SHOWA DENKO K.K.

Consolidated Financial Statements

For the first quarter ended March 31, 2014

Ⅰ. Consolidated Financial Results

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

	Results for the first quarter (Jan.1–Mar.31)			
	2013	2014	Increase (Decrease)	2014
	¥	¥	%	$
Net sales	192,479	209,634	8.9	2,036,861
Operating income	3,382	7,582	124.2	73,672
Ordinary income	3,885	6,585	69.5	63,980
Net income	4,079	945	(76.8)	9,182
Net income per share: Basic	2.73	0.63	—	0.01
Net income per share: Diluted	2.70	—	—	—

Notes
Important changes in accounting policies : applicable
Comprehensive income :
Results for the year ended March 31,2014 ¥-3,913million
Results for the year ended March 31,2013 ¥13,366million

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

	Dec. 31, 2013	Mar.31, 2014	Mar.31, 2014
	¥	¥	$
Total assets	985,771	951,282	9,242,925
Total equity	345,811	338,232	3,286,358
	%	%	%
Stockholders' equity ratio	30.6	30.8	30.8

(3) Dividends:

	2013	2014 Forecast
Q1 dividends per share (¥)	—	—
Q2 dividends per share (¥)	0.00	0.00
Q3 dividends per share (¥)	—	—
End of Term dividends per share (¥)	3.00	3.00
Annual dividends per share (¥)	3.00	3.00

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

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

	1st half		fiscal year	
	¥	$	¥	$
Net sales	405,000	3,935,095	890,000	8,647,493
Operating income	8,000	77,730	32,000	310,921
Ordinary income	5,000	48,581	25,000	242,907
Net income	3,000	29,149	12,000	116,595
Net income per share	2.00	0.02	8.02	0.08

*The above forecast was announced on February 13, 2014.

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. We undertake no obligation to update the forward-looking statements unless required by law.

Note
This English version is provided by translating main points only of the original version in Japanese for the convenience of investors.
The U.S. dollar is valued at ¥102.92 throughout this statement for convenience only.

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

(1) Summary

During the first quarter of 2014 (January 1 - March 31), the Japanese economy recovered gradually due to the increase in consumer spending and the improvement in the employment situation and corporate earnings. It is feared, however, that there will be a reaction to the last-minute demand that preceded the consumption tax hike. Meanwhile, despite gradual economic recovery in the United States and Europe, uncertainty is observed in emerging economies, including China. In the petrochemicals industry, operating rates at domestic plants continued at high levels, reflecting steady demand in China and other Asian countries. The electronic parts/materials industry remained steady, due partly to higher PC replacement demand following the termination of support for a basic operating system.

Under these circumstances, the Showa Denko Group launched in January this year "PEGASUS Phase II" business plan for the 2014-2015 period, the latter part of the five-year plan PEGASUS. To establish ourselves as a chemical company with a strong presence on the global market, we will continue to promote growth strategies in which our HD media and graphite electrode businesses serve as our "Wings." At the same time, we will focus our efforts on strengthening the four businesses newly classified in the "Growth" category, namely, aluminum cans, high-purity aluminum foils, semiconductor-processing high-purity gases, and functional chemicals, accelerating their expansions mainly in the growing Asian market.

The Group recorded consolidated net sales of ¥209,634 million in the first quarter of 2014, up 8.9% from the same period of the previous year. While sales in the Petrochemicals segment decreased due to the fall in production following the large-scale maintenance shutdown of our ethylene production facilities, sales in the other five segments increased, due mainly to higher shipment volumes. Operating income jumped 124.2%, to ¥7,582 million. While the Petrochemicals, Inorganics, and Aluminum segments recorded lower income, the Electronics segment mainly contributed to the increase in operating income, reflecting the improvement in the rare earth magnetic alloys business and higher shipment volumes of HD media. The Group recorded ordinary income of ¥6,585 million, up 69.5%. However, net income decreased 76.8%, to ¥945 million, due partly to the increase in income taxes.

(Unit: millions of yen)

	1Q 2013	1Q 2014	Increase/decrease
Sales	192,479	209,634	17,155
Operating income	3,382	7,582	4,201
Ordinary income	3,885	6,585	2,700
Net income	4,079	945	-3,134

(2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2014)

[Petrochemicals segment]
The Petrochemicals segment's sales decreased 5.9%, to ¥62,056 million. Production of ethylene and propylene decreased from the same period of the previous year, reflecting

the shutdown maintenance (from early March to late April) of our ethylene production facilities. The shutdown maintenance is conducted once in every four years. Sales of olefins decreased due to lower shipment volumes, reflecting the shutdown maintenance. Sales of organic chemicals were up due to higher shipment volumes of vinyl acetate and other products. The segment recorded an operating loss of ¥65 million, down ¥1,002 million.

(Unit: millions of yen)

	1Q 2013	1Q 2014	Increase/decrease
Sales	65,926	62,056	-3,870
Operating income	937	-65	-1,002

[Chemicals segment]
The Chemicals segment's sales increased 12.5%, to ¥33,406 million. Production of liquefied ammonia increased from the same period of the previous year. Sales of liquefied ammonia were maintained at the level of the same period of the previous year, while sales of acrylonitrile increased following the rise in market prices. Sales of chloroprene rubber increased due to higher shipment volumes. As a result, overall sales of basic chemicals increased. Sales of industrial gases and functional chemicals were up due mainly to higher shipment volumes. Sales of electronic chemicals increased due to higher export volumes of semiconductor-processing high-purity gases. Operating income rose 23.0%, to ¥988 million.

(Unit: millions of yen)

	1Q 2013	1Q 2014	Increase/decrease
Sales	29,700	33,406	3,706
Operating income	804	988	184

[Electronics segment]
The Electronics segment's sales increased 16.3%, to ¥37,229 million. Production of HD media increased from the same period of the previous year, reflecting a slight increase in the HDD industry's shipments for PC applications. Sales of HD media increased due to higher shipment volumes. Sales of rare earth magnetic alloys increased due to higher shipment volumes, reflecting the end of inventory adjustments by magnet manufacturers. Sales of compound semiconductors increased slightly. Operating income jumped 223.0%, to ¥8,124 million.

(Unit: millions of yen)

	1Q 2013	1Q 2014	Increase/decrease
Sales	31,999	37,229	5,230
Operating income	2,515	8,124	5,609

[Inorganics segment]
The Inorganics segment's sales rose 2.9%, to ¥15,993 million. Production of graphite electrodes in the first quarter increased from the same period of the previous year. Sales of graphite electrodes were maintained at the level of the same period of the previous year, reflecting gradual recovery in steel production in the United States and Japan, notwithstanding continued serious oversupply situation in Asia. Sales of ceramics

increased due mainly to higher shipment volumes of abrasives. The segment recorded an operating loss of ¥443 million, down ¥387 million, due mainly to the decline in profit from the graphite electrode business.

(Unit: millions of yen)

	1Q 2013	1Q 2014	Increase/decrease
Sales	15,537	15,993	456
Operating income	-56	-443	-387

[Aluminum segment]
The Aluminum segment's sales rose 10.9%, to ¥21,232 million. Production of high-purity foil for aluminum electrolytic capacitors increased from the same period of the previous year, as capacitor manufacturers increased production for use in home electric appliances and cars. Sales of rolled products increased as a result. Sales of aluminum specialty components increased due mainly to higher shipment volumes of *Shotic* forged products. Sales of aluminum cans were up due to higher shipment volumes. Operating income decreased 15.3%, to ¥850 million, due mainly to the influence of higher costs of fuels and electricity.

(Unit: millions of yen)

	1Q 2013	1Q 2014	Increase/decrease
Sales	19,143	21,232	2,089
Operating income	1,004	850	-154

[Others segment]
The Others segment's sales increased 27.5%, to ¥49,827 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 due mainly to higher sales in overseas operations. The segment recorded operating income of ¥191 million, up ¥495 million.

(Unit: millions of yen)

	1Q 2013	1Q 2014	Increase/decrease
Sales	39,088	49,827	10,739
Operating income	-303	191	495

(3) Major steps taken or decided in the first quarter of 2014
[General]
・Recognition as Chemical Heritage
In relation to the first industrial production in Japan of aluminum by one of the predecessors of SDK, the Chemical Society of Japan (CSJ) recognized relevant equipment and data as valuable historical records concerning the development of chemistry and the chemical industry in Japan. The historical records received recognition as CSJ's 5th Chemical Heritage. In the 1930s, it was considered that domestic production of aluminum was impossible. However, Nobuteru Mori, the founder of our company, and his team succeeded in producing alumina (raw material for aluminum) from alum. Although Japan had totally depended on imports for supply of aluminum, this technical breakthrough made it possible for Japan to produce

aluminum by itself. CSJ recognized the proprietary technology to produce alumina from alum, which was available in Japan, and aluminum smelting based on hydraulic electricity in Omachi, Nagano Prefecture, as pioneering efforts.

・Decision on financing by subordinated loan

SDK decided on financing of an aggregate amount of ¥24 billion by way of a subordinated loan and the repurchase and cancellation of the subordinated convertible bonds due 2014 issued by SDK in 2009 and exchangeable perpetual preferred securities issued by SD Preferred Capital Limited, SDK's wholly-owned special purpose company, in 2009.

[Chemicals segment]

・Expanding high-purity ammonia production in China

SDK increased the production capacity for high-purity ammonia (a specialty gas for semiconductor production) at its manufacturing subsidiary* in Zhejiang Province, China, from 1,000 t/y to 2,000 t/y. The expanded facility started operation in January. Following the expansion, SDK now has a total high-purity ammonia production capacity of 6,000 tons a year, consisting of 1,500 t/y in Japan, 2,500 t/y in Taiwan, and 2,000 t/y in China. High-purity ammonia is used for nitride film deposition in the manufacturing processes of liquid crystal display (LCD) panels and light-emitting diodes (LEDs). High-purity ammonia demand is growing for the production of LEDs used in general lighting and LCD backlight. Under its "PEGASUS Phase II" business plan, SDK classifies the business in semiconductor-processing high-purity gases as a "Growth" business. SDK will continue to strengthen its supply system to meet the growing demand for high-purity gases in East Asia, where electronics production sites are integrated.

* Zhejiang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd.

・Establishing a new base for high-purity N_2O in South Korea

SDK decided to increase its capacity for supplying high-purity nitrous oxide (N_2O), a specialty gas for semiconductor production, by cooperating with Dooam Industrial, which is headquartered in Anseong, Gyeonggi Province, South Korea. SDK and Dooam concluded a work commissioning agreement concerning the production of high-purity N_2O. The two companies also agreed to jointly construct a purification facility within the premises of Dooam's plant near Seoul. The purification facility is scheduled for completion by the end of 2014, and commercial shipments will start in 2015. After the completion of the new facility, SDK's total high-purity N_2O supply capacity will increase to 1,800 t/y, consisting of 1,200 t/y in Japan and 600 t/y in South Korea. High-purity N_2O is used for deposition of an insulating oxide film in the process of chemical vapor deposition (CVD) for producing semiconductors. For this application, demand for high-purity N_2O is growing at the rate of 10-15% a year in Asia. SDK is strengthening its high-purity N_2O supply system in response to the growing demand in East Asia.

[Aluminum segment]

・Acquiring an aluminum can maker in Vietnam

In January, 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. While the Japanese market for beer/beverage cans has matured, 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, and beer consumption in Vietnam is expected to surpass the current level in Japan by 2018. Under its “PEGASUS Phase II” business plan, SDK positions the business in aluminum cans as a “Growth” business. 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 and increase its business scale in the Vietnamese market.

2. Financial conditions for the January 1 - March 31, 2014 period (as compared with the conditions at December 31, 2013)

Total assets at the end of the quarter amounted to ¥951,282 million, a decrease of ¥34,489 million from the level at December 31, 2013. Total assets were down due partly to the decrease in accounts receivable following the large-scale shutdown maintenance in the Petrochemicals segment. Total liabilities decreased ¥26,911 million, to ¥613,050 million, due partly to the decrease in accounts payable. Net assets at the end of the quarter decreased ¥7,579 million, to ¥338,232 million, owing to the payment of dividends for 2013 and decreases in foreign currency translation adjustments, notwithstanding the recording of net income for the quarter.

3. Performance forecast

There is no change from the performance forecast announced on February 13, 2014. For assumptions that form the basis of the performance forecast, please refer to the consolidated financial statements for 2013 (based on Japanese accounting standards) announced on February 13, 2014.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2013	Mar. 31, 2014	Mar. 31, 2014
Assets	¥	¥	$
Current assets			
Cash and deposits	68,250	56,435	548,337
Notes and accounts receivable-trade	156,090	135,600	1,317,529
Merchandise and finished goods	53,203	57,567	559,342
Work in process	16,331	16,289	158,267
Raw materials and supplies	50,622	47,423	460,777
Other	30,358	32,446	315,253
Allowance for doubtful accounts	(256)	(238)	(2,309)
Total current assets	374,599	345,523	3,357,197
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	85,470	84,989	825,780
Machinery, equipment and vehicles, net	111,627	109,553	1,064,450
Land	254,593	254,434	2,472,150
Other, net	42,396	48,037	466,739
Total property, plant and equipment	494,087	497,013	4,829,118
Intangible assets			
Other	10,960	11,076	107,620
Total intangible assets	10,960	11,076	107,620
Investments and other assets			
Investment securities	78,688	75,089	729,583
Other	27,969	23,181	225,230
Allowance for doubtful accounts	(531)	(599)	(5,823)
Total investments and other assets	106,125	97,670	948,990
Total noncurrent assets	611,172	605,759	5,885,728
Total assets	985,771	951,282	9,242,925
Liabilities			
Current liabilities			
Notes and accounts payable-trade	124,194	101,374	984,981
Short-term loans payable	78,182	83,420	810,532
Current portion of long-term loans payable	41,694	51,692	502,259
Commercial papers	18,000	18,700	181,695
Provision	6,208	9,226	89,643
Other	78,667	67,720	657,983
Total current liabilities	346,945	332,132	3,227,092
Noncurrent liabilities			
Bonds payable	30,000	30,000	291,489
Long-term loans payable	185,811	177,311	1,722,802
Provision for retirement benefits	20,310	18,232	177,147
Other provision	43	29	282
Other	56,852	55,346	537,755
Total noncurrent liabilities	293,016	280,918	2,729,475
Total liabilities	639,961	613,050	5,956,567
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,365,755
Capital surplus	62,221	62,221	604,559
Retained earnings	58,414	54,918	533,603
Treasury stock	(149)	(150)	(1,453)
Total shareholders' equity	261,050	257,554	2,502,464
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	5,850	3,864	37,547
Deferred gains or losses on hedges	105	108	1,054
Revaluation reserve for land	27,923	27,918	271,260
Foreign currency translation adjustment	6,284	3,957	38,452
Total accumulated other comprehensive income	40,161	35,848	348,312
Minority interests	44,599	44,830	435,582
Total net assets	345,811	338,232	3,286,358
Total liabilities and net assets	985,771	951,282	9,242,925

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the first quarter (Jan.1-Mar.31)		
	2013	2014	2014
	¥	¥	$
Net sales	192,479	209,634	2,036,861
Cost of sales	169,542	181,082	1,759,442
Gross profit	22,937	28,552	277,418
Selling, general and administrative expenses	19,555	20,970	203,747
Operating income	3,382	7,582	73,672
Non-operating income			
Interest income	37	43	419
Dividends income	184	322	3,130
Equity in earnings of affiliates	309	624	6,067
Rent income on noncurrent assets	354	392	3,813
Foreign exchange gains	1,318	—	—
Miscellaneous income	524	578	5,612
Total non-operating income	2,725	1,960	19,041
Non-operating expenses			
Interest expenses	985	960	9,329
Loss on mothballing of operation	286	794	7,710
Miscellaneous expenses	952	1,204	11,694
Total non-operating expenses	2,222	2,957	28,733
Ordinary income	3,885	6,585	63,980
Extraordinary income			
Gain on sales of investment securities	—	700	6,798
Compensation income from cancellation of contracts	756	—	—
Other	197	21	201
Total extraordinary income	952	720	7,000
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	377	326	3,164
Impairment loss	92	510	4,952
Provision for business structure improvement	1,440	—	—
Other	393	206	2,004
Total extraordinary losses	2,302	1,042	10,120
Income before income taxes and minority interests	2,536	6,264	60,861
Income taxes	(1,891)	4,912	47,731
Income before minority interests	4,427	1,351	13,130
Minority interests in income	347	406	3,948
Net income	4,079	945	9,182

Consolidated Statements of Comprehensive Income

(¥ in millions, US$ in thousands)

	Results for the first quarter (Jan.1-Mar.31)		
	2013	2014	2014
	¥	¥	$
Income before minority interests	4,427	1,351	13,130
Other comprehensive income:			
Valuation difference on available-for-sale securities	2,292	(2,010)	(19,525)
Deferred gains or losses on hedges	(393)	18	179
Foreign currency translation adjustments	7,032	(3,211)	(31,195)
Share of other comprehensive income of affiliates applied for equity method	8	(63)	(609)
Total other comprehensive income	8,940	(5,264)	(51,151)
Comprehensive income	13,366	(3,913)	(38,021)
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	12,524	(4,151)	(40,332)
Comprehensive income attributable to minority interests	843	238	2,311

(Reference)

SEGMENT INFORMATION (previous 1Q ended)

The operations of the Companies for the year ended March 31, 2013 and 2014 was summarised by industry segment as follows:

Year ended March 31, 2013	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥64,133	¥27,339	¥31,674	¥13,650	¥18,110	¥37,573	¥–	¥192,479
Inter-segment	1,793	2,361	325	1,887	1,033	1,515	(8,913)	–
Total	65,926	29,700	31,999	15,537	19,143	39,088	(8,913)	192,479
Operating income (loss)	¥937	¥804	¥2,515	(¥56)	¥1,004	(¥303)	(¥1,519)	¥3,382

Year ended March 31, 2014	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	**¥60,519**	**¥30,769**	**¥36,832**	**¥13,810**	**¥19,421**	**¥48,282**	**¥–**	**¥209,634**
Inter-segment	**1,536**	**2,637**	**397**	**2,183**	**1,811**	**1,545**	**(10,110)**	**–**
Total	**62,056**	**33,406**	**37,229**	**15,993**	**21,232**	**49,827**	**(10,110)**	**209,634**
Operating income (loss)	**(¥65)**	**¥988**	**¥8,124**	**(¥443)**	**¥850**	**¥191**	**(¥2,063)**	**¥7,582**

Year ended March 31, 2014	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	**$588,024**	**$298,958**	**$357,868**	**$134,184**	**$188,703**	**$469,124**	**$–**	**$2,036,861**
Inter-segment	**14,929**	**25,624**	**3,857**	**21,211**	**17,597**	**15,011**	**(98,229)**	**–**
Total	**602,953**	**324,582**	**361,725**	**155,395**	**206,300**	**484,135**	**(98,229)**	**2,036,861**
Operating income (loss)	**($632)**	**$9,601**	**$78,931**	**($4,300)**	**$8,257**	**$1,858**	**($20,044)**	**$73,672**

SHOWA DENKO K.K.

May 8th, 2014

First Quarter, 2014 Consolidated Financial Results (Summary)

1. First Quarter Results

(1) Summary

〔First half, 2014 forecast〕

(Unit: billions of yen)

Items	2013 CQ1 Jan.1 - Mar.31	2014 CQ1 Jan.1 - Mar.31	Increase	First half 2014 forecast
Net Sales	192.5	209.6	17.2	405.0
Operating Income	3.4	7.6	4.2	8.0
Net Income	4.1	0.9	-3.1	3.0
Gap between interest expense and interest/dividend income	-0.8	-0.6	0.2	

*First half 2014 forecast was announced on Feb.13, 2014.

(Unit: billions of yen)

Items	Dec.31, 2013	Mar.31, 2014	Increase
Total assets	985.8	951.3	-34.5
Interest-bearing debt	353.7	361.1	7.4

(2) Net sales and Operating Income by Segment

〔First half, 2014 forecast〕

(Unit: billions of yen)

Segment		2013 CQ1 Jan.1 - Mar.31	2014 CQ1 Jan.1 - Mar.31	Increase	First half 2014 forecast
Net Sales	Petrochemicals	65.9	62.1	-3.9	112.0
	Chemicals	29.7	33.4	3.7	68.0
	Electronics	32.0	37.2	5.2	70.0
	Inorganics	15.5	16.0	0.5	32.0
	Aluminum	19.1	21.2	2.1	52.0
	Others	39.1	49.8	10.7	95.0
	Adjustments	-8.9	-10.1	-1.2	-24.0
	Total	192.5	209.6	17.2	405.0

Segment		2013 CQ1 Jan.1 - Mar.31	2014 CQ1 Jan.1 - Mar.31	Increase	First half 2014 forecast
Operating Income	Petrochemicals	0.9	-0.1	-1.0	-3.0
	Chemicals	0.8	1.0	0.2	2.0
	Electronics	2.5	8.1	5.6	12.0
	Inorganics	-0.1	-0.4	-0.4	-1.5
	Aluminum	1.0	0.9	-0.2	2.0
	Others	-0.3	0.2	0.5	0.5
	Adjustments	-1.5	-2.1	-0.5	-4.0
	Total	3.4	7.6	4.2	8.0

2. Reference

〔2014 forecast〕

Segment	2013 CQ1 Jan.1 - Mar.31	2014 CQ1 Jan.1 - Mar.31	Increase	2014 forecast
Exchange rate (yen/US$)	92.4	102.8	Yen depreciated by 10.4	100.0
Domestic naphtha price (yen/kl)	63,800	72,000	8,200	65,700

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. We undertake no obligation to update the forward-looking statements unless required by law.