Ishihara Sangyo Kaisha

Annual Report 2009

Year Ended March 31, 2009

Challenge for
Growth and Evolution

ISK

Consolidated Financial Highlights

For the years ended March 31, 2009, 2008 and 2007

	Millions of yen			Thousands of U.S. dollars (Note)
	2009	2008	2007	2009
For the years ended March 31,				
Net sales:				
Domestic	¥ 43,053	¥ 50,839	¥ 46,376	$ 438,328
Overseas	61,609	66,439	59,785	627,258
Total	104,662	117,278	106,161	1,065,586
Sales classified by business segment:				
Inorganic chemicals	47,306	59,410	57,641	481,629
Organic chemicals	50,192	48,893	43,196	511,014
Construction	6,153	7,764	3,933	62,649
Other businesses	1,011	1,211	1,391	10,294
Total	104,662	117,278	106,161	1,065,586
Operating income	5,384	16,013	12,711	54,821
Net (loss) income	(422)	2,643	(3,935)	(4,300)
Depreciation and amortization of property, plant and equipment	5,275	5,023	5,179	53,708
Research and development costs	6,502	6,457	6,398	66,201
At the year end				
Current assets	86,441	103,065	115,861	880,079
Total assets	163,805	177,407	193,176	1,667,739
Current liabilities	72,297	82,299	88,728	736,076
Net assets	45,372	46,814	45,692	461,942

	Yen			U.S. dollars (Note)
Per share data				
Net (loss) income	¥ (1.07)	¥ 6.87	¥ (10.54)	$ (0.0109)
Net assets	113.25	121.65	118.28	1.1531

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

Note: The U.S. dollar amounts in this report have been translated from the yen amounts, for convenience only, at ¥98.22 = U.S.$1.00, the rate of exchange prevailing on March 31, 2009.

Forward-Looking Statements

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

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To Our Shareholders and Friends

Kenzo Oda
President & CEO

In fiscal 2008, the financial crisis sparked by the subprime mortgage crisis emerged at a time when there were already signs of a global economic slowdown. Early in the second half of the period, the situation developed into a worldwide recession as the financial fallout from the bankruptcy of major U.S. banks affected not only the United States, but countries around the world.

In the Japanese economy, conditions were fairly stable even though soaring prices of crude oil and other resources had an effect in the first half of the year. From the autumn of 2008, however, the nation's manufacturing industries cut production at an unprecedented pace on the back of a sudden decline in exports. Amid growing uncertainty prompted by an unstable employment environment and other negative factors, the domestic economy has worsened considerably due to a sharp downturn in domestic demand.

Sales of organic chemicals increased on the back of continued strong sales of agrochemicals overseas. By contrast, sales of titanium dioxide declined significantly. This was due to reduced production accompanying an overhaul of facilities at ISK's Yokkaichi plant in the first half of the year and the sudden fall in demand from the second half onward as a result of the global economic slowdown. Sales of electronic materials also declined, affected by a downturn in the IT industry. This segment also faced surging prices for raw materials and fuel, increased costs associated with decreased production accompanying the Yokkaichi plant overhaul, and higher costs due to decreased production prompted by the sudden fall in demand in the second half of the year. The earnings of the inorganic chemicals business declined as a result.

Against this backdrop, we posted considerable year-on-year declines in both revenue and earnings. Consolidated net sales were down ¥12.6 billion, to ¥104.7 billion (US$1,066 million) year-on-year. Operating income fell ¥10.6 billion, to ¥5.4 billion (US$55 million).

Among non-operating items, financial expenses and equity in earnings of affiliates remained largely unchanged. Non-operating losses were down thanks to a smaller year-on-year foreign exchange loss, resulting in income before extraordinary items of ¥3.0 billion (US$30 million), down ¥10.3 billion from the previous year.

We recorded a significant improvement in extraordinary gains and losses because we no longer had to provide for losses in association with Ferosilt removal as we did in the previous year. Consequently, we posted income before income taxes and minority interests of ¥2.8 billion (US$28 million). However, due to the partial reversal of the deferred tax assets of a consolidated overseas subsidiary and other factors, we reported a net loss of ¥400 million (US$4 million), compared with net income of ¥2.6 billion (US$27 million) in the previous year.

Fiscal 2008 was the final year of the Company's third medium-term management plan, covering the three-year period from April 2006 to March 2009. During the year, we worked hard to achieve the plan's objectives. Based on the theme, "Rising to the Challenge of

Recovery and Further Development," the plan sought to restore general confidence in the Company and introduce aggressive corporate management with a view to enhancing ISK's corporate value.

As a result of these efforts, the agrochemical business achieved its targets across the entire period of the plan, boosting overall Group earnings. In the first two years of the plan, consolidated earnings reached record-high levels because net sales, operating income, and income before extraordinary items exceeded the plan's targets at every stage. However, in fiscal 2008, the final year of the plan, earnings declined considerably due to the sudden deterioration of profits in the inorganic chemicals business in the face of the worldwide recession sparked by the U.S. financial crisis. Furthermore, due to the additional provision for losses in association with the Ferosilt recovery in the first half of the plan's term, cumulative losses at the end of the plan were far worse than originally envisaged.

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

ISK as envisioned within 10 years

Under the slogan of *"Challenge for 2020,"* we will establish a business foundation on which continued growth and stable earnings can be ensured by 2020, our 100th anniversary. We will transform ourselves into *an enterprise with brand power and be a strong and responsible chemical company.*

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$713 million) in fiscal 2013, five years from now. Our vision for this business is to "Make a contribution to society through the continued development and supply of totally safe and highly effective new products for the purpose of protecting agricultural commodities and the environment."

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

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

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

Under the plan, we have set a target operating margin of 5% or higher for the titanium dioxide business. In order to achieve this target, 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$153 million). To achieve this target, 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, 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 Ishihara Sangyo.

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 as well as worker safety, and will work to prevent any workplace accident or disaster.
- On the basis of respect for human rights, we will promote mutual understanding and cooperation among employees, in order to create an open and friendly workplace.
- To maintain transparency in our business activities, we will promote communication with local communities and society, and will disclose corporate information in a timely and appropriate manner.

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

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

Kenzo Oda
President & CEO

Organic Chemicals

Our core agrochemicals business was sustained by solid overseas demand as production of agricultural products increased globally. Overseas sales were strong overall, owing to solid demand for herbicides and fungicides in Europe and an increase in sales of fungicides in Asia. In Japan, meanwhile, sales declined due to efforts to reduce distribution inventories. Consequently, sales of organic chemicals in fiscal 2008 increased year-on-year despite the impact of the Japanese yen's appreciation from the third quarter.

In the pharmaceuticals business, we posted a slight decline in sales of an active pharmaceutical ingredient that ISK manufactures under consignment.

As a result, segment sales increased ¥1.3 billion, to ¥50.2 billion (US$511 million). Operating income declined ¥3.3 billion, to ¥11.8 billion (US$121 million).

Inorganic Chemicals

In the titanium dioxide business, we revised sales prices in response to soaring iron ore and energy costs. Sales volumes both in Japan and overseas fell more than 20% year-on-year. This decrease was due to shipping adjustments stemming from our overhaul of facilities at the Yokkaichi plant and a sharp drop in demand from the second half of the period.

In the functional and electronic materials business, sales volumes of barium titanate and other products used in electronic components declined on the back of production adjustments made throughout the IT industry. In contrast, we posted healthy sales of TiO2 for deNOx catalysts.

As a result, segment sales, including sales of other inorganic chemicals, decreased ¥12.1 billion, to ¥47.3 billion (US$482 million). The segment posted an operating loss of ¥5.0 billion (US$50 million), compared with operating income of ¥2.7 billion (US$28 million) in the previous fiscal year.

Construction

Sales in the construction business decreased due to a reduction in orders received for large projects. As a result, segment sales fell ¥1.6 billion, to ¥6.2 billion (US$63 million). Operating income rose ¥300 million, to ¥1.4 billion (US$14 million).

Other Businesses

In the year under review, sales in the Company's other businesses fell ¥200 million, to ¥1.0 billion (US$10 million), and operating income decreased ¥100 million, to ¥100 million (US$1 million).

Consolidated Balance Sheets

As of March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Assets			
Current assets:			
Cash and time deposits (Note 17)	¥ 12,681	¥ 28,393	$ 129,111
Trade receivables:			
Notes	2,290	2,681	23,317
Accounts	21,042	27,639	214,234
	23,332	30,320	237,551
Less allowance for doubtful receivables	(289)	(438)	(2,947)
Trade receivables, net	23,043	29,882	234,604
Inventories (Note 5)	41,587	34,308	423,410
Deferred income taxes (Note 9)	3,303	7,103	33,626
Other current assets	5,827	3,379	59,328
Total current assets	86,441	103,065	880,079
Property, plant and equipment (Note 6):			
Land	6,326	6,411	64,407
Buildings and structures (Note 12)	49,159	49,300	500,501
Machinery and equipment (Note 12)	122,802	124,169	1,250,272
Leased assets (Note 11)	3,439	2,885	35,011
Construction in progress	4,565	3,712	46,475
	186,291	186,477	1,896,666
Less accumulated depreciation	(130,561)	(132,012)	(1,329,271)
Property, plant and equipment, net	55,730	54,465	567,395
Investments and other assets:			
Investments in securities (Notes 4 and 6):			
Unconsolidated subsidiaries and affiliates	3,335	2,023	33,957
Other	2,138	2,741	21,768
Total investments in securities	5,473	4,764	55,725
Long-term loans	109	297	1,106
Goodwill	70	438	714
Deferred income taxes (Note 9)	15,323	13,651	156,009
Other	659	727	6,711
Total investments and other assets	21,634	19,877	220,265
Total assets	¥163,805	¥ 177,407	$1,667,739

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Liabilities and net assets			
Current liabilities:			
Short-term bank loans (Note 6)	¥ 25,665	¥ 29,241	$ 261,301
Current portion of long-term debt (Note 6)	12,652	9,594	128,810
Trade payables:			
Notes	3,141	3,157	31,982
Accounts	11,340	15,259	115,456
	14,481	18,416	147,438
Lease obligations	500	364	5,094
Accrued income taxes (Note 9)	455	493	4,632
Accrued expenses	4,044	5,055	41,172
Advances received	5,135	786	52,280
Accrued bonuses	566	585	5,766
Accrual for periodic repairs	—	177	—
Reserve for Ferosilt removal	4,927	14,019	50,162
Reserve for implementation of environmental and safety arrangements	62	180	634
Other current liabilities (Note 12)	3,810	3,389	38,787
Total current liabilities	72,297	82,299	736,076
Long-term liabilities:			
Long-term debt (Note 6)	16,972	24,710	172,795
Lease obligations less current portion	1,237	805	12,598
Accrued retirement benefits for employees (Note 8)	7,185	6,895	73,156
Accrued retirement benefits for directors and corporate auditors	90	91	913
Deferred income taxes (Note 9)	299	318	3,045
Long-term deposits received (Note 12)	6,794	757	69,167
Reserve for Ferosilt removal	12,317	12,990	125,399
Reserve for implementation of environmental and safety arrangements	400	400	4,072
Other long-term liabilities	842	1,328	8,576
Total long-term liabilities	46,136	48,294	469,721
Contingent liabilities (Note 16)			
Net assets:			
Shareholders' equity (Note 10):			
Common stock:			
Authorized: 1,000,000,000 shares			
Issued: 403,839,431 shares in 2009	43,421	42,029	442,074
387,839,431 shares in 2008			
Capital surplus	10,625	9,231	108,179
Retained earnings deficit	(4,998)	(4,672)	(50,886)
Less treasury stock, at cost:			
3,515,620 shares in 2009	(656)	(632)	(6,684)
3,345,349 shares in 2008			
Total shareholders' equity	48,392	45,956	492,683
Valuation, translation adjustments and other:			
Net unrealized holding (loss) gain on securities (Note 4)	(43)	289	(432)
Unrealized deferred loss on hedges	(1)	—	(10)
Translation adjustments	(3,038)	495	(30,933)
Adjustment for projected benefit obligation of an overseas subsidiary	30	36	304
Total valuation, translation adjustments and other	(3,052)	820	(31,071)
Minority interests in consolidated subsidiaries	32	38	330
Total net assets	45,372	46,814	461,942
Total liabilities and net assets	¥163,805	¥177,407	$1,667,739

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

Consolidated Statements of Operations

For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Net sales (Note 21)	¥104,662	¥117,278	$1,065,586
Cost of sales (Note 7)	77,698	78,945	791,065
Gross profit	26,964	38,333	274,521
Selling, general and administrative expenses (Note 7)	21,580	22,320	219,700
Operating income (Note 21)	5,384	16,013	54,821
Other income:			
Interest and dividend income	254	323	2,582
Equity in earnings of affiliates	364	440	3,707
Other	340	359	3,461
	958	1,122	9,750
Other expenses:			
Interest expense	1,775	1,938	18,072
Loss on disposition of inventories	—	63	—
Retirement benefit expense	430	430	4,378
Foreign exchange loss	408	949	4,157
Other	795	549	8,094
	3,408	3,929	34,701
Income before extraordinary gains and losses	2,934	13,206	29,870
Extraordinary gains:			
Gain on prior-year adjustment	102	54	1,035
Gain on sales of investments in securities	0	1,336	0
Reversal of reserve for Ferosilt removal	14	28	144
Gain on insurance claim	134	827	1,368
Gain on reversal of accrual for litigation (Note 13)	428	—	4,356
Reversal of accrual of periodic repairs	186	—	1,894
Gain on insurance settlement of legal fees	112	—	1,145
Other	56	11	562
	1,032	2,256	10,504
Extraordinary losses:			
Loss on disposal of fixed assets	389	353	3,965
Loss on impairment of fixed assets	172	31	1,754
Loss on devaluation of investments in securities	134	352	1,369
Loss on environmental clean-up (Note 14)	353	—	3,592
Reserve for Ferosilt removal	—	8,739	—
Reserve for implementation of environmental and safety arrangements	—	580	—
Other	135	167	1,364
	1,183	10,222	12,044
Income before income taxes and minority interests	2,783	5,240	28,330
Income taxes (Note 9):			
Current	994	866	10,116
Prior year	142	—	1,449
Deferred	2,065	1,726	21,027
Minority interests	4	5	38
Net (loss) income	¥ (422)	¥ 2,643	$ (4,300)

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

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2009 and 2008

		Millions of yen											
		Shareholders' equity					Valuation, translation adjustments and other						
	Number of shares of common stock in issue	Common stock	Capital surplus	Retained earnings deficit	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding (loss) gain on securities	Unrealized deferred gain on hedges	Translation adjust-ments	Adjustment for projected benefit obligation of an overseas subsidiary	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2007	384,360,431	¥42,029	¥ 8,594	¥(7,315)	¥ (33)	¥43,275	¥ 1,974	¥ 3	¥ 192	¥ —	¥ 2,169	¥ 248	¥45,692
Net income	—	—	—	2,643	—	2,643	—	—	—	—	—	—	2,643
Changes due to a merger	3,479,000	—	637	—	(563)	74	—	—	—	—	—	—	74
Acquisition of treasury stock	—	—	—	—	(38)	(38)	—	—	—	—	—	—	(38)
Disposition of treasury stock	—	—	—	(0)	1	1	—	—	—	—	—	—	1
Other changes	—	—	—	—	—	—	(1,685)	(3)	303	36	(1,349)	(210)	(1,559)
Balance at March 31, 2008	387,839,431	¥42,029	¥ 9,231	¥(4,672)	¥(632)	¥45,956	¥ 289	¥—	¥ 495	¥36	¥ 820	¥ 38	¥46,814
Net loss	—	—	—	(422)	—	(422)	—	—	—	—	—	—	(422)
Issuance of common stock	16,000,000	1,392	1,392	—	—	2,784	—	—	—	—	—	—	2,784
Changes due to a merger	—	—	—	96	—	96	—	—	—	—	—	—	96
Acquisition of treasury stock	—	—	—	—	(26)	(26)	—	—	—	—	—	—	(26)
Disposition of treasury stock	—	—	2	—	2	4	—	—	—	—	—	—	4
Other changes	—	—	—	—	—	—	(332)	(1)	(3,533)	(6)	(3,872)	(6)	(3,878)
Balance at March 31, 2009	403,839,431	¥43,421	¥10,625	¥(4,998)	¥(656)	¥48,392	¥ (43)	¥ (1)	¥(3,038)	¥30	¥(3,052)	¥ 32	¥45,372

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

Consolidated Statements of Changes in Net Assets

For the years ended March 31, 2009 and 2008

	Thousands of U.S. dollars (Note 1)											
	Shareholders' equity					Valuation, translation adjustments and other						
	Common stock	Capital surplus	Retained earnings deficit	Treasury stock, at cost	Total shareholders' equity	Net unrealized holding (loss) gain on securities	Unrealized deferred gain on hedges	Translation adjust-ments	Adjustment for projected benefit obligation of an overseas subsidiary	Total valuation, translation adjustments and other	Minority interests in consolidated subsidiaries	Total net assets
Balance at March 31, 2008	$427,902	$ 93,987	$(47,567)	$(6,440)	$467,882	$2,948	$ —	$ 5,041	$362	$ 8,351	$388	$476,621
Net loss	—	—	(4,300)	—	(4,300)	—	—	—	—	—	—	(4,300)
Issue of common stock	14,172	14,172	—	—	28,344	—	—	—	—	—	—	28,344
Changes due to a merger	—	—	981	—	981	—	—	—	—	—	—	981
Acquisition of treasury stock ...	—	—	—	(263)	(263)	—	—	—	—	—	—	(263)
Disposition of treasury stock ...	—	20	—	19	39	—	—	—	—	—	—	39
Other changes	—	—	—	—	—	(3,380)	(10)	(35,974)	(58)	(39,422)	(58)	(39,480)
Balance at March 31, 2009	$442,074	$108,179	$(50,886)	$(6,684)	$492,683	$ (432)	$(10)	$(30,933)	$304	$(31,071)	$330	$461,942

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

Consolidated Statements of Cash Flows

For the years ended March 31, 2009 and 2008

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2009	2008	2009
Cash flows from operating activities			
Income before income taxes and minority interests	¥ 2,783	¥ 5,240	$ 28,330
Adjustments to reconcile income before income taxes and minority interests to net cash used in operating activities:			
Depreciation and amortization	5,275	5,023	53,708
Loss on disposal or sales of fixed assets, net	215	117	2,193
Loss on devaluation of investments in securities	134	352	1,370
Loss on impairment of fixed assets	172	31	1,754
Foreign exchange loss, net	273	180	2,780
Gain on sales of investments in securities	(0)	(1,336)	(0)
Provisions for accrued retirement benefits for employees, directors and corporate auditors	328	147	3,335
Reversal of reserve for Ferosilt removal	(9,766)	(4,848)	(99,427)
(Reversal of) reserve for implementation of environmental and safety arrangements	(118)	580	(1,198)
Interest and dividend income	(254)	(323)	(2,582)
Interest expense	1,775	1,938	18,072
Equity in earnings of affiliates	(208)	(339)	(2,114)
Other	(366)	(706)	(3,763)
Changes in operating assets and liabilities:			
Trade receivables	4,800	2,395	48,869
Inventories	(9,481)	(3,481)	(96,523)
Other current assets	416	(303)	4,236
Trade payables	(646)	(1,572)	(6,572)
Accrued expenses and other current liabilities	(58)	(3,122)	(588)
Subtotal	(4,726)	(27)	(48,120)
Interest and dividends received	230	322	2,337
Interest paid	(1,749)	(1,980)	(17,809)
Gain on insurance claim	134	706	1,368
Income taxes paid	(1,214)	(1,224)	(12,358)
Net cash used in operating activities	(7,325)	(2,203)	(74,582)
Cash flows from investing activities			
Increase in time deposits	(20)	(20)	(204)
Decrease in time deposits	20	100	207
Purchases of property, plant and equipment	(7,542)	(5,353)	(76,790)
Purchases of short-term investments and investments in securities	(1,313)	(792)	(13,369)
Proceeds from sales of property, plant and equipment	483	329	4,920
Proceeds from maturity and sales of short-term investments and investments in securities	0	2,730	1
Loans made	(52)	(153)	(528)
Collection of loans made	159	268	1,613
Other, net	—	146	—
Net cash used in investing activities	(8,265)	(2,745)	(84,150)
Cash flows from financing activities			
(Decrease) increase in short-term bank loans, net	(3,487)	712	(35,502)
Proceeds from long-term debt	5,223	1,260	53,181
Repayment of long-term debt	(9,841)	(10,724)	(100,185)
Repayments of lease obligations	(454)	—	(4,619)
Proceeds from transfer of the industrial power generation business	6,928	—	70,530
Repayments of long-term deposits received	(386)	—	(3,931)
Proceeds from issuance of common stock	2,784	—	28,345
Purchases of treasury stock	(26)	(38)	(263)
Proceeds from sales of treasury stock	4	1	38
Net cash provided by (used in) financing activities	745	(8,789)	7,594
Effect of exchange rate changes on cash and cash equivalents	(1,029)	(139)	(10,478)
Decrease in cash and cash equivalents	(15,874)	(13,876)	(161,616)
Increase in cash and cash equivalents resulting from a merger	150	—	1,521
Cash and cash equivalents at beginning of year	28,373	42,249	288,873
Cash and cash equivalents at end of year (Note 17)	¥12,649	¥28,373	$128,778

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

Notes to Consolidated Financial Statements

Years ended March 31, 2009 and 2008

1. Basis of Preparation of Consolidated Financial Statements

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

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

Certain reclassifications of previously reported amounts have been made to conform the consolidated financial statements for the year ended March 31, 2008 to the 2009 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 ¥98.22 = U.S.$1.00, the approximate rate of exchange in effect on March 31, 2009. This translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

2. Summary of Significant Accounting Policies

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

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

NEW ISHIHARA BUILDING CO., LTD., which was an unconsolidated subsidiary, was merged into Ishihara Techno Corporation on June 2, 2008.

All assets and liabilities of the consolidated subsidiaries are revalued at fair value as of their respective dates of acquisition by the full value method, if applicable. Goodwill and negative goodwill are amortized over periods ranging from 5 years to 20 years on a straight-line basis if the goodwill and negative goodwill are material, or charged to income when incurred if immaterial.

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

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

(b) Foreign currency translation

Foreign currency transactions

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

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

Financial statements of overseas consolidated subsidiaries

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

(c) Cash and cash equivalents

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

(d) Inventories

Inventories of the Company and its domestic consolidated subsidiaries are 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 credited or carried at fair value. Gain and loss, both realized and unrealized, are credited or charged to income. Held-to-maturity debt securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value, with any changes in unrealized holding gain or loss, net of the applicable income taxes, reported as a separate component of net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

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

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

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

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

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

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

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

(Additional information)

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

As a result, operating income, income before extraordinary gains and losses and income before income taxes and minority interests decreased by ¥226 million ($2,305 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

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

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

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

(m) Reserve for implementation of environmental and safety arrangements
The Company has provided an estimated reserve for future payments to promote environmental and safety arrangements in its manufacturing plants.

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

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

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

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

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

(o) Retirement benefits for directors and corporate auditors
The Company's domestic consolidated subsidiaries record accrued retirement benefits for directors and corporate auditors at an amount equal to an estimate of the amounts which would be payable to them based on their internal rules if they were to retire at the balance sheet date.

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

However, the Company approved a resolution to abolish the internal rule for retirement benefits for directors and corporate auditors and made a final payment at the 84th annual shareholders' meeting held on June 28, 2007. Pursuant to the resolution, the Company reversed accrued retirement benefits for directors and corporate auditors and included the outstanding payables at March 31, 2008 in "Other current liabilities" and "Other long-term liabilities."

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

(q) Revenue recognition
The Company's consolidated subsidiary recognizes construction revenue by using the completed contract method.

3. Changes in Accounting Policies

(a) Changes in method of accounting for measuring of inventories
Effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have applied "Accounting Standard for Measurement of Inventories" (Accounting Standards Board of Japan (ASBJ) Statement No. 9 issued on July 5, 2006). As a result, operating income, income before extraordinary gains and losses and income before income taxes and minority interests decreased by ¥1,491 million ($15,182 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

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

(b) Application of accounting standards for leases
Effective the year ended March 31, 2009, the Company and its consolidated subsidiaries have adopted "Accounting Standard for Lease Transactions" (ASBJ Statement No. 13 originally issued by the First Committee of the Business Accounting Council on June 17, 1993 and revised by ASBJ on March 30, 2007) and "Guidance

on Accounting Standard for Lease Transactions" (ASBJ Guidance No. 16 originally issued by the Accounting System Committee of the Japanese Institute of Certified Public Accountants on January 18, 1994 and revised by ASBJ on March 30, 2007). According to the new accounting standard, lease transactions are accounted for as finance leases if substantially all of the benefits and risks of ownership have been transferred to the lessee.

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

(c) Accounting policies applied to overseas subsidiaries

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

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

4. Investments in Securities

Marketable securities classified as held-to-maturity debt securities and other securities at March 31, 2009 and 2008 were as follows:

(a) Held-to-maturity debt securities

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			2009		
	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain	Carrying value	Estimated fair value	Unrealized gain
Securities whose carrying value exceeds their estimated fair value	¥10	¥10	¥0	¥10	¥10	¥0	$102	$102	$0
Total	¥10	¥10	¥0	¥10	¥10	¥0	$102	$102	$0

(b) Other securities

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			2009		
	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:									
Equity securities	¥234	¥361	¥ 127	¥637	¥1,175	¥538	$2,382	$3,673	$1,291
Subtotal	234	361	127	637	1,175	538	2,382	3,673	1,291
Securities whose acquisition cost exceeds their carrying value:									
Equity securities	523	372	(151)	220	175	(45)	5,321	3,783	(1,538)
Subtotal	523	372	(151)	220	175	(45)	5,321	3,783	(1,538)
Total	¥757	¥733	¥ (24)	¥857	¥1,350	¥493	$7,703	$7,456	$ (247)

The carrying value of the principal investments in non-marketable securities at March 31, 2009 and 2008 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Other securities:			
Unlisted equity securities	¥1,301	¥1,381	$13,242
Investments in limited partnerships	95	—	969

Proceeds from sales of, and gross realized gain on, other securities for the years ended March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Proceeds from sales	¥0	¥2,660	$0
Gross realized gain	0	1,336	0

The redemption schedule at March 31, 2009 for held-to-maturity debt securities classified as other securities was as follows:

	Millions of yen			Thousands of U.S. dollars		
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ —	¥ 10	¥ —	$ —	$ 102	$ —

5. Inventories

Inventories at March 31, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Finished goods and merchandise	¥22,715	¥15,185	$231,265
Work in process	7,699	5,954	78,389
Raw materials and supplies	11,173	13,169	113,756
Total	¥41,587	¥34,308	$423,410

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

The average annual interest rates on short-term bank loans at March 31, 2009 and 2008 were 1.5% and 1.9%, respectively.

Long-term debt, including the current portion of long-term debt, at March 31, 2009 and 2008 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Secured bank loans	¥ 11,427	¥ 9,989	$116,341
Unsecured bank loans	18,197	24,315	185,264
	29,624	34,304	301,605
Less amounts due within one year	(12,652)	(9,594)	(128,810)
Total	¥ 16,972	¥24,710	$172,795

Interest rates applicable to long-term bank loans presented in the above table fell in the range of 1.0% to 5.9% at March 31, 2009 and 2008.

These bank loans become due through 2017.

The aggregate annual maturities of long-term debt subsequent to March 31, 2009 are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥12,652	$128,810
2011	10,375	105,631
2012	2,010	20,464
2013	1,828	18,607
2014	1,332	13,566
2015 and thereafter	1,427	14,527
Total	¥29,624	$301,605

At March 31, 2009, the following assets were pledged as collateral for short-term bank loans, the current portion of long-term debt and long-term debt:

	Millions of yen	Thousands of U.S. dollars
Property, plant and equipment, net of accumulated depreciation	¥31,989	$325,687
Investments in securities	363	3,699
Total	¥32,352	$329,386

Short-term bank loans, the current portion of long-term debt and long-term debt secured by such collateral at March 31, 2009 were as follows:

	Millions of yen	Thousands of U.S. dollars
Short-term bank loans	¥12,090	$123,091
Current portion of long-term debt	2,255	22,958
Long-term debt	9,172	93,382
Total	¥23,517	$239,431

In addition, investments in securities of ¥580 million ($5,905 thousand) were pledged as collateral to secure loans of an affiliated company from certain financial institutions at March 31, 2009.

Also, buildings and structures of ¥166 million ($1,698 thousand) and land of ¥488 million ($4,972 thousand) were pledged as collateral to secure future loans from certain financial institutions at March 31, 2009. However, there were no corresponding liabilities at March 31, 2009.

7. Research and Development Costs

Research and development costs included in manufacturing costs and selling, general and administrative expenses for the years ended March 31, 2009 and 2008 totaled ¥6,502 million ($66,201 thousand) and ¥6,457 million, respectively.

8. Retirement Benefits

The following table sets forth the funded and accrued status of the employees' retirement benefit plans and the amounts recognized in the accompanying consolidated balance sheets at March 31, 2009 and 2008 for the Company's and the accompanying consolidated subsidiaries' defined benefit pension plans:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Retirement benefit obligation	¥(11,709)	¥(10,586)	$(119,213)
Plan assets at fair value	617	592	6,287
Unfunded retirement benefit obligation	(11,092)	(9,994)	(112,926)
Unrecognized net retirement benefit obligation at transition	2,581	3,010	26,270
Unrecognized actuarial loss	1,115	12	11,351
Unrecognized prior service cost	161	173	1,635
Net retirement benefit obligation	(7,235)	(6,799)	(73,670)
Adjustment for projected benefit obligation of an overseas subsidiary	50	(96)	514
Accrued retirement benefits	¥ (7,185)	¥ (6,895)	$ (73,156)

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

The components of retirement benefit expense for the years ended March 31, 2009 and 2008 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Service cost	¥ 575	¥ 577	$ 5,852
Interest cost	252	246	2,564
Expected return on plan assets	26	23	263
Amortization of retirement benefit obligation at transition	492	460	5,010
Amortization of unrecognized actuarial loss (gain)	3	(2)	28
Amortization of unrecognized prior service cost	12	12	127
Retirement benefit expense	¥1,360	¥1,316	$13,844

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

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2009 and 2008 were as follows:

	2009	2008
Discount rates	1.8%	2.5%
Expected rate of return on plan assets	2.5%	2.5%

9. Income Taxes

Income taxes applicable to the Company and its domestic consolidated subsidiaries consist of corporation, inhabitants' and enterprise taxes. The statutory tax rate in Japan for the years ended March 31, 2009 and 2008 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, 2009 and 2008 differ for the above statutory tax rate for the following reasons:

	2009	2008
Statutory tax rate	40.1%	40.1%
Permanently non-deductible expenses	1.9	1.1
Permanently non-taxable income	(12.9)	(12.3)
Per capita portion of inhabitants' taxes	1.1	0.6
Foreign income taxes	5.2	0.1
Changes in valuation allowance	43.5	20.4
Tax rate differences of consolidated subsidiaries	8.1	(1.2)
Unrealized (loss) gain on intercompany transactions	(8.7)	1.0
Other	36.7	(0.3)
Effective tax rates	115.0%	49.5%

Other includes a tax effect of 34.3% assessed by the local tax office with respect to amortization of intangible assets recorded by the overseas consolidated subsidiary.

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, 2009 and 2008 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Deferred tax assets:			
Tax loss carryforwards	¥12,881	¥12,842	$131,140
Retirement benefits	2,800	2,682	28,511
Unrealized gain on intercompany transactions	953	877	9,700
Write-downs of marketable and investment securities	113	101	1,147
Accrued expenses	583	709	5,941
Write-downs of inventories	116	154	1,177
Accrued bonuses	227	231	2,314
Write-downs of property, plant and equipment	124	124	1,263
Reserve for Ferosilt removal	6,915	10,831	70,400
Other	3,078	2,297	31,342
Gross deferred tax assets	27,790	30,848	282,935
Less valuation allowance	(9,093)	(9,436)	(92,573)
Total deferred tax assets	18,697	21,412	190,362
Deferred tax liabilities:			
Property, plant and equipment	(21)	(21)	(210)
Unrealized holding gain on securities	(3)	(176)	(35)
Other	(346)	(780)	(3,527)
Total deferred tax liabilities	(370)	(977)	(3,772)
Net deferred tax assets	¥18,327	¥20,435	$186,590

10. Shareholders' Equity

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

The Company's legal reserve included in retained earnings at March 31, 2009 and 2008 amounted to ¥270 million ($2,749 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, 2009 and 2008 are summarized as follows:

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

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

11. Leases

(a) Finance lease transactions

The following *pro forma* amounts represent the acquisition costs, accumulated depreciation and net book value of the leased assets under finance lease contracts that do not transfer ownership to the lessee at March 31, 2009 and 2008, which would have been reflected in the accompanying consolidated balance sheets if finance lease accounting had been applied to the finance leases currently accounted for as operating leases:

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			2009		
	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value	Acquisition costs	Accumulated depreciation	Net book value
Machinery and equipment	¥2,191	¥1,422	¥ 769	¥2,312	¥1,211	¥1,101	$22,302	$14,476	$ 7,826
Other	994	652	342	1,001	475	526	10,120	6,636	3,484
Total	¥3,185	¥2,074	¥1,111	¥3,313	¥1,686	¥1,627	$32,422	$21,112	$11,310

Lease payments relating to finance leases accounted for as operating leases for the years ended March 31, 2009 and 2008 amounted to ¥494 million ($5,030 thousand) and ¥591 million, respectively. Depreciation of the leased assets computed by the straight-line method over the respective lease terms for the years ended March 31, 2009 and 2008 amounted to ¥494 million ($5,030 thousand) and ¥591 million, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 for finance leases accounted for as operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥ 416	$ 4,234
2011 and thereafter	695	7,076
Total	¥1,111	$11,310

(b) Operating lease transactions

Future minimum lease payments (including the interest portion thereon) subsequent to March 31, 2009 for operating leases are summarized as follows:

Year ending March 31,	Millions of yen	Thousands of U.S. dollars
2010	¥310	$3,155
2011 and thereafter	186	1,900
Total	¥496	$5,055

12. 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 Japanese GAAP, the following transferred assets and liabilities were retained on the Company's consolidated balance sheet at March 31, 2009.

	Millions of yen	Thousands of U.S. dollars
Buildings and structures	¥ 234	$ 2,387
Machinery and equipment	4,678	47,630
Other current liabilities	534	5,434
Long-term deposit received	6,008	61,166

13. Gain on Reversal of Accrual for Litigation

In 1998, the Company sold its U.S. agrochemicals subsidiary, located in Houston, Texas. In 2001, with respect to this sale, the Company received a claim from Syngenta concerning its responsibility for a portion of expenses incurred in relation to environmental issues in Houston. For the year ended March 31, 2009, the Company has reversed the accrual for litigation since the claim was settled.

14. Loss on Environmental Clean-up

In connection with the disposal of industrial waste, which occurred at the Yokkaichi plant in the period from 1998 to 2004, some of the industrial wastes were removed to a public disposal site. However, the level of radiation contamination exceeded that which had been voluntarily set by the Company. Consequently, the Company recognized the cost of clean-up in the statement of operations for the year ended March 31, 2009 in consideration of the appropriate safety measures such as topsoil removal at the disposal site.

15. Derivatives

The notional amounts and the estimated fair value of the derivative instruments outstanding which did not qualify for deferral hedge accounting at March 31, 2009 and 2008 were as follows:

	Millions of yen						Thousands of U.S. dollars		
	2009			2008			2009		
	Notional amount	Estimated fair value	Unrealized loss	Notional amount	Estimated fair value	Unrealized gain	Notional amount	Estimated fair value	Unrealized loss
Forward foreign exchange contracts									
Sell:									
Euro	¥4,746	¥4,791	¥(45)	¥ —	¥ —	¥—	$48,321	$48,773	$(452)
U.S. dollars	3	3	(0)	1	1	0	33	35	(2)
Buy:									
Japanese yen	—	—	—	716	733	17	—	—	—
Total	¥4,749	¥4,794	¥(45)	¥717	¥734	¥17	$48,354	$48,808	$(454)

16. Contingent Liabilities

(a) Guarantees

At March 31, 2009, the Company was contingently liable for the following:

	Millions of yen	Thousands of U.S. dollars
Trade notes receivable discounted with banks	¥151	$1,535
As guarantor for borrowings of unconsolidated subsidiaries	173	1,761
Total	¥324	$3,296

(b) Remediation measures in response to soil and underground water contamination, and waste assumed to be buried at the Yokkaichi plant
As a result of a boring survey at the Yokkaichi plant of the Company and after an assessment by a comprehensive compliance test that evaluated the level of contamination of hazardous substances, soil contamination exceeding the environmental standards was detected. In response, the Company established an Environmental Expert Committee (the "Committee") comprised of third-party academic advisors, and conducted a soil and underground water survey of the entire Yokkaichi plant site under the guidance and advice of this Committee. The survey identified contamination that exceeded the environmental standards, the primary cause of which was seems to be related to the past production activities at the plant. In accordance with the "Ordinance for Conservation of the Living Environment" enacted by Mie Prefecture, the Company submitted documents to Yokkaichi City, which has jurisdiction over the matter notifying the authorities of these findings. In conjunction with continuing the in-depth survey, the Company will soon reach a stage to draft specific remediation measures. At present, given that the contents of these remediation measures have yet to be concluded, the Company is not able to estimate the related costs reasonably.

In addition, the following information regarding the buried material that must be removed from the Yokkaichi plant has been officially announced in connection with the assessment of the comprehensive compliance test. The measures required to remove the buried waste will probably have an impact on the Company's business performance in the future. At present, given that the specific details of the waste to be removed, such as the type, properties and volume have yet to be determined, the Company is not able to estimate the related costs reasonably.

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

(2) Inorganic sludge and other substances at a former plant site
It is assumed that inorganic sludge containing Ferosilt was not removed off site when a synthetic rutile plant was dismantled. The inorganic sludge could have been covered with soil when the ground was leveled to begin preparations for a green belt in January 2003. This site is now used as a temporary storage area for Ferosilt. The Company started to remove Ferosilt from the site in January 2009, and a boring survey will be implemented in sections as removal is completed. The Company believes that the overall situation involving the buried waste will be known around the first half of fiscal 2010.

17. Supplemental Information to Consolidated Statements of Cash Flows

The reconciliation between cash and cash equivalents in the accompanying consolidated statements of cash flows and cash and time deposits in the accompanying consolidated balance sheets as of March 31, 2009 and 2008 is presented as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Cash and time deposits	¥12,681	¥28,393	$129,111
Time deposits with a maturity in excess of three months	(20)	(20)	(204)
Bank deposit restricted on withdrawals	(12)	—	(129)
Cash and cash equivalents	¥12,649	¥28,373	$128,778

18. Amounts per Share

	Yen		U.S. dollars
	2009	2008	2009
Net (loss) income per share	¥ (1.07)	¥ 6.87	$(0.0109)
Net assets per share	113.25	121.65	1.1531

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

No diluted net income per share for the years ended March 31, 2009 and 2008 is presented since no potentially dilutive securities have been issued.

The financial data for the computation of basic net (loss) income per share for the years ended March 31, 2009 and 2008 in the table above is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Information on basic net (loss) income per share:			
Net (loss) income	¥(422)	¥2,643	$(4,300)
Adjusted net (loss) income attributable to common shareholders	¥(422)	¥2,643	$(4,300)

	Thousands of shares	
	2009	2008
Weighted-average number of shares of common stock outstanding during the year	393,023	384,501

The financial data for the computation of net assets per share at March 31, 2009 and 2008 in the above table is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2009	2008	2009
Total net assets	¥45,372	¥46,814	$461,942
Deductions from total net assets:			
Minority interests:	(32)	(38)	(330)
Total net assets used in the calculation of net assets per share	¥45,340	¥46,776	$461,612

	Thousands of shares	
	2009	2008
Number of shares used in the calculation of net assets per share	400,324	384,494

19. Related Party Transactions

Effective the year ended March 31, 2009, the Company has adopted "Accounting Standard for Related Party Disclosures" (ASBJ Statement No.11 issued on October 17, 2006) and "Guidance on Accounting Standard for Related Party Disclosures" (ASBJ Guidance No.13 issued on October 17, 2006). As a result of the adoption of this accounting standard, transactions between the Company's consolidated subsidiaries and their related parties were newly disclosed for the year ended March 31, 2009.

Major transactions between the Company and its principal shareholder for the years ended March 31, 2009 and 2008 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	2009	2008	2009	Account	2009	2008	2009
MITSUI & CO., LTD.	Sales of products	¥7,941	¥10,564	$80,846	Trade receivables	¥1,916	¥2,799	$19,505
	Purchases of raw materials	4,657	6,575	47,410	Trade payables	2,281	3,488	23,221

Major transactions between the Company and an affiliated company for the years ended March 31, 2009 and 2008 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	2009	2008	2009	Account	2009	2008	2009
Yokkaichi Energy Services Co., Ltd.	Transfer of industrial power generation facilities	¥6,919	¥ —	$70,448	Other current liabilities	¥ 534	¥ —	$ 5,434
	Repayment of deposits received	386	—	3,931				
	Payment of interests	127	—	1,295	Long-term deposits received	6,008	—	61,166
	Payment for service fee of utility supply	2,690	—	27,387	Accrued expenses	371	—	3,777

Major transactions between the consolidated subsidiaries and the principal shareholder for the years ended March 31, 2009 and 2008 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	2009	2008	2009	Account	2009	2008	2009
MITSUI & CO., LTD.	Sales of products	¥1,353	¥ —	$13,778	Trade receivables	¥ 174	¥ —	$ 1,772
	Purchases of raw materials	112	—	1,138	Trade payables	29	—	293

Major transactions between the consolidated subsidiaries and an affiliated company, for the years ended March 31, 2009 and 2008 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	2009	2008	2009	Account	2009	2008	2009
BELCHIM CROP PROTECTION S.A.	Sales of products	¥8,057	¥ —	$82,027	Trade receivables	¥2,133	¥ —	$21,712

The condensed financial statements of BELCHIM CROP PROTECTION S.A. as the significant related party as of and for the year ended September 30, 2008 are as follows:

	Millions of yen	Thousands of U.S. dollars
Current assets	¥21,752	$221,457
Fixed assets	3,625	36,908
Total assets	¥25,377	$258,365
Current liabilities	¥18,271	$186,018
Long-term liabilities	1,548	15,763
Total liabilities	19,819	201,781
Total net assets	5,558	56,584
Total liabilities and net assets	¥25,377	$258,365
Net sales	¥33,010	$336,085
Income before income taxes	2,228	22,684
Net income	1,418	14,438

20. Business Combination

(a) Merger and business divestiture

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

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

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

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

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

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

	Millions of yen	Thousands of U.S. dollars
Current assets	¥ 14	$ 144
Fixed assets	2,673	27,216
Total assets	¥2,687	$27,360
Current liabilities	¥1,544	$15,716
Long-term liabilities	389	3,968
Total liabilities	1,933	19,684
Total net assets	754	7,676
Total liabilities and net assets	¥2,687	$27,360

21. Segment Information

(a) Business segments

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

Inorganic chemicals

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

Organic chemicals

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

Construction

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

Other businesses

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

A summary of financial information by business segment for the years ended March 31, 2009 and 2008 is as follows:

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

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

	Thousands of U.S. dollars						
	2009						
	Inorganic chemicals	Organic chemicals	Construction	Other businesses	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income:							
Net sales:							
External customers	$481,629	$511,014	$ 62,649	$10,294	$1,065,586	$ —	$1,065,586
Intersegment	—	—	75,350	12,959	88,309	(88,309)	—
Net sales	481,629	511,014	137,999	23,253	1,153,895	(88,309)	1,065,586
Operating expenses	532,048	390,379	123,659	22,324	1,068,410	(57,645)	1,010,765
Operating income (loss)	$(50,419)	$120,635	$ 14,340	$ 929	$ 85,485	$ (30,664)	$ 54,821
Total assets	$710,152	$442,388	$109,240	$ 9,337	$1,271,117	$396,622	$1,667,739
Depreciation and amortization	40,947	7,644	1,041	57	49,689	1,561	51,250
Loss on impairment of fixed assets	1,754	—	—	—	1,754	—	1,754
Capital expenditures	67,326	16,881	4,472	30	88,709	(4,090)	84,619

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,770 million ($28,198 thousand) and ¥3,122 million for the years ended March 31, 2009 and 2008, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally of the Company's cash and time deposits and investments in securities.

As described in Note 3 (a), the Company and its domestic consolidated subsidiaries have applied "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating loss in the inorganic chemicals segment increased by ¥1,276 million ($12,995 thousand) and operating income in the organic chemicals decreased by ¥214 ($2,177 thousand) million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 2 (g), the Company and its domestic consolidated subsidiaries have changed the useful life of machinery. As a result, operating loss in the inorganic chemicals segment increased by ¥222 million ($2,263 thousand) and operating income in the organic chemicals decreased by ¥4 ($42 thousand) million for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(b) Geographical segments

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

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

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

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

	Thousands of U.S. dollars						
	2009						
	Japan	Asia	America	Europe	Subtotal	Eliminations and corporate	Consolidated
Net sales and operating income (loss):							
Net sales:							
External customers	$ 650,507	$ 90,044	$39,938	$285,097	$1,065,586	$ —	$1,065,586
Intersegment	301,459	47,492	253	1,260	350,464	(350,464)	—
Net sales	951,966	137,536	40,191	286,357	1,416,050	(350,464)	1,065,586
Operating expenses	864,452	146,954	41,512	282,462	1,335,380	(324,615)	1,010,765
Operating income (loss)	$ 87,514	$ (9,418)	$ (1,321)	$ 3,895	$ 80,670	$ (25,849)	$ 54,821
Total assets	$1,241,404	$159,445	$27,920	$105,133	$1,533,902	$ 133,837	$1,667,739

Unallocable operating expenses, consisting primarily of the Company's expenses relating to general affairs, totaled ¥2,770 million ($28,198 thousand) and ¥3,122 million for the years ended March 31, 2009 and 2008, respectively. These have been included in "Eliminations and corporate." Corporate assets consisted principally of the Company's cash and time deposits and investments in securities.

As described in Note 3 (a), the Company and its domestic consolidated subsidiaries have applied "Accounting Standard for Measurement of Inventories" (ASBJ Statement No. 9 issued on July 5, 2006). As a result, operating income in the Japan segment decreased by ¥1,491 million ($15,182 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

As described in Note 2 (g), the Company and its domestic consolidated subsidiaries have changed the useful life of machinery. As a result, operating income in the Japan segment decreased by ¥226 million ($2,305 thousand) for the year ended March 31, 2009 from the corresponding amounts which would have been recorded under the method applied in the previous year.

(c) Overseas sales

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

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

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

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

	Thousands of U.S. dollars				
	2009				
	Asia	America	Europe	Other	Total
Overseas net sales	$223,144	$99,917	$299,888	$4,309	$ 627,258
Consolidated net sales					1,065,586
Overseas net sales as a percentage of consolidated net sales	20.9%	9.4%	28.2%	0.4%	58.9%

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, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Ishihara Sangyo Kaisha, Ltd. and consolidated subsidiaries at March 31, 2009 and 2008, 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 3(a), effective the year ended March 31, 2009, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the measurement of inventories.

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

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2009 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.

Osaka, Japan
June 26, 2009

Ernst & Young ShinNihon LLC

A member firm of Ernst & Young Global Limited

Corporate Data

(As of June 26, 2009)

Head Office

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

Board of Directors

Executive Director President
Kenzo Oda

Executive Director
Yoshitaka Goto
Tetsuya Okabayashi

Director
Kazutaka Fujii
Kensuke Kimura
Yoshinari Terakawa
Michiyoshi Arata

Outside Director
Shigetoshi Seta
Haruo Ueno

Board of Auditors

Corporate Auditor
Yoshinobu Takahashi

Outside Corporate Auditor
Hiroshi Nishida
Kenji Ohara

Executive Officers

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Yoshitaka Goto
Tetsuya Okabayashi
Kazutaka Fujii

Managing Executive Officer
Kensuke Kimura
Yoshinari Terakawa
Michiyoshi Arata
Haruo Okuda
Junji Kondo
Tohru Koyanagi
Masahiko Nagai

Executive Officer
Akira Kobayashi
Hideki Sano
Yoichi Kobayashi
Kenichi Tanaka
Masashi Tsuchimoto
Chimoto Honda

Overseas Affiliated Companies

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

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

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

ISK BIOSCIENCES KOREA LTD.
4F Kairos Bldg., 837-2 Yeoksam-dong, Gangnamu-gu,
Seoul, 135-937 Korea
Tel: +82-2-555-1401 Fax: +82-2-555-1408

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

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

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

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

Ishihara Sangyo Kaisha, Ltd.

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