SHOWA DENKO K.K.

Consolidated Financial Statements

For the year ended December 31, 2014

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			
	2013	2014	Increase (Decrease)	2014
	¥	¥	%	$
Net sales	848,071	**876,580**	3.4	**7,271,503**
Operating income	25,953	**20,915**	(19.4)	**173,494**
Ordinary income	23,488	**22,102**	(5.9)	**183,341**
Net income	9,065	**3,500**	(61.4)	**29,036**
Net income per share: Basic	6.06	**2.38**	—	**0.02**
Net income per share: Diluted	—	—	—	—
	%	%		
Net income on equity	3.2	1.2		
Ordinary income on total assets	2.4	2.2		
Operating income to net sales	3.1	2.4		

Notes
Important changes in accounting policies : applicable
Comprehensive income:
Results for the year ended December 31,2014 ¥18,064million
Results for the year ended December 31,2013 ¥34,866million

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

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2014
	¥	¥	$
Total assets	985,771	**1,011,083**	**8,387,249**
Total equity	345,811	**320,504**	**2,658,683**
Total equity per share	201.27	**210.16**	**1.74**
	%	%	%
Stockholders' equity ratio	30.6	**29.7**	**29.7**

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

	Results for the year ended December 31		
	2013	2014	2014
	¥	¥	$
Cash flows from operating activities	63,565	**65,996**	**547,457**
Cash flows from investing activities	(46,738)	**(47,225)**	**(391,746)**
Cash flows from financing activities	(6,805)	**(25,024)**	**(207,582)**
Cash and cash equivalents at end of the year	68,175	**66,515**	**551,763**

(4) Dividends:

	2013	2014	2015 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	**4,285**	—
	%	%	%
Payout ratio (consolidated)	49.5	**126.1**	28.6
Net assets dividend yield (consolidated)	1.6	**1.3**	—

※The dividends for 2014 is still undecided.

Ⅱ. Forecast of performance for the year ending December 31, 2015

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

	1st half		fiscal year	
	¥	$	¥	$
Net sales	430,000	3,566,985	900,000	7,465,782
Operating income	10,000	82,953	40,000	331,813
Ordinary income	7,500	62,215	34,500	286,188
Net income	2,000	16,591	15,000	124,430
Net income per share	1.40	0.01	10.50	0.09

※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 ¥120.55 throughout this statement for convenience only.
Underlined parts are corrected from the previous version.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

With regard to the Japanese economy in 2014, there was an improvement in the labor market due to recovery in corporate profits especially in export-related industries, resulting from rapid depreciation of yen triggered by recent economic policy of the Japanese government and easy-money policy of the Bank of Japan. However, consumer spending was sluggish owing to the consumption tax hike. As for overseas economies, while the US economy recovered steadily, the Chinese and ASEAN economies showed mild recovery with decelerated growth. On the other hand, the European economy showed more stagnant mood during the second half of 2014, and economies of resource-producing countries including Russia slowed down.

In the petrochemical industry, operating rates at domestic plants continued at high levels, reflecting strong demand in China. However, in the second half of the year, crude-oil prices plunged, resulting in a large drop in prices of oil-related materials and products. The electronic parts/materials industry remained firm, due mainly to increased overseas production of semiconductors.

Under these circumstances, the Showa Denko Group launched in January 2014 "PEGASUS Phase II" business plan for the 2014-2015 period, the latter part of the five-year consolidated business plan PEGASUS. To establish ourselves as a chemical company with a strong presence on the global market, we will continue to promote growth strategies in which our HD media and graphite electrode businesses serve as our "Wings." At the same time, we will focus our efforts on strengthening the four businesses newly classified in the "Growth" category, namely, aluminum cans, high-purity aluminum foil, semiconductor-processing high-purity gases, and functional chemicals, accelerating their expansions mainly in the growing Asian market.

The Group recorded consolidated net sales of ¥876,580 million in 2014, up 3.4% from the previous year. While sales in the Petrochemicals segment decreased due to the fall in production following the large-scale shutdown maintenance of our ethylene production facilities, sales in the other five segments increased, due mainly to higher shipment volumes. Operating income decreased 19.4% to ¥20,915 million. While the Chemicals, Electronics, and Inorganics segments recorded higher income, the Petrochemicals segment recorded much lower income due to the sharp drop in naphtha price at the end of the year, in addition to the influence of the shutdown maintenance. The Aluminum segment also recorded lower income due to the rise in prices of aluminum ingots, and the Others segment recorded slightly lower income. The group recorded an ordinary income of ¥22,102 million, down 5.9%, due partly to the underpinning provided by the increase in dividends income. The group posted a net income of ¥3,500 million, down 61.4%, due partly to the increase in loss on sales and retirement of noncurrent assets and loss on valuation of investment securities.

(Unit: millions of yen)

	2013 Jan.-Dec.	2014 Jan.-Dec.	Increase/ decrease	2013 4Q (Oct.-Dec.)	2014 4Q (Oct.-Dec.)	Increase/ decrease
Sales	848,071	876,580	28,509	230,535	230,258	-277
Operating income	25,953	20,915	-5,039	10,105	2,710	-7,395
Ordinary income	23,488	22,102	-1,387	11,134	5,069	-6,065
Net income	9,065	3,500	-5,564	2,315	1,329	-986

(2) A breakdown of net sales and operating income by segment (January 1 - December 31, 2014)

[Petrochemicals segment]
The Petrochemicals segment's sales decreased 1.9%, to ¥281,400 million. Production of ethylene and propylene decreased from the previous year, reflecting the shutdown maintenance of our ethylene production facilities, which is conducted once in every four years. Sales of olefins decreased due to lower shipment volumes, reflecting the shutdown maintenance. Sales of organic chemicals were up due to higher shipment volumes of vinyl acetate and ethyl acetate. The segment recorded an operating loss of ¥4,930 million down ¥9,328 million, reflecting the shutdown maintenance and the sharp drop in naphtha price at the end of the year.

(Unit: millions of yen)

	2013 Jan.-Dec.	2014 Jan.-Dec.	Increase/ decrease	2013 4Q (Oct.-Dec.)	2014 4Q (Oct.-Dec.)	Increase/ decrease
Sales	286,732	281,400	-5,332	79,157	78,800	-357
Operating income	4,398	-4,930	-9,328	2,426	-4,335	-6,761

[Chemicals segment]
The Chemicals segment's sales increased 6.4%, to ¥139,064 million. Production of liquefied ammonia dipped from the previous year. Though sales of liquefied ammonia decreased, sales of acrylonitrile increased following the rise in market prices, and sales of chloroprene rubber grew due to higher shipment volumes to overseas markets. As a result, overall sales of basic chemicals increased. Sales of industrial gases were at the same level of the previous year. Sales of electronic chemicals increased due to higher shipment volumes to East Asia. Sales of functional chemicals slightly increased. Operating income of the segment jumped 113.4%, to ¥5,460 million.

(Unit: millions of yen)

	2013 Jan.-Dec.	2014 Jan.-Dec.	Increase/ decrease	2013 4Q (Oct.-Dec.)	2014 4Q (Oct.-Dec.)	Increase/ decrease
Sales	130,656	139,064	8,408	35,131	36,646	1,515
Operating income	2,559	5,460	2,901	1,287	2,278	990

[Electronics segment]
The Electronics segment's sales increased 1.5%, to ¥138,537 million. Production of HD media was maintained at the level of the previous year. Sales of HD media increased due to firm shipment volumes for PC and other applications. Sales of rare earth magnetic alloys decreased due to lower shipment volumes. Sales of compound semiconductors increased due to higher shipment volumes. Operating income of the segment increased 17.5%, to ¥25,770 million due to the decrease in influence of the depreciation of rare earth inventory that accrued in 2013.

(Unit: millions of yen)

	2013 Jan.-Dec.	2014 Jan.-Dec.	Increase/ decrease	2013 4Q (Oct.-Dec.)	2014 4Q (Oct.-Dec.)	Increase/ decrease
Sales	136,548	138,537	1,988	37,316	35,906	-1,409
Operating income	21,940	25,770	3,830	7,771	6,889	-883

[Inorganics segment]
The Inorganics segment's sales rose 2.5%, to ¥67,557million. Production of graphite electrodes increased from the previous year. Sales of graphite electrodes increased due to higher shipment volumes, reflecting gradual recovery of the demand for steel in the United States and Japan, notwithstanding continued oversupply situation in the steel industry of Asia. Sales of ceramics increased due mainly to higher shipment volumes of abrasives. The segment recorded operating loss of ¥300 million, up ¥538 million

(Unit: millions of yen)

	2013 Jan.-Dec.	2014 Jan.-Dec.	Increase/ decrease	2013 4Q (Oct.-Dec.)	2014 4Q (Oct.-Dec.)	Increase/ decrease
Sales	65,919	67,557	1,638	16,965	16,632	-332
Operating income	-838	-300	538	-523	429	952

[Aluminum segment]
The Aluminum segment's sales rose 8.4%, to ¥97,956 million. Production of high-purity foil for aluminum electrolytic capacitors increased from the previous year, as capacitor manufacturers increased production for use in home electric appliances and cars. As a result, sales of rolled products increased. Sales of aluminum specialty components increased due mainly to higher shipment volumes for automotive applications. Sales of aluminum cans increased due to consolidation of the newly acquired subsidiary, Hanacans Joint Stock Company, of Vietnam. Operating income of the segment decreased 48.7%, to ¥2,999 million due mainly to the influence of sharp increases in prices of aluminum ingots.

(Unit: millions of yen)

	2013 Jan.-Dec.	2014 Jan.-Dec.	Increase/ decrease	2013 4Q (Oct.-Dec.)	2014 4Q (Oct.-Dec.)	Increase/ decrease
Sales	90,383	97,956	7,573	23,189	27,091	3,902
Operating income	5,845	2,999	-2,846	1,008	479	-529

[Others segment]
The Others segment's sales increased 10.5%, to ¥195,024 million. Sales of lithium ion battery (LIB) materials were maintained at the level of the previous year. Shoko Co., Ltd.'s sales increased. SDK's consolidation of BE International Corporation, a subsidiary of Shoko Co., Ltd., also increased the sales of the segment. The segment recorded operating loss of ¥678 million, down ¥52 million.

(Unit: millions of yen)

	2013 Jan.-Dec.	2014 Jan.-Dec.	Increase/ decrease	2013 4Q (Oct.-Dec.)	2014 4Q (Oct.-Dec.)	Increase/ decrease
Sales	176,516	195,024	18,508	49,207	46,297	-2,910
Operating income	-626	-678	-52	182	-1,130	-1,312

(3) Major steps taken or decided in 2014

[General]

・Repurchase of own shares

At its Board of Directors' meeting held on July 31, 2014, SDK resolved to repurchase its own shares in order to ensure shareholder returns and facilitate flexible implementation of capital policy in response to changes in the business environment. SDK started the repurchase on August 1, 2014 and completed it on September 22, 2014. Accumulated total number of shares repurchased was 68,261,000 (equivalent to about ¥10 billion).

・Refinancing of existing Hybrid Securities by subordinated loan

In April 2014, SDK carried out refinancing of an aggregate amount of ¥24 billion by way of a subordinated loan and the repurchase and cancellation of the subordinated convertible bonds due 2014 issued by SDK and perpetual preferred securities issued by SD Preferred Capital Limited, SDK's wholly-owned special purpose company.

・Increase of capacity to produce 6" SiC epitaxial wafers for power devices

In September 2014, SDK increased its capacity to produce silicon carbide (SiC) epitaxial wafers with a diameter of six inches for use in power devices from 400 units a month to 1,100 units a month. SDK also started shipping of a new grade of SiC epitaxial wafers with improved quality, to be used in power control modules for automobiles and other applications that require heavy withstanding currents. When compared with the currently mainstream silicon-based semiconductors, SiC-epitaxial-wafer-based power devices can operate under relatively high-temperature, high-voltage and heavy–current conditions, while substantially reducing energy loss. With these features, SiC power devices are expected to be in greater demand for use in automobiles, power sources for servers, electric trains, decentralized power generation systems utilizing new energy sources, and other applications. The market size of SiC power devices is expected to grow to be about ¥30 billion in 2020. SDK will continue meeting market needs for quality, and contribute to the extension of SiC power device market.

[Petrochemicals segment]

・Start-up of new ethyl acetate plant

In June 2014, SDK started commercial operation of its new ethyl acetate plant at Oita Complex using its proprietary production process technology. Ethyl acetate is an organic solvent used in wide-ranging applications, including printing ink, paint, and adhesives for electronic devices. In the new process technology adopted this time, however, acetic acid is directly added to ethylene, enabling efficient production of high-quality ethyl acetate.

・Decision to dissolve PT. Showa Esterindo Indonesia

SDK decided to terminate production of ethyl acetate at its subsidiary PT. Showa Esterindo Indonesia (SEI), and dissolve and liquidate SEI after demolition and removal of the production facilities. The production was terminated at the end of 2014. SEI started to produce ethyl acetate in 1999 as SDK's first plant to introduce our proprietary technology to synthesize ethyl acetate by adding ethylene directly to acetic acid, and had been providing stable Southeast Asian market with ethyl acetate since then. In recent years, however, the business environment for SDI has become harder than before because of rises in material prices and expansion of the capacities of neighboring countries to supply ethyl acetate. Under these circumstances, SDK and its partners have concluded that it is difficult to continue SEI's operations, and decided to dissolve the company.

[Chemicals segment]

・Expanding high-purity ammonia production in China

SDK increased the production capacity for high-purity ammonia (a specialty gas for semiconductor production) at its manufacturing subsidiary* in Zhejiang Province, China, from 1,000 t/y to 2,000 t/y. The expanded facility started operation in January 2014. Following the expansion, SDK now has a total high-purity ammonia production capacity of 6,000 tons a year, consisting of 1,500 t/y in Japan, 2,500 t/y in Taiwan, and 2,000 t/y in China. SDK will continue to strengthen its supply system to meet the growing demand for high-purity gases in East Asia, where electronics production sites are integrated.

* Zhejiang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd.

・Establishing a new base for high-purity N_2O in South Korea

SDK decided to increase its capacity for supplying high-purity nitrous oxide (N_2O), a specialty gas for semiconductor production, by cooperating with Dooam Industrial, which is headquartered in Anseong, Gyeonggi Province, South Korea. SDK and Dooam concluded a work commissioning agreement concerning the production of high-purity N_2O. The two companies also agreed to jointly construct a purification facility within the premises of Dooam's plant near Seoul. The purification facility was completed in January 2015. By the completion of the new facility, SDK's total high-purity N_2O supply capacity increased to 1,800 t/y, consisting of 1,200 t/y in Japan and 600 t/y in South Korea. High-purity N_2O is used for deposition of an insulating oxide film in the process of chemical vapor deposition (CVD) for producing semiconductors. For this application, demand for high-purity N_2O is growing at the rate of 10-15% a year in Asia. SDK will continue strengthening its high-purity N_2O supply system in response to the growing demand in East Asia.

・Strengthening high silica zeolite production system

Union Showa (USKK), a joint corporation between SDK and UOP LLC, completed the construction of a new high silica zeolite plant within the premises of SDK's Higashinagahara Plant in Aizu-Wakamatsu City, Fukushima Prefecture, and started operation of the new plant in December 2014. High silica zeolite is a synthetic zeolite adsorbent which has improved hydrophobic nature, and is used in such applications as deodorization, gas adsorption, and removal of toxic VOCs. High silica zeolite has been in tight supply worldwide. In Japan and other Asian countries, demand for high silica zeolite is expected to grow further, reflecting increased awareness of the need for environmental protection and desire to achieve a higher standard of living. USKK has already been producing hydrophilic synthetic zeolite at its Yokkaichi Plant in Mie Prefecture for such applications as dehydration, drying, refining, and separation. USKK will fully utilize its two plants, and will aim to develop and supply new zeolite products not only for conventional use such as treatment of industrial waste water but also for treatment of contaminated water at Fukushima Daiichi Nuclear Power Plant and wide area decontamination, and treatment of radioactive nuclides to promote decommissioning of nuclear reactors.

・Acquisition of Air Products' high-purity chlorine business in Taiwan

In order to strengthen its special material gas business, SDK decided in July 2014 to acquire a high purity chlorine business including production facilities located in Kaohsiung, Taiwan, which had been owned by Air Products San Fu Co., Ltd, a subsidiary of Air Products and Chemicals Inc. (APCI). The demand for high-purity chlorine used as an etching gas in the manufacturing process of semiconductors and LCDs is increasing, and the annual market size of the gas is expected to be about 2,000 tons in 2015. The SDK Group has production facilities for high-purity chlorine with annual production capacity of

1,000 tons in its Kawasaki Plant. By having additional high-purity chlorine production facilities in Taiwan, the SDK Group aims to ensure further stable supply of high-purity chlorine to the growing market in East Asia.

[Electronics segment]

・Starting to mass-produce highest capacity 3.5-inch HD media

The leading-edge 3.5-inch hard disk (HD) media produced and sold by SDK have been introduced into 8 TB hard disk drives (HDDs), the world's highest storage capacity HDDs to date. The 3.5-inch HD media introduced this time has data storage capacity of 1.1-1.3 TB per medium, and are classified as the seventh generation products of the HD media based on use the perpendicular magnetic recording (PMR) technology. SDK pioneered in producing and selling HD media using the PMR technology in 2005. The number of shipment of HDDs, especially those for the use in storage servers in data centers, is expected to increase very rapidly because of the increase in data generation accompanying the extension of cloud computing. The number of shipment of HD media, which are main components of HDDs and control HDDs' storage capacities, is expected to show annual rate of increase of about 3%. As the world's largest independent HD media supplier, SDK will aim to ensure stable supply of high-capacity media. SDK will also continue meeting customer requirements in terms of quality as well as quantity.

[Inorganics segment]

・Reorganization of ceramics-related subsidiaries

Aiming to improve competitiveness of its ceramics business, SDK reorganized its ceramics-related subsidiaries to be more efficient ones. SDK established Showa Denko Ceramics Co., Ltd. as a core company of SDK's ceramics business in January 2014, and merged this company and another subsidiary, Tohoku Metal Chemical Co., Ltd., which produces abrasives for mirror plane polishing, in October 2014. SDK also merged Nagoya Kenmazai Kogyo Co., Ltd., which produces and sells artificial abrasives, and Shiojiri Showa K.K., which performs production works commissioned by SDK's Shiojiri Plant, in January 2015 and launched a new subsidiary Showa Fine Ceramics Co., Ltd. In the Phase II of its medium-term consolidated business plan PEGASUS, SDK positions its ceramics business as "Base (Stable)" business. The reorganization mentioned above is one of core measures planned in the PEGHASUS Phase II to improve competitiveness of SDK's ceramics business. SDK will aim to realize effectiveness of the reorganization, and continue expanding its ceramics business.

・Application of high-performance photocatalyst LUMI-RESH™ in progress

In 2014, high-performance photocatalyst LUMI-RESH™ which was developed by Showa Denko Ceramics Co., Ltd., a subsidiary of SDK, was applied to an indoor-use membrane building material "Hikari-Protextile" manufactured by Taiyo Kogyo Corporation, and to high-performance curtains manufactured by Lilycolor Co., Ltd. In addition, Nippon Soda Co., Ltd. successfully developed a paint containing LUMI-RESH™. SDK developed and started to market heat insulation panels coated with this new paint containing LUMI-RESH™ for use in completely airtight plant factories. Application of LUMI-RESH™ to the surfaces of these heat insulation panels reduces bacteria and viruses in the air, and prolongs the freshness of vegetables. When rays of light strike photocatalyst, that photocatalyst catalyzes water vapor and oxygen in the air, and generates active oxygen, which inactivates bacteria and viruses adhering to surfaces of substances containing the photocatalyst. While conventional photocatalysts are activated by ultraviolet rays much included in sunlight, LUMI-RESH™ can be activated by visible low-energy light emitted by indoor lighting apparatus including fluorescent lights and LEDs. By further improving performance of photocatalysts and developing its new applications in cooperation with our customers, SDK Group will contribute to people's healthy, safe and sound life.

[Aluminum segment]

・Acquisition of a Vietnamese aluminum can maker

In May 2014, SDK and its wholly owned subsidiary Showa Aluminum Can Corporation (SAC) completed the procedures for jointly acquiring 91.75% of shares in Hanacans*, a manufacturer of aluminum beverage cans in Vietnam. Hanacans is the largest aluminum can producer in the northern region of Vietnam, and has strong sales network among local beverage manufacturers. Furthermore, Hanacans will introduce SAC's advanced production technology and quality control system, thereby strengthening its competitive power in the growing Vietnamese market.

* Hanacans Joint Stock Company

・Decision to expand the capacity to produce high-purity aluminum foils in China

SDK decided in July 2014 to expand its capacity to produce high-purity aluminum foil, which is a main material for aluminum electrolytic capacitors, in China. SDK will increase productive capacity of Showa Denko Aluminum (Nantong) from 400 tons a month at present to 600 tons a month. Aluminum electrolytic capacitors are used in wide areas, including electric appliances, IT devices, electric vehicles, hybrid cars and equipment for power generation with renewable energy sources. The demand for electrolytic capacitors is expected to increase especially in China. SDK Group will ensure stable supply of high-quality high-purity aluminum foil to the Chinese market, and continue responding to the expansion of the global market of aluminum electrolytic capacitors in a timely manner.

・Starting commercial operation of a new aluminum casting plant in Malaysia

SHOTIC Malaysia Sdn. Bhd. (STM), a subsidiary of SDK, completed construction of a new aluminum casting plant in Johor, Malaysia in November 2014, and started commercial operation of the new plant. STM is the SDK Group's first production base outside Japan to cast aluminum. Thus, with the existing aluminum forging plant of SHOTIC Singapore Pte., Ltd., SDK group has established an integrated aluminum forging and casting system in ASEAN region. SDK Group will meet lively demand for fine aluminum products through quick response to car manufacturers' and parts suppliers' needs.

[Others segment]

・Completion of the expansion of production lines for LIB packaging laminates

Showa Denko Packaging Co. Ltd., a subsidiary of SDK, completed the expansion work of its productive capacity for aluminum laminated films used for packaging lithium ion batteries (LIBs) at its Hikone Plant in Shiga Prefecture, and started mass production with the expanded lines in July 2014. As a result of this expansion work, Showa Denko Packaging's productive capacity for aluminum laminated films was increased to be three times as much as that in 2010. The market for aluminum laminated films used for LIB packaging continues expanding. Specifically, not only the demand for small LIBs used in smart devices such as smartphones and tablets is growing, but also the demand for large LIBs is expected to grow due to the progress in the electrification of cars. The Showa Denko Group aims to ensure stable supply of high-quality materials for LIBs whose market is growing dramatically.

・Increased adoption of proprietary LED chips for plant growth facility

Shigyo™ Method, developed jointly by SDK and Professor Shigyo, Department of Agriculture, Yamaguchi University, accelerates the growth of plant at LED-based facilities by irradiating light with optimum wavelengths and intensity in consideration of the kind of plant and growing stages. SDK's proprietary LED chips are used for this technology. In 2014, *Shigyo*™ Method was adopted by Gushiken Co., Ltd., a major bread maker in Okinawa Prefecture, and by Endo Corporation at its plant growth facility in Yamagata Prefecture. Aiming to promote plant growth facilities that realize stable supply of safe food, SDK will continue to provide various types of support to companies considering participation in plant factory business.

(4) Projections for 2015

a) Overall performance forecast

As for the Japanese economy in 2015, while the influence of the consumption tax hike is expected to be softened, consumer spending will recover due to improvement in employment environment and personal income environment, and corporate profits are expected to pick up in tempo to improve due to the spread of the effect of a weak yen. As for overseas economies, while the US economy is expected to continue strong growth, the Chinese and ASEAN economies will show stable growth though the rate of growth will be lower than before. On the other hand, the European economy will continue bearish tendency, and the growth of economies of resource-producing countries including Russia will be further decelerated. There will be such risk factors as the wide fluctuation in the exchange rates and the prices of raw materials and fuels, and economic downturn in emerging countries and resource-producing countries except China. Thus the business environment will remain severe.

Under the medium-term business plan "PEGASUS" launched in 2011, the Showa Denko Group has implemented structural reform and measures to recover earning power. Furthermore, in the business plan "PEGASUS Phase II" launched in 2014 as a latter half of PEGASUS, the Group positioned its four businesses of aluminum cans, high-purity aluminum foil, semiconductor-processing high-purity gases, and functional chemicals, as "Growth" businesses, and has been accelerating business expansions in the growing Asian market while steadily reforming the structure of domestic operations, aiming to improve overall profitability. In 2015, which is the final year of the PEGASUS, the Group will promote these measures and get results. As for the next medium-term business plan, we will formulate it by the end of 2015 upon intensive discussion about its contents including basic strategy and business portfolio.

The Group's performance forecast for 2015 is as follows.

(Unit: millions of yen)

	Results for the term ended Dec. 31, 2014	Forecast for the term ending Dec.31, 2015	Increase/ decrease	Rate of change (%)
Net sales	876,580	900,000	23,420	2.7
Operating income	20,915	40,000	19,085	91.3
Ordinary income	22,102	34,500	12,398	56.1
Net income	3,500	15,000	11,500	328.6

Net sales will increase form the 2014 results, to ¥900,000 million. Operating income, ordinary income and net income will also increase to ¥40,000 million, ¥34,500 million, and ¥15,000 million, respectively. The above forecast is based on the assumption that the exchange rate will be ¥115 to the U.S. dollar and that the naphtha price will be ¥45,000/KL in the first half of the year, and ¥57,000/KL in the second half of the year.

b) Net sales and operating income by business segment

[Net sales]

(Unit: millions of yen)

	Results for the term ended Dec. 31, 2014	Forecast for the term ending Dec. 31, 2015	Increase/ decrease
Petrochemicals	281,400	262,000	-19,400
Chemicals	139,064	153,000	13,936
Electronics	138,537	149,000	10,463
Inorganics	67,557	80,000	12,443
Aluminum	97,956	111,000	13,044
Others	195,024	182,000	-13,024
Adjustments	-42,959	-37,000	5,959
Total	876,580	900,000	23,420

[Operating income]

(Unit: millions of yen)

	Results for the term ended Dec. 31, 2014	Forecast for the term ending Dec. 31, 2015	Increase/ decrease
Petrochemicals	-4,930	7,000	11,930
Chemicals	5,460	9,500	4,040
Electronics	25,770	24,000	-1,770
Inorganics	-300	4,000	4,300
Aluminum	2,999	2,500	-499
Others	-678	1,000	1,678
Adjustments	-7,406	-8,000	-594
Total	20,915	40,000	19,085

The above forecast is based on the information available as of February 12, 2015 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 for the January 1 – December 31, 2014 period

a) Total assets at the end of the year amounted to ¥1,011,083 million, an increase of ¥25,312 million from the level at December 31, 2013. Total assets were up due partly to the increase in accounts receivable-trade, inventory, and property, plant and equipment. Interest-bearing debt increased ¥29,438 million, to ¥383,124 million, due partly to the execution of subordinated loan. Total liabilities increased ¥50,618 million, to ¥690,579 million, due partly to the increase in interest-bearing debt and accounts payable-trade. Net assets at the end of the year amounted to ¥320,504 million, down ¥25,306 million, owing to the repurchase of own shares, and the decrease in minority interest due to the repurchase and cancellation of the subordinated convertible bonds issued by SDK and perpetual preferred securities issued by the SDK's wholly-owned special purpose company, despite the increase in foreign currency translation adjustment.

b) Cash flows in 2014

Net cash provided by operating activities increased ¥2,431 million from the previous year, to ¥65,996 million, due partly to the increase in dividends income, despite the decrease in operating income. Net cash used in investing activities increased ¥487 million, to ¥47,225 million, due partly to the increase in purchase of investments in subsidiaries resulting in change in scope of consolidation, despite the decrease in purchase of investment securities. Thus, free cash flow ended up in the proceeds of ¥18,771, an increase of ¥1,944 million. Net cash used in financing activities increased ¥18,219 million due to the purchase of preferred securities and the repurchase of own shares, despite the rise in interest-bearing debt, and ended up in the payment of ¥25,024 million. As a result, and due partly to the influence of exchange rate fluctuations, cash and cash equivalents at December 31, 2014 decreased ¥1,660 million, to ¥66,515 million.

c) Projections for 2015

Cash flows from operating activities will slightly decrease. As for net cash used in investing activities, payment will increase. Thus, free cash flow for 2015 is expected to decrease by around ¥3,800 million from 18,771 million in 2014, to the proceeds of approximately ¥15,000 million. Interest-bearing debt at the end of the year will be around ¥385,000 million, up around ¥1,900 million.

d) Trends in cash flow indexes

	2011	2012	2013	2014
Equity ratio	26.8%	29.2%	30.6%	29.7%
Equity ratio on a market value basis	24.8%	21.0%	22.6%	21.0%
Debt maturity (years)	5.0	6.4	5.6	5.8
Interest coverage ratio	12.8	11.3	15.6	15.4

[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 2013/2014

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 needs for internal reserve for use in future business expansions. As to appropriation of profits for 2014, the Company is planning to pay dividends of ¥3 per share. For 2015, 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 12, 2015. 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 fluctuates due to a change in crude oil prices, a change in supply-demand balance, or a currency fluctuation, and when we cannot secure sufficient spreads between the manufacturing cost and selling prices of products, 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 a rise in LME prices, a rise in premium on aluminum, 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 IT devices. 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 forward 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 adversely 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 or in case of a revision of the taxation system (including tax rates), it becomes necessary to revise deferred tax assets. That situation could 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 laws and agreements, 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. The Group also respects other companies' rights. 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. The Group may incur substantial costs in dealing with the situation and may lose business opportunities due to the suspension of production. This could affect the Group's performance and financial conditions. Furthermore, even when the Group's manufacturing facilities are not directly influenced, the Group's production activities may be restricted by trouble with procurement or disruption of supply chains due to accidents at suppliers' sites or a natural disaster, or by a shortage of power supply. 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.

5. 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 safety.
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).

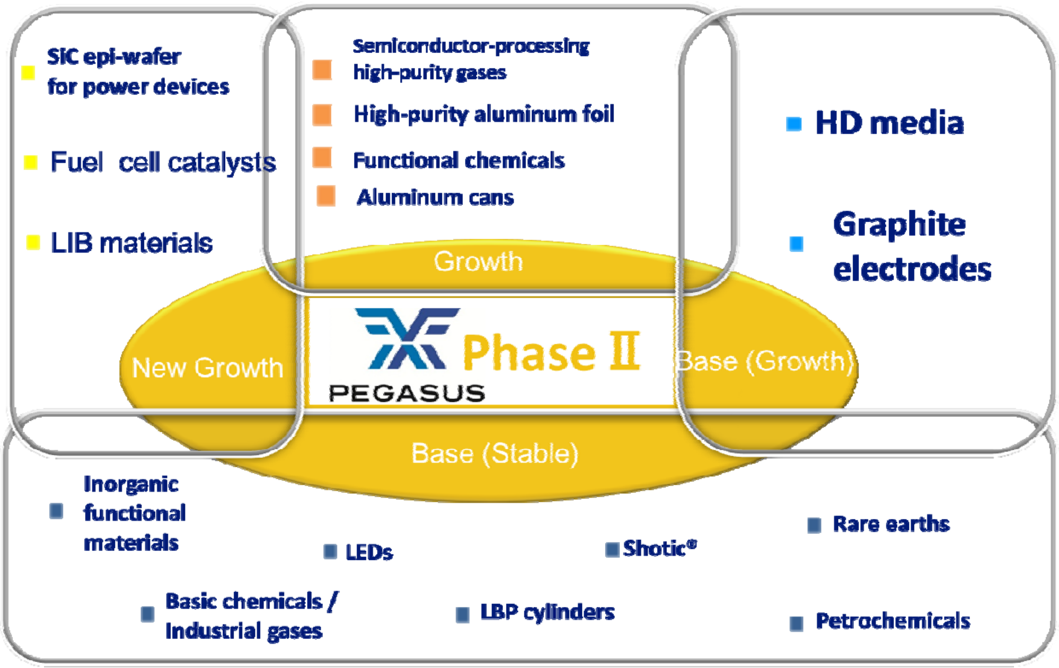
(3) Medium to long-term business strategy

1) Medium-term consolidated business plan "PEGASUS Phase II" (announced in December 2013)

The Showa Denko Group is promoting its medium-term consolidated business plan PEGASUS launched in 2011. The Group aims to further strengthen its status as a "unique chemical company with individualized products" based on its proprietary and competitive technologies. The Group is working to build up strong and diversified businesses on a global scale, thereby establishing leading positions in various market segments. The Group is implementing the "PEGASUS Phase II" business plan for the 2014-2015 period, the latter part of the five-year plan PEGASUS.

2) Basic strategy under "PEGASUS Phase II"

In the business portfolio we aim to realize, we now classify businesses into four categories: Base (Growth), Growth, Base (Stable), and New Growth. We have set a category of "Growth" for globally competitive operations, aiming to accelerate growth strategies through preferential allocation of managerial resources.



Business portfolio in Phase II

a) Base (Growth) businesses
“HD media” and “graphite electrodes” are positioned as the main businesses. We will improve the profitability of the two businesses by increasing their global competitive power and reducing costs. The two businesses will serve as major contributors to our profit and cash flows.

b) Growth businesses
We have newly classified the businesses in aluminum cans, high-purity foil, semiconductor-processing high-purity gases, and functional chemicals as “Growth” businesses. We will preferentially allocate resources to these businesses, aiming to expand them mainly in the growing Asian market.

c) New Growth businesses
We will aim to quickly establish such new businesses as LIB materials and SiC epitaxial wafers for power devices.

d) Base (Stable) businesses
In the category of “Base (Stable) businesses, including petrochemicals and basic chemicals, we will take aggressive measures for improving their cost competitiveness, aiming to improve their profitability.

e) Overseas business strategy
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 by establishing new sites and expanding existing sites in such business areas as aluminum cans (“Growth”) and chemical alumina (“Base (Stable)”).

f) 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.

g) R&D strategy

We will invest ¥20.8 billion in R&D in 2015, which is the final year of PEGASUS Phase II. In the allocation of the budget, we will put emphasis on the expansion of HD media and functional chemicals. As medium-term R&D themes, we will focus on such areas as SiC epitaxial wafers for power devices and fuel cells. We will promote R&D in areas to be directly linked to our growth.

h) Capital investment plans

Capital investment in 2015, the final year of PEGASUS Phase II, will be ¥51.2 billion. In addition to the main businesses of HD media and graphite electrodes, we will make investments in carefully selected projects where we have strengths, including semiconductor-processing high-purity gases, overseas production of aluminum cans ("Growth") and expansion of production capacity for SiC epitaxial wafers for power devices ("New Growth").

3) Financial goals under PEGASUS Phase II

Profit rate (Operating income / Net sales): 5.3% (Forecast for 2015*: 4.4%)
ROA (Operating income / Total assets): 5.0% (Forecast for 2015*: 4.0%)
Free cash flow (FCF): ¥30 billion in 2014-2015 period
(Results for 2014: ¥18.8 billion, Forecast for 2015*: ¥15 billion, ¥33.8 billion in total for 2014-2015 period)

*Announced on February 12, 2015

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.

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.

Moreover, we will continue to enhance corporate governance, focusing on the following points of view, in order to ensure sound, effective and transparent management, as well as to really become "a company that contributes to the sound growth of society," which continuously improves its own corporate value and consequently is trusted and appreciated by society.

(1) Strengthening compliance
(2) Strengthening management monitoring and supervisory functions
(3) Clarifying management responsibilities
(4) Rapid, effective decision-making and business execution
(5) Strengthening the information disclosure system

The world economy is undergoing drastic changes in the market structure. The Group will promote expansions in overseas markets centering on Asia and provide sophisticated high-performance products and technologies. Thus, we will continue meeting customer requirements and social needs.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2013	Dec. 31, 2014	Dec. 31, 2014
Assets	¥	¥	$
Current assets			
Cash and deposits	68,250	66,840	554,455
Notes and accounts receivable-trade	156,090	156,880	1,301,371
Merchandise and finished goods	53,203	57,913	480,408
Work in process	16,331	14,750	122,354
Raw materials and supplies	50,622	50,937	422,538
Deferred tax assets	4,810	4,244	35,204
Other	25,548	30,384	252,044
Allowance for doubtful accounts	(256)	(1,509)	(12,516)
Total current assets	374,599	380,439	3,155,859
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	85,470	85,948	712,966
Machinery, equipment and vehicles, net	111,627	119,924	994,805
Tools, furniture and fixtures, net	6,709	7,392	61,316
Land	254,593	254,116	2,107,969
Construction in progress	35,688	46,277	383,886
Total property, plant and equipment	494,087	513,656	4,260,941
Intangible assets			
Goodwill	—	1,980	16,427
Other	10,960	11,700	97,051
Total intangible assets	10,960	13,680	113,479
Investments and other assets			
Investment securities	78,688	76,113	631,378
Net defined benefit asset	—	20	169
Deferred tax assets	15,889	15,563	129,102
Other	12,080	12,024	99,742
Allowance for doubtful accounts	(531)	(412)	(3,421)
Total investments and other assets	106,125	103,308	856,970
Total noncurrent assets	611,172	630,644	5,231,390
Total assets	985,771	1,011,083	8,387,249
Liabilities			
Current liabilities			
Notes and accounts payable-trade	124,194	127,206	1,055,213
Short-term loans payable	78,182	71,519	593,274
Current portion of long-term loans payable	41,694	70,486	584,706
Commercial papers	18,000	5,000	41,477
Current portion of bonds	—	10,000	82,953
Accounts payable-other	53,990	68,319	566,730
Provision for repairs	3,512	61	506
Provision for bonuses	2,251	2,135	17,714
Provision for business structure improvement	296	769	6,382
Provision for Niigata Minamata Disease	149	137	1,132
Other	24,677	25,148	208,611
Total current liabilities	346,945	380,781	3,158,698
Noncurrent liabilities			
Bonds payable	30,000	35,000	290,336
Long-term loans payable	185,811	191,119	1,585,389
Deferred tax liabilities	3,305	3,453	28,640
Deferred tax liabilities for land revaluation	39,849	39,841	330,492
Provision for retirement benefits	20,310	—	—
Provision for repairs	43	633	5,254
Net defined benefit liability	—	22,115	183,453
Other	13,698	17,637	146,305
Total noncurrent liabilities	293,016	309,798	2,569,868
Total liabilities	639,961	690,579	5,728,566
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,166,018
Capital surplus	62,221	62,221	516,143
Retained earnings	58,414	57,467	476,708
Treasury stock	(149)	(10,153)	(84,221)
Total shareholders' equity	261,050	250,099	2,074,647
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	5,850	6,783	56,269
Deferred gains or losses on hedges	105	1,262	10,470
Revaluation reserve for land	27,923	27,908	231,508
Foreign currency translation adjustment	6,284	19,018	157,758
Remeasurements of defined benefit plans	—	(4,899)	(40,639)
Total accumulated other comprehensive income	40,161	50,072	415,367
Minority interests	44,599	20,333	168,669
Total net assets	345,811	320,504	2,658,683
Total liabilities and net assets	985,771	1,011,083	8,387,249

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2013 and 2014		
	2013	2014	2014
	¥	¥	$
Net sales	848,071	876,580	7,271,503
Cost of sales	739,017	767,849	6,369,547
Gross profit	109,054	108,731	901,957
Selling, general and administrative expenses	83,101	87,816	728,463
Operating income	25,953	20,915	173,494
Non-operating income			
Interest income	155	224	1,855
Dividends income	1,145	3,492	28,964
Equity in earnings of affiliates	―	1,212	10,055
Rent income on noncurrent assets	1,479	1,628	13,504
Foreign exchange gains	2,165	4,431	36,758
Miscellaneous income	1,775	1,615	13,394
Total non-operating income	6,720	12,601	104,530
Non-operating expenses			
Interest expenses	4,126	4,546	37,711
Equity in losses of affiliates	264	―	―
Loss on mothballing of operation	1,852	2,947	24,449
Miscellaneous expenses	2,943	3,921	32,524
Total non-operating expenses	9,185	11,414	94,683
Ordinary income	23,488	22,102	183,341
Extraordinary income			
Gain on sales of investment securities	5,143	2,986	24,770
Compensation income from cancellation of contracts	756	―	―
Other	371	504	4,180
Total extraordinary income	6,269	3,490	28,950
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	1,459	4,208	34,906
Impairment loss	1,357	3,747	31,085
Loss on restructuring of subsidiaries and affiliates	1,270	―	―
Loss on valuation of investment securities	465	4,032	33,449
Other	1,173	3,640	30,196
Total extraordinary losses	5,724	15,628	129,635
Income before income taxes and minority interests	24,033	9,964	82,655
Income taxes	13,760	6,824	56,608
Income before minority interests	10,274	3,140	26,047
Minority interests in income (loss)	1,209	(360)	(2,988)
Net income	9,065	3,500	29,036

Consolidated Statements of Comprehensive Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2013 and 2014		
	2013	2014	2014
	¥	¥	$
Income (loss) before minority interests	10,274	3,140	26,047
Other comprehensive income:			
Valuation difference on available-for-sale securities	5,105	867	7,188
Deferred gains or losses on hedges	384	1,016	8,424
Foreign currency translation adjustments	18,987	12,797	106,155
Share of other comprehensive income of affiliates applied for equity method	116	138	1,141
Total other comprehensive income	24,593	14,817	122,909
Comprehensive income	34,866	17,957	148,956
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	32,350	17,620	146,167
Comprehensive income attributable to minority interests	2,516	336	2,789

Consolidated Statements of Changes in Net Assets

For the year ended December 31, 2013 (¥ 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	Remeasurements of defined benefit plans	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2012	140,564	62,222	53,172	(145)	255,812	924	(305)	28,025	(11,722)	-	16,922	42,232	314,966
Changes of items during the period													
Dividends from surplus			(4,490)		(4,490)								(4,490)
Net income			9,065		9,065								9,065
Purchase of treasury stock				(5)	(5)								(5)
Disposal of treasury stock		(0)		1	1								1
Increase by increase of consolidated subsidiaries			576		576								576
Decrease by increase of consolidated subsidiaries													-
Reversal of revaluation reserve for land			103		103								103
Others			(11)		(11)								(11)
Net changes of items other than shareholders' equity						4,926	410	(103)	18,006		23,239	2,368	25,607
Total changes of items during the period	-	(0)	5,242	(4)	5,238	4,926	410	(103)	18,006	-	23,239	2,368	30,844
Balance at December 31, 2013	140,564	62,221	58,414	(149)	261,050	5,850	105	27,923	6,284	-	40,161	44,599	345,811

For the year ended December 31, 2014 (¥ 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	Remeasurements of defined benefit plans	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2013	140,564	62,221	58,414	(149)	261,050	5,850	105	27,923	6,284	-	40,161	44,599	345,811
Changes of items during the period													
Dividends from surplus			(4,490)		(4,490)								(4,490)
Net income			3,500		3,500								3,500
Purchase of treasury stock				(10,005)	(10,005)								(10,005)
Disposal of treasury stock		(0)		0	0								0
Increase by increase of consolidated subsidiaries			475		475								475
Decrease by increase of consolidated subsidiaries			(443)		(443)								(443)
Reversal of revaluation reserve for land			14		14								14
Others			(4)		(4)								(4)
Net changes of items other than shareholders' equity						934	1,158	(14)	12,733	(4,899)	9,911	(24,266)	(14,355)
Total changes of items during the period	-	(0)	(947)	(10,004)	(10,951)	934	1,158	(14)	12,733	(4,899)	9,911	(24,266)	(25,306)
Balance at December 31, 2014	140,564	62,221	57,467	(10,153)	250,099	6,783	1,262	27,908	19,018	(4,899)	50,072	20,333	320,504

For the year ended December 31, 2014 (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	Remeasurements of defined benefit plans	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2013	1,166,018	516,144	484,562	(1,234)	2,165,491	48,524	868	231,627	52,131	-	333,150	369,966	2,868,607
Changes of items during the period													
Dividends from surplus			(37,244)		(37,244)								(37,244)
Net income			29,036		29,036								29,036
Purchase of treasury stock				(82,991)	(82,991)								(82,991)
Disposal of treasury stock		(2)		3	2								2
Increase by increase of consolidated subsidiaries			3,940		3,940								3,940
Decrease by increase of consolidated subsidiaries			(3,672)		(3,672)								(3,672)
Reversal of revaluation reserve for land			118		118								118
Others			(34)		(34)								(34)
Net changes of items other than shareholders' equity						7,745	9,603	(118)	105,626	(40,639)	82,217	(201,297)	(119,080)
Total changes of items during the period	-	(2)	(7,855)	(82,987)	(90,844)	7,745	9,603	(118)	105,626	(40,639)	82,217	(201,297)	(209,924)
Balance at December 31, 2014	1,166,018	516,143	476,708	(84,221)	2,074,647	56,269	10,470	231,508	157,758	(40,639)	415,367	168,669	2,658,683

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the year (Jan. 1-Dec. 31)		
	2013	2014	2014
	¥	¥	$
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	24,033	9,964	82,655
Depreciation and amortization	39,779	40,673	337,399
Impairment loss	1,357	3,747	31,085
Amortization of goodwill	1,447	1,696	14,065
Increase (decrease) in provision for retirement benefits	(3,159)	-	-
Increase (decrease) in net defined benefit liability	-	1,987	16,484
Interest and dividends income	(1,300)	(3,715)	(30,819)
Interest expenses	4,126	4,546	37,711
Equity in (earnings) losses of affiliates	264	(1,212)	(10,055)
Loss (gain) on sales and valuation of investment securities	(4,586)	1,047	8,688
Loss on retirement of noncurrent assets	1,444	4,168	34,575
Loss (gain) on sales of noncurrent assets	(66)	(28)	(233)
Decrease (increase) in notes and accounts receivable-trade	(8,373)	6,829	56,648
Decrease (increase) in inventories	9,113	1,453	12,052
Increase (decrease) in notes and accounts payable-trade	10,226	(3,087)	(25,611)
Other, net	(3,770)	829	6,879
Subtotal	70,535	68,897	571,522
Interest and dividends income received	1,923	4,250	35,258
Interest expenses paid	(4,078)	(4,293)	(35,609)
Income taxes paid	(4,814)	(2,859)	(23,715)
Net cash provided by (used in) operating activities	63,565	65,996	547,457
Net cash provided by (used in) investing activities			
Proceeds from sales and redemption of securities	2	-	-
Purchase of property, plant and equipment	(44,114)	(44,278)	(367,297)
Proceeds from sales of property, plant and equipment	218	901	7,475
Proceeds from transfer of business	15	-	-
Purchase of investment securities	(15,000)	(8,147)	(67,583)
Proceeds from sales of investment securities	14,244	10,365	85,984
Purchase of investments in subsidiaries	(3)	-	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(887)	(5,533)	(45,896)
Net decrease (increase) in short-term loans receivable	506	(2)	(13)
Payments of long-term loans receivable	(1,414)	-	-
Collection of long-term loans receivable	1,434	234	1,941
Other, net	(1,740)	(766)	(6,355)
Net cash provided by (used in) investing activities	(46,738)	(47,225)	(391,745)
Net increase (decrease) in short-term loans payable	7,318	(11,907)	(98,771)
Net increase (decrease) in commercial papers	(7,000)	(13,000)	(107,839)
Proceeds from long-term loans payable	49,230	71,455	592,746
Repayment of long-term loans payable	(47,148)	(43,370)	(359,766)
Proceeds from issuance of bonds	-	15,000	124,430
Payments for retirement by purchase of Preferred equity securities	-	(24,000)	(199,088)
Proceeds from stock issuance to minority shareholders	1,031	-	-
Net decrease (increase) in treasury shares	(4)	(10,004)	(82,989)
Cash dividends paid	(4,472)	(4,477)	(37,135)
Cash dividends paid to minority shareholders	(1,749)	(1,291)	(10,711)
Other, net	(4,011)	(3,431)	(28,458)
Net cash provided by (used in) financing activities	(6,805)	(25,024)	(207,581)
Effect of exchange rate change on cash and cash equivalents	5,638	3,597	29,837
Net increase (decrease) in cash and cash equivalents	15,660	(2,656)	(22,032)
Cash and cash equivalents at beginning of period	51,254	68,175	565,533
Increase in cash and cash equivalents from newly consolidated subsidiary	1,249	996	8,261
Increase in cash and cash equivalents resulting from merger	12	-	-
Cash and cash equivalents at end of period	68,175	66,515	551,762

SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2013 and 2014 were summarized by business segment as follows:

Year ended December 31, 2013	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers.	¥279,642	¥120,706	¥135,156	¥57,412	¥84,110	¥171,044	¥–	¥848,071
Inter-segment.	7,090	9,950	1,392	8,507	6,273	5,472	(38,684)	–
Total.	286,732	130,656	136,548	65,919	90,383	176,516	(38,684)	848,071
Operating income (loss).	¥4,398	¥2,559	¥21,940	(¥838)	¥5,845	(¥626)	(¥7,324)	¥25,953
Assets.	¥147,207	¥185,453	¥164,167	¥153,979	¥130,941	¥183,694	¥20,330	¥985,771
Depreciation.	6,421	7,300	14,216	3,128	4,303	2,937	1,474	39,779
Amortization of (negative) goodwill. . . .	6	(145)	86	1,550	(60)	10	–	1,447
Investments in non-consolidated subsidiaries and affiliates.	13,649	1,795	–	1,484	50	162	–	17,140
Capital expenditures.	2,912	6,749	6,121	18,283	6,256	2,649	1,400	44,370

Year ended December 31, 2014	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers.	¥274,837	¥127,638	¥136,773	¥58,779	¥90,022	¥188,531	¥–	¥876,580
Inter-segment.	6,564	11,426	1,764	8,778	7,934	6,493	(42,959)	–
Total.	281,400	139,064	138,537	67,557	97,956	195,024	(42,959)	876,580
Operating income (loss).	(¥4,930)	¥5,460	¥25,770	(¥300)	¥2,999	(¥678)	(¥7,406)	¥20,915
Assets.	¥143,896	¥188,810	¥161,908	¥163,595	¥156,013	¥194,565	¥2,296	¥1,011,083
Depreciation.	6,472	7,517	13,219	3,591	5,315	2,921	1,638	40,673
Amortization of (negative) goodwill. . . .	6	(228)	47	1,630	156	85	–	1,696
Investments in non-consolidated subsidiaries and affiliates.	13,608	2,381	–	1,590	–	179	–	17,758
Capital expenditures.	4,195	7,768	7,825	15,432	7,106	3,768	1,224	47,318

Year ended December 31, 2014	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers.	$2,279,856	$1,058,801	$1,134,571	$487,592	$746,761	$1,563,921	$–	$7,271,503
Inter-segment.	54,447	94,782	14,633	72,816	65,816	53,864	(356,357)	–
Total.	2,334,302	1,153,583	1,149,204	560,409	812,577	1,617,785	(356,357)	7,271,503
Operating costs.	2,375,195	1,108,292	935,433	562,897	787,702	1,623,408	(294,918)	7,098,009
Operating income (loss).	($40,893)	$45,291	$213,771	($2,489)	$24,876	($5,623)	($61,439)	$173,494
Assets.	$1,193,658	$1,566,236	$1,343,081	$1,357,073	$1,294,178	$1,613,980	$19,044	$8,387,249
Depreciation.	53,684	62,355	109,652	29,791	44,092	24,234	13,591	337,399
Amortization of (negative) goodwill. . . .	47	(1,894)	392	13,523	1,290	707	–	14,065
Investments in non-consolidated subsidiaries and affiliates.	112,885	19,753	–	13,190	–	1,482	–	147,310
Capital expenditures.	34,799	64,438	64,907	128,009	58,948	31,261	10,157	392,520

(b) The operations of the Companies for the year ended December 31, 2013 and 2014 were summarized by geographic area as follows:

Year ended December 31, 2013	Millions of yen				
	Japan	China	Asia(exc.China)	Others	Total
Sales.	¥526,303	¥105,658	¥175,503	¥40,607	¥848,071
	Japan	Others	Total		
Tangible fixed assets.	¥417,640	¥76,447	¥494,087		

Year ended December 31, 2014	Millions of yen				
	Japan	China	Asia(exc.China)	Others	Total
Sales.	¥549,910	¥97,525	¥187,073	¥42,073	¥876,580
	Japan	Others	Total		
Tangible fixed assets.	¥419,575	¥94,082	¥513,656		

Year ended December 31, 2014	Thousands of U.S. dollars				
	Japan	China	Asia(exc.China)	Others	Total
Sales.	$4,561,673	$808,999	$1,551,826	$349,006	$7,271,503
	Japan	Others	Total		
Tangible fixed assets.	$3,480,502	$780,438	$4,260,941		

(c) The impairment loss and the (negative) goodwill of the Companies for the year ended December 31,2013 and 2014 were summarized by business segment as follows:

Year ended December 31, 2013	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss.	¥211	¥28	¥–	¥1,060	¥–	¥58	¥–	¥1,357
Goodwill								
Amortization.	6	283	118	1,550	–	38	–	1,996
Unamortized balance.	34	299	501	3,909	–	257	–	5,000
Negative goodwill								
Amortization.	–	428	33	–	60	28	–	549
Unamortized balance.	–	3,374	455	–	839	344	–	5,012

Year ended December 31, 2014	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss.	¥1,798	¥517	¥–	¥1,410	¥4	¥18	¥–	¥3,747
Goodwill								
Amortization.	6	134	80	1,630	216	113	–	2,179
Unamortized balance.	–	165	421	1,417	3,945	561	–	6,509
Negative goodwill								
Amortization.	–	362	33	–	60	28	–	483
Unamortized balance.	–	3,012	423	–	779	316	–	4,529

Year ended December 31, 2014	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss.	$14,918	$4,293	$–	$11,694	$34	$146	$–	$31,085
Goodwill								
Amortization.	47	1,110	662	13,523	1,789	941	–	18,072
Unamortized balance.	–	1,370	3,490	11,758	32,728	4,650	–	53,997
Negative goodwill								
Amortization.	–	3,004	270	–	499	235	–	4,007
Unamortized balance.	–	24,984	3,507	–	6,459	2,620	–	37,570