

Consolidated Financial Statements

For the first three quarters ended September 30, 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 three quarters (Jan.1–Sep.30)			
	2011	2012	Increase (Decrease)	2012
	¥	¥	%	\$
Net sales	641,632	546,944	(14.8)	7,048,249
Operating income	38,853	23,820	(38.7)	306,965
Ordinary income	32,798	19,751	(39.8)	254,523
Net income	17,516	11,237	(35.8)	144,810
Net income per share: Basic	11.70	7.51	—	0.10
Net income per share: Diluted	11.43	7.45	—	0.10

Note

Comprehensive income :

Results for the first three quarters (September 30, 2012) ¥15,480million (\$199,484thousand)

Results for the first three quarters (September 30, 2011) ¥11,784million (\$151,858thousand)

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

	Dec. 31, 2011	Sep.30, 2012	Sep.30, 2012
		¥	¥
Total assets	941,303	943,677	12,160,780
Total equity	295,745	302,943	3,903,900
	%	%	%
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)

	fiscal year	
	¥	\$
Net sales	750,000	9,664,948
Operating income	32,000	412,371
Ordinary income	27,000	347,938
Net income	10,000	128,866
Net income per share	6.68	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.

Note

The U.S. dollar is valued at ¥77.60 throughout this statement for convenience only.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

During the first three quarters of 2012 (January 1 – September 30), Japan's export and production weakened due to slowdown in overseas economies, centering on Europe and China, and continued appreciation of the yen. As a result, the Japanese economy was generally weak during the period, notwithstanding steady personal consumption. In the petrochemicals industry, severe production adjustments continued due to the slackening supply-demand situation in China.

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 ¥546,944 million in the first three quarters of 2012, down 14.8% from the same period of the previous year. Although net sales in the Electronics segment increased due to higher shipment volumes of hard disk (HD) media, net sales in the Petrochemicals segment, which had an ethylene plant trouble, and net sales in the Aluminum segment, which transferred the automotive heat exchanger business, substantially decreased. The Company posted operating income of ¥23,820 million, down 38.7%. Operating income in the Electronics segment increased, but operating income in the Petrochemicals and Inorganics segments declined due to the influence of the slackening supply-demand situation. The Company also posted ordinary income of ¥19,751 million, down 39.8%, and net income of ¥11,237 million, down 35.8%.

(Unit: millions of yen)

	2011 1Q-3Q	2012 1Q-3Q	Increase/decrease
Sales	641,632	546,944	-94,688
Operating income	38,853	23,820	-15,032
Ordinary income	32,798	19,751	-13,047
Net income	17,516	11,237	-6,279

(2) A breakdown of net sales and operating income by segment (January 1 – September 30, 2012)

As statements in the quarterly reports are now required to be made on a cumulative basis, this report has been prepared on that basis.

[Petrochemicals segment]

The Petrochemicals segment's sales decreased 31.2%, to ¥131,428 million. Production of ethylene and propylene decreased substantially from the same period of the previous year. The decrease reflected the suspension of operations caused by the ethylene plant trouble in March, which suspension lasted until early June. The decrease also reflected production adjustments due to the slackening supply-demand situation in Asian countries. Sales of olefins decreased substantially due to lower shipment volumes. Sales of organic chemicals were down due to lower shipment volumes of vinyl acetate and other products. The segment recorded operating loss of ¥2,174 million, down ¥7,257 million.

(Unit: millions of yen)

	2011 1Q-3Q	2012 1Q-3Q	Increase/decrease
Sales	191,083	131,428	-59,655
Operating income	5,082	-2,174	-7,257

[Chemicals segment]

The Chemicals segment's sales decreased 3.5%, to ¥94,447 million. Production of liquefied ammonia was maintained at the level of the same period of the previous year. Sales of functional polymers were maintained at the level of the same period of the previous year. Sales of industrial gases fell due to lower shipment volumes. Sales of basic chemicals decreased, reflecting lower sales of acrylonitrile due to production cuts and the fall in market prices. Sales of electronic chemicals were maintained at the level of the same period of the previous year, as the semiconductor/LCD industries were gradually recovering from production adjustments. The segment recorded operating loss of ¥271 million, down ¥2,599 million, due to the slackening supply-demand situation in the basic chemicals business and the rise in electric power costs.

(Unit: millions of yen)

	2011 1Q-3Q	2012 1Q-3Q	Increase/decrease
Sales	97,892	94,447	-3,445
Operating income	2,328	-271	-2,599

[Electronics segment]

The Electronics segment's sales increased 5.5%, to ¥127,305 million. Production of 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, reflecting the contribution of the capacity expansions and brisk demand for high-capacity media, the area in which the Company holds the advantage in the market. Sales of compound semiconductors increased from the same period of the previous year due to higher shipment volumes for new backlight applications. Sales of rare earth magnetic alloys decreased due to the influence of production adjustments in the rare earth magnet industry. Operating income rose 31.8%, to ¥26,418 million.

(Unit: millions of yen)

	2011 1Q-3Q	2012 1Q-3Q	Increase/decrease
Sales	120,645	127,305	6,660
Operating income	20,044	26,418	6,375

[Inorganics segment]

The Inorganics segment's sales fell 16.7%, to ¥49,040 million. Production of graphite electrodes in the first three quarters 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 selling prices. However, sales of graphite electrodes on a non-consolidated basis fell, due partly to the influence of the appreciation of the yen. As a result, overall sales of

graphite electrodes decreased slightly. Sales of ceramics decreased due to a sharp decline in volumes of shipments for electronic material applications, reflecting the slackening supply-demand situation. Operating income declined 64.9%, to ¥2,838 million.

(Unit: millions of yen)

	2011 1Q-3Q	2012 1Q-3Q	Increase/decrease
Sales	58,881	49,040	-9,841
Operating income	8,093	2,838	-5,255

[Aluminum segment]

The Aluminum segment's sales fell 25.9%, to ¥69,929 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 production adjustments in the capacitor industry. Sales of extrusions/specialty products decreased due partly to lower shipment volumes of aluminum cylinders for laser beam printers. Sales of *Shotic* forged products and sales of aluminum cans were maintained at the level of the same period of the previous year. Sales of heat exchangers decreased substantially, reflecting the transfer of the automotive heat exchanger business to Keihin Corporation in January 2012. Operating income decreased 72.0%, to ¥1,688 million.

(Unit: millions of yen)

	2011 1Q-3Q	2012 1Q-3Q	Increase/decrease
Sales	94,388	69,929	-24,459
Operating income	6,038	1,688	-4,350

[Others segment]

The Others segment's sales decreased 10.5%, to ¥101,342 million. Sales of lithium ion battery (LIB) materials decreased due to lower shipment volumes. Shoko Co., Ltd.'s sales decreased, reflecting lower sales of metals. Operating income fell 87.9%, to ¥216 million.

(Unit: millions of yen)

	2011 1Q-3Q	2012 1Q-3Q	Increase/decrease
Sales	113,220	101,342	△11,877
Operating income	1,786	216	△1,570

(3) Major steps taken or decided after the settlement of accounts for the first half of 2012

[General]

- Acquisition of highest-level BCM rating from DBJ

SDK received a loan in August from Development Bank of Japan Inc. (DBJ), after acquiring the highest-level rating for its business continuity management (BCM). DBJ evaluates firms' ability to prevent disaster and continue business. SDK was highly evaluated for its efforts to make all of its facilities earthquake-proof, and to review and improve its supply chains. The Group will continue its efforts to establish a business system resistant to disaster, aiming to contribute toward creating a society where

affluence and sustainability are harmonized.

- Increasing SiC epitaxial wafer production capacity by 2.5 times
In August, SDK increased its silicon carbide (SiC) epitaxial wafer production capacity at its Chichibu Plant by 2.5 times, to 1,500 units a month, through facility expansion and improvement in production technology. The wafers are used in SiC power devices for a wide range of applications, including automobiles, railcars, and home electric appliances. In particular, SiC power devices are expected to be used increasingly in inverters to control rotation of motors. Such inverters are already commercialized in some home electric appliances, and used in subway railcars on a trial basis. Following the capacity expansion, SDK will continue developing SiC epitaxial wafers with larger diameter, lower defect, and higher uniformity. Specifically, SDK will accelerate the development of six-inch SiC epitaxial wafers for heavy-current high-voltage applications.
- Development of printable conductive inks for electronics
In October, SDK announced the joint development, with Osaka University, of printable silver nanowire ink for the manufacture of electronic devices. When the ink is used in combination with Photonic Curing™ process technology (provided by NovaCentrix, of the United States), highly stable, transparent conductive patterns can be formed on flexible films. SDK also developed copper/silver hybrid ink, which can be used as a low-cost substitute for silver ink, and started sample shipments in October. Printed electronics—the technology to manufacture electronic circuits and devices through printing—is expected to be increasingly used, as it enables substantial simplification of manufacturing processes.

[Chemicals segment]

- Development of epoxy resin contributing to long-term reliability of electronic devices
SDK developed, in cooperation with the National Institute of Advanced Industrial Science and Technology (AIST), a technology to produce epoxy resin material for use in chlorine-free semiconductor sealant. To reduce production costs, semiconductor manufacturers are shifting from gold-plated wire to copper wire for printed circuit board production. The trend involves a problem of contamination of copper wire by chlorine compounds, resulting in corrosion of copper wire and damage to long-term reliability. Thus, there is a need for sealant that will not cause chlorine contamination. The newly developed epoxy resin technology is chlorine-free, and uses oxidation based on hydrogen peroxide. The new technology will prevent corrosion and ensure high long-term reliability. SDK is aiming to establish the technology and put it to commercial use in 2014.

Note: A semiconductor sealant protects the surface of electronic materials, preventing deterioration of performances.

- Launch of efficient and large dry-type PFC decomposition system
SDK decided to begin marketing a new hybrid-type system for decomposing global-warming perfluoro compounds (PFCs) by the end of this year. PFCs are used in the process of manufacturing LCD panels and semiconductors. SDK has developed the new system by combining the advantages of two different decomposition systems, namely, a “chemical capture system” and a “catalytic decomposition system.” The new system enables the reduction in the costs of adsorbent and waste water treatment. As adsorbent is automatically fed into and discharged from the system, the exhaust gas treatment capacity is maintained at the same level as that of a conventional large-sized catalytic decomposition system. SDK will sell the new system in China and other

overseas markets where production of LCD panels and semiconductors is expected to grow rapidly.

- Development of new method for stable solidification of insoluble ferrocyanide
Union Showa K.K., a joint venture between SDK and UOP LLC, of the United States, announced in July that it successfully developed a new method of stable solidification of insoluble ferrocyanide widely used to remove radioactive cesium. Insoluble ferrocyanide maintains high cesium-adsorbing-volume capacity even in contaminated radioactive cooling water. However, insoluble ferrocyanide is easily decomposed by heat, resulting in vaporization of cesium. Thus, an innovative method of heat solidification had been sought. Union Showa, under the guidance of Professor Mimura of Tohoku University, succeeded in developing a new method of stable solidification by heat-treating mixture of used ferrocyanide and zeolite. Under the method, zeolite traps vaporized cesium, preventing the release of vaporized cesium into the air. Union Showa supplies UOP's inorganic ion exchangers, including zeolite, used for treating contaminated water resulting from a nuclear power plant accident.

[Electronics segment]

- Transfer of GaN LED business by company split
SDK decided to split and transfer its gallium-nitride (GaN) LED business to its wholly owned subsidiary TS Opto Co., Ltd. effective December 1, 2012 through company split. SDK will transfer 70% of shares in TS Opto to Toyoda Gosei Co., Ltd. on the same date, thereby making TS Opto a joint venture between the two companies.

[Inorganics segment]

- Focusing on VGCFTM-H for resin composite applications
SDK decided to focus on VGCFTM-H grade to strengthen its business in carbon nanotube for resin composite applications. VGCFTM-H grade is already used in LIBs. In June, SDK stopped its 400 t/y production facility for VGCFTM-X, a grade intended exclusively for resin composite applications.

[Aluminum segment]

- Construction of an aluminum casting plant in Malaysia
SDK decided to construct an aluminum casting plant in the state of Johor, Malaysia, for start-up by the end of 2014. In addition to an integrated aluminum casting/forging facility at Kitakata, Japan, SDK is operating one each plant in Portugal and Singapore for producing forged aluminum parts. SDK has been selling the products (trade name: *Shotic*) on the world market, mainly for use in automotive parts. With the scheduled construction of the new casting plant in Malaysia, SDK aims to better meet growing demand in Asian markets. By securing casting capability at two locations (Fukushima and Malaysia), SDK intends to ensure the security of supply. SDK will expand the *Shotic* business as a key component of its Aluminum segment.

[Others segment]

- Increasing LIB packaging material production capacity
In August, Showa Denko Packaging Co., Ltd., a subsidiary of SDK, decided to increase its production capacity for aluminum laminated films used for packaging LIBs. Specifically, Showa Denko Packaging decided to double its annual production capacity versus the 2010 level by the second half of 2013. Compared with metallic LIBs, aluminum-laminated-film-based pouch type LIBs provide higher flexibility in molding, lighter weight, and better heat dissipation. Thus, pouch type LIBs are widely used as small LIBs for portable devices. Reflecting the rapid growth of the market for

smartphones and tablet PCs, demand for aluminum laminated film is expected to grow, as it contributes toward the miniaturization of LIBs.

2. Financial conditions for the January 1 – September 30, 2012 period (as compared with the conditions at December 31, 2011)

Total assets at the end of September amounted to ¥943,677 million, an increase of ¥2,374 million from the level at December 31, 2011. Total assets were up, reflecting the increase in accounts receivable and inventories. Total liabilities decreased ¥4,823million, to ¥640,734 million, due to the fall in accounts payable, despite the increase in interest-bearing debt. Net assets at the end of September increased ¥7,197 million, to ¥302,943 million, due partly to the recording of quarterly net income, notwithstanding the payment of dividends for 2011.

3. Performance forecast

As for matters relating to performance forecast, please refer to the separate announcement of November 1, 2012 entitled “SDK Revises Full-Year 2012 Performance Forecast.”

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2011	Sep. 30, 2012	Sep. 30, 2012
	¥	¥	\$
Assets			
Current assets			
Cash and deposits	55,187	40,514	522,093
Notes and accounts receivable-trade	139,364	155,370	2,002,196
Merchandise and finished goods	52,589	54,725	705,223
Work in process	11,059	13,317	171,607
Raw materials and supplies	60,067	59,177	762,588
Other	29,811	37,813	487,275
Allowance for doubtful accounts	(186)	(119)	(1,529)
Total current assets	347,890	360,797	4,649,451
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	84,218	81,065	1,044,658
Machinery, equipment and vehicles, net	123,495	116,447	1,500,604
Land	254,851	254,678	3,281,936
Other, net	19,800	20,041	258,259
Total property, plant and equipment	482,363	472,231	6,085,457
Intangible assets			
Goodwill	1,441	417	5,370
Other	9,684	9,987	128,698
Total intangible assets	11,125	10,404	134,067
Investments and other assets			
Investment securities	59,570	63,224	814,740
Other	41,246	38,652	498,088
Allowance for doubtful accounts	(891)	(1,631)	(21,023)
Total investments and other assets	99,925	100,244	1,291,805
Total noncurrent assets	593,413	582,879	7,511,329
Total assets	941,303	943,677	12,160,780
Liabilities			
Current liabilities			
Notes and accounts payable-trade	117,152	111,113	1,431,864
Short-term loans payable	68,122	72,994	940,647
Current portion of long-term loans payable	59,414	44,480	573,192
Commercial papers	—	26,000	335,052
Current portion of bonds	20,000	10,000	128,866
Provision	3,023	6,843	88,182
Other	82,136	60,862	784,310
Total current liabilities	349,846	332,292	4,282,112
Noncurrent liabilities			
Bonds payable	20,000	30,000	386,598
Long-term loans payable	179,772	188,056	2,423,405
Provision for retirement benefits	24,720	23,796	306,645
Other provision	2,190	2,099	27,047
Other	69,029	64,491	831,073
Total noncurrent liabilities	295,711	308,442	3,974,768
Total liabilities	645,557	640,734	8,256,880
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,811,386
Capital surplus	62,222	62,222	801,832
Retained earnings	48,851	54,827	706,531
Treasury stock	(143)	(145)	(1,871)
Total shareholders' equity	251,494	257,467	3,317,878
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	(4,939)	(3,805)	(49,039)
Deferred gains or losses on hedges	(913)	(680)	(8,761)
Revaluation reserve for land	28,240	28,240	363,920
Foreign currency translation adjustment	(21,955)	(20,513)	(264,344)
Total accumulated other comprehensive income	433	3,242	41,776
Minority interests	43,819	42,234	544,246
Total net assets	295,745	302,943	3,903,900
Total liabilities and net assets	941,303	943,677	12,160,780

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first three quarters (Jan.1-Sep.30)		
	2011	2012	2012
	¥	¥	\$
Net sales	641,632	546,944	7,048,249
Cost of sales	536,944	461,448	5,946,489
Gross profit	104,688	85,497	1,101,761
Selling, general and administrative expenses	65,835	61,676	794,796
Operating income	38,853	23,820	306,965
Non-operating income			
Interest income	113	127	1,636
Dividends income	663	706	9,098
Equity in earnings of affiliates	539	—	—
Rent income on noncurrent assets	863	1,024	13,197
Subsidy income	196	1,144	14,741
Miscellaneous income	800	1,248	16,077
Total non-operating income	3,174	4,248	54,748
Non-operating expenses			
Interest expenses	4,034	3,541	45,630
Equity in losses of affiliates	—	326	4,205
Miscellaneous expenses	5,195	4,451	57,355
Total non-operating expenses	9,229	8,318	107,190
Ordinary income	32,798	19,751	254,523
Extraordinary income			
Gain on sales of noncurrent assets	73	132	1,703
Gain on sales of investment securities	212	145	1,873
Compensation income	—	145	1,871
Reversal of provision for retirement benefits	660	—	—
Other	603	75	971
Total extraordinary income	1,549	498	6,417
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	1,047	1,287	16,591
Impairment loss	654	2,586	33,330
Loss on the Great East Japan Earthquake	3,110	—	—
Other	5,438	3,783	48,755
Total extraordinary losses	10,249	7,657	98,676
Income before income taxes and minority interests	24,097	12,592	162,265
Income taxes	4,394	95	1,225
Income before minority interests	19,703	12,497	161,039
Minority interests in income	2,187	1,259	16,229
Net income	17,516	11,237	144,810

Consolidated Statements of Comprehensive Income

(¥ in millions, US\$ in thousands)

	Results for the first three quarters (Jan. 1-Sep. 30)		
	2011	2012	2012
Income before minority interests	¥ 19,703	¥ 12,497	\$ 161,039
Other comprehensive income:			
Valuation difference on available-for-sale securities	(1,084)	1,185	15,264
Deferred gains or losses on hedges	(1,295)	223	2,875
Foreign currency translation adjustments	(5,531)	1,557	20,065
Share of other comprehensive income of affiliates applied for equity method	(7)	19	241
Total other comprehensive income	(7,919)	2,983	38,445
Comprehensive income	11,784	15,480	199,484
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	9,942	14,046	181,005
Comprehensive income attributable to minority interests	1,843	1,434	18,479

(Reference)

SEGMENT INFORMATION (previous 3Q ended)

The operations of the Companies for the year ended September 30, 2011 and 2012 was summarised by industry segment as follows:

Year ended September 30, 2011		Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥185,807	¥90,026	¥119,069	¥51,529	¥89,677	¥105,525	¥-	¥641,632
Inter-segment	5,276	7,866	1,576	7,352	4,711	7,695	(34,476)	-
Total	191,083	97,892	120,645	58,881	94,388	113,220	(34,476)	641,632
Operating income (loss)	¥5,082	¥2,328	¥20,044	¥8,093	¥6,038	¥1,786	(¥4,518)	¥38,853

Year ended September 30, 2012		Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥127,558	¥87,672	¥125,522	¥42,716	¥66,519	¥96,957	¥-	¥546,944
Inter-segment	3,870	6,775	1,782	6,324	3,410	4,385	(26,547)	-
Total	131,428	94,447	127,305	49,040	69,929	101,342	(26,547)	546,944
Operating income (loss)	(¥2,174)	(¥271)	¥26,418	¥2,838	¥1,688	¥216	(¥4,894)	¥23,820

Year ended September 30, 2012		Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	\$1,643,794	\$1,129,791	\$1,617,555	\$550,462	\$857,201	\$1,249,447	\$-	\$7,048,249
Inter-segment	49,870	87,307	22,968	81,495	43,943	56,512	(342,095)	-
Total	1,693,664	1,217,098	1,640,523	631,957	901,144	1,305,958	(342,095)	7,048,249
Operating income (loss)	(\$28,022)	(\$3,496)	\$340,442	\$36,573	\$21,753	\$2,784	(\$63,070)	\$306,965