

**Consolidated Financial Statements**

For the first quarter ended March 31, 2011



**I . Consolidated Financial Results**

(1) Results of operations: (¥ in millions, US\$ in thousands, except for net income per share)

	Results for the first quarter (Jan.1-Mar.31)			
	2010	2011	Increase (Decrease)	2011
	¥	¥	%	\$
Net sales	187,694	193,005	2.8	2,321,168
Operating income	7,028	9,351	33.1	112,458
Ordinary income	5,104	7,913	55.0	95,162
Net income	3,493	2,576	(26.3)	30,985
Net income per share: Basic	2.33	1.72	—	0.021
Net income per share: Diluted	—	—	—	—

Notes

Important changes in accounting policies : applicable

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

	Mar. 31, 2010	Mar. 31, 2011	Mar. 31, 2011
	¥	¥	\$
Total assets	924,484	925,161	11,126,404
Total equity	284,965	285,009	3,427,648
Total equity per share	161.47	161.37	1.94
	%	%	%
Stockholders' equity ratio	26.1	26.1	26.1

(4) Dividends:

	2010	2011 Forecast
Q1 dividends per share (¥)	—	—
Q2 dividends per share (¥)	0.0	0.0
Q3 dividends per share (¥)	—	—
End of Term dividends per share (¥)	3.0	3.0
Annual dividends per share (¥)	3.0	3.0

**II . Forecast of performance for the year ending December 31, 2011**

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

	fiscal year	
	¥	\$
Net sales	870,000	10,463,019
Operating income	45,000	541,191
Ordinary income	38,000	457,005
Net income	21,000	252,556
Net income per share	14.03	0.17

Notes

The above forecast was announced on February 9, 2011.

The above forecast is based on the information available at the date of the announcement. Actual results may differ materially due to a variety of reasons, including such economic factors as fluctuations in foreign currency exchange rate as well as market supply and demand conditions.

Notes

The U.S. dollar is valued at ¥83.15 throughout this statement for convenience only.

We would like to once again express our sincere sympathy with people affected by the recent East Japan Earthquake Disaster.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

During the first quarter of 2011 (January 1 - March 31), the Japanese economy was undergoing a process of recovery, as witnessed by improvement in corporate earnings. However, due to the influence of the March 11 East Japan Earthquake Disaster, the economy weakened, with a deterioration in production activities. Furthermore, the economy was faced with the fear of soaring oil prices and sharp fluctuations in the foreign exchange/stock markets.

After the earthquake, we basically suspended operations at our sites in the Tohoku and Kanto regions through March 16. We then resumed production on March 17, centering on basic chemicals necessary for the supply of drinking water, food, medicine and electricity. In resuming production, we gave priority to items urgently needed by society and increased operating rates by stages. We will continue providing important materials and components that form the basis of life, thereby contributing to sound growth of society.

At the beginning of 2011, the Showa Denko Group launched its new medium-term consolidated business plan "PEGASUS." Under the plan, Showa Denko will, as an "evolving chemical company with individualized products," aim to build up strong and diversified businesses on a global scale and establish leading positions on the market.

The Company recorded net sales of ¥193,005 million in the first quarter of 2011, up 2.8% from the same period of the previous year. The Company posted operating income of ¥9,351 million, up 33.1%, and ordinary income of ¥7,913 million, up 55.0%. However, reflecting extraordinary losses due to the East Japan Earthquake Disaster, net income fell 26.3%, to ¥2,576 million.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	187,694	193,005	5,311
Operating income	7,028	9,351	2,323
Ordinary income	5,104	7,913	2,808
Net income	3,493	2,576	- 917

(2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2011)

As from the first quarter of 2011, we have changed our business segmentation in accordance with the accounting standards for disclosure of segment information, etc. and their application guidelines. Specifically, we have changed the business segmentation from five (Petrochemicals, Chemicals, Electronics, Inorganics, and Aluminum & Other) to six (Petrochemicals, Chemicals, Electronics, Inorganics, Aluminum, and Others). The figures for the same period of the previous

year have been rearranged to meet the new segmentation.

[Petrochemicals segment]

The Petrochemicals segment's sales increased 27.5%, to ¥58,863 million. Production of ethylene and propylene increased from the same period of the previous year, when we had shutdown maintenance (conducted once in every four years). Sales of olefins increased due to higher shipment volumes and selling prices, reflecting the rise in raw material costs. Sales of organic chemicals were maintained at the level of the same period of last year. Operating income jumped 661.6%, to ¥2,075 million.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	46,184	58,863	12,679
Operating income	272	2,075	1,802

[Chemicals segment]

The Chemicals segment's sales increased 0.3%, to ¥32,474 million. Production of ammonia decreased from the same period of the previous year. Sales of ammonia, semiconductor-processing specialty gases, and functional polymers were maintained at the level of the same period of last year. Sales of acrylonitrile and chloroprene rubber increased due to the rise in selling prices. Operating income fell 14.8%, to ¥1,723 million due to the influence of higher costs of raw materials and fuels.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	32,379	32,474	95
Operating income	2,022	1,723	- 300

[Electronics segment]

The Electronics segment's sales fell 26.3%, to ¥26,500 million. Production of hard disk (HD) media decreased from the same period of the previous year, reflecting production adjustments by customers. Sales of HD media decreased due to lower shipment volumes. Sales of compound semiconductors decreased due to the fall in selling prices. Sales of rare earth magnetic alloys increased due to higher selling prices, reflecting the sharp rise in raw material costs. Operating income decreased 23.6%, to ¥2,092 million.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	35,976	26,500	- 9,477
Operating income	2,739	2,092	- 647

[Inorganics segment]

The Inorganics segment's sales rose 9.1%, to ¥19,730 million. Production of graphite electrodes increased from the same period of the previous year, reflecting the recovery in the electric steelmaking industry. Sales of graphite electrodes increased due mainly to the rise in shipment volumes in the United States. Sales of ceramics increased, mainly

for electronic material applications. Operating income jumped 91.1%, to ¥2,468 million.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	18,092	19,730	1,639
Operating income	1,291	2,468	1,177

[Aluminum segment]

The Aluminum segment's sales slipped 3.0%, to ¥29,714 million. Production of high-purity foils for capacitors increased from the same period of the previous year. Sales of high-purity foils for capacitors increased due to the rise in shipment volumes and selling prices. Sales of aluminum cylinders for laser beam printers decreased due to lower shipment volumes. Sales of heat exchangers increased in China and Thailand, but decreased in Japan, the United States and Europe. As a result, overall sales from the heat exchanger business fell. Sales of *Shotite* forged products increased due to higher shipment volumes, but sales of aluminum cans decreased slightly. Operating income increased 2.8%, to ¥1,629 million.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	30,638	29,714	- 924
Operating income	1,584	1,629	45

[Others segment]

The Others segment's sales increased 6.0%, to ¥37,973 million. Sales of lithium-ion battery materials increased due to higher shipment volumes. Shoko Co., Ltd.'s sales increased due to steady sales of plastics and metals. Operating income jumped 242.5%, to ¥727 million.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	35,840	37,973	2,133
Operating income	212	727	515

(3) Major steps taken or decided in the first quarter of 2011

[General]

- Establishment of Group's slogan and statement

The Showa Denko Group established a new slogan and a statement to declare its policy to "contribute toward creating a society where affluence and sustainability are harmonized," providing components, materials and solutions as an evolving chemical company with individualized products. The Group started using the slogan and the statement as a means to communicate the policy to its stakeholders, and to make a commitment to carry out the policy. We believe the Showa Denko Group's mission is to bring the dreams of humankind into reality through innovation in chemical technology.

This belief is summarized into the simple and strong words of “Shaping Ideas.” We are using the image of “Pencil” as the symbol of “Shaping Ideas.”

- Restart of operations after the East Japan Earthquake Disaster  
After the March 11 East Japan Earthquake Disaster and resultant emergency shutdown of relevant production facilities, we basically suspended operations at our sites in the Tohoku and Kanto regions through March 16 for safety inspection. After confirmation of the safety of the facilities, we resumed production on March 17, centering on basic chemicals necessary for the supply of drinking water, food, medicine and electricity. In resuming production, we gave priority to items urgently needed by society. As an independent power producer (IPP), we restarted our plant soon after the earthquake, supplying electricity to the electric power company concerned. All production facilities virtually returned to normal operation at the end of March.

[Petrochemicals segment]

- Establishment of a joint venture for aromatics business  
Showa Denko and Nippon Steel Chemical Co., Ltd. (NSC) agreed to establish a joint venture company based on NSC Oita Works' operations in the field of aromatic chemicals, such as styrene monomer, benzene, toluene, and xylene. The joint venture, tentatively named NS Styrene Monomer Co., Ltd., will be established in August 2011. The two companies aim to strengthen the business by achieving a vertical integration covering all stages from raw materials to products, and improving facilities.

[Chemicals segment]

- Construction of a new plant for eco-friendly, high-purity gas for LCD production  
In December 2010, we started building a 400 t/y high-purity carbonyl fluoride (COF<sub>2</sub>) plant within the premises of our Higashinagahara Plant. The new plant is scheduled for completion in July 2011. The COF<sub>2</sub> gas, with lower environmental impact, is to be used in the production of liquid crystal display (LCD) panels. Compared with sulfur hexafluoride (SF<sub>6</sub>), a typical etching gas used for processing LCD glass substrates, COF<sub>2</sub> has lower global warming potential. We have reduced production cost and enhanced the purity of our COF<sub>2</sub> product by fully utilizing our proprietary technologies for synthesis and purification, ensuring stable supply of COF<sub>2</sub>. We will continue developing new eco-friendly products and expanding our product lineup.

[Inorganics segment]

- Decision to expand graphite electrode production capacity  
Based on the forecast of steady growth in global demand for electric steel, we decided to expand our graphite electrode production capacity at Showa Denko Carbon, Inc. (SDKC), a consolidated subsidiary in the United States, from 45,000 t/y at present to 75,000 t/y by the end of 2013. The expanded facilities will ensure increased production of large-diameter (30- and 32-inch) graphite electrodes, which are areas of our strengths. The construction work will be completed in the first half of 2013. Together with the 60,000 t/y plant in Omachi, Japan, the Showa Denko Group's total graphite electrode production capacity will reach 135,000 t/y. With the scheduled expansion at SDKC, the Group will establish a flexible supply chain on a global scale, serving the rapidly growing markets in Asia and Latin America, in addition to the existing markets in Japan, the United States and Europe.

[Others segment]

- Volume production of carbon-coated aluminum foils for LIBs  
The Showa Denko Group will start volume production and full-scale sales of

carbon-coated aluminum foils (trade name: SDX™) that reduce electrical resistance of lithium-ion battery (LIB) electrodes. SDX™ is produced by coating plain aluminum foils with electrically conductive carbon, using our proprietary technology. The product reduces contact resistance between a cathode material and a collector by approximately 50%. As a result, rate performance has improved by more than 30%, enabling quick charge/discharge of heavy current. In addition, adhesion to collectors has increased, to 1.5 times the conventional level. This would lead to improvement in productivity at customers. The Showa Denko Group will accelerate R&D and commercialization of advanced battery materials, fully utilizing its rich stock of inorganic, metal and organic chemical technologies.

Note:

“Rate performance” refers to rates at which a battery’s capacity is maintained with the change in electric current. As the rate performance increases, the battery can withstand quicker charge and discharge.

## 2. Financial conditions for the January 1 - March 31, 2011 period (as compared with the conditions at December 31, 2010)

Total assets at the end of the quarter amounted to ¥925,161 million, an increase of ¥677 million from the level at December 31, 2010. The increase is due mainly to the rise in tangible fixed assets as a result of capital investments. Notwithstanding the fall in accounts payable, total liabilities increased ¥633 million, to ¥640,152 million, due to the increase in interest-bearing debt. Net assets at the end of the quarter increased ¥44 million, to ¥285,009 million, owing to the recording of net income for the quarter and increases in valuation difference and translation adjustments, notwithstanding the payment of dividends for 2010.

## 3. Performance forecast

There is no change from the performance forecast announced on February 9, 2011.

## Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2010	Mar. 31, 2011	Mar. 31, 2011
	¥	¥	\$
<b>Assets</b>			
Current assets			
Cash and deposits	43,627	35,521	427,194
Notes and accounts receivable-trade	135,611	137,796	1,657,193
Merchandise and finished goods	45,085	51,348	617,535
Work in process	10,422	11,097	133,455
Raw materials and supplies	45,151	48,371	581,735
Other	32,621	31,814	382,605
Allowance for doubtful accounts	(336)	(328)	(3,946)
<b>Total current assets</b>	<b>312,181</b>	<b>315,618</b>	<b>3,795,771</b>
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	87,782	89,168	1,072,375
Machinery, equipment and vehicles, net	142,688	142,617	1,715,182
Land	255,188	255,861	3,077,105
Other, net	14,178	13,910	167,291
<b>Total property, plant and equipment</b>	<b>499,836</b>	<b>501,557</b>	<b>6,031,953</b>
Intangible assets			
Goodwill	2,631	2,331	28,032
Other	9,524	9,742	117,156
<b>Total intangible assets</b>	<b>12,155</b>	<b>12,072</b>	<b>145,188</b>
Investments and other assets			
Investment securities	58,813	58,188	699,800
Other	42,163	38,411	461,945
Allowance for doubtful accounts	(665)	(686)	(8,252)
<b>Total investments and other assets</b>	<b>100,311</b>	<b>95,913</b>	<b>1,153,493</b>
<b>Total noncurrent assets</b>	<b>612,302</b>	<b>609,542</b>	<b>7,330,634</b>
<b>Total assets</b>	<b>924,484</b>	<b>925,161</b>	<b>11,126,404</b>
<b>Liabilities</b>			
Current liabilities			
Notes and accounts payable-trade	114,234	104,880	1,261,339
Short-term loans payable	73,721	86,872	1,044,768
Current portion of long-term loans payable	59,852	61,624	741,116
Commercial papers	6,000	500	6,013
Current portion of bonds	3,000	3,000	36,079
Provision	3,237	6,939	83,448
Other	68,623	58,174	699,622
<b>Total current liabilities</b>	<b>328,667</b>	<b>321,989</b>	<b>3,872,385</b>
Noncurrent liabilities			
Bonds payable	30,000	30,000	360,794
Long-term loans payable	178,461	182,927	2,199,961
Provision for retirement benefits	26,295	26,150	314,491
Other provision	595	789	9,494
Other	75,501	78,297	941,631
<b>Total noncurrent liabilities</b>	<b>310,851</b>	<b>318,163</b>	<b>3,826,371</b>
<b>Total liabilities</b>	<b>639,519</b>	<b>640,152</b>	<b>7,698,757</b>
<b>Net assets</b>			
Shareholders' equity			
Capital stock	140,564	140,564	1,690,481
Capital surplus	62,223	62,223	748,322
Retained earnings	36,916	34,671	416,968
Treasury stock	(178)	(143)	(1,716)
<b>Total shareholders' equity</b>	<b>239,525</b>	<b>237,315</b>	<b>2,854,055</b>
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	(3,749)	(4,225)	(50,815)
Deferred gains or losses on hedges	269	1,426	17,148
Revaluation reserve for land	22,373	22,372	269,059
Foreign currency translation adjustment	(16,778)	(15,371)	(184,859)
<b>Total valuation and translation adjustments</b>	<b>2,114</b>	<b>4,202</b>	<b>50,533</b>
<b>Minority interests</b>	<b>43,325</b>	<b>43,492</b>	<b>523,060</b>
<b>Total net assets</b>	<b>284,965</b>	<b>285,009</b>	<b>3,427,648</b>
<b>Total liabilities and net assets</b>	<b>924,484</b>	<b>925,161</b>	<b>11,126,404</b>

## Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter ( Jan.1-Mar.31 )		
	2010	2011	2011
	¥	¥	\$
Net sales	187,694	193,005	2,321,168
Cost of sales	159,299	162,267	1,951,497
Gross profit	28,395	30,738	369,672
Selling, general and administrative expenses	21,367	21,387	257,214
Operating income	7,028	9,351	112,458
Non-operating income			
Interest income	44	34	410
Dividends income	71	174	2,095
Equity in earnings of affiliates	162	457	5,490
Rent income on noncurrent assets	306	—	—
Foreign exchange gains	304	—	—
Miscellaneous income	306	831	9,989
Total non-operating income	1,194	1,495	17,984
Non-operating expenses			
Interest expenses	1,465	1,355	16,295
Miscellaneous expenses	1,652	1,579	18,985
Total non-operating expenses	3,117	2,934	35,280
Ordinary income	5,104	7,913	95,162
Extraordinary income			
Gain on sales of noncurrent assets	69	—	—
Gain on transfer of business	200	—	—
Residual gain on invested assets	—	221	2,657
Other	30	229	2,756
Total extraordinary income	299	450	5,414
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	309	359	4,320
Impairment loss	509	—	—
Loss on the Great East Japan Earthquake	—	2,601	31,276
Other	619	1,310	15,758
Total extraordinary losses	1,437	4,270	51,354
Income before income taxes and minority interests	3,966	4,093	49,221
Income taxes	(159)	838	10,076
Income before minority interests	—	3,255	39,145
Minority interests in income	631	678	8,160
Net income	3,493	2,576	30,985



## Consolidated Statements of Cash Flows

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan. 1 – Mar. 31)		
	2011	2010	2011
	¥	¥	\$
<b>Net cash provided by (used in) operating activities</b>			
Income before income taxes and minority interests	4,093	3,966	49,221
Depreciation and amortization	12,230	12,210	147,081
Impairment loss	111	509	1,339
Amortization of goodwill	300	300	3,609
Increase (decrease) in provision for retirement benefits	(149)	(167)	(1,787)
Interest and dividends income	(208)	(115)	(2,505)
Interest expenses	1,355	1,465	16,295
Equity in (earnings) losses of affiliates	(457)	(162)	(5,490)
Loss (gain) on sales and valuation of investment securities	305	42	3,668
Loss on retirement of noncurrent assets	339	294	4,077
Loss (gain) on sales of noncurrent assets	4	(54)	52
Decrease (increase) in notes and accounts receivable–trade	(1,846)	8,817	(22,203)
Decrease (increase) in inventories	(9,274)	(2,408)	(111,532)
Increase (decrease) in notes and accounts payable–trade	(10,013)	(12,944)	(120,425)
Other, net	150	(1,895)	1,807
Subtotal	(3,059)	9,860	(36,795)
Interest and dividends income received	852	204	10,244
Interest expenses paid	(1,272)	(1,542)	(15,295)
Income taxes paid	(2,496)	(2,394)	(30,016)
Net cash provided by (used in) operating activities	(5,975)	6,128	(71,861)
<b>Net cash provided by (used in) investing activities</b>			
Proceeds from sales and redemption of securities	2	2	28
Purchase of property, plant and equipment	(10,181)	(14,995)	(122,443)
Proceeds from sales of property, plant and equipment	59	117	714
Proceeds from transfer of business	–	1,283	–
Purchase of investment securities	(143)	(921)	(1,719)
Proceeds from sales of investment securities	93	29	1,118
Net decrease (increase) in short-term loans receivable	(33)	177	(391)
Payments of long-term loans receivable	(1,641)	(470)	(19,738)
Collection of long-term loans receivable	1,723	45	20,721
Other, net	(92)	(68)	(1,108)
Net cash provided by (used in) investing activities	(10,212)	(14,802)	(122,818)
<b>Net cash provided by (used in) financing activities</b>			
Net increase (decrease) in short-term loans payable	12,846	9,010	154,493
Net increase (decrease) in commercial papers	(5,500)	(3,700)	(66,146)
Proceeds from long-term loans payable	20,587	7,806	247,590
Repayment of long-term loans payable	(14,588)	(16,340)	(175,437)
Redemption of bonds	–	(3,000)	–
Cash dividends paid	(3,541)	(3,345)	(42,589)
Cash dividends paid to minority shareholders	(554)	(301)	(6,663)
Other, net	(1,713)	(3,344)	(20,596)
Net cash provided by (used in) financing activities	7,538	(13,215)	90,653
Effect of exchange rate change on cash and cash equivalents	501	47	6,024
Net increase (decrease) in cash and cash equivalents	(8,149)	(21,841)	(98,001)
Cash and cash equivalents at beginning of period	43,459	62,507	522,654
Increase in cash and cash equivalents from newly consolidated subsidiary	35	–	424
Increase in cash and cash equivalents resulting from merger	4	–	48
Cash and cash equivalents at end of period	35,349	40,666	425,124

(Reference)

SEGMENT INFORMATION (previous 1Q ended)

The operations of the Companies for the year ended March 31, 2010 and 2011 was summarised by industry segment as follows:

<b>Year ended March 31, 2010</b>		Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
<b>Sales</b>								
Outside customers	¥44,023	¥30,239	¥34,961	¥15,770	¥29,041	¥33,659	¥-	¥187,694
Inter-segment	2,161	2,140	1,015	2,322	1,597	2,181	(11,416)	-
Total	46,184	32,379	35,976	18,092	30,638	35,840	(11,416)	187,694
Operating income (loss)	¥272	¥2,022	¥2,739	¥1,291	¥1,584	¥212	(¥1,094)	¥7,028

<b>Year ended March 31, 2011</b>		Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
<b>Sales</b>								
Outside customers	¥56,850	¥29,515	¥26,082	¥17,144	¥28,030	¥35,384	¥-	¥193,005
Inter-segment	2,013	2,959	418	2,586	1,684	2,589	(12,249)	-
Total	58,863	32,474	26,500	19,730	29,714	37,973	(12,249)	193,005
Operating income (loss)	¥2,075	¥1,723	¥2,092	¥2,468	¥1,629	¥727	(¥1,362)	¥9,351

<b>Year ended March 31, 2011</b>		Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
<b>Sales</b>								
Outside customers	\$683,700	\$354,965	\$313,672	\$206,185	\$337,103	\$425,544	\$-	\$2,321,168
Inter-segment	24,208	35,586	5,027	31,100	20,253	31,135	(147,309)	-
Total	707,908	390,551	318,699	237,285	357,355	456,679	(147,309)	2,321,168
Operating income (loss)	\$24,953	\$20,718	\$25,161	\$29,676	\$19,594	\$8,740	(\$16,386)	\$112,456

Notes