ANNUAL REPORT 2010

Profile

Ranking as one of Japan's leading chemical companies, Showa Denko K.K. operates in the five major segments of petrochemicals, chemicals, electronics, inorganics, and aluminum.

In view of the drastic changes in the business environment in and after the second half of 2008, the Showa Denko Group worked out and implemented the "Passion Extension" for 2009 and 2010 to significantly strengthen its earning power. As a result of drastic structural reform, including withdrawal from unprofitable operations, substantial cost reductions and strengthening of profitability in base businesses, we succeeded in considerably improving our business results for 2010. Under the new medium-term consolidated business plan "PEGASUS" that started in January 2011, we are quickly meeting growing market needs, primarily in the fields of HD media and graphite electrodes, and establishing leading positions in various market segments. Thus, we are expanding operations as an "evolving chemical company with individualized products."

Showa Denko aims to earn the full trust and confidence of the market and society, always managing operations based on the principles of corporate social responsibility. The Company is also committed to the principles of Responsible Care and is vigorously carrying out an action plan to protect the environment as well as health and safety.

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.

Global Networks

Forward-Looking Statements

This annual report contains statements relating to management's projections of future profits, the possible achievement of the Company's financial goals and objectives, and management's expectations for the Company's product development program. The Company cannot guarantee that these expectations and projections will be realized or correct. Actual results may differ materially from the results anticipated in the statements included herein due to a variety of factors, including such economic factors as fluctuations in foreign currency exchange rates as well as market supply and demand conditions. The timely commercialization of products under development by the Company may be disrupted or delayed by a variety of factors, including market acceptance, the introduction of new products by competitors, and changes in regulations or laws. The foregoing list of factors is not inclusive. Please refer to page 28 for more information concerning risk factors.

Showa Denko at a Glance

Petrochemicals

Olefins (ethylene and propylene), organic chemicals (vinyl acetate monomer and ethyl acetate), and plastic products

Chemicals

Chemicals (caustic soda, chlorine, acrylonitrile, chloroprene rubber, and liquid ammonia), gases (oxygen, nitrogen, hydrogen, liquefied carbon dioxide, and dry ice), and specialty chemicals

Electronics

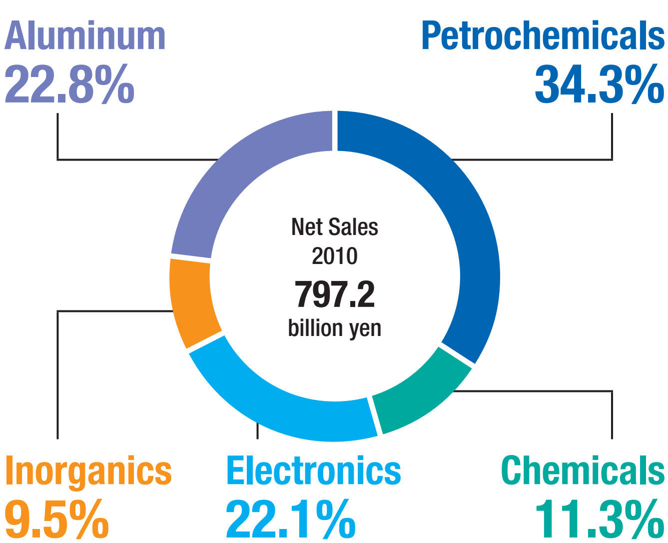
Hard disks (HDs), compound semiconductors (LED chips), rare earth magnetic alloys, specialty gases, ceramic materials for semiconductors, and fine carbons

Inorganics

Ceramics (aluminum hydroxide, alumina) and carbons (graphite electrodes)

Aluminum

Rolled products (high-purity foils for capacitors), extruded products (cylinders for laser beam printers), forged products, heat exchangers, and beverage cans



Contents

List of Showa Denko Group's "Individualized" Products and Technologies (Showa Denko estimates)

World's Largest Market Share:

• Hard disk media (as an independent media supplier) • Graphite electrodes (30" and 32" large diameter) • Semiconductor-processing specialty gases and materials (CF_4, C_2F_6, NH_3, N_2O, pentaethoxy Ta) • High-purity aluminum foils for electrolytic capacitors • Aluminum cylinders for laser beam printers • Lithium-ion battery aluminum packaging • *SDX*™ (Carbon-coated aluminum foils) • Nanoparticle titanium-oxide for multilayer ceramic capacitors

Japan's Largest Market Share:

• Diversification of ethylene feedstock • Acetaldehyde • Ethyl acetate • Vinyl acetate monomer • Allyl alcohol • *Bionolle*™ (Biodegradable polymer as group of polybutylene succinate) • Sodium polyacrylate thickener • Glycine • Nitrous oxide for medical use (Laughing gas) • *Shodex*™ (HPLC polymer columns) • Rare earth magnetic alloys • Alumina-based abrasive • SiC epitaxial wafers for power devices

World's Only:

• New process for ethyl acetate production • New process for acetic acid production • *Ecoann*™ (Ammonia made from used plastics) • *Karenz*™-series (Monomer products used in UV-curing resins) • *Apprecier*™ (Stabilized vitamin C for cosmetics) • *Spiera*™ (Curling agents for hair) • *Super Juffit*™ (Solder pre-coating process) • *Espacer*™ (Charge dissipating agent) • ST60 (Aluminum sheet for plasma displays) • *Shotic*™ (Aluminum alloys of horizontal continuously casting rods) • *Almic-can*™ (A unique food container) • *Showa Ecopipe*™ (Pipes made from used PET bottles)

Consolidated Five-Year Summary

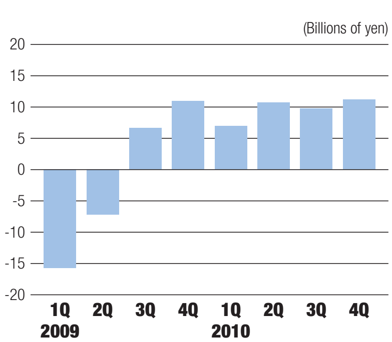
Showa Denko K.K. and Consolidated Subsidiaries
December 31

	Millions of yen					Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2007	2006	**2010**
For the year						
Net sales	**¥797,189**	¥678,204	¥1,003,876	¥1,023,238	¥ 914,533	**$ 9,782,656**
Operating income (loss)	**38,723**	(4,983)	26,792	76,671	68,727	**475,182**
Net income (loss)	**12,706**	(37,981)	2,451	33,066	28,836	**155,926**
Depreciation and amortization	**50,881**	54,358	60,439	49,761	38,049	**624,384**
At year-end						
Total assets	**924,484**	958,303	962,010	1,029,629	1,037,823	**11,344,749**
Total net assets	**284,965**	286,722	265,459	298,659	265,492	**3,496,929**
	Yen					U.S. dollars (Note 1)
Per share						
Net income (loss)—primary (Note 2)	**¥ 8.49**	¥ (29.44)	¥ 1.96	¥ 27.52	¥ 25.01	**$0.10**
Net income—fully diluted (Note 2)	**—**	—	—	26.50	23.48	**—**
Net assets	**161.47**	163.11	192.85	222.31	200.29	**1.98**
Cash dividends (applicable to the period)	**3.00**	3.00	5.00	5.00	4.00	**0.04**
Number of employees at year-end	**11,597**	11,564	11,756	11,329	11,184	

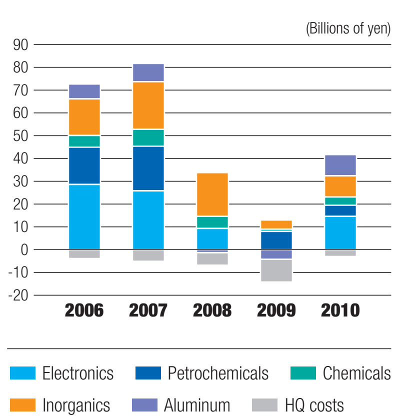
Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥81.49 to US$1.00, the approximate rate of exchange at December 31, 2010.

2. Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds.
Diluted net income per share for 2010 was not disclosed because the Company had no securities with dilutive effects.
Although the potential for stock dilution exists, diluted net income per share for 2009 was not disclosed because the Company posted a net loss.
Diluted net income per share in 2008 was not disclosed because there was no dilutive stock at December 31, 2008.

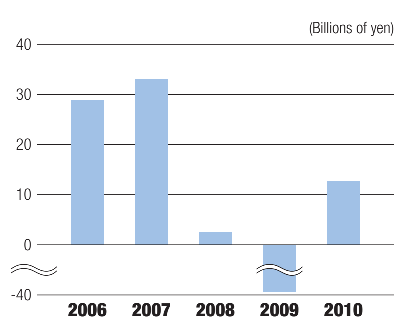
Quarterly Trends of Operating Income



Operating Income by Segment



Net Income



My Desire for "PEGASUS"

As new President and CEO of Showa Denko, I ask you to follow our growth and performance as we work to attain the objectives of our new Business Plan "PEGASUS."

- Pegasus is a "Winged Horse" from Greek mythology.
- The Showa Denko Group will rise to new heights supported by its two "wings"—The HD media and graphite electrode businesses.

PEGASUS

The Group will also gallop forward on the ground sustained by its powerful "legs"—Stable base businesses, growth businesses, new growth businesses for the next generation, and strong R&D activities.

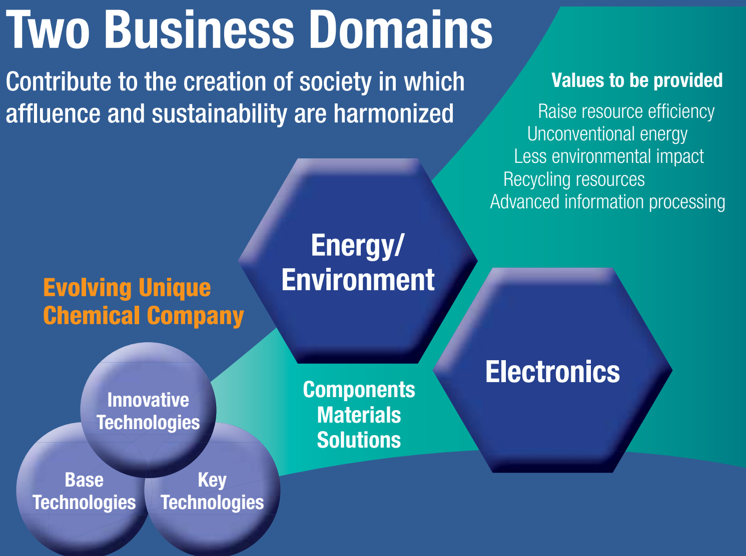
President and CEO

Hideo Ichikawa

New Medium-Term B

Two Business Domains

Contribute to the creation of society in which affluence and sustainability are harmonized



Numerical Targets

Targets for 2013: Operating income of ¥80 billion and FCF of ¥40 billion

(Billions of yen)

	2010 Actual	2011 Forecast*	2012 Plan	2013 Plan	2015 Image
Net Sales	797.2	870	930	1,000	1,100
Operating Income	38.7	45	62	80	110
Profit Ratio	4.9%	5.2%	7%	8%	10%
FCF	17.2	12.0 (2011–13 accumulated)	← 70 →		50
ROA	4.2%			7%	10%

* The 2011 forecast was announced on February 9, 2011.

Breakdown by Segment

- Growth centering on electronics and inorganics
- Petrochemicals markets to recover by 2013

(Billions of yen)

		2010 Actual*1	2011 Forecast*2	2012 Plan	2013 Plan
Petrochemicals	Net Sales	199.6	240.0	260.0	270.0
	Operating Income	2.3	5.0	6.5	9.0
Chemicals	Net Sales	133.6	135.0	140.0	160.0
	Operating Income	5.6	7.0	10.0	13.0
Electronics	Net Sales	148.0	180.0	220.0	235.0
	Operating Income	14.9	23.0	32.0	33.0
Inorganics	Net Sales	78.0	90.0	100.0	110.0
	Operating Income	10.1	10.0	16.5	23.0
Aluminum	Net Sales	130.1	120.0	115.0	120.0
	Operating Income	8.5	7.0	7.5	9.0
Others and Adjustments	Net Sales	108.0	105.0	95.0	105.0
	Operating Income	(2.8)	(7.0)	(10.5)	(7.0)
Total	Net Sales	797.2	870.0	930.0	1,000.0
	Operating Income	38.7	45.0	62.0	80.0

*1 New segmentation as from 2011
[major changes] a) Former Showa Highpolymer from "Petrochemicals" to "Chemicals"; b) IPP from "Aluminum and Other" to "Chemicals"; c) High-purity gases for semiconductor processing from "Electronics" to "Chemicals"; d) Shoko Co., Ltd. from "Allocated business-wise" to "Others"
2010 segment figures are reclassified by the new segmentation, for reference purposes only.
*2 The 2011 forecast was announced on February 9, 2011.

usiness Plan “PEGASUS” (2011–2015)

HD Media

Expand business by providing “best-in-class” products

- Develop most-advanced next-generation HD media
- Increase production capacity
- Solidify business foundations

Graphite Electrodes

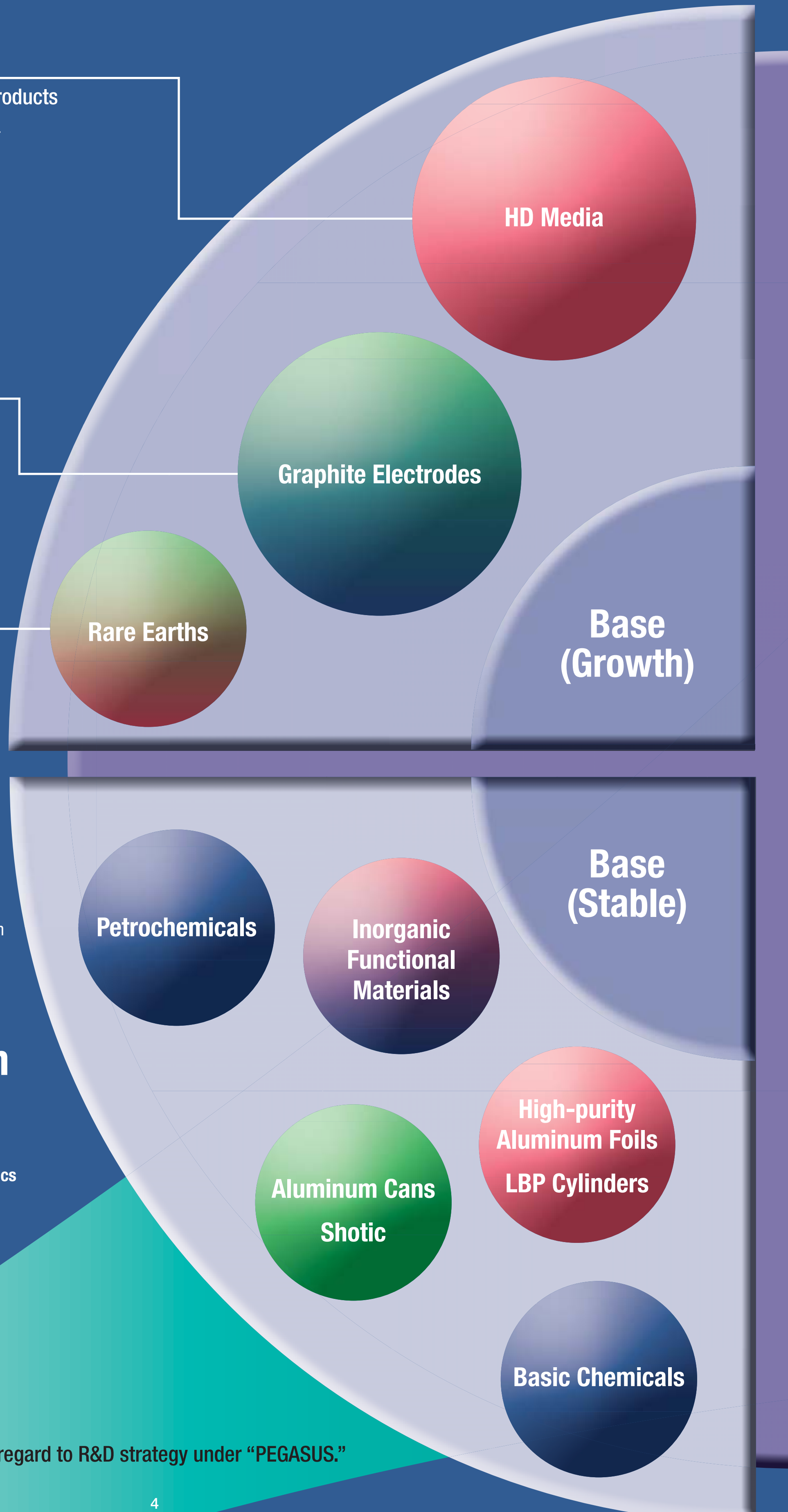
Expand capacity to meet growing demand

- Decided capacity expansion of the U.S. subsidiary, which has the highest global competitiveness
- Increase sales in emerging countries
- Develop production technology

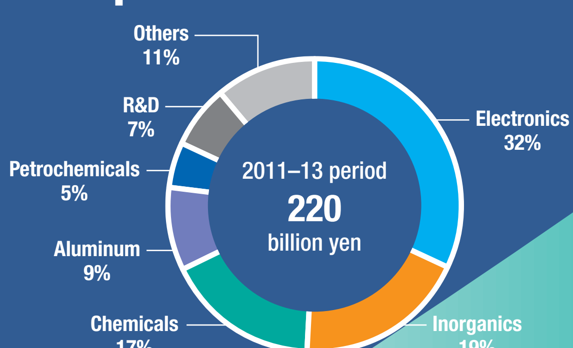
Rare Earths

Strengthen the No. 1 maker’s position of high-performance magnetic alloys

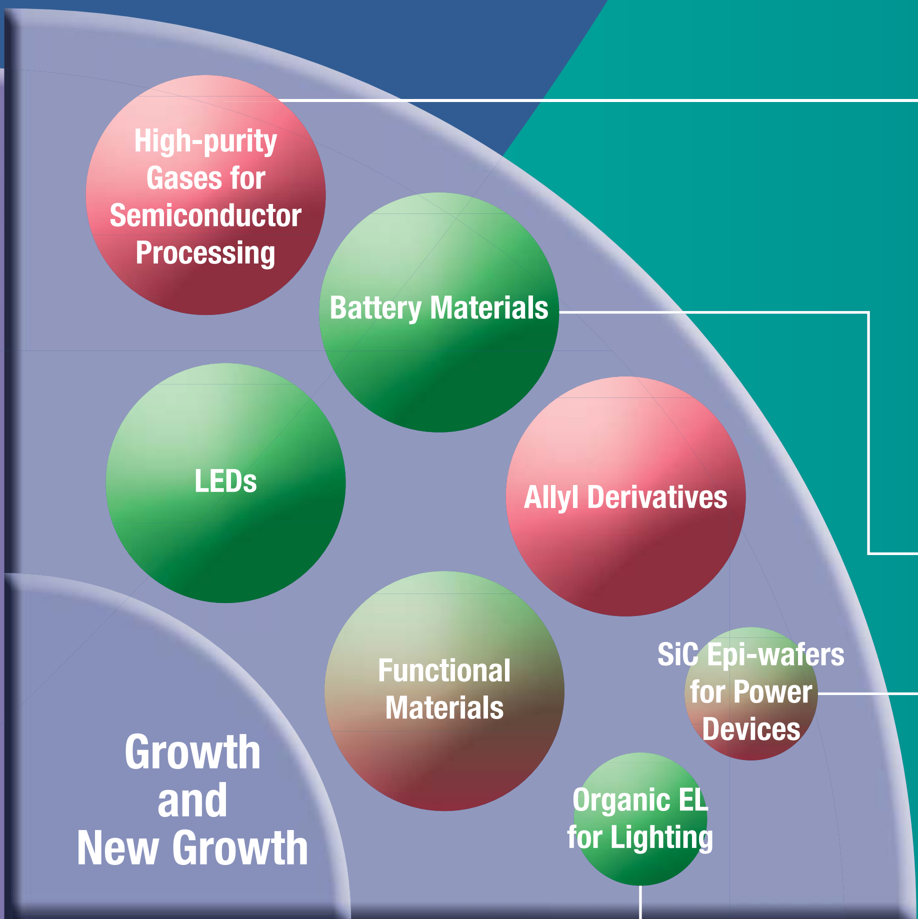
- Increase domestic/overseas sales
- Develop next-generation magnetic alloys
- Production capacity increase in response to demand growth



Capital Investment Plan



Please refer to page 17 with regard to R&D strategy under “PEGASUS.”



Target Business Portfolio

- Energy/Environment Market
- High-grade Electronic Device Market
- Industrial Base Materials Market

High-purity Gases for Semiconductor Processing

Increase profit continuously by launching eco-friendly new products

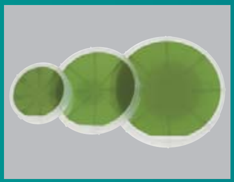
- Advance into Asian markets, centering on China, Taiwan, and Korea
- Quick commercialization of products
- Next-generation high-purity gases for film deposition
- Expand sales in growing markets through direct-sales system

LIB Materials

Plan to expand our production capacities

- Anode material (*SCMG*™)
- Additive in anodes/cathodes (*VGCF*™)
- Carbon-coated aluminum foils (*SDX*™)
- Aluminum packaging materials

SiC Epitaxial Wafers for Power Devices



- Provide high-quality SiC epi-wafers through integration of multiple technologies
- Promote industrialization as a major member of METI's projects

Organic EL for General Lighting

Combination of printable phosphorescent polymer and proprietary device structure

- Achieved 40 lm/W based on proprietary white-light emitter and device structure
- For high-efficiency/long-life white lighting applications

Message from the Management

Kyohei Takahashi, Chairman of the Board   Hideo Ichikawa, President and CEO

In view of the drastic changes in the business environment in and after the second half of 2008, the Showa Denko Group worked out and implemented the "Passion Extension" for 2009 and 2010 to carry out structural reform, optimize production systems, and lay the groundwork for future growth. Under the Passion Extension, we renewed financial strength, withdrew from unprofitable operations, substantially reduced costs, and strengthened profitability in base businesses.

In 2010, we expanded our hard disk (HD) media production capacity, renovated naphtha cracking furnaces (Petrochemicals segment), and decided to transfer our automotive heat exchanger business (Aluminum segment).

Launch of New Business Plan "PEGASUS"

In December 2010, we announced our new medium-term consolidated business plan "PEGASUS" for the 2011–2015 period. Under the plan, launched at the beginning of 2011, we are focusing on the two business domains of "Energy/Environment" and "Electronics." This is because we want to better meet the social need for higher living standards and lower environmental impact. We will provide components, materials, and solutions in these business domains based on our proprietary advanced technologies, thereby contributing toward creating a society where affluence and sustainability are harmonized.

In the business portfolio we aim to realize, we classify businesses into three categories: growing base businesses, stable base businesses, and growth/new growth businesses. We will promote our growth strategy by concentrating our managerial resources on globally competitive operations. "HD media" and "graphite electrodes" are positioned as our main businesses. We will implement an aggressive growth strategy for these two businesses, including expansion of production capacity. The two businesses will serve as major contributors to our profit and cash flows.

Compared with 2007, when we recorded all-time high consolidated operating income of ¥76.7 billion, we have to admit that we are still in the process of recovering from the bottom since the Lehman Brothers Holdings shock of 2008. Our consolidated operating income for 2010 was ¥38.7 billion, far below the 2007 results. Nevertheless, we will speedily implement PEGASUS and return to the growth track, aiming to renew the operating income record in 2013. For main strategies under PEGASUS, please refer to pages 3–5.

Business Results for 2010

The Japanese economy saw some signs of recovery in the first half of 2010 with gradual increases in exports, domestic demand, and production against the background of improved economic conditions in foreign countries, centering on China, as well as the Japanese government's economic stimulus measures ("eco-incentives") for automobiles and electric appliances. In the latter half, the economy came to a standstill due to a gradual decline in exports against the background of steep appreciation of the yen. However, there was a move toward recovery due to improvement in corporate performance, capital investment, and the employment situation. Meanwhile, there remain such risks as the concern about an economic slowdown, mainly in Europe, and drastic changes in the foreign exchange and stock markets.

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

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

In 2010, the Group recorded consolidated net sales of ¥797,189 million, up 17.5% from the previous year, and operating income of ¥38,723 million, up ¥43,705 million. While operating income in the Petrochemicals segment decreased as a result of shutdown maintenance that takes place once in every four years, operating income increased in all other segments due partly to the rise in shipment volumes. The Group recorded net income of ¥12,706 million, up ¥50,688 million, due mainly to improvement in operating income and a decrease in impairment loss. The impairment loss decreased ¥8,623 million, to ¥4,610 million, because there was no major restructuring work in 2010 compared with the previous year, when we made vigorous restructuring efforts, centering on the Aluminum segment.

Dividends of ¥3.00 per share were paid to shareholders on record at the end of December 2010.

In 2010, we renovated naphtha cracking furnaces at our ethylene plant in the Oita Complex, expanded our HD media production capacity, and completed a rare earth metal recycling plant in Vietnam. We also invested in expansion, rationalization, maintenance, and environmental protection at other production facilities. As a result, our capital expenditures for the year amounted to ¥58,035 million, up ¥19,369 million.

The outstanding balance of interest-bearing debt as of the end of 2010 decreased ¥22,877 million, to ¥351,034 million, as a result of continued debt-reduction efforts.

Segment Performances

In terms of net sales for the year, the Petrochemicals segment contributed 34.3%, Chemicals 11.3%, Electronics 22.1%, Inorganics 9.5%, and Aluminum and Others 22.8%. Operating income increased in all segments other than Petrochemicals, which conducted the shutdown maintenance. A breakdown of net sales and operating income by segment is as follows:

In the Petrochemicals segment, sales increased 16.0%, to ¥273,739 million. Sales of olefins rose owing to higher selling prices, despite the fall in shipment volumes resulting from the shutdown maintenance. Ethyl acetate shipments decreased, due partly to the concentration of production at the Oita Complex in June. However, overall sales of organic chemicals were maintained at the previous year's level, owing to the rise in selling prices. Operating income decreased 39.0%, to ¥4,877 million, reflecting the decline in shipment volumes due to the shutdown maintenance.

In the Chemicals segment, sales slipped 2.1%, to ¥89,923 million. Sales of ammonia and chloroprene rubber were up due to the increase in shipment volumes. Sales of acrylonitrile increased due to the rise in shipment volumes and selling prices. Meanwhile, sales of liquefied carbon dioxide and dry ice fell,

"PEGASUS" logo

HD media

Graphite electrodes

due to the disappearance of the influence of changes in the first half of 2009 in the accounting period of Showa Tansan Co., Ltd., and its affiliate. Operating income jumped 718.2%, to ¥3,649 million, due partly to the rise in shipment volumes of acrylonitrile.

In the Electronics segment, sales increased 38.0%, to ¥176,397 million. Sales of HD media increased due to a substantial rise in shipment volumes, reflecting brisk demand for use in notebook PCs. Sales of compound semiconductors and semiconductor-processing specialty gases increased due to higher shipment volumes. Sales of rare earth magnetic alloys increased due to higher shipment volumes and higher selling prices, reflecting the soaring raw material prices. The segment recorded operating income of ¥14,621 million, up ¥24,396 million, due to the rise in shipment volumes of HD media and other products.

In the Inorganics segment, sales increased 40.3%, to ¥75,339 million. Sales of graphite electrodes increased due to higher shipment volumes in Japan and the United States, reflecting the recovery in demand from the electric arc furnace steelmaking industry. Sales of ceramics increased due to the rise in shipment volumes, centering on the electronic/automotive parts industries. Operating income jumped 157.3%, to ¥9,270 million, due to the rise in shipment volumes of graphite electrodes and ceramics.

In the Aluminum segment, sales rose 7.7%, to ¥181,791 million. Sales of rolled products were up due to the rise in shipment volumes of high-purity foils for capacitors, reflecting the increase in production by the electronic parts industry. Sales of aluminum cylinders for laser beam printers increased due to higher shipment volumes. However, sales of extrusions were down due to withdrawal from the business in commodity extrusions for building materials in the second half of 2009. Thus, overall sales of extrusions/specialty products decreased slightly. In the automotive heat exchanger business, sales in Europe fell, but sales rose in Japan, the United States, China, and Thailand. Thus, overall sales of automotive heat exchangers were up. Sales of *Shotic*™ forged products increased due to the rise in shipments to the automobile industry. Sales of aluminum cans increased due to higher shipment volumes, reflecting the extraordinarily hot summer in Japan. The segment recorded operating income of ¥9,299 million, up ¥13,516 million, due to the rise in shipment volumes and the effect of structural reform carried out in 2009.

Measures Implemented or Decided in 2010

1. Enhancing competitiveness of the petrochemicals business

Introduction of modern cracking furnaces at the Oita Complex

We renovated our ethylene production facility at the Oita Complex, mainly through the replacement of seven cracking furnaces with two modern high-efficiency furnaces (each having the capacity to produce 100,000 tons of ethylene a year). The renovation was conducted during the period of the shutdown maintenance, and the new facilities started up in May 2010. As a result of the renovation, we have achieved the highest-level energy efficiency among petrochemical complexes in Japan, while reducing CO_2 emissions by approximately 60,000 tons a year.

2. Strengthening the electronics business

a) Expansion of HD media production capacity

We decided to expand our HD media production capacity by five million disks per month, mainly through the installation of additional production lines at our subsidiary Showa Denko HD Singapore Pte. Ltd. The decision

New cracking furnaces

Showa Denko HD Singapore Pte. Ltd.

Showa Denko Rare-Earth Vietnam Co., Ltd.

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

b) Completion of rare earth metal plant in Vietnam

Our subsidiary Showa Denko Rare-Earth Vietnam Co., Ltd., completed a new rare earth metal plant in Vietnam and started production in May 2010. The plant produces 800 tons a year in total of didymium and dysprosium metals, which are used as raw material for neodymium-based, high-performance magnetic alloys. In addition to current applications in hybrid cars and electronic devices such as HDDs, neodymium-based high-performance magnets are expected to be increasingly used in electric vehicles and energy-saving electric appliances. In its rare earth metal production, Showa Denko Rare-Earth Vietnam processes raw materials and recycles magnets purchased from various sources inside and outside Vietnam. The metals thus produced are used at our rare earth magnetic alloy plants.

c) Completion of blue LED chip production capacity expansion

We increased our blue LED chip production capacity from 200 million units per month to 340 million units per month, and started commercial operation of the expanded facility in July 2010. Demand for blue LEDs is expected to grow due to increased use in such applications as backlight for LCD TVs and general lighting. We will promote technical development to further increase output of LED chips and improve production efficiency, thereby providing high-quality, high-performance, and energy-saving products that fulfill customers' requirements.

3. Increasing profitability in the Inorganics segment

Decision to build a chemical alumina plant in Indonesia

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

4. Structural reform in the Aluminum segment

Transfer of business in heat exchangers for car air conditioners

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

The Group attaches great importance to corporate governance, compliance, and risk management, taking various measures in these areas 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.

Effective January 4, 2011, Kyohei Takahashi assumed the post of Representative Director and Chairman of the Board, and Hideo Ichikawa (Managing Corporate Officer; Executive Officer, HD Sector) took office as President and CEO. The new management will continue making strenuous efforts to increase profitability of businesses through structural reform and enhance competitiveness of major operations.

We look forward to the continued support from our fellow shareholders and all other stakeholders.

March 30, 2011

Kyohei Takahashi, Chairman of the Board

Hideo Ichikawa, President and CEO

Consolidated Business Results (Millions of yen)

	2010	2009	Difference	Rate of change
Sales	273,739	235,999	37,740	16.0%
Operating income	4,877	7,992	-3,115	-39.0%

The Petrochemicals segment's sales for 2010 increased 16.0%, to ¥273,739 million. Sales of olefins rose owing to higher selling prices, despite the fall in shipment volumes resulting from the shutdown maintenance that takes place once in every four years. Ethyl acetate shipments decreased, due partly to the concentration of production at the Oita Complex in June. However, overall sales of organic chemicals were maintained at the previous year's level, owing to the rise in selling prices. The segment's operating income decreased 39.0%, to ¥4,877 million, reflecting the decline in shipment volumes due to the shutdown maintenance.

Olefins

The market was generally steady in 2010 due partly to the delay in start-ups of new and expanded facilities in the Middle East and China. Ethylene production in Japan totaled 7.02 million tons in 2010, a slight increase from 6.91 million tons in the preceding year. Showa Denko's ethylene production was 585,000 tons, a decrease of 50,000 tons from 2009, reflecting the shutdown maintenance that takes place once in every four years.

Sales of olefins were up due to the rise in selling prices, reflecting higher naphtha prices. However, operating income fell due mainly to the fall in shipment volumes, reflecting the shutdown maintenance.

Topics

We renovated our ethylene production facility at our Oita Complex, mainly through the replacement of seven cracking furnaces with two modern high-efficiency furnaces (each having the capacity to produce 100,000 tons of ethylene a year). The renovation was conducted during the period of the shutdown maintenance, and the new facilities started up in May 2010. As a result of the renovation, we have achieved the highest-level energy efficiency among petrochemical complexes in Japan, while reducing CO_2 emissions by approximately 60,000 tons a year.

New cracking furnaces

Organic Chemicals

Ethyl acetate shipments decreased, due partly to the concentration of production at the Oita Complex in June 2010. However, overall sales of organic chemicals were maintained at the previous year's level, owing to the rise in selling prices of allyl alcohol and other products. Operating income slightly increased, as a result of the rationalization efforts to concentrate ethyl acetate production at the Oita Complex.

Heat-resistant transparent films

Topics

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

Consolidated Business Results (Millions of yen)

	2010	2009	Difference	Rate of change
Sales	89,923	91,887	-1,965	-2.1%
Operating income	3,649	446	3,203	718.2%

The Chemicals segment's sales decreased 2.1%, to ¥89,923 million. Sales of ammonia and chloroprene rubber were up due to the increase in shipment volumes. Sales of acrylonitrile increased due to the rise in shipment volumes and selling prices. Meanwhile, sales of liquefied carbon dioxide and dry ice fell, due to the disappearance of the influence of changes in the first half of 2009 in the accounting period of Showa Tansan Co., Ltd., and its affiliate. Operating income jumped 718.2%, to ¥3,649 million, due partly to the increase in shipment volumes of acrylonitrile.

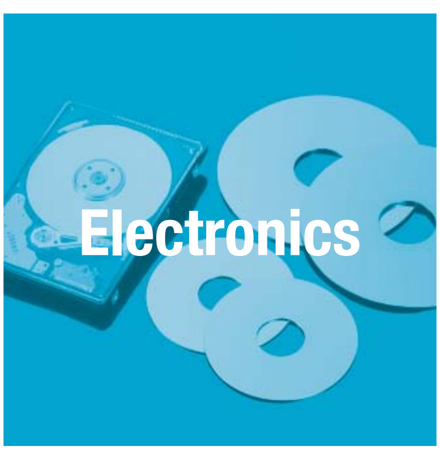
Topics

We decided to start up a production facility for a new thiol-based curing agent *Karenz MT*™ PE1 in June 2011 at our Kawasaki Plant. The product will be used as a curing agent to substantially improve the

Ammonia

properties of epoxy resins for paints, whose demand is increasing in the fields of construction and vessels, coatings, and adhesives. We are already selling *Karenz*™ series functional monomers for electronics applications, and aim to strengthen our functional monomers business by broadening applications.

Karenz™



Consolidated Business Results (Millions of yen)

	2010	2009	Difference	Rate of change
Sales	176,397	127,807	48,589	38.0%
Operating income	14,621	(9,775)	24,396	—

The Electronics segment's sales increased 38.0%, to ¥176,397 million. Sales of HD media, compound semiconductors, and semiconductor-processing specialty gases increased due to higher shipment volumes. Sales of rare earth magnetic alloys increased due to higher shipment volumes and higher selling prices, reflecting the soaring raw material prices. Operating income amounted to ¥14,621 million, up ¥24,396 million, due to the increase in shipment volumes of HD media and other products.

Hard Disks

Shipment volumes of HD media increased substantially in and after the beginning of the year, reflecting brisk demand. Although the shipments were affected somewhat by drive manufacturers' production adjustments in the third quarter, the shipment level recovered in the fourth quarter. As a result, the business recorded substantial increases in sales and shipment volumes.

Topics

The Showa Denko Group's total HD media production capacity is being increased by stages, from 22 million disks a month at the end of June 2010 to 27 million disks a month by the end of June 2011, with the investment of ¥15.5 billion. The capacity is being increased mainly through the installation of additional production lines at our subsidiary Showa Denko HD Singapore Pte. Ltd.

Showa Denko HD Singapore Pte. Ltd.

Compound Semiconductors

Sales of compound semiconductors increased, owing to the rise in shipment volumes of both commodity and ultrabright LED chips. Operating income also increased.

Topics

We increased our production capacity of GaN LED chips from 200 million units per month to 340 million units per month in July 2010.

Rare Earths

Sales of rare earth magnetic alloys increased due to higher shipment volumes and higher selling prices, reflecting the soaring raw material prices. Operating income from the business also increased.

Showa Denko Rare-Earth Vietnam Co., Ltd.

Topics

Our subsidiary Showa Denko Rare-Earth Vietnam Co., Ltd., completed a new rare earth metal plant in Vietnam and started production in May 2010. The plant produces 800 tons a year in total of didymium and dysprosium metals, which are used as raw material for neodymium-based high-performance magnetic alloys.

Specialty Gases for Semiconductor Processing

Sales of specialty gases for semiconductor processing increased due to higher shipment volumes, reflecting the recovery of semiconductor/LCD panel production in China and other Asian countries. Operating income from the business also increased.

Topics

In August 2010, we started commercial production of high-purity cyclohexanone at our subsidiary Zhejiang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd., in Zhejiang Province, China. High-purity cyclohexanone is used as a cleaning agent for the removal of photoresists and as solvent for photoresists in the production of semiconductors and LCD panels.

In December 2010, Showa Denko and Air Water Inc. established a joint venture for the production of specialty material gases for the electronics industry. The new company, Showa Denko Air Water Co., Ltd., is owned 51% by Showa Denko. Demand for specialty material gases has steadily been growing, centering on Asian markets, for use in the production of solar cells, semiconductors, and LCD panels. The joint venture will install a hydrogen selenide (H_2Se) production facility within the premises of Showa Denko's Tokuyama Plant. H_2Se is used for forming light-absorbing films in CIGS (copper indium gallium diselenide) compound-semiconductor-based solar cells. The joint venture will start producing H_2Se at the plant in June 2011.

In July 2011, we will complete a 400t/y plant for high-purity carbonyl fluoride (COF_2), which is used as an etching gas in the production of LCD panels. COF_2 involves lower cost for the disposal of used gas remaining in the process, and lower environmental impact because of its lower global warming potential.

Ceramics

Sales of *Shorox*™ polishing materials for LCDs and glass-substrate HD media increased due to the rise in selling prices, reflecting soaring raw material prices following reductions in rare earth exports from China. Sales of titanium oxide for ceramic capacitors also increased due to higher shipment volumes. Operating income from the business also increased.

Topics

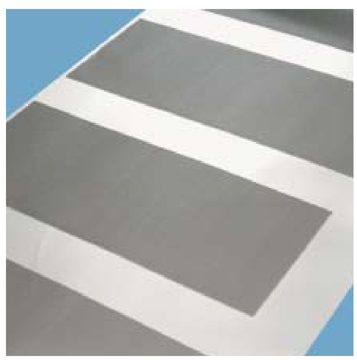
We will expand nanoparticle titanium-oxide production capacity at our subsidiary Showa Titanium Co., Ltd., from 180 tons a month at present to 240 tons a month from June 2011. The product, sold under the trade name of *Super-Titania*™, is used in the production of multilayer ceramic capacitors (MLCCs).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

Carbons

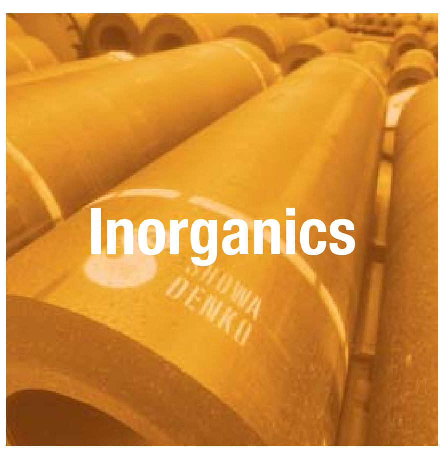
Sales of fine carbons, including *VGCF*™ carbon nanofibers and *SCMG*™ anode material for automotive LIBs, increased due to higher shipment volumes, reflecting growing demand for LIBs.

Launch of Carbon-Coated Aluminum Foils for LIBs

We will start volume production of carbon-coated aluminum foils (trade name: *SDX*™) that reduce the electrical resistance of LIB electrodes. *SDX*™ is produced by coating plain aluminum foils with electrically conductive carbon, using our proprietary technology. This product substantially reduces contact resistance between a cathode material and a collector, ensuring quick charge/discharge of heavy current.



SDX™



Consolidated Business Results

(Millions of yen)

	2010	2009	Difference	Rate of change
Sales	75,339	53,711	21,628	40.3%
Operating income	9,270	3,603	5,667	157.3%

The Inorganics segment's sales increased 40.3%, to ¥75,339 million. Sales of graphite electrodes increased due to higher shipment volumes in Japan and the United States. Sales of ceramics increased due partly to the rise in volumes of shipments to the electronic parts and automotive parts industries. Operating income jumped 157.3%, to ¥9,270 million.

Ceramics

Sales of ceramics increased due partly to the rise in volumes of shipments to the electronic parts and automotive parts industries. Operating income from the business also increased.

Carbons

Shipment volumes of graphite electrodes were up in Japan and the United States, reflecting increased production by the electric arc furnace steelmaking industry in Asia and the United States. Our U.S. subsidiary continued full-capacity production in and after the second quarter of 2010.

Topics

We decided to expand graphite electrode production capacity at our U.S. subsidiary Showa Denko Carbon, Inc. (SDKC), from 45,000t/y at present to 75,000t/y by the end of 2013. In addition to the North American market, SDKC will serve the rapidly growing Latin American market. Together with the 60,000t/y graphite electrode production base in Omachi, Japan, the Showa Denko Group's total production capacity will reach 135,000t/y. Graphite electrodes are expected to be in tight supply in the coming years.

Showa Denko Carbon, Inc.

We decided to have PT Indonesia Chemical Alumina (ICA) build a chemical alumina plant in West Kalimantan, Indonesia. ICA is a joint venture (owned 20% by Showa Denko) with PT. Antam Tbk (Antam), of Indonesia. Chemical alumina is used for the production of various products, including electronics. The plant is scheduled for start-up in 2014.

Consolidated Business Results

(Millions of yen)

	2010	2009	Difference	Rate of change
Sales	181,791	168,799	12,992	7.7%
Operating income	9,299	(4,217)	13,516	—

The Aluminum segment's sales rose 7.7%, to ¥181,791 million. Sales of rolled products were up due to the rise in shipment volumes of high-purity foils for capacitors. Sales of aluminum cylinders for laser beam printers increased due to higher shipment volumes. However, sales of extrusions were down due to withdrawal from the business in commodity extrusions for building materials in the second half of 2009. Thus, overall sales of extrusions/specialty products decreased slightly. In the automotive heat exchanger business, sales in Europe fell, but sales rose in Japan, the United States, China, and Thailand. Thus, overall sales of automotive heat exchangers were up. Sales of Shotic™ *forged products increased due to the rise in shipments to the automobile industry. Sales of aluminum cans increased due to higher shipment volumes, reflecting the extraordinarily hot summer in Japan. The segment recorded operating income of ¥9,299 million, up ¥13,516 million, due to the rise in shipment volumes and the effect of structural reform carried out in 2009.*

Rolled Products

Sales of rolled products were up due to the increase in the shipment volumes of high-purity aluminum foils for capacitors, reflecting the increase in the production of such electronic devices as LCD TVs and PCs. Operating income from the business was also up.

Extrusions/Specialty Products

Sales of aluminum cylinders for laser beam printers increased due to higher shipment volumes. However, sales of extrusions were down due to withdrawal from the business in commodity extrusions for building materials in the second half of 2009. Thus, overall sales of extrusions/specialty products decreased slightly. Operating income from the extrusions/specialty products business increased substantially, due to the rise in shipment volumes of aluminum cylinders for laser beam printers and the improvement in profitability following the withdrawal from the business in commodity extrusions for building materials.

Shotic™

Sales of *Shotic™* forged products increased due to the rise in the volume of shipments to the automobile industry. Operating income also increased.

Heat Exchangers

In the automotive heat exchanger business, sales in Europe fell, but sales rose in Japan, the United States, China, and Thailand, reflecting the recovery in automobile production. Thus, overall sales of automotive heat exchangers were up. Operating income from this business increased at all operation sites (Japan, the United States, Europe, China, and Thailand).

Topics

We decided to transfer our automotive air-conditioner heat exchanger business to Keihin Corporation, which is the main customer for the business. While we have been producing aluminum-based heat exchangers, including condensers and evaporators, we have judged that it will be difficult to enhance competitiveness of a stand-alone heat exchanger business, and that it is essential to integrate the business into automotive air-conditioning system operations to ensure further growth on a global scale.

Aluminum Cans

Sales of aluminum cans increased due to higher shipment volumes, reflecting the extraordinary hot summer in Japan. Operating income from this business also increased.

Shotic™ forged products

Aluminum cylinders for laser beam printers

Aluminum cans

Research and Development

Showa Denko and its Group companies promoted R&D in line with their medium-term consolidated business plan "Passion Project" to establish technological advantages in the fields of electronics, fine chemicals, and new materials.

We focused on the three target markets of electronics, automotive parts, and personal care/environmental goods, allocating resources preferentially to growth businesses as well as new businesses covered by the six strategic market unit (SMU) projects for these market areas.

Showa Denko and its Group companies invested ¥20,670 million (US$254 million) in R&D in 2010. A breakdown by segment of R&D efforts and investments during the year is as follows:

Petrochemicals

In this segment, we are fully utilizing our proprietary technologies for catalysts, organic synthesis, and polymer synthesis to meet the needs of manufacturers of printing ink, paint, electronic materials, and automotive parts. We are improving the performance of existing catalysts and developing new catalysts for acetyl chemicals and allyl alcohol to further strengthen our proprietary production processes. As for n-propyl acetate, an allyl alcohol derivative, we are continuing steady production at our plant completed in December 2009. Furthermore, to meet growing demand for allyl ester resin for use in optical materials, we are increasing production efficiency and developing new grades. We are developing new optical materials and glass-substitute materials for displays, and providing our samples for customer evaluation. In this regard, we decided to build a pilot plant for heat-resistant transparent film for completion in May 2011. In addition to the enhancement of energy efficiency at our ethylene plant through the renovation of naphtha cracking furnaces and the improvement of the waste heat recovery system, we are developing technologies to increase the use of non-naphtha feedstock and enhance the value of cracker products. We are also developing new energy-saving technologies for naphtha cracking and CO_2 recovery under national projects for the development of basic technologies for green sustainable chemical processes. The Petrochemicals segment invested ¥1,969 million in R&D in 2010.

Allyl ester resin

Heat-resistant transparent films

Chemicals

To quickly meet wide-ranging customer needs, we are developing photofunctional materials, solder resists, high-performance gels, organic intermediates, base materials for cosmetics, and functional polymers.

Regarding photofunctional materials that support the production of high-performance LCDs, we are developing a new multifunctional-thiol-based compound for addition to photo-curing resins as well as photo polymerization initiators, while developing markets for these new products. We are building a multifunctional-thiol-based-compound plant for completion during the first half of 2011. We are developing performance functional polymer materials based on our proprietary monomers. Our new solder resist for flexible circuit boards in LCDs and mobile phones has been well received by the market, and we are further developing its applications and new grades. Regarding this technology, we are working as a member of a national project for the development of environment-friendly, halogen-free insulating resin, which constitutes part of basic technologies for green sustainable chemical processes. For this research, we received, together with the National Institute of Advanced Industrial Science and Technology, the 2010 Nippon Keidanren Chairman's award for contribution to cooperation among industry, academia, and the government.

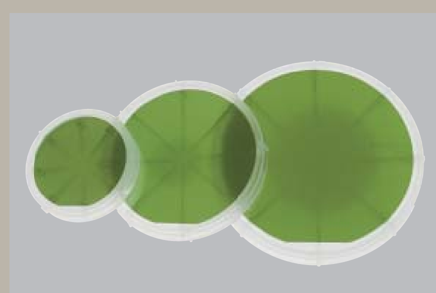
In high-performance liquid chromatography, we are expanding the variety of liquid chromatography columns. Development is under way for sample-preparation cartridges for the analysis of trace amounts of chemical substances. We are developing organic intermediates for agrochemicals and disinfectants by fully utilizing our position in raw materials. Meanwhile, we are developing new performance chemicals for use as base materials for cosmetics. We are developing new liquid electrolytes best suited for large LIBs for vehicles, combining a new electrolyte salt technology of Air Products and Chemicals, Inc., of the United States, and our proprietary liquid electrolyte technology. The Chemicals segment's R&D investment amounted to ¥1,616 million in 2010.

Electronics

We are accelerating the development of state-of-the-art technologies to meet the increasingly sophisticated market requirements. As for storage materials, we are continuing to develop new technologies as the world's largest independent HD media manufacturer. We are producing HD media with higher performance using perpendicular magnetic recording (PMR) technology, which we have commercialized for the first time in the world. At the same time, we are developing shingled write magnetic recording media, the next-generation technology that will further increase recording density, as well as thermal assist recording and bit-patterned media technologies. We are making preparations for commercialization of these new media products. Using PMR technology, we are making commercial shipments of 1.89-inch and 2.5-inch HD media with recording capacity of 160 and 375 gigabytes per disk, respectively, which represented the highest recording capacity for those sizes in December 2010. Also, we started commercial production of 3.5-inch, 750 gigabyte-per-disk HD media.

LEDs

GaN epitaxial wafer



SiC epitaxial wafers

Organic EL

In display elements and materials, we are continuing to develop LED chips with higher brightness and power. As for indium gallium nitride (InGaN) LED chips, we have developed a proprietary *Hybrid PPD*™ (plasma assisted physical deposition) process and introduced a 4-inch epitaxial wafer production line based on the process, thereby substantially improving the productivity. We are developing their applications in LCD backlight, automotive parts, and white lighting. Using our proprietary light emitting layer technology, we have developed AlGaInP LED chips that emit red light with a wavelength of 660 nm, the optimum light for accelerating the growth of plants. These new LED chips have been adopted at various facilities for growing vegetables in an environment of controlled lighting.

We have realized commercial production of silicon carbide (SiC) epitaxial wafers with the world's highest surface smoothness, ensuring improved power device operation. We are supplying these wafers to device manufacturers on a full scale. To realize the production of wafers with larger diameters, we have become a member of the R&D Partnership for Future Power Electronics Technology and started research work in 2010 under the New Material Power Device Project sponsored by the Ministry of Economy, Trade and Industry. In the area of neodymium-iron-boron magnetic alloys, we are meeting market requirements for high-performance magnets through sophisticated casting technologies and the better control of alloy microstructures. We are continuing to develop new materials that will maintain high levels of magnetic force at high temperatures to meet the needs of the automobile industry. We have developed *SCMG*™ graphite anode material based on our graphitization technology accumulated over many years. Due to the ability of *SCMG*™ to improve quick discharge performance and prolong the cycle life of large automotive LIBs, we are accelerating its sales to electric vehicle manufacturers at home and abroad.

SCMG™

VGCF™

In the area of organic electroluminescent (organic EL) materials, we are working to further improve the new device structure and the efficiency of coating with phosphorescent materials, and to accelerate the development of devices with a longer life. In semiconductor processing materials, we are developing chemical mechanical polishing (CMP) slurries for metal polishing at very small line widths and high-purity gases for etching, cleaning, and film deposition. We are also developing high-purity chemicals for detergents and solvents as well as new charge dissipating agents for electron-beam lithography processes. The Electronics segment invested ¥10,241 million in R&D in 2010.

Inorganics

Our development efforts in this segment focus on nanotechnology-based materials through the full utilization of our proprietary material/process technologies. Having established the world's first volume production technology for *VGCF*™ carbon nanotubes, we completed a 400 t/y production facility for *VGCF-X*™, a new grade optimized for resin-composite applications, within the premises of our Oita Petrochemical Complex in 2010. We have started commercial production of *VGCF-X*™ and we are working to develop applications in the area of resin composites. As for *Super-Titania*™ nanoparticle titanium oxide for use in multilayered ceramic capacitors (MLCCs), we will increase monthly production capacity from 180 tons to 240 tons from the middle of 2011. We are working to improve the product quality of *Super-Titania*™ to enhance the performance of MLCCs. We are developing a visible-light-responsive photocatalyst for deodorant, stain-proofing, and antibacterial/antiviral agents as part of a national project. In addition, we are developing various functional ceramic fillers for heat sink applications. The Inorganics segment spent ¥861 million on R&D in 2010.

Aluminum

We are developing light, strong, and high-performance materials, parts, and products to meet market needs while conducting research on basic technologies pertaining to their production. Utilizing our proprietary pressurized continuous casting technology and forging technology, we are developing new alloys and products. In the area of heat exchangers for car air conditioners, we are developing next-generation products to reduce environmental impact. Furthermore, we are developing innovative heat exchangers based on new types of refrigerants to meet tighter environmental regulations in the future.

Together with Toyota Industries Corporation, we received the 45th Oyamada Memorial Award from the Japan Institute of Light Metals for our joint development of cooling devices for power control units installed in new models of *Prius*. Demand for this cooling technology is expected to grow, not only in the area of automotive parts but also in energy-saving devices. Meanwhile, we are improving our die technology for extrusion, forging, drawing, and press working; our process technologies for purification, fabrication, and bonding; as well as our simulation technology for structural and hot fluid studies. The Aluminum segment's R&D investment amounted to ¥2,311 million in 2010.

Common R&D Projects

Showa Denko's Corporate R&D Center conducts basic research into new areas with a view to fostering new businesses and developing technologies common to different segments. The Analysis & Physical Properties Center and the Safety Evaluation Center support each segment's R&D efforts by conducting analyses and investigations. Common R&D expenditures in 2010 totaled ¥3,673 million.

R&D Strategy under “PEGASUS”

Under the new medium-term consolidated business plan “PEGASUS,” we have decided to focus on the two business domains of “Energy/ Environment” and “Electronics.” To maximize the values we provide to society in the two domains, we will brush up our own key technologies and acquire innovative technologies, thereby creating new businesses. We will aggressively pursue “open innovation” and establish ties with partners inside and outside Japan, and quickly realize commercialization of new technologies.

To meet growing social needs for convenience, comfort, and reduction in impacts on the environment, we will develop original products and solutions through interconnection of our inorganic, metal, and organic chemical technologies. Thus, we will establish ourselves as an “evolving chemical company with individualized products.”

Carbon-coated-aluminum foils (*SDX*™)

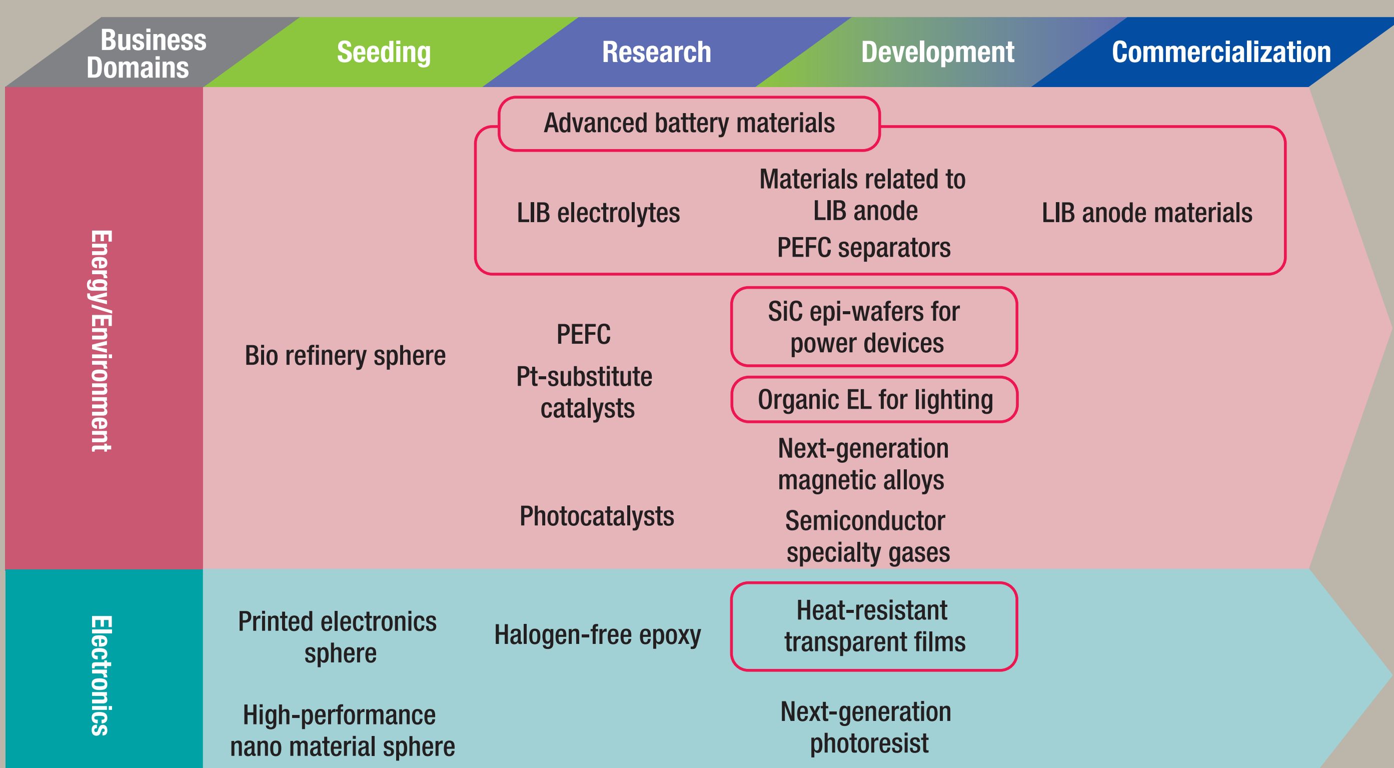
Aluminum packaging material

The chart shows our strategic research themes under PEGASUS. In particular, we will focus on the development of LIB materials, SiC epitaxial wafers for power devices, organic EL for lighting, and glass-substitute heat-resistant transparent films.

During the five-year (2011–2015) period under the new consolidated business plan, Showa Denko will invest a total of approximately ¥120 billion in R&D, up 20% from the previous business plan Passion Project. We will allocate 60% of the total R&D budget to growing base businesses and other growth businesses to accelerate their growth.

R&D Themes Pipeline

Concentrate R&D resources on two business domains



: Priority themes for quick commercialization

Corporate Social Responsibility

Code of Conduct and Guidelines

We established the code of conduct for Showa Denko Group employees in 1998. We then enacted its guidelines in the following year, clarifying the meaning of the code through details and examples. We then partially revised the guidelines in 2005 to better reflect the principles of CSR. In their daily activities, all officers and employees of the Showa Denko Group are following the code and its guidelines to retain public confidence, contribute to the prosperity of international society, and ensure the continued growth of the Group.

Involvement in Community Activities

In line with its Vision that stresses contribution to society through business activities, the Showa Denko Group is addressing global environmental issues, such as climate change, as an important matter for management. The Group therefore is making strenuous efforts to reduce GHG emissions and develop technologies pertaining to the environment and energy. In addition, fully utilizing their chemistry-related resources, many of the Group's operation sites are contributing toward solving relevant local communities' issues, covering such areas as education, regional development, and welfare.

In particular, many of the Group's operation sites in Japan and foreign countries are helping education of young people, providing chemical/environmental experiments and vocational training at their sites, local schools, and on the occasion of environment-related events. As a member of the chemical industry, which involves a substantial impact on the environment, we believe it is part of our social responsibility to communicate the importance of environmental protection and chemical technologies to the younger generation, in addition to reducing environmental impact resulting from our business activities. In this regard, our Oita Complex employees have been providing opportunities for chemistry experiments at elementary and junior high schools in the neighborhood of the complex. At our Corporate R&D Center in Chiba, we hold an "open laboratory" event every year. These activities for chemistry/environmental education have taken firm root.

In the area of regional welfare, the Showa Denko Group is supporting local communities through the recycling of aluminum cans. The Group gives donations to welfare facilities, etc., based on the number of aluminum cans recovered mainly by its employees. The year 2011 marks the 40th anniversary of this aluminum can recycling activity. Furthermore, respective operation sites are collecting aluminum cans in cooperation with local schools and welfare facilities that use the activity as opportunities for environmental education or curricula for self-support of people related to welfare facilities. These operation sites donate the money resulting from aluminum can recycling to support local schools' PTA activities and volunteer groups that aid people with special needs.

The Group's respective operation sites also perform activities in consideration of the situation of local communities. In 2009, the Yokohama Plant concluded a disaster prevention agreement with a body of local residents in the neighboring community. Based on the agreement, the Yokohama Plant will, in the event of a big earthquake or other kinds of disaster, provide its equipment and heavy machinery to the citizens to facilitate rehabilitation. The Yokohama Plant performs a disaster prevention drill every year with local residents. Meanwhile, volunteers from Showa Denko Carbon, Inc. (SDKC), of the United States, are supporting the "Miracle League of Summerville," established to give children with disabilities the opportunity to play baseball. SDKC, as a member of the Trident United Way, also participates in volunteer activities to support schoolchildren.

The Code of Conduct

As Showa Denko officers and employees,

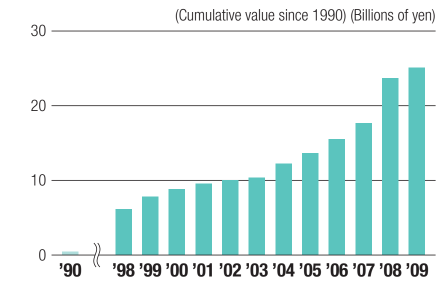
1. We will develop and provide useful and safe technologies, products, and services to contribute to the sound growth of society;
2. We will observe the laws of Japan and of the foreign countries in which we operate, abide by the Company rules, and strive to maintain the social order;
3. We will conduct business in Japan and abroad based on the principle of fair and free competition;
4. We will do our best to ensure safety and to protect the global environment;
5. We will make sure that we maintain good communications with the public and disclose accurate information on our Company in a timely manner;
6. We will respect human rights and create a cheerful and comfortable working environment; and
7. We will act as a member of the international society and contribute to the development of the regions in which we operate.

A disaster prevention drill involving Yokohama Plant employees and local residents

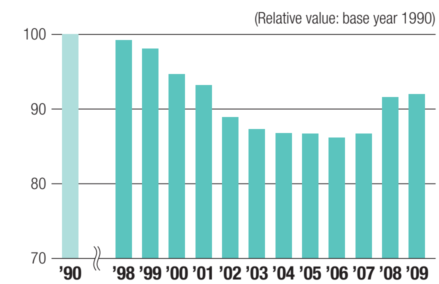
Miracle League of Summerville (SDKC)

Responsible Care Activities

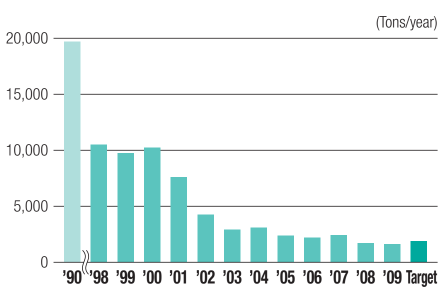
Environment-related Investment



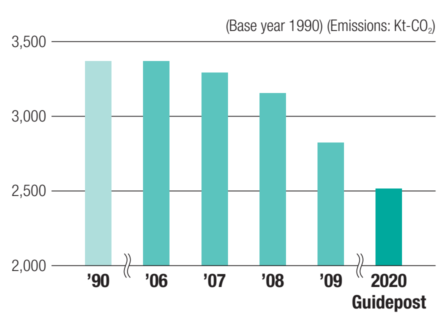
Energy Consumption Rate Transition



Trends in the Final Volume of Landfill Disposal



Trends in Greenhouse Gas Emissions



Responsible Care is the chemical industry's global voluntary initiative, representing a commitment to work together to continuously improve the environmental, health, and safety performance of chemicals over their entire life cycles, namely, their development, production, distribution, use, final consumption, and disposal.

Showa Denko has been performing its Responsible Care activities since 1995, when it established action guidelines to implement the program. Responsible Care activities are conducted within our six business segments (13 business divisions and 16 regional offices), three branches, an R&D center, and 15 subsidiaries/affiliates, based on voluntary, specific action plans prepared in line with the Responsible Care Committee's basic plan. The following are some examples of our activities:

Energy Conservation

We are making our best efforts to conserve energy to contribute to the prevention of global warming and protect natural resources. Due mainly to the substantial influence of production cuts, our rate of energy consumption by basic energy unit in 2009 ended up at 92% of the 1990 figure, notwithstanding improvement in production facilities and the recovery of energy. We will continue promoting energy conservation in a systematic manner. Approximately 21% of our total electricity requirements are now met by our hydroelectric power plants, a clean source of energy.

Reduction of Greenhouse Gas Emissions

Our greenhouse gas (GHG) emissions in 2009 fell 16% from the 1990 figure. As for the commitment period (2008-2010), our GHG emissions fell 11% on the average. We have already achieved the goal of a 6% reduction from the 1990 figure within the time frame of 2008-2012 under the Kyoto Protocol. However, we are proceeding with further reduction efforts, as witnessed by the replacement of naphtha cracking furnaces in 2010 that resulted in an estimated reduction of 60,000 tons a year.

Contribution toward a Recycling-based Society

We are committed to effectively using industrial waste and to reducing the volume of its discharge. As a result, the final volume of landfill disposal in 2009 was reduced by 92% from the 1990 base level, due partly to increased use of inorganic sludge (in cement, for example). A large number of employees within the Showa Denko Group are engaged in the recycling of aluminum cans. We are utilizing waste plastic as feedstock at our Kawasaki Plant, gasifying it for use as synthesis gas for ammonia production. Thus, we are making contributions toward a recycling-based society.

Development of Technologies and Products

Fully utilizing its core technologies, the Showa Denko Group is continuing to develop new products and technologies to contribute to sustainable growth of society. As part of these efforts, we have developed technologies for commercial production of carbon separators for use in polymer electrolyte fuel cells that can provide households and cars with CO_2-free energy. As a leading manufacturer of ultrabright LED chips, we are increasing production of these chips for use in LCD backlight for flat-panel TVs and PCs, while developing and marketing new products for use in the promising general lighting market.

Commitment to Chemical Safety

Following the enforcement of the EU's new chemical legislation (Registration, Evaluation, Authorization and Restriction of Chemicals, or REACH), we started up a special team involving members of relevant staff sections at our head office, business sectors, Showa Denko Europe GmbH, and other subsidiaries and affiliates. The team completed the registration of 10 substances in 2010. We are also steadily addressing the EU's rules of Classification, Labeling and Packaging (CLP).

Board of Directors

From left to right: Tomofumi Akiyama, Hirokazu Iwasaki, Shunji Fukuda, Yoshikazu Sakai, Akira Koinuma, Kyohei Takahashi, Yasumichi Murata, Hideo Ichikawa, and Kenji Tsukamoto

BOARD OF DIRECTORS

Representative Director, Chairman of the Board
Kyohei Takahashi

Representative Director, President
Hideo Ichikawa

Directors
Kenji Tsukamoto
Yasumichi Murata
Akira Koinuma
Yoshikazu Sakai
Shunji Fukuda
Hirokazu Iwasaki
Tomofumi Akiyama (Outside Director)

Standing Statutory Auditors
Hiroshi Ito
Ichiro Nomura

Auditors
Shogo Itoda
Hiroyuki Tezuka
Yukio Obara

CORPORATE OFFICERS AND SENIOR CORPORATE FELLOWS

Chief Executive Officer
Hideo Ichikawa

Managing Corporate Officers

Takashi Miyazaki
Executive Officer, Petrochemicals Sector,
General Manager, Olefins Division, Petrochemicals Sector

Kenji Tsukamoto
Chief Technology Officer; Executive Officer; Research and Development Headquarters; Officer in charge of Advanced Battery Materials Department

Shunichi Shiraishi
Executive Officer, Aluminum Sector

Yasumichi Murata
Chief Risk Management Officer; Officer in charge of Human Resources, General Affairs, Legal, CSR offices; Chairman, Risk Management, Corporate Ethics and Security Export Control committees

Akira Sakamoto
Executive Officer, Inorganics Sector

Corporate Officers

Akira Koinuma
Executive Officer, Production Technology Headquarters; Chairman, Responsible Care and Safety Measures committees

Yoshikazu Sakai
Chief Financial Officer; Officer in charge of Internal Audit, IR & PR, Accounting, Finance, and Information Systems offices; Chairman, IR Committee

Shunji Fukuda
Officer in charge of Corporate Strategy and China offices

Hirokazu Iwasaki
Executive Officer, Chemicals Sector

Masakazu Maki
Executive Officer, Electronics Sector, General Manager, Electronics Materials Division, Electronics Sector

Yoshiharu Mizuno
Oita Complex Representative, Petrochemicals Sector

Masaru Amano
General Manager, General Affairs Office

Masahiro Endo
General Manager, Extrusions/Specialty Products Division, Aluminum Sector

Robert C. Whitten
President and CEO, Showa Denko Carbon, Inc.
Special Assignment; Officer in charge of Global Marketing

Tetsuo Nakajo
General Manager, Corporate R&D Center

Yoshiyuki Nishimura
General Manager, Advanced Battery Materials Department

Atsushi Mizutani
General Representative in China, General Manager of China Office, and President of Showa Denko (Shanghai) Co., Ltd.

Saburo Muto
General Manager, Finance Office

Jiro Ishikawa
Executive Officer, HD Sector

Keiichi Kamiguchi
General Manager, Corporate Strategy Office

Kanji Takasaki
General Manager, Heat Exchanger Division, Aluminum Sector

Senior Corporate Fellows

Masayuki Miyauchi
General Manager, Functional Polymers Division, Chemicals Sector

Naofumi Kokaji
Manager, Alumina Project, Inorganics Sector

(As of March 30, 2011)

Corporate Governance

1. Basic concept regarding corporate governance

We fully recognize the importance of corporate governance as a means to ensure the soundness, effectiveness, and transparency of management, and to earn the full trust and confidence of the market and society, thereby enhancing corporate value over the long term. The Company is, therefore, taking various measures to strengthen compliance and management supervision, clarify management responsibility, ensure quick decision making and effective execution, and improve disclosure. We also aim to strengthen relations with our stakeholders, including shareholders, customers, suppliers, citizens, and employees. Based on the above, we have clarified our mission in the form of the Company vision stated below, working hard to realize this vision.

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.

2. Situation of the Company's supervision and decision-making functions

We have adopted the auditor system to enhance the fairness and transparency of management, ensuring efficient management of the Company. To clearly separate management supervision functions from business execution functions, we have introduced the corporate officer system and substantially reduced the number of directors. In addition, we have strengthened the supervision functions by appointing an outside director. At Board meetings held once or twice a month, the Board decides the Company's basic policy and decides, after full deliberation, on matters provided for in the Companies Act and the Company's Articles of Incorporation as well as important matters for the execution of the Company's operations, ensuring a speedy and vigorous decision-making process. We appoint directors from the viewpoint of strengthening corporate governance, aiming to strengthen the Board of Directors' supervision functions and ensure the propriety of the decision-making process. We make sure that corporate officers whose duties are primarily business execution will not concurrently serve as directors, in principle. Furthermore, we have abolished the system of officer directors except for the Chairman and the President, while strengthening the supervision by auditors (including outside auditors) and mutual supervision among directors. The term of office of directors has been shortened to one year to ensure a quick response to changes in the business environment and to clarify management responsibility of directors. At the Company's ordinary general meeting of shareholders held on March 30, 2011, nine directors, including one outside director, were appointed.

3. Situation of business execution

The Management Committee, which meets once a week in principle and is chaired by the President, deliberates and decides on matters to be referred to the Board of Directors' meetings and important matters pertaining to overall management of the Company. The decisions are made after deliberations on two occasions. As for investment plans, their risks are examined by task teams before referral to the Management Committee, and their progress is monitored after authorization. The Company's medium-term business plans are decided not only by the Management Committee but also by the participation of all corporate officers. The Company introduced the business sector system to ensure quick decision making and clarify responsibilities for business execution. The Company evaluates performances of respective business sectors to ensure the effective implementation of the performance-based evaluation system. The Company has Risk Management, Corporate Ethics, Security Export Control, Responsible Care, Safety Measures, and IR committees to handle specific matters important for the execution of businesses. These committees investigate, study, and deliberate on management issues under their jurisdiction.

4. Situation of auditing functions

The Company's Board of Auditors consists of five auditors, including three outside auditors. The auditors attend the Board of Directors' meetings and other important internal meetings, offering opinions as necessary. They audit the execution of operations through such means as field investigations, hearing sessions, and perusal of important documents, making proposals and providing advice and recommendations to ensure the sound management of the Company. They are working to strengthen the consolidated auditing system in cooperation with auditors of major associated companies. We have an office for internal audit reporting directly to the President. The Internal Audit Office investigates the overall execution of business, checking for accuracy, propriety, and efficiency.

It also investigates the management policies, business plans, and their execution, checking for consistency and soundness. The results of internal auditing are reported to auditors to ensure consistency with audits by auditors. As for matters relating to the environment and safety, respective divisions in charge conduct Responsible Care audits. KPMG AZSA LLC. conducts auditing of the Company based on an auditing contract and an annual plan agreed upon with auditors, and provides audit results to auditors. The accounting corporation and auditors exchange information and views from time to time to strengthen their cooperation.

5. Compliance and risk management

The Company's Board of Directors has decided to strengthen compliance and promote risk management as key components of its internal control system. The Board will continue to work on these issues.

Compliance

The Company is working to strengthen compliance through the code of conduct for its employees and the Corporate Ethics Committee. Every January, we observe Corporate Ethics Month to renew our awareness. Furthermore, compliance is strengthened through various seminars provided by staff sections and activities organized by respective business sectors. In the event of transgressions, the Company takes measures to prevent recurrence and takes disciplinary actions. The performance evaluation of relevant sectors is to reflect such transgressions. To prevent a transgression or detect it early, we have established an internal check system and channels of communication for reporting the matter.

Risk management

The Management Committee examines important matters from various angles. In particular, investment plans are examined carefully from such viewpoints as strategic importance and risk management. Furthermore, their progress is monitored and their results are reviewed. Respective business sectors analyze and evaluate their own business risks. The Risk Management Committee, which is chaired by the Company's Chief Risk Management Officer, is under the CSR Committee chaired by the President. The Risk Management Committee decides the Company's basic risk management policy, regularly evaluates overall risks, works out measures regarding high-risk matters, and checks how the measures are implemented by relevant business sectors.

As to individual risks pertaining to environmental protection, industrial safety, disaster prevention, chemical substances, product quality, intellectual property, fair trade, export control, and legal matters, relevant staff sections establish in-house rules and manuals, provide seminars, and manage risks through the review and authorization of proposals from business sectors. In the event of an emergency, the Company will set up crisis headquarters to take swift action and minimize damage.

6. Reaction policy on large-scale purchases of the Company's stock certificates, etc.

The Company believes that its shareholders should be determined through the free movement of its shares in the market. Although proposals regarding the large-scale purchases of the Company's shares are made by specific persons, the decision whether to sell the Company's shares in response to such a proposal shall eventually be made based on the opinion of the shareholders, which is reached after being given the sufficient information necessary for making an appropriate decision and sufficient time for consideration.

However, the purposes of some large-scale purchases do not contribute to the target company's corporate value and the common interests of shareholders, such as those that a) obviously damage the corporate value and common interests of shareholders or b) do not provide sufficient time nor information for the target company's board of directors or shareholders to examine the conditions of the purchase. The Company believes that, ideally, its shareholders should make the decision as to whether the large-scale purchases proposed by a specific person or other entity secure and enhance the Company's corporate value and the common interests of shareholders, by obtaining necessary and sufficient information from both the purchaser and the Company's Board of Directors.

The Company's Board of Directors has determined that it is necessary to continue to have certain rules to prevent purchases which do not contribute to enhancing the Company's corporate value and which are contrary to the common interests of shareholders. Therefore, the Company has renewed its Reaction Policy on Large-scale Purchases of the Company's Stock Certificates, which was approved and introduced at the Company's ordinary general meeting of shareholders in March 2008, by modifying a portion of its contents and obtaining approval at the Company's ordinary general meeting of shareholders in March 2011.

7. Other

Remuneration, etc., to directors, auditors, and auditing corporation (for the period from January 1 through December 31, 2010)

Remuneration, etc., to directors and auditors

	Number of applicable persons	Paid amount
Directors (excluding an outside director)	11	¥308 million
Auditors (excluding outside auditors)	2	¥56 million
Outside director and auditors	5	¥43 million
Total	18	¥407 million

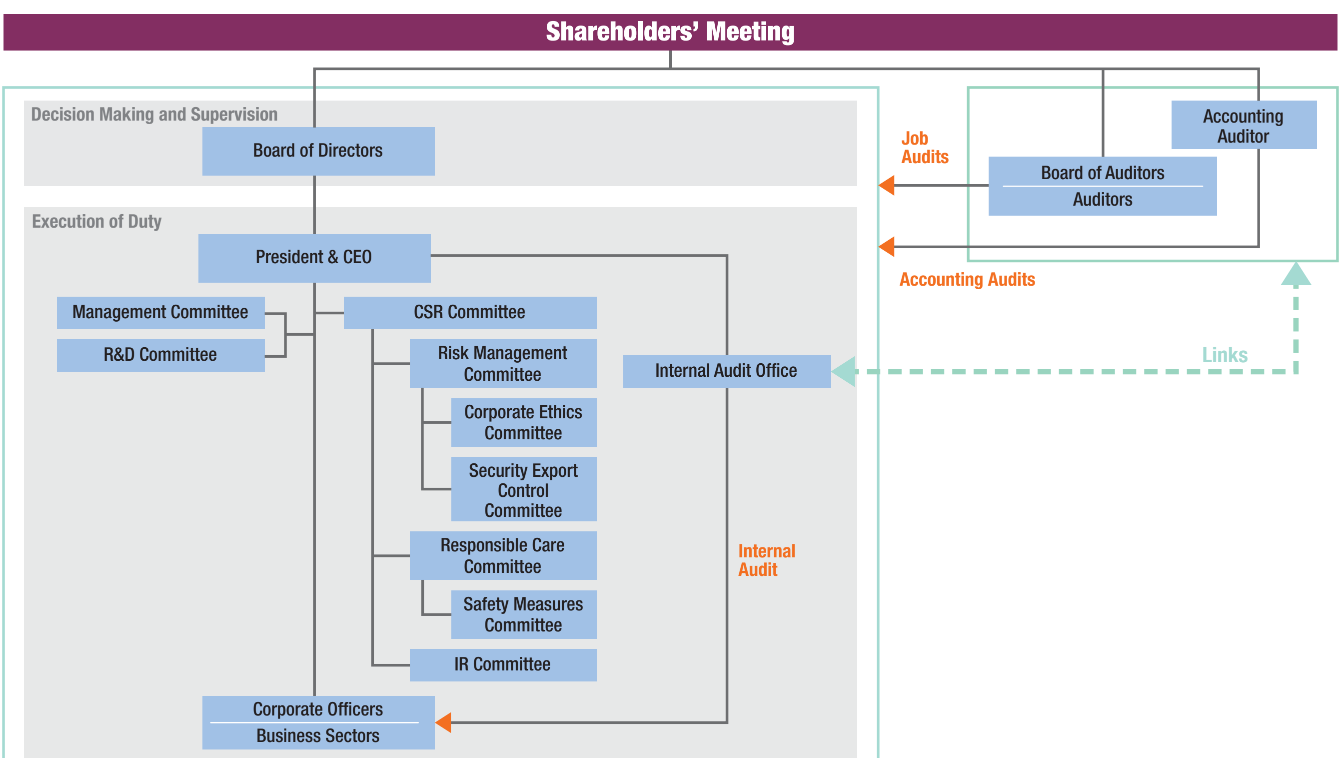
Note: The above remuneration figures do not include salaries to some of the directors they receive in the capacity of employees. The amount of such salaries totaled ¥13 million.

Remuneration to the auditing corporation

	Paid amount
Name of accounting auditor: KPMG AZSA LLC. Remuneration for the issuance of auditing certification based on the audit contract	¥171 million

8. Personal/financial relations and interests between the Company and outside directors/auditors

The Company has one outside director and three outside auditors. None of them has special interests in the Company. An outline of the Company's corporate governance system is as shown below.



Consolidated Six-Year Summary

Showa Denko K.K. and Consolidated Subsidiaries
December 31

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2010	2009	2008	2007	2006	2005	**2010**
For the year							
Net sales	**¥797,189**	¥678,204	¥1,003,876	¥1,023,238	¥ 914,533	¥811,899	**$ 9,782,656**
Petrochemicals	**273,739**	235,999	400,173	395,105	335,383	301,189	**3,359,177**
Chemicals	**89,923**	91,887	93,319	84,709	79,201	74,001	**1,103,481**
Electronics	**176,397**	127,807	188,778	201,013	165,541	133,902	**2,164,642**
Inorganics	**75,339**	53,711	88,797	84,599	74,301	61,882	**924,514**
Aluminum	**181,791**	168,799	232,809	257,812	260,107	240,925	**2,230,841**
Operating income (loss)	**38,723**	(4,983)	26,792	76,671	68,727	57,191	**475,182**
Net income (loss)	**12,706**	(37,981)	2,451	33,066	28,836	15,647	**155,926**
R&D expenditures	**20,670**	20,743	20,072	17,396	19,523	17,384	**253,650**
Capital expenditures	**58,035**	38,666	54,799	69,346	90,841	41,218	**712,171**
Depreciation and amortization	**50,881**	54,358	60,439	49,761	38,049	34,203	**624,384**
At year-end							
Total assets	**924,484**	958,303	962,010	1,029,629	1,037,823	986,233	**11,344,749**
Total net assets	**284,965**	286,722	265,459	298,659	265,492	206,738	**3,496,929**

	Yen						U.S. dollars (Note 1)
Per share							
Net income (loss)—primary (Note 2)	**¥ 8.49**	¥ (29.44)	¥ 1.96	¥ 27.52	¥ 25.01	¥ 13.70	**$0.10**
Net income—fully diluted (Note 2)	**—**	—	—	26.50	23.48	12.82	**—**
Net assets	**161.47**	163.11	192.85	222.31	200.29	180.96	**1.98**
Cash dividends (applicable to the period)	**3.00**	3.00	5.00	5.00	4.00	3.00	**0.04**
Number of employees at year-end	**11,597**	11,564	11,756	11,329	11,184	11,118	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥81.49 to US$1.00, the approximate rate of exchange at December 31, 2010.
2. Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds.
Diluted net income per share for 2010 was not disclosed because the Company had no securities with dilutive effects.
Although the potential for stock dilution exists, diluted net income per share for 2009 was not disclosed because the Company posted a net loss.
Diluted net income per share in 2008 was not disclosed because there was no dilutive stock at December 31, 2008.

Management's Discussion and Analysis

Results of Operations

Consolidated net sales in 2010 totaled ¥797,189 million (US$9,783 million), an increase of ¥118,985 million, or 17.5%, from the previous year.

The cost of sales increased ¥72,494 million, or 12.1%, to ¥670,260 million (US$8,225 million), reflecting the rise in net sales and raw material prices. Selling, general and administrative expenses increased ¥2,785 million, or 3.3%, to ¥88,206 million (US$1,082 million), due partly to the rise in transportation costs.

We recorded operating income of ¥38,723 million (US$475 million), up ¥43,705 million. While the Petrochemicals segment's operating income decreased due to the shutdown maintenance that takes place once in every four years, operating income in the remaining four segments increased due to higher shipment volumes.

R&D expenditures decreased ¥73 million, to ¥20,670 million (US$254 million).

Information by Business Segment

A breakdown of net sales and operating income by business segment is as follows:

Petrochemicals

Sales of olefins rose owing to higher selling prices, despite the fall in shipment volumes resulting from the shutdown maintenance. Ethyl acetate shipments decreased, due partly to the concentration of production at the Oita Complex in June. However, overall sales of organic chemicals were maintained at the previous year's level, owing to the rise in selling prices.

As a result, the Petrochemicals segment's sales increased 16.0%, to ¥273,739 million (US$3,359 million). However, the segment's operating income decreased 39.0%, to ¥4,877 million (US$60 million), reflecting the decline in shipment volumes due to the shutdown maintenance.

Chemicals

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

As a result, the Chemicals segment's sales slipped 2.1%, to ¥89,923 million (US$1,103 million). However, operating income jumped 718.2%, to ¥3,649 million (US$45 million), due partly to the rise in shipment volumes of acrylonitrile.

Electronics

Sales of HD media, compound semiconductors, and semiconductor-processing specialty gases increased due to higher shipment volumes. Sales of rare earth magnetic alloys increased due to higher shipment volumes and higher selling prices, reflecting the soaring raw material prices.

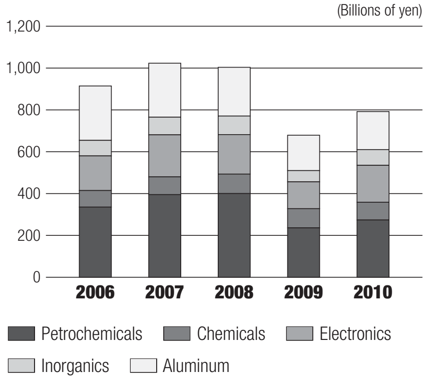
As a result, the Electronics segment's sales increased 38.0%, to ¥176,397 million (US$2,165 million). The segment recorded operating income of ¥14,621 million (US$179 million), up ¥24,396 million, due to the rise in shipment volumes of HD media and other products.

Inorganics

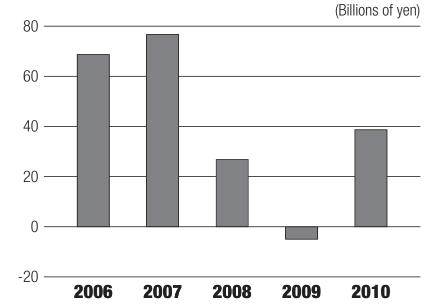
Sales of ceramics increased due partly to the rise in volumes of shipments to the electronic parts and automotive parts industries. Sales of graphite electrodes increased due to the rise in shipment volumes in Japan and the United States.

As a result, the Inorganics segment's sales increased 40.3%, to ¥75,339 million (US$925 million). Operating income jumped 157.3%, to ¥9,270 million (US$114 million).

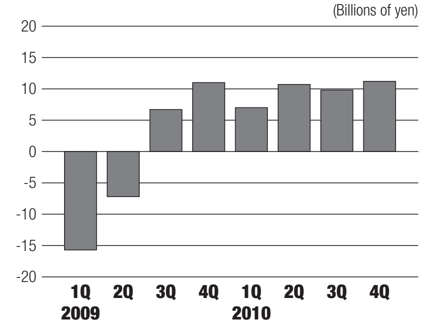
Net Sales by Segment



Operating Income



Quarterly Trends of Operating Income



Aluminum

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

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

As a result, the Aluminum segment's sales rose 7.7%, to ¥181,791 million (US$2,231 million). The segment recorded operating income of ¥9,299 million (US$114 million), up ¥13,516 million, due to the rise in shipment volumes and the effect of structural reform carried out in 2009.

Information by Geographic Area

Operations in Japan

Sales of olefins rose owing to higher selling prices, despite the fall in shipment volumes resulting from the shutdown maintenance that takes place once in every four years. Sales of acrylonitrile increased due to the rise in shipment volumes and selling prices. Meanwhile, sales of liquefied carbon dioxide and dry ice fell, due to the disappearance of the influence of changes in the first half of 2009 in the accounting period of Showa Tansan Co., Ltd., and its affiliate. Sales of HD media, compound semiconductors, and semiconductor-processing specialty gases increased due to higher shipment volumes. Sales of ceramics and graphite electrodes increased due to higher shipment volumes. Sales of rolled products were up due to the rise in shipment volumes of high-purity foils for capacitors.

As a result, consolidated sales from operations in Japan increased 15.4%, to ¥659,232 million (US$8,090 million). We recorded consolidated operating income of ¥25,732 million (US$316 million), up ¥30,829 million, from operations in Japan.

Operations in Asia

Sales of HD media increased in Singapore and Taiwan due to higher shipment volumes, reflecting brisk demand for use in notebook PCs and servers. Sales of rare earth magnetic alloys in China increased due to higher shipment volumes and the rise in selling prices, reflecting soaring raw material prices. Sales of automotive heat exchangers in China and Thailand increased due to higher shipment volumes. As a result, sales from operations in Asia increased 27.3%, to ¥95,551 million (US$1,173 million). We posted operating income of ¥10,199 million (US$125 million), up ¥10,548 million, from operations in Asia.

Operations in the Rest of the World

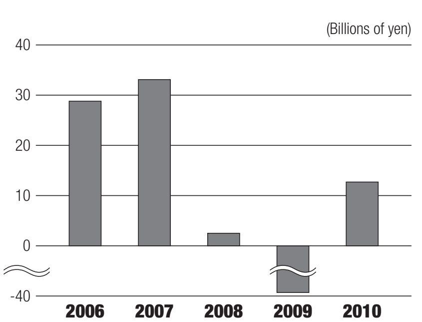
Sales of graphite electrodes in the United States increased due to the rise in shipment volumes. Sales of automotive heat exchangers in the United States increased due to higher shipment volumes. As a result, sales from operations in the rest of the world increased 34.1%, to ¥42,406 million (US$520 million), and operating income rose 112.3%, to ¥5,013 million (US$62 million).

Other Income (Expenses) and Net Income

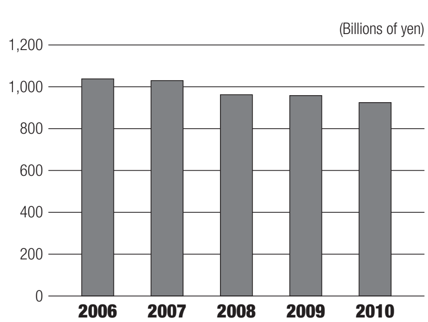
The gap between interest expenses and interest and dividends income decreased ¥1,196 million, to expenses of ¥4,422 million (US$54 million), as a result of a decrease in interest-bearing debt. We recorded equity in earnings of unconsolidated subsidiaries and affiliates to which the equity method is applied in the amount of ¥1,206 million (US$15 million), up ¥2,362 million, due to higher profit at affiliates in resin-related operations. The gain on the sales of investment securities, net, decreased ¥4,676 million, to ¥31 million (US$0 million). Foreign exchange losses increased ¥1,833 million, to ¥2,200 million (US$27 million), due to the appreciation of the yen.

We recorded a loss of ¥3,132 million (US$38 million) on sales and retirement of noncurrent assets, an increase of ¥448 million. We also recorded a loss of ¥4,610 million (US$57 million) for the impairment loss, a decrease of ¥8,623 million. While we made vigorous restructuring efforts in the previous year, centering on the Aluminum segment,

Net Income



Total Assets



there was no major restructuring work in 2010, resulting in the decrease in the impairment loss. In the previous year, we recorded a loss of ¥5,544 million from valuation of inventories, as 2009 was the first year of application of the “lower of cost or market” method to naphtha and other raw materials. In 2010, there was no such loss, resulting in an improvement of ¥5,544 million. Subsidy income increased ¥2,567 million, to ¥3,734 million (US$46 million), due partly to the receipt of a subsidy for the renovation of cracking furnaces at our ethylene plant. The loss on reduction of operation decreased ¥5,112 million, to ¥143 million (US$2 million), due to the increase in plant utilization. While we recorded special retirement expenses of ¥3,199 million in 2009 due mainly to rationalization efforts in the Aluminum segment, the amount of the expenses substantially decreased in 2010, to ¥359 million (US$4 million). Overall, the total of other income (expenses) ended up reaching income of ¥18,947 million (US$233 million), an improvement of ¥20,182 million from the previous year.

As a result, the Company posted income before income taxes and minority interests of ¥19,775 million (US$243 million), up ¥63,887 million from the previous year. After income taxes, current, of ¥6,026 million (US$74 million), income taxes, deferred, of ¥1,250 million (US$15 million), and minority interests in income of ¥2,293 million (US$28 million), the Company recorded net income of ¥12,706 million (US$156 million), up ¥50,688 million over the previous year.

Financial Position

Total Assets

Total assets decreased ¥33,820 million from the end of the previous year, to ¥924,484 million (US$11,345 million). Cash and deposits decreased ¥18,887 million, to ¥43,627 million (US$535 million), mainly as a result of the renovation of naphtha cracking furnaces and the expansion of HD media production capacity. Inventories rose ¥8,324 million, to ¥100,658 million (US$1,235 million), reflecting the rise in the prices of such raw materials as naphtha and rare earths. Net property, plant and equipment decreased ¥4,437 million, to ¥499,836 million (US$6,134 million), due to sale/retirement of equipment, an impairment loss, and the influence of the appreciation of the yen, despite the fact that the amount of capital investments exceeded that of depreciation expenses. Total investments and other assets decreased ¥7,713 million, to ¥109,835 million (US$1,348 million), due primarily to the decrease in investment securities influenced partly by the appreciation of the yen.

Liabilities

Interest-bearing debt fell ¥22,877 million from the end of the previous year, to ¥351,034 million (US$4,308 million). Total liabilities decreased ¥32,063 million, to ¥639,519 million (US$7,848 million).

Net Assets

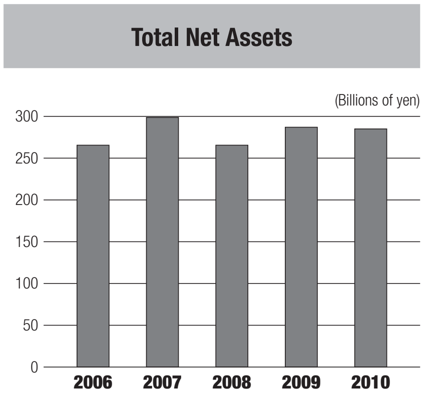
Net assets decreased ¥1,757 million, to ¥284,965 million (US$3,497 million), due to the payment of dividends for the previous year and the decrease in valuations and adjustments under the influence of the appreciation of the yen, notwithstanding the statement of net income for the current year.

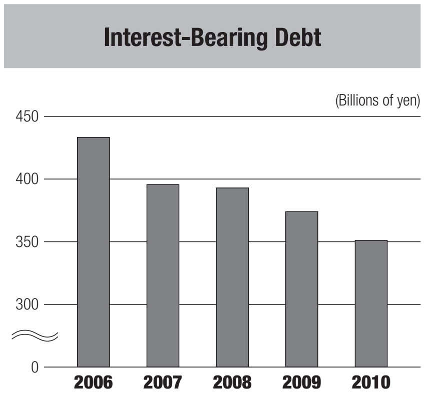
Capital Expenditures

We made capital investments, including the renovation of naphtha cracking furnaces and the expansion of production capacity for HD media and blue LED chips. As a result, our capital expenditures in 2010 amounted to ¥58,035 million (US$712 million), up ¥19,369 million.

Cash Flows

Net cash provided by operating activities increased ¥46,447 million, to ¥66,293 million (US$814 million), due partly to an increase in operating income. Net cash used in investing activities increased ¥22,479 million, to ¥49,074 million (US$602 million), due to the increase in the acquisition of plant, property and equipment. Cash flows from financing activities ended up in net payment of ¥34,494 million (US$423 million), a decrease of ¥62,897 million in proceeds, due to the repayment of interest-bearing debt and the disappearance of the influence of the capital increase in 2009 by public offering and the issuance of preferred securities. As a result, cash and cash equivalents at the end of 2010 decreased ¥19,049 million, to ¥43,459 million (US$533 million).





Risk Factors

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 March 30, 2011. This list is not inclusive.

(a) 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.

Petrochemicals

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

Aluminum

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

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 the supply-demand balance changes substantially, and when exchange rates sharply fluctuate, the Group's performance and financial conditions can be affected.

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.

(b) Unexpected fluctuations in financial conditions and cash flows

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.

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 expenses: 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.

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.

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.

Accounting for impairment of fixed assets

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

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.

(c) 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 Complexes, 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.

(d) 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.

(e) Others

R&D

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

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.

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.

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 the suspension of operations or accidents due to problems with manufacturing facilities. In the event of injury or damage to property due to an accident or a natural disaster, the Group's reputation could be damaged and the Group may incur substantial costs and lose business opportunities due to the suspension of production. This could affect the Group's performance and financial conditions.

Impact on environment

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

Consolidated Balance Sheets

Showa Denko K.K. and Consolidated Subsidiaries
At December 31, 2010 and 2009

ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 4) 2010
Current assets			
Cash and deposits (Notes 2, 5 and 6)	**¥ 43,627**	¥ 62,514	**$ 535,369**
Notes and accounts receivable (Notes 6 and 9)	**150,769**	163,620	**1,850,150**
Allowance for doubtful accounts (Note 2)	**(336)**	(559)	**(4,121)**
Inventories (Note 2)	**100,658**	92,333	**1,235,217**
Deferred tax assets (Note 12)	**3,309**	4,631	**40,606**
Other current assets	**14,154**	10,112	**173,696**
Total current assets	**312,181**	332,650	**3,830,918**
Property, plant and equipment (Notes 2 and 3)			
Land	**255,188**	255,774	**3,131,528**
Buildings and structures	**240,004**	240,533	**2,945,196**
Machinery, equipment and vehicles	**704,854**	699,068	**8,649,582**
Construction in progress	**6,157**	13,481	**75,553**
	1,206,204	1,208,856	**14,801,860**
Less: Accumulated depreciation	**(706,367)**	(704,583)	**(8,668,146)**
Net property, plant and equipment	**499,836**	504,273	**6,133,714**
Investments and other assets			
Investment securities (Notes 2, 6 and 7)	**58,813**	65,084	**721,722**
Long-term loans	**2,847**	2,348	**34,932**
Deferred tax assets (Note 12)	**27,462**	27,671	**337,003**
Other	**21,378**	23,358	**262,340**
Allowance for doubtful accounts (Note 2)	**(665)**	(914)	**(8,166)**
Total investments and other assets	**109,835**	117,548	**1,347,832**
Goodwill (Note 22)	**2,631**	3,832	**32,285**
Total assets	**¥ 924,484**	¥ 958,303	**$11,344,749**

See notes to financial statements.

LIABILITIES AND NET ASSETS	Millions of yen 2010	Millions of yen 2009	Thousands of U.S. dollars (Note 4) 2010
Current liabilities			
Short-term debt (Notes 6 and 10)	**¥ 79,721**	¥ 89,601	**$ 978,296**
Current portion of long-term debt (Notes 6 and 10)	**62,852**	72,862	**771,289**
Notes and accounts payable (Notes 6 and 9)	**147,211**	146,536	**1,806,492**
Income taxes payable	**3,006**	2,735	**36,890**
Provision for repairs (Note 2)	**276**	3,657	**3,381**
Provision for bonuses (Note 2)	**1,918**	1,563	**23,542**
Provision for business structure improvement (Note 2)	**67**	160	**822**
Provision for Niigata Minamata Disease	**976**	—	**11,981**
Other current liabilities	**32,639**	36,843	**400,530**
Total current liabilities	**328,667**	353,958	**4,033,224**
Noncurrent liabilities			
Long-term debt less current portion (Notes 6 and 10)	**208,461**	211,448	**2,558,115**
Lease obligations (Notes 2 and 14)	**16,891**	15,359	**207,277**
Deferred tax liabilities (Note 12)	**2,974**	6,819	**36,489**
Provision for retirement benefits (Notes 2 and 11)	**26,295**	27,088	**322,674**
Provision for repairs (Note 2)	**595**	46	**7,301**
Deferred tax liabilities for land revaluation (Note 17)	**45,818**	45,896	**562,256**
Other noncurrent liabilities	**9,818**	10,968	**120,484**
Total noncurrent liabilities	**310,851**	317,624	**3,814,596**
Contingent liabilities (Note 15)			
Net assets (Note 16)			
Shareholders' equity			
Capital stock			
Authorized, 3,300,000,000 shares			
Issued, 2010—1,497,112,926 shares	**140,564**	—	**1,724,917**
Issued, 2009—1,497,112,926 shares	**—**	140,564	**—**
Capital surplus	**62,223**	62,225	**763,567**
Retained earnings	**36,916**	29,311	**453,017**
Less: Treasury stock at cost, 2010—575,707 shares	**(178)**	—	**(2,179)**
Less: Treasury stock at cost, 2009—551,290 shares	**—**	(174)	**—**
Total shareholders' equity	**239,525**	231,925	**2,939,323**
Valuations and adjustments			
Valuation difference on available-for-sale securities	**(3,749)**	2,574	**(46,006)**
Deferred gains or losses on hedges	**269**	(204)	**3,299**
Revaluation reserve for land (Note 17)	**22,373**	21,764	**274,546**
Foreign currency translation adjustment (Note 2)	**(16,778)**	(11,962)	**(205,894)**
Total valuations and adjustments	**2,114**	12,172	**25,945**
Minority interests	**43,325**	42,625	**531,661**
Total net assets	**284,965**	286,722	**3,496,929**
Total liabilities and net assets	**¥924,484**	¥958,303	**$11,344,749**

Consolidated Statements of Operations

Showa Denko K.K. and Consolidated Subsidiaries
For the years ended December 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Net sales	**¥797,189**	¥678,204	**$9,782,656**
Cost of sales	**670,260**	597,766	**8,225,062**
Gross profit	**126,928**	80,438	**1,557,594**
Selling, general and administrative expenses (Note 18)	**88,206**	85,420	**1,082,413**
Operating income (loss)	**38,723**	(4,983)	**475,182**
Other income (expenses)			
Interest and dividends income	**1,213**	1,398	**14,883**
Equity in earnings (losses) of unconsolidated subsidiaries and affiliates	**1,206**	(1,156)	**14,794**
Gain on sales of investment securities, net	**31**	4,707	**381**
Loss on valuation of investment securities	**(372)**	(546)	**(4,571)**
Foreign exchange losses	**(2,200)**	(367)	**(26,999)**
Rent income on noncurrent assets	**1,123**	1,191	**13,782**
Loss on sales of noncurrent assets, net	**(138)**	(39)	**(1,694)**
Interest expenses	**(5,635)**	(7,016)	**(69,145)**
Loss on retirement of noncurrent assets	**(2,994)**	(2,644)	**(36,736)**
Impairment loss (Note 13)	**(4,610)**	(13,234)	**(56,577)**
Loss on valuation of inventories	**—**	(5,544)	**—**
Subsidy income	**3,734**	1,167	**45,822**
Loss on reduction of operation	**(143)**	(5,255)	**(1,760)**
Provision for Niigata Minamata Disease	**(976)**	—	**(11,981)**
Special retirement expenses	**(359)**	(3,199)	**(4,403)**
Provision for business structure improvement (Note 2)	**—**	(160)	**—**
Other, net	**(8,826)**	(8,430)	**(108,306)**
Total	**(18,947)**	(39,129)	**(232,508)**
Income (Loss) before income taxes and minority interests	**19,775**	(44,112)	**242,673**
Income taxes (Notes 2 and 12)			
Current	**6,026**	3,674	**73,947**
Deferred	**(1,250)**	(10,664)	**(15,335)**
Minority interests in income	**2,293**	860	**28,136**
Net income (loss)	**¥ 12,706**	¥ (37,981)	**$ 155,926**

	Yen		U.S. dollars (Note 4)
Per share amounts			
Net income (loss)—primary	**¥8.49**	¥(29.44)	**$0.10**
Net income—fully diluted	**—**	—	**—**
Cash dividends (applicable to the period)	**3.00**	3.00	**0.04**

Note: Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds.
Diluted net income per share for 2010 was not disclosed because the Company had no securities with dilutive effects.
Although the potential for stock dilution exists, diluted net income per share for 2009 was not disclosed because the Company posted a net loss.
See notes to financial statements.

Consolidated Statements of Changes in Net Assets

Showa Denko K.K. and Consolidated Subsidiaries For the years ended December 31, 2010 and 2009	Thousands	Millions of yen									
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Minority interests	Total net assets
Balance at December 31, 2008	1,248,237	¥121,904	¥37,945	¥73,146	¥(173)	¥ 4,983	¥(6,093)	¥21,896	¥(12,981)	¥24,832	¥265,459
Effect of changes in accounting policies applied to foreign subsidiaries	—	—	—	268	—	—	—	—	—	—	268
Issuance of new shares	221,191	18,660	18,660	—	—	—	—	—	—	—	37,319
Increase by share exchanges	27,685	—	5,620	—	—	—	—	—	—	—	5,620
Dividends from surplus	—	—	—	(6,239)	—	—	—	—	—	—	(6,239)
Net loss	—	—	—	(37,981)	—	—	—	—	—	—	(37,981)
Purchase of treasury stock	—	—	—	—	(6)	—	—	—	—	—	(6)
Disposal of treasury stock	—	—	—	(2)	4	—	—	—	—	—	2
Change of scope of equity method	—	—	—	(12)	—	—	—	—	—	—	(12)
Reversal of revaluation reserve for land	—	—	—	132	—	—	—	—	—	—	132
Net changes of items other than shareholders' equity	—	—	—	—	—	(2,409)	5,889	(132)	1,020	17,793	22,160
Balance at December 31, 2009	1,497,113	¥140,564	¥62,225	¥29,311	¥(174)	¥ 2,574	¥ (204)	¥21,764	¥(11,962)	¥42,625	¥286,722
Dividends from surplus	**—**	**—**	**—**	**(4,490)**	**—**	**—**	**—**	**—**	**—**	**—**	**(4,490)**
Net income	**—**	**—**	**—**	**12,706**	**—**	**—**	**—**	**—**	**—**	**—**	**12,706**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(7)**	**—**	**—**	**—**	**—**	**—**	**(7)**
Disposal of treasury stock	**—**	**—**	**(1)**	**—**	**4**	**—**	**—**	**—**	**—**	**—**	**2**
Reversal of revaluation reserve for land	**—**	**—**	**—**	**(609)**	**—**	**—**	**—**	**—**	**—**	**—**	**(609)**
Other	**—**	**—**	**—**	**(2)**	**—**	**—**	**—**	**—**	**—**	**—**	**(2)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(6,323)**	**473**	**609**	**(4,817)**	**700**	**(9,358)**
Balance at December 31, 2010	**1,497,113**	**¥140,564**	**¥62,223**	**¥36,916**	**¥(178)**	**¥(3,749)**	**¥ 269**	**¥22,373**	**¥(16,778)**	**¥43,325**	**¥284,965**

	Thousands	Thousands of U.S. dollars (Note 4)									
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Minority interests	Total net assets
Balance at December 31, 2009	1,497,113	$1,724,917	$763,585	$359,694	$(2,141)	$ 31,585	$(2,505)	$267,073	$(146,786)	$523,070	$3,518,492
Dividends from surplus	**—**	**—**	**—**	**(55,098)**	**—**	**—**	**—**	**—**	**—**	**—**	**(55,098)**
Net income	**—**	**—**	**—**	**155,926**	**—**	**—**	**—**	**—**	**—**	**—**	**155,926**
Purchase of treasury stock	**—**	**—**	**—**	**—**	**(81)**	**—**	**—**	**—**	**—**	**—**	**(81)**
Disposal of treasury stock	**—**	**—**	**(17)**	**—**	**43**	**—**	**—**	**—**	**—**	**—**	**26**
Reversal of revaluation reserve for land	**—**	**—**	**—**	**(7,478)**	**—**	**—**	**—**	**—**	**—**	**—**	**(7,478)**
Other	**—**	**—**	**—**	**(26)**	**—**	**—**	**—**	**—**	**—**	**—**	**(26)**
Net changes of items other than shareholders' equity	**—**	**—**	**—**	**—**	**—**	**(77,591)**	**5,804**	**7,473**	**(59,108)**	**8,591**	**(114,832)**
Balance at December 31, 2010	**1,497,113**	**$1,724,917**	**$763,567**	**$453,017**	**$(2,179)**	**$(46,006)**	**$ 3,299**	**$274,546**	**$(205,894)**	**$531,661**	**$3,496,929**

See notes to financial statements.

Consolidated Statements of Cash Flows

Showa Denko K.K. and Consolidated Subsidiaries
For the years ended December 31, 2010 and 2009

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2010	2009	**2010**
Cash flows from operating activities			
Income (Loss) before income taxes and minority interests	**¥19,775**	¥(44,112)	**$242,673**
Adjustments for:			
Depreciation and amortization	**50,678**	54,178	**621,890**
Impairment loss	**4,610**	13,234	**56,577**
Amortization of goodwill	**1,203**	1,132	**14,765**
Increase (Decrease) in provision for business structure improvement	**(93)**	(372)	**(1,141)**
Increase (Decrease) in provision for retirement benefits	**(771)**	(1,578)	**(9,457)**
Interest and dividends income	**(1,213)**	(1,398)	**(14,883)**
Interest expenses	**5,635**	7,016	**69,145**
Equity in (earnings) losses of non-consolidated subsidiaries and affiliates	**(1,206)**	1,156	**(14,794)**
Loss (Gain) on sales and valuation of investment securities	**341**	(4,161)	**4,190**
Loss on retirement of noncurrent assets	**2,994**	2,644	**36,736**
Loss (Gain) on sales of noncurrent assets	**138**	39	**1,694**
Decrease (Increase) in notes and accounts receivable–trade	**10,658**	(29,247)	**130,787**
Decrease (Increase) in inventories	**(10,306)**	25,286	**(126,466)**
Increase (Decrease) in notes and accounts payable–trade	**(267)**	(19,598)	**(3,280)**
Other, net	**(7,886)**	20,723	**(96,775)**
Subtotal	**74,291**	24,943	**911,660**
Interest and dividends income received	**2,391**	1,989	**29,339**
Interest expenses paid	**(5,819)**	(7,025)	**(71,406)**
Income taxes paid	**(4,571)**	(62)	**(56,087)**
Net cash provided by (used in) operating activities	**66,293**	19,846	**813,506**
Cash flows from investing activities			
Proceeds from sales and redemption of securities	**2**	2	**28**
Purchase of property, plant and equipment	**(48,823)**	(39,240)	**(599,131)**
Proceeds from sales of property, plant and equipment	**862**	21,573	**10,583**
Proceeds from transfer of business	**1,283**	266	**15,741**
Purchase of investment securities	**(1,938)**	(21,147)	**(23,785)**
Proceeds from sales of investment securities	**209**	19,940	**2,560**
Purchase of investments in subsidiaries	**—**	(81)	**—**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	(1,255)	**—**
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	**—**	64	**—**
Net decrease (increase) in short-term loans receivable	**1,073**	(1,306)	**13,163**
Payments of long-term loans receivable	**(935)**	(2,508)	**(11,479)**
Collection of long-term loans receivable	**534**	77	**6,552**
Other, net	**(1,340)**	(2,980)	**(16,443)**
Net cash provided by (used in) investing activities	**(49,074)**	(26,595)	**(602,211)**
Cash flows from financing activities			
Increase (Decrease) in short-term debt, net	**(9,178)**	(11,460)	**(112,627)**
Proceeds from long-term debt	**50,200**	64,511	**616,027**
Repayments of long-term debt	**(59,645)**	(72,780)	**(731,928)**
Proceeds from issuance of bonds	**10,000**	—	**122,714**
Redemption of bonds	**(13,000)**	—	**(159,529)**
Proceeds from issuance of common stock	**—**	37,319	**—**
Proceeds from stock issuance to minority shareholders	**—**	24,000	**—**
Cash dividends paid	**(4,471)**	(6,210)	**(54,863)**
Cash dividends paid to minority shareholders	**(1,697)**	(1,010)	**(20,819)**
Other, net	**(6,704)**	(5,968)	**(82,272)**
Net cash provided by (used in) financing activities	**(34,494)**	28,402	**(423,297)**
Effect of exchange rate changes on cash and cash equivalents	**(1,773)**	(95)	**(21,752)**
Net increase (decrease) in cash and cash equivalents	**(19,049)**	21,558	**(233,754)**
Cash and cash equivalents at beginning of the year	**62,507**	40,949	**767,054**
Cash and cash equivalents at end of the year (Notes 2 and 5)	**¥43,459**	¥ 62,507	**$533,300**

See notes to financial statements.

Notes to Financial Statements

1. BASIS OF REPORTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and restructured and translated into English from the consolidated financial statements which had been filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements for the years ended December 31, 2010 and 2009 include the accounts of the Company and its 40 and 41, respectively, significant subsidiaries (collectively "the Companies").

For the purposes of the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies are entirely eliminated and the portions thereof attributable to minority interests are credited or charged to minority interests.

Accounts of subsidiaries whose business year-ends differ by more than three months from December 31 have been included using appropriate interim financial information.

In the initial consolidation, assets and liabilities of subsidiaries including those attributable to minority stockholders are recorded based on fair value in the accompanying consolidated financial statements.

Goodwill, which is the difference between the acquisition cost and the underlying net assets at fair value at the date of acquisition, is amortized over a period not exceeding 20 years on a straight-line basis.

(b) Investments in Non-Consolidated Subsidiaries and Affiliates

The Company applied the equity method of accounting for investments in 2 non-consolidated subsidiaries in 2010 and 3 non-consolidated subsidiaries in 2009, and 15 affiliates in both 2010 and 2009.

All underlying intercompany profits obtained from transactions among the Companies and non-consolidated subsidiaries and affiliates to which the equity method is applied are eliminated in the consolidated financial statements.

(c) Translation of Foreign Currency Accounts

All receivables and payables denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the current exchange rates.

The resulting exchange gains or losses are credited or charged to income.

The financial statements of certain consolidated subsidiaries of foreign nationality are translated into Japanese yen at the year-end rate for assets and liabilities, at historical rates for the other balance sheet accounts exclusive of the current year's net income, and at the average annual rate for revenue and expense accounts and net income.

Translation adjustments resulting from the process of translating the financial statements of foreign subsidiaries into Japanese yen are accumulated and reported as a component of net assets on the consolidated balance sheet.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits available for withdrawal on demand and short-term investments with original maturities of three months or less and minor risk of value fluctuation.

(e) Securities

Debt securities that are intended to be held to maturity ("held-to-maturity debt securities") are stated at amortized cost on the balance sheet. Available-for-sale securities with available fair market values are stated at fair market values. Unrealized gains and unrealized losses on these available-for-sale securities are reported, net of applicable income taxes, as a separate component of the net assets.

Realized gains or losses on sale of the available-for-sale securities are computed using primarily the moving-average cost.

Available-for-sale securities with no available fair market values are stated primarily at moving-average cost.

(f) Allowance for Doubtful Accounts

To provide for losses from bad debts, the allowance is provided according to the actual rate of default for ordinary receivables and in view of the probability of recovery for specific doubtful receivables.

(g) Inventories

Inventories are stated at the lower of cost or market, using principally the gross-average cost method. The carrying value on the consolidated balance sheets is stated by the devaluation method based on declines in profitability.

(h) Property, Plant and Equipment

Property, plant and equipment is stated at cost, in principle. With the adoption of the fixed asset impairment accounting standard from 2004, however, aggregated amounts of impairment losses are deducted directly from respective items. Depreciation of property, plant and equipment is computed principally by the straight-line method, but the declining-balance method is applied to certain factories of the Company and some of the consolidated subsidiaries.

(i) Intangible Assets

The Company and some of the consolidated subsidiaries principally apply the straight-line method over five years to amortize intangible assets.

(j) Leased Assets

Leased assets in finance lease transactions that do not transfer ownership to the lessee are depreciated using the straight-line method on the assumption that the useful life is equal to the lease term and the residual value is equal to zero. For leases with a residual value guarantee, the contracted residual value is considered to be the residual value for financial accounting purposes.

Please note that finance lease transactions, other than those involving the transfer of ownership and which commenced on or before December 31, 2008, are accounted for by the same methods as for operating lease transactions.

(k) Provision for Business Structure Improvement

The Company and some of the consolidated subsidiaries record the provision for business structure improvement on an accrual basis to provide for expenses and losses resulting from their restructuring programs.

(l) Provision for Bonuses

A provision for bonuses is provided at an amount estimated based on the bonus to be paid subsequent to the balance sheet date.

(m) Provision for Retirement Benefits

A provision for retirement benefits is provided based on the projected benefit obligation and fair value of plan assets at the end of the year.

Prior service costs are amortized on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods.

The unrecognized actuarial gain or loss is amortized starting the year after such actuarial loss is determined on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods.

(n) Provision for Directors' Retirement Benefits

Some of the consolidated subsidiaries provide a provision for directors' retirement benefits and statutory corporate auditors in an amount determined by those companies' internal guidelines.

(o) Provision for Repairs

The Company provides a provision for repairs in an amount estimated to be necessary for the scheduled maintenance for certain production equipment.

(p) Provision for Niigata Minamata Disease

To provide for lump-sum payments pursuant to the Special Measures Law Regarding Relief to Persons Suffering from Minamata Disease and Regarding Solutions to the Minamata Disease Problem, the Company made a provision in the expected amount of such payments.

(q) Income Taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Company and its consolidated subsidiaries with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. (Valuation allowances are recorded to reduce deferred tax assets based on the assessment of the realizability of the tax benefits.)

(r) Derivative Financial Instruments and Hedge Accounting

The Company and certain subsidiaries state all derivative financial instruments at fair value and recognize changes in fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If the derivative financial instruments meet certain hedging criteria, the Company and certain subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on hedged items are recognized.

However, when forward exchange contracts meet certain hedging criteria, the hedged items are stated by the forward exchange contracts rate. If interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from interest on the assets or liabilities for which the interest rate swap contracts were executed.

Hedge accounting is not applied at one of the foreign subsidiaries.

(s) Reclassifications

Certain reclassifications have been made in the 2009 financial statements to conform to the presentation of 2010.

3. CHANGES IN ACCOUNTING POLICIES

(a) Application of Accounting Standard for Construction Contracts

Effective from the year ended December 31, 2010, the Company has applied "Accounting Standard for Construction Contracts" (Accounting Standards Board of Japan (ASBJ) Statement No. 15, issued on December 27, 2007) and "Guidance on Accounting Standard for Construction Contracts" (ASBJ Guidance No. 18, issued on December 27, 2007). Under this standard and guidance, the Company has applied the percentage-of-completion method (cost-comparison method to estimate the percentage of completion) to the construction contracts which commenced during the year ended December 31, 2010, if the outcome of the construction through December 31, 2010 can be estimated reliably; otherwise, the Company has applied the completed-contract method.

The impact on the Company's financial statements of applying the new accounting standard was not material.

(b) Application of Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)

Effective from the year ended December 31, 2010, the Company has applied “Partial Amendments to Accounting Standard for Retirement Benefits (Part 3)” (ASBJ Statement No. 19, issued on July 31, 2008). There was no impact from this change on the Company’s financial statements.

(c) Application of Accounting Standard for Business Combinations and Others

Effective from the year ended December 31, 2010, the Company has applied “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on December 26, 2008), “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22, issued on December 26, 2008), “Partial Amendments to Accounting Standard for Research and Development Costs” (ASBJ Statement No. 23, issued on December 26, 2008), “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No. 7, issued on December 26, 2008), “Revised Accounting Standard for Equity Method of Accounting for Investments” (ASBJ Statement No. 16, issued on December 26, 2008), and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on December 26, 2008) to its business combinations and other related activities conducted on or after April 1, 2010.

(d) Application of Standards and Methods for Valuation of Inventories

Effective from the year ended December 31, 2009, the Companies except for foreign subsidiaries have adopted the “Accounting Standard for Measurement of Inventories” (ASBJ Statement No. 9, issued on July 5, 2006). In previous years, finished goods are stated at the lower of cost or market using principally the gross average method and other inventories are stated primarily at cost as determined by the gross average method. The New Accounting Standard requires that inventories held for sale in the ordinary course of business be measured at the lower of cost or net realizable value, which is defined as the selling price less additional estimated manufacturing costs and estimated direct selling expenses. The Companies have applied the new accounting standard to the beginning inventory and recorded other expense of ¥5,544 million as an inventory devaluation loss to adjust the valuation differences included in the beginning balance. Consequently, compared to the amounts that would have been reported under the previous accounting method, the operating loss decreased by ¥3,734 million and the loss before income taxes and minority interests increased by ¥1,810 million for the year ended December 31, 2009.

(e) Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements

Effective for the year ended December 31, 2009, the Company has applied “Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements” (Accounting Standards Board of Japan, Practical Issues Task Force No. 18, issued on May 17, 2006) and made necessary amendments to the consolidated financial statements.

The impact on financial statements of this accounting change was not material.

(f) Application of Accounting Standards for Leases

The Companies except for foreign subsidiaries had previously treated finance lease transactions other than those involving transfer of ownership as operating lease transactions. Effective from the year ended December 31, 2009, the Companies except for foreign subsidiaries have adopted the “Accounting Standards for Lease Transactions” (ASBJ Statement No. 13, as revised on March 30, 2007) and “Guidance on Accounting Standards for Lease Transactions” (ASBJ Guidance No. 16, as revised on March 30, 2007) and treated finance lease transactions other than those involving transfer of ownership as the acquisition of assets and the incurrence of obligations in the similar manner used for transactions.

Leased assets in finance lease transactions that do not transfer ownership to the lessee are depreciated using the straight-line method on the assumption that the useful life is equal to the lease term and the residual value is equal to zero. For leases with a residual value guarantee, the contracted residual value is considered to be the residual value for financial accounting purposes.

Please note that finance lease transactions, other than those involving the transfer of ownership and which commenced prior to December 31, 2008, are accounted for by the same methods as for operating lease transactions.

The impact on financial statements of this accounting change was not material.

4. JAPANESE YEN AND TRANSLATION INTO U.S. DOLLARS

The Companies’ accounting records are maintained in yen. Yen amounts included in the financial statements are rounded to the nearest one million unit. Therefore, the total and subtotal amounts presented in the financial statements may not equal the exact sum of the individual balances. The U.S. dollar amounts appearing in the accompanying financial statements and notes thereto represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥81.49 to US$1.00, the approximate rate of exchange at December 31, 2010. The inclusion of such U.S. dollar amounts is solely for the convenience of readers; it does not carry with it any implication that yen amounts have been or could be converted into U.S. dollars at that rate.

5. CASH FLOW STATEMENTS

(a) Cash and deposits as of December 31, 2010 and 2009 on the consolidated balance sheets and cash equivalents at December 31, 2010 and 2009 on the consolidated statements of cash flows were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Cash and deposits	**¥43,627**	¥62,514	**$535,369**
Original maturities more than three months	**(169)**	(7)	**(2,068)**
Cash and cash equivalents	**¥43,459**	¥62,507	**$533,300**

(b) Significant non-cash transactions were as follows:
Finance lease assets acquired during the consolidated fiscal year ended December 31, 2010 and 2009 were ¥9,460 million (US$116,093 thousand) and ¥24,796 million, respectively.

6. FINANCIAL INSTRUMENTS

Effective from the year ended December 31, 2010, the Companies have applied "Accounting Standard for Financial Instruments" (ASBJ Statement No. 10, issued on March 10, 2008) and "Guidance on Disclosures about Fair Value of Financial Instruments" (ASBJ Guidance No. 19, issued on March 10, 2008).

(a) Overview

(1) Management policy relating to financial instruments

The Companies finance necessary long-term funds by bank loans and bond issues following the capital investment plans and finance short-term operating funds by bank loans and commercial paper. Temporary excess funds are invested exclusively in financial instruments which have fixed returns and low risk of falling below par values. The Companies use derivative transactions to hedge the following risks and do not enter into derivative transactions for speculative purposes.

(2) Types of financial instruments and related risks

Operating receivables, such as notes and accounts receivable, are exposed to credit risk. Foreign-currency-denominated accounts receivable incurred through exports are exposed to foreign currency fluctuation risk. However, the Companies hedge the risk by utilizing forward exchange contracts and currency swaps based on internal rules that set out foreign currency risk management principles.

Marketable securities and investment securities mainly consist of the stocks of partner companies to maintain and strengthen their business relationships and are exposed to market fluctuation risk.

Operating payables, such as notes and accounts payable, are due within one year. Foreign-currency-denominated accounts payable incurred through imports of raw materials are exposed to foreign currency fluctuation risk. The Companies hedge the risk by utilizing forward exchange contracts following internal rules that set out the foreign currency risk management principles. Short-term debt and commercial paper are mainly used to finance short-term operating funds, and long-term debts and bonds are mainly used to finance equipment funds. Since some of long-term debt is made up of variable interest rate loans, it is exposed to interest rate fluctuation risk. However, interest rate swaps are used for most loans to hedge the risk.

The Companies utilize derivative transactions, such as forward exchange contracts and currency swaps, to hedge the foreign currency fluctuation risk of operating receivables and payables denominated in foreign currencies and financing transactions dominated in foreign currencies. Interest rate swaps are utilized to hedge the interest rate fluctuation risk, and aluminum forward transactions are utilized to hedge the market fluctuation risk.

(3) Risk management relating to financial instruments

(i) Credit risk management (risk of default by the counterparties)

The Company follows internal rules that set out accounts receivable management principles. The compliance department works with the sales division in each sector and monitors the customers' credit conditions periodically and reviews the sales policy checking the sales volume and balances. The Company takes measures to obtain information on and minimize the credit risk that may arise due to the deterioration in the financial condition of their customers. Consolidated subsidiaries monitor their customers' financial and credit conditions based on their internal rules.

There is no material credit risk of held-to-maturity debt securities as they are limited to only highly rated securities.

The Companies utilize derivative transactions only with creditworthy financial institutions and trading companies to minimize credit risk.

The maximum credit risk as of December 31, 2010 is disclosed as the balance sheet amount of financial instruments exposed to credit risk.

(ii) Market risk management (risk of fluctuations in foreign currency and interest rates)

For operating receivables and payables and loans denominated in foreign currencies, the Company and certain consolidated subsidiaries utilize forward exchange contracts and currency swaps to hedge some of the foreign currency fluctuation risk, which is categorized by currency and maturity date. The Company and certain consolidated subsidiaries utilize currency swaps to hedge interest rate fluctuation risk of loans.

For marketable securities and investment securities, the Companies regularly review the fair value and issuers' financial condition and review the Companies' portfolio on an ongoing basis, except for held-to-maturity debt securities according to market conditions and the business relationships with counterparties.

The Company has internal management rules that set out the approval authorities and procedures of the derivative transactions.

The derivative transactions are carried out based on the appropriate approver set out in the internal rules. For currency-related derivative transactions, each division and the treasury department perform and manage transactions and report to the director in charge periodically. For interest-related derivative transactions, the treasury department performs and manages the transactions and reports to the director in charge periodically. For commodity-related derivative transactions, each division performs and manages the transactions and reports to the director in charge periodically. Consolidated subsidiaries perform and manage derivative transactions based on their internal management standards.

(iii) Liquidity risk management (risk of default on payment due dates)

The Company manages liquidity risk by requiring the treasury department to prepare and update cash plans, based on the schedule for cash inflows and disbursements in each division. In addition, the Company signs commitment line contracts and makes other arrangements with financial institutions to secure the necessary liquidity. Consolidated subsidiaries manage their liquidity risk through similar procedures.

(4) Supplemental explanation on fair value of financial instruments

As well as the values being based on market prices, fair value of financial instruments includes values, which are reasonably calculated in case market prices do not exist. As the calculation of those values uses certain assumptions, those values may vary in the case of different assumptions being applied. Also, for the contract amount and others regarding derivative transactions described in Note 8. DERIVATIVE FINANCIAL INSTRUMENTS, the contract amount itself does not indicate market risk related to derivative transactions.

(b) Fair Value of Financial Instruments

At December 31, book value, fair value and difference were as follows.

The financial instruments whose fair value is extremely difficult to determine are not included below.

Year ended December 31, 2010	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and deposits	**¥ 43,627**	**¥ 43,627**	**¥ —**
(2) Notes and accounts receivable	**135,611**	**135,611**	**—**
(3) Marketable securities and investment securities	**33,250**	**33,250**	**(0)**
Total assets	**¥212,489**	**¥212,489**	**¥ (0)**
(1) Notes and accounts payable	**¥114,234**	**¥114,234**	**¥ —**
(2) Short-term debt	**73,721**	**73,721**	**—**
(3) Current portion of long-term debt	**59,852**	**60,115**	**263**
(4) Commercial paper	**6,000**	**6,000**	**—**
(5) Current portion of bonds	**3,000**	**3,000**	**—**
(6) Accounts payable–other	**46,811**	**46,811**	**—**
(7) Bonds	**30,000**	**30,400**	**400**
(8) Long-term debt	**178,461**	**179,993**	**1,533**
Total liabilities	**¥512,079**	**¥514,274**	**¥2,195**
Derivative transactions*	**¥ 389**	**¥ 389**	**¥ —**

Year ended December 31, 2010	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(1) Cash and deposits	**$ 535,369**	**$ 535,369**	**$ —**
(2) Notes and accounts receivable	**1,664,149**	**1,664,149**	**—**
(3) Marketable securities and investment securities	**408,026**	**408,025**	**(0)**
Total assets	**$2,607,543**	**$2,607,543**	**$ (0)**
(1) Notes and accounts payable	**$1,401,815**	**$1,401,815**	**$ —**
(2) Short-term debt	**904,668**	**904,668**	**—**
(3) Current portion of long-term debt	**734,475**	**737,700**	**3,225**
(4) Commercial paper	**73,629**	**73,629**	**—**
(5) Current portion of bonds	**36,814**	**36,814**	**—**
(6) Accounts payable–other	**574,432**	**574,432**	**—**
(7) Bonds	**368,143**	**373,052**	**4,909**
(8) Long-term debt	**2,189,972**	**2,208,779**	**18,807**
Total liabilities	**$6,283,948**	**$6,310,889**	**$26,941**
Derivative transactions*	**$ 4,777**	**$ 4,777**	**$ —**

* Derivative assets and liabilities are on a net basis.

Notes: 1. Valuation method for financial instruments and information on marketable securities and derivative transactions

• Assets

(1) Cash and deposits and (2) Notes and accounts receivable

The book value is deemed to approximate the fair value since these are scheduled to be settled in a short period of time.

(3) Marketable securities and investment securities

Fair value of these securities is based on the price on stock exchanges. Refer to Note 7. SECURITIES regarding the securities categorized by holding purposes.

• Liabilities

(1) Notes and accounts payable, (2) Short-term debt, (4) Commercial paper, and (6) Accounts payable–other

The book value is deemed to approximate the fair value since these are scheduled to be settled in a short period of time.

(3) Current portion of long-term debt and (8) Long-term debt

The fair value is measured as the net present value of estimated cash flows by discounting the principal and interest value using the interest rate applied to the new loans. Part of the long-term loans are variable rate loans, and they are subject to special treatment of interest rate swaps (refer to Note 8. DERIVATIVE FINANCIAL INSTRUMENTS); the fair value is measured as the net present value of estimated cash flows by discounting the total amount of principal and interest processed as interest rate swaps using the interest rate applied to the new loans.

(5) Current portion of bonds and (7) Bonds

As for bonds with short maturities, the book value is deemed to approximate the fair value since these are scheduled to be settled in a short period of time. For others, fair value is based on the market prices.

• Derivative transactions

Refer to Note 8. DERIVATIVE FINANCIAL INSTRUMENTS.

2. Financial instruments for which fair value is extremely difficult to determine

Year ended December 31, 2010	Millions of yen	Thousands of U.S. dollars
Non-listed equity securities	**¥25,565**	**$313,715**

These securities are not included in the above (3) Marketable securities and investment securities, as there was no quoted market value, estimating the future cash flows is deemed to be practically impossible and it is extremely difficult to determine the fair value.

3. The redemption schedule for financial assets and securities with maturities

Year ended December 31, 2010	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 43,627	¥—	¥—	¥—
Notes and accounts receivables	135,603	9	—	—
Marketable securities and investment securities:				
Held-to-maturity debt securities				
Government and local bonds and others	2	5	—	—
Available-for-sale securities with maturities				
Corporate bond	—	73	—	—
Total	¥179,232	¥87	¥—	¥—

Year ended December 31, 2010	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	$ 535,369	$ —	$—	$—
Notes and accounts receivables	1,664,042	106	—	—
Marketable securities and investment securities:				
Held-to-maturity debt securities				
Government and local bonds and others	25	61	—	—
Available-for-sale securities with maturities				
Corporate bond	—	896	—	—
Total	$2,199,436	$1,063	$—	$—

4. The scheduled maturities of bonds and long-term debt after December 31, 2010
Refer to Note 10. SHORT-TERM DEBT AND LONG-TERM DEBT.

7. SECURITIES

The tables that follow summarize acquisition cost, book value and fair value of marketable securities as of December 31, 2010 and 2009.

(a) Held-to-maturity debt securities

Year ended December 31, 2010	Millions of yen		
	Book value	Fair value	Difference
Held-to-maturity debt securities whose fair value exceeds their book value			
Local government bonds	¥—	¥—	¥—
Held-to-maturity debt securities whose fair value does not exceed their book value			
Local government bonds	7	7	(0)
Total	¥ 7	¥ 7	¥ (0)

Year ended December 31, 2010	Thousands of U.S. dollars		
	Book value	Fair value	Difference
Held-to-maturity debt securities whose fair value exceeds their book value			
Local government bonds	$—	$—	$—
Held-to-maturity debt securities whose fair value does not exceed their book value			
Local government bonds	85	84	(0)
Total	$85	$84	$ (0)

(b) Available-for-sale securities

Year ended December 31, 2010	Millions of yen		
	Book value	Acquisition cost	Difference
Available-for-sale securities whose book value exceeds their acquisition cost			
Equity securities	**¥18,608**	**¥14,593**	**¥ 4,015**
Corporate bond	**91**	**73**	**18**
Available-for-sale securities whose book value is less than their acquisition cost			
Equity securities	**14,544**	**19,807**	**(5,263)**
Total	**¥33,243**	**¥34,473**	**¥(1,230)**

Note: Non-listed equity securities with book value of ¥4,423 million ($54,277 thousand) are not included in the above table, as there was no quoted market value and it is extremely difficult to determine the fair value.

Year ended December 31, 2009	Millions of yen		
	Book value	Acquisition cost	Difference
Available-for-sale securities whose book value exceeds their acquisition cost			
Equity securities	¥33,137	¥25,765	¥7,372
Corporate bond	104	75	29
Available-for-sale securities whose book value is less than their acquisition cost			
Equity securities	6,578	7,394	(816)
Total	¥39,819	¥33,234	¥6,585

Year ended December 31, 2010	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Available-for-sale securities whose book value exceeds their acquisition cost			
Equity securities	**$228,347**	**$179,077**	**$ 49,270**
Corporate bond	**1,117**	**896**	**221**
Available-for-sale securities whose book value is less than their acquisition cost			
Equity securities	**178,476**	**243,060**	**(64,585)**
Total	**$407,940**	**$423,034**	**$(15,094)**

(c) The following tables summarized available-for-sale securities sold in the years ended December 31, 2010 and 2009:

Year ended December 31, 2010	Millions of yen		
	Sale	Gross gain	Gross loss
Equity securities	**¥242**	**¥66**	**¥30**

Year ended December 31, 2009	Millions of yen		
	Sale	Gross gain	Gross loss
Equity securities	¥18,855	¥4,551	¥—

Year ended December 31, 2010	Thousands of U.S. dollars		
	Sale	Gross gain	Gross loss
Equity securities	**$2,970**	**$810**	**$362**

(d) The following table summarized book values of securities with no quoted market values as of December 31, 2010 and 2009:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	2010
Held-to-maturity debt securities			
Local government bonds	¥—	¥ 9	$—
Available-for-sale securities			
Non-listed equity securities	—	4,463	—
Total	¥—	¥4,472	$—

Note: Effective from the year ended December 31, 2010, local government bonds are listed in (a) Held-to-maturity debt securities and non-listed equity securities are listed in (b) Available-for-sale securities.

(e) The following table summarized marketable securities with maturities and held-to-maturity debt securities at December 31, 2009 (all securities have a maturity of 10 years or less):

Year ended December 31, 2009	Millions of yen		
	Within 1 year	Over 1 year but within 5 years	Over 5 years but within 10 years
Local government bonds	¥ 2	¥ 7	¥ 0
Corporate bond	—	104	—
Total	¥ 2	¥111	¥ 0

Note: Refer to Note 6. FINANCIAL INSTRUMENTS for the related information for the year ended December 31, 2010.

(f) Value of securities written off due to impairment

During the fiscal year under review, the Company recorded ¥26 million (US$319 thousand) in impairment losses on available-for-sale securities with fair values on a consolidated basis.

Securities are deemed to be “substantially declined” when their fair values have declined 30% or more. When their fair values have declined 50% or more, the impairment losses are recorded on those securities. When their fair values have declined between 30% and 50%, the impairment losses are recorded on those securities unless such values are considered to be recoverable on an individual basis.

8. DERIVATIVE FINANCIAL INSTRUMENTS

As of December 31, 2010

(a) Derivative transactions to which hedge accounting is not applied

As of December 31, 2010	Millions of yen				Thousands of U.S. dollars			
	Contract amount	Contract amount over 1 year	Fair value	Valuation gain (loss)	Contract amount	Contract amount over 1 year	Fair value	Valuation gain (loss)
(1) Currency related:								
Forward exchange contracts:								
Selling								
U.S. dollar	**¥6,200**	**¥ —**	**¥144**	**¥144**	**$76,084**	**$ —**	**$1,766**	**$1,766**
Currency swaps:								
Receipt Singapore dollar								
Payment U.S. dollar	**1,722**	**—**	**267**	**267**	**21,129**	**—**	**3,275**	**3,275**
(2) Interest rate related:								
Interest rate swaps:								
Receipt—variable rate/Payment—fixed rate	**5,350**	**3,643**	**(77)**	**(77)**	**65,650**	**44,708**	**(940)**	**(940)**

Note: Fair value calculation method: Fair values of forward exchange contracts are stated by the forward exchange rates. Fair values of currency and interest rate swaps are measured at the quoted price obtained from the financial institutions.

(b) Derivative transactions to which hedge accounting is applied

As of December 31, 2010	Millions of yen			Thousands of U.S. dollars		
	Contract amount	Contract amount over 1 year	Fair value	Contract amount	Contract amount over 1 year	Fair value
(1) Currency related:						
Principle method						
Forward exchange contracts:						
Buying						
U.S. dollar	¥ 9,268	¥ 1,939	¥(705)	$ 113,735	$ 23,796	$(8,652)
Euro	12	—	(0)	147	—	(1)
Selling						
U.S. dollar	6,557	—	160	80,469	—	1,966
Euro	979	—	41	12,015	—	502
Allocation method						
Forward exchange contracts:						
Buying						
U.S. dollar	¥ 11,056	¥ —	¥ —	$ 135,669	$ —	$ —
Euro	4	—	—	54	—	—
Selling						
U.S. dollar	15,727	—	—	192,990	—	—
Euro	1,199	—	—	14,715	—	—
Singapore dollar	1	—	—	8	—	—
Thai baht	1	—	—	6	—	—
(2) Interest rate related:						
Special method						
Interest rate swaps:						
Receipt—variable rate/Payment—fixed rate	¥127,170	¥92,828	¥ —	$1,560,560	$1,139,128	$ —
(3) Commodity related:						
Principle method						
Aluminum forward contracts:						
Buying	¥ 20,652	¥12,407	¥ 599	$ 253,428	$ 152,257	$ 7,350
Selling	1,323	—	(41)	16,230	—	(502)

Notes: 1. Main items hedged by forward exchange contracts are accounts payable for buying, accounts receivable for selling and long-term debt by interest rate swaps. Main items hedged by aluminum forward transactions are aluminum metal transactions.
2. Fair value calculation method: Fair values of forward exchange contracts are stated by the forward exchange rates. Fair values of currency swaps are measured at the quoted price obtained from the financial institutions. Fair value of aluminum forward transactions are stated by forward quotations of the London Metal Exchange.
3. Fair values of forward exchange contracts that meet allocation method criteria are reflected in the fair values of accounts receivable and accounts payable of their hedged items.
4. Fair values of interest rate swaps that meet special treatment criteria are reflected in the fair values of long-term debt of their hedged item.

As of December 31, 2009

The Company and certain subsidiaries enter into forward exchange contracts, currency swaps, interest rate swaps and commodity forwards for aluminum metal. The Company and its subsidiaries have a basic policy of using derivative financial instruments for risk hedging within the limit of hedged receivables and payables and do not hold or issue derivative financial instruments for speculation purposes. Forward exchange contracts and currency swaps are used to hedge risk arising from future fluctuations of foreign currency exchange with respect to receivables and payables denominated in foreign currencies.

Interest rate swaps are used to hedge risk arising from future fluctuations of interest rates and stabilize interest expenses. Commodity forwards for aluminum metal are used to hedge risk arising from future fluctuations of commodity market price with respect to commodity transactions.

At December 31, 2009, contract amounts, fair value and valuation gain on the derivative transactions, except those accounted for using hedge accounting, were as follows:

As of December 31, 2009	Millions of yen		
	Contract amount	Fair value	Valuation gain (loss)
(1) Currency related:			
Forward exchange contracts:			
Buying			
U.S. dollar	¥ 61	¥ 57	¥ (4)
Selling			
U.S. dollar	2,738	2,709	(29)
Currency swaps:			
Receipt Singapore dollar			
Payment U.S. dollar	¥3,892	¥ 177	¥177
Receipt yen			
Payment U.S. dollar	—	—	—
(2) Interest rate related:			
Interest rate swaps:			
Receipt—variable rate/Payment—fixed rate	¥2,210	¥ (19)	¥ (19)
(3) Commodity related:			
Aluminum forward contracts:			
Buying	¥ 63	¥ 57	¥ (6)

9. EFFECT OF YEAR-END DATE ON FINANCIAL STATEMENTS

The year-end date of 2010, namely, December 31, 2010, was a bank holiday. Although notes receivable and payable maturing on this date were accordingly settled on January 4, 2011, the Companies accounted for those notes in their financial statements as if they had been settled on the maturity date.

Notes outstanding at December 31, 2010 and 2009 dealt with in the above-mentioned manner were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Notes receivable	**¥498**	¥377	**$ 6,108**
Notes payable	**872**	594	**10,701**

10. SHORT-TERM DEBT AND LONG-TERM DEBT

At December 31, 2010 and 2009, the short-term debt of the Companies consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Bank loans at the average interest rate of 0.79%	**¥73,721**	¥74,601	**$904,668**
Commercial paper	**6,000**	15,000	**73,629**
Total	**¥79,721**	¥89,601	**$978,296**

At December 31, 2010 and 2009, the long-term debt of the Companies consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
1.36% bonds due 2010	**¥ —**	¥ 3,000	**$ —**
1.32% bonds due 2010	**—**	10,000	**—**
1.81% bonds due 2012	**10,000**	10,000	**122,714**
1.49% bonds due 2012	**10,000**	10,000	**122,714**
0.88% bonds due 2015	**10,000**	—	**122,714**
2.05% bonds due 2011	**3,000**	3,000	**36,814**
¥24,000,000,000 subordinated convertible bonds due 2014	**24,000**	24,000	**294,515**
Loans principally from banks and insurance companies due 2011 to 2017 at the average interest rate of 1.10%	**238,313**	248,310	**2,924,446**
	295,313	308,310	**3,623,918**
Elimination of intercompany transaction	**(24,000)**	(24,000)	**(294,515)**
Less: Current portion	**(62,852)**	(72,862)	**(771,289)**
Total	**¥208,461**	¥211,448	**$2,558,115**

Note: Information on bonds with stock acquisition rights is as follows:

Bonds	¥24,000,000,000 subordinated convertible bonds due 2014
Kind of stock	The Company's common stock
Issue price of rights (¥)	No cost
Issue price (¥)	¥291 per share
Total amount of issue (¥)	¥24,000,000,000
Total amount of stock acquisition rights exercised (¥)	—
Percentage of stock acquisition rights granted (%)	100
Exercisable period	October 15, 2009 to October 21, 2014

Note: When stock acquisition rights are exercised, the corresponding bonds with such acquisition rights are all invested. The prices of such bonds are deemed to be their face value. The initial conversion price was ¥291.

The aggregate annual maturities of the noncurrent portion of long-term debt were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2012	**¥ 78,720**	**$ 966,009**
2013	**45,555**	**559,022**
2014	**34,876**	**427,979**
2015	**46,146**	**566,278**
2016 and thereafter	**3,164**	**38,827**
Total	**¥208,461**	**$2,558,115**

At December 31, 2010 and 2009, the following assets were pledged as collateral for long-term debt:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Assets pledged as collateral			
Investment securities	**¥ 818**	¥ 786	**$ 10,042**
Property, plant and equipment, less accumulated depreciation	**171,863**	176,658	**2,109,003**
Total	**¥172,681**	¥177,443	**$2,119,044**
Secured short-term debt and long-term debt			
Long-term debt (includes due within 1 year)	**¥ 1,447**	¥ 2,690	**$ 17,757**
Other debt	**968**	1,100	**11,879**
Total	**¥ 2,415**	¥ 3,790	**$ 29,636**

11. PROVISION FOR RETIREMENT BENEFITS

(a) The plans' funded status and amount recognized on the accompanying consolidated balance sheets as of December 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Benefit obligation at the end of year	**¥(100,734)**	¥(109,080)	**$(1,236,154)**
Fair value of plan assets at the end of year	**56,812**	62,360	**697,167**
Funded status	**(43,922)**	(46,720)	**(538,988)**
Unrecognized actuarial loss	**21,665**	24,500	**265,858**
Unrecognized prior service cost	**(3,829)**	(4,676)	**(46,985)**
Net amount recognized	**(26,086)**	(26,896)	**(320,114)**
Prepaid pension expense	**209**	191	**2,560**
Provision for retirement benefits	**¥ (26,295)**	¥ (27,088)	**$ (322,674)**

(b) The components of net retirement benefit costs for the years ended December 31, 2010 and 2009 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Service cost	**¥2,507**	¥2,741	**$30,763**
Interest cost	**2,129**	2,273	**26,131**
Expected return on plan assets	**(1,151)**	(1,416)	**(14,129)**
Recognized actuarial loss	**3,916**	3,961	**48,050**
Prior service cost	**(774)**	(779)	**(9,504)**
Net periodic cost	**6,626**	6,780	**81,311**
Cost for defined contribution plan	**209**	220	**2,568**
Total	**¥6,835**	¥7,000	**$83,879**

(c) The assumptions and basis as of December 31, 2010 and 2009 were as follows:

	2010	2009
Discount rate	**Mainly 2.0%**	Mainly 2.0%
Expected rate of return on plan assets	**Mainly 2.0%**	Mainly 2.5%
Amortization period for actuarial loss	**Mainly 12 years**	Mainly 12 years
Amortization period for prior service cost	**Mainly 12 years**	Mainly 12 years

12. INCOME TAXES

(a) At December 31, 2010 and 2009, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets			
Tax loss carryforwards	**¥24,916**	¥23,275	**$305,757**
Provision for retirement benefits	**10,617**	11,061	**130,287**
Write-down of marketable and investment securities	**7,665**	7,538	**94,056**
Impairment loss	**5,961**	6,276	**73,148**
Depreciation and amortization	**2,001**	2,165	**24,559**
Unrealized earnings from the sale of fixed assets	**1,158**	1,243	**14,214**
Allowance for doubtful accounts	**836**	597	**10,264**
Provision for bonuses	**719**	636	**8,824**
Loss on valuation of inventories	**657**	855	**8,061**
Loss on valuation of golf course memberships	**632**	687	**7,758**
Enterprise tax and business office tax payable	**372**	205	**4,569**
Provision for repairs	**322**	1,376	**3,954**
One-time write-off assets	**199**	226	**2,436**
Directors' retirement benefits payable	**—**	173	**—**
Deferred gains or losses on hedges	**—**	152	**—**
Other	**2,881**	2,461	**35,353**
Subtotal of deferred tax assets	**58,937**	58,924	**723,238**
Valuation allowance	**(21,051)**	(21,848)	**(258,322)**
Total deferred tax assets	**37,886**	37,077	**464,916**
Deferred tax liabilities			
Amount of revaluation from the book value	**(4,971)**	(4,971)	**(61,006)**
Foreign subsidiaries' undistributed retained earnings	**(1,402)**	—	**(17,205)**
Special depreciation reserve	**(1,273)**	(1,609)	**(15,624)**
Valuation difference on available-for-sale securities	**(1,233)**	(2,639)	**(15,125)**
Reserve for advanced depreciation of fixed assets	**(623)**	(825)	**(7,640)**
Other	**(597)**	(1,550)	**(7,326)**
Total deferred tax liabilities	**(10,099)**	(11,594)	**(123,926)**
Net deferred tax assets	**¥27,787**	¥25,482	**$340,990**

(b) The net deferred tax assets at December 31, 2010 and 2009 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Deferred tax assets—current	**¥ 3,309**	¥ 4,631	**$ 40,606**
Deferred tax assets—noncurrent	**27,462**	27,671	**337,004**
Other current liabilities	**(11)**	—	**(130)**
Deferred tax liabilities—noncurrent	**(2,974)**	(6,819)	**(36,489)**

(c) Significant items in the reconciliation of the normal income tax rate to the effective rate at December 31, 2010 and 2009 were as follows:

	2010
Normal income tax rate in Japan	**40.7%**
Amortization of goodwill	**2.5**
Differences of statutory tax rate in subsidiaries	**(15.9)**
Elimination of dividend income through subsidiaries and other	**(4.0)**
Equity in earnings of non-consolidated subsidiaries	**(2.5)**
Other	**3.4**
Effective tax rate	**24.2%**

Note: The information for 2009 is omitted as a loss before income taxes and minority interests was posted during the period.

13. IMPAIRMENT LOSS

At December 31, 2010, major losses on impairment of fixed assets were as follows:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
Oita City, Oita Prefecture	Idle assets, etc.	Investments and other assets, etc.	**¥2,278**	**$27,958**
Hikone City, Shiga Prefecture	Welfare facilities, etc.	Land and buildings, etc.	**422**	**5,173**
Yokohama City, Kanagawa Prefecture	Production facilities	Machinery and equipment, etc.	**406**	**4,982**
Ichihara City, Chiba Prefecture	Welfare facilities, etc.	Land and buildings, etc.	**397**	**4,866**
Aizuwakamatsu City, Fukushima Prefecture	Idle assets, etc.	Machinery and equipment, etc.	**254**	**3,114**
Other			**854**	**10,483**
Total			**¥4,610**	**$56,577**

14. INFORMATION FOR CERTAIN LEASES

(a) Finance Leases as a Lessee

Finance lease transactions other than those involving transfer of ownership to the lessee

(1) Type of leased assets

a) Tangible fixed assets: Principally equipment for manufacturing hard discs and steam-powered electric generation equipment (machinery and equipment)

b) Intangible fixed assets: Software

(2) Method of depreciation: The depreciation method of leased assets is described in the sub-section "2. (h) Property, Plant and Equipment" within the section "Summary of Significant Accounting Policies."

Please note that finance lease transactions other than those involving transfer of ownership to the lessee, which started on or before December 31, 2008, are accounted for in the same manner as operating lease transactions. The content of such transactions is as follows:

At December 31, 2010 and 2009, assets leased under non-capitalized financial leases were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Machinery and equipment	**¥11,168**	¥14,701	**$137,045**
Other	**74**	319	**908**
Less: Accumulated depreciation and amortization	**(7,448)**	(8,921)	**(91,392)**
Less: Accumulated impairment loss	**(104)**	(111)	**(1,277)**
Total	**¥ 3,690**	¥ 5,988	**$ 45,285**

At December 31, 2010 and 2009, future minimum lease payments for the remaining lease periods were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥1,449**	¥2,279	**$17,776**
Due over one year	**2,276**	3,802	**27,927**
Total	**¥3,724**	¥6,080	**$45,704**

At December 31, 2010 and 2009, paid lease fees and equivalent depreciation expense amounts were as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Paid lease fees	**¥2,207**	¥3,045	**$27,079**
Amortization expense fees	**61**	16	**750**
Equivalent depreciation expense fees	**2,207**	3,045	**27,079**
Impairment loss on leased assets	**¥ —**	¥ 111	**$ —**

Note: Equivalent depreciation expense amounts are calculated using the straight-line method, with the lease period as the useful life and zero (0) as the residual value.

(b) Operating Leases as a Lessee

At December 31, 2010 and 2009, assets leased under non-capitalized operating leases were as follows:

Future minimum lease payments for the remaining lease periods:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥ 392**	¥ 915	**$ 4,809**
Due over one year	**1,753**	1,868	**21,506**
Total	**¥2,144**	¥2,784	**$26,315**

(c) Operating Leases as a Lessor

At December 31, 2010 and 2009, noncancelable operating lease receivables for the remaining lease periods were as follows:

Future minimum lease receivables for the remaining lease periods:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Due within one year	**¥ 277**	¥ 175	**$ 3,402**
Due over one year	**2,486**	2,107	**30,512**
Total	**¥2,764**	¥2,283	**$33,914**

15. CONTINGENT LIABILITIES

At December 31, 2010 and 2009, the Companies were guarantors for the borrowings below. The guarantees were principally for non-consolidated subsidiaries, affiliates and others.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Guarantees	**¥2,792**	¥5,921	**$34,266**

As the amounts include joint and several guarantors' portions as well as the Companies', the actual amounts that the Companies were contingently liable to pay were smaller than the above.

16. NET ASSETS

The Corporation Law of Japan (the "Law") provides that the entire amount paid for new shares may be credited to the stated capital, with the provision that, by resolution of the Board of Directors, up to one-half of such amount paid for new shares may be credited to additional paid-in capital, which is included in capital surplus.

The Law provides that an amount equal to 10% of cash appropriations of retained earnings shall be set aside as additional paid-in capital or a legal earnings reserve until the total of such reserve and additional paid-in capital equals 25% of the stated capital. Additional paid-in capital and the legal earnings reserve may be used to eliminate or reduce a deficit, if any, or be capitalized by resolution at the Ordinary General Meeting of Shareholders. All additional paid-in capital and the legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. Additional paid-in capital and the legal earnings reserve are included in capital surplus and retained earnings, respectively.

The Law does not have a definition about the classification of paid-in capital between common stock and preferred stock. Accordingly, the Company states its capital in the total amount paid by issuing common stock and preferred stock.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with Japanese laws and regulations.

17. REVALUATION RESERVE FOR LAND

The Company and some of its consolidated subsidiaries revalued the land they own for business in accordance with the Law concerning Revaluation of Land. The difference between the revalued amount and the book value, after the deduction of applicable tax, is stated as a land revaluation reserve. The revaluation was conducted using methods stipulated in the ordinance for enforcement of the law, specifically, the method in Item 4 of Article 2 (Reasonable Adjustment of the Appraised Value Relating to Land Price Tax), and the method in Item 5 of Article 2 (Estimation by Experts). The excess of the carrying amount of the revalued land over the market value at December 31, 2010 was ¥65,249 million (US$800,697 thousand).

18. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2010 and 2009 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Freight	**¥19,183**	¥17,270	**$ 235,398**
Employees' compensation	**19,567**	20,001	**240,113**
Other	**49,456**	48,149	**606,902**
Total	**¥88,206**	¥85,420	**$1,082,413**

Research and development expenses included in this summary for the years ended December 31, 2010 and 2009 were ¥20,608 million (US$252,885 thousand) and ¥20,722 million, respectively.

19. RESEARCH AND DEVELOPMENT

Research and development costs included in manufacturing costs, general and administrative expenses for the years ended December 31, 2010 and 2009 were ¥20,670 million (US$253,650 thousand) and ¥20,743 million, respectively.

20. SEGMENT INFORMATION

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

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

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

Effective from the year ended December 31, 2009, the Companies have adopted the “Accounting Standard for Measurement of Inventories.”

As a result, compared with the corresponding amounts under the previous methods, operating income in Petrochemicals and Chemicals increased by ¥3,713 million and ¥382 million, respectively, and operating income in Inorganics decreased by ¥780 million. The operating loss in Electronics and Aluminum decreased by ¥381 million and ¥38 million, respectively.

Due to the amendment of the Corporation Tax Law of Japan, the Company and its consolidated domestic subsidiaries changed the useful life of some machinery and equipment effective from the consolidated fiscal year ended December 31, 2009.

As a result, compared with the corresponding amounts under the previous methods, operating income in Petrochemicals, Chemicals and Inorganics decreased by ¥219 million, ¥119 million and ¥305 million, respectively. The operating loss in Electronics and Aluminum increased by ¥105 million and ¥938 million, respectively.

Year ended December 31, 2010	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Elimination	Consolidated
Sales							
Outside customers	**$3,359,177**	**$1,103,481**	**$2,164,642**	**$ 924,514**	**$2,230,841**	**$ —**	**$ 9,782,656**
Inter-segment	**18,553**	**2,606**	**6,691**	**325**	**1,325**	**(29,500)**	**—**
Total	**3,377,731**	**1,106,087**	**2,171,333**	**924,839**	**2,232,166**	**(29,500)**	**9,782,656**
Operating costs	**3,317,878**	**1,061,307**	**1,991,916**	**811,087**	**2,118,057**	**7,230**	**9,307,475**
Operating income	**$ 59,852**	**$ 44,780**	**$ 179,417**	**$ 113,752**	**$ 114,109**	**$ (36,730)**	**$ 475,182**
Assets	**$2,591,534**	**$1,842,342**	**$2,334,992**	**$1,462,461**	**$2,184,093**	**$929,327**	**$11,344,749**
Depreciation and amortization	**99,189**	**91,570**	**284,917**	**39,611**	**111,906**	**(2,808)**	**624,384**
Impairment loss	**27,421**	**4,382**	**2,748**	**5,864**	**11,245**	**4,915**	**56,577**
Capital expenditures	**265,553**	**75,776**	**276,356**	**31,225**	**71,655**	**(8,394)**	**712,171**

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

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

Year ended December 31, 2009	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

Effective from the year ended December 31, 2009, the Companies have adopted the "Accounting Standard for Measurement of Inventories."

As a result, compared with the corresponding amounts under the previous methods, the operating loss in Japan decreased by ¥3,734 million.

Due to the amendment of the Corporation Tax Law of Japan, the Company and its consolidated domestic subsidiaries changed the useful life of some machinery and equipment effective from the consolidated fiscal year ended December 31, 2009.

As a result, compared with the corresponding amounts under the previous methods, the operating loss in Japan increased by ¥1,685 million.

Year ended December 31, 2010	Thousands of U.S. dollars				
	Japan	Asia	Others	Elimination	Consolidated
Sales					
Outside customers	**$8,089,728**	**$1,172,549**	**$520,380**	**$ —**	**$ 9,782,656**
Inter-segment	**302,847**	**72,204**	**15,067**	**(390,118)**	**—**
Total	**8,392,575**	**1,244,753**	**535,447**	**(390,118)**	**9,782,656**
Operating costs	**8,076,809**	**1,119,591**	**473,929**	**(362,854)**	**9,307,475**
Operating income	**$ 315,766**	**$ 125,162**	**$ 61,518**	**$ (27,264)**	**$ 475,182**
Assets	**$9,988,053**	**$1,116,118**	**$664,238**	**$(423,660)**	**$11,344,749**

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

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

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

Year ended December 31, 2010	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales	**$2,930,095**	**$612,854**	**$3,542,950**

21. BUSINESS COMBINATIONS (ITEMS RELATING TO BUSINESS COMBINATIONS)
For the year ended December 31, 2010
Transactions under common control

1. Name of the Combined Party, Description of Business, Legal Form of the Business Combination, Name of Company after Business Combination and Summary of Transaction, Including the Purpose of the Transaction
(1) Name of the combined party and description of its business
a) Showa Highpolymer Co., Ltd.
b) Business description: Manufacture and sale of synthetic resin, such as unsaturated polyester resin, emulsion polymerizing system resin, industrial phenolic resin, etc. and their by-products.

(2) Date of business combination
July 1, 2010

(3) Legal form of the business combination
Absorption-type merger proceeded with Showa Denko K.K. as a surviving company and Showa Highpolymer Co., Ltd. as a merging company.

(4) Name of company after business combination
Showa Denko K.K.

(5) Outline of other transactions
The Company had seeked synergetic effects of its business and the functional polymer business of Showa Highpolymer Co., Ltd., such as emulsions, unsaturated polyester resin, vinylester resin, phenolic resin and unsaturated polyester system compound material BMC (bulk molding compound) by acquiring 100% ownership of Showa Highpolymer Co., Ltd., effective September 1, 2006, and had produced a steady flow of successful results.

The Companies judged that the further growth and development of the thermoset material business, in particular, is achievable by merging the businesses in reactive functional material and functional monomer in the next medium-term management plan with the functional polymer business described above. Showa Highpolymer Co., Ltd. was merged with the Company because the judgment has been reached that it is the best decision to merge every management resource, such as human resources, technology, organization and investment, in order to further accelerate the growth of this business.

There is no new stock issued nor any money delivered as the result of this merger since the Company owns all of the outstanding stocks of Showa Highpolymer Co., Ltd.

2. Summary of Accounting Treatment
The business combination has been accounted for as a “transaction under common control” in accordance with “Accounting Standard for Business Combinations” (ASBJ Statement No. 21, issued on December 26, 2008) and “Revised Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures” (ASBJ Guidance No. 10, issued on December 26, 2008) and all transactions have been eliminated as internal transactions. Accordingly, there was no impact from this accounting treatment on the consolidated financial statements.

For the year ended December 31, 2009
The share exchange agreement to make Showa Tansan Co., Ltd. a wholly owned subsidiary of the Company:

On December 24, 2009, the Company made its consolidated subsidiary Showa Tansan Co., Ltd. a wholly owned subsidiary through an exchange of shares.

1. Name of the Combined Party, Description of Business, Legal Form of the Business Combination, Name of Company after Business Combination and Summary of Transaction, Including the Purpose of the Transaction
(1) Name of the combined party and description of its business
a) Showa Tansan Co., Ltd.
b) Manufacture and sales of liquefied carbon dioxide and dry ice, etc.

(2) Legal form of the business combination
Commonly controlled business combination (the share exchange to make Showa Tansan Co., Ltd. a wholly owned subsidiary of the Company)

(3) Name of company after business combination
There is no change to the company name.

(4) Summary of transaction, including the purpose of the transaction

a) The purpose of the share exchange

The purpose of the share exchange is to enhance the Companies' value and to accomplish their medium-to-long-term growth strategy.

By integrating the management and business operations of the Company and Showa Tansan Co., Ltd., the Company has established a framework to take advantage of both Companies' resources more swiftly and efficiently.

b) Dates of the share exchange

September 29, 2009: Concluded the share exchange agreement

December 3, 2009: Approved by the shareholders' meeting of a share exchange agreement

December 24, 2009: Effective date of the share exchange

2. Summary of Accounting Procedure

The business combination has been accounted for as a "transaction with minority shareholders" in accordance with the accounting standards, "Accounting Standards for Business Combinations" issued by the Business Accounting Council on October 31, 2003, Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures (ASBJ Guidance No. 10, as revised on November 15, 2007).

3. Acquisition Cost of the Wholly Owned Subsidiary

(1) Acquisition cost details

Common stock of the Company: ¥5,620 million

Expenses related to the acquisition (advisory expenses, etc.): ¥63 million

Total acquisition cost: ¥5,683 million

(2) Share exchange ratio by type of shares, methods of its calculation and number of issued shares and their amount

a) Allotment ratio of shares by type of shares

The Company issued 2.3 shares of its common stock for each share of Showa Tansan Co., Ltd.'s common stock. However, the Company did not issue any shares for the 12,174,478 shares of Showa Tansan Co., Ltd.'s common stock that the Company held.

b) Methods of calculation for the share exchange ratio

The share exchange ratio was determined through discussion between both parties considering the share exchange ratio determined by the third-party advisors.

c) Number of issued shares and their amount

Number of issued shares: 27,685,125 shares

Amount: ¥5,620 million

4. Details of Goodwill, Reason, Amortization Method and Amortization Period

(1) Goodwill amount

¥326 million

(2) Reason for the goodwill

The goodwill is the difference between the acquisition cost and the equity increased by this share exchange.

(3) Amortization method and period

Amortized using the straight-line method over five years

22. PRESENTATION OF GOODWILL AND NEGATIVE GOODWILL

Goodwill and negative goodwill are netted against each other. The pre-netted amounts as of December 31, 2010 and 2009 are shown below.

	Millions of yen		Thousands of U.S. dollars
	2010	2009	**2010**
Goodwill	**¥9,422**	¥11,238	**$115,620**
Negative goodwill	**(6,791)**	(7,406)	**(83,334)**
Net	**¥2,631**	¥ 3,832	**$ 32,285**

Report of Independent Certified Public Accountants

KPMG

Independent Auditors' Report

To the Board of Directors of Showa Denko K.K.

We have audited the accompanying consolidated balance sheets of Showa Denko K.K. (the "Company") and consolidated subsidiaries as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets and cash flows for the years then ended expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audit.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Showa Denko K.K. and consolidated subsidiaries as of December 31, 2010 and 2009, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2010 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

KPMG AZSA LLC

(KPMG AZSA LLC)
Tokyo, Japan
March 30, 2011

Major Subsidiaries and Affiliates (As of December 31, 2010)

Subsidiaries		
Name	**Ownership (%)*1**	**Main Product(s) or Business(es)**
PT. Showa Esterindo Indonesia	67.0	Ethyl acetate
Shoko Co., Ltd.*2 (T8090)	43.3	General trading
Showa Tansan Co., Ltd.	100.0	Liquefied carbon dioxide, dry ice
Showa Aluminum Can Corporation	100.0	Beer and soft drink cans
Showa Aluminum Corporation of America	100.0	Heat exchange equipment for automobiles, aluminum cylinders for laser beam printers
Showa Aluminum Czech, S.R.O.	100.0	Heat exchange equipment for automobiles
Grand Ocean—Showa Auto Air Conditioning (Dalian) Co., Ltd.	55.0	Heat exchange equipment for automobiles
Showa Denko Aluminum Trading K.K.	100.0	Aluminum products trading in western Japan
Showa Denko Carbon, Inc.	100.0	Graphite electrodes
Showa Denko Dalian Co., Ltd.	100.0	Aluminum cylinders for laser beam printers
Showa Denko HD Malaysia Sdn. Bhd.	100.0	Aluminum substrates for hard disks
Showa Denko HD Singapore Pte. Ltd.	100.0	Hard disks
Showa Denko HD Trace Corporation	98.4	Hard disks, aluminum substrates for hard disks
Showa Denko HD Yamagata K.K.	100.0	Hard disks
Showa Denko Kenzai K.K.	100.0	Plaster materials, fireproofing pipe, wall siding, etc.
Showa Denko Packaging Co., Ltd.	100.0	Packaging/containers for food, medicine, and electronic parts
SD Preferred Capital Ltd.	100.0	Preferred securities capital

*1 Proportion of ownership interest (direct or indirect) by Showa Denko K.K. and its subsidiaries in terms of the number of shares with exercisable voting rights
*2 Tokyo Stock Exchange listed company

As of December 31, 2010, Showa Denko K.K. had 40 consolidated subsidiaries, including the above.

Affiliates		
Name	**Equity Participation (%)**	**Main Product(s) or Business(es)**
Japan Polyethylene Corporation	42.0	High- and low-density polyethylene
SunAllomer Ltd.	50.0	Polypropylene and advanced polypropylene-based materials
Tokyo Liquefied Oxygen Co., Ltd.	35.0	Liquefied oxygen, nitrogen, and argon
Union Showa K.K.	50.0	Molecular sieves

As of December 31, 2010, Showa Denko K.K. had 17 subsidiaries or affiliates to which the equity method was applied.

Corporate Data

Investor Information

Regular General Meeting
The regular general meeting of shareholders was held on March 30, 2011.

Number of Shares Outstanding
1,497,112,926 at December 31, 2010

Number of Shareholders
115,152 at December 31, 2010

Classification of Stock
All stock issued by Showa Denko is common stock.

Stock Transfer Agent
Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome,
Chuo-ku, Tokyo 103-8670,
Japan

Shareholders by Sector (At December 31, 2010)

	Number of shares held (thousands)	%
Financial firms	657,760	43.94
Individuals	443,030	29.59
Foreign corporate entities, etc.	266,716	17.82
Japanese corporate entities	94,990	6.34
Securities firms	34,617	2.31
Total	1,497,113	100.00

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