PROJECT 2020+

Evolving unique chemical company

First Quarter, 2017 Financial Results
- Consolidated -

SHOWA DENKO K.K.

May 10, 2017

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Director & Corporate Officer

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. Performance forecast does not include the effect of planned integration of graphite electrode businesses of SDK and SGL GE, which we announced in October 2016, because the date of business integration has not been specified yet as of today.

Consolidated Companies

- Consolidated subsidiaries: 50
  - 2 companies newly consolidated
    - Showa Denko New Material (Zhuhai) Co., Ltd.
    - Shanghai Showa Highpolymer Trading Co., Ltd.
- Equity method applied: 12
  - Newly applied or excluded: none

Selected Data

(Average figure)

	Jan.- Mar. 2016	Jan.- Mar. 2017	Increase/ decrease
■Exchange rate: ¥/US$	115.5	113.6	Yen appreciated by ¥1.8/$
■Domestic naphtha price: ¥/KL	34,300	41,800	7,500
■Aluminum			
LME price: US$/T	1,515	1,854	339
Domestic market*: K¥/T	231	265	34

Exchange rate at December 31, 2016 ¥116.5/US$, at March 31, 2017 ¥112.2/US$
⇒Yen appreciated by ¥4.3/US$

*Domestic market: data from Nikkei

Summary

(Unit: Billions of Yen)

	CQ1, 2016	CQ1, 2017	Increase/ decrease	2017 1H forecast*
Net Sales	156.0	183.2	27.2	373.0
Operating Income	2.9	19.7	16.8	29.0
Non-operating income and expenses, net	-1.2	-2.0	-0.8	-4.5
Interest/Dividends income and expenses	-0.5	-0.3	0.2	
Equity in earnings of affiliates	1.7	1.6	-0.1	
Foreign exchange gains or losses	-1.9	-3.0	-1.1	
Other	-0.4	-0.3	0.1	
Ordinary Income	1.7	17.7	16.0	24.5
Extraordinary Profit	0	0.2	0.2	-6.0
Extraordinary Loss	-1.6	-1.6	-0.1	
Income before income taxes	0.1	16.3	16.2	
Income taxes	1.1	-1.3	-2.5	
Profit	1.2	15.0	13.7	
Profit attributable to non-controlling interests	-0.3	-0.4	-0.1	
Profit attributable to owners of parent	0.9	14.6	13.6	16.0

*2017 1H forecast was announced on April 25, 2017.

Extraordinary Profit/Loss

(Unit: Billions of Yen)

	CQ1, 2016	CQ1, 2017	Increase/ decrease
■Extraordinary Profit	0	0.2	0.2
●Gain on sales of investment securities	—	0.2	0.2
■Extraordinary Loss	-1.6	-1.6	-0.1
●Loss on sales and retirement of noncurrent assets	-0.7	-0.6	0.1
●Impairment loss	-0.2	-0.7	-0.6
●Provision for business structure improvement	-0.4	—	0.4
●Other	-0.3	-0.2	0
■Extraordinary Profit/Loss, Net	-1.6	-1.4	0.1

Consolidated Sales by Segment

(Unit: Billions of Yen)

	CQ1, 2016	CQ1, 2017	Increase/ decrease		1H, 2017 forecast*
Petrochemicals	42.9	64.6	21.7	【Olefins】sales increased (naphtha price up, shipment volumes slightly up) 【Organic chemicals】sales increased (vinyl acetate, ethyl acetate: shipment volumes up, price up) Consolidation of SunAllomer Ltd. (2H, 2016)	123.0
Chemicals	32.1	33.3	1.2	【Basic chemicals】sales increased (chloroprene rubber: shipment volumes for export steady, AN: market price up, ammonia: shipment volumes up) 【Industrial gases】sales slightly decreased 【Electronic chemicals】sales increased (shipment volumes of high-purity gases for electronics up) 【Functional chemicals】sales slightly increased	70.0
Electronics	26.3	29.7	3.4	【HDs】sales increased (shipment volumes up) 【Compound semiconductors】【Rare earth】sales maintained at the CQ1, 2016 level 【LIB materials】sales decreased (shipment volumes bound for China down)	63.0
Inorganics	12.4	13.1	0.7	【Ceramics】sales increased (shipment volumes for steel and electronic materials up) 【Graphite electrodes】sales slightly increased (shipment volumes up)	28.0
Aluminum	22.0	23.6	1.6	【High-purity foil for capacitors】sales increased (shipment volumes up) 【Aluminum specialty components】sales slightly increased 【Aluminum cans】sales increased (Hanacans Joint Stock Company: shipment volumes up)	55.0
Others	31.4	32.0	0.6	【SHOKO Co., Ltd.】sales slightly increased	64.0
Adjustments	-11.1	-13.1	-2.0		-30.0
Total	156.0	183.2	27.2		373.0

(note) From 2017 SDK changes the segmentation (LIB materials is transferred from “Others” to “Electronics”) . Figures of 2016 are based on the new segmentation.
* 2017 1H forecast forecast was announced on April 25, 2017.

Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	CQ1, 2016	CQ1, 2017	Increase/ decrease		1H, 2017 forecast*
Petrochemicals	1.5	10.6	9.1	【Olefins】profit increased (continuation of high operation, market price up) 【Organic chemicals】profit increased (vinyl acetate, ethyl acetate: shipment volumes up) Consolidation of SunAllomer Ltd. (2H, 2016)	14.5
Chemicals	2.5	3.1	0.6	【Basic chemicals】profit slightly increased (AN) 【Industrial gases】profit maintained at the CQ1, 2016 level 【Electronic chemicals】profit increased (shipment volumes up) 【Functional chemicals】profit slightly increased 【Power generating business】profit decreased (fuel price up)	6.0
Electronics	1.9	6.0	4.1	【HDs】profit increased (shipment volumes up, cost reduction) 【Compound semiconductors】profit maintained at the CQ1, 2016 level 【Rare earth】profit increased (decrease in the influence of loss on lower of cost or market value method) 【LIB materials】profit decreased (shipment volumes for China down)	10.0
Inorganics	-2.0	-0.1	1.9	【Ceramics】profit slightly increased (shipment volumes up) 【Graphite electrodes】profit increased (high operation and shipment volumes up, the effect of renewal of hydroelectric power station)	-1.0
Aluminum	0.2	1.5	1.3	【High-purity foil for capacitors】profit increased (shipment volumes up) 【Aluminum specialty components】profit increased (shipment volumes up) 【Aluminum cans】profit increased (Hanacans Joint Stock Company: shipment volumes up)	3.0
Others	0.2	0.2	-0	【SHOKO Co., Ltd.】profit decreased	0.5
Adjustments	-1.6	-1.7	-0		-4.0
Total	2.9	19.7	16.8		29.0

(note) From 2017 SDK changes the segmentation (LIB materials is transferred from “Others” to “Electronics”) . Figures of 2016 are based on the new segmentation.
* 2017 1H forecast forecast was announced on April 25, 2017.

Consolidated Balance Sheet

(Unit: Billions of Yen)

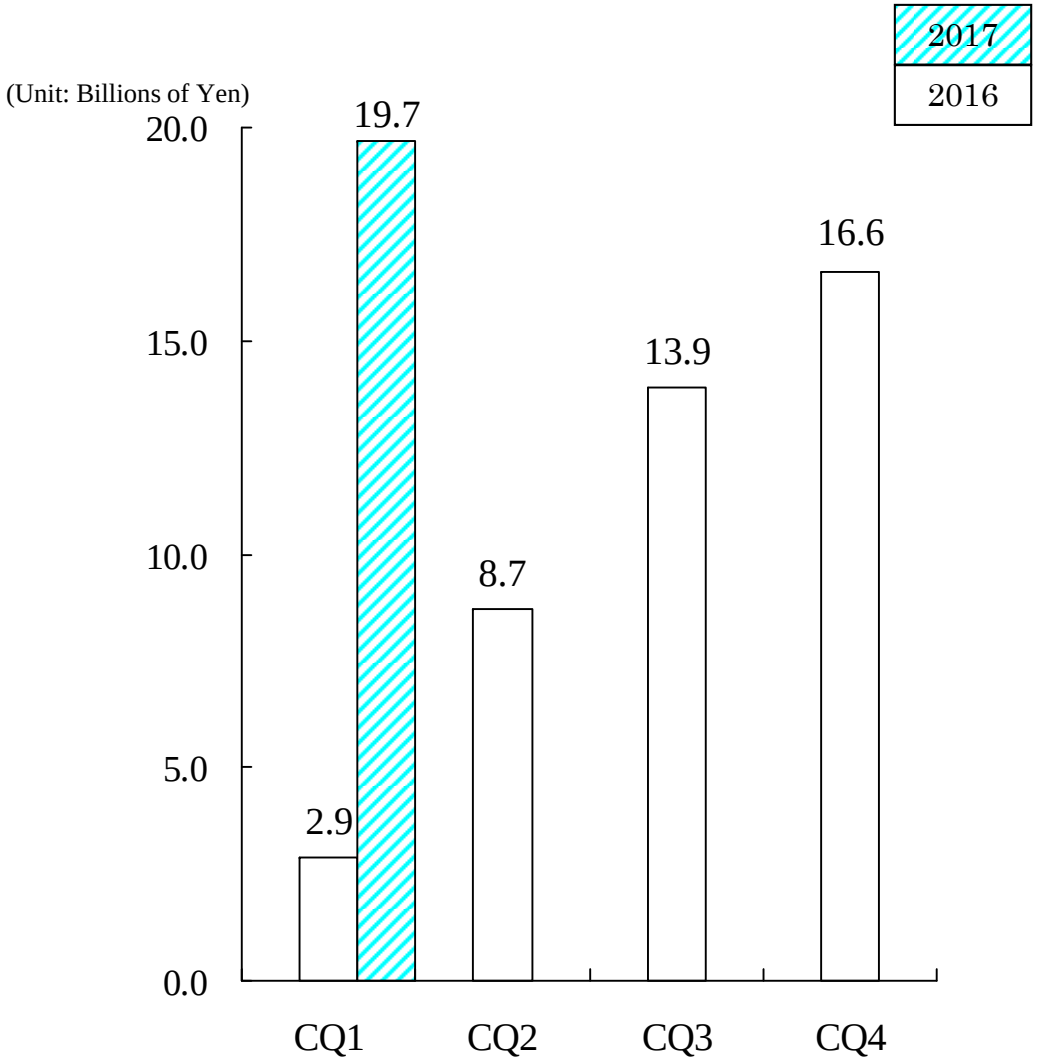
Assets	Dec. 31, 2016	Mar.31, 2017	Increase/ decrease	Liabilities and Net Assets	Dec. 31, 2016	Mar.31, 2017	Increase/ decrease
Cash and deposits	69.9	76.2	6.3	Notes and accounts payable	104.0	95.9	-8.1
Notes and accounts receivable	143.8	138.0	-5.8	Interest-bearing debt	359.9	363.0	3.0
Inventories	91.3	96.8	5.4	Net defined benefit liability	21.9	21.2	-0.7
Other current assets	30.0	34.8	4.8	Other liabilities	135.6	133.7	-1.9
Total Current Assets	335.1	345.8	10.7	Total Liabilities	621.5	613.8	-7.7
Buildings and structures	77.4	77.3	-0.2	Capital stock	140.6	140.6	0
Machinery and equipment	110.2	112.5	2.3	Capital surplus	62.0	62.0	0
Land	242.8	242.8	0	Retained earnings	65.4	80.0	14.7
Other tangible fixed assets	56.7	50.3	-6.3	Treasury stock	-10.5	-10.5	0
Total Tangible Fixed Assets	487.1	482.9	-4.2	Total Shareholders' equity	257.5	272.1	14.7
Intangible Fixed Assets	11.7	11.7	0	Valuation difference on available-for-sale securities	4.5	7.2	2.6
Investments and other assets	98.8	100.6	1.8	Deferred gains or losses on hedges	0.3	1.8	1.5
incl. investment securities	75.0	79.4	4.5	Foreign currency translation adjustment	14.2	11.6	-2.7
				Revaluation reserve for land	31.0	31.0	0
				Remeasurements of defined benefit plans	-11.0	-10.7	0.3
				Total accumulated other comprehensive income	39.1	40.9	1.8
				Non-controlling interests	14.7	14.2	-0.5
Total fixed assets	597.6	595.2	-2.4	Total net assets	311.2	327.2	16.0
Total Assets	**932.7**	**941.0**	**8.3**	**Total Liabilities and Net Assets**	**932.7**	**941.0**	**8.3**

Total Assets
Interest-bearing Debt and D/E ratio

(Unit: Billions of Yen)

	Dec. 31, 2016	Mar.31, 2017	Increase/ decrease
● **Total assets**	932.7	941.0	8.3
● **Interest-bearing debt**	359.9	363.0	3.0
● **Debt/Equity ratio**	1.16 times	1.11 times	-0.05p
● **Stockholders' Equity ratio**	31.8%	33.3%	1.5p

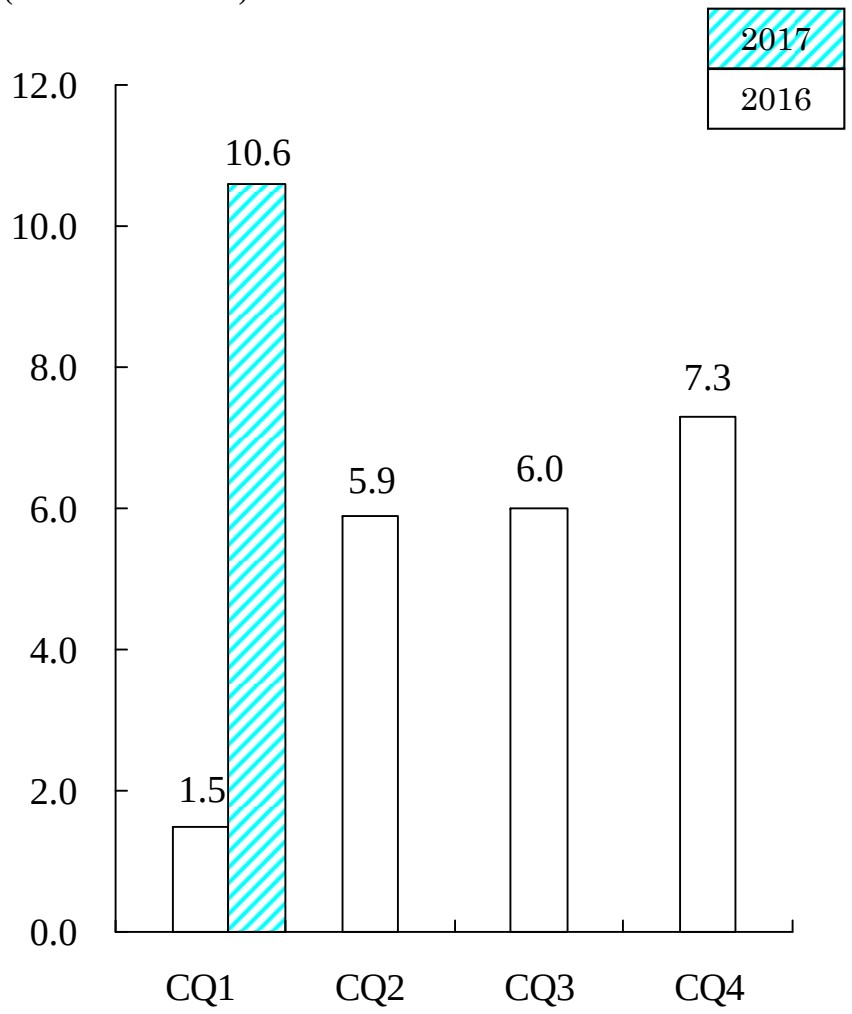
(Reference)　Quarterly Operating Income



(Reference) Quarterly Operating Income by Segment

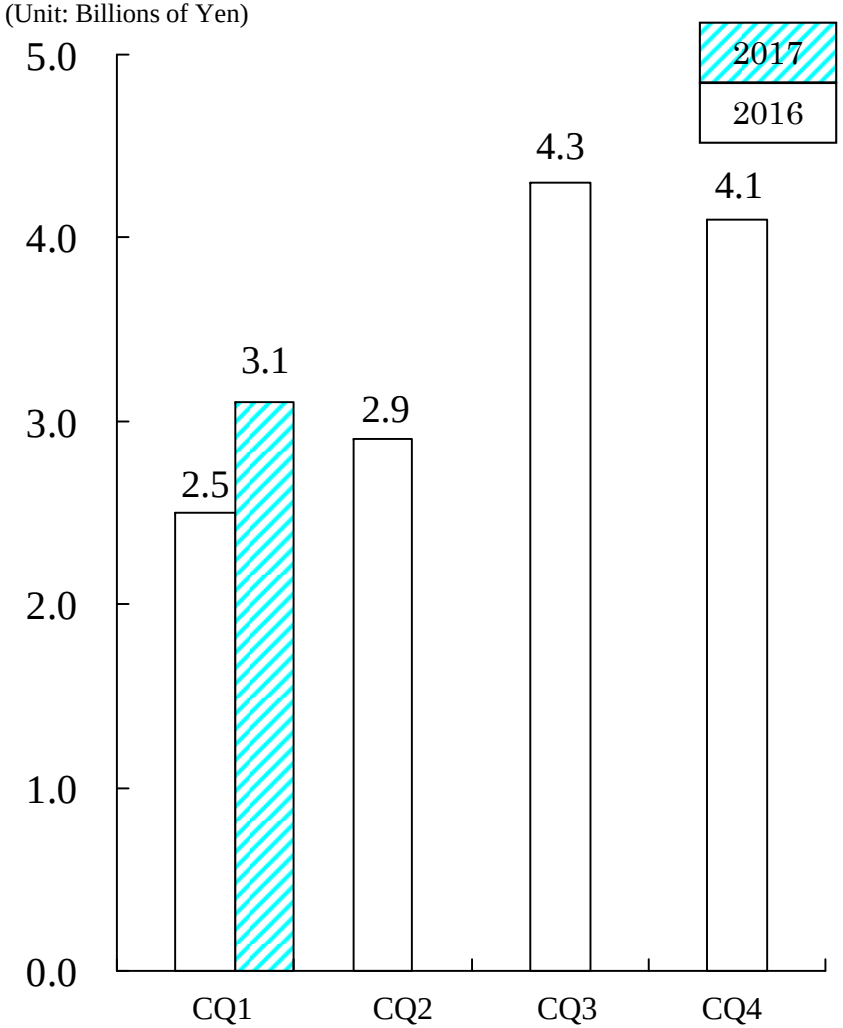
《Petrochemicals》

(Unit: Billions of Yen)



《Chemicals》

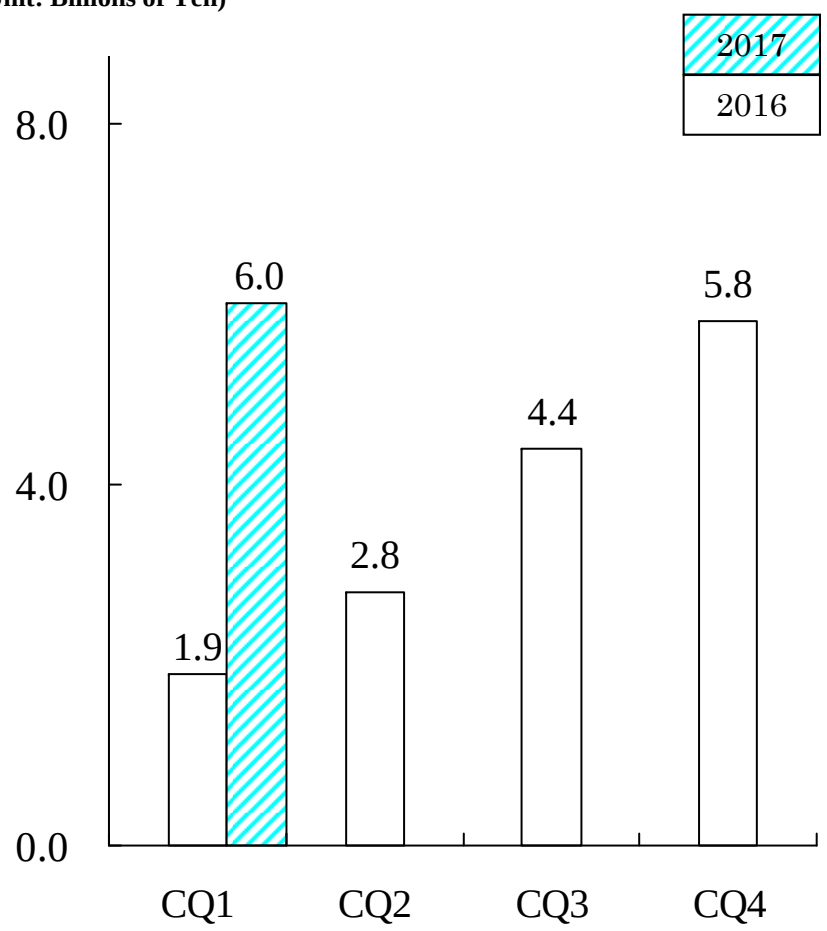
(Unit: Billions of Yen)



(Reference) Quarterly Operating Income by Segment

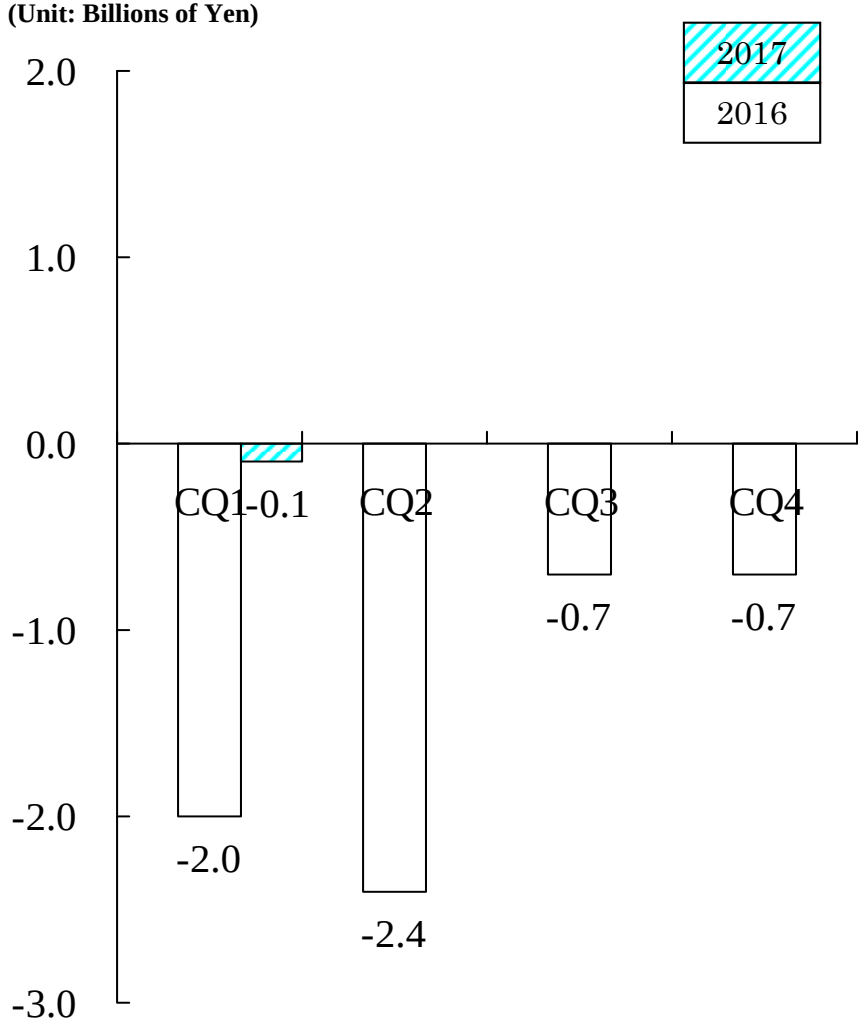
《Electronics》

(Unit: Billions of Yen)



《Inorganics》

(Unit: Billions of Yen)

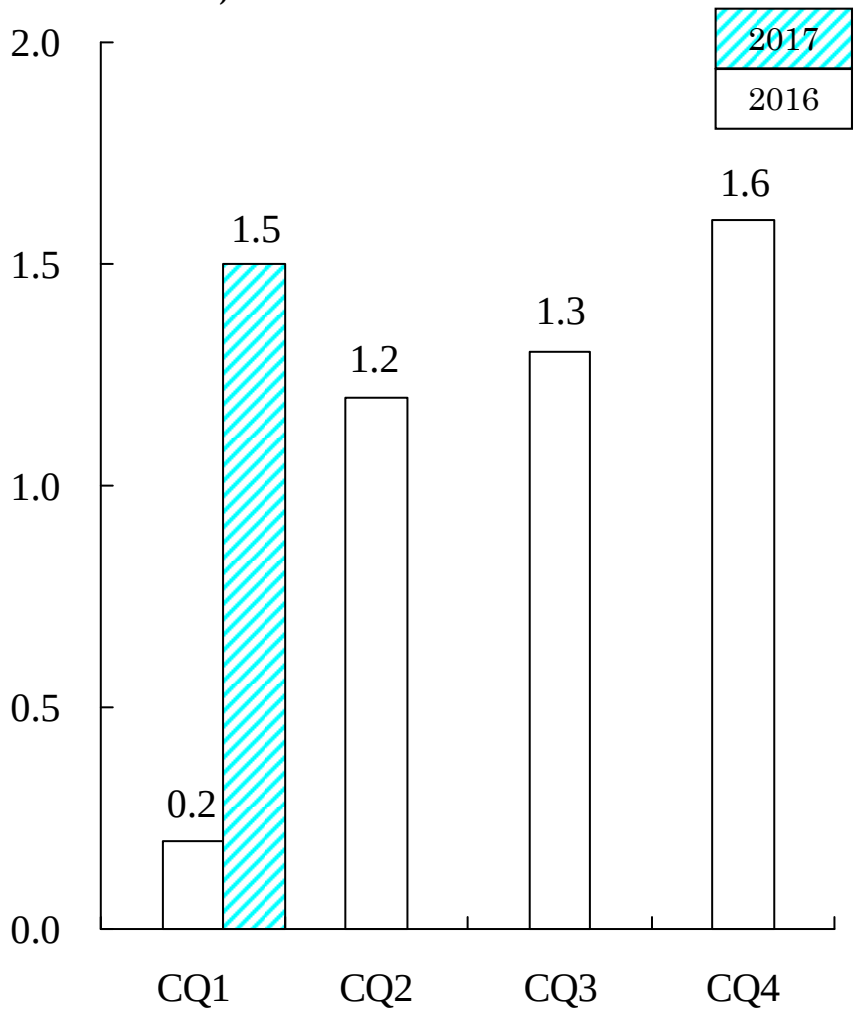


(note) From 2017 SDK changes the segmentation (LIB materials is transferred from "Others" to "Electronics") . Figures of 2016 are based on the new segmentation.

(Reference) Quarterly Operating Income by Segment

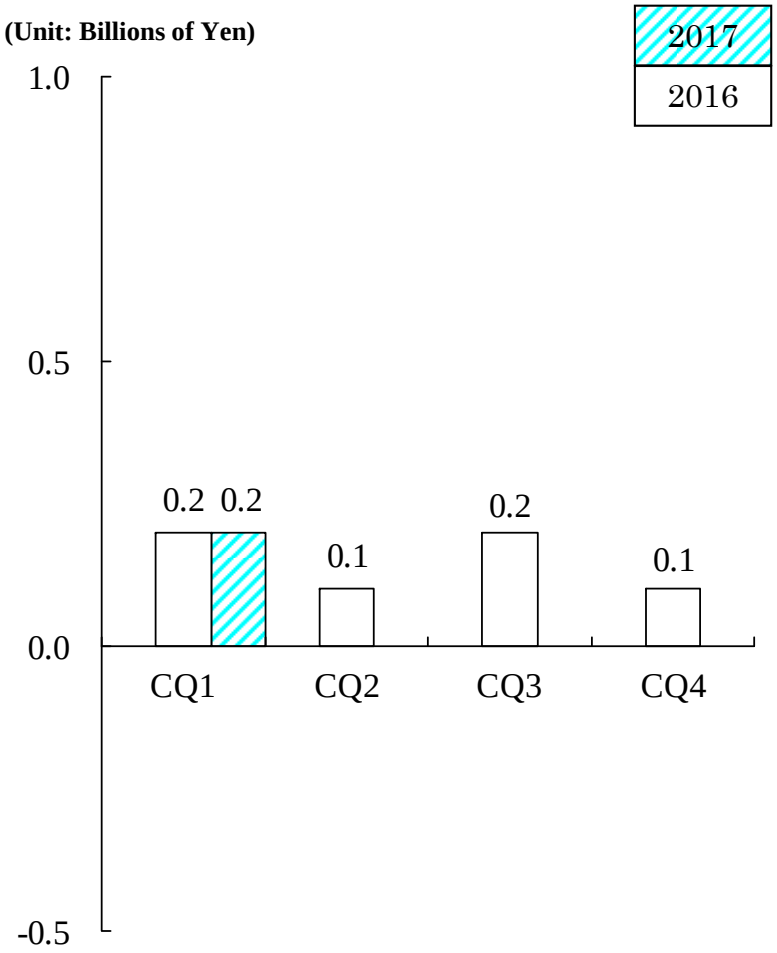
《Aluminum》

(Unit: Billions of Yen)



《Others》

(Unit: Billions of Yen)



(note) From 2017 SDK changes the segmentation (LIB materials is transferred from "Others" to "Electronics") . Figures of 2016 are based on the new segmentation.

Delay in announcement of 2016 financial results and other related documents

SDK postponed announcement of its consolidated financial results for the year ended in December 2016, which was originally scheduled to be on February 14, 2017, and finally announced them on April 25, 2017. This delay was caused by the occurrence of necessity to investigate details of transactions between BE International Corporation (BE, a subsidiary of Shoko Co., Ltd.) and its specific customer. Shoko Co., Ltd. (Shoko) is a consolidated subsidiary of SDK.

Shoko established the Special Examination Committee, including outside experts, to examine the issue from professional and objective point of view, and mate its utmost effort to find facts. Later, the Special Examination Committee reported results of the examination to the management of Shoko, and Shoko disclosed the report on April 17, 2017. In the report, the Special Examination Committee concluded that the subject of the relevant transactions had no substance, no one among officers/employees of Shoko or BE had the perception that the subject of transactions had no substance, those transactions were only circulation of funds, and there was no similar transaction at Shoko or its subsidiaries.

SDK accordingly amended accounting of those transactions as normal commercial transactions which were posted as sales, submitted its annual securities report for the 108th business term and amended prior-year annual securities reports to Kanto Local Finance Bureau on April 25, 2017. On the same day, SDK also disclosed 2016 financial statements and amended prior-year financial statements. Beforehand, SDK applied to Kanto Local Finance Bureau for extension of deadline for its annual securities report for the 108th business term, and gained approval for the extension with new deadline of May 1, 2017.

Under these circumstances, SDK could not report its business report and consolidated financial statements for the fiscal year ended in December 2016 to the 108th ordinary general meeting of shareholders held on March 30, 2017, which was based on the record date of December 31, 2016, and decided to abandon payment of year-end dividend to shareholders. SDK will have extraordinary general meeting of shareholders on June 27, 2017 based on the record date of May 11, 2017, submit business report, consolidated financial statements, and other related documents for the fiscal year ended in December 2016, and propose to pay dividend of ¥30 per share.

We sincerely apologize for any inconvenience caused to our shareholders, investors, and other stakeholders.

SDK will give full support to formulation and implementation of specific measures to prevent recurrence of similar problems which are to be done by Shoko as early as possible, recognize strengthening of group-wide risk management function as an urgent task, and further strengthen internal control of the Showa Denko Group.

Topics

[General]

- Decided not to renew reaction policy on large-scale share purchases

  SDK decided not to renew its Reaction Policy on Large-scale Purchases of the Company's Stock Certificates (Reaction Policy), which was due to expire at the close of its 108th ordinary general meeting of shareholders held on March 30, 2017. SDK introduced the Reaction Policy at the 99th ordinary general meeting of shareholders held in march 2008, and maintained it until this March. However, SDK carefully studied the changes in social environment following the application of the Corporate Governance Code and other factors as well as their influence, and decided not to renew the Reaction Policy at its expiration date. SDK will continue its efforts to enhance its corporate value and the common interests of its shareholders. With regard to persons who intend to make large-scale purchases of SDK's stock certificates, SDK will ask them to provide sufficient information necessary for the shareholders in making an appropriate decision regarding the propriety of such large-scale purchases. At the same time, SDK will disclose the opinion of its Board of Directors, secure sufficient time for consideration by shareholders, and take other steps within the framework of relevant laws and regulations.

- Received "2016 Top 100 Global Innovators" Award, 2 years in a row

  In January 2017, SDK received "The Clarivate Analytics 2016 Top 100 Global Innovators" award. Clarivate Analytics, formerly the Intellectual Property & Science business of Thomson Reuters, selected the top 100 global innovation-leading companies and organizations by utilizing strict and objective data compiled from its value-added patent citation database which is the world's largest one in this category, its intellectual property intelligence platform, and the company's original basis for evaluation. In the screening process of the award, Clarivate Analytics used scientific and objective methodology involving four main criteria of "patent volume," "application-to-grant success," "globalization" and "citation influence." This time, Clarivate Analytics commended SDK's high performance in "globalization" and "citation influence," and rated the latter especially high. The Showa Denko Group has designated its intellectual property strategy as an important part of its overall business strategies. The Group will continue its intellectual property strategy through close integration with business and R&D strategies.

Topics

[Aluminum segment]

- **Showa Aluminum Can decided to establish second production base in Vietnam**

  Showa Aluminum Can Corporation (SAC), a consolidated subsidiary of SDK, decided to establish its second base in Vietnam to produce aluminum cans, aiming to expand its business in that country. This new production base is to be located in Quang Nam Province, which occupies the mid-portion of Vietnam. Quang Nam Province is contiguous with Da Nang City, the largest city in the mid-portion of Vietnam. Many Vietnamese and foreign beverage manufacturers have decided to establish, or already established their factories in Quang Nam Province. At the new factory, SAC will install a line that can produce 700 million can bodies a year. In addition, synchronizing with this installation, SAC will install an additional line to produce can ends in Hanacans' existing factory in the suburbs of Hanoi in northern Vietnam. Through the installation of these new lines, Hanacans' capacity to produce can bodies and can ends in Vietnam will be expanded to that for 2 billion cans a year by October 2018. Since its acquisition of Hanacans, a can manufacturer of Vietnam, in May 2014, SAC has been introducing its leading-edge production technologies and quality control system into Hanacans, successfully expanding Hanacans' sales in Vietnam. SAC will pursue further expansion of its aluminum can business in Vietnam through quickly and timely offer of products which meet needs of the market.

Topics

[Aluminum segment]

- **Showa Denko Group to establish JV with Carabao Group in Thailand**

  In March 2017, SDK, Showa Aluminum Can Corporation (SAC), which is a consolidated subsidiary of SDK, and Carabao Group Public Company Limited (CBG), a beverage maker which has the second largest share in the energy drink market of Thailand, have agreed to establish a joint corporation to manufacture and sell aluminum cans. The Showa Denko Group aims to expand its overseas business operation, centering on Asia, and has investigated the feasibility of its entrance into another emerging country's market after its entrance into the Vietnamese market. CBG is expected to continue expanding its business because it already has majority shares in the markets of many emerging countries including Cambodia, where increases in population and improvements in standards of living are expected. Thus SDK and SAC decided to establish the joint corporation with CBG. At the factory of the new company, we will install one production line with a capacity of 1 billion cans per year. The new company will supply aluminum cans to the adjacent factory of CBG to fill beverages into containers. Hanacans will have the right of priority to supply aluminum can lids to the new company. In its ongoing consolidated medium-term business plan "Project 2020+," the Group classifies its aluminum can business into "Growth-accelerating" businesses.

PROJECT 2020+

