

Outline of the Survey

1. Purpose of the survey

The purpose of the Survey of Trends in Business Activities of Foreign Affiliates is to understand the business trends of foreign affiliates in Japan to help push forward the country's industrial and trade policies.

2. Survey target

The survey covers enterprises (excluding those in the financial/insurance and real estate industries) that met the following conditions as of the end of March 2008.

- (1) Enterprises in which foreign investors hold more than one-third of the shares or equity interest.
- (2) Enterprises invested in by holding companies in which foreign investors hold more than one third of the shares or equity interest, and in which the ratio of combined direct and indirect investment by foreign investors exceeds one-third.

In both cases, it is necessary for the investment ratio of the main foreign investors to be 10% or greater.

(Note 1) A holding company refers to a corporation whose purpose is not to practice business activities, but to control several other companies by owning shares of such companies, and is involved in planning the management of the overall group.

(Note 2) Direct investment ratio means the ratio of a foreign investor's shares or equity interest to the total capital. Indirect investment ratio means the ratio of investment in a holding company by foreign investors multiplied by the ratio of the holding company's investment in the company in question.

3. Date

The survey was conducted on July 1, 2008, in connection with the business results for FY 2007 and the end of FY 2007.

4. Number of respondents

Respondents: 3,239 (2,921 in the previous survey)

Response rate: 63.8% (63.5% in the previous survey)

Instructions for Use

1. Definition of regions

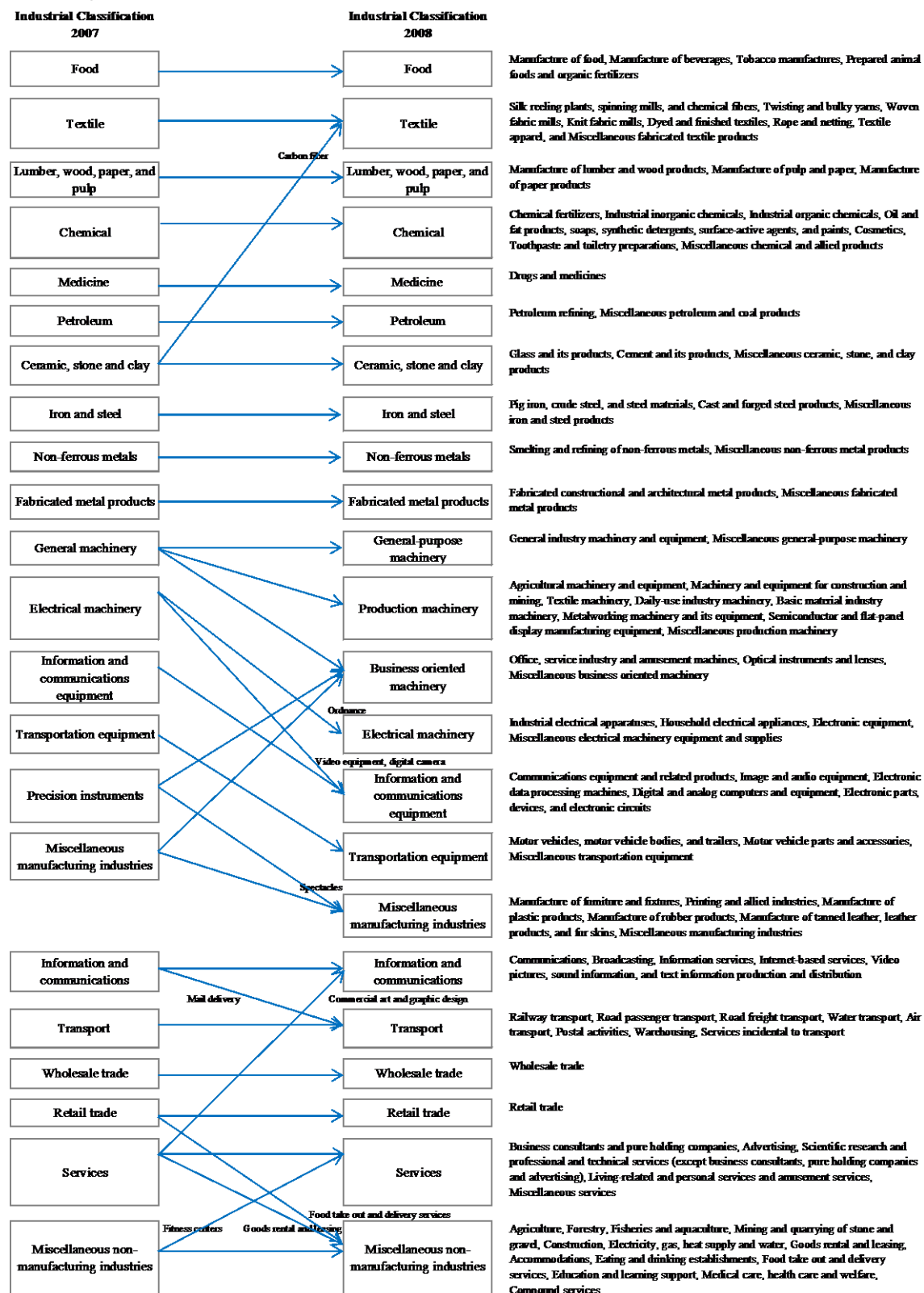
Unless otherwise specified, for the purpose of this survey, region of origin refers to the country or region where the foreign investor is located.

2. Block classification

Hokkaido block:	Hokkaido
Tohoku block:	Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
Kanto block:	Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Niigata, Yamanashi, Nagano, Shizuoka
Chubu block:	Aichi, Gifu, Mie, Toyama, Ishikawa
Kinki block:	Shiga, Kyoto, Osaka, Hyogo, Nara, Fukui, Wakayama
Chugoku block:	Tottori, Shimane, Okayama, Hiroshima, Yamaguchi
Shikoku block:	Tokushima, Kagawa, Ehime, Kochi
Kyushu block:	Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa

3. Classification of industries

- (1) The industrial classifications used in the survey are based on the Japan Standard Industrial Classification.
- (2) Following a revision made to the Japan Standard Industrial Classification in November 2007, the FY2007 survey was conducted using the revised classifications. Industry-by-industry figures published in the FY2006 survey have been recalculated using the new classifications.
- (3) Changes in industrial classification before and after the revision are shown below.



4. Note on survey results

- (1) Only valid answers are included. Therefore, the number of respondents varies per item.
- (2) When comparing the results of the current survey with previous surveys, it is necessary to note the differences in the response rate and the number of foreign affiliates covered, as some enterprises that fell outside the scope of previous surveys were included in the current survey, and vice versa.

- (3) Notes for the marks in tables and figures

The mark “x” signifies that the data have been suppressed because only either 1 or 2 enterprises fall under the category. This method is used even where figures are 3 or more, if disclosure of such figures would help identify the suppressed figures by calculation.

The mark “-” indicates that there is no relevant figure.

“0” shows that the figure is less than one unit.

The mark “···” indicates that the denominator is negative or the numerator is 0.

- (4) The sum of individual items may disagree with the given total, due to the numbers being rounded off to the nearest unit.

- (5) Year-on-year comparisons and ratios mentioned in the text have been calculated in millions of yen, the counting unit of this survey.

5. Ratio calculation formula

Ordinary profit to sales ratio= Ordinary profit/Sales × 100

Operating cost to sales ratio= (Cost of sales + Sales and administrative costs)/Sales × 100

Ratio of payroll to sales = Total payroll amount/Sales × 100

Ratio of equity to total assets = Shareholder equity/Total assets × 100

Rate of dependence on loans = Outstanding balance of loans/Total assets × 100

6. Miscellaneous

When reprinting the statistical figures given in this survey, the source must be cited as “Survey of Trends in Business Activities of Foreign Affiliates” (Ministry of Economy, Trade and Industry).

The 42nd Survey of Trends in Business Activities of Foreign Affiliates (Summary)

Trends among foreign affiliates in Japan in FY2007

- **Percentage of Asian affiliates gradually on the rise**
- **Over 80% have offices in the Kanto block**
- **Sales, ordinary profit, and capital investment grow**
- **Compared to incorporated enterprises as a whole, foreign affiliates continue to maintain their superiority in indices such as the ordinary profit to sales ratio, operating cost to sales ratio, ratio of equity to total assets, etc.**

Key points in the current survey:

- **Percentage of Asian affiliates gradually on the rise**
 - Asian affiliates accounted for 20.8% of the total, up 4.0% points from the previous fiscal year. Conversely, U.S affiliates experienced a decline of 3.4% points to account for 32.0% and European affiliates saw a decline of 1.0% point to 41.6%.
- **Over 80% have offices in the Kanto block**
 - Among companies that said they have offices in the Kanto block*, 65.5% have manufacturing and processing facilities, 68.7% have R&D facilities, 84.6% have headquarter offices, and 82.0% have business and sales offices.
- **Sales, ordinary profit, and capital investment grow**
 - Sales amounted to 39.5 trillion yen, up 11.5% from the previous fiscal year. The manufacturing sector posted an increase of 8.3%, and the non-manufacturing sector marked an increase of 16.0%. Medicine and transportation equipment recorded growth.
 - Ordinary profit reached 2.4 trillion yen, up 28.1% from the previous fiscal year. Both the manufacturing and non-manufacturing sectors showed growth.
 - Capital investment amounted to 1.6 trillion yen, up 36.5% from the previous fiscal year. The manufacturing sector saw a 37.9% rise, recording its fifth straight year of increase. The non-manufacturing sector posted an increase of 31.5%. Information and communications equipment, transportation equipment, and information and communications recorded increases.
- **Compared to incorporated enterprises as a whole, foreign affiliates continue to maintain their superiority in indices such as the ordinary profit to sales ratio, etc.**
 - Compared to incorporated enterprises as a whole, foreign affiliates maintained their superiority in indices such as the ordinary profit to sales ratio, operating cost to sales ratio, ratio of equity to total assets, etc.

*Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa, Niigata, Yamanashi, Nagano, and Shizuoka

- **The percentage of part-time workers declines; the percentage of dispatched workers rises**
 - The number of employees increased 6.2% from the previous fiscal year to 590,000. The manufacturing sector recorded a 3.1% rise, and the non-manufacturing sector saw growth of 8.3%.
 - The percentage of part-time workers in the manufacturing sector declined 0.9% points from the previous fiscal year to 4.7%, and that in the non-manufacturing sector was down 0.4% points to 56.1%.
 - The percentage of dispatched workers in the manufacturing sector was 11.2%, up 1.2% points from the previous fiscal year, and that in the non-manufacturing sector was 4.5%, up 0.7% points.

1. Distribution

- The survey as of the end of March 2008 covered 2,948 foreign affiliates, with 659 in the manufacturing sector and 2,289 in the non-manufacturing sector. The manufacturing sector accounted for 22.4% of all industries, down 2.8% from the previous fiscal year, while the non-manufacturing sector accounted for 77.6%, up 2.8% (Fig. 1-1 and Table 1-1).
- By industry, wholesale trade numbered the highest at 1,259, accounting for 42.7%, followed by information and communications, and services (Fig. 1-1).
- By region of origin, European affiliates reached 1,226, accounting for 41.6%, down 1.0% point from the previous fiscal year. U.S. affiliates came to 943 (32.0%, down 3.4% points), and Asian affiliates came to 612 (20.8%, up 4.0% points) (Table 1-1).
- The percentage of Asian affiliates is on the rise (Table 1-1).

Figure 1-1 Distribution of Foreign Affiliates by Industry

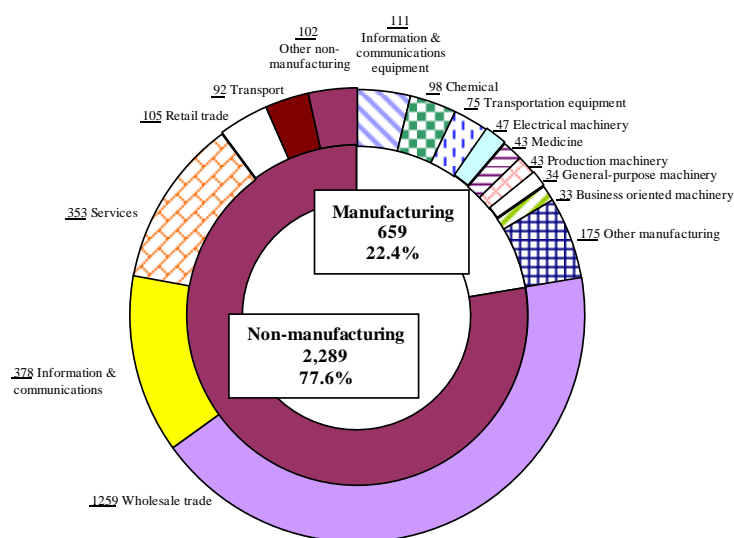


Table 1-1 Composition Percentage by Region of Origin and by Industry

(Companies, %, % point)

	FY2007 Number of foreign affiliates	Composition percentage					
		FY2003	FY2004	FY2005	FY2006	FY2007	Year-on-year changes
Total	2,948	100.0	100.0	100.0	100.0	100.0	—
U.S.	943	37.9	36.8	35.4	35.4	32.0	-3.4
Asian	612	14.6	14.5	16.1	16.8	20.8	4.0
Chinese	205	5.6	5.6	6.0	6.1	7.0	0.9
European	1,226	42.2	43.0	43.0	42.6	41.6	-1.0
Others	167	5.3	5.7	5.5	5.2	5.7	0.5
Manufacturing	659	30.3	29.6	27.4	25.2	22.4	-2.8
Non-manufacturing	2,289	69.7	70.4	72.6	74.8	77.6	2.8

2. Offices in Japan by function

- By function^(Note 1), 50% of the companies in the manufacturing sector have R&D facilities, and companies in the non-manufacturing sector have an average of 6.1 business and sales offices (Fig. 2-1).
- Among companies that said they have offices in the Kanto block, 65.5% have manufacturing and processing facilities, 68.7% have R&D facilities, 84.6% have headquarter offices, and 82.0% have business and sales offices. Over 80% of foreign affiliates have offices in the Kanto block, followed by the Kinki block and the Chubu block (Table 2-1).

Figure 2-1 No. of Offices of Foreign Affiliates in Japan by Function (average per company)

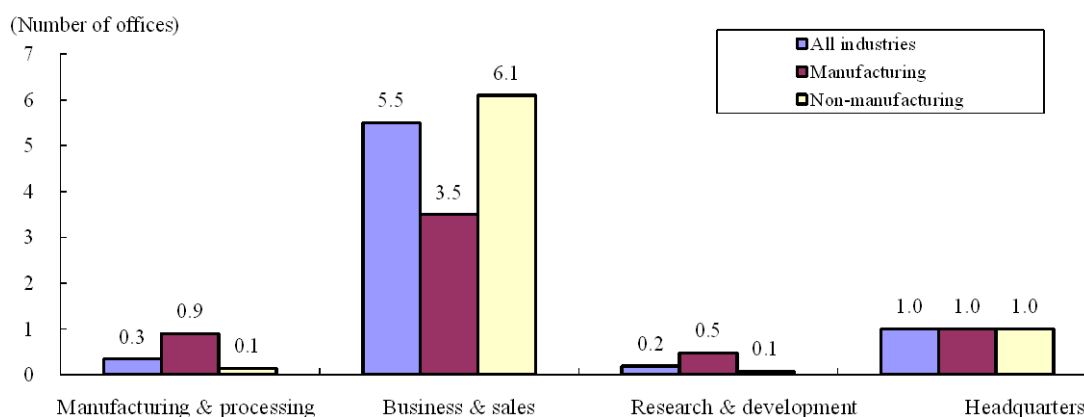


Table 2-1 No. of Foreign Affiliates with Offices in Japan by Function (by regional block)

(Companies, %)

	FY2007				Percentage to the number of respondents			
	Manufacturing & processing	Business & sales	Research & development	Headquarters	Manufacturing & processing	Business & sales	Research & development	Headquarters
Hokkaido block	13	202	4	6	2.2	8.9	0.8	0.2
Tohoku block	35	227	14	14	6.0	10.0	3.0	0.5
Kanto block	383	1,853	325	2,402	65.5	82.0	68.7	84.6
Chubu block	85	482	56	88	14.5	21.3	11.8	3.1
Kinki block	101	884	78	301	17.3	39.1	16.5	10.6
Chugoku block	31	228	15	15	5.3	10.1	3.2	0.5
Shikoku block	11	98	2	0	1.9	4.3	0.4	0.0
Kyushu block	34	360	13	29	5.8	15.9	2.7	1.0
Number of respondents	585	2,259	473	2,840	-	-	-	-

(Note 1) When one office has multiple functions, each function is counted.

3. Employment

- The number of employees increased 6.2% from the previous fiscal year to 590,000 (up 4.5% when limited to enterprises that responded in both the previous fiscal year and the current year). The manufacturing sector recorded a 3.1% rise to 232,000, while the non-manufacturing sector saw growth of 8.3% to 359,000 (Fig. 3-1).
- By industry, information and communications equipment in the manufacturing sector recorded an increase of 12.9% to 40,000. In the non-manufacturing sector, wholesale trade stood at 70,000, up 19.8% and services at 46,000, up 22.3% (Fig. 3-2).
- The percentage of part-time workers^(Note 2) in the manufacturing sector declined 0.9% points from the previous fiscal year to 4.7%, and that in the non-manufacturing sector was down 0.4% points to 56.1%. The percentage of dispatched workers^(Note 3) in the manufacturing sector was 11.2%, up 1.2% points, and that in the non-manufacturing sector was 4.5%, up 0.7% points (Table 3-1).

Figure 3-1 No. of Employees

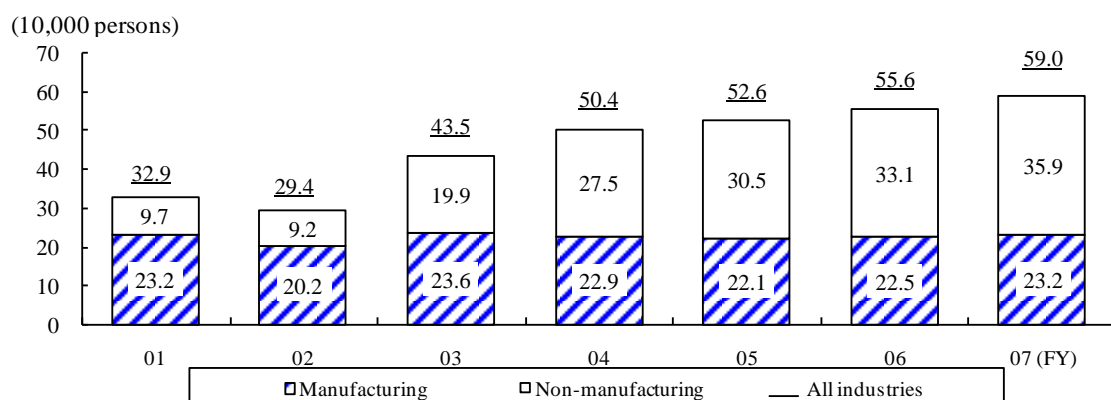


Figure 3-2 No. of Employees by Industry

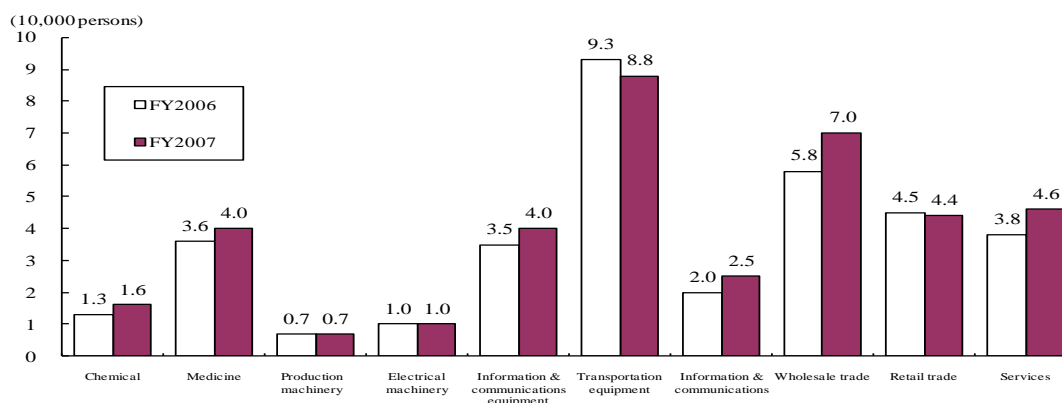


Table 3-1 Percentage of Part-Time Workers and Percentage of Dispatched Workers

	Percentage of part-time workers					Percentage of dispatched workers				
	FY2004	FY2005	FY2006	FY2007	Year-on-year changes	FY2004	FY2005	FY2006	FY2007	Year-on-year changes
	All industries	33.4	35.2	37.6	37.6	0.0	5.7	5.9	6.4	7.2
Manufacturing	4.0	4.5	5.6	4.7	-0.9	7.5	8.2	10.0	11.2	1.2
Non-manufacturing	57.9	57.6	56.5	56.1	-0.4	4.1	4.1	3.8	4.5	0.7

(Note 2) Percentage of part-time workers = Number of part-time workers / (Number of full-time workers + Number of part-time workers) × 100

(Note 3) Percentage of dispatched workers = Number of accepted (dispatched) temporary workers / (Number of regular workers + Number of accepted (dispatched) temporary workers) × 100

4. Sales, exports, and foreign investors

- Sales amounted to 39.5 trillion yen, up 11.5% from the previous fiscal year (up 5.3% when limited to enterprises that responded in both the previous fiscal year and the current year). The manufacturing sector posted 22.4 trillion yen, up 8.3%, and the non-manufacturing sector marked 17.0 trillion yen, up 16.0% (Fig. 4-1).
- By industry, medicine and transportation equipment in the manufacturing sector recorded growth. In the non-manufacturing sector, wholesale trade and information and communications posted increases (Fig. 4-2).
- Exports grew by 30.5% from the previous fiscal year, marking 7.3 trillion yen (up 16.9% when limited to enterprises that responded in both the previous fiscal year and the current year) (Table 4-1).
- Of the total exports, sales to main foreign investors reached 1.6 trillion yen, marking an increase of 48.8% from the previous fiscal year (Table 4-1).
- Looking at the proportion of sales to main foreign investors to the total sales, the manufacturing sector posted 1.9%, up 0.3% points from the previous fiscal year, while the non-manufacturing sector posted 6.8%, up 1.8%. By region of origin, Asia showed an increase of 5.7% points to 29.0% (Table 4-1).

Figure 4-1 Sales

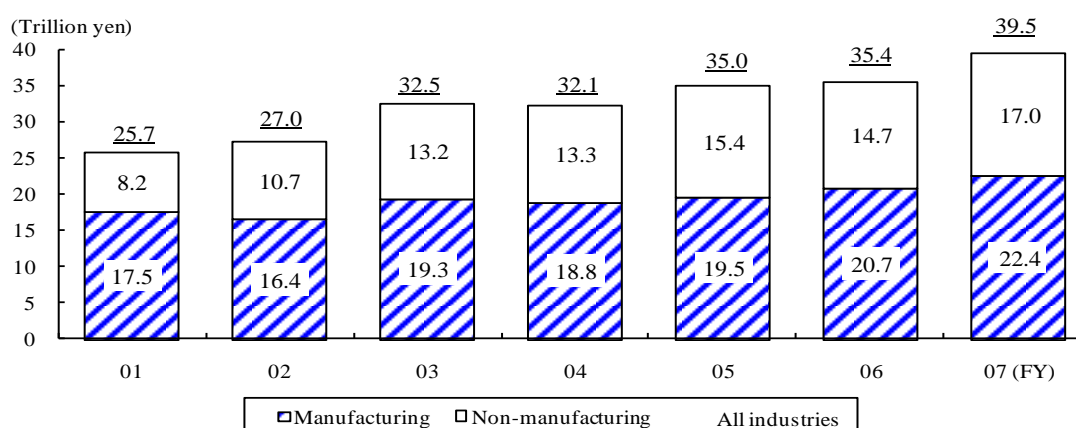


Figure 4-2 Sales by Industry

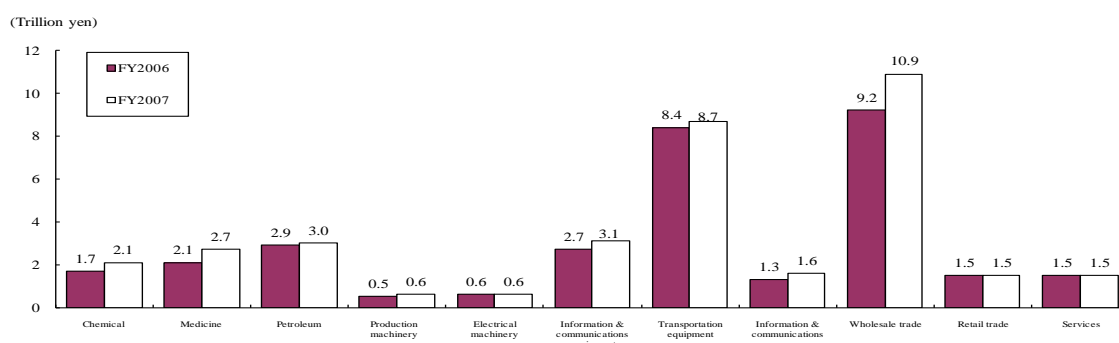


Table 4-1 Sales, Exports, Sales to Main Foreign Investors, and Its Proportion of Sales

	(100 million yen, %, % point)						Proportion of sales to main foreign investors to the total sales		
	Sales		Exports		Sales to main foreign investors		FY2006	FY2007	Year-on-year changes (% point)
	FY2007	Year-on-year changes	FY2007	Year-on-year changes	FY2007	Year-on-year changes			
Total	394,695	11.5	73,086	30.5	15,834	48.8	3.0	4.0	1.0
Manufacturing	224,406	8.3	52,227	17.7	4,227	27.6	1.6	1.9	0.3
Non-manufacturing	170,288	16.0	20,859	79.7	11,606	58.4	5.0	6.8	1.8
U.S.	125,517	8.9	17,127	47.9	3,778	30.2	2.5	3.0	0.5
Asian	36,067	34.3	16,291	94.6	10,450	66.9	23.3	29.0	5.7
European	218,212	8.9	37,793	10.2	1,045	77.8	0.3	0.5	0.2

5. Profit

- Ordinary profit reached 2.4059 trillion yen, up 28.1% from the previous fiscal year (up 23.7% when limited to enterprises that responded in both the previous fiscal year and the current year). The manufacturing sector marked an increase of 31.3% to 1.5834 trillion yen, and the non-manufacturing sector recorded an increase of 22.4% to 822.4 billion yen (Fig. 5-1).
- By industry, information and communications equipment in the manufacturing sector jumped by 108.0%. In the non-manufacturing sector, wholesale trade showed growth of 15.2% (Fig. 5-2).
- The ordinary profit to sales ratio^(Note 4) rose 0.3% points from the previous fiscal year to 5.6%. This was 2.2% points higher than that for incorporated enterprises as a whole (Fig. 5-3).

Figure 5-1 Ordinary Profit

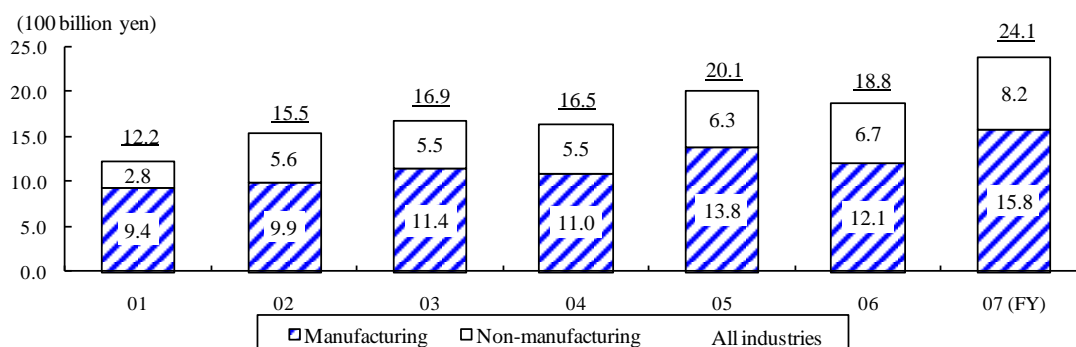


Figure 5-2 Ordinary Profit by Industry

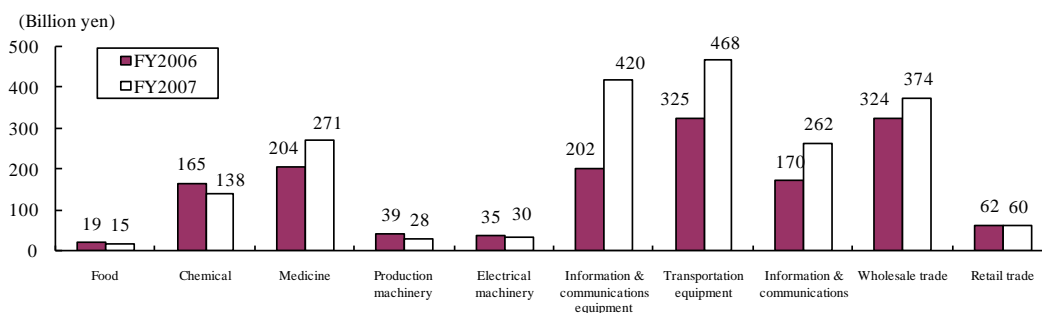
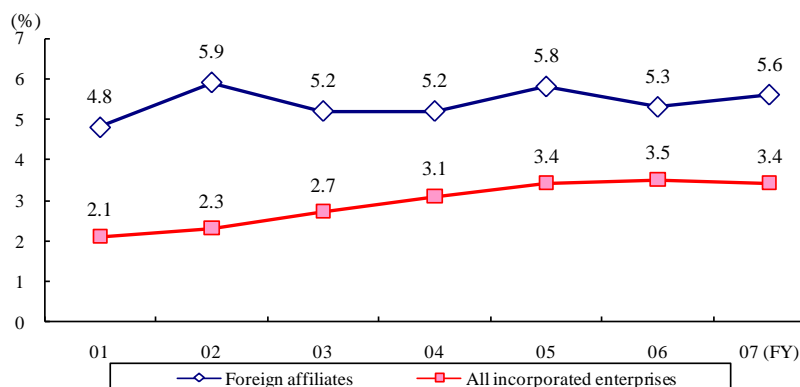


Figure 5-3 Ordinary Profit to Sales Ratio



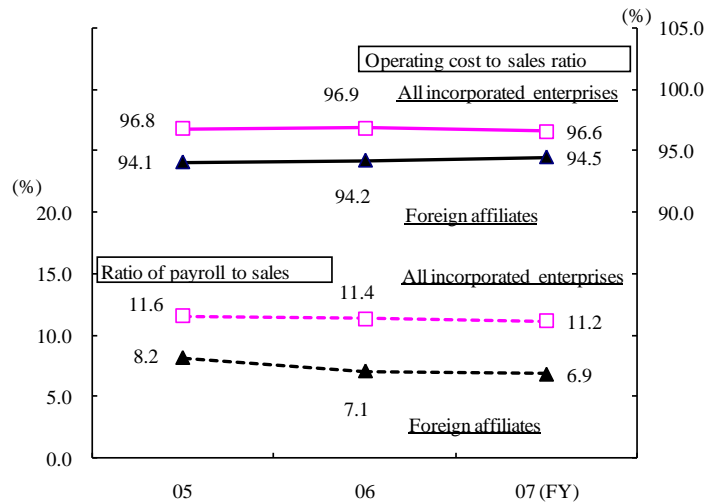
Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(Note 4) Ordinary profit to sales ratio = Ordinary profit/Sales × 100

6. Cost

- The operating cost to sales ratio^(Note 5) increased 0.3% points from the previous fiscal year to 94.5%. This was 2.1% points lower than that for incorporated enterprises as a whole (Fig. 6-1).
- The ratio of payroll to sales^(Note 6) was 6.9%, a decline of 0.2% points from the previous fiscal year, caused by sales growth surpassing payroll growth. The ratio was 4.3% points lower than that for incorporated enterprises as a whole (Fig. 6-1).

Figure 6-1 Operating Cost to Sales Ratio and Ratio of Payroll to Sales

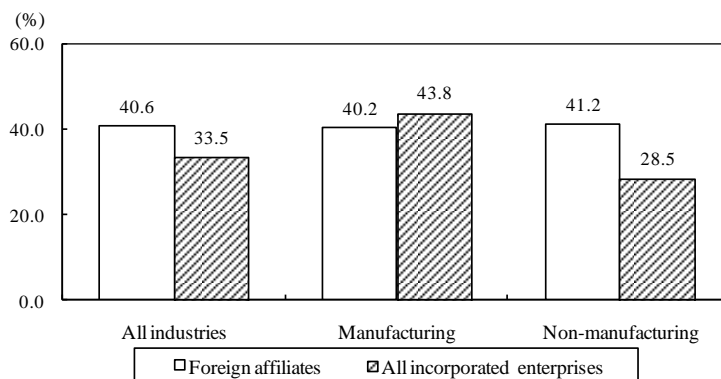


Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

7. Equity to total assets ratio

- The ratio of equity to total assets^(Note 7) rose 1.3% points from the previous fiscal year to 40.6%. This was 7.1% points higher than that for incorporated enterprises as a whole (Fig. 7-1).

Figure 7-1 Equity to Total Assets Ratio



Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(Note 5) Operating cost to sales ratio = (Cost of sales + Sales and administrative costs)/Sales × 100

(Note 6) Ratio of payroll to sales = Total payroll amount/Sales × 100

(Note 7) Ratio of equity to total assets = Shareholder equity/Total assets × 100

8. Funding

- The outstanding balance of loans decreased 0.5% from the previous fiscal year to 5.1942 trillion yen, marking the fifth straight year of decline (Fig. 8-1).
- The rate of dependence on loans^(Note 8) was down 1.7% points from the previous fiscal year to 23.1%. The manufacturing sector posted 19.8%, down 1.8% points, and the non-manufacturing sector recorded 30.8%, down 1.8% points. The rate was 7.1% lower than that for incorporated enterprises as a whole (Fig. 8-2).

Figure 8-1 Outstanding Balance of Loans

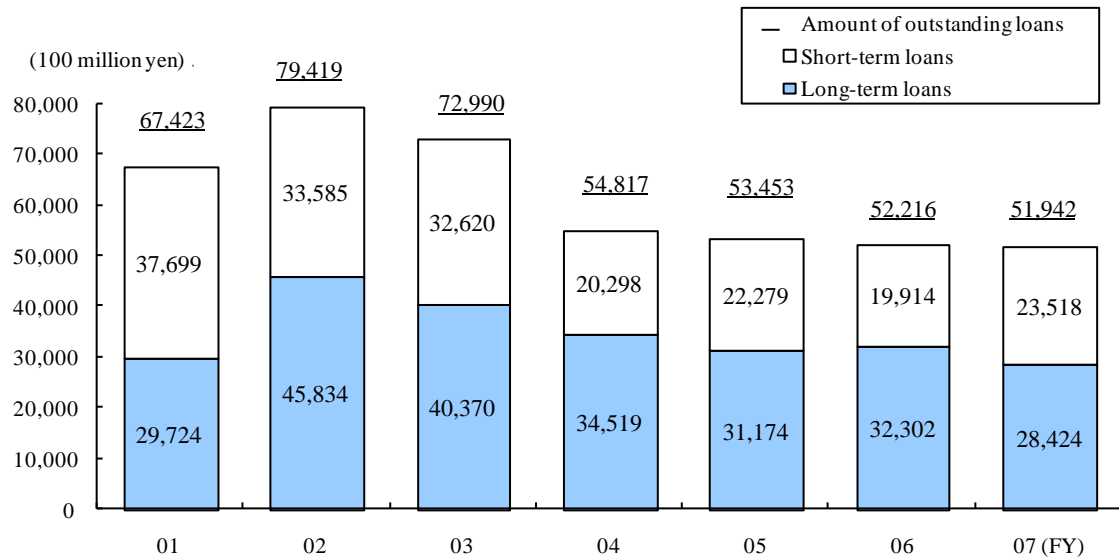
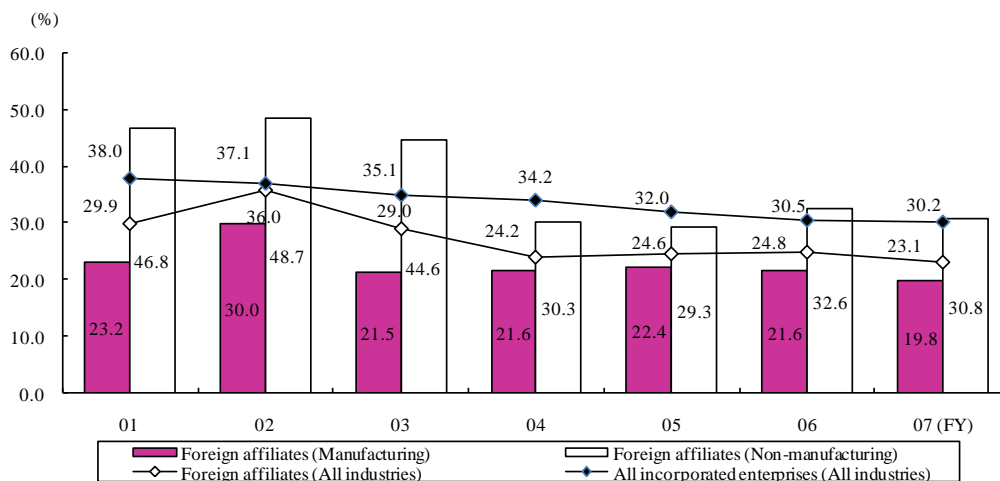


Figure 8-2 Rate of Dependence on Loans



Source: All incorporated enterprises: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

(Note 8) Rate of dependence on loans = Outstanding balance of loans/Total assets × 100

9. Capital investment/Research and development

- Capital investment amounted to 1.5664 trillion yen, up 36.5% from the previous fiscal year (up 4.4% when limited to enterprises that responded in both the previous fiscal year and the current year). The manufacturing sector saw a 37.9% rise to 1.2362 trillion yen, recording its fifth straight year of increase. The non-manufacturing sector posted an increase of 31.5% to 330.2 billion yen (Fig. 9-1).
- The proportion of capital investment by foreign affiliates to the total by all incorporated enterprises was 3.5%, up 0.9% points from the previous fiscal year.
- By industry, information and communications equipment posted 510.7 billion yen, up 34.0% from the previous fiscal year. Transportation equipment saw an increase of 42.4% to 501.4 billion yen, and information and communications recorded an increase of 30.2% to 66.3 billion yen (Fig. 9-2).
- The average rate of research and development expenses in the manufacturing sector was 3.24 billion yen per company, up 2.7% from the previous fiscal year. By industry, transportation equipment posted 19.74 billion yen, followed by medicine at 5.08 billion yen and information and communications equipment at 1.77 billion yen (Fig. 9-3).

Figure 9-1 Capital Investment

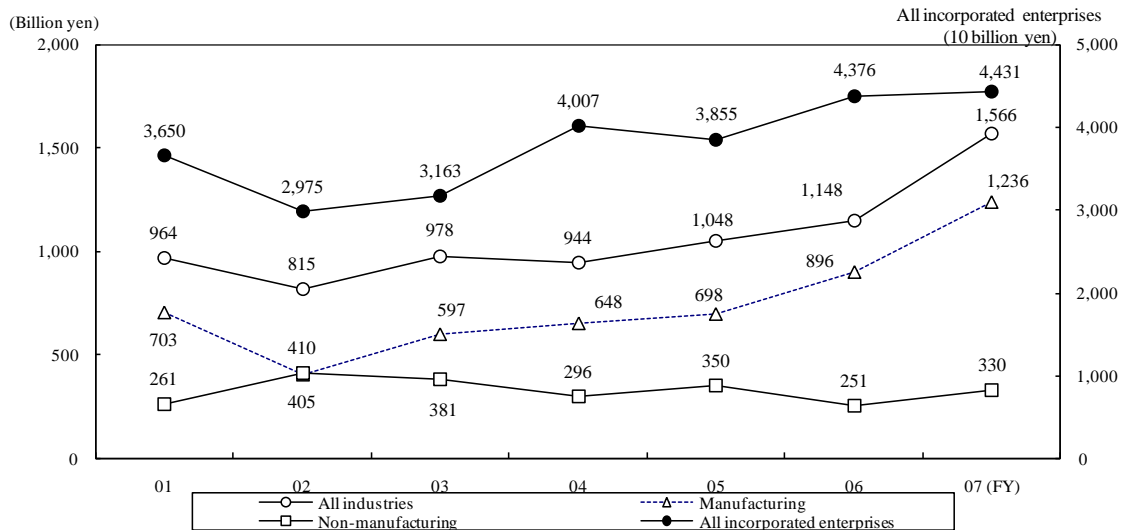


Figure 9-2 Capital Investment by Industry

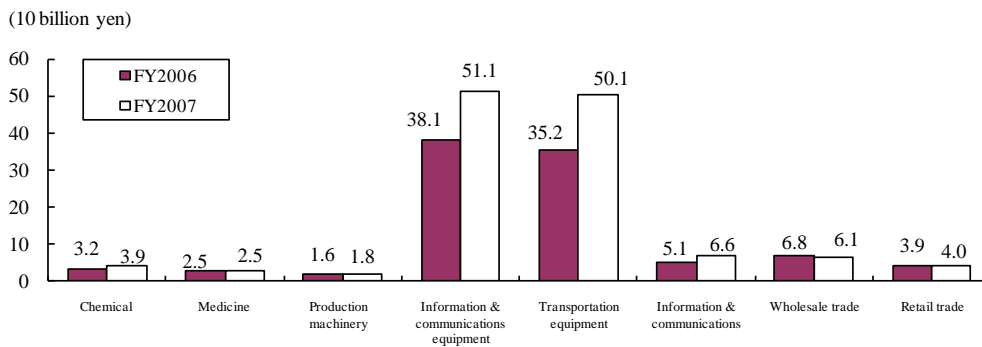
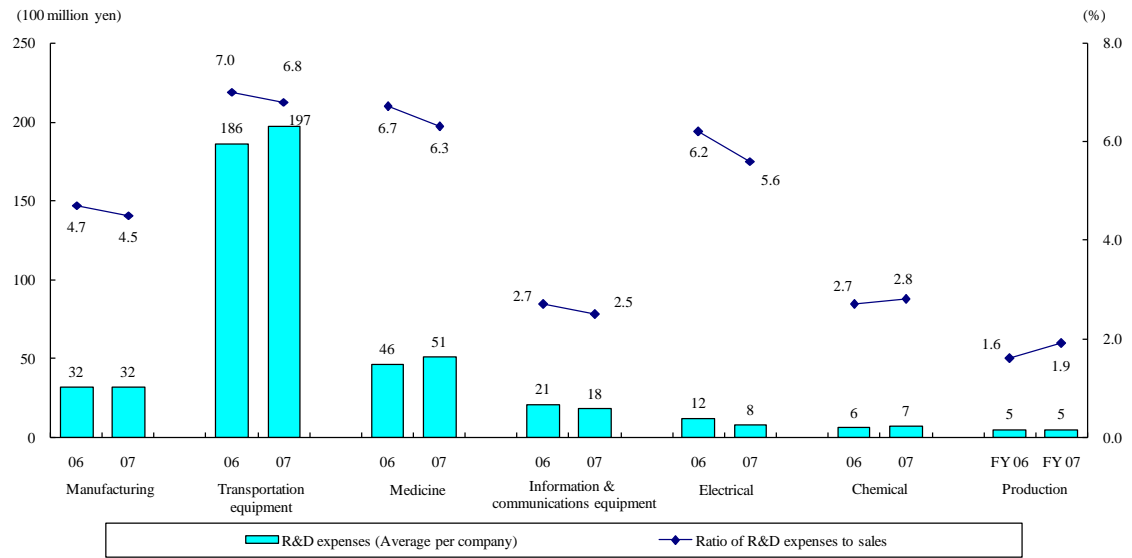


Figure 9-3 R&D Expenses (average per company) by Industry/Ratio of R&D Expenses to Sales



Ratio of R&D expenses to sales = $\frac{\text{R\&D expenses}}{\text{Sales}} \times 100$