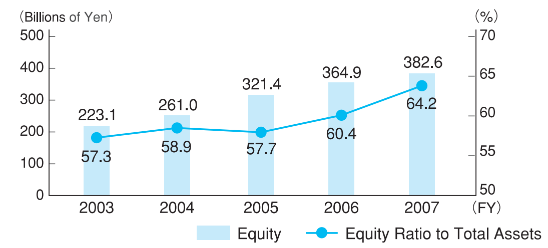
This was mainly attributable to the result of a payment of dividends, 12,485 million yen and a decrease in commercial paper, 10,000 million yen.

Equity & Equity Ratio to Total Assets



The following table shows the changes in the Group's cash flow indices:

	2004	2005	2006	2007
Equity ratio (%)	58.9	57.7	60.4	64.2
Equity ratio on a market value basis (%)	208.7	296.2	152.4	117.7
Debt redemption period (year)	0.3	0.3	0.6	0.2
Interest coverage ratio	169.0	92.1	57.1	57.6

Note 1. Respective indices are obtained by calculating the financial results on a consolidated basis with the following formulae:

Shareholders' equity ratio: shareholders' equity / total assets
Shareholders' equity ratio on a market value basis: total market value of shares / total assets
Debt redemption period: liabilities with interest / cash flow from operating activities
Interest coverage ratio: cash flow from operating activities / interest payment

2. Total market value of shares is obtained by multiplying the closing price of a share at the end of the year by the number of shares issued at the end of the first half, after deduction of treasury stock.

3. Cash flow from operating activities and interest payment used here are those included in the consolidated cash flow statement.

4. Liabilities with interest represent all the liabilities included in the consolidated balance sheet for which interest is paid.

6. Business and Other Risks

1 Optical Business (LCD-related products)

The Group's optical business, the core business of the Group, achieved the number one position in global market share. However, while demand for large-sized LCD TVs is anticipated to grow, however, there are many companies participating in this market and competition continues to be stiff. The Group, therefore, aims to expand its operations through the enhancement of technology superior to that of other companies and efficient investment in production facilities. Yet, an imbalance between the supply and demand conditions of panel manufactures, a sharp drop in prices, corporate reorganization among panel makers, intensified price competition due to new players entering the market, the under-capacity of material suppliers and sharp increases in material costs could all negatively affect the performance of the Group.

2 Business Operations in North America

All business operations in North America are operating in the black due to productivity improvements for industrial products and positive strides in the polymer separation membrane business. Looking forward, the Group aims to focus on the polymer separation membrane business and medical related products business while expanding sales of products for the automobile industry in hopes of further improving earnings. However, future events such as the deterioration of the environment surrounding its business brought about by a drop in private consumption by American consumers or a strain placed on investment, failure to receive FDA approval for transdermal therapeutic patches in the medical products business or the occurrence of unexpected costs related to the further selection and centralization of businesses could all negatively affect the performance of the Group.

3 Financial Standing of Our Customers

The Group works with customers who meet its strict financial criteria. However, the credit extended to customers of LCD-related products is significantly large compared with other businesses. If a default were to occur, the amount would tend to be quite significant.

4 Raw Material Vendors

For some key raw materials, the Group depends on specific vendors. Although it does endeavor to find multiple raw material vendors so as to reduce the risk of failure to procure key materials, failure to obtain the necessary key raw materials could negatively affect the performance of the Group.

5 Currency Fluctuations

The Group manufactures and markets its products across the world, therefore, its business is subject to fluctuations in exchange rates. The Group continues its efforts to limit the influence of such fluctuations in exchange rates among major currencies, including the U.S. dollar, Asian currencies and the yen, as well as any surge in crude oil prices. However, abrupt currency fluctuations and a prolonged surge in crude oil prices could negatively affect the performance of the Group.

6 Overseas Operations

The Group operates businesses in Europe, North America and Asia, actively pursuing global business operations by performing marketing activities and reducing production costs in each area. In Asia, especially, there are inherent unavoidable risks such as unanticipated changes to laws and ordinances, taxes and regulations, social disorder such as transportation delays and power outages due to incomplete social infrastructures, political disturbances, war and terrorism. The occurence of such events could negatively affect the performance of the Group.

7 New Product Development

There are severe requirements for technological innovation and cost competition in the area in which the Group operates its businesses. The Group continues to pursue new technologies and new product development, with research and development investment necessary for production process innovation, as well as plant and equipment investment based on its "Global Niche Top" strategy. However, it is not easy to accurately forecast changes in an industry in which market change is so drastic. It is possible that another company could unexpectedly develop new technology or a new product that renders a product of the Group obsolete. The occurrence of such an event exceeding contingency expectations could affect the management of the Company.

8 Intellectual Property

The Group owns, maintains and manages valuable intellectual property rights. However there is a possibility that a third party might claim these rights to be invalid and the Group might not enjoy complete protection. The Group's property may be imitated in some areas and may be involved in lawsuits. Intellectual property rights infringements could negatively affect the performance of the Group.

9 Product Defects

The Group manufactures products according to ISO 9000 quality standards and carries out quality management trusted by its customers. Although the Group has products approved as pharmaceuticals, such as its products for transdermal therapeutic patches, the business activities of the Group mainly involve transactions between companies of manufacturing materials. Although the possibility of the Group being forced to directly compensate end users for its products or to conduct a product recall are slim, the Group cannot completely eliminate the risk of liability associated with product defects. If compensation that exceeds the coverage of products liability insurance is required, it could negatively affect the performance of the Group.

10 Environmental Issues

The Group regards environmental preservation measures as one of its key business policies and has been acting from a standpoint of social responsibility as a means of reducing waste and preventing global warming and air pollution. The Group has not caused any serious environmental problems and publishes the fact that it uses large amounts of toluene in the PRTR (The Pollutant Release and Transfer Register) and in CSR reports. The Group established a voluntary reduction plan, which it duly observes, however, there is the possibility that the Group could incur significant expenses under environmental regulations that may be enacted in the future.

11 Laws and Regulations

The Group operates its business not only in Japan but also overseas where the Group is governed by the various laws and regulations of various countries and strives to abide by them. If these laws and regulations are strengthened or changed significantly, the activities of the Group may be limited or the Group may incur additional costs relating to compliance which could negatively affect the performance of the Group.

12 Accidents and Disasters

The Group carries out safety measures to protect itself from accidents and disasters by following a safety first policy. In particular, Japan has a high occurrence rate of earthquakes and if a large-scale earthquake occurred in a particular area, despite the existence of earthquake insurance, its coverage would be limited and could influence the performance of the Group. Moreover, if there were a massive outbreak of a new strain of influenza that threatened to spread across the world, it may not only influence the global economy, but also the performance of the Group.

13 Retirement Benefit Liability

Employee accrued benefit costs and liabilities of the Group are calculated on the basis of assumptions such as the discount rate and other actuarial calculations and expected returns of pension assets. When the actual results are different from the assumptions or when the assumptions are altered, effects will accumulate and be systematically recognized in the future. This may generally influence recognized costs and calculated liabilities in the future. If market interest rates go down or investment yields of pension assets deteriorate in the future, an increase in retirement benefit liability and a shortage of funds might occur and thus influence the business results of the Group.