

Consolidated Financial Statements

For the first quarter ended March 31, 2013



MEMBERSHIP

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)			
	2012	2013	Increase (Decrease)	2013
	¥	¥	%	\$
Net sales	181,354	192,479	6.1	2,046,561
Operating income	9,537	3,382	(64.5)	35,957
Ordinary income	8,329	3,885	(53.4)	41,310
Net income	5,333	4,079	(23.5)	43,375
Net income per share: Basic	3.56	2.73	—	0.03
Net income per share: Diluted	3.49	2.70	—	0.03

Notes

Important changes in accounting policies : applicable

Comprehensive income :

Results for the year ended March 31,2013 ¥13,366million

Results for the year ended March 31,2012 ¥15,119million

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

	Dec. 31, 2012	Mar.31, 2013	Mar.31, 2013
	¥	¥	\$
Total assets	933,162	956,078	10,165,631
Total equity	314,966	324,427	3,449,517
	%	%	%
Stockholders' equity ratio	29.2	29.4	29.4

(3) Dividends:

	2012	2013 Forecast
Q1 dividends per share (¥)	—	—
Q2 dividends per share (¥)	0.00	0.00
Q3 dividends per share (¥)	—	—
End of Term dividends per share (¥)	3.00	3.00
Annual dividends per share (¥)	3.00	3.00

II. Forecast of performance for the year ending December 31, 2013

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

	1st half		fiscal year	
	¥	\$	¥	\$
Net sales	380,000	4,040,404	800,000	8,506,114
Operating income	13,000	138,224	35,000	372,142
Ordinary income	10,500	111,643	30,000	318,979
Net income	5,000	53,163	15,000	159,490
Net income per share	3.34	0.04	10.02	0.11

*The above forecast was announced on February 14, 2013.

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.

Note

The U.S. dollar is valued at ¥94.05 throughout this statement for convenience only.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

During the first quarter of 2013 (January 1 - March 31), the Japanese economy showed signs of gradual recovery due to the improvement in personal consumption and business sentiment following the moderation of the yen's appreciation. However, the uncertainty of the world economy persisted, reflecting the slowdown in overseas economies and slower growth of the Chinese economy. As a result, production activities of the Japanese manufacturing industry continued in a depressed state. In the petrochemicals industry, production adjustments continued due to lower demand in China. In the electronic parts/materials industry, production of smartphones increased, but production adjustments continued for LCD panels.

Under these circumstances, the Showa Denko Group is aiming to strengthen its presence on the global market by implementing its medium-term consolidated business plan PEGASUS launched in 2011. The Group is promoting its growth strategies with the hard disk (HD) media and graphite electrode businesses as its "Wings," while aiming to build up strong and diversified businesses on a global scale and establish leading positions on the market. The Group will redesign its business models in response to the changes in competitive conditions for respective operations.

The Group recorded consolidated net sales of ¥192,479 million in the first quarter of 2013, up 6.1% from the same period of the previous year, due mainly to higher sales in the Petrochemicals segment. However, operating income decreased 64.5%, to ¥3,382 million, reflecting reductions in the book value of rare earth inventory as well as lower shipment volumes of HD media, both in the Electronics segment. The Group recorded an ordinary income of ¥3,885 million, down 53.4%, and a net income of ¥4,079 million, down 23.5%.

(Unit: millions of yen)

	1Q 2012	1Q 2013	Increase/decrease
Sales	181,354	192,479	11,125
Operating income	9,537	3,382	-6,155
Ordinary income	8,329	3,885	-4,444
Net income	5,333	4,079	-1,254

(2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2013)

[Petrochemicals segment]

The Petrochemicals segment's sales increased 40.0%, to ¥65,926 million. Production of ethylene and propylene increased from the same period of the previous year, when we had trouble with our ethylene plant. Sales of olefins increased due to higher shipment volumes and higher selling prices, reflecting the rise in naphtha prices. Sales of organic chemicals were up due to higher shipment volumes of vinyl acetate. Operating income jumped 1186.7%, to ¥937 million.

(Unit: millions of yen)

	1Q 2012	1Q 2013	Increase/decrease
Sales	47,095	65,926	18,831
Operating income	73	937	865

[Chemicals segment]

The Chemicals segment's sales decreased 3.1%, to ¥29,700 million. Production of liquefied ammonia decreased from the same period of the previous year. Sales of liquefied ammonia were maintained at the level of the same period of the previous year, while sales of acrylonitrile slightly increased following the rise in market prices. As a result, overall sales of basic chemicals increased. Sales of industrial gases and functional chemicals slipped. Sales of electronic chemicals were maintained at the level of the same period of the previous year. Operating income rose 42.4%, to ¥804 million, due partly to the improvement in the basic chemicals business.

(Unit: millions of yen)

	1Q 2012	1Q 2013	Increase/decrease
Sales	30,636	29,700	-937
Operating income	565	804	239

[Electronics segment]

The Electronics segment's sales decreased 22.8%, to ¥31,999 million. Production of HD media decreased from the same period of the previous year, reflecting the HDD industry's production adjustments in response to lower PC demand. Sales of HD media decreased due to lower shipment volumes. Sales of rare earth magnetic alloys decreased due to the influence of inventory adjustments by magnet manufacturers. Sales of compound semiconductors also decreased, following the transfer in December 2012 of the gallium-nitride LED business to TS Opto Co., Ltd., a joint venture with Toyoda Gosei Co., Ltd. Operating income decreased 71.2%, to ¥2,515 million, due partly to the influence of reductions in the book value of rare earth inventory.

(Unit: millions of yen)

	1Q 2012	1Q 2013	Increase/decrease
Sales	41,454	31,999	-9,455
Operating income	8,737	2,515	-6,222

[Inorganics segment]

The Inorganics segment's sales fell 3.5%, to ¥15,537 million. Production of graphite electrodes in the first quarter decreased from the level of the same period of the previous year. Sales of graphite electrodes in Japan and the United States decreased due to lower shipment volumes, reflecting the influence of the inventory adjustments by the steelmaking industry. Sales of ceramics slightly increased due to higher shipment volumes for electronic materials applications. The segment recorded an operating loss of ¥56 million.

(Unit: millions of yen)

	1Q 2012	1Q 2013	Increase/decrease
Sales	16,102	15,537	-566
Operating income	1,513	-56	-1,569

[Aluminum segment]

The Aluminum segment's sales fell 10.8%, to ¥19,143 million. Production of high-purity foil for capacitors decreased from the same period of the previous year, reflecting the influence of production adjustments by capacitor manufacturers. Sales of rolled products decreased due to lower shipment volumes of high-purity foil for capacitors. Shipment volumes of aluminum cylinders for laser beam printers were up, but those of Shotic forged products were down. As a result, overall sales of aluminum specialty components decreased. Sales of aluminum cans were maintained at the level of the same period of the previous year. The segment recorded an operating income of ¥1,004 million, up ¥1,227 million, due partly to the influence of the use of lower-cost aluminum ingots.

(Unit: millions of yen)

	1Q 2012	1Q 2013	Increase/decrease
Sales	21,463	19,143	-2,320
Operating income	-223	1,004	1,227

[Others segment]

The Others segment's sales increased 16.3%, to ¥39,088 million. Sales of lithium ion battery (LIB) materials slipped due to lower shipment volumes for automotive applications, notwithstanding higher shipment volumes for smartphone and tablet PC applications. Shoko Co., Ltd.'s sales increased slightly. The segment recorded an operating loss of ¥303 million, down ¥479 million, due partly to the rise in fixed costs in the LIB materials business.

(Unit: millions of yen)

	1Q 2012	1Q 2013	Increase/decrease
Sales	33,618	39,088	5,470
Operating income	176	-303	-479

(3) Major steps taken or decided in the first quarter of 2013

[General]

- Strategic partnership in the fullerene business

In January, SDK entered into a strategic partnership with Mitsubishi Corporation (MC) in the fullerene business. As part of the arrangement, SDK acquired from MC a 50% stake in Frontier Carbon Corporation (FCC), a producer and marketer of fullerene products, thereby making FCC a 50-50 joint venture between MC and SDK. Fullerene is a molecule composed entirely of carbon. It takes the form of a soccer ball and is one nanometer in diameter. As the molecule is soluble in organic solvents and is an excellent electron acceptor, it is seen as a promising material in the field of electronics, particularly for such applications as n-type material for organic photovoltaic cells. SDK

has over 10 years of experience commercially producing carbon nanotube (VGCF™). SDK is therefore confident that its nanotechnology acquired through the VGCF business can be practically applied to the fullerene business. SDK and FCC will jointly undertake R&D and marketing activities towards the commercialization of fullerene products.

- Developing technology for volume production of graphene
SDK developed, in cooperation with Tohoku University's Institute of Multidisciplinary Research for Advanced Materials and as part of the Japan Science and Technology Agency's Adaptable and Seamless Technology Transfer Program, a volume production technology for graphene—an innovative carbon material—using supercritical fluid. Graphene, a single-layer sheet of carbon atoms arranged in a regular hexagonal pattern, has advantages such as high electron mobility (more than 100 times that of silicon) and thermal/chemical stability. The newly developed technology enables the speedy and low-cost production of high-quality graphene by using organic solvents in the form of supercritical fluid and by a peeling process. The technology will open up a new field of applications, including light/strong components, battery materials, and power generation, in addition to the existing electronic materials applications. SDK will further promote R&D to commercialize the new technology.

[Chemicals segment]

- Expanding sales of liquefied ammonia in the Tohoku region
SDK decided to reconstruct its liquefied ammonia distribution base in Soma District, Fukushima Prefecture, which was damaged by the Great East Japan Earthquake. Reconstruction work will begin in June this year, and the new facility will open in March next year. SDK's liquefied ammonia (*Ecoann*™) is approved as “eco-friendly goods for procurement” by major electric power companies because the product is partly based on used plastics. Liquefied ammonia is used in the production of synthetic fibers. It is also used for removing nitrogen oxides contained in exhaust gas from thermal electric power plants. SDK forecasts steady demand for *Ecoann*™ as thermal electric power plants are expected to continue operating at high rates. To further expand sales of *Ecoann*™ as an important component of the basic chemicals business, SDK decided to operate the liquefied ammonia distribution base in Soma District by itself. In this connection, SDK merged Marusho Kogyo Co., Ltd., a wholly owned subsidiary for operating the base, on April 25.
- Starting commercial production of anode binder for LIBs
In February, SDK started volume production of “*Polyso*™ LB Series” water-based anode binder for LIBs. The product is a water-based emulsion containing acrylic synthetic resin particles, ensuring lower environmental impact at the time of LIB production compared with solvent-based binders. It provides such advantages as low electrical resistance, good temperature characteristics, and good adhesion to anode collectors, thereby contributing toward extending the life and increasing the capacity of LIBs. A binder causes cathode/anode active materials (for release and intake of lithium ions) to stick together. It also causes additives to stick together, and active materials to adhere to collectors. Thus, the product is attracting attention as one of the key materials that largely influence the performance of LIBs.
- Receipt of award for energy-saving project
SDK's Kawasaki Plant completed a project for energy-saving by integrating boiler operations at the plant site. Specifically, the steam generated at boiler facilities of the Ohgimachi district is sent to Showa Denko Gas Products' Kawasaki facility (which is

located within the same plant site) through a pipeline, and to the Ohkawa district across a canal, using a seabed tunnel. The new system has enabled the Kawasaki Plant to reduce energy consumption by 42% and CO2 emissions by around 2,400 tons a year. Owing to this achievement, the Kawasaki Plant received an award from Kawasaki City on the occasion of its event of "Kawasaki Environment Show Window 2012."

[Inorganics segment]

- Establishing a graphite electrode subsidiary in China
SDK completed its procedure for acquiring a controlling stake in Sinosteel Sichuan Carbon Co., Ltd., a manufacturer of graphite electrodes in China. On March 18, SDK made the company a subsidiary, renaming it as Showa Denko Sichuan Carbon Inc. SDK has so far been supplying high-quality graphite electrodes mainly to the markets in advanced countries from its production sites, one each in Japan and the United States. With the establishment of its Chinese subsidiary, SDK is now ready to supply "volume-zone" products for emerging markets. Thus, SDK will steadily promote its strategy of "being active on two fronts," serving both the high-end and volume-zone product markets.

[Aluminum segment]

- New sensor chosen for hospital beds
In February, SDK's aluminum-based sensor was chosen by France Bed Co., Ltd. for use in its sensor system for hospital beds. Owing to the light and rigid nature of aluminum, the system catches a very small amount of sensor deformation under a bed-user's weight and converts it into electric signals. SDK's proprietary algorithm is used to detect a user's movement, such as turning over, getting up, sitting on, and leaving the bed, based on the changes of weight following the move of a user. SDK is also developing devices for measuring a user's biological information, such as a non-contact-type sleep (breathing) sensor, aiming to expand sales in the area of health-care and security.

2. Financial conditions for the January 1 - March 31, 2013 period (as compared with the conditions at December 31, 2012)

Total assets at the end of the quarter amounted to ¥956,078 million, an increase of ¥22,916 million from the level at December 31, 2012. Total assets were up due partly to the increase in accounts receivable and fixed assets following the consolidation of subsidiaries, including Showa Denko Sichuan Carbon. Total liabilities increased ¥13,455 million, to ¥631,651 million, due mainly to the increase in interest-bearing debt following the said consolidation of subsidiaries. Net assets at the end of the quarter increased ¥9,461 million, to ¥324,427 million, owing to the recording of net income for the quarter and increases in foreign currency translation adjustments, notwithstanding the payment of dividends for 2012.

3. Performance forecast

There is no change from the performance forecast announced on February 14, 2013. For assumptions that form the basis of the performance forecast, please refer to the consolidated financial statements for 2012 announced on February 14, 2013.

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2012	Mar. 31, 2013	Mar. 31, 2013
	¥	¥	\$
Assets			
Current assets			
Cash and deposits	51,606	41,520	441,466
Notes and accounts receivable-trade	138,189	148,258	1,576,375
Merchandise and finished goods	52,980	57,538	611,783
Work in process	13,506	16,079	170,967
Raw materials and supplies	55,275	55,708	592,325
Other	30,658	36,588	389,031
Allowance for doubtful accounts	(107)	(129)	(1,367)
Total current assets	342,108	355,564	3,780,580
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	81,593	84,740	901,006
Machinery, equipment and vehicles, net	115,167	117,112	1,245,212
Land	254,257	254,574	2,706,800
Other, net	22,236	26,839	285,365
Total property, plant and equipment	473,253	483,265	5,138,383
Intangible assets			
Goodwill	120	862	9,161
Other	10,198	10,797	114,796
Total intangible assets	10,318	11,658	123,957
Investments and other assets			
Investment securities	67,778	71,967	765,194
Other	40,247	34,150	363,101
Allowance for doubtful accounts	(542)	(525)	(5,584)
Total investments and other assets	107,483	105,591	1,122,711
Total noncurrent assets	591,054	600,514	6,385,052
Total assets	933,162	956,078	10,165,631
Liabilities			
Current liabilities			
Notes and accounts payable-trade	107,241	110,993	1,180,153
Short-term loans payable	63,741	85,615	910,309
Current portion of long-term loans payable	46,623	47,605	506,167
Commercial papers	25,000	19,000	202,020
Provision	3,265	9,122	96,996
Other	77,247	63,741	677,738
Total current liabilities	323,118	336,077	3,573,383
Noncurrent liabilities			
Bonds payable	30,000	30,000	318,979
Long-term loans payable	176,898	180,697	1,921,284
Provision for retirement benefits	23,433	22,720	241,569
Other provision	2,351	164	1,744
Other	62,396	61,994	659,156
Total noncurrent liabilities	295,078	295,574	3,142,731
Total liabilities	618,196	631,651	6,716,115
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,494,562
Capital surplus	62,222	62,219	661,548
Retained earnings	53,172	53,334	567,085
Treasury stock	(145)	(146)	(1,550)
Total shareholders' equity	255,812	255,971	2,721,644
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	924	3,138	33,369
Deferred gains or losses on hedges	(305)	(699)	(7,432)
Revaluation reserve for land	28,025	28,025	297,982
Foreign currency translation adjustment	(11,722)	(5,075)	(53,964)
Total accumulated other comprehensive income	16,922	25,389	269,955
Minority interests	42,232	43,067	457,918
Total net assets	314,966	324,427	3,449,517
Total liabilities and net assets	933,162	956,078	10,165,631

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan.1-Mar.31)		
	2012	2013	2013
	¥	¥	\$
Net sales	181,354	192,479	2,046,561
Cost of sales	152,015	169,542	1,802,682
Gross profit	29,339	22,937	243,879
Selling, general and administrative expenses	19,802	19,555	207,922
Operating income	9,537	3,382	35,957
Non-operating income			
Interest income	44	37	388
Dividends income	258	184	1,956
Equity in earnings of affiliates	485	309	3,289
Foreign exchange gains	—	1,318	14,016
Miscellaneous income	1,067	877	9,328
Total non-operating income	1,853	2,725	28,978
Non-operating expenses			
Interest expenses	1,245	985	10,470
Miscellaneous expenses	1,816	1,237	13,155
Total non-operating expenses	3,061	2,222	23,625
Ordinary income	8,329	3,885	41,310
Extraordinary income			
Compensation income from cancellation of contracts	—	756	8,034
Gain on transfer of business	83	—	—
Compensation income	145	—	—
Other	92	197	2,093
Total extraordinary income	320	952	10,126
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	313	377	4,004
Provision for business structure improvement	—	1,440	15,311
Other	1,314	485	5,158
Total extraordinary losses	1,627	2,302	24,473
Income before income taxes and minority interests	7,023	2,536	26,963
Income taxes	1,261	(1,891)	(20,104)
Income before minority interests	5,762	4,427	47,067
Minority interests in income	429	347	3,692
Net income	5,333	4,079	43,375

Consolidated Statements of Comprehensive Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan. 1-Mar. 31)		
	2012	2013	2013
	¥	¥	\$
Income before minority interests	5,762	4,427	47,068
Other comprehensive income:			
Valuation difference on available-for-sale securities	2,964	2,292	24,372
Deferred gains or losses on hedges	328	(393)	(4,182)
Foreign currency translation adjustments	6,051	7,032	74,774
Share of other comprehensive income of affiliates applied for equity method	14	8	88
Total other comprehensive income	9,357	8,940	95,052
Comprehensive income	15,119	13,366	142,119
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	14,168	12,524	133,161
Comprehensive income attributable to minority interests	951	843	8,958

(Reference)

SEGMENT INFORMATION (previous 1Q ended)

The operations of the Companies for the year ended March 31, 2012 and 2013 was summarised by industry segment as follows:

Year ended March 31, 2012		Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥45,818	¥28,199	¥40,999	¥13,956	¥20,409	¥31,973	¥-	¥181,354
Inter-segment	1,277	2,437	455	2,146	1,054	1,645	(9,014)	-
Total	47,095	30,636	41,454	16,102	21,463	33,618	(9,014)	181,354
Operating income (loss)	¥73	¥565	¥8,737	¥1,513	(¥223)	¥176	(¥1,302)	¥9,537

Year ended March 31, 2013		Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥64,133	¥27,339	¥31,674	¥13,650	¥18,110	¥37,573	¥-	¥192,479
Inter-segment	1,793	2,361	325	1,887	1,033	1,515	(8,913)	-
Total	65,926	29,700	31,999	15,537	19,143	39,088	(8,913)	192,479
Operating income (loss)	¥937	¥804	¥2,515	(¥56)	¥1,004	(¥303)	(¥1,519)	¥3,382

Year ended March 31, 2013		Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	\$681,903	\$290,683	\$336,779	\$145,133	\$192,559	\$399,504	\$-	\$2,046,561
Inter-segment	19,061	25,102	3,456	20,064	10,984	16,104	(94,770)	-
Total	700,964	315,785	340,235	165,197	203,543	415,608	(94,770)	2,046,561
Operating income (loss)	\$9,968	\$8,545	\$26,741	(\$592)	\$10,671	(\$3,226)	(\$16,150)	\$35,957