May 20, 2009

# Business Results for the Fiscal Year Ended March 31, 2009

Company name: Ferrotec Corporation
Stock exchange listing: JASDAQ
Stock code: 6890
URL: http:// www.ferrotec.co.jp
Representative: Akira Yamamura, Representative Director & President
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Scheduled date of annual shareholders' meeting: June 26, 2009
Scheduled date of filing of Annual Securities Report: June 26, 2009
Starting date of dividend payment: June 29, 2009

(All amounts are rounded down to the nearest million yen)

## 1. Consolidated Financial Results (April 1, 2008 – March 31, 2009)

(1) Consolidated results of operations

(Percentages for net sales, operating income, ordinary income and net income represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| March 2009 | 36,653 | 0.1 | 2,790 | (8.7) | 2,097 | (13.1) | 743 | (61.0) |
| March 2008 | 36,625 | 12.6 | 3,057 | 33.6 | 2,414 | 16.0 | 1,903 | 11.8 |

| | Net income per share | Diluted net income per share | Return on equity | Ordinary income to total assets | Operating income to net sales |
|---|---|---|---|---|---|
| | Yen | Yen | % | % | % |
| March 2009 | 34.39 | 34.22 | 3.7 | 4.8 | 7.6 |
| March 2008 | 99.25 | 98.87 | 9.6 | 6.1 | 8.3 |

Reference) Earnings/loss on investments in equity-method affiliates
March 2009: (49) million yen March 2008: (32) million yen

(2) Consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| March 31, 2009 | 46,951 | 19,034 | 39.6 | 856.22 |
| March 31, 2008 | 40,973 | 21,501 | 52.0 | 1,004.39 |

Reference) Shareholders' equity Mar. 31, 2009: 18,583 million yen Mar. 31, 2008: 21,294 million yen

(3) Consolidated cash flows

| | Net cash provided by (used in) | | | Cash and cash equivalents at end of period |
|---|---|---|---|---|
| | Operating activities | Investing activities | Financing activities | |
| | Million yen | Million yen | Million yen | Million yen |
| March 2009 | 2,699 | (8,692) | 6,686 | 5,410 |
| March 2008 | 4,413 | (2,104) | (174) | 5,461 |

## 2. Dividends

| | Dividend per share | | | | | Total dividends (Annual) | Dividend payout ratio (Consolidated) | Dividend on equity (Consolidated) |
|---|---|---|---|---|---|---|---|---|
| (Record date) | 1Q-end | 2Q-end | 3Q-end | Year-end | Annual | | | |
| | Yen | Yen | Yen | Yen | Yen | Million yen | % | % |
| March 2008 | - | 0.00 | - | 12.00 | 12.00 | 254 | 13.4 | 1.2 |
| March 2009 | - | 0.00 | - | 12.00 | 12.00 | 260 | 34.9 | 1.3 |
| March 2010 (forecast) | - | 0.00 | - | 12.00 | 12.00 | | 32.6 | |

## 3. Consolidated Forecast for the Fiscal Year Ending March 31, 2010 (April 1, 2009 – March 31, 2010)

(Percentages represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| First half | 12,000 | (38.6) | (50) | - | (150) | - | (150) | - | (6.91) |
| Full year | 30,500 | (16.8) | 1,500 | (46.3) | 1,000 | (52.3) | 800 | 7.7 | 36.86 |

## 4. Others

(1) Changes in consolidated subsidiaries during the period (changes in scope of consolidation): None

(2) Changes in accounting principles, procedures and presentation methods for preparation of consolidated financial statements

1) Changes caused by revision of accounting standards: Yes

2) Other changes: None

Note: Please refer to "Change in Basis for Presentation of Consolidated Financial Statements" on page 28 for further information.

(3) Number of shares outstanding (common shares)

1) Number of shares outstanding at end of period (including treasury stock)

| | | | |
|---|---|---|---|
| Mar. 31, 2009: | 21,797,422 shares | Mar. 31, 2008: | 21,294,922 shares |

2) Number of treasury stock at end of period

| | | | |
|---|---|---|---|
| Mar. 31, 2009: | 93,344 shares | Mar. 31, 2008: | 93,264 shares |

Note: Please refer to "Per Share Information" on page 38 for the number of shares used in calculating net income per share.

### (Reference) Summary of Non-consolidated Financial Results

### 1. Non-consolidated Financial Results (April 1, 2008 – March 31, 2009)

(1) Non-consolidated results of operations (Percentages represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Net income | |
|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % |
| March 2009 | 13,795 | (23.5) | (28) | - | 1,145 | 8.9 | 360 | (44.5) |
| March 2008 | 18,035 | 19.2 | 113 | (57.8) | 1,051 | 58.8 | 648 | (11.0) |

| | Net income per share | Diluted net income per share |
|---|---|---|
| | Yen | Yen |
| March 2009 | 16.67 | 16.59 |
| March 2008 | 33.82 | 33.69 |

(2) Non-consolidated financial position

| | Total assets | Net assets | Equity ratio | Net assets per share |
|---|---|---|---|---|
| | Million yen | Million yen | % | Yen |
| March 31, 2009 | 27,908 | 17,599 | 63.1 | 810.87 |
| March 31, 2008 | 26,559 | 17,348 | 65.3 | 818.26 |

Reference) Shareholders' equity Mar. 31, 2009: 17,599 million yen Mar. 31, 2008: 17,348 million yen

### 2. Non-consolidated Forecast for the Fiscal Year Ending March 31, 2010 (April 1, 2009 – March 31, 2010)

(Percentages represent year-on-year changes)

| | Net sales | | Operating income | | Ordinary income | | Net income | | Net income per share |
|---|---|---|---|---|---|---|---|---|---|
| | Million yen | % | Million yen | % | Million yen | % | Million yen | % | Yen |
| First half | 5,000 | - | (250) | - | (330) | - | (340) | - | (15.67) |
| Full year | 12,000 | (13.0) | 50 | - | 620 | (45.9) | 600 | 66.5 | 27.64 |

*Cautionary statement with respect to forward-looking statements

Forecasts regarding future performance in these materials are based on assumptions judged to be valid and information currently available to the Company. Actual results may differ significantly from these forecasts for a number of factors. Please refer to the section "1. Business Results, (1) Analysis of Results of Operations" on page 5 regarding preconditions or other related matters for the forecast shown above.

## 1. Business Results

### (1) Analysis of Results of Operations

### 1) Business results (April 1, 2009 – March 31, 2010)

In the electronics industry, the main source of demand for the Group's products, inventory reductions at digital home electronics manufacturers have lowered the utilization rates of semiconductor manufacturing equipment, prolonging investment restraint among semiconductor manufacturers. The investment appetite of manufacturers of LCD and other flat-panel displays (FPD) also diminished from mid-year due to an increase in panel inventories for PCs and flat-screen TVs. Orders for parts and consumables used in production equipment declined particularly sharply towards the end of the fiscal year as extreme inventory cuts reduced capacity utilization at electronic component manufacturers.

The photovoltaic power generation market had been growing due to heightening global awareness of the need to cut CO2 emissions, but the financial crisis that struck last September reduced the investment appetite of end-users, causing a sharp slowdown in photovoltaic cell panel shipments towards year-end.

Against this backdrop, sales of vacuum feedthroughs, a product in the equipment-related business, fell for mainstay semiconductor and LCD panel equipment applications, and demand declined for quartz products, ceramics, and other consumables used in the semiconductor manufacturing process due to lower utilization rates of semiconductor manufacturing equipment.

In the photovoltaic cell-related business, a new business segment established in the fiscal year under review, sales were generally in line with plan due to steady shipments of monocrystalline and polycrystalline silicon production equipment, and quartz crucibles, a consumable.

In the electronic devices business, sales of thermoelectric modules for temperature-adjustable car seats fell sharply due to weak auto sales in the US, and in the CMS business, silicon wafer processing orders from the discrete semiconductor industry declined.

Given these harsh business conditions, the Group moved to consolidate its global production bases for the purpose of securing sales and operating income, and strove to reduce fixed costs through workforce cuts and furloughs.

As a result, consolidated net sales increased 0.1% year-over-year to 36,653 million yen. Operating income decreased 8.7% to 2,790 million yen, ordinary income decreased 13.1% to 2,097 million yen, and net income decreased 61.0% to 743 million yen.

The Group's business segments are categorized into the "equipment-related business," the "photovoltaic cell-related business," the "electronic devices business," and the "CMS business" based on similarity in use of products and form of transactions. The "photovoltaic cell-related business" was newly established in the current fiscal year under review.

Below is a summary of business conditions in each segment.

**Equipment-related business**

Vacuum feedthroughs, quartz products, and ceramic products are the mainstay products in the equipment-related business. Year-over-year comparisons of sales and operating income are not possible due to changes in segment classification.

In the semiconductor industry, manufacturers continued to restrain investment and reduce production in the face of sluggish demand for electronic components used in PCs, automobiles, mobile phones, and other products. LCD panel manufacturers also moved to reduce investment from mid-year due to an increase in panel inventories. Sales of vacuum feedthroughs declined as the increase in sales for use in production equipment of thin-film and silicon-based photovoltaic cells was unable to offset the decline in sales to the semiconductor and LCD panel industries. Also, sales of quartz, ceramic products, and other consumables mainly purchased by semiconductor manufacturers, fell sharply.

The July-December business results of Ferrotec Ceramics Corporation, which closes its books in December and which we acquired in July 2008, were included in this segment.

The environment surrounding the equipment-related business is harsh, but sales were largely in line with plan. Although year-over-year comparisons of profit are not possible, we believe they declined due to a change in the product mix.

Note: Quartz crucibles and some other silicon products have been reclassified with the photovoltaic cell-related business.

**Photovoltaic cell-related business**

Monocrystalline and polycrystalline silicon production equipment, quartz crucibles, and silicon products used in photovoltaic cells, are the mainstay products in the photovoltaic cell-related business, which we newly established in the fiscal year under review.

The photovoltaic cell industry is expanding as photovoltaic cells garner attention as a renewable energy source, and shipments have been steady since we captured large orders for monocrystalline and polycrystalline silicon production equipment from photovoltaic cell makers in China. However, orders for production equipment temporarily declined from Chinese photovoltaic cell makers towards the end of last year as end-demand for photovoltaic cells in Europe waned on fallout from the financial crisis. Still, the order balance at the end of the fiscal year was 120 units of monocrystalline silicon production equipment and 20 units of polycrystalline silicon production equipment, and sales of crucibles used in photovoltaic cell silicon products, and in monocrystalline silicon production equipment, steadily increased. Profit margins are high in this business.

Note: Silicon crystal production equipment has been reclassified from the CMS business, and quartz crucibles and some silicon products from the equipment-related business.

**Electronic devices business**

Thermoelectric modules and ferrofluids are the mainstay products in the electronic devices business.

We strengthened marketing of thermoelectric modules to the biotechnology, healthcare, and consumer electronics industries as we had anticipated that sales for the mainstay application of temperature-adjustable car seats would decline along with the drop in auto sales in the US and other regions. However, sales and profits declined year-over-year.

Note: No classification changes were made in this business.

**CMS business**

We manufacture items contracted to us by other companies in the contract manufacturing services (CMS) business, but cannot discuss product details due to confidentiality agreements with customers.

Silicon wafer processing sales declined due to fallout from the slumping semiconductor market, while sales of equipment parts cleansing and surface processing were flat year-over-year. We reduced machine tool assembly output due to a reallocation of staff to the manufacture of silicon crystal production equipment.

Note: Silicon crystal production equipment was reclassified with the photovoltaic cell-related business.

Performance by business segment was as follows: (Millions of yen)

| | Equipment-related business | | Photovoltaic cell-related business | | Electronic devices business | | CMS business | |
|---|---|---|---|---|---|---|---|---|
| | Amount | YoY change | Amount | YoY change | Amount | YoY change | Amount | YoY change |
| Net sales | 16,700 | - | 11,714 | - | 4,354 | -22.4% | 7,021 | - |
| Operating income | 826 | - | 1,658 | - | 179 | -36.8% | 183 | - |

Notes: 1. Net sales figures include internal sales.

2. We changed business segment classifications this fiscal year. We moved photovoltaic cell-related production equipment, previously classified within the "CMS business," to the "photovoltaic cell-related business," and silicon ingot products and quartz crucible products for photovoltaic cells, previously classified within the "equipment-related business," to the "photovoltaic cell-related business." As a result of these changes, we have not included year-over-year comparisons for these three businesses.

Performance by geographical area was as follows: (Millions of yen)

| | Japan | | Asia | | USA & Europe | |
|---|---|---|---|---|---|---|
| | Amount | YoY change | Amount | YoY change | Amount | YoY change |
| Net sales | 17,595 | -24.1% | 24,809 | +6.2% | 8,643 | -17.2% |
| Operating income | (107) | -122.0% | 2,292 | +44.3% | 553 | -32.9% |

Note: Net sales figures include internal sales.

**2) Consolidated outlook (April 1, 2009 – March 31, 2010)**

We forecast that the business environment for the electronics industry, the main source of demand for the Group's products, will remain difficult going forward, but we will pull together as a Group and continue the efforts we began in the previous fiscal year to restructure our business to secure profits. Specifically, we will cut director compensation at the Company and consolidated subsidiaries, rationalize the size of the workforce at production bases and furlough employees to tamp down personnel expenses, and reduce inventories to ride out the current economic downturn that is said to occur only "once every 100 years."

Capacity utilization at semiconductor manufacturers is declining as customers work down inventories, and there were still no signs of a bottom when we recently ushered in the new fiscal year. We expect a gradual recovery in capital investment by LCD panel manufacturers as the Chinese government's economic stimulus measures have increased demand for LCD panels for flat-screen TVs, prompting large domestic panel makers to front-load their capital investment plans.

In the photovoltaic power generation industry, we expect demand for photovoltaic modules and other components to increase as governments around the world implement measures to promote a low-carbon society, and we anticipate market expansion particularly in the US, China, and Japan (which has newly established a system of subsidies). The financial crisis has reduced the number of end-demand users willing to purchase photovoltaic cells at any price with speculative money, deflating the bubble in the market, but we expect demand to remain firm for photovoltaic modules with superior quality and cost competitiveness. We believe the superiority of Japanese technology in silicon crystal production equipment, cell module production equipment, batteries, and inverters will recapture the world's attention as the price of the raw material polysilicon declines, and that Japan will lead the global photovoltaic power generation market.

We believe the financial crisis will continue to cast a pall over the photovoltaic power generation market, but that the market will remain bottom-firm and gradually recover from mid-year.

Currently, we make the following forecasts for the fiscal year ending March 31, 2010: consolidated net sales of 30,500 million yen, operating income of 1,500 million yen, ordinary income of 1,000 million yen, and net income of 800 million yen. The exchange rate was a dollar = 95 yen.

### (2) Analysis of Financial Position

#### 1) Balance sheet position

Assets at the end of the current fiscal year increased 5,978 million yen year over year to 46,951 million yen on a consolidated basis. The main factor was the inclusion of Ferrotec Ceramics Corporation in the consolidated accounts.

Liabilities increased 8,445 million yen to 27,917 million yen, mainly due to the inclusion of Ferrotec Ceramics Corporation and the acquisition-related borrowings.

Net assets decreased 2,466 million yen to 19,034 million yen, mainly due to a decrease in foreign currency translation adjustment.

#### 2) Cash flow position

Consolidated cash and cash equivalents totaled 5,410 million yen at the end of the current fiscal year, down 51 million yen from the end of the previous fiscal year.

Cash flow from operating activities

Net cash provided by operating activities was 2,699 million yen (down 1,714 million yen year-over-year). This was mainly due to net income before income taxes and minority interests of 1,669 million yen (down 1,220 million yen), an increase in net of depreciation and other non–cash expenses and an increase in notes and accounts payable.

Cash flow from investing activities

Net cash used in investing activities was 8,692 million yen (up 6,588 million yen year-over-year). This was mainly due to capital equipment investment at the Chinese subsidiary, and the acquisition of stock in Ferrotec Ceramics Corporation.

Cash flow from financing activities

Net cash provided by financing activities was 6,686 million yen, mainly due to short- and long-term borrowings.

(Reference) Cash flow indices

| Fiscal year ended | March 2005 | March 2006 | March 2007 | March 2008 | March 2009 |
|---|---|---|---|---|---|
| Shareholders' equity ratio (%) | 49.2 | 48.8 | 46.7 | 52.0 | 39.6 |
| Equity ratio by market capitalization (%) | 51.7 | 46.0 | 46.4 | 58.2 | 50.7 |
| Interest-bearing debt to cash flow ratio (years) | 5.0 | 2.8 | 5.1 | 2.4 | 6.9 |
| Interest coverage ratio | 7.0 | 12.3 | 5.0 | 10.1 | 6.8 |

Shareholders' equity ratio = shareholders' equity / total assets

Equity ratio by market capitalization = market capitalization / total assets

Interest-bearing debt to cash flow ratio = interest bearing debt / cash flows

Interest coverage ratio = cash flows / interest payment

Notes: 1. Each index is calculated on a consolidated basis.

2. Market capitalization = term-end stock price x term-end number of outstanding shares net of treasury stock

3. Cash flows are calculated using the figures for operating cash flows in the consolidated statements of cash flows.

4. Interest-bearing debt includes all liabilities on the consolidated balance sheets that incur interest.

### (3) Basic profit-sharing principles and dividends for the current and next fiscal years

Based on our fundamental management policy, we believe it is important to return profits to shareholders on a stable basis, while also ensuring sufficient retained earnings to strengthen the company for future business expansion, including capital investments and merger and acquisitions.

In line with this policy, we plan to pay a yearend dividend of 12 yen per share for the current fiscal year.

### (4) Business risk

Below we discuss risk factors to the Group's business performance, financials, and share price.

**Product supply-demand trends and capital spending in the electronics industry**

Group sales are affected by product supply-demand and capital spending trends in the electronics industry because many of our components are sold to flat panel display (liquid crystal display, plasma display, and organic electroluminescence display) and semiconductor manufacturing equipment makers.

**Concentration of manufacturing sites in China**

The majority of group products are manufactured at production subsidiaries in China mainly to reduce manufacturing costs.

Doing business in China involves many political, economic, and social risks: for example, environmental, labor, tax, law, currency administration, and trade laws and regulations may be revised, and the government may change its foreign exchange rate policy, such as strengthening the Chinese yuan. Such changes could significantly depress the Group's product supply capacity, impacting our business performance, and diminishing prospects for a recovery of invested capital.

**Foreign exchange rates**

The Group mainly exports products and imports raw materials valued in US dollars and other foreign currencies, and we have foreign-currency-denominated debt as well. Foreign exchange rate volatility may therefore impact the Group's business performance.

Yen appreciation versus the US dollar and other foreign currencies reduces the price competitiveness of group products exported from Japan to overseas markets, and therefore negatively impacts profitability.

Also, consolidated figures are impacted by foreign exchange rate volatility as we convert the foreign-currency-denominated financials of overseas consolidated subsidiaries and equity-method affiliates to a yen basis when we prepare consolidated financial statements.

**Share price and interest rate volatility**

The Group owns shares and other marketable securities, and price declines would impact the Group's financials and business performance.

Also, interest rate volatility has the potential to increase debt service payments, impacting the Group's business performance.

**Impairment accounting**

Impairment accounting requires that we write down fixed assets due to land price declines or a decline in profitability of businesses that use fixed assets, and therefore impacts the Group's business performance.

**Technological innovation**

The Group manufactures and sells high-tech products including ferrofluid-applied products, thermoelectric modules, and quartz products. However, the emergence of innovative and disruptive new technologies and products could diminish our technological advantage, impacting the Group's business performance.

## 2. The Ferrotec Group

The Ferrotec Group (the “Group”) consists of Ferrotec Corporation (the “Company”) and 23 subsidiaries and affiliates (“Members”: 18 consolidated subsidiaries, three equity-method subsidiaries, two equity-method affiliates).

The Group develops, manufactures and sells vacuum feedthroughs and quartz products used for semiconductor applications and flat panel display (FPD) manufacturing, silicon crystal production equipment used in photovoltaic cells, silicon products used in photovoltaic cells, crucibles, thermoelectric modules for thermostatic control systems, and silicon products, ferrofluids, and ferrofluid-applied products.

The following categories are the same as those for segment information by business.

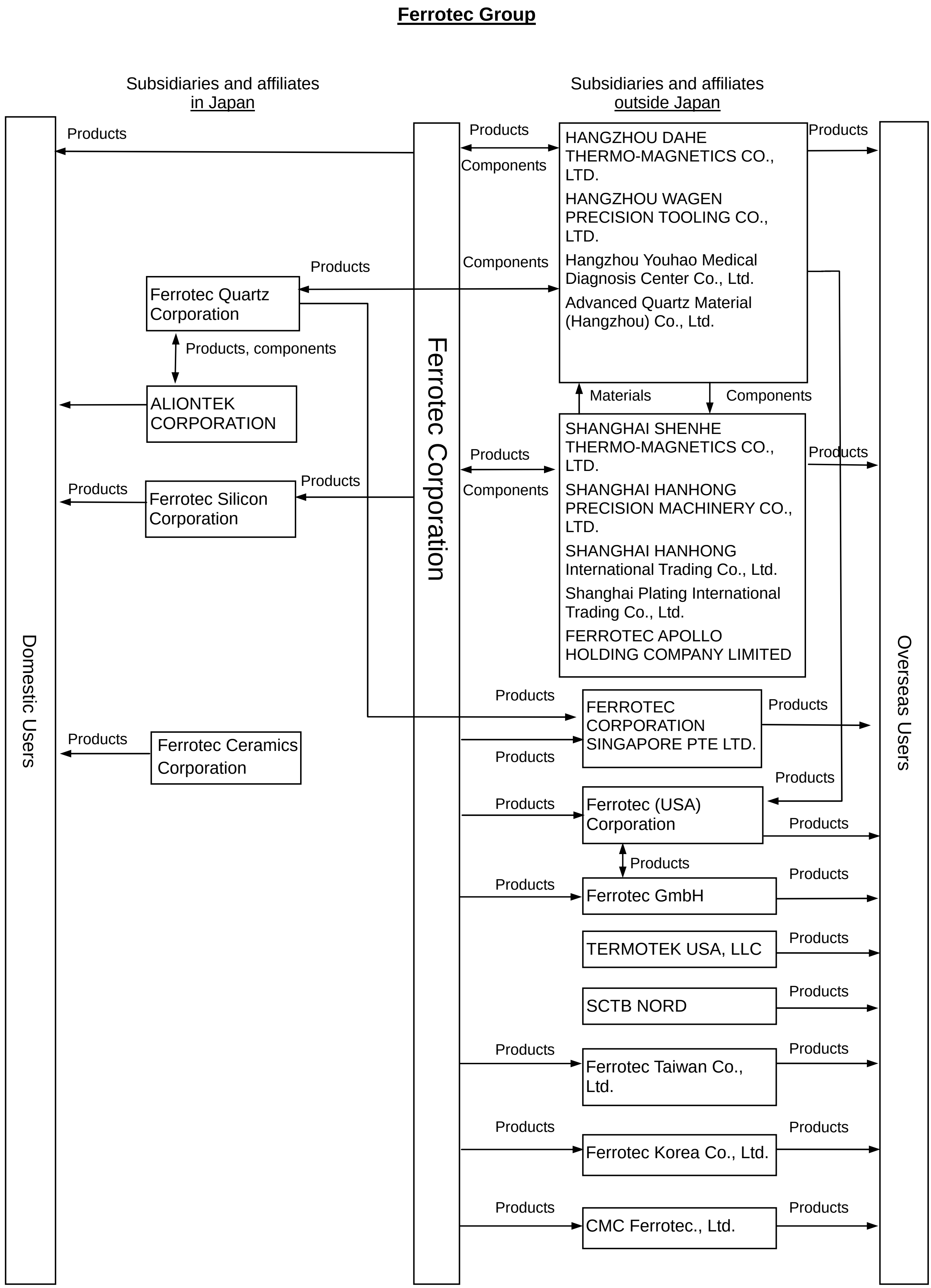
The chart below shows the relationship between the Company and major members for each business category.

| Division | Major products | Development | Manufacturing | Sales | Major Companies |
|---|---|---|---|---|---|
| Equipment- related business | Vacuum feedthroughs | o | o | o | Ferrotec Corporation |
| | | | o | o | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| | | | o | o | Ferrotec Taiwan Co., Ltd. |
| | | | o | o | Ferrotec Korea Co., Ltd. |
| | | o | o | o | Ferrotec (USA) Corporation |
| | Quartz products | | o | o | Ferrotec Quartz Corporation |
| | | | o | o | ALIONTEK CORPORATION |
| | | | | o | Ferrotec Corporation |
| | | | | o | Ferrotec (USA) Corporation |
| | | | | o | FERROTEC CORPORATION SINGAPORE PTE LTD. |
| | Others | | o | o | Ferrotec Corporation |
| | | | o | o | Ferrotec Silicon Corporation |
| | | | o | o | Ferrotec GmbH |
| | | | o | o | TERMOTEK USA, LLC |
| Photovoltaic cell-related business | Monocrystalline and polycrystalline silicon crystal production equipment used in photovoltaic cells | o | | o | SHANGHAI HANHONG PRECISION MACHINERY CO., LTD. |
| | | o | | o | FERROTEC APOLLO HOLDING COMPANY LIMITED |
| | | | | o | SHANGHAI HANHONG International Trading Co., Ltd. |
| | | | | o | CMC Ferrotec Co., Ltd. |
| | Silicon products used in photovoltaic cells | o | o | o | SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. |
| | Crucibles | o | o | o | Advanced Quartz Material (Hangzhou) Co., Ltd. |
| | | | | o | Ferrotec Silicon Corporation |
| Electronic device business | Thermoelectric modules | o | | o | Ferrotec Corporation |
| | | o | | o | Ferrotec (USA) Corporation |
| | | o | | o | SCTB NORD |
| | | | o | | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| | | | o | | SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. |
| | Ferrofluid | o | o | o | Ferrotec Corporation |
| | | o | o | o | Ferrotec (USA) Corporation |
| | | | | o | SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. |
| | | | | o | FERROTEC CORPORATION SINGAPORE PTE LTD. |
| | Others | o | | o | Ferrotec Corporation |
| | | | o | o | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |

| Division | Major products | Development | Manufacturing | Sales | Major Companies |
|---|---|---|---|---|---|
| CMS business* | | | o | o | HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. |
| | | | o | o | HANGZHOU WAGEN PRECISION TOOLING CO., LTD |
| | | | o | o | SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. |
| | | | o | o | SHANGHAI HANHONG PRECISION MACHINERY CO., LTD. |
| | | | o | o | SHANGHAI HANHONG International Trading Co., Ltd. |
| | | | o | o | Shanghai Plating International Trading Co., Ltd. |
| | | | o | o | Shanghai Shoda International Trading Co., Ltd. |
| Other businesses | | | o | o | Hangzhou Youhao Medical Diagnosis Center Co., Ltd. |

Note: Certain major product items are not shown above due to the wide spectrum of products, and in some cases, due to our confidentiality obligation to clients.

The chart set below illustrates the operation flows within the Group.



## 3. Management Policies

### 1) Fundamental management policy

Ferrotec Corporation aims to be a global manufacturer by improving and expanding core technologies, not only in the electronics industry, but in manufacturing in general, to offer high-quality products at internationally competitive prices. At the same time, we plan to continue actively pursuing environmental protection in all corporate endeavors, and are eager to be a company whose shareholders can look forward to future growth.

From this standpoint, our fundamental management policy is to focus on development of new products and markets that take advantage of our strength in materials, such as ferrofluids, and manufacturing technologies, and thereby increase our share of the global market and enhance group profits.

### 2) Targeted profit indices

We aim for ROE of 10%, and EPS of more than 100 yen, although we are currently investing in capital equipment at Chinese subsidiaries, establishing new subsidiaries, and engaging in M&A activity to expand our business.

### 3) Medium- to long-term strategy and issues

While the electronics industry is expected to expand along with advances in information technology, electronics manufacturers are considered vulnerable to the rapid pace of technical innovation and fierce international competition. In order to grow steadily in this difficult business environment, we must not only continue to develop our own core (or proprietary) technology and reduce manufacturing costs, we must also aggressively expand domestic and overseas markets. Our medium- to long-term business strategy includes M&A activity as well as entering into strategic joint ventures and long-term manufacturing supply agreements. Specifically, to enter new energy industries, we aim for the subsidiaries in China to function not only as production bases but also as marketing bases, and plan to further expand product supplies to European and US markets through our US subsidiaries.

### 4) Current key issues

Capacity utilization and capital investment in the electronics industry, the main source of demand for the Group's products, fluctuates sharply according to changes in supply-demand conditions for electronics products, and dealing with these fluctuations is a major challenge for the Group. We have four business segments to diversify business risk in periods when demand for electronics products is stagnant like in the current fiscal year. We also intend to focus on rapidly nurturing new product businesses and entering new markets, cutting manufacturing costs even further, consolidating our network of production bases, and expanding production in China to generally rationalize the business. In terms of marketing, we will focus on the US and European markets, as well as China, and strengthen our network of sales branches and product development to strive for higher profits.

We believe it is particularly important for the Group's marketing strategy to address the large growth in China's electronics and photovoltaic cell industries. We will therefore transfer intellectual property-based technology development, and production technologies, to our Chinese subsidiaries, and the Group will pull together to bolster management support, including marketing and administrative support, to help them obtain certification for their products by overseas customers and win OEM orders.

In the CMS business and photovoltaic cell-related business (silicon crystal production equipment and consumables) in which we have invested to date, we have bolstered the capital of domestic and overseas subsidiaries to help them invest in capital equipment based on our view that expanding production capacity should be our number one priority in a rapidly expanding market. But we will also establish new manufacturing subsidiaries, and improve production efficiency, to ensure a steady supply of high-quality products and expand profits. Through these efforts, we will work to recover invested funds as quickly as possible from the dividends of overseas subsidiaries.

Also, we constructed and began operating an internal governance system that is J-SOX compliant beginning in the fiscal year under review to establish a structure to secure appropriate operations across Group companies, and will continue to appropriately operate the system and conduct oversight on a daily basis to strengthen the framework of guarantees for the preparation of reliable financial statements.

**5) Internal administrative structure and management**

Please see the corporate governance report “Basic policy and structure of internal control.”

## 4. Consolidated Financial Statements

### (1) Consolidated Balance Sheets

(Thousands of yen)

| | As of Mar. 31, 2008 | As of Mar. 31, 2009 |
|---|---|---|
| Assets | | |
| Current assets | | |
| Cash and deposits | 5,461,589 | 7,675,121 |
| Notes and accounts receivable | 6,961,770 | 7,899,627 |
| Inventories | 4,431,595 | - |
| Merchandise and finished goods | - | 1,468,838 |
| Work in process | - | 1,907,744 |
| Raw materials and supplies | - | 2,593,871 |
| Deferred tax assets – current | 193,862 | 220,705 |
| Other current assets | 1,949,343 | 2,446,745 |
| Allowance for doubtful receivables | (91,684) | (64,455) |
| Total current assets | 18,906,477 | 24,148,198 |
| Fixed assets | | |
| Tangible fixed assets | | |
| Buildings and structures | 7,395,056 | 7,806,713 |
| Accumulated depreciation | (1,969,193) | (2,535,520) |
| Buildings and structures, net | 5,425,862 | 5,271,192 |
| Machinery and vehicles | 10,418,300 | 12,483,985 |
| Accumulated depreciation | (4,757,290) | (6,970,527) |
| Machinery and vehicles, net | 5,661,010 | 5,513,458 |
| Tools, furniture and fixtures | 4,646,516 | 5,397,629 |
| Accumulated depreciation | (2,384,063) | (2,803,353) |
| Tools, furniture and fixtures, net | 2,262,452 | 2,594,276 |
| Land | 2,579,549 | 2,817,498 |
| Lease assets | - | 27,956 |
| Accumulated depreciation | - | (3,556) |
| Lease assets, net | - | 24,400 |
| Construction in progress | 398,331 | 1,054,039 |
| Total tangible fixed assets | 16,327,206 | 17,274,865 |
| Intangible assets | | |
| Goodwill | 2,067,924 | 2,399,207 |
| Lease assets | - | 183,330 |
| Other intangible assets | 1,006,033 | 842,635 |
| Total intangible assets | 3,073,958 | 3,425,172 |
| Investments and other assets | | |
| Investment securities | 1,135,611 | 582,146 |
| Long-term loans receivable | 39,901 | 39,901 |
| Deferred tax assets – non-current | 105,887 | 155,085 |
| Other investments and other assets | 1,425,683 | 1,374,217 |
| Allowance for doubtful receivables | (41,194) | (47,684) |
| Total investments and other assets | 2,665,889 | 2,103,666 |
| Total fixed assets | 22,067,054 | 22,803,703 |
| Total assets | 40,973,532 | 46,951,902 |

(Thousands of yen)

| | As of Mar. 31, 2008 | As of Mar. 31, 2009 |
|---|---|---|
| Liabilities | | |
| Current liabilities | | |
| Notes and accounts payable | 4,147,136 | 5,386,321 |
| Short-term borrowings | 3,332,521 | 8,886,464 |
| Current portion of long-term borrowings | 2,930,071 | 3,480,595 |
| Accrued income taxes | 703,502 | 189,795 |
| Deferred tax liabilities – current | 5,719 | 8,815 |
| Reserve for bonuses payable | 173,277 | 93,856 |
| Provision for product warranties | - | 263,000 |
| Other current liabilities | 2,960,716 | 2,725,293 |
| Total current liabilities | 14,252,944 | 21,034,142 |
| Long-term liabilities | | |
| Corporate bonds | 100,000 | 100,000 |
| Long-term borrowings | 4,299,431 | 5,918,615 |
| Liability for retirement benefits | 29,204 | 47,485 |
| Liability for retirement benefits to officers | 6,300 | 60,748 |
| Lease obligations | - | 139,448 |
| Deferred tax liabilities – current | 174,295 | 3,382 |
| Other long-term liabilities | 609,954 | 613,579 |
| Total long-term liabilities | 5,219,185 | 6,883,259 |
| Total liabilities | 19,472,129 | 27,917,401 |
| Net assets | | |
| Shareholders’ equity | | |
| Common stock | 7,320,151 | 7,547,583 |
| Capital surplus | 7,922,063 | 8,149,495 |
| Retained earnings | 4,413,321 | 4,296,845 |
| Treasury stock | (86,168) | (86,297) |
| Total shareholders’ equity | 19,569,368 | 19,907,627 |
| Valuation and translation adjustments | | |
| Net unrealized holding gain on securities | 241,526 | (68,043) |
| Foreign currency translation adjustment | 1,483,927 | (1,256,129) |
| Total valuation and translation adjustments | 1,725,453 | (1,324,172) |
| Minority interests | 206,579 | 451,046 |
| Total net assets | 21,501,402 | 19,034,501 |
| Total liabilities and net assets | 40,973,532 | 46,951,902 |

## (2) Consolidated Statements of Income

(Thousands of yen)

| | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| Net sales | 36,625,425 | 36,653,066 |
| Cost of sales | 25,984,548 | 25,357,204 |
| Gross profit | 10,640,877 | 11,295,861 |
| Selling, general and administrative expenses | 7,583,432 | 8,505,130 |
| Operating income | 3,057,444 | 2,790,731 |
| Non-operating income | | |
| Interest income | 115,745 | 102,104 |
| Dividend income | 21,769 | 4,120 |
| Lease income | 65,072 | 58,243 |
| Commission income | 52,778 | 147,877 |
| Other non-operating income | 64,302 | 84,460 |
| Total non-operating income | 319,669 | 396,807 |
| Non-operating expenses | | |
| Interest expense | 437,189 | 403,339 |
| Equity in loss of non-consolidated subsidiaries and affiliates | 32,387 | 49,618 |
| Foreign exchange loss | 237,896 | 461,129 |
| Other non-operating expenses | 255,410 | 176,205 |
| Total non-operating expenses | 962,883 | 1,090,293 |
| Ordinary income | 2,414,230 | 2,097,245 |
| Extraordinary income | | |
| Gain on sales of fixed assets | 13,662 | 11,407 |
| Gain on sales of investment securities | 341,775 | 135,014 |
| Reversal of allowance for doubtful receivables | 40,152 | 7,969 |
| Gain on change in equity | - | 63,796 |
| Compensatory income from the early cancellation of outsourcing contracts | 363,731 | - |
| Other extraordinary income | 39,214 | 16,625 |
| Total extraordinary income | 798,536 | 234,814 |
| Extraordinary losses | | |
| Loss on valuation of investment securities | - | 35,990 |
| Loss on disposal of fixed assets | 60,911 | 113,643 |
| Retirement benefits to officers | 62,500 | - |
| Amortization of goodwill | 181,696 | - |
| Provision for product warranties | - | 310,445 |
| Extra retirement payments | - | 118,381 |
| Other extraordinary losses | 17,623 | 84,236 |
| Total extraordinary losses | 322,732 | 662,697 |
| Net income before income taxes and minority interests | 2,890,034 | 1,669,362 |
| Current income taxes | 1,135,814 | 807,908 |
| Deferred income taxes | (145,176) | 98,932 |
| Total income taxes | 990,638 | 906,841 |
| Minority interests in income (loss) | (4,500) | 19,459 |
| Net income | 1,903,896 | 743,060 |

### (3) Consolidated Statements of Changes in Shareholders' Equity

(Thousands of yen)

| | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| Shareholders' equity | | |
| Common stock | | |
| Balance at the end of previous period | 6,910,461 | 7,320,151 |
| Changes of items during the period | | |
| Issuance of new shares | 409,690 | 227,432 |
| Total changes of items during the period | 409,690 | 227,432 |
| Balance at the end of current period | 7,320,151 | 7,547,583 |
| Capital surplus | | |
| Balance at the end of previous period | 7,750,570 | 7,922,063 |
| Changes of items during the period | | |
| Issuance of new shares | 409,690 | 227,432 |
| Disposal of treasury stock | (238,197) | - |
| Total changes of items during the period | 171,493 | 227,432 |
| Balance at the end of current period | 7,922,063 | 8,149,495 |
| Retained earnings | | |
| Balance at the end of previous period | 2,800,331 | 4,413,321 |
| Effect of changes in accounting policies applied to foreign subsidiaries | - | (577,949) |
| Changes of items during the period | | |
| Dividends from surplus | (226,564) | (254,419) |
| Net income | 1,903,896 | 743,060 |
| Other | (64,341) | (27,167) |
| Total changes of items during the period | 1,612,990 | 461,473 |
| Balance at the end of current period | 4,413,321 | 4,296,845 |
| Treasury stock | | |
| Balance at the end of previous period | (1,178,575) | (86,168) |
| Changes of items during the period | | |
| Purchase of treasury stock | (920) | (129) |
| Disposal of treasury stock | 1,093,328 | - |
| Total changes of items during the period | 1,092,407 | (129) |
| Balance at the end of current period | (86,168) | (86,297) |
| Total shareholders' equity | | |
| Balance at the end of previous period | 16,282,787 | 19,569,368 |
| Effect of changes in accounting policies applied to foreign subsidiaries | - | (577,949) |
| Changes of items during the period | | |
| Issuance of new shares | 819,381 | 454,864 |
| Dividends from surplus | (226,564) | (254,419) |
| Net income | 1,903,896 | 743,060 |
| Purchase of treasury stock | (920) | (129) |
| Disposal of treasury stock | 855,131 | - |
| Other | (64,341) | (27,167) |
| Total changes of items during the period | 3,286,581 | 916,208 |
| Balance at the end of current period | 19,569,368 | 19,907,627 |

(Thousands of yen)

| | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| Valuation and translation adjustments | | |
| Net unrealized holding gain on securities | | |
| Balance at the end of previous period | 448,159 | 241,526 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (206,633) | (309,569) |
| Total changes of items during the period | (206,633) | (309,569) |
| Balance at the end of current period | 241,526 | (68,043) |
| Deferred hedge gain (loss) | | |
| Balance at the end of previous period | 3,126 | - |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (3,126) | - |
| Total changes of items during the period | (3,126) | - |
| Balance at the end of current period | - | - |
| Foreign currency translation adjustment | | |
| Balance at the end of previous period | 1,323,084 | 1,483,927 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | 160,842 | (2,740,056) |
| Total changes of items during the period | 160,842 | (2,740,056) |
| Balance at the end of current period | 1,483,927 | (1,256,129) |
| Total valuation and translation adjustments | | |
| Balance at the end of previous period | 1,774,369 | 1,725,453 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (48,916) | (3,049,626) |
| Total changes of items during the period | (48,916) | (3,049,626) |
| Balance at the end of current period | 1,725,453 | (1,324,172) |
| Minority interests | | |
| Balance at the end of previous period | 216,352 | 206,579 |
| Changes of items during the period | | |
| Net changes of items other than shareholders' equity | (9,772) | 244,466 |
| Total changes of items during the period | (9,772) | 244,466 |
| Balance at the end of current period | 206,579 | 451,046 |
| Total net assets | | |
| Balance at the end of previous period | 18,273,509 | 21,501,402 |
| Effect of changes in accounting policies applied to foreign subsidiaries | - | (577,949) |
| Changes of items during the period | | |
| Issuance of new shares | 819,381 | 454,864 |
| Dividends from surplus | (226,564) | (254,419) |
| Net income | 1,903,896 | 743,060 |
| Purchase of treasury stock | (920) | (129) |
| Disposal of treasury stock | 855,131 | - |
| Other | (64,341) | (27,167) |
| Net changes of items other than shareholders' equity | (58,689) | (2,805,159) |
| Total changes of items during the period | 3,227,892 | (1,888,951) |
| Balance at the end of current period | 21,501,402 | 19,034,501 |

### (4) Consolidated Statements of Cash Flows

(Thousands of yen)

| | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| Cash flows from operating activities | | |
| Net income before income taxes and minority interests | 2,890,034 | 1,669,362 |
| Depreciation and amortization | 2,144,668 | 2,421,326 |
| Amortization of goodwill | 268,800 | 170,525 |
| Increase (decrease) in liability for retirement benefits | 4,517 | 9,092 |
| Increase (decrease) in liability for retirement benefits to officers | (120,000) | (2,800) |
| Increase (decrease) in reserve for bonuses payable | (210,074) | (100,422) |
| Increase (decrease) in allowance for doubtful receivables | (50,868) | (6,528) |
| Increase (decrease) in provision for product warranties | - | 263,000 |
| Interest and dividend income | (137,515) | (106,225) |
| Interest expense | 438,368 | 403,339 |
| Stock issue expenses | 1,879 | 6,213 |
| Foreign exchange loss (gain) | (57,581) | 359,554 |
| Equity in loss (income) of non-consolidated subsidiaries and affiliates | 32,387 | 49,618 |
| Loss (gain) on sales of fixed assets | 24,501 | - |
| Loss (gain) on disposal of fixed assets | 22,747 | 113,643 |
| Loss (gain) on sales of investment securities | (341,662) | (135,014) |
| Loss (gain) on valuation of investment securities | - | 35,990 |
| Loss (gain) on sales of tangible fixed assets | - | (11,407) |
| Decrease (increase) in notes and accounts receivable | (218,020) | (496,503) |
| Decrease (increase) in inventories | (592,164) | (1,156,900) |
| Decrease (increase) in other assets | 311,096 | (790,207) |
| Increase (decrease) in notes and accounts payable | 453,053 | 1,506,244 |
| Increase (decrease) in other liabilities | 354,557 | 132,080 |
| Others | 49,082 | 67,489 |
| Sub-total | 5,267,808 | 4,401,472 |
| Interests and dividends received | 140,853 | 97,251 |
| Interests paid | (436,751) | (398,161) |
| Income taxes paid | (558,045) | (1,401,213) |
| Net cash provided by operating activities | 4,413,865 | 2,699,348 |

(Thousands of yen)

| | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| Cash flows from investing activities | | |
| Decrease (increase) in time deposits | - | (2,264,545) |
| Payments for purchase of tangible fixed assets | (2,449,435) | (3,178,960) |
| Proceeds from sales of tangible fixed assets | 249,936 | 73,550 |
| Payments for purchase of investment securities | (73,048) | (152,245) |
| Proceeds from sales of investment securities | 427,516 | 185,417 |
| Payments for additional purchase of shares of consolidated subsidiary | (1,916) | (106,595) |
| Payments for purchase of shares of affiliates | (54,996) | - |
| Payments for purchase of subsidiary stock resulting in change in scope of consolidation | - | (2,981,363) |
| Payments for loans receivable | - | (25,000) |
| Proceeds from collection of loans | 10 | - |
| Proceeds from other investing activities | 47,848 | 35,637 |
| Payments for other investing activities | (250,337) | (278,459) |
| Net cash used in investing activities | (2,104,423) | (8,692,563) |
| Cash flows from financing activities | | |
| Net increase (decrease) in short-term borrowings | (511,205) | 4,139,733 |
| Proceeds from long-term borrowings | 3,144,870 | 5,653,184 |
| Repayments of long-term borrowings | (2,689,299) | (3,551,196) |
| Proceeds from issuance of shares | 100,000 | - |
| Payments for redemption of convertible bonds with stock acquisition rights | (12,216) | - |
| Proceeds from issuance of shares | 4,401 | 448,650 |
| Proceeds from issuance of shares to minority shareholders | - | 255,617 |
| Proceeds from sales of treasury stock | 21,703 | - |
| Payments for purchase of treasury stock | (920) | (129) |
| Cash dividends paid | (226,625) | (254,681) |
| Cash dividends paid to minority shareholders | (5,208) | (5,078) |
| Net cash provided by (used in) financing activities | (174,500) | 6,686,100 |
| Effect of exchange rate changes on cash and cash equivalents | 100,888 | (743,897) |
| Increase (decrease) in cash and cash equivalents | 2,235,830 | (51,012) |
| Cash and cash equivalents at the beginning of period | 3,225,758 | 5,461,589 |
| Cash and cash equivalents at the end of period | 5,461,589 | 5,410,576 |

**Conditions and Events that might raise Critical Questions about the Validity of the Going-concern Assumption**

No reportable information.

**Basis for Presentation of Consolidated Financial Statements**

| Item | Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| 1. Scope of consolidation | 1) Consolidated subsidiaries: 16 entities<br>Name of consolidated subsidiaries:<br>HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. (China)<br>HANGZHOU WAGEN PRECISION TOOLING CO., LTD. (China)<br>SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. (China)<br>SHANGHAI HANHONG PRECISION MACHINERY CO., LTD. (China)<br>Ferrotec (USA) Corporation (USA)<br>FERROTEC CORPORATION SINGAPORE PTE LTD (Singapore)<br>Ferrotec Quartz Corporation (Japan)<br>Ferrotec Silicon Corporation (Japan)<br>ALIONTEK CORPORATION (Japan)<br>Ferrotec Investments, LLC (USA)<br>Ferrotec GmbH (Germany)<br>SCTB NORD (Russia)<br>Advanced Ceramic Material (Hangzhou) Co., Ltd. (China)<br>Advanced Quartz Material (Hangzhou) Co., Ltd. (China)<br>Ferrotec Taiwan Co., Ltd. (Taiwan)<br>TERMOTEK USA, LLC (USA) | 1) Consolidated subsidiaries: 18 entities<br>Name of consolidated subsidiaries:<br>HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. (China)<br>HANGZHOU WAGEN PRECISION TOOLING CO., LTD. (China)<br>Advanced Quartz Material (Hangzhou) Co., Ltd. (China)<br>SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. (China)<br>SHANGHAI HANHONG PRECISION MACHINERY CO., LTD. (China)<br>SHANGHAI HANHONG International Trading Co., Ltd. (China)<br>FERROTEC APOLLO HOLDING COMPANY LIMITED (Hong Kong)<br>Ferrotec (USA) Corporation (USA)<br>Ferrotec Investments, LLC (USA)<br>TERMOTEK USA, LLC (USA)<br>Ferrotec GmbH (Germany)<br>SCTB NORD (Russia)<br>FERROTEC CORPORATION SINGAPORE PTE LTD (Singapore)<br>Ferrotec Taiwan Co., Ltd. (Taiwan)<br>Ferrotec Quartz Corporation (Japan)<br>Ferrotec Silicon Corporation (Japan)<br>ALIONTEK CORPORATION (Japan)<br>Ferrotec Ceramics Corporation (Japan)<br>Of the above, FERROTEC APOLLO HOLDING COMPANY LIMITED was established in the current fiscal year and became a consolidated subsidiary, since its investment stake in SHANGHAI HANHONG PRECISION MACHINERY CO., LTD., a consolidated subsidiary of the Company, was invested in-kind and capital raised through a third-party placement of shares; Ferrotec Ceramics Corporation was acquired in the current fiscal year and became a consolidated subsidiary; and SHANGHAI HANHONG International Trading Co., Ltd., formerly an equity-method affiliate, became a consolidated subsidiary as its importance increased due to an increase in transaction volumes.<br>Advanced Ceramic Material (Hangzhou) Co., Ltd. was excluded from the consolidation due to merger into HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. during the current fiscal year. |

| Item | Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| | 2) Major non-consolidated subsidiaries<br>Name of the non-consolidated subsidiaries:<br>Ferrotec Engineering SRL (Romania)<br>SHANGHAI HANHONG International Trading Co., Ltd. (China)<br>(Changed company name from Shanghai Broad International Trading Co., Ltd.)<br>Shanghai Plating International Trading Co., Ltd. (China)<br>Two other companies<br>(Reason for exclusion)<br>Each one of the above-listed five subsidiaries has negligible total assets, net sales, net income/loss (equity in earnings/loss) and retained earnings (equity in earnings), and as a result, they collectively have very little impact on consolidation. | 2) Major non-consolidated subsidiaries<br>Name of the non-consolidated subsidiaries:<br>Shanghai Plating International Trading Co., Ltd. (China)<br>SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. (China)<br>Hangzhou Youhao Medical Diagnosis Center Co., Ltd. (China)<br>(Reason for exclusion)<br>Each one of the above-listed three subsidiaries has negligible total assets, net sales, net income/loss (equity in earnings/loss) and retained earnings (equity in earnings), and as a result, they collectively have very little impact on consolidation. |
| 2. Application of equity method | Non-consolidated subsidiaries and affiliates for which the equity method is applied: 8 entities<br>SHANGHAI HANHONG International Trading Co., Ltd. (China)<br>Shanghai Plating International Trading Co., Ltd. (China)<br>Shanghai Shoda International Trading Co., Ltd. (China)<br>Hangzhou Youhao Medical Diagnosis Center Co., Ltd. (China)<br>SCAN CRUCIBLE AS (Norway)<br>Shoda Iron Works Co., Ltd. (Japan)<br>Ferrotec Korea Co., Ltd. (Korea)<br>CMC Ferrotec Co., Ltd. (Korea)<br>Of the companies above, Ferrotec Korea Co., Ltd. and CMC Ferrotec Co., Ltd. were included in the application of the equity method due to their established in the current fiscal year.<br><br>Name of non-consolidated subsidiaries not accounted for under the equity method:<br>Ferrotec Engineering SRL (Romania)<br>(Reason for exclusion)<br>Ferrotec Engineering SRL has very little impact on consolidated net income (loss) and retained earnings, and therefore the investments in the company are not accounted for under the equity method. | Non-consolidated subsidiaries and affiliates for which the equity method is applied: 5 entities<br>Shanghai Plating International Trading Co., Ltd. (China)<br>Shanghai Shenhe Thermo-magnetics Co., Ltd. (China)<br>Hangzhou Youhao Medical Diagnosis Center Co., Ltd. (China)<br>Ferrotec Korea Co., Ltd. (Korea)<br>CMC Ferrotec Co., Ltd. (Korea)<br>Shanghai Shenhe Thermo-magnetics Co., Ltd. was included in the application of the equity method due to its established in the current fiscal year.<br>The following companies were excluded from application of the equity-method: SHANGHAI HANHONG International Trading Co., Ltd. because it was made a consolidated subsidiary as its importance increased due to an increase in transaction volumes; Shanghai Shoda International Trading Co., Ltd. and SCAN CRUCIBLE AS because they were sold; and Shoda Iron Works Co., Ltd. because the Company sold a portion of its stock in this company, which lowered its stake to 5%, due to the weak business affiliation with the Group.<br><br>Ferrotec Engineering SRL was liquidated during the current fiscal year.<br>———— |

| Item | Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| 3. Fiscal year of consolidated subsidiaries | The fiscal year of consolidated subsidiary ALIONTEK CORPORATION ends on March 31, and December 31 for the other consolidated subsidiaries. We have consolidated their results as of these dates and made necessary adjustments at the consolidated level for important transactions that occurred between these dates and consolidation closing date. ALIONTEK CORPORATION changed the end of its fiscal year from the end of April to the end of March beginning in the current fiscal year. We have included the company's results of January 1, 2007 through March 31, 2008 in the current fiscal year because we calculated provisional results as of December 31, 2006 in the previous fiscal year. The impact of the change in this subsidiary's fiscal year-end to consolidated financial results is minimal. | The fiscal year of consolidated subsidiary ALIONTEK CORPORATION ends on March 31, and December 31 for the other consolidated subsidiaries. We have consolidated their results as of these dates and made necessary adjustments at the consolidated level for important transactions that occurred between these dates and consolidation closing date. |
| 4. Significant accounting standards<br>(1) Valuation standards and method for major assets | 1) Securities<br>Other securities<br>Securities with market quotations<br>Valued at market price, using the market value at the end of the fiscal year, differences in valuation to be included in net assets, and cost of sale being determined by the moving average method.<br><br>Securities without market quotations<br>Valued at cost being determined by the moving average method.<br>As for marketable securities of "investment business limited associations" and similar such associations as defined in Article 2, Section 2 of the Financial Instruments and Exchange Law, we book the proportional value based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract.<br><br>2) Derivatives<br>Valued by the mark-to-market method. | 1) Securities<br>Other securities<br>Securities with market quotations<br>Same as on the left.<br><br>Securities without market quotations<br>Same as on the left.<br>As for marketable securities of "investment business limited associations" and similar such associations as defined in Article 2, Section 2 of the Financial Instruments and Exchange Law, we book the proportional value based on the most recent available financial report of the association, according to the financial settlement date stipulated in the association contract.<br><br>2) Derivatives<br>Same as on the left. |

| Item | Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| | 3) Inventories<br>At the Company and the subsidiaries located in Japan, inventories are primarily valued at cost being determined by the moving average method. At the consolidated subsidiaries located in the US and Singapore, stated at the lower of the cost method by the first-in first-out method, and other consolidated subsidiaries primarily stated at the lower of the cost method by the moving average method. | 3) Inventories<br>Inventories for regular sales purpose:<br>At the Company and the subsidiaries located in Japan, inventories are primarily valued at cost being determined by the moving average method (the carrying value on the balance sheet is written down to reflect the effect of lower profit margins). At the consolidated subsidiaries located in the US and Singapore, stated at the lower of the cost method by the first-in first-out method, and other consolidated subsidiaries primarily stated at the lower of the cost method by the moving average method.<br><br>(Change in accounting policy)<br>Effective from the current fiscal year, the Company has adopted “Accounting Standards for Measurement of Inventories” (Accounting Standards Board of Japan (ASBJ) Statement No. 9, July 5, 2008). The effect of this change was to decrease operating income, ordinary income and net income before income taxes and minority interests by 19,729,000 yen each. |
| (2) Depreciation / amortization method applicable to material fixed assets | 1) Tangible fixed assets<br>At the Company and the consolidated subsidiaries in Japan<br>By the declining balance method, except for buildings excluding fixtures acquired on or after April 1, 1998, to which the straight-line method is applied.<br><br>At the consolidated subsidiaries outside Japan<br>By the straight-line method.<br>Useful lives:<br>Buildings and structures: 20-47 years<br>Machinery and vehicles: 10 years<br><br>(Change in accounting policy)<br>Effective from the current fiscal year, the Company and its consolidated subsidiaries in Japan have adopted the revised Corporation Tax Law and changed the method of depreciation of tangible fixed assets acquired on or after April 1, 2007.<br>The effect of these changes on profit/loss is insignificant. | 1) Tangible fixed assets (excluding lease assets)<br>At the Company and the consolidated subsidiaries in Japan<br>Same as on the left.<br><br>At the consolidated subsidiaries outside Japan<br>Same as on the left. |

| Item | Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| | (Supplementary information)<br>The Company and its consolidated subsidiaries in Japan have adopted the revised Corporation Tax Law and changed the method of depreciation of assets acquired on or before March 31, 2007. Accordingly, the difference between the residual value of such an asset and the value equivalent to 5% of its acquisition cost, as computed by the previous Corporation Tax Law, is depreciated over a period of five years starting from the year following the year in which the value of an asset falls to 5% of its acquisition cost. The difference is amortized by the straight-line method and is included in the depreciation and amortization.<br>The effect of this change on profit/loss is insignificant.<br><br>2) Intangible assets<br>At the Company and the consolidated subsidiaries in Japan<br>By the straight-line method.<br>Software for internal use is amortized over an expected useful life of five years by the straight-line method.<br>At the consolidated subsidiaries outside Japan<br>By the straight-line method in accordance with local generally accepted accounting standards in each domicile.<br>However, regarding goodwill at our US consolidated subsidiary, we follow the US Financial Accounting Standards Board's Standard No.142 which discusses the treatment of goodwill and other intangible assets. As such, we have not amortized goodwill at the US subsidiary, but will make a judgment concerning goodwill impairment once a year, or whenever an event occurs that would necessitate this. We have not recognized goodwill impairment in the current fiscal year based on our judgment.<br><br>—————— | 2) Intangible assets (excluding lease assets)<br>At the Company and the consolidated subsidiaries in Japan<br>Same as on the left.<br><br>At the consolidated subsidiaries outside Japan<br>By the straight-line method.<br><br>3) Lease assets<br>The depreciation of lease assets use the straight-line method where the lease period is considered the useful life of the asset, and residual value is set at zero.<br>For finance lease transactions where there is no transfer of ownership beginning on or before March 31, 2008, the Company continues to use an accounting method that is based on the method used for ordinary lease transactions. |

| Item | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| | 4) Long-term prepaid expenses<br>At the Company and the consolidated subsidiaries in Japan<br>By the straight-line method.<br>At the consolidated subsidiaries outside Japan<br>By the straight-line method in accordance with local generally accepted accounting standards in each domicile. | 4) Long-term prepaid expenses<br>At the Company and the consolidated subsidiaries in Japan<br>Same as on the left.<br>At the consolidated subsidiaries outside Japan<br>Same as on the left. |
| (3) Recognition of major reserves | 1) Allowance for doubtful receivables<br>To prepare for credit losses on accounts receivable, allowances equal to the estimated amount of uncollectible receivables are accounted for based on historical write-off ratio for general receivables, and based on case-by-case determination of collectibility for bad receivables and claims in bankruptcy as a general rule. | 1) Allowance for doubtful receivables<br>Same as on the left. |
| | 2) Reserve for bonuses payable<br>To provide for employee bonuses, we booked reserves based on estimate bonus obligations for the current fiscal year. | 2) Reserve for bonuses payable<br>Same as on the left. |
| | 3) Liability for retirement benefits<br>To provide for retirement benefits to employees, an amount is reserved as recognized at the Company and its consolidated subsidiaries in Japan in the amount deemed to have accrued at the end of the current fiscal year based on the estimated retirement benefit obligations and pension assets at the end of the fiscal year. At the consolidated subsidiaries overseas, nothing is applicable here. | 3) Liability for retirement benefits<br>Same as on the left. |
| | 4) Liability for retirement benefits to officers<br>To provide for retirement benefits to officers, an amount required by the internal rule as of the balance sheets date is fully reserved at the certain consolidated subsidiaries in Japan. At the consolidated subsidiaries overseas, nothing is applicable here.<br>Annual shareholders’ meeting held on June 26, 2007 passed a resolution that the retirement benefit program to officers should be abolished.<br>As a result, we have drawn down the balance of reserves at the end of the previous fiscal year, and displayed the confirmed figure with “other long-term liabilities.” | 4) Liability for retirement benefits to officers<br>Same as on the left. |

| Item | Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| (4) Translation of material assets / liabilities in foreign currency into Japanese currency | The monetary assets and liabilities denominated in foreign currency are translated into Japanese currency based on the spot exchange rate as of the balance sheets date, with the conversion difference to be accounted for as profit or loss. The assets, liabilities, profit and loss of consolidated subsidiaries outside Japan are translated into Japanese currency based on the spot exchange rate as of the balance sheets date, with the conversion difference to be accounted for so as to be included in minority interests and foreign currency translation adjustment account in the net assets. | Same as on the left. |
| (5) Significant lease transaction | At the Company and its consolidated subsidiaries in Japan, finance leases other than those wherein the ownership of the lease assets is deemed to be transferred to the lessees are accounted for by the method applicable to ordinary operating leases. At the consolidated subsidiaries outside Japan, mainly an accounting method similar to one applicable to the ordinary sales transactions is adopted. | Same as on the left. |
| (6) Accounting for hedges | 1) Accounting method<br>Interest rate swap transactions are booked by an exceptional treatment allowed for fully hedged transactions as they satisfy the conditions for the treatment. As for the foreign exchange contracts are booked by reflection in the underlying accounts as they satisfy the conditions for such treatment allowed for fully matched usage.<br><br>2) Hedging instruments and the risks hedged<br>a. Hedging instrument: Interest rate swap<br>Risks hedged:<br>Interests payable on borrowings<br>b. Hedging instrument:<br>Foreign exchange contract<br>Risks hedged:<br>Monetary liabilities denominated in foreign currencies<br><br>3) Hedging policy<br>The Company uses interest rate swaps to minimize interest payment volatility on borrowings from interest rate fluctuation, and makes decisions on hedges on an individual contract basis. Also, foreign exchange contracts are made based on future material import plans. | 1) Accounting method<br>Same as on the left.<br><br>2) Hedging instruments and the risks hedged<br>Same as on the left.<br><br>3) Hedging policy<br>Same as on the left. |

| Item | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| | 4) Accessing effectiveness of hedges<br>Because exceptional treatment is allowed for interest rate swap transactions, and appropriated treatment is allowed for foreign exchange contracts, there is no assessment made on effectiveness of the relevant hedging transactions. | 4) Accessing effectiveness of hedges<br>Same as on the left. |
| (7) Other significant principles for presentation of consolidated financial statements | 1) Consumption taxes<br>Amounts of transactions subject to the tax are stated exclusive of consumption taxes. | 1) Consumption taxes<br>Same as on the left. |
| 5. Evaluation of assets and liabilities of consolidated subsidiaries | The market value method is adopted fully for the evaluation of assets and liabilities of the consolidated subsidiaries. | Same as on the left. |
| 6. Amortization of goodwill | Goodwill, which is predictable when the expected effect emerges, is amortized equally over the estimated years from the year of acquisition, and other than those is amortized equally over the period of 20 years. | Same as on the left. |
| 7. Cash and cash equivalents on the consolidated statements of cash flows | The funds represented by “cash and cash equivalents” on the Consolidated Statements of Cash Flows is composed of 1) cash on hand, 2) bank deposits payable on demand, and 3) short-term investments readily redeemable within three months from the acquisition that has little risk on changes in valuation. | Same as on the left. |

## Change in Basis for Presentation of Consolidated Financial Statements

| Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|
| ―――――― | (Accounting Standards for Lease Transactions)<br>In prior years, the Company accounted for finance lease transactions where there is no transfer of ownership as ordinary lease transactions for accounting purposes. However, the Company has adopted “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13: originally issued on June 17, 1993, and revised on March 30, 2007 by Accounting Standards Board of Japan); and “Guidance on Accounting Standards for Lease Transactions” (ASBJ Guidance No. 16: originally issued on January 18, 1994, and revised on March 30, 2007 by Accounting Standards Board of Japan) from the current fiscal year, using an accounting method for leases that is based on the method used for ordinary purchases and sales.<br>For finance lease transactions where there is no transfer of ownership that started prior to the fiscal year when these standards were first applied, the Company continues to use an accounting method that is based on the method used for ordinary lease transactions<br>The effect of this change on profit/loss is insignificant.<br><br>(Application of “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements)<br>Effective from the current fiscal year, the Company has adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Practical Issues Task Force (PITF) No. 18, May 17, 2006.) Regarding goodwill at the US consolidated subsidiary, we followed the US Financial Accounting Standards Board’s Standard No.142 “Treatment of Goodwill and Other Intangible Assets” in prior years, but from the current fiscal year, goodwill is amortized by the straight-line method.<br>Effect of this change was to decrease operating income, ordinary income and net income before income taxes and minority interests in the current fiscal year by 86,135,000 yen each, and decrease the beginning balance of retained earnings (prior-period amortized adjustments) by 676,464,000 yen.<br>At the Chinese subsidiary, net income decreased by 65,117,000 yen and the beginning balance of retained earnings increased by 98,514,000 yen, due to the application of deferred tax accounting. |

### Change in display format

| Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|
| ――――― | (Consolidated balance sheet)<br>With the adoption of “Cabinet Office Ordinance Partially Revising Regulation for Terminology, Forms and Preparation Methods of Financial Statements” (Cabinet Office Ordinance No. 50, August 7, 2008), “Inventories” is reclassified and divided into “Merchandise and finished goods,” “Work in process” and “Raw materials and supplies” in the current fiscal year. “Merchandise and finished goods,” “Work in process” and “Raw materials and supplies” those included in “Inventories” were 1,734,771,000 yen, 941,945,000 yen and 1,754,878,000 yen respectively in the previous fiscal year. |

### Notes to Consolidated Financial Statements

### Notes to Consolidated Balance Sheets

(Thousands of yen)

| Fiscal year ended Mar. 31, 2008<br>(As of Mar. 31, 2008) | | Fiscal year ended Mar. 31, 2009<br>(As of Mar. 31, 2009) | |
|---|---|---|---|
| *1. Notes regarding non-consolidated subsidiaries and affiliates<br>The following are items related to non-consolidated subsidiaries and affiliates included in each category. | | *1. Notes regarding non-consolidated subsidiaries and affiliates<br>The following are items related to non-consolidated subsidiaries and affiliates included in each category. | |
| Investment securities (stock) | 124,334 | Investment securities (stock) | 16,471 |
| Other investments and other assets (equity investments) | 74,955 | Other investments and other assets (equity investments) | 7,841 |
| *2. Pledged assets | | *2. Pledged assets | |
| | | Deposits | 2,337,938 |
| Buildings and structures | 3,254,137 | Buildings and structures | 996,559 |
| Land | 208,974 | Land | 208,974 |
| Other intangible assets | 361,257 | Other intangible assets | 165,112 |
| Total | 3,824,369 | Total | 3,708,584 |
| Liabilities secured with the above listed collateral | | Liabilities secured with the above listed collateral | |
| Short-term borrowings | 1,341,799 | Short-term borrowings | 3,204,938 |
| Current portion of long-term borrowings | 284,624 | Current portion of long-term borrowings | 107,772 |
| Long-term borrowings | 685,316 | Long-term borrowings | 256,199 |
| Total | 2,311,740 | Total | 3,568,909 |
| *3. Advanced depreciation for the assets<br>The amounts of assets presented in the consolidated balance sheet are net of the following amounts of advanced depreciation for the assets that were acquired in prior fiscal years with local government subsidies. | | *3. Advanced depreciation for the assets<br>Same as on the left. | |
| Land | 13,776 | | |
| 4. Discounted notes receivable | 14,920 | 4. ――――― | |
| Notes receivable endorsed | 491 | | |
| 5. ――――― | | 5. Contingent liabilities<br>The Company provides loan guarantees for borrowings (106,560,000 yen) from financial institutions by HANGZHOU LINGRI SCIENCE AND TECHNOLOGY CO., LTD. | |

## Notes to Consolidated Statements of Income

(Thousands of yen)

| Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) | |
|---|---|---|---|
| *1. Significant components of selling, general and administrative expenses | | *1. Significant components of selling, general and administrative expenses | |
| Salaries and wages | 2,268,283 | Salaries and wages | 2,511,238 |
| Provision for reserve for bonus payable | 82,862 | Provision for reserve for bonus payable | 30,661 |
| Provision of allowance for doubtful receivables | 15,983 | Provision of allowance for doubtful receivables | 26,963 |
| *2. Research and development expenditure included in general and administrative expenses and production cost | 303,328 | *2. Research and development expenditure included in general and administrative expenses and production cost | 481,434 |
| *3. Includes 5,809,000 yen in gain on sales of buildings, 5,229,000 yen in gain on sale of machinery, etc. | | *3. Mainly the gain on sale of machinery. | |
| *4. Mainly the loss on disposal of machinery. | | *4. Includes 60,112,000 yen in loss on disposal of machinery, 35,380,000 yen in loss of buildings, 15,605,000 yen in loss on disposal of tools, furniture and fixtures, etc. | |

### Notes to Consolidated Statements of Changes in Shareholders' Equity

Previous fiscal year (Apr. 1, 2007 – Mar. 31, 2008)

1. Type and number of outstanding shares and treasury stock

| | Number of shares as of Mar. 31, 2007 (Thousand shares) | Increase (Thousand shares) | Decrease (Thousand shares) | Number of shares as of Mar. 31, 2008 (Thousand shares) |
|---|---|---|---|---|
| Outstanding shares | | | | |
| Common shares | 20,156 | 1,138 | - | 21,294 |
| Total | 20,156 | 1,138 | - | 21,294 |
| Treasury stock | | | | |
| Common shares | 1,276 | 0 | 1,183 | 93 |
| Total | 1,276 | 0 | 1,183 | 93 |

Note: Outline of changes

Increase in the number of common shares (itemized) (Thousand shares)

Increase due to the exercise of the stock acquisition rights on convertible bonds: 1,131

Increase due to the exercise of the stock acquisition rights: 7

Decrease in the number of common shares of treasury stock (itemized) (Thousand shares)

Decrease due to the exercise of the stock acquisition rights on convertible bonds: 1,159

Decrease due to the exercise of the stock acquisition rights: 24

Increase in the number of common shares of treasury stock is due to the acquisition of odd lot shares.

2. Items related to acquisition rights for new shares and treasury stock

| Item | Stock acquisition rights (itemized) | Type of shares under stock acquisition rights | Number of shares under stock acquisition rights (Thousand shares) | | | | Balance as of Mar. 31, 2008 (Thousand yen) |
|---|---|---|---|---|---|---|---|
| | | | As of Mar. 31, 2007 | Increase | Decrease | As of Mar. 31, 2008 | |
| Reporting company (Parent company) | Stock acquisition rights (2002) | Common shares | 173 | - | 173 | - | - |
| | Stock acquisition rights (2003) | Common shares | 366 | - | 21 | 344 | - |
| | Stock acquisition rights (2004) | Common shares | 431 | - | 10 | 421 | - |
| Total | | - | 970 | - | 204 | 765 | - |

Notes: 1. Above table represents outstanding balance of unexercised stock acquisition rights.

2. Decrease in the number of stock acquisition rights (2002) is due to the expiration of exercise period, and a decrease in other stock acquisition rights is due to the exercise of the rights.

3. Dividends

(1) Dividend payment

| Resolution | Type of share | Total amount of dividend (Thousand yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual shareholders' meeting on Jun. 26, 2007 | Common shares | 226,564 | 12 | Mar. 31, 2007 | Jun. 27, 2007 |

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

| Resolution | Type of share | Total amount of dividend (Thousand yen) | Source of funds | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual shareholders' meeting on Jun. 24, 2008 | Common shares | 254,419 | Retained earnings | 12 | Mar. 31, 2008 | Jun. 25, 2008 |

Current fiscal year (Apr. 1, 2008 – Mar. 31, 2009)

1. Type and number of outstanding shares and treasury stock

| | Number of shares as of Mar. 31, 2008 (Thousand shares) | Increase (Thousand shares) | Decrease (Thousand shares) | Number of shares as of Mar. 31, 2009 (Thousand shares) |
|---|---|---|---|---|
| Outstanding shares | | | | |
| Common shares | 21,294 | 502 | - | 21,797 |
| Total | 21,294 | 502 | - | 21,797 |
| Treasury stock | | | | |
| Common shares | 93 | 0 | - | 93 |
| Total | 93 | 0 | - | 93 |

Notes: Increase in the number of common shares is due to the exercise of the stock acquisition rights.
Increase in the number of common shares of treasury stock is due to the acquisition of odd lot shares.

2. Items related to acquisition rights for new shares and treasury stock

| Item | Stock acquisition rights (itemized) | Type of shares under stock acquisition rights | Number of shares under stock acquisition rights (Thousand shares) | | | | Balance as of Mar. 31, 2009 (Thousand yen) |
|---|---|---|---|---|---|---|---|
| | | | As of Mar. 31, 2008 | Increase | Decrease | As of Mar. 31, 2009 | |
| Reporting company (Parent company) | Stock acquisition rights (2003) | Common shares | 344 | - | 344 | - | - |
| | Stock acquisition rights (2004) | Common shares | 421 | - | 202 | 218 | - |
| Total | | - | 765 | - | 547 | 218 | - |

Notes: 1. Above table represents outstanding balance of unexercised stock acquisition rights.
2. Decrease in the number of stock acquisition rights is due to the exercise of the rights (502,000 shares), the expiration of exercise period (45,000 shares), and the invalidation of rights for retirement of grantees.

3. Dividends

(1) Dividend payment

| Resolution | Type of share | Total amount of dividend (Thousand yen) | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|
| Annual shareholders' meeting on Jun. 24, 2008 | Common shares | 254,419 | 12 | Mar. 31, 2008 | Jun. 25, 2008 |

(2) Dividends with a record date in the current fiscal year but an effective date in the following fiscal year

| Resolution | Type of share | Total amount of dividend (Thousand yen) | Source of funds | Dividend per share (Yen) | Record date | Effective date |
|---|---|---|---|---|---|---|
| Annual shareholders' meeting on Jun. 26, 2009 | Common shares | 260,448 | Retained earnings | 12 | Mar. 31, 2009 | Jun. 29, 2008 |

## Notes to Consolidated Statements of Cash Flows

(Millions of yen)

| Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|
| *1. The balance of cash and cash equivalents at the end of the fiscal year reconciled with the "cash and deposits" stated in the consolidated balance sheets. | *1. Reconciliation of cash and cash equivalents and balance sheet items for the current fiscal year is made as follows.<br>(As of March 31, 2009)<br>Cash and bank deposits 7,675,121<br>Time deposits with maturities longer than 3 months (2,264,545)<br>Cash and cash equivalents 5,410,576 |

## Segment Information

### (1) Segment information by business category

Previous fiscal year (Apr. 1, 2007 – Mar. 31, 2008) (Thousands of yen)

| Division | Equipment-related business | Electronic devices business | CMS business | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| I Net sales and operating income | | | | | | |
| Net sales | | | | | | |
| (1) Net sales to third parties | 19,168,603 | 5,608,932 | 11,847,889 | 36,625,425 | - | 36,625,425 |
| (2) Internal sales and transfers | 942,368 | 211 | - | 942,580 | ( 942,580) | - |
| Total | 20,110,971 | 5,609,144 | 11,847,889 | 37,568,006 | ( 942,580) | 36,625,425 |
| Operating expenses | 17,960,385 | 5,340,047 | 11,139,505 | 34,439,938 | ( 871,956) | 33,567,981 |
| Operating income | 2,150,585 | 269,097 | 708,384 | 3,128,067 | ( 70,623) | 3,057,444 |
| II Assets, depreciation and capital expenditure | | | | | | |
| Assets | 20,229,772 | 3,412,766 | 13,157,675 | 36,800,214 | 4,173,317 | 40,973,532 |
| Depreciation | 959,511 | 202,794 | 912,560 | 2,074,866 | 69,801 | 2,144,668 |
| Capital expenditure | 2,380,576 | 173,596 | 891,258 | 3,445,430 | 37,906 | 3,483,337 |

Notes: 1. The business segmentation listed above is based on similarity in use of products and form of transactions.

2. Major products in businesses

(1) Equipment-related business: Vacuum feedthroughs, quartz products, etc. for manufacturing devices of semiconductors and FPDs

(2) Electronic devices business: Thermoelectric modules used for thermostats, ferrofluid-applied products (ferrofluid seals, etc.)

(3) CMS business: Items produced by commission from other manufacturers. Detail is not disclosed here because of broad range of products and fiduciary obligation of confidentiality. Silicon monocrystalline lifting equipment is a proprietary product, but we include it in this segment.

3. Of operating expenses in the current fiscal year, unallotable operating expenses in “eliminations or corporate” categories was 70,623,000 yen, or depreciation of all company assets.

4. The amount of assets included in “eliminations or corporate” for the current fiscal year is 4,209,279,000 yen, primarily consisting of investment securities, equities in investees, and the main building and land at the Company, as well as the rented and unused portions of factories of Chinese subsidiaries.

Current fiscal year (Apr. 1, 2008 – Mar. 31, 2009) (Thousands of yen)

| Division | Equipment-related business | Photovoltaic cell-related business | Electronic devices business | CMS business | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|---|
| I Net sales and operating income | | | | | | | |
| Net sales | | | | | | | |
| (1) Net sales to third parties | 14,257,587 | 11,019,209 | 4,354,994 | 7,021,274 | 36,653,066 | - | 36,653,066 |
| (2) Internal sales and transfers | 2,443,405 | 694,850 | - | 39 | 3,138,295 | ( 3,138,295) | - |
| Total | 16,700,992 | 11,714,059 | 4,354,994 | 7,021,314 | 39,791,361 | ( 3,138,295) | 36,653,066 |
| Operating expenses | 15,874,878 | 10,055,652 | 4,175,294 | 6,838,039 | 36,943,865 | ( 3,081,530) | 33,862,335 |
| Operating income | 826,114 | 1,658,407 | 179,699 | 183,274 | 2,847,496 | ( 56,765) | 2,790,731 |
| II Assets, depreciation and capital expenditure | | | | | | | |
| Assets | 21,429,321 | 7,654,326 | 3,268,416 | 11,139,662 | 43,491,727 | 3,460,174 | 46,951,902 |
| Depreciation | 1,225,424 | 418,149 | 159,743 | 543,217 | 2,346,535 | 80,568 | 2,427,104 |
| Capital expenditure | 1,657,790 | 536,992 | 163,344 | 340,762 | 2,698,889 | 320,925 | 3,019,814 |

Notes: 1. The business segmentation listed above is based on similarity in use of products and form of transactions.

2. Major products in businesses

| | |
|---|---|
| (1) Equipment-related business: | Vacuum feedthroughs, quartz products, ceramic products, etc. for manufacturing devices of semiconductors and FPDs |
| (2) Photovoltaic cell-related business: | Silicon crystal production equipment and silicon products geared for solar cell applications, and crucibles, etc. |
| (3) Electronic devices business: | Thermoelectric modules used for thermostats, ferrofluid-applied products (ferrofluid seals, etc.) |
| (4) CMS business: | Items produced by commission on contract from other manufacturers. Detail is not disclosed here because of broad range of products and fiduciary obligation of confidentiality. |

3. Of operating expenses in the current fiscal year, unallotable operating expenses in “eliminations or corporate” categories was 56,765,000 yen, or depreciation of all company assets.

4. The amount of assets included in “eliminations or corporate” for the current fiscal year is 3,671,138,000 yen, primarily consisting of investment securities, equities in investees, and the main building and land at the Company, as well as the rented and unused portions of factories of Chinese subsidiaries.

5. Changes in accounting methods

(Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements)

As noted in “Change in Basis for Presentation of Consolidated Financial Statements,” effective from the current fiscal year, the Company has adopted “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements.” The effect of this change was to decrease operating income in the equipment-related business and the electronic devices business by 62,611,000 yen and 23,524,000 yen respectively.

(Accounting standard for measurement of inventories)

As noted in “Change in Basis for Presentation of Consolidated Financial Statements,” effective from the current fiscal year, the Company has adopted “Accounting Standards for Measurement of Inventories.” The effect of this change was to decrease operating income in the equipment-related business and the electronic devices business by 17,509,000 yen and 2,219,000 yen respectively.

(Accounting standards for measurement of inventories)

As noted in “Change in Basis for Presentation of Consolidated Financial Statements,” effective from the current fiscal year, the Company has adopted “Accounting Standards for Lease Transactions” and “Guidance on Accounting Standards for Lease Transactions.” The effect of this change is insignificant.

6. Change in business segment classification

The Company previously had three business segments based on similarity in use of products and form of transactions, but changed to a system of four business segments starting from the current fiscal year. We separated the photovoltaic cell-related business, previously classified within the CMS business, into a new business called the “photovoltaic cell-related business” because production equipment related to photovoltaic cells now accounts for a large proportion of our overall sales. In line with this change, we reclassify quartz crucibles and photovoltaic cell-related silicon products, previously classified within the equipment-related business, into the photovoltaic cell-related business starting from the current fiscal year, as these products are mainly used for the manufacture of photovoltaic cells.

Due to the change in segment classification from three to four businesses, net sales in the equipment-related business declined 2,996,458,000 yen and operating income declined 801,180,000 yen; and net sales in the CMS business declined 8,022,752,000 yen and operating income declined 857,227,000 yen.

**(2) Geographical segment information**

(1) Previous fiscal year (Apr. 1, 2007 – Mar. 31, 2008) (Thousands of yen)

| Division | Japan | Asia | USA & Europe | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| I Net sales and operating income | | | | | | |
| Net sales | | | | | | |
| (1) Net sales to third parties | 18,038,096 | 8,246,483 | 10,340,846 | 36,625,425 | - | 36,625,425 |
| (2) Internal sales and transfers | 5,153,818 | 15,105,916 | 101,539 | 20,361,274 | ( 20,361,274) | - |
| Total | 23,191,914 | 23,352,400 | 10,442,386 | 56,986,700 | ( 20,361,274) | 36,625,425 |
| Operating expenses | 22,702,166 | 21,763,827 | 9,617,242 | 54,083,236 | ( 20,515,254) | 33,567,981 |
| Operating income | 489,748 | 1,588,572 | 825,143 | 2,903,464 | 153,979 | 3,057,444 |
| II Assets | 25,295,795 | 21,793,550 | 8,036,919 | 55,126,265 | ( 14,152,733) | 40,973,532 |

Notes: 1. Country or area for categorization is based on geographical distance.

2. Areas other than Japan and countries falling to them are as follows:

Asia: China, Singapore and Taiwan
USA & Europe: USA, Germany and Russia

3. Of operating expenses in the current fiscal year, unallotable operating expenses in "eliminations or corporate" categories was 70,623,000 yen, or depreciation of all company assets.

4. The amount of assets included in "eliminations or corporate" for the current fiscal year is 4,209,279,000 yen, primarily consisting of investment securities, equities in investees, and the main building and land at the Company, as well as the rented and unused portions of factories of Chinese subsidiaries.

(2) Current fiscal year (Apr. 1, 2008 – Mar. 31, 2009) (Thousands of yen)

| Division | Japan | Asia | USA & Europe | Total | Eliminations or corporate | Consolidated |
|---|---|---|---|---|---|---|
| I Net sales and operating income | | | | | | |
| Net sales | | | | | | |
| (1) Net sales to third parties | 13,558,081 | 14,537,597 | 8,557,387 | 36,653,066 | - | 36,653,066 |
| (2) Internal sales and transfers | 4,037,885 | 10,271,490 | 86,029 | 14,395,405 | ( 14,395,405) | - |
| Total | 17,595,967 | 24,809,087 | 8,643,416 | 51,048,471 | ( 14,395,405) | 36,653,066 |
| Operating expenses | 17,703,520 | 22,516,755 | 8,089,953 | 48,310,229 | ( 14,447,894) | 33,862,335 |
| Operating income | (107,553) | 2,292,332 | 553,462 | 2,738,241 | 52,489 | 2,790,731 |
| II Assets | 30,363,205 | 24,119,383 | 5,619,227 | 60,101,816 | ( 13,149,913) | 46,951,902 |

Notes: 1. Country or area for categorization is based on geographical distance.

2. Areas other than Japan and countries falling to them are as follows:

Asia: China, Singapore and Taiwan
USA & Europe: USA, Germany and Russia

3. Of operating expenses in the current fiscal year, unallotable operating expenses in "eliminations or corporate" categories was 56,765,000 yen, or depreciation of all company assets.

4. The amount of assets included in "eliminations or corporate" for the current fiscal year is 3,671,138,000 yen, primarily consisting of investment securities, equities in investees, and the main building and land at the Company, as well as the rented and unused portions of factories of Chinese subsidiaries.

5. Changes in accounting methods

(Practical solution on unification of accounting policies applied to foreign subsidiaries for consolidated financial statements)

As noted in "Change in Basis for Presentation of Consolidated Financial Statements," effective from the current fiscal year, the Company has adopted "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements." The effect of this change was to decrease operating income in USA & Europe by 86,135,000 yen.

(Accounting standard for measurement of inventories)

As noted in "Change in Basis for Presentation of Consolidated Financial Statements," effective from the current fiscal year, the Company has adopted "Accounting Standards for Measurement of Inventories." The effect of this change was to decrease operating income in Japan by 19,729,000 yen.

(Accounting standards for measurement of inventories)
As noted in “Change in Basis for Presentation of Consolidated Financial Statements,” effective from the current fiscal year, the Company has adopted “Accounting Standards for Lease Transactions” and “Guidance on Accounting Standards for Lease Transactions.” The effect of this change is insignificant.

**(3) Overseas sales**

The following table indicates overseas sales for last two fiscal years.

(Thousands of yen)

| Division | | Asia | USA & Europe | Total |
|---|---|---|---|---|
| Apr. 1, 2007 – Mar. 31, 2008 | I Overseas sales | 10,158,470 | 10,363,408 | 20,521,879 |
| | II Consolidated sales | - | - | 36,625,425 |
| | III Share of overseas sales among the consolidated sales | 27.7% | 28.2% | 56.0% |

Notes:
1. Country or area for categorization is based on geographical distance.
2. Areas other than Japan and countries falling to them are as follows:
USA & Europe: USA, Germany, UK and Russia
Asia: China, Korea, Singapore and Taiwan
3. “Overseas sales” consists of net sales from outside Japan at the Company and consolidated subsidiaries.

(Thousands of yen)

| Division | | Asia | USA & Europe | Total |
|---|---|---|---|---|
| Apr. 1, 2008 – Mar. 31, 2009 | I Overseas sales | 14,842,543 | 8,576,138 | 23,418,682 |
| | II Consolidated sales | - | - | 36,653,066 |
| | III Share of overseas sales among the consolidated sales | 40.5% | 23.4% | 63.9% |

Notes:
1. Country or area for categorization is based on geographical distance.
2. Areas other than Japan and countries falling to them are as follows:
USA & Europe: USA, Germany, UK and Russia
Asia: China, Korea, Singapore and Taiwan
3. “Overseas sales” consists of net sales from outside Japan at the Company and consolidated subsidiaries.

## Transactions with Related Parties

Previous fiscal year (Apr. 1, 2007 – Mar. 31, 2008)

(1) Parent company and major corporate shareholders

No reportable information.

(2) Director, auditors and major individual shareholders

No reportable information.

(3) Subsidiaries and affiliates

No reportable information.

(4) Fellow-subsidiaries, etc.

No reportable information.

Current fiscal year (Apr. 1, 2008 – Mar. 31, 2009)

(1) Transaction between the Company and related parties

No reportable information.

(2) Transaction between the Company's consolidated subsidiaries and related parties

Directors of the Company and major shareholders (individual), etc.

| Classification | Corporate officers | |
|---|---|---|
| Name | Akira Yamamura | He Xian Han |
| Address | - | - |
| Common stock / equity (Millions of yen) | - | - |
| Business / position | Ferrotec President and Representative Director | Ferrotec Managing Director |
| Voting rights | 3.69% held by the Company | 0.13% held by the Company |
| Relationship | Ferrotec President and Representative Director | Ferrotec Managing Director |
| Transaction | Purchase of subsidiary stock through a third-party placement *1 | Purchase of subsidiary stock through a third-party placement *1 |
| | | Fund lending *2 |
| | | Long-term job appointments *3 |
| Transaction amount (Thousands of yen) | 102,246 | 153,370 |
| | | 73,559 |
| | | 300,000 |
| Account title | - | - |
| | | Other current assets |
| | | Other current assets |
| | | Other investment and other assets |
| Ending balance (Thousands of yen) | - | - |
| | | 72,314 |
| | | 26,312 |
| | | 221,459 |

Note: 1. In June 2008, stock in FERROTEC APOLLO HOLDING COMPANY LIMITED was placed with Akira Yamamura (HKD 7,496,000: 48 shares at an issue price of HKD156,000, for a 4.8% stake) and He Xian Han (HKD11,244,000: 72 shares at HKD156,000, for a 7.2% stake). The exchange rate was HKD=13.64 yen.

2. A loan from HANGZHOU DAHE THERMO-MAGNETICS CO., LTD. to He Xian Han. Interest is applied and determined at market rates.
The loan is in a foreign currency (the Chinese yuan), and the ending balance is 5,429,000 yuan. The foreign exchange rate at the end of the fiscal year was 1 Chinese yuan = 13.32 yen (the fiscal year end refers to the end of December 2008 since the Chinese subsidiary closes its books in December).

3. In order to promote the stable management and growth of our Chinese subsidiaries, an appointment contract has been signed among He Xian Han and HANGZHOU DAHE THERMO-MAGNETICS CO., LTD and SHANGHAI SHENHE THERMO-MAGNETICS CO., LTD. that stipulates that Han is to work exclusively as a high-level manager with these companies for ten years. Ferrotec Corporation's Board of Directors has examined and approved a transaction figure.
The transaction has been conducted in a foreign currency (the Chinese yuan) and the amount is 19,753,000 Chinese yuan (the exchange rate at the time was 1 Chinese yuan = 15.19 yen). The ending balance was 18,601,000 Chinese yuan (the total of "other current assets" and "other investments and others"). The foreign exchange rate at the end of the fiscal year was 1 Chinese yuan = 13.32 yen (the fiscal year end refers to the end of December 2008 since the Chinese subsidiary closes its books in December).

## Per Share Information

(Yen)

| Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) | |
|---|---|---|---|
| Net assets per share | 1,004.39 | Net assets per share | 856.22 |
| Net income per share | 99.25 | Net income per share | 34.39 |
| Diluted net income per share | 98.87 | Diluted net income per share | 34.22 |

Note: The following is a reconciliation of net income per share and diluted net income per share.

(Thousands of yen)

| | Fiscal year ended Mar. 31, 2008 (Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009 (Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|---|
| Net assets per share | | |
| Net income | 1,903,896 | 743,060 |
| Amount not attribute to shareholders | - | - |
| Net income related to common stock | 1,903,896 | 743,060 |
| Average number of shares outstanding | 19,183,607 shares | 21,608,897 shares |
| Diluted net income per share (yen) | 98.87 | 34.22 |
| Adjusted net income | - | - |
| [of which, interest expenses after tax deduction] | [-] | [-] |
| [of which, paperwork fees after tax deduction] | [-] | [-] |
| Increase in common stock | 73,243 shares | 103,184 shares |
| [of which stock acquisition rights] | [73,243 shares] | [103,184 shares] |
| Dilutive potential shares excluded from the dilution information due to improbability | ―――― | ―――― |

**Subsequent Events**

| Fiscal year ended Mar. 31, 2008<br>(Apr. 1, 2007 – Mar. 31, 2008) | Fiscal year ended Mar. 31, 2009<br>(Apr. 1, 2008 – Mar. 31, 2009) |
|---|---|
| ――――― | The Board of Directors resolved at a meeting held on March 27, 2009 to issue No.1 stock acquisition rights in a third-party placement to UBS AG London Branch, and to sign a third-party placement contract that includes an exercise designation clause. Payment of 28,071,000 yen was received for the stock acquisition rights from UBS AG London Branch on April 13, 2009.<br>Details are as follows.<br>1. Subscription method: Third-party allocation to UBS AG London Branch<br>2. Total stock acquisition rights:<br>3,000<br>3. Type and number of shares under stock acquisition rights:<br>3,000,000 common shares<br>(number of shares per stock acquisition right: 1,000 shares)<br>4. Amount paid per stock acquisition right:<br>9,357 yen<br>5. Amount to be paid upon exercise of stock acquisition rights:<br>The amount of capital to be paid upon exercise of stock acquisition rights is 1,017 yen per common share X the number of shares exercised<br>6. Date of allocation and payment:<br>April 13, 2009<br>7. Exercise period:<br>From April 14, 2009 to April 13, 2011<br>8. Conditions for exercise:<br>UBS AG London Branch is to exercise its stock acquisition rights based on the third-party placement contract that includes an exercise designation clause<br>9. Use of funds:<br>- Approximately 500 million yen for investment in production equipment at Chinese subsidiaries to strengthen the photovoltaic cell-related business (the money will primarily be invested in bolstering the production capacity of silicon crystal production equipment and consumables (quartz crucibles, etc.) at Chinese factories).<br>- Approximately 1.5 billion yen will be used to build new factories in Japan, the US, and Korea to meet new demand for photovoltaic cell-related products around the world (we assume an investment of approximately 500 million yen will be necessary for each new factories with the location and date to be decided at a future time).<br>- Approximately 1 billion yen to repay a portion of the debt used to acquire Ferrotec Ceramics Corporation in the current fiscal year. |

**Omission of Disclosure**

Leases, Securities, Derivatives, Retirement benefits, Stock options, Deferred income taxes, and Business combination is not announced, since it was not considered to be materially significant in respect of the release of business results.

**This financial report is solely a translation of the summary of “Kessan Tanshin” (in Japanese, including attachments), which has been prepared in accordance with accounting principles and practices generally accepted in Japan, for the convenience of readers who prefer an English translation.*