,707
Segment assets	$855,316	$623,539	$70,948	$13,109	$1,562,912	$510,803	$2,073,715
Depreciation and amortization	51,377	13,845	1,277	55	66,554	1,124	67,678
Increase in fixed tangible and intangible assets	44,458	22,262	245	50	67,015	(856)	66,159

Segment income (loss) correrponds to operating income in the consolidated statements of operations for the years ended March 31, 2011 and 2010.

Related information

Products and services information

The information on each product and service is omitted because it is the same as that of reportable segment information for the year ended March 31, 2011.

Geographical information

	Millions of yen					
	Year ended March 31, 2011					
	Japan	Asia	America	Europe	Other	Total
Net sales	¥46,408	¥23,629	¥10,260	¥18,443	¥317	¥99,057

	Thousands of U.S. dollars					
	Year ended March 31, 2011					
	Japan	Asia	America	Europe	Other	Total
Net sales	$558,121	$284,176	$123,392	$221,804	$3,814	$1,191,307

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

Tangible fixed assets

	Millions of yen				
	At March 31, 2011				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	¥50,005	¥5,398	¥654	¥51	¥56,108

	Thousands of U.S. dollars				
	At March 31, 2011				
	Japan	Asia	America	Europe	Total
Property, plant and equipment	$ 601,389	$ 64,918	$ 7,862	$ 606	$ 674,775

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

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

Information on sales transactions with major customers

		Millions of yen	Thousands of U.S. dollars
Customer's name	Relevant reportable segment	Year ended March 31, 2011	
MITSUI & CO., LTD.	Inorganic chemicals and organic chemicals	¥11,194	$ 134,625

Information on impairment of fixed assets by reportable segments

This information on impairment of fixed assets by reportable segments is omitted due to its immateriality for the year ended March 31, 2011.

Information on goodwill and negative goodwill by reportable segments

	Millions of yen					
	2011					
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Eliminations and corporate	Consolidated
(Goodwill)						
Amortization of goodwill during the year	—	¥23	—	—	—	¥23
Balance at end of year	—	¥23	—	—	—	¥23
(Negative Goodwill)						
Amortization of negative goodwill during the year	—	—	¥23	—	—	¥23
Balance at end of year	—	—	¥23	—	—	¥23

	Thousands of U.S. dollars					
	2011					
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Eliminations and corporate	Consolidated
(Goodwill)						
Amortization of goodwill during the year	—	$ 281	—	—	—	$ 281
Balance at end of year	—	$ 281	—	—	—	$ 281
(Negative Goodwill)						
Amortization of negative goodwill during the year	—	—	$ 281	—	—	$ 281
Balance at end of year	—	—	$ 281	—	—	$ 281

Information on gain on recognition of negative goodwill

On September 30, 2010, the Company additionally acquired the shares of Yokkaichi Energy Service Co., Ltd., resulting in it become a wholly-owned subsidiary of the Company. As a result of the acquisition, the Company recorded gain on recognition of negative goodwill of ¥39 million ($464 thousand) in the inorganic chemicals segment for the year ended March 31, 2011.

Segment information for the year ended March 31, 2010 under the previous accounting standard were as follows:

(a) Business segments

	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

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,796 million for the year ended March 31, 2010. 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 (e), the Company's consolidated subsidiary 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 and ¥134 million, 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 the inorganic chemicals segment of ¥1,020 million is included in "Business structure improvement expenses" in the consolidated statement of operations for the year ended March 31, 2010.

(b) Geographical segments

Geographical segments are determined on the basis of geographic proximity and the Company's business activities 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

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,796 million and for the year ended March 31, 2010. 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 (e), 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 and ¥134 million, 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.

(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%

Report of Independent Public Accountants

ERNST & YOUNG

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, 2011 and 2010, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended and consolidated statement of comprehensive income for the year ended March 31, 2011, 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, 2011 and 2010, 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 18(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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2011 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1.

Ernst & Young ShinNihon LLC

June 29, 2011
Osaka, Japan

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(As of June 29, 2011)

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Michiyoshi Arata

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Shigetoshi Seta
Haruo Ueno

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Yoshitaka Goto
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