

Consolidated Financial Statements

For the first quarter ended March 31, 2010


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)			
	2009	2010	Increase (Decrease)	2010
	¥	¥	%	\$
Net sales	121,035	187,694	55.1	2,017,346
Operating income	(15,669)	7,028	—	75,533
Ordinary income	(23,631)	5,104	—	54,863
Net income	(22,081)	3,493	—	37,548
Net income per share: Basic	(17.70)	2.33	—	0.025
Net income per share: Diluted	—	—	—	—

Notes

Important changes in accounting policies : applicable

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

	Mar. 31, 2009	Mar. 31, 2010	Mar. 31, 2010
	¥	¥	\$
Total assets	958,303	932,864	10,026,486
Total equity	286,722	284,390	3,056,639
Total equity per share	163.11	161.26	1.73
	%	%	%
Stockholders' equity ratio	25.5	25.9	25.9

(4) Dividends:

	2009	2010 Forecast
Q1 dividends per share (¥)	—	—
Q2 dividends per share (¥)	0.0	0.0
Q3 dividends per share (¥)	—	—
End of Term dividends per share (¥)	3.0	3.0
Annual dividends per share (¥)	3.0	3.0

II . Forecast of performance for the year ending December 31, 2010

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

	1st half		fiscal year	
	¥	\$	¥	\$
Net sales	380,000	4,084,265	800,000	8,598,452
Operating income	13,000	139,725	33,000	354,686
Ordinary income	9,500	102,107	24,500	263,328
Net income	4,000	42,992	12,000	128,977
Net income per share	2.67	0.03	8.02	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 ¥93.04 throughout this statement for convenience only.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

During the first quarter of 2010 (January 1 - March 31), the Japanese economy remained in a difficult situation as witnessed by high unemployment rate and continued deflation, notwithstanding gradual increases in export and production against the background of economic recovery in foreign countries centering on China.

Under the circumstances, Showa Denko K.K. and its Group companies recorded increases in sales and profit in all segments, reflecting improved plant utilization.

The Company recorded net sales of ¥187,694 million in the first quarter of 2010, up 55.1% from the same period of the previous year. The Company posted an operating income of ¥7,028 million (up ¥22,697 million), an ordinary income of ¥5,104 million (up ¥28,735 million), and a net income of ¥3,493 million (up ¥25,574 million).

(Unit: millions of yen)

	1Q 2009	1Q 2010	Increase/decrease
Sales	121,035	187,694	66,659
Operating income	- 15,669	7,028	22,697
Ordinary income	- 23,631	5,104	28,735
Net income	- 22,081	3,493	25,574

(2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2010)

[Petrochemicals segment]

The Petrochemicals segment's sales increased 59.8%, to ¥64,177 million. While we had shutdown maintenance of our ethylene plant from the middle of March to the end of April (the shutdown maintenance is conducted once in every four years), shipment volumes of olefins in the quarter were maintained at the level of the same period of last year due to recovery in demand. Sales of olefins increased due to higher selling prices, reflecting the rise in raw material costs. Sales of organic chemicals increased due to the rise in shipment volumes of vinyl acetate and other products. The segment recorded an operating income of ¥1,034 million, up ¥1,558 million.

(Unit: millions of yen)

	1Q 2009	1Q 2010	Increase/decrease
Sales	40,158	64,177	24,019
Operating income	- 523	1,034	1,558

[Chemicals segment]

The Chemicals segment's sales increased 10.1%, to ¥21,798 million. Sales of acrylonitrile were up due to increases in selling prices, reflecting the rise in raw material costs, and shipment volumes. Sales of ammonia and chloroprene rubber increased due to higher shipment volumes. The segment recorded an operating income of ¥1,119 million (up ¥1,965 million).

(Unit: millions of yen)

	1Q 2009	1Q 2010	Increase/decrease
Sales	19,794	21,798	2,004
Operating income	- 846	1,119	1,965

[Electronics segment]

The Electronics segment's sales jumped 167.9%, to ¥42,588 million. Sales of hard disk (HD) media increased due to substantial increases in shipment volumes, reflecting brisk demand. Sales of compound semiconductors, specialty gases for semiconductor processing, and rare earth magnetic alloys increased due to higher shipment volumes, reflecting the recovery in production in the electronics industry. The segment recorded an operating income of ¥2,527 million (up ¥11,864 million).

(Unit: millions of yen)

	1Q 2009	1Q 2010	Increase/decrease
Sales	15,898	42,588	26,689
Operating income	- 9,337	2,527	11,864

[Inorganics segment]

The Inorganics segment's sales rose 66.1%, to ¥17,365 million. Sales of ceramics and graphite electrodes increased due to the rise in shipment volumes. Operating income jumped 152.0%, to ¥1,115 million.

(Unit: millions of yen)

	1Q 2009	1Q 2010	Increase/decrease
Sales	10,453	17,365	6,913
Operating income	442	1,115	672

[Aluminum segment]

The Aluminum segment's sales rose 20.3%, to ¥41,766 million. Sales of rolled products were up due to substantial increases in shipment volumes, and the rise in selling prices, of high-purity foils for capacitors. Sales of extrusions decreased due to our withdrawal from the commodity extrusions business for building materials in the second half of 2009. Meanwhile, sales of aluminum cylinders for laser beam printers increased due to higher shipment volumes. As a result, overall sales from the extrusions/specialty products business were maintained at the level of the same period last year. Sales of heat exchangers and *Shotic* forged products increased, reflecting the rise in shipment volumes for automotive applications. Sales of aluminum cans rose due to increases in shipment

volumes. The segment recorded an operating income of ¥1,826 million (up ¥6,285 million).

(Unit: millions of yen)

	1Q 2009	1Q 2010	Increase/decrease
Sales	34,732	41,766	7,034
Operating income	- 4,459	1,826	6,285

2. Financial conditions for the January 1 - March 31, 2010 period (as compared with the conditions at December 31, 2009)

Total assets at the end of the quarter amounted to ¥932,864 million, a decrease of ¥25,439 million from the level at December 31, 2009. The decrease is due mainly to the fall in accounts receivable, and notwithstanding an increase in fixed assets as a result of capital investments. Interest-bearing debt decreased ¥6,000 million, to ¥367,911 million. Net assets at the end of the quarter decreased ¥2,332 million, to ¥284,390 million, owing to the payment of dividends, notwithstanding the recording of net income for the quarter.

3. Performance forecast

As for the performance forecast for the first-half and full-year 2010, please refer to a separate news release “SDK Revises Performance Forecast for First Half and Full-Year 2010” issued today.

4. Major steps taken or decided in the first quarter of 2010

[Petrochemicals]

- Introduction of modern cracking furnaces at Oita Complex

To reduce environmental impact and enhance cost competitiveness at our Oita Complex, we are renovating our facilities mainly through replacement of cracking furnaces. The renovation is being conducted during the period of the maintenance shutdown. Specifically, seven existing cracking furnaces are being replaced with two modern high-efficiency furnaces (each having the capacity to produce 100,000 tons of ethylene a year). As a result, we will achieve the highest-level energy efficiency among petrochemical complexes in Japan and reduce CO₂ emissions by approximately 60,000 tons a year. The new cracking furnaces will start operation in May 2010.

- Full-scale production of environment-friendly solvent

We completed production facilities for n-propyl acetate, and began full-scale production in February. The product is used as solvent for special gravure printing ink. Demand for n-propyl acetate is expected to increase owing to its higher safety compared with conventional solvents.

[Chemicals]

- Start-up of new distribution base for *Ecoann*TM ammonia in Tohoku region

Our fully-owned subsidiary Marusho Kogyo Co., Ltd. established a new distribution base at Soma Port in Fukushima Prefecture to increase efficiency in marine transportation of *Ecoann*TM liquefied ammonia in the Tohoku region and improve the level of service. *Ecoann*TM ammonia, which is produced from used plastic, has been

approved by major electric power companies as product for Green Purchasing. *Ecoann*TM ammonia is used for removing nitrogen oxides included in exhaust gases from thermal electric power plants.

[Electronics]

- Thermoelectric conversion in a waste incinerator: Start of demonstration experiments
SDK and Plantec Inc. have started full-scale demonstration experiments in power generation based on waste heat, using SDK's thermoelectric conversion modules in a waste incinerator built by Plantec. SDK's thermoelectric elements and modules have achieved high conversion efficiency in the medium operational temperature range of 300-600°C. In this process, heat energy is directly converted into electricity. We will promote commercialization of this energy-saving technology that effectively uses waste heat.
- Production of electronic cleaning agents in China
In August 2010, we will start commercial production of high-purity cyclohexanone at a new plant built by our subsidiary Zhejiang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd., in Zhejiang Province, China. High-purity cyclohexanone is used as cleaning agent for removal of photoresist and as solvent for photoresist in the production of semiconductors and LCD panels. With the establishment of the high-purity cyclohexanone supply setup in China, we will strengthen our electronic cleaning agent business and serve the needs of the rapidly growing electronics industry in Asia.

[Aluminum]

- Start-up of Cooling Device Business Development Dept.
We established a Cooling Device Business Development Department to meet growing demand for devices for cooling power electronics installed in hybrid cars. With the establishment of the new department that integrates development/production/marketing functions, we will expand the power electronics cooling device business to meet increasing demand for this energy-saving product.

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2009	Mar. 31, 2010	Mar. 31, 2010
Assets	¥	¥	\$
Current assets			
Cash and deposits	62,514	40,703	437,476
Notes and accounts receivable-trade	147,579	139,144	1,495,526
Merchandise and finished goods	40,542	41,817	449,450
Work in process	11,509	12,608	135,514
Raw materials and supplies	40,283	40,608	436,462
Other	30,783	31,362	337,085
Allowance for doubtful accounts	(559)	(582)	(6,256)
Total current assets	332,650	305,660	3,285,257
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	91,086	91,548	983,963
Machinery, equipment and vehicles, net	134,821	130,397	1,401,512
Land	255,774	255,803	2,749,383
Other, net	22,592	30,661	329,546
Total property, plant and equipment	504,273	508,408	5,464,404
Intangible assets			
Goodwill	3,832	3,532	37,963
Other	9,722	9,697	104,229
Total intangible assets	13,554	13,230	142,192
Investments and other assets			
Investment securities	65,084	61,964	665,998
Other	43,655	44,482	478,099
Allowance for doubtful accounts	(914)	(881)	(9,464)
Total investments and other assets	107,826	105,566	1,134,633
Total noncurrent assets	625,653	627,204	6,741,230
Total assets	958,303	932,864	10,026,486
Liabilities			
Current liabilities			
Notes and accounts payable-trade	116,553	103,883	1,116,546
Short-term loans payable	74,601	83,768	900,341
Current portion of long-term loans payable	59,862	57,991	623,288
Commercial papers	15,000	11,300	121,453
Current portion of bonds	13,000	10,000	107,481
Provision	5,380	8,214	88,283
Other	69,561	62,646	673,325
Total current liabilities	353,958	337,802	3,630,716
Noncurrent liabilities			
Bonds payable	23,000	23,000	247,206
Long-term loans payable	188,448	181,853	1,954,566
Provision for retirement benefits	27,088	26,929	289,431
Other provision	46	151	1,626
Other	79,042	78,740	846,303
Total noncurrent liabilities	317,624	310,673	3,339,131
Total liabilities	671,581	648,475	6,969,848
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,510,786
Capital surplus	62,225	62,224	668,788
Retained earnings	29,311	28,315	304,331
Treasury stock	(174)	(175)	(1,884)
Total shareholders' equity	231,925	230,927	2,482,021
Valuation and translation adjustments			
Valuation difference on available-for-sale securities	2,574	(915)	(9,832)
Deferred gains or losses on hedges	(204)	476	5,119
Revaluation reserve for land	21,764	21,764	233,919
Foreign currency translation adjustment	(11,962)	(10,913)	(117,289)
Total valuation and translation adjustments	12,172	10,413	111,917
Minority interests	42,625	43,050	462,700
Total net assets	286,722	284,390	3,056,639
Total liabilities and net assets	958,303	932,864	10,026,486

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan.1-Mar.31)		
	2009	2010	2010
	¥	¥	\$
Net sales	121,035	187,694	2,017,346
Cost of sales	116,700	159,299	1,712,156
Gross profit	4,335	28,395	305,190
Selling, general and administrative expenses	20,004	21,367	229,657
Operating income (loss)	(15,669)	7,028	75,533
Non-operating income			
Interest income	42	44	477
Dividends income	127	71	759
Rent income on noncurrent assets	—	306	3,290
Foreign exchange gains	745	304	3,273
Equity in earnings of affiliates	—	162	1,745
Miscellaneous income	1,064	306	3,284
Total non-operating income	1,979	1,194	12,828
Non-operating expenses			
Interest expenses	1,766	1,465	15,746
Equity in losses of affiliates	1,389	—	—
Loss on reduction of operation	3,510	—	—
Miscellaneous expenses	3,276	1,652	17,752
Total non-operating expenses	9,940	3,117	33,498
Ordinary income (loss)	(23,631)	5,104	54,863
Extraordinary income			
Gain on sales of noncurrent assets	—	69	739
Reversal of allowance for doubtful accounts	125	—	—
Gain on transfer of business	200	200	2,150
Other	28	30	321
Total extraordinary income	353	299	3,210
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	885	309	3,325
Impairment loss	—	509	5,468
Loss on valuation of inventories	5,544	—	—
Other	1,164	619	6,650
Total extraordinary losses	7,593	1,437	15,442
Income (loss) before income taxes and minority interests	(30,871)	3,966	42,631
Income taxes	(8,778)	(159)	(1,704)
Minority interests in income (loss)	(12)	631	6,787
Net income (loss)	(22,081)	3,493	37,548

Consolidated Statements of Cash Flows

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan. 1 – Mar. 31)		
	2010	2009	2010
	¥	¥	\$
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	3,966	(30,871)	42,631
Depreciation and amortization	12,210	13,593	131,232
Impairment loss	509	232	5,468
Amortization of goodwill	300	227	3,225
Increase (decrease) in provision for retirement benefits	(167)	(706)	(1,790)
Interest and dividends income	(115)	(170)	(1,236)
Interest expenses	1,465	1,766	15,746
Equity in (earnings) losses of affiliates	(162)	1,389	(1,745)
Loss (gain) on sales and valuation of investment securities	42	461	456
Loss on retirement of noncurrent assets	294	883	3,161
Loss (gain) on sales of noncurrent assets	(54)	(16)	(575)
Decrease (increase) in notes and accounts receivable-trade	8,817	27,599	94,763
Decrease (increase) in inventories	(2,408)	8,091	(25,878)
Increase (decrease) in notes and accounts payable-trade	(12,944)	(52,788)	(139,118)
Other, net	(1,895)	(2,777)	(20,364)
Subtotal	9,860	(33,086)	105,975
Interest and dividends income received	204	420	2,195
Interest expenses paid	(1,542)	(1,647)	(16,569)
Income taxes paid	(2,394)	(1,377)	(25,733)
Net cash provided by (used in) operating activities	6,128	(35,690)	65,868
Net cash provided by (used in) investing activities			
Proceeds from sales and redemption of securities	2	2	25
Purchase of property, plant and equipment	(14,995)	(13,705)	(161,172)
Proceeds from sales of property, plant and equipment	117	18,862	1,260
Proceeds from transfer of business	1,283	200	13,787
Purchase of investment securities	(921)	(2,447)	(9,895)
Proceeds from sales of investment securities	29	28	312
Purchase of investments in subsidiaries	-	(18)	-
Proceeds from sales of investments in subsidiaries resulting in change in scope of consolidation	-	64	-
Decrease (increase) in short-term loans receivable	177	(440)	1,897
Payments of long-term loans receivable	(470)	(491)	(5,049)
Collection of long-term loans receivable	45	17	481
Other, net	(68)	(400)	(734)
Net cash provided by (used in) investing activities	(14,802)	1,672	(159,088)
Net cash provided by (used in) financing activities			
Net increase (decrease) in short-term loans payable	9,010	18,935	96,837
Increase (decrease) in commercial papers	(3,700)	5,000	(39,768)
Proceeds from long-term loans payable	7,806	34,300	83,897
Repayment of long-term loans payable	(16,340)	(14,956)	(175,620)
Redemption of bonds	(3,000)	-	(32,244)
Cash dividends paid	(3,345)	(4,651)	(35,955)
Cash dividends paid to minority shareholders	(301)	(772)	(3,238)
Other, net	(3,344)	(1,452)	(35,946)
Net cash provided by (used in) financing activities	(13,215)	36,404	(142,037)
Effect of exchange rate change on cash and cash equivalents	47	1,383	509
Net increase (decrease) in cash and cash equivalents	(21,841)	3,769	(234,747)
Cash and cash equivalents at beginning of period	62,507	40,949	671,832
Cash and cash equivalents at end of period	40,666	44,718	437,085

(Reference)

SEGMENT INFORMATION (previous 1Q ended)

The operations of the Companies for the year ended March 31, 2009 and 2010 was summarised by industry segment as follows:

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

Year ended March 31, 2010	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Elimination	Consolidated
Sales							
Outside customers	¥64,177	¥21,798	¥42,588	¥17,365	¥41,766	¥-	¥187,694
Inter-segment	282	38	119	12	34	(485)	-
Total	64,459	21,836	42,706	17,377	41,800	(485)	187,694
Operating income (loss)	¥1,034	¥1,119	¥2,527	¥1,115	¥1,826	(¥593)	¥7,028

Year ended March 31, 2010	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Elimination	Consolidated
Sales							
Outside customers	\$689,777	\$234,284	\$457,734	\$186,643	\$448,908	\$-	\$2,017,346
Inter-segment	3,027	413	1,278	130	365	(5,214)	-
Total	692,805	234,696	459,012	186,773	449,274	(5,214)	2,017,346
Operating income (loss)	\$11,118	\$12,029	\$27,156	\$11,980	\$19,624	(\$6,375)	\$75,533

Notes