



Achieving Sustainable Growth through Innovation

Showa Denko K.K. Annual Report 2014

Our 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.

Profile

Ranking as one of Japan's leading chemical companies, Showa Denko K.K. operates in the six major segments of petrochemicals, chemicals, electronics, inorganics, aluminum, and others.

During 2014, the Japanese economy had been in stagnant mood because of the reactive fall in aggregate demand after the last-minute demand increase before the consumption tax hike. In the second half of the year, crude-oil prices plunged, resulting in a large drop in prices of petrochemicals. Thus, our business environment remained harsh.

Under these circumstances, the Showa Denko Group launched in January 2014 "PEGASUS Phase II" business plan, the latter part of the consolidated business plan "PEGASUS" (2011–2015). In line with the business strategies of "PEGASUS Phase II," we have steadily taken various measures to strengthen our businesses. For example, in the most important business category of "Base (Growth)," we started commercial production of the largest capacity HD media in the world, and we promoted capacity expansion project at the plant of our US subsidiary in the graphite electrode business. In the business category of "Growth," we expanded our semiconductor-processing high-purity gas business in East Asia, and acquired an aluminum can manufacturing company in Vietnam, speeding up deployment of these businesses in the rising Asian market.

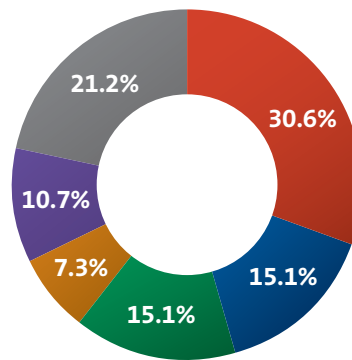
To establish ourselves as a chemical company with a strong presence on the global market, we will continue to promote growth strategies in which our HD media and graphite electrode businesses serve as our "Wings." At the same time, we will strengthen the four businesses classified in the "Growth" category, namely aluminum cans, high-purity aluminum foils, semiconductor-processing high-purity gases, and functional chemicals, accelerating their expansions mainly in the growing the Asian market.

Showa Denko aims to earn the full trust and confidence of the market and society, always managing operations based on the principles of corporate social responsibility. The Company is also committed to the principles of Responsible Care and is vigorously carrying out an action plan to protect the environment as well as health and safety.

Forward-Looking Statements:

This annual report contains statements relating to management's projections of future profits, the possible achievement of the Company's financial goals and objectives, and management's expectations for the Company's product development program. The Company cannot guarantee that these expectations and projections will be realized or correct. Actual results may differ materially from the results anticipated in the statements included herein due to a variety of factors, including, but not limited to, the economic conditions, costs of naphtha and other raw materials, demand for our products, market conditions, and foreign exchange rates. The timely commercialization of products under development by the Company may be disrupted or delayed by a variety of factors, including market acceptance, the introduction of new products by competitors, and changes in regulations or laws. The foregoing list of factors is not inclusive. We undertake no obligation to update the forward-looking statements unless required by law.

Showa Denko at a Glance



Net sales 2014

¥876.6 billion

Note: The ratios of respective segments have been calculated after adding the amount of adjustments to net sales.



Petrochemicals

Olefins (ethylene and propylene) and organic chemicals (vinyl acetate monomer, ethyl acetate, and allyl alcohol) (See page 17)



Chemicals

Functional chemicals (polymer emulsion, unsaturated polyester resin and industrial phenolic resin), industrial gases (liquefied carbon dioxide, dry ice, oxygen, nitrogen, and hydrogen), basic chemicals (liquefied ammonia, acrylonitrile, and chloroprene rubber), and electronic chemicals (specialty gases) (See page 18)



Electronics

Hard disks (HDs), compound semiconductors (LED chips), and rare earth magnetic alloys (See page 18)



Inorganics

Graphite electrodes and ceramics (alumina and abrasives) (See page 19)



Aluminum

Rolled products (high-purity foils for capacitors), specialty components (cylinders for laser beam printers [LBPs], forged products, and heat exchangers), and beverage cans (See page 20)



Others

Lithium-ion battery (LIB) materials, building products, and general trading (See page 21)

Our Strengths



Global positions are Showa Denko estimates

1 HD media

The world's largest independent manufacturer HD media, one of the major parts of HD drives, are used in notebook PCs, consumer electronics, and external hard disk drives. Demand will grow further for use in servers for cloud computing.

2 Graphite electrodes

The world's leading manufacturer of large-diameter (30- and 32-inch) graphite electrodes We are a representative manufacturer in Asia of graphite electrodes used in electric arc furnaces for steel production. In terms of large-diameter electrodes of 30 inches or more, we are the leading company in the world.

3 Aluminum laminated film for LIB packaging

The second largest manufacturer in the world We provide packaging materials for pouch-type lithium ion batteries (LIBs) used in smartphones and tablet PCs. Demand for pouch-type LIBs is growing due to such advantages as high levels of heat dissipation and flexibility in molding.

4 Semiconductor-processing high-purity gases

The world's largest manufacturer of HBr and Cl₂ Semiconductor-processing high-purity gases are used as etching and cleaning gases, and materials for membrane formation, which are necessary for production of electronic devices including semiconductors, LCD panels, and solar batteries.

5 High-purity aluminum foil for capacitors

The world's largest manufacturer We provide high-purity aluminum foil for aluminum electrolytic capacitors, which are widely used in air conditioners, automotive parts, and solar power generation. Our proprietary manufacturing process has enabled us to realize high productivity and quality.

6 Aluminum cylinders for printers

The world's largest manufacturer We provide high-precision, mirror-finished aluminum cylinders for use in laser beam printers. Utilizing our production lines suited for mass production, we are supplying the cylinders to the world market from our plants in Japan, the United States, and China.

Contents

Corporate Strategies

Our Strengths	1
Consolidated Five-year Summary	2
Message from the Management	4
“PEGASUS Phase II”	
Achievements of Medium-Term Business Plan	9

Research and Development

Intellectual Property	16
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Review of Operations

Petrochemicals	17
Chemicals	18
Electronics	18
Inorganics	19
Aluminum	20
Others	21

Sustainable Growth

Responsible Care Activities	22
Corporate Social Responsibility	24

CSR Plans and Achievements for 2013	25
Corporate Governance	26
Board of Directors and Auditors	29

Financial Data

	30
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Corporate Data

Major Subsidiaries and Affiliates	56
Investor Information	57
Commercial Subsidiaries Abroad	57

Consolidated Five-year Summary

Financial Highlights

Showa Denko K.K. and Consolidated Subsidiaries					Thousands of U.S. dollars (Note 1)	
Millions of yen						
December 31	2010	2011	2012	2013	2014	2014
For the year						
Net sales	¥797,189	¥854,158	¥739,811	¥848,071	¥876,580	\$7,271,503
Operating income	38,723	47,357	28,108	25,953	20,915	173,494
Net income	12,706	16,980	9,368	9,065	3,500	29,036
Net cash provided by operating activities	66,293	69,437	53,310	63,565	65,996	547,457
Net cash provided by (used in) investing activities	(49,074)	(38,672)	(40,209)	(46,738)	(47,225)	(391,745)
Free cash flow	17,219	30,765	13,101	16,827	18,771	155,712
Capital expenditures	58,035	38,794	42,503	44,370	47,318	392,520
Depreciation and amortization (Note 2)	50,678	49,413	46,232	39,779	40,673	337,399
At year-end						
Total assets	924,484	941,303	933,162	985,771	1,011,083	8,387,249
Total net assets	284,965	295,745	314,966	345,811	320,504	2,658,683
Interest-bearing debt	351,034	347,308	342,262	353,686	383,124	317,813
Debt/equity ratio (Times)	1.23	1.17	1.09	1.02	1.20	
					U.S. dollars (Note 1)	
					Yen	
Per share						
Net income—primary (Note 3)	¥ 8.49	¥ 11.35	¥ 6.26	¥ 6.06	¥ 2.38	\$ 0.02
Net income—fully diluted (Note 3)	—	11.20	—	—	—	—
Net assets	161.47	168.33	182.24	201.27	210.16	1.74
Cash dividends (applicable to the period)	3.00	3.00	3.00	3.00	3.00	0.02
Number of employees at year-end	11,597	11,542	9,890	10,234	10,577	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥120.55 to US\$1.00, the approximate rate of exchange at December 31, 2014.

2. Effective from the year ended December 31, 2011, the Companies have applied "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan (ASBJ) Statement No. 17, issued on June 30, 2010) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008). The segment information for the year ended December 31, 2010, which is restated under the accounting standard, is disclosed for comparison purposes.

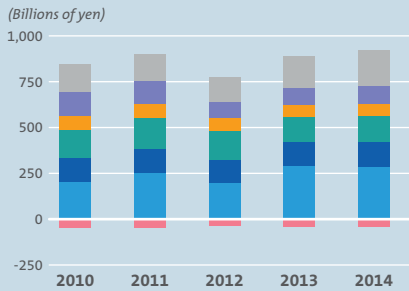
3. Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds. Diluted net income per share in 2014 was not disclosed because there was no dilutive stock at December 31, 2014. Diluted net income per share for 2013, 2012 and 2010 was not disclosed because the Company had no securities with dilutive effects.

Non-Financial Highlights

	2009	2010	2011	2012	2013
Environmental data					
Discharged amounts of greenhouse gases (kt-CO ₂)* (Showa Denko Group)	2,829	2,732	2,660	2,496	2,645
Final landfill volumes of industrial waste (t)* (Showa Denko Group)	2,752	2,591	2,144	2,085	1,360
Social data					
Frequency rate of lost-time injuries (Showa Denko Group)	0.29	0.14	0.13	0.14	0.22

*Aggregate calculation in each fiscal year

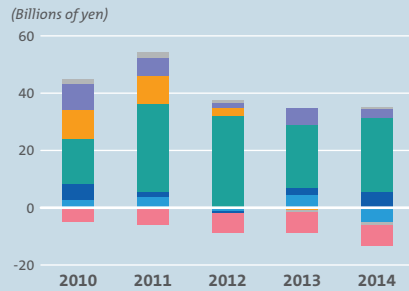
Net Sales by Segment



- Petrochemicals
- Chemicals
- Electronics
- Inorganics
- Aluminum
- Others
- Adjustments

See Note 2 on page 2

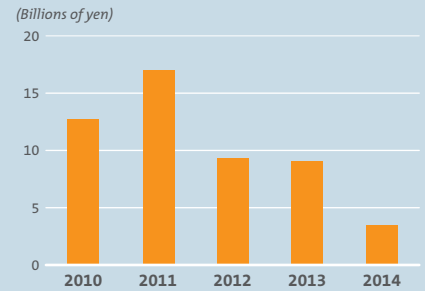
Operating Income by Segment



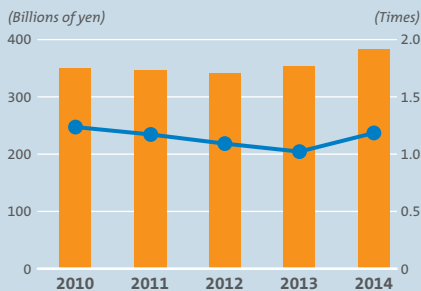
- Petrochemicals
- Chemicals
- Electronics
- Inorganics
- Aluminum
- Others
- Adjustments

See Note 2 on page 2

Net Income

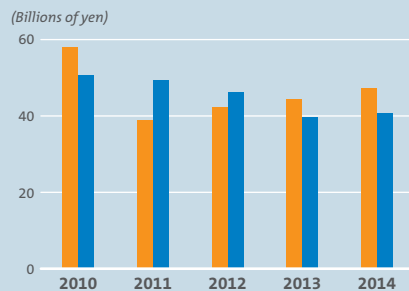


Interest-Bearing Debt Debt/Equity Ratio



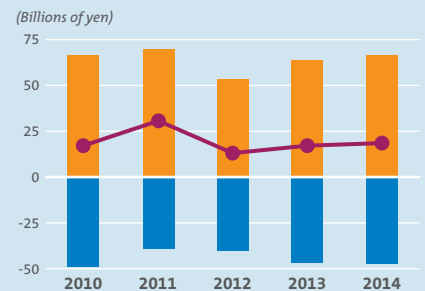
- Interest-bearing debt (Left axis)
- Debt/Equity ratio (Right axis)

Capital Expenditures Depreciation and Amortization



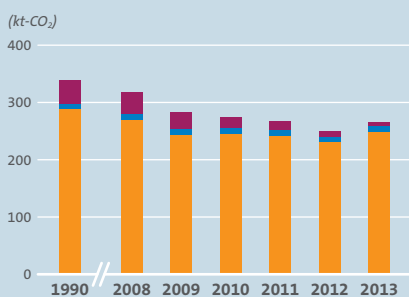
- Capital expenditures
- Depreciation and amortization

Cash Flows



- Cash flows from operating activities
- Cash flows from investing activities
- Free cash flow

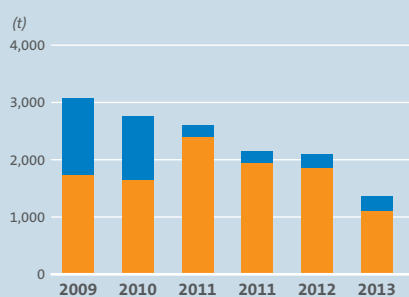
Trends in Greenhouse Gas Emissions



- CO₂ (Energy source origin)
- CO₂ (Non-energy source origin)
- 5 GHGs other than CO₂

Base: 1990
Aggregate calculation in each fiscal year
(Showa Denko K.K. and 9 Consolidated Subsidiaries in Japan)

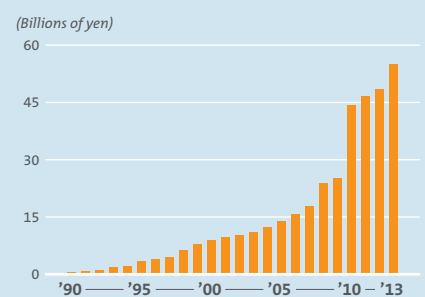
Trends in the Final Volume of Landfill Disposal



- Showa Denko K.K.
- Consolidated Subsidiaries in Japan

(Showa Denko K.K. and 11 Consolidated Subsidiaries in Japan)

Environment-Related Investment



Cumulative value since 1990
(Showa Denko K.K.)