SHOWA DENKO K.K.

Consolidated Financial Statements

For the year ended December 31, 2012

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			
	2011	2012	Increase (Decrease)	2012
	¥	¥	%	$
Net sales	854,158	739,811	(13.4)	8,544,825
Operating income	47,357	28,108	(40.6)	324,646
Ordinary income	40,018	23,448	(41.4)	270,830
Net income	16,980	9,368	(44.8)	108,196
Net income per share: Basic	11.35	6.26	—	0.07
Net income per share: Diluted	11.20	—	—	—
	%	%		
Net income on equity	6.9	3.6		
Ordinary income on total assets	4.3	2.5		
Operating income to net sales	5.5	3.8		

Notes
Important changes in accounting policies : applicable
Comprehensive income:
Results for the year ended December 31,2012 ¥28,209million
Results for the year ended December 31,2011 ¥17,446million

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

	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2012
	¥	¥	$
Total assets	941,303	933,162	10,778,029
Total equity	295,745	314,966	3,637,863
Total equity per share	168.33	182.24	2.10
	%	%	%
Stockholders' equity ratio	26.8	29.2	29.2

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

	Results for the year ended December 31		
	2011	2012	2012
	¥	¥	$
Cash flows from operating activities	69,437	53,310	615,731
Cash flows from investing activities	(38,672)	(40,209)	(464,414)
Cash flows from financing activities	(17,295)	(20,150)	(232,733)
Cash and cash equivalents at end of the year	55,026	51,254	591,984

(4) Dividends:

	2011	2012	2013 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)	26.4	47.9	29.9
Net assets dividend yield (consolidated)	1.8	1.7	—

※The dividends for 2012 is still undecided.

Ⅱ. Forecast of performance for the year ending December 31, 2013

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

	1st half		fiscal year	
	¥	$	¥	$
Net sales	380,000	4,389,004	800,000	9,240,009
Operating income	13,000	150,150	35,000	404,250
Ordinary income	10,500	121,275	30,000	346,500
Net income	5,000	57,750	15,000	173,250
Net income per share	3.34	0.04	10.02	0.12

※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 ¥86.58 throughout this statement for convenience only.

[Business Results]

1. Analysis of business results

(1) Summary

The Japanese economy saw signs of gradual recovery in production in the early part of 2012. In and after the middle of the year, however, the Japanese economy continued to face a generally difficult situation due to the slowdown in overseas economies amid the sovereign debt crisis in Europe, lower economic growth in China, serious appreciation of the yen, and the resultant decline in export.

In the petrochemicals industry, severe production adjustments continued due to the influence of stagnant demand in China. The electronic parts/materials industry also experienced substantial production adjustments in LCD panels, notwithstanding increases in the smartphone production.

Under these circumstances, the Showa Denko Group is aiming to strengthen its presence on the global market by implementing its medium-term consolidated business plan PEGASUS launched in 2011. The Group is promoting its growth strategies with the HD media and graphite electrode businesses as its “Wings,” while aiming to build up strong and diversified businesses on a global scale and establish leading positions on the market. As for its future business portfolio, the Group will “redesign” its businesses in response to changes in the conditions of competition for respective operations.

In 2012, the Group recorded consolidated net sales of ¥739,811 million, down 13.4% from the previous year. The decline in net sales reflected lower sales in the Petrochemicals segment, which experienced trouble with equipment, and in the Aluminum segment, which transferred the automotive air-conditioner heat exchanger business. Operating income decreased 40.6%, to ¥28,108 million, due to lower profit in all segments except the Electronics, in which profit increased due to higher shipment volumes of HD media. Ordinary income fell 41.4%, to ¥23,448 million, and net income decreased 44.8%, to ¥9,368 million.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	2012 (Jan.-Dec.)	Increase/decrease
Net sales	854,158	739,811	-114,347
Operating income	47,357	28,108	-19,249
Ordinary income	40,018	23,448	-16,570
Net income	16,980	9,368	-7,612

(2) A breakdown of net sales and operating income by segment

(Petrochemicals)

Production of ethylene and propylene decreased significantly from the previous year due to the influence of the trouble with the ethylene plant that occurred in the first half of 2012 as well as production cuts that reflected the slackening supply-demand situation in the Asian market. Sales of olefins decreased owing to significantly lower shipment volumes. Sales of organic chemicals also decreased due to lower shipment volumes of vinyl acetate and ethyl acetate.

As a result, the Petrochemicals segment’s sales decreased 23.7%, to ¥190,939 million. The segment recorded operating loss of ¥977 million (down ¥4,461 million).

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	2012 (Jan.-Dec.)	Increase/decrease
Net sales	250,396	190,939	-59,456
Operating income	3,484	-977	-4,461

(Chemicals)

Production of liquefied ammonia increased. Sales of functional polymers, industrial gases, and electronic chemicals were maintained at the previous year's level. Sales of basic chemicals decreased despite higher liquefied ammonia sales, as acrylonitrile sales declined due to production cuts, reflecting lower demand and stagnant market.

As a result, the Chemicals segment's sales fell 2.2%, to ¥127,376 million. The segment recorded operating loss of ¥875 million (down ¥2,911 million), reflecting the slackening supply-demand situation of basic chemicals and the increase in electricity rates.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	2012 (Jan.-Dec.)	Increase/decrease
Net sales	130,203	127,376	-2,827
Operating income	2,035	-875	-2,911

(Electronics)

Production of HD media increased as a result of the production capacity expansion carried out in the previous year.

Sales of HD media increased due to the contribution of the capacity expansion and the increase in shipment volumes of high-capacity media. Sales of compound semiconductors increased slightly due to higher shipment volumes for the LCD backlight applications, notwithstanding the influence of production adjustments in the electric appliance industry. Meanwhile, sales of rare earth magnetic alloys decreased significantly due to the influence of inventory adjustments in the rare earth magnet industry.

As a result, the Electronics segment's sales decreased 1.0%, to ¥163,306 million. However, operating income rose 6.8%, to ¥32,311 million, reflecting steady conditions of the HD media business.

(Unit: Millions of yen)

	2011 (Jan.-Dec.)	2012 (Jan.-Dec.)	Increase/decrease
Net sales	165,011	163,306	-1,705
Operating income	30,242	32,311	2,069

(Inorganics)

Production of graphite electrodes slightly decreased, reflecting stagnant demand from the electric arc furnace steelmaking industry. Although our U.S. subsidiary's graphite electrode sales increased due to higher selling prices, sales of graphite electrodes on a non-consolidated basis decreased due partly to lower volumes of shipments to the Asian market. As a result, overall sales of graphite electrodes decreased. Sales of ceramics decreased as shipment volumes for electronic material applications fell sharply due to the slackening supply-demand situation.

As a result, the Inorganics segment's sales decreased 15.5%, to ¥65,573 million, and operating income decreased 69.4%, to ¥2,954 million.

Unit: Millions of yen)

	2011 (Jan.-Dec.)	2012 (Jan.-Dec.)	Increase/decrease
Net sales	77,564	65,573	-11,991
Operating income	9,640	2,954	-6,687

(Aluminum)

Production of high-purity foils for capacitors decreased significantly due to severe inventory adjustments in the capacitor industry. Sales of rolled products declined sharply due to the fall in shipment volumes of high-purity foils for capacitors. Sales of extrusions/specialty products decreased due to the fall in shipment volumes of aluminum cylinders for laser beam printers. Sales of *Shotic*™ forged products and aluminum cans were maintained at the previous year's level. Sales of heat exchangers decreased significantly due to the transfer of the automotive air-conditioner heat exchanger business to Keihin Corporation in January 2012.

As a result, the Aluminum segment's sales fell 25.8%, to ¥92,206 million, and operating income fell 74.5%, to ¥1,581 million.

Unit: Millions of yen)

	2011 (Jan.-Dec.)	2012 (Jan.-Dec.)	Increase/decrease
Net sales	124,280	92,206	-32,074
Operating income	6,212	1,581	-4,630

(Others)

Sales of lithium ion battery (LIB) materials decreased slightly due to lower shipment volumes for automotive applications, notwithstanding higher shipment volumes for smartphone applications. Shoko Co., Ltd.'s sales decreased due partly to lower shipment volumes of metals.

As a result, the Others segment's sales fell 10.2%, to ¥135,280 million. Operating income fell 95.2%, to ¥89 million, due partly to the increase in fixed costs pertaining to the LIB materials business.

Unit: Millions of yen)

	2011 (Jan.-Dec.)	2012 (Jan.-Dec.)	Increase/decrease
Net sales	150,583	135,280	-15,303
Operating income	1,860	89	-1,772

(3) Major steps taken or decided in 2012

(General)

・Acquisition of highest-level BCM rating from DBJ

In August, SDK received a loan 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. 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

(Petrochemicals)

・Trouble with cooling unit of ethylene plant

Trouble occurred in the cooling unit of SDK's ethylene plant at the Oita Complex. Due to the need to repair the cooling unit, SDK suspended operations of the ethylene plant on March 18. Normal operation was resumed on June 13.

(Chemicals)

・Establishment of subsidiary for high-purity-gas-related business

In July, SDK started using its wholly owned subsidiary Shanghai Showa Electronics Materials Co., Ltd. (SSE) to strengthen its business in China related to high-purity gases for electronics. SSE produces and sells equipment for treating used high-purity gases resulting from the production of semiconductors. SSE will expand its operations in the future, covering production, sale, and distribution of high-purity gases for the Chinese electronics industry.

・Entering partnership agreement with BIASep

In December, SDK signed a strategic partnership agreement with BIA Separations (BIASep), of Austria, aiming to expand its business to the rapidly growing market of purification resins used for manufacturing biopharmaceuticals and industrial manufacturing processes. The partnership includes SDK's investment in BIASep as well as joint marketing and R&D. SDK is conducting a separation/refining business pertaining to high-performance liquid chromatography, providing analytical columns (*Shodex*™). Purification resins are used for refining desired components/chemicals from culture/reaction solutions. SDK's protein separation/refining technology acquired through the *Shodex*™ business will be fully utilized, as protein purification plays a key role in the purifying process for biopharmaceuticals. Through the partnership arrangement with BIASep, SDK will acquire know-how concerning development, production, quality control, and marketing of purification resins. SDK will aim to strengthen business relations with producers of biopharmaceuticals, thereby expanding its separation/refining business.

・Starting production of bio-based biodegradable plastic *Bionolle*™

SDK has developed a new technology to produce biodegradable polyester resin *Bionolle*™ using succinic acid made from starches or sugars. In July, SDK started providing film-grade samples of the product. *Bionolle*™, which can be fully decomposed after use into water and carbon dioxide, has been used in compost bags and various types of films.

・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 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.

(Electronics)

・Provision of cultivation technology to plant growth facility in Fukushima

SDK decided to provide Kawauchi Village, Fukushima Prefecture, with a new cultivation method for LED-based plant growth facilities for free. The village is building an LED-based plant growth facility, and is planning to start producing leaf lettuce and herbs in April 2013. SDK will continue to contribute toward ensuring stable supply of safe food and promoting agriculture through the provision of LED chips that emit light with optimized wavelengths for plant growth, and the innovative *Shigyo* method technology.

Note: SDK has developed the new cultivation method jointly with Professor Shigyo, Faculty of Agriculture, Yamaguchi University. Compared with conventional LED-based plant growth facilities, the new method shortens shipment cycles and increases the amount of harvest through the irradiation of lights at optimized ratios for plant growth, using LED chips produced by SDK.

・Establishment of JV for GaN LED chip business

On December 1, SDK transferred its business in gallium-nitride (GaN)-based blue LED chips to its wholly owned subsidiary TS Opto Co., Ltd. through company split. On the same date, SDK transferred 70% of shares in TS Opto to Toyoda Gosei Co., Ltd., thereby making TS Opto a joint venture between SDK and Toyoda Gosei. Through the joint venture, SDK will aim to achieve synergistic effect in R&D, improving brightness and production efficiency. In the LED business other than the GaN LED chips, such as AlGaInP, GaAs, and GaP, SDK will continue its independent operations.

(Inorganics)

・ Investment in a graphite electrode company in China

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

・Development of titanium oxide particles with high photocatalytic activity

In October, Showa Titanium Co., Ltd., a consolidated subsidiary of SDK, announced the development of titanium oxide fine particles for use in UV-light-responsive photocatalyst with highest-level activity. The product was developed as part of a project sponsored

by the New Energy and Industrial Technology Development Organization (NEDO). When used as photocatalyst, titanium oxide causes strong oxidation/reduction reactions and exhibits ultra hydrophilicity in the presence of UV light. Thus, titanium-oxide-based photocatalyst is expected to contribute to environmental purification using natural energy, for such applications as antifogging window glass and antifouling coating for external walls. Showa Titanium has developed decahedral titanium oxide fine particles with minimized defect, by applying its technology to produce titanium oxide nanoparticles for ceramic capacitors. Showa Titanium has also established a technology to produce visible-light-responsive photocatalyst that enables purification of air and removal of stains inside a room. The company's photocatalyst effectively responds to visible light.

・ Focusing on *VGCF*™-H for resin composite applications

SDK decided to focus on *VGCF*™-H grade to strengthen its business in carbon nanotube for resin composite applications. *VGCF*™-H grade is already used in LIBs. In June, SDK closed its production facility for *VGCF*™-X, a grade intended exclusively for resin composite applications.

(Aluminum)

・Construction of an aluminum casting plant in Malaysia

SDK established an aluminum casting subsidiary Shotic Malaysia Sdn. Bhd. in the state of Johor, Malaysia. The new subsidiary will start commercial production 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 the Asian market. By securing casting capability at two locations, SDK intends to ensure the security of supply. SDK will expand the *Shotic* business as a key component of its Aluminum segment.

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

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

・Transfer of automotive heat exchanger business

In January, SDK completed the transfer of its business in automotive air-conditioner heat exchangers (condensers, evaporators, etc.) to Keihin Corporation by transferring 60% of shares in Thermal Technology Corporation. The remaining 40% of shares will be transferred to Keihin Corporation in 2014.

(Others)

・Increasing LIB packaging material production capacity

In August, Showa Denko Packaging Co., Ltd., a consolidated 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, pouch-type LIBs based on aluminum laminated films 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.

(4) Projections for 2013

a) Overall projections

In 2013, the business environment is forecast to remain severe in the first half of the year, due to the economic slowdown in Europe and stagnant domestic demand in China, notwithstanding the easing of yen's appreciation. Gradual recovery is expected in the second half, centering on the U.S. economy. However, business environment will remain severe due to such risk factors as the slowdown of overseas economies and the rise in electricity rates.

The Showa Denko Group is steadily promoting growth strategies in accordance with its medium-term business plan PEGASUS, in which the HD media and graphite electrode businesses are serving as "Wings." In recent years, the business structure has substantially changed with the shift of main markets for the Group's products from Japan to foreign countries, including China, South Korea and Taiwan. The Group will redesign its businesses to cope with such changes. In 2013, the Group will focus its efforts on strengthening global supply chains and improving profitability of domestic operations, aiming to meet diversified customer requirements. The Group's performance forecast for 2013 is as follows:

(Unit: millions of yen)

	Results for the term ended Dec. 31, '12	Forecast for the term ending Dec. 31, '13	Difference	Rate of change
Net sales	739,811	800,000	60,189	8.1%
Operating income	28,108	35,000	6,892	24.5%
Ordinary income	23,448	30,000	6,552	27.9%
Net income	9,368	15,000	5,632	60.1%

Net sales will increase from the 2012 results, to ¥800,000 million. Operating income, ordinary income and net income will also increase to ¥35,000 million, ¥30,000 million, and ¥15,000 million, respectively. The above forecast is based on the assumption that the exchange rate will be ¥83 to the U.S. dollar and that the naphtha price will be ¥56,000/KL.

b) Net sales by business segment

[Net sales]

(Unit: billions of yen)

	Results for the term ended Dec. 31, '12	Forecast for the term ending Dec. 31, '13	Difference
Petrochemicals	190.9	240.0	49.1
Chemicals	127.4	135.0	7.6
Electronics	163.3	140.0	-23.3
Inorganics	65.6	75.0	9.4
Aluminum	92.2	100.0	7.8
Others	135.3	150.0	14.7
Adjustments	-34.9	-40.0	-5.1
Total	739.8	800.0	60.2

[Operating income]

(Unit: billions of yen)

	Results for the term ended Dec. 31, '12	Forecast for the term ending Dec. 31, '13	Difference
Petrochemicals	-1.0	4.0	5.0
Chemicals	-0.9	4.0	4.9
Electronics	32.3	23.5	-8.8
Inorganics	3.0	4.5	1.5
Aluminum	1.6	5.0	3.4
Others	0.1	1.0	0.9
Adjustments	-7.0	-7.0	0
Total	28.1	35.0	6.9

The above forecast is based on the information available as of February 14, 2013 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

(1) Assets, liabilities and net assets at December 31, 2012

Total assets decreased ¥8,141 million, to ¥933,162 million, due partly to the decrease in inventories and property, plant and equipment. Interest-bearing debt further decreased ¥5,046 million, to ¥342,262 million, as a result of continued reduction efforts. Total liabilities also decreased ¥27,362 million, to ¥618,196 million. Total net assets increased ¥19,221 million, to ¥314,966 million, due partly to the recording of net income and the increase in foreign currency translation adjustment.

(2) Cash flows in 2012

Net cash provided by operating activities decreased ¥16,127 million from the previous year, to ¥53,310 million, due partly to the decrease in operating income. Net cash used in investing activities increased ¥1,538 million, to ¥40,209 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 ¥13,100 million, a decline of ¥17,665 million. Net cash used in financing activities increased ¥2,854 million due to reductions in interest-bearing debt, and ended up in the payment of ¥20,150 million. As a result, and due partly to the influence of exchange rate fluctuations, cash and cash equivalents at December 31, 2012 decreased ¥3,772 million, to ¥51,254 million.

(3) Projections for 2013

Cash flows from operating activities will increase. As for net cash used in investing activities, payment will increase. Thus, free cash flow for 2013 is expected to decrease by around ¥3,100 million from ¥13,100 million in 2012, to the proceeds of approximately ¥10,000 million. Interest-bearing debt at the end of the year will be around ¥350,000 million, up around ¥7,700 million.

(4) Trends in cash flow indexes

	2009	2010	2011	2012
Equity ratio	25.5%	26.1%	26.8%	29.2%
Equity ratio on a market value basis	28.9%	29.6%	24.8%	21.0%
Debt maturity (years)	18.8	5.3	5.0	6.4
Interest coverage ratio	2.8	11.4	12.8	11.3

[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 2012/2013

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 need for internal reserve for use in future business expansions. As to appropriation of profits for 2012, the Company is planning to pay dividends of ¥3 per share. For 2013, 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 14, 2013. 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.

⑤ 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.

[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 (announced in December 2010)

In January 2011, the Showa Denko Group launched its medium-term consolidated business plan PEGASUS. Under the plan, the Group aims to fully utilize its proprietary and advanced technologies. The Group will, as an "evolving chemical company with

individualized products," aim to build up strong and diversified businesses on a global scale and establish leading positions on the market.

(2) Basic strategy under PEGASUS

In the business portfolio we aim to realize, we classify businesses into three categories: growing base businesses, stable base businesses, and growth/new growth businesses. We will promote our growth strategy by concentrating our managerial resources on globally competitive operations. As for our future business portfolio, we will redesign our businesses, making adjustments in response to changes in the conditions of competition for respective operations.

1) Main businesses

"HD media" and "graphite electrodes" are positioned as the main businesses. We will implement aggressive growth strategy for these two businesses, including expansion of production capacity. The two businesses will serve as major contributors to our profit and cash flows.

2) Growth/new growth businesses

We will expand businesses in high-purity gases for semiconductor processing and various functional materials. We will also aim to accelerate growth of such new businesses as LIB materials and SiC epitaxial wafers for power devices.

3) Overseas operations

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 in such areas as rare earth magnetic alloys and high-purity aluminum foils for capacitors.

4) 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.

5) R&D strategy

We will invest a total of ¥120 billion in R&D in the 2011-2015 period. We will promote R&D over a long term in areas to be directly linked to our growth. We will allocate 60% of the total amount to growing base businesses and growth businesses, while allocating 20% to new growth businesses and themes for search.

6) Capital investment plans

In view of the slowdown in the world economy, we will carefully select projects and aim to secure steady expansion. By segment, priority will be given to Electronics, centering on HD media; Inorganics, centering on graphite electrodes; and LIB materials.

(3) Business strategy for the second-half period under PEGASUS

The market environment has substantially changed after the launch of PEGASUS. We will work out our business strategy for the second-half period under PEGASUS by redesigning our businesses in pursuit of appropriate business structure. We will announce the new strategy by the end of this year.

4. 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.

To meet these global market requirements, we have decided to focus on the two business domains of “Energy/Environment” and “Electronics.” 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 increasingly uncertain. Our business structure is undergoing substantial changes with the shift of main markets for the Group’s products from Japan to foreign countries, including China, South Korea, and Taiwan. Under the circumstances, the Group will redesign its business models to ensure prosperity in the future. The Group will aim to speedily respond to the quickly changing market environment and continue meeting increasingly sophisticated customer requirements.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2011	Dec. 30, 2012	Dec. 30, 2012
Assets	¥	¥	$
Current assets			
Cash and deposits	55,187	51,606	596,054
Notes and accounts receivable-trade	139,364	138,189	1,596,089
Merchandise and finished goods	52,589	52,980	611,924
Work in process	11,059	13,506	155,993
Raw materials and supplies	60,067	55,275	638,428
Deferred tax assets	3,177	5,733	66,215
Other	26,633	24,925	287,883
Allowance for doubtful accounts	(186)	(107)	(1,237)
Total current assets	347,890	342,108	3,951,349
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	84,218	81,593	942,404
Machinery, equipment and vehicles, net	123,495	115,167	1,330,176
Tools, furniture and fixtures, net	7,325	6,767	78,156
Land	254,851	254,257	2,936,667
Construction in progress	12,475	15,469	178,672
Total property, plant and equipment	482,363	473,253	5,466,075
Intangible assets			
Goodwill	1,441	120	1,382
Other	9,684	10,198	117,790
Total intangible assets	11,125	10,318	119,171
Investments and other assets			
Investment securities	59,570	67,778	782,838
Deferred tax assets	27,533	27,494	317,556
Other	13,713	12,753	147,300
Allowance for doubtful accounts	(891)	(542)	(6,259)
Total investments and other assets	99,925	107,483	1,241,434
Total noncurrent assets	593,413	591,054	6,826,680
Total assets	941,303	933,162	10,778,029
Liabilities			
Current liabilities			
Notes and accounts payable-trade	117,152	107,241	1,238,640
Short-term loans payable	68,122	63,741	736,207
Current portion of long-term loans payable	59,414	46,623	538,495
Commercial papers	—	25,000	288,750
Current portion of bonds	20,000	—	0
Accounts payable-other	58,704	56,492	652,479
Provision for repairs	264	76	883
Provision for bonuses	2,257	2,225	25,696
Provision for business structure improvement	65	—	0
Provision for Niigata Minamata Disease	437	964	11,133
Other	23,431	20,756	239,730
Total current liabilities	349,846	323,118	3,732,013
Noncurrent liabilities			
Bonds payable	20,000	30,000	346,500
Long-term loans payable	179,772	176,898	2,043,173
Lease obligations	14,394	11,253	129,974
Deferred tax liabilities	2,460	2,110	24,375
Deferred tax liabilities for land revaluation	40,025	39,905	460,909
Provision for retirement benefits	24,720	23,433	270,648
Provision for repairs	1,412	2,351	27,156
Provision for loss on the Great East Japan Earthquake	778	—	0
Other	12,150	9,127	105,418
Total noncurrent liabilities	295,711	295,078	3,408,153
Total liabilities	645,557	618,196	7,140,166
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,623,510
Capital surplus	62,222	62,222	718,661
Retained earnings	48,851	53,172	614,137
Treasury stock	(143)	(145)	(1,674)
Total shareholders' equity	251,494	255,812	2,954,634
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	(4,939)	924	10,672
Deferred gains or losses on hedges	(913)	(305)	(3,526)
Revaluation reserve for land	28,240	28,025	323,692
Foreign currency translation adjustment	(21,955)	(11,722)	(135,385)
Total accumulated other comprehensive income	433	16,922	195,452
Minority interests	43,819	42,232	487,777
Total net assets	295,745	314,966	3,637,863
Total liabilities and net assets	941,303	933,162	10,778,029

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2011 and 2012		
	2011	2012	2012
	¥	¥	$
Net sales	854,158	739,811	8,544,825
Cost of sales	719,322	628,628	7,260,656
Gross profit	134,836	111,183	1,284,169
Selling, general and administrative expenses	87,479	83,076	959,523
Operating income	47,357	28,108	324,646
Non-operating income			
Interest income	166	169	1,950
Dividends income	882	937	10,818
Equity in earnings of affiliates	1,050	289	3,339
Rent income on noncurrent assets	1,152	1,403	16,203
Subsidy income	198	1,443	16,668
Miscellaneous income	1,129	1,326	15,321
Total non-operating income	4,576	5,567	64,299
Non-operating expenses			
Interest expenses	5,332	4,604	53,180
Loss on mothballing of operation	762	1,233	14,236
Miscellaneous expenses	5,821	4,390	50,699
Total non-operating expenses	11,915	10,226	118,114
Ordinary income	40,018	23,448	270,830
Extraordinary income			
Gain on sales of noncurrent assets	610	193	2,226
Gain on sales of investment securities	229	145	1,680
Compensation income	—	145	1,677
Reversal of provision for loss on the Great East Japan Earthquake	—	237	2,737
Reversal of provision for retirement benefits	660	—	—
Residual gain on invested assets	250	—	—
Other	451	92	1,063
Total extraordinary income	2,200	812	9,383
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	2,009	2,027	23,415
Impairment loss	4,627	3,481	40,208
Loss on valuation of investment securities	475	2,973	34,333
Provision for Niigata Minamata Disease	437	964	11,133
Loss on the Great East Japan Earthquake	3,207	—	—
Other	5,387	3,528	40,746
Total extraordinary losses	16,142	12,973	149,836
Income before income taxes and minority interests	26,076	11,288	130,378
Income taxes	6,404	251	2,895
Income before minority interests	19,672	11,037	127,482
Minority interests in income	2,692	1,670	19,287
Net income	16,980	9,368	108,196

Consolidated Statements of Comprehensive Income

(¥ in millions, US$ in thousands)

	Results for the year ended Dec.31 2011 and 2012		
	2011	2012	2012
	¥	¥	$
Income before minority interests	19,672	11,037	127,482
Other comprehensive income:			
Valuation difference on available-for-sale securities	(1,313)	5,928	68,464
Deferred gains or losses on hedges	(1,172)	596	6,888
Revaluation reserve for land	5,682	—	—
Foreign currency translation adjustments	(5,399)	10,573	122,120
Share of other comprehensive income of affiliates applied for equity method	(24)	75	861
Total other comprehensive income	(2,226)	17,172	198,332
Comprehensive income	17,446	28,209	325,815
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	15,076	26,072	301,129
Comprehensive income attributable to minority interests	2,370	2,137	24,686

Consolidated Statements of Changes in Net Assets

For the year ended December 31, 2011 (¥ 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, 2010	140,564	62,223	36,916	(178)	239,525	(3,749)	269	22,373	(16,778)	2,114	43,325	284,965
Changes of items during the period												
Dividends from surplus			(4,490)		(4,490)							(4,490)
Net income			16,980		16,980							16,980
Purchase of treasury stock				(3)	(3)							(3)
Disposal of treasury stock		(1)		38	37							37
Decrease by increase of consolidated subsidiaries			(334)		(334)							(334)
Reversal of revaluation reserve for land			(222)		(222)							(222)
Others			1		1							1
Net changes of items other than shareholders' equity						(1,190)	(1,182)	5,867	(5,176)	(1,682)	494	(1,188)
Total changes of items during the period		(1)	11,935	35	11,969	(1,190)	(1,182)	5,867	(5,176)	(1,682)	494	10,781
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

For the year ended December 31, 2012 (¥ 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, 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, 2012 (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, 2011	1,623,510	718,667	564,235	(1,651)	2,904,762	(57,050)	(10,544)	326,168	(253,578)	4,996	506,106	3,415,863
Changes of items during the period												
Dividends from surplus			(51,858)		(51,858)							(51,858)
Net income			108,196		108,196							108,196
Purchase of treasury stock				(34)	(34)							(34)
Disposal of treasury stock		(6)		11	5							5
Decrease by decrease of consolidated subsidiaries			(8,750)		(8,750)							(8,750)
Reversal of revaluation reserve for land			2,476		2,476							2,476
Others			(163)		(163)							(163)
Net changes of items other than shareholders' equity						67,722	7,018	(2,476)	118,194	190,457	(18,329)	172,128
Total changes of items during the period		(6)	49,902	(23)	49,872	67,722	7,018	(2,476)	118,194	190,457	(18,329)	222,000
Balance at December 31, 2012	1,623,510	718,661	614,137	(1,674)	2,954,634	10,672	(3,526)	323,692	(135,385)	195,452	487,777	3,637,863

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the year (Jan. 1-Dec. 31)		
	2011	2012	2012
	¥	¥	$
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	26,076	11,288	130,378
Depreciation and amortization	49,413	46,232	533,975
Impairment loss	4,627	3,481	40,208
Amortization of goodwill	1,200	1,195	13,803
Increase (decrease) in provision for retirement benefits	(1,558)	(1,292)	(14,919)
Interest and dividends income	(1,048)	(1,105)	(12,768)
Interest expenses	5,332	4,604	53,180
Equity in (earnings) losses of affiliates	(1,050)	(289)	(3,339)
Loss (gain) on sales and valuation of investment securities	296	2,827	32,654
Loss on retirement of noncurrent assets	1,929	1,745	20,158
Loss (gain) on sales of noncurrent assets	(530)	89	1,031
Decrease (increase) in notes and accounts receivable-trade	(4,829)	2,746	31,716
Decrease (increase) in inventories	(23,904)	1,808	20,886
Increase (decrease) in notes and accounts payable-trade	3,486	(10,281)	(118,745)
Other, net	18,530	(1,070)	(12,355)
Subtotal	77,969	61,979	715,862
Interest and dividends income received	2,144	1,767	20,409
Interest expenses paid	(5,416)	(4,736)	(54,706)
Income taxes paid	(5,260)	(5,700)	(65,836)
Net cash provided by (used in) operating activities	69,437	53,310	615,729
Net cash provided by (used in) investing activities			
Proceeds from sales and redemption of securities	2	2	27
Purchase of property, plant and equipment	(32,627)	(41,366)	(477,777)
Proceeds from sales of property, plant and equipment	716	1,876	21,671
Proceeds from transfer of business	92	3,506	40,499
Purchase of investment securities	(5,782)	(2,735)	(31,594)
Proceeds from sales of investment securities	411	255	2,947
Purchase of investments in subsidiaries	-	(347)	(4,013)
Net decrease (increase) in short-term loans receivable	(340)	639	7,385
Payments of long-term loans receivable	(1,903)	(938)	(10,836)
Collection of long-term loans receivable	2,137	243	2,807
Other, net	(1,378)	(1,345)	(15,536)
Net cash provided by (used in) investing activities	(38,672)	(40,209)	(464,419)
Net increase (decrease) in short-term loans payable	(5,404)	(4,583)	(52,930)
Net increase (decrease) in commercial papers	(6,000)	25,000	288,750
Proceeds from long-term loans payable	61,099	43,500	502,426
Repayment of long-term loans payable	(59,959)	(59,432)	(686,441)
Proceeds from issuance of bonds	10,000	10,000	115,500
Redemption of bonds	(3,000)	(20,000)	(231,000)
Cash dividends paid	(4,471)	(4,475)	(51,685)
Cash dividends paid to minority shareholders	(2,171)	(2,014)	(23,261)
Other, net	(7,389)	(8,146)	(94,089)
Net cash provided by (used in) financing activities	(17,295)	(20,150)	(232,730)
Effect of exchange rate change on cash and cash equivalents	(1,941)	3,264	37,694
Net increase (decrease) in cash and cash equivalents	11,529	(3,786)	(43,726)
Cash and cash equivalents at beginning of period	43,459	55,026	635,550
Increase in cash and cash equivalents from newly consolidated subsidiary	34	-	-
Increase in cash and cash equivalents resulting from merger	4	14	162
Cash and cash equivalents at end of period	55,026	51,254	591,986

SEGMENT INFORMATION

(a) The operations of the Companies for the year ended December 31, 2011 and 2012 were summarized by business segment as follows:

Year ended December 31, 2011	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥243,569	¥120,308	¥163,119	¥68,129	¥118,369	¥140,664	¥–	¥854,158
Inter-segment	6,827	9,895	1,892	9,435	5,911	9,919	(43,879)	–
Total	250,396	130,203	165,011	77,564	124,280	150,583	(43,879)	854,158
Operating income (loss)	¥3,484	¥2,035	¥30,242	¥9,640	¥6,212	¥1,860	¥(6,116)	¥47,357
Assets	¥145,753	¥183,728	¥170,046	¥120,731	¥162,701	¥121,244	¥37,100	¥941,303
Depreciation	7,082	9,417	19,164	3,505	6,874	2,107	1,265	49,413
Amortization of (negative) goodwill	6	(210)	86	1,368	(29)	(20)	–	1,200
Investments in non-consolidated subsidiaries and affiliates	14,364	628	–	2,140	187	269	–	17,588
Capital expenditures	2,645	6,811	13,506	5,308	5,380	3,476	1,668	38,794

Year ended December 31, 2012	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥185,434	¥118,504	¥161,125	¥57,191	¥87,960	¥129,597	¥–	¥739,811
Inter-segment	5,506	8,872	2,181	8,382	4,246	5,684	(34,870)	–
Total	190,939	127,376	163,306	65,573	92,206	135,280	(34,870)	739,811
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	–	1,486	32	272	–	17,385
Capital expenditures	3,699	8,477	11,679	8,441	4,302	3,412	2,492	42,503

Year ended December 31, 2012	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	**$2,141,763**	**$1,368,721**	**$1,860,999**	**$660,558**	**$1,015,943**	**$1,496,843**	**$–**	**$8,544,825**
Inter-segment	**63,590**	**102,472**	**25,192**	**96,812**	**49,041**	**65,647**	**(402,753)**	**–**
Total	**2,205,353**	**1,471,192**	**1,886,190**	**757,370**	**1,064,984**	**1,562,489**	**(402,753)**	**8,544,825**
Operating income (loss)	**($11,279)**	**($10,111)**	**$373,190**	**$34,114**	**$18,264**	**$1,024**	**$(80,556)**	**$324,646**
Assets	**$1,651,342**	**$2,097,272**	**$1,899,616**	**$1,454,152**	**$1,744,324**	**$1,418,938**	**$512,386**	**$10,778,029**
Depreciation	**83,236**	**105,820**	**188,111**	**39,048**	**70,131**	**27,488**	**20,143**	**533,975**
Amortization of (negative) goodwill	**66**	**(2,432)**	**1,034**	**15,804**	**(439)**	**(230)**	**–**	**13,803**
Investments in non-consolidated subsidiaries and affiliates	**161,807**	**18,322**	**–**	**17,163**	**365**	**3,136**	**–**	**200,793**
Capital expenditures	**42,719**	**97,909**	**134,895**	**97,496**	**49,691**	**39,410**	**28,788**	**490,907**

(b) The operations of the Companies for the year ended December 31, 2011 and 2012 were summarized by geographic area as follows:

Year ended December 31, 2011	Millions of yen			
	Japan	Asia	Others	Total
Sales	¥560,483	¥243,387	¥50,287	¥854,158
	Japan	Others	Total	
Tangible fixed assets	¥431,546	¥50,817	¥482,363	

Year ended December 31, 2012	Millions of yen			
	Japan	Asia	Others	Total
Sales	¥482,126	¥219,857	¥37,827	¥739,811
	Japan	Others	Total	
Tangible fixed assets	¥419,879	¥53,374	¥473,253	

Year ended December 31, 2012	Thousands of U.S. dollars			
	Japan	Asia	Others	Total
Sales	**$5,568,564**	**$2,539,354**	**$436,907**	**$8,544,825**
	Japan	Others	Total	
Tangible fixed assets	**$4,849,609**	**$616,466**	**$5,466,075**	

(c) The impairment loss and the (negative) goodwill of the Companies for the year ended December 31, 2011 and 2012 were summarized by business segment as follows:

Year ended December 31, 2011	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss	¥232	¥176	¥3,160	¥798	¥73	¥188	¥–	¥4,627
Goodwill								
Amortization	6	284	118	1,368	31	8	–	1,815
Unamortized balance	46	866	737	5,522	376	70	–	7,617
Negative goodwill								
Amortization	–	494	33	–	60	28	–	615
Unamortized balance	–	4,296	520	–	959	401	–	6,176

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, 2012	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganic	Aluminium	Others	Elimination	Total
Impairment loss	**$169**	**$2,954**	**$7,825**	**$27,912**	**$1,324**	**$22**	**$–**	**$40,206**
Goodwill								
Amortization	**66**	**3,274**	**1,410**	**15,804**	**256**	**97**	–	**20,905**
Unamortized balance	**463**	**6,726**	**7,149**	**47,979**	**2,558**	**737**	–	**65,612**
Negative goodwill								
Amortization	–	**5,706**	**376**	–	**695**	**327**	–	**7,103**
Unamortized balance	–	**43,912**	**5,634**	–	**10,383**	**4,301**	–	**64,230**

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2012 Consolidated Financial Results (Summary)

Ⅰ. Results for 2012

1. Summary

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

Items	2011 Jan.1 - Dec.31	2012 Jan.1 - Dec.31	Increase/ Decrease
Net Sales	854.2	739.8	-114.3
Operating Income	47.4	28.1	-19.2
Net Income	17.0	9.4	-7.6
Net income per share	¥11.35	¥6.26	¥-5.09
Stockholders' equity per share	¥168.33	¥182.24	¥13.91
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		2011 Jan.1 - Dec.31	2012 Jan.1 - Dec.31	Increase/ Decrease
Petrochemicals	Net Sales	250.4	190.9	-59.5
	Operating Income	3.5	-1.0	-4.5
Chemicals	Net Sales	130.2	127.4	-2.8
	Operating Income	2.0	-0.9	-2.9
Electronics	Net Sales	165.0	163.3	-1.7
	Operating Income	30.2	32.3	2.1
Inorganics	Net Sales	77.6	65.6	-12.0
	Operating Income	9.6	3.0	-6.7
Aluminum	Net Sales	124.3	92.2	-32.1
	Operating Income	6.2	1.6	-4.6
Others	Net Sales	150.6	135.3	-15.3
	Operating Income	1.9	0.1	-1.8
Adjustment	Net Sales	-43.9	-34.9	9.0
	Operating Income	-6.1	-7.0	-0.9
Total	Net Sales	854.2	739.8	-114.3
	Operating Income	47.4	28.1	-19.2

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

(Unit: billions of yen)

Segment		2012 CQ1 Jan.1 - Mar.31	2012 CQ2 Apr.1 - Jun.30	2012 CQ3 Jul.1 - Sept.30	2012 CQ4 Oct.1 - Dec.31
Petrochemicals	Net Sales	47.1	25.5	58.8	59.5
	Operating Income	0.1	-2.3	0.0	1.2
Chemicals	Net Sales	30.6	32.1	31.7	32.9
	Operating Income	0.6	-0.8	-0.1	-0.6
Electronics	Net Sales	41.5	44.0	41.9	36.0
	Operating Income	8.7	9.1	8.6	5.9
Inorganics	Net Sales	16.1	16.8	16.1	16.5
	Operating Income	1.5	0.8	0.5	0.1
Aluminum	Net Sales	21.5	26.1	22.3	22.3
	Operating Income	-0.2	1.4	0.6	-0.1
Others	Net Sales	33.6	35.2	32.6	33.9
	Operating Income	0.2	0.1	0.0	-0.1
Adjustment	Net Sales	-9.0	-8.7	-8.9	-8.3
	Operating Income	-1.3	-1.9	-1.7	-2.1
Total	Net Sales	181.4	171.0	194.6	192.9
	Operating Income	9.5	6.5	7.8	4.3

(Note) 2012 CQ4(Oct.-Dec.) segment figures are deducted 2012 Third Quarter (Jan.-Sep.) from 2012 Jan.-Dec, for the reference purpose only.

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Ⅱ. Forecast for 2013

1. Summary

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

Items	2012	2013 Forecast	Increase/ Decrease
Net Sales	739.8	800.0	60.2
Operating Income	28.1	35.0	6.9
Net Income	9.4	15.0	5.6
Net income per share	¥6.26	¥10.02	¥3.76
Cash dividends per share	¥3.00 (Planned)	¥3.00	—

2. Net sales and Operating Income by Segment

(Unit: billions of yen)

Items		2012	2013 Forecast	Increase/ Decrease
Petrochemicals	Net Sales	190.9	240.0	49.1
	Operating Income	-1.0	4.0	5.0
Chemicals	Net Sales	127.4	135.0	7.6
	Operating Income	-0.9	4.0	4.9
Electronics	Net Sales	163.3	140.0	-23.3
	Operating Income	32.3	23.5	-8.8
Inorganics	Net Sales	65.6	75.0	9.4
	Operating Income	3.0	4.5	1.5
Aluminum	Net Sales	92.2	100.0	7.8
	Operating Income	1.6	5.0	3.4
Others	Net Sales	135.3	150.0	14.7
	Operating Income	0.1	1.0	0.9
Adjustment	Net Sales	-34.9	-40.0	-5.1
	Operating Income	-7.0	-7.0	0.0
Total	Net Sales	739.8	800.0	60.2
	Operating Income	28.1	35.0	6.9

Ⅲ. Cash Flow

(Unit: billions of yen)

Cash flows from:	2011	2012	Increase/ Decrease	2013 Forecast	Increase/ Decrease
Operating Activities	69.4	53.3	-16.1	70.0	16.7
Investing Activities	-38.7	-40.2	-1.5	-60.0	-19.8
Free Cash Flow	30.8	13.1	-17.7	10.0	-3.1
Financing Activities	-17.3	-20.2	-2.9	-6.5	13.7
Others	-1.9	3.3	5.2	—	-3.3
Net increase in Cash	11.5	-3.8	-15.3	3.5	7.3

Ⅳ. Reference

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

Items	2011	2012	Increase/ Decrease	2013 Forecast	Increase/ Decrease
Capital expenditures	38.8	42.5	3.7	51.4	8.9
Depreciation and amortization	49.4	46.2	-3.2	38.3	-8.0
R & D expenditures	21.6	20.6	-1.0	20.5	-0.1
Gap between interest expense and interest/dividend income	-4.3	-3.5	0.8	-3.4	0.1
Total number of employees	11,542	9,890	-1,652	10,783	893
Exchange rate (yen/US$)	80	80	0	83	3
Domestic naphtha price (yen/kl)	54,525	55,075	550	56,000	925
Interest-bearing debt	347.3	342.3	-5.0	350.0	7.7
Total assets	941.3	933.2	-8.1		

The performance forecast for 2013 is based on the economic conditions and the Company's business policy at this point of time.
Please note that actual results may differ materially from the forecast due to a variety of factors, including changes in the market conditions.