SHOWA DENKO K. K.

Consolidated Financial Statements

For the first quarter ended March 31, 2012

MEMBERSHIP

Ⅰ. Consolidated Financial Results

(1) Results of operations: (¥ in millions, US$ in thousands, except for net income per share)

	Results for the first quarter (Jan.1–Mar.31)			
	2011	2012	Increase (Decrease)	2012
	¥	¥	%	$
Net sales	193,005	181,354	(6.0)	2,206,527
Operating income	9,351	9,537	2.0	116,036
Ordinary income	7,913	8,329	5.3	101,341
Net income	2,576	5,333	107.0	64,888
Net income per share: Basic	1.72	3.56	—	0.04
Net income per share: Diluted	—	3.49	—	0.04

Notes
Important changes in accounting policies : applicable
Comprehensive income :
Results for the year ended March 31,2012 ¥15,119million
Results for the year ended March 31,2011 ¥5,357million

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

	Dec. 31, 2011	Mar.31, 2012	Mar.31, 2012
	¥	¥	$
Total assets	941,303	946,125	11,511,438
Total equity	295,745	303,195	3,688,948
	%	%	%
Stockholders' equity ratio	26.8	27.6	27.6

(3) Dividends:

	2011	2012 Forecast
Q1 dividends per share (¥)	—	—
Q2 dividends per share (¥)	0.00	0.00
Q3 dividends per share (¥)	—	—
End of Term dividends per share (¥)	3.00	3.00
Annual dividends per share (¥)	3.00	3.00

Ⅱ. Forecast of performance for the year ending December 31, 2012

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

	1st half		fiscal year	
	¥	$	¥	$
Net sales	410,000	4,988,441	880,000	10,706,899
Operating income	16,000	194,671	48,000	584,013
Ordinary income	13,500	164,254	42,000	511,011
Net income	8,500	103,419	23,000	279,839
Net income per share	5.68	0.07	15.37	0.19

*The above forecast was announced on February 9, 2012.
The above forecast is based on the information available at this point of time. Actual results may differ materially due to a variety of reasons, including such economic factors as fluctuations in foreign currency exchange rates as well as market supply and demand conditions.

Note
The U.S. dollar is valued at ¥82.19 throughout this statement for convenience only.

[Business Results and Financial Conditions]
1. Analysis of business results

(1) Summary

During the first quarter of 2012 (January 1 - March 31), the Japanese economy showed signs of gradual recovery due to improvement in production and capital investment as well as steady personal consumption, despite risks of slowdown in overseas economies amid the sovereign debt crisis in Europe and high crude oil prices. The U.S. economy also underwent gradual recovery. In the petrochemicals industry, production adjustments continued due to the slackening supply-demand situation in Asian countries.

Under these circumstances, the Showa Denko Group is working hard to ensure its "Evolution into a Company That Creates Added Value" by carrying out its medium-term consolidated business plan PEGASUS. The Group is aiming to build up strong and diversified businesses on a global scale and establish leading positions on the market.

The Company recorded net sales of ¥181,354 million in the first quarter of 2012, down 6.0% from the same period of the previous year. The Company posted operating income of ¥9,537 million, up 2.0%, and ordinary income of ¥8,329 million, up 5.3%. Net income amounted to ¥5,333 million, up 107.0% from the same period of the previous year, when we recorded extraordinary losses due to the Great East Japan Earthquake.

(Unit: millions of yen)

	1Q 2011	1Q 2012	Increase/decrease
Sales	193,005	181,354	- 11,651
Operating income	9,351	9,537	186
Ordinary income	7,913	8,329	416
Net income	2,576	5,333	2,757

(2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2012)

[Petrochemicals segment]
The Petrochemicals segment's sales decreased 20.0%, to ¥47,095 million. Production of ethylene and propylene decreased from the same period of the previous year, reflecting production adjustments due to the slackening supply-demand situation in Asian countries and the trouble with our ethylene plant that occurred in March. Sales of olefins decreased due to lower shipment volumes amid the slackening supply-demand situation in Asian countries, notwithstanding higher selling prices, reflecting the rise in naphtha prices. Sales of organic chemicals were down due to lower shipment volumes of vinyl acetate and other products. Operating income decreased 96.5%, to ¥73 million.

(Unit: millions of yen)

	1Q 2011	1Q 2012	Increase/decrease
Sales	58,863	47,095	- 11,768
Operating income	2,075	73	- 2,002

[Chemicals segment]
The Chemicals segment's sales decreased 5.7%, to ¥30,636 million. Production of liquefied ammonia increased from the same period of the previous year. Sales of functional polymers declined slightly. Sales of industrial gases fell due to lower shipment volumes of hydrogen and nitrogen for electronic material applications. Sales of liquefied ammonia and caustic soda were up, and sales of chloroprene rubber were maintained at the level of the same period of the previous year. Meanwhile, sales of acrylonitrile fell due to lower shipment volumes. As a result, overall sales of basic chemicals decreased. Sales of electronic chemicals were maintained at the level of the same period of the previous year, reflecting production adjustments in the semiconductor/LCD industries. Operating income fell 67.2%, to ¥565 million.

(Unit: millions of yen)

	1Q 2011	1Q 2012	Increase/decrease
Sales	32,474	30,636	- 1,838
Operating income	1,723	565	- 1,158

[Electronics segment]
The Electronics segment's sales increased 56.4%, to ¥41,454 million. Production of hard disk (HD) media increased from the same period of the previous year, reflecting capacity expansions carried out in the previous year. Sales of HD media increased due to higher shipment volumes. Sales of compound semiconductors were maintained at the level of the same period of the previous year. Sales of rare earth magnetic alloys increased due to higher selling prices, reflecting the sharp rise in raw material costs. Operating income jumped 317.6%, to ¥8,737 million.

(Unit: millions of yen)

	1Q 2010	1Q 2011	Increase/decrease
Sales	26,500	41,454	14,954
Operating income	2,092	8,737	6,645

[Inorganics segment]
The Inorganics segment's sales fell 18.4%, to ¥16,102 million. Production of graphite electrodes in the first quarter was maintained at the level of the same period of the previous year. Sales of graphite electrodes in the United States increased due to higher shipment volumes. However, sales of graphite electrodes on a non-consolidated basis declined due partly to the appreciation of the yen. As a result, overall sales of graphite electrodes were maintained at the level of the same period of the previous year. Sales of ceramics decreased due to lower volumes of shipments for electronic material applications. Operating income declined 38.7%, to ¥1,513 million.

(Unit: millions of yen)

	1Q 2011	1Q 2012	Increase/decrease
Sales	19,730	16,102	- 3,628
Operating income	2,468	1,513	- 955

[Aluminum segment]
The Aluminum segment's sales fell 27.8%, to ¥21,463 million. Production of high-purity foils for capacitors decreased from the same period of the previous year. Sales of rolled products decreased as the high-purity foils business was affected by inventory adjustments in the capacitor industry. Sales of extrusions/specialty products were maintained at the level of the same period of the previous year. Sales of heat exchangers decreased, reflecting the transfer of the automotive heat exchanger business to Keihin Corporation in January 2012. Sales of *Shotic* forged products increased due to higher shipment volumes, while sales of aluminum cans were maintained at the level of the same period of the previous year. The segment recorded operating loss of ¥223 million, down ¥1,853 million.

(Unit: millions of yen)

	1Q 2011	1Q 2012	Increase/decrease
Sales	29,714	21,463	- 8,251
Operating income	1,629	- 223	- 1,853

[Others segment]
The Others segment's sales decreased 11.5%, to ¥33,618 million. Sales of lithium ion battery materials decreased due to lower shipment volumes. Shoko Co., Ltd.'s sales decreased due partly to lower shipment volumes of metals. Operating income fell 75.8%, to ¥176 million.

(Unit: millions of yen)

	1Q 2011	1Q 2012	Increase/decrease
Sales	37,973	33,618	- 4,355
Operating income	727	176	- 551

(3) Major steps taken or decided in the first quarter of 2012
[Petrochemicals segment]
・Temporary suspension of ethylene plant
Operation at SDK's ethylene plant at the Oita Complex has temporarily been suspended. During the time of periodic maintenance of the plant that had started on March 7, a trouble occurred in equipment for the cooling process, necessitating repairs of the equipment. While the ethylene plant was originally scheduled to resume operation at the end of March, SDK has decided to postpone the time of restart.

[Inorganics segment]
・ Investment in a graphite electrode company in China
In April, SDK signed an agreement with Sinosteel Corporation, of China, to acquire 67% of shares in Sinosteel's wholly owned subsidiary Sinosteel Sichuan Carbon Co., Ltd. This is in accordance with SDK's plan to expand operations in China and other Asian countries to supply graphite electrodes used in electric steel production. Sichuan Carbon will become SDK's subsidiary subject to ratification by related government organizations. When Sichuan Carbon's 22,000 t/y plant is added to the existing facilities in Japan and the United States, the Showa Denko Group's total graphite electrode production capacity will reach 127,000 t/y. After capacity expansion in the United States, the Group's total capacity will further increase to 157,000 t/y in 2014.

Thus, SDK will establish itself as a leading supplier of graphite electrodes in the world.

[Aluminum segment]

・Construction of a high-purity aluminum foils plant in China

As part of its plan to expand the capacitor-grade high-purity aluminum foils business, SDK has decided to build a new plant in China. A groundbreaking ceremony was held in March at a site in Nantong, Jiangsu Province. The new plant in China, scheduled for start-up in the second half of 2013, will finish rolled foils supplied from SDK's Sakai Plant, and supply final products to customers in China. Aluminum electrolytic capacitors are used widely in electric appliances and transport machinery. Demand for aluminum electrolytic capacitors in China is expected to grow, reflecting continued economic growth in that country. With the establishment of the new plant in China, SDK aims to meet the growing demand for capacitor-grade high-purity aluminum foils in a timely manner.

・Transfer of automotive heat exchanger business

In January, SDK completed the transfer of its business in automotive air-conditioner heat exchangers (condensers, evaporators, etc.) to Keihin Corporation by transferring 60% of shares in Thermal Technology Corporation. The remaining 40% of shares will be transferred to Keihin Corporation two years later.

2. Financial conditions for the January 1 - March 31, 2012 period (as compared with the conditions at December 31, 2011)

Total assets at the end of the quarter amounted to ¥946,125 million, an increase of ¥4,823 million from the level at December 31, 2011. Total assets were up due to the increase in inventories, reflecting the rise in raw material prices, and the increase in investment securities, reflecting the rise in share prices, notwithstanding the decrease in tangible fixed assets as a result of the transfer of the automotive heat exchanger business. Total liabilities decreased ¥2,627 million, to ¥642,930 million, due to the fall in accounts payable, despite the increase in interest-bearing debt. Net assets at the end of the quarter increased ¥7,449 million, to ¥303,195 million, owing to the recording of net income for the quarter and increases in foreign currency translation adjustments, notwithstanding the payment of dividends for 2011.

3. Performance forecast

There is no change from the performance forecast announced on February 9, 2012. For assumptions that form the basis of the performance forecast, please refer to the consolidated financial statements for 2011 announced on February 9, 2012.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2011	Mar. 31, 2012	Mar. 31, 2012
Assets	¥	¥	$
Current assets			
Cash and deposits	55,187	43,366	527,635
Notes and accounts receivable-trade	139,364	141,788	1,725,125
Merchandise and finished goods	52,589	52,930	643,997
Work in process	11,059	11,997	145,969
Raw materials and supplies	60,067	65,443	796,240
Other	29,811	36,996	450,123
Allowance for doubtful accounts	(186)	(139)	(1,695)
Total current assets	347,890	352,381	4,287,395
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	84,218	83,750	1,018,978
Machinery, equipment and vehicles, net	123,495	122,323	1,488,296
Land	254,851	254,633	3,098,108
Other, net	19,800	19,691	239,578
Total property, plant and equipment	482,363	480,397	5,844,960
Intangible assets			
Goodwill	1,441	1,006	12,237
Other	9,684	9,760	118,746
Total intangible assets	11,125	10,765	130,983
Investments and other assets			
Investment securities	59,570	67,395	819,988
Other	41,246	36,839	448,223
Allowance for doubtful accounts	(891)	(1,653)	(20,110)
Total investments and other assets	99,925	102,581	1,248,101
Total noncurrent assets	593,413	593,744	7,224,043
Total assets	941,303	946,125	11,511,438
Liabilities			
Current liabilities			
Notes and accounts payable-trade	117,152	113,313	1,378,668
Short-term loans payable	68,122	77,556	943,618
Current portion of long-term loans payable	59,414	58,533	712,172
Commercial papers	—	6,000	73,002
Current portion of bonds	20,000	20,000	243,339
Provision	3,023	6,148	74,808
Other	82,136	75,404	917,439
Total current liabilities	349,846	356,955	4,343,046
Noncurrent liabilities			
Bonds payable	20,000	20,000	243,339
Long-term loans payable	179,772	174,330	2,121,057
Provision for retirement benefits	24,720	24,458	297,573
Other provision	2,190	1,601	19,479
Other	69,029	65,587	797,996
Total noncurrent liabilities	295,711	285,975	3,479,443
Total liabilities	645,557	642,930	7,822,490
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,710,226
Capital surplus	62,222	62,222	757,053
Retained earnings	48,851	48,923	595,239
Treasury stock	(143)	(144)	(1,750)
Total shareholders' equity	251,494	251,565	3,060,768
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	(4,939)	(2,071)	(25,198)
Deferred gains or losses on hedges	(913)	(573)	(6,971)
Revaluation reserve for land	28,240	28,240	343,597
Foreign currency translation adjustment	(21,955)	(16,328)	(198,663)
Total accumulated other comprehensive income	433	9,268	112,764
Minority interests	43,819	42,362	515,416
Total net assets	295,745	303,195	3,688,948
Total liabilities and net assets	941,303	946,125	11,511,438

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the first quarter (Jan.1-Mar. 31)		
	2011	2012	2012
	¥	¥	$
Net sales	193,005	181,354	2,206,527
Cost of sales	162,267	152,015	1,849,559
Gross profit	30,738	29,339	356,969
Selling, general and administrative expenses	21,387	19,802	240,933
Operating income	9,351	9,537	116,036
Non-operating income			
Interest income	34	44	535
Dividends income	174	258	3,134
Equity in earnings of affiliates	457	485	5,899
Miscellaneous income	831	1,067	12,982
Total non-operating income	1,495	1,853	22,551
Non-operating expenses			
Interest expenses	1,355	1,245	15,153
Miscellaneous expenses	1,579	1,816	22,093
Total non-operating expenses	2,934	3,061	37,246
Ordinary income	7,913	8,329	101,341
Extraordinary income			
Gain on transfer of business	50	83	1,009
Compensation income	—	145	1,767
Residual gain on invested assets	221	—	—
Other	179	92	1,123
Total extraordinary income	450	320	3,899
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	359	313	3,808
Impairment loss	111	434	5,276
Loss on the Great East Japan Earthquake	2,601	—	—
Other	1,199	880	10,707
Total extraordinary losses	4,270	1,627	19,791
Income before income taxes and minority interests	4,093	7,023	85,448
Income taxes	838	1,261	15,338
Income before minority interests	3,255	5,762	70,111
Minority interests in income	678	429	5,222
Net income	2,576	5,333	64,888

Consolidated Statements of Comprehensive Income

(¥ in millions, US$ in thousands)

	Results for the first quarter (Jan.1-Mar.31)		
	2011	2012	2012
	¥	¥	$
Income before minority interests	3,255	5,762	70,111
Other comprehensive income:			
Valuation difference on available-for-sale securities	(503)	2,964	36,065
Deferred gains or losses on hedges	1,158	328	3,989
Foreign currency translation adjustments	1,462	6,051	73,616
Share of other comprehensive income of affiliates applied for equity method	(15)	14	176
Total other comprehensive income	2,102	9,357	113,846
Comprehensive income	5,357	15,119	183,957
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	4,665	14,168	172,383
Comprehensive income attributable to minority interests	693	951	11,574

(Reference)

SEGMENT INFORMATION (previous 1Q ended)

The operations of the Companies for the year ended March 31, 2011 and 2012 was summarised by industry segment as follows:

Year ended March 31, 2011	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥56,850	¥29,515	¥26,082	¥17,144	¥28,030	¥35,384	¥–	¥193,005
Inter-segment	2,013	2,959	418	2,586	1,684	2,589	(12,249)	–
Total	58,863	32,474	26,500	19,730	29,714	37,973	(12,249)	193,005
Operating income (loss)	¥2,075	¥1,723	¥2,092	¥2,468	¥1,629	¥727	(¥1,362)	¥9,351

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

Year ended March 31, 2012	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	$557,464	$343,100	$498,829	$169,807	$248,312	$389,014	$–	$2,206,527
Inter-segment	15,534	29,651	5,536	26,110	12,824	20,016	(109,671)	–
Total	572,998	372,751	504,365	195,917	261,136	409,031	(109,671)	2,206,527
Operating income (loss)	$886	$6,869	$106,298	$18,408	($2,717)	$2,140	($15,847)	$116,036