SHOWA DENKO

PROJECT 2020+

SHAPING IDEAS

ACHIEVING SUSTAINABLE GROWTH THROUGH INNOVATION

Annual Report 2015

Showa Denko K.K.

Our Vision

We at the Showa Denko Group will provide products and services that are useful and safe and exceed our customers' expectations, thereby enhancing the value of the Group, giving satisfaction to our shareholders, and contributing to the sound growth of international society as a responsible corporate citizen.

SHOWA DENKO

Forward-Looking Statements:
This annual report contains statements relating to management's projections of future profits, the possible achievement of the Company's financial goals and objectives, and management's expectations for the Company's product development program. The Company cannot guarantee that these expectations and projections will be realized or correct. Actual results may differ materially from the results anticipated in the statements included herein due to a variety of 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. The timely commercialization of products under development by the Company may be disrupted or delayed by a variety of factors, including market acceptance, the introduction of new products by competitors, and changes in regulations or laws. The foregoing list of factors is not inclusive. We undertake no obligation to update the forward-looking statements unless required by law.

Profile

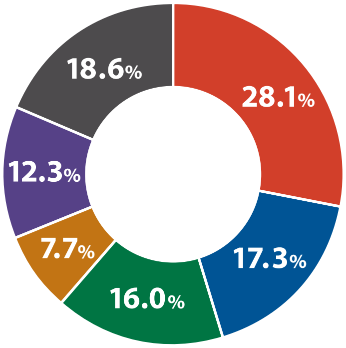
Ranking as one of Japan's leading chemical companies, Showa Denko K.K. (SDK) operates in the six major segments of petrochemicals, chemicals, electronics, inorganics, aluminum, and others.

In line with the "PEGASUS Phase II" business plan (2014-2015), which was the latter part of the consolidated medium-term business plan "PEGASUS" (2011-2015), the Showa Denko Group steadily took various measures to establish itself as "a chemical company with a strong presence on the global market." More specifically, in the business category of "Growth," we expanded capacities of our bases to produce high-purity gases for electronics in East Asia, and established an integrated system to produce aluminum cans and can-ends in Vietnam, aiming to further enhance our earning power through acceleration of our business expansion in the rapidly growing Asian market.

Furthermore, in the new consolidated medium-term business plan "Project 2020+" that we initiated in 2016, we revised our business portfolio, and clarified the mission of each business in order to expand and strengthen the Group's "individualized businesses." These businesses are expected to maintain their high-level profitability and stability, thereby contributing to sustainable growth of the Group. Thus we will reform our business structure, strengthen our revenue base, and enhance our corporate value.

Showa Denko aims to earn the full trust and confidence of the market and society, always managing operations based on the principles of corporate social responsibility. The Company is also committed to the principles of Responsible Care and is vigorously carrying out an action plan to protect the environment as well as health and safety.

Showa Denko at a Glance



Net sales 2015

¥781.0 billion

Note: The ratios of respective segments have been calculated after adding the amount of adjustments to net sales.

Petrochemicals

Olefins (ethylene and propylene) and organic chemicals (vinyl acetate monomer, ethyl acetate, and allyl alcohol) *(See page 20)*

Chemicals

Functional chemicals (polymer emulsion, unsaturated polyester resin and industrial phenolic resin), industrial gases (liquefied carbon dioxide, dry ice, oxygen, nitrogen, and hydrogen), basic chemicals (liquefied ammonia, acrylonitrile, and chloroprene rubber), and electronic chemicals (high-purity gases for electronics) *(See page 20)*

Electronics

Hard disks (HDs), compound semiconductors (LED chips), and rare earth magnetic alloys *(See page 22)*

Inorganics

Graphite electrodes and ceramics (alumina and abrasives) *(See page 22)*

Aluminum

Rolled products (high-purity foils for capacitors), specialty components (cylinders for laser beam printers [LBPs], forged products, and heat exchangers), and beverage cans *(See page 23)*

Others

Lithium-ion battery (LIB) materials, building products, and general trading *(See page 24)*

Our Strengths

Showa Denko has many products maintaining high market shares in the world.
Let us introduce products of high priority in our business portfolio designed under the new medium-term business plan “Project 2020+.”

Advantage-establishing

Growth-accelerating

Base-shaping

Global positions are Showa Denko estimates.

1 Aluminum laminated film for LIB packaging

The second largest manufacturer in the world

We provide packaging materials for pouch-type lithium ion batteries (LIBs) used in smartphones and tablet PCs. Demand for pouch-type LIBs is growing due to such advantages as high levels of heat dissipation and flexibility in molding.

2 SiC epitaxial wafers for power devices

The second largest independent manufacturer in the world

We have been contributing to the commercialization and market expansion of “full SiC” power modules through production of high-grade SiC epi-wafers for power transistors since 2015, in addition to those for diodes. SiC-based power devices are attracting attention due to their features that enable production of smaller, lighter, and more energy-efficient next-generation power control modules.

3 High-purity gases for electronics

The world’s largest manufacturer of HBr and Cl_2

High-purity gases for electronics are used as etching and cleaning gases, and materials for membrane formation, which are necessary for production of electronic devices including semiconductors, LCD panels, and solar batteries.

4 Aluminum cans

The second largest manufacturer in Vietnam and the fourth largest in Japan

Since 1971, we have been operating our aluminum can business as a pioneer who produced the first aluminum can for beverages in Japan. In 2014, we affiliated the largest can manufacturer in northern Vietnam, aiming to expand our aluminum can business in the ASEAN region, with focus on the Vietnamese market where rapid market expansion for cans of beer is expected due to population growth and the rise in the standard of living.

5 HD media

The world’s largest independent manufacturer

HD media, one of the major parts of HD drives, are used in notebook PCs, consumer electronics, and external hard disk drives. Demand is expected to grow further for use in servers for cloud computing.

6 Graphite electrodes

The world’s leading manufacturer of large-diameter (30- and 32-inch) graphite electrodes

We are a representative manufacturer in Asia of graphite electrodes used in electric arc furnaces for steel production. In terms of large-diameter electrodes of 30 inches or more, we are the leading company in the world.

7 High-purity aluminum foil for capacitors

The world’s largest manufacturer

We provide high-purity aluminum foil for aluminum electrolytic capacitors, which are widely used in air conditioners, automotive parts, and solar power generation. Our proprietary manufacturing process has enabled us to realize high productivity and quality.

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Consolidated Five-year Summary

Financial Highlights

Showa Denko K.K. and Consolidated Subsidiaries			Millions of yen			Thousands of U.S. dollars (Note1)
December 31	2011	2012	2013	2014	**2015**	**2015**
For the year						
Net sales	¥ 854,158	¥ 739,811	¥ 848,071	¥ 876,580	**¥ 780,958**	**$ 6,475,065**
Operating income	47,357	28,108	25,953	20,915	**33,672**	**279,181**
Net income	16,980	9,368	9,065	3,500	**969**	**8,035**
Net cash provided by operating activities	69,437	53,310	63,565	65,996	**62,418**	**517,523**
Net cash provided by (used in) investing activities	(38,672)	(40,209)	(46,738)	(47,225)	**(43,923)**	**(364,173)**
Free cash flow	30,765	13,101	16,827	18,771	**18,495**	**153,350**
Capital expenditures	38,794	42,503	44,370	47,318	**44,059**	**365,302**
Depreciation and amortization	49,413	46,232	39,779	40,673	**42,137**	**349,365**
At year-end						
Total assets	941,303	933,162	985,771	1,011,083	**941,314**	**7,804,606**
Total net assets	295,745	314,966	345,811	320,504	**309,774**	**2,568,398**
Interest-bearing debt	347,308	342,262	353,686	383,124	**368,835**	**3,058,084**
Debt/equity ratio (Times)	1.17	1.09	1.02	1.20	**1.19**	
			Yen			U.S. dollars (Note 1)
Per share						
Net income — primary (Note 2)	¥ 11.35	¥ 6.26	¥ 6.06	¥ 2.38	**¥ 0.68**	**$ 0.01**
Net income — fully diluted (Note 2)	11.20	—	—	—	**—**	**—**
Net assets	168.33	182.24	201.27	210.16	**208.04**	**1.72**
Cash dividends (applicable to the period)	3.00	3.00	3.00	3.00	**3.00**	**0.02**
Number of employees at year-end	11,542	9,890	10,234	10,577	**10,561**	

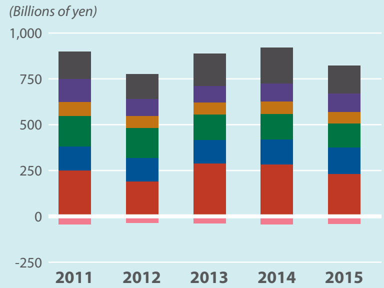
Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥120.61 to US$1.00, the approximate rate of exchange at December 31, 2015.
2. Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds. Diluted net income per share for 2015 and 2014 were not disclosed because there were no dilutive shares. Diluted net income per share for 2013 and 2012 was not disclosed because the Company had no securities with dilutive effects.

Non-Financial Highlights

	2010	2011	2012	2013	**2014**
Environmental data*					
Discharged amounts of greenhouse gases (kt-CO_2) (Showa Denko Group)	2,728	2,695	2,509	2,702	**2,678**
Final landfill volumes of industrial waste (t) (Showa Denko Group)	2,591	2,144	2,085	1,360	**1,158**
Social data					
Frequency rate of lost-time injuries (Showa Denko Group)	0.14	0.13	0.14	0.22	**0.43**

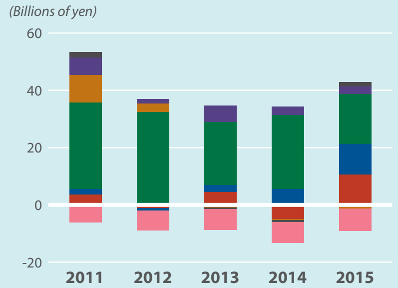
*Calculated for each environmental fiscal year from April 1 through March 31 of the following year.

Net Sales by Segment



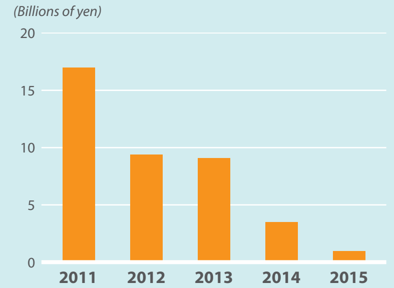
Petrochemicals
Chemicals
Electronics
Inorganics
Aluminum
Others
Adjustments

Operating Income by Segment

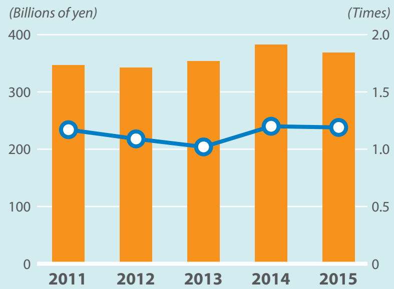


Petrochemicals
Chemicals
Electronics
Inorganics
Aluminum
Others
Adjustments

Net Income

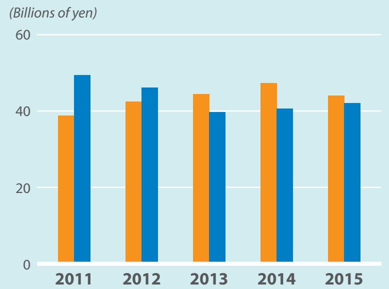


Interest-Bearing Debt
Debt/Equity Ratio



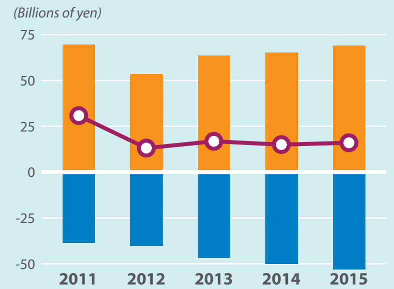
Interest-bearing debt *(Left axis)*
Debt/Equity ratio *(Right axis)*

Capital Expenditures
Depreciation and Amortization



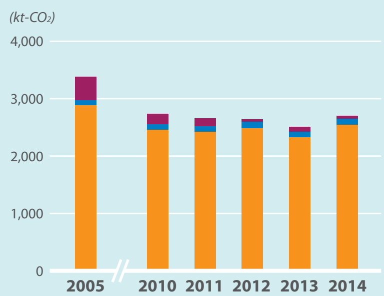
Capital expenditures
Depreciation and amortization

Cash Flows



Cash flows from operating activities
Cash flows from investing activities
Free cash flow

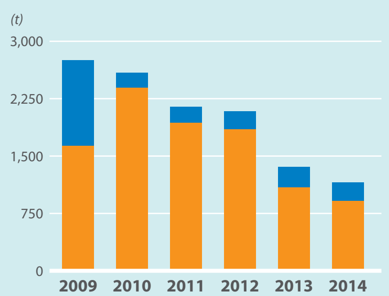
Trends in Greenhouse Gas Emissions*



CO_2 (Energy source origin)
CO_2 (Non-energy source origin)
5 GHGs other than CO_2

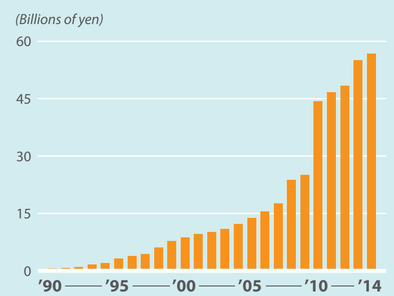
Base: 2005
(SDK and 9 subsidiaries in Japan)

Trends in the Final Volume of Landfill Disposal*



SDK
11 subsidiaries in Japan

Environment-Related Investment



Cumulative value since 1990
(SDK)

*Calculated for each environmental fiscal year from April 1 through March 31 of the following year.

Message from the Management

Kyohei Takahashi
Chairman of the Board

Hideo Ichikawa
President and CEO

With regard to the Showa Denko Group's business environment in 2015, the Japanese economy continued to recover gradually, though there were slightly bearish tendencies in exports and production. Corporate earnings maintained a high level due to a fundamentally weak yen and sluggish crude-oil prices. Consumer spending showed a steady change due to upward tendencies in employment and personal income.

As for overseas economies, the US economy maintained gradual recovery. Though the European economy has unstable factors, including the turmoil in Greece, there was economic recovery in Germany and the United Kingdom. On the other hand, China showed clear signs of a business slowdown, and other newly rising nations in Asia experienced bearish economies under the influence of the business slowdown in China. Economies of resource-producing countries also slowed down due to falls in prices of resources, including crude oil.

In the petrochemical industry, operating rates at domestic plants maintained high levels. Prices of raw naphtha and petrochemical products were affected significantly by the large drop in prices of crude oil. The electronic parts/materials industry maintained high level production of semiconductors, including memory chips for smartphones, both at home and abroad, though the production of PCs showed a falling tendency.

Under these circumstances, the Showa Denko Group completed its "PEGASUS Phase II" business plan at the end of 2015. In January 2016, we started our new medium-term consolidated business plan "Project 2020+." Under this new business plan, in order to achieve continuous growth of the Showa Denko Group, we will expand and strengthen our "individualized businesses," reform our business structure, strengthen our revenue base, and reduce fluctuation of income, thereby enhancing our corporate value.

The Group recorded consolidated net sales of ¥780,958 million in 2015, down 10.9% from the previous year. While sales in the Chemicals and Aluminum segments increased, sales in the Petrochemicals, Electronics, Inorganics and Others segments decreased. Operating income jumped 61.0%, to ¥33,672 million. The Petrochemicals segment recorded a considerable increase in operating income due to the recovery in the market for petrochemical products in the middle of the year, in addition to the rebound from the periodic shutdown maintenance that took place in 2014. The Chemicals segment recorded higher income due to solid sales of electronic chemicals to the thriving semiconductor industry. The Others segment also recorded higher income. On the other hand, the Electronics segment recorded lower income due to lower shipment volumes of HD media and loss on write-down of the book value of rare earth inventory. The Inorganics and Aluminum segments also recorded lower income.

The Group posted a net income of ¥969 million, down 72.3%, due partly to the increase in extraordinary loss resulting not only from the posting of provision of allowance for doubtful accounts concerning Shoko Co., Ltd.'s business in China, but also from the posting of impairment loss concerning fixed assets of Showa Denko Sichuan Carbon Inc. of China and rare earth business operations in Japan and China. An increase in tax expenses also decreased net income.

Dividends of ¥3.00 per share were paid to shareholders on record at the end of December 2015.

With regard to capital investment in 2015, we bolstered facilities for high-purity gases for electronics, expanded used-plastic gasification facilities, established an integrated aluminum can production system at a subsidiary in Vietnam, and increased production capacity for SiC epitaxial wafers boasting vastly reduced defect density for use in power devices. However, our capital investment to expand the capacity to produce graphite electrodes in the United States peaked off by the end of the previous year, and our capital investment in the Petrochemicals segment in 2015 was also reduced from the previous year because we had periodic shutdown maintenance in 2014. As a result, our capital expenditures in 2015 decreased ¥3,259 million from the previous year, to ¥44,059 million.

The outstanding balance of interest-bearing debt as of the end of 2015 decreased ¥14,289 million, to ¥368,835 million. Meanwhile, the D/E ratio improved 0.01 from the previous year, to 1.19.

Segment Performances

A breakdown of net sales and operating income by segment is as follows:

In the **Petrochemicals** segment, sales decreased 17.8%, to ¥231,288 million. Sales of olefins decreased owing to a fall in prices of products reflecting the sharp drop in the price for raw naphtha. Sales of organic chemicals were down due to a fall in sales price of vinyl acetate, though sales of ethyl acetate increased due to higher shipment volumes.

The segment recorded operating income of ¥10,543 million, an improvement of ¥15,473 million, due mainly to an increase in the margin on olefins.

In the **Chemicals** segment, sales increased 2.3%, to ¥142,292 million. With regard to our basic chemicals business, sales of chloroprene rubber increased due to higher shipment volumes to the United States. Sales of acrylonitrile decreased following a fall in market prices. Sales of electronic chemicals increased due to a major increase in shipment volumes of high-purity gases for electronics reflecting a boost in production of semiconductors in East Asia. Sales of functional chemicals were up due to consolidation of Shanghai Showa Highpolymer Co., Ltd.

Operating income for this segment increased 96.1%, to ¥10,707 million.

In the **Electronics** segment, sales decreased 5.1%, to ¥131,492 million. Sales of HD media decreased due to the decrease in shipment volumes as a result of the backlash from high level replacement demand for PCs in 2014 triggered by the expiration of support for an old version of the operating system. Sales of rare earth magnetic alloys decreased due to a fall in market prices due to the repeal of export duty on rare earths by China in May 2015. Sales of compound semiconductors also decreased.

Operating income for this segment decreased 32.2%, to ¥17,472 million.

In the **Inorganics** segment, sales decreased 6.0%, to ¥63,476 million. Sales of graphite electrodes decreased due to the reduction in shipment volume, owing to a stagnating steel industry in the United States resulting from depressed demand for oil well pipes and import of low-priced steel, and also owing to the weak supply demand situation in the Asian steel market resulting from the export of steel materials from China. Sales of ceramics decreased slightly.

The segment recorded an operating loss of ¥1,249 million, down ¥949 million.

In the **Aluminum** segment, sales rose 2.9%, to ¥100,756 million. Sales of rolled products increased slightly due to a sales increase in China resulting from the start of commercial operation of expanded facilities at Showa Denko Aluminum (Nantong) Co., Ltd., China. Sales of aluminum specialty products decreased due to a reduction in shipment volumes to car manufacturers. Sales of aluminum cans were up due to an increase in shipment volumes of cans for coffee beverages and consolidation of Hanacans Joint Stock Company of Vietnam in June 2014, which contributed to the increase of consolidated sales throughout 2015.

Operating income for this segment decreased 14.5%, to ¥2,563 million.

In the **Others** segment, sales decreased 21.8%, to ¥152,459 million. Sales of lithium ion battery (LIB) materials increased due to the start of full-scale shipment for car applications, in addition to higher shipment volumes for smartphones. Shoko Co., Ltd.'s sales decreased significantly due to the fall in sales of its steel related business in China.

The segment recorded an operating income of ¥1,493 million, an improvement of ¥2,171 million due to higher shipment volumes of LIB materials.

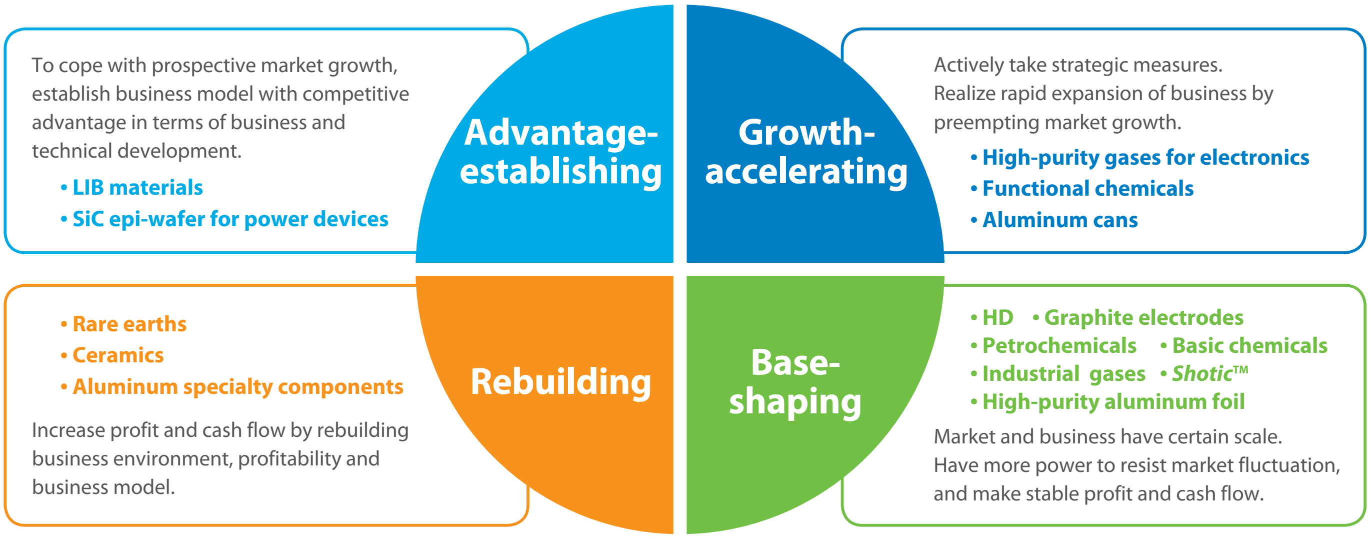
Starting "Project 2020+"

In January 2016, the Showa Denko Group started its new medium-term consolidated business plan "Project 2020+." Under this new business plan, the Group will expand and strengthen its "individualized businesses," which are expected to maintain their high-level profitability and stability, and promote these businesses in the global market. The Group will enhance its capability to resist fluctuation in market prices by providing customers with attractive products and services and holding many businesses that have top shares in the global market or other competitive markets of a certain scale.

In the business portfolio we aim to realize during the period of "Project 2020+," we classify our businesses into four categories: "Growth-accelerating," "Advantage-establishing," "Base-shaping," and "Rebuilding." We define missions for each business category in order to strengthen our businesses. We will further strengthen the earning power of our existing businesses by reforming business models, and also promote M&A and business alliances with other companies aiming to introduce new growth businesses from outside entities. In addition, aiming to promote globalization of our business activities and expand our "Individualized businesses" further, we will implement strategic capital investment in the growing Asian/ASEAN market, and also pursue growth opportunities in developed countries in Europe and North America.

Message from the Management *(cont.)*

Business portfolio in "Project 2020+":
Mission of each business



a) Growth-accelerating businesses

This category includes high-purity gases for electronics, functional chemicals, and aluminum cans businesses. In this business category, we will positively take strategic measures to take advantage of growing overseas markets, including Asian and ASEAN markets, and achieve fast expansion of these businesses.

b) Advantage-establishing businesses

This category includes lithium-ion battery (LIB) materials, and SiC epitaxial wafer for power devices businesses. In this business category, we will establish business models with competitive advantages in terms of business operation and technology development, since the markets for these two businesses are expected to manifest rapid growth in the near future.

c) Base-shaping businesses

This category includes hard disk (HD) media, graphite electrodes, petrochemicals, and some other businesses. These businesses are expected to maintain scales in terms of market and business operation. Therefore, we will equip these businesses with more power to resist fluctuation in market prices and earn stable profit and cash flow.

d) Capital investment plan

We will carry out capital investment amounting to ¥130 billion during the three years from 2016 to 2018. We will invest strategically, centering on Growth-accelerating and Advantage-establishing businesses.

e) R&D strategy

In order to resolve social issues and create new value in the five market domains of "Infrastructure," "Energy," "Mobility," "Living environment," and "Electronics," we will conduct unique R&D programs by enhancing and intergrating our diverse business domains, "Core technologies," which are elemental technologies with competitive advantages, and "Strategic technologies," which refer to world class technologies we have cultivated over many years. During the three year period from 2016 to 2018, we will invest ¥60 billion in our R&D activities.

Measures Implemented or Decided in 2015

1. Received "Thomson Reuters 2015 Top 100 Global Innovators" award

SDK received "The Thomson Reuters 2015 Top 100 Global Innovators" award. Thomson Reuters honors world leaders in innovation each year, utilizing its value-added patent citation database and intellectual property intelligence platform with scientific and objective methodology.

2. Expanded utilization of used plastic to produce liquefied ammonia *ECOANN*™

SDK completed the expansion of used-plastic gasification facilities at Kawasaki Plant. After the expansion, the percentage of hydrogen from used plastic to produce liquefied ammonia *ECOANN*™ will increase to 65%. The method to produce hydrogen from used plastic entails significantly lower environmental burden compared to conventional methods to produce hydrogen from petroleum-derived raw materials. *ECOANN*™ has been approved and rated highly as "eco-friendly goods for procurement" by major electric power companies.

3. Expanded and strengthened overseas bases to produce high-purity gases for electronics in East Asia and the ASEAN region

SDK expanded capacity in its production base in South Korea to produce high-purity nitrous oxide (N_2O), a specialty gas used to form oxide film in the process of producing semiconductors or LCDs. SDK also expanded capacity in Kawasaki Plant to produce high-purity hydrogen bromide (HBr), a specialty gas used for etching polysilicon in the manufacturing process of semiconductors, including NAND flash memories and DRAMs, and increased capacity in its subsidiary Taiwan Showa Chemicals Manufacturing Co., Ltd. to produce high-purity ammonia (NH_3), a specialty gas used in production of LEDs and LCD panels.

4. SDK's media now used in world's-highest-capacity 10TB HDD

SDK's HD media have been adopted in helium-filled 10 terabyte HDDs, which represent the world's highest storage capacity*. The 3.5-inch HD media adopted this time have storage capacity of 1.3-1.5TB per platter, using the eighth-generation PMR technology.

HDDs are now increasingly used in data centers, reflecting exponential growth in data in line with the progress of cloud computing.

*As in December 2015, SDK estimates.

5. Strengthened aluminum can business at home and abroad

Showa Aluminum Can Corporation, a subsidiary of SDK, set up a new facility to produce aluminum cans for coffee beverages in its Oyama Plant located in Tochigi Prefecture, and started its commercial operation. The scale of the domestic market for cans to be used to contain coffee beverages is about 10 billion cans per year, most of which were made of steel in the past.

Hanacans Joint Stock Company of Vietnam, a subsidiary of SDK, newly constructed a production line for aluminum can-ends. The new facilities enabled Hanacans to establish an integrated system production of cans and can-ends, thus realizing further quality improvement and stable production across all product lines. The demand for canned beer in Vietnam has been increasing about 10% every year as a result of the rise in the standard of living. We will expand our aluminum can business in Vietnam by meeting this rapidly growing demand.

6. Released SiC epitaxial wafers with very low defect density

SDK developed a new grade of silicon carbide (SiC) epitaxial wafers for power devices with very low defect density, and started commercial shipments of the new grade under the trade name of "High-Grade Epi" (HGE). SiC power devices are already used as power sources of servers, distributed power supply systems for new energies, and in railcars. Demand for SiC power devices as onboard equipment is expected to grow further.

While rapid economic growth in emerging countries is bringing about a rise in the standard of living, there is a growing need for concerted efforts to reduce impact on the global environment.

We will provide components, materials, and solutions in these areas based on our advanced and proprietary technologies, and contribute toward creating a society where affluence and sustainability are harmonized.

Moreover, while promoting our businesses, we will make utmost effort to ensure safety in operation, promote conservation of resources and energy, reduce discharge of industrial waste and chemicals, and positively contribute to preservation of the global environment.

We will continue to enhance corporate governance in order to ensure sound, effective and transparent management, as well as to genuinely become "a company that contributes to the sound growth of society." By doing so, we can continuously improve corporate value and gain the trust and respect of society. Aiming to achieve these goals, the Showa Denko Group established "Corporate Governance Basic Policies" in December 2015.

The world economy is undergoing drastic changes in the market structure. Under the new medium-term consolidated business plan "Project 2020+," the Group will expand and strengthen its "individualized businesses," and promote these businesses in the global market. The Group will provide sophisticated high-performance products and technologies, and will continue meeting customer requirements and social needs.

We look forward to the continued support of shareholders and all other stakeholders.

March 30, 2016

Kyohei Takahashi
Chairman of the Board

Hideo Ichikawa
President and CEO

Management Team as of March 30, 2016

From top left to bottom right: Akiyoshi Morita, Taichi Nagai, Kohei Morikawa, Tomofumi Akiyama, Masaharu Oshima , Masaru Amano, Kyohei Takahashi, Hideo Ichikawa, Saburo Muto

•Directors

KYOHEI TAKAHASHI *Chairman of the Board*

April 1968	Joined the Company
March 2002	Managing Director; Executive Officer, Petrochemicals Sector
March 2004	Senior Managing Director
January 2005	President
January 2007	President and Chief Executive Officer (CEO)
January 2011	Chairman of the Board

HIDEO ICHIKAWA *Representative Director, President*

April 1975	Joined the Company
January 2006	Corporate Officer; General Manager, Corporate Strategy Office
March 2008	Director; Corporate Officer; General Manager, Corporate Strategy Office
September 2008	Director; Corporate Officer; Executive Officer, HD Sector
January 2010	Director; Managing Corporate Officer; Executive Officer, HD Sector
January 2011	President and Chief Executive Officer (CEO)

MASARU AMANO *Representative Director*

April 1976	Joined the Company
January 2009	Corporate Officer; General Manager, Human Resources Office
January 2011	Corporate Officer; General Manager, General Affairs Office
January 2013	Corporate Officer, Chief Risk Management Officer (CRO)
March 2013	Director; Corporate Officer
January 2015	Director; Managing Corporate Officer
January 2016	Director; Senior Managing Corporate Officer, in charge of Internal Audit, Legal & Intellectual Property, General Affairs & Human Resources, and Purchasing & SCM departments; Chief Risk Management Officer (CRO)

SABURO MUTO

April 1976	Joined the Company
January 2011	Corporate Officer; General Manager, Finance Office
January 2013	Corporate Officer; General Manager, Finance & Accounting Department
January 2014	Chief Financial Officer (CFO)
March 2014	Director; Corporate Officer; General manager, Finance & Accounting Department
August 2014	Director; Corporate Officer
January 2015	Director; Managing Corporate Officer, in charge of Finance & Accounting and Information Systems departments; Chief Financial Officer (CFO)

KOHEI MORIKAWA

April 1982	Joined the Company
January 2013	Corporate Officer; General Manager, Electronic Chemicals Division
January 2016	Managing Corporate Officer; Chief Technology Officer (CTO)
March 2016	Director; Managing Corporate Officer, in charge of Electronics Chemicals and Functional Chemicals divisions, Business Development Center, Isesaki and Tatsuno plants, and Corporate R&D Department; Chief Technology Officer (CTO)

TAICHI NAGAI

April 1984	Joined the Company
January 2015	Corporate Officer; Plant Manager, Kawasaki Plant
January 2016	Corporate Officer
March 2016	Director; Corporate Officer, in charge of Production Technology, Energy & Electricity, SPS Innovation, and CSR departments

TOMOFUMI AKIYAMA *Outside Member*

April 1959	Joined Fukoku Mutual Life Insurance Company
July 1998	President, Fukoku Mutual Life Insurance Company
March 2008	Director, of the Company (incumbent)
July 2010	Chairman, Fukoku Mutual Life Insurance Company

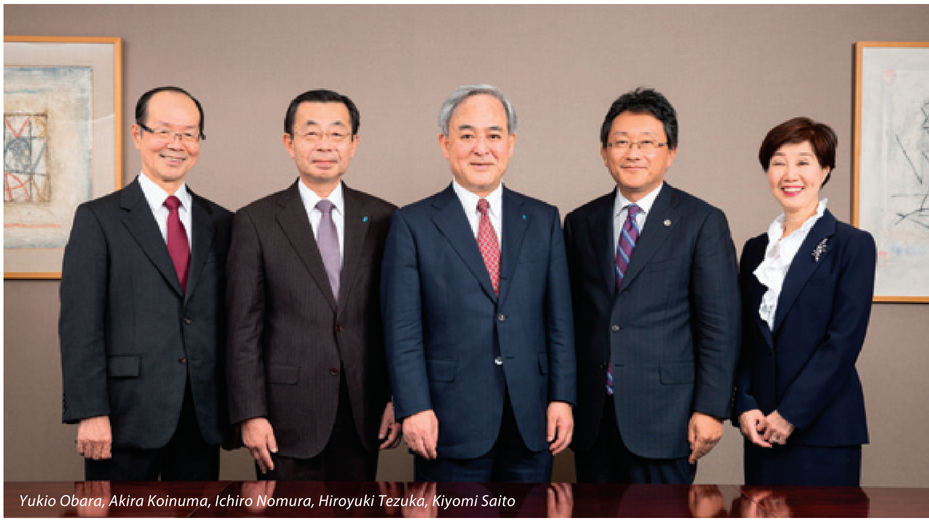
AKIYOSHI MORITA *Outside Member*

April 1967	Joined Toyota Motor Co., Ltd. (currently Toyota Motor Corporation)
June 1999	Senior Managing Director, Toyota Motor Corporation
June 2000	Executive Vice President, Aichi Steel Corporation
June 2004	President, Aichi Steel Corporation
June 2008	Chairman, Aichi Steel Corporation
June 2011	Advisor, Aichi Steel Corporation
March 2012	Director, of the Company (incumbent)
June 2015	Counselor, Aichi Steel Corporation

MASAHARU OSHIMA *Outside Member*

April 1974	Joined Nippon Telegraph and Telephone Public Corporation (currently Nippon Telegraph and Telephone Corporation)
November 1995	Professor, Applied Chemistry Department, Graduate School of Engineering, The University of Tokyo
April 2006	Director, Synchrotron Radiation Research Organization, The University of Tokyo
October 2009	Chairman, The Japanese Society for Synchrotron Radiation Research
April 2013	Project Professor, Synchrotron Radiation Research Organization, The University of Tokyo
May 2013	Chairman, The Surface Science Society of Japan
June 2013	Emeritus Professor, The University of Tokyo (incumbent)
April 2014	Project Researcher, Synchrotron Radiation Research Organization, The University of Tokyo (incumbent)
March 2015	Director, of the Company (incumbent)
April 2015	Special Professor, Tokyo City University

Audit & Supervisory Board Members


Yukio Obara, Akira Koinuma, Ichiro Nomura, Hiroyuki Tezuka, Kiyomi Saito

ICHIRO NOMURA

July 1971	Joined the Company
March 2004	Corporate Officer; General Manager, Planning Department, Aluminum Sector
January 2005	Corporate Officer
March 2005	Director
January 2007	Director; Corporate Officer
January 2008	Director; Managing Corporate Officer
January 2010	Director; Senior Managing Corporate Officer
August 2010	Director; Senior Managing Corporate Officer, in charge of Internal Audit, IR & PR, Accounting, Finance, and Information Systems offices; Chief Financial Officer (CFO)
March 2011	Audit & Supervisory Board Member

AKIRA KOINUMA

April 1975	Joined the Company
January 2008	Corporate Officer; Deputy Executive Officer, Technology Headquarters
January 2010	Corporate Officer; Executive Officer, Production Technology Headquarters
March 2011	Director; Corporate Officer; Executive Officer, Production Technology Headquarters
January 2012	Director; Managing Corporate Officer; Executive Officer, Production Technology Headquarters
January 2013	Director; Managing Corporate Officer
January 2015	Director; Senior Managing Corporate Officer, in charge of Production Technology, Energy & Electricity, SPS Innovation, and CSR departments; Chief Technology Officer (CTO)
March 2016	Audit & Supervisory Board Member

HIROYUKI TEZUKA *Outside Member*

April 1986	Registered with Dai-ichi Tokyo Bar Association Joined Nishimura & Sanada Law Offices (currently Nishimura & Asahi)
September 1992	Clearly, Gottlieb, Steen & Hamilton, New York
January 1993	Admitted to the bar of the state of New York
June 1993	Returned to Nishimura & Sanada Law Offices (currently Nishimura & Asahi) as Partner (incumbent)
March 2008	Audit & Supervisory Board Member, of the Company

YUKIO OBARA *Outside Member*

July 1969	Joined The Fuji Bank, Limited (currently Mizuho Bank, Limited)
March 2003	Deputy President, Mizuho Bank, Ltd.
June 2004	Corporate Auditor, Mizuho Financial Group, Inc.
June 2005	President & CEO, Mizuho Information & Research Institute, Inc.
March 2010	Chairman of the Board, Shoei Co., Ltd.
March 2010	Audit & Supervisory Board Member, of the Company

KIYOMI SAITO *Outside Member*

April 1973	Joined Nikkei Inc.
September 1975	Joined Sony Corporation
August 1984	Joined Morgan Stanley investment bank
January 1990	Executive Director, Morgan Stanley investment bank
April 2000	President, JBond Co., Ltd. (currently JBond Totan Securities Co., Ltd.) (incumbent)
April 2011	President, The Totan Information Technology Co., Ltd.
March 2012	Audit & Supervisory Board Member, of the Company

Corporate Officers and Senior Corporate Fellows

Chief Executive Officer

HIDEO ICHIKAWA

Senior Managing Corporate Officer

MASARU AMANO
Chief Risk Management Officer (CRO); Officer in charge of Internal Audit, Legal & Intellectual Property, General Affairs & Human Resources, and Purchasing & SCM departments

Managing Corporate Officers

SABURO MUTO
Chief Financial Officer (CFO); Officer in charge of Finance & Accounting and Information Systems departments

JIRO ISHIKAWA
General Manager, HD Division

KOHEI MORIKAWA
Chief Technical Officer (CTO); Officer in charge of Electronic Chemicals and Functional Chemicals divisions, Business Development Center, Isesaki and Tatsuno plants, and Corporate R&D Department

Corporate Officers

ROBERT C. WHITTEN
Assistant to President in charge of Global business strategy

KEIICHI KAMIGUCHI
Officer in charge of Industrial Gases and Basic Chemicals divisions, Kawasaki and Higashinagahara plants

KANJI TAKASAKI
Officer in charge of Aluminum Rolled Products, Aluminum Specialty Components, and Aluminum Can divisions, Oyama and Kitakata plants

TATSUHARU ARAI
General Manager, Petrochemicals Division; Officer in charge of Oita Complex

NOBUHIKO KAWAMURA
General Manager, Electronics Materials Division; Officer in charge of Chichibu Plant

JUN TANAKA
General Manager, Advanced Battery Materials Department

JUNICHI INAIZUMI
General Manager, Aluminum Speciality Components Division

YOUICHI TAKEUCHI
Oita Complex Representative

TAKAYUKI SATO
General Manager, Business Development Center and Institute for Integrated Product Development

MOTOHIRO TAKEUCHI
General Manager, Ceramics Division; Officer in charge of Yokohama and Shiojiri plants

TAICHI NAGAI
Officer in charge of Production Technology, Energy & Electricity, SPS Innovation, and CSR departments

HIDEHITO TAKAHASHI
General Manager, Corporate Strategy Department; Officer in charge of Ceramics and Carbon divisions, and Omachi Plant

KOICHI NISHIMURA
General Manager, Industrial Gas Division; President, Showa Denko Gas Products Co., Ltd.

TOSHIHARU KATO
General Manager, Finance & Accounting Department

MASAMICHI YAGISHITA
General Manager, Electronic Chemicals Division; Officer in charge of Tokuyama Plant

MASUNORI KAIHO
General Manager, Kawasaki Plant

Senior Corporate Fellows

HIROSHI SAKAI
General Manager, Technology Development Control Department, HD Division

YOSHIYUKI NISHIMURA
Assistant to President in charge of market development for electronics and battery materials

TETSU MORIKI
General Manager, Legal & Intellectual Property Department

Corporate Governance

Message from Kyohei Takahashi, Chairman of the Board

The Showa Denko Group views the strengthening of corporate governance as one of its top-priority management issues. In December 2015, the Company established "Corporate Governance Basic Policies," aiming to promote constructive dialogue with shareholders and other stakeholders, thereby increasing corporate value and shareholders' common interests. Based on the Basic Policies, we updated our Corporate Governance Report.

One year has passed since we established a system under which outside directors account for one-third of the nine-member Board of Directors. As for the Audit & Supervisory Board, three out of the five members are outside members. Those outside board members are experts representing the insurance/finance industry, the manufacturing industry, academia, and legal professionals. They give us valuable advice and comments from various perspectives.

Both boards have high attendance rates, keenly discussing a wide variety of matters relating to the Group's management, including capital investments and the preparation of our new medium-term consolidated business plan "Project 2020+." We will continue striving to further strengthen our corporate governance and enhance our value.

1. Basic Concept regarding Corporate Governance

We will promote corporate governance to ensure the soundness, effectiveness, and transparency of management, and to continue enhancing our corporate value, thereby contributing to the sound growth of society and earning its full trust and confidence. To that end, it is essential for us to strengthen relations with our stakeholders, including shareholders, customers, suppliers, community residents, and employees. Based on the above, we have clarified our mission in the form of the Group's vision as stated below, and we are working hard to realize this vision.

VISION

We at the Showa Denko Group will provide products and services that are useful and safe and exceed our customers' expectations, thereby enhancing the value of the Group, giving satisfaction to our shareholders, and contributing to the sound growth of international society as a responsible corporate citizen.

* Please visit our website (URL: http://www.sdk.co.jp/english/csr/governance.html) for our "Corporate Governance Basic Policies" (established in December 2015).

2. Condition of the Company's Supervision and Decision-Making Functions

We have adopted the Audit & Supervisory Board system to enhance the fairness and transparency of management, ensuring efficient management of the Company. To clearly separate management supervision functions from business execution functions, we have introduced the corporate officer system. The top management team, consisting of the President and corporate officers in charge of respective operations, is working to increase the speed of decision making and vitalize operations. Meanwhile, the Company has substantially reduced the number of directors. In addition, we have strengthened the supervision functions by appointing outside directors. At Board meetings held once or twice a month, the Board decides the Company's basic policy and decides, after full deliberation, on matters provided for in the Companies Act and the Company's Articles of Incorporation as well as important matters for the execution of the Company's operations, ensuring a speedy and vigorous decision-making process. We appoint directors from the viewpoint of strengthening corporate governance, aiming to strengthen the Board of Directors' supervision functions and ensure the propriety of the decision-making process. We make sure that corporate officers whose duties are primarily business execution will not concurrently serve as directors, in principle. Furthermore, we have abolished the positions of managing directors and senior managing directors to put all directors (except for the Chairman and President) on an equal footing, while strengthening the supervision by Audit & Supervisory Board Members (including outside members) and mutual supervision among directors. The term of office of directors has been shortened to one year to ensure a quick response to changes in the business environment and to clarify the management responsibility of directors. At the Company's Ordinary General Meeting of Shareholders held on March 30, 2016, nine directors, including three outside directors, were appointed.

3. Condition of Business Execution

The Management Committee, which meets once a week in principle and is chaired by the President, deliberates and decides on matters to be referred to the Board of Directors' meetings and important matters pertaining to overall management of the Company. The decisions are made after deliberations on two occasions. As for investment plans, their risks are examined by task teams before referral to the Management Committee, and their progress is monitored after authorization. The Company's medium-term business plans are decided not only by the Management Committee but also by the participation of all corporate officers.

The Company considers that responsible execution forms the basis of corporate activities. The Company evaluates performances of respective business segments to ensure the effective implementation of the performance-based evaluation system. The Company has Security Export Control and Safety Measures committees under the CSR Committee chaired by the President. The Company also has Responsible Care, Risk Management, Human Rights/Corporate Ethics, and IR promotion councils. These committees and councils investigate, study, and deliberate on specific matters important for the execution of businesses.

4. Condition of Audit & Supervisory Functions

The Company's Audit & Supervisory Board consists of five members, including three outside members. The members attend the Board of Directors' meetings and other important internal meetings, offering opinions as necessary. They audit and supervise the execution of operations through such means as field investigations, hearing sessions, and perusal of important documents, making proposals and providing advice and recommendations to ensure the sound management of the Company. They are working to strengthen the consolidated audit & supervisory system in cooperation with auditors of major associated companies.

We have a department for internal audit reporting directly to the President. The Internal Audit Department investigates the overall execution of business, checking for accuracy, propriety, and efficiency. It also investigates the management policies, business plans, and their execution, checking for consistency and soundness. The results of internal auditing are reported to Audit & Supervisory Board members to ensure consistency with their audits.

As for matters relating to the environment and safety, respective divisions in charge conduct Responsible Care audits. KPMG AZSA LLC conducts auditing of the Company based on an auditing contract and an annual plan agreed upon with the Audit & Supervisory Board, and provides the board with audit results. The accounting corporation and the Audit & Supervisory Board exchange information and views from time to time to strengthen their cooperation.

5. Compliance and Risk Management

The Company's Board of Directors has decided to strengthen compliance and promote risk management as key components of its internal control system. The Board will continue to work on these issues.

Compliance

In accordance with the Rules on Promotion of Human Rights and Corporate Ethics, the Company has established the Human Rights/Corporate Ethics Promotion Council under the CSR Committee, which is chaired by the President. The council establishes medium- to long-term action plans and considers important matters pertaining to compliance, while working out specific measures based on the action plan and monitoring the progress. To prevent a transgression, detect it early, and ensure appropriate response, we have established an internal check system and communication channels inside and outside the Group for reporting the matter.

We are working to strengthen compliance by observing Corporate Ethics Month every January and repeatedly holding training courses. In the event of transgressions, the Company takes measures to prevent recurrence and takes appropriate disciplinary actions. The performance evaluation of each unit is to reflect such transgressions.

Risk management

The Management Committee, held on a weekly basis, examines important matters from various angles. In particular, investment plans are examined carefully from such viewpoints as strategic importance and risk management. Furthermore, their progress is monitored and their results are reviewed. Respective business units and staff sections work to control risks through careful analysis and evaluation.

In accordance with the Rules on Risk Management, the Company has established the Risk Management Promotion Council, chaired by the Company's Chief Risk Management Officer, under the CSR Committee. The council regularly evaluates overall risks, while working out measures regarding high-risk matters and checking how the measures are implemented. In a state of emergency, such as accidents and disasters, the Company establishes emergency headquarters and takes various measures in accordance with relevant rules.

We have also established the Responsible Care Promotion Council (aiming to protect the environment, safety, and health) and the Security Export Control Committee (aiming to ensure compliance with laws regarding export of restricted items, etc.). Relevant staff sections control individual risks appropriately by establishing in-house rules and manuals as well as providing training courses.

6. Reaction Policy on Large-Scale Purchases of the Company's Stock Certificates, etc.

The Company believes that its shareholders should be determined through the free movement of its shares in the market. Although proposals regarding the large-scale purchases of the Company's shares are made by specific persons, the decision whether to sell the Company's shares in response to such a proposal shall eventually be made based on the opinion of the shareholders, which is reached after being given the sufficient information necessary for making an appropriate decision and sufficient time for consideration.

In light of the basic policy stated above, the Company has renewed its efforts to prevent inappropriate persons from controlling its financial and business policy decisions. A renewed "Reaction Policy on Large-scale Purchases of the Company's Stock Certificates (Takeover Defense)" was approved at the Company's Ordinary General Meeting of Shareholders held on March 27, 2014. (For details, please refer to the Company's press release dated February 13, 2014.)

Corporate Governance *(cont.)*

7. Other

Remuneration, etc., to the members of the Board of Directors and the Audit & Supervisory Board as well as the auditing corporation (for the period from January 1 through December 31, 2015) is as follows:

Remuneration, etc., to the board members

	Number of applicable persons	Paid amount
Members of the Board of Directors (excluding outside members)	7	¥236 million
Members of the Audit & Supervisory Board (excluding outside members)	2	¥ 56 million
Outside board members	6	¥ 65 million
Total	15	¥356 million

Remuneration to the auditing corporation

	Paid amount
Name of accounting auditor: KPMG AZSA LLC Remuneration for the issuance of auditing certification based on the audit contract	¥189 million

8. Personal/Financial Relations and Interests between the Company and Outside Board Members

The Company has three outside members each for its Board of Directors and the Audit & Supervisory Board. None of them has special interests in the Company. An outline of the Company's corporate governance system is shown below.

Reasons for Appointment

Board of Directors

Tomofumi Akiyama (Outside Member)
We have received from him valuable advice on the management of the Company based on his insight and his experience in managing a life insurance company for many years.

Akiyoshi Morita (Outside Member)
We have received from him valuable advice on the management of the Company based on his insight and his experience in managing a car manufacturing company and a special steel manufacturing company for many years.

Masaharu Oshima (Outside Member)
We have received from him valuable advice on the management of the Company, especially in the field of research and development, based on his abundant expertise and experience as a researcher of electronics. Though Mr. Oshima has not taken part in management of business companies in the past, he participated in the commercialization of results of joint researches with multiple companies.

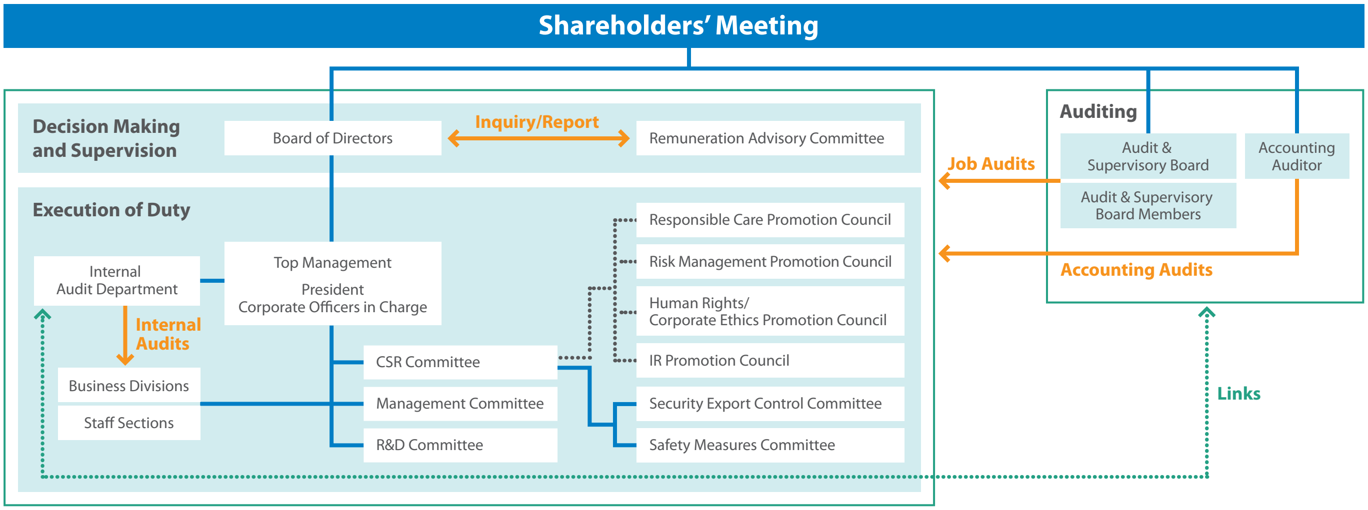
Audit & Supervisory Board Members

Hiroyuki Tezuka (Outside Member)
Since his inauguration as Audit & Supervisory Board Member of the Company, he has contributed toward securing the appropriateness of the management of the Company, giving advice from the viewpoint of risk management and compliance based on his insight and accumulated experience as a lawyer handling international and corporate legal affairs.

While his participation in the management of a company has been limited to being an outside board member, we believe he will be able to adequately perform the duties as Audit & Supervisory Board Member of the Company due to the reasons stated above.

Yukio Obara (Outside Member)
We have received from him valuable advice on how to ensure the propriety of the Company's business execution based on his insight and his experience in managing financial institutions for many years and in managing a consultant firm.

Kiyomi Saito (Outside Member)
Since her inauguration as Audit & Supervisory Board Member of the Company, she has contributed toward ensuring the appropriateness of management in the Company, giving advice based on her experience in launching and managing a business consulting firm and a securities firm focusing on electronic transactions.



Interview with Tomofumi Akiyama, Outside Director

On Showa Denko's corporate governance

Nowadays corporate governance is frequently talked about at the initiative of politicians, and many companies are working to improve their governance. In that sense, there is nothing special with Showa Denko. But I feel the Company is working very seriously and positively to address this issue. It seems to me that since the days of former management teams Showa Denko has had a keen awareness of the importance of corporate governance, continuing to approach stakeholders in a transparent manner.

I feel the board meetings are very active. As for the members of the Board of Directors and the Audit & Supervisory Board, the Company has diverse human resources, including legal professionals and experienced management executives. I am often impressed by the multifaceted perspective offered at those meetings. The executive members listen sincerely to the voices and have the flexibility to revise their views. Therefore I am confident that outside board members are fulfilling their duties to check and support the management team.

While Stewardship Code calls for the promotion of dialogue from the standpoint of investors, I believe the value of a corporation should not be judged by ROE alone. Outside directors should express their opinions after carefully considering the social nature of a corporation. It is of course necessary to obtain stable earnings. At the same time, however, we should aim to achieve stable growth and social contribution, fully recognizing the corporation's qualitative characteristics. We need to make sure that corporate governance functions effectively for that purpose, and I want to carry out my duties as an outside director with strong motivation.

On New business plan "Project 2020+"

After checking the contents, I felt that it would be effective to manage operations by classifying businesses in the categories of "Growth-accelerating," "Advantage-establishing," and "Base-shaping." I also felt that it would be a good idea to develop "individualized businesses." To achieve that goal, the Company should step up efforts to differentiate in terms of product development and investment strategy. We need to make sure that our products will not compete with other companies' products, and that we stay one step ahead of competitors. With regard to investment strategy, we should not be overly risk averse. It is important for us to assume a risk-taking attitude while implementing proper steps to incorporate new businesses into the Company's structure. Although it is not yet fully accomplished, the President is earnestly addressing the challenges of effectively using capital and strengthening businesses.

As a result, we are now in a situation where we can take risks to some extent. It would be ideal if each individualized business succeeds and grows at an accelerated pace. But this is more difficult than we would hope. Thus I think the Company has made a good choice by deciding to firmly establish several core businesses and achieve growth on the strength of its total power. We should always check our increasingly diversified product mix and repeat the process of "scrap and build." Also, the Company should carefully identify product lines that will surely be profitable. I think these are the keys to Showa Denko's future growth.

Interview with Kiyomi Saito, Audit & Supervisory Board Member (Outside)

It was four years ago that I first attended a board meeting of Showa Denko as an auditor. My first impression was, "Wow, they look like the embodiment of seriousness in business suits!" I got a little worried that they might be square and dull people. Luckily my fear turned out to be groundless.

It is true that they are serious, but everyone has a sense of humor. It is not rare that attendees of board meetings break out into laughter. What impressed me most, however, is the fact that they have a lot of heart. When the board adopted a resolution for withdrawing from an unprofitable business, the officer in charge of the business expressed heartfelt sympathy with the people working on-site. I was almost moved to tears.

The strong leadership and sense of responsibility of the Chairman and the President are outstanding. When a closing of an unprofitable project was discussed, I made a comment that the decision should have been made much sooner. The Chairman responded immediately, "I am responsible for the delay," and explained the background. I was greatly impressed by his strong sense of responsibility.

I think the board meetings are very lively. However, the majority of comments come from outside board members. Executive Directors tend to be quiet at Japanese companies but I hope our executive directors speak up more often at the meetings. I have imposed a rule to myself that I offer remarks at board meetings "without reading the atmosphere." If I hesitate and constrain myself, I undermine my own raison d'être. Even when my comment sounds irrelevant, it could induce quite right comments from other officers.

It seems to me that the new medium-term plan is much more refined and focused than before. The industrial materials industry tends to be tossed up and down by market fluctuation. I notice that strong efforts are being made to minimize the volatility. As an outside board member, I have direct contact with our shareholders only on the occasion of shareholders meetings. When I heard questions and comments from shareholders with an inquisitive spirit, I thought they might be our former employees. But I learned later that many of them are pure outside investors. It is encouraging to know that we are supported by shareholders who closely monitor our management. In a sense, the chemical industry is an unsung hero. But our industry is indispensable as a provider of essential materials for various production processes. I hope Showa Denko continues to provide unique, high-value-added products to the world.

New Medium-Term Business Plan: "Project 2020+" (2016-2020)

PROJECT 2020+

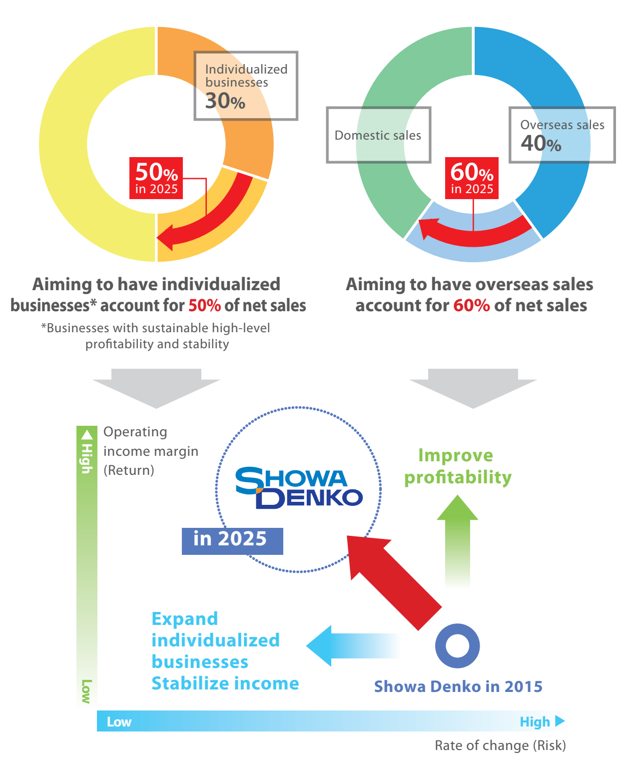
In 2016, we started our new medium-term consolidated business plan "Project 2020+" for the 2016-2020 period. Today, where the business environment and industrial structure are changing greatly, we will aim to enhance our lineup of "individualized businesses" that can maintain high-level profitability and stability. In market domains that promise growth, we will provide our customers with attractive products and services, and implement our growth strategies under which we will expand our lineup of "individualized businesses" capable of securing top share in the global markets or other competitive markets of a certain scale.

We will bring this 5-year plan to completion, and realize "the target image of the Showa Denko Group for 2025"

To realize sustainable growth, we will "make revenue bases strong" and "expand individualized businesses."

Target image of our business composition in 2025

We will expand the percentage of sales from "individualized businesses" centering on growth businesses from the current 30% to 50% of net sales, and the percentage of overseas sales from the current 40% to 60% of net sales, thereby enhancing earning power and narrowing the range of fluctuation in profit at the same time.



Market domains

Under the global megatrends such as drastic changes in business environment, technical innovations, and environmental preservation, the Showa Denko Group has chosen the five market domains of "Infrastructure," "Energy," "Mobility," "Living environment," and "Electronics" as target markets to pursue business expansion. We will provide these market domains with our high-value-added products, technologies and services.

Business strategy

Strengthen the Group strategically to achieve sustainable growth

Push up profitability of existing businesses through renewal of business models

- Maximize operating income and cash flow

Expand and create individualized businesses

- Expand individualized businesses
- Generate research results early on
- Make the best use of M&A and partnerships with other companies
- Find growth opportunities overseas

R&D strategy

- Concentrate management resources into R&D to strengthen existing businesses and their peripheral fields
- Create next-generation businesses/themes by making best use of open innovation and M&A

We have designated a five-year period from 2016 to 2020 as a period of strategic enhancement, aiming to maximize the operating income and cash flow of each business. This will enable us to enhance the earning power of our existing businesses.

We will expand and create individualized businesses by swiftly generating research results, making the best use of M&A and partnerships with other companies, and finding growth opportunities overseas.

With regard to research and development, especially during the three-year period from 2016 to 2018, we will concentrate our management resources into R&D to strengthen existing businesses and their surrounding fields, and create next-generation business themes by making best use of open innovation and M&A, with the aim of commercializing those new businesses in and after 2020.

As to our financial strategy, we will improve the Company's financial standing and strengthen return to shareholders. We will aim to generate free cash flow amounting to ¥68 billion in total for the three-year period from 2016 to 2018. We aim to lower the D/E ratio to 1.0 by the end of 2018. In order to further improve our financial standing, we will not only increase our net income but also develop an index system shared among Group companies to evaluate the efficiency of each investment, in order to make efficient use of our assets.

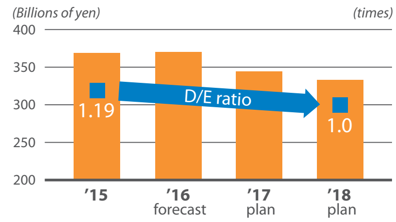
Though we have not set any numerical targets concerning return to shareholders in the past, this time, we have set a target dividend payout ratio of 30%.

Financial strategy

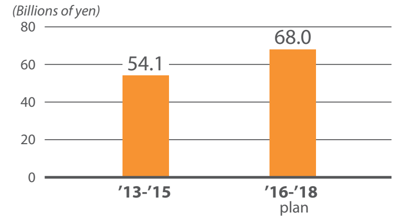
Improve financial standing + Return to shareholders

- **Make D/E ratio 1.0 by 2018**
  - Increase net income
  - Maximize effects of capital investment
  - Make efficient use of assets (Improve inventory turnover, put a squeeze on fixed assets)
- **Improve return to shareholders**
  - Introduce target payout ratio to raise it to 30% by 2018

Interest-bearing debt



- **Generate free cash flow amounting to ¥68 billion (2016-2018 total)**



Numerical plan

We have designated the first three years of the "Project 2020+," from 2016 to 2018, as a period to commit ourselves to numerical targets. In addition, we have expressed an image of the business results we desire for 2020 as numerical milestones on our way to 2025. With regard to our operating income, we set our numerical target for 2018 at ¥57 billion, with a target for 2020 of ¥70 billion. We will manage business asset efficiency on the basis of return on assets (ROA). We have set our target ROA for 2018 at 6%. We have also set our target return on equity (ROE) for 2018 at 9%.

New Medium-Term Business Plan: "Project 2020+" (2016-2020) *(cont.)*

Numerical Targets

(Billions of yen)

	2015 results	2016 forecast	2017 plan	2018 plan	2020 image
Net sales	781.0	765.0	850.0	855.0	930.0
Operating income	33.7	36.0	50.0	57.0	70.0
Net income	1.0	20.0		30.0	
Free cash flow	18.5	68.0 (3 year total)			
ROA*	3.4%			6%	
ROE	0.3%			9%	

2016 forecast was announced on Feb. 10, 2016.
* ROA: Operating income / Total assets

Breakdown by segment

(Billions of yen)

		2015 results	2018 plan
Petrochemicals	Net Sales	231.3	225.0
	Operating Income	10.5	8.0
Chemicals	Net Sales	142.3	170.0
	Operating Income	10.7	17.0
Electronics	Net Sales	131.5	130.0
	Operating Income	17.5	18.0
Inorganics	Net Sales	63.5	85.0
	Operating Income	-1.2	10.5
Aluminum	Net Sales	100.8	120.0
	Operating Income	2.6	7.5
Others	Net Sales	152.5	175.0
	Operating Income	1.5	4.0
Adjustments	Net Sales	-40.8	-50.0
	Operating Income	-7.9	-8.0
Total	Net Sales	781.0	855.0
	Operating Income	33.7	57.0

Petrochemicals: Periodic maintenance is scheduled for 2018.

Input:

Financial resources
Capital stock: ¥140,564 million
Interest-bearing debt: ¥368,835 million

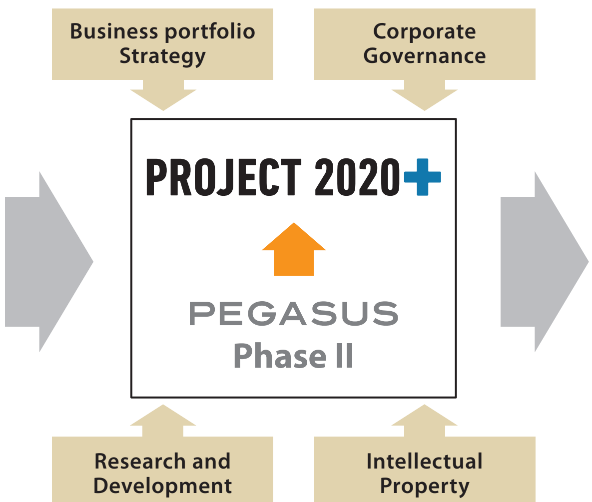
Manufacturing resources
Capital investment: ¥44,059 million
R&D: ¥20,289 million

Intellectual property
Number of patents held by Showa Denko
(As of the end of 2015)
In Japan: 2,084
In foreign countries: 2,895
(Total number: i.e. patents with the same content registered in different countries are counted separately.)

Human resources
10,561 persons
(5,873 in Japan and 4,688 overseas)

Related companies
Consolidated subsidiaries: 48
Equity-method-applied affiliates: 13

Natural resources
See RC on Page 30.



Output:

Financial resources
Net sales: ¥780,958 million
Operating income: ¥33,672 million
Net income: ¥969 million
Operating CF: 62,418
Investing CF: -43,923
Free CF: 18,495

Manufacturing resources
See Review of Operations on Page 20

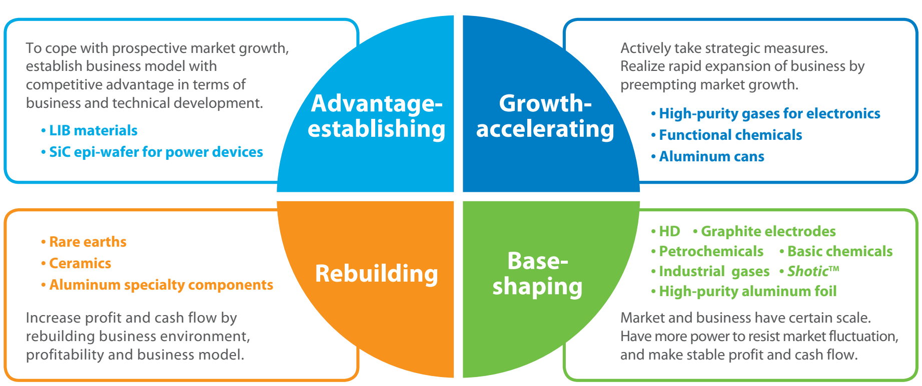
Intellectual property
No. 1 products (See Page 1)
Patent applications in 2012: 325
(Patent applications in 2013 are not yet published.)

CSR activities
See CSR on Page 32.

Natural resources
Environmental protection based on technical strengths: Recycling
Aluminum cans
Used plastics to Ammonia
GE to recycle scrap iron
Rare Earth recycle
See RC on Page 30.

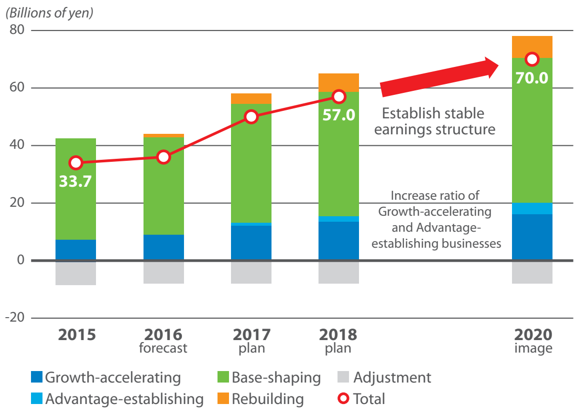
New business portfolio

We have set four business categories in our business portfolio, and defined missions for each business category.



Aim to increase income from "Growth-accelerating" and "Base-shaping" businesses

Operating income by business category of the new portfolio



Growth-accelerating businesses

This business category includes high-purity gases for electronics, functional chemicals and aluminum cans businesses. In this category, we will positively carry out strategic measures to take advantage of growing overseas markets, including Asian and ASEAN markets, and achieve fast expansion of these businesses.

Advantage-establishing businesses

This business category includes lithium-ion-battery (LIB) materials and SiC epitaxial-wafer for power devices businesses. In this category, we will establish business models with competitive advantages in terms of business operation and technology development, since the markets for these two businesses are expected to manifest rapid growth in the near future.

Base-shaping businesses

This business category includes hard disk (HD) media, graphite electrodes, petrochemicals, and some other businesses. These businesses are expected to maintain scale in terms of market and business operation. Therefore, we will equip these businesses with more power to resist market fluctuations, and earn stable profit and cash flow.

Strategy for each business

▶Growth-accelerating High-purity gases for electronics

We expect that demand for high-purity gases used for processing electronic materials, including semiconductors and LEDs, will remain strong worldwide. The market for semiconductors continues to expand, and progress is being made in the enhancement of microscopic and multi-layer structures in microchips. As such, consumption of high-purity gases in production of semiconductors has been continuously increasing. The global semiconductor market is forecast to grow at an annual rate of about 3% until 2018. However, we expect the global market for high-purity gases to grow at an annual rate of about 10% during the same period, about three times that of the global semiconductor market. Due to such buoyant demand, we are expanding the ratio of individualized, high-performance, and high-value-added gas products to our overall high-purity gas production. We will expand and strengthen our overseas outlets to supply high-purity gases in order to maximize advantages in our supply chain in terms of distribution, procurement and marketing. Thus, we aim to set the stage for further growth of our business to supply high-purity gases for electronics.

Functional chemicals

The lineup of our functional chemicals business consists of thermosetting and other functional resins, functional monomers, materials for cosmetics, and specialty chemicals, including our separation/analysis columns business. We will expand our functional resin business by expanding sales of products for composite materials for car manufacturers and electronics manufacturers in China and the ASEAN region. With regard to our specialty chemicals, *Karenz AOI-VM*™ functional monomer is rated very highly by our customers for use in paint coating processes for plastic goods and automobiles. We seek to cultivate the market for this promising new product.

Aluminum cans

In our business to produce aluminum cans for beverages, we have been pursuing expansion of our business through combination of the domestic market, where the demand for aluminum cans is expected to remain stable despite saturated demand for canned beer/beer-like beverages, and the overseas market in the ASEAN region, where demand for canned beer/beer-like beverages is rapidly expanding. Hanacans Joint Stock Company, our can manufacturing subsidiary in Vietnam that we acquired in 2014 started commercial operation of a new facility to produce can-ends in October 2015, thereby successfully improving profitability. In response to the expansion of the market for canned beer in Vietnam, where the annual growth rate exceeds 10%, we will explore new opportunities to invest.

▶Advantage-establishing Lithium ion battery (LIB) materials

The market for LIB materials is expanding for LIBs for small devices, including smartphones, not only in developed countries but also in emerging and developing countries. On the other hand, the market for materials for large LIBs just started to emerge in the fields of plug-in hybrid vehicles (PHEV) and EVs. In China, where we foresee especially strong demand for large LIBs, the marker for EVs has started to emerge as social infrastructure is developed in response to stricter environment policies.

The lineup of the Group's LIB materials includes anode materials, conductivity enhancers, and aluminum laminated film for packaging LIBs. The shipment volumes of these LIB materials started to increase in the middle of 2015, and to cope with this increase in demand, we started to expand our production facilities for LIB materials. We are now looking to expand production capacity for *SCMG*™ anode material, both at home and abroad. We will ensure stable supply of *VGCF*™ conductivity enhancer through improvement in productivity. Furthermore, we will explore the possibilities of expanding the *VGCF*™ business, by providing high performance unique to *VGCF*™ to large LIBs. We will also respond to increasing demand for *SPALF*™ aluminum laminated film package by improving productivity. Moreover, we will make *SPALF*™ highly distinctive by enhancing performance, reducing thickness, and enhancing gas permeability.

SiC epitaxial wafer for power devices

We categorized our business to produce SiC epitaxial wafers for power devices into Advantage-establishing business since the market for SiC-based power devices has taken off in earnest. When compared with mainstream silicon-based semiconductors, SiC-based power devices can operate under high-current and high-voltage conditions, while substantially reducing energy loss resulting from conversion to heat. The application of SiC-based power devices to rail cars is now in progress, in addition to the application to civil use including inverter-run air conditioners and to industrial use including power sources for servers for data centers. Furthermore, SiC-based power devices are now expected to be applied to automobiles. In October 2015, we started commercial operation of facilities to mass-produce SiC epitaxial wafers with very low defect density, which are acclaimed by our customers as wafers with world-class quality. We will prepare for mass-production of SiC epitaxial wafers in response to the application of SiC-based power devices in mass-produced cars, which is expected to come to fruition around 2020.

Base-shaping

HD media

We categorized our HD media business into Base-shaping business because this business is expected to continue to be key for us, contributing greatly to our operating income and cash flows. The HDD market up until 2018 is expected to be in a no-growth period, or rather a gradual-demand-decrease period, since HDD shipment volume for PCs is expected to decrease, while the increase in shipment volumes of HDDs for servers for data centers will not be large enough to offset that demand decrease. However, we expect a gradual increase in the shipment volume of HD media because the average number of hard discs used in an HDD unit (=D/D ratio) is expected to increase during that period.

We expect an annual growth rate of 20% in the density of data stored on HD media. HD media are key components in HDDs, significantly influencing their storage capacity. We will continue thoroughly enhancing our perpendicular magnetic recording (PMR) technology to produce HD media for servers, and developing next-generation technologies including technology to mass-produce HD media equipped with heat-assisted magnetic recording technology (HAMR). We have been speedily launching highest-level-capacity HD media before all the other competitors in the industry. We will continue to strengthen our HD media business in accordance with our strategy of "Best in Class."

Graphite electrodes

Growth in global demand for steel is expected to remain low at around 1% going forward, and it will take time to solve the problem of overcapacity in the Chinese steel industry. However, we expect gradual recovery in demand for graphite electrodes in and after 2017, due to definitive demand for reusing scrap steel. We will review our production system for graphite electrodes with three production bases located in the United States, Japan and China. In the United States and Japan, we will rebuild optimum production systems that correspond to the scale of demand, and establish competitive cost structures to cope with the harsh business environment.

Petrochemicals

Our ethylene plant in Oita Complex continues to operate at full capacity, while the supply-demand balance of ethylene in East Asia is expected to remain solid until around 2018. In 2014 and 2015, sharp drops in naphtha prices worsened the difference between procurement and consumption prices of raw materials to produce olefin products, and caused fluctuations in the profitability of our olefin business.

Due to a decline in crude oil prices, the global competitiveness of raw-naphtha-based ethylene plants in East Asia including our plant has been improving significantly. The cost differences among naphtha-to-ethylene process, shale-gas-to-ethylene process which is planned mainly in the United States, and coal-to-olefin (CTO) process which is planned in China, are significantly reducing. We also expect demand for ethylene derivatives in China to remain strong. Thus we will be able to earn stable income and cash flow from our petrochemicals business in the period.

However, we cannot assume that this favorable situation will continue over the long term. We will make our petrochemicals business more resistant to fluctuations in olefin prices by investigating and introducing all possible measures such as business or local cooperation with other oil-refining and derivative-producing companies, in addition to self-help efforts including diversification of raw materials.

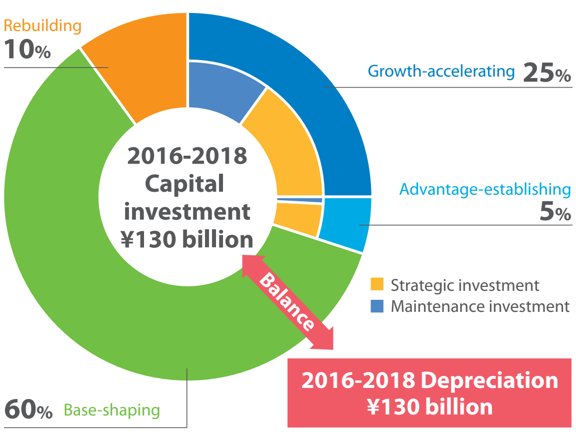
High-purity aluminum foil

Our Group's high-purity aluminum foil business has been specializing in high-end products for aluminum electrolytic capacitors. We command over 50% share of the Japanese market for this application. Though the Japanese market has matured, the Chinese market for aluminum electrolytic capacitors is expected to manifest an increase in demand, centering on use for industrial machines, consumer electrical appliances, onboard equipment, and solar power panels.

In the Japanese market, in addition to existing high-end products, we will expand supply of ultra-high-end aluminum foil that requires stricter quality control. In the Chinese market, we will make the most of our expanded aluminum foil production base in Nantong and increase sales of aluminum foil to customers in China. By doing so, we aim to expand our global market share.

Capital investment strategy

Carry out positive and strategic investment in Growth-accelerating and Advantage-establishing businesses



Enforce investment/business management with ROIC as a guide

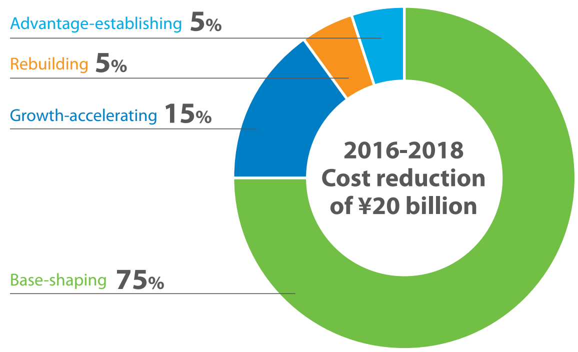
We will carry out capital investment amounting to ¥130 billion during the three years from 2016 to 2018. This capital investment amount is slightly lower than the period from 2013 to 2015, and is equivalent to the depreciation amount for the same period. From 2016 to 2018, we will invest about one-third of our investment resources in Growth-accelerating businesses and Advantage-establishing businesses, aiming to accelerate expansion of these businesses.

Specifically, in Growth-accelerating businesses, we will invest in the expansion of production capacity and establishment of sales bases for high-purity gases for electronics at home and abroad, and in the expansion of facilities in our aluminum-can subsidiary in Vietnam. With regard to Advantage-establishing businesses, we will invest in the expansion of production facilities for LIB materials and SiC epi-wafer for power devices.

As to our investment in energy and environment, we will invest in countermeasures against global warming, including energy and electricity saving. In addition, we will introduce the newest type of hydropower facilities to our domestic hydropower plants in order to maximize their power generation efficiency.

Cost reduction strategy

Implement cost reduction measures amounting to ¥20 billion over three years

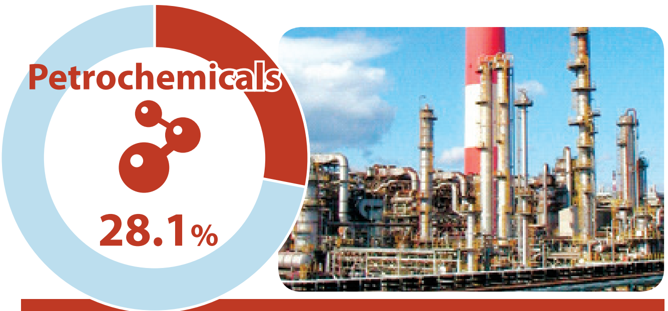


We will implement cost reduction measures amounting to a saving of ¥20 billion during the three-year period from 2016 to 2018. These measures center on Base-shaping businesses. With regard to our HD media business, we will not only pursue improvement in yields, but also integrate operations for media and aluminum substrate production. In our graphite electrode business, we are putting a squeeze on fixed costs, in addition to reductions in raw-material and energy costs. In the Petrochemicals segment, we will improve productivity by reducing utility costs and improving selectivity of catalysts. In our basic chemicals business, we will increase the ratio of used plastics as the raw material to produce ammonia.

Research and development strategy

See R&D under "Project 2020+" on page 28.

Review of Operations



Consolidated Business Results *(Millions of yen)*	2015	2014	Difference	Rate of change
Sales	231,288	281,400	-50,112	-17.8%
Operating Income	10,543	–4,930	15,473	—

The Petrochemicals segment's sales for 2015 decreased 17.8%, to ¥231,288 million. Sales of olefins decreased due to the fall in selling prices reflecting lower naphtha prices, despite the rise in shipment volumes from the preceding year when once-in-four-year shutdown maintenance was conducted. Sales of organic chemicals decreased owing to the lower market price of vinyl acetate, despite higher shipment volumes of ethyl acetate. However, the segment's operating income increased substantially, to ¥10,543 million, due mainly to the improvement in the olefins market.

■ Olefins

Ethylene production in Japan totaled 6,885,000 tons in 2015, up from 6,648,000 tons in the preceding year. SDK's ethylene production in 2015 was 700,000 tons, an increase of 110,000 tons from the preceding year, when shutdown maintenance was conducted. SDK's ethylene plant operated virtually at full capacity in 2015. However, sales of olefins were down due to the fall in selling prices reflecting lower naphtha prices. Meanwhile, operating income rose substantially. This was due to the absence of shutdown maintenance in 2015, coupled with an improvement in the spread between the price of ethylene and the cost of naphtha. Furthermore, there was an improvement in terms of influence from naphtha price fluctuations (a time lag between naphtha purchase and olefin sales; the difference between procurement and consumption prices of naphtha, etc.).

Oita Petrochemical Complex

■ Organic Chemicals

Sales of organic chemicals decreased due to lower market price of vinyl acetate, despite higher shipment volumes of ethyl acetate. Operating income rose due to higher shipment volumes of ethyl acetate as the lower yen caused a reduction in imports, and due to the effect of shifting to a plant at Oita Complex based on new process technology.

PETROCHEMICALS TOPICS

Licensing arrangement for sale of acetyl-chain process technology

In January 2015, we concluded an agreement with KBR, Inc., an engineering company based in Texas, the United States, to jointly sell our technology for producing acetic acid and its derivatives (acetyl chain). Under the arrangement, KBR is licensed to sell SDK's proprietary catalyst/process technology as well as operation technology and know-how. We will aim to expand our licensing opportunities by utilizing KBR's sales network.

Consolidated Business Results *(Millions of yen)*	2015	2014	Difference	Rate of change
Sales	142,292	139,064	3,228	2.3%
Operating Income	10,707	5,460	5,247	96.1%

The Chemicals segment's sales increased 2.3%, to ¥142,292 million. Sales of basic chemicals decreased due to lower shipment volumes of liquefied ammonia and lower acrylonitrile market prices, despite higher volumes of chloroprene rubber exports to the United States. Sales of industrial gases were maintained at the previous year's level. Meanwhile, sales of electronic chemicals increased due to a sharp rise in shipment volumes of high-purity

gases for electronics, reflecting an increase in production of semiconductors in East Asia. Sales of functional chemicals increased due to the consolidation at the beginning of 2015 of Shanghai Showa Highpolymer Co., Ltd., despite weak demand in Japan. The segment's operating income jumped 96.1%, to ¥10,707 million. Operating income from electronic chemicals rose due to a sharp increase in shipment volumes of high-purity gases, including hydrogen bromide (HBr) as etching gas for memories of smartphones. Operating income from basic chemicals was up due to greater export volume of chloroprene rubber and the lower price of the raw material butadiene. Operating income from functional chemicals increased due to the consolidation of a subsidiary in China. Also, operating income from industrial gases increased.

CHEMICALS TOPICS

High-purity gases for electronics: capacity expansions at overseas sites

(a) N_2O base in South Korea

To expand our supply capacity of high-purity nitrous oxide (N_2O), we constructed a purification facility jointly with Dooam Industrial, of South Korea, within the premises of Dooam's plant near Seoul. High-purity N_2O is used for deposition of an insulating oxide film in the production of semiconductors and LCD panels. The new purification facility started full-scale operation in March 2015. As a result, the Showa Denko Group's total high-purity N_2O supply capacity has increased 1.5 times, to 1,800t/y, consisting of 1,200t/y in Japan and 600t/y in South Korea.

(b) HF and HBr

We increased our production capacity of high-purity hydrogen fluoride (HF) and high-purity hydrogen bromide. While high-purity HF has been used mainly for cleaning, it is now increasingly used for dry etching as well. Thus, we have doubled our HF production capacity at Kawasaki, and decided to build a new HF production facility at our subsidiary Shanghai Showa Electronics Materials Co., Ltd.

Meanwhile, high-purity HBr is used for etching of polysilicon in the production of NAND-type flash memories and DRAMs. SDK is the world's only integrated HBr producer, covering all stages from synthesis to purification. We have expanded sales volumes on the strength of our efficient and flexible production system as well as high purification/analysis/quality-control technologies. As demand for semiconductor memories is growing for use in mobile terminals and data centers, we increased our production capacity 1.5 times, to 600t/y, in the second quarter of 2015.

(c) NH_3 base in Taiwan

In December 2015, we increased high-purity ammonia (NH_3) production capacity at our subsidiary Taiwan Showa Chemicals Manufacturing Co., Ltd., from 2,500t/y to 3,500t/y. The Showa Denko Group has three locations—in Japan, Taiwan, and China—for high-purity ammonia production, with total capacity of 7,000t/y. Our sales of high-purity ammonia are increasing steadily, due to the market growth in Taiwan for compound semiconductors and LCD panels as well as our efficient production system and high purification/analysis/quality-control technologies.

We will meet the growing demand for high-purity gases for electronics in East Asia and ASEAN countries by expanding our production sites and strengthening our global supply chain management.

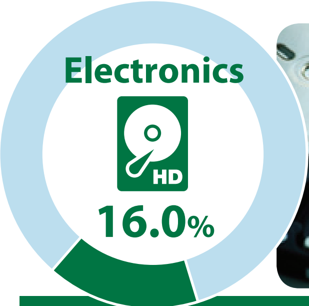
High-purity gas plant

High-purity gasses for electronics (N_2O, Cl_2, and NH_3)

Decision to establish second BMC production site in China

In July 2015, we established Showa Denko New Material (Zhuhai) Co., Ltd., in Zhuhai, Guandong Province, China, as a joint venture with Eternal Materials, Co., Ltd., a plastic materials producer in Taiwan. The joint venture, representing our second bulk molding compound (BMC) production site in China, is scheduled for start-up in December 2016. BMC is a thermosetting resin produced by mixing unsaturated polyester with glass fiber and other additives, and is used mainly in automotive lamp reflectors and engine covers as well as in sealing materials for electric appliances and precision parts.

The Showa Denko Group currently has three BMC production sites, namely, in Japan, China (Shanghai), and Thailand. Demand for BMC in China is expected to grow 15% a year on average. We therefore decided to strengthen our BMC supply capacity in China by establishing another production site in that country.



Consolidated Business Results *(Millions of yen)*

	2015	2014	Difference	Rate of change
Sales	131,492	138,537	-7,045	-5.1%
Operating Income	17,472	25,770	-8,298	-32.2%

The Electronics segment's sales decreased 5.1%, to ¥131,492 million. Sales of HD media fell as shipment volumes decreased from the preceding year when there was high replacement demand for PCs following the termination of support for core software. Sales of rare earth magnetic alloys decreased due to lower market prices, reflecting the termination of export duties by the Chinese Government. Sales of compound semiconductors also decreased. The Electronics segment's operating income decreased 32.2%, to ¥17,472 million.

■ Hard Disks

Sales of HD media fell due to lower shipment volumes. This was because the HDD industry adjusted production in view of the decline in PC demand from the preceding year, when there was one-time high replacement demand following the termination of support for core software. Operating income from the business also decreased.

■ Compound Semiconductors and Rare Earths

Sales of compound semiconductors decreased slightly due to the fall in shipment volumes. Sales of rare earth magnetic alloys decreased due to lower shipment volumes and the fall in market prices that reflected the termination of export duties by the Chinese Government in May 2015. Operating income fell due to lower shipment volumes and reductions in the book value of inventories in the second quarter of 2015, reflecting the market decline.

HDD and HD media

ELECTRONICS TOPICS

Commercial production of 750 GB, 2.5-inch HD media

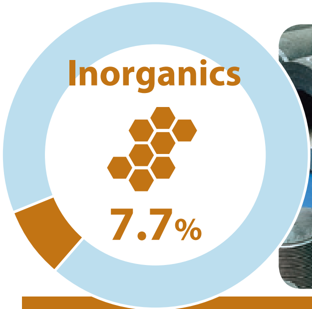
In March 2015, we started shipments of 750 gigabyte per platter 2.5-inch HD media. This product, based on eighth-generation perpendicular magnetic recording (PMR) technology, represented the highest storage capacity in the world*. As the world's largest independent HD media supplier, SDK is taking the lead in the development of next-generation 1TB HD media. Thus, we will continue to meet requirements from the HDD industry by ensuring stable supply of high-capacity HD media.

*As in February 2015, SDK estimates.

SDK's 3.5-inch HD media adopted in world's-highest-capacity 10TB HDD

SDK's HD media were adopted in helium-filled 10 terabyte HDDs, which represented the world's highest storage capacity*. The 3.5-inch HD media for this application are based on eighth-generation PMR technology, with storage capacity of 1.3 to 1.5 TB per platter. HDDs are now increasingly used in data centers, reflecting exponential growth in data in line with the progress of cloud computing. Compared with unsealed PMR HDDs, helium-filled HDDs help reduce power consumption. Thus, helium-filled HDDs are expected to be used more and more in data centers.

*As in December 2015, SDK estimates.



Consolidated Business Results *(Millions of yen)*

	2015	2014	Difference	Rate of change
Sales	63,476	67,557	-4,081	-6.0%
Operating Income	-1,249	–300	-949	—

The Inorganics segment's sales decreased 6.0%, to ¥63,476 million. Sales of graphite electrodes decreased due to lower shipment volumes, reflecting production

adjustments in the steel industry, in view of the influence of steel exports from China. Sales of ceramics decreased slightly. The segment recorded an operating loss of ¥1,249 million.

Carbons

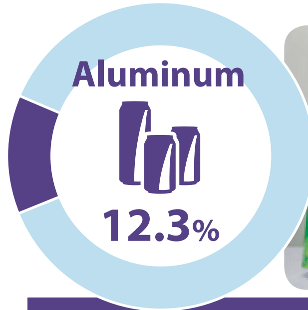
Sales of graphite electrodes decreased due to lower shipment volumes. The U.S. electric steel industry was hampered by lower demand for oil-well steel pipes and the influence of steel imports. The Asian market continued to be affected by China's steel exports. Operating income decreased due to lower shipment volumes and reductions in the book value of inventories at our subsidiary in China.

INORGANICS TOPICS

Start of commercial operation by Indonesia Chemical Alumina

In February 2015, PT. Indonesia Chemical Alumina, a joint venture between SDK and PT ANTAM (Persero) Tbk, of Indonesia, started commercial operation of its chemical alumina plant in West Kalimantan, Indonesia. Chemical alumina is used in wide-ranging applications, including electronic materials, coagulant for water purification, abrasives, and heat sinks.

PT. Indonesia Chemical Alumina



Consolidated Business Results *(Millions of yen)*

	2015	2014	Difference	Rate of change
Sales	100,756	97,956	2,800	2.9%
Operating Income	2,563	2,999	-436	-14.5%

The Aluminum segment's sales rose 2.9%, to ¥100,756 million. Sales of rolled products were up slightly due to the rise in shipment volumes of capacitor-grade high-purity foils in China, reflecting capacity expansion at Showa Denko Aluminum (Nantong) Co., Ltd., despite the fall in shipment volumes in Japan. Sales of aluminum specialty components decreased due to lower shipment volumes for automotive parts applications. Sales of aluminum cans increased following higher shipment volumes for canned coffee applications in Japan and the full-year contribution by Hanacans, of Vietnam, which was consolidated in June 2014. Operating income fell 14.5%, to ¥2,563 million.

Rolled Products

Sales of rolled products were up slightly. While domestic demand was weak as capacitor producers started decreasing production in the second half of the year, shipment volumes increased in China as Showa Denko Aluminum (Nantong) completed its capacity expansion. Operating income fell slightly due to lower shipment volumes in Japan.

Specialty Components

Sales of aluminum specialty components decreased due to the influence of changes in some car models. Operating income also decreased.

Aluminum Cans

Sales of aluminum cans increased. This was due to the start of full-scale shipments of aluminum coffee cans in Japan, despite lower volumes of shipments to Japanese beer manufacturers. Also, Hanacans, of Vietnam, which was consolidated in June 2014, contributed to sales throughout the year. Operating income increased due to higher shipment volumes.

Review of Operations *(cont.)*

ALUMINUM TOPICS

Expanded high-purity aluminum foil production capacity in China

In April 2015, we expanded production capacity for high-purity aluminum foil for high-voltage aluminum capacitors at our subsidiary Showa Denko Aluminum (Nantong), from 400 tons, to 600 tons, per month. The company has started commercial production with the expanded facility.

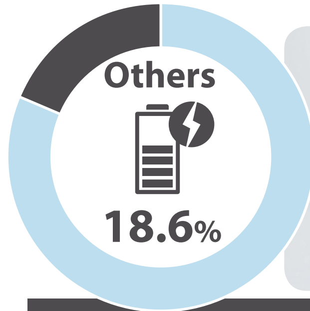
Starting supply of aluminum cans for coffee with milk

Our subsidiary Showa Aluminum Can Corporation started commercial production of aluminum coffee cans, using its newly built production line. Up until now, steel cans have been used for most canned coffee in Japan, which command sales of about 10 billion cans a year. As the beverage industry has changed its guidelines, aluminum cans are now accepted for coffee with milk. Aluminum cans are expected to be used increasingly due to their light weight and high recyclability.

Integrated aluminum can production in Vietnam

In October 2015, our subsidiary Hanacans Joint Stock Company (Hanacans) started volume production of aluminum can ends, using its newly built production line. As a result, Hanacans has established its integrated production system for both can bodies and can ends. The company will aim to further improve overall product quality and ensure stable supply. After becoming our subsidiary in 2014, Hanacans has increased shipment volumes in Vietnam by introducing Showa Aluminum Can Corporation's advanced production technology and quality control technique. Demand for canned beer in Vietnam is growing at an annual rate of around 10%, reflecting the improvement in living standards. The Showa Denko Group will expand its aluminum can business in Vietnam, ensuring stable and speedy supply of high-quality products that meet customers' requirements.

Aluminum Cans



Consolidated Business Results *(Millions of yen)*

	2015	2014	Difference	Rate of change
Sales	152,459	195,024	-42,565	-21.8%
Operating Income	1,493	–678	2,171	—

The Others segment's sales fell 21.8%, to ¥152,459 million. Sales of lithium ion battery (LIB) materials increased due to higher shipment volumes for smartphone applications and the start of full-scale shipments for automotive applications. Shoko Co., Ltd.'s sales sharply decreased in its steel-related business in China. The segment recorded operating income of ¥1,493 million, up ¥2,171 million, owing to higher shipment volumes of LIB materials.

OTHERS TOPICS

Launch of SiC epitaxial wafers with very low defect density

In October 2015, we started commercial shipments of a new grade of silicon carbide (SiC) epitaxial wafers for power devices with very low defect density. The newly developed grade (trade name: *High-Grade Epi*) comes in two different sizes of four inches and six inches, in diameter. Power modules for high-voltage, high-current applications mainly contain devices with the structure of SBD (Schottky barrier diode) and transistors with the structure of MOSFET (metal-oxide-semiconductor field-effect transistor). While SiC is increasingly used in SBD, it is difficult to use SiC in MOSFET. In the new product, we succeeded in reducing the number of surface defects to one-third the level of our conventional products and of basal plane dislocation (a typical crystal defect) to one-hundredth compared with conventional products. SiC power devices are already used as power sources for servers, distributed power supply systems for new energies, and in subway and commuter railcars. Demand is expected to grow further for use in vehicles. Furthermore, efforts are underway to develop SiC-based high-voltage devices for use in power generation/transmission systems. We will continue our efforts to meet requirements for higher quality, contributing toward expansion of the market.

Research and Development

R&D results in 2015

In 2015, Showa Denko and its Group companies promoted R&D in line with the medium-term consolidated business plan "PEGASUS," allocating resources preferentially to the two business domains of "Energy/Environment" and "Electronics." We pursued our R&D strategy of promoting the interconnection of inorganic, aluminum, and organic chemical technologies, while attaching great importance to marketing activities both at home and abroad. We were also focusing on early manifestation of fruits of businesses which were expected to lead the growth of our Group in the future, including businesses of advanced battery materials, high-performance optical films, and SiC epitaxial wafers.

We continued to have R&D organization that assembled technical experts for specific areas at the Business Development Center. Until the end of 2015, the Center consisted of two laboratories (Institute for Polymers and Chemicals, and Institute for Advanced and Core Technology), two technical assistance centers serving all business segments (Analysis & Physical Properties Center, and Safety Evaluation Center), and projects for commercialization. Institute for Polymers and Chemicals, in cooperation with divisions and plants, performed R&D to add value to existing businesses and products, R&D to cultivate promising peripheral areas of existing businesses and products, and strengthened businesses through provision of advanced technical support for products. Institute for Advanced and Core Technology promoted creation of next-generation business themes focusing on promising core materials and core technologies that enabled us to take advantage of our long-term strong points, selected from our wide-ranging proprietary materials and technologies. In January 2016, we changed our R&D organization taking the new medium-term consolidated business plan "Project 2020+" into account. Through this reorganization, we will aim to materialize more results of R&D.

Showa Denko and its Group companies invested ¥20,289 million (US$168 million) in R&D in 2015. A breakdown by segment of R&D efforts and investments during the year is as follows:

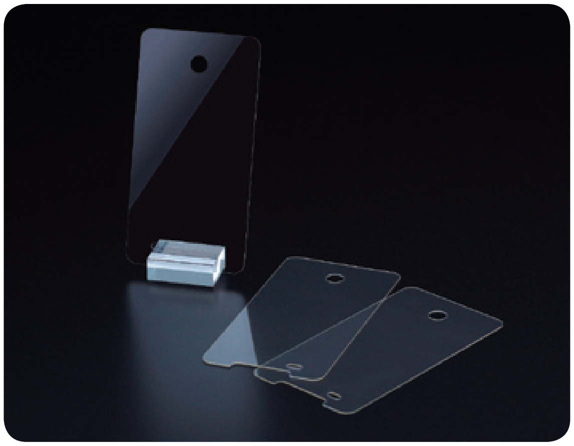
Petrochemicals

To cope with an expected tighter butadiene supply-demand balance in the future, we are vigorously developing processes to produce target butadiene products with improved efficiency, utilizing our proprietary catalyst technologies and business base.

As for acetyl and allyl alcohol products, we are improving performance of existing catalysts and developing new catalysts in order to boost the competitiveness of our products.

We are promoting intensive marketing of our proprietary heat-resistant transparent film *SHORAYAL*™ focusing on the market of displays for mobile devices. Being appreciated for its good optical properties comparable to glass and a smooth feel, *SHORAYAL*™ is being successfully applied to an increasing number of devices both at home and abroad.

The Petrochemicals segment invested ¥1,159 million in R&D in 2015.



SHORAYAL™

Chemicals

We developed a new grade of high-performance isocyanate monomer *Karenz AOI*™, which is widely used as various types of resists applicable for production processes of electronics. The new grade product named *AOI-VM*™ is designed for general industrial use. We put *AOI-VM*™ on the market in December 2015.

Regarding *Shodex*™ column, which is our proprietary high performance liquid chromatography column, we are developing columns applicable to leading-edge technologies, focusing on the markets in advanced countries, and, at the same time, actively cultivating the markets in emerging nations. In August 2015, we put on the market a new column for hydrophilic interaction chromatography (HILIC) which can conduct high-sensitivity analysis of hydrophilic chemicals.

Research and Development *(cont.)*

As for base materials for cosmetics, in addition to the high-performance vitamin C derivative *Apprecier*™, we are making preparations for launching various new compounds including carnitine derivative “Hi-Carnitine,” and hydroxycitric acid derivative *HCAP*™. In the area of LIB-related materials, sales of *Polysol*™ LB Series water-based anode binder are increasing.

The Chemicals segment’s R&D investment amounted to ¥2,323 million in 2015.

Shodex™

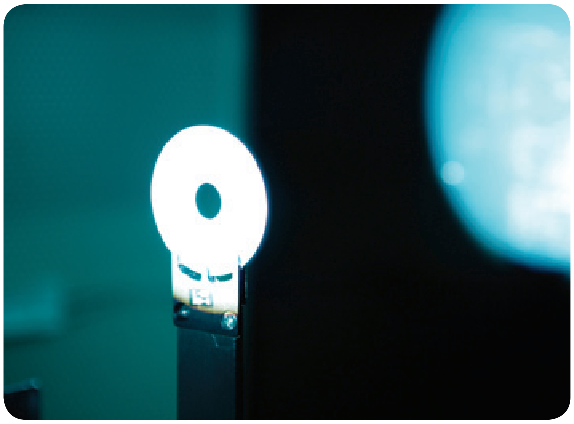
Electronics

Aiming to realize volume production of next-generation HD media with higher performance, we are developing shingled magnetic recording (SMR) and heat assisted magnetic recording (HAMR) technologies that will further increase recording density. Meanwhile, our 3.5-inch HD media have been adopted in helium-filled 10 terabyte hard disk drives (HDDs), which represent the world’s highest storage capacity. (As of December 2015)

Regarding four-element (aluminum, indium, gallium, and phosphide) light emitting diodes, with our proprietary technology we have developed LED chips that emit red light with a wavelength of 660nm, the optimum light for accelerating the growth of plants. These LED chips are used as light sources in many plant factories and model facilities for plant cultivation.

In the area of rare earth magnetic alloys, we are working on further development of technology to produce neodymium-based magnetic alloy that does not contain dysprosium (Dy) but gives the same performance as conventional products in which Dy is added to increase heat resistance.

The Electronics segment invested ¥5,147 million in R&D in 2015.



HD media

Inorganics

We are developing filler materials with high heat dissipation and electrical insulation properties to be used in electronic and power devices.

We have developed *LUMI-RESH*™ photocatalyst, which performs high antibacterial and antiviral functions even under visible low-energy light emitted by indoor lighting apparatus. We are opening up new avenues of use for *LUMI-RESH*™, including use in houses, public facilities, and plant factories. In November 2015, *LUMI-RESH*™, which had already been applied to indoor-use membrane building materials and high-performance curtains, started to be applied to high-functioning fiber for linen products.

The Inorganics segment spent ¥270 million on R&D in 2015.

Curtains containing LUMI-RESH™

Aluminum

Regarding our proprietary *SHOTIC*™ aluminum products, we are developing gas-pressurized hot-top continuous casting process and gas-pressurized completely horizontal continuous casting process as "core technologies," which we have developed proprietarily, as well as with our forging technology. We are developing continuously cast aluminum rods and forged aluminum products with higher performance for car applications, in order to respond to growing demand for cars in the Asian market.

As for base technologies, we are improving our mold technology for extruding, forging, and drawing; our process technologies for fabrication and bonding; our metallurgical technology to develop alloys suitable for various products; as well as our simulation technology for plastic working and heat conduction.

The Aluminum segment's R&D investment amounted to ¥1,739 million in 2015.

SHOTIC™: *aluminum forged products*

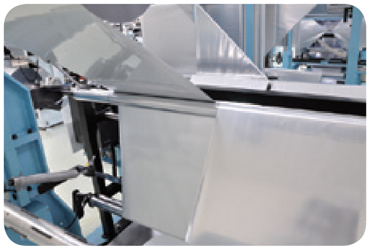
Others

In the area of advanced battery materials, we are continuing to develop materials and components that will ensure sufficient capacity, output, life, and low electrical resistance in LIBs for various applications including electric vehicles and mobile devices such as smartphones. We are providing such solutions as *SCMG*™ graphite anode material, high-capacity Si-graphite composite anode material, *VGCF*™ carbon nanofiber, *SDX*™ carbon-coated aluminum foil, and *SPALF*™ aluminum laminated film for packaging LIBs.

As for SiC epitaxial wafers, which attract people's attention as materials for next-generation power devices, we continue working on quality improvement including reduction of crystal defects, as well as production capacity expansion through addition of facilities and improvement of production technologies. More specifically, in 2015, we developed and put on the market a new grade product of SiC epitaxial wafer with dramatically reduced density of crystal defects, in two different sizes of four inches and six inches in diameter, under the trade name of "High-Grade Epi" (HGE).

Regarding components for plant growth facilities, we are working to expand the market by offering our Group's products including lighting equipment containing our proprietary ultra-bright LED chips, in combination with licensing of a high-speed plant cultivation technology, the *SHIGYO*™ method, which we developed jointly with Yamaguchi University.

SiC epitaxial wafers



LIB-packaging SPALF™ *production line*

With regard to printed electronics, we developed a technology to mass produce silver nanowire ink that forms transparent electro-conductive patterns jointly with Microwave Chemical Co., Ltd., and are promoting the product to get more customers. We are also developing an electro-conductive silver ink that can form thin film electronic circuits through screen printing.

Furthermore, we are developing alternative fuel cell catalysts that can substitute conventional platinum catalysts.

In the area of nano-carbon products, we will continue to promote production and sales of fullerene products through Frontier Carbon Corporation, which we jointly operate with Mitsubishi Corporation. As for the development of nano-carbon related technologies, we are not only striving to increase productivity of our fullerene formation process, but also focusing on development of technology to disperse fullerenes on surfaces of target products, which is critical for expansion of fullerene's applications, aiming to develop fullerene as a promising material for devices utilizing organic electronics, including use as anode material for organic thin-film solar cells which utilizes fullerene's property as semiconductor with excellent electron acceptability.

R&D expenditures in 2015 in the Others segment, including common activities, totaled ¥9,653 million.

Research and Development *(cont.)*

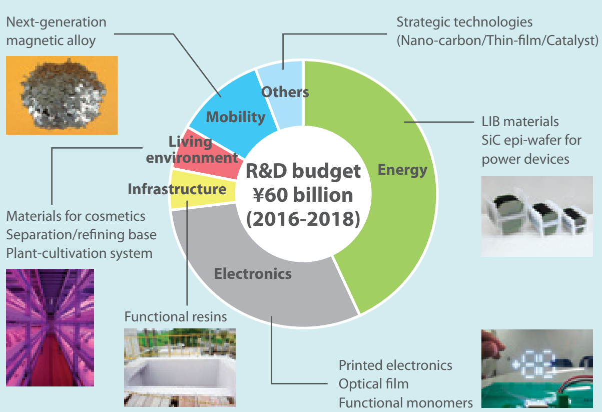
R&D under "Project 2020+"

In January 2016, the Showa Denko Group started its new medium-term consolidated business plan "Project 2020+." Under this new business plan, the Group will strengthen revenue bases of its diverse businesses and expand its individualized businesses, aiming to contribute to the solution of global social issues by providing high-value-added products and services to five market domains, namely, "Infrastructure," "Energy," "Mobility," "Living environment," and "Electronics."

During the first three years of "Project 2020+," the Group plans to invest ¥60 billion (US$497 million) in R&D.

We will invest about 70% of our R&D budget in the two market domains of "Energy," to which we mainly provide LIB materials, and SiC epitaxial wafers for power devices, and "Electronics," to which we mainly provide materials for printed electronics, optical film and functional monomers, aiming to accelerate development of new technologies and products. On the other hand, we will invest 30% of our R&D budget in the three market domains of "Infrastructure," "Living environment," and "Mobility," which are newly defined this time, aiming to expand individualized businesses. Through these R&D investments, we will create new individualized businesses.

Accelerate R&D centering on "Energy" and "Electronics"



(2016-2018 allocation of R&D budget to the newly defined five market domains)

In recent years, customer requirements for materials and parts are diversified so much that it is necessary for us to reconcile diverse technologies with products in order to secure our competitiveness. We think we can take advantage of this diversity in customers' needs by making the most of our wide-ranging chemical technologies that cover inorganic, aluminum and organic chemicals, and our diverse human resources that support these technologies.

Therefore, we made it our basic policy on R&D to "Create new value by forging, polishing, and linking diverse individualized technologies." Under this basic policy, we will deepen and fuse our "diverse business domains," our "core technologies" that consist of elemental technologies with competitive advantage, and our "strategic technologies" that consist of the world-top-level technologies we cultivated over many years. Thus, we will promote R&D in a way that is all our own.

Create new value by forging, polishing, and linking diverse individualized technologies

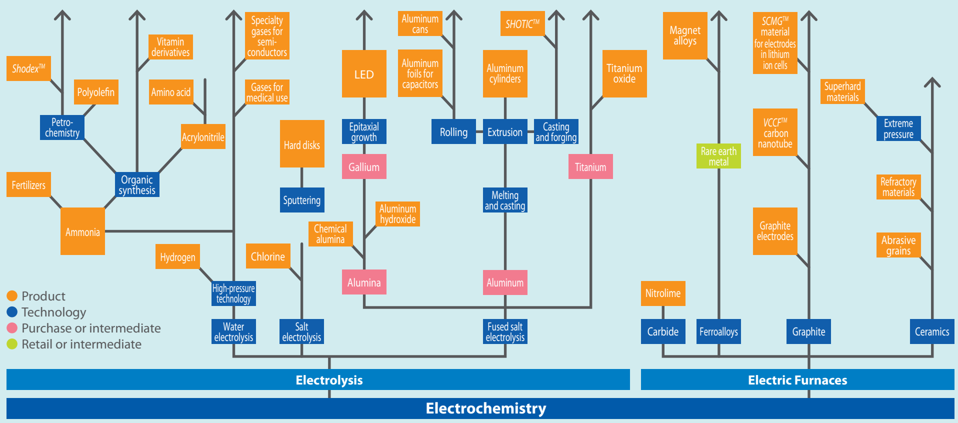
At the beginning of 2016, in order to conduct this individualized R&D, we established the Institute for Integrated Product Development, which we organized by adding the research facilities of six locations, centering on aluminum and inorganics technologies, to the former Institute for Polymers and Chemicals. On the initiative of this new R&D organization, we will enhance cooperation among divisions and plants, develop our retained materials into multi-material components, and quickly respond to our customers' needs in a creative way. The Institute for Advanced and Core Technology will deepen our strategic technologies consisting of "nano-carbon, thin-film, and catalyst technologies," and focus on development of next-generation businesses. On the other hand, in order to realize and maximize the fruits of R&D as early as possible while making our original businesses and technologies as the pivot of our R&D activities, we will positively utilize open innovation and M&A, and strengthen cooperation with our partners.

Intellectual Property

Technological background

Showa Denko K.K. was established in 1939 through the merger of Showa Fertilizers K.K. (the first to produce ammonia in Japan by a domestically developed process) and Nihon Electrical Industries K.K. (the first in Japan to commercially produce aluminum). Our technical development began with focused attention on the potential of electrochemistry in view of the abundant hydropower resources in Japan.

Development from Electrochemistry to Electrolysis and Electric Furnaces



Starting from electrochemistry, our Group has continued to develop technologies in the areas of inorganic/organic chemicals and metallic materials. At present, we have various advanced materials and components for IT and automotive industries as well as wide-ranging products necessary for daily life. Our product portfolio includes HD media, semiconductor-processing high-purity gases, and LIB materials for the IT industry; BMC and aluminum components for the automotive industry; and cosmetic raw materials and aluminum beverage cans useful for daily life.

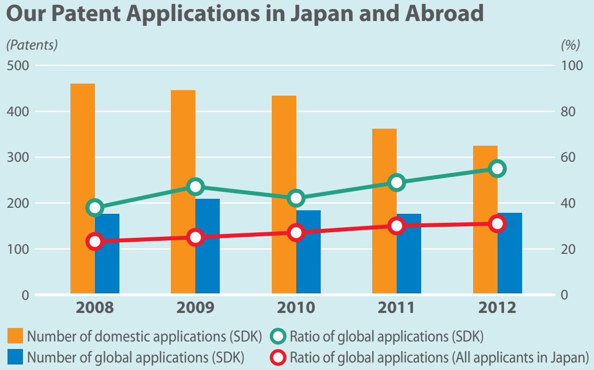
Acquisition of intellectual property rights and establishment of patent networks

As the majority of SDK's businesses are operated globally, we aggressively apply for patents in foreign countries with the aim of supporting those businesses from the intellectual property side.

The chart shown below has been compiled from data in "Japan Patent Office Annual Report 2015" and SDK's own data on the number of applications for patents. It illustrates that SDK's global application ratio remained about 10% higher than that of all applicants in Japan.

We also make every effort to secure our superiority based on intellectual property rights, especially in the principal businesses and newly developed important products by establishing patent networks.

Our Patent Applications in Japan and Abroad



Risk management

SDK's "Our Code of Conduct and Its Practical Guide" stipulates that we should respect other parties' intellectual property rights. Therefore, in 1996, we built a patent monitoring framework to constantly grasp trends in the intellectual property rights of other parties. In 2005, we started computerizing this framework. In 2011, we introduced "Shareresearch," a company-wide patent search system developed by Hitachi, Ltd., and established a framework that enables us to monitor foreign patents as well.

Topics

SDK received "The Thomson Reuters 2015 Top 100 Global Innovators" award. This was the first time for SDK to be included in the Top 100 Global Innovators list produced by Thomson Reuters, a world-leading information service firm. Thomson Reuters honors world leaders in innovation each year, utilizing its value-added patent citation database and intellectual property intelligence platform. The company uses scientific and objective methodology involving the four main criteria of patent volume, application-to-grant success, globalization, and citation influence. SDK was recognized for its achievements in globalization and citation influence.

2015 THOMSON REUTERS TOP100 GLOBAL INNOVATORS

Responsible Care Activities

Responsible Care is the chemical industry's global voluntary initiative, representing a commitment to work together to continuously improve the health, safety, and environmental performance of chemicals over their entire life cycles, namely, their development, production, distribution, use, final consumption, and disposal.

Showa Denko has been performing its Responsible Care activities since 1995, when it established action guidelines to implement the program.

The Showa Denko Group's Responsible Care activities are conducted within our 13 business divisions/departments, 15 operation sites, 3 branches, the Business Development Center, and 13 subsidiaries/affiliates (as of January 2016), based on voluntary, specific action plans prepared in line with the CSR Committee's basic plan. The following are some examples of our RC activities:

Reduction of Green House Gas Emissions and Energy Conservation

In order to contribute to the prevention of global warming and the preservation of natural resources, we are making our best efforts to conserve energy, including revision and optimization of manufacturing processes, and conversions of facilities.

In 2014, the Showa Denko Group's greenhouse gas (GHG) emissions were equivalent to 2,678kt of CO_2, down 1% from the previous year. Among that number, our GHG emissions resulting from energy consumption in 2014 were equivalent to 2,540kt of CO_2, about the same as that in the previous year.

We have hydroelectric power plants in our four operation sites, and utilize them as sources of clean energy. Approximately 21% of our total electricity requirements are now met by our hydroelectric power plants, resulting in reduction of 150kt of CO_2 emissions per year, compared to the case in which we assume all the electricity we consume is purchased from outside sources.

Contribution to a Recycling-Based Society

We are committed to effectively using industrial waste and to reducing the volume of its discharge. As a result, the final volume of landfill disposal in 2014 was reduced by 95% from the 1990 base level, due partly to the use of inorganic sludge (in cement, for example). We will continue working to reduce industrial waste.

A large number of employees within the Group are engaged in the recycling of aluminum cans. At our Kawasaki Plant, waste plastic is used to make synthesis gas for ammonia production. This demonstrates how we are contributing to a recycling-based society.

Development of Technologies and Products

Fully utilizing its core technologies, the Group continues developing new products and technologies to contribute to the sustainable growth of society.

For example, we are accelerating our developing and marketing efforts in the business field of plant factories. The market size of plant factories is expected to increase because plant factories have many advantages, including realization of stable food production not affected by weather and farming without insecticides due to their insect-damage-free environment. To stimulate the market growth of plant factories, we have developed various materials and components for LED-based plant growth factories, including ultra-bright red LED chips that emit red light of optimum wavelength for accelerating the growth of plants, lighting apparatus utilizing these LED chips, aluminum shelves for plant cultivation that realizes an optimum environment for LED-based plant growth facilities, peripheral components for aluminum shelves, and solution packages represented by *SHIGYO*™ method, which is a new fast track plant cultivation method utilizing these materials and components.

We are also committed to the development of technologies to produce high-quality SiC epitaxial wafers, which decide performance of power devices. SiC-based power devices are in the limelight as next-generation energy-saving technology because they reduce loss of power in transformation, and enable weight reduction of inverters for electric motors in hybrid cars.

Moreover, in the field of eco-friendly plastics, we developed and commercialized biodegradable polyester resin *Bionolle*™. This plastic can be fully decomposed at normal temperature, as time goes by, into water and carbon dioxide by microbial action, and therefore, imposes little damage to the environment. *Bionolle*™ and its compound resin *Bionolle Starcla*™, in which bio-derived starches and polylactic acids are mixed with *Bionolle*™ to attain less CO_2 emission and environmental impact, have been certified compostable, biodegradable and safe by certification authorities in Japan, Europe, and the United States. We will continue to pursue global environmental preservation through further development of new applications of these biodegradable plastics, including packaging materials and films for farming.

Commitment to Chemical Safety

We are taking part in the Japan Initiative of Product Stewardship (JIPS), the new voluntary chemical management initiative by the Japan Chemical Industry Association (JICA) to enhance risk assessment and risk management with consideration for the supply chain. Through this initiative, the Showa Denko Group is strengthening its chemical product stewardship in various ways, including collection of information and safety assessment at each stage of manufacture, sales, and use/consumption. We have conducted risk assessments for substances from the higher order of priority in the Group, and we published Safety Summary Sheets of 54 substances on the Global Product Strategy (GPS) portal site of International Council of Chemical Associations (ICCA) by the end of 2015.

For more information on our Responsible Care activities, please visit our website: **http://www.sdk.co.jp/english/csr/rc.html**

Showa Denko Group's resource use and environmental impact in 2014

Input

Energy:
(Crude oil equivalent)

SDK only:
980Ml (+10Ml)[*1]

Group Companies[*2]:
170Ml (-20Ml)[*1]

Water:

SDK only:
59.26Mm³ (+1.01Mm³)

Group Companies:
3.35Mm³ (–0.12Mm³)

Raw materials

Showa Denko Group

Internal utilization:

SDK only:
3,932t (–1,610t)

Group Companies:
0t

Waste reduction:

SDK only:
62,412t (+5,596t)

Group Companies:
7,379t (–55t)

Output

Products

Emission of air pollutants:	SDK only	Group Companies
Greenhouse gas (kt-CO_2)	2,218 (+5)	461 (-6)
SOx (t)	369 (-29)	3 (0)
NOx (t)	1,324 (+57)	15 (-12)
Soot and dust (t)	112 (-54)	1 (-6)
JCIA PRTR-listed substances (t)	198 (0)	186 (+11)
JCIA Toxic atmospheric pollutants (t)[*3]	18 (+1)	7 (-3)

Emission of water pollutants:	SDK only	Group Companies
COD (t)	355 (-25)	5 (0)
Total nitrogen (t)	510 (+50)	1 (0)
Total phosphorus (t)	10 (0)	0 (0)
JCIA PRTR-listed substances (t)	25 (0)	1 (0)
Wastewater volume (kt)	29,149 (+482)	3,705 (+621)

Emission of soil pollutants:	SDK only	Group Companies
JCIA PRTR-listed substances (t)	0 (0)	0 (0)

Industrial waste discharge:	SDK only	Group Companies
Total waste discharged to outside (t)	24,454 (+1,544)	8,842 (+173)
Reused by third parties (t)	10,811 (-116)	8,047 (+222)
Volume reduction by consignee (t)	12,731 (+1,833)	549 (-21)
Final landfill disposal (t)[*4]	912 (+175)	246 (-27)

The figures in parentheses represent increases or decreases relative to the previous year.

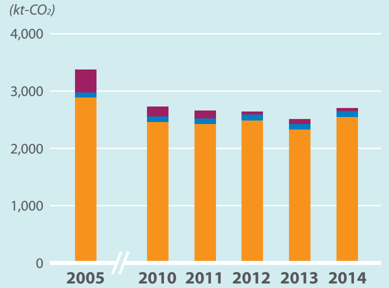
*1 Last year's energy consumption has been corrected for both, the number for SDK only as well as the number covering the entire domestic group companies.

*2 Scope of the Showa Denko Group:
Total for the ten consolidated manufacturing subsidiaries in Japan: Showa Denko Gas Products Co., Ltd., Showa Denko Ceramics Co., Ltd. (Toyama), Showa Aluminum Can Corp., Showa Denko Packaging Co. Ltd., Showa Denko Kenzai K.K., Niigata Showa K.K., Nippon Polytech Corp., Showa Denko Kenso Co., Ltd., Showa Denko HD Yamagata K.K. and Showa Fine Ceramics Co., Ltd.. GHG emissions include those for Showa Denko Electronics K.K. and Tsurusaki Kyodo Doryoku Co., Ltd. and exclude those for Niigata Showa K.K., Nippon Polytech Corp., Showa Denko Kenso Co., Ltd., and Showa Fine Ceramics Co., Ltd., which are not required to report emissions as emitters designated under the Act on Promotion of Global Warming Countermeasures.

*3 Emissions of toxic atmospheric pollutants are included in emissions of PRTR-listed substances.

*4 We expanded the scope of this number from PRTR-listed substances defined by PRTR Law to PRTR-listed substances defined by Japan Chemical Industry Association.

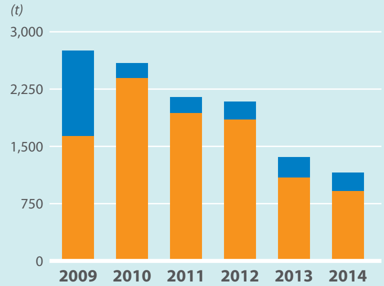
Trends in Greenhouse Gas Emissions*



CO₂ (Energy source origin) 5 GHGs other than CO₂
CO₂ (Non-energy source origin)

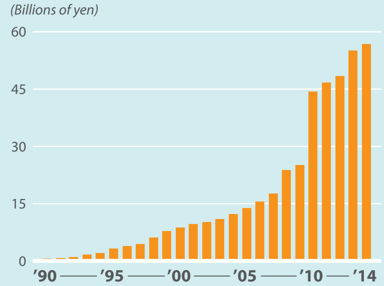
Base: 2005
(SDK and 9 subsidiaries in Japan)

Trends in the Final Volume of Landfill Disposal*



SDK
11 subsidiaries in Japan

Environment-Related Investment



Cumulative value since 1990
(SDK)

*Calculated for each environmental fiscal year from April 1 through March 31 of the following year.

Corporate Social Responsibility

Our Code of Conduct and its Practical Guide

In 2012, we completely revised the "Code of Conduct" for Showa Denko Group employees that was established in 1998 and the "Guidelines" enacted in the following year, and put the new version out as "Our Code of Conduct and Its Practical Guide." We are increasing awareness of this among all employees of the Group through reading sessions implemented during Corporate Ethics Month, which we hold in January every year, and human-rights education programs held in our offices of various districts and subsidiaries. We are encouraging every employee to consider how the Group can support various manufacturing industries by fully utilizing the Group's competence centering on chemical technologies, and to contribute to the sound growth of society.

Determination of Materiality

In 2015, we thoroughly discussed and determined priority tasks (Materiality) in our environmental/CSR activities. We selected high-priority tasks in light of the Group's Vision, medium-term consolidated business plan, annual plan, business operation system, and corporate code of conduct and guidelines. Significance of tasks from our stakeholders' perspective was evaluated based on questionnaires, and the significance of tasks from our own perspective was evaluated, giving consideration to factors such as the impact the Company makes on society as well as the influence of the tasks on our financial situation. We will positively tackle priority tasks in our environmental/CSR activities, continuously giving close attention to tasks of high-priority for stakeholders of the Company.

Involvement in Community Activities

In line with its Vision that stresses contribution to society through business activities, the Group is addressing global environmental issues, such as the mitigation of climate change and biodiversity efforts, as important matters for management. The Group, therefore, is making strenuous efforts to reduce GHG emissions and develop technologies pertaining to the environment and energy.

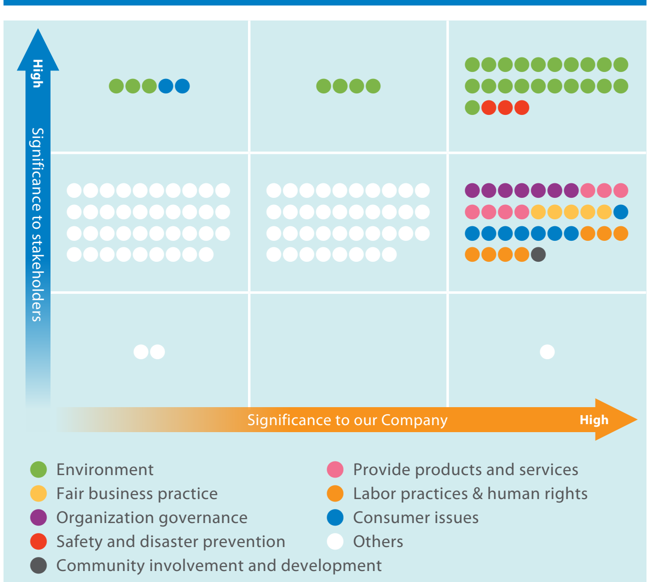
Consequently, for example, Union Showa K.K. and Showa Denko Ceramics Co., Ltd. were publicly honored as excellent suppliers by their customers in 2015, as commendation for their excellent track records in quality and stable supply of products. SDK's Oyama Plant also received for two years in succession the Merit Award in the 2015 Marronnier Ecofriendly Business Place Awards sponsored by Tochigi Prefecture, which commended Oyama Plant's environmental preservation activities.

In addition, fully utilizing their chemistry-related resources, many of the Group's operation sites are contributing toward solving relevant local communities' issues, covering such areas as education, regional development, and welfare.

The Group is supporting local communities through the recycling of aluminum cans. The Group gives donations to welfare facilities, and other institutions based on the number of aluminum cans recovered mainly by its employees. This aluminum can recycling activity has more than a 40-year history.

For more information on our CSR activities, please visit our website: **http://www.sdk.co.jp/english/csr.html**

Outline of Our Materiality



Local cleaning activities in Tokuyama

Plant tour for elementary schools in neighborhoods (Chichibu Plant)

Used aluminum cans collected by recycling activities

CSR plans & achievements for 2014, and plans for 2015

A: Fully achieved (100%)   B: Achieved 80% or more   C: Achieved less than 80%

	Plans for 2014	Achievements in 2014	Evaluation	Plans for 2015
Human rights	• Promotion of human rights enlightenment activities • Further expansion of human rights education • Provision of training tools and sharing of educational packages • Increased variation in educational contents	• Educational programs totaling 9,500 hours were provided at domestic workplaces and group companies. "Group Training for All Members" was frequently offered for educational items so that a wide range of applicable members can attend the program. • Original training materials were prepared and provided to regions and Group companies. • Established "Educational Themes to Be Covered Securely," consisting of "Overview of Human Rights Education," "Human Rights in the Workplace," and "Antidiscrimination." Formulated and implemented training plans at each region/Group company so that training covering one or more of the themes were conducted each year. All employees are expected to attend the training for any one theme within three years. Furthermore, "Educational Themes of Deep Concern to the Public in Recent Years" ("Handicapped Persons," "Children," "Human Rights Violations over the Internet," "Elderly People" and "Human Rights Issues Caused by the Great East Japan Earthquake") were also arranged, and training plans were formulated and implemented at each region/Group company.	B	• Promotion of human rights enlightenment activities • Further expansion of human rights education • Provision of training tools and sharing of educational packages • Provision of a wide range of training opportunities • Increasing variation in educational contents
Corporate ethics and compliance	• Establishment of compliance and corporate ethics • Discussions in each office using "Our Code of Conduct and Its Practical Guide" • Implementation of employee attitude surveys and examination of issues and measures • Support for putting "Our Code of Conduct and Its Practical Guide" into practice in overseas subsidiaries	• In addition to domestic workplaces and Group companies, management employees of overseas subsidiaries pledged to conform to the Code of Conduct. Group discussions were also conducted at each worksite. • Monitored the situation of our Group in the areas of corporate ethics and compliance through employee surveys, to analyze and examine the issues of our Group. • Advanced wide awareness of "Our Code of Conduct and Its Practical Guide."	B	• Preparing written oaths and reports in other languages, and continuing to implement Corporate Ethics Month activities at overseas subsidiaries. • Defining our Group's ideal "Corporate Ethics" based on the employee survey, and implementing measures to make them shared by all employees. • Increasing opportunities for education on corporate ethics.
	• Expanding the coverage of the internal reporting system (Corporate Ethics Hotline)	• Opened a whistle-blowing channel for suppliers on our website of procurement information (July 1).	A	• Taking prompt and firm action with due considerations to the protection of whistle-blowers.
Risk management	• Continuous execution of risk inventory	• Executed risk inventory	A	• Continuous execution of risk inventory
	• Continuation of earthquake resistance measures • Review of the earthquake resistance measures plan for 2015	• Reviewed and implemented earthquake resistance measures • Completed the earthquake resistance plan for 2015	A	• Continuation of earthquake resistance measures • Formulation of the earthquake resistance plan for 2016
	• Tackling important common risks	• Tackled earthquake risks, information security risks, general affairs risks and others	A	• Continuously tackling important common risks
Labor practices	• Promotion of diversity • Setting of a target number (ratio) of female managers as well as promoting employment and training of female employees to achieve this target • Employment of foreign employees • Environment improvements in order to accept intellectually or mentally handicapped people • Support for affiliated companies that have failed to reach the legal employment rate of handicapped people	• Increased the number of female managers (18 for SDK domestic) • Continued hiring foreign employees • Maintained an employment rate of handicapped people that is at or higher than the legal rate (SDK: 2.57%, Showa Denko Group: 2.53%) • Participated in the 2014 Model Project to Promote Employment of People with Mental Disorders hosted by the Ministry of Health, Labour and Welfare, and accepted mentally handicapped persons as interns in four regions/Group companies.	A	• Promotion of diversity • Setting of a target number (ratio) of female managers as well as promoting employment and training of female employees to achieve this target • Employment of foreign employees • Environment improvements in order to accept intellectually or mentally handicapped people
Fair business practice and customer care	• Expanding the target scope of CSR procurement Self-evaluations and CSR visits targeting the partners of group companies	• Continued self-evaluation and CSR visits; Number of received self-evaluation responses: 351 companies; Number of actual CSR visits: 54 cases. • Expanded CSR procurement activities to domestic group companies (self-evaluation performed by the business partners of four group companies) • Number of delivered self-evaluations: 45 cases; CSR visits: None.	B	• Expanding the target scope of CSR procurement • Expanding CSR procurement activities to domestic group companies (Having business partners of group companies conduct self-evaluations and conducting CSR visits). • Expanding CSR procurement activities to overseas partners (Preparing self-evaluation criteria for overseas).
Information disclosure and IR	Promoting IR	• Held a variety of seminars, individual briefing sessions and other events in Japan and abroad • Timely information disclosure through the website	A	Promoting IR
Local community and social contribution	• Contribution to local communities using internal resources	• Implemented classes-on-demand, environmental education, plant tours, intern acceptance and other activities at each plant	A	• Contribution to local communities using internal resources • Promotion of next-generation development and contribution activities
Responsible Care activities	Please visit our website (URL: http://www.sdk.co.jp/english/csr/rc/rc_kpi.html) for details			

Consolidated Six-year Summary

Showa Denko K.K. and Consolidated Subsidiaries

For the years ended December 31, 2010 through 2015

	Millions of yen						Thousands of U.S. dollars (Note1)
	2010	2011	2012	2013	2014	**2015**	**2015**
For the year							
Net sales	¥797,189	¥854,158	¥739,811	¥848,071	¥876,580	**¥780,958**	**$6,475,065**
Petrochemicals (Note 2)	199,590	250,396	190,939	286,732	281,400	**231,288**	**1,917,650**
Chemicals (Note 2)	133,578	130,203	127,376	130,656	139,064	**142,292**	**1,179,769**
Electronics (Note 2)	147,988	165,011	163,306	136,548	138,537	**131,492**	**1,090,221**
Inorganics (Note 2)	77,958	77,564	65,573	65,919	67,557	**63,476**	**526,295**
Aluminum (Note 2)	130,084	124,280	92,206	90,383	97,956	**100,756**	**835,389**
Others (Note 2)	154,084	150,583	135,280	176,516	195,024	**152,459**	**1,264,066**
Adjustments (Note 2)	(46,093)	(43,879)	(34,870)	(38,684)	(42,959)	**(40,805)**	**(338,325)**
Operating income	38,723	47,357	28,108	25,953	20,915	**33,672**	**279,181**
Net income	12,706	16,980	9,368	9,065	3,500	**969**	**8,035**
R&D expenditures	20,670	21,597	20,633	20,435	20,362	**20,289**	**168,221**
Capital expenditures	58,035	38,794	42,503	44,370	47,318	**44,059**	**365,302**
Depreciation and amortization (Note 2)	50,678	49,413	46,232	39,779	40,673	**42,137**	**349,365**
At year-end							
Total assets	924,484	941,303	933,162	985,771	1,011,083	**941,314**	**7,804,606**
Total net assets	284,965	295,745	314,966	345,811	320,504	**309,774**	**2,568,398**

	Yen						U.S. dollars (Note 1)
Per share							
Net income – primary (Note 3)	¥ 8.49	¥ 11.35	¥ 6.26	¥ 6.06	¥ 2.38	**¥ 0.68**	**$0.01**
Net income – fully diluted (Note 3)	—	11.20	—	—	—	**—**	**—**
Net assets	161.47	168.33	182.24	201.27	210.16	**208.04**	**1.72**
Cash dividends (applicable to the period)	3.00	3.00	3.00	3.00	3.00	**3.00**	**0.02**
Number of employees at year-end	11,597	11,542	9,890	10,234	10,577	**10,561**	

Notes: 1. Yen amounts have been translated into U.S. dollars, for convenience only, at the rate of ¥120.61 to US$1.00, the approximate rate of exchange at December 31, 2015.

2. Effective from the year ended December 31, 2011, the Companies have applied "Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (Accounting Standards Board of Japan (ASBJ) Statement No. 17, issued on June 30, 2010) and "Guidance on the Accounting Standard for Disclosures about Segments of an Enterprise and Related Information" (ASBJ Guidance No. 20, issued on March 21, 2008). The segment information for the year ended December 31, 2010, which is restated under the accounting standard, is disclosed for comparison purposes.

3. Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year. Fully diluted net income per share additionally assumes the conversion of the convertible bonds.
Diluted net income per share for 2015 and 2014 were not disclosed because there were no dilutive shares.
Diluted net income per share for 2013, 2012 and 2010 were not disclosed because the Company had no securities with dilutive effects.

Management's Discussion and Analysis

Results of Operations

Consolidated net sales in 2015 totaled ¥780,958 million (US$6,475 million), a decrease of ¥95,622 million, or 10.9%, from the previous year. While sales figures of the Chemicals and Aluminum segments increased, those of the Petrochemicals segment decreased due to a fall in product prices, reflecting the sharp drop in raw naphtha prices. Sales figures of Electronics, Inorganics, and Others segments also decreased due to lower shipment volumes.

The cost of sales decreased ¥108,839 million, or 14.2%, to ¥659,010 million (US$5,464 million), reflecting the decrease in net sales.

Selling, general and administrative expenses increased ¥460 million, or 0.5%, to ¥88,276 million (US$732 million). R&D expenditures decreased ¥73 million, to ¥20,289 million (US$168 million).

We recorded operating income of ¥33,672 million (US$279 million), up ¥12,757 million, or 61.0%, from the previous year due to the increase in operating income of the Petrochemicals segment resulting from the improvement in spreads between market prices of olefin products and raw naphtha price, and due also to the increase in shipment volumes in the Chemicals segment, while the operating income of Electronics, Inorganics, and Aluminum segments decreased.

Information by Business Segment

A breakdown of net sales and operating income by business segment is as follows.

Petrochemicals

Production of ethylene and propylene increased from the previous year due to recovery from the impact of the once-in-four-year shutdown maintenance held in 2014. Under the circumstances, shipment volumes of major olefin products, including ethylene and propylene, increased. However, overall sales of olefins decreased due to a fall in market prices, reflecting the sharp drop in raw naphtha prices. Sales of organic chemicals were down due to a fall in sales price of vinyl acetate, though sales of ethyl acetate increased due to higher shipment volumes.

As a result, the Petrochemicals segment's sales decreased ¥50,112 million, or 17.8%, to ¥231,288 million (US$1,918 million). The segment recorded an operating income of ¥10,543 million (US$87 million), up ¥15,473 million, due mainly to the improvement in olefin products' spreads between sales prices and costs.

Chemicals

With regard to our basic chemicals business, sales of chloroprene rubber increased due to higher shipment volumes to the United States and the benefit of a weak yen, while sales of liquefied ammonia decreased due to lower shipment volumes. Sales of acrylonitrile decreased following a fall in market prices. Sales of electronic chemicals increased due to a major increase in shipment volumes of high-purity gases for electronics, reflecting a boost in production of semiconductors in East Asia. Sales of functional chemicals were up due to consolidation of Shanghai Showa Highpolymer Co., Ltd. at the beginning of the year, despite a reduction in domestic shipment volumes. Sales of industrial gases were maintained at the level of the previous year.

As a result, the Chemicals segment's sales increased ¥3,228 million, or 2.3%, to ¥142,292 million (US$1,180 million). The segment recorded an operating income of ¥10,707 million (US$89 million), up ¥5,247 million from the previous year.

Electronics

Sales of HD media decreased due to lower shipment volumes as a result of the backlash from high level replacement demand for PCs in the previous year triggered by the expiration of support for an old version of an operating system. Sales of rare earth magnetic alloys decreased due to a fall in market prices under the influence of the repeal of export duty on rare earths by China in May 2015. Sales of compound semiconductors also decreased.

As a result, the Electronics segment's sales decreased ¥7,045 million, or 5.1%, to ¥131,492 million (US$1,090 million). Operating income in this segment decreased ¥8,298 million, or 32.2%, to ¥17,472 million (US$145 million).

Inorganics

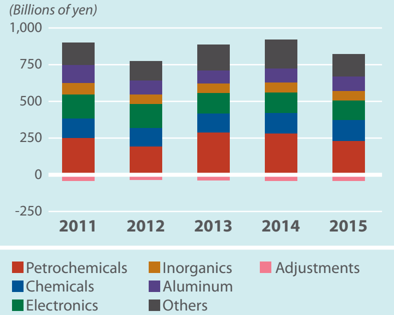
Sales of graphite electrodes decreased due to a reduction in shipment volumes owing to stagnant steel industry in the United States resulting from depressed demand for oil well pipes and import of low-priced steel, and also owing to the weak supply-demand situation in the Asian steel market resulting from the export of steel materials from China. In addition, sales of ceramics decreased slightly.

As a result, the Inorganics segment's sales decreased ¥4,081 million, or 6.0%, to ¥63,476 million (US$526 million). The segment recorded an operating loss of ¥1,249 million (US$10 million), a deterioration of ¥949 million from the previous year.

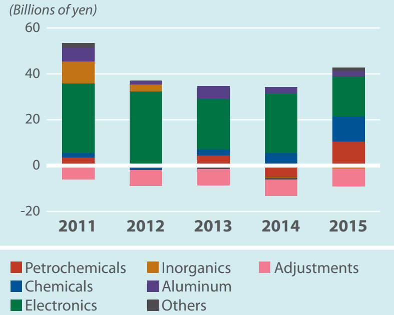
Aluminum

Sales of high-purity foil for aluminum electrolytic capacitors in China increased due to an increase in production at Showa Denko Aluminum (Nantong) Co., Ltd., China, following an expansion of facilities, while production in Japan decreased. Thus, overall sales of rolled products increased slightly due to the sales increase in China. Sales of aluminum

Net Sales by Segment



Operating Income by Segment



specialty products decreased due to a reduction in shipment volumes to manufacturers of cars and other transportation equipment. Sales of aluminum cans were up due to the increase in shipment volumes of cans for coffee beverages and consolidation of Hanacans Joint Stock Company of Vietnam in June 2014, which contributed to the increase in consolidated sales throughout 2015.

As a result, the Aluminum segment's sales increased ¥2,800 million, or 2.9%, to ¥100,756 million (US$835 million). However, operating income in this segment decreased ¥436 million, to ¥2,563 million (US$21 million) due partly to the impact of high priced aluminum ingots until the middle of 2015.

Others

Sales of lithium ion battery (LIB) materials increased due partly to the start of full-scale shipment for car applications in addition to higher shipment volumes for smartphones. Shoko Co., Ltd.'s sales decreased significantly due to the fall in sales of its steel related business in China.

As a result, the Others segment's sales decreased ¥42,565 million, or 21.8%, to ¥152,459 million (US$1,264 million). However, the segment recorded operating income of ¥1,493 million (US$12 million), up ¥2,171 million from the previous year, due to the increase in shipment volumes of LIB materials.

Information by Geographic Area

Sales in Japan

The Petrochemicals segment's sales decreased due to a fall in market prices of products reflecting the sharp drop in raw naphtha prices, though shipment volumes of petrochemical products increased due to recovery from the impact of the once-in-four-year shutdown maintenance held in 2014. The Chemicals segment's sales increased due to an increase in shipment volumes of high-purity gases for electronics. However, sales figures of the Electronics segment decreased due to a weakening demand for HD media for PCs. The Inorganics segment's sales decreased due to the decrease in shipment volumes of graphite electrodes and ceramics. The Aluminum segment's sales decreased due partly to lower shipment volumes of high-purity foil for aluminum electrolytic capacitors. Sales figures in the Others segment decreased due to a decrease in Shoko Co., Ltd.'s sales, despite higher shipment volumes of LIB materials.

As a result, consolidated sales from operations in Japan decreased ¥70,282 million, or 12.8%, to ¥479,628 million (US$3,977 million).

Sales in Asia (Excluding Japan)

The Chemicals segment's sales increased due partly to higher shipment volumes of high-purity gases for electronics, which are products of our electronic chemicals business. In our functional chemicals business, the new consolidation of Shanghai Showa Highpolymer Co., Ltd. also contributed to the increase in sales in the Chemicals segment. The Aluminum segment's sales increased due to the consolidation of Hanacans Joint Stock Company, a can manufacturer of Vietnam, in June 2014, which contributed to the increase in consolidated sales throughout 2015. However, the Others segment's sales decreased significantly due to Shoko Co., Ltd.'s withdrawal from steel related business in China.

As a result, consolidated sales from operations in Asia (excluding Japan) decreased ¥25,665 million, or 9.0%, to ¥258,932 million (US$2,147 million).

Sales in the Rest of the World

The Inorganics segment's sales decreased due to the fall in shipment volumes of graphite electrodes to markets other than North America. The Chemicals segment's sales increased due to the increase in shipment volumes of chloroprene rubber, a product of our basic chemicals business, to the North American market.

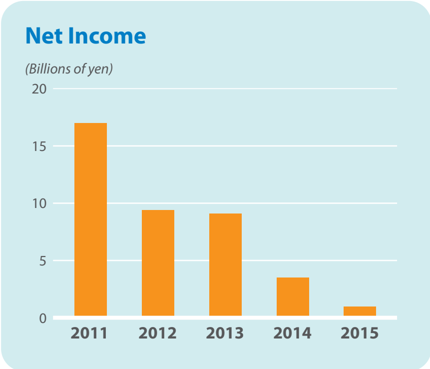
As a result, consolidated sales from operations in the rest of the world increased ¥325 million, or 0.8%, to ¥42,398 million (US$352 million).

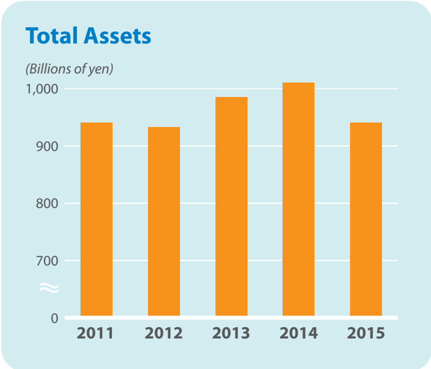
Other Income (Expenses) and Net Income

The gap between interest expenses and interest and dividends income decreased ¥1,324 million, to expenses of ¥2,155 million (US$18 million), compared with the previous fiscal year, which saw receipt of a dividend in line with withdrawal from an aluminum smelting joint venture in Indonesia on the part of Nippon Asahan Aluminum Co., Ltd., an investment company we had an equity in. We recorded a gain in the equity in earnings of unconsolidated subsidiaries and affiliates to which the equity method is applied in the amount of ¥1,917 million (US$16 million), up ¥705 million, due partly to an improvement in results of affiliates in synthetic-resin-related operations following market recovery and higher operating rate.

With regard to foreign exchange gains/losses, though we recorded foreign exchange gains in 2014 due to continuous depreciation of the yen against the dollar, the dollar-yen exchange rate during 2015 was relatively stable. Moreover, we recognized foreign exchange losses in our subsidiaries in Asia due to a relative increase in dollar-based debts resulting from depreciation of local currencies against the dollar. As a result, the Group's foreign gains/losses deteriorated ¥4,872 million, to losses of ¥441 million (US$37 million).

We recorded a loss of ¥3,869 million (US$32 million), net, on retirement and sales of noncurrent assets, a decrease of ¥271 million,





due partly to retirement losses resulting from replacement of facilities of Inorganics and Chemicals segments. We also recorded impairment loss of ¥10,678 million (US$89 million), an increase of ¥6,931 million, due partly to the Inorganics segment's recognition of an impairment loss amounting to ¥6,179 million as a result of the delay in improvement of operating rate in the graphite electrode production facilities of Showa Denko Sichuan Carbon Inc., our subsidiary in China, caused by the oversupply in the Chinese steel industry. We also posted impairment losses in the Electronics segment's rare earth business operations in Japan and China, and the Aluminum segment's subsidiary in Malaysia, which is engaged in *Shotic*™ business.

Gain on sales of investment securities increased ¥5,070 million, to ¥8,056 million (US$67 million) due to sales of a part of our listed stocks. We posted ¥13,404 million (US$111 million) as loss on provision of allowance for doubtful accounts due mainly to the posting of provision of allowance for doubtful accounts in Shoko Co., Ltd.'s steel related business in China. The sum of extraordinary losses other than those mentioned above improved ¥1,457 million, to ¥6,215 million (US$52 million), due mainly to the decrease in loss on valuation of investment securities.

Overall, the total of other income (expenses), net, or, the total of non-operating income (expenses) and extraordinary income (expenses), net, deteriorated ¥16,483 million, to a loss of ¥27,433 million (US$227 million).

As a result, the Company posted income before taxes and minority interests of ¥6,239 million (US$52 million), down ¥3,725 million from the previous year.

Corporate tax increased ¥7,098 million, to ¥13,922 million (US$115 million) due to a revision of the taxation system and a partial liquidation of deferred tax assets resulting from a revision of the Company's income forecast accompanied by the formulation of the new medium-term consolidated business plan. Thus, the Company recorded net income of ¥969 million (US$8 million), down ¥2,531 million from the previous year.

Financial Position

Total Assets

Total assets decreased ¥69,769 million from the end of the previous year, to ¥941,314 million (US$7,805 million), due partly to the decrease in accounts receivable-trade and inventory, reflecting falls in material and fuel prices. Cash and deposits decreased ¥2,786 million, to ¥64,054 million (US$531 million).

Net property, plant and equipment decreased ¥12,368 million, to ¥501,288 million (US$4,156 million), due partly to the posting of impairment losses, despite new consolidation of Shanghai Showa Highpolymer Co., Ltd. and other companies.

Total investments and other assets decreased ¥10,039 million, to ¥106,949 million (US$887 million), due partly to the partial liquidation of deferred tax assets.

Liabilities

Interest bearing debt decreased ¥14,289 million, to ¥368,835 million (US$3,058 million). Total liabilities decreased ¥59,039 million, to ¥631,539 million (US$5,236 million), due partly to the decrease in notes and accounts payable-trade.

Net Assets

Net assets decreased ¥10,730 million from the end of the previous year, to ¥309,774 million (US$2,568 million), due partly to the decrease in valuation difference on available-for-sale securities and the decrease in minority interests resulting from the posting of extraordinary loss in Shoko Co., Ltd., though we recorded net income.

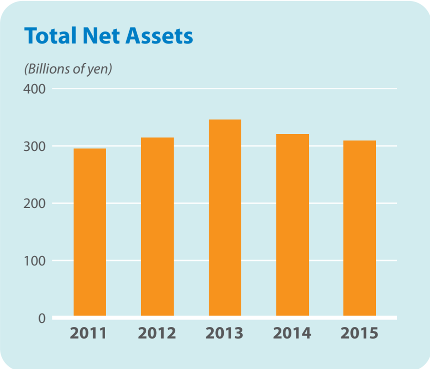
Capital Expenditures

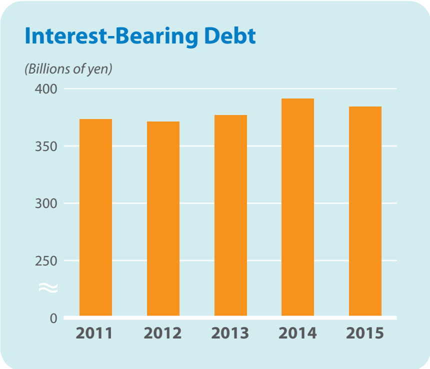
Capital expenditures decreased ¥3,259 million from the previous year, to ¥44,059 million (US$365 million). We completed expansion of the used-plastic gasification facility at Kawasaki Plant, established an integrated aluminum can production system at Hanacans Joint Stock Company, which is our can manufacturing subsidiary in Vietnam, and expanded production capacity for SiC epitaxial wafers for power devices with very low defect density. We also implemented construction works for various purposes including reinforcement of production facilities, efficiency improvement, maintenance of production facilities, and environmental preservation.

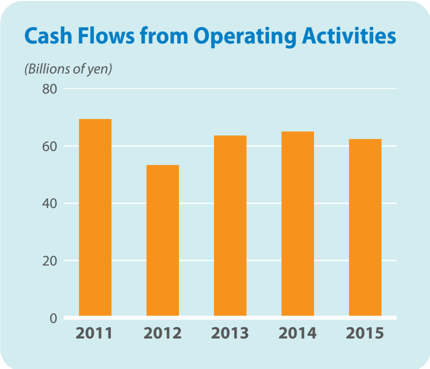
Cash Flows

Net cash provided by operating activities decreased ¥3,578 million from the previous year, to ¥62,418 million (US$518 million), due partly to a decrease in notes and accounts payable-trade, despite an increase in operating income. Net cash used in investing activities decreased ¥3,302 million, to ¥43,923 million (US$364 million), due partly to acquisition of shares in subsidiaries in time with a change in scope of consolidation in the previous year. Net cash used in financing activities was ¥23,202 million (US$192 million), a decrease of ¥1,822 million, as a result of the purchase and cancellations of preferred securities and the repurchase of the Company's own shares, both in the previous year, despite the fall in interest-bearing debt.

As a result, taking the effects of exchange rate fluctuations into account, cash and cash equivalents at the end of 2015 decreased ¥2,884 million, to ¥63,630 million (US$528 million).







Consolidated Balance Sheets

Showa Denko K.K. and Consolidated Subsidiaries
At December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
ASSETS	**2015**	2014	**2015**
Current assets			
Cash and deposits (Notes 5 and 6)	**¥ 64,054**	¥ 66,840	**$ 531,084**
Notes and accounts receivable (Notes 6 and 9)	**148,335**	170,829	**1,229,876**
Allowance for doubtful accounts	**(880)**	(1,509)	**(7,293)**
Inventories	**105,926**	123,600	**878,251**
Deferred tax assets (Note 12)	**3,050**	4,244	**25,289**
Other current assets (Notes 6 and 8)	**12,591**	16,435	**104,392**
Total current assets	**333,076**	380,439	**2,761,599**
Property, plant and equipment (Note 10)			
Land (Note 18)	**251,851**	254,116	**2,088,143**
Buildings and structures	**264,941**	267,817	**2,196,676**
Machinery, equipment and vehicles	**772,906**	769,620	**6,408,307**
Construction in progress	**47,655**	46,277	**395,119**
	1,337,353	1,337,830	**11,088,245**
Less : Accumulated depreciation	**(836,065)**	(824,173)	**(6,931,973)**
Net property, plant and equipment	**501,288**	513,656	**4,156,272**
Investments and other assets			
Investment securities (Notes 6, 7 and 10)	**76,568**	76,113	**634,842**
Long-term loans	**3,300**	771	**27,359**
Net defined benefit asset (Note 11)	**19**	20	**158**
Deferred tax assets (Note 12)	**8,903**	15,563	**73,813**
Other (Notes 6 and 8)	**32,975**	24,933	**273,406**
Allowance for doubtful accounts	**(14,816)**	(412)	**(122,843)**
Total investments and other assets	**106,949**	116,988	**886,735**
Total assets	**¥ 941,314**	¥1,011,083	**$ 7,804,606**

See notes to financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 4)
LIABILITIES AND NET ASSETS	**2015**	2014	**2015**
Current liabilities			
Short-term debt (Notes 6 and 10)	**¥ 81,000**	¥ 76,519	**$ 671,590**
Current portion of long-term debt (Notes 6 and 10)	**59,386**	80,486	**492,382**
Notes and accounts payable (Notes 6, 9 and 10)	**153,641**	183,427	**1,273,866**
Income taxes payable	**2,429**	2,435	**20,140**
Provision for repairs	**62**	61	**515**
Provision for bonuses	**1,904**	2,135	**15,783**
Provision for business structure improvement	**83**	769	**689**
Provision for Niigata Minamata Disease	**126**	137	**1,045**
Other current liabilities (Notes 6, 8 and 12)	**31,651**	34,811	**262,428**
Total current liabilities	**330,283**	380,781	**2,738,437**
Noncurrent liabilities			
Long-term debt less current portion (Notes 6 and 10)	**228,449**	226,119	**1,894,111**
Deferred tax liabilities (Note 12)	**3,871**	3,453	**32,095**
Provision for repairs	**1,377**	633	**11,418**
Provision for business structure improvement	**475**	—	**3,938**
Net defined benefit liability (Notes 3 and 11)	**15,185**	22,115	**125,904**
Deferred tax liabilities for land revaluation (Note 18)	**35,893**	39,841	**297,597**
Other noncurrent liabilities (Notes 6 and 8)	**16,006**	17,637	**132,708**
Total noncurrent liabilities	**301,256**	309,798	**2,497,771**
Contingent liabilities (Note 16)			
Net assets (Note 17)			
Shareholders' equity			
Capital stock			
Authorized, 3,300,000,000 shares			
Issued , 2015-- 1,497,112,926 shares	**140,564**	—	**1,165,438**
Issued , 2014-- 1,497,112,926 shares	**—**	140,564	**—**
Capital surplus	**62,221**	62,221	**515,886**
Retained earnings (Note 3)	**55,822**	57,467	**462,827**
Less: Treasury stock at cost, 2015-- 68,858,573 shares	**(10,157)**	—	**(84,215)**
Less: Treasury stock at cost, 2014-- 68,831,258 shares	**—**	(10,153)	**—**
Total shareholders' equity	**248,449**	250,099	**2,059,937**
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	**3,927**	6,783	**32,559**
Deferred gains or losses on hedges	**(326)**	1,262	**(2,702)**
Revaluation reserve for land (Note 18)	**31,307**	27,908	**259,570**
Foreign currency translation adjustments	**18,611**	19,018	**154,307**
Remeasurements of defined benefit plans (Notes 3 and 11)	**(4,835)**	(4,899)	**(40,092)**
Total accumulated other comprehensive income	**48,683**	50,072	**403,643**
Minority interests	**12,642**	20,333	**104,818**
Total net assets	**309,774**	320,504	**2,568,398**
Total liabilities and net assets	**¥941,314**	¥1,011,083	**$7,804,606**

Consolidated Statements of Income

Showa Denko K.K. and Consolidated Subsidiaries

For the years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	**2015**
Net sales	**¥780,958**	¥876,580	**$6,475,065**
Cost of sales (Note 20)	**659,010**	767,849	**5,463,971**
Gross profit	**121,948**	108,731	**1,011,094**
Selling, general and administrative expenses (Notes 19 and 20)	**88,276**	87,816	**731,914**
Operating income	**33,672**	20,915	**279,181**
Other income (expenses)			
Interest and dividends income	**1,922**	3,715	**15,939**
Equity in earnings of unconsolidated subsidiaries and affiliates	**1,917**	1,212	**15,892**
Gain on sales of investment securities, net (Note 7)	**8,055**	2,985	**66,788**
Loss on valuation of investment securities (Note 7)	**(1,812)**	(4,032)	**(15,023)**
Foreign exchange gains (losses)	**(441)**	4,431	**(3,655)**
Rent income on noncurrent assets	**1,613**	1,628	**13,372**
Gain (loss) on sales of noncurrent assets, net	**(415)**	28	**(3,441)**
Interest expenses	**(4,077)**	(4,546)	**(33,806)**
Loss on retirement of noncurrent assets	**(3,454)**	(4,168)	**(28,636)**
Impairment loss (Note 13)	**(10,678)**	(3,747)	**(88,533)**
Subsidy income	**1,266**	373	**10,500**
Loss on mothballing of operation	**(1,710)**	(2,947)	**(14,182)**
Provision of allowance for doubtful accounts (Note 21)	**(13,404)**	—	**(111,136)**
Other, net	**(6,215)**	(5,883)	**(51,532)**
Total	**(27,433)**	(10,951)	**(227,454)**
Income before income taxes and minority interests	**6,239**	9,964	**51,726**
Income taxes (Note 12)			
Current	**3,437**	3,865	**28,499**
Deferred	**10,484**	2,959	**86,928**
Income (loss) before minority interests	**(7,683)**	3,140	**(63,701)**
Minority interests in loss	**(8,652)**	(360)	**(71,735)**
Net income	**¥969**	¥3,500	**$8,035**

	Yen		U.S. dollars (Note 4)
Per share amounts			
Net income – primary	**¥0.68**	¥2.38	**$0.01**
Net income – fully diluted	**—**	—	**—**
Cash dividends (applicable to the period)	**3.00**	3.00	**0.02**

Note: Net income per share has been computed based on the average number of shares of common stock outstanding during the respective fiscal year.
Diluted net income per share for 2015 and 2014 were not disclosed because there were no dilutive shares.

See notes to financial statements.

Consolidated Statements of Comprehensive Income

Showa Denko K.K. and Consolidated Subsidiaries
For the years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	**2015**
Income (loss) before minority interests	**¥ (7,683)**	¥ 3,140	**$ (63,701)**
Other comprehensive income:			
Valuation difference on available-for-sale securities	**(3,212)**	867	**(26,632)**
Deferred gains or losses on hedges	**(1,421)**	1,016	**(11,781)**
Revaluation reserve for land	**3,779**	—	**31,334**
Foreign currency translation adjustments	**(2,325)**	12,797	**(19,279)**
Remeasurements of defined benefit plans, net of tax	**9**	—	**75**
Share of other comprehensive income of unconsolidated subsidiaries and affiliates accounted for using equity method	**119**	138	**984**
Total other comprehensive income (Note 14)	**¥ (3,051)**	¥14,817	**$ (25,300)**
Comprehensive income	**¥ (10,734)**	¥17,957	**$ (89,000)**
Comprehensive income attributable to:			
Owners of the parent	**(1,618)**	17,620	**(13,412)**
Minority interests	**(9,117)**	336	**(75,589)**

See notes to financial statements.

Consolidated Statements of Changes in Net Assets

Showa Denko K.K. and Consolidated Subsidiaries

For the years ended December 31, 2015 and 2014

	Thousands	Millions of yen										
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at December 31, 2013	1,497,113	¥140,564	¥62,221	¥58,414	¥ (149)	¥5,850	¥ 105	¥ 27,923	¥ 6,284	¥ —	¥44,599	¥345,811
Dividends from surplus	—	—	—	(4,490)	—	—	—	—	—	—	—	(4,490)
Net income	—	—	—	3,500	—	—	—	—	—	—	—	3,500
Purchase of treasury stock	—	—	—	—	(10,005)	—	—	—	—	—	—	(10,005)
Disposal of treasury stock	—	—	(0)	—	0	—	—	—	—	—	—	0
Increase by increase of consolidated subsidiaries	—	—	—	475	—	—	—	—	—	—	—	475
Decrease by increase of consolidated subsidiaries	—	—	—	(443)	—	—	—	—	—	—	—	(443)
Reversal of revaluation reserve for land	—	—	—	14	—	—	—	—	—	—	—	14
Other	—	—	—	(4)	—	—	—	—	—	—	—	(4)
Net changes of items other than shareholders' equity	—	—	—	—	—	934	1,158	(14)	12,733	(4,899)	(24,266)	(14,355)
Balance at December 31, 2014	1,497,113	¥140,564	¥62,221	¥57,467	¥(10,153)	¥6,783	¥ 1,262	¥27,908	¥19,018	¥(4,899)	¥20,333	¥320,504
Cumulative effects of changes in accounting policies	—	—	—	29	—	—	—	—	—	2,668	—	2,697
Restated balance	1,497,113	140,564	62,221	57,496	(10,153)	6,783	1,262	27,908	19,018	(2,231)	20,333	323,201
Dividends from surplus	—	—	—	(4,285)	—	—	—	—	—	—	—	(4,285)
Net income	—	—	—	969	—	—	—	—	—	—	—	969
Purchase of treasury stock	—	—	—	—	(5)	—	—	—	—	—	—	(5)
Disposal of treasury stock	—	—	0	—	0	—	—	—	—	—	—	0
Increase by increase of consolidated subsidiaries	—	—	—	1,084	—	—	—	—	—	—	—	1,084
Decrease by increase of consolidated subsidiaries	—	—	—	(304)	—	—	—	—	—	—	—	(304)
Decrease by decrease of consolidated subsidiaries	—	—	—	(225)	—	—	—	—	—	—	—	(225)
Increase by increase of associates accounted for using equity method	—	—	—	637	—	—	—	—	—	—	—	637
Reversal of revaluation reserve for land	—	—	—	355	—	—	—	—	—	—	—	355
Other	—	—	—	93	—	—	—	—	—	—	—	93
Net changes of items other than shareholders' equity	—	—	—	—	—	(2,856)	(1,588)	3,398	(407)	(2,604)	(7,691)	(11,748)
Balance at December 31, 2015	**1,497,113**	**¥140,564**	**¥62,221**	**¥55,822**	**¥(10,157)**	**¥3,927**	**¥ (326)**	**¥31,307**	**¥18,611**	**¥(4,835)**	**¥12,642**	**¥309,774**

	Thousands	Thousands of U.S. dollars (Note 4)										
	Number of shares of capital stock	Capital stock	Capital surplus	Retained earnings	Treasury stock	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Revaluation reserve for land	Foreign currency translation adjustments	Remeasurements of defined benefit plans	Minority interests	Total net assets
Balance at December 31, 2014	1,497,113	$1,165,438	$515,886	$476,470	$(84,180)	$ 56,241	$ 10,465	$231,393	$157,679	$(40,619)	$168,585	$2,657,360
Cumulative effects of changes in accounting policies	—	—	—	240	—	—	—	—	—	22,120	—	22,361
Restated balance	1,497,113	1,165,438	515,886	476,711	(84,180)	56,241	10,465	231,393	157,679	(18,498)	168,585	2,679,721
Dividends from surplus	—	—	—	(35,526)	—	—	—	—	—	—	—	(35,526)
Net income	—	—	—	8,035	—	—	—	—	—	—	—	8,035
Purchase of treasury stock	—	—	—	—	(39)	—	—	—	—	—	—	(39)
Disposal of treasury stock	—	—	0	—	3	—	—	—	—	—	—	4
Increase by increase of consolidated subsidiaries	—	—	—	8,989	—	—	—	—	—	—	—	8,989
Decrease by increase of consolidated subsidiaries	—	—	—	(2,520)	—	—	—	—	—	—	—	(2,520)
Decrease by decrease of consolidated subsidiaries	—	—	—	(1,864)	—	—	—	—	—	—	—	(1,864)
Increase by increase of associates accounted for using equity method	—	—	—	5,281	—	—	—	—	—	—	—	5,281
Reversal of revaluation reserve for land	—	—	—	2,947	—	—	—	—	—	—	—	2,947
Other	—	—	—	775	—	—	—	—	—	—	—	775
Net changes of items other than shareholders' equity	—	—	—	—	—	(23,682)	(13,166)	28,177	(3,372)	(21,593)	(63,767)	(97,404)
Balance at December 31, 2015	**1,497,113**	**$1,165,438**	**$515,886**	**$462,827**	**$(84,215)**	**$ 32,559**	**$ (2,702)**	**$259,570**	**$154,307**	**$(40,092)**	**$104,818**	**$2,568,398**

See notes to financial statements.

Consolidated Statements of Cash Flows

Showa Denko K.K. and Consolidated Subsidiaries

For the years ended December 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 4)
	2015	2014	**2015**
Cash flows from operating activities			
Income before income taxes and minority interests	**¥ 6,239**	¥ 9,964	**$ 51,726**
Adjustments for:			
Depreciation and amortization	**42,137**	40,673	**349,365**
Impairment loss	**10,678**	3,747	**88,533**
Amortization of goodwill	**1,436**	1,696	**11,904**
Increase (decrease) in allowance for doubtful accounts	**14,115**	949	**117,029**
Increase (decrease) in net defined benefit liability	**(6,903)**	1,987	**(57,236)**
Interest and dividends income	**(1,922)**	(3,715)	**(15,939)**
Interest expenses	**4,077**	4,546	**33,806**
Equity in (earnings) losses of unconsolidated subsidiaries and affiliates	**(1,917)**	(1,212)	**(15,892)**
Loss (gain) on sales and valuation of investment securities	**(6,243)**	1,047	**(51,765)**
Loss on retirement of noncurrent assets	**3,454**	4,168	**28,636**
Loss (gain) on sales of noncurrent assets	**415**	(28)	**3,441**
Decrease (increase) in notes and accounts receivable-trade	**21,687**	6,829	**179,810**
Decrease (increase) in inventories	**18,119**	1,453	**150,228**
Increase (decrease) in notes and accounts payable-trade	**(24,313)**	(3,087)	**(201,582)**
Other, net	**(15,380)**	(120)	**(127,518)**
Subtotal	**65,678**	68,897	**544,548**
Interest and dividends income received	**4,193**	4,250	**34,766**
Interest expenses paid	**(4,115)**	(4,293)	**(34,120)**
Income taxes paid (refund)	**(3,337)**	(2,859)	**(27,671)**
Net cash provided by (used in) operating activities	**62,418**	65,996	**517,523**
Cash flows from investing activities			
Purchase of property, plant and equipment	**(40,645)**	(44,278)	**(336,998)**
Proceeds from sales of property, plant and equipment	**697**	901	**5,776**
Purchase of investment securities	**(23,446)**	(8,147)	**(194,392)**
Proceeds from sales of investment securities	**23,725**	10,365	**196,707**
Purchase of investments in subsidiaries	**(862)**	—	**(7,146)**
Purchase of investments in subsidiaries resulting in change in scope of consolidation	**—**	(5,533)	**—**
Net decrease (increase) in short-term loans receivable	**(386)**	(2)	**(3,204)**
Payments of long-term loans receivable	**(2,810)**	—	**(23,298)**
Collection of long-term loans receivable	**520**	234	**4,309**
Other, net	**(715)**	(766)	**(5,928)**
Net cash provided by (used in) investing activities	**(43,923)**	(47,225)	**(364,173)**
Cash flows from financing activities			
Net increase (decrease) in short-term debt	**5,713**	(24,907)	**47,368**
Proceeds from long-term loans payable	**50,240**	71,455	**416,546**
Repayments of long-term loans payable	**(71,006)**	(43,370)	**(588,726)**
Proceeds from issuance of bonds	**10,000**	15,000	**82,912**
Redemption of bonds	**(10,000)**	—	**(82,912)**
Payments for retirement by purchase of Preferred equity securities	**—**	(24,000)	**—**
Proceeds from stock issuance to minority shareholders	**129**	—	**1,073**
Net decrease (increase) in treasury shares	**(4)**	(10,004)	**(35)**
Cash dividends paid	**(4,272)**	(4,477)	**(35,416)**
Cash dividends paid to minority shareholders	**(435)**	(1,291)	**(3,608)**
Other, net	**(3,567)**	(3,431)	**(29,577)**
Net cash provided by (used in) financing activities	**(23,202)**	(25,024)	**(192,375)**
Effect of exchange rate changes on cash and cash equivalents	**(1,334)**	3,597	**(11,059)**
Net increase (decrease) in cash and cash equivalents	**(6,041)**	(2,656)	**(50,085)**
Cash and cash equivalents at beginning of the year	**66,515**	68,175	**551,487**
Increase in cash and cash equivalents resulting from newly consolidated subsidiaries	**3,002**	996	**24,893**
Decrease in cash and cash equivalents resulting from exclusion of subsidiaries from consolidation	**(7)**	—	**(58)**
Increase in cash and cash equivalents resulting from merger	**161**	—	**1,335**
Cash and cash equivalents at end of the year (Note 5)	**¥63,630**	¥66,515	**$527,572**

See notes to financial statements.

Notes to Financial Statements

Showa Denko K.K. and Consolidated Subsidiaries

1. BASIS OF REPORTING AND FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan, which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards, and restructured and translated into English from the consolidated financial statements which have been filed with the Kanto Local Finance Bureau as required by the Financial Instruments and Exchange Law of Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements for the years ended December 31, 2015 and 2014 include the accounts of the Company and its 48 and 45, respectively, significant subsidiaries (collectively "the Companies").

For the purposes of the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies are entirely eliminated and the portions thereof attributable to minority interests are credited or charged to minority interests.

Accounts of subsidiaries whose business year-ends differ by more than three months from December 31 have been included using appropriate interim financial information.

In the initial consolidation, assets and liabilities of subsidiaries including those attributable to minority stockholders are recorded based on fair value in the accompanying consolidated financial statements.

Goodwill is amortized on a straight-line basis over a period during which the effect of such goodwill lasts but does not exceed 20 years from booking. In addition, negative goodwill arising from business combinations prior to April 1, 2010 is amortized on a straight-line basis over a period during which the effect of such negative goodwill lasts but does not exceed 20 years from booking.

(b) Investments in Unconsolidated Subsidiaries and Affiliates

The Company applied the equity method of accounting for investments in 1 unconsolidated subsidiary in 2015 and 1 that of in 2014, and 12 affiliates in 2015 and 11 affiliates in 2014.

All underlying intercompany profits obtained from transactions among the Companies and unconsolidated subsidiaries and affiliates to which the equity method is applied are eliminated in the consolidated financial statements.

(c) Translation of Foreign Currency Accounts

All receivables and payables denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the current exchange rates.

The resulting exchange gains or losses are credited or charged to income.

The financial statements of certain consolidated subsidiaries of foreign nationality are translated into Japanese yen at the year-end rate for assets and liabilities, at historical rates for the other balance sheet accounts exclusive of the current year's net income, and at the average annual rate for revenue and expense accounts and net income.

Translation adjustments resulting from the process of translating the financial statements of foreign subsidiaries into Japanese yen are accumulated and reported as a component of net assets on the consolidated balance sheets.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statements of cash flows are composed of cash on hand, bank deposits available for withdrawal on demand and short-term investments with original maturities of three months or less and minor risk of value fluctuation.

(e) Securities

Debt securities that are intended to be held to maturity ("held-to-maturity debt securities") are stated at amortized cost on the balance sheets. Available-for-sale securities with available fair market values are stated at fair market values. Unrealized gains and unrealized losses on these available-for-sale securities are reported, net of applicable income taxes, as a separate component of the net assets.

Realized gains or losses on sale of the available-for-sale securities are computed using primarily the moving-average cost.

Available-for-sale securities with no available fair market values are stated primarily at moving-average cost.

(f) Allowance for Doubtful Accounts

To provide for losses from bad debts, the allowance is provided according to the actual rate of default for ordinary receivables and in view of the probability of recovery for specific doubtful receivables.

(g) Inventories

Inventories are stated at the lower of cost or market, using principally the gross-average cost method. The carrying value on the consolidated balance sheets is stated by the devaluation method based on declines in profitability.

(h) Property, Plant and Equipment

Property, plant and equipment is stated at cost, in principle. Depreciation of property, plant and equipment is computed by the straight-line method.

(i) Intangible Assets

The Company and some of the consolidated subsidiaries principally apply the straight-line method over 5 years to amortize intangible assets.

(j) Leased Assets

Leased assets in finance lease transactions that do not transfer ownership to the lessee are depreciated using the straight-line method on the assumption that the useful life is equal to the lease term and the residual value is equal to zero. For leases with a residual value guarantee, the contracted residual value is considered to be the residual value for financial accounting purposes.

Please note that finance lease transactions, other than those involving the transfer of ownership and which commenced on or before December 31, 2008, are accounted for by the same methods as for operating lease transactions.

(k) Provision for Business Structure Improvement

The Company and some of the consolidated subsidiaries record the provision for business structure improvement on an accrual basis to provide for expenses and losses resulting from their restructuring programs.

(l) Provision for Bonuses

A provision for bonuses is provided at an amount estimated based on the bonus to be paid subsequent to the balance sheet date.

(m) Provision for Repairs

The Company and some of the consolidated subsidiaries provide a provision for repairs in an amount estimated to be necessary for the scheduled maintenance for certain production equipment.

(n) Provision for Niigata Minamata Disease

To provide for lump-sum payments pursuant to the Special Measures Law Regarding Relief to Persons Suffering from Minamata Disease and Regarding Solutions to the Minamata Disease Problem, the Company makes a provision in the expected amount of such payments.

(o) Accouting Policy for Retirement Benefits

(1) Method of attributing expected benefits to periods

The attribution of expected benefits to periods up to the current consolidated fiscal year, upon calculating retirement benefit obligations, is done on the benefit formula basis.

(2) Method of amortization of actuarial gain or loss and past service costs

The actuarial gain or loss is amortized starting from the year after such an actuarial loss is determined on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods.

Past service costs are amortized on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods.

(3) Application of a simplified method to small businesses

For the calculation of liabilities concerning retirement benefits and retirement benefit expenses, some consolidated subsidiaries have adopted a simplified method, which deems term-end amounts payable for voluntary retirement related to retirement benefits as retirement benefit obligations.

(p) Income Taxes

Income taxes consist of corporation, enterprise and inhabitants taxes. The provision for income taxes is computed based on the pretax income of each of the Company and its consolidated subsidiaries with certain adjustments required for consolidation and tax purposes. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts and the tax bases of assets and liabilities. (Valuation allowances are recorded to reduce deferred tax assets based on the assessment of the realizability of the tax benefits.)

Application of the Consolidated Taxation System

The Company and certain domestic subsidiaries adopt the consolidated taxation system.

(q) Derivative Financial Instruments and Hedge Accounting

The Company and certain subsidiaries state all derivative financial instruments at fair value and recognize changes in fair value as gains or losses unless the derivative financial instruments are used for hedging purposes.

If the derivative financial instruments meet certain hedging criteria, the Company and certain subsidiaries defer recognition of gains or losses resulting from changes in fair value of derivative financial instruments until the related gains or losses on hedged items are recognized.

However, when forward exchange contracts meet certain hedging criteria, the hedged items are stated by the forward exchange contracts rate. If interest rate swap contracts meet certain hedging criteria, the net amount to be paid or received under the interest rate swap contracts is added to or deducted from interest on the assets or liabilities for which the interest rate swap contracts were executed.

Hedge accounting is not applied at some of the foreign subsidiaries.

(r) Reclassifications

Certain reclassifications have been made in the 2014 financial statements to conform to the presentation of 2015.

3. CHANGES IN ACCOUNTING POLICIES

Application of the Accounting Standard for Retirement Benefits

The Accounting Standard for Retirement Benefits (Accounting Standards Board of Japan (ASBJ) Statement No. 26 issued on May 17, 2012, hereafter, the "Retirement Benefits Accounting Standard") and the Guidance on Accounting Standard for Retirement Benefits (ASBJ Guidance No. 25 issued on March 26, 2015, hereafter, the "Retirement Benefits Guidance") were implemented effective from the year ended December 31, 2015 with regard to the provisions stipulated in the main clause of Article 35 of the Retirement Benefits Accounting Standard and the main clause of Article 67 of the Retirement Benefits Guidance. The method of calculating retirement benefit obligations and service costs has been reviewed, and the method of attributing expected retirement benefits has been changed from the straight-line basis to the benefit formula basis.

In addition, the method of determining the discount rate has been changed from the single discount rate based on the number of years similar to the average number of remaining service years of employees to the multiple discount rates set for each expected payment period of retirement benefits. The implementation of accounting standards for retirement benefits, etc., conforms to the transitional treatment stipulated in Article 37 of the Retirement Benefits Accounting Standard, and the effect of the change in the method of attributing expected retirement benefits at the beginning of the consolidated fiscal year under review has been adjusted in retained earnings. In addition, the effect of the change in method of determining the discount rate has been adjusted in accumulated other comprehensive income.

As a result, liabilities concerning retirement benefits decreased by ¥4,249 million (US$35,229 thousand), retained earnings increased by ¥29 million (US$240 thousand) and accumulated other comprehensive income rose by ¥2,668 million (US$22,120 thousand) as of the beginning of the consolidated fiscal year under review. The effect on operating income, ordinary income and income before income taxes and minority interests is immaterial. There is also no material impact on per share information.

4. JAPANESE YEN AND TRANSLATION INTO U.S. DOLLARS

The Companies' accounting records are maintained in yen. Yen amounts included in the financial statements are rounded to the nearest one million unit. Therefore, the total and subtotal amounts presented in the financial statements may not equal the exact sum of the individual balances. The U.S. dollar amounts appearing in the accompanying financial statements and notes thereto represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥120.61 to US$1.00, the approximate rate of exchange at December 31, 2015. The inclusion of such U.S. dollar amounts is solely for the convenience of readers; it does not carry with it any implication that yen amounts have been or could be converted into U.S. dollars at that rate.

5. CASH FLOW STATEMENTS

Cash and deposits as of December 31, 2015 and 2014 on the consolidated balance sheets and cash equivalents at December 31, 2015 and 2014 on the consolidated statements of cash flows were reconciled as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Cash and deposits	**¥64,054**	¥66,840	**$531,084**
Original maturities more than three months	**(424)**	(325)	**(3,512)**
Cash and cash equivalents	**¥63,630**	¥66,515	**$527,572**

6. FINANCIAL INSTRUMENTS

(a) Overview

(1) Management policy relating to financial instruments

The Companies finance necessary long-term funds by bank loans and bond issues following the capital investment plans and finance short-term operating funds by bank loans and commercial paper. Temporary excess funds are invested exclusively in financial instruments which have fixed returns and low risk of falling below par values. The Companies use derivative transactions to hedge the following risks and do not enter into derivative transactions for speculative purposes.

(2) Types of financial instruments and related risks

Operating receivables, such as notes and accounts receivable, are exposed to credit risk. Foreign-currency-denominated accounts receivable incurred through exports are exposed to foreign currency fluctuation risk. However, the Companies hedge the risk by utilizing forward exchange contracts, currency options, and currency swaps based on internal rules that set out foreign currency risk management principles.

Marketable securities and investment securities mainly consist of the stocks of partner companies to maintain and strengthen their business relationships and are exposed to market fluctuation risk.

Operating payables, such as notes and accounts payable–trade and other, are due within one year. Foreign-currency-denominated accounts payable incurred through imports of raw materials are exposed to foreign currency fluctuation risk. The Companies hedge the risk by utilizing forward exchange contracts following internal rules that set out the foreign currency risk management principles. Short-term debt and commercial paper are mainly used to finance short-term operating funds, and long-term debts and bonds are mainly used to finance equipment funds. Since some of long-term debt is made up of variable interest rate loans, it is exposed to interest rate fluctuation risk. However, interest rate swaps are used for most loans to hedge the risk.

The Companies utilize derivative transactions, such as forward exchange contracts, currency options, and currency swaps, to hedge the foreign currency fluctuation risk of operating receivables and payables denominated in foreign currencies and financing transactions denominated in foreign currencies. Interest rate swaps are utilized to hedge the interest rate fluctuation risk, and aluminum forward transactions are utilized to hedge the market fluctuation risk.

(3) Risk management relating to financial instruments

(i) Credit risk management (risk of default by the counterparties)

The Company follows internal rules that set out accounts receivable management principles. The compliance department works with the sales division in each sector and monitors the customers' credit conditions periodically and reviews the sales policy checking the sales volume and balances. The Company takes measures to obtain information on and minimize the credit risk that may arise due to the deterioration in the financial condition of their customers. Consolidated subsidiaries monitor their customers' financial and credit conditions based on their internal rules.

The held-to-maturity debt are limited to only highly rated securities.

The Companies utilize derivative transactions only with creditworthy financial institutions and trading companies to minimize credit risk.

The maximum credit risk as of December 31, 2015 is disclosed as the balance sheet amount of financial instruments exposed to credit risk.

(ii) Market risk management (risk of fluctuations in foreign currency and interest rates)

For operating receivables and payables and loans denominated in foreign currencies, the Company and certain consolidated subsidiaries utilize forward exchange contracts, currency options, and currency swaps to hedge some of the foreign currency fluctuation risk, which is categorized by currency and maturity date. The Company and certain consolidated subsidiaries utilize currency swaps to hedge the interest rate fluctuation risk of loans.

For marketable securities and investment securities, the Companies regularly review the fair value and issuers' financial conditions and review the Companies' portfolio on an ongoing basis, except for held-to-maturity debt securities, according to market conditions and the business relationships with counterparties.

The Company has internal management rules that set out the approval authorities and procedures of the derivative transactions.

The derivative transactions are carried out based on the appropriate approver set out in the internal rules. For currency-related derivative transactions, each division and the treasury department perform and manage transactions and report to the director in charge periodically. For interest-related derivative transactions, the treasury department performs and manages the transactions and reports to the director in charge periodically. For commodity-related derivative transactions, each division performs and manages the transactions and reports to the director in charge periodically. Consolidated subsidiaries perform and manage derivative transactions based on their internal management standards.

(iii) Liquidity risk management (risk of default on payment due dates)

The Company manages liquidity risk by requiring the treasury department to prepare and update cash plans, based on the schedule for cash inflows and disbursements in each division. In addition, the Company signs commitment line contracts and makes other arrangements with financial institutions to secure the necessary liquidity. Consolidated subsidiaries manage their liquidity risk through similar procedures.

(4) Supplemental explanation on fair value of financial instruments

As well as the values being based on market prices, fair value of financial instruments includes values which are reasonably calculated in case market prices do not exist. As the calculation of those values uses certain assumptions, those values may vary in the case of different assumptions being applied. Also, for the contract amount and others regarding derivative transactions described in Note 8. DERIVATIVE FINANCIAL INSTRUMENTS, the contract amount itself does not indicate market risk related to derivative transactions.

(b) Fair Value of Financial Instruments

At December 31, 2015 and 2014 book value, fair value and difference were as follows.

The financial instruments whose fair value is extremely difficult to determine are not included below.

Year ended December 31, 2015	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and deposits	**¥ 64,054**	**¥ 64,054**	**¥ —**
(2) Notes and accounts receivable-trade	**136,602**	**136,602**	**—**
(3) Investment securities	**43,439**	**43,439**	**—**
Total assets	**¥244,095**	**¥244,095**	**¥ —**
(1) Notes and accounts payable-trade	**¥103,927**	**¥103,927**	**¥ —**
(2) Short-term debt	**81,000**	**81,000**	**—**
(3) Current portion of long-term debt	**59,386**	**59,546**	**159**
(4) Accounts payable-other	**62,063**	**62,063**	**—**
(5) Long-term debt less current portion	**228,449**	**228,779**	**330**
Total liabilities	**¥534,825**	**¥535,315**	**¥490**
Derivative transactions*	**¥ (542)**	**¥ (542)**	**¥ —**

Year ended December 31, 2014	Millions of yen		
	Book value	Fair value	Difference
(1) Cash and deposits	¥ 66,840	¥ 66,840	¥ —
(2) Notes and accounts receivable-trade	156,880	156,880	—
(3) Investment securities	43,020	43,020	—
Total assets	¥266,740	¥266,740	¥ —
(1) Notes and accounts payable-trade	¥127,206	¥127,206	¥ —
(2) Short-term debt	76,519	76,519	—
(3) Current portion of long-term debt	80,486	80,752	266
(4) Accounts payable-other	68,319	68,319	—
(5) Long-term debt less current portion	226,119	227,180	1,062
Total liabilities	¥578,649	¥579,977	¥1,328
Derivative transactions*	¥ 949	¥ 949	¥ —

Year ended December 31, 2015	Thousands of U.S. dollars		
	Book value	Fair value	Difference
(1) Cash and deposits	**$ 531,084**	**$ 531,084**	**$ —**
(2) Notes and accounts receivable-trade	**1,132,593**	**1,132,593**	**—**
(3) Investment securities	**360,161**	**360,161**	**—**
Total assets	**$2,023,837**	**$2,023,837**	**$ —**
(1) Notes and accounts payable-trade	**$ 861,678**	**$ 861,678**	**$ —**
(2) Short-term debt	**671,590**	**671,590**	**—**
(3) Current portion of long-term debt	**492,382**	**493,704**	**1,321**
(4) Accounts payable-other	**514,573**	**514,573**	**—**
(5) Long-term debt less current portion	**1,894,111**	**1,896,849**	**2,738**
Total liabilities	**$4,434,335**	**$4,438,394**	**$4,059**
Derivative transactions*	**$ (4,497)**	**$ (4,497)**	**$ —**

*Derivative assets and liabilities are on a net basis.

Notes 1. Valuation method for financial instruments and information on marketable securities and derivative transactions

Assets

Cash and deposits and Notes and accounts receivable-trade

The book value is deemed to approximate the fair value since these are scheduled to be settled in a short period of time.

Investment securities

Fair value of these securities is based on the price on stock exchanges. Refer to Note 7. SECURITIES regarding the securities categorized by holding purposes.

Liabilities

Notes and accounts payable-trade, Short-term debt, Commercial paper (included in the above Short-term debt), and Accounts payable-other

The book value is deemed to approximate the fair value since these are scheduled to be settled in a short period of time.

Current portion of long-term debt and Long-term debt (included in the above Long-term debt less current portion)

The fair value is measured as the net present value of estimated cash flows by discounting the principal and interest value using the interest rate applied to the new loans. Part of the long-term loans are variable rate loans, and they are subject to special treatment of interest rate swaps (refer to Note 8. DERIVATIVE FINANCIAL INSTRUMENTS); the fair value is measured as the net present value of estimated cash flows by discounting the total amount of principal and interest processed as interest rate swaps using the interest rate applied to the new loans.

Current portion of bonds (included in the above current portion of long-term debt) and Bonds (included in the above Long-term debt less current portion)

As for bonds with short maturities, the book value is deemed to approximate the fair value since these are scheduled to be settled in a short period of time. For others, fair value is based on the market prices.

Derivative transactions

Refer to Note 8. DERIVATIVE FINANCIAL INSTRUMENTS.

2. Financial instruments for which fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Non-listed equity securities	**¥33,129**	¥33,093	**$274,682**

These securities are not included in the above Investment securities, as there was no quoted market value, estimating the future cash flows is deemed to be practically impossible and it is extremely difficult to determine the fair value.

3. The redemption schedule for financial assets and securities with maturities

Year ended December 31, 2015	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	**¥ 64,054**	**¥ —**	**¥ —**	**¥ —**
Notes and accounts receivable-trade	**136,180**	**422**	**—**	**—**
Total	**¥200,234**	**¥422**	**¥ —**	**¥ —**

Year ended December 31, 2014	Millions of yen			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	¥ 66,840	¥ —	¥ —	¥ —
Notes and accounts receivable-trade	156,676	205	—	—
Total	¥223,515	¥205	¥ —	¥ —

Year ended December 31, 2015	Thousands of U.S. dollars			
	Due in 1 year or less	Due after 1 year through 5 years	Due after 5 years through 10 years	Due after 10 years
Cash and deposits	**$ 531,084**	**$ —**	**$ —**	**$ —**
Notes and accounts receivable-trade	**1,129,096**	**3,497**	**—**	**—**
Total	**$1,660,180**	**$3,497**	**$ —**	**$ —**

4. The scheduled maturities of bonds and long-term debt after December 31, 2015 and 2014

Year ended December 31, 2015	Millions of yen					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(1) Short-term debt	**¥ 81,000**	**¥ —**	**¥ —**	**¥ —**	**¥ —**	**¥ —**
(2) Long-term debt	**59,386**	**53,068**	**51,228**	**48,454**	**16,599**	**59,100**
Total	**¥140,387**	**¥53,068**	**¥51,228**	**¥48,454**	**¥16,599**	**¥59,100**

Year ended December 31, 2014	Millions of yen					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(1) Short-term debt	¥ 76,519	¥ —	¥ —	¥ —	¥ —	¥ —
(2) Long-term debt	80,486	57,141	53,304	55,605	19,968	40,100
Total	¥157,005	¥57,141	¥53,304	¥55,605	¥19,968	¥40,100

Year ended December 31, 2015	Thousands of U.S. dollars					
	Due in 1 year or less	Due after 1 year through 2 years	Due after 2 years through 3 years	Due after 3 years through 4 years	Due after 4 years through 5 years	Due after 5 years
(1) Short-term debt	**$ 671,590**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
(2) Long-term debt	**492,382**	**439,995**	**424,737**	**401,743**	**137,627**	**490,009**
Total	**$1,163,972**	**$439,995**	**$424,737**	**$401,743**	**$137,627**	**$490,009**

7. SECURITIES

(a) Available-for-sale securities

Year ended December 31, 2015	Millions of yen		
	Book value	Acquisition cost	Difference
Available-for-sale securities whose book value exceeds their acquisition cost Equity securities	**¥22,817**	**¥14,569**	**¥ 8,247**
Available-for-sale securities whose book value is less than their acquisition cost Equity securities	**20,622**	**21,755**	**(1,133)**
Total	**¥43,439**	**¥36,324**	**¥ 7,115**

Year ended December 31, 2014	Millions of yen		
	Book value	Acquisition cost	Difference
Available-for-sale securities whose book value exceeds their acquisition cost Equity securities	¥38,391	¥25,230	¥13,161
Available-for-sale securities whose book value is less than their acquisition cost Equity securities	4,629	5,248	(619)
Total	¥43,020	¥30,479	¥12,541

Year ended December 31, 2015	Thousands of U.S. dollars		
	Book value	Acquisition cost	Difference
Available-for-sale securities whose book value exceeds their acquisition cost Equity securities	**$189,176**	**$120,797**	**$68,379**
Available-for-sale securities whose book value is less than their acquisition cost Equity securities	**170,984**	**180,374**	**(9,390)**
Total	**$360,161**	**$301,172**	**$ 58,989**

(b) Available-for-sale securities sold in the years ended December 31, 2015 and 2014:

Year ended December 31, 2015	Millions of yen		
	Sales	Gross gain	Gross loss
Equity securities	**¥23,725**	**¥8,053**	**¥(1)**
Total	**¥23,725**	**¥8,053**	**¥(1)**

Year ended December 31, 2014	Millions of yen		
	Sales	Gross gain	Gross loss
Equity securities	¥6,425	¥2,284	¥(1)
Total	¥6,425	¥2,284	¥(1)

Year ended December 31, 2015	Thousands of U.S. dollars		
	Sales	Gross gain	Gross loss
Equity securities	**$196,707**	**$66,771**	**$(8)**
Total	**$196,707**	**$66,771**	**$(8)**

(c) Impairment of securities

For the years ended December 31, 2015 and 2014, the Companies recorded an impairment loss of ¥1,812 million (US$15,023 thousand) on available-for-sale securities and ¥4,019 million on available-for-sale securities with fair market values, respectively.

Securities are deemed to be "substantially declined" when their fair values have declined 30% or more. When their fair values have declined 50% or more, the impairment losses are recorded on those securities. When their fair values have declined between 30% and 50%, the impairment losses are recorded on those securities unless such values are considered to be recoverable on an individual basis.

8. DERIVATIVE FINANCIAL INSTRUMENTS

(a) Derivative Transactions to Which Hedge Accounting is Not Applied

	Millions of yen								Thousands of U.S. dollars			
	2015				2014				2015			
	Contract amount	Contract amount over 1 year	Fair value	Valuation gain (loss)	Contract amount	Contract amount over 1 year	Fair value	Valuation gain (loss)	Contract amount	Contract amount over 1 year	Fair value	Valuation gain (loss)
(1) Currency related:												
Forward exchange contracts:												
Selling												
U.S.Dollar	¥ 678	¥ —	¥(14)	¥(14)	¥7,027	¥ —	¥(618)	¥(618)	$ 5,622	$ —	$(115)	$(115)
Euro	31	—	1	1	20	—	(0)	(0)	256	—	7	7
(2) Interest rate related:												
Interest rate swaps:												
Receipt-variable rate/ Payment-fixed rate	¥5,291	¥2,142	¥(44)	¥(44)	¥6,217	¥3,278	¥(120)	¥(120)	$43,869	$17,757	$(365)	$(365)

Note: Fair value calculation method:
Fair values of forward exchange contracts are stated by the forward exchange rates. Fair values of currency and interest rate swaps are measured at the quoted price obtained from the financial institutions.

(b) Derivative Transactions to Which Hedge Accounting is Applied

	Millions of yen						Thousands of U.S. dollars		
	2015			2014			2015		
	Contract amount	Contract amount over 1 year	Fair value	Contract amount	Contract amount over 1 year	Fair value	Contract amount	Contract amount over 1 year	Fair value
(1) Currency related:									
Principle method									
Forward exchange contracts:									
Buying									
U.S.Dollar	¥ 6,748	¥ 1,034	¥ (10)	¥ 7,256	¥ 196	¥ 628	$ 55,952	$ 8,572	$ (81)
Euro	6	—	(0)	39	—	0	48	—	(1)
Selling									
U.S.Dollar	11,556	—	131	21,517	—	(642)	95,817	—	1,087
Euro	685	—	8	735	—	(13)	5,682	—	66
Allocation method									
Forward exchange contracts:									
Buying									
U.S.Dollar	¥ 6,533	¥ —	¥ —	¥ 3,585	¥ —	¥ —	$ 54,166	$ —	$ —
Euro	6	—	—	14	—	—	48	—	—
Selling									
U.S.Dollar	9,745	—	—	15,660	—	—	80,801	—	—
Euro	2,906	—	—	1,923	—	—	24,092	—	—
Yuan Renminbi	103	—	—	—	—	—	854	—	—
Currency swaps:									
Receipt Yen									
Payment U.S.Dollar	¥10,400	¥10,400	¥ —	¥ 7,500	¥ 7,500	¥ —	$ 86,228	$ 86,228	$ —
(2) Interest rate related:									
Special method									
Interest rate swaps:									
Receipt-variable rate/Payment-fixed rate	¥65,606	¥52,356	¥ —	¥101,425	¥78,150	¥ —	$543,947	$434,089	$ —
(3) Commodity related:									
Principle method									
Aluminum forward contracts:									
Buying	¥13,923	¥ 6,131	¥(575)	¥ 12,907	¥ 4,743	¥1,567	$115,440	$ 50,835	$(4,765)
Selling	1,556	—	(40)	1,953	—	147	12,904	—	(333)

Notes: 1. Main items hedged by forward exchange contracts are accounts payable for buying, accounts receivable for selling and long-term debt by interest rate swaps. Main items hedged by aluminum forward transactions are aluminum metal transactions.
2. Fair value calculation method:
Fair values of forward exchange contracts are stated by the forward exchange rates. Fair values of currency swaps are measured at the quoted price obtained from the financial institutions. Fair values of aluminum forward transactions are stated by forward quotations of the London Metal Exchange.
3. Fair values of forward exchange contracts and currency swaps that meet allocation method criteria are reflected in the fair values of accounts receivable, accounts payable and debts of their hedged items.
4. Fair values of interest rate swaps that meet special treatment criteria are reflected in the fair values of long-term debt of their hedged item.

9. EFFECT OF YEAR-END DATE ON FINANCIAL STATEMENTS

The year-end date of 2015, namely, December 31, 2015, was a bank holiday. Although notes receivable and payable maturing on this date were accordingly settled on January 4, 2016, the Companies accounted for those notes in their financial statements as if they had been settled on the maturity date.

Notes outstanding at December 31, 2015 and 2014 dealt with in the above-mentioned manner were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Notes receivable	**¥ 684**	¥656	**$5,674**
Notes payable	**1,066**	518	**8,841**

10. SHORT-TERM DEBT AND LONG-TERM DEBT

At December 31, 2015 and 2014, the short-term debt of the Companies consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Bank loans at the average interest rate of 0.68%	**¥69,000**	¥71,519	**$572,096**
Commercial paper	**12,000**	5,000	**99,494**
Total	**¥81,000**	¥76,519	**$671,590**

At December 31, 2015 and 2014, the long-term debt of the Companies consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
0.88% bonds due 2015	**¥ —**	¥ 10,000	**$ —**
0.67% bonds due 2016	**10,000**	10,000	**82,912**
0.63% bonds due 2017	**10,000**	10,000	**82,912**
0.63% bonds due 2021	**15,000**	15,000	**124,368**
0.734% bonds due 2022	**10,000**	—	**82,912**
Loans principally from banks and insurance companies due 2016 to 2074 at the average interest rate of 0.92%	**242,835**	261,605	**2,013,390**
	287,835	306,605	**2,386,494**
Less: current portion	**(59,386)**	(80,486)	**(492,382)**
Total	**¥228,449**	¥226,119	**$1,894,111**

The aggregate annual maturities of the noncurrent portion of long-term debt were as follows:

Years ending December 31	Millions of yen	Thousands of U.S. dollars
2017	**¥ 53,068**	**$ 439,995**
2018	**51,228**	**424,737**
2019	**48,454**	**401,743**
2020	**16,599**	**137,627**
2021 and thereafter	**59,100**	**490,009**
Total	**¥228,449**	**$1,894,111**

At December 31, 2015 and 2014, the assets pledged as collateral for long-term debt were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Assets pledged as collateral			
Investment securities	**¥ 3,790**	¥ 3,031	**$ 31,427**
Property, plant and equipment, less accumulated depreciation	**150,890**	150,908	**1,251,060**
Total	**¥154,681**	¥153,938	**$1,282,487**
Secured short-term debt and long-term debt			
Long-term debt (includes due within 1 year)	**¥ 4**	¥ 50	**$ 33**
Notes and accounts payable-trade	**137**	161	**1,136**
Total	**¥ 141**	¥ 211	**$ 1,169**

11. RETIREMENT BENEFITS

(a) Defined-benefit pension plan, includes the plans using the simplified method

(1) Reconciliation of opening and closing balance of retirement benefit obligation for the years ended December 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance of retirement benefit obligation at the beginning of year	**¥96,351**	¥86,672	**$798,864**
Cumulative effects of changes in accounting policies	**(4,249)**	—	**(35,229)**
Restated balance at the beginning of year	**92,102**	86,672	**763,635**
Service cost	**2,335**	2,305	**19,359**
Interest cost	**757**	1,680	**6,276**
Actuarial gain and loss	**3,573**	11,967	**29,626**
Retirement benefits paid	**(6,037)**	(5,434)	**(50,055)**
Past service cost	**159**	—	**1,315**
Other	**(136)**	(840)	**(1,130)**
Balance of the retirement benefit obligation at the end of year	**¥92,752**	¥96,351	**$769,026**

(2) Reconciliation of opening and closing balance of plan assets for the years ended December 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Balance of plan assets at the beginning of year	**¥74,256**	¥66,658	**$615,669**
Expected return on plan assets	**1,477**	1,335	**12,244**
Actuarial gain and loss	**(629)**	3,233	**(5,211)**
Contribution from employer	**8,149**	8,166	**67,563**
Retirement benefits paid	**(5,632)**	(5,243)	**(46,694)**
Other	**(34)**	108	**(282)**
Balance of plan assets at the end of year	**¥77,587**	¥74,256	**$643,289**

(3) Reconciliation of the ending balance of retirement benefit obligations and plan assets, and the net defined benefit liability and the net defined benefit asset for the years ended December 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Funded retirement benefit obligations	**¥ 89,877**	¥ 93,131	**$ 745,183**
Plan assets	**(77,587)**	(74,256)	**(643,289)**
	12,289	18,875	**101,894**
Unfunded retirement benefit obligations	**2,877**	3,220	**23,852**
Net amount of relevant liabilities and assets on the consolidated balance sheets	**15,166**	22,095	**125,746**
Net defined benefit liability	**15,185**	22,115	**125,904**
Net defined benefit asset	**(19)**	(20)	**(158)**
Net amount of relevant liabilities and assets on the consolidated balance sheets	**15,166**	22,095	**125,746**

(4) Retirement benefit expenses and the components of the amounts thereof for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Service cost	**¥ 2,335**	¥ 2,305	**$ 19,359**
Interest cost	**757**	1,680	**6,276**
Expected return on plan assets	**(1,477)**	(1,335)	**(12,244)**
Amortization of actuarial gain and loss	**1,299**	1,968	**10,766**
Amortization of past service cost	**(695)**	(752)	**(5,760)**
Retirement benefit expenses related to the defined-benefit pension plan	**¥ 2,219**	¥ 3,866	**$ 18,397**

(5) Remeasurements of defined benefit plans

The components of items (before tax) reported under remeasurements of defined benefit plans for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Past service cost	**¥ 852**	¥ —	**$ 7,064**
Actuarial gain and loss	**(1,224)**	—	**(10,146)**
Total	**¥ (372)**	¥ —	**$ (3,083)**

(6) Accumulated remeasurements of defined benefit plans

The components of items (before tax) reported under accumulated remeasurements of defined benefit plans for the years ended December 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Unrecognized past service cost	**¥ 83**	¥ (769)	**$ 691**
Unrecognized actuarial gain and loss	**6,983**	8,207	**57,898**
Total	**¥7,066**	¥7,438	**$58,589**

(7) Matters regarding plan assets

(i) Major content of the plan assets

The percentages of major asset types that account for the total plan assets as of December 31, 2015 and 2014 were as follows:

	Ratio	
	2015	2014
Bonds	**27 %**	35 %
Stocks	**44**	38
General accounts of life insurance company	**27**	26
Cash and deposits	**2**	1
Total	**100 %**	100 %

(ii) Method for setting the long-term rate of expected return on plan assets

To determine the long-term rate of expected return on plan assets, the current and anticipated long-term yield rates of various assets that constitute the plan assets as well as the current and projected distribution of plan assets have been taken into account.

(8) Matters regarding the assumptions for actuarial calculations

Key assumptions for actuarial calculations as of December 31, 2015 and 2014 were as follows:

	Ratio	
	2015	2014
Discount rate	**Mainly 0.7%**	Mainly 0.9%
Long-term rate of expected return on plan assets	**Mainly 2.0%**	Mainly 2.0%

(b) Defined contribution pension plan

The amounts required to be contributed by consolodated subsidiaries for the years ended December 31, 2015 and 2014 were ¥362 million (US$3,002 thousand), and ¥369 million, respectively.

12. INCOME TAXES

(a) At December 31, 2015 and 2014, significant components of deferred tax assets and liabilities were as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Deferred tax assets:			
Tax loss carryforwards	**¥ 21,164**	¥ 26,263	**$ 175,477**
Write-down of marketable and investment securities	**14,376**	10,471	**119,192**
Allowance for doubtful accounts	**6,656**	1,528	**55,189**
Impairment loss	**6,081**	4,496	**50,416**
Net defined benefit liabillity	**4,930**	7,802	**40,874**
Depreciation and amortization	**1,348**	1,253	**11,179**
Loss on valuation of inventories	**849**	796	**7,037**
Unrealized earnings from the sale of fixed assets	**765**	840	**6,339**
Provision for bonuses	**614**	673	**5,093**
Deduction of foreign corporation tax carried forward	**557**	536	**4,618**
Undetermined accrued liabilities	**462**	523	**3,830**
Provision for repairs	**461**	238	**3,824**
Write-down of golf club memberships	**363**	383	**3,011**
Deferred gains or losses on hedges	**171**	64	**1,421**
Other	**2,815**	3,484	**23,343**
Subtotal of deferred tax assets	**61,613**	59,349	**510,845**
Valuation allowance	**(43,395)**	(30,183)	**(359,797)**
Total deferred tax assets	**18,218**	29,166	**151,048**
Deferred tax liabilities:			
Amount of revaluation from the book value	**(3,649)**	(4,267)	**(30,258)**
Valuation difference on available-for-sale securities	**(2,322)**	(4,410)	**(19,249)**
Foreign subsidiaries' undistributed retained earnings	**(1,710)**	(1,738)	**(14,178)**
Special depreciation reserve	**(1,677)**	(1,172)	**(13,905)**
Reserve for advanced depreciation of fixed assets	**(183)**	(225)	**(1,521)**
Other	**(690)**	(1,180)	**(5,722)**
Total deferred tax liabilities	**(10,232)**	(12,992)	**(84,832)**
Net deferred tax assets	**¥ 7,986**	¥ 16,174	**$ 66,216**

(b) The net deferred tax assets at December 31, 2015 and 2014 were included in the consolidated balance sheets as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Deferred tax assets — current	**¥ 3,050**	¥ 4,244	**$ 25,289**
Deferred tax assets — noncurrent	**8,903**	15,563	**73,813**
Other current liabilities	**(95)**	(180)	**(791)**
Deferred tax liabilities — noncurrent	**(3,871)**	(3,453)	**(32,095)**

(c) Significant items in the reconciliation of the normal income tax rate to the effective at December 31, 2015 and 2014 were as follows:

	2015	2014
Statutory tax rate	**35.6 %**	38.0 %
Consolidated adjustment for loss on valuation of investments in capital of subsidiaries and associates, etc.	**(106.2)**	(16.2)
Unrealized earnings from the sale of fixed assets	**(7.6)**	(1.9)
Differences of statutory tax rate in subsidiaries	**(2.5)**	(35.3)
Effect on the reexamination of recoverability	**235.6**	70.4
Effects of changes in the effective statutory tax rate, etc.	**55.8**	3.8
Amortization of goodwill	**8.2**	6.3
Deferred taxes on undistributed earnings of foreign subsidiaries	**4.4**	1.5
Other	**(0.2)**	1.9
Effective tax rate	**223.1 %**	68.5 %

Note: Amendment, etc., to the amount of deferred tax assets and deferred tax liabilities due to a change in the income tax rate.

The Law for Partial Revision of the Income Tax Law, etc. (Law No.9 of 2015) and the Law for Partial Revision of the Local Tax Law, etc. (Law No.2 of 2015) were promulgated on March 31, 2015, resulting in a reduction in the rates of corporate income taxes from fiscal years beginning on or after April 1, 2015. Accordingly, deferred tax assets and deferred tax liabilities for the fiscal year ended December 31, 2015 are calculated using the effective statutory tax rate based on the revised tax rate applicable to the consolidated fiscal year in which temporary differences are expected to be reversed.

Further, with respect to the deduction of tax loss carryforwards, the limits are applied to the amount corresponding to 65% of income before the deduction of said carryforwards for the year beginning on or after April 1, 2015, and the amount corresponding to 50% of income before the deduction of said carryforwards for the year beginning on or after April 1, 2017.

As a result of these changes, compared with the previous methods, deferred tax assets (net of deferred tax liabilities) decreased by ¥3,460 million (US$28,689 thousand), deferred gains or losses on hedges decreased by ¥15 million (US$127 thousand), remeasurements of defined benefit plans decreased by ¥216 million (US$1,792 thousand), valuation difference on available-for-sale securities increased by ¥252 million (US$2,086 thousand) and income taxes–deferred increased by ¥3,480 million (US$28,856 thousand) for the fiscal year ended December 31, 2015.

In addition, deferred tax liabilities for land revaluation decreased by ¥3,761 million (US$31,180 thousand) and revaluation reserve for land increased by the same amount.

13. IMPAIRMENT LOSS

At December 31, 2015, major impairment losses on fixed assets were as follows:

Location	Major use	Asset category	Millions of yen	Thousands of U.S. dollars
Sichuan, China	Production facilities	Machinery and equipment, etc.	**¥ 6,179**	**$51,235**
Johor, Malaysia	Production facilities	Machinery and equipment, etc.	**2,009**	**16,661**
Chichibu City, Saitama Prefecture	Production facilities	Buildings and structures, etc.	**997**	**8,264**
Jiangxi, China	Production facilities	Machinery and equipment, etc.	**958**	**7,942**
Other			**534**	**4,431**
Total			**¥10,678**	**$88,533**

14. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

Reclassification adjustments and tax effects for components of other comprehensive income (loss) for the year ended December 31, 2015, were as follows:

	Millions of yen	Thousands of U.S. dollars
Valuation difference on available-for-sale securities		
Increase during the year	¥ 972	$ 8,055
Reclassification adjustments	(6,249)	(51,813)
Amount before income tax effect	(5,278)	(43,758)
Income tax effect	2,066	17,126
Total	(3,212)	(26,632)
Deferred gains or losses on hedges		
Increase during the year	¥(1,732)	$(14,357)
Reclassification adjustments	78	647
Adjustments of acquisition cost of assets	(606)	(5,028)
Amount before income tax effect	(2,260)	(18,738)
Income tax effect	839	6,956
Total	(1,421)	(11,781)
Revaluation reserve for land		
Income tax effect	¥ 3,779	$ 31,334
Foreign currency translation adjustments		
Increase during the year	¥(2,325)	$(19,279)
Reclassification adjustments	—	—
Amount before income tax effect	(2,325)	(19,279)
Income tax effect	—	—
Total	(2,325)	(19,279)
Remeasurements of defined benefit plans, net of tax		
Increase during the year	¥ (182)	$ (1,511)
Reclassification adjustments	554	4,595
Amount before income tax effect	372	3,083
Income tax effect	(363)	(3,009)
Total	9	75
Share of other comprehensive income of unconsolidated subsidiaries and affilites accounted for using equity method		
Increase during the year	¥ 119	$ 984
Reclassification adjustments	—	—
Total	119	984
Total other comprehensive income	¥(3,051)	$(25,300)

15. LEASES

(a) Finance Leases as a Lessee

Finance lease transactions other than those involving transfer of ownership to the lessee

(1) Type of leased assets

a) Tangible fixed assets: Principally equipment for manufacturing hard discs and steam-powered electric generation equipment (machinery and equipment)

b) Intangible fixed assets: Software

(2) Method of depreciation

The depreciation method of leased assets is described in Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (j) Leased Assets.

(b) Operating Leases as a Lessee

At December 31, 2015 and 2014, assets leased under noncapitalized operating leases were as follows:

Future minimum lease payments for the remaining lease periods:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Due within 1 year	¥ 332	¥ 452	$ 2,755
Due over 1 year	1,560	1,820	12,936
Total	¥1,893	¥2,272	$15,692

(c) Operating Leases as a Lessor

At December 31, 2015 and 2014, noncancellable operating lease receivables for the remaining lease periods were as follows:

Future minimum lease receivables for the remaining lease periods:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Due within 1 year	¥ 83	¥ 94	$ 691
Due over 1 year	707	790	5,862
Total	¥790	¥885	$6,553

16. CONTINGENT LIABILITIES

At December 31, 2015 and 2014, the Companies were guarantors for the borrowings below. The guarantees were principally for unconsolidated subsidiaries, affiliates and others.

	Millions of yen		Thousands of U.S. dollars
	2015	2014	2015
Guarantees	¥5,550	¥8,210	$46,020

As the amounts include joint and several guarantors' portions as well as the Companies', the actual amounts that the Companies were contingently liable to pay were smaller than the above.

17. NET ASSETS

The Corporation Law of Japan (the "Law") provides that the entire amount paid for new shares may be credited to the stated capital, with the provision that, by resolution of the Board of Directors, up to one-half of such amount paid for new shares may be credited to additional paid-in capital, which is included in capital surplus.

The Law provides that an amount equal to 10% of cash appropriations of retained earnings shall be set aside as additional paid-in capital or a legal earnings reserve until the total of such reserve and additional paid-in capital equals 25% of the stated capital. Additional paid-in capital and the legal earnings reserve may be used to eliminate or reduce a deficit, if any, or be capitalized by resolution at the Ordinary General Meeting of Shareholders. All additional paid-in capital and the legal earnings reserve may be transferred to other capital surplus and retained earnings, respectively, which are potentially available for dividends. Additional paid-in capital and the legal earnings reserve are included in capital surplus and retained earnings, respectively.

The Law does not have a definition about the classification of paid-in capital between common stock and preferred stock. Accordingly, the Company states its capital in the total amount paid by issuing common stock and preferred stock.

The maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with Japanese laws and regulations.

18. REVALUATION RESERVE FOR LAND

The Company and some of its consolidated subsidiaries revalued the land they own for business in accordance with the Law concerning Revaluation of Land. The difference between the revalued amount and the book value, after the deduction of applicable tax, is stated as a land revaluation reserve. The revaluation was conducted using methods stipulated in the ordinance for enforcement of the law, specifically, the method in Item 4 of Article 2 (Reasonable Adjustment of the Appraised Value Relating to Land Price Tax), and the method in Item 5 of Article 2 (Estimation by Experts). The excess of the carrying amount of the revalued land over the market value at December 31, 2015 was ¥73,411 million (US$608,667 thousand).

19. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the years ended December 31, 2015 and 2014 were summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2015	2014	**2015**
Freight	**¥19,865**	¥19,530	**$164,703**
Employees' compensation	**20,124**	19,979	**166,853**
Other	**48,287**	48,308	**400,358**
Total	**¥88,276**	¥87,816	**$731,914**

Research and development expenses included in selling, general and administrative expenses for the years ended December 31, 2015 and 2014 were ¥20,270 million (US$168,063 thousand) and ¥20,340 million, respectively.

20. RESEARCH AND DEVELOPMENT

Research and development costs included in manufacturing costs, selling, general and administrative expenses for the years ended December 31, 2015 and 2014 were ¥20,289 million (US$168,221 thousand) and ¥20,362 million, respectively.

21. PROVISION OF ALLOWANCE FOR DOUBTFUL ACCOUNTS

The provision of the allowance for doubtful accounts by consolidated subsidiary Shoko Co., Ltd. and its subsidiary Shoko (Shanghai) Co., Ltd. was against receivables from Chinese steel-related manufacturing groups, etc.

22. SEGMENT INFORMATION

(a) Information about sales, operating income, assets, and other items by reportable segment

Year ended December 31, 2015	Millions of yen								
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Total	Adjustments	Consolidated
Sales									
Outside customers	**¥226,442**	**¥130,150**	**¥129,759**	**¥ 55,223**	**¥ 93,377**	**¥146,007**	**¥780,958**	**¥ —**	**¥780,958**
Inter-segment	**4,846**	**12,142**	**1,733**	**8,253**	**7,380**	**6,452**	**40,805**	**(40,805)**	**—**
Total	**231,288**	**142,292**	**131,492**	**63,476**	**100,756**	**152,459**	**821,763**	**(40,805)**	**780,958**
Operating income (loss)	**¥ 10,543**	**¥ 10,707**	**¥ 17,472**	**¥ (1,249)**	**¥ 2,563**	**¥ 1,493**	**¥ 41,529**	**¥ (7,857)**	**¥ 33,672**
Assets	**¥120,242**	**¥198,359**	**¥146,440**	**¥151,964**	**¥155,180**	**¥180,483**	**¥952,668**	**¥(11,355)**	**¥941,314**
Depreciation and amortization	**5,752**	**7,569**	**13,964**	**4,132**	**6,042**	**2,863**	**40,322**	**1,815**	**42,137**
Amortization of goodwill	**—**	**(273)**	**12**	**1,354**	**256**	**86**	**1,436**	**—**	**1,436**
Investments in unconsolidated subsidiaries and affiliates	**14,230**	**2,538**	**—**	**6,486**	**—**	**232**	**23,486**	**—**	**23,486**
Increase in property, plant and equipment and intangible assets	**1,969**	**10,345**	**11,130**	**10,218**	**6,135**	**2,369**	**42,166**	**1,893**	**44,059**

Notes: 1. Adjustments are as follows:

(1) Elimination of intersegment transactions of ¥220 million (US$1,827 thousand) and total corporate expenses of ¥8,077 million (US$66,971 thousand) which were not allocated to any reportable segment were included in "Adjustments" for "Operating income" of ¥(7,857) million (US$(65,143) thousand). Total corporate expenses principally consist of total corporate common research expenses which are not attributable to any reportable segment.

(2) Elimination of intersegment receivables and payables and assets of ¥(46,544) million (US$(385,905) thousand) and total corporate assets of ¥35,189 million (US$291,761 thousand) which were not allocated to any reportable segment were included in "Adjustments" for "Assets" of ¥(11,355) million (US$(94,144) thousand). Total corporate assets principally consist of surplus funds of the Companies under management (in the form of cash and deposits), deferred tax assets and assets related to total corporate common research and development expenses.

2. Amortization of negative goodwill was included in "Amortization of goodwill."

Year ended December 31, 2014	Millions of yen								
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Total	Adjustments	Consolidated
Sales									
Outside customers	¥274,837	¥127,638	¥136,773	¥ 58,779	¥ 90,022	¥ 188,531	¥ 876,580	¥ —	¥ 876,580
Inter-segment	6,564	11,426	1,764	8,778	7,934	6,493	42,959	(42,959)	—
Total	281,400	139,064	138,537	67,557	97,956	195,024	919,539	(42,959)	876,580
Operating income (loss)	¥ (4,930)	¥ 5,460	¥ 25,770	¥ (300)	¥ 2,999	¥ (678)	¥ 28,321	¥ (7,406)	¥ 20,915
Assets	¥143,896	¥188,810	¥161,908	¥163,595	¥156,013	¥194,565	¥1,008,787	¥ 2,296	¥1,011,083
Depreciation and amortization	6,472	7,517	13,219	3,591	5,315	2,921	39,035	1,638	40,673
Amortization of goodwill	6	(228)	47	1,630	156	85	1,696	—	1,696
Investments in unconsolidated subsidiaries and affiliates	13,608	2,381	—	1,590	—	179	17,758	—	17,758
Increase in property, plant and equipment and intangible assets	4,195	7,768	7,825	15,432	7,106	3,768	46,094	1,224	47,318

Notes: 1. Adjustments are as follows:
(1) Elimination of intersegment transactions of ¥37 million and total corporate expenses of ¥7,443 million which were not allocated to any reportable segment were included in "Adjustments" for "Operating income" of ¥(7,406) million. Total corporate expenses principally consist of total corporate common research expenses which are not attributable to any reportable segment.
(2) Elimination of intersegment receivables and payables and assets of ¥(42,560) million and total corporate assets of ¥44,856 million which were not allocated to any reportable segment were included in "Adjustments" for "Assets" of ¥2,296 million. Total corporate assets principally consist of surplus funds of the Companies under management (in the form of cash and deposits), deferred tax assets and assets related to total corporate common research and development expenses.
2. Amortization of negative goodwill was included in "Amortization of goodwil."

Year ended December 31, 2015	Thousands of U.S. dollars								
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Total	Adjustments	Consolidated
Sales									
Outside customers	**$1,877,469**	**$1,079,101**	**$1,075,853**	**$ 457,868**	**$ 774,204**	**$1,210,570**	**$6,475,065**	**$ —**	**$6,475,065**
Inter-segment	**40,181**	**100,668**	**14,369**	**68,427**	**61,185**	**53,496**	**338,325**	**(338,325)**	**—**
Total	**1,917,650**	**1,179,769**	**1,090,221**	**526,295**	**835,389**	**1,264,066**	**6,813,391**	**(338,325)**	**6,475,065**
Operating income (loss)	**$ 87,413**	**$ 88,772**	**$ 144,867**	**$ (10,354)**	**$ 21,247**	**$ 12,378**	**$ 344,324**	**$ (65,143)**	**$ 279,181**
Assets	**$ 996,945**	**$1,644,632**	**$1,214,165**	**$1,259,960**	**$1,286,628**	**$1,496,420**	**$7,898,750**	**$ (94,144)**	**$7,804,606**
Depreciation and amortization	**47,695**	**62,757**	**115,775**	**34,255**	**50,095**	**23,738**	**334,315**	**15,050**	**349,365**
Amortization of goodwill	**—**	**(2,260)**	**98**	**11,229**	**2,124**	**715**	**11,904**	**—**	**11,904**
Investments in unconsolidated subsidiaries and affiliates	**117,986**	**21,044**	**—**	**53,774**	**—**	**1,923**	**194,728**	**—**	**194,728**
Increase in property, plant and equipment and intangible assets	**16,326**	**85,774**	**92,281**	**84,721**	**50,868**	**19,640**	**349,610**	**15,693**	**365,302**

(b) Information about geographical areas

Year ended December 31, 2015	Millions of yen			
	Japan	Asia	Others	Total
Sales	**¥479,628**	**¥258,932**	**¥42,398**	**¥780,958**

Year ended December 31, 2015	Millions of yen		
	Japan	Others	Total
Property, plant and equipment	**¥413,535**	**¥87,753**	**¥501,288**

Year ended December 31, 2014	Millions of yen			
	Japan	Asia	Others	Total
Sales	¥549,910	¥284,597	¥42,073	¥876,580

Year ended December 31, 2014	Millions of yen		
	Japan	Others	Total
Property, plant and equipment	¥419,575	¥94,082	¥513,656

Year ended December 31, 2015	Thousands of U.S. dollars			
	Japan	Asia	Others	Total
Sales	**$3,976,684**	**$2,146,855**	**$351,527**	**$6,475,065**

Year ended December 31, 2015	Thousands of U.S. dollars		
	Japan	Others	Total
Property, plant and equipment	**$3,428,693**	**$727,580**	**$4,156,272**

(c) Information about impairment loss on property, plant and equipment by reportable segment

Year ended December 31, 2015	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Impairment loss on assets	**¥12**	**¥60**	**¥1,955**	**¥6,180**	**¥2,092**	**¥380**	**¥—**	**¥10,678**

Year ended December 31, 2014	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Impairment loss on assets	¥1,798	¥517	¥—	¥1,410	¥4	¥18	¥—	¥3,747

Year ended December 31, 2015	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Impairment loss on assets	**$101**	**$497**	**$16,206**	**$51,238**	**$17,344**	**$3,147**	**$—**	**$88,533**

(d) Information about amortization of goodwill and unamortized balance by reportable segment

Year ended December 31, 2015	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Amortization	**¥—**	**¥ 35**	**¥ 44**	**¥1,354**	**¥ 316**	**¥114**	**¥—**	**¥1,865**
Unamortized balance	**—**	**294**	**376**	**63**	**3,494**	**448**	**—**	**4,676**

Year ended December 31, 2014	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Amortization	¥ 6	¥134	¥ 80	¥1,630	¥ 216	¥113	¥—	¥2,179
Unamortized balance	—	165	421	1,417	3,945	561	—	6,509

Year ended December 31, 2015	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Amortization	**$—**	**$ 293**	**$ 367**	**$11,229**	**$ 2,623**	**$ 949**	**$—**	**$15,460**
Unamortized balance	**—**	**2,437**	**3,121**	**524**	**28,969**	**3,715**	**—**	**38,766**

Amortization of negative goodwill arose from business combinations prior to April 1, 2010 and its unamortized balance are as follows:

Year ended December 31, 2015	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Amortization	**¥—**	**¥ 308**	**¥ 33**	**¥—**	**¥ 60**	**¥ 28**	**¥—**	**¥ 429**
Unamortized balance	**—**	**2,704**	**390**	**—**	**647**	**288**	**—**	**4,028**

Year ended December 31, 2014	Millions of yen							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Amortization	¥—	¥ 362	¥ 33	¥—	¥ 60	¥ 28	¥—	¥ 483
Unamortized balance	—	3,012	423	—	779	316	—	4,529

Year ended December 31, 2015	Thousands of U.S. dollars							
	Petrochemicals	Chemicals	Electronics	Inorganics	Aluminum	Others	Elimination	Total
Amortization	**$—**	**$ 2,553**	**$ 270**	**$—**	**$ 499**	**$ 234**	**$—**	**$ 3,556**
Unamortized balance	**—**	**22,418**	**3,235**	**—**	**5,362**	**2,384**	**—**	**33,400**

23. RELATED PARTY INFORMATION

(a) Related party transactions

The information for the fiscal years ended December 31, 2015 and 2014 was not disclosed because there were no significant transactions with related parties.

(b) Summary financial statements of significant affiliates

A significant affillate as of December 31, 2015 was Union Showa K.K., and summary of its financial statements was as follows;

	Millions of yen	Thousands of U.S. dollars
Balance Sheet		
Total current assets	¥ 4,187	$ 34,715
Total noncurrent assets	1,275	10,570
Total current liabilities	1,482	12,284
Total noncurrent liabilities	11	93
Total net assets	3,969	32,908
Statement of Income		
Net sales	16,910	140,206
Income before income taxes	3,723	30,866
Net income	2,518	20,877

The information as of December 31, 2014 was not disclosed because there were no significant affiliates.

24. SIGNIFICANT SUBSEQUENT EVENTS

Consolidation of Shares and Change in the Number of Shares per Share Unit

The Company resolved at its board of directors meeting held on February 10, 2016 to submit the proposal for the consolidation of shares and the change in the number of shares per share unit to the 107th ordinary general meeting of shareholders. The proposal was approved at the said ordinary general meeting of shareholders held on March 30, 2016.

(a) Purpose of consolidation of shares and change in the number of shares per share unit

Japan's stock exchanges have announced an "Action Plan for Consolidating Trading Units" with the aim of standardizing the trading units for common stock of all listed domestic corporations at 100 shares.

As a corporation listed on the Tokyo Stock Exchange, the Company respects the objectives of the plan and will change the trading unit (share unit) of stock of the Company from 1,000 shares to 100 shares. Along with the change in the share unit, the Company will also consolidate its shares (10 shares into one share) to maintain the level of investment unit considered desirable for its shares by the stock exchanges (50,000 yen or more and less than 500,000 yen).

(b) Details of consolidation of shares

(1) Class of shares to be consolidated

Common stock

(2) Consolidation method and ratio

The Company will consolidate every 10 shares into one share on July 1, 2016 based on the number of shares held by shareholders listed in the final shareholders' register as of June 30, 2016.

(3) Decrease in number of shares due to consolidation

Number of outstanding shares before consolidation (as of December 31, 2015)	1,497,112,926 shares
Decrease in number of shares due to consolidation	1,347,401,634 shares
Number of outstanding shares after consolidation	149,711,292 shares

Note: "Decrease in number of shares due to consolidation" and "Number of outstanding shares after consolidation" are theoretical values calculated by multiplying the number of outstanding shares before consolidation by the consolidation ratio.

(c) Handling of fractional shares of less than one share

If any fractional shares of less than one share are created as a result of the consolidation of shares, such fractional shares will be disposed of together in accordance with the Companies Law and the proceeds will be distributed to shareholders who held the fractional shares in proportion to the number of their fractional shares.

(d) Number of authorized shares as of the effective date for the consolidation of shares

330,000,000 shares

Number of authorized shares will be decreased from 3.3 billion shares to 330 million shares according to the ratio of the consolidated shares.

Pursuant to Article 182, paragraph 2 of the Companies Law, the total number of authorized shares as stipulated in Article 6 (Total Number of Shares That Can Be Issued) of the Articles of Incorporation shall be deemed to be changed from the current 3.3 billion shares to 330 million shares on July 1, 2016, the effective date for the consolidation of shares.

(e) Details of changes in number of shares per share unit

Concurrently with the effectiveness of the consolidation of shares, the Company will change the number of shares per share unit for common stock from 1,000 to 100.

(f) Dates for consolidation of shares and change in number of shares per share unit

Resolution at the board of directors meeting	February 10, 2016
Resolution at the general meeting of shareholders	March 30, 2016
Effective date for consolidation of shares and change in number of shares per share unit	July 1, 2016

(g) Effect on per share information

Per share information for the years ended December 31, 2015 and 2014 on the assumption that the consolidation of shares had been implemented as of January 1, 2014 is as follows;

	Yen		U.S. dollars
	2015	2014	**2015**
Net assets per share	**¥2,080.39**	¥2,101.62	**$17.25**
Net income per share	**6.78**	23.77	**0.06**

Note: Diluted net income per share were not disclosed because there were no dilutive shares.

Report of Independent Certified Public Accountants

KPMG

Independent Auditor's Report

To the Board of Directors of Showa Denko K.K.:

We have audited the accompanying consolidated financial statements of Showa Denko K.K. and its consolidated subsidiaries, which comprise the consolidated balance sheets as at December 31, 2015 and 2014, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, while the objective of the financial statement audit is not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Showa Denko K.K. and its consolidated subsidiaries as at December 31, 2015 and 2014, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2015 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 4 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC
March 30, 2016
Tokyo, Japan

Corporate Data

Major Subsidiaries and Affiliates *(As of December 31, 2015)*

Subsidiaries

Name	Ownership (%)*	Main Product(s) or Business(es)
Showa Denko Gas Products Co., Ltd.	100.0	Liquefied carbon dioxide, dry ice, industrial gases, etc.
Shanghai Showa Highpolymer Co., Ltd.	98.4	Plastics and molding compounds
Showa Denko HD Singapore Pte. Ltd.	100.0	Hard disks
Showa Denko HD Trace Corporation	99.4	Hard disks, aluminum substrates for hard disks
Showa Denko HD Yamagata K.K.	100.0	Hard disks
Showa Denko Carbon, Inc.	100.0	Graphite electrodes
Showa Denko Sichuan Carbon Inc.	67.0	Graphite electrodes
Showa Aluminum Can Corporation	100.0	Beer and soft drink cans
Hanacans Joint Stock Company	91.8	Beer and soft drink cans
SHOTIC MALAYSIA SDN. BHD.	100.0	Aluminum casting products
Shoko Co., Ltd.** (T8090)	44.0	General trading
Showa Denko Packaging Co., Ltd.	100.0	Aluminum laminated film for LIB packaging, packaging/containers for food and medicine
Showa Denko Kenzai K.K.	100.0	Plaster materials, fireproofing pipe etc.

* Proportion of ownership interest (direct or indirect) by Showa Denko K.K. and its subsidiaries in terms of the number of shares with exercisable voting rights
** Tokyo Stock Exchange listed company

As of December 31, 2015, Showa Denko K.K. had 48 consolidated subsidiaries, including the above.

Affiliates

Name	Equity Participation (%)	Main Product(s) or Business(es)
Japan Polyethylene Corporation	42.0	High- and low-density polyethylene
SunAllomer Ltd.	50.0	Polypropylene and advanced polypropylene-based materials
Union Showa K.K.	50.0	Molecular sieves

As of December 31, 2015, Showa Denko K.K. had 13 subsidiaries or affiliates to which the equity method was applied, including the above.

Investor Information

Head Office

Showa Denko K.K.

13-9, Shiba Daimon 1-chome, Minato-ku, Tokyo 105-8518, Japan
URL: http://www.sdk.co.jp/english
Phone: +81-3-5470-3235
Fax: +81-3-3431-6215
E-mail: Sdk_Prir@showadenko.com

Ordinary General Meeting

The Ordinary General Meeting of Shareholders was held on March 30, 2016.

Shareholders (Top 10) *(At December 31, 2015)*

Shareholder	Number of Shares Held (in thousands)	Rate of Shareholding (%)
Fukoku Mutual Life Insurance Company	55,168	3.86
Japan Trustee Services Bank Ltd. (T)	54,962	3.85
The Master Trust Bank of Japan Ltd. (T)	50,091	3.51
STATE STREET BANK AND TRUST COMPANY	39,696	2.78
The Dai-ichi Life Insurance Company Limited	36,000	2.52
Japan Trustee Services Bank Ltd. (T9)	32,430	2.27
Sompo Japan Nipponkoa Insurance Inc.	30,068	2.11
Meiji Yasuda Life Insurance Company	26,447	1.85
Showa Denko Employee Shareholding Association	24,612	1.72
BNYML- NON TREATY ACCOUNT	23,155	1.62

Note: Each rate of shareholding was calculated after deducting the number of treasury shares (68,859 thousand) from the number of shares outstanding.

Number of Shares Outstanding

1,497,112,926 at December 31, 2015

SDK will consolidate every ten shares of its common stock into one share on July 1, 2016. Refer to Note 22. SIGNIFICANT SUBSEQUENT EVENTS on page 58.

Number of Shareholders

89,674 at December 31, 2015

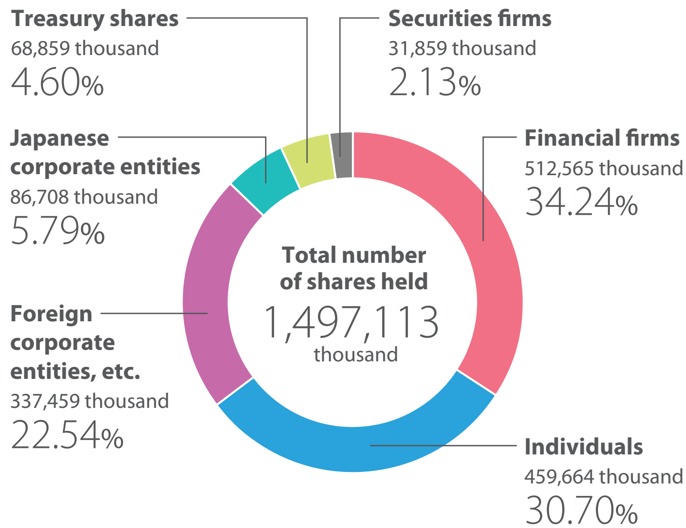
Classification of Stock

All stock issued by Showa Denko is common stock.

Stock Transfer Agent

Mizuho Trust & Banking Co., Ltd.
2-1, Yaesu 1-chome, Chuo-ku, Tokyo 103-8670, Japan

Shareholders by Sector *(At December 31, 2015)*



Commercial Subsidiaries Abroad *(As of December 31, 2015)*

Showa Denko America, Inc.

420 Lexington Avenue, Suite #2335A, New York, NY 10170, U.S.A.
Phone: +1-212-370-0033
Fax: +1-212-370-4566

Showa Denko Europe GmbH

Konrad-Zuse-Platz 3, 81829 Munich, Germany
Phone: +49-89-939-9620
Fax: +49-89-939-96250

Showa Denko Singapore (Pte.) Ltd.

2 Shenton Way #15-03/04, SGX Centre 1, Singapore 068804
Phone: +65-6223-1889
Fax: +65-6223-6007

Showa Denko (Shanghai) Co., Ltd.

18F, Wang-Wang Building No. 211, Shimen Yi Road, Shanghai, 200041, People's Republic of China
Phone: +86-21-6217-5000
Fax: +86-21-6217-9840

SHOWA DENKO K.K.
13-9, Shiba Daimon 1-chome,
Minato-ku, Tokyo 105-8518, Japan
http://www.sdk.co.jp/english

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