SHOWA DENKO K.K.

Consolidated Financial Statements

For the year ended December 31, 2006

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, 2006 and 2005			
	2006	2005	Increase (Decrease)	**2006**
	¥	¥	%	**$**
Net sales	**914,533**	811,899	12.6	**7,678,054**
Operating income	**68,727**	57,191	20.2	**577,008**
Ordinary income	**57,514**	46,960	22.5	**482,866**
Net income	**28,836**	15,647	84.3	**242,092**
Net income per share: Basic	**25.01**	13.70	－	**0.210**
Net income per share: Diluted	**23.48**	12.82	－	**0.197**
	%	%		
Net income on equity	**13.0**	8.1		
Ordinary income on total assets	**5.7**	4.9		
Ordinary income to net sales	**6.3**	5.8		

Notes

Changes in accounting policies : not applicable

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

	Dec. 31, 2006	Dec. 31, 2005	**Dec. 31, 2006**
	¥	¥	**$**
Total assets	**1,037,823**	986,233	**8,713,152**
Total equity	**265,492**	206,738	**2,228,967**
Total equity per share	**200.29**	180.96	**1.68**
	%	%	
Stockholders' equity ratio	**22.7**	21.0	

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

	2006	2005	**2006**
	¥	¥	**$**
Cash flows from operating activities	**91,398**	77,966	**767,341**
Cash flows from investing activities	**(55,948)**	(17,987)	**(469,717)**
Cash flows from financing activities	**(18,047)**	(53,446)	**(151,515)**
Cash and cash equivalents at end of the year	**55,100**	37,233	**462,598**

(4) Subsidiaries and affiliates

Consolidated subsidiaries	40 companies	
Non-consolidated subsidiaries	46 companies	(The equity method was applied to 4 companies.)
Affiliates	54 companies	(The equity method was applied to 20 companies.)

1) 1 new company has been consolidated while 3 companies have been removed from consolidation.
2) The equity method has been applied to 1 additional company while 1 company has been excluded from the application.

Ⅱ. Forecast of performance for the year ending December 31, 2007

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

	2007	
	¥	$
Net sales	960,000	8,059,777
Operating income	73,000	612,879
Ordinary income	60,500	507,934
Net income	31,500	264,461
Net income per share	26.80	0.23

※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 ¥119.11 throughout this statement for convenience only.

Ⅱ. 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)

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

(2) 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.

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

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

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

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

(7) 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 operating income, which shows the results of operations, operating income/net sales ratio, and operating income/total assets ratio (ROA) as important management indexes.

3. Basic policy regarding appropriation of the Company's profits

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.

4. Medium to long-term business strategy

4-1 Regarding the Passion Project

(1) Launch of a new business plan, the Passion Project

The Showa Denko Group aims to contribute to the sound growth of international society based on an "image" of the Group in 2010. The Passion Project is an action plan for the 2006-2008 period to lay the groundwork for long-term, sustainable growth.

(2) The “image” of the Showa Denko Group in 2010

Through the provision of products and services, the Group aims to increase its corporate value and fulfill the expectations of all stakeholders, including its shareholders and customers. By doing so, the Group aims to earn the full trust and confidence of the market and society.

① Pursuit of the “unique chemical company with individualized products” based on advanced technologies

The Group aims to develop individualized businesses with competitive edges by deepening and merging a wide range of material technologies while acquiring new device/module technologies.

② Improving financial strength

The Group will improve its financial strength by reducing the interest-bearing debt and expanding stockholders’ equity.

③ Corporate social responsibility (CSR)

The Group aims to earn the full trust and confidence of the market and society, always managing operations based on the principles of CSR.

(3) Financial goals under the Passion Project (2006-2008)

Under the Passion Project, which runs from 2006 through 2008, we will concentrate on measures to accelerate the development of new “growth driver” businesses, continuously expand profit, and improve our financial strength with a view to achieving the “image” of the Group in 2010.

Financial goals under the Passion Project:

	2005	2006		2007		2008
	(Results)	Plan	Results	Plan	Forecast	Plan
Net sales (billion yen)	811.9	800.0	914.5	870.0	960.0	940.0
Operating income (billion yen)	57.2	62.0	68.7	73.0	73.0	85.0
Operating income/net sales ratio	7.0%	7.8%	7.5%	8.4%	7.6%	9.0%
ROA (operating income/total assets)	5.8%	--	6.6%	--	--	8.5%
Interest-bearing debt (billion yen)	448.8	461.0	433.2	435.3	430.0	400.0
D/E ratio (times)	2.17	2.1	1.84	1.6	--	1.4

4-2 Strengthening corporate governance, compliance and risk management

To ensure sustainable growth and higher corporate value over the long term, the Group established its basic policy regarding internal control systems, including setup for corporate governance, compliance and risk management. The Group attaches great importance to this issue, implementing various measures.

Ⅲ Business Results

1. Business results

Despite the soaring crude oil prices and other instability factors, the Japanese economy continued to grow in 2006 owing to the rise in capital spending against the background of strong corporate earnings, increases in exports to Asia and the United States, as well as gradual recovery of personal spending.

In the chemical and nonferrous metals industries, costs of naphtha, aluminum ingot, and other raw materials soared. However, shipments of chemical products to China and other Asian countries were maintained at high levels. The electronic parts/materials industry showed a steady growth despite partial inventory adjustments.

Under the circumstances, the Showa Denko Group launched its new business plan, the Passion Project, at the beginning of 2006, with a view to laying the groundwork for long-term sustainable growth. Thus, the Group took various steps to develop the "strategic growth businesses," while continuing to restructure operations and reduce costs.

As a result, consolidated net sales in 2006 increased 12.6%, to ¥914,533 million, and operating income jumped 20.2%, to ¥68,727 million. Ordinary income rose 22.5%, to ¥57,514 million, due partly to improvement in the balance between interest expense and interest/dividend income. Net income was up 84.3%, to ¥28,836 million, after an extraordinary profit of ¥11,668 million (due mainly to gain on the sale of investment shares) and an extraordinary loss of ¥19,602 million (due to loss on sale of fixed assets, resulting from restructuring efforts, and impaired assets accounting).

2. Appropriation of profits

As to appropriation of profits for 2006, the Company is planning to pay dividends of ¥4 per share, up ¥1 per share, as announced in August 2006.

3. Summary of results by business segment

(Petrochemicals)

Production of ethylene and propylene in 2006 decreased as a result of the maintenance shutdown of the ethylene plant, which is conducted once in every four years. Despite lower shipment volumes resulting from the maintenance shutdown, sales of olefins were up due to higher selling prices, reflecting soaring raw material costs. In the organic chemicals operations, shipment volumes of vinyl acetate fell as a result of the maintenance shutdown of the ethylene plant. However, overall sales of organic chemicals increased due higher selling prices, reflecting the rise in feedstock costs, and increased shipment volumes of acetic acid. Sales of plastics by Showa Highpolymer Co., Ltd. were up due to an increase in selling prices, reflecting the rise in feedstock costs.

As a result, the Petrochemicals segment's sales rose 11.4%, to ¥335,383 million, but operating income decreased 25.0 %, to ¥16,376 million, due mainly to the decline in production resulting from the maintenance shutdown of the ethylene plant.

(Chemicals)

Production of liquefied ammonia was maintained at the previous year's level, reflecting continued high shipment volumes. Sales of commodity industrial gases, including oxygen and nitrogen, fell slightly. Sales of acryolonitrile, caustic soda and hydrochloric acid were up due to the rise in selling prices.

In the specialty chemicals area, shipment volumes of *Shoprene* polychloroprene synthetic rubber, amino acids and *Shodex* chromatography columns increased.

As a result, the Chemicals segment's sales rose 7.0%, to ¥79,201 million, and operating income increased 7.8%, to ¥5,108 million.

(Electronics)

Sales of hard disk (HD) media increased due partly to the start-up of new production capacity and steady demand. Sales of compound semiconductors were also up, reflecting the rise in shipment volumes.

In the electronic materials business, sales of rare earth magnetic alloys increased due to the rise in selling prices. Sales of semiconductor-processing specialty gases, electronic ceramics and fine carbons increased due to the rise in shipment volumes.

As a result, the Electronics segment's sales increased 23.6%, to ¥165,541 million, and operating income jumped 45.2%, to ¥28,634 million.

(Inorganics)

Production of graphite electrodes increased slightly. Sales of ceramics were up due mainly to the rise in selling prices of alumina, reflecting higher raw material cost. Sales of graphite electrodes increased due to continued steady shipments, reflecting a growing demand for steel worldwide.

As a result, the Inorganics segment's sales increased 20.1%, to ¥74,301 million, and operating income jumped 93.4%, to ¥16,069 million. Showa Denko Carbon, Inc., of the United States, was the main contributor to the substantial increase in the segment's operating income.

(Aluminum)

Production of automotive heat exchangers in Japan, the United States and Europe increased. Production of extrusions was maintained at the previous year's level, but production of rolled products and *Shotic* forged products increased.

Sales from ingot marketing rose, reflecting higher prices on the international market. Sales of rolled products were up due to the rise in selling prices, reflecting higher raw material cost. Sales of extrusions/specialty products increased due to increases in shipment volumes and selling prices.

In the heat exchanger business, sales rose slightly in each of the markets in Japan, the United States and Europe. Sales of *Shotic* forged products increased due to a growing demand for automotive parts applications. However, sales of aluminum cans fell due to a decrease in shipment volumes.

As a result, the Aluminum segment's sales increased 8.0%, to ¥260,107 million. However, operating income decreased 22.1%, to ¥6,472 million, due mainly to the impact of higher aluminum ingot price on the aluminum cans business.

4. Major steps taken in 2006

(Petrochemicals)

・Further diversification of ethylene feedstock and capacity expansion

The Company modified its ethylene plant at the Oita Petrochemical Complex during the maintenance shutdown in the first half of the year to increase the use of non-naphtha feedstock. At the same time, the Company modified certain production lines of the plant, thereby increasing the production capacity by 24,000 tons per year, to 672,000 tons per year. The total cost amounted to approximately ¥2 billion.

・Expansion of acetic acid/vinyl acetate production capacities

In the first half of the year, the Company expanded its annual production capacity of acetic acid from 100,000 tons to 130,000 tons, and that of vinyl acetate from 120,000 tons to 175,000 tons, respectively.

・Turning Showa Highpolymer into a fully owned subsidiary

In September, the Company made Showa Highpolymer Co., Ltd. (SHP) a fully owned subsidiary through a share exchange arrangement. SHP is a key player in the Company's specialty polymers operations and a leader in the domestic market for vinyl ester, biodegradable plastics and emulsion.

・Structural reform of plastic processing businesses

In December, the Company transferred its medical packaging business of Showa Denko Plastic Products Co., Ltd. (SPP) to Hosokawa Yoko Co., Ltd. Meanwhile, the Company signed an agreement with Okamoto Industries, Inc. to transfer SPP's business in moisture removal sheet for perishable foods to Okamoto by April 2007. In January 2007, the Company transferred all the shares in its fully owned subsidiary Heisei Polymer Co., Ltd., to Toyo Denka Kogyo Co., Ltd.

・Transfer of shares in Showa Aluminum Powder

In May, the Company transferred the majority of shares in its fully owned subsidiary Showa Aluminum Powder K.K. to ITOCHU Corporation and ITOCHU Chemical Frontier Corporation. The Company now owns 14.9% of Showa Aluminum Powder.

(Chemicals)

・ Launch of "gentle-to-hair" new curling agent

In January, the Company started selling a "gentle-to-hair" new curling agent (trade name: *Spiera*) that efficiently gives natural curling.

・Launch of new additive in photo-curing resins

In April, the Company started selling a new compound for addition to photo-curing resins. The compound, sold under the trade name of *Karenz MT*, represents the first commercialization of multifunctional-thiol-based compounds for this application.

・Launch of insulating ink for LCD panels

In December, the Company's consolidated subsidiary, Nippon Polytech Corporation, started selling a new high-performance electrical insulating ink for manufacturing electronic parts based on the chip-on-film technology for use in TV/PC LCD panels. The ink is made using the Company's newly developed urethane-based thermoset resin. Demand for the ink is expected to increase substantially, reflecting the growth of the LCD panel TV market.

(Electronics)

・Expansion of HD media production capacity to 15.75 million disks per month

In April, the Showa Denko Group increased its HD media production capacity to 13.75 million disks a month to meet a growing demand for small diameter media for use in mobile music players. At the end of December, the capacity was further increased to 15.75 million disks a month through construction of new lines at Showa Denko HD Trace Corporation in Taiwan and debottlenecking at other production sites.

・Completion of a new HD media plant in Singapore

In December, the Showa Denko Group's fourth HD media plant was completed in Singapore. The new plant is the second HD media plant in Singapore, and in addition to the existing plants in Chiba (Japan), and Taiwan. We will install additional production lines at the new plant in Singapore to meet growing demand, increasing our total capacity to 24 million disks a month by the end of 2008. Our investment in the building, clean room and production lines (present and future) at the new plant in Singapore is expected to total ¥60 billion.

・Commercial production of 2.5-inch PMR HD media

To meet brisk demand for high-capacity HD media for notebook PCs, the Group is stepping up commercial production of media using the innovative perpendicular magnetic recording (PMR) technology. In the third quarter, the Group started commercial shipments of 2.5-inch HD media with data-storage capacity of 100 gigabytes per disk.

・Completion of a new HD media R&D facility

In August, the Company completed a new R&D facility in Ichihara City, Chiba Prefecture, Japan, to improve the PMR technology and to promote the development of the next-generation HD media. In view of the strong demand, part of the facility is to be used for commercial production.

・Merger of Showa Denko HD K.K.

In November, the Company merged its fully owned subsidiary Showa Denko HD K.K. The step was taken to enhance the efficiency of the HD media business through integration of the development, marketing and production functions.

・Expansion of high-purity chlorine production capacity

The Company started expanding its production capacity of high-purity chlorine at its Kawasaki Plant to meet growing demand for use in the manufacture of semiconductors and LCD panels. By the end of the first half of 2007, the purification capacity will be increased from 300 tons a year to 1,000 tons a year, and the filling capacity from 300 tons a year to 600 tons a year, respectively.

・Establishment of specialty-gas marketing subsidiary in South Korea

In November, the Company began full-scale marketing of its specialty gases for the South Korean market through its newly established subsidiary Korea Showa Chemicals Co. The marketing activities focus on the growing semiconductor and LCD markets in that country. The Showa Denko Group now provides its specialty gases through five marketing units located in Japan, Taiwan, China, Singapore and South Korea.

・Construction of second rare earth magnetic alloy plant in China

In August, the Company began construction of a second rare earth magnetic alloy plant in China at Ganzhou, Jiangxi Province. The plant will be operated by Ganzhou Zhaori Rare Earth New Materials Co., Ltd., a newly established joint venture with Tokai Trade Co., Ltd. of Japan and two Chinese rare earth mineral producers. This will ensure our stable procurement of rare earth minerals to meet rapidly growing demand for high-performance magnets in cars. Upon completion of the new plant, the Company will begin producing 3,000 tons a year of rare earth magnetic alloys in China, together with its existing plant in Baotou, Inner Mongolia.

・Expansion of *VGCF* carbon nanofiber production capacity

In the second half of the year, the Company started expanding its production capacity of *VGCF* vapor-grown carbon nanofiber, which is used as additives in lithium-ion batteries. The capacity will be increased from 40 tons a year at present to 100 tons a year in the early part of 2007.

・Expansion of ultra bright red/yellow LED production capacity

The Company decided to increase its capacity for producing aluminum-gallium-indium-phosphide (AlGaInP) ultra bright LED chips to meet growing demand for use in LCD backlighting and automotive parts. The production capacity will be increased from 30 million units a month at present to 100 million units a month. Our AlGaInP ultra bright LED chips produce diverse colors, such as red, yellow, and orange, based on our proprietary technologies. We can also provide these LED chips in a large size or special sizes as required by respective customers. We aim to expand this business as a new “growth driver” business.

(Inorganics)

・Development of world’s largest sintered compacts of CBN

In April, the Company started commercial shipments of large sintered compacts of cubic boron nitride (CBN) to be used mainly for cutting automotive parts. Based on its newly developed technology, the Company can produce the world’s largest CBN compacts.

・Increased production of large-diameter graphite electrodes

The Company decided to increase its production of 30-inch- and 32-inch-diameter graphite electrodes to meet growing demand from electric arc furnace steelmakers. The 32-inch-type is the largest size on the world market. The Company started construction of a new graphitizing furnace in the first half of the year for start-up in the second half of 2007.

・Joint F/S for alumina project in Indonesia

In April, the Company reached agreement with PT. ANTAM Tbk of Indonesia, Straits Trading Amalgamated Resources Private Limited of Singapore, and Marubeni Corporation of Japan on implementation of a joint feasibility study for a chemical-grade alumina plant in Indonesia.

・Opening of a ceramic abrasives plant in China

In June, the Company held an opening ceremony for a new ceramic abrasives plant of Lianyungang Zhaoling Abrasives Co., Ltd., a joint venture with Mitsubishi Corporation, located in Lianyungang, Jiangsu Province, China. The Company has the largest share in the abrasives market in Asia, and ranks as one of the leading abrasive manufacturers in the world. With the start-up of the joint venture, we have established an efficient production system together with our existing facility in Shiojiri, Nagano Prefecture, Japan.

(Aluminum, etc.)

・Expansion of production capacity for aluminum cylinders for laser printers

In September, the Group started up its state-of-the-art aluminum cylinders production facility at the Oita Complex to meet growing demand for use in office color laser printers. The Company also upgraded existing plants, increasing the total production capacity from nine million units a month to 15 million units a month. Total investment amounted to around ¥2.5 billion.

・Expansion of high-purity aluminum foils production capacity

The Group decided to increase its production capacity of high-purity aluminum foils for electrolytic capacitors used in cars and digital equipment, from 1,500 tons a month to 1,800 tons a month. The Group will invest around ¥1.2 billion, starting up the new facility in 2008.

・Consolidation of aluminum alloys business

In July, the Company transferred the aluminum alloys business of its fully owned subsidiary Showa Aluminum Alloy K.K. to Summit Showa Aluminum Ltd. (former name: Summit Aluminum Ltd.), a consolidated subsidiary of Sumitomo Corporation. At the same time, the Company subscribed for new shares in Summit Showa Aluminum issued “for allotment to third party.”

・Withdrawal from commodity aluminum foils business

The Company decided to withdraw from the production and sale of commodity aluminum foils used mainly for food packaging. The Company stopped receiving new orders in December 2006 and will terminate sales at the end of April 2007.

・Launch of *Showa Ecopipe* based on used PET bottles

In July, the Company's consolidated subsidiary Showa Denko Kenzai K.K. started commercial shipments of new drainage/ventilation pipes for homes. The product, sold under the trade name of *Showa Ecopipe*, is produced using recycled PET bottles.

5. Projections for 2007

(1) Overall projections

As to the Japanese economy in 2007, capital investments are expected to increase amid favorable corporate earnings and personal consumption is expected to recover slightly, leading to continued economic growth at a moderate rate. However, due to currency fluctuations, expected continuation of high prices of oil, aluminum, and other raw materials, and possible impact of the slowdown of the U.S. economy, the business environment is forecast to remain severe.

Under the circumstances, the Showa Denko Group will promote its growth strategy as defined in the Passion Project, developing individualized and competitive products through interconnections of inorganic, aluminum and organic chemical technologies. At the same time, the Group will increase the competitiveness of its base businesses and lay the groundwork for long-term sustainable growth, thereby striving to fulfill its social responsibility. The Showa Denko Group's performance forecast for 2007 is as follows:

(Unit: millions of yen)

	Forecast for the term ending Dec. 31, '07	Results for the term ended Dec. 31, '06	Differ-ence	Rate of change
Net sales	960,000	914,533	45,467	5.0%
Operating income	73,000	68,727	4,273	6.2%
Ordinary income	60,500	57,514	2,986	5.2%
Net income	31,500	28,836	2,664	9.2%

Net sales, operating income, ordinary income and net income will increase from the 2006 results to ¥960 billion, ¥73 billion, ¥60.5 billion, and ¥31.5 billion, respectively. The above forecast is based on the assumption that the exchange rate will be ¥115 to the U.S. dollar and the naphtha price will be ¥46,000/KL.

(2) Net sales by business segment

(Unit: millions of yen)

	Forecast for the term ending Dec. 31, '07	Results for the term ended Dec. 31, '06	Differ-ence	Rate of change
Petrochemicals	340,000	335,383	4,617	1.4%
Chemicals	80,000	79,201	799	1.0%
Electronics	210,000	165,541	44,459	26.9%
Inorganics	80,000	74,301	5,699	7.7%
Aluminum, etc.	250,000	260,107	- 10,107	- 3.9%
Total	960,000	914,533	45,467	5.0%

6. Operation risks and other risks

The Showa Denko Group is taking steps to minimize risks to its operations. While the Group is implementing its three-year (2006-2008) consolidated business plan, the Passion Project, we consider we face the risks, as explained below, that could adversely affect our future performance and financial conditions. The following covers important risk factors considered being present as of this February 8, 2007. This 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 naphtha. When the naphtha price 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, in some of the product lines, sales to specific customers account for a large portion. Those customers' performances, 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. 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, and when supply-demand balance changes substantially, 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

The Group imports part of its feedstock requirements from overseas and exports part of its domestic production to foreign countries. 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 foreign-currency-based transactions and assets/liabilities, affecting the Group's performance and financial conditions.

Exchange rate fluctuations can affect the Group's overseas subsidiaries in the like manner. Furthermore, the exchange rate fluctuations can affect the Group's performance and financial conditions through conversion of overseas subsidiaries' financial statements into Japanese yen.

② Trends in financial markets

The Group has been making continuous efforts to reduce its interest-bearing debt, resulting in a substantial decline in the ratio of interest-bearing debt to stockholders' equity. However, the trends in the financial markets can change the fund-raising and interest-rate situations, affecting the Group's performance and financial conditions.

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 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 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 protect its accumulated patent 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 protect any of the patent rights or know-how, 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 Product quality 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 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 impacts on the environment, the Group's reputation can be damaged. The Group may incur substantial costs, including compensation, lose business opportunities due to suspension of production and/or pay compensation to customers. These factors can affect the Group's performance and financial conditions.

Ⅳ. Financial Conditions

1. Assets, liabilities and total equity at December 31, 2006

We continued our efforts to reduce total assets. However, due mainly to increases in fixed assets, total assets increased ¥51,591 million, to ¥1,037,823 million. Interest-bearing debt further decreased ¥15,659 million, to ¥433,172 million, as a result of continued reduction efforts. Meanwhile, total liabilities increased ¥41,887 million, to ¥772,331 million, due mainly to increases in notes and accounts payable.

Total equity increased ¥58,754 million, to ¥265,492 in million. Notwithstanding the payment of dividends for the previous year and the fall in the land revaluation reserve as a result of revised tax allocation, total equity increased, due to the rise in net income for 2006 and the fact that we started including minority interests and deferred hedge gains (losses) in the category of total equity as from the settlement of accounts for 2006.

2. Cash flows in 2006

Net cash provided by operating activities increased ¥13,432 million from the previous year, to ¥91,398 million, due mainly to the rise in operating income. Net cash used in investing activities increased ¥37,961 million, to ¥55,948 million, due to a substantial increase in capital expenditures.

Thus, free cash flow decreased ¥24,529 million, to ¥35,450 million. Net cash used in financing activities decreased ¥35,399 million, to ¥18,047 million, due to reductions in interest-bearing debt and a fall in the amount of redemption of bonds. As a result, cash and cash equivalents at December 31, 2006 increased ¥17,867 million, to ¥55,100 million, after changes in the list of the consolidated subsidiaries.

3. Projections for 2007

While cash flows from operating activities will increase, net cash used in investing activities will also increase due to the rise in acquisition of tangible fixed assets. Thus, free cash flow for 2007 is expected to decrease around ¥29,000 million, to plus ¥6,400 million. Interest-bearing debt at the end of the year will be ¥430,000 million, down ¥3,200 million from the end of 2006.

4. Trends in cash flow indexes

	2003	2004	2005	2006
Equity ratio	17.7%	18.8%	21.0%	22.7%
Equity ratio on a market value basis	29.2%	32.0%	53.3%	51.6%
Debt maturity (years)	8.3	8.4	5.8	4.7
Interest coverage ratio	6.0	5.9	8.9	12.5

[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 equity.

・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.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2006 (A)	Dec. 31, 2005 (B)	(A)-(B)	Dec. 31, 2006
Assets	¥	¥	¥	$
Current assets				
Cash and deposit	55,424	37,273	18,151	465,322
Notes and accounts receivable	176,218	161,054	15,165	1,479,459
Inventories	86,313	77,336	8,977	724,647
Deferred tax assets	3,232	6,827	(3,595)	27,136
Other current assets	28,852	36,894	(8,042)	242,231
Allowance for doubtful receivables	(1,587)	(1,341)	(245)	(13,320)
Total current assets	348,453	318,043	30,411	2,925,476
Fixed assets				
Tangible fixed assets	549,991	510,904	39,087	4,617,504
Buildings and structures	93,438	95,381	(1,943)	784,472
Machinery and transports	137,435	125,387	12,048	1,153,847
Equipments	9,507	9,560	(53)	79,820
Land	263,930	268,102	(4,172)	2,215,853
Construction in process	45,680	12,473	33,207	383,512
Intangible fixed assets	18,408	24,278	(5,870)	154,543
Goodwill	7,921	13,368	(5,447)	66,502
Other intangible fixed assets	10,487	10,910	(423)	88,042
Investments and other assets	120,972	133,008	(12,037)	1,015,629
Investment securities	97,031	107,808	(10,776)	814,636
Deferred tax assets	7,567	11,403	(3,836)	63,531
Other investments	18,105	16,157	1,949	152,006
Allowance for doubtful accounts	(1,732)	(2,359)	626	(14,544)
Total fixed assets	689,370	668,190	21,180	5,787,676
Total assets	1,037,823	986,233	51,591	8,713,152
Liabilities				
Current liabilities				
Notes and accounts payable	161,456	140,181	21,275	1,355,517
Short-term loans payable	110,348	97,773	12,575	926,435
Current portion of long-term loans payable	83,899	92,460	(8,561)	704,382
Commercial paper	6,000	—	6,000	50,374
Current portion of bonds	8,500	15,000	(6,500)	71,363
Current portion of convertible bonds	—	930	(930)	—
Reserve for periodic repairs	17	2,740	(2,723)	144
Reserve for bonus payment	2,186	1,896	290	18,356
Reserve for restructuring expenses	2,214	918	1,296	18,588
Other current liabilities	54,205	39,488	14,718	455,085
Total current liabilities	428,825	391,384	37,441	3,600,243
Long-term liabilities				
Bonds	19,000	24,500	(5,500)	159,516
Bonds with subscription warrant	22,257	23,000	(743)	186,861
Long-term loans payable	183,168	195,168	(12,000)	1,537,808
Deferred tax liabilities	7,295	7,394	(99)	61,245
Deferred tax liabilities due to land revaluation	46,878	29,082	17,796	393,569
Accrued pension and severance costs	34,919	42,617	(7,698)	293,165
Reserve for directors' retirement allowance	422	365	57	3,543
Reserve for periodic repairs	788	30	758	6,616
Other long-term liabilities	28,779	16,903	11,876	241,617
Total long-term liabilities	343,506	339,059	4,447	2,883,941
Total liabilities	772,331	730,444	41,887	6,484,184
Minority interests	—	49,050	(49,050)	—
Equity				
Stockholders' equity				
Common stock	110,824	110,451	373	930,435
Capital surplus	26,883	11,090	15,793	225,699
Retained earnings	47,333	21,868	25,465	397,392
Treasury stock	(152)	(96)	(56)	(1,278)
Total Stockholders' equity	184,888	143,314	41,575	1,552,249
Valuations and adjustments				
Securities valuation surplus	19,286	19,485	(200)	161,914
Deferred hedge gains (losses)	3,607	—	3,607	30,279
Revaluation reserve (Land revaluation)	23,996	42,339	(18,343)	201,458
Foreign currency translation adjustments	3,633	1,600	2,033	30,503
Total valuations and adjustments	50,521	63,425	(12,904)	424,154
Minority interests	30,083	—	30,083	252,565
Total equity	265,492	206,738	58,754	2,228,967
Total liabilities and equity	1,037,823	986,233	51,591	8,713,152

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2006 and 2005			
	2006(A)	2005(B)	(A)-(B)	2006
	¥	¥	¥	$
Net sales	914,533	811,899	102,635	7,678,054
Cost of sales	762,532	672,423	90,109	6,401,913
Gross profit	152,001	139,476	12,525	1,276,141
Selling, general and administrative expense	83,274	82,285	989	699,133
Operating income	68,727	57,191	11,537	577,008
Non-operating income	7,027	6,126	901	58,998
Interest and dividend income	1,561	1,625	(64)	13,103
Equity in earnings of non-consolidated subsidiaries and affiliates	2,487	1,741	746	20,877
Miscellaneous incomes	2,980	2,760	220	25,018
Non-operating expense	18,241	16,356	1,884	153,140
Interest paid	7,241	8,422	(1,182)	60,789
Miscellaneous expenses	11,000	7,934	3,066	92,351
Ordinary income	57,514	46,960	10,554	482,866
Extraordinary profit	11,668	10,375	1,293	97,962
Gain on fixed assets sold	135	4,428	(4,293)	1,131
Gain on investment securities sold	6,666	4,441	2,225	55,962
Reversal of allowance for doubtful receivables	110	802	(691)	927
Gain on business transfer	3,706	-	3,706	31,112
Other extraordinary profits	1,052	705	347	8,830
Extraordinary loss	19,602	39,570	(19,968)	164,570
Loss on fixed assets sold or retired	5,740	2,004	3,736	48,190
Impairment of fixed assets	4,880	1,163	3,717	40,975
Special severance pay	440	635	(195)	3,691
Loss on restructuring of subsidiaries and affiliates	1,193	563	630	10,015
Allowance for doubtful receivables	127	37	90	1,066
Reserve for restructuring expenses	1,909	224	1,685	16,027
Lump-sum amortization of the effect of the change of accounting method for pension and	—	32,603	(32,603)	—
Other extraordinary losses	5,313	2,341	2,972	44,606
Income before income taxes	49,580	17,766	31,815	416,257
Income taxes (current)	13,230	3,953	9,278	111,077
Income taxes (deferred)	4,697	(3,976)	8,674	39,436
Minority interests	2,817	2,142	675	23,652
Net income	28,836	15,647	13,188	242,092

Consolidated Statements of Changes in Equity

For the year ended December 31, 2006 (¥ in millions)

	Stockholder's equity					Valuations and adjustments					Minority interest	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Securities valuation surplus	Deferred hedge gains (losses)	revaluation reserve	Foreign currency translation adjustments	Total		
Balance at December 31, 2005	110,451	11,090	21,868	(96)	143,314	19,485	−	42,339	1,600	63,425	49,050	255,789
Conversion of subscription warrant	373	370			743							743
Share exchange		15,398			15,398							15,398
Cash dividends			(3,428)		(3,428)							(3,428)
Net income for the year			28,836		28,836							28,836
Treasury stock acquired				(157)	(157)							(157)
Treasury stock sold		24		101	125							125
Increase due to exclusion from consolidation			23		23							23
Decrease due to inclusion in consolidation			(39)		(39)							(39)
Decrease due to exclusion from consolidation			(94)		(94)							(94)
Decrease due to exclusion from equity method			(16)		(16)							(16)
Reversal of land revaluation			188		188							188
Others			(5)		(5)	(200)	3,607	(18,343)	2,033	(12,904)	(18,967)	(31,876)
Balance at December 31, 2006	110,824	26,883	47,333	(152)	184,888	19,286	3,607	23,996	3,633	50,521	30,083	265,492

For the year ended December 31, 2006 (US$ in thousands)

	Stockholder's equity					Valuations and adjustments					Minority interest	Total equity
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total	Securities valuation surplus	Deferred hedge gains (losses)	revaluation reserve	Foreign currency translation adjustments	Total		
Balance at December 31, 2005	927,306	93,110	183,596	(808)	1,203,205	163,591	−	355,461	13,435	532,487	411,808	2,147,500
Conversion of subscription warrant	3,129	3,109			6,238							6,238
Share exchange		129,275			129,275							129,275
Cash dividends			(28,778)		(28,778)							(28,778)
Net income for the year			242,092		242,092							242,092
Treasury stock acquired				(1,314)	(1,314)							(1,314)
Treasury stock sold		205		844	1,049							1,049
Increase due to exclusion from consolidation			192		192							192
Decrease due to inclusion in consolidation			(324)		(324)							(324)
Decrease due to exclusion from consolidation			(788)		(788)							(788)
Decrease due to exclusion from equity method			(135)		(135)							(135)
Reversal of land revaluation			1,578		1,578							1,578
Others			(42)		(42)	(1,677)	30,279	(154,003)	17,068	(108,333)	(159,243)	(267,618)
Balance at December 31, 2006	930,435	225,699	397,392	(1,278)	1,552,249	161,914	30,279	201,458	30,503	424,154	252,565	2,228,967

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the year (Jan. 1 – Dec. 31)		
	2006	2005	2006
	¥	¥	$
Cash flows from operating activities			
Income before income taxes	49,580	17,766	416,257
Adjustments for:			
Depreciation and amortization	38,049	34,203	319,446
Impairment of fixed assets	4,880	1,163	40,975
Amortization of excess of cost over equity in net assets acquired	1,241	1,423	10,418
Increase (decrease) in reserve for business restructuring expenses	1,296	(4,564)	10,884
Increase (decrease) in accrued pension and severance costs	(7,577)	33,142	(63,617)
Interest and dividend income	(1,561)	(1,625)	(13,103)
Interest expense	7,241	8,422	60,789
Equity in earnings of the non-consolidated subsidiaries and affiliates	(2,487)	(1,741)	(20,877)
Loss on sale and write-down of investment securities, net	(6,085)	(4,263)	(51,085)
Loss on the disposal of property, plant and equipment	6,347	2,785	53,290
Loss on sale of property, plant and equipment	241	(4,385)	2,025
(Increase) decrease in trade receivables	(14,314)	(12,813)	(120,178)
(Increase) decrease in inventories	(10,224)	(10,635)	(85,833)
Increase (decrease) in trade payables	18,302	19,547	153,655
Others	19,038	10,217	159,839
Subtotal	103,969	88,642	872,885
Interest and dividend received	2,681	2,590	22,508
Interest paid	(7,329)	(8,720)	(61,535)
Income taxes paid	(7,923)	(4,547)	(66,515)
Net cash provided by operating activities	91,398	77,966	767,344
Cash flows from investing activities			
Proceeds from sales of marketable securities	2	2	19
Payments for purchases of property, plant and equipment	(79,583)	(39,789)	(668,146)
Proceeds from sales of property, plant and equipment	6,687	12,257	56,141
Proceeds from business transfer	3,820	—	32,071
Payments for purchases of investment securities	(4,261)	(1,541)	(35,769)
Proceeds from sales of investment securities	17,863	5,416	149,973
Proceeds from repayment of investment securities	1,016	—	8,532
Payments for purchases of consolidated subsidiaries' securities	(2,527)	—	(21,217)
Proceeds from sales of consolidated subsidiaries	1,821	2,207	15,288
(Increase) decrease in short-term loans, net	209	1,346	1,755
Payments for long-term loans	(551)	(284)	(4,629)
Proceeds from collection of long-term loans	212	420	1,781
Others	(657)	1,980	(5,516)
Net cash used in investing activities	(55,948)	(17,987)	(469,719)
Cash flows from financing activities			
Decrease in short-term debt, net	18,216	(557)	152,934
Proceeds from issuance of long-term debt	72,227	72,891	606,387
Repayments of long-term debt	(91,166)	(89,792)	(765,391)
Proceeds from issuance of bonds	3,000	13,000	25,187
Redemption of bonds	(15,930)	(44,384)	(133,742)
Payments of dividends	(3,428)	(3,428)	(28,778)
Payments of dividends to minority shareholders	(951)	(591)	(7,987)
Others	(15)	(586)	(125)
Net cash used in financing activities	(18,047)	(53,446)	(151,515)
Effect of exchange rate changes on cash and cash equivalents	314	1,612	2,638
Increase (decrease) in cash and cash equivalents	17,717	8,144	148,747
Cash and cash equivalents at beginning of the year	37,233	29,153	312,597
Effect of adjustment of newly consolidated subsidiaries on cash and cash equivalents at beginning of the year	149	(49)	1,251
Effect of changes of settling term by subsidiaries	—	(15)	—
Cash and cash equivalents at end of the year	55,100	37,233	462,595

18. SEGMENT INFORMATION

(a) The operations of the Companies for the years ended December 31, 2006 and 2005 are summarized by business segment as follows:

Year ended December 31, 2006	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
Sales							
Outside customers.	¥335,383	¥79,201	¥165,541	¥74,301	¥260,107	¥–	¥914,533
Inter-segment.	1,830	674	353	91	36,505	(39,453)	–
Total.	337,213	79,875	165,894	74,392	296,612	(39,453)	914,533
Operating costs.	320,837	74,768	137,259	58,323	290,139	(35,521)	845,806
Operating income.	¥16,376	¥5,108	¥28,634	¥16,069	¥6,472	¥(3,932)	¥68,727
Assets.	¥242,215	¥141,132	¥186,466	¥119,978	¥344,693	¥3,338	¥1,037,823
Depreciation and amortization.	5,449	4,909	16,084	2,629	9,197	(219)	38,049
Loss of impairment···············	871	432	586	1,048	1,943	–	4,880
Capital expenditures.	9,347	5,625	62,933	3,869	9,406	(340)	90,841

Year ended December 31,2005	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
Sales							
Outside customers.	¥301,189	¥74,001	¥133,902	¥61,882	¥240,924	¥–	¥811,899
Inter-segment.	1,651	568	303	100	21,220	(23,842)	–
Total.	302,840	74,569	134,205	61,982	262,144	(23,842)	811,899
Operating costs.	281,003	69,829	114,478	53,672	253,834	(18,109)	754,708
Operating income.	¥21,837	¥4,740	¥19,727	¥8,310	¥8,310	¥(5,733)	¥57,191
Assets.	¥234,319	¥140,062	¥130,423	¥113,794	¥352,855	¥14,781	¥986,233
Depreciation and amortization.	5,478	5,110	10,910	2,679	10,263	(236)	34,203
Loss of impairment···············	676	19	182	146	140	–	1,163
Capital expenditures.	5,329	4,206	20,647	3,072	8,115	(151)	41,218

Year ended December 31, 2006	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
Sales							
Outside customers.	$2,815,744	$664,943	$1,389,812	$623,802	$2,183,753	$–	$7,678,054
Inter-segment.	15,364	5,660	2,964	764	306,481	(331,233)	–
Total.	2,831,108	670,602	1,392,776	624,566	2,490,235	(331,233)	7,678,054
Operating costs.	2,693,621	627,721	1,152,374	489,655	2,435,895	(298,219)	7,101,046
Operating income.	$137,487	$42,882	$240,402	$134,911	$54,340	$(33,014)	$577,008
Assets.	$2,033,541	$1,184,889	$1,565,496	$1,007,291	$2,893,908	$28,027	$8,713,152
Depreciation and amortization.	45,745	41,214	135,036	22,072	77,217	(1,839)	319,446
Loss of impairment···············	7,312	3,628	4,920	8,799	16,316	–	40,975
Capital expenditures.	78,476	47,225	528,364	32,481	78,972	(2,855)	762,665

(b) The operations of the Companies for the years ended December 31, 2006 and 2005 are summarized by geographic area as follows:

Year ended December 31, 2006	Millions of yen			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers.	¥784,040	¥130,493	¥–	¥914,533
Inter–segment.	26,650	6,428	(33,078)	–
Total.	810,690	136,920	(33,078)	914,533
Operating costs.	758,169	117,946	(30,310)	845,806
Operating income.	¥52,521	¥18,974	¥(2,768)	¥68,727
Assets.	¥915,385	¥132,157	¥(9,718)	¥1,037,823

Year ended December 31, 2005	Millions of yen			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers.	¥712,807	¥99,092	¥–	¥811,899
Inter–segment.	20,908	8,957	(29,865)	–
Total.	733,715	108,048	(29,865)	811,899
Operating costs.	684,245	96,466	(26,004)	754,708
Operating income.	¥49,470	¥11,582	¥(3,861)	¥57,191
Assets.	¥889,698	¥95,539	¥996	¥986,233

Year ended December 31, 2006	Thousands of U.S. dollars			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers.	$6,582,491	$1,095,564	$–	$7,678,054
Inter–segment.	223,743	53,963	(277,706)	–
Total.	6,806,233	1,149,527	(277,706)	7,678,054
Operating costs.	6,365,286	990,230	(254,471)	7,101,046
Operating income.	$440,947	$159,297	$(23,236)	$577,008
Assets.	$7,685,204	$1,109,538	$(81,590)	$8,713,152

Overseas sales, which represent sales to customers outside of Japan, of the Companies for the year ended December 31, 2006 and 2005 were summarised by geographic area as follows:

Year ended December 31, 2006	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales.	¥214,548	¥64,958	¥279,506
Consolidated net sales.	–	–	914,533
Ratio of overseas sales to consolidated net sales.	23.5%	7.1%	30.6%

Year ended December 31, 2005	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales.	¥173,311	¥51,032	¥224,342
Consolidated net sales.	–	–	811,899
Ratio of overseas sales to consolidated net sales.	21.3%	6.3%	27.6%

Year ended December 31, 2006	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales.	$1,801,259	$545,365	$2,346,624