SHOWA DENKO K.K.

Consolidated Financial Statements

For the year ended December 31, 2010

MEMBERSHIP

Ⅰ. Consolidated Financial Results

(1) Results of operations: (¥ in millions, US$ in thousands, except for net income per share)

	Results for the year ended December 31			
	2009	2010	Increase (Decrease)	2010
	¥	¥	%	$
Net sales	678,204	797,189	17.5	9,782,656
Operating income	(4,983)	38,723	—	475,182
Ordinary income	(22,325)	30,471	—	373,923
Net income	(37,981)	12,706	—	155,926
Net income per share: Basic	(29.44)	8.49	—	0.10
Net income per share: Diluted	—	—	—	—
	%	%		
Net income on equity	(15.7)	5.2		
Ordinary income on total assets	(2.3)	3.2		
Operating income to net sales	(0.7)	4.9		

Notes

Important changes in accounting policies : applicable

(2) Financial position: (¥ in millions, US$ in thousands, except for net income per share)

	Dec. 31, 2009	Dec. 31, 2010	Dec. 31, 2010
	¥	¥	$
Total assets	958,303	924,484	11,344,749
Total equity	286,722	284,965	3,496,929
Total equity per share	163.11	161.47	1.98
	%	%	%
Stockholders' equity ratio	25.5	26.1	26.1

(3) Cash flows: (¥ in millions, US$ in thousands)

	Results for the year ended December 31		
	2009	2010	2010
	¥	¥	$
Cash flows from operating activities	19,846	66,293	813,511
Cash flows from investing activities	(26,595)	(49,074)	(602,209)
Cash flows from financing activities	28,402	(34,494)	(423,291)
Cash and cash equivalents at end of the year	62,507	43,459	533,305

(4) Dividends:

	2009	2010	2011 forecast
Q1 dividends per share (¥)	—	—	—
Q2 dividends per share (¥)	0.0	0.0	0.0
Q3 dividends per share (¥)	—	—	—
End of Term dividends per share (¥)	3.0	3.0	3.0
Annual dividends per share (¥)	3.0	3.0	3.0
Total dividends (¥ in millions)	4,490	4,490	—
	%	%	%
Payout ratio (consolidated)	—	35.3	21.4
Net assets dividend yield (consolidated)	1.7	1.8	—

※The dividends for 2009 is still undecided.

Ⅱ. Forecast of performance for the year ending December 31, 2011

(¥ in millions, US$ in thousands, except for net income per share)

	1st half		fiscal year	
	¥	$	¥	$
Net sales	415,000	5,092,649	870,000	10,676,157
Operating income	17,000	208,615	45,000	552,215
Ordinary income	14,000	171,800	38,000	466,315
Net income	6,500	79,764	21,000	257,700
Net income per share	4.3	0.05	14.03	0.17

※The above forecast is based on the information available at this point of time. Actual results may differ materially due to a variety of reasons, including such economic factors as fluctuations in foreign currency exchange rates as well as market supply and demand conditions.

Notes

The U.S. dollar is valued at ¥81.49 throughout this statement for convenience only.

[Business Results]

1. Analysis of business results

(1) Summary

The Japanese economy saw some signs of recovery in the first half of 2010 with gradual increases in export and production against the background of improved economic conditions in foreign countries, centering on China. In the latter half, the economy came to a standstill due to gradual decline in export against the background of steep appreciation of the yen. However, there was move toward recovery due to improvement in corporate performance, capital investment and employment situation. Meanwhile, there remain such risks as the concern about economic slowdown, mainly in Europe, and drastic changes in the foreign exchange/stock markets.

The situation of the chemical and nonferrous metal industries was generally good, reflecting steady demand, despite fluctuations in the prices of naphtha and other raw materials.

The situation of the electronic parts/materials industry was also good, notwithstanding slight production adjustments in PCs and LCD panels in the latter half of the year.

Under the circumstances, the Showa Denko Group carried out structural reform, including withdrawal from unprofitable operations, drastic cost reductions, and improvement in profitability of base businesses, in preparation for the launch of a new consolidated business plan PEGASUS for 2011 and after.

The Group expanded its hard disk (HD) media production capacity (Electronics segment), installed new naphtha cracking furnaces (Petrochemicals segment), and decided to transfer its automotive heat exchanger business (Aluminum segment).

In 2010, the Group recorded consolidated net sales of ¥797,189 million, up 17.5% from the previous year, and operating income of ¥38,723 million (up ¥43,705 million). While the Petrochemicals segment’s operating income decreased due to the shutdown maintenance that takes place once in every four years, the other four segments recorded higher operating income due partly to increases in shipment volumes. The Group recorded ordinary income of ¥30,471 million (up ¥52,796 million), due to improvement in operating income and other income, including equity in earnings (losses) of unconsolidated subsidiaries and affiliates. The Group also recorded net income of ¥12,706 million (up ¥50,688 million).

(Unit: Millions of yen)

	2010 (Jan.-Dec.)	Vs. 2009		2010 4Q (Oct.-Dec.)	Vs. 4Q 2009		Vs. 3Q 2010	
		2009 (Jan.-Dec.)	Increase/ decrease		2009 4Q (Oct.-Dec.)	Increase/ decrease	2010 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	797,189	678,204	118,985	212,838	206,219	6,619	200,252	12,585
Operating income	38,723	- 4,983	43,705	11,192	11,209	- 17	9,786	1,406
Ordinary income	30,471	- 22,325	52,796	8,905	9,430	- 525	7,517	1,387
Net income	12,706	- 37,981	50,688	3,306	8,988	- 5,682	1,699	1,607

(2) Summary of results by business segment

(Petrochemicals)

(Full-year, compared with the previous year)

Production of ethylene and propylene decreased in 2010, reflecting the shutdown maintenance that takes place once in every four years. Sales of olefins rose owing to higher selling prices, despite the fall in shipment volumes resulting from the shutdown maintenance. Ethyl acetate shipments decreased, due partly to the concentration of production at the Oita Complex in June. However, overall sales of organic chemicals were maintained at the previous year's level, owing to the rise in selling prices.

As a result, the Petrochemicals segment's sales increased 16.0%, to ¥273,739 million. However, the segment's operating income decreased 39.0%, to ¥4,877 million, reflecting the decline in shipment volumes due to the shutdown maintenance.

(4Q results, in comparison with the same period of the previous year)

Sales of organic chemicals were down due to decreased shipment volumes of ethyl acetate. Sales of olefins rose owing to the rise in selling prices. As a result, the Petrochemicals segment's sales in the fourth quarter increased 4.3%, to ¥75,746 million. However, operating income for the fourth quarter fell 1.3%, to ¥2,186 million.

(Unit: Millions of yen)

	2010 (Jan.-Dec.)	Vs. 2009		2010 4Q (Oct.-Dec.)	Vs. 4Q 2009		Vs. 3Q 2010	
		2009 (Jan.-Dec.)	Increase/ decrease		2009 4Q (Oct.-Dec.)	Increase/ decrease	2010 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	273,739	235,999	37,740	75,746	72,608	3,137	71,548	4,198
Operating income	4,877	7,992	- 3,115	2,186	2,216	- 30	1,082	1,104

(Chemicals)

(Full-year, compared with the previous year)

Production of ammonia increased. Sales of ammonia and chloroprene rubber were up due to the increase in shipment volumes. Sales of acrylonitrile increased due to the rise in shipment volumes and selling prices. Sales of carbon dioxide and dry ice fell, as the influence of changes in the first half of 2009 in the accounting period of Showa Tansan Co., Ltd. and its affiliate disappeared.

As a result, the Chemicals segment's sales fell 2.1%, to ¥89,923 million. However, operating income jumped 718.2%, to ¥3,649 million, due partly to the rise in shipment volumes of acrylonitrile.

(4Q results, in comparison with the same period of the previous year)

Sales of industrial gases fell due to withdrawal from the hydrofluorocarbons business in 2009. Meanwhile, sales of acrylonitrile increased due to the rise in shipment volumes and selling prices, and sales of ammonia rose owing to the rise in shipment volumes. As a result, the Chemicals segment's sales in the fourth quarter increased 2.4%, to ¥23,821 million, and operating income increased 17.0%, to ¥1,057 million.

(Unit: Millions of yen)

	2010 (Jan.-Dec.)	Vs. 2009		2010 4Q (Oct.-Dec.)	Vs. 4Q 2009		Vs. 3Q 2010	
		2009 (Jan.-Dec.)	Increase/ decrease		2009 4Q (Oct.-Dec.)	Increase/ decrease	2010 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	89,923	91,887	- 1,965	23,821	23,257	564	21,505	2,316
Operating income	3,649	446	3,203	1,057	903	154	372	685

(Electronics)

(Full-year, compared with the previous year)

Production of HD media increased, reflecting brisk demand for use in notebook PCs. Sales of HD media, compound semiconductors, and semiconductor-processing specialty gases increased due to higher shipment volumes. Sales of rare earth magnetic alloys increased due to higher shipment volumes and higher selling prices, reflecting the soaring raw material prices.

As a result, the Electronics segment's sales increased 38.0%, to ¥176,397 million. The segment recorded an operating income of ¥14,621 million (up ¥24,396 million), due mainly to the rise in shipment volumes of HD media.

(4Q results, in comparison with the same period of the previous year)

Sales of HD media in the fourth quarter increased slightly, reflecting steady demand for use in notebook PCs. Sales of compound semiconductors and specialty gases for semiconductor processing increased due to higher shipment volumes. Sales of rare earth magnetic alloys increased due to higher selling prices. As a result, the Electronics segment's sales in the fourth quarter increased 6.6%, to ¥49,278 million, and operating income decreased 0.1%, to ¥4,540 million.

(Unit: Millions of yen)

	2010 (Jan.-Dec.)	Vs. 2009		2010 4Q (Oct.-Dec.)	Vs. 4Q 2009		Vs. 3Q 2010	
		2009 (Jan.-Dec.)	Increase/ decrease		2009 4Q (Oct.-Dec.)	Increase/ decrease	2010 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	176,397	127,807	48,589	49,278	46,208	3,070	40,289	8,989
Operating income	14,621	- 9,775	24,396	4,540	4,545	- 5	3,331	1,210

(Inorganics)

(Full-year, compared with the previous year)

Production of graphite electrodes increased, reflecting the recovery in demand from the electric arc furnace steelmaking industry. Sales of ceramics increased due partly to the rise in volumes of shipments to the electronic parts and automotive parts industries. Sales of graphite electrodes increased due to higher shipment volumes in Japan and the United States.

As a result, the Inorganics segment's sales increased 40.3%, to ¥75,339 million. Operating income jumped 157.3%, to ¥9,270 million due to the rise in shipment volumes of graphite electrodes and ceramics.

(4Q results, in comparison with the same period of the previous year)

Sales of ceramics rose due to higher shipment volumes. Sales of graphite electrodes at our U.S. subsidiary in the fourth quarter were maintained at the level of the same quarter of the previous year. However, sales of graphite electrodes on a non-consolidated basis decreased due partly to the influence of higher yen. As a result, the Inorganics segment's sales in the fourth quarter increased 6.6%, to ¥18,508 million. However, operating income decreased 12.6%, to ¥2,471 million, due partly to the influence of higher yen.

(Unit: Millions of yen)

	2010 (Jan.-Dec.)	Vs. 2009		2010 4Q (Oct.-Dec.)	Vs. 4Q 2009		Vs. 3Q 2010	
		2009 (Jan.-Dec.)	Increase/ decrease		2009 4Q (Oct.-Dec.)	Increase/ decrease	2010 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	75,339	53,711	21,628	18,508	17,364	1,145	19,685	- 1,177
Operating income	9,270	3,603	5,667	2,471	2,826	- 356	3,126	- 656

(Aluminum and Other)

(Full-year, compared with the previous year)

Production of high-purity foils for capacitors increased due to the recovery in demand. Sales of rolled products were up due to the rise in shipment volumes of high-purity foils for capacitors. Sales of aluminum cylinders for laser beam printers increased due to higher shipment volumes. However, sales of extrusions were down due to withdrawal from the business in commodity extrusions for building materials in the second half of 2009. Thus, overall sales of extrusions/specialty products decreased slightly.

In the automotive heat exchanger business, sales in Europe fell, but sales rose in Japan, the United States, China, and Thailand. Thus, overall sales of automotive heat exchangers were up. Sales of *Shotic*™ forged products increased due to the rise in shipments to the automobile industry. Sales of aluminum cans increased due to higher shipment volumes, reflecting the extraordinary hot summer.

As a result, the Aluminum segment's sales rose 7.7%, to ¥181,791 million. The segment recorded operating income of ¥9,299 million (up ¥13,516 million) due to the rise in shipment volumes and the effect of structural reform carried out in 2009.

(4Q results, in comparison with the same period of the previous year)

Sales of rolled products increased due to the rise in shipment volumes of high-purity foils for capacitors. Sales of extrusions/specialty products fell, reflecting the structural reform carried out in 2009. Sales of automotive heat exchangers decreased in Japan, the United States and Europe, despite the rise in sales in China and Thailand. Thus, overall sales of automotive heat exchangers fell. Sales of *Shotic*™ forged products increased due to higher shipment volumes, while sales of aluminum cans were maintained at the level of the same period of the previous year. The Aluminum and Other segment's sales in the fourth quarter decreased 2.8%, to ¥45,484 million, but operating income increased 16.1%, to ¥1,996 million.

(Unit: Millions of yen)

	2010 (Jan.-Dec.)	Vs. 2009		2010 4Q (Oct.-Dec.)	Vs. 4Q 2009		Vs. 3Q 2010	
		2009 (Jan.-Dec.)	Increase/ decrease		2009 4Q (Oct.-Dec.)	Increase/ decrease	2010 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	181,791	168,799	12,992	45,484	46,781	- 1,296	47,225	- 1,741
Operating income	9,299	- 4,217	13,516	1,996	1,719	277	2,730	- 733

(3) Major steps taken or decided in 2010

(Corporate)

・ Launch of new medium-term consolidated business plan PEGASUS

In January 2011, we launched a new medium-term consolidated business plan PEGASUS for the 2011-2015 period. To achieve the goals of improving the world's living standard and reducing environmental impact, we have decided to focus on the two business domains of "Energy/Environment" and "Electronics." We will provide components, materials and solutions in these areas based on our proprietary advanced technologies, thereby contributing to the creation of a society in which affluence and sustainability are harmonized. In the business portfolio we aim to realize, we classify businesses into three categories: growing base businesses, stable base businesses, and growth/new growth businesses. We will promote our growth strategy by concentrating our managerial resources on globally competitive operations. "HD media" and "graphite electrodes" are positioned as our main businesses. We will implement aggressive growth strategies for these two businesses, including expansion of production capacity. The two businesses will serve as major contributors to our profit and cash flows.

For the strategy and financial targets under the business plan, please refer to "Management Policy 3) Medium- to long-term business strategy" on Page 18.

・Acquisition of highest-level environmental rating from DBJ

In July 2010, we received a loan from Development Bank of Japan Inc. (DBJ), after acquiring the highest-level rating from DBJ for our environmental management. The rating was in recognition of our contribution to sustainable growth through the development of ultrabright LED chips and *VGCF*™ carbon nanotube; implementation of measures against global warming, such as the drastic cut in greenhouse gas emissions through the replacement of naphtha cracking furnaces at Oita Complex; and establishment of aggressive plans for further reductions. The Showa Denko Group attaches high priority to a sustainable growth of society, developing products and technologies that contribute to reductions in environmental impact and cutting emissions of greenhouse gases.

(Petrochemicals)

・Introduction of modern cracking furnaces at Oita Complex

We renovated our ethylene production facility at our Oita Complex, mainly through the replacement of seven cracking furnaces with two modern high-efficiency furnaces (each having the capacity to produce 100,000 tons of ethylene a year). The renovation was conducted during the period of the shutdown maintenance, and the new facilities started up in May. As a result of the renovation, we have achieved the highest-level energy efficiency among petrochemical complexes in Japan, while reducing CO_2 emissions by approximately 60,000 tons a year.

・Full-scale production of environment-friendly solvent

In February, we started production of n-propyl acetate at our Oita Complex. The product is used as solvent for special gravure printing ink. Demand for n-propyl acetate is expected to increase owing to its lower impact on the environment as well as higher safety, compared with conventional solvents.

・Pilot plant for heat-resistant transparent film

We decided to build a pilot plant at our Oita Complex to produce heat-resistant and transparent film for use in displays. The pilot plant is scheduled for start-up in June 2011. As the film has high transparency and high heat resistance, we will aim to quickly launch the business on a full scale. We will expand our film operations to cover not only the field of displays (touch screens, LCDs) but also optical films that require high performance.

(Chemicals)

・New functional monomer for paints, coatings and adhesives

We decided to start up a production facility for a new thiol-based curing agent Karenz MT™ PE1 in the middle of 2011 at our Kawasaki Plant. The product will be used as curing agent to substantially improve the properties of epoxy resins for paints, coatings and adhesives, whose demand is increasing in the field of construction and vessels. We are already selling Karenz™ series functional monomers for electronics applications, and aim to strengthen our functional monomers business by broadening applications.

・Strengthening personal care products business

We decided to strengthen our personal care products business by integrating sales and R&D functions so far separately performed for three segments: materials for skin-care cosmetics; materials for curling agents; and medical-care-related materials, including those for medical equipment and base materials for pharmaceuticals for external application. The integration took effect in January 2011. We will strengthen the business by increasing the speed of product development through closer cooperation among sales, production and R&D units.

(Electronics)

・Expansion of HD media production capacity

We decided to expand our HD media production capacity by 5 million disks per month, mainly through the installation of additional production lines at our subsidiary Showa Denko HD Singapore Pte. Ltd. The decision was made in view of the expected growth of demand for hard disk drives (HDDs) owing to increased use in PCs, servers and digital electric appliances. The capacity expansion will involve capital expenditure of ¥15.5 billion in total. The Showa Denko Group's total HD media production capacity will be increased by stages, from 22 million disks a month at the end of June 2010 to 27 million disks a month by the end of June 2011. We will continue examining measures to increase our HD media production capacity in response to the growing demand for HDDs.

・Completion of rare earth metal plant in Vietnam

Our subsidiary Showa Denko Rare-Earth Vietnam Co., Ltd. completed a new rare earth metal plant in Vietnam and started production in May. The plant produces 800 tons a year in total of didymium and dysprosium metals, which are used as raw material for neodymium-based high-performance magnetic alloys. In addition to current applications in automotive parts and electronics, such as HDDs, neodymium-based high-performance magnets are expected to be increasingly used in electric vehicles and energy-saving electric appliances. In its rare earth metal production, Showa Denko Rare-Earth Vietnam will process raw materials and recycle magnets purchased from various sources inside and outside Vietnam. The metals thus produced will be used at our rare earth magnetic alloy plants.

・Completion of blue LED chip production capacity expansion

We increased our blue LED chip production capacity at our Chiba site from 200 million units per month to 340 million units per month, and started commercial operation of the expanded facility in July. Demand for blue LEDs is expected to grow due to increased use in such applications as backlight for LCD TVs and general lighting. We will promote technical development to further increase output of LED chips and improve production efficiency, thereby providing high-quality, high-performance and energy-saving products that fulfill customers' requirements.

・Production of electronic cleaning agents in China

In August, we started commercial production of high-purity cyclohexanone at a new plant built by our subsidiary Zhejiang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd., in Zhejiang Province, China. High-purity cyclohexanone is used as cleaning agent for removal of photoresist and as solvent for photoresist in the production of semiconductors and LCD panels. With the establishment of the integrated high-purity cyclohexanone supply setup in China, we will strengthen our electronic cleaning agent business and serve the needs of the rapidly growing electronics industry in Asia.

・JV for specialty material gases for electronics

In December, SDK and Air Water Inc. established a joint venture for the production of specialty material gases for the electronics industry. The new company, Showa Denko Air Water Co., Ltd., is owned 51% by SDK. Demand for specialty material gases has steadily been growing, centering on Asian markets, for use in the production of solar cells, semiconductors, and LCD panels. The two companies agreed to form a partial alliance in the areas of advanced, innovative, and eco-friendly specialty material gases that can be marketed globally. As a first step, the JV will install a hydrogen selenide (H_2Se) production facility within the premises of SDK's Tokuyama Plant. H_2Se is used for forming light-absorbing films in CIGS (copper indium gallium diselenide) compound-semiconductor-based solar cells. The JV will start producing H_2Se at the plant in June 2011. CIGS-type solar cells are expected to be widely used for large-scale photovoltaic power generation.

・Expansion of production capacity for titanium oxide nanoparticles

We decided to expand nanoparticle titanium-oxide production capacity at our subsidiary Showa Titanium Co., Ltd., from 180 tons a month at present to 240 tons a month as from June 2011. The product, sold under the trade name of *Super-Titania*™, is used in the production of multilayer ceramic capacitors (MLCCs). MLCCs are used mainly in electronic devices that require small size and light weight, such as PCs and mobile phones, as well as in such digital electric appliances as flat-panel TVs. Demand for MLCCs is expected to continue growing.

(Inorganics)

・Decision to build chemical alumina plant in Indonesia

SDK decided to have PT Indonesia Chemical Alumina (ICA) build a chemical alumina plant in West Kalimantan, Indonesia. ICA is a joint venture (owned 20% by SDK) with PT. Antam Tbk (Antam), of Indonesia. Chemical alumina is used for the production of various products, including electronics. The project cost, which is expected to total approx. US$450 million, will be financed by investments by SDK and Antam as well as ICA's bank loans. The plant, with the capacity to produce 300,000 t/y of chemical alumina, is scheduled for start-up in 2014. SDK will take 200,000 t/y of chemical alumina from the new plant and use them to replace the current products from its Yokohama Plant. SDK will expand its chemical alumina operations in the growing Asian market.

(Aluminum and Other)

・Transfer of business in heat exchangers for car air conditioners

SDK reached basic agreement with Keihin Corporation (Keihin) to transfer SDK's automotive air-conditioner heat exchanger business to Keihin, which is the main customer for the business. SDK has been producing aluminum-based heat exchangers, including condensers and evaporators, in Japan, the United States, Europe, China and Thailand. SDK has judged that it will be difficult to enhance competitiveness of a stand-alone heat exchanger business, and that it is essential to integrate the business into automotive air-conditioning system operations to ensure further growth. After the transfer, SDK will further strengthen its Aluminum segment by allocating its resources to the development of high-value-added aluminum products.

・Start-up of Cooling Device Business Development Dept.

In April, we established a Cooling Device Business Development Department to meet growing demand for devices for cooling power electronics installed in hybrid cars. With the establishment of the new department that integrates development / production / marketing functions, we will expand the power electronics cooling device business to meet increasing demand for this energy-saving product.

(4) Projections for 2011

a) Overall projections

In 2011, despite the expected gradual recovery, the business environment is forecast to remain severe, due to such uncertain factors as fears of another recession in overseas economies, mainly in Europe; fluctuations in exchange rates and stock prices; and the rise in raw material costs. Under the new business plan PEGASUS, the Showa Denko Group will, as an "evolving chemical company with individualized products," aim to build up strong and diversified businesses on a global scale and establish leading positions on the market. The Showa Denko Group's performance forecast for 2011 is as follows:

(Unit: millions of yen)

	Results for the term ended Dec. 31, '10	Forecast for the term ending Dec. 31, '11	Difference	Rate of change
Net sales	797,189	870,000	72,811	9.1%
Operating income	38,723	45,000	6,277	16.2%
Ordinary income	30,471	38,000	7,529	24.7%
Net income	12,706	21,000	8,294	65.3%

Net sales will increase from the 2010 results, to ¥870,000 million. Operating income, ordinary income and net income will also increase to ¥45,000 million, ¥38,000 million, and ¥21,000 million, respectively. The above forecast is based on the assumption that the exchange rate will be ¥85 to the U.S. dollar and the naphtha price will be ¥48,800/KL.

b) Net sales by business segment

[Review of segmentation (application of the management approach)]

As from 2011, “accounting standards on the disclosure of segment information” and their guidelines will be introduced. In this connection, we have changed the way of segmentation, from five (Petrochemicals, Chemicals, Electronics, Inorganics, Aluminum) to six (Petrochemicals, Chemicals, Electronics, Inorganics, Aluminum, and Other).

[Net sales]

(Unit: billions of yen)

	Results for the term ended Dec. 31, ‘10	Forecast for the term ending Dec. 31, ‘11	Difference
Petrochemicals	199.6	240.0	40.4
Chemicals	133.6	135.0	1.4
Electronics	148.0	180.0	32.0
Inorganics	78.0	90.0	12.0
Aluminum	130.1	120.0	- 10.1
Other	154.1	150.0	- 4.1
Adjustment	- 46.1	- 45.0	1.1
Total	797.2	870.0	72.8

*The figures for the term ended December 31, 2010, shown in the above table, are for your reference, revised in accordance with the new segmentation after the introduction of the management approach.

[Operating income]

(Unit: billions of yen)

	Results for the term ended Dec. 31, ‘10	Forecast for the term ending Dec. 31, ‘11	Difference
Petrochemicals	2.3	5.0	2.7
Chemicals	5.6	7.0	1.4
Electronics	14.9	23.0	8.1
Inorganics	10.1	10.0	- 0.1
Aluminum	8.5	7.0	- 1.5
Other	2.0	1.0	- 1.0
Adjustment	- 4.8	- 8.0	- 3.2
Total	38.7	45.0	6.3

*The figures for the term ended December 31, 2010, shown in the above table, are for your reference, revised in accordance with the new segmentation after the introduction of the management approach.

2. Financial Conditions

(1) Assets, liabilities and net assets at December 31, 2010

Total assets decreased ¥33,820 million, to ¥924,484 million, due mainly to the decrease in accounts receivable and fixed assets. Interest-bearing debt further decreased ¥22,877 million, to ¥351,034 million, as a result of continued reduction efforts. Total liabilities decreased ¥32,063 million, to ¥639,519 million, due partly to the decrease in accounts payable.

Total net assets decreased ¥1,757 million, to ¥284,965 million, due to the fall in foreign currency translation adjustment, reflecting the appreciation of the yen, notwithstanding the recording of net income.

(2) Cash flows in 2010

Net cash provided by operating activities increased ¥46,447 million from the previous year, to ¥66,293 million, due partly to the increase in operating income. Net cash used in investing activities increased ¥22,479 million, to ¥49,074 million, due partly to the increase in payments for acquisition of tangible fixed assets.

Thus, free cash flow ended up in the proceeds of ¥17,218 million, an improvement of ¥23,967 million. Net cash used in financing activities ended up in the payment of ¥34,494 million, as proceeds decreased ¥62,897 million. This reflected the disappearance of the influence of capital increase by public offering and issuance of preferred securities in 2009 as well as reductions in interest-bearing debt. As a result, and due partly to the influence of exchange rate fluctuations, cash and cash equivalents at December 31, 2010 decreased ¥19,049 million, to ¥43,459 million.

(3) Projections for 2011

Cash flows from operating activities will increase. In net cash used in investing activities, payment will increase. Thus, free cash flow for 2011 is expected to decrease by around ¥5,200 million from ¥17,218 in 2010, to the proceeds of approximately ¥12,000 million. Interest-bearing debt at the end of the year will be around ¥360,000 million, up ¥9,000 million.

(4) Trends in cash flow indexes

	2007	2008	2009	2010
Equity ratio	26.9%	25.0%	25.5%	26.1%
Equity ratio on a market value basis	48.5%	16.5%	28.9%	29.6%
Debt maturity (years)	5.9	6.4	18.8	5.3
Interest coverage ratio	8.0	7.8	2.8	11.4

[Notes]

Equity ratio: Equity / Total assets

Equity ratio on a market value basis: Total market value of listed shares / Total assets

Debt maturity (years): Interest-bearing debt / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payment

- Each index is calculated by relevant formulas with financial figures quoted from the consolidated balance sheet.
- Equity is calculated by deducting minority interests from total net assets.
- Total market value of listed shares is calculated by multiplying the closing share price at the year-end by the number of shares issued, after deducting treasury stock.
- As to the cash flows, the amount of “cash flows from operating activities” in the consolidated cash flow statement is used.
- “Interest-bearing debt” refers to loans payable, commercial paper, and bonds as listed among liabilities on the consolidated balance sheet.
- As to the interest payment, the amount of “interest expense” in the consolidated cash flow statement is used.

3. Basic policy regarding appropriation of the Company’s profits; dividends for 2010/2011

The Company considers the payment of dividends as an important obligation to its shareholders. The Company’s basic policy is to decide on dividends after consideration of the profit level for the term and the need for internal reserve for use in future business expansions. As to appropriation of profits for 2010, the Company is planning to pay dividends of ¥3 per share. For 2011, the Company is planning to pay dividends of ¥3 per share.

4. Operational and other risks

We consider we face the risks, as explained below, that could adversely affect our future performance, financial conditions, and cash flows. The Showa Denko Group is taking steps to prevent the realization of these risks and minimize impact on its operations. The following covers important risk factors considered being present as of this February 9, 2011. This list is not inclusive.

(1) Substantial fluctuations in the performances of individual businesses

The Group is manufacturing and selling a wide variety of products, such as petrochemicals, chemicals, electronics, inorganics and aluminum. The following risks are expected in major business fields, but those are not limited to the businesses mentioned below.

① Petrochemicals

The Group purchases and imports a large amount of feedstock, including naphtha.

When the price of naphtha or other types of feedstock rises due to an increase in crude oil prices, tight supply, or a weaker yen, and when we cannot absorb the manufacturing cost increase in the form of higher product prices, the Group's performance and financial conditions can be affected. Furthermore, earnings from petrochemicals largely depend on the supply-demand balance. Construction of large plants by competitors and resultant oversupply as well as a sharp decrease in demand due to unfavorable changes in the Japanese or world economies can affect the Group's performance and financial conditions.

② Aluminum

The Group imports a large amount of aluminum ingots from overseas sources. When the aluminum ingot price rises due to fluctuations in LME prices or a weaker yen, and when we cannot absorb the manufacturing cost increase in the form of higher product prices, the Group's performance and financial conditions can be affected. Furthermore, sales to such industries as the automobile, electric appliance and electronics sectors account for a large portion. Trends of those industries, which are beyond our control, can substantially affect such businesses.

③ HD media

In the Group's HD media business, the sales volume is largely influenced by demand for electric appliances and PCs. The business requires innovations at a rapid pace and involves fierce international competition. Fluctuations in demand and intensification of competition will cause fluctuations in selling prices. The Group is prepared to develop and provide products meeting the market requirements and has established a global production/marketing setup. However, when customer requirements change more quickly than we expected, when supply-demand balance changes substantially, and when exchange rates sharply fluctuate, the Group's performance and financial conditions can be affected.

④ Overseas operations

The Group is producing and selling in Asia, North America and Europe. Operations overseas involve such special risks as unexpected changes in laws and regulations, deterioration in political/economic situations, and social disorder due to war and terrorism. Such risks can become real and affect our overseas operations, resulting in adverse impact on the Group's performance and financial conditions.

(2) Unexpected fluctuations in financial conditions and cash flows

① Substantial fluctuations in exchange rates

As for foreign-currency-based transactions centering on exports/imports, the Group makes its best efforts to minimize relevant exchange rate fluctuation risks, mainly through exchange contracts. However, substantial fluctuations in exchange rates can affect the

Group’s performance and financial conditions. In particular, a sharp appreciation of the yen against other currencies can affect the Group’s performance. Exchange rate fluctuations can also affect the Group’s performance and financial conditions through the conversion of overseas subsidiaries’ financial statements into Japanese yen.

② Trends in financial markets and changes in the fund-raising environment

The trends in the financial markets and deterioration in the Group’s financial indexes can affect the Group’s fund raising and interest expense: for example, in the form of prompt repayment of a loan owing to the terms of financial covenants. In that event, the Group’s performance and financial conditions could be affected.

③ Employees’ severance indemnities

The Group’s employees’ severance indemnities and expenses are calculated based on various basic rates and the yield of pension assets used in pension calculations. Fluctuations in the current price of pension assets, trends in interest rates, and changes in the retirement benefit/pension systems can affect the Group’s performance and financial conditions.

④ Securities

As the Group owns securities with current prices, fluctuations in stock prices can result in valuation losses, affecting the Group’s performance and financial conditions.

⑤ Accounting for impairment of fixed assets

The Group has adopted the accounting standard regarding impairment of fixed assets. The Group may incur additional losses from the impairment of fixed assets as a result of future changes in the current prices of land and other fixed assets or a substantial change in the business environment.

⑥ Deferred tax assets

The Group’s financial statements include deferred tax assets in relation to temporary differences (differences between the assets/liabilities on the consolidated financial statements and the assets/liabilities in calculation of taxable income). The calculation of deferred tax assets is based on various projections for future taxable income. Thus, when actual taxable income differs from the projections and when it becomes necessary to revise deferred tax assets, that can affect the Group’s performance and financial conditions.

(3) Specific regulations

The Group’s businesses are subject to various restrictions as stipulated by laws and regulations. The restrictions relate to industrial safety (such as the Law for Prevention of Disasters at Petroleum Complex, Etc.; the Fire Service Law; and the High Pressure Gas

Safety Law) and the environment and chemical substances (such as the Basic Environment Law; the Air Pollution Control Law; and the Law concerning the Examination and Regulation of Manufacture, Etc. of Chemical Substances). The Group observes these laws and regulations as it conducts its respective businesses. In the event the Group fails to observe any of the laws and regulations, the Group's activities could be restricted. In case stricter regulations are introduced, resulting in higher costs, the Group's performance and financial conditions can be affected.

(4) Important lawsuits

While the Group makes its best efforts to observe pertinent laws and regulations, the Group may be sued as it conducts its wide-ranging businesses.

(5) Others

① R&D

In line with its policy of securing market orientation and establishing technical advantages, the Group is engaged in continuous R&D to improve its core inorganic, aluminum, and organic chemical technologies and achieve synergies in an effort to create individualized products and high-value-added businesses. However, in case the actual results materially differ from original plans, the Group's performance and financial conditions could be affected.

② Intellectual property

The Group is making its best efforts to obtain, use, and protect intellectual property, such as industrial property rights and know-how, in recognition of their ability to make the Group's businesses more competitive. However, in the event of failure to duly obtain or use the rights, infringement by a third party, or if the Group is considered to have infringed a third party's intellectual property, the Group's operations can be hindered and the Group's performance and financial conditions could be affected.

③ Quality assurance and product liability

The Group has established its internal rules on quality assurance and quality control, as well as organizations for managing and promoting quality assurance. Furthermore, the Group has obtained certification under ISO 9001 standards to ensure strict quality control. However, in the event of a serious quality defect or being sued for product liability, the Group's reputation could be damaged and the Group may be forced to pay compensation to customers. This could affect the Group's performance and financial conditions.

④ Accidents and disasters

The Group is committed to securing steady and safe operations. The Group conducts regular inspections of all manufacturing facilities in an effort to minimize any risk factors pertaining to suspension of operations or accidents due to problems with manufacturing facilities. In the event of injury or damage to property due to an accident or a natural disaster, the Group's reputation could be damaged and the Group may incur substantial costs and lose business opportunities due to the suspension of production. This could affect the Group's performance and financial conditions.

⑤ Impact on environment

The Group is committed to the principles of Responsible Care, which means that we are working to ensure the health and safety of everyone and to protect the environment from harm caused by chemical substances throughout their life cycles, namely, the development, production, distribution, use, and disposal. In the event of causing impact on the environment, the Group's reputation can be damaged. The Group may incur costs, including compensation, lose business opportunities due to the suspension of production, and/or pay compensation to customers. These factors can affect the Group's performance and financial conditions.

[Management Policy]

1. Showa Denko's basic management policy

(Vision)

We at the Showa Denko Group will provide products and services that are useful and safe and exceed our customers' expectations, thereby enhancing the value of the Group, giving satisfaction to our shareholders, and contributing to the sound growth of international society as a responsible corporate citizen.

(Code of conduct as basic management policy)

(i) We will develop and provide useful and safe technologies, products, and services to contribute to the sound growth of society.

(ii) We will observe the laws of Japan and of the foreign countries in which we operate, abide by the Company rules, and strive to maintain the social order.

(iii) We will conduct business in Japan and abroad based on the principle of fair and free competition.

(iv) We will do our best to ensure safety and to protect the global environment.

(v) We will make sure that we maintain good communications with the public and disclose accurate information on our Company in a timely manner.

(vi) We will respect human rights and create a cheerful and comfortable working environment.

(vii) We will act as a member of the international society and contribute to the development of regions in which we operate.

2. Management indexes

The Showa Denko Group regards the following as important management indexes:

operating income, which shows the results of operations; operating income/net sales ratio; operating income/total assets ratio (ROA); and free cash flow (FCF).

3. Medium to long-term business strategy

(1) Launch of new medium-term consolidated business plan PEGASUS

In January 2011, the Showa Denko Group launched a new medium-term consolidated business plan PEGASUS. Under the plan, the Group will, as an “evolving chemical company with individualized products,” aim to build up strong and diversified businesses on a global scale and establish leading positions on the market.

(2) Basic strategy under PEGASUS

In the business portfolio we aim to realize, we classify businesses into three categories: growing base businesses, stable base businesses, and growth/new growth businesses. We will promote our growth strategy by concentrating our managerial resources on globally competitive operations.

1) Main businesses

“HD media” and “graphite electrodes” are positioned as the main businesses. We will implement aggressive growth strategy for these two businesses, including expansion of production capacity. The two businesses will serve as major contributors to our profit and cash flows.

2) Growth/new growth businesses

We will expand businesses in high-purity gases for semiconductor processing and various functional materials. We will also aim to quickly commercialize new businesses in advanced materials for lithium-ion batteries, etc., SiC epitaxial wafers for power devices, and ally derivatives such as heat-resistant transparent films.

3) Overseas operations

We will expand operations in growing markets, centering on Asia. In addition to the HD media and graphite electrode businesses, we will further expand our overseas operations in such areas as rare earth magnetic alloys, high-purity aluminum foils for capacitors, and aluminum cylinders for laser beam printers.

4) Utilization of M&A and partnerships

In addition to existing managerial resources, we will utilize M&A and partnerships, when necessary for promotion of business strategies and R&D, to accelerate the speed of launching new businesses.

5) R&D strategy

We will invest a total of ¥120 billion in R&D in the 2011-2015 period. We will promote

R&D over a long term in areas to be directly linked to our growth. We will allocate 60% of the amount to growing base businesses and growth businesses, while allocating 20% to new growth businesses and themes for search.

6) Capital investment plans

We will invest a total of ¥220 billion in the 2011-2013 period. By segment, priority will be given to Electronics, which includes the businesses in HD media and rare earth magnetic alloys; Inorganics, centering on graphite electrodes; and Chemicals, in which operation sites in Asia are to be expanded for high-purity gases for semiconductor processing.

(3) Financial targets under PEGASUS

The Group aims to achieve the following in 2013:

Net sales: ¥1,000 billion

Operating income: ¥80 billion

Operating income/net sales ratio: 8%

ROA: 7%

FCF: ¥70 billion (cumulative amount for the 2011-2013 period)

4. Tasks to be accomplished

While rapid economic growth in emerging countries is bringing about the rise in living standards, there is increasing need for concerted efforts to reduce impacts on the global environment. This social trend is producing new market needs. Specifically, demand is growing for compact electronic devices with higher quality, speed, and capacity, which will lead to more convenience and comfort. Furthermore, new technologies are needed to realize a healthy and safe society through various environmental protection measures, including those against global warming. And the security of energy supply should be achieved through reductions in dependence on fossil fuels and conservation of energy.

To meet these global market requirements, we have decided to focus on the two business domains of “Energy/Environment” and “Electronics.” We will provide components, materials and solutions in these areas based on our proprietary advanced technologies and contribute to the creation of a society in which affluence and sustainability are harmonized, thereby enhancing the corporate value and promoting the common interests of shareholders.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2009	Dec. 30, 2010	Dec. 30, 2010
Assets	¥	¥	$
Current assets			
Cash and deposits	62,514	43,627	535,369
Notes and accounts receivable-trade	147,579	135,611	1,664,149
Merchandise and finished goods	40,542	45,085	553,260
Work in process	11,509	10,422	127,895
Raw materials and supplies	40,283	45,151	554,063
Deferred tax assets	4,631	3,309	40,606
Other	26,152	29,312	359,697
Allowance for doubtful accounts	(559)	(336)	(4,121)
Total current assets	332,650	312,181	3,830,918
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	91,086	87,782	1,077,212
Machinery, equipment and vehicles, net	134,821	142,688	1,750,991
Tools, furniture and fixtures, net	9,111	8,021	98,429
Land	255,774	255,188	3,131,528
Construction in progress	13,481	6,157	75,553
Total property, plant and equipment	504,273	499,836	6,133,714
Intangible assets			
Goodwill	3,832	2,631	32,285
Other	9,722	9,524	116,876
Total intangible assets	13,554	12,155	149,162
Investments and other assets			
Investment securities	65,084	58,813	721,722
Deferred tax assets	27,671	27,462	337,004
Other	15,984	14,700	180,396
Allowance for doubtful accounts	(914)	(665)	(8,166)
Total investments and other assets	107,826	100,311	1,230,956
Total noncurrent assets	625,653	612,302	7,513,831
Total assets	958,303	924,484	11,344,749
Liabilities			
Current liabilities			
Notes and accounts payable-trade	116,553	114,234	1,401,815
Short-term loans payable	74,601	73,721	904,668
Current portion of long-term loans payable	59,862	59,852	734,475
Commercial papers	15,000	6,000	73,629
Current portion of bonds	13,000	3,000	36,814
Accounts payable-other	-	46,811	574,432
Provision for repairs	3,657	276	3,381
Provision for bonuses	1,563	1,918	23,542
Provision for business structure improvement	160	67	822
Provision for Niigata Minamata Disease	-	976	11,981
Other	69,561	21,812	267,665
Total current liabilities	353,958	328,667	4,033,224
Noncurrent liabilities			
Bonds payable	23,000	30,000	368,143
Long-term loans payable	188,448	178,461	2,189,972
Lease obligations	15,359	16,891	207,277
Deferred tax liabilities	6,819	2,974	36,489
Deferred tax liabilities for land revaluation	45,896	45,818	562,256
Provision for retirement benefits	27,088	26,295	322,674
Provision for repairs	46	595	7,301
Other	10,968	9,818	120,484
Total noncurrent liabilities	317,624	310,851	3,814,596
Total liabilities	671,581	639,519	7,847,820
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,724,917
Capital surplus	62,225	62,223	763,567
Retained earnings	29,311	36,916	453,017
Treasury stock	(174)	(178)	(2,179)
Total shareholders' equity	231,925	239,525	2,939,323
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	2,574	(3,749)	(46,006)
Deferred gains or losses on hedges	(204)	269	3,299
Revaluation reserve for land	21,764	22,373	274,546
Foreign currency translation adjustment	(11,962)	(16,778)	(205,894)
Total valuation and translation adjustments	12,172	2,114	25,945
Minority interests	42,625	43,325	531,661
Total net assets	286,722	284,965	3,496,929
Total liabilities and net assets	958,303	924,484	11,344,749

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2009 and 2010		
	2009	2010	2010
	¥	¥	$
Net sales	678,204	797,189	9,782,656
Cost of sales	597,766	670,260	8,225,062
Gross profit	80,438	126,928	1,557,594
Selling, general and administrative expenses	85,420	88,206	1,082,413
Operating income (loss)	(4,983)	38,723	475,182
Non-operating income			
Interest income	177	191	2,339
Dividends income	1,221	1,022	12,544
Equity in earnings of affiliates	–	1,206	14,794
Rent income on noncurrent assets	1,191	1,123	13,782
Subsidy income	1,167	–	–
Miscellaneous income	1,410	1,782	21,873
Total non-operating income	5,166	5,324	65,332
Non-operating expenses			
Interest expenses	7,016	5,635	69,145
Equity in losses of affiliates	1,156	–	–
Foreign exchange losses	–	2,200	26,999
Loss on reduction of operation	5,255	–	–
Miscellaneous expenses	9,080	5,741	70,447
Total non-operating expenses	22,508	13,576	166,591
Ordinary income (loss)	(22,325)	30,471	373,923
Extraordinary income			
Gain on sales of investment securities	4,774	–	–
Subsidy	–	3,545	43,498
Other	1,864	1,368	16,781
Total extraordinary income	6,637	4,912	60,280
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	2,870	3,449	42,327
Impairment loss	13,234	4,610	56,577
Loss on valuation of inventories	5,544	–	–
Special retirement expenses	3,199	–	–
Provision for business structure improvement	160	–	–
Provision for Niigata Minamata Disease	–	976	11,981
Other	3,417	6,572	80,644
Total extraordinary losses	28,424	15,608	191,529
Income (loss) before income taxes and minority interests	(44,112)	19,775	242,673
Total income taxes	(6,990)	4,776	58,612
Minority interests in income	860	2,293	28,136
Net income (loss)	(37,981)	12,706	155,926

Consolidated Statements of Changes in Net Assets

For the year ended December 31, 2009 (¥ in millions)

	Shareholders' equity					Valuation and translation adjustments					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments		
Balance at December 31, 2008	121,904	37,945	73,146	(173)	232,822	4,983	(6,093)	21,896	(12,981)	7,805	24,832	265,459
Effect of changes in accounting policies applied to foreign subsidiaries			268		268							268
Changes of items during the period												
Issuance of new shares	18,660	18,660			37,319							37,319
Increase by share exchanges		5,620			5,620							5,620
Dividends from surplus			(6,239)		(6,239)							(6,239)
Net loss			(37,981)		(37,981)							(37,981)
Change of scope of equity method			(12)		(12)							(12)
Purchase of treasury stock				(6)	(6)							(6)
Disposal of treasury stock			(2)	4	2							2
Reversal of revaluation reserve for land			132		132							132
Net changes of items other than shareholders' equity						(2,409)	5,889	(132)	1,020	4,367	17,793	22,160
Total changes of items during the period	18,660	24,280	(44,103)	(2)	(1,165)	(2,409)	5,889	(132)	1,020	4,367	17,793	20,995
Balance at December 31, 2009	140,564	62,225	29,311	(174)	231,925	2,574	(204)	21,764	(11,962)	12,172	42,625	286,722

For the year ended December 31, 2010 (¥ in millions)

	Shareholders' equity					Valuation and translation adjustments					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments		
Balance at December 31, 2009	140,564	62,225	29,311	(174)	231,925	2,574	(204)	21,764	(11,962)	12,172	42,625	286,722
Changes of items during the period												
Dividends from surplus			(4,490)		(4,490)							(4,490)
Net income			12,706		12,706							12,706
Purchase of treasury stock				(7)	(7)							(7)
Disposal of treasury stock		(1)		4	2							2
Reversal of revaluation reserve for land			(609)		(609)							(609)
Others			(2)		(2)							(2)
Net changes of items other than shareholders' equity						(6,323)	473	609	(4,817)	(10,058)	700	(9,358)
Total changes of items during the period	-	(1)	7,605	(3)	7,600	(6,323)	473	609	(4,817)	(10,058)	700	(1,757)
Balance at December 31, 2010	140,564	62,223	36,916	(178)	239,525	(3,749)	269	22,373	(16,778)	2,114	43,325	284,965

For the year ended December 31, 2010 (US$ in thousands)

	Shareholders' equity					Valuation and translation adjustments					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments		
Balance at December 31, 2009	1,724,917	763,585	359,694	(2,141)	2,846,055	31,585	(2,505)	267,073	(146,786)	149,368	523,070	3,518,492
Changes of items during the period												
Dividends from surplus			(55,098)		(55,098)							(55,098)
Net income			155,926		155,926							155,926
Purchase of treasury stock				(81)	(81)							(81)
Disposal of treasury stock		(17)		43	26							26
Reversal of revaluation reserve for land			(7,478)		(7,478)							(7,478)
Others			(26)		(26)							(26)
Net changes of items other than shareholders' equity						(77,591)	5,804	7,473	(59,108)	(123,423)	8,591	(114,832)
Total changes of items during the period	-	(17)	93,323	(38)	93,268	(77,591)	5,804	7,473	(59,108)	(123,423)	8,591	(21,564)
Balance at December 31, 2010	1,724,917	763,567	453,017	(2,179)	2,939,323	(46,006)	3,299	274,546	(205,894)	25,945	531,661	3,496,929

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the year (Jan. 1-Dec. 31)		
	2010	2009	2010
	¥	¥	$
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	19,775	(44,112)	242,673
Depreciation and amortization	50,678	54,178	621,890
Impairment loss	4,610	13,234	56,577
Amortization of goodwill	1,203	1,132	14,765
Increase (decrease) in provision for business structure improvement	(93)	(372)	(1,141)
Increase (decrease) in provision for retirement benefits	(771)	(1,578)	(9,457)
Interest and dividends income	(1,213)	(1,398)	(14,883)
Interest expenses	5,635	7,016	69,145
Equity in (earnings) losses of affiliates	(1,206)	1,156	(14,794)
Loss (gain) on sales and valuation of investment securities	341	(4,161)	4,190
Loss on retirement of noncurrent assets	2,994	2,644	36,736
Loss (gain) on sales of noncurrent assets	138	39	1,694
Decrease (increase) in notes and accounts receivable-trade	10,658	(29,247)	130,787
Decrease (increase) in inventories	(10,306)	25,286	(126,466)
Increase (decrease) in notes and accounts payable-trade	(267)	(19,598)	(3,280)
Other, net	(7,886)	20,723	(96,775)
Subtotal	74,291	24,943	911,660
Interest and dividends income received	2,391	1,989	29,339
Interest expenses paid	(5,819)	(7,025)	(71,406)
Income taxes paid	(4,571)	(62)	(56,087)
Net cash provided by (used in) operating activities	66,293	19,846	813,506
Net cash provided by (used in) investing activities			
Proceeds from sales and redemption of securities	2	2	28
Purchase of property, plant and equipment	(48,823)	(39,240)	(599,131)
Proceeds from sales of property, plant and equipment	862	21,573	10,583
Proceeds from transfer of business	1,283	266	15,741
Purchase of investment securities	(1,938)	(21,147)	(23,785)
Proceeds from sales of investment securities	209	19,940	2,560
Purchase of investments in subsidiaries	-	(81)	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	-	(1,255)	-
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	64	-
Net decrease (increase) in short-term loans receivable	1,073	(1,306)	13,163
Payments of long-term loans receivable	(935)	(2,508)	(11,479)
Collection of long-term loans receivable	534	77	6,552
Other, net	(1,340)	(2,980)	(16,443)
Net cash provided by (used in) investing activities	(49,074)	(26,595)	(602,211)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	(178)	(26,460)	(2,184)
Net increase (decrease) in commercial papers	(9,000)	15,000	(110,443)
Proceeds from long-term loans payable	50,200	64,511	616,027
Repayment of long-term loans payable	(59,645)	(72,780)	(731,928)
Proceeds from issuance of bonds	10,000	-	122,714
Redemption of bonds	(13,000)	-	(159,529)
Proceeds from issuance of common stock	-	37,319	-
Proceeds from stock issuance to minority shareholders	-	24,000	-
Cash dividends paid	(4,471)	(6,210)	(54,863)
Cash dividends paid to minority shareholders	(1,697)	(1,010)	(20,819)
Other, net	(6,704)	(5,968)	(82,272)
Net cash provided by (used in) financing activities	(34,494)	28,402	(423,297)
Effect of exchange rate change on cash and cash equivalents	(1,773)	(95)	(21,752)
Net increase (decrease) in cash and cash equivalents	(19,049)	21,558	(233,754)
Cash and cash equivalents at beginning of period	62,507	40,949	767,054
Cash and cash equivalents at end of period	43,459	62,507	533,300

SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2009 and 2010 were summarized by business segment as follows:

Year ended December 31, 2009	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Elimination	Consolidated
Sales							
Outside customers	¥235,999	¥91,887	¥127,807	¥53,711	¥168,799	¥–	¥678,204
Inter-segment	3,223	313	325	961	4,449	(9,270)	–
Total	239,222	92,200	128,132	54,671	173,248	(9,270)	678,204
Operating costs	231,230	91,754	137,907	51,069	177,465	(6,238)	683,187
Operating income (loss)	¥7,992	¥446	(¥9,775)	¥3,603	(¥4,217)	¥(3,032)	(¥4,983)
Assets	¥202,867	¥153,628	¥190,311	¥130,717	¥214,059	¥66,721	¥958,303
Depreciation and amortization	7,001	8,179	25,718	3,650	10,073	(263)	54,358
Impairment loss	1,263	738	111	3,972	7,026	124	13,234
Capital expenditures	4,498	6,710	14,605	3,368	9,736	(252)	38,666

Year ended December 31, 2010	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Inorganic	Elimination	Consolidated
Sales							
Outside customers	¥273,739	¥89,923	¥176,397	¥75,339	¥181,791	¥–	¥797,189
Inter-segment	1,512	212	545	26	108	(2,404)	–
Total	275,251	90,135	176,942	75,365	181,899	(2,404)	797,189
Operating costs	270,374	86,486	162,321	66,095	172,600	589	758,466
Operating income	¥4,877	¥3,649	¥14,621	¥9,270	¥9,299	¥(2,993)	¥38,723
Assets	¥211,184	¥150,132	¥190,278	¥119,176	¥177,982	¥75,731	¥924,484
Depreciation and amortization	8,083	7,462	23,218	3,228	9,119	(229)	50,881
Impairment loss	2,235	357	224	478	916	401	4,610
Capital expenditures	21,640	6,175	22,520	2,545	5,839	(684)	58,035

Year ended December 31, 2009	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic	Inorganic	Elimination	Consolidated
Sales							
Outside customers	$3,359,177	$1,103,481	$2,164,642	$924,514	$2,230,841	$–	$9,782,656
Inter-segment	18,553	2,606	6,691	325	1,325	(29,500)	–
Total	3,377,731	1,106,087	2,171,333	924,839	2,232,166	(29,500)	9,782,656
Operating costs	3,317,878	1,061,307	1,991,916	811,087	2,118,057	7,230	9,307,475
Operating income (loss)	$59,852	$44,780	$179,417	$113,752	$114,109	$(36,730)	$475,182
Assets	$2,591,534	$1,842,342	$2,334,992	$1,462,461	$2,184,093	$929,327	$11,344,749
Depreciation and amortization	99,189	91,570	284,917	39,611	111,906	(2,808)	624,384
Impairment loss	27,421	4,382	2,748	5,864	11,245	–	56,577
Capital expenditures	265,553	75,776	276,356	31,225	71,655	(8,394)	712,171

(b) The operations of the Companies for the year ended December 31, 2009 and 2010 were summarized by geographic area as follows:

Year ended December 31, 2009	Millions of yen				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
Outside customers	¥571,503	¥75,071	¥31,630	¥–	¥678,204
Inter-segment	18,733	2,029	1,192	(21,954)	–
Total	590,236	77,099	32,822	(21,954)	678,204
Operating costs	595,334	77,448	30,461	(20,055)	683,187
Operating income (loss)	(¥5,097)	(¥348)	¥2,361	(¥1,898)	(¥4,983)
Assets	¥827,780	¥89,583	¥62,382	(¥21,441)	¥958,303

Year ended December 31,2010	Millions of yen				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
Outside customers	¥659,232	¥95,551	¥42,406	¥–	¥797,189
Inter-segment	24,679	5,884	1,228	(31,791)	–
Total	683,911	101,435	43,634	(31,791)	797,189
Operating costs	658,179	91,235	38,620	(29,569)	758,466
Operating income	¥25,732	¥10,199	¥5,013	(¥2,222)	¥38,723
Assets	¥813,926	¥90,952	¥54,129	(¥34,524)	¥924,484

Year ended December 31, 2009	Thousands of U.S. dollars				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
Outside customers.	$8,089,728	$1,172,549	$520,380	$−	$9,782,656
Inter-segment.	302,847	72,204	15,067	(390,118)	−
Total.	8,392,575	1,244,753	535,447	(390,118)	9,782,656
Operating costs.	8,076,809	1,119,591	473,929	(362,854)	9,307,475
Operating income (loss).	$315,766	$125,162	$61,518	($27,264)	$475,182
Assets.	$9,988,053	$1,116,118	$664,238	($423,660)	$11,344,749

(c) Overseas sales, which represent sales to customers outside of Japan, of the Companies for the year ended December 31, 2009 and 2010 were summarized by geographic area as follows:

Year ended December 31, 2009	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales.	¥192,006	¥38,295	¥230,301
Consolidated net sales.	−	−	678,204
Ratio of overseas sales to consolidated net sales.	28.3%	5.6%	34.0%

Year ended December 31,2010	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales.	¥238,773	¥49,942	¥288,715
Consolidated net sales.	−	−	¥797,189
Ratio of overseas sales to consolidated net sales.	30.0%	6.3%	36.2%

Year ended December 31, 2009	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales.	$2,930,095	$612,854	$3,542,950