SHOWA DENKO K.K.

Consolidated Financial Statements

For the year ended December 31, 2008

FASF 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			
	2007	2008	Increase (Decrease)	2008
	¥	¥	%	$
Net sales	1,023,238	1,003,876	(1.9)	11,027,972
Operating income	76,671	26,792	(65.1)	294,319
Ordinary income	59,989	9,793	(83.7)	107,578
Net income	33,066	2,451	(92.6)	26,925
Net income per share: Basic	27.52	1.96	−	0.022
Net income per share: Diluted	26.50	−	−	−
	%	%		
Net income on equity	12.9	0.9		
Ordinary income on total assets	5.8	1.0		
Operating income to net sales	7.5	2.7		

Notes
Important changes in accounting policies : not applicable

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

	Dec. 31, 2007	Dec. 31, 2008	Dec. 31, 2008
	¥	¥	$
Total assets	1,029,629	962,010	10,568,052
Total equity	298,659	265,459	2,916,166
Total equity per share	222.31	192.85	2.12
	%	%	%
Stockholders' equity ratio	26.9	25.0	25.0

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

	Results for the year ended December 31		
	2007	2008	2008
	¥	¥	$
Cash flows from operating activities	67,322	61,099	671,196
Cash flows from investing activities	(69,653)	(44,035)	(483,742)
Cash flows from financing activities	(20,552)	(3,818)	(41,942)
Cash and cash equivalents at end of the year	31,887	40,949	449,841

(4) Dividends:

	2007	2008
Interim dividends per share (¥)	−	−
End of Term dividends per share (¥)	5.0	5.0
Annual dividends per share (¥)	5.0	5.0
Total dividends (¥ in millions)	6,239	6,239
	%	%
Payout ratio (consolidated)	18.2	255.1
Net assets dividend yield (consolidated)	2.4	2.4

※The dividends for 2009 is still undecided.

Ⅱ. Forecast of performance for the year ending December 31, 2009

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

	2009	
	¥	$
Net sales	800,000	8,788,312
Operating income	17,000	186,752
Ordinary income	8,000	87,883
Net income	2,000	21,971
Net income per share	1.60	0.02

※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 ¥91.03 throughout this statement for convenience only.

[Business Results]

1. Analysis of business results

(1) Summary

The global financial crisis—triggered by the U.S. subprime mortgage problem—resulted in sharp appreciation of the yen and steep declines in crude oil prices and stock markets. As a result, the Japanese economy was deeply affected in the second half of 2008, with drastic falls in production and capital investment by corporations.

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.

Nevertheless, the business environment for the chemical and nonferrous metals industries was very difficult, reflecting volatile naphtha and aluminum metal prices that soared in the first half of the year and sharply declined in the second half. The situation in the electronic parts/materials industry was also very difficult due to substantial inventory adjustments by customer industries in the second half of the year.

As a result, consolidated net sales in 2008 decreased 1.9%, to ¥1,003,876 million, and operating income fell 65.1%, to ¥26,792 million. The drop in operating income was mainly due to the fall in shipments of petrochemicals and the influence of the sharp fluctuations in naphtha costs; the effect of higher yen and increased depreciation expenses in the Electronics segment; and low demand for aluminum from the construction and automobile industries. Ordinary income was down 83.7%, to ¥9,793 million, due mainly to the fall in operating income, and net income decreased 92.6%, to ¥2,451 million.

(2) Summary of results by business segment

(Petrochemicals)

Production of ethylene and propylene in 2008 decreased, reflecting production cuts in the second half of the year. Sales of olefins rose owing to higher selling prices until the middle of the year, reflecting soaring raw material costs, notwithstanding lower shipment volumes in the second half owing to stagnant demand. Sales of organic chemicals were down due partly to substantially decreased shipment volume of acetic acid, notwithstanding higher prices, reflecting the rise in feedstock costs.

As a result, the Petrochemicals segment’s sales rose 1.3%, to ¥400,173 million. However, the segment recorded operating loss of ¥1,281 million, compared with operating income of ¥19,574 million for the previous year. The fall in the segment’s operating income was due to lower demand in the second half; the fall in selling prices, reflecting the sharp drop in naphtha prices; and the influence of high-priced stock of naphtha.

(Chemicals)

Production of liquid ammonia was maintained at the previous year's level. Sales of acrylonitrile were up owing to higher shipment volumes, and sales of caustic soda, ammonia and amino acids increased due to the rise in selling prices. Sales of chloroprene rubber decreased slightly as a result of the fall in demand for automobile applications in the second half.

The Chemicals segment's sales rose 10.2%, to ¥93,319 million, due partly to the consolidation of Showa Tansan Co., Ltd. However, operating income fell 28.3%, to ¥5,329 million, due mainly to sharp declines in the acrylonitrile market prices.

(Electronics)

Production of hard disk (HD) media fell slightly, reflecting slower demand for PCs in the second half of the year. Sales of HD media decreased owing to lower shipment volumes in the second half of the year, centering on aluminum-based HD media, notwithstanding the rise in sales in the first half. Sales of compound semiconductors were up, reflecting the rise in shipment volumes of ultrabright LED chips. Sales of semiconductor-processing specialty gases decreased, reflecting the fall in demand for semiconductors. Meanwhile, sales of rare earth magnetic alloys rose due to the rise in shipment volumes and selling prices.

As a result, the Electronics segment's sales decreased 6.1%, to ¥188,778 million. Operating income decreased 64.2%, to ¥9,259 million, owing to the fall in shipment volumes of aluminum-based HD media in the second half of the year, the rise in depreciation expenses, and the influence of the appreciation of the yen.

(Inorganics)

Production of graphite electrodes decreased slightly owing to the fall in demand in the second half of the year, notwithstanding steady results in the first half. Sales of graphite electrodes increased due to the rise in selling prices, reflecting higher raw material costs, notwithstanding lower demand in the second half. Sales of ceramics increased slightly.

As a result, the Inorganics segment's sales increased 5.0%, to ¥88,797 million. However, operating income fell 7.9%, to ¥19,244 million. The decrease in operating income was due to the adverse effect of the appreciation of the yen on the profit from the graphite electrode business in the U.S. as well as the influence of higher raw material costs on the ceramics business.

(Aluminum)

Production of rolled products decreased, reflecting lower shipments of high-purity aluminum foils for capacitors in the second half of the year. Production of extrusions fell due to the stagnant construction market. Production of *Shotic*™ forged products also fell due to lower demand from the automobile industry.

Sales from ingot marketing decreased owing to the fall in shipment volumes. Sales of rolled products were down as a result of our withdrawal from the commodity foils business in the previous year and lower shipment volumes of high-purity foils for capacitors in the second half of 2008. Sales of extrusions/specialty products fell mainly due to decreases in shipment volumes of extrusions for building materials.

In the heat exchanger business, sales rose in Asia and Europe, although sales in Japan and the United States fell. Sales of *Shotic*™ forged products decreased because of the sharp drop in shipments to the automobile industry in the second half of the year. Sales of aluminum cans also decreased, reflecting lower shipment volumes.

As a result, the Aluminum segment's sales fell 9.7%, to ¥232,809 million. The segment recorded operating loss of ¥212 million, compared with operating income of ¥8,042 million for the previous year. The fall in the segment's operating income was due to lower demand from the construction and automobile industries as well as the influence of higher fuel cost on our power generation business as an independent power provider.

(3) Major steps taken in 2008

(Petrochemicals)

・ Expansion of allyl alcohol production capacity at Oita

In May, SDK completed the expansion of its allyl alcohol production capacity at Oita Petrochemical Complex, raising the capacity from 56,000 tons a year to 70,000 tons a year. Allyl alcohol is used as raw material for allyl ester resin, whose demand is growing for many applications, including spectacle lenses.

・Manufacture of n-propyl acetate

In October, SDK decided to build a plant for n-propyl acetate that will be used in solvents for ink for special gravure printing. The plant will be completed by the end of 2009 and commercial shipments will start in early 2010. Demand for n-propyl acetate is expected to grow as it is safer to use than conventional solvents.

(Chemicals)

・ Sale of shares in Kokusai Eisei

In March, SDK sold 90% of the shares it owned in its wholly owned consolidated subsidiary Kokusai Eisei Co., Ltd., to Iwatani International Corporation.

- Installation of GHG decomposition unit

  In June, SDK decided to install a greenhouse gas (GHG) decomposition unit at its Kawasaki site for start-up in March 2009. The installation of the unit will enable the Showa Denko Group to reduce GHG emissions by 6% in compliance with the Kyoto Protocol without relying on emission trading.

- Tender offer for Showa Tansan's common stock

  In June, SDK changed the status of Showa Tansan Co., Ltd. from an affiliate, to which the equity method was applied, to a consolidated subsidiary by increasing its ownership of Showa Tansan's shares through a tender offer.

- Expansion of chloroprene rubber production capacity

  In September, SDK expanded its chloroprene rubber production capacity at its Kawasaki site from 20,000 tons a year to 23,000 tons a year. Demand for chloroprene rubber is steadily increasing for use in automotive parts and many other applications owing to the material's high resistance to oils, heat and weather as well as its high flame retardance.

- Waste anesthetic gas disposal system provided to Swedish firm

  SDK provided its waste anesthetic gas disposal system technology (*AnescleanSW*™) to Qmt tech ab, a medical equipment engineering company in Sweden. The *AnescleanSW*™ system decomposes nitrous oxide, a greenhouse gas used as inhalation anesthetic at hospitals. SDK granted Qmt the right to sell the system to hospitals in North European countries.

- Acquisition of shares in F2 Chemicals of U.K.

  In September, SDK reached agreement with Asahi Glass Co., Ltd., Mitsubishi Corporation, and Mitsubishi's Italian subsidiary MITENI S.p.A. to purchase all the shares of their joint venture F2 Chemicals Limited of the United Kingdom. By combining F2 Chemicals' fluorine technologies with our own technologies, we aim to expand the lineup of our fluorine compounds.

- Completion of new plant for high-performance insulating ink

  In November, our subsidiary Nippon Polytech Corporation (NPC) completed its new plant for high-performance electrical insulating ink for use in the manufacture of chip-on-film –technology-based electronic parts in LCD panels for TVs, PCs and mobile phones. The ink, in which SDK's newly developed urethane-based thermoset resin is used, improves image quality and extends life of LCD panels.

- New distribution base for Ecoann™ liquid ammonia in the Tohoku region

In November, SDK decided to build a new distribution base for Ecoann™ liquid ammonia in Fukushima Prefecture, northeastern Japan. The distribution base will start up in August 2009. Demand for Ecoann™ liquid ammonia is steadily growing in the Tohoku region mainly for use in removal of NOx at thermoelectric power plants.

(Electronics)

・Launch of 80 lm/W AlGaInP ultrabright red LED chips

In May, SDK started commercial shipment of AlGaInP ultrabright red LED chips with luminous efficiency of 80 lumen per watt. To the best of our knowledge, the product had the world's highest luminous efficiency for this type available on the market as of May 2008. AlGaInP ultrabright LED chips are now used mainly in outdoor displays. However, new applications are being developed, including automotive parts (rear lights, interior lighting) and LCD backlight for flat-panel TVs.

・Consolidation of HD media operations with HOYA

In September, SDK reached basic agreement with Hoya Corporation to consolidate the two companies' HD media operations by establishing a joint venture in 2009. By combining their respective technical strengths, SDK and HOYA will step up R&D to develop new HD media products with higher storage capacity. At the same time, the two companies will increase the efficiency of their operation sites to ensure sustainable competitive power.

・Shipments of HD media with the world's highest storage capacity

In August, SDK began commercial shipments of 1.89-inch HD media with storage capacity of 120 gigabytes per disk. And in September, SDK began commercial shipments of 2.5-inch HD media with storage capacity of 250 gigabytes per disk. To the best of our knowledge, both products had the world's highest storage capacity for HD media of these sizes available on the market as of January 8, 2009. 1.89-inch HD media are used in mobile music players, high-definition camcorders, and small-sized notebook PCs. Meanwhile, 2.5-inch HD media are used mainly in notebook PCs. Demand for high-capacity HD media is expected to grow.

・Establishment of rare earth metal subsidiary in Vietnam

In October, SDK established Showa Denko Rare-Earth Vietnam Co., Ltd. in Ha Nam Province, Vietnam, as its 90%-owned subsidiary. In April 2010, the new company will begin producing 800 tons a year in total of didymium and dysprosium, which will be used as raw material for neodymium-based high-performance magnetic alloys. The Showa Denko Group is producing rare earth magnetic alloys at three plants—one in Japan and two in China—with combined capacity of 8,000 tons a year. With the establishment of the new company in Vietnam, the Group will be able to ensure stable procurement of raw materials for its neodymium-based high-performance magnetic alloy production and further strengthen the business.

・Establishment of electronics materials sales firm in Taiwan

In September, SDK established a wholly owned subsidiary Taiwan Showa Denko Electronics Co., Ltd. to strengthen sales of LED chips.

・Expanding high-purity ammonia business for electronics

In November, SDK established a joint venture in Quzhou, Zhejiang Province, China to produce high-purity ammonia for the electronics industry. The joint venture, Zhejiang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd., owned 51% by SDK, is now building a 500-ton-a-year high-purity ammonia plant for start-up in June 2009. Fully utilizing the new plant in China and existing production sites in Japan (Kawasaki) and Taiwan, SDK will strengthen its supply of high-purity ammonia to the growing East Asian market.

・Taking over SiC epitaxial wafers business

In December, SDK took over ESICAT Japan, LLP's business in silicon carbide (SiC) epitaxial wafers for power device applications. Owing to their superior electricity-saving properties, SiC-based semiconductors are expected to be increasingly used in power conversion devices and inverter modules for electric power/automobile/railroad/electric appliance industries.

・Expanding C_4F_6 etching gas business

SDK will start up a new production facility for high-purity C_4F_6 gas in Kawasaki in the first half of 2009 in cooperation with Air Products and Chemicals, Inc. Demand for C_4F_6 is expected to grow due to its improved processability and selectivity and very low environmental impact.

・Commercialization of new grade carbon nanotube

SDK has decided to build a commercial production facility for *VGCF*™-X, a new grade of SDK carbon nanotube with an optimized design for resin composite applications. Production will begin in the first half of 2010 within the premises of Oita Petrochemical Complex. A small added amount of *VGCF*™-X can give stable conductivity to resins. Thus it will find applications in static-free plastic cases for the carriage of semiconductor/hard disk media parts in a clean room, contributing to better quality of these parts. SDK has concluded a patent cross-license agreement with Hyperion Catalysis International, Inc., which owns many key patents pertaining to materials and applications in the area of carbon nanotubes, including for resin composites.

(Inorganics)

・Graphite electrode production capacity expansion

In the graphite electrode business, the Showa Denko Group has maximized production/distribution efficiency at the two production bases—one each in Japan and the United States. The Group has established technical advantages, as demonstrated by its position as a world leader in the production of large-diameter graphite electrodes. Our U.S. subsidiary Showa Denko Carbon, Inc. (SDKC) has completed a series of debottlenecking, expanding its capacity to 45,000 tons a year (up 5,000 tons a year). As a result, the Group's total graphite electrode production capacity has reached 105,000 tons a year.

(Aluminum and other)

・High-purity aluminum foil production capacity expansion

In January, our subsidiary Showa Denko Sakai Aluminum K.K. (SSK) completed a new line for refining aluminum slabs. With the completion, SSK's high-purity foil production capacity was expanded from 1,500 tons a month to more than 1,800 tons a month. High-purity aluminum foils are used in the production of electrolytic capacitors, whose demand has increased substantially in recent years for use in high-performance electric appliances, such as flat-panel TVs, and automotive parts. We are the leading supplier of high-purity aluminum foils in Japan and overseas markets. We will continue to meet customer expectations through further capacity expansion in a timely manner and the provision of high-quality products.

・Environment-friendly pipes made from recycled PET bottles

In June, *Showa Ecopipe*™, a drainage/ventilation pipe produced and marketed by our subsidiary Showa Denko Kenzai K.K. using recycled PET bottles, was adopted commercially for the first time in a condominium. Compared with existing hard PVC pipes, *Showa Ecopipe*™ needs only one-third energy-input for production, contributing to the reduction in CO_2 emissions. Also, *Showa Ecopipe*™ does not emit chlorine-based toxic gases at the time of incineration. Thus, *Showa Ecopipe*™ has been certified as "Eco Mark product" by the Japan Environment Association.

・New aluminum melting furnace at Oyama

In June, SDK completed the modernization work of aluminum casting facilities at its Oyama Plant, installing new melting furnaces with the capacity of producing 60,000 tons of billets a year. The modernization is intended as a measure to ensure the delivery of high-quality fabricated aluminum products to customers.

(4) Projections for 2009

a) Overall projections

In 2009, the business environment is forecast to remain severe, reflecting the impact of the global recession on Japan's export, production and capital investment. Under the circumstances, the Showa Denko Group will continue its efforts to lay the groundwork for long-term sustainable growth, reduce costs, increase competitiveness, and enhance profitability. The Showa Denko Group's performance forecast for 2009 is as follows:

(Unit: millions of yen)

	Results for the term ended Dec. 31, '08	Forecast for the term ending Dec. 31, '09	Difference	Rate of change
Net sales	1,003,876	800,000	- 203,876	- 20.3%
Operating income	26,792	17,000	- 9,792	- 36.5%
Ordinary income	9,793	8,000	- 1,793	- 18.3%
Net income	2,451	2,000	- 451	- 18.4%

Net sales, operating income, ordinary income and net income will decrease from the 2008 results to ¥800 billion, ¥17 billion, ¥8 billion, and ¥2 billion, respectively. The above forecast is based on the assumption that the exchange rate will be ¥90 in the first half and ¥95 in the second half, respectively, to the U.S. dollar. The naphtha price is assumed to be ¥32,000/KL in the first half and ¥40,000/KL in the second half, respectively.

b) Net sales by business segment

(Unit: millions of yen)

	Results for the term ended Dec. 31, '08	Forecast for the term ending Dec. 31, '09	Difference	Rate of change
Petrochemicals	400,173	245,000	- 155,173	- 38.8%
Chemicals	93,319	100,000	6,681	7.2%
Electronics	188,778	155,000	- 33,778	- 17.9%
Inorganics	88,797	90,000	1,203	1.4%
Aluminum, etc.	232,809	210,000	- 22,809	- 9.8%
Total	1,003,876	800,000	- 203,876	- 20.3%

2. Financial Conditions

(1) Assets, liabilities and total equity at December 31, 2008

We continued our efforts to reduce total assets, including the sale of investment securities. As a result, total assets decreased ¥67,619 million, to ¥962,010 million. Interest-bearing debt further decreased ¥2,731 million, to ¥392,914 million, as a result of continued reduction efforts. Total liabilities decreased ¥34,419 million, to ¥696,551 million.

Total equity decreased ¥33,200 million, to ¥265,459 million, due to the payment of dividends for the previous year and the fall in securities valuation surplus.

(2) Cash flows in 2008

Net cash provided by operating activities decreased ¥6,223 million from the previous year, to ¥61,099 million, due mainly to the fall in operating income. Net cash used in investing activities decreased ¥25,618 million, to ¥44,035 million, due mainly to the fall in payments for capital investment.

Thus, free cash flow ended up in the proceeds of ¥17,065 million, compared with the payment of ¥2,331 million in the previous year. Net cash used in financing activities decreased ¥16,733 million, to ¥3,818 million, despite reductions in interest-bearing debt, as liquidity in hand was increased in anticipation of a deterioration in fund-raising environment. As a result, cash and cash equivalents at December 31, 2008 increased ¥9,062 million, to ¥40,949 million.

(3) Projections for 2009

While cash flows from operating activities will decrease, net cash used in investing activities will be maintained at the level of 2008. Thus, free cash flow for 2009 is expected to decrease around ¥7,100 million, to the proceeds of ¥10,000 million. Interest-bearing debt at the end of the year will be around ¥385,000 million, down ¥8 billion.

(4) Trends in cash flow indexes

	2005	2006	2007	2008
Equity ratio	21.0%	22.7%	26.9%	25.0%
Equity ratio on a market value basis	53.3%	51.6%	48.5%	16.5%
Debt maturity (years)	5.8	4.7	5.9	6.4
Interest coverage ratio	8.9	12.5	8.0	7.8

[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 2008/2009

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 2008, the Company is planning to pay dividends of ¥5 per share, the same as those in the previous year. The Company has not yet decided on dividends for 2009.

4. Operational and other risks

The Showa Denko Group is taking steps to minimize risks to its operations. While we promoted the Passion Project for the 2006-2008 period, we reviewed it in response to the drastic changes in the global economic environment and worked out the “Passion Extension” for the two years of 2009 and 2010. We will hereafter pursue the goals defined in the “Passion Extension.” 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 9, 2009. 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, sales to such industries as automobile, electric appliance, and construction account for a large portion. Trends of those industries, which are beyond our control, can substantially affect such businesses.

③ HD media

In the Group's HD media business, the sales volume is largely influenced by demand for electric appliances and PCs. The business requires innovations at a rapid pace and involves fierce international competition. 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. In particular, a sharp appreciation of the yen against other currencies can affect the Group's performance.

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 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.

[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 Extension"

The Showa Denko Group has promoted the Passion Project, a three-year (2006-2008) action plan under which the Group has aimed to contribute to the sound growth of international society based on its “image” in 2010. In response to the drastic changes in the business environment, we have reviewed the Passion Project and worked out “Passion Extension” for the two-year period of 2009 and 2010, while maintaining the basic concepts of the Passion Project. Under the “Passion Extension,” we will focus our attention on the flowing six items in an effort to promote structural reform and lay the groundwork for sustainable growth over the long term:

1. Improve business portfolio by promoting growth strategies and structural reform
2. Allocate managerial resources efficiently by very carefully selecting investments
3. Carry out drastic cost reductions
4. Secure sufficient cash flows
5. Improve financial strength
6. Strengthen R&D to ensure future growth

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

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.

4. Tasks to be accomplished

The Showa Denko Group will aim to lay the groundwork for long-term sustainable growth as well as enhance competitiveness and profitability by achieving the above-mentioned goals under the “Passion Extension.” Furthermore, we will aim 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, 2007 (A)	Dec. 31, 2008 (B)	(B)-(A)	Dec. 31, 2008
Assets	¥	¥	¥	$
Current assets				
Cash on hand and in banks	31,894	40,954	9,061	449,900
Notes and accounts receivable	177,607	117,190	(60,417)	1,287,383
Inventories	109,335	117,749	8,413	1,293,515
Deferred tax assets	3,225	5,877	2,652	64,562
Other current assets	28,033	40,837	12,804	448,606
Allowance for doubtful receivables	(1,724)	(950)	775	(10,435)
Total current assets	348,369	321,657	(26,712)	3,533,530
Fixed assets				
Tangible fixed assets	559,283	531,633	(27,650)	5,840,196
Buildings and structures	101,123	94,992	(6,131)	1,043,530
Machinery and transports	169,202	152,535	(16,667)	1,675,655
Equipments	11,135	10,731	(404)	117,882
Land	260,562	256,042	(4,520)	2,812,724
Construction in process	17,260	17,333	72	190,406
Intangible fixed assets	15,141	13,042	(2,099)	143,272
Goodwill	5,123	3,511	(1,612)	38,571
Other intangible fixed assets	10,018	9,531	(487)	104,701
Investments and other assets	106,835	95,677	(11,158)	1,051,053
Investment securities	86,765	65,623	(21,142)	720,893
Deferred tax assets	7,539	17,624	10,085	193,607
Other investments	14,078	13,613	(466)	149,540
Allowance for doubtful accounts	(1,547)	(1,182)	365	(12,987)
Total fixed assets	681,259	640,353	(40,907)	7,034,522
Total assets	1,029,629	962,010	(67,619)	10,568,052
Liabilities				
Current liabilities				
Notes and accounts payable	168,604	140,427	(28,176)	1,542,650
Short-term loans payable	87,424	100,717	13,293	1,106,414
Current portion of long-term loans payable	60,433	59,448	(985)	653,056
Commercial paper	6,500	-	(6,500)	-
Current portion of bonds	3,000	-	(3,000)	-
Income taxes payable	9,962	1,477	(8,485)	16,221
Reserve for periodic repairs	513	58	(456)	634
Reserve for bonus payment	2,096	2,063	(32)	22,664
Reserve for restructuring expenses	226	532	306	5,841
Other current liabilities	41,971	59,053	17,082	648,717
Total current liabilities	380,728	363,774	(16,954)	3,996,197
Long-term liabilities				
Bonds	36,000	36,000	-	395,474
Long-term loans payable	202,289	196,750	(5,539)	2,161,371
Deferred tax liabilities	6,283	6,399	116	70,294
Deferred tax liabilities due to land revaluation	46,508	45,994	(514)	505,266
Accrued pension and severance costs	31,176	28,659	(2,517)	314,826
Reserve for directors' retirement allowance	35	-	(35)	-
Reserve for periodic repairs	1,561	2,756	1,195	30,270
Other long-term liabilities	26,391	16,220	(10,170)	178,188
Total long-term liabilities	350,242	332,777	(17,464)	3,655,689
Total liabilities	730,970	696,551	(34,419)	7,651,885
Equity				
Stockholders' equity				
Common stock	121,904	121,904	-	1,339,161
Capital surplus	37,892	37,945	53	416,838
Retained earnings	75,856	73,146	(2,710)	803,537
Treasury stock	(199)	(173)	26	(1,898)
Total Stockholders' equity	235,453	232,822	(2,631)	2,557,638
Valuations and adjustments				
Securities valuation surplus	16,075	4,983	(11,092)	54,741
Deferred hedge gains (losses)	436	(6,093)	(6,528)	(66,932)
Revaluation reserve (Land revaluation)	23,676	21,896	(1,780)	240,534
Foreign currency translation adjustments	1,722	(12,981)	(14,703)	(142,606)
Total valuations and adjustments	41,909	7,805	(34,104)	85,738
Minority interests	21,297	24,832	3,535	272,790
Total equity	298,659	265,459	(33,200)	2,916,166
Total liabilities and equity	1,029,629	962,010	(67,619)	10,568,052

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2007 and 2008			
	2007(A)	2008(B)	(B)-(A)	2008
	¥	¥	¥	$
Net sales	1,023,238	1,003,876	(19,361)	11,027,972
Cost of sales	860,750	888,462	27,712	9,760,102
Gross Profit	162,488	115,414	(47,073)	1,267,870
Selling, general and administrative expense	85,816	88,622	2,806	973,551
Operating income	76,671	26,792	(49,879)	294,319
Non-operating income	8,104	6,610	(1,494)	72,610
Interest and dividend income	1,759	1,501	(257)	16,492
Equity in earnings of non-consolidated subsidiaries and affiliates	2,376	742	(1,634)	8,154
Miscellaneous incomes	3,969	4,366	397	47,964
Non-operating expense	24,786	23,609	(1,177)	259,352
Interest paid	8,607	7,764	(844)	85,288
Miscellaneous expenses	16,179	15,845	(334)	174,064
Ordinary income	59,989	9,793	(50,196)	107,578
Extraordinary profit	5,486	12,980	7,494	142,586
Gain on fixed assets sold	709	741	32	8,143
Gain on investment securities sold	2,465	10,090	7,625	110,842
Other extraordinary profits	2,311	2,148	(162)	23,601
Extraordinary loss	9,139	16,480	7,341	181,039
Loss on fixed assets sold or retired	4,578	4,636	58	50,927
Impairment of fixed assets	1,717	4,321	2,604	47,467
Loss on valuation of investment securities	86	2,324	2,238	25,527
Allowance for doubtful receivables	353	89	(264)	982
Reserve for restructuring expenses	-	482	482	5,292
Other extraordinary losses	2,405	4,628	2,223	50,844
Income before income taxes	56,336	6,292	(50,043)	69,125
Income taxes (current)	17,625	5,344	(12,281)	58,704
Income taxes (deferred)	3,419	(2,451)	(5,870)	(26,929)
Minority interests	2,227	949	(1,278)	10,426
Net income	33,066	2,451	(30,615)	26,925

Consolidated Statements of Changes in Equity

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, 2008 (¥ 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, 2007	121,904	37,892	75,856	(199)	235,453	16,075	436	23,676	1,722	41,909	21,297	298,659
Cash dividends			(6,239)		(6,239)							(6,239)
Net income for the year			2,451		2,451							2,451
Treasury stock acquired				(28)	(28)							(28)
Treasury stock sold		53	(12)	54	95							95
Increase due to inclusion in consolidation			6		6							6
Increase due to exclusion from consolidation			15		15							15
Decrease due to inclusion in consolidation			(60)		(60)							(60)
Decrease due to exclusion from consolidation			(250)		(250)							(250)
Reversal of land revaluation			1,545		1,545							1,545
Others			(166)		(166)	(11,092)	(6,528)	(1,780)	(14,703)	(34,104)	3,535	(30,735)
Balance at December 31, 2008	121,904	37,945	73,146	(173)	232,822	4,983	(6,093)	21,896	(12,981)	7,805	24,832	265,459

For the year ended December 31, 2008 (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, 2007	1,339,161	416,261	833,308	(2,184)	2,586,546	176,594	4,786	260,087	18,917	460,383	233,957	3,280,886
Cash dividends			(68,537)		(68,537)							(68,537)
Net income for the year			26,925		26,925							26,925
Treasury stock acquired				(309)	(309)							(309)
Treasury stock sold		577	(128)	595	1,044							1,044
Increase due to inclusion in consolidation			61		61							61
Increase due to exclusion from consolidation			164		164							164
Decrease due to inclusion in consolidation			(663)		(663)							(663)
Decrease due to exclusion from consolidation			(2,748)		(2,748)							(2,748)
Reversal of land revaluation			16,975		16,975							16,975
Others			(1,820)		(1,820)	(121,853)	(71,718)	(19,552)	(161,523)	(374,646)	38,833	(337,632)
Balance at December 31, 2008	1,339,161	416,838	803,537	(1,898)	2,557,638	54,741	(66,932)	240,534	(142,606)	85,738	272,790	2,916,166

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the year (Jan. 1 – Dec. 31)		
	2008	2007	2008
	¥	¥	$
Cash flows from operating activities			
Income before income taxes	6,292	56,336	69,125
Adjustments for:			
Depreciation and amortization	60,439	49,761	663,946
Impairment of fixed assets	4,321	1,717	47,467
Amortization of excess of cost over equity in net assets acquired	991	1,137	10,888
Increase (decrease) in reserve for business restructuring expenses	306	(1,988)	3,359
Increase (decrease) in accrued pension and severance costs	(3,062)	(3,887)	(33,634)
Interest and dividend income	(1,501)	(1,759)	(16,492)
Interest expense	7,764	8,607	85,288
Equity in earnings of the non-consolidated subsidiaries and affiliates	(742)	(2,376)	(8,154)
Loss on sale and write-down of investment securities, net	(7,754)	(2,241)	(85,179)
Loss on the disposal of property, plant and equipment,net	4,441	3,826	48,787
(Gain) loss on sale of property, plant and equipment,net	(546)	42	(6,003)
(Increase) decrease in trade receivables	62,520	(2,268)	686,804
(Increase) decrease in inventories	(14,613)	(24,196)	(160,532)
Increase (decrease) in trade payables	(28,138)	11,063	(309,109)
Others	(8,107)	(6,392)	(89,055)
Subtotal	82,610	87,384	907,507
Interest and dividend received	3,723	3,681	40,902
Interest paid	(7,860)	(8,457)	(86,343)
Income taxes paid	(17,375)	(15,286)	(190,866)
Net cash provided by operating activities	61,099	67,322	671,200
Cash flows from investing activities			
Payments for sales of marketable securities	(300)	—	(3,296)
Proceeds from sales of marketable securities	402	2	4,420
Payments for purchases of property, plant and equipment	(54,086)	(72,190)	(594,155)
Proceeds from sales of property, plant and equipment	3,595	3,396	39,498
Proceeds from business transfer	426	340	4,685
Payments for purchases of investment securities	(6,460)	(1,791)	(70,962)
Proceeds from sales of investment securities	16,549	8,216	181,793
Proceeds from repayment of investment securities	—	1,000	—
Payments for purchases of consolidated subsidiaries	(1,403)	—	(15,417)
Proceeds from purchases of consolidated subsidiaries	—	405	—
Proceeds from sales of consolidated subsidiaries	418	1,302	4,589
(Increase) decrease in short-term loans, net	(1,859)	(17)	(20,417)
Payments for long-term loans	(89)	(137)	(976)
Proceeds from collection of long-term loans	153	315	1,675
Others	(1,382)	(1,617)	(15,177)
Net cash used in investing activities	(44,035)	(69,653)	(483,739)
Cash flows from financing activities			
Increase (decrease) in short-term debt, net	16,859	(22,617)	185,203
Increase (decrease) in commercial paper	(6,500)	500	(71,405)
Proceeds from issuance of long-term debt	57,900	81,958	636,054
Repayments of long-term debt	(59,561)	(85,987)	(654,300)
Proceeds from issuance of bonds	—	20,000	—
Redemption of bonds	(3,000)	(8,670)	(32,956)
Payments of dividends	(6,209)	(4,672)	(68,207)
Payments of dividends to minority shareholders	(1,100)	(743)	(12,084)
Others	(2,207)	(551)	(24,249)
Net cash used in financing activities	(3,818)	(20,552)	(41,944)
Effect of exchange rate changes on cash and cash equivalents	(5,336)	(330)	(58,615)
Increase (decrease) in cash and cash equivalents	7,911	(23,213)	86,902
Cash and cash equivalents at beginning of the year	31,887	55,100	350,286
Effect of adjustment of newly consolidated subsidiaries on cash and cash equivalents at beginning of the year	1,152	—	12,652
Cash and cash equivalents at end of the year	40,949	31,887	449,840

SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2007 and 2008 were summarized by business segment as follows:

Year ended December 31, 2007	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
Sales							
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
Assets.	¥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
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 31,2008	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
Sales							
Outside customers.	¥400,173	¥93,319	¥188,778	¥88,797	¥232,809	¥–	¥1,003,876
Inter-segment.	2,680	140	319	26	25,701	(28,866)	–
Total.	402,852	93,459	189,097	88,823	258,510	(28,866)	1,003,876
Operating costs.	404,133	88,131	179,838	69,579	258,723	(23,319)	977,084
Operating income.	(¥1,281)	¥5,329	¥9,259	¥19,244	(¥212)	¥(5,547)	¥26,792
Assets.	¥205,663	¥151,928	¥196,253	¥133,237	¥235,917	¥39,010	¥962,010
Depreciation and amortization.	6,716	6,741	33,758	3,455	9,999	(230)	60,439
Impairment of fixed assets	3,007	–	–	63	1,251	–	4,321
Capital expenditures.	8,101	7,691	28,951	4,151	6,597	(691)	54,799

Year ended December 31, 2008	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
Sales							
Outside customers.	$4,396,052	$1,025,150	$2,073,798	$975,470	$2,557,503	$–	$11,027,972
Inter-segment.	29,436	1,537	3,505	290	282,335	(317,103)	–
Total.	4,425,488	1,026,687	2,077,303	975,760	2,839,838	(317,103)	11,027,972
Operating costs.	4,439,560	968,148	1,975,586	764,358	2,842,172	(256,171)	10,733,653
Operating income.	($14,072)	$58,538	$101,717	$211,402	($2,334)	$(60,932)	$294,319
Assets.	$2,259,292	$1,668,990	$2,155,921	$1,463,663	$2,591,645	$428,541	$10,568,052
Depreciation and amortization.	73,777	74,049	370,847	37,956	109,843	(2,527)	663,945
Impairment of fixed assets	33,033	–	–	692	13,743	–	47,468
Capital expenditures.	88,989	84,483	318,041	45,602	72,466	(7,591)	601,990

(b) The operations of the Companies for the year ended December 31, 2007 and 2008 were summarized by geographic area as follows:

Year ended December 31, 2007	Millions of yen				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
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
Assets.	¥899,382	¥129,052	¥39,847	(¥38,652)	¥1,029,629

Year ended December 31, 2008	Millions of yen				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
Outside customers.	¥846,730	¥98,734	¥58,412	¥–	¥1,003,876
Inter-segment.	32,379	7,196	713	(40,288)	–
Total.	879,109	105,929	59,126	(40,288)	1,003,876
Operating costs.	854,172	106,440	52,185	(35,713)	977,084
Operating income.	¥24,937	(¥511)	¥6,941	¥(4,575)	¥26,792
Assets.	¥853,585	¥98,047	¥36,377	¥(25,999)	¥962,010

Year ended December 31, 2008	Thousands of U.S. dollars				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
Outside customers.	$9,301,658	$1,084,631	$641,683	$-	$11,027,972
Inter-segment.	355,696	79,045	7,836	(442,577)	-
Total.	9,657,353	1,163,677	649,519	(442,577)	11,027,972
Operating costs.	9,383,413	1,169,290	573,269	(392,319)	10,733,653
Operating income.	$273,940	($5,613)	$76,250	($50,258)	$294,319
Assets.	$9,376,966	$1,077,081	$399,616	($285,611)	$10,568,052

(c) Overseas sales, which represent sales to customers outside of Japan, of the Companies for the year ended December 31, 2007 and 2008 were summarized by geographic area as follows:

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, 2008	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales.	¥246,549	¥70,920	¥317,469
Consolidated net sales.	-	-	1,003,876
Ratio of overseas sales to consolidated net sales.	24.6%	7.1%	31.6%

Year ended December 31, 2008	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales.	$2,708,437	$779,084	$3,487,521