

2013 Consolidated Financial Results (Summary)

I. Results for 2013

1. Summary

(Unit: billions of yen, except for stockholders' equity/share, net income/share and cash dividends/share)

Items	2012 Jan.1 - Dec.31	2013 Jan.1 - Dec.31	Increase
Net Sales	739.7	847.8	108.1
Operating Income	28.1	26.0	-2.2
Net Income	9.4	9.1	-0.3
Net income per share	¥6.26	¥6.06	¥-0.20
Stockholders' equity per share	¥182.24	¥201.27	¥19.03
Cash dividends per share	¥3.00	¥3.00(planned)	-

2. Net sales and Operating Income by Segment (Year to year comparison)

(Unit: billions of yen)

Segment		2012 Jan.1 - Dec.31	2013 Jan.1 - Dec.31	Increase
Petrochemicals	Net Sales	190.9	286.7	95.8
	Operating Income	-1.0	4.4	5.4
Chemicals	Net Sales	127.3	130.4	3.2
	Operating Income	-0.9	2.6	3.4
Electronics	Net Sales	163.3	136.5	-26.8
	Operating Income	32.3	21.9	-10.4
Inorganics	Net Sales	65.6	65.9	0.3
	Operating Income	3.0	-0.8	-3.8
Aluminum	Net Sales	92.2	90.4	-1.8
	Operating Income	1.6	5.8	4.3
Others	Net Sales	135.3	176.5	41.2
	Operating Income	0.1	-0.6	-0.7
Adjustment	Net Sales	-34.9	-38.7	-3.8
	Operating Income	-7.0	-7.3	-0.3
Total	Net Sales	739.7	847.8	108.1
	Operating Income	28.1	26.0	-2.2

3. Net sales and Operating Income by Segment (Quarterly transition)

(Unit: billions of yen)

Segment		2013 CQ1 Jan.1 - Mar.31	2013 CQ2 Apr.1 - Jun.30	2013 CQ3 Jul.1 - Sept.30	2013 CQ4 Oct.1 - Dec.31
Petrochemicals	Net Sales	65.9	69.5	72.2	79.2
	Operating Income	0.9	-1.0	2.0	2.4
Chemicals	Net Sales	29.6	32.1	33.5	35.1
	Operating Income	0.8	-0.2	0.7	1.3
Electronics	Net Sales	32.0	34.2	33.1	37.3
	Operating Income	2.5	5.8	5.8	7.8
Inorganics	Net Sales	15.5	15.5	17.9	17.0
	Operating Income	-0.1	-0.6	0.3	-0.5
Aluminum	Net Sales	19.1	24.5	23.5	23.2
	Operating Income	1.0	1.9	1.9	1.0
Others	Net Sales	39.1	43.2	45.0	49.2
	Operating Income	-0.3	-0.6	0.1	0.2
Adjustment	Net Sales	-8.9	-10.2	-9.1	-10.4
	Operating Income	-1.5	-2.0	-1.7	-2.0
Total	Net Sales	192.4	208.9	216.1	230.5
	Operating Income	3.4	3.3	9.1	10.1

II. Forecast for 2014

1. Summary

(Unit: billions of yen, except for net income/share and cash dividends/share)

Items	2013	2014 Forecast	Increase
Net Sales	847.8	890.0	42.2
Operating Income	26.0	32.0	6.0
Net Income	9.1	12.0	2.9
Net income per share	¥6.06	¥8.02	¥1.96
Cash dividends per share	¥3.00(planned)	¥3.00	-

2. Net sales and Operating Income by Segment

(Unit: billions of yen)

Segment		2013	2014 Forecast	Increase
Petrochemicals	Net Sales	286.7	267.0	-19.7
	Operating Income	4.4	1.0	-3.4
Chemicals	Net Sales	130.4	143.0	12.6
	Operating Income	2.6	6.5	3.9
Electronics	Net Sales	136.5	147.0	10.5
	Operating Income	21.9	25.0	3.1
Inorganics	Net Sales	65.9	71.0	5.1
	Operating Income	-0.8	0.0	0.8
Aluminum	Net Sales	90.4	114.0	23.6
	Operating Income	5.8	6.0	0.2
Others	Net Sales	176.5	195.0	18.5
	Operating Income	-0.6	1.5	2.1
Adjustment	Net Sales	-38.7	-47.0	-8.3
	Operating Income	-7.3	-8.0	-0.7
Total	Net Sales	847.8	890.0	42.2
	Operating Income	26.0	32.0	6.0

(Note) Amount of "Adjustment" includes company-wide costs which are not allocated to each segment.

III. Cash Flow

(Unit: billions of yen)

Cash flows from:	2012	2013	Increase	2014 Forecast	Increase
Operating Activities	53.3	63.6	10.3	65.0	1.4
Investing Activities	-41.7	-55.2	-13.5	-60.0	-4.8
Free Cash Flow	11.6	8.4	-3.2	5.0	-3.4
Financing Activities	-20.2	-6.8	13.3	-12.1	-5.3
Newly Consolidated	3.0	4.6	1.6	0.4	-4.2
Net increase in Cash	-5.6	6.1	11.7	-6.8	-12.9

IV. Reference

(Unit: billions of yen, except for total number of employees, exchange rate and domestic naphtha price)

Items	2012	2013	Increase	2014 Forecast	Increase
Capital expenditures	42.5	44.4	1.9	52.0	7.6
Depreciation and amortization	46.2	39.8	-6.5	41.0	1.3
R & D expenditures	20.6	20.4	-0.2	20.2	-0.2
Gap between interest expense and	-3.5	-2.8	0.7	-3.4	-0.6
Total number of employees	9,890	10,234	344	10,732	498
Exchange rate (yen/US\$)	80	98	18	100	2
Domestic naphtha price (yen/kl)	55,050	65,250	10,200	65,700	450
Interest-bearing debt	342.3	353.7	11.4	355.0	1.3
Total assets	933.2	985.8	52.6		

Note : The above forecast is based on the information available as of today and assumptions as of today regarding risk factors that could affect our future performance. Actual results may differ materially from the forecast due to a variety of risk 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.

Consolidated Financial Statements

For the year ended December 31, 2013



I. Consolidated Financial Results

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

	Results for the year ended December 31			
	2012	2013	Increase (Decrease)	2013
Net sales	¥ 739,675	¥ 847,803	% 14.6	\$ 8,044,435
Operating income	28,108	25,953	(7.7)	246,261
Ordinary income	23,448	23,488	0.2	222,871
Net income	9,368	9,065	(3.2)	86,010
Net income per share: Basic	6.26	6.06	—	0.06
Net income per share: Diluted	—	—	—	—
	%	%		
Net income on equity	3.6	3.2		
Ordinary income on total assets	2.5	2.4		
Operating income to net sales	3.8	3.1		

Notes

Important changes in accounting policies : applicable

Comprehensive income:

Results for the year ended December 31, 2013 ¥34,866million

Results for the year ended December 31, 2012 ¥28,209million

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

	Dec. 31, 2012	Dec. 31, 2013	Dec. 31, 2013
Total assets	¥ 933,162	¥ 985,771	\$ 9,353,556
Total equity	314,966	345,811	3,281,246
Total equity per share	182.24	201.27	1.91
	%	%	%
Stockholders' equity ratio	29.2	30.6	30.6

(3) Cash flows: (¥ in millions, US\$ in thousands)

	Results for the year ended December 31		
	2012	2013	2013
Cash flows from operating activities	¥ 53,310	¥ 63,565	\$ 603,141
Cash flows from investing activities	(41,741)	(55,203)	(523,797)
Cash flows from financing activities	(20,150)	(6,805)	(64,570)
Cash and cash equivalents at end of the year	48,679	56,084	532,157

(4) Dividends:

	2012	2013	2014 forecast
Q1 dividends per share (¥)	—	—	—
Q2 dividends per share (¥)	0.0	0.0	0.0
Q3 dividends per share (¥)	—	—	—
End of Term dividends per share (¥)	3.0	3.0	3.0
Annual dividends per share (¥)	3.0	3.0	3.0
Total dividends (¥ in millions)	4,490	4,490	—
	%	%	%
Payout ratio (consolidated)	47.9	49.5	37.4
Net assets dividend yield (consolidated)	1.7	1.6	—

※The dividends for 2013 is still undecided.

II. Forecast of performance for the year ending December 31, 2014

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

	1st half		fiscal year	
	¥	\$	¥	\$
Net sales	405,000	3,842,869	890,000	8,444,824
Operating income	8,000	75,909	32,000	303,634
Ordinary income	5,000	47,443	25,000	237,214
Net income	3,000	28,466	12,000	113,863
Net income per share	2.00	0.02	8.02	0.08

※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 ¥105.39 throughout this statement for convenience only.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

The Japanese economy recovered gradually in 2013 as consumer spending and corporate earnings improved due to higher share prices and the easing of the yen's appreciation, reflecting the government's monetary relaxation policy and increased public spending. However, despite continuous gradual recovery of the U.S. economy based on steady private-sector demand and signs of recovery of the European economy, the uncertainty of the world economy grew, reflecting slower economic growth in China and slowdown in emerging economies, including India and ASEAN countries. In the first half of the year, production activities of the Japanese manufacturing industry were in a depressed state. After the middle of the year, however, production activities gradually recovered due partly to the influence of the depreciation of the yen.

The petrochemicals industry was affected by lower demand in China in the first half of the year. However, after the middle of the year, production of petrochemicals gradually recovered. In the electronic parts/materials industry, production of smartphones increased, but severe production adjustments continued for PCs.

Under these circumstances, in December 2013, the Showa Denko Group announced "PEGASUS Phase II," which covers the later phase (2014-2015) of the medium-term consolidated business plan PEGASUS. To strengthen its presence on the global market as a unique chemical company, the Group is promoting its growth strategies in which the hard disk (HD) media and graphite electrode businesses serve as its "Wings." Furthermore, the Group has decided to accelerate business expansions in the growing Asian market in the areas of aluminum cans, high-purity aluminum foil, semiconductor-processing high-purity gases, and functional chemicals, positioning them as "Growth" businesses.

The Group recorded consolidated net sales of ¥847,803 million in 2013, up 14.6% from the previous year, due mainly to higher sales in the Petrochemicals segment. However, operating income decreased 7.7%, to ¥25,953 million. While the Petrochemicals, Aluminum, and Chemicals segments recorded higher operating income due mainly to higher shipment volumes, operating income in the Electronics and Inorganics segments decreased due mainly to lower shipment volumes. The Group recorded an ordinary income of ¥23,488 million, up 0.2%, due partly to foreign currency translation adjustments. Net income fell 3.2%, to ¥9,065 million.

(Unit: millions of yen)

	2012 Jan.-Dec.	2013 Jan.-Dec.	Increase/ decrease	2012 4Q (Oct.-Dec.)	2013 4Q (Oct.-Dec.)	Increase/ decrease
Sales	739,675	847,803	108,128	192,808	230,474	37,666
Operating income	28,108	25,953	-2,154	4,287	10,105	5,818
Ordinary income	23,448	23,488	40	3,697	11,134	7,437
Net income	9,368	9,065	-303	-1,870	2,315	4,185

(2) A breakdown of net sales and operating income by segment (January 1 - December 31, 2013)

[Petrochemicals segment]

The Petrochemicals segment's sales increased 50.2%, to ¥286,732 million. Production of ethylene and propylene increased from the previous year, when we had trouble with our ethylene plant. Sales of olefins increased due to higher shipment volumes and higher selling prices, reflecting the rise in naphtha prices. Sales of organic chemicals were up due to higher shipment volumes of vinyl acetate and allyl alcohol. The segment recorded an operating income of ¥4,398 million (an improvement of ¥5,374 million).

(Unit: millions of yen)

	2012 Jan.-Dec.	2013 Jan.-Dec.	Increase/ decrease	2012 4Q (Oct.-Dec.)	2013 4Q (Oct.-Dec.)	Increase/ decrease
Sales	190,939	286,732	95,792	59,511	79,157	19,645
Operating income	-977	4,398	5,374	1,198	2,426	1,228

[Chemicals segment]

The Chemicals segment's sales increased 2.5%, to ¥130,402 million. Production of liquefied ammonia dipped from the previous year. Sales of acrylonitrile were up due to gradual improvement in market prices. Sales of chloroprene rubber increased due to higher export volumes. As a result, overall sales of basic chemicals increased. Sales of industrial gases decreased due to lower shipment volumes of hydrogen and others. Sales of electronic chemicals increased due to higher export volumes. Sales of functional chemicals slightly increased. The segment recorded an operating income of ¥2,559 million (up ¥3,434 million), due mainly to the improvement in the basic chemicals business.

(Unit: millions of yen)

	2012 Jan.-Dec.	2013 Jan.-Dec.	Increase/ decrease	2012 4Q (Oct.-Dec.)	2013 4Q (Oct.-Dec.)	Increase/ decrease
Sales	127,252	130,402	3,150	32,875	35,072	2,197
Operating income	-875	2,559	3,434	-604	1,287	1,892

[Electronics segment]

The Electronics segment's sales decreased 16.4%, to ¥136,548 million. Production of HD media decreased from the previous year due to the HDD industry's production/inventory adjustments, reflecting lower PC demand. Thus, sales of HD media decreased due to lower shipment volumes. In the business area of electronics materials, sales of rare earth magnetic alloys decreased due to the influence of the magnet industry's severe inventory adjustments, which hit bottom in the first quarter of the year. Sales of compound semiconductors also decreased, reflecting the non-consolidation of the gallium-nitride LED business as a result of its structural reform carried out in the previous year. Operating income decreased 32.1%, to ¥21,940 million.

(Unit: millions of yen)

	2012 Jan.-Dec.	2013 Jan.-Dec.	Increase/ decrease	2012 4Q (Oct.-Dec.)	2013 4Q (Oct.-Dec.)	Increase/ decrease
Sales	163,306	136,548	-26,758	36,002	37,316	1,314
Operating income	32,311	21,940	-10,371	5,892	7,771	1,879

[Inorganics segment]

The Inorganics segment's sales rose 0.5%, to ¥65,919 million. Production of graphite electrodes decreased from the previous year. Sales of graphite electrodes decreased due to lower shipment volumes, reflecting the influence of stagnant steel demand in Europe and overproduction by the Chinese steel industry. Sales of ceramics increased due to higher shipment volumes for electronic materials applications. The segment recorded an operating loss of ¥838 million (down ¥3,792 million), due mainly to the decrease in shipment volumes of graphite electrodes.

(Unit: millions of yen)

	2012 Jan.-Dec.	2013 Jan.-Dec.	Increase/ decrease	2012 4Q (Oct.-Dec.)	2013 4Q (Oct.-Dec.)	Increase/ decrease
Sales	65,573	65,919	346	16,533	16,965	431
Operating income	2,954	-838	-3,792	116	-523	-638

[Aluminum segment]

The Aluminum segment's sales fell 2.0%, to ¥90,369 million, reflecting the transfer of Showa Denko Aluminum Trading K.K. to the Others segment. Production of high-purity foil for aluminum electrolytic capacitors increased from the previous year as the capacitor industry's inventory adjustments ended in the first quarter, and demand recovered thereafter. Thus, sales of rolled products increased due to higher shipment volumes of high-purity foil for capacitors. Sales of aluminum specialty components increased due to higher shipment volumes of *Shotic*TM forged products, reflecting brisk car production at overseas sites. Sales of aluminum cans were maintained at the level of the previous year. Operating income increased 269.6%, to ¥5,845 million, due partly to higher shipment volumes of rolled products.

(Unit: millions of yen)

	2012 Jan.-Dec.	2013 Jan.-Dec.	Increase/ decrease	2012 4Q (Oct.-Dec.)	2013 4Q (Oct.-Dec.)	Increase/ decrease
Sales	92,194	90,369	-1,825	22,273	23,186	913
Operating income	1,581	5,845	4,264	-107	1,008	1,115

[Others segment]

The Others segment's sales increased 30.5%, to ¥176,516 million. Sales of lithium ion battery (LIB) materials increased due to higher shipment volumes for smartphone and tablet PC applications. Shoko Co., Ltd.'s sales increased, reflecting higher sales in overseas businesses. Consolidation of Shoko (Shanghai) Co., Ltd. contributed to higher sales in this segment. The segment recorded an operating loss of ¥626 million (down ¥715 million) due partly to the rise in fixed costs pertaining to the LIB materials business.

(Unit: millions of yen)

	2012 Jan.-Dec.	2013 Jan.-Dec.	Increase/ decrease	2012 4Q (Oct.-Dec.)	2013 4Q (Oct.-Dec.)	Increase/ decrease
Sales	135,280	176,516	41,236	33,938	49,207	15,270
Operating income	89	-626	-715	-127	182	309

(3) Major steps taken or decided in 2013

[General]

- Strategic partnership in the fullerene business

In January, SDK entered into a strategic partnership with Mitsubishi Corporation (MC) in the fullerene business. As part of the arrangement, SDK acquired from MC a 50% stake in Frontier Carbon Corporation (FCC), a producer and marketer of fullerene products, thereby making FCC a 50-50 joint venture between MC and SDK. Fullerene is a molecule composed entirely of carbon. It takes the form of a soccer ball and is one nanometer in diameter. As the molecule is soluble in organic solvents and is an excellent electron acceptor, it is seen as a promising material in the field of electronics, particularly for such applications as n-type material for organic photovoltaic cells. SDK has over 10 years of experience commercially producing carbon nanotube (VGCF™). SDK is therefore confident that its nanotechnology acquired through the VGCF business can be practically applied to the fullerene business. SDK and FCC will jointly undertake R&D and marketing activities towards the commercialization of fullerene products.

- Launch of six-inch SiC epitaxial wafers for power devices

In October, SDK began commercial shipments of silicon carbide (SiC) epitaxial wafers with a diameter of six inches—the largest size currently available on the world market—for use in power devices. As the commercial production of six-inch SiC epitaxial wafers will help reduce power-device production costs, SiC power devices are expected to be increasingly used in electric vehicles, in addition to existing applications such as power sources of servers for data centers and subway railcars. The company also started selling a new grade of four-inch SiC epitaxial wafers with fewer crystal defects and higher uniformity. Following the expansion of product lines, SDK will continue its efforts to improve quality and increase production capacity. SDK is planning to increase its SiC epitaxial wafer production capacity from 1,500 units a month (in terms of four-inch wafers) at present, to 2,500 units a month by the middle of 2014.

[Petrochemicals segment]

- Construction of new ethyl acetate plant based on new technology

SDK decided to build a 100,000t/y ethyl acetate plant at its Oita Complex using its proprietary process technology (direct addition of ethylene to acetic acid). The plant will start commercial production in June 2014. Ethyl acetate is used in wide-ranging applications, including printing ink, paint, electronic materials, pharmaceuticals, and agrochemicals. Demand for the product is expected to continue growing inside and outside Japan. SDK has developed an innovative process technology that enables efficient production of high-quality ethyl acetate, using a solid heteropolyacid catalyst developed by SDK. The technology won Green & Sustainable Chemistry Network's 6th GSC Award (Minister of Economy, Trade and Industry Prize) and The Chemical Society of Japan's 56th CSJ Award for Technical Development. Furthermore, the Ministry of Economy, Trade and Industry has decided to subsidize this new ethyl acetate plant as "investment in leading-edge-technology-based plant and equipment."

[Chemicals segment]

- Expanding sales of liquefied ammonia in the Tohoku region

In June, SDK started reconstruction work of its liquefied ammonia distribution base in Soma District, Fukushima Prefecture, which had been damaged by the Great East Japan Earthquake. The facility will reopen in March 2014. SDK's liquefied ammonia (Ecoann™) is approved as "eco-friendly goods for procurement" by major electric power companies because the product is partly based on used plastics. Liquefied ammonia is used in the production of synthetic fibers. It is also used for removing nitrogen oxides contained in exhaust gas from thermal electric power plants. SDK forecasts steady

demand for *Ecoann*TM as thermal electric power plants are expected to continue operating at high rates. To further expand sales of *Ecoann*TM as an important component of the basic chemicals business, SDK decided to operate the liquefied ammonia distribution base in Soma District by itself. In this connection, SDK merged Marusho Kogyo Co., Ltd., a wholly owned subsidiary for operating the base, in April.

- Starting commercial production of anode binder for LIBs
In February, SDK started volume production of “*Polysof*TM LB Series” water-based anode binder for LIBs. The product is a water-based emulsion containing acrylic synthetic resin particles, ensuring lower environmental impact at the time of LIB production compared with solvent-based binders. It provides such advantages as low electrical resistance, good temperature characteristics, and good adhesion to anode collectors, thereby contributing toward extending the life and increasing the capacity of LIBs. A binder causes cathode/anode active materials (for release and intake of lithium ions) to stick together. It also causes additives to stick together, and active materials to adhere to collectors. Thus, the product is attracting attention as one of the key materials that largely influence the performance of LIBs.
- Construction of new high silica zeolite plant
Union Showa (USKK), a joint venture between SDK and UOP LLC, of the United States, decided to start producing high silica zeolite in Japan. A new production facility, located within the premises of SDK’s Higashinagahara Plant in Aizu-Wakamatsu City, Fukushima Prefecture, will start commercial operation by the end of 2014. High silica zeolite is a kind of synthetic zeolite used as adsorbent, and is effective in removing volatile organic compounds (VOCs) and odor. The material is in tight supply due to a globally growing demand for various applications, including environmental protection, energy conservation, and household commodities. USKK intends to ensure stable supply of the product to customers, especially in such growing markets as Japan and Asian countries, develop new applications, and improve technical services. USKK is currently producing synthetic zeolite at its Yokkaichi Plant in Mie Prefecture, for such applications as dehydration, drying, refining, and separation. After the completion of the new plant, USKK will fully utilize these two plants, aiming to develop and supply new nuclear-waste-remediation products for treatment of contaminated water at Fukushima Daiichi nuclear power plant, decontamination in wide areas, and for treatment of radioactive nuclides to promote decommissioning of nuclear reactors.

[Electronics segment]

- Completion of plant growth facility in Fukushima using SDK’s specialty LED chips
In April, a new plant growth facility was completed at Kawauchi Village, Fukushima Prefecture, in which SDK’s specialty LED chips and innovative cultivation method (the “*Shigyo method*TM”) are used. The facility represents a completely closed system cut off from the outside air and insects, enabling agricultural production uninfluenced by changes in weather and atmospheric temperature. The facility has the capability to produce up to 8,000 heads of leaf lettuce and green herbs. The facility uses SDK’s LED chips that emit red light with optimized wavelengths for plant growth (660nm) in the highest brightness in the world (SDK estimates, as of April 2013) in combination with the “*Shigyo method*TM”, which was developed jointly by SDK and Yamaguchi University. Compared with fluorescent-lamp-based plant growth facilities, this system can increase the yield by two times or more, and reduce air-conditioning-related electricity costs, as it involves lower level of heat generation. Thus, the new system enables profitable operation of plant growth facilities.

- Commercial production of 2.5” 670 GB HD media
In November, SDK started commercial production of 2.5-inch HD media with storage capacity of 670 gigabytes per disk, using the seventh-generation perpendicular magnetic recording (PMR) technology. To the best of our knowledge, the new 2.5-inch HD media had the world’s highest storage capacity for this size available on the market as of November 2013. While the sixth-generation PMR media (500GB per disk) are now the main products, SDK will take the lead in commercializing higher-capacity media with the launch of the seventh-generation media.
- Development of Dy-free magnetic alloy for factory automation
SDK developed and started commercial production of a new grade of neodymium-based magnetic alloy for factory automation (FA) applications, which alloy does not contain dysprosium (element symbol: Dy) but gives the same performance as conventional products. As the magnetic force of magnets declines in proportion to the rise in temperature, Dy is usually added to neodymium-based magnets to increase heat resistance. While SDK has already commercialized Dy-free magnetic alloys for HDD voice coil motor and wind-power generation motor applications, the company this time developed a new Dy-free magnetic alloy for FA applications, in which higher levels of Dy is usually added. The new technology will enable SDK to further reduce the levels of added Dy for more demanding applications such as electrically-assisted power steering and motors for electric vehicles. Based on the new technology, SDK is working to further reduce the levels of added Dy. In 2014, SDK will develop another new grade of Dy-free magnetic alloy that gives the same performance as conventional products in which 6% by weight of Dy is added. Thus, SDK will continue contributing toward further energy conservation.

[Inorganics segment]

- Establishment of graphite electrode subsidiary in China
SDK completed its procedure for acquiring a controlling stake in Sinosteel Sichuan Carbon Co., Ltd., a manufacturer of graphite electrodes in China. In March, SDK made the company a subsidiary, renaming it as Showa Denko Sichuan Carbon Inc. SDK has so far been supplying high-quality graphite electrodes mainly to the markets in advanced countries from its production sites, one each in Japan and the United States. With the establishment of its Chinese subsidiary, SDK is now ready to supply “volume-zone” products for emerging markets. Thus, SDK will steadily promote its strategy of “being active on two fronts,” serving both the high-end and volume-zone product markets.
- Commencement of a trial run at a chemical alumina plant in Indonesia
In October, a trial run started at a new 300,000t/y chemical alumina plant jointly constructed by SDK and ANTAM in the Tayan District, West Kalimantan, Indonesia. Commercial production and sales are scheduled to start in the second half of 2014. “Chemical alumina” refers collectively to aluminum hydroxide and alumina for applications other than aluminum smelting. Chemical alumina is used for various industrial applications, including chemicals for water treatment, refractories, abrasives, building materials, IC packaging, and materials for LCD glass. SDK has already decided to withdraw from the chemical alumina production in Yokohama. With the transfer of the alumina production technology built up over many years’ operation of its Yokohama Plant to the new plant in Indonesia, SDK will establish a supply system to meet the growing demand in Southeast Asia and aim to further expand the business.

[Aluminum segment]

- Acquisition of aluminum can maker in Vietnam

In January 2014, SDK and its wholly owned subsidiary Showa Aluminum Can Corporation (SAC) reached agreement with major shareholders of Rexam-Hanacans Joint Stock Company (Hanacans), of Vietnam, to acquire 91.75% of shares in the company. Hanacans is manufacturing and selling aluminum beverage cans in Vietnam. The Japanese market for beverage cans has matured, offering no prospect of major growth. On the other hand, the emerging markets in China and Southeast Asia are expected to grow at high rates, reflecting the increases in population and income level. In particular, Vietnam has the highest beer consumption in Southeast Asia. Beer consumption in Vietnam is expected to grow rapidly, surpassing the current level in Japan by 2018. In addition to its solid customer base, Hanacans will introduce SAC's production technology and process control know-how to further strengthen its competitive power in the Vietnamese market.

- Completion of high-purity aluminum foil plant in China

SDK completed a new plant in Nantong City, Jiangsu Province, China, for producing high-purity aluminum foil for electrolytic capacitors. Showa Denko Aluminum (Nantong) Co., Ltd., SDK's subsidiary established in November 2011, began commercial production at the new plant in November 2013. Unlike aluminum foil for food packaging, the production of capacitor-grade aluminum foil is based on high-purity aluminum metal refined to 99.9% or more. SDK's Sakai Plant, in Osaka Prefecture, is an integrated high-purity aluminum foil production site, covering all stages from refinement of aluminum metal to rolling and finishing. The new plant in Nantong City processes rolled foil supplied from the Sakai Plant into finished product, providing high-purity aluminum foil to customers in all parts of China in a timely manner. Aluminum electrolytic capacitors are used in wide areas, including electric appliances, IT devices, electric vehicles, hybrid cars, and equipment for wind/solar power generation. In particular, a rapid growth is expected for such applications as environment-friendly cars and power conditioners for solar power generation. The Showa Denko Group will aim to expand the business in Japan and the Asian market, centering on China, by ensuring stable supply of high-quality, high-purity aluminum foil.

- Receipt of METI Minister's Prize in 3Rs Promotion Merit Awards

SDK received the Minister of Economy, Trade and Industry's Prize in the Reduce, Reuse and Recycle Promotion Merit Awards (3Rs Promotion Merit Awards) for fiscal 2013. The prize was awarded to commend the Showa Denko Group's aluminum can recycling activity that has been promoted by all employees of the Group for more than 40 years. While the activity was started as a voluntary program by employees, the Group's various operation sites now conduct aluminum can recycling together with residents of local communities. The earnings from the collected aluminum cans are donated to local social welfare councils, year-end charity campaign and circles for handicapped persons, and utilized for welfare activities of local communities.

[Others]

- Increasing LIB packaging material production capacity

Showa Denko Packaging Co., Ltd., a subsidiary of SDK, decided to further increase its production capacity for LIB-packaging aluminum laminated films, in addition to the expansion already completed in July 2013. After the additional expansion, Showa Denko Packaging's production capacity at the end of 2014 will be increased by three times before the expansions. Showa Denko Packaging is offering its aluminum laminated film—a composite material of resin film and aluminum foil—for packaging LIBs. Compared with metallic LIBs (such as cylindrical type), aluminum-laminated-film-based

pouch type LIBs provide higher flexibility in molding, lighter weight, and better heat dissipation. Thus, the share of pouch type is increasing, and the market for LIB-packaging aluminum laminated films is expected to grow rapidly.

(4) Projections for 2014

a) Overall performance forecast

As for the Japanese economy in 2014, domestic demand is forecast to be depressed in the first half of the year, due partly to the influence of the consumption tax hike on consumer spending. Meanwhile, gradual recovery is expected in the U.S. and European economies, and Japanese exports will gradually increase as the trend of lower yen is established. There will be such risk factors as the slowdown in overseas economies, centering on emerging countries, and the rise in the prices of electricity, raw materials, and fuels. Thus, the business environment will remain severe.

Under the “PEGASUS Phase II” business plan launched in 2014, the Showa Denko Group will steadily promote growth strategies in which the HD media and graphite electrode businesses serve as “Wings.” Furthermore, the Group has positioned its four businesses, including aluminum cans and semiconductor-processing high-purity gases, as “Growth” businesses. In accordance with the business plan, the Group will accelerate business expansions in the growing Asian market while reforming the structure of domestic operations, aiming to improve overall profitability.

The Group’s performance forecast for 2014 is as follows:

(Unit: millions of yen)

	Results for the term ended Dec. 31, '13	Forecast for the term ending Dec. 31, '14	Difference	Rate of change
Net sales	847,803	890,000	42,197	5.0
Operating income	25,953	32,000	6,047	23.3
Ordinary income	23,488	25,000	1,512	6.4
Net income	9,065	12,000	2,935	32.4

Net sales will increase from the 2013 results, to ¥890,000 million. Operating income, ordinary income and net income will also increase to ¥32,000 million, ¥25,000 million, and ¥12,000 million, respectively. The above forecast is based on the assumption that the exchange rate will be ¥100 to the U.S. dollar and that the naphtha price will be ¥65,700/KL.

b) Net sales and operating income by business segment

[Net sales]

(Unit: millions of yen)

	Results for the term ended Dec. 31, '13	Forecast for the term ending Dec. 31, '14	Difference
Petrochemicals	286,732	267,000	-19,732
Chemicals	130,402	143,000	12,598
Electronics	136,548	147,000	10,452
Inorganics	65,919	71,000	5,081
Aluminum	90,369	114,000	23,631
Others	176,516	195,000	18,484
Adjustments	-38,684	-47,000	-8,316
Total	847,803	890,000	42,197

[Operating income]

(Unit: millions of yen)

	Results for the term ended Dec. 31, '13	Forecast for the term ending Dec. 31, '14	Difference
Petrochemicals	4,398	1,000	-3,398
Chemicals	2,559	6,500	3,941
Electronics	21,940	25,000	3,060
Inorganics	-838	0	838
Aluminum	5,845	6,000	155
Others	-626	1,500	2,126
Adjustments	-7,324	-8,000	-676
Total	25,953	32,000	6,047

The above forecast is based on the information available as of February 13, 2014 and our assumptions as of the same date about risk factors that could affect our future performance. Actual results may differ materially due to a variety of reasons.

2. Financial conditions for the January 1 - December 31, 2013 period

- a) Total assets at the end of the year amounted to ¥985,771 million, an increase of ¥52,610 million from the level at December 31, 2012. Total assets were up due partly to the increase in cash and deposits, accounts receivable-trade, and property, plant and equipment. Interest-bearing debt increased ¥11,425 million, to ¥353,686 million, due partly to the consolidation of Showa Denko Sichuan Carbon Inc. Total liabilities increased ¥21,765 million, to ¥639,961 million, due partly to the increase in accounts payable-trade. Net assets at the end of the year amounted to ¥345,811 million, up ¥30,844 million, owing to the recording of net income for the year and the increase in foreign currency translation adjustments.

b) Cash flows in 2013

Net cash provided by operating activities increased ¥10,255 million from the previous year, to ¥63,565 million, due partly to the increase in income before income taxes. Net cash used in investing activities increased ¥13,462 million, to ¥55,203 million, due partly to the increase in payments for acquisition of property, plant and equipment. Thus, free cash flow ended up in the proceeds of ¥8,362 million, a decrease of ¥3,207 million. Net cash used in financing activities decreased ¥13,345 million due to the rise in interest-bearing debt (which fell in the previous year), and ended up in the payment of ¥6,805 million. As a result, and due partly to the influence of exchange rate fluctuations, cash and cash equivalents at December 31, 2013 increased ¥7,405 million, to ¥56,084 million.

c) Projections for 2014

Cash flows from operating activities will increase. As for net cash used in investing activities, payment will increase. Thus, free cash flow for 2014 is expected to decrease by around ¥3,400 million from ¥8,362 million in 2013, to the proceeds of approximately ¥5,000 million. Interest-bearing debt at the end of the year will be around ¥355,000 million, up around ¥1,300 million.

d) Trends in cash flow indexes

	2010	2011	2012	2013
Equity ratio	26.1%	26.8%	29.2%	30.6%
Equity ratio on a market value basis	29.6%	24.8%	21.0%	22.6%
Debt maturity (years)	5.3	5.0	6.4	5.6
Interest coverage ratio	11.4	12.8	11.3	15.6

[Notes]

Equity ratio: Equity / Total assets

Equity ratio on a market value basis: Total market value of listed shares / Total assets

Debt maturity (years): Interest-bearing debt / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payment

- Each index is calculated by relevant formulas with financial figures quoted from the consolidated financial statements.
- Equity is calculated by deducting minority interests from total net assets.
- Total market value of listed shares is calculated by multiplying the closing share price at the year-end by the number of shares issued, after deducting treasury stock.
- As to the cash flows, the amount of "cash flows from operating activities" in the consolidated cash flow statement is used.
- "Interest-bearing debt" refers to loans payable, commercial paper, and bonds as listed among liabilities on the consolidated balance sheet.
- As to the interest payment, the amount of "interest expense" in the consolidated cash flow statement is used.

3. Basic policy regarding appropriation of the Company's profits; dividends for 2013/2014
The Company considers the payment of dividends as an important obligation to its shareholders. The Company's basic policy is to decide on dividends after consideration of the profit level for the term and the needs for internal reserve for use in future business expansions. As to appropriation of profits for 2013, the Company is planning to pay dividends of ¥3 per share. For 2014, the Company is planning to pay dividends of ¥3 per share.

4. Operational and other risks

We consider we face the risks, as explained below, that could adversely affect our future performance, financial conditions, and cash flows. The Showa Denko Group is taking steps to prevent the realization of these risks and minimize impact on its operations. The following covers important risk factors considered being present as of this February 13, 2014. This list is not inclusive.

(1) Substantial fluctuations in the performances of individual businesses

The Group is manufacturing and selling a wide variety of products, such as petrochemicals, chemicals, electronics, inorganics, and aluminum. The following risks are expected in major business fields, but those are not limited to the businesses mentioned below.

① Petrochemicals

The Group purchases and imports a large amount of feedstock, including naphtha. When the price of naphtha or other types of feedstock rises due to an increase in crude oil prices, tight supply, or a weaker yen, and when we cannot absorb the manufacturing cost increase in the form of higher product prices, the Group's performance and financial conditions can be affected. Furthermore, earnings from petrochemicals largely depend on the supply-demand balance. Construction of large plants by competitors and resultant oversupply as well as a sharp decrease in demand due to unfavorable changes in the Japanese or world economies can affect the Group's performance and financial conditions.

② Aluminum

The Group imports a large amount of aluminum ingots from overseas sources. When the aluminum ingot price rises due to fluctuations in LME prices or a weaker yen, and when we cannot absorb the manufacturing cost increase in the form of higher product prices, the Group's performance and financial conditions can be affected. Furthermore, most of our products are sold as materials and components for the automobile, electric appliance, and electronics sectors. Trends of those industries, which are beyond our control, can substantially affect such businesses.

③ HD media

In the Group's HD media business, the sales volume is largely influenced by demand for electric appliances and PCs. The business requires innovations at a rapid pace and involves fierce international competition. Fluctuations in demand and intensification of competition will cause fluctuations in selling prices. The Group is prepared to develop and provide products meeting the market requirements and has established a global production/marketing setup. However, when customer requirements change more quickly than we expected, when supply-demand balance changes substantially, and when exchange rates sharply fluctuate, the Group's performance and financial conditions can be affected.

④ Overseas operations

The Group is producing and selling in Asia, North America, and Europe. Operations overseas involve such special risks as unexpected changes in laws and regulations, deterioration in political/economic situations, and social disorder due to war and terrorism. Such risks can become real and affect our overseas operations, resulting in adverse impact on the Group's performance and financial conditions.

(2) Unexpected fluctuations in financial conditions and cash flows

① Substantial fluctuations in exchange rates

As for foreign-currency-based transactions centering on exports/imports, the Group makes its best efforts to minimize relevant exchange rate fluctuation risks, mainly through exchange contracts. However, substantial fluctuations in exchange rates can affect the Group's performance and financial conditions. In particular, a sharp appreciation of the yen against other currencies can affect the Group's performance. Exchange rate fluctuations can also affect the Group's performance and financial conditions through the conversion of overseas subsidiaries' financial statements into Japanese yen.

② Trends in financial markets and changes in the fund-raising environment

The trends in the financial markets and deterioration in the Group's financial indexes can affect the Group's fund-raising and interest expenses: for example, in the form of prompt repayment of a loan owing to the terms of financial covenants. In that event, the Group's performance and financial conditions could be affected.

③ Employees' severance indemnities

The Group's employees' severance indemnities and expenses are calculated based on various basic rates and the yield of pension assets used in pension calculations. Fluctuations in the current price of pension assets, trends in interest rates, and changes in the retirement benefit/pension systems can affect the Group's performance and financial conditions.

④ Securities

As the Group owns securities with current prices, fluctuations in stock prices can result in valuation losses, affecting the Group's performance and financial conditions.

⑤ Accounting for impairment of fixed assets

The Group has adopted the accounting standard regarding the impairment of fixed assets. The Group may incur additional losses from the impairment of fixed assets as a result of future changes in the current prices of land and other fixed assets or a substantial change in the business environment.

⑥ Deferred tax assets

The Group's financial statements include deferred tax assets in relation to temporary differences (differences between the assets/liabilities on the consolidated financial statements and the assets/liabilities in calculation of taxable income). The calculation of deferred tax assets is based on various projections for future taxable income. Thus, when actual taxable income differs from the projections or in case of a revision of the taxation system (including tax rates), it becomes necessary to revise deferred tax assets. That situation could affect the Group's performance and financial conditions.

(3) Specific regulations

The Group's businesses are subject to various restrictions as stipulated by laws and regulations. The restrictions relate to industrial safety (such as the Law for Prevention of Disasters at Petroleum Complexes, Etc.; the Fire Service Law; and the High Pressure Gas Safety Law) and the environment and chemical substances (such as the Basic Environment Law; the Air Pollution Control Law; and the Law concerning the Examination and Regulation of Manufacture, Etc. of Chemical Substances). The Group observes these laws and regulations as it conducts its respective businesses. In the event the Group fails to observe any of the laws and regulations, the Group's

activities could be restricted. In case stricter regulations are introduced, resulting in higher costs, the Group's performance and financial conditions can be affected.

(4) Important lawsuits

While the Group makes its best efforts to observe laws and agreements, the Group may be sued as it conducts its wide-ranging businesses.

(5) Others

① R&D

In line with its policy of securing market orientation and establishing technical advantages, the Group is engaged in continuous R&D to improve its core inorganic, aluminum, and organic chemical technologies and achieve synergies in an effort to create individualized products and high-value-added businesses. However, in case the actual results materially differ from original plans, the Group's performance and financial conditions could be affected.

② Intellectual property

The Group is making its best efforts to obtain, use, and protect intellectual property, such as industrial property rights and know-how, in recognition of their ability to make the Group's businesses more competitive. The Group also respects other companies' rights. However, in the event of failure to duly obtain or use the rights, infringement by a third party, or if the Group is considered to have infringed a third party's intellectual property, the Group's operations can be hindered and the Group's performance and financial conditions could be affected.

③ Quality assurance and product liability

The Group has established its internal rules on quality assurance and quality control, as well as organizations for managing and promoting quality assurance. Furthermore, the Group has obtained certification under ISO 9001 standards to ensure strict quality control. However, in the event of a serious quality defect or being sued for product liability, the Group's reputation could be damaged and the Group may be forced to pay compensation to customers. This could affect the Group's performance and financial conditions.

④ Accidents and disasters

The Group is committed to securing steady and safe operations. The Group conducts regular inspections of all manufacturing facilities in an effort to minimize any risk factors pertaining to the suspension of operations or accidents due to problems with manufacturing facilities. In the event of injury or damage to property due to an accident, a large-scale natural disaster, etc., the Group's reputation could be damaged. The Group may incur substantial costs in dealing with the situation and may lose business opportunities due to the suspension of production. This could affect the Group's performance and financial conditions. Furthermore, even when the Group's manufacturing facilities are not directly influenced, the Group's production activities may be restricted by trouble with procurement or disruption of supply chains due to accidents at suppliers' sites or a natural disaster, or by a shortage of power supply. These factors could affect the Group's performance and financial conditions.

⑤ Impact on environment

The Group is committed to the principles of Responsible Care, which means that we are working to ensure the health and safety of everyone and to protect the environment from harm caused by chemical substances throughout their life cycles, namely, the development, production, distribution, use, and disposal. In the event of causing

impact on the environment, the Group's reputation can be damaged. The Group may incur costs, including compensation, lose business opportunities due to the suspension of production, and/or pay compensation to customers. These factors can affect the Group's performance and financial conditions.

5. Management Policy

(1) Showa Denko's basic management policy

(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.

(Our Code of Conduct)

- 1) We will act with integrity as a responsible citizen of the international society.
- 2) We will provide our customers with satisfaction and safety.
- 3) We will develop corporate culture that helps every member of the Group to fully display his/her ability.
- 4) We will meet the expectations of local communities.
- 5) We will make vigorous efforts to maintain and improve the global environment.

(2) Management indexes

The Showa Denko Group regards the following as important management indexes: operating income, which shows the results of operations; operating income/net sales ratio; operating income/total assets ratio (ROA); and free cash flow (FCF).

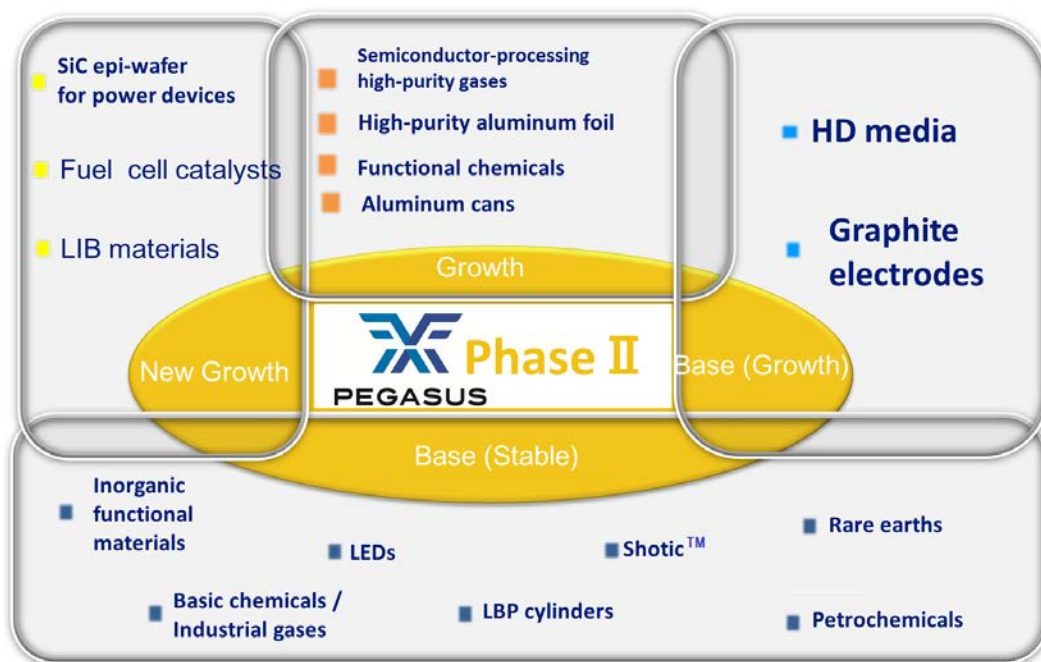
(3) Medium to long-term business strategy

- 1) Medium-term consolidated business plan "PEGASUS Phase II" (announced in December 2013)

The Showa Denko Group is promoting its medium-term consolidated business plan PEGASUS launched in 2011. The Group aims to further strengthen its status as a "unique chemical company with individualized products" based on its proprietary and competitive technologies. The Group is working to build up strong and diversified businesses on a global scale, thereby establishing leading positions in various market segments. The Group is implementing the "PEGASUS Phase II" business plan for the 2014-2015 period, the latter part of the five-year plan PEGASUS.

- 2) Basic strategy under "PEGASUS Phase II"

In the business portfolio we aim to realize, we now classify businesses into four categories: Base (Growth), Growth, Base (Stable), and New Growth. We have set a category of "Growth" for globally competitive operations, aiming to accelerate growth strategies through preferential allocation of managerial resources.



Business portfolio in Phase II

a) Base (Growth) businesses

“HD media” and “graphite electrodes” are positioned as the main businesses. We will improve the profitability of the two businesses by increasing their global competitive power and reducing costs. The two businesses will serve as major contributors to our profit and cash flows.

b) Growth businesses

We have newly classified the businesses in aluminum cans, high-purity foil, semiconductor-processing high-purity gases, and functional chemicals as “Growth” businesses. We will preferentially allocate resources to these businesses, aiming to expand them mainly in the growing Asian market.

c) New Growth businesses

We will aim to quickly establish such new businesses as LIB materials and SiC epitaxial wafers for power devices.

d) Base (Stable) businesses

In the category of “Base (Stable)” businesses, including petrochemicals and basic chemicals, we will take aggressive measures for improving their cost competitiveness, aiming to improve their profitability.

e) Overseas business strategy

We will expand operations in growing markets, centering on Asia. In addition to the HD media and graphite electrode businesses, we will further expand our overseas operations by establishing new sites and expanding existing sites in such business areas as aluminum cans (“Growth”) and chemical alumina (“Base (Stable)”).

f) Utilization of M&A and partnerships

In addition to existing managerial resources, we will utilize M&A and partnerships, when necessary for promotion of business strategies and R&D, to accelerate the speed of launching new businesses.

g) R&D strategy

We will invest a total of ¥44 billion in R&D in the 2014-2015 period. In the allocation of the budget, we will put emphasis on the expansion of HD media and functional chemicals. As medium-term R&D themes, we will focus on such areas as SiC epitaxial wafers for power devices and fuel cells. We will promote R&D in areas to be directly linked to our growth.

h) Capital investment plans

Capital investment in the 2014-2015 period will total ¥105 billion. In addition to the main businesses of HD media and graphite electrodes, we will make investments in carefully selected projects where we have strengths, including overseas production of aluminum cans ("Growth") and expansion of production capacity for LIB materials ("New Growth").

3) Financial goals under PEGASUS Phase II (announced on December 13, 2013)

The financial goals of the Group for 2015 are as follows:

Net sales: ¥950 billion

Operating income: ¥50 billion

Profit rate (Operating income / Net sales): 5.3%

ROA (Operating income / Total assets): 5%

Free cash flow (FCF): ¥30 billion

(It is assumed that the exchange rate will be ¥100 to the U.S. dollar.)

6. Tasks to be accomplished

While rapid economic growth in emerging countries is bringing about the rise in living standards, there is increasing need for concerted efforts to reduce impacts on the global environment. This social trend is producing new market needs. Specifically, demand is growing for compact electronic devices with higher quality, speed, and capacity, which will lead to more convenience and comfort. Furthermore, new technologies are needed to realize a healthy and safe society through various environmental protection measures, including those against global warming. And the security of energy supply should be achieved through reductions in dependence on fossil fuels and conservation of energy.

We will provide components, materials, and solutions in these areas based on our proprietary and advanced technologies, and contribute toward creating a society where affluence and sustainability are harmonized, thereby enhancing the corporate value and promoting the common interests of shareholders.

The world economy is undergoing drastic changes in the market structure. The Group will promote expansions in overseas markets centering on Asia and provide sophisticated high-performance products and technologies. Thus, we will continue meeting customer requirements and social needs.

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2012	Dec. 30, 2013	Dec. 30, 2013
Assets	¥	¥	\$
Current assets			
Cash and deposits	51,606	68,250	647,592
Notes and accounts receivable-trade	138,189	156,090	1,481,074
Merchandise and finished goods	52,980	53,203	504,818
Work in process	13,506	16,331	154,961
Raw materials and supplies	55,275	50,622	480,334
Deferred tax assets	5,733	4,810	45,642
Other	24,925	25,548	242,416
Allowance for doubtful accounts	(107)	(256)	(2,430)
Total current assets	342,108	374,599	3,554,407
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	81,593	85,470	810,990
Machinery, equipment and vehicles, net	115,167	111,627	1,059,182
Tools, furniture and fixtures, net	6,767	6,709	63,656
Land	254,257	254,593	2,415,723
Construction in progress	15,469	35,688	338,626
Total property, plant and equipment	473,253	494,087	4,688,177
Intangible assets			
Goodwill	120	—	0
Other	10,198	10,960	103,996
Total intangible assets	10,318	10,960	103,996
Investments and other assets			
Investment securities	67,778	78,688	746,634
Deferred tax assets	27,494	15,889	150,764
Other	12,753	12,080	114,618
Allowance for doubtful accounts	(542)	(531)	(5,042)
Total investments and other assets	107,483	106,125	1,006,975
Total noncurrent assets	591,054	611,172	5,799,148
Total assets	933,162	985,771	9,353,556
Liabilities			
Current liabilities			
Notes and accounts payable-trade	107,241	124,194	1,178,425
Short-term loans payable	63,741	78,182	741,832
Current portion of long-term loans payable	46,623	41,694	395,616
Commercial papers	25,000	18,000	170,794
Accounts payable-other	56,492	53,990	512,291
Provision for repairs	76	3,512	33,320
Provision for bonuses	2,225	2,251	21,362
Provision for business structure improvement	—	296	2,808
Provision for Niigata Minamata Disease	964	149	1,415
Other	20,756	24,677	234,148
Total current liabilities	323,118	346,945	3,292,010
Noncurrent liabilities			
Bonds payable	30,000	30,000	284,657
Long-term loans payable	176,898	185,811	1,763,078
Deferred tax liabilities	2,110	3,305	31,362
Deferred tax liabilities for land revaluation	39,905	39,849	378,107
Provision for retirement benefits	23,433	20,310	192,713
Provision for repairs	2,351	43	408
Other	20,380	13,698	129,974
Total noncurrent liabilities	295,078	293,016	2,780,299
Total liabilities	618,196	639,961	6,072,309
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,333,746
Capital surplus	62,222	62,221	590,390
Retained earnings	53,172	58,414	554,265
Treasury stock	(145)	(149)	(1,412)
Total shareholders' equity	255,812	261,050	2,476,989
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	924	5,850	55,504
Deferred gains or losses on hedges	(305)	105	992
Revaluation reserve for land	28,025	27,923	264,946
Foreign currency translation adjustment	(11,722)	6,284	59,630
Total accumulated other comprehensive income	16,922	40,161	381,072
Minority interests	42,232	44,599	423,185
Total net assets	314,966	345,811	3,281,246
Total liabilities and net assets	933,162	985,771	9,353,556

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the year ended Dec.31 2012 and 2013		
	2012	2013	2013
	¥	¥	\$
Net sales	739,675	847,803	8,044,435
Cost of sales	628,491	738,749	7,009,667
Gross profit	111,183	109,054	1,034,768
Selling, general and administrative expenses	83,076	83,101	788,507
Operating income	28,108	25,953	246,261
Non-operating income			
Interest income	169	155	1,469
Dividends income	937	1,145	10,866
Equity in earnings of affiliates	289	—	—
Rent income on noncurrent assets	1,403	1,479	14,036
Foreign exchange gains	195	2,165	20,546
Miscellaneous income	2,574	1,775	16,847
Total non-operating income	5,567	6,720	63,764
Non-operating expenses			
Interest expenses	4,604	4,126	39,151
Equity in losses of affiliates	—	264	2,507
Loss on mothballing of operation	1,233	1,852	17,571
Miscellaneous expenses	4,390	2,943	27,924
Total non-operating expenses	10,226	9,185	87,153
Ordinary income	23,448	23,488	222,871
Extraordinary income			
Gain on sales of investment securities	145	5,143	48,795
Compensation income from cancellation of contracts	—	756	7,169
Compensation income	145	—	—
Reversal of provision for loss on the Great East Japan Earthquake	237	—	—
Other	285	371	3,516
Total extraordinary income	812	6,269	59,481
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	2,027	1,459	13,841
Impairment loss	3,481	1,357	12,875
Loss on restructuring of subsidiaries and affiliates	—	1,270	12,054
Provision for Niigata Minamata Disease	964	—	—
Other	6,500	1,638	15,540
Total extraordinary losses	12,973	5,724	54,310
Income before income taxes and minority interests	11,288	24,033	228,042
Income taxes	251	13,760	130,558
Income before minority interests	11,037	10,274	97,484
Minority interests in income	1,670	1,209	11,474
Net income	9,368	9,065	86,010

Consolidated Statements of Comprehensive Income

(¥ in millions, US\$ in thousands)

	Results for the year ended Dec. 31 2012 and 2013		
	2012	2013	2013
	¥	¥	\$
Income before minority interests	11,037	10,274	97,484
Other comprehensive income:			
Valuation difference on available-for-sale securities	5,928	5,105	48,439
Deferred gains or losses on hedges	596	384	3,647
Foreign currency translation adjustments	10,573	18,987	180,163
Share of other comprehensive income of affiliates applied for equity method	75	116	1,100
Total other comprehensive income	17,172	24,593	233,349
Comprehensive income	28,209	34,866	330,833
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	26,072	32,360	307,055
Comprehensive income attributable to minority interests	2,137	2,506	23,778

Consolidated Statements of Changes in Net Assets

For the year ended December 31, 2012

(¥ in millions)

	Shareholders' equity					Valuation and translation adjustments					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments		
Balance at December 31, 2011	140,564	62,222	48,851	(143)	251,494	(4,939)	(913)	28,240	(21,955)	433	43,819	295,745
Changes of items during the period												
Dividends from surplus			(4,490)		(4,490)							(4,490)
Net income			9,368		9,368							9,368
Purchase of treasury stock				(3)	(3)							(3)
Disposal of treasury stock		(1)		1	0							0
Decrease by decrease of consolidated subsidiaries			(758)		(758)							(758)
Reversal of revaluation reserve for land			214		214							214
Others			(14)		(14)							(14)
Net changes of items other than shareholders' equity						5,863	608	(214)	10,233	16,490	(1,587)	14,903
Total changes of items during the period		(1)	4,320	(2)	4,318	5,863	608	(214)	10,233	16,490	(1,587)	19,221
Balance at December 31, 2012	140,564	62,222	53,172	(145)	255,812	924	(305)	28,025	(11,722)	16,922	42,232	314,966

For the year ended December 31, 2013

(¥ in millions)

	Shareholders' equity					Total accumulated other comprehensive income					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments		
Balance at December 31, 2012	140,564	62,222	53,172	(145)	255,812	924	(305)	28,025	(11,722)	16,922	42,232	314,966
Changes of items during the period												
Dividends from surplus			(4,490)		(4,490)							(4,490)
Net income			9,065		9,065							9,065
Purchase of treasury stock				(5)	(5)							(5)
Disposal of treasury stock		(0)		1	1							1
Increase by increase of consolidated subsidiaries			576		576							576
Reversal of revaluation reserve for land			103		103							103
Others			(11)		(11)							(11)
Net changes of items other than shareholders' equity						4,926	410	(103)	18,006	23,239	2,368	25,607
Total changes of items during the period		(0)	5,242	(4)	5,238	4,926	410	(103)	18,006	23,239	2,368	30,844
Balance at December 31, 2013	140,564	62,221	58,414	(149)	261,050	5,850	105	27,923	6,284	40,161	44,599	345,811

For the year ended December 31, 2013

(US\$ in thousands)

	Shareholders' equity					Total accumulated other comprehensive income					Minority interests	Total net assets
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustment	Total valuation and translation adjustments		
Balance at December 31, 2012	1,333,746	590,395	504,526	(1,376)	2,427,291	8,767	(2,897)	265,919	(111,221)	160,568	400,718	2,988,577
Changes of items during the period												
Dividends from surplus			(42,602)		(42,602)							(42,602)
Net income			86,010		86,010							86,010
Purchase of treasury stock				(46)	(46)							(46)
Disposal of treasury stock		(5)		10	5							5
Increase by increase of consolidated subsidiaries			5,462		5,462							5,462
Reversal of revaluation reserve for land			973		973							973
Others			(105)		(105)							(105)
Net changes of items other than shareholders' equity						46,737	3,889	(974)	170,851	220,504	22,466	242,970
Total changes of items during the period		(5)	49,740	(36)	49,699	46,737	3,889	(974)	170,851	220,504	22,466	292,669
Balance at December 31, 2013	1,333,746	590,390	554,265	(1,412)	2,476,989	55,504	992	264,946	59,630	381,072	423,185	3,281,246

Consolidated Statements of Cash Flows

(¥ in millions, US\$ in thousands)

	Results for the year (Jan. 1-Dec. 31)		
	2012	2013	2013
	¥	¥	\$
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	11,288	24,033	228,042
Depreciation and amortization	46,232	39,779	377,444
Impairment loss	3,481	1,357	12,875
Amortization of goodwill	1,195	1,447	13,726
Increase (decrease) in provision for retirement benefits	(1,292)	(3,159)	(29,978)
Interest and dividends income	(1,105)	(1,300)	(12,335)
Interest expenses	4,604	4,126	39,151
Equity in (earnings) losses of affiliates	(289)	264	2,507
Loss (gain) on sales and valuation of investment securities	2,827	(4,586)	(43,518)
Loss on retirement of noncurrent assets	1,745	1,444	13,705
Loss (gain) on sales of noncurrent assets	89	(66)	(629)
Decrease (increase) in notes and accounts receivable-trade	2,746	(8,373)	(79,448)
Decrease (increase) in inventories	1,808	9,113	86,469
Increase (decrease) in notes and accounts payable-trade	(10,281)	10,226	97,032
Other, net	(1,070)	(3,770)	(35,769)
Subtotal	61,979	70,535	669,276
Interest and dividends income received	1,767	1,923	18,244
Interest expenses paid	(4,736)	(4,078)	(38,697)
Income taxes paid	(5,700)	(4,814)	(45,680)
Net cash provided by (used in) operating activities	53,310	63,565	603,142
Net cash provided by (used in) investing activities			
Payments into time deposits	(2,349)	(17,249)	(163,668)
Proceeds from withdrawal of time deposits	817	8,784	83,348
Proceeds from sales and redemption of securities	2	2	21
Purchase of property, plant and equipment	(41,366)	(44,114)	(418,579)
Proceeds from sales of property, plant and equipment	1,876	218	2,072
Proceeds from transfer of business	3,506	15	139
Purchase of investment securities	(2,735)	(15,000)	(142,326)
Proceeds from sales of investment securities	255	14,244	135,153
Purchase of investments in subsidiaries	(347)	(3)	(29)
Purchase of investments in subsidiaries resulting in change in scope of consolidation		(887)	(8,416)
Net decrease (increase) in short-term loans receivable	639	506	4,804
Payments of long-term loans receivable	(938)	(1,414)	(13,417)
Collection of long-term loans receivable	243	1,434	13,607
Other, net	(1,345)	(1,740)	(16,508)
Net cash provided by (used in) investing activities	(41,741)	(55,203)	(523,800)
Net increase (decrease) in short-term loans payable	(4,583)	7,318	69,441
Net increase (decrease) in commercial papers	25,000	(7,000)	(66,420)
Proceeds from long-term loans payable	43,500	49,230	467,117
Repayment of long-term loans payable	(59,432)	(47,148)	(447,365)
Proceeds from issuance of bonds	10,000	-	-
Redemption of bonds	(20,000)	-	-
Proceeds from stock issuance to minority shareholders	-	1,031	9,787
Cash dividends paid	(4,475)	(4,472)	(42,432)
Cash dividends paid to minority shareholders	(2,014)	(1,749)	(16,594)
Other, net	(8,146)	(4,016)	(38,102)
Net cash provided by (used in) financing activities	(20,150)	(6,805)	(64,568)
Effect of exchange rate change on cash and cash equivalents	2,989	4,587	43,524
Net increase (decrease) in cash and cash equivalents	(5,592)	6,144	58,298
Cash and cash equivalents at beginning of period	54,257	48,679	461,894
Increase in cash and cash equivalents from newly consolidated subsidiary	-	1,249	11,856
Increase in cash and cash equivalents resulting from merger	14	12	113
Cash and cash equivalents at end of period	48,679	56,084	532,161

SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2012 and 2013 were summarized by business segment as follows:

Year ended December 31, 2012	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers.	¥185,434	¥118,380	¥161,125	¥57,191	¥87,948	¥129,597	¥-	¥739,675
Inter-segment.	5,506	8,872	2,181	8,382	4,246	5,684	(34,870)	-
Total.	190,939	127,252	163,306	65,573	92,194	135,280	(34,870)	739,675
Operating income (loss).	(¥977)	(¥875)	¥32,311	¥2,954	¥1,581	¥89	(¥6,975)	¥28,108
Assets.	¥142,973	¥181,582	¥164,469	¥125,900	¥151,024	¥122,852	¥44,362	¥933,162
Depreciation.	7,207	9,162	16,287	3,381	6,072	2,380	1,744	46,232
Amortization of (negative) goodwill.	6	(211)	90	1,368	(38)	(20)	-	1,195
Investments in non-consolidated subsidiaries and affiliates.	14,009	1,586	296	1,486	32	272	-	17,680
Capital expenditures.	3,699	8,477	11,679	8,441	4,302	3,412	2,492	42,503

Year ended December 31, 2013	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers.	¥279,642	¥120,452	¥135,156	¥57,412	¥84,096	¥171,044	¥-	¥847,803
Inter-segment.	7,090	9,950	1,392	8,507	6,273	5,472	(38,684)	-
Total.	286,732	130,402	136,548	65,919	90,369	176,516	(38,684)	847,803
Operating income (loss).	¥4,398	¥2,559	¥21,940	(¥838)	¥5,845	(¥626)	(¥7,324)	¥25,953
Assets.	¥147,207	¥185,453	¥164,167	¥153,979	¥130,941	¥183,694	¥20,330	¥985,771
Depreciation.	6,421	7,300	14,216	3,128	4,303	2,937	1,474	39,779
Amortization of (negative) goodwill.	6	(145)	86	1,550	(60)	10	-	1,447
Investments in non-consolidated subsidiaries and affiliates.	13,649	1,795	-	1,484	50	162	-	17,140
Capital expenditures.	2,912	6,749	6,121	18,283	6,256	2,649	1,400	44,370

Year ended December 31, 2013	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers.	\$2,653,403	\$1,142,913	\$1,282,439	\$544,760	\$797,954	\$1,622,965	\$-	\$8,044,435
Inter-segment.	67,271	94,414	13,208	80,719	59,522	51,919	(367,053)	-
Total.	2,720,674	1,237,327	1,295,647	625,479	857,476	1,674,884	(367,053)	8,044,435
Operating income (loss).	\$41,730	\$24,281	\$208,181	(\$7,955)	\$55,460	(\$5,940)	(\$69,495)	\$246,261
Assets.	\$1,396,783	\$1,759,683	\$1,557,711	\$1,461,044	\$1,242,443	\$1,742,990	\$192,902	\$9,353,556
Depreciation.	60,931	69,263	134,891	29,679	40,828	27,865	13,988	377,444
Amortization of (negative) goodwill.	54	(1,372)	815	14,705	(571)	95	-	13,726
Investments in non-consolidated subsidiaries and affiliates.	129,505	17,033	-	14,083	477	1,539	-	162,636
Capital expenditures.	27,630	64,037	58,082	173,481	59,362	25,135	13,285	421,012

(b) The operations of the Companies for the year ended December 31, 2012 and 2013 were summarized by geographic area as follows:

Year ended December 31, 2012	Millions of yen				
	Japan	China	Asia(exc.China)	Others	Total
Sales.	¥481,990	¥57,255	¥162,602	¥37,827	¥739,675

	Japan	Others	Total
Tangible fixed assets.	¥419,879	¥53,374	¥473,253

Year ended December 31, 2013	Millions of yen				
	Japan	China	Asia(exc.China)	Others	Total
Sales.	¥526,035	¥105,658	¥175,503	¥40,607	¥847,803

	Japan	Others	Total
Tangible fixed assets.	¥417,640	¥76,447	¥494,087

Year ended December 31, 2013	Thousands of U.S. dollars				
	Japan	China	Asia(exc.China)	Others	Total
Sales.	\$4,991,319	\$1,002,547	\$1,665,271	\$385,299	\$8,044,435

	Japan	Others	Total
Tangible fixed assets.	\$3,962,802	\$725,375	\$4,688,177

(c) The impairment loss and the (negative) goodwill of the Companies for the year ended December 31, 2012 and 2013 were summarized by business segment as follows:

Year ended December 31, 2012	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss.	¥15	¥256	¥677	¥2,417	¥115	¥2	¥-	¥3,481
Goodwill								
Amortization.	6	283	122	1,368	22	8	-	1,810
Unamortized balance.	40	582	619	4,154	222	64	-	5,681
Negative goodwill								
Amortization.	-	494	33	-	60	28	-	615
Unamortized balance.	-	3,802	488	-	899	372	-	5,561

Year ended December 31, 2013	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss.	¥211	¥28	¥-	¥1,060	¥-	¥58	¥-	¥1,357
Goodwill								
Amortization.	6	283	118	1,550	-	38	-	1,996
Unamortized balance.	34	299	501	3,909	-	257	-	5,000
Negative goodwill								
Amortization.	-	428	33	-	60	28	-	549
Unamortized balance.	-	3,374	455	-	839	344	-	5,012

Year ended December 31, 2013	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss.	\$2,003	\$266	\$-	\$10,053	\$-	\$553	\$-	\$12,875
Goodwill								
Amortization.	54	2,689	1,123	14,705	-	363	-	18,935
Unamortized balance.	326	2,836	4,749	37,094	-	2,439	-	47,445
Negative goodwill								
Amortization.	-	4,062	309	-	571	268	-	5,209
Unamortized balance.	-	32,013	4,320	-	7,959	3,265	-	47,557