SHOWA DENKO K.K.

Consolidated Financial Statements

For the first half year (January 1 to June 30, 2014)

Ⅰ. Consolidated Financial Results

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

	Results for the first half year (Jan.1–Jun.30)			
	2013	2014	Increase (Decrease)	2014
	¥	¥	%	$
Net sales	401,409	413,606	3.0	4,080,562
Operating income	6,723	10,542	56.8	104,008
Ordinary income	5,387	7,210	33.8	71,135
Net income (loss)	2,158	(3,433)	—	(33,869)
Net income (loss) per share: Basic	1.44	(2.29)	—	(0.02)
Net income (loss) per share: Diluted	—	—	—	—

Notes
Comprehensive income (loss) :
Results for the year ended January 1 to June 30,2014 ¥-6,944million
Results for the year ended January 1 to June 30,2013 ¥19,141million

(2) Financial position: (¥ in millions, US$ in thousands)

	Dec. 31, 2013	Jun.30, 2014	Jun.30, 2014
	¥	¥	$
Total assets	985,771	966,500	9,535,319
Total equity	345,811	310,609	3,064,412
	%	%	%
Stockholders' equity ratio	30.6	30.0	30.0

(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)

	fiscal year	
	¥	$
Net sales	895,000	8,829,913
Operating income	32,000	315,706
Ordinary income	26,000	256,511
Net income	7,000	69,061
Net income per share	4.68	0.05

*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 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
The English version is provided by translating main points only of the original version in Janaese for the convenience of investors.
The U.S. dollar is valued at ¥101.36 throughout this statement for convenience only.

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

(1) Summary

During the first half of 2014 (January 1 - June 30), the Japanese economy was steady at the beginning due to the increase in consumer spending, reflecting the last-minute demand before the consumption tax hike, and the improvement in corporate earnings. However, consumer spending fell later in reaction to the said last-minute demand. The Japanese economy is expected to continue to recover gradually. As for overseas economies, the United States and Europe recovered, and China continued its moderate growth. Meanwhile, weakness was observed in emerging economies. Furthermore, there is a concern about the influence of the scale-down of the monetary easing policy in the United States. In the petrochemicals industry, operating rates at domestic plants continued at high levels, reflecting the recovery of demand from the automotive and other industries in Japan as well as strong demand in China. The electronic parts/materials industry remained steady, due mainly to increased overseas production of smartphones and tablet computers.

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 foil, semiconductor-processing high-purity gases, and functional chemicals, accelerating their expansions mainly in the growing Asian market.

The Group recorded consolidated net sales of ¥413,606 million in the first half of 2014, up 3.0% 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 56.8%, to ¥10,542 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 steady performance of the HD media business. The Group recorded ordinary income of ¥7,210 million, up 33.8%. However, the Group posted a net loss of ¥3,433 million (down ¥5,591 million), due to the recording of loss on valuation of investment securities and the increase in income taxes.

(Unit: millions of yen)

	1H 2013	1H 2014	Increase/decrease
Sales	401,409	413,606	12,196
Operating income	6,723	10,542	3,820
Ordinary income	5,387	7,210	1,823
Net income	2,158	-3,433	-5,591

(2) A breakdown of net sales and operating income by segment (January 1 - June 30, 2014)

[Petrochemicals segment]
The Petrochemicals segment's sales decreased 11.6%, to ¥119,726 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 ¥1,941 million, down ¥1,896 million.

(Unit: millions of yen)

	1H 2013	1H 2014	Increase/decrease
Sales	135,420	119,726	-15,693
Operating income	-45	-1,941	-1,896

[Chemicals segment]
The Chemicals segment's sales increased 8.7%, to ¥67,336 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. Sales of acrylonitrile increased following the rise in market prices, and sales of chloroprene rubber grew due to higher shipment volumes to overseas markets. 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 jumped 148.1%, to ¥1,387 million.

(Unit: millions of yen)

	1H 2013	1H 2014	Increase/decrease
Sales	61,921	67,336	5,416
Operating income	559	1,387	828

[Electronics segment]
The Electronics segment's sales increased 5.0%, to ¥69,509 million. Production of HD media was maintained at the level of the same period of the previous year. Sales of HD media slightly increased due to steady shipment volumes for PC and other applications. 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 due to higher shipment volumes. Operating income rose 58.0%, to ¥13,202 million.

(Unit: millions of yen)

	1H 2013	1H 2014	Increase/decrease
Sales	66,172	69,509	3,336
Operating income	8,356	13,202	4,846

[Inorganics segment]
The Inorganics segment's sales rose 7.5%, to ¥33,346 million. Production of graphite electrodes increased from the same period of the previous year. Sales of graphite electrodes increased due to higher shipment volumes, 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 ¥761 million, down ¥118 million, due to the decline in profit from the graphite electrode business.

(Unit: millions of yen)

	1H 2013	1H 2014	Increase/decrease
Sales	31,025	33,346	2,321
Operating income	-643	-761	-118

[Aluminum segment]
The Aluminum segment's sales rose 4.9%, to ¥45,809 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 to higher shipment volumes for automotive applications and others. Sales of aluminum cans were down due to lower shipment volumes. Operating income decreased 38.8%, to ¥1,792 million, due mainly to the influence of sharp increases in aluminum metal and fuel costs.

(Unit: millions of yen)

	1H 2013	1H 2014	Increase/decrease
Sales	43,664	45,809	2,145
Operating income	2,931	1,792	-1,138

[Others segment]
The Others segment's sales increased 20.7%, to ¥99,339 million. Sales of lithium ion battery (LIB) materials rose as shipment volumes grew for use in cars, in addition to smartphone and tablet computer applications. Shoko Co., Ltd.'s sales increased due mainly to higher sales in overseas operations. The segment recorded operating income of ¥336 million, up ¥1,236 million.

(Unit: millions of yen)

	1H 2013	1H 2014	Increase/decrease
Sales	82,324	99,339	17,015
Operating income	-900	336	1,236

(3) Major steps taken or decided in the first half 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 March. Nobuteru Mori, the founder of our company, and his team, succeeded in producing alumina (raw material for aluminum) from alum. 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.

・Refinancing of existing Hybrid Securities by subordinated loan

In April, SDK carried out refinancing 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 and perpetual preferred securities issued by SD Preferred Capital Limited, SDK's wholly-owned special purpose company.

・Receipt of award for six-inch SiC epitaxial wafer technology

SDK received in June, for its six-inch silicon carbide (SiC) epitaxial wafers for power devices, The Semiconductor Industry News' "Semiconductor of the Year 2014 Grand Prix" in the category of electronic materials for semiconductors. When compared with the mainstream silicon-based semiconductors, SiC power devices using SiC epitaxial wafers can operate under high-temperature and high-voltage conditions, while substantially reducing energy loss. Crystal defects in our six-inch SiC epitaxial wafers are limited to the level of crystal defects in conventional four-inch SiC epitaxial wafers. Thus, the six-inch SiC epitaxial wafers satisfy the conditions for use in heavy-current SiC devices for automotive inverters, in terms of both product quality and cost. Demand for SiC power devices will grow for use in cars, power sources of servers, electric vehicles and distributed power supply systems for new energies. SDK will continue its efforts to improve product quality and increase production capacity, thereby contributing to the spread of SiC power devices.

[Petrochemicals segment]

・Start-up of new ethyl acetate plant

In June, SDK started commercial operation of its new ethyl acetate plant at Oita Complex using its proprietary production process technology. Ethyl acetate is an organic solvent used in wide-ranging applications, including printing ink, paint, and adhesives for electronic devices. In the new process technology adopted this time, however, acetic acid is directly added to ethylene, enabling efficient production of high-quality ethyl acetate. While the technology is already being used at our production site in Indonesia, this is the first time that the technology is commercially used in Japan.

[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. 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.

・Establishing a liquefied ammonia stable supply system in Tohoku and Niigata

In April, SDK started operating Showa Denko Tohoku Ammonia Center, a liquefied ammonia distribution base in Fukushima Prefecture. SDK reconstructed the distribution base, which had been damaged by the Great East Japan Earthquake. Liquefied ammonia is used in the production of synthetic fibers and metal surface treatment for automotive and construction machinery parts. It is also used for removing nitrogen oxides contained in exhaust gas from thermal electric power plants and waste incineration facilities. Thus, liquefied ammonia is an essential part of the lifeline. Furthermore, SDK's liquefied ammonia (trade name: *Ecoann*™) is approved as "eco-friendly goods for procurement" by major electric power companies because the product is partly based on used plastics. SDK forecasts high demand for *Ecoann*™ in the Tohoku region and Niigata Prefecture as thermal electric power plants are expected to continue operating at high rates.

[Electronics segment]

・Increased adoption of proprietary LED chips for plant growth facility

Shigyo® Method, developed jointly by SDK and Yamaguchi University, accelerates the growth of plant at LED-based facilities by irradiating light with optimum wavelengths and intensity in consideration of the kind of plant and growing stages. SDK's proprietary LED chips are used for this technology. In the first half of this year, *Shigyo*® Method was adopted by Gushiken Co., Ltd., a major bread maker in Okinawa. According to the results of a demonstration experiment at Gushiken's plant growth facility, the electricity cost, including air-conditioning electricity cost, decreased by more than 30% compared with that of conventional fluorescent-lamp-based facility. It was also confirmed that the amount of harvest increased significantly. Furthermore, *Shigyo*® Unit was adopted by Endo Corporation at its plant growth facility in Tendo City, Yamagata Prefecture. The unit is a system for optimum plant growth environment, packaging all necessary technology and equipment for vegetable cultivation. Aiming to

promote plant growth facilities that realize stable supply of safe food, SDK will continue to provide various types of support to companies considering participation in this business.

[Aluminum segment]

・Completion of the acquisition of a Vietnamese aluminum can maker

In May, SDK and its wholly owned subsidiary Showa Aluminum Can Corporation (SAC) completed the procedures for jointly acquiring 91.75% of shares in Hanacans*, a manufacturer of aluminum beverage cans in Vietnam. SDK classifies the aluminum can business in the “Growth” category under its “PEGASUS Phase II” business plan. Hanacans, with a solid customer base, is the largest aluminum can producer in the northern region of Vietnam. Furthermore, Hanacans will introduce SAC’s advanced production technology and quality control system, thereby strengthening its competitive power in the growing Vietnamese market.

* Hanacans Joint Stock Company

[Others segment]

・Completion of the expansion of LIB packaging film production capacity

Showa Denko Packaging Co., Ltd. (a subsidiary of SDK) completed expansion of its capacity at its Hikone Plant for producing LIB-packaging aluminum laminated film. Commercial production started in July, and the production capacity has tripled versus the 2010 level. The market for LIB packaging film continues to grow. Demand for the film is expected to grow for use in large LIBs for automotive applications, in addition to demand for use in small LIBs for smartphones and tablet computers.

2. Financial conditions for the January 1 - June 30, 2014 period

a) Situation of assets, liabilities and total assets

Total assets at June 30, 2014 amounted to ¥966,500 million, a decrease of ¥19,271 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 increased ¥15,930 million, to ¥655,891 million, due to the increase in interest-bearing debt following the receipt of the subordinated loan, notwithstanding the decrease in trade payables. Net assets at June 30, 2014 decreased ¥35,202 million, to ¥310,609 million, owing to the payment of dividends for 2013, the recording of a net loss for the first half of 2014, the decrease in foreign currency translation adjustment, and the decrease in minority interests following the repurchase and cancellation of perpetual preferred securities (with Euro-Yen warrants) issued by a special purpose company wholly owned by SDK.

b) Situation of cash flows

Net cash provided by operating activities during the first half of 2014 amounted to ¥11,298 million, a decrease of ¥5,778 million from the same period of the previous year. This reflected the expenditures related to the large-scale shutdown maintenance of our ethylene production facilities. Net cash used in investing activities increased ¥3,254 million, to ¥30,599 million, due partly to the increase in purchase of plant, property and equipment and acquisition of shares in subsidiaries involving a change in the scope of consolidation, notwithstanding the increase in revenue following the sale of investment securities. Cash flows from financing activities ended up in proceeds of ¥6,167 million, a decrease of ¥2,000 from the same period of the previous year, due partly to the

purchase of preferred securities, notwithstanding the increase in interest-bearing debt. As a result, after the effects of exchange rate fluctuations are taken into account, cash and cash equivalents at the end of the first-half year period decreased ¥13,600 million, to ¥54,575 million.

3. Performance forecast

We announced our revised performance forecast on July 31, 2014. The table below shows our revised performance forecast for the full year.

(Unit: Millions of yen)

	Net sales	Operating income	Ordinary income	Net income
Revised forecast for the full year	895,000	32,000	26,000	7,000

For the second half of the year, we assume an exchange rate of ¥102 to the U.S. dollar and a naphtha price of ¥69,900/KL.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Dec. 31, 2013	Jun. 30, 2014	Jun. 30, 2014
Assets	¥	¥	$
Current assets			
Cash and deposits	68,250	54,871	541,347
Notes and accounts receivable-trade	156,090	148,051	1,460,644
Merchandise and finished goods	53,203	59,081	582,878
Work in process	16,331	15,971	157,569
Raw materials and supplies	50,622	43,035	424,578
Other	30,358	34,679	342,141
Allowance for doubtful accounts	(256)	(236)	(2,329)
Total current assets	374,599	355,452	3,506,828
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	85,470	84,272	831,412
Machinery, equipment and vehicles, net	111,627	111,982	1,104,791
Land	254,593	254,129	2,507,191
Other, net	42,396	51,321	506,320
Total property, plant and equipment	494,087	501,703	4,949,714
Intangible assets			
Other	10,960	14,649	144,521
Total intangible assets	10,960	14,649	144,521
Investments and other assets			
Investment securities	78,688	73,432	724,468
Other	27,969	21,775	214,833
Allowance for doubtful accounts	(531)	(511)	(5,045)
Total investments and other assets	106,125	94,696	934,257
Total noncurrent assets	611,172	611,048	6,028,491
Total assets	985,771	966,500	9,535,319
Liabilities			
Current liabilities			
Notes and accounts payable-trade	124,194	111,572	1,100,753
Short-term loans payable	78,182	82,076	809,745
Current portion of long-term loans payable	41,694	59,891	590,878
Commercial papers	18,000	13,000	128,256
Provision	6,208	2,676	26,402
Other	78,667	69,557	686,234
Total current liabilities	346,945	338,772	3,342,268
Noncurrent liabilities			
Bonds payable	30,000	45,000	443,962
Long-term loans payable	185,811	197,467	1,948,175
Provision for retirement benefits	20,310	17,091	168,620
Other provision	43	184	1,815
Other	56,852	57,376	566,066
Total noncurrent liabilities	293,016	317,119	3,128,638
Total liabilities	639,961	655,891	6,470,907
Net assets			
Shareholders' equity			
Capital stock	140,564	140,564	1,386,775
Capital surplus	62,221	62,221	613,861
Retained earnings	58,414	50,540	498,623
Treasury stock	(149)	(151)	(1,487)
Total shareholders' equity	261,050	253,174	2,497,773
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	5,850	5,880	58,015
Deferred gains or losses on hedges	105	388	3,831
Revaluation reserve for land	27,923	27,918	275,435
Foreign currency translation adjustment	6,284	2,990	29,502
Total accumulated other comprehensive income	40,161	37,177	366,782
Minority interests	44,599	20,257	199,857
Total net assets	345,811	310,609	3,064,412
Total liabilities and net assets	985,771	966,500	9,535,319

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the first quarter (Jan.1-Jun.30)		
	2013	2014	2014
	¥	¥	$
Net sales	401,409	413,606	4,080,562
Cost of sales	354,598	361,065	3,562,200
Gross profit	46,811	52,541	518,363
Selling, general and administrative expenses	40,089	41,999	414,355
Operating income	6,723	10,542	104,008
Non-operating income			
Interest income	81	88	866
Dividends income	695	1,040	10,262
Equity in earnings of affiliates	—	396	3,905
Rent income on noncurrent assets	732	801	7,900
Foreign exchange gains	1,331	—	—
Miscellaneous income	902	1,052	10,377
Total non-operating income	3,742	3,376	33,310
Non-operating expenses			
Interest expenses	2,070	2,078	20,500
Loss on mothballing of operation	603	1,605	15,833
Equity in losses of affiliates	551	—	—
Miscellaneous expenses	1,854	3,026	29,850
Total non-operating expenses	5,078	6,708	66,183
Ordinary income	5,387	7,210	71,135
Extraordinary income			
Gain on sales of investment securities	519	717	7,071
Compensation income from cancellation of contracts	756	—	—
Gain on sales of Patent right and other	—	345	3,400
Other	263	31	307
Total extraordinary income	1,538	1,092	10,778
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	609	714	7,044
Loss on restructuring of subsidiaries and affiliates	1,377	—	—
Loss on valuation of investment securites	70	4,033	39,792
Other	768	1,032	10,179
Total extraordinary losses	2,825	5,779	57,015
Income before income taxes and minority interests	4,099	2,524	24,899
Income taxes	1,248	5,448	53,744
Income before minority interests	2,852	(2,924)	(28,845)
Minority interests in income	694	509	5,024
Net income	2,158	(3,433)	(33,869)

Consolidated Statements of Comprehensive Income

(¥ in millions, US$ in thousands)

	Results for the second quarter (Jan.1-Jun.30)		
	2013	2014	2014
	¥	¥	$
Income (loss) before minority interests	2,852	(2,924)	(28,845)
Other comprehensive income:			
Valuation difference on available-for-sale securities	3,873	12	122
Deferred gains or losses on hedges	235	314	3,100
Foreign currency translation adjustments	12,146	(4,266)	(42,092)
Share of other comprehensive income of affiliates applied for equity method	36	(81)	(795)
Total other comprehensive income	16,290	(4,020)	(39,665)
Comprehensive income	19,141	(6,944)	(68,510)
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	17,637	(7,224)	(71,268)
Comprehensive income attributable to minority interests	1,504	279	2,757

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the first half year (Jan. 1-Jun. 30)		
	2013	2014	2014
	¥	¥	$
Net cash provided by (used in) operating activities			
Income before income taxes and minority interests	4,099	2,524	24,899
Depreciation and amortization	20,226	19,672	194,078
Impairment loss	331	539	5,319
Amortization of goodwill	659	778	7,675
Increase (decrease) in provision for retirement benefits	(1,588)	(3,238)	(31,947)
Interest and dividends income	(777)	(1,128)	(11,128)
Interest expenses	2,070	2,078	20,500
Equity in (earnings) losses of affiliates	551	(396)	(3,905)
Loss (gain) on sales and valuation of investment securities	(369)	3,317	32,721
Loss on retirement of noncurrent assets	596	701	6,917
Loss (gain) on sales of noncurrent assets	(44)	(1)	(10)
Decrease (increase) in notes and accounts receivable-trade	(2,092)	11,018	108,704
Decrease (increase) in inventories	2,806	2,549	25,149
Increase (decrease) in notes and accounts payable-trade	(2,505)	(13,822)	(136,363)
Other, net	(3,974)	(12,463)	(122,960)
Subtotal	19,989	12,128	119,650
Interest and dividends income received	1,212	1,494	14,737
Interest expenses paid	(2,064)	(1,900)	(18,743)
Income taxes paid	(2,062)	(423)	(4,175)
Net cash provided by (used in) operating activities	17,076	11,298	111,468
Net cash provided by (used in) investing activities			
Proceeds from sales and redemption of securities	2	-	-
Purchase of property, plant and equipment	(22,523)	(26,365)	(260,110)
Proceeds from sales of property, plant and equipment	167	444	4,377
Proceeds from transfer of business	15	-	-
Purchase of investment securities	(3,441)	(2,226)	(21,965)
Proceeds from sales of investment securities	543	3,973	39,194
Purchase of investments in subsidiaries	(3)	-	-
Purchase of investments in subsidiaries resulting in change in scope of consolidation	(823)	(5,507)	(54,334)
Net decrease (increase) in short-term loans receivable	0	(59)	(583)
Payments of long-term loans receivable	(225)	-	-
Collection of long-term loans receivable	119	113	1,110
Other, net	(1,175)	(970)	(9,569)
Net cash provided by (used in) investing activities	(27,345)	(30,599)	(301,880)
Net increase (decrease) in short-term loans payable	7,641	640	6,318
Net increase (decrease) in commercial papers	5,000	(5,000)	(49,329)
Proceeds from long-term loans payable	25,600	52,922	522,120
Repayment of long-term loans payable	(23,027)	(26,313)	(259,597)
Proceeds from issuance of bonds	-	15,000	147,987
Payments for retirement by purchase of Preferred equity securities	-	(24,000)	(236,780)
Proceeds from stock issuance to minority shareholders	1,031	-	-
Cash dividends paid	(4,458)	(4,463)	(44,033)
Cash dividends paid to minority shareholders	(1,191)	(1,019)	(10,049)
Other, net	(2,430)	(1,601)	(15,793)
Net cash provided by (used in) financing activities	8,167	6,167	60,844
Effect of exchange rate change on cash and cash equivalents	3,190	(1,462)	(14,428)
Net increase (decrease) in cash and cash equivalents	1,088	(14,595)	(143,996)
Cash and cash equivalents at beginning of period	51,254	68,175	672,603
Increase in cash and cash equivalents from newly consolidated subsidiary	1,249	996	9,825
Increase in cash and cash equivalents resulting from merger	12	-	-
Cash and cash equivalents at end of period	53,604	54,575	538,432

(Reference)

SEGMENT INFORMATION (previous 2Q ended)

The operations of the Companies for the year ended June 30, 2013 and 2014 was summarised by industry segment as follows:

Year ended June 30, 2013	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	¥131,829	¥56,950	¥65,551	¥26,803	¥41,006	¥79,269	¥–	¥401,409
Inter-segment	3,591	4,970	621	4,222	2,658	3,055	(19,117)	–
Total	135,420	61,921	66,172	31,025	43,664	82,324	(19,117)	401,409
Operating income (loss)	(¥45)	¥559	¥8,356	(¥643)	¥2,931	(¥900)	(¥3,535)	¥6,723

Year ended June 30, 2014	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	**¥116,425**	**¥61,805**	**¥68,553**	**¥28,996**	**¥41,684**	**¥96,142**	**¥–**	**¥413,606**
Inter-segment	**3,301**	**5,531**	**956**	**4,350**	**4,125**	**3,197**	**(21,460)**	**–**
Total	**119,726**	**67,336**	**69,509**	**33,346**	**45,809**	**99,339**	**(21,460)**	**413,606**
Operating income (loss)	**(¥1,941)**	**¥1,387**	**¥13,202**	**(¥761)**	**¥1,792**	**¥336**	**(¥3,473)**	**¥10,542**

Year ended June 30, 2014	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminium	Others	Elimination	Consolidated
Sales								
Outside customers	**$1,148,633**	**$609,758**	**$676,329**	**$286,074**	**$411,245**	**$948,523**	**$–**	**$4,080,562**
Inter-segment	**32,565**	**54,569**	**9,432**	**42,916**	**40,697**	**31,543**	**(211,721)**	**–**
Total	**1,181,197**	**664,327**	**685,761**	**328,990**	**451,942**	**980,066**	**(211,721)**	**4,080,562**
Operating income (loss)	**($19,145)**	**$13,679**	**$130,249**	**($7,508)**	**$17,684**	**$3,317**	**($34,269)**	**$104,008**

SHOWA DENKO K.K.

July 31, 2014

First Half, 2014 Consolidated Financial Results (Summary)

Ⅰ. First Half 2014 Results

1. Summary

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

Items	1st half, 2013 (Jan.-Jun.)	1st half, 2014 (Jan.-Jun.)	Increase
Net Sales	401.4	413.6	12.2
Operating Income	6.7	10.5	3.8
Net Income	2.2	-3.4	-5.6
Net Income per share	¥1.44	¥-2.29	¥-3.73
Cash dividends per share	¥191.45	¥194.01	¥2.56

2. Net Sales and Operating Income by Segment

(Unit: billions of yen)

Segment		1st half, 2013 (Jan.-Jun.)	1st half, 2014 (Jan.-Jun.)	Increase	CQ1, 2014 (Jan. - Mar.)	CQ2, 2014 (Apr. - Jun.)
Net Sales	Petrochemicals	135.4	119.7	-15.7	62.1	57.7
	Chemicals	61.9	67.3	5.4	33.4	33.9
	Electronics	66.2	69.5	3.3	37.2	32.3
	Inorganics	31.0	33.3	2.3	16.0	17.4
	Aluminum	43.7	45.8	2.1	21.2	24.6
	Others	82.3	99.3	17.0	49.8	49.5
	Adjustments	-19.1	-21.5	-2.3	-10.1	-11.4
	Total	401.4	413.6	12.2	209.6	204.0
Operating Income	Petrochemicals	0.0	-1.9	-1.9	-0.1	-1.9
	Chemicals	0.6	1.4	0.8	1.0	0.4
	Electronics	8.4	13.2	4.8	8.1	5.1
	Inorganics	-0.6	-0.8	-0.1	-0.4	-0.3
	Aluminum	2.9	1.8	-1.1	0.9	0.9
	Others	-0.9	0.3	1.2	0.2	0.1
	Adjustments	-3.5	-3.5	0.1	-2.1	-1.4
	Total	6.7	10.5	3.8	7.6	3.0

3. Cash Flow (Consolidated)

(Unit: billions of yen)

Cash Flows from:	1st half, 2013 (Jan.-Jun.)	1st half, 2014 (Jan.-Jun.)	Increase
Operating Activities	17.1	11.3	-5.8
Investing Activities	-27.3	-30.6	-3.3
Free Cash Flow	-10.3	-19.3	-9.0
Financing Activities	8.2	6.2	-2.0
Other	3.2	-1.5	-4.7
Net increase in Cash	1.1	-14.6	-15.7

4. Reference (Consolidated)

(Unit: billions of yen)

Items	1st half, 2013 (Jan.-Jun.)	1st half, 2014 (Jan.-Jun.)	Increase
Capital expenditures	20.0	25.1	5.1
Depreciation and amortization	20.3	19.7	-0.6
R&D expenditures	10.0	9.8	-0.2
Total assets	967.1	966.5	-0.6
Interest bearing debt	365.3	397.4	32.2
Gap between interest/dividend income and interest expense	-1.3	-1.0	0.3
Total number of employees	10,397	10,458	61
Exchange rate (yen/US$)	95.6	102.5	Yen depreciated by 6.9/$
Domestic naphtha price (yen/kl)	64,650	70,950	6,300

SHOWA DENKO K.K.

Ⅱ. Forecast for 2014

1. Summary

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

Items	2013	2014 Revised forecast	Increase
Net Sales	848.1	895.0	46.9
Operating Income	26.0	32.0	6.0
Net Income	9.1	7.0	-2.1
Net income per share	¥6.06	¥4.68	¥-1.38
Cash dividends per share	¥3.00	(planned) ¥3.00	-

(Note) 2014 forecast was revised on Jul. 31, 2014.

2. Net sales and Operating Income by Segment

(Unit: billions of yen)

Segment		2013	2014 Revised forecast	Increase
Net Sales	Petrochemicals	286.7	286.0	-0.7
	Chemicals	130.7	143.0	12.3
	Electronics	136.5	138.0	1.5
	Inorganics	65.9	68.0	2.1
	Aluminum	90.4	104.0	13.6
	Others	176.5	202.0	25.5
	Adjustments	-38.7	-46.0	-7.3
	Total	848.1	895.0	46.9
Operating Income	Petrochemicals	4.4	2.5	-1.9
	Chemicals	2.6	6.0	3.4
	Electronics	21.9	26.0	4.1
	Inorganics	-0.8	0.0	0.8
	Aluminum	5.8	4.0	-1.8
	Others	-0.6	1.5	2.1
	Adjustments	-7.3	-8.0	-0.7
	Total	26.0	32.0	6.0

Ⅲ. Reference

Items	2013	2014 Revised forecast	Increase
Capital expenditures	44.4	52.4	8.0
Depreciation and amortization	39.8	40.4	0.6
R & D expenditures	20.4	20.0	-0.4
Interest-bearing debt	353.7	380.0	26.3
Gap between interest / dividend income and interest expense	-2.8	-3.0	-0.2
Total number of employees	10,234	10,751	517
Exchange rate (yen/US$)	(1st half) 95.6 (2nd half) 99.7	(1st half) 102.5 (2nd half) 102.0	(1st half) 6.9 (2nd half) 2.3
Domestic naphtha price (yen/kl)	(1st half) 64,650 (2nd half) 65,850	(1st half) 70,950 (2nd half) 69,900	(1st half) 6,300 (2nd half) 4,050

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.