

Summary of the 38th Survey on Overseas Business Activities (conducted in July 2008)

Trends of overseas affiliates in the fiscal year (FY) 2007 survey

- The overseas production ratio reached a record high of 19.1%.
- Local and intraregional sales ratios increased in each region, and local procurement ratios increased in Asia and North America.
- The ratio of sales to Japan decreased in each region, and the ratio of procurements from Japan decreased in Asia and North America.
- The number of overseas affiliates and employed persons both increased, to 16,732 and 4.75 million, respectively. In particular, there was significant growth in China and other Asian countries (Vietnam, etc.).
- The amount of retained earnings and the balance of retained earnings both increased, to 3.6 trillion and 20.3 trillion yen, respectively.

Summary of findings

1. The highest overseas production ratio ever.

The overseas production ratio for manufacturing industries (based on all domestic companies) was the highest ever at 19.1%, breaking the record high from FY2006.

2. Local and intraregional sales ratios increased in each region, and local procurement ratios increased in Asia and North America

The local and intraregional sales ratios^{*1} of overseas affiliates in manufacturing industries increased in Asia (73.0%), North America (93.9%), and Europe (93.2%).

The local procurement ratio^{*2} of overseas affiliates in manufacturing industries increased in Asia (58.3%) and North America (62.5%).

*1 Sales ratio: Percentage of the amount of sales accounted for by the relevant region

*2 Procurement ratio: Percentage of the amount of purchases accounted for by the relevant region

3. The ratio of sales to Japan decreased in each region, and the ratio of procurements from Japan decreased in Asia and North America.

The ratio of sales to Japan decreased in Asia (19.1%), North America (2.2%), and Europe (1.7%).

The ratio of procurements from Japan decreased in Asia (28.0%) and North America (28.8%).

4. The number of overseas affiliates increased in China and other Asian countries such as Vietnam and India.

The number of overseas affiliates in FY2007 was 16,732 companies.

Asia accounted for 60% of the total number of overseas affiliates, and from among this percentage, half were distributed throughout China.

The number of overseas affiliates in China increased by 244 companies, and the number of overseas affiliates in other Asian countries such as Vietnam and India increased by 65 companies.

5. Employment increased. There is a trend for continued increase of employment in other Asian countries such as Vietnam.

The number of employees at overseas affiliates increased to 4.75 million people (4.1% increase as compared to the previous year) (7.2% increase if only comparing companies that gave valid responses for this year and the previous year).

Employment increased in Asia and North America, and decreased in Europe. Within Asia, employment increased in China and the ASEAN4 countries. Employment also increased in other Asian countries, as demonstrated by an increase in Vietnam, etc.

6. Increase in sales, ordinary profits, and current net profits.

Sales of overseas affiliates amounted to 236.2 trillion yen (10.3% increase as compared to the previous year; 15.3% increase if only comparing companies that gave valid responses for this year and the previous year), ordinary profits amounted to 11.4 trillion yen (18.2% increase (id.); 20.6% increase (id.)), and current net profits amounted to 7.7 trillion yen (12.2% increase (id.); 15.2% increase (id.)).

7. Amount of current retained earnings and balance of retained earnings increased.

The amount of current retained earnings of overseas affiliates was 3.6 trillion yen (12.6% increase as compared to the previous year; 7.2% increase if only comparing companies that gave valid responses for this year and the previous year), and the balance of retained earnings was 20.3 trillion yen (18.0% increase (id.); 11.1% increase (id.)).

8. Research and development expenses per company in manufacturing industries decreased.

Research and development expenses per company in manufacturing industries decreased for the third consecutive year to 296 million yen (3.3% decrease as compared to the previous year). Research and development expenses decreased in North America and Europe, but increased in Asia.

Outline of the Survey

1. Purpose

The purpose of this survey is to obtain basic data for planning and implementation of a wide variety of measures, by clarifying the current trend in overseas activities of Japanese companies.

2. Subject

The survey covered Japanese companies that had overseas affiliates (hereinafter referred to as “parent companies”) as of March 31, 2008, excluding those in the financial and insurance industry and real estate industry.

In this survey, “overseas subsidiaries” refers to overseas companies in which a Japanese company(s) makes a 10% or greater investment. “Overseas sub-subsidiaries” refers to those in which an overseas subsidiary, in which a Japanese company(s) has invested more than 50%, makes a more than 50% investment. Hereinafter they are included in “overseas affiliates.”

3. Method

Mail survey based on self-declaration survey forms (one for parent company and one for each overseas affiliate) given to parent company.

4. Time

The survey was conducted on July 1, 2008, on the actual results of FY2007 and those of the end of FY2007, as of the end of March or the nearest closing date before that.

5. Collection

Response rate: 70.8%

Number of companies that gave a valid response: Parent companies 3,378

Overseas affiliates 16,732

Note:

1. Conversion

The currency unit is ¥, in principle.

It should be taken into consideration that compared to the previous year, the yen weakened against the US\$ (from ¥116.30/\$ to ¥117.75/\$, down by 1.2%), and also weakened against the Euro (from ¥145.90/Euro to ¥161.16/Euro, down by 10.5%).

2. Definition of regions

In this survey, the definitions below are applied unless otherwise stated. “China” includes Hong Kong. Some regions may be counted as a country.

NIEs3: Singapore, Taiwan and South Korea

ASEAN4: Malaysia, Thailand, Indonesia and the Philippines

ASEAN10: Malaysia, Thailand, Indonesia, Philippines, Singapore, Brunei, Vietnam, Laos, Myanmar and Cambodia

BRICs: Brazil, India, China (excluding Hong Kong) and Russia

Regarding the definition of “North America,” “Asia” and “Europe,” see separate Table 1 “Regional and National Classification (including Currency Conversion Table).”

3. Issues to be taken into consideration for the results

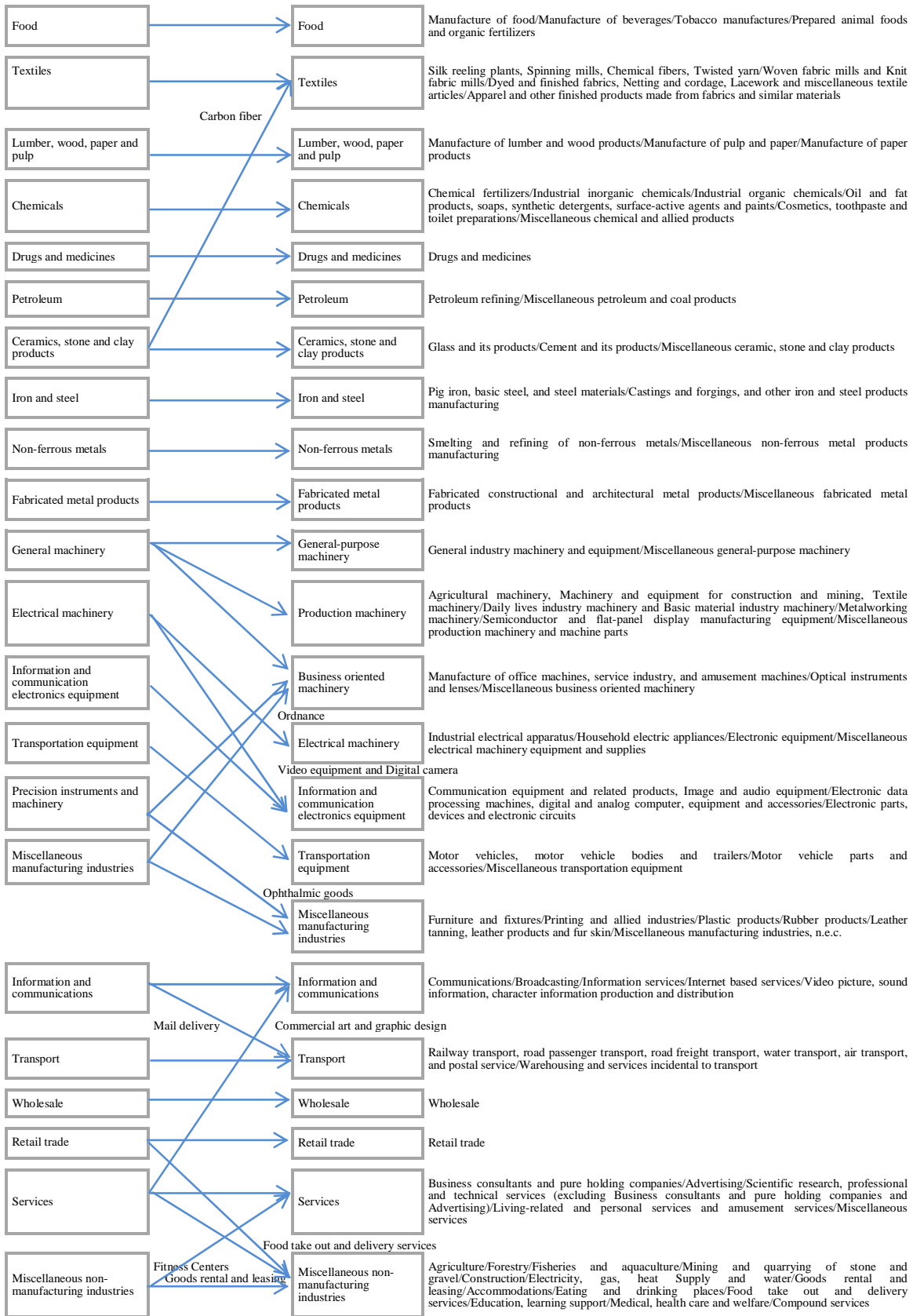
- (1) The statistics are based only on valid responses and there are, therefore, differences in the number of companies counted in each entry.
- (2) When comparing results to those from the previous year, differences in the response rate and the number of companies surveyed should be taken into consideration.
- (3) The symbols used in tables are as follows.
 - “x” Information was kept confidential due to the number of companies being 1 or 2.
There are some cases where information was kept confidential even when there were 3 or more companies, such as in cases where it is possible that the value represented by “x” can be calculated.
 - “–” No corresponding number
 - “0” Less than a unit
 - “...” Cases where the denominator of the formula was a negative number, or the numerator was 0.
- (4) There may be some cases where the breakdown does not match the total, due to rounding of figures less than a unit.
- (5) Y/Y changes were calculated based on units of 1 million yen.

4. Industry classification

- (1) Industry classification for this survey is based on the Japanese Standard Industry Classification.
- (2) As the Japan Standard Industry Classification was revised in November 2007, surveys and aggregations were conducted in FY2007 based on the new classifications. In addition, with regard to the figures according to sector for FY2006, the figures that were published previously were modified to be based on the new classifications and re-aggregated.
- (3) A chart comparing the new and old sector classifications is shown below.

Industrial Classification for 2007

Industrial Classification for 2008



5. Definition of corporate scale of the head company

Definitions relating to the corporate scale of head companies in this survey are as follows.

“Large company”:		Capital exceeding 1 billion yen
“Leading medium-sized company”:	Manufacturing industry, agriculture, forestry and fisheries industry, mining industry, construction industry, other industries	Capital exceeding 300 million yen, and up to 1 billion yen
	Wholesale industry	Capital exceeding 100 million yen, and up to 1 billion yen
	Retail trade industry, services industry	Capital exceeding 50 million yen, and up to 1 billion yen
“Medium- and small-sized company”	Manufacturing industry, agriculture, forestry and fisheries industry, mining industry, construction industry, other industries	Capital up to 300 million yen
	Wholesale industry	Capital up to 100 million yen
	Retail trade industry, services industry	Capital up to 50 million yen

6. Formulas for ratios

Calculations are made using the aggregated values for all companies that provided valid responses for the corresponding items.

Statistical table

Table 2-18 Ratio of corporation finance

$$\text{Ratio of gross profit to net sales} = \frac{\text{Gross profit (Sales - Cost of sales)}}{\text{Sales}} \times 100$$

$$\text{Ratio of operating profit to net sales} = \frac{\text{Operating profit (Sales - Operating expenses (Cost of sales + Selling, general and administrative expenses))}}{\text{Sales}} \times 100$$

$$\text{Ordinary income margin} = \frac{\text{Ordinary profits}}{\text{Sales}} \times 100$$

$$\text{Net income margin} = \frac{\text{Current net profits}}{\text{Sales}} \times 100$$

7. Other

If reprinting the figures listed in these statistical tables, please attribute the figures to “Ministry of Economy, Trade and Industry – Basic Survey on Overseas Business Activities”

1. Distribution of overseas affiliates

- The number of overseas affiliates in FY2007 was 16,732 companies, consisting of 8,318 companies in manufacturing industries and 8,414 companies in non-manufacturing industries. Overseas affiliates in the manufacturing industries accounted for 49.7% of the total number of overseas affiliates in all industries (down by 0.9 points from the previous year), and those in the non-manufacturing industries accounted for 50.3% of the total (up by 0.9 points (id.)) (see Table 1).
- By region, the number of overseas affiliates in Asia expanded to 9,967, accounting for 60% of the total. Within this, the number of overseas affiliates in China was 4,662 (accounting for 27.9% of all regions; up by 0.9 points from the previous year), and the number in other Asian countries, including Vietnam and India, was 506 (3.0%; up by 0.3 points (id.)). On the other hand, the number of overseas affiliates decreased to 2,826 in North America (16.9%; down by 0.4 points (id.)), and to 2,423 in Europe (14.5%; down by 0.2 points (id.)) (see Table 2 and Figure 1).

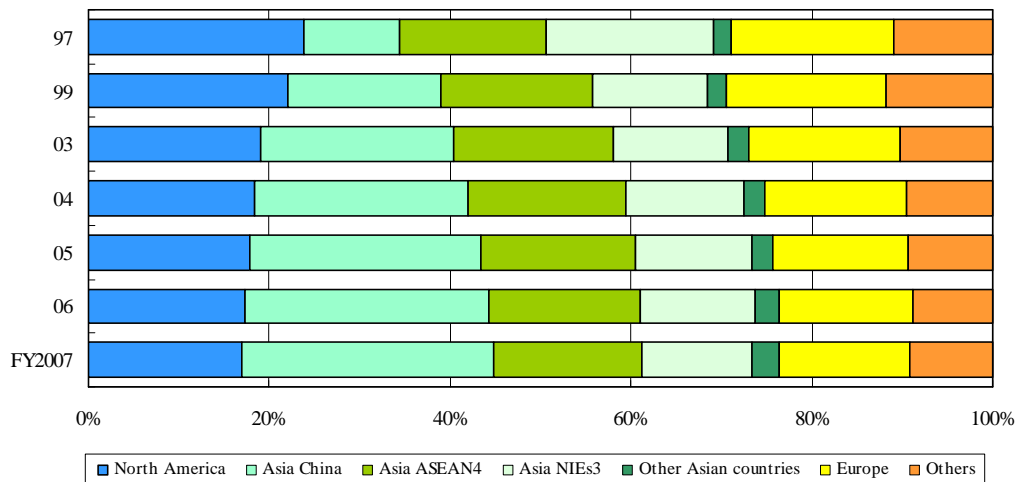
Table 1. Distribution of overseas affiliates by sector

	End of FY2007 Number of overseas affiliates	Breakdown by major sector		
		FY2006		FY2007 Change in points
		Breakdown	Breakdown	
All industries	16,732	100.0	100.0	-
Manufacturing industries	8,318	50.6	49.7	▲ 0.9
Food	405	4.7	4.9	0.2
Textiles	394	5.0	4.7	▲ 0.3
Lumber, wood, paper and pulp	123	1.7	1.5	▲ 0.2
Chemicals	1,072	13.4	12.9	▲ 0.5
Petroleum and coal	41	0.5	0.5	0.0
Ceramic, stone and clay products	195	2.6	2.3	▲ 0.3
Iron and steel	270	2.9	3.2	0.3
Non-ferrous metals	252	2.6	3.0	0.4
Metal products	312	3.3	3.8	0.5
General-purpose machinery	341	3.8	4.1	0.3
Production machinery	403	6.0	4.8	▲ 1.2
Business oriented machinery	279	3.8	3.4	▲ 0.4
Electrical machinery	607	7.8	7.3	▲ 0.5
Information and communication electronics equipment	1,128	13.9	13.6	▲ 0.3
Transportation equipment	1,613	18.2	19.4	1.2
Miscellaneous manufacturing industries	883	9.8	10.6	0.8
Non-manufacturing industries	8,414	49.4	50.3	0.9
Agriculture and forestry	90	1.1	1.1	0.0
Mining	153	1.8	1.8	0.0
Construction	276	3.1	3.3	0.2
Information and communications	463	5.2	5.5	0.3
Transport	1,032	12.3	12.3	0.0
Wholesale	4,290	49.2	51.0	1.8
Retail trade	400	6.4	4.8	▲ 1.6
Services	778	10.1	9.2	▲ 0.9
Miscellaneous non-manufacturing industries	932	10.8	11.0	0.2

Table 2. Distribution of overseas affiliates by region

	(Unit: companies)	
	FY2006	FY2007
All regions	16,370	16,732
North America	2,830	2,826
Asia	9,671	9,967
China	4,418	4,662
ASEAN4	2,753	2,763
NIEs3	2,059	2,036
Other Asian countries	441	506
Europe	2,405	2,423
Others	1,464	1,516

Figure 1. Trends in distribution ratio of overseas affiliates by region



2. Withdrawals and advances of overseas affiliates

- The number of overseas affiliates withdrawing from overseas markets^(Note 1) in FY2007 was 449 (decreased by 21 companies as compared to the previous year). Manufacturing industries saw a decrease (to 199 companies; decreased by 25 companies (id.)), and non-manufacturing industries saw an increase (to 250 companies; increased by 4 companies (id.)) (see Figure 2).
- The ratio of withdrawals^(Note 2) was 2.6% (down by 0.2 points as compared to the previous fiscal year). In North America, the ratio was 3.2%, indicating a continued decline after reaching a peak in FY2002 (see Table 3).
- When looking at the percentage of overseas affiliates that expanded abroad in FY2007 by year of establishment or capital participation, there was an increase in the percentage of companies that advanced to Europe and other Asian countries, including Vietnam and India (see Figure 3).

Figure 2. Trends in the number of overseas withdrawals

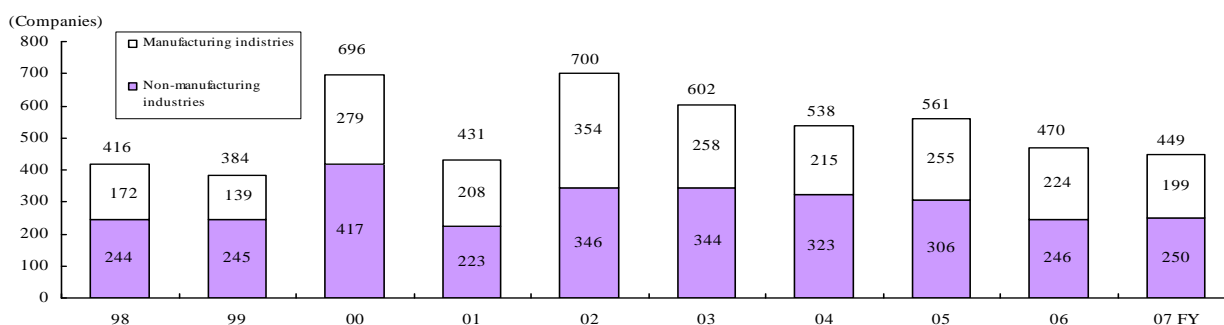
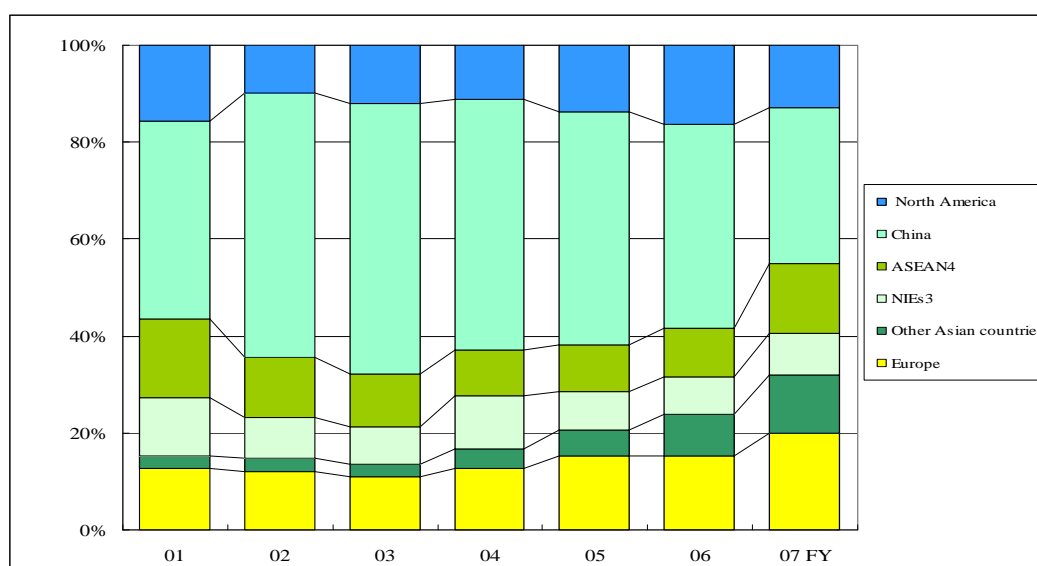


Table 3. Trends in the number of overseas withdrawals and ratio of overseas withdrawals by region

	(Companies)						(%)					
	Number of overseas withdrawals						Ratio of overseas withdrawals					
	02	03	04	05	06	07 FY	02	03	04	05	06	07 FY
All regions	700	602	538	561	470	449	5.0	4.2	3.5	3.4	2.8	2.6
North America	173	135	136	137	127	94	6.1	4.9	4.7	4.6	4.3	3.2
Asia	323	263	238	241	231	235	4.4	3.4	2.7	2.6	2.3	2.3
China	108	94	92	109	123	82	4.0	3.1	2.5	2.6	2.7	1.7
ASEAN4	93	87	77	71	52	69	3.8	3.4	2.9	2.5	1.9	2.4
NIEs3	104	77	60	50	45	77	5.7	4.2	3.0	2.4	2.1	3.6
Europe	124	105	98	122	57	85	5.2	4.3	4.0	4.9	2.3	3.4

Figure 3. Ratio of overseas affiliates by year of establishment or capital participation (by region)



Note 1: "Withdrawal" includes "dissolution, withdrawal/transfer" and "decline in control share (where the ratio of investments from the Japan side declines to a range between 0% and 10%)."

Note 2: Ratio of withdrawals = Number of overseas withdrawals in FY2007 / (Total number of overseas affiliates with valid responses in FY2007 + Number of overseas withdrawals in FY2007) x 100.0

3. Employment at overseas affiliates

- The number of employees at overseas affiliates in FY2007 was 4.75 million people, a 4.1% increase as compared to the previous year (7.2% increase if only comparing companies that gave valid responses for this year and the previous year). The number of employees in the manufacturing industries (3.95 million people; 4.3% increase (id.)) and non-manufacturing industries (790,000 people; 3.6% increase (id.)) both increased (see Table 4).
- By sector, there were increases in the transportation equipment sector (up by 10.8% as compared to the previous year) and the wholesale sector (up by 16.4% (id.)) (see Figure 4).
- By region, Asia, which accounted for approximately 70% of the total, increased (up by 6.2% as compared to the previous year). North America also increased (up by 3.1% (id.)), but Europe decreased (down by 8.0% (id.)) (see Figure 5).
- In Asia, there were increases in China (up by 9.5% (id.)) and ASEAN4 (up by 1.2% (id.)). In addition, due to increases in the figures for Vietnam, etc., other Asian countries increased as well (up by 18.1% (id.)) (see Figure 6).

Table 4. Trends in the number of employees at overseas affiliates

(Units: 10,000 persons, %)

	04		05		06		07 FY	
		Y/Y		Y/Y		Y/Y		Y/Y
All industries	414	9.9	436	5.4	456	4.5	475	4.1
Manufacturing industries	340	9.3	362	6.4	379	4.7	395	4.3
Non-manufacturing industries	73	12.6	74	0.6	77	3.7	79	3.6

Figure 4. Number of employees at overseas affiliates (by major sector)

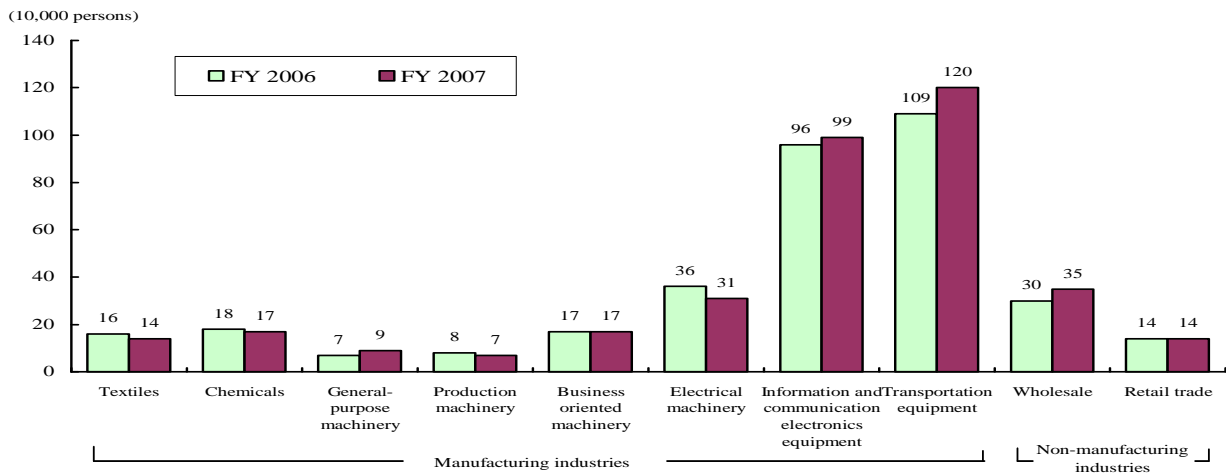


Figure 5. Number of employees at overseas affiliates (by region)

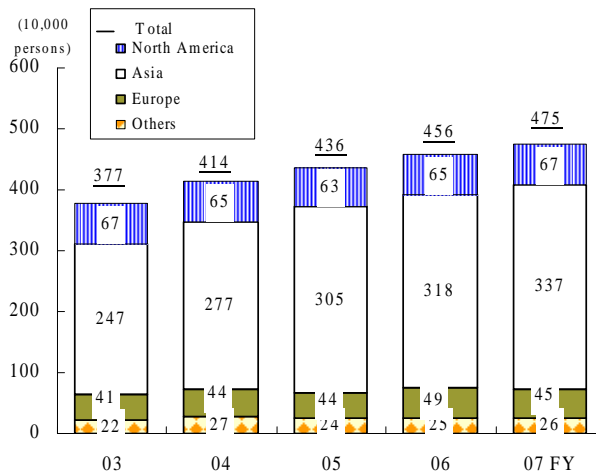
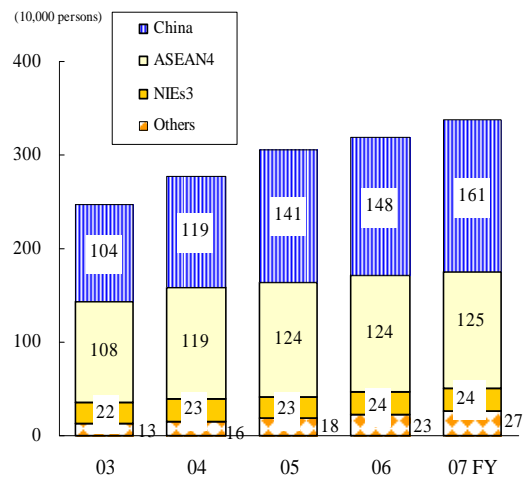


Figure 6. Number of employees at overseas affiliates (in Asia)



4. Sales of overseas affiliates

- Sales of overseas affiliates in FY2007 increased to 236.2 trillion yen (up by 10.3% as compared to the previous year) (a 15.3% rise if only comparing companies that gave valid responses for both this year and the previous year). Sales for manufacturing industries (111.0 trillion yen; up by 11.4% (id.)) and non-manufacturing industries (125.2 trillion yen; up by 9.3% (id.)) both increased (see Figure 7).
- By sector, increases were observed in the manufacturing industries in the transportation equipment sector (up by 26.6% as compared to the previous year) and general-purpose machinery sector (up by 52.4% (id.)). Among non-manufacturing industries, there was an increase in the wholesale sector (up by 9.6% (id.)) (see Figure 8).
- By region, increases were seen in North America (79.1 trillion yen; up by 6.6% as compared to the previous year), Asia (85.7 trillion yen; up by 13.0% (id.)), and Europe (50.7 trillion yen; up by 9.5% (id.)). In Asia, China and ASEAN4 saw increases, whereas NIEs3 saw a decrease (see Figure 9 and Figure 10).

Figure 7. Sales trends of overseas affiliates

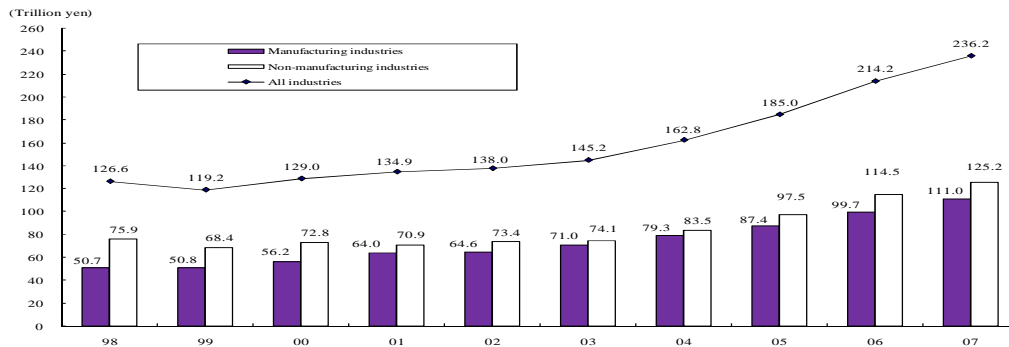


Figure 8. Sales of overseas affiliates (by major sector) (100 billion yen)

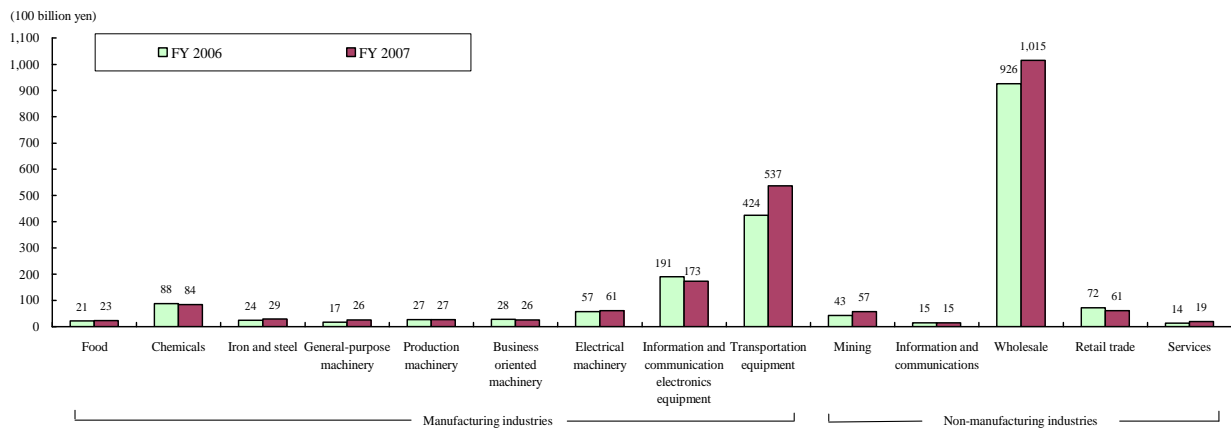


Figure 9. Sales trends of overseas affiliates (by region) (Trillion yen)

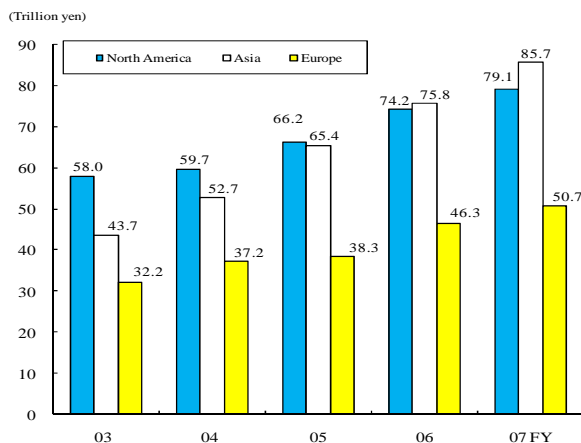
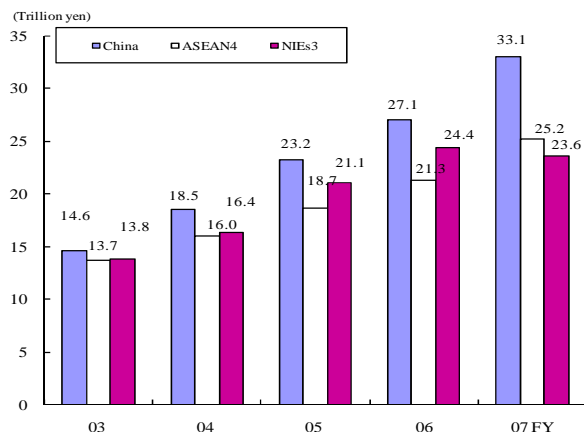


Figure 10. Sales trends of overseas affiliates (in Asia) (Trillion yen)



5. Overseas production ratio

- The overseas production ratio for manufacturing industries (calculated based on the total number of domestic companies)^(Note 1) was 19.1% (up by 1.0 points as compared to the previous year), reaching a new record high breaking last year's peak (see Figure 11).
- By sector (old classifications)^(Note 2), the overseas production ratio for the transportation machinery sector was 42.0%, up by 4.2 points as compared to the previous year, and the overseas production ratio for the textiles sector was 11.1%, up by 2.1 points (id.) (see Table 5).

Figure 11. Trends in the overseas production ratio (manufacturing industries)

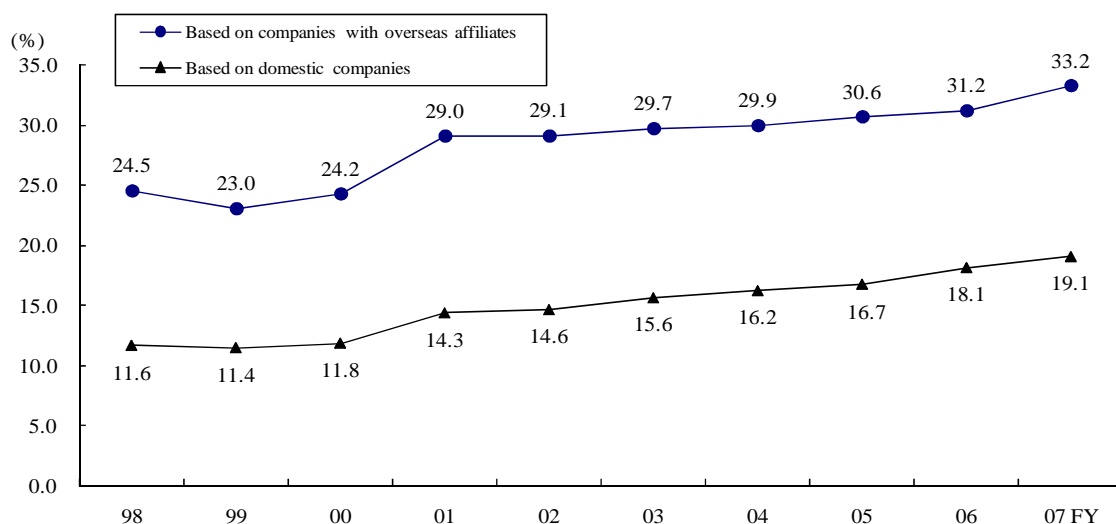


Table 5. Trends in the overseas production ratio by sector (old sectors) (calculated based on the total number of domestic companies (manufacturing industries))

(Unit: %)

	98	99	00	01	02	03	04	05	06	07 FY
Total for manufacturing industries	11.6	11.4	11.8	14.3	14.6	15.6	16.2	16.7	18.1	19.1
Food	2.8	2.8	2.7	4.5	4.6	4.9	4.4	4.2	4.2	4.9
Textiles	8.2	8.2	8.0	6.7	6.6	8.4	7.3	6.3	9.0	11.1
Lumber, wood, paper and pulp	3.4	3.4	3.8	3.8	4.3	3.8	4.2	3.0	4.7	4.2
Chemicals	10.6	10.3	11.8	12.6	13.4	13.6	15.3	14.8	17.9	16.6
Petroleum and coal	2.3	1.2	1.4	1.5	2.0	1.6	1.8	2.6	4.4	2.5
Ceramic, stone and clay products	7.1	7.5	8.1	5.2	5.8	5.3	6.3	6.6	12.0	10.7
Iron and steel	9.8	8.9	14.0	16.2	8.9	9.4	10.6	9.6	10.6	11.7
Non-ferrous metals	8.5	9.8	9.4	10.2	10.1	7.9	9.4	10.2	10.3	12.1
Metal products	1.5	1.3	1.6	1.8	1.9	1.6	1.7	2.2	2.6	3.4
General machinery	12.5	11.0	10.8	10.2	10.1	10.7	11.7	13.1	14.3	14.4
Electrical machinery	17.2	17.6	18.0	21.6	21.0	23.4	9.5	11.0	11.8	11.5
Information and communication electronics equipment							33.1	34.9	34.0	32.2
Transportation equipment	23.5	23.4	23.7	30.6	32.2	32.6	36.0	37.0	37.8	42.0
Precision instruments	9.3	11.0	11.2	12.0	12.9	12.8	12.4	13.8	8.9	9.4
Miscellaneous manufacturing industries	4.9	4.5	4.6	5.2	6.1	6.0	7.9	9.4	9.7	9.3

Note 1: Overseas production ratio based on all domestic companies

$$= \frac{\text{Sales of overseas affiliates (manufacturing industries)}}{\text{Sales of overseas affiliates (manufacturing industries)} + \text{Sales of domestic companies (manufacturing industries)}} \times 100.0$$

Overseas production ratio based on companies with overseas affiliates

$$= \frac{\text{Sales of overseas affiliates (manufacturing industries)}}{\text{Sales of overseas affiliates (manufacturing industries)} + \text{Sales of parent companies (manufacturing industries)}} \times 100.0$$

Note 2: The overseas production ratio by sector for FY2007 was aggregated and calculated by rearranging the survey results with old sector classifications.

Source: Sales of domestic companies: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

6. Sales and local procurement (purchases) of overseas affiliates in manufacturing industries, and imports and exports to/from Japan

(1) Sales of overseas affiliates in manufacturing industries oriented for Japan

- The amount of sales of overseas affiliates in manufacturing industries oriented for Japan amounted to 11.0 trillion yen, down by 3.4% as compared to the previous year.
- By region, there were decreases in North America (down by 28.2% as compared to the previous year) and Europe (down by 37.3% (id.)).
- Sales in Asia toward Japan accounted for 85.4% of the total, up by 2.9 points as compared to the previous year.
- Sales of overseas affiliates in manufacturing industries oriented for Japan accounted for 15.9% of the Japan's total amount of imports^(Note), down by 2.2 points as compared to the previous year (see Figure 12).

(2) Local procurement of overseas affiliates in manufacturing industries from Japan

- Local procurement of overseas affiliates in manufacturing industries from Japan amounted to 25.4 trillion yen, a 6.3% increase as compared to the previous year.
- By region, local procurement increased in Asia (a 8.6% increase (id.)) and Europe (a 16.9% increase (id.)).
- Local procurement from Japan accounted for 41.6% of the total local procurement in Asia, up 0.9 points as compared to the previous year.
- Local procurement of overseas affiliates in manufacturing industries from Japan accounted for 31.4% of the Japan's total amount of exports^(Note), down by 1.0 points as compared to the previous year (see Figure 13).

Figure 12. Trends in sales oriented towards Japan of overseas affiliates in manufacturing industries and percentage of the Japan's total amount of imports

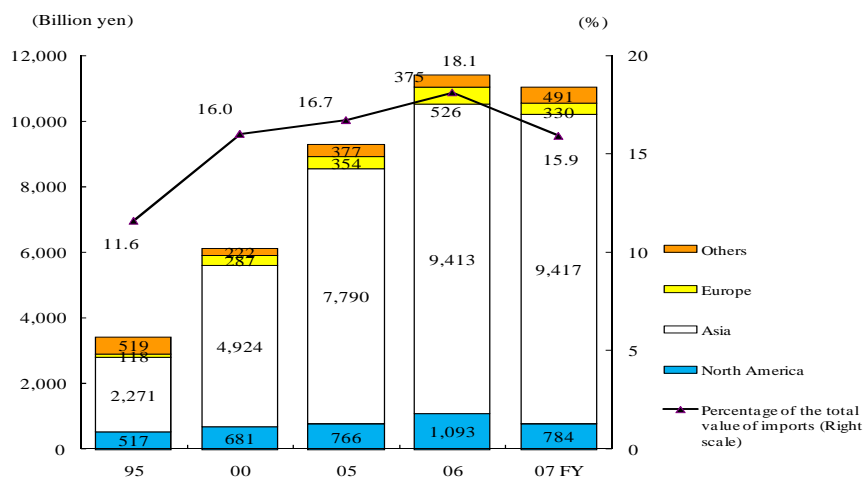
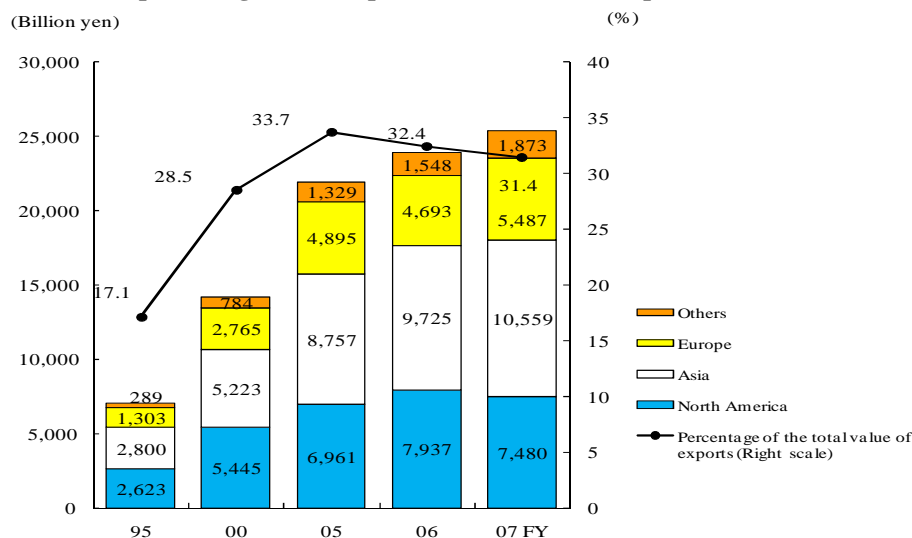


Figure 13. Trends in local procurement of overseas affiliates in manufacturing industries from Japan and percentage of the Japan's total amount of exports



Note: Balance of trade (value of exports and value of imports)

Source: "Balance of Payments Statistics" (Bank of Japan)

7. Sale and procurement destinations of overseas affiliates in manufacturing industries

(1) Sale destinations of overseas affiliates in manufacturing industries

- When looking at the local and intraregional sales ratio^(Note 1) of overseas affiliates in the manufacturing industries, North America and Europe had the highest ratios, at 93.9% and 93.2%, respectively. In Asia, the ratio was 73.0%, up by 3.4 points as compared to the previous year. The ratios indicate that there is a continued trend of spending in the production region.
- The ratio of sales to Japan decreased in Asia (19.1%, down by 3.0 points as compared to the previous year), North America (2.2%, down by 1.2 points (id.)), and Europe (1.7%, down by 1.1 points (id.)) (see Figure 14).

(2) Procurement destinations of overseas affiliates in manufacturing industries

- When looking at the local procurement ratio^(Note 2) of overseas affiliates in the manufacturing industries by region, the rate was 58.3% in Asia, up by 2.8 points as compared to the previous year, and 62.5% in North America, up by 1.4 points (id.).
- The procurement ratio from Japan decreased in Asia (28.0%, down by 1.6 points as compared to the previous year) and North America (28.8%, down by 2.4 points (id.)) (see Figure 15).

Figure 14. Sale destinations (sales) of overseas affiliates in manufacturing industries

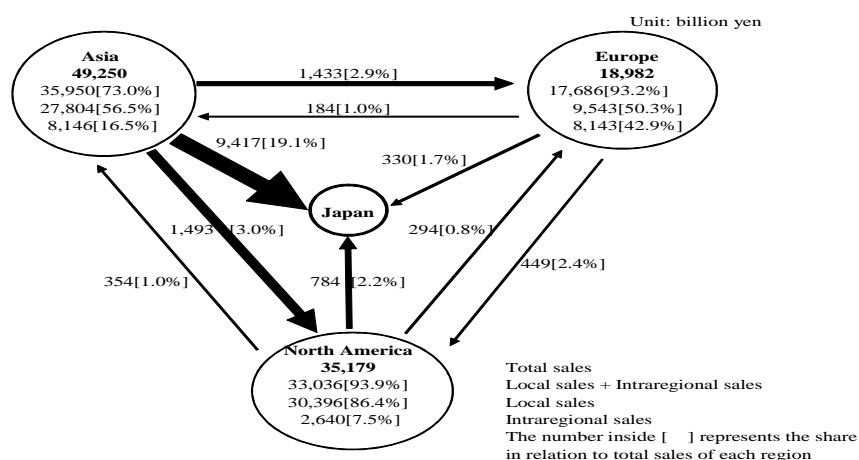
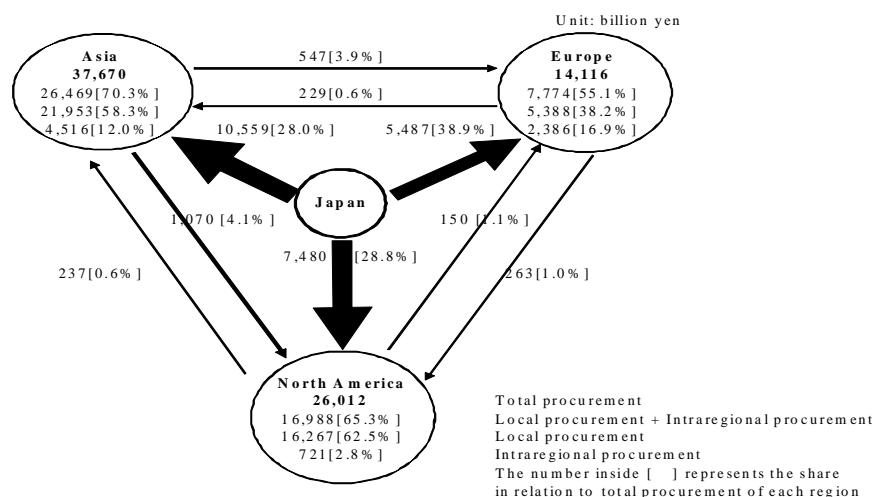


Figure 15. Procurement destinations (purchases) of overseas affiliates in manufacturing industries



Note 1. Local: Country in which overseas affiliates of Japanese companies are located

Intraregional: Same region other than the country in which overseas affiliates of Japanese companies are located (regional classifications: North America, Asia, Europe, etc.)

Local and intraregional sales ratio = Local and intraregional sales (sales) / Total sales of the region (total sales) x 100.0

Note 2. Local procurement ratio = Local procurement (purchases) / Total procurement of the region (total purchases) x 100.0

8. Profits of overseas affiliates

- In FY2007, ordinary profits of overseas affiliates amounted to 11.4 trillion yen, up by 18.2% as compared to the previous year (up by 20.6% if only comparing companies that gave valid responses for this year and the previous year) (see Figure 16).
- By region, there were significant increases in Asia (up by 22.2% as compared to the previous year) and Europe (up by 40.2% (id.)). On the other hand, there was a decrease in North America (down by 13.2% (id.)) (see Figure 17).
- The ratio of ordinary profits to sales^(Note) increased for the sixth consecutive year to 4.9% (up by 0.2 points as compared to the previous year), and exceeded the ratio for domestic companies by 1.5 points. The ratio for manufacturing industries increased to 5.2% (up by 0.2 points (id.)), returning to a level above the ratio for domestic companies for the first time in 3 years (see Table 6).

Figure 16. Trends in ordinary profits of overseas affiliates

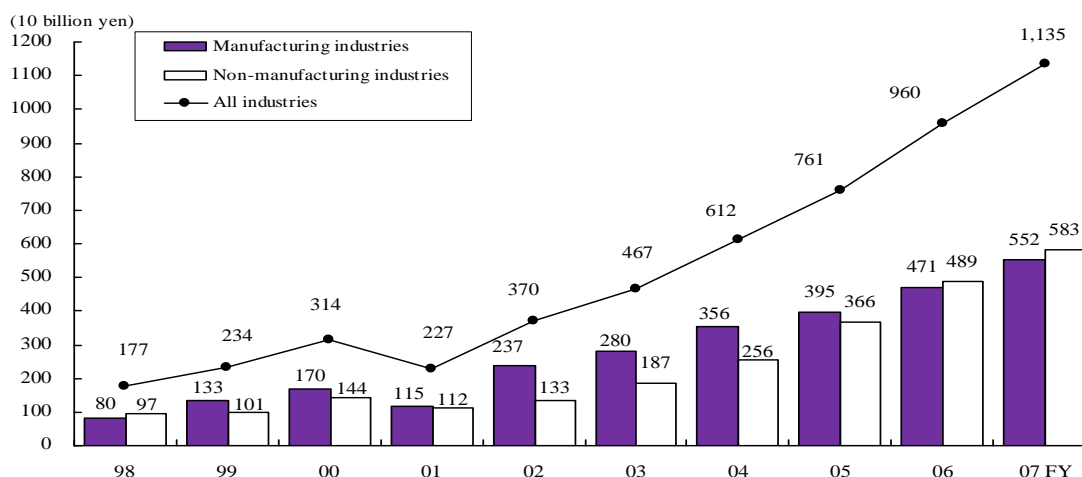


Figure 17. Ordinary profits of overseas affiliates (by region)

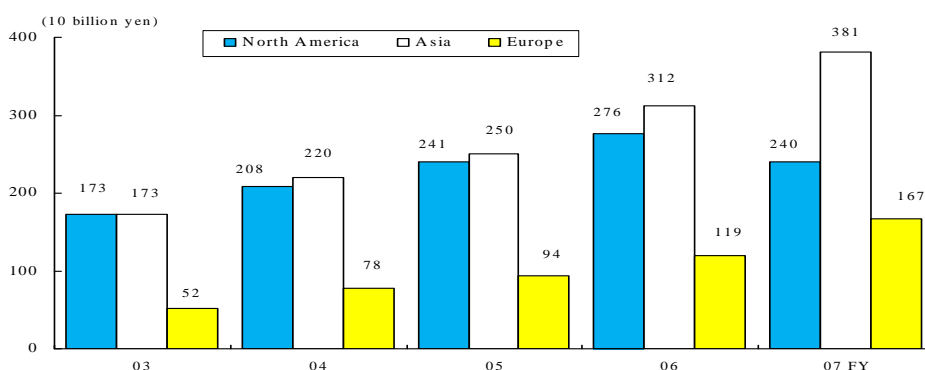


Table 6. Trends in the ratio of ordinary profits to sales of overseas affiliates

	(Unit: %)						
	01	02	03	04	05	06	07FY
All industries	2.0	2.8	3.4	3.9	4.2	4.7	4.9
Manufacturing industries	2.2	4.1	4.5	4.9	4.8	5.0	5.2
Non-manufacturing industries	1.8	1.7	2.4	2.9	3.7	4.5	4.7
Domestic companies	2.1	2.3	2.7	3.1	3.4	3.5	3.4
Manufacturing industries	2.8	3.2	3.9	4.8	5.0	5.3	5.1
Non-manufacturing industries	1.8	2.0	2.2	2.5	2.8	2.7	2.7

Note: Ratio of ordinary profit to sales = Ordinary profits / Sales x 100.0 (Calculated based on overseas affiliates that responded to questionnaires for both ordinary profits and sales.)

Source: Ratio of ordinary profits to sales in domestic companies: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)

9. Profit appropriation of overseas affiliates

- In FY2007, current net profits of overseas affiliates amounted to 7.7 trillion yen (up by 12.2% as compared to the previous year) (up by 15.2% if only comparing companies that gave valid responses for this year and the previous year). Current net profits increased in both the manufacturing industries (4.2 trillion yen, up by 17.3% (id.)) and non-manufacturing industries (3.5 trillion yen, up by 6.8% (id.)) (see Figure 18).
- The amount of current retained earnings^(Note 1) of overseas affiliates in FY2007 was 3.6 trillion yen (12.6% increase as compared to the previous year), and the balance of retained earnings^(Note 2) was 20.3 trillion yen (18.0% increase (id.)) (7.2% increase and 11.1% increase, respectively, if only comparing companies that gave valid responses for this year and the previous year) (see Figure 19).

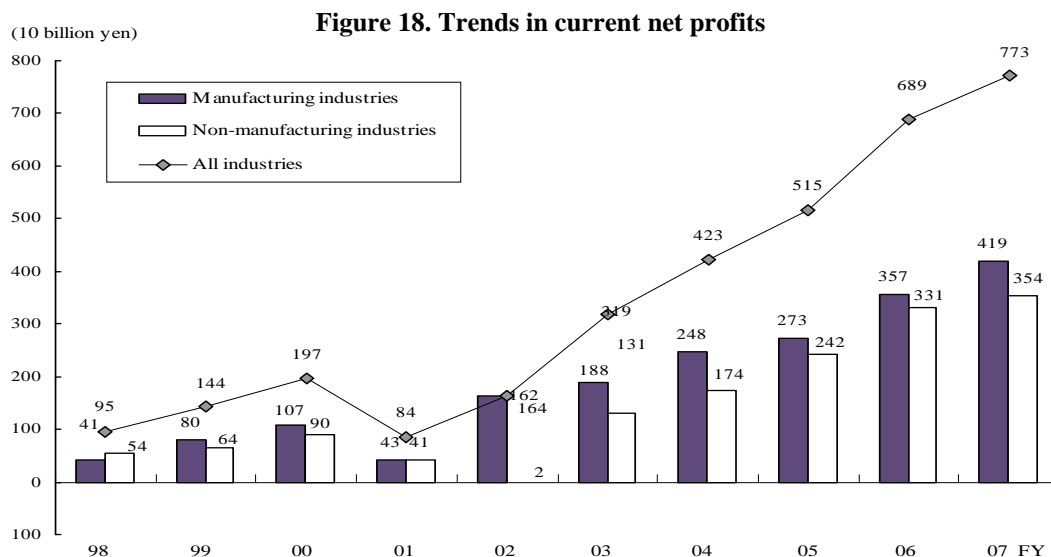
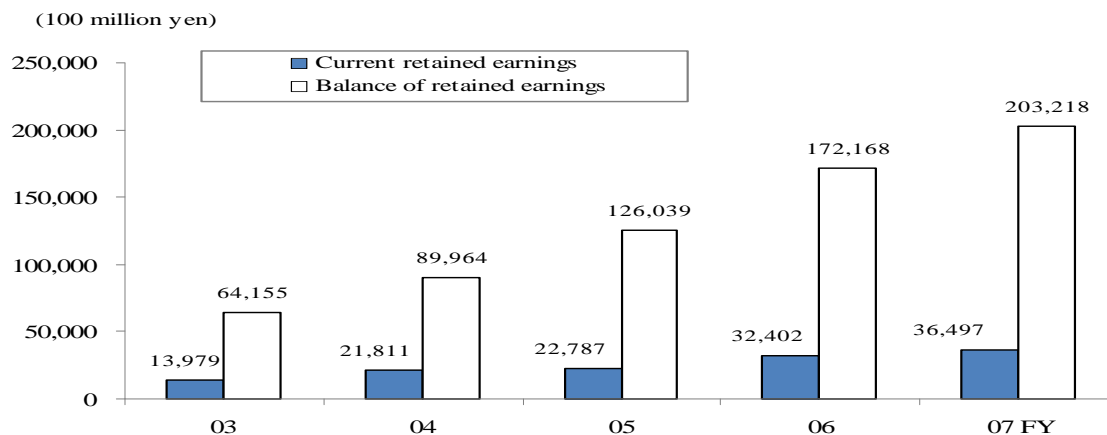


Figure 19. Trends in current retained earnings and balance of retained earnings



Note 1: Current retained earnings = Current net profit or loss – Directors' bonuses – Dividends

Note 2: Year-end balance of retained earnings = Proprietary capital – Capital – Capital reserve

10. Research and development expenses of overseas affiliates

- In FY2007, research and development expenses in manufacturing industries amounted to 379.7 billion yen (1.0% decrease as compared to the previous year).
- The ratio of overseas research and development expenses* decreased by 0.1 points as compared to the previous year, to 3.1% (see Figure 20).
- Research and development expenses per company in manufacturing industries decreased for the third consecutive year to 296 million yen (3.3% decrease as compared to the previous year) (see Figure 21).
- By sector, there was a decrease in the chemicals sector, and increases in the production machinery and transportation equipment sectors (see Table 7).
- By region, research and development expenses decreased in North America and Europe, but increased in Asia (see Table 8).

Figure 20. Trends in research and development expenses of overseas affiliates and in the ratio of overseas research and development expenses (manufacturing industries)

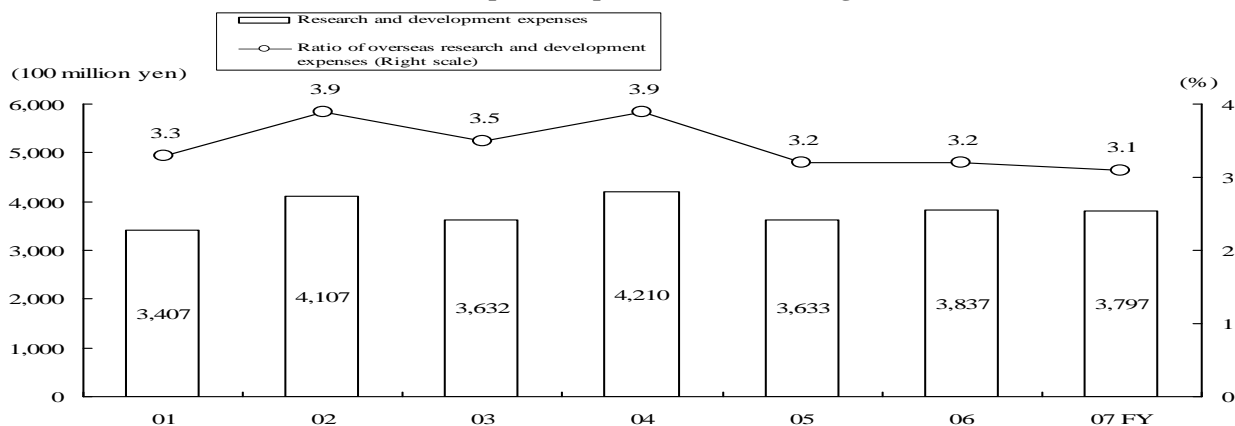


Figure 21. Trends in research and development expenses per company

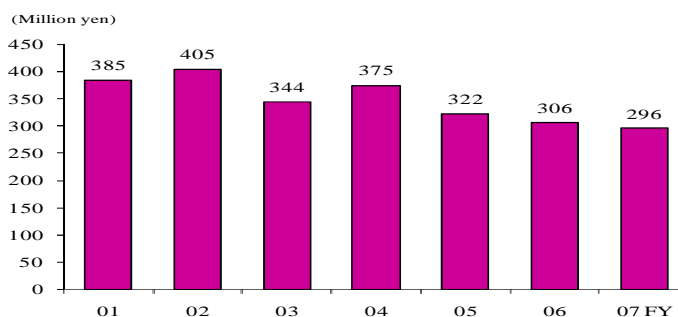


Table 7. Research and development expenses per company in manufacturing industries (by major sector)

(Units: million yen, %)

	FY2006	FY2007	Y/Y difference	Y/Y ratio
Manufacturing industries	306	296	▲ 10	▲ 3.3
Chemicals	621	409	▲ 212	▲ 34.1
General-purpose machinery	178	187	9	5.1
Production machinery	158	260	102	64.6
Business oriented machinery	263	232	▲ 31	▲ 11.8
Electrical machinery	243	229	▲ 14	▲ 5.8
Information and communication electronics equipment	522	586	64	12.3
Transportation equipment	289	386	97	33.6

Table 8. Research and development expenses per company in manufacturing industries (by region)

(Units: million yen, %)

	FY2006	Y/Y difference	Y/Y ratio	FY2007	Y/Y difference	Y/Y ratio
All regions	306	▲ 16	▲ 5.0	296	▲ 10	▲ 3.3
North America	642	86	15.5	588	▲ 54	▲ 8.4
Asia	109	▲ 8	▲ 6.8	131	22	20.2
Europe	632	▲ 153	▲ 19.5	564	▲ 68	▲ 10.8

Note: Ratio of overseas research and development expenses = Research and development expenses of overseas affiliates / (Research and development expenses of overseas affiliates + Research and development expenses of domestic companies) x 100.0

Source: Research and development expenses of domestic companies: "Intramural expenditure on R&D of companies, etc. (costs)" in the Report on the Survey of Research and Development in Japan (Ministry of Internal Affairs and Communications)

11. Capital investment in overseas affiliates

- In FY2007, the amount of capital investment in overseas affiliates in the manufacturing industries increased for the fourth consecutive year to 4.2 trillion yen (up by 7.2% as compared to the previous year). The ratio of overseas capital investment^(Note) was 19.5% (down by 0.5 points as compared to the previous year) (see Figure 22).
- By sector, there were increases in the chemicals sector (up by 23.8% as compared to the previous year) and food sector (up by 38.5% (id.)) (see Figure 23).
- By region, there were increases in Asia (up by 7.4% as compared to the previous year), North America (up by 4.5% (id.)), and Europe (up by 2.1% (id.)). In Asia, there were increases in ASEAN4 (up by 17.5% (id.)) and China (up by 1.6% (id.)), while NIEs3 decreased (down by 15.1% (id.)) (see Figures 24 and 25).

Figure 22. Trends in capital investment in overseas affiliates (manufacturing industries)

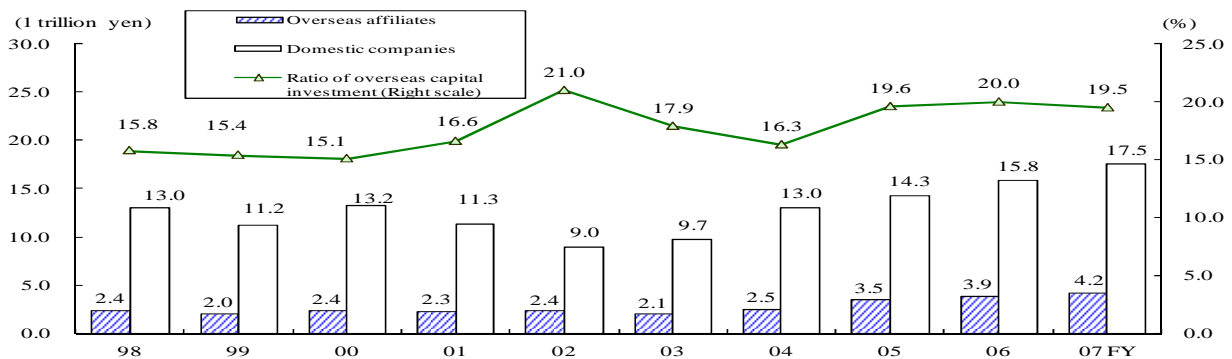


Figure 23. Capital investment in overseas affiliates (by major sector)

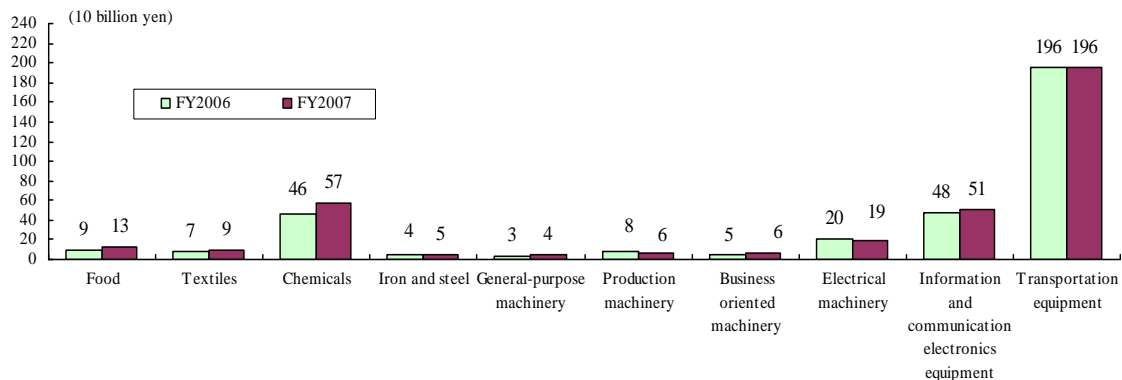


Figure 24. Capital investment in overseas affiliates in manufacturing industries (by region)

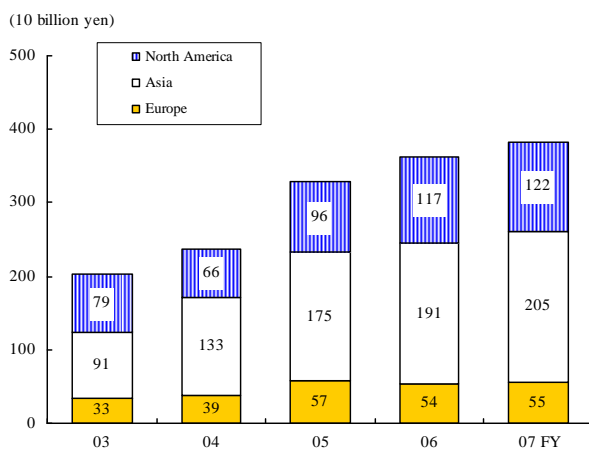
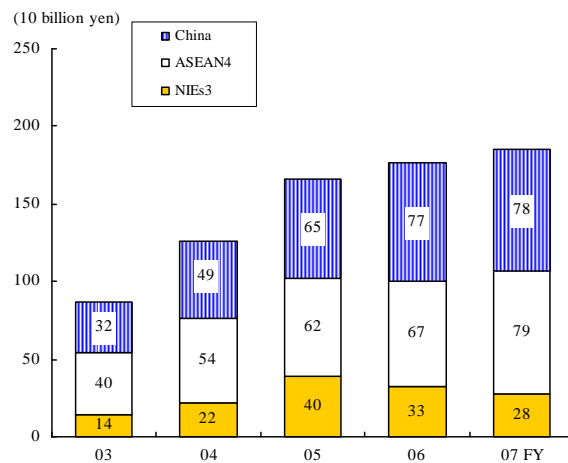


Figure 25. Capital investment in overseas affiliates in manufacturing industries (in Asia)



Note: Ratio of overseas capital investment = Amount of capital investment in overseas affiliates / (Amount of capital investment in overseas affiliates + Amount of capital investment in domestic companies) × 100.0

Source: Amount of capital investment in domestic companies: "Financial Statement Statistics of Corporations by Industry" (Ministry of Finance)