



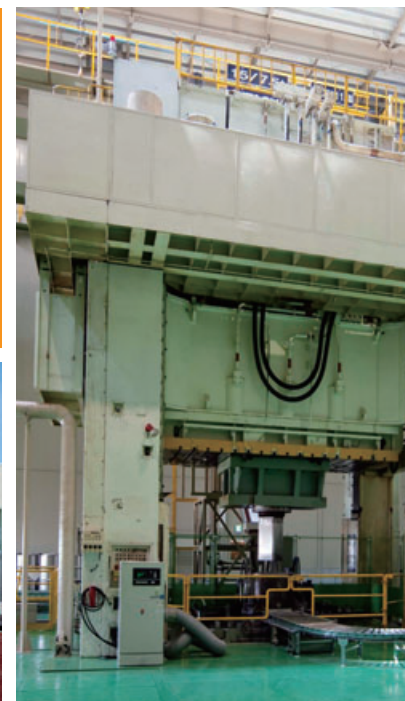
## Annual Report **2009**

Year ended March 31, 2009



OSAKA Titanium technologies Co., Ltd.





# Profile

OSAKA Titanium technologies' predecessor, Osaka Titanium Co., Ltd., became Japan's first successful industrialized titanium company in 1952 and remains the country's pioneer in titanium sponge production. Since 1960, we have also been manufacturing polycrystalline silicon. The Company has continued to produce two leading-edge materials—titanium and silicon—that support modern society. We fulfill this role by supplying high-purity and high-quality products, primarily to the aerospace and electronics industries.

In recent years, applications for titanium and silicon have expanded significantly. OSAKA Titanium technologies aims to maximize the potential of these materials, from large-scale infrastructure to daily necessities: aircraft and automobiles that feature increasingly high

functionality and low fuel consumption; seawater desalination plants, which are being constructed worldwide to overcome fresh water shortages; such marine activities as deep-sea surveys and power generation by ocean thermal energy conversion; environmentally friendly solar power generation; digital consumer electronics, with growing impact on all aspects of our lives; and leisure and sporting goods.

In June 2009, we established the Kishiwada Works in Osaka to increase capacity and supplement the Headquarters of Amagasaki Plant.

We will continue to pursue the unlimited potential of these vanguard materials to realize humanity's dreams for a more abundant, dynamic and secure world.

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### Safe Harbor Note on Forward-Looking Statements

Please be advised that this annual report includes not only the Company's past and present facts but also forward-looking statements about the Company's business and business environments. Such forward-looking statements, which are assumptions or judgments based on the information available as of the date the report is prepared, involve known or unknown risks and uncertainties. Accordingly, actual results and business environments may differ materially from those indicated by forward-looking statements.



# Business and Products

## Titanium

**The Company's high-quality titanium sponge finds applications as a material for major parts in aircraft and in power, chemical and other plants.**

Lightweight, strong and rustproof, titanium boasts the full range of metallic properties sought after by mankind in the pursuit of dreams. These characteristics render titanium ideal as a material for important machinery and equipment parts for use under severe conditions, such as in aircraft and power and chemical plants.

In recent years, applications have expanded to encompass automotive parts, golf clubs, spectacle frames, accessories and other everyday products. However, many as-yet unexplored applications remain. From the perspective of the environment—an indispensable factor in the 21<sup>st</sup> century—expectations of titanium as a lightweight material that delivers energy savings will continue to escalate.

OTC primarily delivers its titanium sponge products to manufacturers of mill products (as a material for processing). Although the production process requires advanced technologies and stringent quality control, we are leveraging our unique technologies, acquired over many years of operations, to optimize titanium's potential as a material.

## Silicon

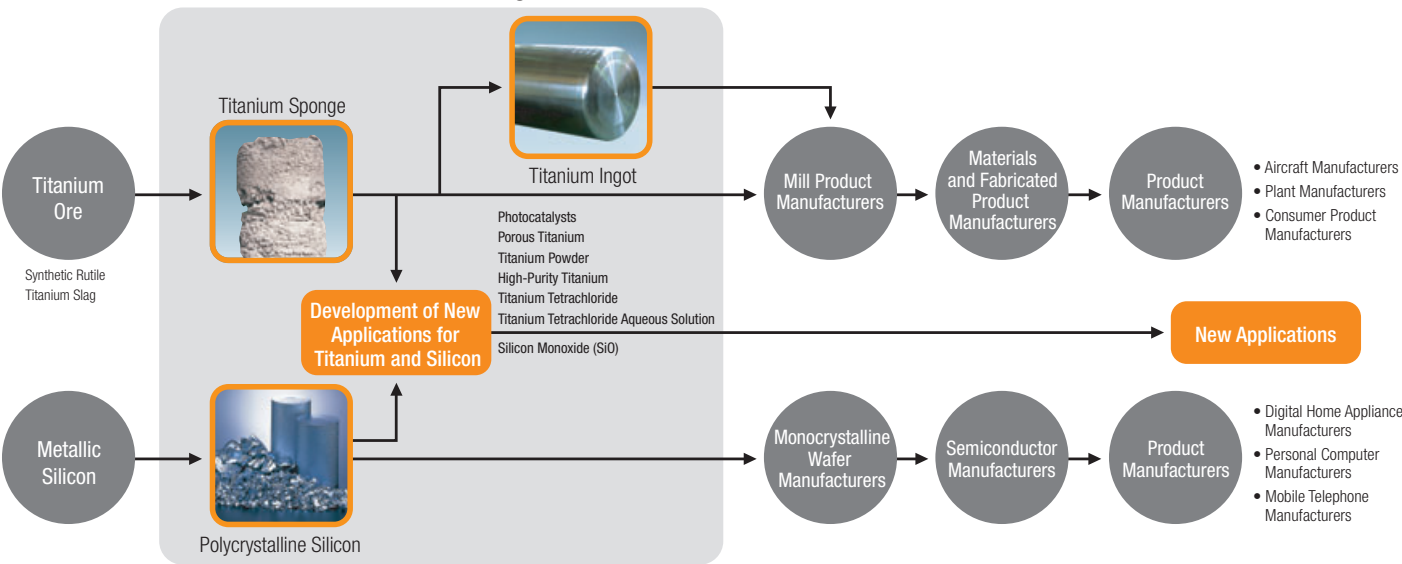
**OTC's high-purity polycrystalline silicon is employed as a monocrystalline silicon raw material for silicon wafers.**

Silicon wafers are used as semiconductor substrate materials for such applications as the microprocessing units (MPUs) that drive personal computers, flash memories for data storage in digital cameras and other electronic equipment, and digital signal processors (DPSs) for mobile telephones. These applications make silicon wafers indispensable to the electronics industry. Silicon wafers are manufactured from monocrystalline silicon; the Company produces and sells the high-purity polycrystalline silicon that serves as a raw material for monocrystalline silicon.

Since OTC began making polycrystalline silicon in 1960, it has made successive improvements to its developmental technologies, while maintaining the world's top levels of quality for semiconductor-grade products.

In recent years, we have also benefited from rising demand for substrate materials for solar cells, which are pivotal for the development of green energy sources.

OSAKA Titanium technologies' business







1-A



1-B

## Applications of Titanium

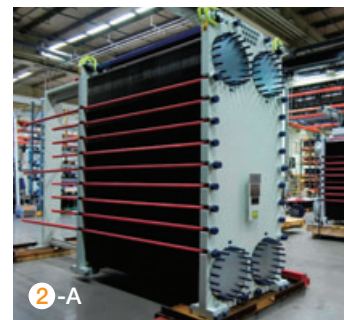
- 1-A Aircraft
- 1-B Aircraft Engines (Photo: ©Rolls-Royce pls 2009)
- 2 Power and Chemical Plants
  - A Plate Heat Exchangers (Photo: Alpha Laval)
  - B Condensers (Photo: Toshiba Corporation)
- 3 Medical Equipment-Artificial Bones (Photo: Nakashima Medical Co., Ltd.)
- 4 Consumer Products-Golf Clubs, Wristwatches



4



2



2-A



3



4



2-B



5

## Applications of Silicon

- 5 Personal Computers
- 6 Mobile Telephones
- 7 Solar Cells



6



7



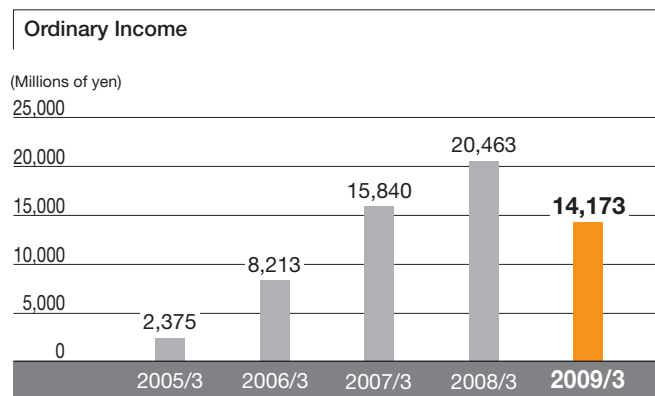
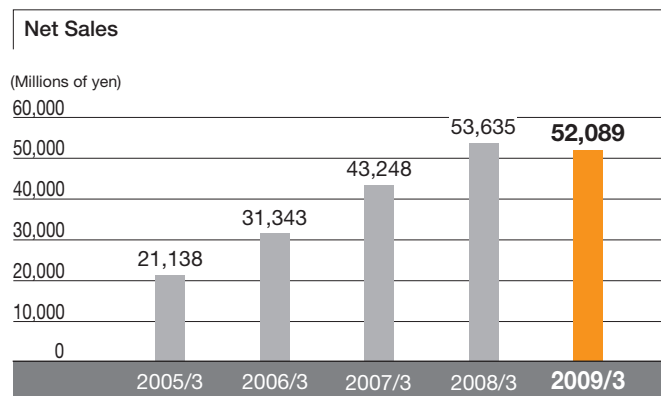
# Financial Highlights

OSAKA Titanium technologies Co., Ltd.  
Years ended March 31.

	2005	2006	2007	2008	2009
<b>For the Year (Millions of yen)</b>					
Net sales	¥ 21,138	¥ 31,343	¥ 43,248	¥ 53,635	¥ 52,089
Operating income	2,470	8,368	15,899	20,962	14,694
Ordinary income*	2,375	8,213	15,840	20,463	14,173
Net income	1,410	4,850	9,287	11,500	8,248
<b>At Year-End (Millions of yen)</b>					
Total assets	33,112	46,319	57,037	72,320	96,930
Total equity	16,914	25,921	33,295	42,274	47,251
<b>Per Share Data (Yen)</b>					
Total equity per share	1,908.96	1,408.78	904.77	1,148.77	1,284.03
Net income per share	159.20	266.41	252.38	312.50	224.13
Cash dividends per share	45	55	75	80	80
<b>Ratio (%)</b>					
Equity ratio	51.1	56.0	58.4	58.5	48.7
Return on sales (ROS)	11.2	26.2	36.6	38.2	27.2
Return on assets (ROA)	7.6	20.7	30.6	31.6	16.7
Return on equity (ROE)	8.6	22.6	31.4	30.4	18.4

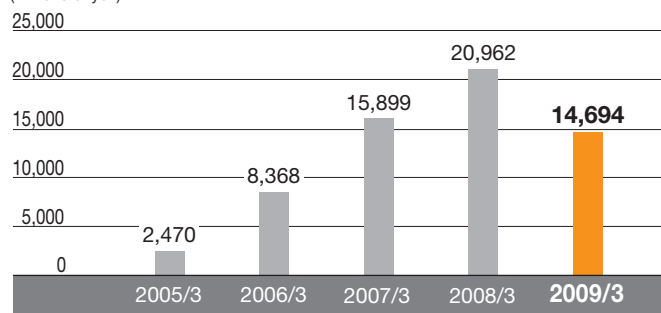
Note: The Company carried out two-for-one stock splits in fiscal 2005 and fiscal 2006.

\* Ordinary income is the income resulting from the year's recurring business activities, equal to the sum of operating income and nonoperating income minus nonoperating expenses.



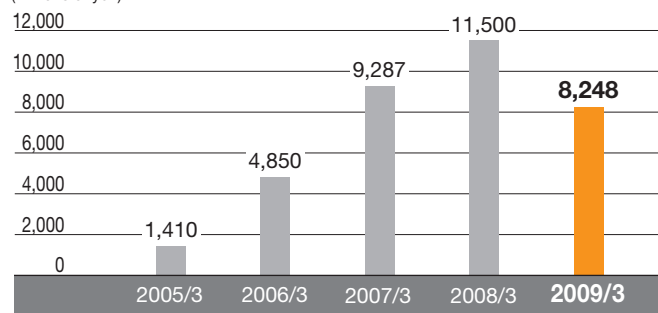
### Operating Income

(Millions of yen)



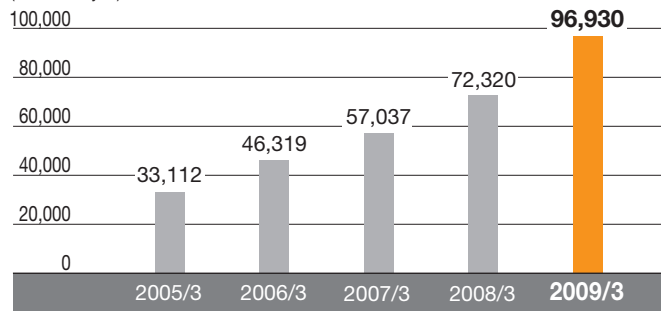
### Net Income

(Millions of yen)



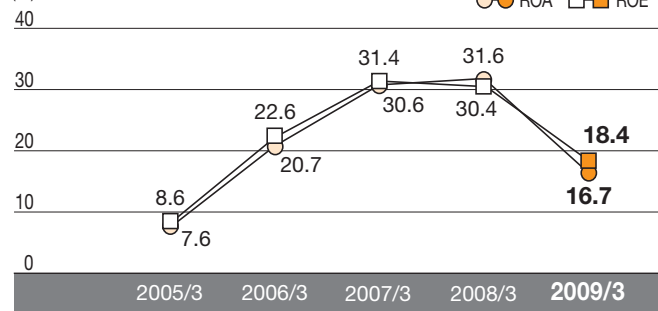
### Total Assets

(Millions of yen)



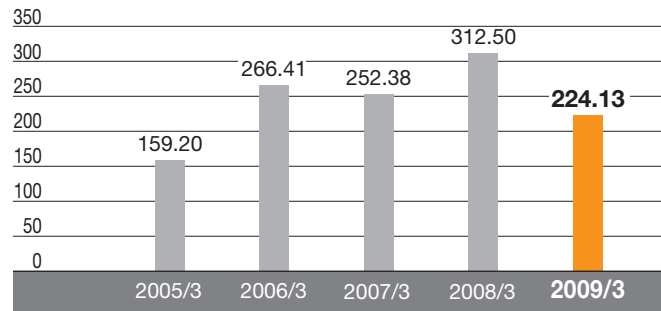
### Ratios

(%)



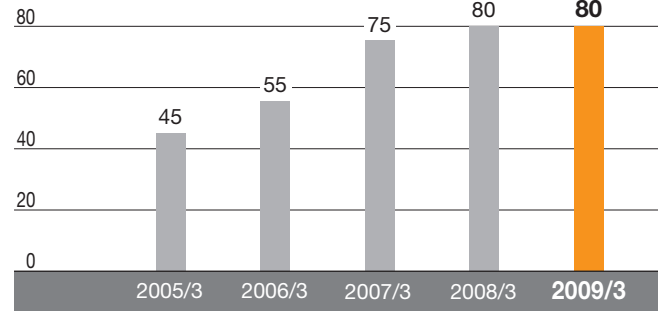
### Net Income per Share

(yen)



### Cash Dividends per Share

(yen)



# To Our Shareholders and Investors



**Shozo Nishizawa**

President & Representative Director  
OSAKA Titanium technologies Co., Ltd.



On June 24, 2009, I was appointed president of OSAKA Titanium technologies Co., Ltd. (OTC). Prior to taking up my position, the fiscal year ended March 31, 2008, was the fourth successive term of growth in sales and profits for OTC. However, the impact of the global economic slowdown from last fall has resulted in the Company instigating drastic cuts in its production of titanium-related products. While this has necessitated a focus on implementation of production reduction response and profitability improvement measures, we have also been able to draft a blueprint for future growth strategies spanning both aspects of the Company's operations— titanium and polycrystalline silicon.

To prepare for the awaited reignition of the Company's engine of growth, we are faithfully implementing various initiatives based on OTC's motto, "stronger and greater." We are fully applying all our resources to facilitate the smooth return of the Company's management to a path of stable growth.

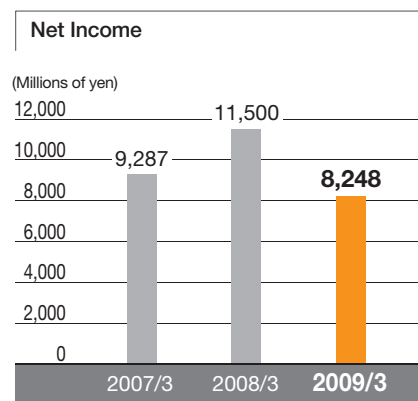
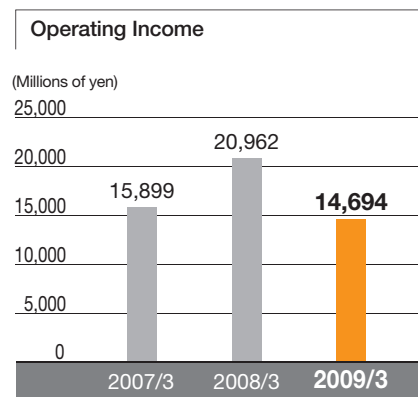
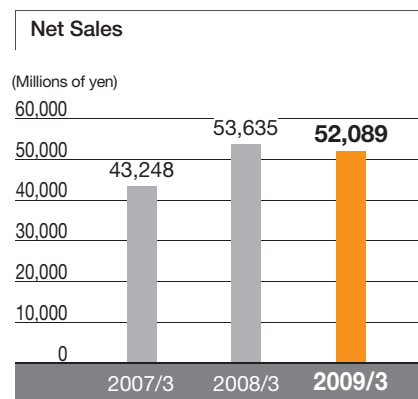
## Overview for the Year

### Sales and Profits Fell in the Wake of the Global Economic Slowdown

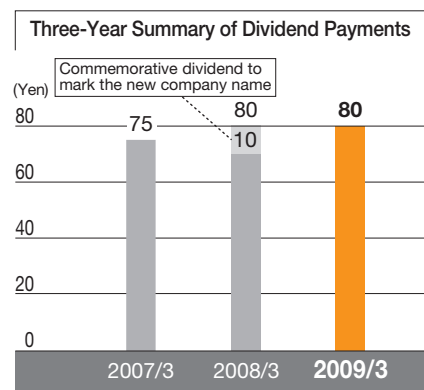
The current recession is exerting a significant influence on OTC's business. During the first half of the year ended March 31, 2009, we sustained strong performances, but circumstances changed drastically in the second half. Specifically, for OTC's titanium business it was a year of unprecedentedly severe changes. First-half growth in domestic titanium demand, aided by sales price rises, led to steady performance. During the second half, we completed the first stage of work to boost our annual capacity for titanium sponge production from 24,000 tons to 32,000 tons in October 2008. Immediately after attaining this milestone, the bottom dropped out of titanium demand, exacerbated by a rising yen, which led to a major downturn in sales volumes and net sales. In response to these changes, we delayed plans to follow up the first stage with plans to further boost titanium production capacity and shifted from the production growth pattern of the past few years to a substantial production cutback.

OTC's other business, led by polycrystalline silicon for semiconductors, advanced steadily on the back of robust demand. Polycrystalline silicon production facilities maintained full operational capacity throughout the year. (This included additional production facilities completed in October 2008, which raised annual production capacity from 1,300 tons to 1,400 tons.) As polycrystalline silicon for solar cells enjoyed expanded demand, sales prices improved.

As a result, the Company's net sales slipped 2.9% compared with the previous fiscal year, to ¥52,089 million. Operating income decreased 29.9%, to ¥14,694 million, ordinary income fell 30.7%, to ¥14,173 million, and net income for the year declined 28.3%, to ¥8,248 million.



# To Our Shareholders and Investors



Notes:

- 1) OTC carried out a 1:2 stock split as of November 18, 2005.
- 2) OTC carried out a 1:2 stock split as of October 1, 2006.



## Dividends

### Dividends per Share of ¥80.00, Despite the Severe Operating Conditions

Returning profits to shareholders and investors is a top management priority for OTC.

To meet the expectations of all our stakeholders, after comprehensive consideration of performance levels, future capital needs and other factors, the Company's policy is to return a share of profits to shareholders that reflects business results, in addition to a stable dividend of ¥7.50 per share.

During the year under review, despite the harsh conditions that OTC faced, it paid out dividends per share of ¥80.00 (comprising an interim dividend of ¥40.00 per share and a year-end dividend of ¥40.00 per share). Nevertheless, in light of the forecast for business performance, we project dividends of ¥15.00 per share (interim dividends of ¥7.5 plus year-end dividends of ¥7.5) for the next fiscal year.

## Prospects for the Upcoming Term

### We Shall Strive to Secure Profitability Levels in the Face of a Worsening Operating Environment.

With signs of a full-blown recovery from the global economic downturn not yet evident, the prospects for OTC's business environment remain uncertain.

In our titanium business, we anticipate falling demand for titanium sponge for export, which is primarily used in aircraft components. Moreover, domestic demand for titanium sponge for mill products to be used by industrial plants and other major consumers and demand for titanium sponge for steel additives look set to continue to decline. Accordingly, the forecast is for harsh domestic and export conditions in terms of prices and sales volumes compared with the fiscal year under review. As a result, we anticipate sales from our titanium business of ¥22.2 billion for the year ending March 31, 2010, a drop of 39%.

In OTC's other businesses, although we expect slight fall in prices due to weakening demand over the past few years, sales volumes are anticipated to remain steady. Therefore, we will continue to operate at full production capacity during the forthcoming year. However, high-purity titanium and environment- and energy-related products face lackluster demand as a result of the economic slowdown, with sales flagging because of inventory adjustments by our corporate customers and other factors. As a result of these trends, sales from our other business is forecast to decline 16%, to ¥13.3 billion during the next fiscal year.

Taking all these predictions into account, we expect OTC's net sales to decrease 32%, to ¥35.5 billion, with operating income falling 79%, to ¥3.1 billion, and ordinary income dropping 86%, to ¥2.0 billion.



## OTC Is Preparing to Reignite Its Engine for Growth

Over the past few years, OTC has implemented successive measures to fuel substantial growth. These have been led by investment to boost production capacity based on forecasts of global demand expansion in its specialist high-quality fields, such as titanium sponge for aircraft and polycrystalline silicon for semiconductors.

Demand for high-quality titanium and silicon is expected to grow further from a medium- to long-term perspective. However, harsh business conditions are anticipated to continue for the time being, impacted by the worldwide economic slowdown, delays to deliveries of a new aircraft model and other factors. In response to our expectations of a rapidly worsening operating environment in the next fiscal year, we are implementing various measures, including emergency cost-cutting initiatives, with priority on speed and infallibility, as part of our policy of securing profits.

In light of these circumstances, we are making sure, steady steps toward kick-starting future growth. OTC has already finished the first stage of work to boost annual production capacity for titanium sponge from 24,000 tons to 32,000 tons. In addition, we have completed a new titanium ingot plant to bolster production capacity and launched the Kishiwada Works at the end of June 2008. These steps raised annual titanium ingot production capacity, to 10,000 tons, with the titanium ingot facility at the Headquarters of Amagasaki Plant accounting for 7,000 tons per year and the new titanium ingot plant at the Kishiwada Works contributing 3,000 tons per year.

At the Kishiwada Works, we commenced work to improve capacity with construction of a new polycrystalline silicon plant from July 2008 and are improving capacity with a view to starting shipments from April 2011. Against the current background of production cuts at the Headquarters of Amagasaki Plant and the Kishiwada Works, we are striving to boost productivity, cultivate human resources and raise the level of employee skills.

Based on OTC's basic understanding that the cornerstone of manufacturing is promotion of "Safety (no disasters)," "Stability (stable operation and quality)" and "Economy (production cost reductions)," the Company is applying itself fully to the following agenda in its bid to grow into a stronger and greater company.

- Further improving production and technology
- Swiftly responding to changes in the business environment through integrated manufacturing, sales and technological activities
- Cultivating new demand by reinforcing collaboration with customers

While endeavoring to improve immediate profits, we will steadily progress with preparations focused on future growth from both hard- and soft-edged perspectives. This should ensure that we are prepared to reignite the Company's engine for the growth.

We look forward to the continued support of our shareholders, investors and our other stakeholders.

July 2009



President & Representative Director  
OSAKA Titanium technologies Co., Ltd.





New titanium sponge plant



## Establishing a 32,000 Ton/Year Titanium Sponge Production Capacity and a 1,400 Ton/Year Polycrystalline Silicon Production Capacity

On the basis of increased titanium demand and greater supply requests from customers, OTC has bolstered titanium sponge production capacity at the Headquarters of Amagasaki Plant. In October 2008, we completed the first stage of work to boost annual production capacity 8,000 tons, establishing a production capacity of 32,000 tons per year.

However, owing to the impact of the global economic slowdown from last fall and delays in

deliveries of new aircraft models and the consequent transformation of our business environment, we have revised plans for the second and third stages of production capacity enhancement plans as follows.

OTC completed a 100 ton/year upgrade to polycrystalline silicon production capacity at the Headquarters of Amagasaki Plant in October 2008, to realize annual production capacity of 1,400 tons.

Revisions to Titanium Sponge Production Capacity Expansion Stages		
Stage	Before changes	After changes
First Stage Annual Production Capacity: 24,000 tons → 32,000 tons	October 2008 (Completed as planned)	→ Expansion has been postponed by two years. We shifted the increase to 38,000 tons per year to July 2011, and the expansion to 41,000 tons per year to October 2011.
Second Stage Annual Production Capacity: 32,000 tons → 38,000 tons	July 2009	
Third Stage Annual Production Capacity: 38,000 tons → 41,000 tons	October 2009	



## Establishment of the Kishiwada Works and Startup of Shipments from the New Titanium Ingot Plant

To further enhance its production capacity, OTC purchased a plot of approximately 70,000 square meters in Kishiwada, Osaka, in March 2008 and began constructing a 3,000 ton/year titanium ingot plant. Work was completed in June 2008, marking the inauguration of the Kishiwada Works. In combination with 7,000 tons from the

Headquarters of Amagasaki Plant, the new facility boosts total annual capacity for titanium ingots to 10,000 tons.

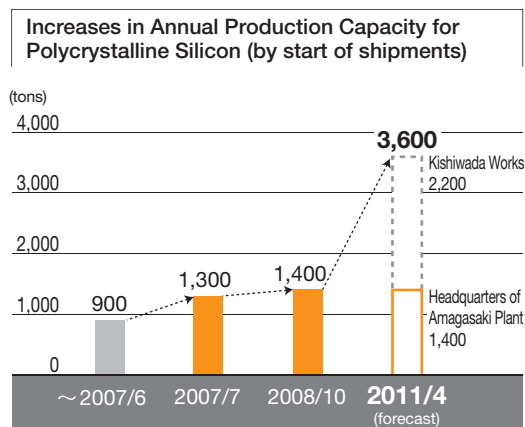
By spreading titanium ingot production across two locations—the Headquarters of Amagasaki Plant and the Kishiwada Works—OTC will position the Company for further growth.

## Construction of New Polycrystalline Silicon Plant with Annual Production Capacity of 2,200 Tons to Commence at the Kishiwada Works

Against a background of robust demand for polycrystalline silicon for semiconductors, OTC has gradually raised its polycrystalline silicon production capacity. We completed the production capacity expansion of 1,400 tons in October 2008. Demand for polycrystalline silicon is forecast to continue to expand steadily in the future, and with long-term contracts with customers already in place, OTC began construction of a new plant at the Kishiwada Works in July 2009, with annual production capacity slated at 2,200 tons.

August 2008: Plans announced  
July 2009: Start of construction  
April 2011: Start of shipments (forecast)

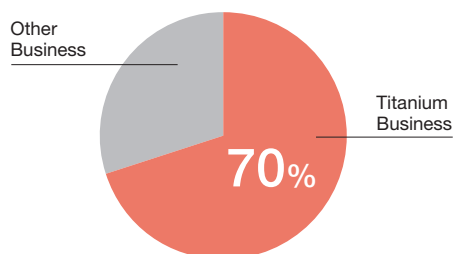
This expansion initiative will raise OTC's total annual production capacity for polycrystalline silicon to 3,600 tons.



## Results and Overview by Segment

# Titanium Business

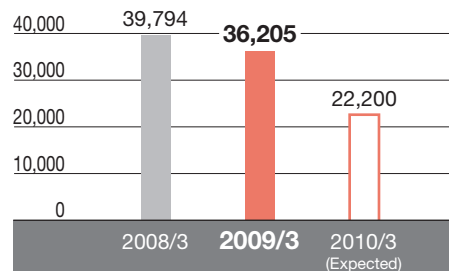
Sales Breakdown (Fiscal 2009)



Net Sales

(Millions of yen)

50,000



## Main Products



### Titanium Sponge

OTC's titanium sponge finds a broad range of applications, spanning the aerospace industry and general industrial applications. In particular, our titanium sponge for aircraft engine parts, referred to as premium grade, is manufactured under a very strict quality control system.



### Titanium Ingot

We produce large-scale titanium ingot, characterized by the excellence of their surface conditions and internal quality. They are processed into sheets and pipes for heat exchangers in such large-scale facilities as thermal and nuclear power generation plants, as well as petrochemical and seawater desalination plants.





### Overview of the Current Term

Selling prices of products shipped during 2008 were up approximately 10% on the previous year's contract prices. Although domestic demand for mill products was robust, yen appreciation and adjustments to inventories of titanium sponge for aircraft pushed down export demand significantly. In addition, the market for titanium sponge for steel additives weakened during the year. As a result of these trends, sales of titanium products declined 9.0%, to ¥36,205 million.

In October 2008, we completed the first stage of work to boost annual capacity for titanium sponge production from 24,000 tons to 32,000 tons. However, this was immediately followed by a sudden drop in titanium demand, arising from delays in deliveries of new aircraft models and the global economic slowdown. In response to these changes in environment, we have postponed plans to raise titanium sponge production capacity from 32,000 tons to 41,000 tons and switched from an expansionary course to a framework of production cuts.

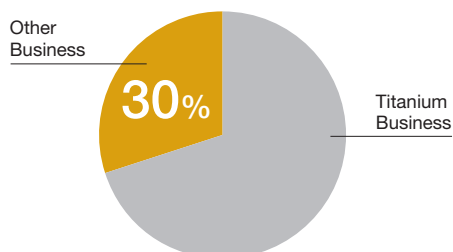
### Outlook for the Upcoming Fiscal Year

Since the second half of 2008, export demand has been lackluster, primarily demand for products used in aircraft construction. In addition, we anticipate substantial domestic demand reductions, arising from the global economic recession and its impact in terms of falling real demand by domestic mill product manufacturers, which largely depend directly or indirectly on exports to industrial plants and other major consumers, and inventory adjustments. Further demand cuts and a lackluster market are also forecast for titanium sponge as an additive for steel.

Based on these predictions, our outlook for the next fiscal year is for deteriorating selling prices and sales volumes. We expect a 39% drop in sales from the titanium business, to ¥22.2 billion.

## Other Business

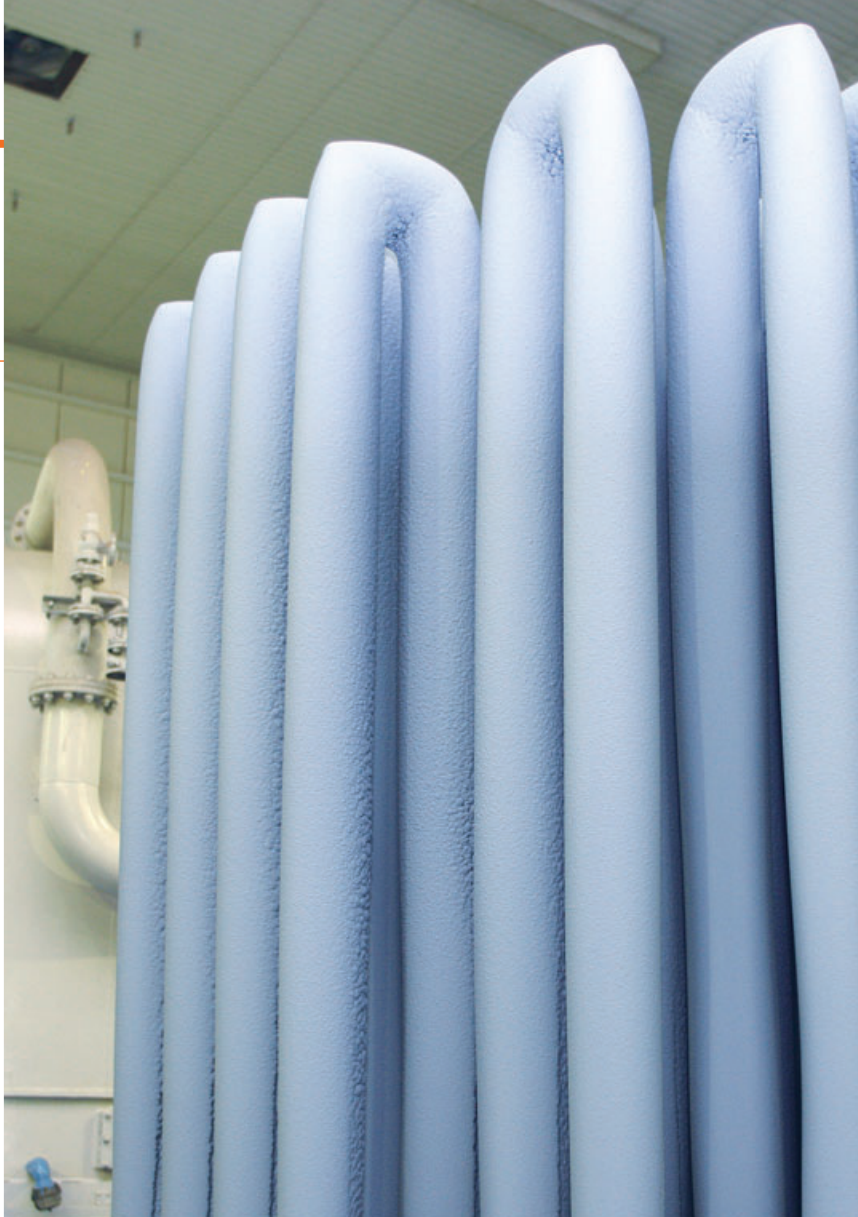
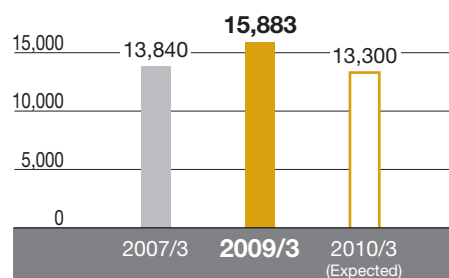
Sales Breakdown (Fiscal 2009)



Net Sales

(Millions of yen)

20,000



### Main Products



#### Polycrystalline Silicon

OTC produces semiconductor-grade "eleven-nine" polycrystalline silicon with 99.99999999% purity. This product primarily finds application as a monocrystalline silicon raw material for semiconductor substrates. The Company's polycrystalline silicon also finds applications in solar cells.



#### Titanium Powder

We manufacture a unique gas-atomized titanium powder, TILOP (Titanium Low Oxygen Powder, OTC was the first in the world to put to practical use), and a titanium hydride-dehydride powder, which are used for various purposes, including as powder metallurgy and getter materials.



#### High-Purity Titanium

The Company's "four-nine-five" and "five-nine" high-purity titanium, with purities of 99.995% and 99.999%, respectively, are used in sputtering targets, which are indispensable to the semiconductor manufacturing process.



#### Silicon Monoxide (SiO)

Our high-quality silicon monoxide products are produced by using vacuum technologies for titanium sponge manufacturing. We are Japanese leading SiO producer, with many years of experience in delivering stable supply. In addition to applications in food packaging and as protective film deposition materials for electrical and electronic components, we are investigating such applications as organic EL element sealing films and negative electrode materials for lithium-ion batteries.



### Overview of the Fiscal Year under Review

From the beginning of 2009, the tight demand/supply situation for semiconductor-related products began to alleviate. However, demand for OTC's polycrystalline silicon for semiconductors remained firm throughout the year. In July 2007, the Company boosted annual polycrystalline silicon production capacity to 1,300 tons, and subsequently raised this figure to 1,400 tons in October 2008. The Company is operating at full capacity to meet demand.

Demand for solar cell applications grew, prompting tight ongoing supply conditions, which led to improved selling prices for OTC's polycrystalline silicon.

These market conditions boosted sales from our other business 14.8% during the year, to ¥15,883 million.

### Outlook for the Upcoming Fiscal Year

We expect to continue operating at full capacity in polycrystalline silicon for semiconductor-related products. However, the easing of the tight supply conditions of the past few years is manifesting as a slight weakening in sales prices of these products for OTC. Moreover, the slowdown in demand for digital consumer appliances and inventory adjustments are expected to drive down sales of high-purity titanium significantly.

Demand for environment- and energy-related products is also expected to fall, affected by the economic recession.

Accordingly, during the next fiscal year sales from OTC's other business are forecast to decrease 16%, to ¥13.3 billion.



# Market Data



## Titanium

### Demand for Commercial Aircraft

Against a background of crude oil price hikes through mid-2008, demand for new fuel-efficient aircraft models has risen in step with the expansion of the global aircraft market. However, with the impact of the global economic recession from the autumn of 2008, many airline companies have refrained from purchases of new models. Exacerbated by a succession of delivery delays by Boeing, this has resulted in a drop in the number of aircraft on order from 2,872 in 2007 to 1,452 in 2008.

Nevertheless, as of December 31, 2008, Airbus and Boeing had a total order backlog of 7,500 aircraft—still at a high level. This figure is equivalent to seven years of production output. From 2009 to 2011, annual deliveries are forecast at 800 aircraft, approximately the same as from 2006 to 2008. However, in terms of

reinvigoration of the global aircraft market, 2012 is anticipated to herald a new era of large-scale, stable production of around 1,000 aircraft per year. Furthermore, the amount of titanium used in each aircraft is set to grow on the back of demand for new models with high-volume titanium usage for lighter weight.

**Titanium Usage per Commercial Aircraft**  
(Source: Compiled from data related to commercial aircraft)

Aircraft in service		Main future models	
B747	8-48t	B787	136t
B757		B777	80t
A320	12t	A380	146t

B : Boeing A : Airbus

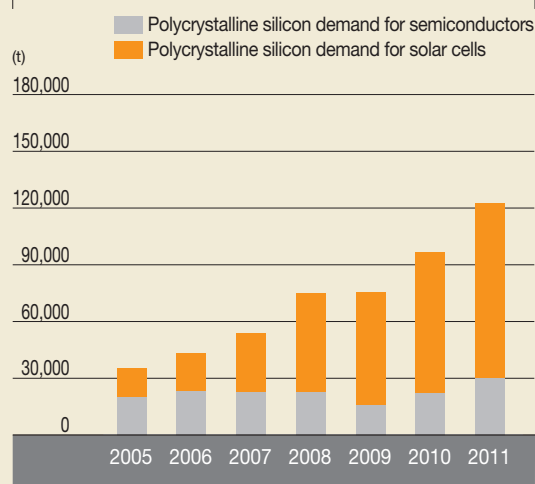
## Silicon

### Demand for Polycrystalline Silicon

The global economic slowdown interrupted the progression of semiconductor demand, so 2009 is set to be a transition period of drastic adjustments. Accordingly, demand for polycrystalline silicon for semiconductors is anticipated to drop 30% compared with the previous year. From 2010, demand is expected to recover gradually, with a corresponding return to a path of growth in sales.

Growth in demand for polycrystalline silicon for solar cells is forecast to maintain its current level of 30% or more per annum because of escalating demand for clean energy sources imbedded in various global warming countermeasures.

**Forecasts for Global Polycrystalline Silicon Demand**



# Research and Development

## Silicon Monoxide Is Attracting Interest as the Next-Generation Back Sheet Material for Solar Cells.

Silicon monoxide (SiO), which exhibits excellent barrier properties when used as a gas barrier film for the prevention of permeation of water vapor and oxygen, is used as a barrier film for packaging. OTC's high-quality SiO already has a proven track record as a barrier material for food packaging. In addition, SiO applications are expanding, including for use as a back sheet material for solar cells, which requires even greater effective barrier properties, and as industrial packaging (see Figure 1). In particular, solar cells are a center of global attention, because of

pressing demands for reductions in CO<sub>2</sub> emissions to prevent global warming, with forecasts for great market expansion in the future.

Regular solar cells are composed of three layers: glass, the solar cell itself and a back sheet (see Figure 2). The back sheet has an important role in protecting the cell, preventing deterioration and maintaining energy conversion efficiency. Accordingly, it requires superb water vapor barrier properties (moisture resistance) and durability. SiO vapor-deposited film is a likely candidate to fulfill this role.



Silicon monoxide (SiO)

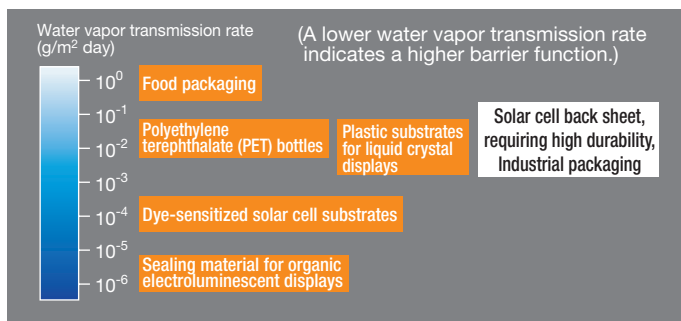


Figure 1: Barrier Film Applications and Required Barrier Properties

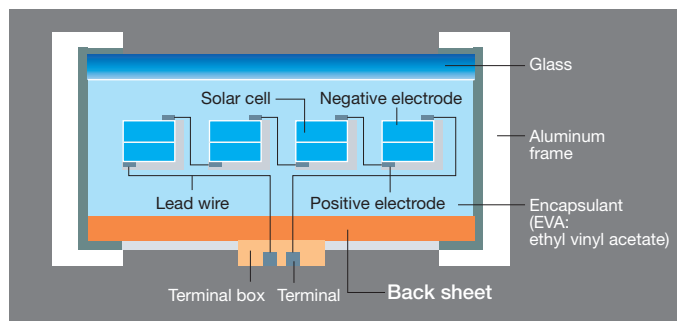


Figure 2: Structure of a Regular Solar Cell Panel (Cross-Section)

## Objectives Achieved for a National Project to Realize a New Titanium Sponge Production Process; Our Research at the Stage of Continuous Testing

Since fiscal 2005, OTC has received support from the Ministry of Economy, Trade and Industry (METI) to develop a new production process to radically reduce titanium sponge manufacturing costs. The project progressed smoothly, in line with its four-year schedule, and demonstration tests of elemental technologies for new production process were completed as planned at the end of fiscal 2008.

Currently, OTC is supplementing its

proprietary technologies with the elemental technologies verified through demonstration tests in the course of the project in a bid to develop technologies with potential for progression to industrial applications.

As a world-leading titanium sponge manufacturer, we are developing new production process which should be superior to the current Kroll process and thus stay abreast of continuously high growth levels for titanium demand.



# Environmental Preservation



Cleaning activities

## ISO 14001 Certification

We promote environmental activities based on our basic policies of environmental protection. Our Headquarters of Amagasaki Plant received ISO 14001 certification in 1999.



Registry Number  
JQA-EM0386  
(Headquarters)

## Basic Policy on Environmental Preservation

Under the slogan, “Preserve our precious earth for our children and grandchildren,” OTC has made environmental protection one of the top management priorities. Our aggressive measures include creating environmentally friendly products, reducing the environmental burden during production and contributing to society at the local community level.

## Environmental Performance of Products

Titanium—the Company’s core product—has a useful role to play in global environmental preservation. By improving the fuel efficiency of aircraft, titanium contributes to energy savings. In recent years, with aircraft weight reduction becoming a more pressing issue, titanium has also been widely used for metal fasteners (bolts, nuts, rivets, etc.), again boosting fuel efficiency by cutting aircraft weight.

Titanium is also employed in power generation turbines to improve generating efficiency, is utilized as a high-durability construction material and finds various other applications that utilize its unique properties to contribute to global environmental preservation.

Silicon, on the other hand, is expected to find future widespread utilization in large-scale solar power plants. By supplying the requisite materials, OTC will be contributing to greenhouse gas reductions.

## Environmental Measures at the Production Stage

We have established and are working toward targets to alleviate the environmental impact arising from production activities, including activities for energy conservation, waste reduction (based on the 3Rs: reduce, recycle and reuse), and greenhouse gas emission control.

Greenhouse gas reduction efforts take fiscal 1990 as a starting point, with the objective of a 10% reduction (by basic unit) by the end of 2010. We have been working steadily toward this objective for our emission-reduction activities. By fiscal 2008, we had already surpassed this target, achieving a 10.5% reduction compared with fiscal 1990 levels. Similarly, we are eliminating unnecessary water discharge and promoting recycling with the aim of zero increase in effluent despite expansion of production.

## Other Environmental Preservation Measures

Our employees operate with high environmental awareness and engage in a variety of environmental conservation activities. Within the Company, we sort trash for collection, recycle paper and containers and adhere to a green procurement policy. Employees also carry out cleaning and weeding activities in the neighborhood around the Company premises. OTC also participates in the Osaka Bay Cleanup Campaign.

Moreover, some of the Company’s facilities incorporate rooftop gardening to help save energy and clean the air. A total of 5,000 square meters has been converted to fulfill this role.



Rooftop gardening  
above OTC facilities



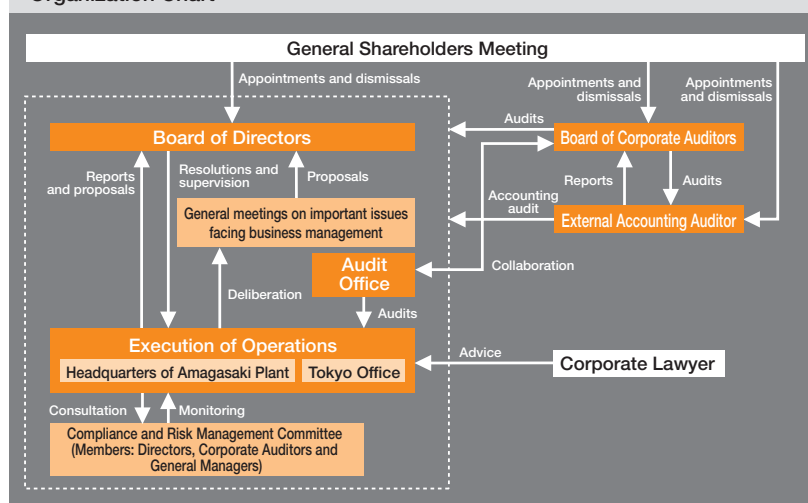
# Corporate Governance/ Compliance/Risk Management

## Corporate Governance

OTC aims to continue building its corporate value by streamlining its management and ensuring transparency and corporate soundness while gaining the trust of and providing satisfaction to customers, shareholders, regional communities, employees and all other stakeholders.

The Board of Directors is made up of nine directors with extensive knowledge of the Company's operations, and is responsible for maintaining and improving management efficiency. To maintain and reinforce its management transparency and corporate soundness, the Company employs a corporate auditor system, comprising four corporate auditors, two of whom are external.

Organization Chart



## Compliance/Risk Management

OTC maintains a compliance framework to uphold laws and social norms in its management. In fiscal 2002, we established the Corporate Activity Rules, which state the commitment of our board members and employees to comply with the laws of all countries, international rules and the accompanying philosophies. The Company has also established a Compliance and Risk Management Committee, chaired by the president and representative director and composed of directors, corporate auditors and general managers. The committee monitors the Company's legal compliance and corporate response to legal reforms. We also set up a Compliance Helpline to take in constructive suggestions and opinions from officers and employees on compliance matters that may seriously affect confidence in the Company. Moreover, the Company publishes a Compliance Manual succinctly detailing the basic policies to be observed by officers and employees.

In addition, OTC considers it important to appropriately manage the diverse risks inherent in the Company's operations to continually maximize

corporate value in the face of major changes in the operating environment. The status of compliance and risk management is monitored according to a Risk Survey List maintained by the Compliance and Risk Management Committee.

The Board of Directors fully investigates and takes action on critical management risks that could interfere with operational plans or the medium-term management plan.

### Compliance and Risk Management Efforts in Fiscal 2009

#### Meetings of the Compliance and Risk Management Committee

- The Compliance Committee was changed to the Compliance and Risk Management Committee.
- In addition to monitoring the status of legal compliance, we reinforced the committee's objectives of preempting and managing risks relating Company's business activities.
- We issued reports to all departments based on the Risk Survey List.

#### Revision of the Risk Survey List

- We conducted regular reviews of the Risk Survey List, which is compiled companywide.
- The list was expanded to include more specific information.
- The Company conducted ongoing monitoring of risks related to the business activities using the Risk Survey List as a basis.

#### Implementation of Information Security Measures

- We carried out ongoing data leakage countermeasures.

#### Compliance Training

- Themes: Corporate compliance management
- Instructors: Corporate lawyer
- Target: All Company directors, auditors, general managers and managers

#### Compliance and Human Rights Education Activities

- We conducted position-specific educational programs targeting managers on promotion, employees on appointment and new company recruits.
- The Company raised awareness by issuing in-house bulletins.

#### Reinforcement of Health and Safety Management

- OTC enhanced its health and safety policies (including health management).
- Inform board members and employees of legal revisions
- The Company formulated a response manual for new strains of influenza.

# Board of Directors (as of June 24, 2009)

## Directors



**Shozo Nishizawa**  
President &  
Representative Director



**Mutsuo Yamamoto**  
Executive Vice President &  
Representative Director



**Shinichi Ogawa**  
Senior Managing Director



**Tsuyoji Hyodo**  
Managing Director



**Koji Ieda**  
Managing Director



**Atsushi Ito**  
Managing Director



**Masuo Miyai**  
Director

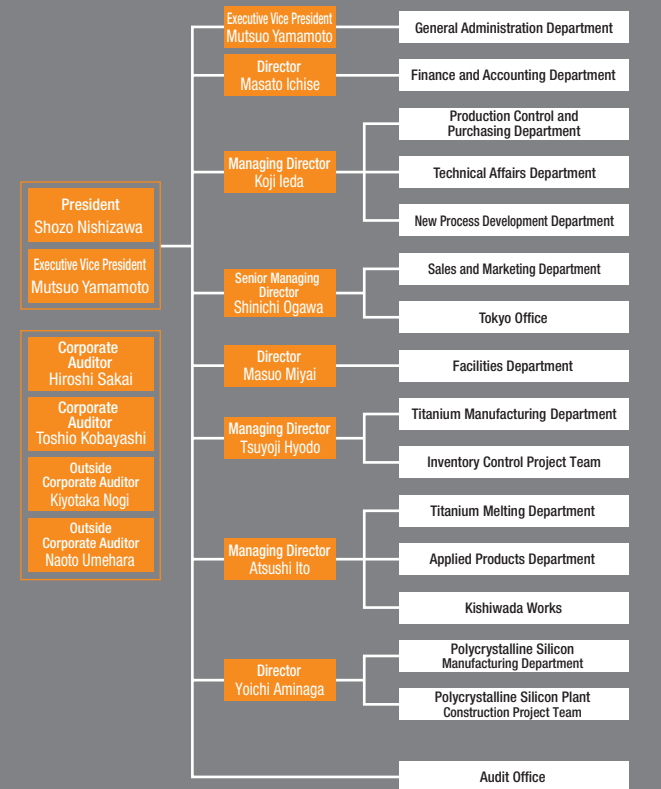


**Masato Ichise**  
Director



**Yoichi Aminaga**  
Director

## Organization



## Auditors



**Hiroshi Sakai**  
Corporate Auditor



**Toshio Kobayashi**  
Corporate Auditor



**Kiyotaka Nogi**  
Outside Corporate Auditor



**Naoto Umehara**  
Outside Corporate Auditor



## Financial Section

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# Ten-Year Summary

OSAKA Titanium technologies Co., Ltd.  
Years ended March 31.

	2000	2001	2002
Net sales (millions of yen)	¥ 16,201	¥ 18,855	¥ 19,589
Operating income (loss) (millions of yen)	(23)	1,271	1,791
Net income (loss) (millions of yen)	(206)	739	972
Income (loss) from equity-method affiliates (millions of yen)	—	—	—
Common stock (millions of yen)	5,860	5,860	6,583
Total number of shares outstanding (thousands)	7,860	7,860	8,860
Total equity (millions of yen)	12,414	13,182	15,438
Total assets (millions of yen)	26,906	28,471	33,633
Total equity per share (yen)	1,579.33	1,677.05	1,742.40
Dividends per share	—	45	30
(Interim dividends per share) (yen)	(—)	(—)	(—)
Basic net income (loss) per share (yen)	(33.00)	94.04	122.65
Equity ratio (%)	46.1	46.3	45.9
Return on equity (ROE) (%)	—	5.8	6.8
Price/earnings (P/E) ratio (times)	—	—	16.39
Dividend payout ratio (%)	—	47.8	27.3
Cash flows from operating activities (millions of yen)	3,805	2,193	2,762
Cash flows from investing activities (millions of yen)	(1,783)	(1,141)	(2,591)
Cash flows from financing activities (millions of yen)	(2,730)	(760)	1,191
Cash and cash equivalents at year-end (millions of yen)	1,237	1,536	2,900
Number of employees (persons)	413	403	398
(Average number of temporary employees) [persons]	(—)	(—)	(—)

2003	2004	2005	2006	2007	2008	2009
¥ 17,610	¥ 16,242	¥ 21,138	¥ 31,343	¥ 43,248	¥ 53,635	¥ 52,089
1,124	706	2,470	8,368	15,899	20,962	14,694
464	307	1,410	4,850	9,287	11,500	8,248
—	—	2	0	(8)	(244)	—
6,583	6,583	6,583	8,740	8,740	8,740	8,740
8,860	8,860	8,860	18,400 <sup>*1</sup>	36,800 <sup>*2</sup>	36,800	36,800
15,622	15,721	16,914	25,921	33,295	42,274	47,251
30,405	29,280	33,112	46,319	57,037	72,320	96,930
1,763.20	1,774.36	1,908.96	1,408.78 <sup>*1</sup>	904.77 <sup>*2</sup>	1,148.77	1,284.03
30	30	45	55 <sup>*1</sup>	75 <sup>*2</sup>	80	80
(—)	(—)	(—)	(—)	(45)	(35)	(40)
52.34	34.64	159.2	266.41 <sup>*1</sup>	252.38 <sup>*2</sup>	312.50	224.13
51.4	53.7	51.1	56.0	58.4	58.5	48.7
3.0	2.0	8.6	22.6	31.4	30.4	18.4
21.25	57.16	53.02	75.41 <sup>*1</sup>	51.87 <sup>*2</sup>	19.7	11.4
57.3	86.6	28.3	20.6	20.8	25.6	35.7
2,060	2,872	3,586	4,406	12,803	15,005	13,203
(3,619)	(2,287)	(2,211)	(7,688)	(6,669)	(16,313)	(30,093)
(366)	(1,116)	(1,057)	3,117	(1,887)	(2,436)	19,035
975	444	761	600	4,856	1,132	3,302
397	394	381	404	445	519	562
(—)	(—)	(—)	(62)	(73)	(56)	(65)

<sup>\*1</sup> The Company carried out a two-for-one stock split that came into effect on November 18, 2005.

<sup>\*2</sup> The Company carried out a two-for-one stock split that came into effect on October 1, 2006.

# Financial Review

## Analysis of Operating Results

During the fiscal year, the financial crisis stemming from the sub-prime loan problem last fall in the United States spread worldwide, precipitating a sudden and dramatic economic recession. In consequence, the Japanese economy suffered from harsh business conditions, led by yen appreciation, falling stock prices, cutbacks in personal consumption and capital investment, and a drastic decline in corporate profits.

OTC's titanium business enjoyed brisk demand for mill products during the first half of the year, followed by a complete turnaround during the second half, owing to further delays to delivery schedules for new models of aircraft and plummeting demand on the global titanium market under the impact of the worldwide recession. Specifically, export demand, which is fuelled by the aircraft construction industry, slumped under the pressures of inventory adjustments.

In OTC's other business, tight demand/supply conditions

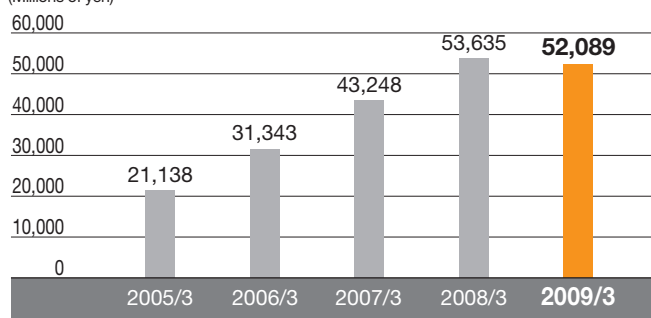
for semiconductor-related products began to alleviate around the beginning of 2009. Nevertheless, demand for the Company's polycrystalline silicon for semiconductors remained brisk throughout the year. In response to this trend, we maintained full operational capacity.

As a result of the above factors, net sales slipped 2.9%, to ¥52,089 million.

In terms of earnings, the burden of amortization grew in step with the gradual start-up of operations by facilities spawned from investment to boost titanium sponge production capacity, exacerbated by appreciation of the yen and rising energy costs. This led to a decline in operating income of 29.9%, ¥14,694 million, and a 30.7% fall in ordinary income, to ¥14,173 million. Net income was down 28.3%, at ¥8,248 million.

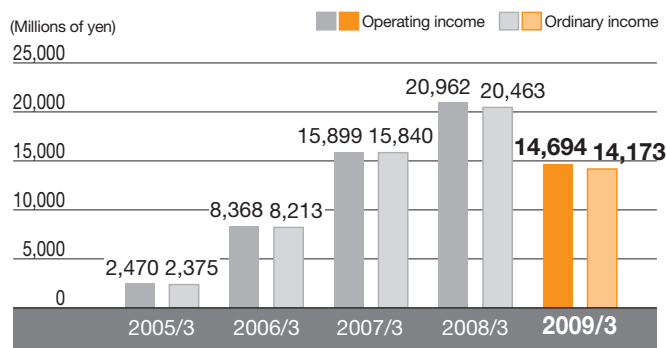
### Net Sales

(Millions of yen)



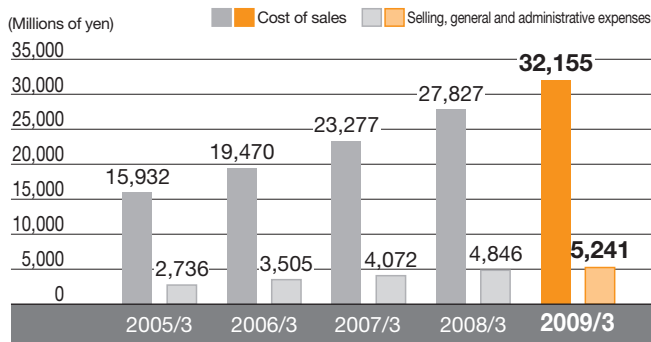
### Operating Income / Ordinary Income

(Millions of yen)



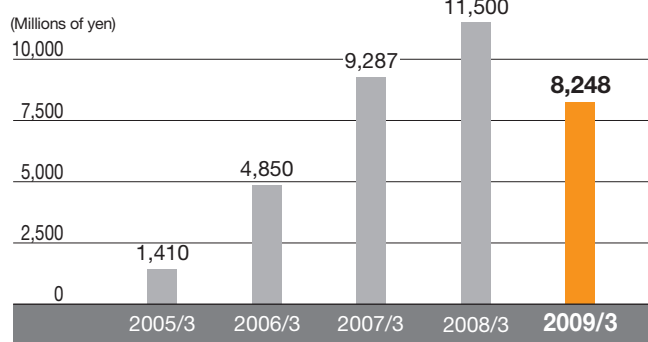
### Cost of Sales / Selling, General and Administrative Expenses

(Millions of yen)



### Net Income

(Millions of yen)





## Analysis of Financial Condition 1. Assets, Liabilities and Total Equity

### Assets

As of March 31, 2009, total assets were ¥96,930 million, up ¥24,610 million from one year earlier. Of this amount, current assets totaled ¥30,099 million, an increase of ¥4,392 million; and property, plant and equipment came to ¥66,830 million, ¥20,217 million more than one year earlier.

The increase in current assets was principally attributable to growth in inventories arising from a second-half drop in sales, as the Company endeavored to restore inventory levels for titanium sponge.

Property, plant and equipment primarily rose on the back of a net increase arising from investment to boost titanium sponge production capacity.

### Liabilities

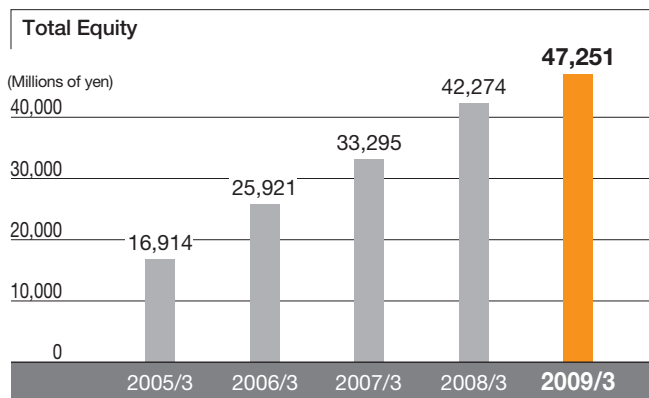
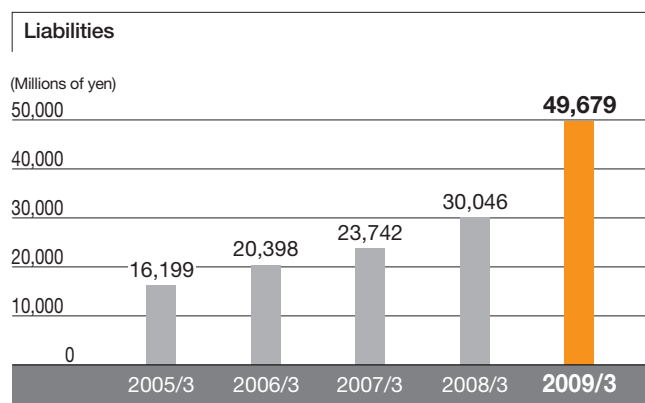
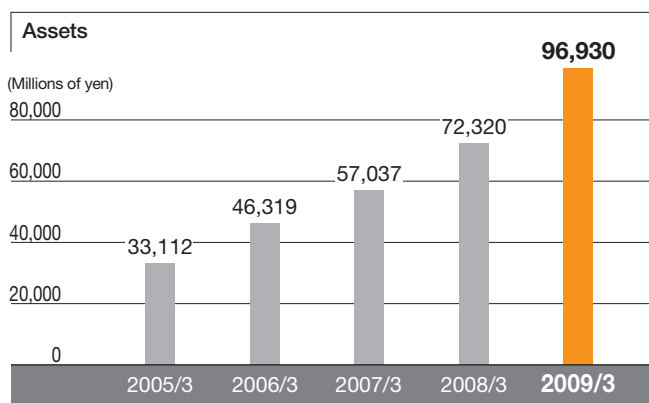
Total liabilities on March 31, 2009, were ¥49,679 million, up ¥19,633 million from the end of the previous fiscal year.

This jump was primarily due to growth in short-term bank loans, long-term debt and lease obligations accompanying procurement of funds for capital investment.

### Total Equity

Total equity at the end of the fiscal year was ¥47,251 million, up ¥4,977 million from the previous year-end.

This rise was mainly due to an increase in retained earnings resulting from the difference between the increase in net income and a reduction owing to cash dividend payments. Furthermore, the equity ratio stood at 48.7% because of the significant rise in total equity.



# Financial Review

## Analysis of Financial Condition 2. Cash Flows

Cash and cash equivalents at the end of the year stood at ¥3,302 million, up ¥2,169 million from one year earlier.

### Cash Flows from Operating Activities

During the fiscal year, net cash provided by operating activities came to ¥13,203 million, down ¥1,802 million from the previous year.

Major sources of cash included a decrease in trade receivables, an increase in income before income taxes and depreciation and amortization. Principal uses of cash included an increase in inventories higher income taxes paid.

### Cash Flows from Investing Activities

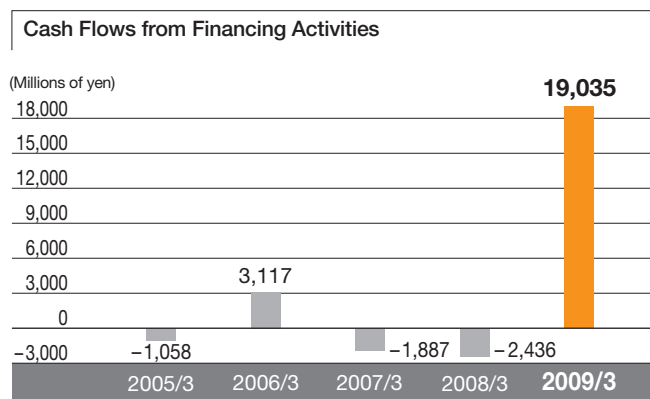
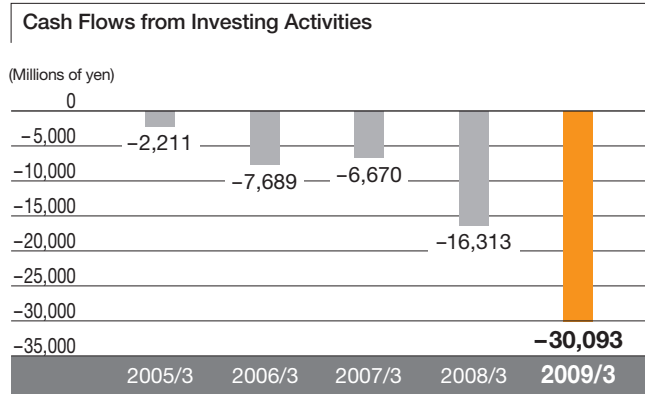
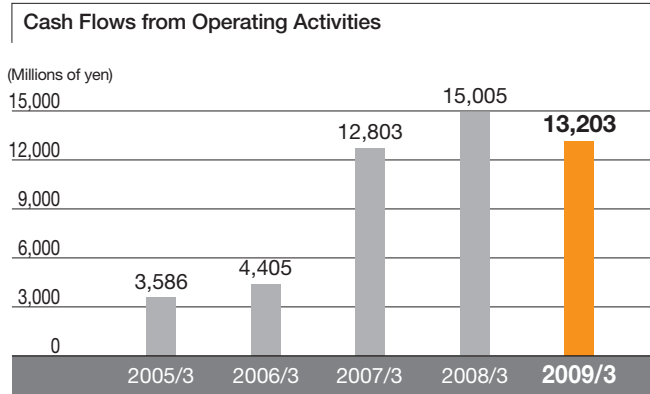
Net cash used in investing activities during the term was ¥30,093 million, ¥13,779 million less than in the previous year.

Higher capital investment was the major cause of this rise.

### Cash Flows from Financing Activities

Net cash used in financing activities was ¥19,035 million, a ¥21,471 million increase from the previous year.

The primary reason was growth in fund procurement for short-term bank loans, long-term debt and lease obligations.



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## Business Risks and Uncertainties

Major risks related to the Company's operations and other factors deemed to have the potential to significantly impact investor decisions are outlined below.

### 1. Influence of External Business Environment

#### Titanium Business

Exports of titanium sponge—primarily employed in high-quality aircraft components—comprised 22.6% of the Company's total net sales in the business year under review.

Accordingly, the Company's business performance could be affected by fluctuations in orders from aircraft manufacturers or in aircraft maintenance demand.

At the same time, domestic sales of titanium metal (titanium sponge and ingot) made up 44.7% of the Company's total net sales. These products are chiefly sold directly or indirectly from mill product manufacturers, mainly to Asia and the Middle East, for use in general industrial applications, including power and chemical plants and marine plate heat exchangers.

The Company's performance may be impacted by fluctuations in economic conditions in these regions.

Within domestic sales of titanium metal, sales to mainstay users Sumitomo Metal Industries, Ltd., and Kobe Steel, Ltd. (including sales through trading companies) accounted for 40.6% of the Company's total net sales.

The Company's business results could be influenced by changes in the two companies' material procurement methods or fluctuations in their titanium businesses.

#### Other Business

The Company's backbone products in the other business segment are polycrystalline silicon and high-purity titanium for use in semiconductors. These products comprised 24.6% of the Company's total net sales. The Company sells most of its polycrystalline silicon to SUMCO Corporation, and the portion sold to this company itself accounted for 21.5% of the Company's total net sales.

The Company's performance could therefore be affected by semiconductor business conditions or changes in SUMCO Company's material procurement methods.

### 2. Influence of Exports Sales Ratios and Exchange Rate Fluctuations

Exports made up 26.9% of the Company's total net sales in the business year under review. The Company's export sales are mostly denominated U.S. dollars. This situation tends to result in a surplus of U.S. dollars, even after import purchases of raw materials in dollars and indirect dollar-based payments for electricity, liquefied natural gas and other expenses. As a consequence, the Company's performance may be influenced by gaps in currency movements.

### 3. Influence of Variations in Electric Power Expenses

The Company's production processes consume large amounts of electricity, and electric power expenses accounted for 17.2% of the Company's total production expenses in the business year under review. A major change in power expenses—due to fluctuations in crude oil prices or other factors—could have an effect on the Company's business results.

However, in cases where power expenses rise mainly due to yen depreciation, impact on the Company's performance would be absorbed by increased U.S. dollar income based on yen, thanks to the Company's retention of a dollar surplus.



# Balance Sheets

OSAKA Titanium technologies Co., Ltd.  
March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and cash equivalents	¥ 3,302	¥ 1,132	\$ 33,694
Receivables:			
Trade notes	44	24	449
Trade accounts (Note 12)	13,689	16,158	139,684
Others	416	152	4,245
Allowance for doubtful receivables	(3)	(4)	(31)
Inventories (Notes 2.c and 3)	11,923	7,414	121,663
Deferred tax assets (Note 8)	549	603	5,602
Prepaid expenses and other	180	228	1,837
<b>Total current assets</b>	<b>30,100</b>	<b>25,707</b>	<b>307,143</b>
<b>PROPERTY, PLANT AND EQUIPMENT (Notes 2.e and 2.i):</b>			
Land	16,279	16,028	166,112
Buildings and structures	15,920	11,364	162,449
Machinery and equipment (Note 10)	59,949	38,195	611,724
Furniture and fixtures	887	760	9,051
Construction in progress	8,565	5,095	87,399
<b>Total</b>	<b>101,600</b>	<b>71,442</b>	<b>1,036,735</b>
Accumulated depreciation	(36,847)	(26,687)	(375,990)
<b>Net property, plant and equipment</b>	<b>64,753</b>	<b>44,755</b>	<b>660,745</b>
<b>INVESTMENTS AND OTHER ASSETS:</b>			
Investment securities (Note 4)	175	384	1,786
Deferred tax assets (Note 8)	539	228	5,500
Prepaid pension cost (Note 6)	816	800	8,327
Other assets	547	446	5,581
<b>Total investments and other assets</b>	<b>2,077</b>	<b>1,858</b>	<b>21,194</b>
<b>TOTAL</b>	<b>¥ 96,930</b>	<b>¥ 72,320</b>	<b>\$ 989,082</b>

See notes to financial statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>LIABILITIES AND EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Short-term bank loans (Note 5)	¥ 8,900	¥ 5,900	\$ 90,816
Current portion of long-term debt (Note 5)	1,500	400	15,306
Payables:			
Trade notes	673	932	6,867
Trade accounts	4,528	4,227	46,204
Construction	10,712	9,953	109,306
Others	267	151	2,724
Income taxes payable	1,547	4,819	15,786
Accrued expenses	813	894	8,296
Current portion of lease obligations (Notes 2.i and 10)	1,024		10,449
Other	33	105	338
<b>Total current liabilities</b>	<b>29,997</b>	<b>27,381</b>	<b>306,092</b>
<b>LONG-TERM LIABILITIES:</b>			
Long-term debt (Note 5)	13,950	1,500	142,347
Liability for retirement benefits (Note 6)	1,001	1,052	10,214
Long-term lease obligations (Notes 2.i and 10)	4,598		46,918
Other (Note 2.g)	133	113	1,358
<b>Total long-term liabilities</b>	<b>19,682</b>	<b>2,665</b>	<b>200,837</b>
<b>COMMITMENTS AND CONTINGENT LIABILITIES (Notes 10 and 11)</b>			
<b>EQUITY (Note 7):</b>			
Common stock, authorized, 125,760,000 shares; issued, 36,800,000 shares in 2009 and 2008	8,740	8,740	89,184
Capital surplus - Additional paid-in capital	8,943	8,943	91,255
Retained earnings:			
Legal reserve	38	38	388
Unappropriated	29,533	24,413	301,357
Unrealized gain on available-for-sale securities	35	153	357
Deferred loss on derivatives under hedge accounting	(29)	(4)	(296)
Treasury stock - at cost: 1,082 shares in 2009 and 952 shares in 2008	(9)	(9)	(92)
<b>Total equity</b>	<b>47,251</b>	<b>42,274</b>	<b>482,153</b>
<b>TOTAL</b>	<b>¥ 96,930</b>	<b>¥ 72,320</b>	<b>\$ 989,082</b>

# Statements of Income

OSAKA Titanium technologies Co., Ltd.  
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>NET SALES (Note 12)</b>	<b>¥ 52,089</b>	¥ 53,635	<b>\$ 531,520</b>
<b>COST OF SALES (Note 12)</b>	<b>32,155</b>	27,827	<b>328,112</b>
<b>Gross profit</b>	<b>19,934</b>	25,808	<b>203,408</b>
<b>SELLING, GENERAL AND ADMINISTRATIVE EXPENSES (Notes 9 and 12)</b>	<b>5,240</b>	4,846	<b>53,469</b>
<b>Operating income</b>	<b>14,694</b>	20,962	<b>149,939</b>
<b>OTHER INCOME (EXPENSES):</b>			
Interest and dividend income (Note 12)	8	59	82
Interest expense	(159)	(104)	(1,622)
Loss on disposal of property, plant and equipment	(406)	(873)	(4,143)
Foreign exchange losses - net	(319)	(588)	(3,255)
Other - net	(69)	(121)	(705)
Other expenses - net	(945)	(1,627)	(9,643)
<b>INCOME BEFORE INCOME TAXES</b>	<b>13,749</b>	19,335	<b>140,296</b>
<b>INCOME TAXES (Note 8):</b>			
Current	5,661	7,952	57,765
Deferred	(160)	(117)	(1,632)
<b>Total income taxes</b>	<b>5,501</b>	7,835	<b>56,133</b>
<b>NET INCOME</b>	<b>¥ 8,248</b>	¥ 11,500	<b>\$ 84,163</b>
	Yen		U.S. Dollars
<b>PER SHARE OF COMMON STOCK (Note 2):</b>			
Basic net income	¥ 224.13	¥ 312.50	\$ 2.29
Cash dividends applicable to the year	80.00	80.00	0.82

See notes to financial statements.



# Statements of Cash Flows

OSAKA Titanium technologies Co., Ltd.  
Years Ended March 31, 2009 and 2008

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2009	2008	2009
<b>OPERATING ACTIVITIES:</b>			
Income before income taxes	¥ 13,749	¥ 19,335	\$ 140,296
Adjustments for:			
Income taxes - paid	(8,970)	(8,022)	(91,531)
Depreciation and amortization	10,435	5,780	106,480
Loss on disposal of property, plant and equipment	406	873	4,143
Changes in assets and liabilities:			
Decrease (increase) in receivables - trade	2,449	(1,489)	24,990
Increase in inventories	(4,508)	(1,354)	(46,000)
Increase in payables - trade	661	234	6,745
Increase in interest payable	44	1	449
Decrease in liability for retirement benefits	(96)	(40)	(980)
Other - net	(967)	(313)	(9,867)
<b>Total adjustments</b>	<b>(546)</b>	<b>(4,330)</b>	<b>(5,571)</b>
<b>Net cash provided by operating activities</b>	<b>13,203</b>	<b>15,005</b>	<b>134,725</b>
<b>INVESTING ACTIVITIES:</b>			
Purchases of property, plant and equipment	(29,881)	(14,183)	(304,908)
Payment by merger with an associated company (Note 13)		(1,803)	
Other	(212)	(327)	(2,163)
<b>Net cash used in investing activities</b>	<b>(30,093)</b>	<b>(16,313)</b>	<b>(307,071)</b>
<b>FINANCING ACTIVITIES:</b>			
Proceeds from short - term debt	3,000		30,612
Proceeds from long - term debt	13,950		142,347
Repayments of long - term debt	(400)	(50)	(4,082)
Proceeds from sale leaseback transactions	5,615		57,296
Purchase of treasury stock	(0)	(3)	(0)
Dividends paid	(3,130)	(2,383)	(31,939)
<b>Net cash provided by (used in) financing activities</b>	<b>19,035</b>	<b>(2,436)</b>	<b>194,234</b>
<b>FOREIGN CURRENCY TRANSLATION ADJUSTMENTS ON CASH AND CASH EQUIVALENTS</b>	<b>25</b>	<b>(17)</b>	<b>255</b>
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>2,170</b>	<b>(3,761)</b>	<b>22,143</b>
<b>CASH AND CASH EQUIVALENTS INCREASED BY MERGER (Note 13)</b>		<b>37</b>	
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<b>1,132</b>	<b>4,856</b>	<b>11,551</b>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<b>¥ 3,302</b>	<b>¥ 1,132</b>	<b>\$ 33,694</b>

See notes to financial statements.

# Statements of Changes in Equity

OSAKA Titanium technologies Co., Ltd.  
Years Ended March 31, 2009 and 2008

	Thousands	Millions of Yen							
	Outstanding Number of Shares of Common Stock	Common Stock	Capital Surplus	Retained Earnings		Unrealized Gain on Available- for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Treasury Stock	Total Equity
			Additional Paid-in Capital	Legal Reserve	Unappropriated				
BALANCE, APRIL 1, 2007	36,799,337	¥ 8,740	¥ 8,943	¥ 38	¥ 15,305	¥ 274	¥ 1	¥ (6)	¥ 33,295
Net income					11,500				11,500
Cash dividends, ¥65 per share					(2,392)				(2,392)
Purchase of treasury stock	(289)							(3)	(3)
Net change in the year						(121)	(5)		(126)
BALANCE, MARCH 31, 2008	36,799,048	8,740	8,943	38	24,413	153	(4)	(9)	42,274
Net income					8,248				8,248
Cash dividends, ¥85 per share					(3,128)				(3,128)
Purchase of treasury stock	(130)							(0)	(0)
Net change in the year						(118)	(25)		(143)
BALANCE, MARCH 31, 2009	36,798,918	¥ 8,740	¥ 8,943	¥ 38	¥ 29,533	¥ 35	¥ (29)	¥ (9)	¥ 47,251

	Thousands of U.S. Dollars (Note 1)							
	Common Stock	Capital Surplus	Retained Earnings		Unrealized Gain on Available- for-sale Securities	Deferred Gain (Loss) on Derivatives under Hedge Accounting	Treasury Stock	Total Equity
		Additional Paid-in Capital	Legal Reserve	Unappropriated				
<b>BALANCE, MARCH 31, 2008</b>	\$ 89,184	\$ 91,255	\$ 388	\$ 249,112	\$ 1,561	\$ (41)	\$ (92)	\$ 431,367
Net income				84,163				84,163
Cash dividends, \$0.87 per share				(31,918)				(31,918)
Purchase of treasury stock							(0)	(0)
Net change in the year					(1,204)	(255)		(1,459)
<b>BALANCE, MARCH 31, 2009</b>	\$ 89,184	\$ 91,255	\$ 388	\$ 301,357	\$ 357	\$ (296)	\$ (92)	\$ 482,153

See notes to financial statements.



# Notes to Financial Statements

OSAKA Titanium technologies Co., Ltd.  
Years Ended March 31, 2009 and 2008

## 1. BASIS OF PRESENTING FINANCIAL STATEMENTS

The accompanying financial statements have been prepared from the accounts maintained by OSAKA Titanium technologies Co., Ltd. (the "Company") in accordance with the provisions set forth in the Japanese Financial Instrument and Exchange Act and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting Standards.

In preparing these financial statements, certain reclassifications and rearrangements have been made to the

Company's financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The financial statements are stated in Japanese yen, the currency of the country in which the Company is incorporated and operates. The translations of Japanese yen amounts into U.S. dollar amounts are included solely for the convenience of readers outside Japan and have been made at the rate of ¥98 to \$1, the approximate rate of exchange at March 31, 2009. Such translations should not be construed as representations that the Japanese yen amounts could be converted into U.S. dollars at that or any other rate.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**a. Non-consolidation** - The financial statements do not include the accounts of subsidiaries because the Company does not have any subsidiaries.

**b. Cash Equivalents** - Cash equivalents are short-term investments that are readily convertible into cash and that are exposed to insignificant risk of changes in value.

Cash equivalents include time deposits, certificate of deposits, commercial paper and bond funds, all of which mature or become due within three months of the date of acquisition.

**c. Inventories** - Inventories held for sale in the ordinary course of business be measured at the lower of cost or net selling value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The replacement cost may be used in place of the net selling value, if appropriate.

**d. Investment Securities** - Investment securities are classified and accounted for, depending on management's intent, as follows: i) trading securities, which are held for the purpose of earning capital gains in the near term, are reported at fair value, and the related unrealized gains and losses are included in earnings, ii) held-to-maturity debt securities, which are expected to be held to maturity with the positive intent and ability to hold to maturity are reported at amortized cost, iii) investment securities in an associated company is reported at cost, and iv) available-for-sale securities, which are not classified as either of the aforementioned securities, are reported at fair value, with unrealized gains and losses, net of applicable taxes, reported in a separate component of equity.

Non-marketable available-for-sale securities are stated at

cost determined by the moving-average method. For other than temporary declines in fair value, investment securities are reduced to net realizable value by a charge to income.

**e. Property, Plant and Equipment** - Property, plant and equipment are stated at cost. Depreciation (including lease assets that deem to transfer ownership) is computed by the declining-balance method, while the straight-line method is applied to buildings acquired after April 1, 1998, at rates based on the estimated useful lives of the assets prescribed by Japanese Corporate Tax Law. Lease assets that deem not to transfer ownership are depreciated by straight-line method over the respective lease period.

Property, plant and equipment acquired on and after April 1, 2007 are depreciated by the declining-balance method in accordance with the revised corporate tax law, which is effective for fiscal years beginning on and after April 1, 2007. The effect of this treatment was to decrease income before income taxes for the year ended March 31, 2008 by ¥360 million.

In addition, the carrying amounts of idle assets included in machinery and equipment was ¥4,086 million (\$41,694 thousand) at March 31, 2009, and these depreciation included in other expense was ¥173 million (\$1,765 thousand) as of March 31, 2009. There were no idle assets in 2008.

**f. Long-lived Assets** - The Company reviews its long-lived assets for impairment whenever events or changes in circumstance indicate the carrying amount of an asset or asset group may not be recoverable. An impairment loss would be recognized if the carrying amount of an asset or asset group exceeds the sum of the undiscounted future cash flows

expected to result from the continued use and eventual disposition of the asset or asset group. The impairment loss would be measured as the amount by which the carrying amount of the asset exceeds its recoverable amount, which is the higher of the discounted cash flows from the continued use and eventual disposition of the asset or the net selling price at disposition.

**g. Liability for Retirement Benefits** - Employees who retire at or after age 60 are entitled to their benefits in the form of an annuity. The funds for the annuity payments are entrusted to an outside trustee.

The Company accounts for the liability for retirement benefits based on projected benefit obligations and plan assets at the balance sheet date.

In June, 2006, the Company terminated retirement benefit to directors and corporate auditors. The balance of benefits granted prior to the termination date in the amount of ¥84 million (\$857 thousand) and ¥113 million is included in other long-term liabilities as of March 31, 2009 and 2008, respectively.

**h. Research and Development Costs** - Research and development costs are charged to income as incurred.

**i. Leases** - In March 2007, the ASBJ issued ASBJ Statement No. 13, "Accounting Standard for Lease Transactions", which revised the previous accounting standard for lease transactions issued in June 1993. The revised accounting standard for lease transactions is effective for fiscal years beginning on or after April 1, 2008 with early adoption permitted for fiscal years beginning on or after April 1, 2007.

Under the previous accounting standard, finance leases that deem to transfer ownership of the leased property to the lessee were to be capitalized. However, other finance leases were permitted to be accounted for as operating lease transactions if certain "as if capitalized" information is disclosed in the note to the lessee's financial statements. The revised accounting standard requires that all finance lease transactions should be capitalized to recognize lease assets and lease obligations in the balance sheet. In addition, the accounting standard permits leases which existed at the transition date and do not transfer ownership of the leased property to the lessee to be accounted for as operating lease transactions with certain "as if capitalized" information disclosed in the notes to the lessee's financial statements.

The Company applied the revised accounting standard effective April 1, 2008. In addition, the Company accounted for leases which existed at the transition date and do not

transfer ownership of the leased property to the lessee as operating lease transactions. The effect of this change is minor.

All other leases are accounted for as operating leases.

**j. Bonuses to Directors and Corporate Auditors** - Bonuses to directors and corporate auditors are accrued at the year end to which such bonuses are attributable.

**k. Income Taxes** - The provision for income taxes is computed based on the pretax income included in the statements of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. Deferred taxes are measured by applying currently enacted tax laws to the temporary differences.

**l. Foreign Currency Transactions** - All short-term and long-term monetary receivables and payables denominated in foreign currencies are translated into Japanese yen at the exchange rates at the balance sheet date. However, short-term and long-term receivables and payables covered by forward exchange contracts are translated at the contract rates.

**m. Derivatives and Hedging Activities** - The Company uses derivative financial instruments to manage its exposures to fluctuations in foreign exchange and interest rates. Foreign exchange forward contracts and interest rate swaps are utilized by the Company to reduce foreign currency exchange and interest rate risks. The Company does not enter into derivatives for trading or speculative purposes.

Derivative financial instruments and foreign currency transactions are classified and accounted for as follows: a) all derivatives be recognized as either assets or liabilities and measured at fair value, and gains or losses on derivative transactions are recognized in the income statement and b) for derivatives used for hedging purposes, if derivatives qualify for hedge accounting because of high correlation and effectiveness between the hedging instruments and the hedged items, gains or losses on derivatives are deferred until maturity of the hedged transactions.

The foreign currency forward contracts are utilized to hedge foreign currency exposures in procurement of raw materials from overseas suppliers. Trade payables denominated in foreign currencies are translated at the contracted rates if the forward contracts qualify for hedge accounting.

Interest rate swaps are utilized to hedge interest rate

exposures of long-term debt. These swaps which qualify for hedge accounting are measured at market value at the balance sheet date and the unrealized gains or losses are deferred until maturity as deferred gain (loss) under hedge accounting in a separate component of equity.

**n. Per Share Information** - Basic net income per share is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period, retroactively adjusted for stock splits.

The computation of net income per common share is based on the weighted average number of shares outstanding. The weighted average number of common shares outstanding used in the computation were 36,798,961 and 36,799,196 for fiscal years ended March 31, 2009 and 2008, respectively.

Cash dividends per share presented in the accompanying statements of income are dividends applicable to the respective years including dividends to be paid after the end of the year.

## **o. New Accounting Pronouncements**

**Business Combinations** - On December 26, 2008, the ASBJ issued a revised accounting standard for business combinations, ASBJ Statement No. 21, "Accounting Standard for Business Combinations". Major accounting changes under this accounting standard are as follows;

- (1) The current accounting standard for business combinations allows companies to apply the pooling of interests method of accounting when certain specific criteria are met such that the business combination is essentially regarded as a uniting-of-interests. The revised standard requires to account for such business combination by the purchase method and the pooling of interests method of accounting is no longer allowed.
- (2) The current accounting standard accounts for the research and development costs to be charged to income as incurred. Under the revised standard an in-process research and development (IPR&D) acquired by the business combination are capitalized as an intangible asset.

- (3) The current accounting standard accounts for a bargain purchase gain (negative goodwill) to be systematically amortized within 20 years. Under the revised standard, the acquirer recognizes a bargain purchase gain in profit or loss on the acquisition date after reassessing whether it has correctly identified all of the assets acquired and all of the liabilities assumed with a review of such procedures used.

This standard is applicable to business combinations undertaken on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or after April 1, 2009.

**Asset Retirement Obligations** - On March 31, 2008, the ASBJ published a new accounting standard for asset retirement obligations, ASBJ Statement No. 18 "Accounting Standard for Asset Retirement Obligations" and ASBJ Guidance No. 21 "Guidance on Accounting Standard for Asset Retirement Obligations". Under this accounting standard, an asset retirement obligation is defined as a legal obligation imposed either by law or contract that results from the acquisition, construction, development and the normal operation of a tangible fixed asset and is associated with the retirement of such tangible fixed asset. The asset retirement obligation is recognized as the sum of the discounted cash flows required for the future asset retirement and is recorded in the period in which the obligation is incurred if a reasonable estimate can be made. If a reasonable estimate of the asset retirement obligation cannot be made in the period the asset retirement obligation is incurred, the liability should be recognized when a reasonable estimate of asset retirement obligation can be made. Upon initial recognition of a liability for an asset retirement obligation, an asset retirement cost is capitalized by increasing the carrying amount of the related fixed asset by the amount of the liability. The asset retirement cost is subsequently allocated to expense through depreciation over the remaining useful life of the asset. Over time, the liability is accreted to its present value each period. Any subsequent revisions to the timing or the amount of the original estimate of undiscounted cash flows are reflected as an increase or a decrease in the carrying amount of the liability and the capitalized amount of the related asset retirement cost. This standard is effective for fiscal years beginning on or after April 1, 2010 with early adoption permitted for fiscal years beginning on or before March 31, 2010.



### 3. INVENTORIES

Inventories at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Finished products	¥ 6,506	¥ 3,094	\$ 66,388
Work in process	1,857	1,899	18,949
Raw materials and supplies	3,560	2,421	36,326
Total	¥ 11,923	¥ 7,414	\$ 121,663

### 4. INVESTMENT SECURITIES

Investment securities as of March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Non-current:			
Marketable equity securities:			
Kobe Steel, Ltd., a principal shareholder	¥ 79	¥ 177	\$ 806
Other	92	203	939
Non-marketable equity securities	4	4	41
Total	¥ 175	¥ 384	\$ 1,786

The carrying amounts and aggregate fair values of investment securities at March 31, 2009 and 2008 were as follows:

	Millions of Yen			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 111	¥ 61	¥ (1)	¥ 171

	Millions of Yen			
	2008			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	¥ 123	¥ 257	—	¥ 380

# Notes to Financial Statements

OSAKA Titanium technologies Co., Ltd.  
Years Ended March 31, 2009 and 2008

	Thousands of U.S. Dollars			
	2009			
	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities classified as:				
Available-for-sale:				
Equity securities	\$ 1,133	\$ 622	\$ (10)	\$ 1,745

## 5. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2009 and 2008 consisted of notes to banks and bank overdrafts. The weighted average interest rate of short-term loans as of March 31, 2009 and 2008 were 1.1% and 1.3%, respectively.

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

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Loans from banks due serially to 2010 with interest rates ranging from 1.0% to 1.3% (2009) and from 1.2% to 1.5% (2008) - Unsecured	¥ 15,450	¥ 1,900	\$ 157,653
Less current portion	1,500	400	15,306
Long-term debt, less current portion	¥ 13,950	¥ 1,500	\$ 142,347

Annual maturities of long-term debt at March 31, 2009 were as follows:

Year Ending March 31	Millions of Yen	Thousands of U.S. Dollars
2010	¥ 1,500	\$ 15,306
2011		
2012		
2013	13,950	142,347
2014		
2015 and thereafter		
Total	¥ 15,450	\$ 157,653

On December 30, 2008, the Company entered into a ¥11,950 million (\$121,939 thousand) long-term syndicate loan agreement with banks. This agreement contains the following financial covenants relating to financial position and operating result of the Company: that the amount of net asset at the end of each fiscal year shall not be less than ¥318 million (\$3,245 thousand) or shall not be less than 75% of net asset on March 31, 2009, whenever greater, and the Company shall not record a loss from ordinary operations for two years running.

## 6. LIABILITY FOR RETIREMENT BENEFITS

On April 2008, the Company revised its pension plan (in accordance with abolishment of qualified pension plan system based on Japanese Corporate Tax Law). As a result, negative prior service cost of ¥208 million (\$2,122 thousand) was incurred. Prior service cost is being amortized by straight-line method over seventeen years.

The liability (asset) for employees' retirement benefits at March 31, 2009 and 2008 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Projected benefit obligation	¥ (2,964)	¥ (2,777)	\$ (30,245)
Fair value of plan assets	1,886	2,124	19,245
Unrecognized prior service cost	196		2,000
Unrecognized actuarial loss	697	401	7,113
Prepaid pension cost	(816)	(800)	(8,327)
Net liability	¥ (1,001)	¥ (1,052)	\$ (10,214)

The components of net periodic benefit costs are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Service cost	¥ 160	¥ 135	\$ 1,633
Interest cost	60	53	612
Expected return on plan assets	(42)	(44)	(429)
Amortization of prior service cost	12		123
Recognized actuarial loss	31	15	316
Net periodic benefit costs	¥ 221	¥ 159	\$ 2,255

Assumptions used for the years ended March 31, 2009 and 2008 are set forth as follows:

	2009	2008
Discount rate	2.0%	2.0%
Expected rate of return on plan assets	2.0%	2.0%
Amortization period of prior service cost	17 years	
Recognition period of actuarial gain/loss	17 years	17 years

## 7. EQUITY

Since May 1, 2006, Japanese companies have been subject to the Companies Act of Japan (the "Companies Act"). The significant provisions in the Companies Act that affect financial and accounting matters are summarized below:

### (a) Dividends

Under the Companies Act, companies can pay dividends at any time during the fiscal year in addition to the year-end dividend upon resolution at the shareholders meeting. For companies that meet certain criteria such as; (1) having the Board of Directors, (2) having independent auditors, (3) having the Board of Corporate Auditors, and (4) the term of service of the directors is prescribed as one year rather than two years of normal term by its articles of incorporation, the Board of Directors may declare dividends (except for dividends in kind) at any time during the fiscal year if the company has prescribed so in its articles of incorporation. The Company meets all the above criteria.

Semiannual interim dividends may also be paid once a year upon resolution by the Board of Directors if the articles of incorporation of the company so stipulate. The Companies Act provides certain limitations on the amounts available for dividends or the purchase of treasury stock. The limitation is defined as the amount available for distribution to the shareholders, but the amount of net assets after dividends must be maintained at no less than ¥3 million.

### (b) Increases/decreases and transfer of common stock, reserve and surplus

The Companies Act requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus) depending on the equity account charged upon the payment of such dividends until the total of aggregate amount of legal reserve and additional paid-in capital equals 25% of the common stock. Under the Companies Act, the total amount of additional paid-in capital and legal reserve may be reversed without limitation. The Companies Act also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

### (c) Treasury stock and treasury stock acquisition rights

The Companies Act also provides for companies to purchase treasury stock and dispose of such treasury stock by resolution of the Board of Directors. The amount of treasury stock purchased cannot exceed the amount available for distribution to the shareholders which is determined by specific formula.

Under the Companies Act, stock acquisition rights are now presented as a separate component of equity.

The Companies Act also provides that companies can purchase both treasury stock acquisition rights and treasury stock. Such treasury stock acquisition rights are presented as a separate component of equity or deducted directly from stock acquisition rights.



## 8. INCOME TAXES

The Company is subject to Japanese national and local income taxes which, in the aggregate, resulted in normal effective statutory tax rates of approximately 40.6% for the years ended March 31, 2009 and 2008.

The tax effects of significant temporary differences which resulted in deferred tax assets and liabilities at March 31, 2009 and 2008 are as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Deferred tax assets (current):			
Accrued bonus	¥ 164	¥ 173	\$ 1,673
Accrued enterprise taxes	126	371	1,286
Social insurance	21	22	214
Loss on revaluation of inventories	210		2,143
Other	28	37	286
Net deferred tax assets (current)	¥ 549	¥ 603	\$ 5,602
Deferred tax assets (non-current):			
Loss on revaluation of golf club membership	¥ 42	¥ 39	\$ 429
Liability for retirement benefits	75	102	765
Other long-term liabilities - terminated retirement benefit to directors and corporate auditors	34	46	347
Depreciation	188		1,918
Loss on deferred hedge	20		204
Other	204	145	2,082
Total	563	332	5,745
Deferred tax liabilities (non-current):			
Unrealized holding gains on "Other securities"	24	104	245
Total	24	104	245
Net deferred tax assets (non-current)	¥ 539	¥ 228	\$ 5,500

The reconciliation of the differences between the normal effective statutory tax rate and the actual effective tax rate as of March 31, 2009 and 2008 was not disclosed because the differences were not material.

## 9. RESEARCH AND DEVELOPMENT COSTS

Research and development costs charged to income were ¥1,172 million (\$11,959 thousand) and ¥956 million for the years ended March 31, 2009 and 2008, respectively.

# Notes to Financial Statements

OSAKA Titanium technologies Co., Ltd.  
Years Ended March 31, 2009 and 2008

## 10. LEASES

The Company leases certain machinery, automotive equipment and other equipment.

Finance leases that deem to transfer ownership of the leased property to the Company are included in "Machinery and equipment" on the balance sheet as of March 31, 2009.

Total rental expenses for the years ended March 31, 2009 and 2008 were ¥216 million (\$2,204 thousand) and ¥284 million, respectively, including ¥12 million (\$122 thousand) and ¥12 million of lease payments under finance leases, respectively.

The minimum rental commitments under noncancellable operating leases were as follows:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥ 2	¥ 2	\$ 20
Due after one year	4	6	41
Total	¥ 6	¥ 8	\$ 61

### Pro forma information for the years ended March 31, 2009 and 2008

As discussed in Note 2.i, the Company accounts for leases which existed at the transition date and do not transfer ownership of the leased property to the lessee as operating lease transactions. Pro forma information of such leases existing at the transition date, such as acquisition cost, accumulated depreciation, obligations under finance leases, depreciation expense, interest expense, on a "as if capitalized" basis for the years ended March 31, 2009 and 2008 was as follows:

	Millions of Yen					
	2009			2008		
	Automotive Equipment	Other Equipment	Total	Automotive Equipment	Other Equipment	Total
Acquisition cost	¥ 29	¥ 33	¥ 62	¥ 29	¥ 38	¥ 67
Accumulated depreciation	(23)	(24)	(47)	(17)	(23)	(40)
Net leased property	¥ 6	¥ 9	¥ 15	¥ 12	¥ 15	¥ 27

	Thousands of U.S. Dollars		
	2009		
	Automotive Equipment	Other Equipment	Total
Acquisition cost	\$ 296	\$ 337	\$ 633
Accumulated depreciation	(235)	(245)	(480)
Net leased property	\$ 61	\$ 92	\$ 153

Obligations under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Due within one year	¥ 11	¥ 12	\$ 112
Due after one year	4	15	41
Total	¥ 15	¥ 27	\$ 153

The amount of acquisition cost and obligations for finance leases include the imputed interest expense portion.

Depreciation expense and other information under finance leases:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Depreciation expense	¥ 12	¥ 12	\$ 122

Depreciation expense which is not reflected in the accompanying statements of income is computed by the straight-line method.

Interest expense is included in depreciation expense because interest expense is not material.

## 11. CONTINGENT LIABILITIES

At March 31, 2009, the Company had the following contingent liabilities:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Guarantees of bank loans of employees		¥ 485	\$ 4,949

## 12. RELATED PARTY TRANSACTIONS

Related party transactions are summarized below:

	Millions of Yen		Thousands of U.S. Dollars
	2009	2008	2009
Sumitomo Metal Industries, Ltd., a principal shareholder:			
Net sales	¥ 1,641	¥ 2,566	\$ 16,745
Accounts receivable	615	972	6,276
ST Real Estate Corporation, an associated company:			
Rental expense for land		¥ 79	
Interest income		42	

# Notes to Financial Statements

OSAKA Titanium technologies Co., Ltd.  
Years Ended March 31, 2009 and 2008

## 13. BUSINESS COMBINATION

On January 1, 2008, the Company merged with ST Real Estate Corporation, an associated company.

The Company accounted for this business combination by the purchase method of accounting.

The total cost of acquisition has been allocated to the assets acquired and the liabilities assumed based on their respective fair values.

The Company rented the land for its headquarter building and plant from ST Real Estate Corporation. The Company merged with ST Real Estate Corporation in order to reinforce its business infrastructure by owning the land.

The fair values of the assets acquired and the liabilities assumed at the acquisition date are as follows:

	Millions of Yen
	2008
Cash and cash equivalents	¥ 37
Land	3,570
Other assets	0
Total assets	3,607
Long-term borrowings from the Company	¥ 1,765
Long-term borrowings from other	1,765
Other liabilities	54
Total liabilities	¥ 3,584

## 14. SUBSEQUENT EVENT

### Appropriation of Retained Earnings

The following appropriation of retained earnings at March 31, 2009 was approved at the Board of Directors held on May 22, 2009:

	Millions of Yen	Thousands of U.S. Dollars
Year-end cash dividends, ¥40 (\$0.41) per share	¥ 1,472	\$ 15,020



## INDEPENDENT AUDITORS' REPORT

To the Board of Directors of OSAKA Titanium technologies Co., Ltd.:

We have audited the accompanying balance sheets of OSAKA Titanium technologies Co., Ltd. as of March 31, 2009 and 2008, and the related statements of income, changes in equity, and cash flows for the years then ended, all expressed in Japanese 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 financial position of OSAKA Titanium technologies Co., Ltd. as of March 31, 2009 and 2008, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 1. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.



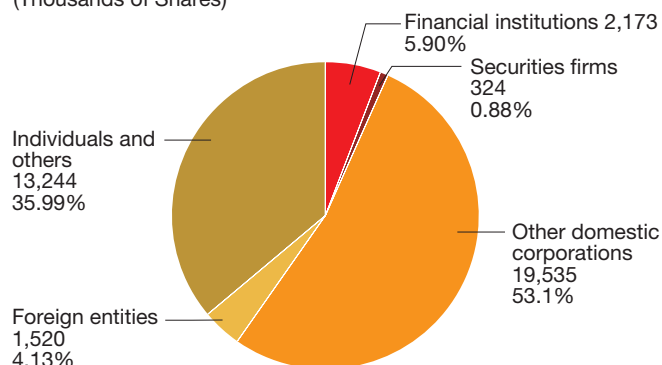
June 24, 2009

# Investor Information (as of March 31, 2009)

## Shareholders and Shares

Paid-Up Capital	¥8,739,620,000
Items Pertaining to Shares	Total shares issuable (Shares) 125,760,000 Shares issued (Shares) 36,800,000 Number of shareholders 32,804

## Shareholder Distribution by Category (Thousands of Shares)



## Major Shareholders

Name of Entity	Shares Held (Thousands of Shares)	Ratio of Shares Held to Total Shares Outstanding (%)
Sumitomo Metal Industries, Ltd.	8,800	23.91
Kobe Steel, Ltd.	8,800	23.91
Sumitomo Corporation	1,211	3.29
Japan Trustee Services Bank, Ltd. (Trust Account4G)	877	2.39
Japan Trustee Services Bank, Ltd. (Trust Account)	468	1.27
The Master Trust Bank of Japan, Ltd. (Trust Account)	241	0.66
NT RE GOVT OF SPORE INVT CORP P. LTD	164	0.45
NORTHERN TRUST CO. (AVFC) SUB A/C AMERICAN CLIENTS	113	0.31
CBLDN LEGAL + GENERAL ASSURANCE PENSIONS MANAGEMENT LIMITED	81	0.22
DAISO CO., LTD	80	0.22
Total	20,839	56.63

### Securities code

5726

### Shareholders' register proxy

Sumitomo Trust & Banking Co., Ltd.  
5-33, Kitahama 4-chome, Chuo-ku, Osaka

### Administration

Stock Transfer Agency Department  
Sumitomo Trust & Banking Co., Ltd.  
5-33, Kitahama 4-chome, Chuo-ku, Osaka

### (Mailing address)

Stock Transfer Agency Department  
Sumitomo Trust & Banking Co., Ltd.  
1-10 Nikko-cho, Fuchu-shi, Tokyo 183-8701

### (Telephone inquiries)

(Applications for Change of Address Form, etc.) 0120-175-417 (Toll free, only available when calling within Japan)

(Other inquiries) 0120-176-417 (Toll free, only available when calling within Japan)

(URL) <http://www.sumitomotrust.co.jp/STA/retail/service/daiko/index.html>

### Agencies

All domestic branches of Sumitomo Trust & Banking Co., Ltd.

### Market listings

Tokyo Stock Exchange, 1st Section

# Corporate Data

## Corporate Profile

<b>Company</b>	OSAKA Titanium technologies Co., Ltd.
<b>Established</b>	November 26, 1952
<b>Paid-up capital</b>	¥8,739,620,000 (as of March 31, 2009)
<b>Market listings</b>	Tokyo Stock Exchange, 1st Section
<b>Employee</b>	562 (as of March 31, 2009)
<b>Representative</b>	Shozo Nishizawa President & Representative Director
<b>Location</b>	<b>Headquarters/Amagasaki Plant</b> 1 Higashihama-cho, Amagasaki, Hyogo 660-8533, Japan Tel.+81-6-6413-9911 Fax.+81-6-6413-4343 <b>Kishiwada Works</b> 3-2, Kishinoura-cho, Kishiwada, Osaka 596-0016, Japan Tel.+81-72-479-3010 Fax.+81-72-479-3050 <b>Tokyo Office (Sales and Marketing Department)</b> Shimbashi Sumitomo Building 6th floor, 5-11-3 Shimbashi, Minato-ku, Tokyo 105-0004, Japan Tel.+81-3-5776-3101 Fax.+81-3-5776-3111
<b>Major products</b>	<b>Titanium Business</b> <ul style="list-style-type: none"> <li>•Titanium sponge</li> <li>•Titanium ingot</li> <li>•Titanium tetrachloride</li> </ul> <b>Other Business</b> (Semiconductor-Related Products) <ul style="list-style-type: none"> <li>•Polycrystalline silicon</li> <li>•High-purity titanium</li> <li>•Titanium tetrachloride aqueous solution</li> </ul> (Environment- and Energy-Related Products) <ul style="list-style-type: none"> <li>•Silicon monoxide (SiO)</li> <li>•Photocatalyst</li> <li>•Porous titanium</li> <li>•Titanium powder</li> </ul>

## Key Events

1937	Established as Osaka Special Steel Manufacturing
1950	Incorporated as Osaka Special Steel Manufacturing Co.
1951	Commenced research into manufacture of titanium metal
1952	Built Japan's first titanium pilot plant Equity stake taken by Sumitomo Metal Industries, Ltd. Changed company name to Osaka Titanium Co., Ltd.
1954	Started up titanium plant with 25 tons/month production capability
1957	Commenced polycrystalline silicon research and development
1960	Started production of polycrystalline silicon
1961	Completed magnesium chloride electrolysis plant
1967	Completed first phase of second electrolysis plant Received Okouchi Memorial Production Prize for titanium manufacturing technology Completed 14 silos to hold raw materials for titanium production
1975	Completed 80,000 ampere electrolysis cell Received MITI grant for unifying reduction and separation processes
1977	Completed reduction/separation furnace (two-ton batch) Completed liquid chloride furnace
1978	Commenced operation of integrated titanium U-furnace (five-ton batch)
1980	Completed new electrolysis cell (multi-polar cell method)
1981	Completed titanium ingot plant Completed new titanium distillation plant
1982	Completed new titanium sponge plant and started production in new products plant
1984	Completed first stage of new polycrystalline plant
1992	Merged with Kyushu Electronic Metal Co., Ltd.
1993	Changed name to Sumitomo Sitix Corporation
1996	Headquarters of Amagasaki Plant received ISO900 certification
1997	Established Sumitomo Sitix of Amagasaki, Inc. after gaining outsourced business from Amagasaki manufacturing and technology units (titanium, polycrystalline silicon, new products) from Sumitomo Sitix
1999	Received ISO14001 certification
2002	Changed name to Sumitomo Titanium Corporation Installed additional reduction furnaces to titanium sponge plant, increasing nominal annual production capacity from 15,000 tons to 18,000 tons Listed on second section of Tokyo Stock Exchange Received AS9000 certification, transferred to ISO9001:2000
2005	Listed on first section of Tokyo Stock Exchange
2006	Increased nominal annual production of titanium sponge from 18,000 tons to 24,000 tons
2007	Raised annual polycrystalline silicon production capacity from 900 tons to 1,300 tons Changed company name to OSAKA Titanium technologies Co., Ltd.
2008	Procured industrial site in city of Kishiwada, Osaka Raised annual titanium sponge production capacity from 24,000 tons to 32,000 tons Raised annual polycrystalline silicon production capacity from 1,300 tons to 1,400 tons
2009	Commenced operations at the Kishiwada Works Completed a titanium ingot plant at the Kishiwada Works, boosting annual production capacity from 7,000 tons to 10,000 tons



OSAKA Titanium technologies Co., Ltd.

