

## Consolidated Financial Statements

For the first quarter ended March 31, 2009



## 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)			
	2008	2009	Increase (Decrease)	2009
	¥	¥	%	\$
Net sales	246,882	121,035	(51.0)	1,232,160
Operating income	9,709	(15,669)	—	(159,518)
Ordinary income	4,815	(23,631)	—	(240,567)
Net income	3,210	(22,081)	—	(224,789)
Net income per share: Basic	2.57	(17.70)	—	(0.180)
Net income per share: Diluted	—	—	—	—

## Notes

Important changes in accounting policies : applicable

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

	Dec. 31, 2008	Mar. 31, 2009	Mar. 31, 2009
	¥	¥	\$
Total assets	962,010	941,341	9,583,030
Total equity	265,459	239,859	2,441,807
Total equity per share	192.85	173.14	1.76
	%	%	%
Stockholders' equity ratio	25.0	22.9	22.9

(4) Dividends:

	2008
Q1 dividends per share (¥)	—
Q2 dividends per share (¥)	—
Q3 dividends per share (¥)	—
End of Term dividends per share (¥)	5.0
Annual dividends per share (¥)	5.0

※The dividends for 2009 is still undecided.

## II. Forecast of performance for the year ending December 31, 2009

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

	2009	
	¥	\$
Net sales	710,000	7,227,934
Operating income	(6,500)	(66,171)
Ordinary income	(23,500)	(239,234)
Net income	(30,000)	(305,406)
Net income per share	(24.04)	(0.24)

※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.

As for the revision of performance forecast for the first-half and full-year 2009, please refer to the separate news release of April 30, 2009.

## Notes

The U.S. dollar is valued at ¥98.23 throughout this statement for convenience only.

## [Business Results and Financial Conditions]

(As this is the first year of the quarterly financial reporting system, the figures for the same quarter of the previous year were not audited by independent accountants. Thus, those figures and increase/decrease percentages are provided for the purpose of reference only.)

### 1. Analysis of business results

#### (1) Summary

During the first quarter of 2009 (January 1 - March 31), the Japanese economy was affected by the rapid deterioration in the world economy, resulting in substantial declines in export and production. Under the circumstances, Showa Denko K.K. and its Group companies reduced production substantially in all segments in response to sharp production cuts by various customer industries, including the electronic parts and automobile sectors.

As a result, the Company recorded net sales of ¥121,035 million in the first quarter of 2009, down ¥125,846 million from the same quarter of the previous year. The Company posted an operating loss of ¥15,669 million (down ¥25,378 million), an ordinary loss of ¥23,631 million (down ¥28,446 million), and a net loss of ¥22,081 (down ¥25,291 million).

#### (2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2009)

In the Petrochemicals segment, sales decreased 60.0%, to ¥40,158 million, reflecting substantial production cuts of olefins and organic chemicals. The segment recorded an operating loss of ¥523 million (down ¥3,273 million) due mainly to the reduced production at its ethylene plant and the influence of inventory adjustments pertaining to vinyl acetate, etc.

In the Chemicals segment, sales increased 2.0%, to ¥19,794 million, reflecting the consolidation of Showa Tansan Co., Ltd. in June 2008, although sales of acrylonitrile and chloroprene rubber declined as a result of substantial production cuts. The segment recorded an operating loss of ¥846 million (down ¥2,440 million) due mainly to lower production of acrylonitrile.

In the Electronics segment, sales decreased 67.7%, to ¥15,898 million. Sales of hard disk (HD) media decreased due to substantial production cuts, reflecting large-scale inventory adjustments in the hard disk drive industry. Sales of compound semiconductors, specialty gases for semiconductor processing, and rare earth magnetic alloys fell as a result of lower production. The segment recorded an operating loss of ¥9,337 million (down ¥11,973 million).

In the Inorganics segment, sales fell 47.1%, to ¥10,453 million. Sales of ceramics and graphite electrodes decreased due to the influence of inventory adjustments by customer industries. Operating income fell 89.6%, to ¥442 million.

In the Aluminum segment, sales fell 40.2%, to ¥34,732 million. Sales of aluminum ingots fell due to lower shipment volumes. Sales of rolled products decreased due mainly to lower production of high-purity foils for capacitors. Sales of extrusions/specialty products

also fell due to lower shipment volumes. Sales of heat exchangers and *Shotite* forged products decreased, reflecting substantial decreases in shipment volumes for automotive applications. Meanwhile, sales of aluminum cans rose due to increases in shipment volumes. The segment recorded an operating loss of ¥4,459 million (down ¥4,595 million).

## 2. Financial conditions for the January 1 - March 31, 2009 period (as compared with the conditions at December 31, 2008)

Total assets at the end of the quarter amounted to ¥941,341 million, a decrease of ¥20,669 million from the level at December 31, 2008. The decrease is due mainly to the fall in accounts receivable, reflecting the substantial production cuts, and in inventories. Interest-bearing debt increased ¥45,172 million, to ¥438,086 million. Net assets at the end of the quarter decreased ¥25,600 million, to ¥239,859 million, owing to the net loss for the quarter and the payment of dividends.

## 3. Performance forecast

As for the performance forecast for the first-half and full-year 2009, please refer to a separate news release “SDK Revises Performance Forecast for First-Half and Full-Year 2009” issued today.

## 4. Major steps taken during the first quarter of 2009

### [Petrochemicals]

- Expansion of production capacity for high-value-added polypropylene  
SunAllomer Ltd., an affiliate of ours to which the equity method is applied, will modify the third production line at its Oita Plant to start producing high-value-added polypropylene with high rubber content. At the same time, the capacity of the first production line will be increased by approximately 60,000 tons a year to make up for the resultant capacity shortage for existing product mix. Furthermore, the company will modify the plant to conserve energy and improve the efficiency of equipment management. The capital investments for the capacity expansion and energy conservation will total ¥4-5 billion. Construction work will be completed in the first half of 2010. The new grade of polypropylene to be produced by SunAllomer features high rubber content, rigidity and impact resistance, enabling the production of light and low-cost moldings.

### [Electronics]

- Basic agreement regarding acquisition of HD media business  
We reached basic agreement with Fujitsu Limited about acquisition of its subsidiary's HD media business. We are planning to realize the acquisition within the first half of 2009. We will increase our technical strengths and enhance our competitive position by merging our proprietary technologies with those of the Fujitsu subsidiary.
- Launch of 3.5-inch 500 GB HD media  
In January, we began commercial shipments of 3.5-inch HD media with storage capacity of 500 gigabytes per disk. To the best of our knowledge, this product had the world's highest storage capacity for this size available on the market as of February 2009. Demand for high-capacity HD media is growing for such applications as high-definition HDD recorders that can record digital high-definition TV programs as well as PCs that can record and edit moving pictures.

- Development of AlGaInP red LED chips optimized for plant growth  
In April, we started selling samples of AlGaInP LED chips that emit red light with the wavelength of 660 nm: the optimum light for accelerating the growth of plants. To the best of our knowledge, the product had the world's highest output as of April 2009 as LED chips that emit red light with the wavelength of 660 nm. We will develop applications for these red LED chips, mainly for use at facilities that grow lettuce and other vegetables in an environment of controlled lighting.
- Commercialization of VGCF<sup>TM</sup>-X, a new grade of carbon nanotube  
We decided to build a 400-ton-a-year plant at Oita Complex to produce VGCF<sup>TM</sup>-X, a new grade of carbon nanotube with an optimized design for resin composite applications. Commercial shipments will begin in the first half of 2010. A small added amount of VGCF<sup>TM</sup>-X can give stable electric conductivity to resins. Thus, it will find applications in static-free plastic cases for the carriage of semiconductor/HD media parts in a clean room, contributing to securing good quality of these parts. We concluded a patent cross-license agreement with Hyperion Catalysis International, Inc., of the United States, which owns many key patents pertaining to materials and applications in the area of carbon nanotubes, including for resin composites.
- Launch of graphite anode material for lithium-ion batteries in electric vehicles  
We started selling a new grade of SCMG<sup>TM</sup> (shape-controlled micro graphite) for use as anode material in large lithium-ion batteries for electric vehicles (EVs). As EVs require batteries that can store large amount of electricity in a relatively small space, development of such batteries is under way in the related industries. SCMG<sup>TM</sup> enables the use of heavy current and extends the life of lithium-ion batteries. In view of the expected growth in demand, we decided to increase our SCMG<sup>TM</sup> production capacity at Omachi from 1,000 tons a year at present to 3,000 tons a year in 2012, investing approximately ¥2 billion.
- Expansion of the C<sub>4</sub>F<sub>6</sub> etching gas business  
In the first half of 2009, we will start producing high-purity C<sub>4</sub>F<sub>6</sub> etching gas in Kawasaki in cooperation with Air Products and Chemicals, Inc., of the United States. Demand for C<sub>4</sub>F<sub>6</sub> is expected to grow due to its improved processability and selectivity as well as very low environmental impact.

#### [Inorganics]

- Trial manufacture of photocatalyst under NEDO project  
Showa Titanium Co., Ltd., a consolidated subsidiary of ours, started commercial production of a new visible-light-responsive photocatalyst at its new pilot plant in Toyama Prefecture. The photocatalyst has been developed under a project sponsored by the New Energy and Industrial Technology Development Organization (NEDO). Unlike conventional photocatalysts, the new product effectively fulfills air-cleaning, stain-proofing, and antiviral/antibacterial functions inside a room.

## Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2008	Mar. 31, 2009	Mar. 31, 2009
Assets	¥	¥	\$
Current assets			
Cash and deposits	40,954	44,969	457,795
Notes and accounts receivable-trade	117,190	90,116	917,401
Merchandise and finished goods	53,118	49,907	508,066
Work in process	11,700	11,551	117,596
Raw materials and supplies	52,930	49,692	505,878
Other	46,714	44,424	452,242
Allowance for doubtful accounts	(950)	(795)	(8,094)
Total current assets	321,657	289,865	2,950,884
Noncurrent assets			
Property, plant and equipment	531,633	531,862	5,414,455
Buildings and structures	94,992	94,998	967,101
Machinery, equipment and vehicles	152,535	154,535	1,573,198
Land	256,042	256,053	2,606,664
Other	28,063	26,276	267,491
Intangible assets	13,042	14,032	142,850
Goodwill	3,511	4,298	43,750
Other	9,531	9,735	99,100
Investments and other assets	95,677	105,582	1,074,842
Investment securities	65,623	64,301	654,595
Other	31,237	42,234	429,945
Allowance for doubtful accounts	(1,182)	(953)	(9,698)
Total noncurrent assets	640,353	651,476	6,632,147
<b>Total assets</b>	<b>962,010</b>	<b>941,341</b>	<b>9,583,030</b>
Liabilities			
Current liabilities			
Notes and accounts payable-trade	140,427	84,425	859,459
Short-term loans payable	100,717	120,412	1,225,819
Current portion of long-term loans payable	59,448	63,378	645,198
Income taxes payable	1,477	1,037	10,552
Provision	2,654	8,322	84,715
Other	59,052	66,319	675,143
Total current liabilities	363,774	343,892	3,500,886
Noncurrent liabilities			
Bonds payable	36,000	33,000	335,946
Long-term loans payable	196,750	213,296	2,171,391
Provision for retirement benefits	28,659	27,969	284,734
Other provision	2,756	183	1,859
Other	68,614	83,143	846,407
Total noncurrent liabilities	332,777	357,590	3,640,337
<b>Total liabilities</b>	<b>696,551</b>	<b>701,482</b>	<b>7,141,223</b>
Net assets			
Shareholders' equity			
Capital stock	121,904	121,904	1,241,004
Capital surplus	37,945	37,945	386,285
Retained earnings	73,146	45,081	458,929
Treasury stock	(173)	(172)	(1,752)
Total shareholders' equity	232,822	204,757	2,084,466
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	4,983	4,104	41,782
Deferred gains or losses on hedges	(6,093)	(5,007)	(50,970)
Revaluation reserve for land	21,896	21,896	222,904
Foreign currency translation adjustment	(12,981)	(9,722)	(98,972)
Total valuation and translation adjustments	7,805	11,271	114,745
Minority interests	24,832	23,830	242,597
<b>Total net assets</b>	<b>265,459</b>	<b>239,859</b>	<b>2,441,807</b>
<b>Total liabilities and net assets</b>	<b>962,010</b>	<b>941,341</b>	<b>9,583,030</b>

## Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter ( Jan.1–Mar.31 )	
	2009	2009
	¥	\$
Net sales	121,035	1,232,160
Cost of sales	116,700	1,188,029
Gross Profit	4,335	44,131
Selling, general and administrative expenses	20,004	203,649
Operating loss (△)	(15,669)	(159,518)
Non-operating income	1,979	20,146
Interest income	42	432
Dividends income	127	1,297
Foreign exchange gains	745	7,588
Miscellaneous incomes	1,064	10,829
Non-operating expenses	9,940	101,195
Interest expenses	1,766	17,980
Equity in losses of affiliates	1,389	14,137
Loss on reduction of operation	3,510	35,732
Miscellaneous expenses	3,276	33,346
Ordinary loss (△)	(23,631)	(240,567)
Extraordinary income	353	3,596
Reversal of allowance for doubtful accounts	125	1,277
Gain on transfer of business	200	2,036
Other	28	283
Extraordinary loss	7,593	77,302
Loss on sales and retirement of noncurrent assets	885	9,007
Loss on valuation of inventories	5,544	56,443
Other	1,164	11,852
Loss before income taxes and minority interests(△)	(30,871)	(314,274)
Income taxes	(8,778)	(89,364)
Minority interests in loss (△)	(12)	(121)
Net loss (△)	(22,081)	(224,789)

## Consolidated Statements of Cash Flows

(¥ in millions, US\$ in thousands)

	Results for the 1st quarter year (Jan. 1 – Mar. 31)	
	2009	2009
	¥	\$
<b>Cash flows from operating activities</b>		
Income before income taxes	(30,871)	(314,274)
Adjustments for:		
Depreciation and amortization	13,593	138,384
Impairment of fixed assets	232	2,362
Amortization of excess of cost over equity in net assets acquired	227	2,307
Increase (decrease) in accrued pension and severance costs	(706)	(7,183)
Interest and dividend income	(170)	(1,729)
Interest expense	1,766	17,980
Equity in earnings of the non-consolidated subsidiaries and affiliates	1,389	14,137
Loss on sale and write-down of investment securities, net	461	4,688
Loss on the disposal of property, plant and equipment, net	883	8,994
(Gain) loss on sale of property, plant and equipment, net	(16)	(162)
(Increase) decrease in trade receivables	27,599	280,965
(Increase) decrease in inventories	8,091	82,365
Increase (decrease) in trade payables	(52,788)	(537,390)
Others	(2,777)	(28,268)
Subtotal	(33,086)	(336,825)
Interest and dividend received	420	4,275
Interest paid	(1,647)	(16,765)
Income taxes paid	(1,377)	(14,014)
Net cash provided by operating activities	(35,690)	(363,329)
<b>Cash flows from investing activities</b>		
Proceeds from sales of marketable securities	2	24
Payments for purchases of property, plant and equipment	(13,705)	(139,521)
Proceeds from sales of property, plant and equipment	18,862	192,019
Proceeds from business transfer	200	2,036
Payments for purchases of investment securities	(2,447)	(24,911)
Proceeds from sales of investment securities	28	282
Payments for purchases of consolidated subsidiaries' securities	(18)	(186)
Proceeds from sales of consolidated subsidiaries	64	652
(Increase) decrease in short-term loans, net	(440)	(4,477)
Payments for long-term loans	(491)	(4,996)
Proceeds from collection of long-term loans	17	171
Others	(400)	(4,073)
Net cash used in investing activities	1,672	17,018
<b>Cash flows from financing activities</b>		
Increase (decrease) in short-term debt, net	18,935	192,760
Increase (decrease) in commercial paper	5,000	50,901
Proceeds from issuance of long-term debt	34,300	349,180
Repayments of long-term debt	(14,956)	(152,257)
Payments of dividends	(4,651)	(47,349)
Payments of dividends to minority shareholders	(772)	(7,859)
Others	(1,452)	(14,779)
Net cash used in financing activities	36,404	370,597
Effect of exchange rate changes on cash and cash equivalents	1,383	14,084
<b>Increase (decrease) in cash and cash equivalents</b>	<b>3,769</b>	<b>38,370</b>
<b>Cash and cash equivalents at beginning of the year</b>	<b>40,949</b>	<b>416,868</b>
<b>Cash and cash equivalents at end of the year</b>	<b>44,718</b>	<b>455,237</b>

## SEGMENT INFORMATION

The operations of the Companies for the year ended March 31, 2009 was summarized by business segment as follows:

Year ended March 31, 2009	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
<b>Sales</b>							
Outside customers. . . . .	¥40,158	¥19,794	¥15,898	¥10,453	¥34,732	¥-	¥121,035
Inter-segment. . . . .	302	14	78	7	69	(470)	-
Total. . . . .	<u>40,461</u>	<u>19,808</u>	<u>15,976</u>	<u>10,459</u>	<u>34,801</u>	<u>(470)</u>	<u>121,035</u>
Operating income(loss). . . . .	<u>(¥523)</u>	<u>(¥846)</u>	<u>(¥9,337)</u>	<u>¥442</u>	<u>(¥4,459)</u>	<u>¥(946)</u>	<u>(¥15,669)</u>

Year ended March 31, 2009	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminum	Elimination	Consolidated
<b>Sales</b>							
Outside customers. . . . .	\$408,819	\$201,504	\$161,849	\$106,410	\$353,578	\$-	\$1,232,160
Inter-segment. . . . .	3,078	146	793	68	702	(4,788)	-
Total. . . . .	<u>411,897</u>	<u>201,651</u>	<u>162,642</u>	<u>106,478</u>	<u>354,281</u>	<u>(4,788)</u>	<u>1,232,160</u>
Operating income(loss). . . . .	<u>(\$5,326)</u>	<u>(\$8,614)</u>	<u>(\$95,053)</u>	<u>\$4,503</u>	<u>(\$45,394)</u>	<u>\$(9,634)</u>	<u>(\$159,518)</u>



(Reference)

Consolidated Statements of Income (previous 1Q ended)

(¥ in millions, US\$ in thousands)

	Results for the first quarter ( Jan.1-Mar.31 )	
	2008	2008
	¥	\$
Net sales	246,882	2,464,134
Cost of sales	215,880	2,154,710
Gross profit	31,001	309,424
Selling, general and administrative expenses	21,293	212,523
Operating income	9,709	96,901
Non-operating income	1,543	15,396
Non-operating expense	6,436	64,237
Ordinary income	4,815	48,060
Extraordinary profit	2,814	28,091
Extraordinary loss	1,225	12,229
Income before income taxes	6,404	63,922
Income taxes	2,910	29,044
Minority interests	285	2,843
Net income	3,210	32,034

Net Sales and Operating Income by Segment (previous 1Q ended)

(¥ in millions, US\$ in thousands)

Segment		Results for the first quarter ( Jan.1-Mar.31 )	
		2008	2008
		¥	\$
Petrochemicals	Net sales	100,425	1,002,344
	Operating income	2,749	27,442
Chemicals	Net sales	19,415	193,779
	Operating income	1,594	15,905
Electronics	Net sales	49,194	491,005
	Operating income	2,636	26,311
Inorganics	Net sales	19,747	197,098
	Operating income	4,236	42,282
Aluminum	Net sales	58,101	579,908
	Operating income	136	1,358
HQ costs and other	Net sales	—	—
	Operating income	(1,643)	(16,396)
Total	Net sales	246,882	2,464,134
	Operating income	9,709	96,901

Notes

The U.S. dollar is valued at ¥100.19 throughout this statement for convenience only.