Evolving unique chemical company

First Quarter, 2014 Financial Results

- Consolidated -

SHOWA DENKO K.K.

May 8, 2014

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Performance forecast and other statements pertaining to the future as contained in this presentation are 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.

Consolidated Companies

- Consolidated subsidiaries: 46
  (4 companies newly consolidated)

Shanghai Showa Chemicals Co., Ltd. (Chemicals Segment)
Zhejang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd. (Chemicals Segment)
Showa Denko Aluminum (Nantong) Co., Ltd. (Aluminum Segment)
BE International Corporation (Others)

- Equity method applied: 14
  (1 company excluded)

Tokyo Aluminum Wire Co., Ltd. (liquidated)

Selected Data

(Average figure)

	Jan.- Mar. 2013	Jan.- Mar. 2014	Increase/ decrease
■Exchange rate:¥/US$	92.4	102.8	Yen depreciated by ¥10.4/$
■Domestic naphtha price: ¥/kl	63,800	72,000	8,200
■Aluminum LME price: US$/T	2,041	1,752	-289

Exchange rate at December 31, 2013 ¥105.4/US$, at March 31, 2014 ¥102.9/US$
⇒Yen appreciated by ¥2.5/US$

Summary

(Unit: Billions of Yen)

	CQ1, 2013	CQ1, 2014	Increase/ decrease
Net Sales	192.5	209.6	17.2
Operating Income	3.4	7.6	4.2
Non-operating income and expense, net	0.5	-1.0	-1.5
Interest/Dividend income and expense	-0.8	-0.6	0.2
Equity Method	0.3	0.6	0.3
Foreign exchange gain, net	1.3	-0.1	-1.4
Other	-0.4	-1.0	-0.6
Ordinary Income	3.9	6.6	2.7
Extraordinary Profit	1.0	0.7	-0.2
Extraordinary Loss	-2.3	-1.0	1.3
Income before income taxes and minority interests	2.5	6.3	3.7
Income taxes	1.9	-4.9	-6.8
Income before minority interests	4.4	1.4	-3.1
Minority Interests in income	-0.3	-0.4	-0.1
Net Income	4.1	0.9	-3.1

Extraordinary Profit/Loss

(Unit: Billions of Yen)

	CQ1, 2013	CQ1, 2014	Increase/ decrease
■Extraordinary Profit	1.0	0.7	-0.2
●Gain on sales of investment securities	-	0.7	0.7
●Compensation income from cancellation of contracts	0.8	-	-0.8
●Other	0.2	0.0	-0.2
■Extraordinary Loss	-2.3	-1.0	1.3
●Loss on fixed assets sold or retired	-0.4	-0.3	0.1
●Provision for business structure improvement	-1.4	-	1.4
●Loss on impairment of fixed assets	-0.1	-0.5	-0.4
●Other	-0.4	-0.2	0.2
■Extraordinary Profit/Loss, Net	-1.3	-0.3	1.0

Consolidated Sales by Segment

(Unit: Billions of Yen)

	CQ1, 2013	CQ1, 2014	Increase/ decrease	
Petrochemicals	65.9	62.1	-3.9	Olefins: sales decreased (shipment volumes down due to shutdown maintenance) Organic chemicals: sales increased (shipment volume of vinyl acetate, ethyl acetate up)
Chemicals	29.7	33.4	3.7	Basic chemicals: sales increased (AN: market price up, Chloroprene rubber: shipment volumes up) Industrial gases, Functional chemicals: sales increased (shipment volumes up) Electronic chemicals: sales increased (shipment volumes up for Asian markets)
Electronics	32.0	37.2	5.2	HDs: sales increased (shipment volumes up due to steady HDD industry demand) Compound semiconductors: sales slightly increased (shipment volumes up) Rare earth: sales increased (shipment volumes up)
Inorganics	15.5	16.0	0.5	Ceramics: sales increased (shipment volumes of abrasives up) Graphite electrodes: sales maintained at the CQ1, 2013 level)
Aluminum	19.1	21.2	2.1	High-purity foil for capacitors: sales increased (shipment volumes up) Aluminum specialty components: sales increased (shipment volumes of Shotic up) Aluminum cans: sales increased (shipment volumes up)
Others	39.1	49.8	10.7	LIB materials: sales increased (shipment volumes up) SHOKO Co., Ltd.: sales increased BE international Corp.: newly consolidated
Adjustments	-8.9	-10.1	-1.2	
Total	192.5	209.6	17.2	

Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	CQ1, 2013	CQ1, 2014	Increase/ decrease	
Petrochemicals	0.9	-0.1	-1.0	Olefins: profit decreased (shipment volumes down due to shutdown maintenance) Organic chemicals: profit decreased (raw material costs up)
Chemicals	0.8	1.0	0.2	Basic chemicals: profit decreased (raw material cost of ammonia up) Industrial gases: profit slightly increased Electronic chemicals: profit slightly increased Functional chemicals: profit maintained at the CQ1, 2013 level
Electronics	2.5	8.1	5.6	HDs: profit increased (shipment volumes up) Compound semiconductors: profit increased Rare earth: profit increased (adjustment loss in book value of inventory posted in CQ1, 2013, shipment volumes up)
Inorganics	-0.1	-0.4	-0.4	Ceramics: profit decreased (price for electronic applications down) Graphite electrodes: profit decreased (mainly due to lower price)
Aluminum	1.0	0.9	-0.2	High-purity foil for capacitors: profit increased (shipment volumes up) Aluminum specialty components: profit increased (shipment volumes up) Aluminum cans: profit decreased (raw material costs up)
Others	-0.3	0.2	0.5	LIB materials: profit increased (shipment volumes up) SHOKO Co., Ltd.: profit increased
Adjustments	-1.5	-2.1	-0.5	
Total	3.4	7.6	4.2	

Consolidated Balance Sheet

(Unit: Billions of Yen)

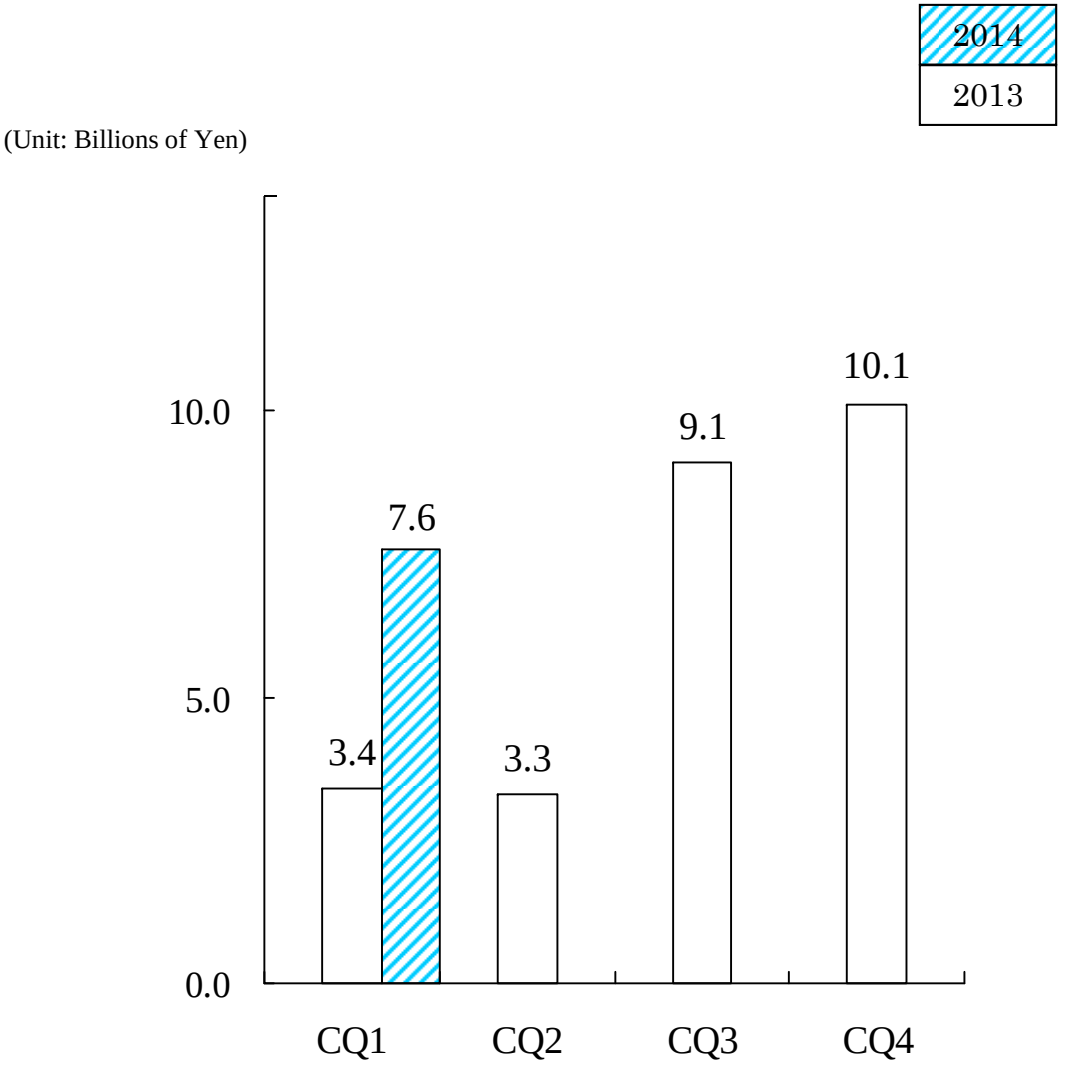
Assets	Dec.31, 2013	Mar.31, 2014	Increase/ decrease	Liabilities and Shareholders' Equity	Dec.31, 2013	Mar.31, 2014	Increase/ decrease
Cash and deposits	68.2	56.4	-11.8	Notes and accounts payable	124.2	101.4	-22.8
Notes and accounts receivable	156.1	135.6	-20.5	Interest-bearing debt	353.7	361.1	7.4
Inventories	120.2	121.3	1.1	Provision for retirement benefits	20.3	18.2	-2.1
Other current assets	30.1	32.2	2.1	Other liabilities	141.8	132.3	-9.4
Total Current Assets	374.6	345.5	-29.1	Total Liabilities	640.0	613.0	-26.9
Buildings and structures	85.5	85.0	-0.5	Capital stock	140.6	140.6	-
Machinery and equipment	111.6	109.6	-2.1	Capital surplus	62.2	62.2	-
Land	254.6	254.4	-0.2	Retained earnings	58.4	54.9	-3.5
Other tangible fixed assets	42.4	48.0	5.6	Treasury stock	-0.1	-0.1	0.0
Tangible Fixed Assets	494.1	497.0	2.9	Total Shareholders' equity	261.0	257.6	-3.5
Intangible Fixed Assets	11.0	11.1	0.1	Valuation difference on available-for-sale securities	5.8	3.9	-2.0
Investments and other assets	106.1	97.7	-8.5	Foreign currency translation adjustment, Deferred hedge gains	6.4	4.1	-2.3
Incl. Investment securities	78.7	75.1	-3.6	Revaluation reserve for land	27.9	27.9	0.0
				Total accumulated other comprehensive income	40.2	35.8	-4.3
				Minority Interests	44.6	44.8	0.2
Total fixed assets	611.2	605.8	-5.4	Total net assets	345.8	338.2	-7.6
Total Assets	**985.8**	**951.3**	**-34.5**	**Total Liabilities and Net Assets**	**985.8**	**951.3**	**-34.5**

Total Assets
Interest-bearing Debt and D/E ratio

(Unit: Billions of Yen)

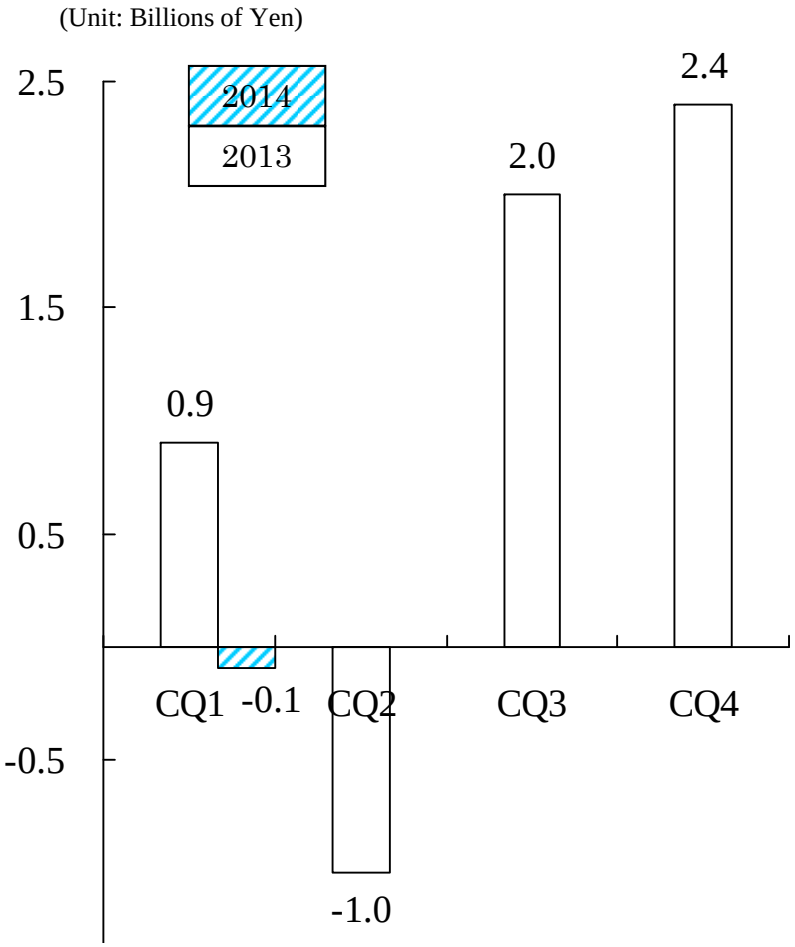
	Dec.31, 2013	Mar.31, 2014	Increase/ decrease
● **Total assets**	985.8	951.3	-34.5
● **Interest-bearing debt**	353.7	361.1	7.4
● **Debt/Equity ratio**	1.02times	1.07times	0.05p
● **Stockholders' Equity ratio**	30.6%	30.8%	0.2p

(Reference)　Quarterly Operating Income

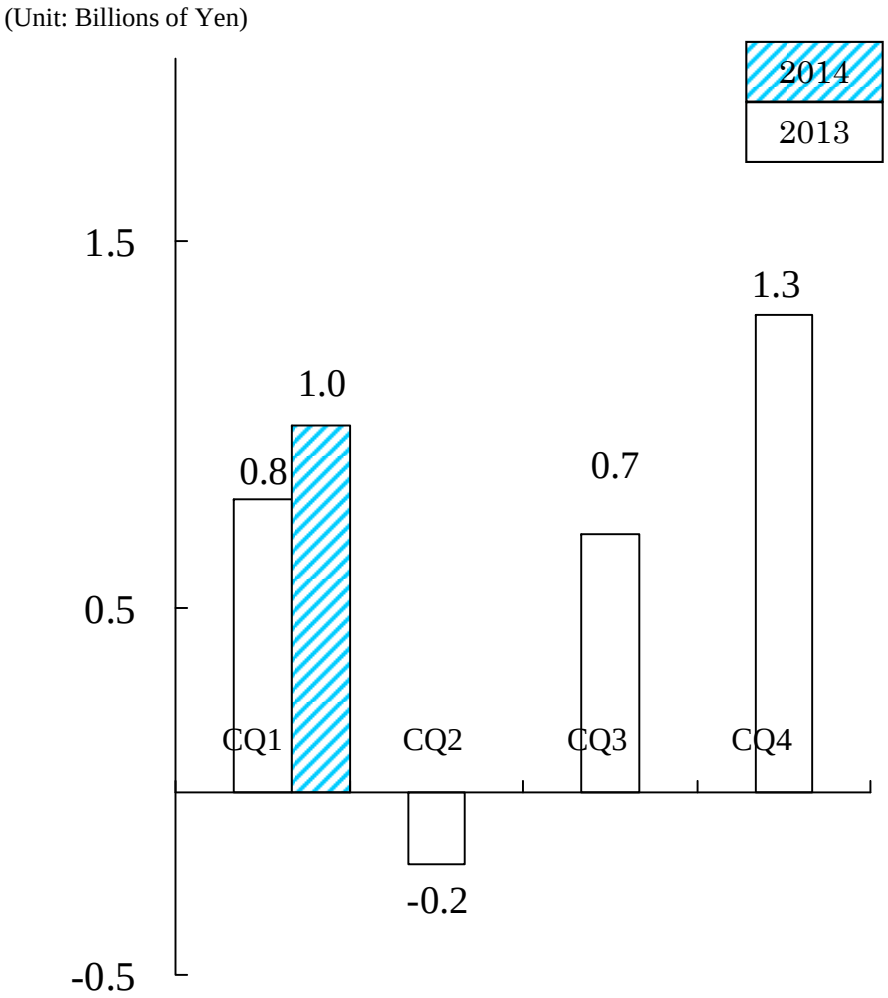


(Reference) Quarterly Operating Income by Segment

《Petrochemicals》



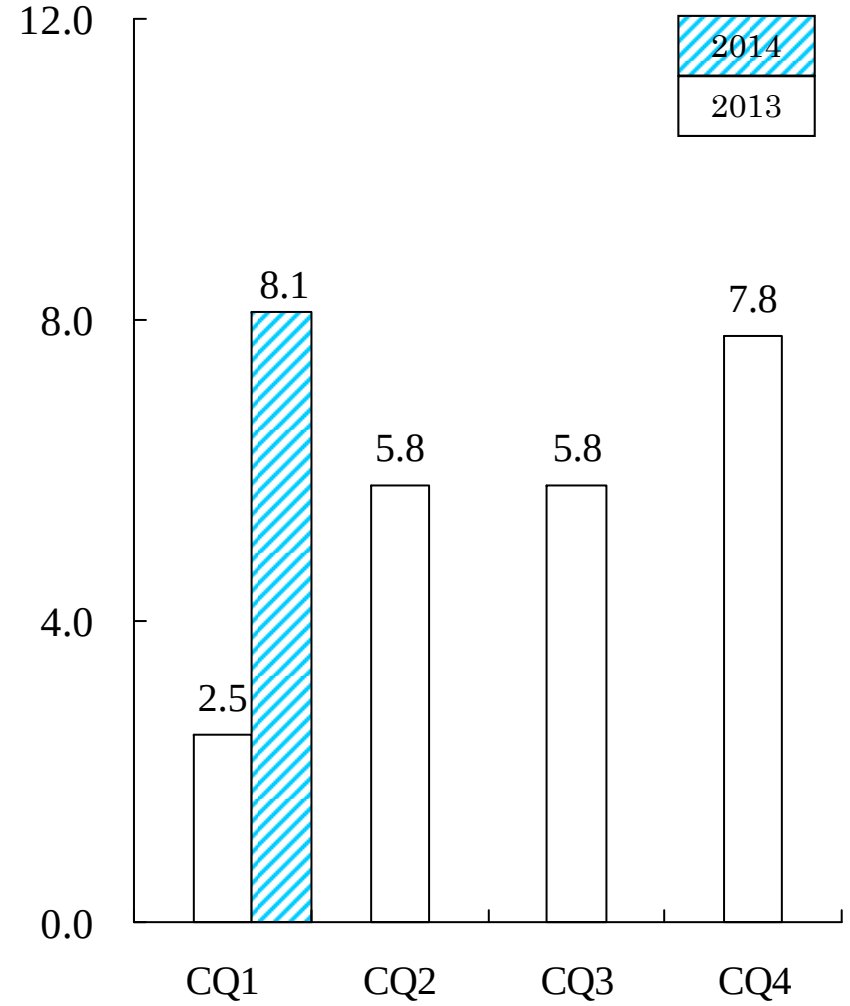
《Chemicals》



(Reference) Quarterly Operating Income by Segment

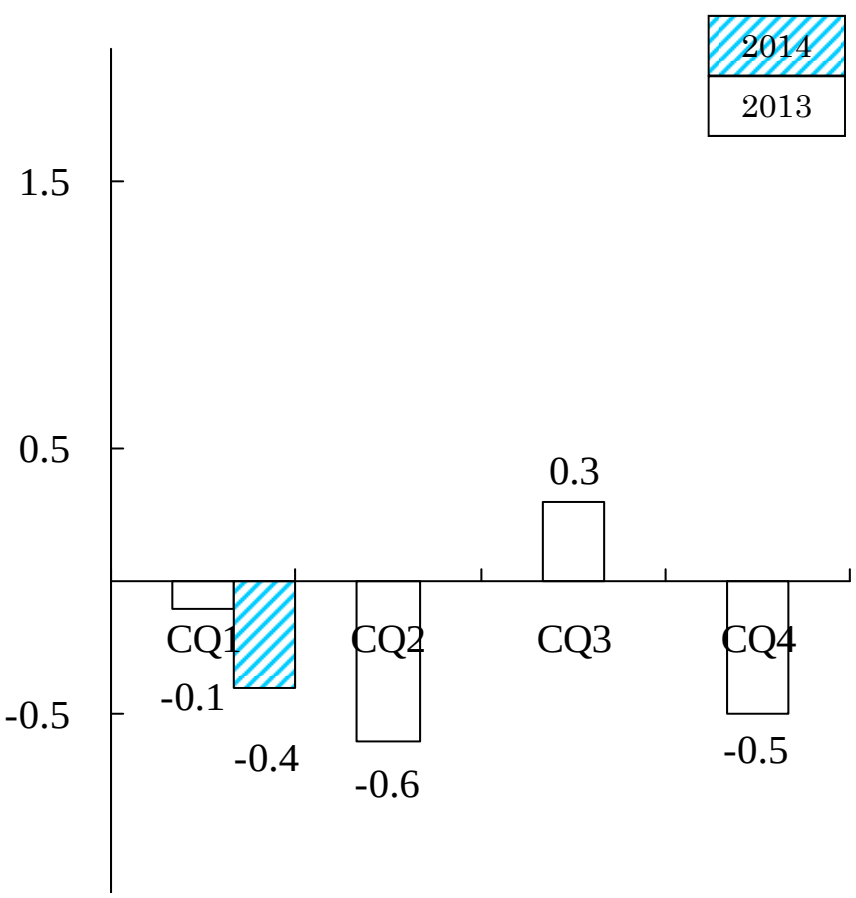
《Electronics》

(Unit: Billions of Yen)



《Inorganics》

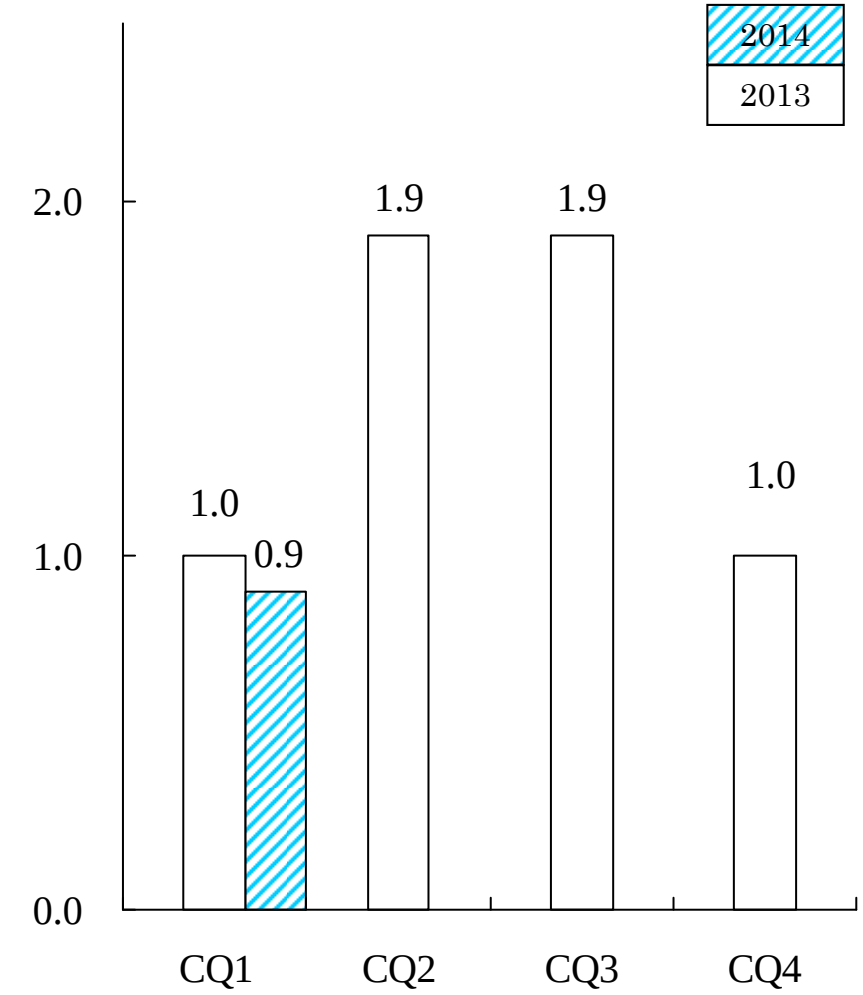
(Unit: Billions of Yen)



(Reference) Quarterly Operating Income by Segment

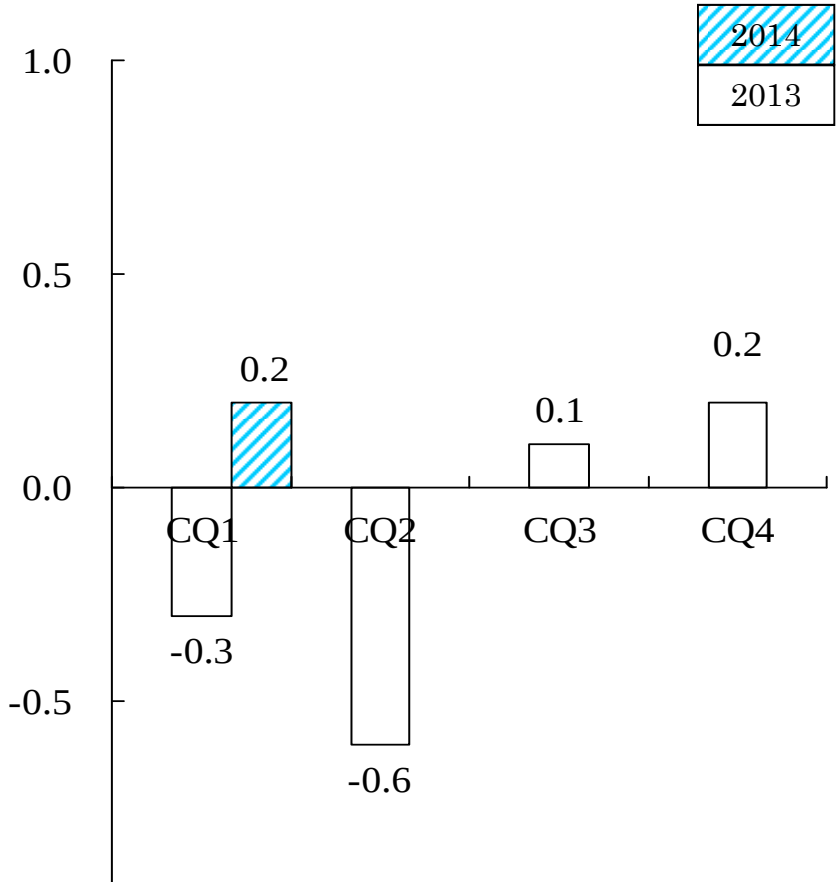
《Aluminum》

(Unit: Billions of Yen)



《Others》

(Unit: Billions of Yen)



Topics

[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.

Topics

[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.

- Establish 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.

Topics

[Aluminum segment]

- **Acquisition of 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.