SHOWA DENKO K.K.

Consolidated Financial Statements

For the year ended December 31, 2011

Ⅰ. Consolidated Financial Results

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

	Results for the year ended December 31			
	2010	2011	Increase (Decrease)	2011
	¥	¥	%	$
Net sales	797,189	854,158	7.1	10,987,368
Operating income	38,723	47,357	22.3	609,171
Ordinary income	30,471	40,018	31.3	514,769
Net income	12,706	16,980	33.6	218,420
Net income per share: Basic	8.49	11.35	—	0.15
Net income per share: Diluted	—	11.20	—	0.14
	%	%		
Net income on equity	5.2	6.9		
Ordinary income on total assets	3.2	4.3		
Operating income to net sales	4.9	5.5		

Notes
Important changes in accounting policies : applicable
Comprehensive income:
Results for the year ended December 31,2011 ¥17,446million
Results for the year ended December 31,2010 ¥4,115million

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

	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2011
	¥	¥	$
Total assets	924,484	941,303	12,108,342
Total equity	284,965	295,745	3,804,289
Total equity per share	161.47	168.33	2.17
	%	%	%
Stockholders' equity ratio	26.1	26.8	26.8

(3) Cash flows: (¥ in millions, US$ in thousands)

	Results for the year ended December 31		
	2010	2011	2011
	¥	¥	$
Cash flows from operating activities	66,293	69,437	893,195
Cash flows from investing activities	(49,074)	(38,672)	(497,453)
Cash flows from financing activities	(34,494)	(17,295)	(222,472)
Cash and cash equivalents at end of the year	43,459	55,026	707,821

(4) Dividends:

	2010	2011	2012 forecast
Q1 dividends per share (¥)	—	—	—
Q2 dividends per share (¥)	0.0	0.0	0.0
Q3 dividends per share (¥)	—	—	—
End of Term dividends per share (¥)	3.0	3.0	3.0
Annual dividends per share (¥)	3.0	3.0	3.0
Total dividends (¥ in millions)	4,490	4,490	—
	%	%	%
Payout ratio (consolidated)	35.3	26.4	19.5
Net assets dividend yield (consolidated)	1.8	1.8	—

※The dividends for 2011 is still undecided.

Ⅱ. Forecast of performance for the year ending December 31, 2012

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

	1st half		fiscal year	
	¥	$	¥	$
Net sales	410,000	5,273,990	880,000	11,319,784
Operating income	16,000	205,814	48,000	617,443
Ordinary income	13,500	173,656	42,000	540,262
Net income	8,500	109,339	23,000	295,858
Net income per share	5.7	0.07	15.37	0.20

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

Notes
The U.S. dollar is valued at ¥77.74 throughout this statement for convenience only.

[Business Results]

1. Analysis of business results

(1) Summary

The Japanese economy saw signs of recovery in production and exports in the first half of 2011 despite the restriction of power supply due to the East Japan Earthquake Disaster in March and the nuclear power plant accident. In the second half of the year, production and exports continued to show signs of recovery. However, the Japanese economy continued to face a difficult situation due to the appreciation of the yen at historically high levels, the slowdown in overseas economies amid the sovereign debt crisis in Europe, and the disruption of supply chain following the floods in Thailand.

The petrochemicals industry was steady in the first half of the year. However, against the background of the economic slowdown in Europe and the tight money policy in China, the petrochemicals market in Asia weakened in the second half of the year due to inventory adjustments. The electronic parts/materials industry experienced substantial production adjustments in LCD panels. The nonferrous metal industry was affected by substantial reductions in automobile production following the East Japan Earthquake Disaster and the floods in Thailand.

In January 2011, the Showa Denko Group launched its new medium-term consolidated business plan PEGASUS. Under the plan, the Group aims to fully utilize its proprietary and advanced technologies. The Group 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.

In 2011, the Group recorded consolidated net sales of ¥854,158 million, up 7.1% from the previous year. Operating income increased 22.3%, to ¥47,357 million, due mainly to the contribution of the Electronics segment, and ordinary income rose 31.3%, to ¥40,018 million. The Group recorded net income of ¥16,980 million, up 33.6%, despite the recording of extraordinary losses following the earthquake.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	Vs. 2010		2011 4Q (Oct.-Dec.)	Vs. 4Q 2010		Vs. 3Q 2011	
		2010 (Jan.-Dec.)	Increase/ decrease		2010 4Q (Oct.-Dec.)	Increase/ decrease	2011 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	854,158	797,189	56,969	212,526	212,838	- 312	225,106	- 12,580
Operating income	47,357	38,723	8,634	8,504	11,192	- 2,688	16,752	- 8,248
Ordinary income	40,018	30,471	9,547	7,220	8,905	- 1,685	14,743	- 7,523
Net income	16,980	12,706	4,274	- 536	3,306	- 3,842	9,557	- 10,093

(2) A breakdown of net sales and operating income by segment

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 full-year 2010 and the fourth quarter of 2010 have been rearranged to meet the new segmentation.

(Petrochemicals)

(Full-year, compared with the previous year)

Production of ethylene and propylene increased from the previous year, when we conducted the shutdown maintenance (conducted once in every four years). Sales of olefins increased owing to higher shipment volumes and higher selling prices, reflecting the rise in naphtha prices. Sales of ethyl acetate decreased due to lower shipment volumes. However, overall sales of organic chemicals increased owing to higher shipment volumes of allyl alcohol and other products.

As a result, the Petrochemicals segment's sales increased 25.5%, to ¥250,396 million, and its operating income increased 52.9%, to ¥3,484 million.

(4Q results, in comparison with the same period of the previous year)

Sales of organic chemicals were down due to lower shipment volumes of allyl alcohol and other products. Sales of olefins increased owing to the rise in selling prices. As a result, the Petrochemicals segment's sales in the fourth quarter increased 6.8%, to ¥59,312 million. However, the segment recorded operating loss of ¥1,598 million (down ¥3,080 million), due to production adjustments in response to weakening market in Asia and deterioration of profitability in export.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	Vs. 2010		2011 4Q (Oct.-Dec.)	Vs. 4Q 2010		Vs. 3Q 2011	
		2010 (Jan.-Dec.)	Increase/ decrease		2010 4Q (Oct.-Dec.)	Increase/ decrease	2011 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	250,396	199,590	50,805	59,312	55,529	3,783	64,038	- 4,726
Operating income	3,484	2,278	1,206	- 1,598	1,482	- 3,080	1,006	- 2,604

(Chemicals)

(Full-year, compared with the previous year)

Production of liquefied ammonia decreased. Sales of functional polymers were maintained at the previous year's level, while sales of chloroprene rubber were up due to the rise in selling prices. Sales of semiconductor-processing specialty gases decreased due to the fall in selling prices. Sales of acrylonitrile and industrial gases decreased due to the fall in shipment volumes.

As a result, the Chemicals segment's sales fell 2.5%, to ¥130,203 million, and operating income fell 63.8%, to ¥2,035 million.

(4Q results, in comparison with the same period of the previous year)
Sales of functional polymers and ammonia were maintained at the levels of the same period of the previous year. Sales of caustic soda were up. However, sales of chloroprene rubber decreased due to lower shipment volumes. Sales of acrylonitrile and semiconductor-processing specialty gases decreased due to the fall in selling prices. As a result, the Chemicals segment's sales in the fourth quarter decreased 9.0%, to ¥32,311 million. The segment recorded operating loss of ¥293 million, down ¥1,943 million.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	Vs. 2010		2011 4Q (Oct.-Dec.)	Vs. 4Q 2010		Vs. 3Q 2011	
		2010 (Jan.-Dec.)	Increase/ decrease		2010 4Q (Oct.-Dec.)	Increase/ decrease	2011 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	130,203	133,578	- 3,376	32,311	35,524	- 3,213	31,567	744
Operating income	2,035	5,618	- 3,583	- 293	1,650	- 1,943	- 517	224

(Electronics)

(Full-year, compared with the previous year)
Production of HD media was affected in the fourth quarter due to the influence of the floods in Thailand on manufacturers of hard disk drives. However, total HD media production for 2011 increased, reflecting the brisk demand and the contribution of the expanded production capacity.

Sales of HD media decreased due to the influence of the appreciation of the yen, notwithstanding the rise in shipment volumes. Sales of compound semiconductors decreased due to the fall in selling prices. Meanwhile, sales of rare earth magnetic alloys increased due to higher selling prices, reflecting the soaring raw material prices.

As a result, the Electronics segment's sales increased 11.5%, to ¥165,011 million, and operating income jumped 102.8%, to ¥30,242 million.

(4Q results, in comparison with the same period of the previous year)
Sales of HD media in the fourth quarter decreased due to lower shipment volumes, reflecting the influence of the floods in Thailand. Sales of compound semiconductors were maintained at the level of the same period of the previous year. Sales of rare earth magnetic alloys increased due to higher selling prices. As a result, the Electronics segment's sales in the fourth quarter increased 5.0%, to ¥44,366 million, and operating income jumped 131.7%%, to ¥10,198 million.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	Vs. 2010		2011 4Q (Oct.-Dec.)	Vs. 4Q 2010		Vs. 3Q 2011	
		2010 (Jan.-Dec.)	Increase/ decrease		2010 4Q (Oct.-Dec.)	Increase/ decrease	2011 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	165,011	147,988	17,023	44,366	42,244	2,122	52,059	- 7,693
Operating income	30,242	14,909	15,332	10,198	4,401	5,797	12,511	- 2,313

(Inorganics)

(Full-year, compared with the previous year)

Production of graphite electrodes increased, reflecting the recovery in demand from the electric arc furnace steelmaking industry. Sales of graphite electrodes decreased due partly to the influence of the appreciation of the yen, despite the rise in shipment volumes. Sales of ceramics increased due mainly to the rise in volumes of shipments for use as electronic materials.

As a result, the Inorganics segment's sales decreased 0.5%, to ¥77,564 million, and operating income decreased 4.4%, to ¥9,640 million.

(4Q results, in comparison with the same period of the previous year)

Sales of graphite electrodes on a non-consolidated basis decreased due partly to the influence of the appreciation of the yen. However, consolidated sales of graphite electrodes were up due to the increase in sales at our U.S. subsidiary, reflecting higher operating rates in the electric arc furnace steelmaking industry. Sales of ceramics decreased, due to the fall in volumes of shipments for use as electronic materials. As a result, the Inorganics segment's sales in the fourth quarter decreased 1.9%, to ¥18,684 million, and operating income decreased 45.1%, to ¥1,547 million.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	Vs. 2010		2011 4Q (Oct.-Dec.)	Vs. 4Q 2010		Vs. 3Q 2011	
		2010 (Jan.-Dec.)	Increase/ decrease		2010 4Q (Oct.-Dec.)	Increase/ decrease	2011 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	77,564	77,958	- 393	18,684	19,049	- 365	18,835	- 151
Operating income	9,640	10,085	- 445	1,547	2,819	- 1,272	2,467	- 919

(Aluminum)

(Full-year, compared with the previous year)

Production of high-purity foils for capacitors decreased due to production adjustments in the capacitor industry in the second half of the year. Sales of rolled products were down due to the fall in shipment volumes of high-purity foils for capacitors. Sales of extrusions/specialty products decreased due to the fall in shipment volumes of aluminum cylinders for laser beam printers. Sales of automotive heat exchangers decreased due to production cuts in the automobile industry, reflecting the East Japan Earthquake Disaster and the floods in Thailand. Meanwhile, sales of *Shotic*™ forged products increased due to higher shipment volumes. Sales of aluminum cans were maintained at the previous year's level.

As a result, the Aluminum segment's sales fell 4.5%, to ¥124,280 million, and operating income fell 27.3%, to ¥6,212 million.

(4Q results, in comparison with the same period of the previous year)
Sales of rolled products decreased due to the fall in shipment volumes of high-purity foils for capacitors. Sales of extrusions/specialty products fell owing to lower shipment volumes of aluminum cylinders for laser beam printers. Sales of automotive heat exchangers decreased, reflecting the production cuts in the automobile industry due to the floods in Thailand. Meanwhile, sales of *Shotic*™ forged products and aluminum cans increased due to higher shipment volumes. The Aluminum segment's sales in the fourth quarter decreased 4.5%, to ¥29,893 million, and operating income decreased 89.1%, to ¥174 million.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	Vs. 2010		2011 4Q (Oct.-Dec.)	Vs. 4Q 2010		Vs. 3Q 2011	
		2010 (Jan.-Dec.)	Increase/ decrease		2010 4Q (Oct.-Dec.)	Increase/ decrease	2011 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	124,280	130,084	- 5,804	29,893	31,302	- 1,409	32,654	- 2,761
Operating income	6,212	8,543	- 2,331	174	1,597	- 1,423	2,420	- 2,246

(Others)

(Full-year, compared with the previous year)
Sales of lithium-ion-battery-related materials increased due to higher volumes of shipments for smart phone and automotive applications. Shoko Co., Ltd.'s sales were maintained at the previous year's level. Meanwhile, sales from the engineering business decreased, reflecting the reduction in the scale of the business.

As a result, the Others segment's sales fell 2.3%, to ¥150,583 million, and operating income fell 8.9%, to ¥1,860 million.

(4Q results, in comparison with the same period of the previous year)
Sales of lithium-ion-battery-related materials decreased, and Shoko Co., Ltd.'s sales slipped. The Others segment's sales in the fourth quarter decreased 5.4%, to ¥37,363 million, and operating income decreased 89.6%, to ¥74 million.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	Vs. 2010		2011 4Q (Oct.-Dec.)	Vs. 4Q 2010		Vs. 3Q 2011	
		2010 (Jan.-Dec.)	Increase/ decrease		2010 4Q (Oct.-Dec.)	Increase/ decrease	2011 3Q (Jul.-Sept.)	Increase/ Decrease
Net sales	150,583	154,084	- 3,501	37,363	39,516	- 2,153	36,668	695
Operating income	1,860	2,041	- 181	74	713	- 639	283	- 210

(2) Major steps taken or decided in 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."

・Tie-up with U.S. firm in development, manufacture and sale of conductive inks

In April 2011, SDK reached agreement with NovaCentrix, of the United States, to cooperate in the promising area of printed electronics. SDK will manufacture and sell conductive inks developed by NovaCentrix through a licensing agreement, and jointly develop conductive inks to be used with NovaCentrix's Photonic Curing™ process technology. The term "printed electronics" refers to the technology to manufacture electronic devices through printing. Compared with conventional methods of separately forming layers of semiconductors, metals, and insulating materials, the printed electronics technology enables substantial simplification of manufacturing processes. Conductive inks are already used in part of smart phones and solar cell components. The technology is expected to find wide-ranging applications, including displays, solar cells, and organic EL lighting.

・ Establishment of a management company in Shanghai

In September 2011, we established a management company in Shanghai, China. The management company, Showa Denko (Shanghai) Co., Ltd., will serve as SDK's regional headquarters in accordance with Shanghai Municipality's rules introduced in 2002 for foreign multinational corporations. With the help of the new management company, SDK's subsidiaries in China will be able to increase the level of management and strengthen governance. Furthermore, the Showa Denko Group will be able to work out an effective marketing strategy for new businesses, thereby strengthening its presence in the growing Chinese market.

(Petrochemicals)

・Establishment of a joint venture for aromatics business

In August 2011, SDK and Nippon Steel Chemical Co., Ltd. (NSC) jointly established NS Styrene Monomer Co., Ltd., based on NSC Oita Works' operations in the filed of aromatic chemicals, such as styrene monomer, benzene, toluene, and xylene. SDK and NSC aim to strengthen the business by achieving a vertical integration covering all stages from raw materials to products, and improving facilities.

・Completion of a pilot plant for heat-resistant transparent film SHORAYAL™

In July 2011, we started up a pilot plant for our new heat-resistant transparent film "SHORAYAL™" within the premises of our Oita Complex. We developed SHORAYAL™ based on our proprietary resin technology for glass lens applications. The film has high transparency necessary for optical films, and high heat resistance required at the time of production of displays, including touch screens.

(Chemicals)

・Expansion of production capacity for high-purity ammonia for electronics

We have increased production capacity for high-purity ammonia to meet growing demand from the electronics industry. Specifically, production capacities at three sites—Japan, Taiwan, and China—have been increased from 1,000 t/y, 1,500 t/y and 500 t/y; to 1,500 t/y, 2,500 t/y and 1,000 t/y, respectively. The capacity increase was carried out through expansions of filling/storage facilities and improvement in production efficiency. As a result, the Showa Denko Group's total high-purity ammonia production capacity has increased from 3,000 t/y to 5,000 t/y. High-purity ammonia is used as a material gas in the production of LCD panels, gallium-nitride LEDs, and solar cells based on polycrystalline silicon. We will continue to ensure stable supply of high-purity ammonia, anticipating further growth for electronics applications.

・Transfer of industrial gas business to subsidiary

In January 2012, SDK split and transferred its industrial gas business to its wholly owned subsidiary Showa Tansan Co., Ltd. (STK), which is closer to customers. On the occasion of the business integration, STK changed its name to Showa Denko Gas Products Co., Ltd.

Note: The Showa Denko Group's industrial gas operations cover air separation gases (oxygen, nitrogen, argon, etc.), compressed hydrogen, carbon dioxide and dry ice, etc.

(Electronics)

・Launch of 2.5-inch 500 GB HD media

In July 2011, we started commercial shipments of 2.5-inch HD media with storage capacity of 500 gigabytes per disk, using the sixth-generation perpendicular magnetic recording (PMR) technology. The product was launched in response to a growing demand for high-capacity media, reflecting the increase in the global information traffic.

To the best of our knowledge, our new 2.5-inch HD media had the world's highest storage capacity for this size available on the market as of August 3, 2011.

・Expansion of HD media production capacity

Our total HD media production capacity has increased, to 27 million units a month, as from July 2011, following the completion of capacity expansion at our subsidiary Showa Denko HD Singapore Pte. Ltd. Demand for hard disk drives will expand in the coming years for use in servers, in addition to PCs.

・Expansion of rare earth magnetic alloy production capacity in China

In July 2011, we increased rare earth magnetic alloy production capacity at our subsidiary Ganzhou Zhaori Rare Earth New Materials Co., Ltd., in Ganzhou, Jiangxi Province, China, from 2,000 t/y to 3,000 t/y. Together with another subsidiary in Baotou, Inner Mongolia, our rare earth magnetic alloy production capacity in China now amounts to 4,000 t/y. The two subsidiaries in China are producing neodymium-based alloys for high-performance magnets, which are used in motors for hybrid cars and voice coil motors of hard disk drives.

(Inorganics)

・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. 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 Japan, the United States, and Europe.

・Start of construction of a chemical alumina plant in Indonesia

In April 2011, we held a ground-breaking ceremony in West Kalimantan, Indonesia, for a chemical alumina plant for our manufacturing/marketing joint venture with Antam, of Indonesia. The joint venture, PT Indonesia Chemical Alumina, is owned 20% by SDK. The plant, with capacity to produce 300,000 t/y of chemical alumina for use in electronics and water purification, will start up in 2014. SDK will meet an increasing demand for chemical alumina in the growing markets in the ASEAN region and East Asia by ensuring stable supply of the product based on its accumulated technologies.

・Expansion of nanoparticle TiO2 production capacity

In August 2011, we expanded the nanoparticle titanium-oxide production capacity at our subsidiary Showa Titanium Co., Ltd., to 240 tons a month, and started operations. The nanoparticle titanium-oxide product, sold under the trade name of *Super-Titania*™, is used in the production of multilayer ceramic capacitors (MLCCs). MLCCs are used mainly in light-weight electronic devices and in such energy-saving electric appliances as flat-panel TVs. Reflecting higher demand for these products, the MLCC market is continuing to grow.

(Aluminum)

・ Decision to strengthen the high-purity aluminum foils business

In August 2011, we decided to expand our capacity to produce high-purity aluminum foils for electrolytic capacitors at Sakai Plant, and establish a final processing site in China. As a result of the expansion, the Showa Denko Group's ability to provide high-purity aluminum foils will increase from 2,000 tons a month at present to 3,000 tons a month by the end of 2013. Aluminum electrolytic capacitors are now used widely in electric appliances, energy-saving devices for inverters, and IT equipment. Furthermore, demand will grow for such new applications as parts for electric vehicles and plug-in hybrid cars; and in the area of renewable energies, including wind energy and photovoltaic power generation. The expansion work will enable us to better meet the need for high-voltage aluminum electrolytic capacitors used in these new areas.

・Transfer of business in heat exchangers for car air conditioners

In January 2012, SDK completed the transfer of its automotive air-conditioner heat exchanger business to Keihin Corporation (Keihin) by transferring 60% of shares in Thermal Technology Corporation. SDK has produced aluminum-based heat exchangers, including condensers and evaporators, in Japan, the United States, Thailand, Czech, and China. SDK will transfer the remaining shares of 40% to Keihin in 2014.

(Others)

・Strengthening the LIB materials business

SDK decided to expand its production capacity for materials used in lithium-ion rechargeable batteries (LIBs): artificial-graphite-based anode material (*SCMG*™), additive in anodes and cathodes (*VGCF*™), and aluminum laminated films for LIB packaging (at Showa Denko Packaging Co., Ltd.). This is in response to the growing demand for large-sized LIBs for use in cars and storage batteries as well as for small-sized LIBs for use in smart phones and tablet-type devices. In December 2011, the production capacity was increased from 100 t/y to 200 t/y for *VGCF*™; and by 50% for aluminum laminated films. As for *SCMG*™, the production capacity will be increased from 1,000 t/y to 3,000 t/y by the middle of 2012.

・Volume production of carbon-coated aluminum foils for LIBs

In January 2011, we started volume production of carbon-coated aluminum foils (SDX™). When used as collectors at cathodes, SDX™ reduces electrical resistance and substantially improves the quick charge/discharge performance required for collectors in heavy-current automotive LIBs. In addition, adhesion of collectors to active materials of cathodes increases, to 1.5 times the conventional level. Thus, SDX™ will contribute toward improving battery performance.

(3) Projections for 2012

a) Overall projections

In 2012, despite the expected gradual recovery, the business environment is forecast to remain severe, due to such risk factors as the restriction of power supply, continuation of the sharp appreciation of the yen, slowdown of overseas economies against the backdrop of sovereign debt crisis in Europe, and fluctuations in raw material costs.

Under the circumstances, the Showa Denko Group will speedily and fully meet the need for its materials and components for use in the reconstruction efforts from the earthquake disaster. At the same time, the Group will increase its strength to cope with the appreciation of the yen by expanding its overseas operation sites. The Group will also work to minimize risk factors in all businesses through close cooperation with its suppliers and customers, optimizing the supply chain and managing relevant risks. The Group's performance forecast for 2012 is as follows:

(Unit: millions of yen)

	Results for the term ended Dec. 31, '11	Forecast for the term ending Dec. 31, '12	Difference	Rate of change
Net sales	854,158	880,000	25,842	3.0%
Operating income	47,357	48,000	643	1.4%
Ordinary income	40,018	42,000	1,982	5.0%
Net income	16,980	23,000	6,020	35.5%

Net sales will increase from the 2011 results, to ¥880,000 million. Operating income, ordinary income and net income will also increase to ¥48,000 million, ¥42,000 million, and ¥23,000 million, respectively. The above forecast is based on the assumption that the exchange rate will be ¥77 to the U.S. dollar and that the naphtha price will be ¥50,000/KL.

b) Net sales by business segment
[Net sales]

(Unit: billions of yen)

	Results for the term ended Dec. 31, '11	Forecast for the term ending Dec. 31, '12	Difference
Petrochemicals	250.4	240.0	- 10.4
Chemicals	130.2	140.0	9.8
Electronics	165.0	190.0	25.0
Inorganics	77.6	85.0	7.4
Aluminum	124.3	105.0	− 19.3
Others	150.6	160.0	9.4
Adjustments	- 43.9	− 40.0	3.9
Total	854.2	880.0	25.8

[Operating income]

(Unit: billions of yen)

	Results for the term ended Dec. 31, '11	Forecast for the term ending Dec. 31, '12	Difference
Petrochemicals	3.5	4.5	1.0
Chemicals	2.0	4.5	2.5
Electronics	30.2	26.0	- 4.2
Inorganics	9.6	10.0	0.4
Aluminum	6.2	6.0	- 0.2
Others	1.9	3.0	1.1
Adjustments	- 6.1	− 6.0	0.1
Total	47.4	48.0	0.6

The above forecast is based on the information available as of February 9, 2012 and our assumptions as of the same date about risk factors that could affect our future performance. Actual results may differ materially due to a variety of reasons.

2. Financial Conditions

(1) Assets, liabilities and net assets at December 31, 2011

Total assets increased ¥16,819 million, to ¥941,303 million, due partly to the increase in inventories reflecting the rise in costs of rare earths and other raw materials. Interest-bearing debt further decreased ¥3,727 million, to ¥347,308 million, as a result of continued reduction efforts. However, total liabilities increased ¥6,038 million, to ¥645,557 million, due partly to the increase in accounts payable. Total net assets increased ¥10,781 million, to ¥295,745 million, due partly to the recording of net income.

(2) Cash flows in 2011

Net cash provided by operating activities increased ¥3,144 million from the previous year, to ¥69,437 million, due partly to the increase in operating income. Net cash used in investing activities decreased ¥10,402 million, to ¥38,672 million, due partly to the decrease in payments for acquisition of tangible fixed assets.

Thus, free cash flow ended up in the proceeds of ¥30,765 million, an improvement of ¥13,547 million. Net cash used in financing activities decreased ¥17,199 million and ended up in the payment of ¥17,295 million. While we continued to reduce interest-bearing debt, the amount of reduction in 2011 was smaller than in 2010. As a result, and due partly to the influence of exchange rate fluctuations, cash and cash equivalents at December 31, 2011 increased ¥11,567 million, to ¥55,026 million.

(3) Projections for 2012

Cash flows from operating activities will increase slightly. In net cash used in investing activities, payment will substantially increase owing to the rise in investments in the Inorganics segment and others. Thus, free cash flow for 2012 is expected to decrease by around ¥25,800 million from ¥30,765 million in 2011, to the proceeds of approximately

¥5,000 million. Interest-bearing debt at the end of the year will be around ¥350,000 million, up ¥2,700 million.

(4) Trends in cash flow indexes

	2008	2009	2010	2011
Equity ratio	25.0%	25.5%	26.1%	26.8%
Equity ratio on a market value basis	16.5%	28.9%	29.6%	24.8%
Debt maturity (years)	6.4	18.8	5.3	5.0
Interest coverage ratio	7.8	2.8	11.4	12.8

[Notes]
Equity ratio: Equity / Total assets
Equity ratio on a market value basis: Total market value of listed shares / Total assets
Debt maturity (years): Interest-bearing debt / Cash flows from operating activities
Interest coverage ratio: Cash flows from operating activities / Interest payment

・Each index is calculated by relevant formulas with financial figures quoted from the consolidated financial statements.
・Equity is calculated by deducting minority interests from total net assets.
・Total market value of listed shares is calculated by multiplying the closing share price at the year-end by the number of shares issued, after deducting treasury stock.
・As to the cash flows, the amount of “cash flows from operating activities” in the consolidated cash flow statement is used.
・“Interest-bearing debt” refers to loans payable, commercial paper, and bonds as listed among liabilities on the consolidated balance sheet.
・As to the interest payment, the amount of “interest expense” in the consolidated cash flow statement is used.

3. Basic policy regarding appropriation of the Company’s profits; dividends for 2011/2012

The Company considers the payment of dividends as an important obligation to its shareholders. The Company’s basic policy is to decide on dividends after consideration of the profit level for the term and the need for internal reserve for use in future business expansions. As to appropriation of profits for 2011, the Company is planning to pay dividends of ¥3 per share. For 2012, the Company is planning to pay dividends of ¥3 per share.

4. Operational and other risks

We consider we face the risks, as explained below, that could adversely affect our future performance, financial conditions, and cash flows. The Showa Denko Group is taking steps to prevent the realization of these risks and minimize impact on its operations. The following covers important risk factors considered being present as of this February 9, 2012. This list is not inclusive.

(1) Substantial fluctuations in the performances of individual businesses

The Group is manufacturing and selling a wide variety of products, such as petrochemicals, chemicals, electronics, inorganics, and aluminum. The following risks are expected in major business fields, but those are not limited to the businesses mentioned below.

① Petrochemicals

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

② Aluminum

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

③ HD media

In the Group's HD media business, the sales volume is largely influenced by demand for electric appliances and PCs. The business requires innovations at a rapid pace and involves fierce international competition. Fluctuations in demand and intensification of competition will cause fluctuations in selling prices. The Group is prepared to develop and provide products meeting the market requirements and has established a global production/marketing setup. However, when customer requirements change more quickly than we expected, when supply-demand balance changes substantially, and when exchange rates sharply fluctuate, the Group's performance and financial conditions can be affected.

④ Overseas operations

The Group is producing and selling in Asia, North America, and Europe. Operations overseas involve such special risks as unexpected changes in laws and regulations, deterioration in political/economic situations, and social disorder due to war and terrorism. Such risks can become real and affect our overseas operations, resulting in adverse impact on the Group's performance and financial conditions.

(2) Unexpected fluctuations in financial conditions and cash flows

① Substantial fluctuations in exchange rates

As for foreign-currency-based transactions centering on exports/imports, the Group makes its best efforts to minimize relevant exchange rate fluctuation risks, mainly through exchange contracts. However, substantial fluctuations in exchange rates can affect the Group's performance and financial conditions. In particular, a sharp appreciation of the yen against other currencies can affect the Group's performance. Exchange rate fluctuations can also affect the Group's performance and financial conditions through the conversion of overseas subsidiaries' financial statements into Japanese yen.

② Trends in financial markets and changes in the fund-raising environment

The trends in the financial markets and deterioration in the Group's financial indexes can affect the Group's fund-raising and interest expenses: for example, in the form of prompt repayment of a loan owing to the terms of financial covenants. In that event, the Group's performance and financial conditions could be affected.

③ Employees' severance indemnities

The Group's employees' severance indemnities and expenses are calculated based on various basic rates and the yield of pension assets used in pension calculations. Fluctuations in the current price of pension assets, trends in interest rates, and changes in the retirement benefit/pension systems can affect the Group's performance and financial conditions.

④ Securities

As the Group owns securities with current prices, fluctuations in stock prices can result in valuation losses, affecting the Group's performance and financial conditions.

⑤ Accounting for impairment of fixed assets

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

⑥ Deferred tax assets

The Group's financial statements include deferred tax assets in relation to temporary differences (differences between the assets/liabilities on the consolidated financial statements and the assets/liabilities in calculation of taxable income). The calculation of deferred tax assets is based on various projections for future taxable income. Thus, when actual taxable income differs from the projections and when it becomes necessary to revise deferred tax assets, that can affect the Group's performance and financial conditions.

(3) Specific regulations

The Group's businesses are subject to various restrictions as stipulated by laws and regulations. The restrictions relate to industrial safety (such as the Law for Prevention of Disasters at Petroleum Complexes, Etc.; the Fire Service Law; and the High Pressure Gas Safety Law) and the environment and chemical substances (such as the Basic Environment Law; the Air Pollution Control Law; and the Law concerning the Examination and Regulation of Manufacture, Etc. of Chemical Substances). The Group observes these laws and regulations as it conducts its respective businesses. In the event the Group fails to observe any of the laws and regulations, the Group's activities could be restricted. In case stricter regulations are introduced, resulting in higher costs, the Group's performance and financial conditions can be affected.

(4) Important lawsuits

While the Group makes its best efforts to observe pertinent laws and regulations, the Group may be sued as it conducts its wide-ranging businesses.

(5) Others

① R&D

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

② Intellectual property

The Group is making its best efforts to obtain, use, and protect intellectual property, such as industrial property rights and know-how, in recognition of their ability to make the Group's businesses more competitive. However, in the event of failure to duly obtain or use the rights, infringement by a third party, or if the Group is considered to have infringed a third party's intellectual property, the Group's operations can be hindered and the Group's performance and financial conditions could be affected.

③ Quality assurance and product liability

The Group has established its internal rules on quality assurance and quality control, as well as organizations for managing and promoting quality assurance. Furthermore, the Group has obtained certification under ISO 9001 standards to ensure strict quality control. However, in the event of a serious quality defect or being sued for product liability, the Group's reputation could be damaged and the Group may be forced to pay compensation to customers. This could affect the Group's performance and financial conditions.

④ Accidents and disasters

The Group is committed to securing steady and safe operations. The Group conducts regular inspections of all manufacturing facilities in an effort to minimize any risk factors pertaining to the suspension of operations or accidents due to problems with manufacturing facilities. In the event of injury or damage to property due to an accident, a large-scale natural disaster, etc., the Group's reputation could be damaged and the Group may incur substantial costs in dealing with the situation. Furthermore, the Group may lose business opportunities due to the suspension of production, following damage to manufacturing facilities or disruption of the supply chain. These factors could affect the Group's performance and financial conditions.

⑤ Impact on environment

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

[Management Policy]

1. Showa Denko's basic management policy

(Vision)

We at the Showa Denko Group will provide products and services that are useful and safe and exceed our customers' expectations, thereby enhancing the value of the Group, giving satisfaction to our shareholders, and contributing to the sound growth of international society as a responsible corporate citizen.

(Our Code of Conduct)

1) We will act with integrity as a responsible citizen of the international society.
2) We will provide our customers with satisfaction and security.
3) We will develop corporate culture that helps every member of the Group to fully display his/her ability.
4) We will meet the expectations of local communities.
5) We will make vigorous efforts to maintain and improve the global environment.

2. Management indexes

The Showa Denko Group regards the following as important management indexes: operating income, which shows the results of operations; operating income/net sales ratio; operating income/total assets ratio (ROA); and free cash flow (FCF).

3. Medium to long-term business strategy

(1) New medium-term consolidated business plan PEGASUS (announced on December 1, 2010)

In January 2011, the Showa Denko Group launched a new medium-term consolidated business plan PEGASUS. Under the plan, the Group aims to fully utilize its proprietary and advanced technologies. The Group 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.

(2) Basic strategy under PEGASUS

In the business portfolio we aim to realize, we classify businesses into three categories: growing base businesses, stable base businesses, and growth/new growth businesses. We will promote our growth strategy by concentrating our managerial resources on globally competitive operations.

1) Main businesses

"HD media" and "graphite electrodes" are positioned as the main businesses. We will implement aggressive growth strategy for these two businesses, including expansion of production capacity. The two businesses will serve as major contributors to our profit and cash flows.

2) Growth/new growth businesses

We will expand businesses in high-purity gases for semiconductor processing and various functional materials. We will also aim to quickly commercialize new businesses in advanced materials for lithium-ion batteries, etc., SiC epitaxial wafers for power devices, and allyl derivatives such as heat-resistant transparent films.

3) Overseas operations

We will expand operations in growing markets, centering on Asia. In addition to the HD media and graphite electrode businesses, we will further expand our overseas operations in such areas as rare earth magnetic alloys and high-purity aluminum foils for capacitors.

4) Utilization of M&A and partnerships

In addition to existing managerial resources, we will utilize M&A and partnerships, when necessary for promotion of business strategies and R&D, to accelerate the speed of launching new businesses.

5) R&D strategy

We will invest a total of ¥120 billion in R&D in the 2011-2015 period. We will promote R&D over a long term in areas to be directly linked to our growth. We will allocate 60% of the amount to growing base businesses and growth businesses, while allocating 20% to new growth businesses and themes for search.

6) Capital investment plans

We will invest a total of ¥220 billion in the 2011-2013 period. By segment, priority will be given to Electronics, which includes the businesses in HD media and rare earth magnetic alloys; Inorganics, centering on graphite electrodes; and Chemicals, in which operation sites in Asia are to be expanded for high-purity gases for semiconductor processing.

(3) Financial targets under PEGASUS (announced on December 1, 2010)

The Group aims to achieve the following in 2013:

Net sales: ¥1,000 billion
Operating income: ¥80 billion
Operating income/net sales ratio: 8%
ROA: 7%
FCF: ¥70 billion (cumulative amount for the 2011-2013 period)
*Based on the exchange rate of ¥90 to the U.S. dollar

4. Tasks to be accomplished

While rapid economic growth in emerging countries is bringing about the rise in living standards, there is increasing need for concerted efforts to reduce impacts on the global environment. This social trend is producing new market needs. Specifically, demand is growing for compact electronic devices with higher quality, speed, and capacity, which will lead to more convenience and comfort. Furthermore, new technologies are needed to realize a healthy and safe society through various environmental protection measures, including those against global warming. And the security of energy supply should be achieved through reductions in dependence on fossil fuels and conservation of energy.

To meet these global market requirements, we have decided to focus on the two business domains of “Energy/Environment” and “Electronics.” We will provide components, materials, and solutions in these areas based on our proprietary and advanced technologies, and contribute toward creating a society where affluence and sustainability are harmonized, thereby enhancing the corporate value and promoting the common interests of shareholders.

The Showa Denko Group’s slogan has so far been “a chemical company with individualized products,” which means that we will develop many businesses that are unique and highly competitive. To encourage employees to take positive action for that goal, the Group is now performing business activities with a new slogan of “Evolution into a Company That Creates Added Value.” We will continue to improve performance of our materials and components, thereby creating added value and meeting the needs of society.

Other:

The Group announced changes in the management team on November 28, 2011.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2010	Sep. 30, 2011	Sep. 30, 2011
Assets	¥	¥	$
Current assets			
Cash and deposits	43,627	55,187	709,886
Notes and accounts receivable-trade	135,611	139,364	1,792,693
Merchandise and finished goods	45,085	52,589	676,475
Work in process	10,422	11,059	142,252
Raw materials and supplies	45,151	60,067	772,669
Deferred tax assets	3,309	3,177	40,873
Other	29,312	26,633	342,592
Allowance for doubtful accounts	(336)	(186)	(2,394)
Total current assets	312,181	347,890	4,475,045
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	87,782	84,218	1,083,323
Machinery, equipment and vehicles, net	142,688	123,495	1,588,563
Tools, furniture and fixtures, net	8,021	7,325	94,225
Land	255,188	254,851	3,278,247
Construction in progress	6,157	12,475	160,469
Total property, plant and equipment	499,836	482,363	6,204,827
Intangible assets			
Goodwill	2,631	1,441	18,532
Other	9,524	9,684	124,569
Total intangible assets	12,155	11,125	143,101
Investments and other assets			
Investment securities	58,813	59,570	766,269
Deferred tax assets	27,462	27,533	354,168
Other	14,700	13,713	176,396
Allowance for doubtful accounts	(665)	(891)	(11,465)
Total investments and other assets	100,311	99,925	1,285,368
Total noncurrent assets	612,302	593,413	7,633,297
Total assets	924,484	941,303	12,108,342
Liabilities			
Current liabilities			
Notes and accounts payable-trade	114,234	117,152	1,506,967
Short-term loans payable	73,721	68,122	876,277
Current portion of long-term loans payable	59,852	59,414	764,261
Commercial papers	6,000	—	0
Current portion of bonds	3,000	20,000	257,268
Accounts payable-other	46,811	58,704	755,138
Provision for repairs	276	264	3,397
Provision for bonuses	1,918	2,257	29,035
Provision for business structure improvement	67	65	836
Provision for Niigata Minamata Disease	976	437	5,619
Other	21,812	23,431	301,404
Total current liabilities	328,667	349,846	4,500,203
Noncurrent liabilities			
Bonds payable	30,000	20,000	257,268
Long-term loans payable	178,461	179,772	2,312,479
Lease obligations	16,891	14,394	185,162
Deferred tax liabilities	2,974	2,460	31,642
Deferred tax liabilities for land revaluation	45,818	40,025	514,851
Provision for retirement benefits	26,295	24,720	317,983
Provision for repairs	595	1,412	18,167
Provision for loss on the Great East Japan Earthquake	—	778	10,008
Other	9,818	12,150	156,291
Total noncurrent liabilities	310,851	295,711	3,803,850
Total liabilities	639,519	645,557	8,304,053
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,808,123
Capital surplus	62,223	62,222	800,389
Retained earnings	36,916	48,851	628,396
Treasury stock	(178)	(143)	(1,839)
Total shareholders' equity	239,525	251,494	3,235,069
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	(3,749)	(4,939)	(63,537)
Deferred gains or losses on hedges	269	(913)	(11,743)
Revaluation reserve for land	22,373	28,240	363,257
Foreign currency translation adjustment	(16,778)	(21,955)	(282,413)
Total accumulated other comprehensive income	2,114	433	5,564
Minority interests	43,325	43,819	563,656
Total net assets	284,965	295,745	3,804,289
Total liabilities and net assets	924,484	941,303	12,108,342

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2010 and 2011		
	2010	2011	2011
	¥	¥	$
Net sales	797,189	854,158	10,987,368
Cost of sales	670,260	719,322	9,252,925
Gross profit	126,928	134,836	1,734,444
Selling, general and administrative expenses	88,206	87,479	1,125,273
Operating income	38,723	47,357	609,171
Non-operating income			
Interest income	191	166	2,137
Dividends income	1,022	882	11,346
Equity in earnings of affiliates	1,206	1,050	13,502
Rent income on noncurrent assets	1,123	1,152	14,821
Miscellaneous income	1,782	1,326	17,061
Total non-operating income	5,324	4,576	58,867
Non-operating expenses			
Interest expenses	5,635	5,332	68,591
Foreign exchange losses	2,200	—	—
Miscellaneous expenses	5,741	6,583	84,678
Total non-operating expenses	13,576	11,915	153,269
Ordinary income	30,471	40,018	514,769
Extraordinary income			
Gain on sales of noncurrent assets	—	610	7,849
Gain on sales of investment securities	—	229	2,945
Subsidy	3,545	—	—
Reversal of provision for retirement benefits	—	660	8,485
Residual gain on invested assets	—	250	3,211
Other	1,368	451	5,807
Total extraordinary income	4,912	2,200	28,297
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	3,449	2,009	25,846
Impairment loss	4,610	4,627	59,516
Loss on the Great East Japan Earthquake	—	3,207	41,256
Compensation for cancellation of contracts	—	2,500	32,158
Provision for Niigata Minamata Disease	976	437	5,619
Other	6,572	3,362	43,250
Total extraordinary losses	15,608	16,142	207,646
Income before income taxes and minority interests	19,775	26,076	335,420
Income taxes	4,776	6,404	82,372
Income before minority interests	—	19,672	253,049
Minority interests in income	2,293	2,692	34,629
Net income	12,706	16,980	218,420

Consolidated Statements of Comprehensive Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2010 and 2011		
	2010	2011	2011
	¥	¥	$
Income before minority interests	14,999	19,672	253,049
Other comprehensive income:			
Valuation difference on available-for-sale securities	(6,343)	(1,313)	(16,890)
Deferred gains or losses on hedges	490	(1,172)	(15,076)
Revaluation reserve for land	―	5,682	73,090
Foreign currency translation adjustments	(5,030)	(5,399)	(69,449)
Share of other comprehensive income of affiliates applied for equity method	(0)	(24)	(309)
Total other comprehensive income	(10,884)	(2,226)	(28,634)
Comprehensive income	4,115	17,446	224,415
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	2,040	15,076	193,928
Comprehensive income attributable to minority interests	2,075	2,370	30,486

Consolidated Statements of Changes in Net Assets

For the year ended December 31, 2010 (¥ in millions)

	Shareholders' equity					Valuation and translation adjustments						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2009	140,564	62,225	29,311	(174)	231,925	2,574	(204)	21,764	(11,962)	12,172	42,625	286,722
Changes of items during the period												
Dividends from surplus			(4,490)		(4,490)							(4,490)
Net income			12,706		12,706							12,706
Purchase of treasury stock				(7)	(7)							(7)
Disposal of treasury stock		(1)		4	2							2
Reversal of revaluation reserve for land			(609)		(609)							(609)
Others			(2)		(2)							(2)
Net changes of items other than shareholders' equity						(6,323)	473	609	(4,817)	(10,058)	700	(9,358)
Total changes of items during the period		(1)	7,605	(3)	7,600	(6,323)	473	609	(4,817)	(10,058)	700	(1,757)
Balance at December 31, 2010	140,564	62,223	36,916	(178)	239,525	(3,749)	269	22,373	(16,778)	2,114	43,325	284,965

For the year ended December 31, 2011 (¥ in millions)

	Shareholders' equity					Total accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2010	140,564	62,223	36,916	(178)	239,525	(3,749)	269	22,373	(16,778)	2,114	43,325	284,965
Changes of items during the period												
Dividends from surplus			(4,490)		(4,490)							(4,490)
Net income			16,980		16,980							16,980
Purchase of treasury stock				(3)	(3)							(3)
Disposal of treasury stock		(1)		38	37							37
Decrease by increase of consolidated subsidiaries			(334)		(334)							(334)
Reversal of revaluation reserve for land			(222)		(222)							(222)
Others			1		1							1
Net changes of items other than shareholders' equity						(1,190)	(1,182)	5,867	(5,176)	(1,682)	494	(1,188)
Total changes of items during the period	–	(1)	11,935	35	11,969	(1,190)	(1,182)	5,867	(5,176)	(1,682)	494	10,781
Balance at December 31, 2011	140,564	62,222	48,851	(143)	251,494	(4,939)	(913)	28,240	(21,955)	433	43,819	295,745

For the year ended December 31, 2011 (US$ in thousands)

	Shareholders' equity					Total accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2010	1,808,123	800,400	474,869	(2,284)	3,081,109	(48,225)	3,458	287,789	(215,826)	27,196	557,307	3,665,612
Changes of items during the period												
Dividends from surplus			(57,755)		(57,755)							(57,755)
Net income			218,420		218,420							218,420
Purchase of treasury stock				(38)	(38)							(38)
Disposal of treasury stock		(11)		483	472							472
Decrease by increase of consolidated subsidiaries			(4,297)		(4,297)							(4,297)
Reversal of revaluation reserve for land			(2,857)		(2,857)							(2,857)
Others			16		16							16
Net changes of items other than shareholders' equity						(15,312)	(15,201)	75,468	(66,587)	(21,633)	6,349	(15,283)
Total changes of items during the period	–	(11)	153,526	445	153,960	(15,312)	(15,201)	75,468	(66,587)	(21,633)	6,349	138,677
Balance at December 31, 2011	1,808,123	800,389	628,396	(1,839)	3,235,069	(63,537)	(11,743)	363,257	(282,413)	5,564	563,656	3,804,289

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the year (Jan. 1-Dec. 31)		
	2010	2011	2011
	¥	¥	$
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	19,775	26,076	335,420
Depreciation and amortization	50,678	49,413	635,621
Impairment loss	4,610	4,627	59,516
Amortization of goodwill	1,203	1,200	15,439
Increase (decrease) in provision for business structure improvement	(93)	-	-
Increase (decrease) in provision for retirement benefits	(771)	(1,558)	(20,047)
Interest and dividends income	(1,213)	(1,048)	(13,484)
Interest expenses	5,635	5,332	68,591
Equity in (earnings) losses of affiliates	(1,206)	(1,050)	(13,502)
Loss (gain) on sales and valuation of investment securities	341	296	3,805
Loss on retirement of noncurrent assets	2,994	1,929	24,820
Loss (gain) on sales of noncurrent assets	138	(530)	(6,822)
Decrease (increase) in notes and accounts receivable-trade	10,658	(4,829)	(62,115)
Decrease (increase) in inventories	(10,306)	(23,904)	(307,491)
Increase (decrease) in notes and accounts payable-trade	(267)	3,486	44,838
Other, net	(7,886)	18,530	238,361
Subtotal	74,291	77,969	1,002,952
Interest and dividends income received	2,391	2,144	27,575
Interest expenses paid	(5,819)	(5,416)	(69,671)
Income taxes paid	(4,571)	(5,260)	(67,661)
Net cash provided by (used in) operating activities	66,293	69,437	893,195
Net cash provided by (used in) investing activities			
Proceeds from sales and redemption of securities	2	2	30
Purchase of property, plant and equipment	(48,823)	(32,627)	(419,699)
Proceeds from sales of property, plant and equipment	862	716	9,212
Proceeds from transfer of business	1,283	92	1,181
Purchase of investment securities	(1,938)	(5,782)	(74,380)
Proceeds from sales of investment securities	209	411	5,291
Net decrease (increase) in short-term loans receivable	1,073	(340)	(4,372)
Payments of long-term loans receivable	(935)	(1,903)	(24,480)
Collection of long-term loans receivable	534	2,137	27,494
Other, net	(1,340)	(1,378)	(17,726)
Net cash provided by (used in) investing activities	(49,074)	(38,672)	(497,450)
Net increase (decrease) in short-term loans payable	(178)	(5,404)	(69,511)
Net increase (decrease) in commercial papers	(9,000)	(6,000)	(77,180)
Proceeds from long-term loans payable	50,200	61,099	785,937
Repayment of long-term loans payable	(59,645)	(59,959)	(771,282)
Proceeds from issuance of bonds	10,000	10,000	128,634
Redemption of bonds	(13,000)	(3,000)	(38,590)
Cash dividends paid	(4,471)	(4,471)	(57,512)
Cash dividends paid to minority shareholders	(1,697)	(2,171)	(27,923)
Other, net	(6,704)	(7,389)	(95,049)
Net cash provided by (used in) financing activities	(34,494)	(17,295)	(222,477)
Effect of exchange rate change on cash and cash equivalents	(1,773)	(1,941)	(24,964)
Net increase (decrease) in cash and cash equivalents	(19,049)	11,529	148,304
Cash and cash equivalents at beginning of period	62,507	43,459	559,026
Increase in cash and cash equivalents from newly consolidated subsidiary	-	34	440
Increase in cash and cash equivalents resulting from merger	-	4	51
Cash and cash equivalents at end of period	43,459	55,026	707,820

SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2010 and 2011 were summarized by business segment as follows:

Year ended December 31, 2010	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥191,309	¥124,146	¥143,501	¥68,120	¥123,690	¥146,423	¥–	¥797,189
Inter-segment	8,281	9,432	4,487	9,838	6,394	7,661	(46,093)	–
Total	199,590	133,578	147,988	77,958	130,084	154,084	(46,093)	797,189
Operating income (loss)	¥2,278	¥5,618	¥14,909	¥10,085	¥8,543	¥2,041	¥(4,752)	¥38,723
Assets	¥150,105	¥189,241	¥162,349	¥113,376	¥166,686	¥118,546	¥24,181	¥924,484
Depreciation	6,415	9,567	20,989	3,385	7,325	3,226	(229)	50,678
Amortization of (negative) goodwill	6	(210)	86	1,368	(29)	(17)	–	1,203
Investments in non-consolidated subsidiaries and affiliates	13,492	687	–	1,945	180	259	–	16,563
Capital expenditures	19,643	7,732	19,669	3,558	4,434	3,683	(684)	58,035

Year ended December 31, 2011	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥243,569	¥120,308	¥163,119	¥68,129	¥118,369	¥140,664	¥–	¥854,158
Inter-segment	6,827	9,895	1,892	9,435	5,911	9,919	(43,879)	–
Total	250,396	130,203	165,011	77,564	124,280	150,583	(43,879)	854,158
Operating income (loss)	¥3,484	¥2,035	¥30,242	¥9,640	¥6,212	¥1,860	¥(6,116)	¥47,357
Assets	¥145,753	¥183,728	¥170,046	¥120,731	¥162,701	¥121,244	¥37,100	¥941,303
Depreciation	7,082	9,417	19,164	3,505	6,874	2,107	1,265	49,413
Amortization of (negative) goodwill	6	(210)	86	1,368	(29)	(20)	–	1,200
Investments in non-consolidated subsidiaries and affiliates	14,364	628	–	2,140	187	269	–	17,588
Capital expenditures	2,645	6,811	13,506	5,308	5,380	3,476	1,668	38,794

Year ended December 31, 2011	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	$3,133,120	$1,547,565	$2,098,267	$876,376	$1,522,628	$1,809,412	$–	$10,987,368
Inter-segment	87,817	127,283	24,334	121,366	76,037	127,595	(564,432)	–
Total	3,220,937	1,674,848	2,122,601	997,742	1,598,666	1,937,007	(564,432)	10,987,368
Operating income (loss)	$44,821	$26,180	$389,010	$124,005	$79,905	$23,929	$(78,678)	$609,171
Assets	$1,874,873	$2,363,364	$2,187,362	$1,553,013	$2,092,887	$1,559,607	$477,236	$12,108,342
Depreciation	91,101	121,133	246,508	45,083	88,429	27,099	16,272	635,625
Amortization of (negative) goodwill	73	(2,707)	1,105	17,601	(373)	(259)	–	15,439
Investments in non-consolidated subsidiaries and affiliates	184,770	8,078	–	27,528	2,405	3,460	–	226,241
Capital expenditures	34,021	87,617	173,734	68,278	69,210	44,711	21,450	499,023

(b) The operations of the Companies for the year ended December 31, 2011 were summarized by geographic area as follows:

Year ended December 31, 2011	Millions of yen			
	Japan	Asia	Others	Total
Sales	¥560,483	¥243,387	¥50,287	¥854,158
	Japan	Others	Total	
Tangible fixed assets	¥431,546	¥50,817	¥482,363	

Year ended December 31, 2011	Thousands of U.S. dollars			
	Japan	Asia	Others	Total
Sales	$7,209,716	$3,130,786	$646,866	$10,987,368
	Japan	Others	Total	
Tangible fixed assets	$5,551,142	$653,685	$6,204,827	

(c) The impairment loss and the (negative) goodwill of the Companies for the year ended December 31, 2011 were summarized by business segment as follows:

Year ended December 31, 2011	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss	¥232	¥176	¥3,160	¥798	¥73	¥188	¥–	¥4,627
Goodwill								
Amortization	6	284	118	1,368	31	8	–	1,815
Unamortized balance	46	866	737	5,522	376	70	–	7,617
Negative goodwill								
Amortization	–	494	33	–	60	28	–	615
Unamortized balance	–	4,296	520	–	959	401	–	6,176

Year ended December 31, 2011	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss	$2,982	$2,267	$40,645	$10,268	$936	$2,419	$–	$59,516
Goodwill								
Amortization	73	3,647	1,523	17,601	400	104	–	23,349
Unamortized balance	589	11,137	9,485	71,035	4,831	899	–	97,976
Negative goodwill								
Amortization	–	6,354	418	–	774	364	–	7,910
Unamortized balance	–	55,260	6,693	–	12,337	5,154	–	79,444