SHOWA DENKO K.K.

Consolidated Financial Statements

For the year ended December 31, 2009

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			
	2008	2009	Increase (Decrease)	2009
	¥	¥	%	$
Net sales	1,003,876	678,204	(32.4)	7,363,777
Operating income	26,792	(4,983)	—	(54,102)
Ordinary income	9,793	(22,325)	—	(242,395)
Net income	2,451	(37,981)	—	(412,392)
Net income per share: Basic	1.96	(29.44)	—	(0.32)
Net income per share: Diluted	—	—	—	—
	%	%		
Net income on equity	0.9	(15.7)		
Ordinary income on total assets	1.0	(2.3)		
Operating income to net sales	2.7	(0.7)		

Notes
Important changes in accounting policies : applicable

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

	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2009
	¥	¥	$
Total assets	962,010	958,303	10,405,031
Total equity	265,459	286,722	3,113,159
Total equity per share	192.85	163.11	1.77
	%	%	%
Stockholders' equity ratio	25.0	25.5	25.5

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

	Results for the year ended December 31		
	2008	2009	2009
	¥	¥	$
Cash flows from operating activities	61,099	19,846	215,483
Cash flows from investing activities	(44,035)	(26,595)	(288,762)
Cash flows from financing activities	(3,818)	28,402	308,387
Cash and cash equivalents at end of the year	40,949	62,507	678,689

(4) Dividends:

	2008	2009	2010 forecast
Q1 dividends per share (¥)	—	—	—
Q2 dividends per share (¥)	0.0	0.0	0.0
Q3 dividends per share (¥)	—	—	—
End of Term dividends per share (¥)	5.0	3.0	3.0
Annual dividends per share (¥)	5.0	3.0	3.0
Total dividends (¥ in millions)	6,239	4,490	—
	%	%	%
Payout ratio (consolidated)	255.1	—	40.8
Net assets dividend yield (consolidated)	2.4	1.7	—

※The dividends for 2009 is still undecided.

Ⅱ. Forecast of performance for the year ending December 31, 2010

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

	1st half		fiscal year	
	¥	$	¥	$
Net sales	370,000	4,017,372	790,000	8,577,633
Operating income	10,000	108,578	30,000	325,733
Ordinary income	6,000	65,147	21,000	228,013
Net income	3,000	32,573	11,000	119,435
Net income per share	2.0	0.02	7.35	0.08

※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 ¥92.10 throughout this statement for convenience only.

[Business Results]

1. Analysis of business results

(1) Summary

The Japanese economy, which experienced a substantial decline in export and production in the first half of 2009 due to the quick deterioration in the world economy, saw some signs of recovery in the second half, as witnessed by the rise in export to Asian countries, centering on China, and pickup in production due to the progress in global inventory adjustments. Nevertheless, the conditions of corporate earnings remained severe, with fears of another decline in economy due to the serious employment situation, stagnant consumer spending, and sharp appreciation of the yen.

The business environment for the chemical and nonferrous metal industries was difficult in the first half of the year, reflecting production adjustments following substantial declines in demand. However, plant utilization rose in the second half of the year due to recovery in demand.

The electronic parts/materials industry experienced a difficult situation in the first half of the year due to production adjustments, reflecting substantial inventory adjustments in the customer industries. However, demand recovered for some areas of products in the second half of the year.

Under the circumstances, the Showa Denko Group began implementing the “Passion Extension” for the 2009-2010 period, as preparation for the launch of a new consolidated business plan for 2011 and after. The Group acquired a hard disk (HD) media business in 2009, and carried out structural reform in various businesses, including aluminum, by drastically reviewing businesses and optimizing production setup. In 2010, the Group will continue strengthening competitiveness of each business in an effort to return to the growth track.

The Group’s consolidated net sales in 2009 decreased 32.4%, to ¥678,204 million. While the Petrochemicals segment’s operating income increased due to the reduction in the burden of high-cost feedstock, operating income in the remaining four business segments fell due mainly to lower shipment volumes in the first half of the year, reflecting the decline in demand from customer industries. As a result, the Group recorded a consolidated operating loss of ¥4,983 million (down ¥31,775 million), an ordinary loss of ¥22,325 million (down ¥32,117 million), and a net loss of ¥37,981 million (down ¥40,432 million). The net loss reflects extraordinary losses due to structural reform of aluminum and other businesses.

(Unit: Millions of yen)

	09 (Jan.-Dec.)	Vs. 2008		09 4Q (Oct.-Dec.)	Vs. 3Q 09		Vs. 4Q 08	
		08 (Jan.-Dec.)	Increase/ decrease		09 3Q (Jul-Sept.)	Increase/ decrease	08 4Q (Oct.-Dec.)	Increase/ Decrease
Net sales	678,204	1,003,876	- 325,672	206,219	185,302	20,916	211,425	- 5,206
Operating income	- 4,983	26,792	- 31,775	11,209	6,670	4,539	- 8,593	19,802
Ordinary income	- 22,325	9,793	- 32,117	9,430	2,579	6,851	- 15,671	25,101
Net income	- 37,981	2,451	- 40,432	8,988	- 439	9,427	- 16,568	25,556

Note: Figures for the fourth quarter 2008 and increase/decrease are provided for your reference.

(2) Summary of results by business segment

(Petrochemicals)

(Full-year, compared with the previous year)

In the first quarter, production of ethylene and propylene decreased substantially. In and after June, however, production continued at high levels. Sales of olefins fell owing to lower selling prices, reflecting the decline in the price of raw material naphtha. Sales of organic chemicals were down due to the decline in selling prices, reflecting the fall in raw material prices, and decreased shipment volumes of acetic acid following withdrawal from sales to outside for high-purity terephthalic acid applications.

As a result, the Petrochemicals segment's sales fell 41.0%, to ¥235,999 million. However, the segment recorded an operating income of ¥7,992 million, up ¥9,273 million, due to the reduction in the burden of high-cost feedstock and withdrawal from unprofitable sale of acetic acid.

(Comparison of results for 3Q and 4Q)

Sales of olefins rose owing to increased shipment volumes of ethylene and propylene. Sales of organic chemicals were up due partly to increased shipment volumes of vinyl acetate. As a result, the Petrochemicals segment's sales in the fourth quarter increased 8.1% from the third quarter, to ¥72,608 million. However, operating income for the fourth quarter fell 40.8% from the third quarter, to ¥2,216 million, due to the influence of the rise in raw material cost.

(Unit: Millions of yen)

	09 (Jan.-Dec.)	Vs. 2008		09 4Q (Oct.-Dec.)	Vs. 3Q 09		Vs. 4Q 08	
		08 (Jan.-Dec.)	Increase/ decrease		09 3Q (Jul-Sept.)	Increase/ decrease	08 4Q (Oct.-Dec.)	Increase/ Decrease
Net sales	235,999	400,173	- 164,173	72,608	67,162	5,446	72,598	11
Operating income	7,992	- 1,281	9,273	2,216	3,746	- 1,530	- 10,951	13,167

Note: Figures for the fourth quarter 2008 and increase/decrease are provided for your reference.

(Chemicals)

(Full-year, compared with the previous year)

Production of liquid ammonia decreased. Sales of industrial gases, such as oxygen, nitrogen, and hydrogen, were up. However, sales of acrylonitrile and ammonia were down owing to lower shipment volumes. Sales of chloroprene rubber decreased as a result of the fall in demand for automobile applications.

As a result, the Chemicals segment’s sales fell 1.5%, to ¥91,887 million, notwithstanding the increase in sales following the consolidation of Showa Tansan Co., Ltd. in June 2008. Operating income fell 91.6%, to ¥446 million, due partly to declines in shipment volumes and selling prices of acrylonitrile and chloroprene rubber.

(Comparison of results for 3Q and 4Q)

The Chemicals segment’s sales in the fourth quarter increased 6.6% from the third quarter, to ¥23,257 million, reflecting increased shipment volumes of acrylonitrile and agrochemical intermediates. Operating income for the fourth quarter increased 34.2%, to ¥903 million.

(Unit: Millions of yen)

	09 (Jan.-Dec.)	Vs. 2008		09 4Q (Oct.-Dec.)	Vs. 3Q 09		Vs. 4Q 08	
		08 (Jan.-Dec.)	Increase/ decrease		09 3Q (Jul-Sept.)	Increase/ decrease	08 4Q (Oct.-Dec.)	Increase/ Decrease
Net sales	91,887	93,319	- 1,432	23,257	21,825	1,433	26,660	- 3,403
Operating income	446	5,329	- 4,883	903	673	230	3	900

Note: Figures for the fourth quarter 2008 and increase/decrease are provided for your reference.

(Electronics)

(Full-year, compared with the previous year)

Production of HD media recovered quickly in the second half of the year, reflecting brisk demand for notebook PCs. However, production volume for the whole year fell short of the previous year's level, because the influence of inventory adjustments by the customer industry in the first quarter was too significant. As a result, sales of HD media in 2009 decreased from the previous year's results. Sales of compound semiconductors and semiconductor-processing specialty gases decreased due to lower shipment volumes. Sales of rare earth magnetic alloys decreased due to lower shipment volumes in the first half of the year and lower selling prices, reflecting the fall in raw material prices.

As a result, the Electronics segment's sales decreased 32.3%, to ¥127,807 million. The segment recorded an operating loss of ¥9,775 million (down ¥19,034 million), due mainly to the fall in shipment volumes of HD media.

(Comparison of results for 3Q and 4Q)

Sales of HD media in the fourth quarter increased due to tight supply, reflecting sharp increase in demand for notebook PCs. Shipment volumes of compound semiconductors, semiconductor-processing specialty gases, and rare earth magnetic alloys increased, reflecting recovery in the customer industries. The Electronics segment's sales in the fourth quarter increased 19.8% from the third quarter, to ¥46,208 million. Operating income for the fourth quarter increased 233.3%, to ¥4,545 million, reflecting increases in shipment volumes of HD media and other products.

(Unit: Millions of yen)

	09 (Jan.-Dec.)	Vs. 2008		09 4Q (Oct.-Dec.)	Vs. 3Q 09		Vs. 4Q 08	
		08 (Jan.-Dec.)	Increase/ decrease		09 3Q (Jul-Sept.)	Increase/ decrease	08 4Q (Oct.-Dec.)	Increase/ Decrease
Net sales	127,807	188,778	- 60,971	46,208	38,575	7,633	37,752	8,456
Operating income	- 9,775	9,259	- 19,034	4,545	1,363	3,181	- 683	5,228

Note: Figures for the fourth quarter 2008 and increase/decrease are provided for your reference.

(Inorganics)

(Full-year, compared with the previous year)

Production of graphite electrodes decreased owing to inventory adjustments in the electric arc furnace steelmaking industry. Sales of graphite electrodes decreased due to lower shipment volumes in Japan and the United States. Sales of ceramics decreased due to slow recovery in demand for abrasives for automotive-parts and metal processing applications.

As a result, the Inorganics segment's sales decreased 39.5%, to ¥53,711 million. Operating income fell 81.3%, to ¥3,603 million due to the fall in shipment volumes of graphite electrodes and ceramics.

(Comparison of results for 3Q and 4Q)
Sales of graphite electrodes and ceramics rose, reflecting increases in shipment volumes. As a result, the Inorganics segment's sales in the fourth quarter increased 28.9% from the third quarter, to ¥17,364 million, and operating income increased 511.1%, to ¥2,826 million.

(Unit: Millions of yen)

	09 (Jan.-Dec.)	Vs. 2008		09 4Q (Oct.-Dec.)	Vs. 3Q 09		Vs. 4Q 08	
		08 (Jan.-Dec.)	Increase/ decrease		09 3Q (Jul-Sept.)	Increase/ decrease	08 4Q (Oct.-Dec.)	Increase/ Decrease
Net sales	53,711	88,797	- 35,086	17,364	13,467	3,897	23,299	- 5,935
Operating income	3,603	19,244	- 15,641	2,826	462	2,364	5,128	- 2,301

Note: Figures for the fourth quarter 2008 and increase/decrease are provided for your reference.

(Aluminum and Other)

(Full-year, compared with the previous year)
Production of rolled products decreased, reflecting lower shipment volumes of high-purity aluminum foils for capacitors in the first half of the year. Production of heat exchangers for automobiles increased in China, but production decreased in Japan, the United States, and Europe.

Sales from ingot marketing decreased owing to the sharp fall in sales to outside. Sales of rolled products were down, as quick recovery in demand for high-purity foils for capacitors in and after the middle of the year did not fully compensate for the drastic decline in demand in the first half. Sales of extrusions/specialty products fell due to decreases in shipment volumes of aluminum cylinders for laser beam printers and commodity extrusions for building materials.

In the heat exchanger business, sales rose in China, although sales in Japan, the United States, and Europe fell. Sales of *Shotic*™ forged products decreased because of the drop in shipments to the automobile industry. Sales of aluminum cans increased, reflecting higher shipment volumes.

As a result, the Aluminum segment's sales fell 27.5%, to ¥168,799 million. The segment recorded an operating loss of ¥4,217 million (down ¥4,006 million) due to the sharp fall in shipment volumes in the first half of the year.

(Comparison of results for 3Q and 4Q)

In the rolled products business, shipment volumes of high-purity foils for capacitors were maintained at the previous quarter's level. Sales of extrusions/specialty products rose due to increases in shipment volumes of aluminum cylinders for laser beam printers. Sales of automotive heat exchangers increased, reflecting the recovery in Japan and the United States. Sales of *Shotic*™ forged products increased, while sales of aluminum cans decreased. The Aluminum and Other segment's sales in the fourth quarter increased 5.7% from the third quarter, to ¥46,781 million, and operating income increased 108.4%, to ¥1,719 million.

(Unit: Millions of yen)

	09 (Jan.-Dec.)	Vs. 2008		09 4Q (Oct.-Dec.)	Vs. 3Q 09		Vs. 4Q 08	
		08 (Jan.-Dec.)	Increase/ decrease		09 3Q (Jul-Sept.)	Increase/ decrease	08 4Q (Oct.-Dec.)	Increase/ Decrease
Net sales	168,799	232,809	- 64,010	46,781	44,274	2,507	51,116	- 4,335
Operating income	- 4,217	- 212	- 4,006	1,719	825	894	- 1,061	2,780

Note: Figures for the fourth quarter 2008 and increase/decrease are provided for your reference.

(3) Major steps taken or decided in 2009

(Corporate)

・ Structural reform in 2009/2010 and strategic concepts for 2011 and after (Announced on July 31)

In the "Passion Extension" period (2009-2010), we are laying the groundwork for growth in preparation for the new medium-term consolidated business plan for 2011 and after. At the same time, we are carrying out structural reform by drastically reviewing various operations and optimizing our production setup.

In view of the global warming issue and limitations of crude oil and other resources, we expect increased social demand for environmental protection and energy conservation technologies. Under the new consolidated business plan, which is now being prepared, we will strengthen our position as a "unique chemical company with individualized products," developing various components, materials and solutions. We will contribute to the sound growth of society by meeting the needs for energy conservation, health and safety, and higher efficiency. We will efficiently allocate resources to these growth areas so as to accelerate the development of high-performance products.

・ Issuance of new shares and sale of shares; issuance by third-party allotment of

Euro-Yen convertible bonds with warrants due 2014 (with subordination clause); and issuance by an overseas special-purpose subsidiary of Euro-Yen permanent preferred securities with the right of conversion into common stock

(Announced on September 29)

In preparation for the launch of a new consolidated business plan for 2011 and after, we increased our capital by public offering to expand growth businesses and strengthen base businesses. Proceeds from the public offering will be used mainly for capital investment in the growing Electronics segment and in base businesses such as Petrochemicals. The remainder will be used for repayment of interest-bearing debt. To restrict dilution of our common stock as much as possible, we used hybrid finance in combination. Specifically, we issued Euro-Yen convertible bonds with warrants due 2014 (with subordination clause) by third-party allotment and Euro-Yen permanent preferred securities, with the right of conversion into common stock, through our overseas subsidiary. This hybrid finance represents in-between of capital and debt. Thus, in addition to restricting dilution, we have improved our financial strength through virtual capital increase. Proceeds from the hybrid finance have been used for repayment of interest-bearing debt. Total proceeds from the financing scheme amounted to ¥61,319 million, comprising ¥37,319 million from public offering and ¥24,000 million from hybrid finance.

・ Changes in the Board of Directors and business execution setup

(Announced on November 30)

We have made organizational changes to further strengthen the Board of Directors' supervision of business execution. Under the new system, the Company appoints directors from the viewpoint of strengthening corporate governance. Corporate officers whose duties are primarily business execution will not concurrently serve as directors, in principle. Part of decision-making authority pertaining to business execution will be transferred from the Board of Directors to the Management Committee. The Board of Directors will put greater emphasis on supervision functions, while decisions regarding business execution will be made more quickly.

・ Establishment of China Office

(Announced on November 30)

We have established a China Office as a unit responsible for overall business strategy and operations in China. With the new organization, we will expand operations in the quickly growing Chinese market and strengthen the management of Showa Denko Group companies in China.

・ Merger with Showa Highpolymer

(Announced on December 15)

It has been decided that Showa Denko K.K. and its consolidated subsidiary Showa Highpolymer Co., Ltd. (SHP) will merge as a means to accelerate the growth of SHP's functional polymers business through integration of the two companies' resources, such as human resources, technologies, organizations and funds for investment. The merger will take effect on July 1, 2010.

(Petrochemicals)

・Expansion of production capacity for high-value-added polypropylene

(Announced on March 13)

SunAllomer Ltd., an affiliate of ours to which the equity method is applied, will modify its plant in Oita to start producing high-value-added polypropylene with high rigidity and impact resistance. At the same time, the capacity of the plant will be increased by approximately 60,000 tons a year to make up for the resultant capacity shortage for existing product mix. Furthermore, the company will modify the plant to conserve energy and improve the efficiency of equipment management. Construction work will be completed in the first half of 2010.

・Commercialization of allyl ester resin for spectacle lenses

(Announced on November 9)

We decided to start commercial production of allyl ester resin (trade name: SR-21) in early 2010 for use in medium-refraction-type spectacle lenses, whose demand is expected to grow on a global scale. In China and other Asian countries, Eastern Europe, and Latin America, demand is shifting, with the rise in income, to medium-refraction-type spectacle lenses. In the Japanese market, where high-refraction-type spectacle lenses have been the mainstream, demand for medium-refraction-type spectacle lenses is growing due to the good balance between price and product quality. World demand for this type of lenses is expected to grow at the rate of 20% a year.

(Chemicals)

・ Making Showa Tansan a wholly owned subsidiary

(Announced on September 29)

Showa Tansan Co., Ltd., a consolidated subsidiary, became our wholly owned subsidiary effective December 24, 2009. To strengthen the Showa Denko Group's industrial gas operations, the two companies consolidated their operations at Kawasaki (the site of the Group's industrial gas production) as a means to ensure speedy and efficient use of resources, strengthen competitiveness, and accelerate expansions in the Asian market.

(Electronics)

・Expansion of the C_4F_6 etching gas business

(Announced on January 8)

We have started producing high-purity C_4F_6 etching gas in Kawasaki in cooperation with Air Products and Chemicals, Inc., of the United States. Demand for C_4F_6 is expected to grow due to its improved processability and selectivity as well as very low environmental impact.

・Commercialization of *VGCF*™-X, a new grade of carbon nanotube

(Announced on January 19)

We decided to build a 400-ton-a-year plant at Oita Complex to produce *VGCF*™-X, a new grade of carbon nanotube with an optimized design for resin composite applications. Commercial shipments will begin in the first half of 2010. A small added amount of *VGCF*™-X can give stable electric conductivity to resins. Thus, it will find applications in static-free plastic cases for the carriage of semiconductor/HD media parts in a clean room. We concluded a patent cross-license agreement with Hyperion Catalysis International, Inc., of the United States, which owns many key patents pertaining to materials and applications in the area of carbon nanotubes, including for resin composites.

・Development of AlGaInP red LED chips optimized for plant growth

(Announced on April 2)

In April, we started commercial production of AlGaInP LED chips that emit red light with the wavelength of 660 nm: the optimum light for accelerating the growth of plants. To the best of our knowledge, the product had the world's highest output as of April 2009 as LED chips that emit red light with the wavelength of 660 nm. We will develop applications for these red LED chips, mainly for use at facilities that grow lettuce and other vegetables in an environment of controlled lighting.

・Launch of graphite anode material for lithium ion batteries in electric vehicles

(Announced on April 22)

We started selling a new grade of *SCMG*™ (shape-controlled micro graphite) for use as anode material in large lithium ion batteries (LIBs) for electric vehicles produced in Japan and abroad. *SCMG*™ enables the use of heavy current and extends the life of LIBs. We decided to increase our *SCMG*™ production capacity at Omachi from 1,000 tons a year at present to 3,000 tons a year in 2012, investing approximately ¥2 billion.

・Transfer of the conductive polymer aluminum capacitors business

(Announced on June 22)

We transferred our solid conductive polymer aluminum capacitors business to Murata Manufacturing Co., Ltd. at the end of 2009. We will continue speedily concentrating our operations on strategically selected areas.

・ Launch of Showa Denko HD Yamagata
(Announced on July 1)
In July, we started up Showa Denko HD Yamagata K.K. by acquiring Fujitsu Limited's HD media production subsidiary. The company is SDK's fourth HD media production site in the world, following the existing sites in Chiba Prefecture (Japan), Taiwan and Singapore. As the world's largest independent HD media supplier, we will continue developing and supplying large-capacity HD media to meet customer needs.

・ Development of organic EL devices with light output of 40%
(Announced on July 28)
We have developed a new structure for our organic electroluminescent (organic EL) devices, achieving approximately 40% in light output, which represents the highest level in the world. As a result, we have achieved a 30 lm/W emissive efficiency for our coated phosphorescent-polymer-based organic EL devices. (Emissive efficiency refers to the quantity of light emitted from light source, divided by electric power consumed.) The 30 lm/W emissive efficiency represents the highest level among coated–type organic EL devices that have been announced in the world. We are planning to commercialize our organic EL devices for use in general lighting.

・ Launch of 2.5-inch 334 GB HD media
(Announced on September 8)
In August, we began commercial shipments of 2.5-inch HD media with storage capacity of 334 gigabytes per disk, using the fifth-generation perpendicular magnetic recording (PMR) technology. To the best of our knowledge, this product had the world's highest storage capacity for this size available on the market as of September 8, 2009. We are already providing 1.89-, 2.5-, and 3.5-inch large-capacity HD media using the fourth-generation PMR technology. Demand for high-capacity HD media is growing for such applications as PCs that can record and edit moving pictures as well as high-definition HDD recorders that can record digital high-definition TV programs. We will continue meeting the requirements of customers both in terms of quality and quantity as the world's largest independent HD media supplier.

・ Establishment of Advanced Battery Materials Dept.
(Announced on September 15)
We have established an Advanced Battery Materials Department for R&D, production and sale of LIB components, including *VGCF*™ (additive in cathodes/anodes of high-performance LIBs) and *SCMG*™ (graphite anode material already adopted in LIBs for electric vehicles). With the establishment of the new department, we will accelerate the development of innovative technologies for battery components, speedily fulfilling customers' requirements.

・Development of new liquid electrolytes for automotive LIBs
(Announced on November 19)
We are developing new liquid electrolytes for large LIBs for automobiles using a new and stable electrolyte salt. We will utilize electrolyte salt technologies owned by Air Products and Chemicals, Inc. (APD), of the United States, in combination with our proprietary liquid electrolyte technology, thereby developing the next-generation liquid electrolytes best suited for automotive LIBs and quickly establishing their commercial production technology. Compared with conventional electrolyte salts, APD's electrolyte salt is anticipated to be advantageous in that it minimizes reaction with water (a cause of deterioration of batteries); does not generate cathode-corroding acids with the lapse of time; and is capable of operating at 400°C. Our new liquid electrolytes will increase battery capacity* compared with conventional liquid electrolytes.

Note: Battery capacity refers to the total amount of electric current, in terms of ampere-hour (Ah), produced from the beginning to the end of the use of a battery, without charges during the course.

・ Commercialization of SiC epitaxial wafers with very smooth surface
(Announced on December 8)
We have succeeded in commercial production of four-inch silicon carbide (SiC) epitaxial wafers having very high smoothness all over the surface. The product's surface smoothness has improved by about six times compared with conventional products, achieving the world's highest level. Surface smoothness is important because oxide film, formed on the surface of epitaxial wafers, is used in device operation. When compared with the mainstream silicon-based semiconductors, SiC power devices can operate at high temperatures and under high-voltage heavy current. Thus, these SiC power devices will enable the production of light-weight, small-sized power control parts for automobiles, railcars, and industrial/home electric appliances. The devices will also reduce energy loss in the process of power control to about one-tenth of silicon-based semiconductors, helping conserve energy.

・ Conclusion of license agreement with UDC concerning organic EL technology for white lighting applications
(Announced on December 18)
We concluded a license agreement with Universal Display Corporation (UDC), of the United States, concerning organic EL technologies for white lighting applications. By combining our own material & device-structure technologies and UDC's phosphorescent organic EL technologies, we will improve the efficiency of coating with phosphorescent materials and accelerate the development of organic EL devices with longer life. We aim to achieve emissive efficiency of 150 lm/W and white-luminance half-life of 50,000 hours by 2015, and commercialize white organic EL lighting that surpasses the performance of fluorescent lamps.

(Inorganics)

・Reduction of CO_2 emissions from graphite electrode production

(Announced on May 21)

We completed our shift in fuel from heavy oil to liquefied natural gas (LNG) in the baking process for graphite electrode production at the Omachi Plant. This helps the Plant to reduce CO_2 emissions by 10,000 tons a year. To facilitate the fuel shift, we built a 270-kl LNG storage facility within the premises of the Plant. LNG is gasified at the facility and supplied to the baking process. Surplus waste heat collected at the Plant is used as heat source for the gasification of LNG.

(Aluminum and Other)

・ Withdrawal from commodity aluminum extrusions business and rationalization by personnel reduction

(Announced on August 26)

We are working to reform and strengthen our aluminum business in response to drastic changes in the economic conditions. As part of these efforts, we withdrew from the business in commodity aluminum extrusions, centering on building materials, and reduced personnel in the Aluminum segment. We aim to continue improving profitability of the aluminum business.

・Consolidation of engineering functions in the Group

(Announced on September 24)

We decided to absorb the engineering business of our consolidated subsidiary Showa Engineering Co., Ltd. Showa Denko K.K. (SDK) will take unified control of plant design and construction operations for its Group companies, cutting down the lead time from product development to commercialization. SDK will also provide engineering support to the Group companies' environmental protection efforts, accelerating the reductions in greenhouse gas emissions.

・Launch of aluminum-based lighting equipment using LEDs

(Announced on November 26)

Showa Denko Aluminum Trading K.K., a consolidated subsidiary of ours, has developed aluminum-based lighting equipment using LEDs in cooperation with Tamagawa University's College of Agriculture. This equipment is characterized by high efficiency of heat dissipation due to the use of aluminum and relevant electronic device technology. With this equipment, it becomes possible to prevent the heat from LED chips from gradually lowering emissive efficiency.

[Technology Headquarters]

・ Development of platinum-substitute PEFC catalysts with high efficiency

(Announced on July 16)

We have developed new platinum-substitute catalysts for polymer electrolyte fuel cells (PEFCs) under a project sponsored by the New Energy and Industrial Technology Development Organization (NEDO). These new catalysts comprise a niobium-oxide-based catalyst and a titanium-oxide-based catalyst, each containing carbon and nitrogen atoms. They will enable substantial cost reductions and longer life of PEFCs. These technical developments have been supported by NEDO.

・ Development of bipolar-type carbon separators for PEFCs

(Announced on July 23)

We have developed new technologies to produce low-cost carbon separators that will increase output density of PEFCs. Specifically, we have established new technologies to produce carbon separators with lower cost and lighter weight by making substantial changes in the process and raw materials. At the same time, we have achieved an increase of around 30% in output density compared with PEFCs we made earlier on a trial basis. These technical developments have been supported by NEDO.

(4) Projections for 2010

a) Overall projections

In 2010, despite the ongoing recovery, the business environment is forecast to remain very severe, due to such uncertain factors as serious employment situation and fears of another recession in overseas economies. Under the circumstances, the Showa Denko Group will aim to achieve the goals under the “Passion Extension,” complete structural reform of the aluminum business, and increase competitiveness of the petrochemicals, HD media and other businesses in 2010, in preparation for the launch of the next medium-term consolidated business plan for 2011 and after. The Showa Denko Group’s performance forecast for 2010 is as follows:

(Unit: millions of yen)

	Results for the term ended Dec. 31, ‘09	Forecast for the term ending Dec. 31, ‘10	Difference	Rate of change
Net sales	678,204	790,000	111,796	16.5%
Operating income	- 4,983	30,000	34,983	--
Ordinary income	- 22,325	21,000	43,325	--
Net income	- 37,981	11,000	48,981	--

Net sales will increase from the 2009 results, to ¥790,000 million. Operating income, ordinary income and net income will also increase to ¥30 billion, ¥21 billion, and ¥11 billion, respectively. The above forecast is based on the assumption that the exchange rate will be ¥90 to the U.S. dollar and the naphtha price will be ¥44,200/KL.

b) Net sales by business segment

(Unit: millions of yen)

	Results for the term ended Dec. 31, '09	Forecast for the term ending Dec. 31, '10	Difference	Rate of change
Petrochemicals	235,999	270,000	34,001	14.4%
Chemicals	91,887	100,000	8,113	8.8%
Electronics	127,807	195,000	67,193	52.6%
Inorganics	53,711	65,000	11,289	21.0%
Aluminum and Other	168,799	160,000	- 8,799	- 5.2%
Total	678,204	790,000	111,796	16.5%

2. Financial Conditions

(1) Assets, liabilities and net assets at December 31, 2009

We continued our efforts to reduce assets, including reductions in inventories and capital investment. As a result, total assets decreased ¥3,706 million, to ¥958,303 million. Interest-bearing debt further decreased ¥19,003 million, to ¥373,911 million, as a result of continued reduction efforts. Total liabilities decreased ¥24,970 million, to ¥671,581 million.

Total net assets increased ¥21,263 million, to ¥286,722 million, notwithstanding the recording of net loss, as we increased our capital*.

Note: As for the capital increase, please refer to the article on Page 7 entitled "Issuance of new shares and sale of shares; issuance by third-party allotment of Euro-Yen convertible bonds with warrants due 2014 (with subordination clause); and issuance by an overseas special-purpose subsidiary of Euro-Yen permanent preferred securities with the right of conversion into common stock."

(2) Cash flows in 2009

Net cash provided by operating activities decreased ¥41,253 million from the previous year, to ¥19,846 million, due mainly to the fall in operating income and the increase in accounts receivable. Net cash used in investing activities decreased ¥17,440 million, to ¥26,595 million, due mainly to the fall in payments for capital investment.

Thus, free cash flow ended up in the payment of ¥6,749 million, as proceeds fell ¥23,814 million. Net cash used in financing activities increased ¥32,221 million, to ¥28,402 million, due to capital increase by public offering, issuance of preferred securities and reductions in interest-bearing debt. As a result, cash and cash equivalents at December 31, 2009 increased ¥21,558 million, to ¥62,507 million.

(3) Projections for 2010

Cash flows from operating activities will increase. In net cash used in investing activities, payment will increase. Thus, free cash flow for 2010 is expected to increase around ¥7,700 million, to the proceeds of ¥1,000 million, compared with the payment of ¥6,749 million for 2009. Interest-bearing debt at the end of the year will be around ¥370,000 million, down ¥4 billion.

(4) Trends in cash flow indexes

	2006	2007	2008	2009
Equity ratio	22.7%	26.9%	25.0%	25.5%
Equity ratio on a market value basis	51.6%	48.5%	16.5%	28.9%
Debt maturity (years)	4.7	5.9	6.4	18.8
Interest coverage ratio	12.5	8.0	7.8	2.8

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

3. Basic policy regarding appropriation of the Company’s profits; dividends for 2009/2010

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 2009, the Company is planning to pay dividends of ¥3 per share. For 2010, the Company is planning to pay dividends of ¥3 per share.

4. Operational and other risks

We consider we face the risks, as explained below, that could adversely affect our future performance, financial conditions, and cash flows. The Showa Denko Group is taking steps to prevent the realization of these risks and minimize impact on its operations. The following covers important risk factors considered being present as of this February 10, 2010. This list is not inclusive.

(1) Substantial fluctuations in the performances of individual businesses

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

① Petrochemicals

The Group purchases and imports a large amount of feedstock 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 sectors account for a large portion. Trends of those industries, which are beyond our control, can substantially affect such businesses.

③ HD media

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

④ Overseas operations

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

(2) Unexpected fluctuations in financial conditions and cash flows

① Substantial fluctuations in exchange rates

As for foreign-currency-based transactions centering on exports/imports, the Group makes its best efforts to minimize relevant exchange rate fluctuation risks, mainly through exchange contracts. However, substantial fluctuations in exchange rates can affect the Group's performance and financial conditions. In particular, a sharp appreciation of the yen against other currencies can affect the Group's performance. Exchange rate fluctuations can also affect the Group's performance and financial conditions through the conversion of overseas subsidiaries' financial statements into Japanese yen.

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

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

③ Employees' severance indemnities

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

④ Securities

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

⑤ Accounting for impairment of fixed assets

The Group has adopted the accounting standard regarding impairment of fixed assets. The Group may incur additional losses from 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 obtain, use and protect intellectual property, such as industrial property rights and know-how, in recognition of their ability to make the Group's businesses more competitive. However, in the event of failure to duly obtain or use the rights, infringement by a third party, or if the Group is considered to have infringed a third party's intellectual property, the Group's operations can be hindered and the Group’s performance and financial conditions could be affected.

③ Quality assurance and product liability

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

④ Accidents and disasters

The Group is committed to securing steady and safe operations. The Group conducts regular inspections of all manufacturing facilities in an effort to minimize any risk factors pertaining to suspension of operations or accidents due to problems with manufacturing facilities. In the event of injury or damage to property due to an accident or a natural disaster, the Group’s reputation could be damaged and the Group may incur substantial costs and lose business opportunities due to 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 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 promoted the Passion Project, a three-year (2006-2008) action plan under which the Group worked to contribute to the sound growth of international society. In response to the drastic changes in the business environment, we reviewed the Passion Project and worked out "Passion Extension" for the two-year period of 2009 and 2010, preparing ourselves for the launch of a new consolidated business plan for 2011 and after. Under the "Passion Extension," we are focusing our attention on the six items of high-priority measures as detailed below in an effort to promote structural reform and lay the groundwork for sustainable growth. In 2010, we will complete structural reform and strengthen competitiveness of each business to return to the growth track.

<u>Six items of high-priority measures</u>

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

In the two-year period of 2009/2010, the Showa Denko Group is laying the groundwork for long-term sustainable growth, in preparation for the new medium-term consolidated business plan for 2011 and after. At the same time, the Group is carrying out structural reform by drastically reviewing various operations and optimizing its production setup.

In view of the global warming issue and limitations of crude oil and other resources, we expect increased social demand for environmental protection and energy conservation technologies. Under the new consolidated business plan, which is now being prepared, we will create next-generation growth businesses, centering on such areas as energy, environment/resource, and electronics, while continuing to reform existing businesses. Thus, we will strengthen our position as a “unique chemical company with individualized products,” contributing to the sound growth of society in which affluence and sustainability are well balanced.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2008	Dec. 31, 2009	Dec. 31, 2009
Assets	¥	¥	$
Current assets			
Cash and deposits	40,954	62,514	678,761
Notes and accounts receivable-trade	117,190	147,579	1,602,378
Inventories	117,749	—	—
Merchandise and finished goods	—	40,542	440,193
Work in process	—	11,509	124,964
Raw materials and supplies	—	40,283	437,379
Deferred tax assets	5,877	4,631	50,280
Other	40,837	26,152	283,957
Allowance for doubtful accounts	(950)	(559)	(6,072)
Total current assets	321,657	332,650	3,611,840
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	94,992	91,086	988,989
Machinery, equipment and vehicles, net	152,535	134,821	1,463,858
Tools, furniture and fixtures, net	10,731	9,111	98,928
Land	256,042	255,774	2,777,133
Construction in progress	17,333	13,481	146,370
Total property, plant and equipment	531,633	504,273	5,475,278
Intangible assets			
Goodwill	3,511	3,832	41,609
Other	9,531	9,722	105,555
Total intangible assets	13,042	13,554	147,164
Investments and other assets			
Investment securities	65,623	65,084	706,669
Deferred tax assets	17,624	27,671	300,444
Other	13,613	15,984	173,555
Allowance for doubtful accounts	(1,182)	(914)	(9,919)
Total investments and other assets	95,677	107,826	1,170,749
Total noncurrent assets	640,353	625,653	6,793,191
Total assets	962,010	958,303	10,405,031
Liabilities			
Current liabilities			
Notes and accounts payable-trade	140,427	116,553	1,265,506
Short-term loans payable	100,717	74,601	810,002
Current portion of long-term loans payable	59,448	59,862	649,965
Commercial papers	—	15,000	162,866
Current portion of bonds	—	13,000	141,151
Accrued expenses	7,315	—	—
Income taxes payable	1,477	—	—
Provision for repairs	58	3,657	39,712
Provision for bonuses	2,063	1,563	16,971
Provision for business structure improvement	532	160	1,737
Other	51,737	69,561	755,281
Total current liabilities	363,774	353,958	3,843,191
Noncurrent liabilities			
Bonds payable	36,000	23,000	249,729
Long-term loans payable	196,750	188,448	2,046,127
Lease obligations	—	15,359	166,761
Deferred tax liabilities	6,399	6,819	74,042
Deferred tax liabilities for land revaluation	45,994	45,896	498,330
Provision for retirement benefits	28,659	27,088	294,110
Provision for repairs	2,756	46	499
Other	16,220	10,968	119,083
Total noncurrent liabilities	332,777	317,624	3,448,681
Total liabilities	696,551	671,581	7,291,872
Net assets			
Shareholders' equity			
Capital stock	121,904	140,564	1,526,205
Capital surplus	37,945	62,225	675,619
Retained earnings	73,146	29,311	318,257
Treasury stock	(173)	(174)	(1,894)
Total shareholders' equity	232,822	231,925	2,518,187
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	4,983	2,574	27,947
Deferred gains or losses on hedges	(6,093)	(204)	(2,216)
Revaluation reserve for land	21,896	21,764	236,306
Foreign currency translation adjustment	(12,981)	(11,962)	(129,876)
Total valuation and translation adjustments	7,805	12,172	132,160
Minority interests	24,832	42,625	462,812
Total net assets	265,459	286,722	3,113,159
Total liabilities and net assets	962,010	958,303	10,405,031

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2008 and 2009		
	2008	2009	2009
	¥	¥	$
Net sales	1,003,876	678,204	7,363,777
Cost of sales	888,462	597,766	6,490,405
Gross profit	115,414	80,438	873,372
Selling, general and administrative expenses	88,622	85,420	927,474
Operating income (loss)	26,792	(4,983)	(54,102)
Non-operating income			
Interest income	369	177	1,919
Dividends income	1,132	1,221	13,260
Rent income on noncurrent assets	1,164	1,191	12,929
Equity in earnings of affiliates	742	—	—
Subsidy income	—	1,167	12,670
Gain on sales of inventories	1,592	—	—
Miscellaneous income	1,610	1,410	15,314
Total non-operating income	6,610	5,166	56,092
Non-operating expenses			
Interest expenses	7,764	7,016	76,179
Foreign exchange losses	5,126	—	—
Equity in losses of affiliates	—	1,156	12,556
Loss on reduction of operation	—	5,255	57,058
Miscellaneous expenses	10,719	9,080	98,591
Total non-operating expenses	23,609	22,508	244,385
Ordinary income (loss)	9,793	(22,325)	(242,395)
Extraordinary income			
Gain on sales of noncurrent assets	741	—	—
Gain on sales of investment securities	10,090	4,774	51,830
Other	2,148	1,864	20,234
Total extraordinary income	12,980	6,637	72,065
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	4,636	2,870	31,162
Impairment loss	4,321	13,234	143,687
Loss on valuation of inventories	—	5,544	60,200
Special retirement expenses	—	3,199	34,736
Loss on valuation of investment securities	2,324	—	—
Provision of allowance for doubtful accounts	89	—	—
Provision for business structure improvement	482	160	1,737
Other	4,628	3,417	37,102
Total extraordinary losses	16,480	28,424	308,624
Income (loss) before income taxes and minority interests	6,292	(44,112)	(478,955)
Income taxes-current	5,344	3,674	39,890
Income taxes-deferred	(2,451)	(10,664)	(115,788)
Total income taxes	2,892	(6,990)	(75,898)
Minority interests in income	949	860	9,335
Net income (loss)	2,451	(37,981)	(412,392)

Consolidated Statements of Changes in Net Assets

For the year ended December 31, 2008 (¥ in millions)

	Shareholders' equity					Valuation and translation adjustments						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
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
Changes of items during the period												
Dividends from surplus			(6,239)		(6,239)							(6,239)
Net income			2,451		2,451							2,451
Purchase of treasury stock				(28)	(28)							(28)
Disposal of treasury stock		53	(12)	54	95							95
Increase by increase of consolidated subsidiaries			6		6							6
Increase by decrease of consolidated subsidiaries			15		15							15
Decrease by increase of consolidated subsidiaries			(60)		(60)							(60)
Decrease by decrease of consolidated subsidiaries			(250)		(250)							(250)
Reversal of revaluation reserve for land			1,545		1,545							1,545
Others			(166)		(166)							(166)
Net changes of items other than shareholders' equity						(11,092)	(6,528)	(1,780)	(14,703)	(34,104)	3,535	(30,569)
Total changes of items during the period	–	53	(2,710)	26	(2,631)	(11,092)	(6,528)	(1,780)	(14,703)	(34,104)	3,535	(33,200)
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, 2009 (¥ in millions)

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

For the year ended December 31, 2009 (US$ in thousands)

	Shareholders' equity					Valuation and translation adjustments						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2008	1,323,603	411,995	794,202	(1,876)	2,527,924	54,105	(66,154)	237,740	(140,949)	84,742	269,621	2,882,287
Effect of changes in accounting policies applied to foreign subsidiaries			2,914		2,914							2,914
Changes of items during the period												
Issuance of new shares	202,602	202,602			405,205							405,205
Increase by share exchanges		61,022			61,022							61,022
Dividends from surplus			(67,742)		(67,742)							(67,742)
Net loss			(412,392)		(412,392)							(412,392)
Purchase of treasury stock				(62)	(62)							(62)
Disposal of treasury stock			(24)	44	20							20
Change of scope of equity method			(135)		(135)							(135)
Reversal of revaluation reserve for land			1,434		1,434							1,434
Net changes of items other than shareholders' equity						(26,158)	63,938	(1,434)	11,073	47,419	193,191	240,610
Total changes of items during the period	202,602	263,624	(478,859)	(18)	(12,651)	(26,158)	63,938	(1,434)	11,073	47,419	193,191	227,958
Balance at December 31, 2009	1,526,205	675,619	318,257	(1,894)	2,518,187	27,947	(2,216)	236,306	(129,876)	132,160	462,812	3,113,159

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the year (Jan. 1 - Mar. 31)		
	2009	2008	2009
	¥	¥	$
Cash flows from operating activities			
Income (loss) before income taxes and minority interests	(44,112)	6,292	(478,955)
Depreciation and amortization	54,178	60,439	588,256
Impairment loss	13,234	4,321	143,687
Amortization of goodwill	1,132	991	12,286
Increase (decrease) in provision for business structure improvement	(372)	306	(4,036)
Increase (decrease) in provision for retirement benefits	(1,578)	(3,062)	(17,136)
Interest and dividend income	(1,398)	(1,501)	(15,179)
Interest expenses	7,016	7,764	76,179
Equity in (earnings) losses of affiliates	1,156	(742)	12,556
Loss (gain) on sales and valuation of investment securities	(4,161)	(7,754)	(45,182)
Loss on retirement of noncurrent assets	2,644	4,441	28,713
Loss (gain) on sales of noncurrent assets	39	(546)	424
Decrease (increase) in notes and accounts receivable-trade	(29,247)	62,520	(317,557)
Decrease (increase) in inventories	25,286	(14,613)	274,553
Increase (decrease) in notes and accounts payable-trade	(19,598)	(28,138)	(212,789)
Other, net	20,723	(8,107)	225,003
Subtotal	24,943	82,610	270,824
Interest and dividends income received	1,989	3,723	21,601
Interest expenses paid	(7,025)	(7,860)	(76,273)
Income taxes paid	(62)	(17,375)	(669)
Net cash provided by (used in) operating activities	19,846	61,099	215,483
Cash flows from investing activities			
Purchase of short-term investment securities	—	(300)	—
Proceeds from sales and redemption of securities	2	402	25
Purchase of property, plant and equipment	(39,240)	(54,086)	(426,059)
Proceeds from sales of property, plant and equipment	21,573	3,595	234,234
Proceeds from transfer of business	266	426	2,888
Purchase of investment securities	(21,147)	(6,460)	(229,606)
Proceeds from sales of investment securities	19,940	16,549	216,501
Purchase of investments in subsidiaries	(81)	—	(882)
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(1,255)	(1,403)	(13,622)
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	64	418	695
Net decrease (increase) in short-term loans receivable	(1,306)	(1,859)	(14,182)
Payments of long-term loans receivable	(2,508)	(89)	(27,233)
Collection of long-term loans receivable	77	153	836
Other, net	(2,980)	(1,382)	(32,358)
Net cash provided by (used in) investing activities	(26,595)	(44,035)	(288,762)
Cash flows from financing activities			
Net increase (decrease) in short-term loans payable	(26,460)	16,859	(287,294)
Net increase (decrease) in commercial papers	15,000	(6,500)	162,866
Proceeds from long-term loans payable	64,511	57,900	700,445
Repayment of long-term loans payable	(72,780)	(59,561)	(790,229)
Redemption of bonds	—	(3,000)	—
Proceeds from issuance of common stock	37,319	—	405,205
Proceeds from stock issuance to minority shareholders	24,000	—	260,586
Cash dividends paid	(6,210)	(6,209)	(67,422)
Cash dividends paid to minority shareholders	(1,010)	(1,100)	(10,972)
Other, net	(5,968)	(2,207)	(64,799)
Net cash provided by (used in) financing activities	28,402	(3,818)	308,387
Effect of exchange rate change on cash and cash equivalents	(95)	(5,336)	(1,033)
Net increase (decrease) in cash and cash equivalents	21,558	7,911	234,075
Cash and cash equivalents at beginning of period	40,949	31,887	444,614
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	—	1,152	—
Cash and cash equivalents at end of period	62,507	40,949	678,689

SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2008 and 2009 were summarized by business segment as follows:

Year ended December 31, 2008	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	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, 2009	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Inorganic	Elimination	Consolidated
Sales							
Outside customers	¥235,999	¥91,887	¥127,807	¥53,711	¥168,799	¥–	¥678,204
Inter-segment	3,223	313	325	961	4,449	(9,270)	–
Total	239,222	92,200	128,132	54,671	173,248	(9,270)	678,204
Operating costs	231,230	91,754	137,907	51,069	177,465	(6,238)	683,187
Operating income (loss)	¥7,992	¥446	(¥9,775)	¥3,603	(¥4,217)	¥(3,032)	(¥4,983)
Assets	¥202,867	¥153,628	¥190,311	¥130,717	¥214,059	¥66,721	¥958,303
Depreciation and amortization	7,001	8,179	25,718	3,650	10,073	(263)	54,358
Impairment of fixed assets	1,263	738	111	3,972	7,026	124	13,234
Capital expenditures	4,498	6,710	14,605	3,368	9,736	(252)	38,666

Year ended December 31, 2009	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic	Inorganic	Elimination	Consolidated
Sales							
Outside customers	$2,562,424	$997,692	$1,387,701	$583,181	$1,832,780	$–	$7,363,777
Inter-segment	34,994	3,395	3,529	10,429	48,306	(100,654)	–
Total	2,597,418	1,001,087	1,391,230	593,610	1,881,086	(100,654)	7,363,777
Operating costs	2,510,639	996,244	1,497,364	554,491	1,926,877	(67,734)	7,417,879
Operating income (loss)	$86,779	$4,843	($106,133)	$39,120	($45,791)	$(32,919)	($54,102)
Assets	$2,202,681	$1,668,061	$2,066,347	$1,419,294	$2,324,205	$724,444	$10,405,031
Depreciation and amortization	76,012	88,801	279,245	39,631	109,375	(2,856)	590,208
Impairment of fixed assets	13,715	8,010	1,210	43,122	76,283	–	143,687
Capital expenditures	48,842	72,859	158,574	36,571	105,715	(2,736)	419,825

(b) The operations of the Companies for the year ended December 31, 2008 and 2009 were summarized by geographic area as follows:

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 (loss)	¥24,937	(¥511)	¥6,941	(¥4,575)	¥26,792
Assets	¥853,585	¥98,047	¥36,377	(¥25,999)	¥962,010

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

Year ended December 31, 2009	Thousands of U.S. dollars				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
Outside customers.	$6,205,246	$815,098	$343,432	$–	$7,363,777
Inter-segment.	203,398	22,027	12,945	(238,370)	–
Total.	6,408,645	837,125	356,377	(238,370)	7,363,777
Operating costs.	6,463,991	840,907	330,738	(217,757)	7,417,879
Operating income (loss).	($55,346)	($3,783)	$25,640	($20,613)	($54,102)
Assets.	$8,987,834	$972,669	$677,329	($232,801)	$10,405,031

(c) Overseas sales, which represent sales to customers outside of Japan, of the Companies for the year ended December 31, 2008 and 2009 were summarized by geographic area as follows:

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

Year ended December 31, 2009	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales.	$2,084,758	$415,797	$2,500,554