

**Consolidated Financial Statements**

For the year ended December 31, 2007


**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	2007	Increase (Decrease)	2007
	¥	¥	%	\$
Net sales	914,533	1,023,238	11.9	8,963,975
Operating income	68,727	76,671	11.6	671,671
Ordinary income	57,514	59,989	4.3	525,530
Net income	28,836	33,066	14.7	289,668
Net income per share: Basic	25.01	27.52	—	0.241
Net income per share: Diluted	23.48	26.50	—	0.232
	%	%		
Net income on equity	13.0	12.9		
Ordinary income on total assets	5.7	5.8		
Operating income to net sales	7.5	7.5		

Notes

Important 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, 2007	Dec. 31, 2007
	¥	¥	\$
Total assets	1,037,823	1,029,629	9,019,964
Total equity	265,492	298,659	2,616,374
Total equity per share	200.29	222.31	1.95
	%	%	%
Stockholders' equity ratio	22.7	26.9	26.94

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

	Results for the year ended December 31		
	2006	2007	2007
	¥	¥	\$
Cash flows from operating activities	91,398	67,322	589,768
Cash flows from investing activities	(55,948)	(69,653)	(610,188)
Cash flows from financing activities	(18,047)	(20,552)	(180,044)
Cash and cash equivalents at end of the year	55,100	31,887	279,343

(4) Dividends:

	2006	2007	2008 Forecast
Interim dividends per share (¥)	—	—	—
End of Term dividends per share (¥)	4.0	5.0	6.0
Annual dividends per share (¥)	4.0	5.0	6.0
Total dividends (¥ in millions)	4,702	6,239	—
	%	%	%
Payout ratio (consolidated)	16.0	18.2	21.1
Net assets dividend yield (consolidated)	2.1	2.4	—

**II . Forecast of performance for the year ending December 31, 2008**

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

	2008	
	¥	\$
Net sales	1,110,000	9,724,047
Operating income	79,000	692,072
Ordinary income	63,500	556,286
Net income	35,500	310,994
Net income per share	28.45	0.25

※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 ¥114.15 throughout this statement for convenience only.

## [Business Results]

### 1. Analysis of business results

#### (1) Summary

In 2007, despite such instability factors as the soaring crude oil prices, the decline in construction work in the second half of the year, and financial problems following the U.S. subprime mortgage crisis, the Japanese economy continued its gradual recovery owing to steady capital spending against the background of strong corporate earnings and increases in exports to Asian countries.

In the chemical and nonferrous metals industries, the situation remained severe as prices of naphtha and other raw materials soared while fuel and distribution costs also increased. Meanwhile, the electronic parts/materials industry showed a steady growth despite partial inventory adjustments.

Under the circumstances, the Showa Denko Group implemented its consolidated business plan, the Passion Project, with a view to laying the groundwork for long-term sustainable growth. The Group took various steps to expand growth businesses, while continuing its structural reform and cost reduction efforts.

As a result, consolidated net sales in 2007 increased 11.9%, to ¥1,023,238 million, and operating income rose 11.6%, to ¥76,671 million. Ordinary income was up 4.3%, to ¥59,989 million, despite increases in non-operating expenses. Net income increased 14.7%, to ¥33,066 million, due partly to the fall in extraordinary losses.

#### (2) Summary of results by business segment

##### (Petrochemicals)

Production of ethylene and propylene in 2007 increased from the previous year. This reflects the fact that, in the first half of 2006, we had a maintenance shutdown of the ethylene plant, which is conducted once in every four years. Sales of olefins rose owing to increases in shipment volumes and higher selling prices, reflecting soaring raw material costs. Sales of organic chemicals were up because of higher selling prices, reflecting the rise in feedstock costs, and increased shipment volumes of vinyl acetate.

As a result, the Petrochemicals segment's sales rose 17.8%, to ¥395,105 million, and operating income increased 19.5 %, to ¥19,574 million.

##### (Chemicals)

Production of liquefied ammonia was slightly down. Sales of acrylonitrile were up due to the rise in selling prices, and sales of caustic soda increased owing to steady shipment volumes. Sales of commodity industrial gases, including oxygen, nitrogen and hydrogen, decreased. Sales of *Shoprene*<sup>TM</sup> chloroprene rubber increased owing to the rise in

selling prices while sales of amino acids, *Elaslen*<sup>TM</sup> chlorinated polyethylene and *Shodex*<sup>TM</sup> chromatography columns were up due to the rise in shipment volumes.

As a result, the Chemicals segment's sales rose 7.0%, to ¥84,709 million, and operating income jumped 45.5%, to ¥7,431 million.

#### (Electronics)

Production of hard disk (HD) media increased, reflecting the start-up of a new plant in Singapore. Sales of HD media rose owing to increases in shipment volumes, reflecting the capacity expansion and steady demand. Sales of compound semiconductors were also up, reflecting the rise in shipment volumes of aluminum-gallium-indium-phosphide (AlGaInP) ultrabright LED chips.

Sales of semiconductor-processing specialty gases decreased as the shipment volumes of LCD-panel cleaning agents fell. Meanwhile, sales of rare earth magnetic alloys increased substantially because of increases in shipment volumes and selling prices, reflecting sharp increases in raw material costs.

As a result, the Electronics segment's sales increased 21.4%, to ¥201,013 million. However, operating income decreased 9.8%, to ¥25,833 million. This was because HD media production costs rose, reflecting the shift to the perpendicular magnetic recording (PMR) technology, and depreciation expenses increased following the HD media capacity expansion. These two factors caused operating income to decrease, mainly in the first half of the year.

#### (Inorganics)

Production of graphite electrodes remained at high levels. Sales of ceramics were maintained at the previous-year's level. Sales of graphite electrodes increased owing to continued steady demand worldwide.

As a result, the Inorganics segment's sales increased 13.9%, to ¥84,599 million, and operating income jumped 30.0%, to ¥20,894 million. The increase in operating income was due mainly to strong exports of graphite electrodes and good performance of Showa Denko Carbon, Inc., of the United States.

#### (Aluminum)

Production of automotive heat exchangers rose in Japan and Europe, while production in the United States fell because of the suspension of certain product lines. Production of extrusions decreased as the aftereffects of the revision of the Building Standards Law, but production of rolled products and *Shotic*<sup>TM</sup> forged products increased.

Sales from ingot marketing decreased owing to the fall in shipment volumes. Sales of rolled products were up due to the rise in selling prices, reflecting higher raw material costs, and increased shipment volumes of high-purity foils for capacitors. Sales of extrusions/specialty products rose mainly due to increases in shipment volumes of aluminum cylinders for laser printers.

In the heat exchanger business, sales rose in Japan and Europe, although sales in the United States fell slightly. Sales of *Shotric*<sup>TM</sup> forged products increased because of the rise in selling prices. Sales of aluminum cans also increased, reflecting higher shipment volumes and selling prices. The aluminum alloys business was sold in the second half of 2006.

As a result, the Aluminum segment's sales fell 0.9%, to ¥257,811 million, but operating income rose 24.2%, to ¥8,042 million, despite the impact of higher aluminum ingot price. The rise in operating income was due partly to the progress in passing on the increased metal cost to selling prices.

### (3) Major steps taken in 2007

#### (Petrochemicals)

- Modification of the ethylene plant at Oita Petrochemical Complex

The Company decided to modify its ethylene plant at the Oita Petrochemical Complex on a large scale to improve the plant's energy efficiency and cost-competitiveness. The modification work will be completed in 2010, when the next maintenance shutdown of the ethylene plant is scheduled. The Company will install two modern high-efficiency cracking furnaces to replace seven existing furnaces, while improving the waste heat recovery system and the preliminary distillation system.

- Development of heat-resistant, transparent sheet and film for displays

The Company has developed heat-resistant, transparent sheet and film for displays, utilizing its proprietary resin. The newly developed sheet is characterized by its high thermal deformation temperature, good optical properties, high surface hardness and resistance to chemicals. Thus the sheet is expected to help improve the safety of display components and reduce their weight. Meanwhile, the newly developed film is characterized by its low linear expansion coefficient. The use of this film as base material will enable the production of transparent electrodes that resist heat and have low electrical resistance. These electrodes will be used in various types of flexible displays, including electronic paper and organic EL displays.

#### (Chemicals)

- Development of new photo-curing isocyanate monomer

The Company developed a new grade of photo-curing isocyanate monomer product

(*KarenzMOI™-EG*) and started sample shipments in July. Compared with the existing *KarenzMOI™* product, which is used mainly for the production of LCD panels and semiconductors, the new grade features high adhesion strength and curing rate while reducing cure shrinkage by 40%. As a result, *KarenzMOI™-EG* is expected to find such new applications as surface coating and adhesives.

- Launch of water-soluble vitamin E derivative for skin care

The Company began full-scale marketing of a new water-soluble vitamin E derivative (*TPNa™*) for use in cosmetics. *TPNa™* is readily soluble in aqueous solutions, enabling easy formulation. It is readily absorbed through the skin, and transformed quickly into vitamin E in the skin. Thus, *TPNa™* is expected to be effective as raw material for skin care product.

(Electronics)

- Commercial production of 1.89- and 3.5-inch HD media with world's largest storage capacity

In June, the Company began commercial shipments of 334 gigabyte, 3.5-inch HD media based on the PMR technology. Furthermore, in August, the Company began commercial shipments of 80 gigabyte, 1.89-inch HD media based on the same technology. To the best of our knowledge and as of the end of January 2008, these products represented the world's largest storage capacities for the respective sizes. Demand for large-storage-capacity HD media is growing because of the rise in shipment volumes of notebook PCs that enable storage and editing of moving pictures, HDD recorders that enable high-vision recording of digital high-vision TV programs, and HDD-containing camcorders. In the first half of the year, we started up a PMR-technology-based new plant in Singapore, ensuring speedy and stable supply of large-storage-capacity HD media to our customers.

- Commercial production of the world's first 1.3-inch HD media based on PMR technology

In January 2008, the Company began commercial production of 1.3-inch HD media with storage capacity of 40 gigabytes per disk, using the PMR technology. To the best of our knowledge and as of the end of January 2008, the product represented the world's largest storage capacity as a 1.3-inch type. Because of its contribution to the production of lightweight HDDs with lower electricity consumption and higher resistance to shock, the new product is expected to be increasingly used in high-definition camcorders, mobile music players and very small notebook PCs.

- New crystal growth technology for nitride-based semiconductors; expansion of GaN-based LED chip production capacity

The Company succeeded in developing a new process for making high-quality nitride-based compound semiconductors. The process, called the "*Hybrid PPD™*,"

enables the use of four-inch epitaxial wafers with high quality. The Company also succeeded in developing blue LEDs with the highest-level brightness on the market today. While blue LEDs are currently used mainly in mobile phones and displays, a sharp increase in demand is expected owing to the development of new applications, including LCD backlighting. In view of substantial increases in orders, the Company decided to expand its LED chip production capacity at its Chiba site from the originally planned level of 100 million units a month to 200 million units a month by the end of June 2008.

- Additional expansion of AlGaInP ultrabright LED chip production capacity

The Company decided to increase its production capacity of AlGaInP ultrabright red/orange/yellow LED chips at its Chichibu site from 100 million units a month at present to 200 million units a month by the end of 2008. The Company will invest ¥1.2 billion for the expansion to meet growing demand for use in outdoor displays and automotive parts. The expansion is in addition to the earlier expansion from 30 million units a month to 100 million units a month completed in October 2007.

- Completion of a high-purity ammonia plant in Taiwan

In November, the Company expanded the high-purity ammonia production capacity at its subsidiary Taiwan Showa Chemicals Manufacturing Co., Ltd., from 1,000 tons a year to 1,200 tons a year, to meet growing demand from the electronics industry of East Asian countries. Reflecting sharp rises in the production of semiconductors and LCD panels in the region, demand for high-purity ammonia is also increasing for use as a nitride-film-forming gas in the production process. As a result of the expansion, the Company has further strengthened its position as a stable supplier of high-purity ammonia.

- Specialty gas storage facility in South Korea

In June, the Company's specialty gas storage facility was completed in Anseong-si, Gyeonggi-do, South Korea. The facility is intended as a measure to better serve the rapidly growing semiconductor and LCD panel market in that country. With the completion of the facility, the Company will provide specialty gases to its customers in South Korea in a more timely and reliable manner.

- Development of high-performance, large area-emission organic EL panels

The Company is developing singlelayer organic electroluminescent (organic EL) devices based on innovative phosphorescent polymer materials. We have achieved the highest-level external quantum efficiency of 17% for green light and 16% for blue light, respectively. The Company is developing a large area-emission panel based on this polymer technology, aiming to commercialize high-performance organic EL panels for use in displays and general lighting.

- Completion of second magnetic alloy plant in China

In September, the Company started up its second rare earth magnetic alloy plant in China at Ganzhou, Jiangxi Province. The plant has the capacity to produce 2,000 tons a year of alloys for high-performance neodymium-based magnets. Together with the existing plant at Baotou, Inner Mongolia, the Company now has a total capacity for producing 8,000 tons a year of rare earth magnetic alloys.

(Inorganics)

- Expansion of large-diameter graphite electrode production capacity

In 2006, the Company began strengthening its production setup for 30- and 32-inch-diameter graphite electrodes for use in electric arc furnace steelmaking. In July 2007, the Company completed a new line of graphitizing furnace at its Omachi Plant in Japan. In November 2007, Showa Denko Carbon, Inc., of the United States expanded its facilities. As a result, our total production capacity for these large-diameter graphite electrodes has increased from 15,000 tons a year to 25,000 tons a year.

- Establishment of JV for F/S regarding alumina project in Indonesia

In April, the Company established P.T. Indonesia Chemical Alumina, a joint venture with PT. ANTAM Tbk of Indonesia, Straits Trading Amalgamated Resources Private Limited of Singapore, and Marubeni Corporation of Japan. The JV was established to jointly study the feasibility of a chemical-grade alumina plant in Indonesia.

(Aluminum, etc.)

- Expansion of automotive heat exchanger business in China

In June, we increased our equity participation in Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd., making it our consolidated subsidiary. Grand Ocean-Showa expanded its capacity and began producing, in May, new *NRT™ III* condensers with around 20% higher performance compared with existing products.

- Absorption of Showa Financing K.K.

In July, the Company absorbed its wholly owned subsidiary Showa Financing K.K. with a view to enhancing the efficiency of the Group's financing activities. This reflected substantial decreases in the balance of Showa Financing's loans following the steady reductions in the Group's interest-bearing debt.

#### (4) Projections for 2008

##### a) Overall projections

In 2008, the business environment is forecast to remain severe, reflecting the impact of the subprime mortgage crisis on the financial market, currency fluctuations, slowdown of the U.S. economy, and expected continuation of high prices of oil, aluminum, and other raw materials.

Under the circumstances, the Showa Denko Group will carry out the Passion Project, a consolidated business plan that runs from 2006 through 2008, laying the groundwork for long-term sustainable growth. The Group will also continue taking comprehensive measures to reduce costs, increase competitiveness, and enhance profitability. The Showa Denko Group's performance forecast for 2008 is as follows:

(Unit: millions of yen)

	Results for the term ended Dec. 31, '07	Forecast for the term ending Dec. 31, '08	Difference	Rate of change
Net sales	1,023,238	1,110,000	86,762	8.5%
Operating income	76,671	79,000	2,329	3.0%
Ordinary income	59,989	63,500	3,511	5.9%
Net income	33,066	35,500	2,434	7.4%

Net sales, operating income, ordinary income and net income will increase from the 2007 results to ¥1,110 billion, ¥79 billion, ¥63.5 billion, and ¥35.5 billion, respectively. The above forecast is based on the assumption that the exchange rate will be ¥110 to the U.S. dollar and the naphtha price will be ¥63,000/KL.

#### b) Net sales by business segment

(Unit: millions of yen)

	Results for the term ended Dec. 31, '07	Forecast for the term ending Dec. 31, '08	Difference	Rate of change
Petrochemicals	395,105	420,000	24,895	6.3%
Chemicals	84,709	85,000	291	0.3%
Electronics	201,013	265,000	63,987	31.8%
Inorganics	84,599	85,000	401	0.5%
Aluminum, etc.	257,811	255,000	- 2,811	- 1.1%
Total	1,023,238	1,110,000	86,762	8.5%

## 2. Financial Conditions

### (1) Assets, liabilities and total equity at December 31, 2007

We continued our efforts to reduce total assets, including the sale of investment securities. As a result, total assets decreased ¥8,195 million, to ¥1,029,629 million. Interest-bearing debt further decreased ¥37,526 million, to ¥395,645 million, as a result of continued reduction efforts. Total liabilities decreased ¥41,361 million, to ¥730,970 million.



Total equity increased ¥33,167 million, to ¥298,659 million, despite the payment of dividends for the previous year. This was due to the rise in net income for 2007 and conversion of the outstanding Euro-yen convertible bonds.

#### (2) Cash flows in 2007

Net cash provided by operating activities decreased ¥24,076 million from the previous year, to ¥67,322 million, due mainly to the rise in working capital, reflecting the soaring raw material costs, and increases in payment of corporation taxes. Net cash used in investing activities increased ¥13,705 million, to ¥69,653 million. This was due to the fall in proceeds following the sale of investment securities and the rise in payments for additional acquisition of shares in consolidated subsidiaries.

Thus, free cash flow ended up in the payment of ¥2,331 million, representing a decrease of ¥37,781 million as compared with the proceeds of ¥35,450 million in the previous year. Net cash used in financing activities increased ¥2,504 million, to ¥20,552 million, due to reductions in interest-bearing debt. As a result, cash and cash equivalents at December 31, 2007 decreased ¥23,213 million, to ¥31,887 million.

#### (3) Projections for 2008

While cash flows from operating activities will increase, net cash used in investing activities will also increase as a result of capital investments centering on the electronics operations. Thus, free cash flow for 2008 is expected to increase around ¥7,300 million, to plus ¥5,000 million. Interest-bearing debt at the end of the year will be ¥400,000 million, almost the same level as at the end of the previous year.

#### (4) Trends in cash flow indexes

	2004	2005	2006	2007
Equity ratio	18.8%	21.0%	22.7%	26.9%
Equity ratio on a market value basis	32.0%	53.3%	51.6%	48.5%
Debt maturity (years)	8.4	5.8	4.7	5.9
Interest coverage ratio	5.9	8.9	12.5	8.0

[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.

### 3. Basic policy regarding appropriation of the Company’s profits; dividends for 2007/2008

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 2007, the Company is planning to pay dividends of ¥5 per share, up ¥1 per share. As for 2008, the Company is planning to pay dividends of ¥6 per share, an increase of ¥1 per share from 2007.

#### [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 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. Medium to long-term business strategy

### (1) Promotion of “Passion Project” consolidated business plan

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.

#### (i) 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.

#### (ii) Improving financial strength

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

#### (iii) 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	Results	Plan	Forecast
Net sales (billion yen)	811.9	800.0	914.5	870.0	1,023.2	940.0	1,110.0
Operating income (billion yen)	57.2	62.0	68.7	73.0	76.7	85.0	79.0*
Operating income/net sales ratio	7.0%	7.8%	7.5%	8.4%	7.5%	9.0%	7.1%
ROA (operating income/total assets)	5.8%	--	6.6%	--	--	8.5%	--
Interest-bearing debt (billion yen)	448.8	461.0	433.2	435.3	395.6	400.0	400.0
D/E ratio (times)	2.17	2.1	1.84	1.6	1.43	1.4	--

\* As to the forecast for 2008, it is assumed that increases in depreciation expenses, following the tax system revision, will cause operating income to decrease ¥6 billion.

#### 4. Strengthening internal control systems

The Showa Denko Group is carrying out the Passion Project, expanding growth businesses with a view to meeting the expectations of all stakeholders. To that end, we will continue creating individualized businesses with competitive edges by deepening our wide-ranging material technologies and nurturing their interconnections. The Group is also strengthening the competitiveness of its base businesses, aiming to lay the groundwork for long-term sustainable growth.

Under the Passion Project, top priority is given to the development of “new growth driver” businesses, continuous growth of profit, and improvement of financial strength through reduction of interest-bearing debt and expansion of stockholders’ equity. The Group aims to earn the full trust and confidence of the market and society, always managing operations based on the principles of CSR.

The Group attaches great importance to corporate governance, compliance and risk management, taking various measures in these areas in order to ensure sustainable growth and higher corporate value over the long term. The Group is contributing to the sound growth of society by developing and providing useful and safe technologies, products and services. We will ensure safety, conserve resources and energy, and reduce the volume of industrial waste to be discharged and chemical substances to be emitted, thereby contributing to the protection of the global environment.

## Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2006 (A)	Dec. 31, 2007 (B)	(B)-(A)	Dec. 31, 2007
Assets	¥	¥	¥	\$
Current assets				
Cash and deposit	55,424	31,894	(23,531)	279,401
Notes and accounts receivable	176,218	177,607	1,389	1,555,913
Inventories	86,313	109,335	23,022	957,821
Deferred tax assets	3,232	3,225	(7)	28,250
Other current assets	28,852	28,033	(819)	245,580
Allowance for doubtful receivables	(1,587)	(1,724)	(138)	(15,107)
Total current assets	348,453	348,369	(84)	3,051,857
Fixed assets				
Tangible fixed assets	549,991	559,283	9,292	4,899,545
Buildings and structures	93,438	101,123	7,685	885,880
Machinery and transports	137,435	169,202	31,767	1,482,277
Equipments	9,507	11,135	1,628	97,548
Land	263,930	260,562	(3,368)	2,282,632
Construction in process	45,680	17,260	(28,420)	151,208
Intangible fixed assets	18,408	15,141	(3,267)	132,641
Goodwill	7,897	5,123	(2,774)	44,877
Other intangible fixed assets	10,511	10,018	(492)	87,764
Investments and other assets	120,972	106,835	(14,136)	935,922
Investment securities	97,031	86,765	(10,266)	760,098
Deferred tax assets	7,567	7,539	(28)	66,047
Other investments	18,105	14,078	(4,027)	123,331
Allowance for doubtful accounts	(1,732)	(1,547)	185	(13,555)
Total fixed assets	689,370	681,259	(8,111)	5,968,107
<b>Total assets</b>	<b>1,037,823</b>	<b>1,029,629</b>	<b>(8,195)</b>	<b>9,019,964</b>
Liabilities				
Current liabilities				
Notes and accounts payable	161,456	168,604	7,148	1,477,035
Short-term loans payable	110,348	87,424	(22,924)	765,867
Current portion of long-term loans payable	83,899	60,433	(23,466)	529,415
Commercial paper	6,000	6,500	500	56,943
Current portion of bonds	8,500	3,000	(5,500)	26,281
Income taxes payable	7,404	9,962	2,557	87,270
Reserve for periodic repairs	17	513	496	4,498
Reserve for bonus payment	2,186	2,096	(91)	18,358
Reserve for restructuring expenses	2,214	226	(1,988)	1,980
Other current liabilities	46,801	41,971	(4,830)	367,684
Total current liabilities	428,825	380,728	(48,097)	3,335,331
Long-term liabilities				
Bonds	19,000	36,000	17,000	315,375
Bonds with subscription warrant	22,257	-	(22,257)	-
Long-term loans payable	183,168	202,289	19,121	1,772,133
Deferred tax liabilities	7,295	6,283	(1,012)	55,040
Deferred tax liabilities due to land revaluation	46,878	46,508	(370)	407,428
Accrued pension and severance costs	34,919	31,176	(3,743)	273,115
Reserve for directors' retirement allowance	422	35	(387)	307
Reserve for periodic repairs	788	1,561	773	13,671
Other long-term liabilities	28,779	26,391	(2,389)	231,192
Total long-term liabilities	343,506	350,242	6,736	3,068,260
<b>Total liabilities</b>	<b>772,331</b>	<b>730,970</b>	<b>(41,361)</b>	<b>6,403,591</b>
Equity				
Stockholders' equity				
Common stock	110,824	121,904	11,080	1,067,927
Capital surplus	26,883	37,892	11,009	331,951
Retained earnings	47,333	75,856	28,523	664,529
Treasury stock	(152)	(199)	(47)	(1,742)
Total Stockholders' equity	184,888	235,453	50,565	2,062,665
Valuations and adjustments				
Securities valuation surplus	19,286	16,075	(3,210)	140,827
Deferred hedge gains (losses)	3,607	436	(3,171)	3,817
Revaluation reserve (Land revaluation)	23,996	23,676	(320)	207,409
Foreign currency translation adjustments	3,633	1,722	(1,911)	15,085
Total valuations and adjustments	50,521	41,909	(8,612)	367,137
Minority interests	30,083	21,297	(8,786)	186,571
<b>Total equity</b>	<b>265,492</b>	<b>298,659</b>	<b>33,167</b>	<b>2,616,374</b>
<b>Total liabilities and equity</b>	<b>1,037,823</b>	<b>1,029,629</b>	<b>(8,195)</b>	<b>9,019,964</b>

## Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the year ended Dec.31 2006 and 2007			
	2006(A)	2007(B)	(B)-(A)	2007
	¥	¥	¥	\$
Net sales	914,533	<b>1,023,238</b>	108,705	<b>8,963,975</b>
Cost of sales	762,532	<b>860,750</b>	98,218	<b>7,540,519</b>
Gross Profit	152,001	<b>162,488</b>	10,486	<b>1,423,456</b>
Selling, general and administrative expense	83,274	<b>85,816</b>	2,543	<b>751,785</b>
Operating income	68,727	<b>76,671</b>	7,944	<b>671,671</b>
Non-operating income	7,027	<b>8,104</b>	1,077	<b>70,994</b>
Interest and dividend income	1,561	<b>1,759</b>	198	<b>15,406</b>
Equity in earnings of non-consolidated subsidiaries and affiliates	2,487	<b>2,376</b>	(110)	<b>20,817</b>
Miscellaneous incomes	2,980	<b>3,969</b>	989	<b>34,772</b>
Non-operating expense	18,241	<b>24,786</b>	6,545	<b>217,136</b>
Interest paid	7,241	<b>8,607</b>	1,367	<b>75,404</b>
Miscellaneous expenses	11,000	<b>16,179</b>	5,179	<b>141,732</b>
Ordinary income	57,514	<b>59,989</b>	2,475	<b>525,530</b>
Extraordinary profit	11,668	<b>5,486</b>	(6,183)	<b>48,057</b>
Gain on fixed assets sold	135	<b>709</b>	575	<b>6,215</b>
Gain on investment securities sold	6,666	<b>2,465</b>	(4,200)	<b>21,597</b>
Reversal of allowance for restructuring expenses	256	<b>575</b>	319	<b>5,037</b>
Gain on business transfer	3,706	<b>340</b>	(3,366)	<b>2,979</b>
Other extraordinary profits	906	<b>1,396</b>	490	<b>12,229</b>
Extraordinary loss	19,602	<b>9,139</b>	(10,463)	<b>80,061</b>
Loss on fixed assets sold or retired	5,740	<b>4,578</b>	(1,162)	<b>40,105</b>
Loss on impairment of fixed assets	4,880	<b>1,717</b>	(3,164)	<b>15,039</b>
Special severance pay	440	<b>332</b>	(108)	<b>2,909</b>
Loss on restructuring of subsidiaries and affiliates	1,193	-	(1,193)	-
Allowance for doubtful receivables	127	<b>353</b>	226	<b>3,091</b>
Reserve for restructuring expenses	1,909	-	(1,909)	-
Other extraordinary losses	5,313	<b>2,159</b>	(3,154)	<b>18,917</b>
Income before income taxes	49,580	<b>56,336</b>	6,756	<b>493,525</b>
Income taxes (current)	13,230	<b>17,625</b>	4,394	<b>154,398</b>
Income taxes (deferred)	4,697	<b>3,419</b>	(1,278)	<b>29,949</b>
Minority interests	2,817	<b>2,227</b>	(590)	<b>19,510</b>
Net income	28,836	<b>33,066</b>	4,230	<b>289,668</b>

## Consolidated Statements of Changes in Net Assets

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, 2007

(¥ 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, 2006	110,824	26,883	47,333	(152)	184,888	19,286	3,607	23,996	3,633	50,521	30,083	265,492
Conversion of subscription warrant	11,080	11,007			22,087							22,087
Cash dividends			(4,702)		(4,702)							(4,702)
Net income for the year			33,066		33,066							33,066
Treasury stock acquired				(55)	(55)							(55)
Treasury stock sold		2		8	10							10
Decrease due to exclusion from equity method			(10)		(10)							(10)
Reversal of land revaluation			320		320							320
Decrease due to change of accounting method in overseas subsidiary			(141)		(141)							(141)
Others			(9)		(9)	(3,210)	(3,171)	(320)	(1,911)	(8,612)	(8,786)	(17,408)
Balance at December 31, 2007	121,904	37,892	75,856	(199)	235,453	16,075	436	23,676	1,722	41,909	21,297	298,659

For the year ended December 31, 2007

(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, 2006	970,864	235,506	414,659	(1,333)	1,619,696	168,949	31,595	210,212	31,828	442,584	263,539	2,325,820
Conversion of subscription warrant	97,063	96,428			193,491							193,491
Cash dividends			(41,190)		(41,190)							(41,190)
Net income for the year			289,668		289,668							289,668
Treasury stock acquired				(478)	(478)							(478)
Treasury stock sold		17		69	86							86
Decrease due to exclusion from equity method			(90)		(90)							(90)
Reversal of land revaluation			2,803		2,803							2,803
Decrease due to change of accounting method in overseas subsidiary			(1,239)		(1,239)							(1,239)
Others			(82)		(82)	(28,123)	(27,778)	(2,803)	(16,743)	(75,447)	(76,968)	(152,497)
Balance at December 31, 2007	1,067,927	331,951	664,529	(1,742)	2,062,665	140,827	3,817	207,409	15,085	367,137	186,571	2,616,374

## Consolidated Statements of Cash Flows

(¥ in millions, US\$ in thousands)

	Results for the year (Jan. 1 – Dec. 31)		
	2006	2007	2007
	¥	¥	\$
<b>Cash flows from operating activities</b>			
Income before income taxes	49,580	56,336	493,525
Adjustments for:			
Depreciation and amortization	38,049	49,761	435,931
Loss on impairment of fixed assets	4,880	1,717	15,039
Amortization of excess of cost over equity in net assets acquired	1,241	1,137	9,964
Increase (decrease) in reserve for business restructuring expenses	1,296	(1,988)	(17,416)
Increase (decrease) in accrued pension and severance costs	(7,577)	(3,887)	(34,050)
Interest and dividend income	(1,561)	(1,759)	(15,406)
Interest expense	7,241	8,607	75,404
Equity in earnings of the non-consolidated subsidiaries and affiliates	(2,487)	(2,376)	(20,817)
Loss on sale and write-down of investment securities, net	(6,085)	(2,241)	(19,628)
Loss on the disposal of property, plant and equipment	6,347	3,826	33,518
Loss on sale of property, plant and equipment	241	42	372
(Increase) decrease in trade receivables	(14,314)	(2,268)	(19,867)
(Increase) decrease in inventories	(10,224)	(24,196)	(211,965)
Increase (decrease) in trade payables	18,302	11,063	96,914
Others	19,038	(6,392)	(55,993)
Subtotal	103,969	87,384	765,523
Interest and dividend received	2,681	3,681	32,243
Interest paid	(7,329)	(8,457)	(74,087)
Income taxes paid	(7,923)	(15,286)	(133,913)
Net cash provided by operating activities	91,398	67,322	589,767
<b>Cash flows from investing activities</b>			
Proceeds from sales of marketable securities	2	2	20
Payments for purchases of property, plant and equipment	(79,583)	(72,190)	(632,417)
Proceeds from sales of property, plant and equipment	6,687	3,396	29,750
Proceeds from business transfer	3,820	340	2,979
Payments for purchases of investment securities	(4,261)	(1,791)	(15,689)
Proceeds from sales of investment securities	17,863	8,216	71,973
Proceeds from repayment of investment securities	1,016	1,000	8,760
Payments for purchases of consolidated subsidiaries' securities	(2,527)	(8,877)	(77,763)
Proceeds from sales of consolidated subsidiaries	1,821	1,302	11,406
Proceeds from purchases of consolidated subsidiaries	—	405	3,549
(Increase) decrease in short-term loans, net	209	(17)	(151)
Payments for long-term loans	(551)	(137)	(1,199)
Proceeds from collection of long-term loans	212	315	2,758
Others	(657)	(1,617)	(14,164)
Net cash used in investing activities	(55,948)	(69,653)	(610,189)
<b>Cash flows from financing activities</b>			
Decrease in short-term debt, net	12,216	(22,617)	(198,137)
Increase (decrease) in commercial paper	6,000	500	4,380
Proceeds from issuance of long-term debt	72,227	81,958	717,988
Repayments of long-term debt	(91,166)	(85,987)	(753,279)
Proceeds from issuance of bonds	3,000	20,000	175,208
Redemption of bonds	(15,930)	(8,670)	(75,953)
Proceeds from issuance of stock to minority shareholders	—	230	2,014
Payments of dividends	(3,428)	(4,672)	(40,927)
Payments of dividends to minority shareholders	(951)	(743)	(6,509)
Others	(15)	(551)	(4,826)
Net cash used in financing activities	(18,047)	(20,552)	(180,040)
<b>Effect of exchange rate changes on cash and cash equivalents</b>	314	(330)	(2,895)
<b>Increase (decrease) in cash and cash equivalents</b>	17,717	(23,213)	(203,357)
<b>Cash and cash equivalents at beginning of the year</b>	37,233	55,100	482,695
<b>Effect of adjustment of newly consolidated subsidiaries on cash and cash equivalents at beginning of the year</b>	149	—	—
<b>Cash and cash equivalents at end of the year</b>	55,100	31,887	279,339



## SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2006 and 2007 were summarized by business segment as follows:

Year ended December 31, 2006	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
<b>Sales</b>							
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
<b>Assets. . . . .</b>	¥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 on impairment of fixed assets	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, 2007	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
<b>Sales</b>							
Outside customers. . . . .	¥395,105	¥84,709	¥201,013	¥84,599	¥257,811	¥-	¥1,023,238
Inter-segment. . . . .	2,563	317	166	57	24,563	(27,667)	-
Total. . . . .	397,669	85,027	201,179	84,656	282,374	(27,667)	1,023,238
Operating costs. . . . .	378,095	77,596	175,346	63,762	274,332	(22,564)	946,566
Operating income. . . . .	¥19,574	¥7,431	¥25,833	¥20,894	¥8,042	¥(5,103)	¥76,671
<b>Assets. . . . .</b>	¥242,811	¥137,798	¥225,332	¥125,542	¥270,617	¥27,529	¥1,029,629
Depreciation and amortization. . . . .	5,656	5,011	27,687	2,802	8,799	(193)	49,761
Loss on impairment of fixed assets	1,134	99	140	158	185	-	1,717
Capital expenditures. . . . .	5,562	5,052	44,406	3,743	10,789	(206)	69,346

Year ended December 31, 2007	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
<b>Sales</b>							
Outside customers. . . . .	\$3,461,282	\$742,089	\$1,760,954	\$741,120	\$2,258,529	\$-	\$8,963,975
Inter-segment. . . . .	22,456	2,780	1,457	500	215,182	(242,375)	-
Total. . . . .	3,483,739	744,869	1,762,411	741,620	2,473,710	(242,375)	8,963,975
Operating costs. . . . .	3,312,264	679,769	1,536,102	558,579	2,403,261	(197,672)	8,292,304
Operating income. . . . .	\$171,474	\$65,100	\$226,309	\$183,041	\$70,449	\$(44,703)	\$671,671
<b>Assets. . . . .</b>	\$2,127,122	\$1,207,168	\$1,973,996	\$1,099,799	\$2,370,717	\$241,163	\$9,019,964
Depreciation and amortization. . . . .	49,547	43,898	242,546	24,550	77,080	(1,691)	435,931
Loss on impairment of fixed assets	9,934	871	1,228	1,384	1,622	-	15,039
Capital expenditures. . . . .	48,721	44,259	389,015	32,787	94,520	(1,805)	607,497

(b) The operations of the Companies for the year ended December 31, 2006 and 2007 were summarized by geographic area as follows:

Year ended December 31, 2006	Millions of yen				
	Japan	Asia	Others	Elimination	Consolidated
<b>Sales</b>					
Outside customers. . . . .	¥784,040	¥78,413	¥52,080	-	¥914,533
Inter-segment. . . . .	26,650	6,179	640	(33,470)	-
Total. . . . .	810,690	84,592	52,720	(33,470)	914,533
Operating costs. . . . .	758,169	71,557	46,785	(30,706)	845,806
Operating income. . . . .	¥52,521	¥13,035	¥5,935	¥(2,764)	¥68,727
<b>Assets. . . . .</b>	¥915,385	¥97,653	¥34,515	¥(9,729)	¥1,037,823

  

Year ended December 31, 2007	Millions of yen				
	Japan	Asia	Others	Elimination	Consolidated
<b>Sales</b>					
Outside customers. . . . .	¥857,022	¥104,805	¥61,410	¥-	¥1,023,238
Inter-segment. . . . .	33,453	5,314	639	(39,406)	-
Total. . . . .	890,475	110,119	62,049	(39,406)	1,023,238
Operating costs. . . . .	828,841	98,716	54,165	(35,155)	946,566
Operating income. . . . .	¥61,634	¥11,403	¥7,885	¥(4,250)	¥76,671
<b>Assets. . . . .</b>	¥899,382	¥129,052	¥39,847	¥(38,652)	¥1,029,629

Year ended December 31, 2007	Thousands of U.S. dollars				
	Japan	Asia	Others	Elimination	Consolidated
<b>Sales</b>					
Outside customers. . . . .	\$7,507,857	\$918,137	\$537,980	\$-	\$8,963,975
Inter-segment. . . . .	293,062	46,551	5,597	(345,210)	-
Total. . . . .	7,800,919	964,688	543,577	(345,210)	8,963,975
Operating costs. . . . .	7,260,980	864,795	474,504	(307,976)	8,292,304
Operating income. . . . .	\$539,939	\$99,894	\$69,073	(\$37,234)	\$671,671
Assets. . . . .	\$7,878,950	\$1,130,547	\$349,077	(\$338,609)	\$9,019,964

(c) Overseas sales, which represent sales to customers outside of Japan, of the Companies for the year ended December 31, 2006 and 2007 were summarized 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, 2007	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales. . . . .	¥266,913	¥75,668	¥342,581
Consolidated net sales. . . . .	-	-	1,023,238
Ratio of overseas sales to consolidated net sales. . . . .	26.1%	7.4%	33.5%

Year ended December 31, 2006	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales. . . . .	\$2,338,265	\$662,884	\$3,001,149