Consolidated Financial Statements

Toho Zinc Co., Ltd.
and Consolidated Subsidiaries

For the years ended March 31, 2010, 2009 and 2008
with Report of Independent Auditors

Report of Independent Auditors

The Board of Directors
Toho Zinc Co., Ltd.

We have audited the accompanying consolidated balance sheets of Toho Zinc Co., Ltd. and consolidated subsidiaries as of March 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for each of the three years in the period ended March 31, 2010, all expressed in yen. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toho Zinc Co., Ltd. and consolidated subsidiaries at March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for each of the three years in the period ended March 31, 2010, in conformity with accounting principles generally accepted in Japan.

Without qualifying our opinion, we draw attention to the following.

As described in Note 19, on April 30, 2010, the Company agreed with CBH Resources Ltd. (hereinafter "CBH"), the Company's affiliate under equity method, to acquire all shares and convertible bonds of CBH and then filed the takeover bid with the Australian Securities Exchange on May 17, 2010.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2.

Ernst & Young ShinNihon LLC

June 28, 2010

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Consolidated Balance Sheets

	March 31, 2009	March 31, 2010	March 31, 2010
	(Millions of yen)		*(Thousands of U.S. dollars)*
Assets			
Current assets:			
Cash and time deposits	¥ 22,284	**¥ 12,216**	**$ 131,298**
Notes and accounts receivable, trade	11,129	**17,161**	**184,447**
Inventories *(Note 3)*	21,651	**29,559**	**317,702**
Advance payment	462	**2,219**	**23,849**
Deferred tax assets *(Note 10)*	1,351	**765**	**8,222**
Other current assets	3,441	**878**	**9,436**
Less: Allowance for doubtful accounts	(27)	**(23)**	**(247)**
Total current assets	60,291	**62,779**	**674,752**
Property, plant and equipment:			
Land *(Notes 4 and 7)*	16,951	**16,951**	**182,190**
Buildings and structures *(Note 7)*	18,968	**19,128**	**205,588**
Machinery and equipment *(Note 7)*	55,772	**55,652**	**598,151**
Construction in progress	1,894	**2,382**	**25,601**
Lease assets	–	**175**	**1,880**
	93,585	**94,290**	**1,013,435**
Less: Accumulated depreciation	(58,136)	**(58,958)**	**(633,684)**
Net property, plant and equipment	35,449	**35,331**	**379,739**
Investments and other assets:			
Investment securities *(Notes 6, 7 and 13)*	4,985	**8,582**	**92,239**
Investments in non-consolidated subsidiaries *(Note 6)*	411	**389**	**4,180**
Deferred tax assets *(Note 10)*	2,777	**1,465**	**15,745**
Intangible assets	112	**120**	**1,289**
Other assets *(Note 6)*	4,607	**4,941**	**53,106**
Less: Allowance for doubtful accounts	(807)	**(786)**	**(8,447)**
Total investments and other assets	12,085	**14,713**	**158,136**
Total assets	¥ 107,825	**¥ 112,823**	**$ 1,212,628**

	March 31,		
	2009	**2010**	**2010**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Liabilities and net assets			
Current liabilities:			
Short-term borrowings *(Note 7)*	¥ 24,478	**¥ 24,478**	**$ 263,091**
Current portion of long-term debt *(Note 7)*	3,390	**6,031**	**64,821**
Notes and accounts payable, trade	6,299	**6,227**	**66,928**
Accrued expenses	2,944	**2,193**	**23,570**
Accrued income taxes	335	**2,208**	**23,731**
Lease obligations	–	**17**	**182**
Accrued directors' bonus	–	**39**	**419**
Other current liabilities	3,597	**4,531**	**48,699**
Total current liabilities	41,043	**45,727**	**491,476**
Long-term liabilities:			
Long-term debt *(Note 7)*	8,928	**2,896**	**31,126**
Accrued employees' pension and severance costs *(Note 8)*	3,148	**2,896**	**31,126**
Accrued directors' and statutory auditors' retirement allowances	73	**67**	**720**
Deferred tax liabilities related to land revaluation *(Note 4)*	5,781	**5,779**	**62,113**
Accrued environmental allowances	158	**157**	**1,687**
Lease obligations	–	**160**	**1,719**
Other long-term liabilities	95	**91**	**978**
Total long-term liabilities	18,183	**12,049**	**129,503**
Total liabilities	59,226	**57,777**	**620,990**
Net assets			
Shareholders' equity:			
Common stock:			
Authorized – 264,000,000 shares			
Issued – 135,855,217 shares in 2009 and 135,855,217 shares in 2010	14,630	**14,630**	**157,244**
Capital surplus	9,877	**9,876**	**106,147**
Retained earnings	17,176	**21,153**	**227,353**
Less: Treasury stock, at cost – 53,066 shares in 2009 and 54,528 shares in 2010	(22)	**(23)**	**(247)**
Total shareholders' equity	41,661	**45,637**	**490,509**
Revaluation and translation adjustments:			
Net unrealized gains on other securities	625	**2,663**	**28,622**
Loss on deferred hedges	(116)	**(176)**	**(1,891)**
Surplus from land revaluation *(Note 4)*	7,574	**7,572**	**81,384**
Foreign currency translation adjustments	(1,145)	**(649)**	**(6,975)**
Total revaluation and translation adjustments	6,938	**9,409**	**101,128**
Total net assets	48,599	**55,046**	**591,638**
Total liabilities and net assets	¥ 107,825	**¥ 112,823**	**$ 1,212,628**

The accompanying notes are an integral part of these financial statements.

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Operations

	Year ended March 31,			
	2008	2009	2010	2010
	(Millions of yen)			(Thousands of U.S. dollars)
Net sales	¥147,390	¥92,686	**¥ 83,592**	**$ 898,452**
Cost of sales	123,827	85,095	**69,850**	**750,752**
Gross profit	23,563	7,591	**13,741**	**147,689**
Selling, general and administrative expenses:				
Transportation expense	3,223	3,000	**2,974**	**31,964**
Salaries and wages	965	884	**848**	**9,114**
Pension and severance costs	82	64	**68**	**730**
Research and development costs *(Note 20)*	261	284	**237**	**2,547**
Depreciation	73	53	**54**	**580**
Directors' and statutory auditors' retirement costs	26	–	**–**	**–**
Directors' bonus	39	–	**39**	**419**
Provision for doubtful accounts	94	–	**–**	**–**
Other	1,517	1,412	**1,217**	**13,101**
	6,280	5,697	**5,439**	**58,458**
Operating income	17,283	1,894	**8,301**	**89,219**
Other income (expenses):				
Interest and dividend income	440	510	**451**	**4,847**
Derivative losses	(14)	–	**–**	**–**
Interest expenses	(657)	(543)	**(416)**	**(4,471)**
Foreign exchange (losses) gains, net	(118)	69	**136**	**1,461**
Loss on disposal of property, plant and equipment	(265)	(298)	**(292)**	**(3,138)**
Investment gains (losses) on equity method	577	(3,460)	**296**	**3,181**
Impairment losses on fixed assets *(Note 5)*	(4)	(131)	**(418)**	**(4,492)**
Losses on hedge transactions	(496)	–	**–**	**–**
Write-down of investment securities	(367)	(4,531)	**(321)**	**(3,450)**
Gain on adjustment for changes of accounting standard for construction contracts	–	–	**13**	**139**
Other, net	164	(102)	**34**	**365**
	(740)	(8,486)	**(516)**	**(5,546)**
Income (loss) before income taxes	16,543	(6,592)	**7,784**	**83,662**
Income taxes:				
Current	5,139	1,061	**2,585**	**27,783**
Deferred	1,455	(2,419)	**544**	**5,846**
	6,594	(1,358)	**3,130**	**33,641**
Net income (loss)	¥ 9,949	¥ (5,234)	**¥ 4,654**	**$ 50,021**
	(Yen)			(U.S. dollars)
Per share:				
Net income (loss) – basic	¥ 73.26	¥ (38.54)	**¥ 34.27**	**$ 0.36**
Cash dividends	¥ 10.00	¥ 5.00	**¥ 7.00**	**$ 0.07**

The accompanying notes are an integral part of these financial statements.

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Changes in Net Assets

		Shareholders' equity				Revaluation and translation adjustments				
	Number of shares of common stock issued	Common stock	Capital surplus	Retained earnings	Treasury stock (*)	Net unrealized gains on other securities	Losses on deferred hedges	Surplus from land revaluation	Foreign currency translation adjustments	Total net assets
	(Thousands)					*(Millions of yen)*				
Balance at March 31, 2007	135,855	¥ 14,630	¥ 9,877	¥ 15,249	¥ (18)	¥ 3,120	¥ (2,711)	¥ 7,580	¥ 202	¥ 47,929
Dividends from surplus	–	–	–	(1,359)	–	–	–	–	–	(1,359)
Net income	–	–	–	9,949	–	–	–	–	–	9,949
Acquisition of treasury stock	–	–	–	–	(4)	–	–	–	–	(4)
Other	–	–	0	–	1	–	–	–	–	1
Net charges in items other than those in shareholders' equity	–	–	–	–	–	(2,081)	(2,642)	–	179	740
Balance at March 31, 2008	135,855	14,630	9,877	23,839	(21)	1,039	(69)	7,580	381	57,256
Dividends from surplus	–	–	–	(1,358)	–	–	–	–	–	(1,358)
Net income	–	–	–	(5,234)	–	–	–	–	–	(5,234)
Acquisition of treasury stock	–	–	–	–	(2)	–	–	–	–	(2)
Other	–	–	(0)	(72)	1	–	–	–	–	(70)
Net charges in items other than those in shareholders' equity	–	–	–	–	–	(414)	(47)	(6)	(1,526)	(1,993)
Balance at March 31, 2009	135,855	14,630	9,877	17,176	(22)	625	(116)	7,574	(1,145)	48,599
Dividends from surplus	–	–	–	**(679)**	–	–	–	–	–	**(679)**
Net income	–	–	–	**4,654**	–	–	–	–	–	**4,654**
Acquisition of treasury stock	–	–	–	–	**(0)**	–	–	–	–	**(0)**
Other	–	–	**(0)**	**1**	**0**	–	–	–	–	**1**
Net charges in items other than those in shareholders' equity	–	–	–	–	–	**2,038**	**(60)**	**(1)**	**495**	**2,470**
Balance at March 31, 2010	**135,855**	**¥ 14,630**	**¥ 9,876**	**¥ 21,153**	**¥ (23)**	**¥ 2,663**	**¥ (176)**	**¥ 7,572**	**¥ (649)**	**¥ 55,046**

	Shareholders' equity				Revaluation and translation adjustments				
	Common stock	Capital surplus	Retained earnings	Treasury stock (*)	Net unrealized gains on other securities	Losses on deferred hedges	Surplus from land revaluation	Foreign currency translation adjustments	Total net assets
					(Thousands of U.S. dollars)				
Balance at March 31, 2009	$ 157,244	$ 106,158	$ 184,608	$ (236)	$ 6,717	$ (1,246)	$ 81,405	$ (12,306)	$ 522,345
Dividends from surplus	–	–	**(7,297)**	–	–	–	–	–	**(7,297)**
Net income	–	–	**50,021**	–	–	–	–	–	**50,021**
Acquisition of treasury stock	–	–	–	**(0)**	–	–	–	–	**(0)**
Other	–	**(0)**	**10**	**0**	–	–	–	–	**10**
Net charges in items other than those in shareholders' equity	–	–	–	–	**21,904**	**(644)**	**(10)**	**5,320**	**26,547**
Balance at March 31, 2010	**$157,244**	**$106,147**	**$227,353**	**$ (247)**	**$ 28,622**	**$ (1,891)**	**$ 81,384**	**$ (6,975)**	**$ 591,638**

(*) There were 53,066 shares and 54,528 shares of treasury stock as of March 31, 2009 and 2010, respectively.

The accompanying notes are an integral part of these financial statements.

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Consolidated Statements of Cash Flows

	Year ended March 31,			
	2008	2009	2010	2010
	(Millions of yen)			*(Thousands of U.S. dollars)*
Cash flows from operating activities:				
Income (loss) before income taxes	¥ 16,543	¥ (6,592)	**¥ 7,784**	**$ 83,662**
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,660	3,104	**3,184**	**34,221**
Impairment loss on fixed assets	4	131	**418**	**4,492**
Write-down of investments securities	367	4,531	**321**	**3,450**
Increase (decrease) in allowance for doubtful accounts	12	(80)	**(24)**	**(257)**
Increase (decrease) in accrued directors' bonus	1	(39)	**39**	**419**
Decrease in accrued employees' pension and severance costs	(197)	(246)	**(251)**	**(2,697)**
Interest and dividend income	(440)	(510)	**(451)**	**(4,847)**
Interest expenses	657	543	**416**	**4,471**
Investment (gains) losses on equity method	(577)	3,460	**(296)**	**(3,181)**
Net loss on sale and disposal of property, plant and equipment	266	298	**286**	**3,073**
Decrease (increase) in notes and accounts receivable, trade	11,176	8,987	**(5,755)**	**(61,855)**
(Increase) decrease in inventories	(6,010)	4,865	**(7,908)**	**(84,995)**
(Decrease) increase in notes and accounts payable, trade	(3,853)	2,952	**(1,829)**	**(19,658)**
Other, net	302	807	**(108)**	**(1,160)**
Sub total	20,911	22,211	**(4,174)**	**(44,862)**
Interest and dividend income received	437	557	**403**	**4,331**
Interest expense paid	(654)	(552)	**(419)**	**(4,503)**
Income taxes paid	(10,534)	(3,986)	**1,366**	**14,681**
Net cash provided by (used in) operating activities	10,160	18,230	**(2,824)**	**(30,352)**
Cash flows from investing activities:				
Payments for purchases of property, plant and equipment	(2,795)	(4,439)	**(2,890)**	**(31,061)**
Proceeds from sale of property, plant and equipment	15	15	**15**	**161**
Payments for purchases of investment securities	(5,168)	(5)	**(5)**	**(53)**
Payments for purchases of investments in affiliates	(294)	–	**(139)**	**(1,493)**
Payments of loans receivable	–	–	**(11)**	**(118)**
Other, net	(128)	(199)	**(128)**	**(1,375)**
Net cash used in investing activities	(8,370)	(4,628)	**(3,158)**	**(33,942)**
Cash flows from financing activities:				
Increase in short-term borrowings	–	877	**–**	**–**
Decrease in commercial paper, net	(5,000)	(1,000)	**–**	**–**
Proceeds from long-term debt	8,000	700	**–**	**–**
Repayments of long-term debt	(2,318)	(4,896)	**(3,390)**	**(36,435)**
Cash dividends paid	(1,359)	(1,358)	**(679)**	**(7,297)**
Other, net	(4)	(1)	**(6)**	**(64)**
Net cash used in financing activities	(681)	(5,678)	**(4,076)**	**(43,809)**
Effect of exchange rate changes on cash and cash equivalents	(8)	2	**2**	**21**
Net increase (decrease) in cash and cash equivalents	1,101	7,926	**(10,056)**	**(108,082)**
Cash and cash equivalents at beginning of year	13,232	14,333	**22,258**	**239,230**
Cash and cash equivalents at end of year *(Note 15)*	¥ 14,333	¥ 22,259	**¥ 12,201**	**$ 131,137**

The accompanying notes are an integral part of these financial statements.

Toho Zinc Co., Ltd. and Consolidated Subsidiaries

Notes to Consolidated Financial Statements

March 31, 2010

1. Summary of Significant Accounting Policies

(a) Basis of presentation

The accompanying consolidated financial statements of Toho Zinc Co., Ltd. (the "Company") and its consolidated subsidiaries (the "Companies") are prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards, and are compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

As permitted under the Financial Instruments and Exchange Law, amounts of less than one million yen have been omitted as of and for the year ended March 31, 2010. As a result, the totals shown in the accompanying consolidated financial statements (both in yen and in U.S. dollars) do not necessarily agree with the sums of the individual amounts as of and for the year ended March 31, 2010. As of March 31, 2009 and for the years ended March 31, 2009 and 2008, amounts of less than one million yen have been rounded off.

Certain items presented in the consolidated financial statements submitted to the Direction of Kanto Financial Bureau in Japan have been reclassified in the accompanying consolidated financial statements for the convenience of readers outside Japan.

(b) Principles of consolidation

The accompanying consolidated financial statements include the accounts of the Company and any significant subsidiaries that are controlled by the Company. Under the effective control approach, all majority-owned companies are to be consolidated. Additionally, companies in which share ownership equals 50% or less may be required to be consolidated in cases where such companies are effectively controlled by other companies through the interests held by a party who has a close relationship with the parent in accordance with Japanese accounting standards. All significant inter-company transactions and accounts are eliminated in consolidation.

1. Summary of Significant Accounting Policies (continued)

(c) Foreign currency translation

(1) Foreign currency transaction

All receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rate prevailing at the balance sheet date.

(2) Foreign currency financial statements

The assets and liabilities of the foreign consolidated subsidiaries are translated into Japanese yen at current exchange rate prevailing at the balance sheet date. Revenue and expense accounts are translated at the current exchange rate prevailing at the balance sheet date. Foreign currency translation adjustments are included in net assets.

(d) Cash and cash equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hands, bank deposits be able to withdraw on demand and short-term investments with original maturity of three months or less and minor risk for the fair value fluctuation.

(e) Inventories

Finished goods, work in process and raw materials are stated at the lower of cost or net selling value, for which cost is primarily determined by the first-in first-out method. Supplies are stated at the lower of cost or net selling value, for which cost is determined by the moving average method.

(Changes in accounting policy)

(1) The Companies adopted the “Accounting Standard for Measurement of Inventories” (Statement No. 9 issued by the Accounting Standards Boards of Japan (the “ASBJ”) on July 5, 2006) for the year ended March 31, 2009. Under this standard, inventories held for sale in the ordinary course of business in principle, shall be stated at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and direct selling expenses. As a result, operating income decreased by ¥1,717 million, and loss before income taxes increased by the same amounts for the year ended March 31, 2009 from the corresponding amounts which would have been reported under the previous method.

The effect of the change on the segment information is described in Note 18.

(2) Effective April 1, 2008, the Company changed the method of accounting for inventories exclusive of supplies, from the last-in first-out method to the first-in first-out method. The reasons for this change are as follows:

- With the adoption of the “Accounting Standard for Measurement of Inventories” (Statement No. 9 issued by the ASBJ on July 5, 2006);

1. Summary of Significant Accounting Policies (continued)

(e) Inventories (continued)

- To remedy the fact that major fluctuations in raw material prices in recent years have caused a sharp deviation between the values shown on the balance sheets and current market prices, enabling a more accurate representation of the Company's financial position; and,
- Working to accelerate international convergence in accounting standards, the ASBJ scheduled to abolish the last-in first-out method effective April 1, 2010.

As a result, operating income decreased by ¥1,915 million, and loss before income taxes increased by the same amounts for the year ended March 31, 2009 from the corresponding amounts which would have been reported under the previous method.

The effect of the change on the segment information is described in Note 18.

(f) Financial instruments

(1) Investment securities

Marketable securities classified as other securities are carried at fair value based on the average of market price during the last month of the fiscal year with any changes in unrealized gains or losses, net of income taxes, included directly in net assets.

Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(2) Derivatives

The Company has entered into various derivative transactions, including forward foreign exchange contracts, interest rate swaps and commodity futures, in order to manage certain risk arising from adverse fluctuations in foreign currency exchange rates, interest rates and commodity prices.
All derivatives are recognized in the balance sheet at fair value, with changes in fair value included in net income for the period in which they arise, except for derivatives that are designated as "hedging instruments" (see Note 1 (f) (3) *Hedge accounting* below).

(3) Hedge accounting

Gains or losses arising from changes in fair value of the derivatives designated as "hedging instruments" are deferred as an asset or liability and included in net income in the same period during which the gains and losses on the hedged items or transactions are recognized.

Hedging instruments are derivative transactions including forward exchange contracts, commodity futures and interest rate swaps. The related hedged items are primarily payables denominated in foreign currency in connection with purchases of raw materials and products, commodities and long-term debt, respectively.
The Company has a policy to utilize the above hedging instruments in order to

1. Summary of Significant Accounting Policies (continued)

(f) Financial instruments (continued)

reduce the Company's exposure to the risk of the currency, price and interest rate fluctuations.

The Company evaluates effectiveness of its hedging activities by reference to the accumulated gains or losses on the hedging instruments and the related hedged items from the commencement of the hedging transactions. The Company omits to assess hedge effectiveness of interest rate swaps which qualify for hedge accounting and meet specific matching criteria.

(g) Property, plant and equipment and depreciation

Property, plant and equipment, except for lease assets, are stated at cost and have been mainly depreciated by the straight-line method over the estimated useful lives of respective assets.

(Changes in accounting policy)

In accordance with the revision made to the Corporate Tax Law of Japan (the "Tax Law") which went into effect on April 1, 2007, effective the year ended March 31, 2008, the Company and domestic consolidated subsidiaries have adopted the new method prescribed in the revised Tax Law for depreciating tangible fixed assets acquired on or after April 1, 2007. The effect of this change on operating income and income before income taxes was immaterial.

(Additional information)

(1) Effective from the year ended March 31, 2008, the Company and domestic consolidated subsidiaries depreciate the difference between 5% of acquisition cost and nominal value by the straight-line method over a period of five years from the year following the year in which the accumulated depreciation has reached 95% of acquisition cost with respect to the tangible fixed assets acquired on or before March 31, 2007. As a result, operating income, and income before income taxes both decreased by ¥441 million for the year ended March 31, 2008 from the corresponding amounts which would have been reported under the previous method.

The effect of the change on the segment information is described in Note 18.

(2) Effective from the year ended March 31, 2009, the Company and domestic consolidated subsidiaries, accompanying the revision of the Tax Law, changed the useful lives of machinery and equipment. As a result, operating income decreased by ¥391 million, and loss before income taxes increased by the same amounts for the year ended March 31, 2009 from the corresponding amounts which would have been reported under the previous method.

The effect of the change on the segment information is described in Note 18.

1. Summary of Significant Accounting Policies (continued)

(h) Intangible assets and amortization

Software for internal use is amortized by using the straight-line method over estimated useful lives (less than 5 years).

(i) Leases

Lease assets used under finance leases, primarily the storage equipments (structures) in Smelting industry, and capitalized, are depreciated over the lease terms of the respective assets by the straight-line method with no residual value.

Finance leases which took place prior to April 1, 2008, and do not transfer ownership of the leased assets to the lessee, continue to be accounted for as operating leases.

(Changes in accounting policy)

Prior to April 1, 2008, the Company and domestic consolidated subsidiaries accounted for finance leases which do not transfer ownership of the leased assets to the lessee as operating leases. Effective from the year ended March 31, 2009, the Company and domestic consolidated subsidiaries adopted the "Accounting Standard for Lease Transactions" (Statement No. 13 issued by the ASBJ on March 30, 2007) and the "Guidance on Accounting Standard for Lease Transactions" (Guidance No. 16 issued by the ASBJ on March 30, 2007), and capitalized assets used under such leases, except for certain immaterial or short-term finance leases, which are accounted for as operating leases. As permitted, finance leases which took place prior to April 1, 2008, and have been accounted for as operating leases, continue to be accounted for as operating leases.
Effect of this change on operating income and loss before income taxes was zero for the year ended March 31, 2009.

(j) Allowance for doubtful accounts

The allowance for doubtful accounts is provided at an amount sufficient to cover possible losses on collection. The allowance consists of the estimated uncollectible amounts with respect to specific receivables plus a percentage based on historical credit losses.

(k) Accrued directors' bonuses

Accrued directors' bonuses at the balance sheet date are based on an estimate of the amount to be paid as bonuses for services rendered by that date.

(l) Accrued employees' pension and severance costs

Accrued employees' retirement benefits are provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for unrecognized actuarial gain or loss and unrecognized prior service cost. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the employees.

1. Summary of Significant Accounting Policies (continued)

(l) Accrued employees' pension and severance costs (continued)

Actuarial gain and loss are amortized in the year following the year in which the gain or loss is recognized primarily by the straight-line method over the period of 10 years which is the average remaining number of years of service of the employees.

Prior service cost is being amortized as incurred by the straight-line method over the period of 10 years which is the average remaining number of years of service of the employees.

(Changes in accounting policy)

Effective from April 1, 2009, the Company adopted the "Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)" (Statement No. 19 issued by ASBJ on July 31, 2008). The effect of this change on operating income and income before income taxes was zero.

(m) Accrued directors' and statutory auditor's retirement allowances

In order to prepare for the disbursements of the directors' and statutory auditor's retirement allowances, the Company records an amount required to be paid out as at the end of the fiscal year which is calculated based on internal rules.

Note that the Company discontinued the system for directors' and statutory auditor's retirement allowances in accordance with a decision by the board of directors held on May 22, 2007, and hence the balance as at the end of this consolidated fiscal year is the amount for periods in which the directors and statutory auditors served prior to June 2007.

(n) Accrued environmental allowances

Accrued environmental allowances are estimated and recorded to provide for future potential costs, such as costs related to disposal of polychlorinated biphenyl (PCB).

(o) Accrued expected losses on construction contracts in process allowances

In order to prepare for future losses related to construction orders, the Company has recorded an estimated amount for construction which has yet to be transferred as at the end of the consolidation fiscal year. The amounts were included in Other current liabilities as of March 31, 2009 and 2010.

(p) Income taxes

Deferred tax assets and liabilities are determined based on the differences between financial reporting and the tax bases of the assets and liabilities and are measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse.

1. Summary of Significant Accounting Policies (continued)

(q) Recognizing revenues and costs of construction contracts

(Changes in accounting policy)

Until the year ended March 31, 2009, revenues and costs of construction contracts were recognized by the completed-contract method. Effective April 1, 2009, the Company and its consolidated subsidiaries have applied the "Accounting Standard for Construction Contracts" (Statement No. 15 issued by ASBJ on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (Guidance No. 18 issued by ASBJ on December 27, 2007). Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or before April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.
As a result, net sales increased by ¥1,032 million ($11,092 thousand), operating income increased by ¥165 million ($1,773 thousand), and income before income taxes increased by ¥179 million ($1,923 thousand) for the year ended March 31, 2010 from the corresponding amounts which would have been reported under the previous method.

Inventories and accrued expected losses on construction contracts in connection with construction contracts with expected future losses are presented in gross on the consolidated balance sheet as of March 31, 2010.
Of inventories in connection with construction contracts with expected future losses, the amount corresponding to accrued expected losses on construction contracts was ¥14 million ($150 thousand), of which ¥14 million ($150 thousand) was for work in process.

Gain on adjustment for changes of the accounting standard for construction contracts in the Consolidated Statements of Operations represents revenues corresponding to the construction completed in the prior years that are to be recognized upon changes of accounting standard for all construction contracts outstanding as at April 1, 2009 in accordance with Paragraph 25 of the "Accounting Standard for Construction Contracts" (Statement No. 15 issued by ASBJ on December 27, 2007).
The amount of revenues corresponding to the construction completed in the prior years and costs of construction contracts were ¥136 million ($1,461 thousand) and ¥122 million ($1,311 thousand), respectively.

(r) Appropriation of retained earnings

Cash dividends and transfers to legal reserve are recorded in the fiscal year that the proposed appropriation of retained earnings is approved at the shareholders' meeting.

(s) Net income per share

Net income per share is computed based on the net income available for distribution to shareholders of common stock and the weighted average number of shares of common stock outstanding during the year.

2. U.S. Dollar Amounts

U.S. dollar amounts presented in the accompanying consolidated financial statements and in these notes are included solely for the convenience of readers outside of Japan, at the prevailing exchange rate of ¥93.04 to U.S.$1 on March 31, 2010. These translations should not be construed as representations that the yen amounts actually represent, or have been or could be converted into U.S. dollars at that or any other rate.

3. Inventories

Inventories at March 31, 2009 and 2010 consisted of the following:

	March 31, 2009	March 31, 2010	March 31, 2010
	(Millions of yen)		*(Thousands of U.S. dollars)*
Finished goods	¥ 6,384	¥ **6,352**	$ **68,271**
Work in process	4,897	**7,326**	**78,740**
Raw materials and supplies	10,370	**15,881**	**170,690**
Total	¥ 21,651	¥ **29,559**	$ **317,702**

Cost of sales for the years ended March 31, 2009 and 2010 included write-downs of inventories due to decline in profitability for the amount of ¥1,716 million and ¥1,313 million ($14,112 thousand), respectively.

4. Land Revaluation

In accordance with the Land Revaluation Law, the Company's land used for its business operations was revalued as follows:

Date of revaluation: March 31, 2000

The difference between total fair value of land and the total book value after revaluation of land at March 31, 2009 and 2010 were ¥5,339 million and ¥5,743 million ($61,726 thousand), respectively.

The tax effect of the excess on revaluation is recorded as "Deferred tax liabilities related to land revaluation" which is included in liabilities, and the remainder, net of income taxes portion of the excess on revaluation is presented as "Surplus from land revaluation" which is included in net assets.

5. Impairment Loss on Fixed Assets

The Company has recognized impairment losses on the assets group for the years ended March 31, 2008, 2009 and 2010 as follows:

Year ended March 31, 2008			(Millions of yen)
Location	Use	Category	
Shandong, China	Idle assets	Machinery,	¥ 4
		Others	0
			¥ 4

Year ended March 31, 2009			(Millions of yen)
Location	Use	Category	
Iwaki City, Fukushima	Idle assets	Machinery,	¥ 96
		Structures	35
			¥ 131

Year ended March 31, 2010			(Millions of yen)	(Thousands of U.S. dollars)
Location	Use	Category		
Annaka City, Gumma, other	**Idle assets**	**Machinery, etc.**	**¥ 382**	**$ 4,105**
		Structures, etc.	**34**	**365**
		Others	**0**	**0**
			¥ 418	**$ 4,492**

The Company determined asset group based on the categories used for their managerial accounting. With respect to idle assets, each asset is treated as an individual unit to apply the accounting for the impairment.

The Company recognized impairment losses for entire book value of idle assets on the ground that they were projected to generate no future cash-in flows and were not readily salable either.

6. Investments in Non-Consolidated Subsidiaries and Affiliates

Investments in non-consolidated subsidiaries and affiliates as of March 31, 2009 and 2010 were summarized as follows:

	March 31, 2009	March 31, 2010	March 31, 2010
	(Millions of yen)	(Millions of yen)	(Thousands of U.S. dollars)
Subsidiaries	¥ 411	**¥ 389**	**$ 4,180**
Affiliates	2,342	**5,446**	**58,533**
	¥ 2,753	**¥ 5,835**	**$ 62,714**

7. Short-Term Borrowings and Long-Term Debt

Short-term borrowings and long-term debt at March 31, 2009 and 2010 consisted of the following:

	March 31,				
	2009	2010			2010
		Amount	Weighted average interest rate	Last due on	
	(Millions of yen)				(Thousands of U.S. dollars)
Short-term bank loans	¥ 22,478	**¥ 22,478**	**0.9%**		**$ 241,595**
Commercial papers	2,000	**2,000**	**0.1**		**21,496**
Current portion of long-term debt	3,390	**6,031**	**1.5**		**64,821**
Current portion of lease obligations	–	**17**	**–**		**182**
Long-term debt	8,928	**2,896**	**1.5**	**2011.4 ~ 2022.9**	**31,126**
Lease obligations	–	**160**	**–**	**2011.4 ~ 2025.3**	**1,719**
Total	¥ 36,796	**¥ 33,584**			**$ 360,963**

Average interest rates are calculated by using weighted-average interest rates as at March 31, 2010. Average interest rates on lease obligations are not provided because interest equivalents included in the total lease payments are allocated to each applicable fiscal year on a straight-line basis.

The maturities of long-term debt and lease obligation outstanding as at March 31, 2010 were as follows:

Year ending March 31,	Long-term debt	Lease obligation	Long-term debt	Lease obligation
	(Millions of yen)		(Thousands of U.S. dollars)	
2011	**¥ 6,031**	**¥ 17**	**$ 64,821**	**$ 182**
2012	**2,081**	**17**	**22,366**	**182**
2013	**601**	**17**	**6,459**	**182**
2014	**181**	**16**	**1,945**	**171**
2015	**9**	**13**	**96**	**139**
Thereafter	**24**	**97**	**257**	**1,042**
Total	**¥ 8,928**	**¥ 177**	**$ 95,958**	**$ 1,902**

7. Short-Term Borrowings and Long-Term Debt (continued)

Assets pledged as collateral for the long-term debt, including the current portion, at March 31, 2009 and 2010 were as follows:

Pledged assets	March 31, 2009	March 31, 2010	March 31, 2010
	(Millions of yen)		*(Thousands of U.S. dollars)*
Land	¥ 13,794	**¥ 13,792**	**$ 148,237**
Buildings and structures	5,206	**5,048**	**54,256**
Machinery and equipment	10,113	**9,768**	**104,987**
Investment securities	196	**172**	**1,848**
Total	¥ 29,309	**¥ 28,781**	**$ 309,340**

	March 31, 2009	March 31, 2010	March 31, 2010
	(Millions of yen)		*(Thousands of U.S. dollars)*
Current portion of long-term debt	¥ 1,494	**¥ 3,959**	**$ 42,551**
Long-term debt	4,016	**56**	**601**
Total	¥ 5,510	**¥ 4,015**	**$ 43,153**

8. Employees' Pension and Severance Costs

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., defined benefit corporate pension plans and lump-sum payment plans, covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The funded status of retirement benefit obligations at March 31, 2009 and 2010 were as follows:

	March 31, 2009	March 31, 2010	March 31, 2010
	(Millions of yen)		*(Thousands of U.S. dollars)*
Projected benefit obligations	¥ 4,601	**¥ 4,468**	**$ 48,022**
Plan assets at fair value	(1,385)	**(1,719)**	**(18,475)**
Unfunded status	3,216	**2,749**	**29,546**
Unrecognized actuarial loss	(419)	**(164)**	**(1,762)**
Unrecognized prior service costs	351	**311**	**3,342**
Accrued employees' pension and severance costs	¥ 3,148	**¥ 2,896**	**$ 31,126**

8. Employees' Pension and Severance Costs (continued)

The compositions of employees' pension and severance costs for the years ended March 31, 2008, 2009 and 2010 were as follows:

	Year ended March 31,			
	2008	2009	2010	2010
	(Millions of yen)			*(Thousands of U.S. dollars)*
Service cost	¥ 251	¥ 213	**¥ 198**	**$ 2,128**
Interest cost	103	89	**87**	**935**
Expected return on plan assets	(34)	(30)	**(27)**	**(290)**
Amortization of actuarial loss	73	79	**106**	**1,139**
Amortization of prior service costs	–	(39)	**(38)**	**(408)**
Total	¥ 393	¥ 312	**¥ 325**	**$ 3,493**

The assumptions used in accounting for the defined benefit pension plans for the years ended March 31, 2008, 2009 and 2010 were as follows:

	Year ended March 31,		
	2008	2009	2010
Discount rate	2.0%	2.0%	**2.0%**
Expected rate of return on plan assets	2.0%	2.0%	**2.0%**

9. Net Assets

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

10. Income Taxes

At March 31, 2009 and 2010, significant components of deferred tax assets and liabilities were as follows:

	March 31,		
	2009	**2010**	**2010**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Deferred tax assets:			
Accrued employees' pension and severance costs	¥ 1,275	**¥ 1,173**	**$ 12,607**
Accrued employees' bonus	157	**279**	**2,998**
Inventories write-off	699	**164**	**1,762**
Elimination of intercompany profits	112	**109**	**1,171**
Accrued enterprise tax	55	**172**	**1,848**
Write-down of investment securities	1,733	**1,733**	**18,626**
Losses on deferred hedges	79	**121**	**1,300**
Other	967	**722**	**7,760**
Gross deferred tax assets	5,077	**4,474**	**48,086**
Less: Valuation allowance	514	**418**	**4,492**
Total deferred tax assets	4,563	**4,056**	**43,594**
Deferred tax liabilities:			
Special tax-purpose reserve for condensed booking of tangible assets	(28)	**(25)**	**(268)**
Unrealized gains on other securities	(407)	**(1,799)**	**(19,335)**
Total deferred tax liabilities	(435)	**(1,825)**	**(19,615)**
Net deferred tax assets	¥4,128	**¥2,231**	**23,978**
Deferred tax liabilities:			
Deferred tax liabilities related to land revaluation	¥ 5,781	**¥ 5,779**	**$ 62,113**

The reconciliation between the statutory tax rate and the effective tax rate for the years ended March 31, 2008 and 2010 is not shown because the difference was less than 5% of the statutory tax rate, and for the year ended March 31, 2009 is not shown because the Company incurred loss before income taxes.

11. Leases

As lessees:

As described in Note 1 (i), the Company and domestic consolidated subsidiaries accounted for finance leases which took place prior to April 1, 2008, and do not transfer ownership of the leased assets to the lessee, as operating leases.

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of the leased assets at March 31, 2009 and 2010 which would have been reflected in the consolidated balance sheets if these lease transactions had been accounted for as financing leases:

11. Leases (continued)

	March 31,		
	2009	2010	2010
	(Millions of yen)		*(Thousands of U.S. dollars)*
Acquisition cost of machinery and equipment	¥ 137	¥ **137**	$ **1,472**
Accumulated depreciation of machinery and equipment	(61)	**(80)**	**(859)**
Net book value	¥ 76	¥ **56**	$ **601**
Acquisition cost of furniture and fixtures	¥ 151	¥ **66**	$ **709**
Accumulated depreciation of furniture and fixtures	(125)	**(52)**	**(558)**
Net book value	¥ 26	¥ **14**	$ **150**

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

Year ending March 31,	*(Millions of yen)*	*(Thousands of U.S. dollars)*
2011	¥ **28**	$ **300**
2012 and thereafter	**43**	**462**
Net book value	¥ **71**	$ **763**

Lease payments relating to finance leases accounted for as operating leases in the accompanying consolidated financial statements for the years ended March 31, 2008, 2009 and 2010 totaled ¥42 million, ¥37 million and ¥31 million ($333 thousand), respectively. The pro forma depreciation of the assets leased under finance leases accounted for as operating leases for the years ended March 31, 2008, 2009 and 2010 amounted to ¥42 million, ¥37 million and ¥31 million ($333 thousand), respectively.
There were no impairment losses allocated to lease assets for the years ended March 31, 2009 and 2010.

12. Commitments and Contingent Liabilities

The Companies were contingently liable as guarantors for loans of other companies in the aggregate amount of ¥614 million ($6,599 thousand) at March 31, 2010.

The Company has entered into loan commitment agreements amounting to ¥5,600 million ($60,189 thousand) with financial institutions at March 31, 2010. The loans payable outstanding was zero, and therefore, the unused balance was ¥5,600 million ($60,189 thousand) under the credit facilities as of March 31, 2010.

13. Financial Instruments

Effective April 1, 2009, the Company adopted the "Accounting Standard for Financial Instruments" (Statement No. 10 issued by ASBJ March 10, 2008) and the "Guidance on Disclosures about Fair Value of Financial Instruments" (Guidance No. 19 issued by ASBJ March 10, 2008).

Overview

(1) Policy for financial instruments

In consideration of plans for capital investment, the Company and its consolidated subsidiaries (collectively, the "Group") raise funds mainly through bank borrowings. The Group manages temporary cash surpluses through highly liquid financial assets. The Group raises short-term capital through bank borrowings and issuances of commercial papers. The Group uses derivatives for the purpose of reducing after-mentioned risks and does not enter into derivatives for speculative or trading purposes.

(2) Types of financial instruments and related risk

Trade receivables—trade notes and accounts receivable—are exposed to credit risk in relation to customers. In addition, the Group is exposed to foreign currency exchange risk arising from receivables denominated in foreign currencies. However, the foreign currency exchange risks deriving from the trade receivables denominated in foreign currencies are hedged by forward foreign exchange contracts.

Investment securities are exposed to market risk. Those securities are composed of the shares of common stock and bonds of other companies with which the Group has business relationships.

Substantially all trade payables—trade notes and accounts payable—have payment due dates within two months. Although the Group is exposed to foreign currency exchange risk arising from those payables denominated in foreign currencies, forward foreign exchange contracts are arranged to reduce risk.

Trade receivables and payables in connection with Smelting industry are exposed to commodity price fluctuation risks of London Metal Exchange ("LME"), but such risks are hedged by metal futures contracts.

Long-term debt is taken out principally for the purpose of making capital investments and its repayment dates extend up to 12 years from the balance sheet date. Although part of long-term debt is exposed to interest rate fluctuation risk, interest rate swaps are arranged to mitigate the risk.

13. Financial Instruments (continued)

Overview (continued)

(2) Types of financial instruments and related risk (continued)

Regarding derivatives, the Group enters into forward foreign exchange contracts to reduce the foreign currency exchange risk arising from the receivables and payables denominated in foreign currencies, metal futures contracts to reduce commodity price fluctuation risk of LME arising from the receivables and payables in connection with Smelting industry and interest rate swap transactions to reduce fluctuations risk deriving from interest payable for long-term debt. Information regarding the method of hedge accounting, hedging instruments and hedged items, hedging policy, and assessment of the effectiveness of hedging activities is found in Note 1 (f) (3).

(3) Risk management for financial instruments

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

In accordance with the internal policies of the Group for managing credit risk arising from receivables, each related division monitors credit worthiness of their main customers periodically, and monitors due dates and outstanding balances by individual customer. In addition, the Group is making efforts to identify and mitigate risks of bad debts from customers who are having financial difficulties.

Debt securities consist of bonds issued by CBH Resources Ltd., the Company's affiliate under equity method. Accordingly, the Company believes that the credit risk deriving from such debt securities is insignificant.

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

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

For trade receivables and payables denominated in foreign currencies, the Group identifies the foreign currency exchange risk for each currency on a monthly basis and enters into forward foreign exchange contracts to hedge such risk. In order to mitigate commodity price fluctuation risks of LME for trade receivables and payables in connection with Smelting industry, the Group may enter into metal futures contracts. In order to mitigate the interest rate risk for interest payments of long-term debt, the Group may also enter into interest rate swap transactions.

For investment securities, the Group periodically reviews the fair values of such financial instruments and the financial position of the issuers. In addition, the Group continuously evaluates whether securities should be maintained taking into account their fair values and relationships with the issuers.

13. Financial Instruments (continued)

Overview (continued)

(3) Risk management for financial instruments (continued)

Derivative transactions are conducted and managed by the treasury personnel including Directors and each division in charge of each derivative transaction. Risk management is sufficiently made by making reports to management every time a transaction is executed as well as on a periodical basis.

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

Based on the report from each division and affiliates, the Group prepares and updates its cash flow plans on a timely basis and maintains liquid funds to manage liquidity risk.

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

The fair value of financial instruments is based on their quoted market price, if available. When there is no quoted market price available, fair value is reasonably estimated. Since various assumptions and factors are reflected in estimating the fair value, different assumptions and factors could result in different fair value. In addition, the notional amounts of derivatives in Note 16 *Derivative Transactions* are not necessarily indicative of the actual market risk involved in derivative transactions.

Estimated Fair Value of Financial Instruments

Carrying value of financial instruments on the consolidated balance sheet as of March 31, 2010 and estimated fair value are shown in the following table. The following table does not include financial instruments for which it is extremely difficult to determine the fair value (Please refer to *Note 2* below).

	March 31, 2010		
	Carrying value	Estimated fair value	Difference
		(Millions of yen)	
(1) Cash and time deposits	¥ **12,216**	¥ **12,216**	¥ **–**
(2) Notes and accounts receivable, trade	**17,161**	**17,161**	**–**
(3) Investment securities	**7,668**	**7,668**	**–**
Total assets	**37,047**	**37,047**	**–**
(1) Notes and accounts payable, trade	**6,227**	**6,227**	**–**
(2) Short-term borrowings	**22,478**	**22,478**	**–**
(3) Current portion of long-term debt	**6,031**	**6,089**	**57**
(4) Long-term debt	**2,896**	**2,880**	**(16)**
Total liabilities	**37,633**	**37,675**	**41**
Derivatives *	¥ **(297)**	¥ **(297)**	¥ **–**

* The value of assets and liabilities arising from derivatives is shown at net value, and with amounts in parentheses representing net liability positions.

13. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

	March 31, 2010		
	Carrying value	Estimated fair value	Difference
	(Thousands of U.S. dollars)		
(1) Cash and time deposits	**$ 131,298**	**$ 131,298**	**$ –**
(2) Notes and accounts receivable, trade	**184,447**	**184,447**	**–**
(3) Investment securities	**82,416**	**82,416**	**–**
Total assets	**398,183**	**398,183**	**–**
(1) Notes and accounts payable, trade	**66,928**	**66,928**	**–**
(2) Short-term borrowings	**241,595**	**241,595**	**–**
(3) Current portion of long-term debt	**64,821**	**65,444**	**612**
(4) Long-term debt	**31,126**	**30,954**	**(171)**
Total liabilities	**404,481**	**404,933**	**440**
Derivatives	**$ (3,192)**	**$ (3,192)**	**$ –**

Notes:

1. Methods to determine the estimated fair value of financial instruments and other matters related to securities and derivative transactions

(1) *Cash and time deposits* and (2) *Notes and accounts receivable, trade*
Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) *Investment securities*
The fair value of stocks is based on quoted market prices. The fair value of debt securities is based on either quoted market prices. For information on securities classified by holding purpose, please refer to Note 14 *Investment Securities* of the notes to the consolidated financial statements.

(1) *Notes and accounts payable, trade* and (2) *Short-term borrowings*
Since these items are settled in a short period of time, their carrying value approximates fair value.

(3) *Current portion of long-term debt* and (4) *Long-term debt*
The fair value of long-term debt is based upon the present value of the total of principle and interest discounted by the interest rate to be applied if similar new borrowings were entered into.

Derivative transactions
Please refer to Note 16 *Derivative Transactions* of the notes to the consolidated financial statements.

13. Financial Instruments (continued)

Estimated Fair Value of Financial Instruments (continued)

2. Financial instruments for which it is extremely difficult to determine the fair value

	March 31, 2010	
	(Millions of yen)	*(Thousands of U.S. dollars)*
Unlisted stocks	**¥ 913**	**$ 9,812**

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

3. Redemption schedule for receivables and marketable securities with maturities at March 31, 2010

	March 31, 2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Millions of yen)			
Cash and time deposits	**¥ 12,134**	¥ –	¥ –	¥ –
Notes and accounts receivable, trade	**17,161**	–	–	–
Investment securities				
Other securities with maturities				
Corporate bonds	–	**4,963**	–	–
Total	**¥ 29,296**	**¥ 4,963**	¥ –	¥ –

	March 31, 2010			
	Due in one year or less	Due after one year through five years	Due after five years through ten years	Due after ten years
	(Thousands of U.S. dollars)			
Cash and time deposits	**$ 130,417**	$ –	$ –	$ –
Notes and accounts receivable, trade	**184,447**	–	–	–
Investment securities				
Other securities with maturities				
Corporate bonds	–	**$53,342**	–	–
Total	**$ 314,875**	**$ 53,342**	$ –	$ –

4. The redemption schedule for long-term debt is disclosed in Note 7.

14. Investment Securities

The Company classified investment securities other than those of subsidiaries and affiliates into two categories: held-to-maturity securities or other securities.

The aggregate cost and fair value (carrying value) of marketable securities that were included in investment securities at March 31, 2009 and 2010 were as follows:

	March 31, 2009		
	Cost	Fair value (carrying value)	Unrealized gains (losses)
		(Millions of yen)	
Securities for which fair value exceeds cost:			
Equity securities	¥ 1,655	¥ 2,758	¥ 1,103
Debt securities	–	–	–
Securities for which cost exceeds fair value:			
Equity securities	657	593	(64)
Debt securities	705	705	–
Total	¥ 3,017	¥ 4,056	¥ 1,039

	March 31, 2010		
	Cost	Fair value (carrying value)	Unrealized gains (losses)
		(Millions of yen)	
Securities for which fair value exceeds cost:			
Equity securities	**¥ 1,775**	**¥ 3,646**	**¥ 1,871**
Debt securities	**704**	**3,373**	**2,668**
Securities for which cost exceeds fair value:			
Equity securities	**728**	**647**	**(80)**
Debt securities	**–**	**–**	**–**
Total	**¥ 3,207**	**¥ 7,668**	**¥ 4,460**

	March 31, 2010		
	Cost	Fair value (carrying value)	Unrealized gains (losses)
		(Thousands of U.S. dollars)	
Securities for which fair value exceeds cost:			
Equity securities	**$ 19,077**	**$ 39,187**	**$ 20,109**
Debt securities	**7,566**	**36,253**	**28,675**
Securities for which cost exceeds fair value:			
Equity securities	**7,824**	**6,953**	**(859)**
Debt securities	**–**	**–**	**–**
Total	**$ 34,469**	**$ 82,416**	**$ 47,936**

14. Investment Securities (continued)

As at March 31, 2009 and 2010, non-marketable equity securities amounting to ¥929 million and ¥913 million ($9,812 thousand), respectively, were not included in the above table because there were no quoted market prices available and they are extremely difficult to determine the fair value.

For the years ended March 31, 2009 and 2010, the Company recognized ¥4,530 million and ¥321 million ($3,450 thousand) of impairment losses for marketable securities, respectively. In the impairment of relevant equity and bond securities, in the case that the market value at the end of the year is lower than the acquisition cost by 50% or more, impairment losses are recognized for all carrying values of securities; and in the case that the market value is lower than the acquisition cost by around 30 to 50%, impairment losses are recognized for the amount deemed necessary after taking into consideration factors such as the materiality and recoverability of the amount.

15. Cash and Cash Equivalents

Cash and cash equivalents at March 31, 2009 and 2010 were composed of the followings:

	March 31,		
	2009	**2010**	**2010**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Cash and time deposits	¥ 22,284	**¥ 12,216**	**$ 131,298**
Less:			
Time deposits with a maturity of more than three months when purchased	(25)	**(15)**	**(161)**
Cash and cash equivalents	¥ 22,259	**¥ 12,201**	**$ 131,137**

16. Derivative Transactions

As of March 31, 2009

The Company enters into forward exchange contracts, commodity futures and interest rate swaps. Forward exchange contracts and commodity futures are utilized to hedge currency risk exposures. Interest rate swaps are utilized to hedge against possible future changes in interest rates on borrowings. The Company uses derivative instruments only for hedging purposes and not for purposes of trading or speculation.

All derivative contracts that the Company held as of March 31, 2009, are qualified for hedge accounting and excluded from the disclosure of fair value information.

As of March 31, 2010

All derivative contracts that the Company held as of March 31, 2010, are qualified for hedge accounting. Summarized below are the notional amounts and the estimated fair value of the derivative instruments outstanding at March 31, 2010, for which hedged accounting has been applied.

16. Derivative Transactions (continued)

As of March 31, 2010 (continued)

(a) Currency-related transactions

	Notional amount		
	Contract amount	Maturing after one year	Fair value
	(Millions of yen)		
Forward foreign exchange contracts, accounted for as part of accounts receivable:			
Sell:			
USD	¥ 24	¥ –	¥ (0)
Total	¥ 24	¥ –	¥ (0)

Note: The measurement of fair value is based on prices obtained from financial institutions and others.

	Notional amount		
	Contract amount	Maturing after one year	Fair value
	(Thousands of U.S. dollars)		
Forward foreign exchange contracts, accounted for as part of accounts receivable:			
Sell:			
USD	$ 257	$ –	$ (0)
Total	$ 257	$ –	$ (0)

(b) Interest-related transactions

	Notional amount		
	Contract amount	Maturing after one year	Fair value
	(Millions of yen)		
Interest rate swaps hedging long-term debt, accounted for by short-cut method:			
Receive/floating and pay/fixed	¥ 2,540	¥ 460	(Note)
Total	¥ 2,540	¥ 460	

Note: Interest rate swaps, to which the matching criteria is applied, is accounted for together with long-term debt designated as a hedged item ("short-cut method"), therefore, their fair values are included in the fair value of long-term debt.

16. Derivative Transactions (continued)

As of March 31, 2010 (continued)

	Notional amount		
	Contract amount	Maturing after one year	Fair value
		(Thousands of U.S. dollars)	
Interest rate swaps hedging long-term debt, accounted for by short-cut method:			
Receive/floating and pay/fixed	**$ 27,300**	**$ 4,944**	**(Note)**
Total	**$ 27,300**	**$ 4,944**	

(c) Commodity-related transactions

	Notional amount		
	Contract amount	Maturing after one year	Fair value
		(Millions of yen)	
Commodity futures contracts, accounted for as part of raw materials and finished goods:			
Sell: Metals	**¥ 12,497**	**¥ –**	**¥ (296)**
Total	**¥ 12,497**	**¥ –**	**¥ (296)**

Note: The measurement of fair value is based on prices obtained from counterparties and others.

	Notional amount		
	Contract amount	Maturing after one year	Fair value
		(Thousands of U.S. dollars)	
Commodity futures contracts, accounted for as part of raw materials and finished goods:			
Sell: Metals	**$ 134,318**	**$ –**	**$ (3,181)**
Total	**$ 134,318**	**$ –**	**$ (3,181)**

17. Related Party Transactions

(Additional information)

The Company adopted the "Accounting Standard for Related Party Disclosures" (Statement No. 11 issued by the ASBJ on October 17, 2006) and the "Implementation Guidance on Accounting Standard for Related Party Disclosures" (Guidance No. 13 issued by the ASBJ on October 17, 2006) for the year ended March 31, 2009. As a result, significant related party to be additionally disclosed was none.

1. Related party transactions

The Company owns 25.8%, 28.5% and 23.0% of outstanding shares of CBH Resources Ltd., which operates mining business for the fiscal years ended March 31, 2008, 2009 and 2010, respectively.

The transactions and account balances with CBH Resources Ltd. were as follows:

- Transactions

	Year ended March 31,			
	2008	**2009**	**2010**	**2010**
	(Millions of yen)			*(Thousands of U.S. dollars)*
Underwriting convertible bonds	¥ 4,963	¥ –	¥ –	$ –
Converted bonds into stocks	–	1,361	–	–
Interests	377	296	**323**	**3,471**

- Account balances

	March 31,		
	2009	**2010**	**2010**
	(Millions of yen)		*(Thousands of U.S. dollars)*
Long-term loans receivable	¥ 1,361	¥ **1,361**	$ **14,628**
Investment securities	705	**3,373**	**36,253**
Other current assets	213	**167**	**1,794**

Terms of transactions:

- Terms of loan and convertible bonds' interest rate are determined under general market conditions.
- Terms of loan and convertible bonds' repayment period are 5 years.
- The collaterals for the loan and convertible bonds are not provided.
- For the year ended March 31, 2009, convertible bonds were converted into ordinary stocks for ¥37 per stock.

17. Related Party Transactions (continued)

2. Note about significant affiliate

For the year ended March 31, 2009, CBH Resources Ltd., was recognized as significant affiliate and summary of its financial statements is as follows:

	(Millions of yen)
Total current assets	¥ 4,976
Total fixed assets	12,934
Total current liabilities	1,844
Total long-term liabilities	12,140
Total net assets	3,926
Net sales	12,993
Income (loss) before income taxes	(10,711)
Net income (loss)	(9,678)

18. Segment Information

Business segment information

Information about the business segments of the Companies for the years ended March 31, 2008, 2009 and 2010 is as follows:

Year ended March 31, 2008

	Business segment				Eliminations	
	Industry A	Industry B	Industry C	Other	and corporate	Consolidated
	(Millions of yen)					
Net sales:						
Customers	¥ 113,729	¥ 10,901	¥ 12,287	¥ 10,473	¥ –	¥ 147,390
Inter-segment	730	11	162	4,949	(5,852)	–
Total	114,459	10,912	12,449	15,422	(5,852)	147,390
Cost and expenses	102,001	9,786	10,137	13,606	(5,423)	130,107
Operating income (loss)	12,458	1,126	2,312	1,816	(429)	17,283
Total assets	66,343	11,658	7,608	5,394	33,646	124,650
Depreciation and amortization	1,853	354	356	10	86	2,660
Impairment loss of fixed assets	–	4	–	–	–	4
Capital expenditures	¥ 2,136	¥ 373	¥ 315	¥ 231	¥ 90	¥ 3,146

18. Segment Information (continued)

Business segment information (continued)

	Year ended March 31, 2009					
	Business segment				Eliminations and corporate	Consolidated
	Industry A	Industry B	Industry C	Other		
	(Millions of yen)					
Net sales:						
Customers	¥ 67,132	¥ 7,795	¥ 6,952	¥ 10,807	¥ –	¥ 92,686
Inter-segment	431	12	98	4,359	(4,900)	–
Total	67,563	7,807	7,050	15,166	(4,900)	92,686
Cost and expenses	68,294	7,334	6,437	13,505	(4,778)	90,792
Operating income (loss)	(731)	473	613	1,661	(122)	1,894
Total assets	47,832	11,015	6,047	4,898	38,033	107,825
Depreciation and amortization	2,072	391	409	155	77	3,104
Impairment loss of fixed assets	–	–	131	–	–	131
Capital expenditures	¥ 3,323	¥ 536	¥ 392	¥ 126	¥ 113	¥ 4,490

	Year ended March 31, 2010					
	Business segment				Eliminations and corporate	Consolidated
	Industry A	Industry B	Industry C	Other		
	(Millions of yen)					
Net sales:						
Customers	**¥ 63,513**	**¥ 6,646**	**¥ 4,798**	**¥ 8,632**	**¥ –**	**¥ 83,592**
Inter-segment	**646**	**2**	**53**	**3,882**	**(4,584)**	**–**
Total	**64,160**	**6,649**	**4,852**	**12,515**	**(4,584)**	**83,592**
Cost and expenses	**58,230**	**6,234**	**4,037**	**11,212**	**(4,424)**	**75,290**
Operating income (loss)	**5,929**	**414**	**814**	**1,302**	**(160)**	**8,301**
Total assets	**62,744**	**11,208**	**6,275**	**5,441**	**27,152**	**112,823**
Depreciation and amortization	**2,265**	**436**	**391**	**9**	**81**	**3,184**
Impairment loss of fixed assets	**345**	**58**	**14**	**–**	**–**	**418**
Capital expenditures	**¥ 3,027**	**¥ 157**	**¥ 176**	**¥ 69**	**¥ 61**	**¥ 3,491**

	Year ended March 31, 2010					
	Business segment				Eliminations and corporate	Consolidated
	Industry A	Industry B	Industry C	Other		
	(Thousands of U.S. dollars)					
Net sales:						
Customers	**$ 682,641**	**$ 71,431**	**$ 51,569**	**$ 92,777**	**$ –**	**$ 898,452**
Inter-segment	**6,943**	**21**	**569**	**41,723**	**(49,269)**	**–**
Total	**689,595**	**71,463**	**52,149**	**134,512**	**(49,269)**	**898,452**
Cost and expenses	**625,859**	**67,003**	**43,389**	**120,507**	**(47,549)**	**809,221**
Operating income (loss)	**63,725**	**4,449**	**8,748**	**13,993**	**(1,719)**	**89,219**
Total assets	**674,376**	**120,464**	**67,444**	**58,480**	**291,831**	**1,212,628**
Depreciation and amortization	**24,344**	**4,686**	**4,202**	**96**	**870**	**34,221**
Impairment loss of fixed assets	**3,708**	**623**	**150**	**–**	**–**	**4,492**
Capital expenditures	**$ 32,534**	**$ 1,687**	**$ 1,891**	**$ 741**	**$ 655**	**$ 37,521**

18. Segment Information (continued)

Business segment information (continued)

Notes: (a) The business segment is determined by the similarity of primary products including type, nature, manufacturing and marketing process.
The primary products of each business segment are as follows:

- Industry A, the Smelting industry, consists of mainly zinc, lead, electric silver and sulfuric acid etc.;
- Industry B, the Electric Material industry, consists of battery material and building material etc.;
- Industry C, the Environment and Recycling industry, consists of Zinc oxide etc.; and,
- Other consists of Soundproofing construction materials etc.

Of *Cost and expenses*, the amounts of unallocated cost and expenses corresponding to the administrative department of the parent company, which is included in *Eliminations and corporate,* were ¥373 million, ¥128 million and ¥187 million ($2,009 thousand) for the years ended March 31, 2008, 2009 and 2010, respectively.

Of *Total assets*, the amounts of corporate assets included in *Eliminations and corporate* were ¥33,035 million, ¥37,390 million and ¥27,152 million ($291,831 thousand) for the years ended March 31, 2008, 2009 and 2010, respectively. These amounts primarily consisted of excess funds such as cash or securities and other assets corresponding to the administrative department.

Notes: (b) (Changes in accounting policy)

(1) As described in Note 1 (e), the Companies adopted the "Accounting Standard for Measurement of Inventories" (Statement No. 9 issued by the ASBJ on July 5, 2006) for the year ended March 31, 2009. As a result, operating loss of Industry A increased by ¥1,438 million, operating income of Industry B and Industry C decreased by ¥29 million and ¥249 million, respectively, for the year ended March 31, 2009 from the corresponding amounts which would have been reported under the previous method.

(2) As described in Note 1 (e), effective April 1, 2008, the Company changed the method of accounting for inventories exclusive of supplies, from the last-in first-out method to the first-in first-out method. As a result, operating loss of Industry A increased by ¥1,939 million, operating income of Industry C increased by ¥24 million, for the year ended March 31, 2009 from the corresponding amounts which would have been reported under the previous method.

18. Segment Information (continued)

Business segment information (continued)

(3) Until the year ended March 31, 2009, revenues and costs of construction contracts were recognized by the completed-contract method. Effective April 1, 2009, the Company and its consolidated subsidiaries have applied the "Accounting Standard for Construction Contracts" (Statement No. 15 issued by ASBJ on December 27, 2007) and the "Guidance on Accounting Standard for Construction Contracts" (Guidance No. 18 issued by ASBJ on December 27, 2007). Under the new accounting standard and guidance, revenues and costs of construction contracts that commenced on or before April 1, 2009, of which the percentage of completion can be reliably estimated, are recognized by the percentage-of-completion method. The percentage of completion is calculated at the cost incurred as a percentage of the estimated total cost. The completed-contract method continues to be applied for contracts for which the percentage of completion cannot be reliably estimated.
As a result, net sales and operating income of *Other* increased by ¥1,032 million ($11,092 thousand) and ¥165 million ($1,773 thousand), respectively, for the year ended March 31, 2010 from the corresponding amounts which would have been reported under the previous method.

Notes: (c) (Additional information)

(1) As described in Note 1 (g), effective from the year ended March 31, 2008, the Company and its domestic subsidiaries depreciate the difference between 5% of acquisition cost and nominal value by the straight-line method over a period of five years from the year following the year in which the accumulated depreciation has reached 95% of acquisition cost with respect to the tangible fixed assets acquired on or before March 31, 2007. As a result, operating income of Industry A, Industry B, Industry C and other decreased by ¥351 million, ¥24 million, ¥46 million and ¥14 million, respectively for the year ended March 31, 2008 from the corresponding amounts which would have been reported under the previous method.

(2) As described in Note 1 (g), effective from the year ended March 31, 2009, the Company and its domestic subsidiaries changed the durable years of machinery and equipment. As a result, operating income of Industry A, Industry B and Industry C decreased by ¥282 million, ¥50 million and ¥57 million, respectively for the year ended March 31, 2009 from the corresponding amounts which would have been reported under the previous method.

Information about geographical segments for the years ended March 31, 2008, 2009 and 2010 has been omitted since sales and assets in Japan were more than 90% of the total consolidated sales and assets, respectively.

Information about overseas sales for the years ended March 31, 2008, 2009 and 2010 has also been omitted since overseas sales were less than 10% of the consolidated sales.

19. Subsequent Events

On April 30, 2010, the Company agreed with CBH Resources Ltd. (hereinafter "CBH"), the Company's affiliate under equity method, to acquire all shares and convertible bonds of CBH and then filed the takeover bid with the Australian Securities Exchange on May 17, 2010. CBH is in a mineral resource company with total capital and total assets of AUD 181 million and AUD 311 million as of December 31, 2009.

This acquisition is made for the purpose of owning CBH as a wholly-owned subsidiary. Thus, the Company is able to enhance a stable supply of raw materials and ore, that is one of the Company's mid- and long-term management challenges.

The Company will make the takeover bid for the period from May 17, 2010 to July 7, 2010, with the condition of acquiring 90% or more of CBH's outstanding shares, based on the following bids:

Stocks:	AUD 0.24 per share, subject to all CBH's outstanding shares other than shares already held by the Company
Convertible bonds:	100% of face value (AUD 1,000 per unit), subject to all CBH's outstanding convertible bonds including bonds already held by the Company

The Company estimates the total amount required for the acquisition is approximately AUD 244.7 million and plans to utilize liquidity funds and borrowings from third parties.