

Consolidated Financial Statements

For the first quarter ended March 31, 2022



I. Consolidated Financial Results

May 11th, 2022

(1) Results of operations: (¥ in millions, US\$ in thousands, except for net income attributable to owners of the parent per share)

	Results for the first quarter (Jan.1-Mar.31)			
	2021	2022	Increase (Decrease)	2022
	¥	¥	%	\$
Net sales	339,679	307,992	(9.3)	2,516,478
Operating income	20,814	15,361	(26.2)	125,511
Ordinary income	25,083	19,919	(20.6)	162,749
Net income attributable to owners of the parent	5,191	8,434	62.5	68,908
Net income attributable to owners of the parent per share: Basic	35.59	46.58	—	0.38
Net income attributable to owners of the parent per share: Diluted	—	—	—	—

Notes

Important changes in accounting policies : applicable

Comprehensive income :

Results for the year ended March 31, 2022 ¥35,317 million

Results for the year ended March 31, 2021 ¥33,292 million

(2) Financial position: (¥ in millions, US\$ in thousands, except for stockholders' equity ratio)

	Dec. 31, 2021	Mar. 31, 2022	Mar. 31, 2022
	¥	¥	\$
Total assets	2,142,390	2,147,600	17,547,184
Total equity	818,452	834,904	6,821,670
	%	%	%
Stockholders' equity ratio	24.0	24.8	24.8

(3) Dividends:

	2021	2022 Forecast
Q1 dividends per share (¥)	—	—
Q2 dividends per share (¥)	0.00	0.00
Q3 dividends per share (¥)	—	—
End of Term dividends per share (¥)	65.00	65.00
Annual dividends per share (¥)	65.00	65.00

II . Forecast of performance for the year ending December 31, 2022

(¥ in millions, US\$ in thousands, except for net income attributable to owners of the parent per share)

	1st half		fiscal year	
	¥	\$	¥	\$
Net sales	640,000	5,229,185	1,350,000	11,030,313
Operating income	29,000	236,947	84,000	686,331
Ordinary income	27,000	220,606	79,000	645,478
Net income attributable to owners of the parent	6,000	49,024	27,000	220,606
Net income attributable to owners of the parent per share: Basic	33.14	0.27	149.11	1.22

*The above forecast was announced on February 14, 2022.

The above forecast is based on the information available at this point of time. Actual results may differ materially due to a variety of reasons, including such economic factors as fluctuations in foreign currency exchange rates as well as market supply and demand conditions.

Note

The U.S. dollar is valued at ¥122.39 throughout this statement for convenience only.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

With regard to the global economy in the first quarter of 2022 (January 1 – March 31), it was stagnant due to the global restraint on economic activities caused by the pandemic of coronavirus disease 2019 (COVID-19), a rise in prices of raw materials and fuels and restrictions on supply side of them caused by the situation in Ukraine, and disorder in distribution of goods and materials. However, manufacturing industries including the semiconductor-related industry, whose market remained strong, were in the process of recovery. As for the Japanese economy, recovery of consumer spending was at a standstill. However, corporate sector as a whole showed a sign of recovery while export remained steady.

The Showa Denko Group has been giving the highest priority to all stakeholders' safety and health including that of our customers, business acquaintances and employees, and implementing various measures to prevent further spread of COVID-19. To be specific, we are taking various measures including companywide introduction of teleworking. The Group continues implementing measures which give priority to the security of employees' safety and prevention of infection of COVID-19, including grant of special leave when infection is suspected and faithful practice of off-peak commuting through introduction of complete flextime. At the same time, in our production bases, we are making utmost efforts to fulfill our corporate social responsibility to continue providing our customers with products essential for infrastructural functions of society.

In the first quarter of 2022, the Group recorded consolidated net sales of ¥307,992 million, down 9.3% from the same period of the previous year due mainly to the sale of several businesses. Sales in the Semiconductor and Electronic Materials segment remained strong due to a recovery of production in the semiconductor related industry. Sales in the Innovation Enabling Materials segment and the Chemicals segment also increased due to a rise in the market prices of products. However, sales in the Mobility segment decreased due to a decline in production of cars caused by short supply of semiconductors. Sales figures of businesses sold in 2021, including those of Energy Storage Devices and Systems business, Aluminum Can business, Aluminum Rolled Products business, and Shoko Co., Ltd. were included in that of the Others segment. Operating income of the Group in the first quarter of 2022 decreased by 26.2% from the year-before period, to ¥15,361 million due mainly to the time lag between a rise in raw material prices, passing the rise in costs on to the prices of products, and sale of businesses. Non-operating income increased due mainly to a decrease in interest expense despite a decline in equity in earnings of affiliates. Ordinary income of the Group decreased by 20.6% from the year-before period, to ¥19,919 million. The Group recorded net income attributable to owners of the parent of ¥8,434 million, up 62.5% from the year-before period due mainly to recovery from recording of extraordinary loss in the year-before period caused by environmental expense.

(Unit: millions of yen)

	1Q 2021	1Q 2022	Increase/decrease
Sales	339,679	307,992	(31,687)
Operating income	20,814	15,361	(5,453)
Ordinary income	25,083	19,919	(5,165)
Net income attributable to owners of the parent	5,191	8,434	3,242

(2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2022)

[Semiconductor and Electronic Materials]

In the Semiconductor and Electronic Materials segment, sales increased by 17.8% from the year-before period, to ¥107,344 million, despite transfer of Printed Wiring Board business which took place in the fourth quarter of 2021. Sales in the Front-end Semiconductor Materials and Back-end Semiconductor Materials subsegments increased due mainly to strong demand for semiconductors. Sales in the Device Solutions subsegment substantially increased due mainly to an increase in shipment volumes of HD media for use in data centers. As a result, the Semiconductor and Electronic Materials segment recorded operating income of ¥12,935 million, up 56.0% from the year-before period due to an increase in sales, despite a rise in prices of raw materials.

(Unit: millions of yen)

	1Q 2021	1Q 2022	Increase/decrease
Sales	91,100	107,344	16,245
Operating income	8,289	12,935	4,646

[Mobility]

In the Mobility segment, sales decreased by 4.2% from the year-before period, to ¥44,379 million. Sales in the Automotive Products and Lithium-ion Battery Materials subsegments decreased due mainly to a decline in production of cars caused by short supply of semiconductors. The Mobility segment recorded operating income of ¥352 million, down 67.7% from the year-before period due partly to a substantial rise in prices of raw materials, in addition to a decline in production of cars mentioned above.

(Unit: millions of yen)

	1Q 2021	1Q 2022	Increase/decrease
Sales	46,336	44,379	(1,958)
Operating income	1,091	352	(739)

[Innovation Enabling Materials]

In the Innovation Enabling Materials segment, sales increased by 13.4% from the year-before period, to ¥34,304 million. Sales of some products increased due partly to a substantial rise in prices of raw materials. However, operating income in this segment decreased due partly to a decline in production of cars and a time lag between a rise in raw material costs and passing it on to the prices of products. As a result, the segment recorded operating income of ¥2,864 million, down 31.3% from the year-before period.

(Unit: millions of yen)

	1Q 2021	1Q 2022	Increase/decrease
Sales	30,260	34,304	4,044
Operating income	4,167	2,864	(1,303)

[Chemicals segment]

In the Chemicals segment, sales increased by 9.9% from the year-before period, to ¥95,068 million. Sales in the Petrochemicals subsegment decreased due partly to a decline in the automobile industry's demand for petrochemical products and once-in-four-year shutdown maintenance in the Oita Complex. Operating income in the Petrochemicals subsegment significantly decreased due to the shutdown maintenance in the Oita Complex and a negative impact of naphtha price factor. Sales in the Basic Chemicals and Industrial Gases subsegment increased due partly to a small increase in sales of industrial gases and a rise in prices of basic chemicals caused by a substantial rise in prices of raw materials and fuels. However, operating income in the Basic Chemicals and Industrial Gases subsegment decreased due mainly to a time lag between a rise in raw material costs and passing it on to the prices of products. Sales and operating income in the Graphite Electrodes subsegment increased due mainly to increases in sales volumes and product prices. As a result, operating income in the Chemicals segment decreased by 68.4% from the year-before period, to ¥2,249 million.

(Unit: millions of yen)

	1Q 2021	1Q 2022	Increase/decrease
Sales	86,471	95,068	8,597
Operating income	7,127	2,249	(4,878)

Note: Starting from the first quarter of 2022, segment-wise sales and operating incomes mentioned above are based on "sales to outside customers," not including inter-segment sales.

2. Financial conditions for the January 1 - March 31, 2022 period (as compared with the conditions at December 31, 2021)

Total assets at the end of the quarter amounted to ¥2,147,600 million, an increase of ¥5,210 million from the level at December 31, 2021. Total assets increased due partly to increases in inventories, property, plant and equipment. Total liabilities decreased by ¥11,242 million, to ¥1,312,696 million, due partly to a decrease in notes and accounts payable-trade. Net assets at the end of the quarter increased by ¥16,452 million, to ¥834,904 million, due partly to an increase in foreign currency translation adjustments.

3. Performance forecast

The Group's consolidated performance forecast for 2022 is not changed from that announced on February 14, 2022, which is as in the table given below.

(Unit: millions of yen)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent
Forecast of results for the first half of 2022	640,000	29,000	27,000	6,000
Forecast of results for full-year 2022	1,350,000	84,000	79,000	27,000

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31, 2021	Mar. 31, 2022	Mar. 31, 2022
	¥	¥	\$
Assets			
Current assets			
Cash and deposits	236,237	224,590	1,835,034
Notes and accounts receivable-trade	278,641	255,784	2,089,910
Merchandise and finished goods	96,805	110,869	905,865
Work in process	27,993	30,558	249,675
Raw materials and supplies	79,080	86,733	708,660
Other	81,201	86,413	706,047
Allowance for doubtful accounts	(1,426)	(1,550)	(12,669)
Total current assets	798,531	793,396	6,482,523
Noncurrent assets			
Property, plant and equipment			
Buildings and structures, net	136,541	139,348	1,138,558
Machinery, equipment and vehicles, net	199,209	206,207	1,684,839
Land	242,556	242,735	1,983,287
Other, net	81,215	88,583	723,779
Total property, plant and equipment	659,521	676,873	5,530,463
Intangible assets			
Goodwill	311,766	307,725	2,514,300
Other	210,723	207,357	1,694,230
Total intangible assets	522,489	515,082	4,208,529
Investments and other assets			
Investment securities	103,798	103,891	848,849
Other	58,518	58,824	480,627
Allowance for doubtful accounts	(466)	(466)	(3,807)
Total investments and other assets	161,850	162,249	1,325,669
Total noncurrent assets	1,343,859	1,354,204	11,064,661
Total assets	2,142,390	2,147,600	17,547,184

(¥ in millions, US\$ in thousands)

	Dec. 31, 2021	Mar. 31, 2022	Mar. 31, 2022
	¥	¥	\$
Liabilities			
Current liabilities			
Notes and accounts payable-trade	207,745	203,472	1,662,492
Short-term loans payable	59,451	267,558	2,186,111
Current portion of long-term loans payable	52,858	52,941	432,556
Commercial papers	15,000	—	—
Current portion of bonds	19,999	10,000	81,706
Provision	13,773	20,352	166,291
Other	119,824	106,603	871,015
Total current liabilities	488,650	660,927	5,400,171
Noncurrent liabilities			
Bonds payable	146,945	146,947	1,200,645
Long-term loans payable	536,503	351,946	2,875,614
Provision	1,104	1,224	9,999
Net defined benefit liability	17,523	17,992	147,007
Other	133,212	133,659	1,092,078
Total noncurrent liabilities	835,287	651,769	5,325,343
Total liabilities	1,323,937	1,312,696	10,725,514
Net assets			
Shareholders' equity			
Capital stock	182,146	182,146	1,488,244
Capital surplus	119,772	119,772	978,611
Retained earnings	143,335	139,981	1,143,727
Treasury stock	(11,655)	(11,656)	(95,233)
Total shareholders' equity	433,598	430,243	3,515,348
Accumulated other comprehensive income			
Valuation difference on available-for-sale securities	2,838	3,658	29,886
Deferred gains or losses on hedges	1,167	1,655	13,522
Revaluation reserve for land	28,928	28,928	236,359
Foreign currency translation adjustment	38,421	59,535	486,440
Remeasurements of defined benefit plans	9,036	8,809	71,973
Total accumulated other comprehensive income	80,391	102,585	838,181
Non-controlling interests	304,463	302,076	2,468,141
Total net assets	818,452	834,904	6,821,670
Total liabilities and net assets	2,142,390	2,147,600	17,547,184

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan.1-Mar.31)		
	2021	2022	2022
	¥	¥	\$
Net sales	339,679	307,992	2,516,478
Cost of sales	257,886	234,175	1,913,355
Gross profit	81,793	73,816	603,123
Selling, general and administrative expenses	60,979	58,455	477,612
Operating income	20,814	15,361	125,511
Non-operating income			
Interest income	168	174	1,420
Dividends income	401	255	2,082
Equity in earnings of affiliates	1,798	1,149	9,385
Foreign exchange gains	4,647	5,012	40,953
Miscellaneous income	1,808	1,363	11,133
Total non-operating income	8,821	7,952	64,973
Non-operating expenses			
Interest expenses	2,681	1,698	13,875
Miscellaneous expenses	1,871	1,696	13,859
Total non-operating expenses	4,551	3,394	27,734
Ordinary income	25,083	19,919	162,749
Extraordinary income			
Gain on sales of noncurrent assets	207	293	2,398
Other	1,406	203	1,655
Total extraordinary income	1,614	496	4,052
Extraordinary loss			
Loss on sales and retirement of noncurrent assets	575	734	5,997
Environmental expenses	8,958	—	—
Business structuring expenses	2,670	—	—
Loss on disaster	—	806	6,589
Other	1,127	1,254	10,243
Total extraordinary losses	13,330	2,794	22,829
Profit before income taxes	13,367	17,621	143,973
Income taxes	4,178	5,493	44,881
Net income	9,189	12,128	99,091
Net income attributable to non-controlling interests	3,997	3,694	30,183
Net income attributable to owners of the parent	5,191	8,434	68,908

Consolidated Statements of Comprehensive Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan.1-Mar.31)		
	2021	2022	2022
	¥	¥	\$
Net income	9,189	12,128	99,091
Other comprehensive income:			
Valuation difference on available-for-sale securities	2,337	822	6,713
Deferred gains or losses on hedges	906	479	3,910
Foreign currency translation adjustments	20,214	20,845	170,312
Remeasurements of defined benefit plans, net of tax	146	(228)	(1,860)
Share of other comprehensive income of entities accounted for using equity method	500	1,272	10,395
Total other comprehensive income	24,104	23,189	189,470
Comprehensive income	33,292	35,317	288,562
(Comprehensive income attributable to)			
Comprehensive income attributable to owners of the parent	28,598	30,628	250,245
Comprehensive income attributable to non-controlling interests	4,695	4,690	38,317

(Reference)**SEGMENT INFORMATION**

Information about sales and operating income :

	Millions of yen						
	Semiconductor and Electronic Materials	Mobility	Innovation Enabling Materials	Chemicals	Others	Elimination	Consolidated
3 months ended March 31, 2021							
Sales							
Outside customers	¥ 91,100	¥ 46,336	¥ 30,260	¥ 86,471	¥ 85,512	¥ —	¥ 339,679
Inter-segment	739	65	5,347	5,511	2,131	(13,793)	—
Total	91,838	46,401	35,607	91,982	87,643	(13,793)	339,679
Operating income (loss)	¥ 8,289	¥ 1,091	¥ 4,167	¥ 7,127	¥ 3,507	¥ (3,367)	¥ 20,814

	Millions of yen						
	Semiconductor and Electronic Materials	Mobility	Innovation Enabling Materials	Chemicals	Others	Elimination	Consolidated
3 months ended March 31, 2022							
Sales							
Outside customers	¥ 107,344	¥ 44,379	¥ 34,304	¥ 95,068	¥ 26,896	¥ —	¥ 307,992
Inter-segment	1,054	49	1,776	2,683	484	(6,046)	—
Total	108,398	44,428	36,080	97,751	27,380	(6,046)	307,992
Operating income (loss)	¥ 12,935	¥ 352	¥ 2,864	¥ 2,249	¥ (308)	¥ (2,730)	¥ 15,361

	Thousands of U.S. dollars						
	Semiconductor and Electronic Materials	Mobility	Innovation Enabling Materials	Chemicals	Others	Elimination	Consolidated
3 months ended March 31, 2022							
Sales							
Outside customers	\$ 877,068	\$ 362,600	\$ 280,287	\$ 776,766	\$ 219,756	\$ —	\$ 2,516,478
Inter-segment	8,612	400	14,508	21,920	3,957	(49,398)	—
Total	885,680	363,000	294,796	798,686	223,713	(49,398)	2,516,478
Operating income (loss)	\$ 105,683	\$ 2,875	\$ 23,405	\$ 18,376	\$ (2,517)	\$ (22,310)	\$ 125,511

First Quarter, 2022 Consolidated Financial Results (Summary)**1. First Quarter Results****(1) Summary**

(Unit: billions of yen)

Items	2021 CQ1 Jan.1 - Mar.31	2022 CQ1 Jan.1 - Mar.31	Increase/ decrease
Net Sales	339.7	308.0	(31.7)
Operating Income	20.8	15.4	(5.5)
Net Income Attributable to Owners of the Parent	5.2	8.4	3.2

(2) Net Sales and Operating Income by Segment

(Unit: billions of yen)

Segment		2021 CQ1 Jan.1 - Mar.31	2022 CQ1 Jan.1 - Mar.31	Increase/ decrease
Semiconductor and Electronic Materials	Net Sales	91.1	107.3	16.2
	Op. Income	8.3	12.9	4.6
Mobility	Net Sales	46.3	44.4	(2.0)
	Op. Income	1.1	0.4	(0.7)
Innovation Enabling Materials	Net Sales	30.3	34.3	4.0
	Op. Income	4.2	2.9	(1.3)
Chemicals	Net Sales	86.5	95.1	8.6
	Op. Income	7.1	2.2	(4.9)
Others	Net Sales	85.5	26.9	(58.6)
	Op. Income	3.5	(0.3)	(3.8)
Adjustments	Net Sales	—	—	—
	Op. Income	(3.4)	(2.7)	0.6
Total	Net Sales	339.7	308.0	(31.7)
	Op. Income	20.8	15.4	(5.5)

In January 2022, we changed segmentation of our financial results, and segmentation in the table above is based on the new segmentation retrospectively to 2021. Segmentwise sales and operating incomes mentioned above are based on "sales to outside customers," not including inter-segment sales.

2. Reference

Items	2021 CQ1 Jan.1 - Mar.31	2022 CQ1 Jan.1 - Mar.31	Increase/ decrease
Exchange Rate (yen/US\$)	105.9	116.2	Yen depreciated by 10.3
Domestic Naphtha Price (yen/kl)	38,800	64,600	25,800

2022 Full year Forecast
110.0
51,600

*Announced on February 14, 2022

(Unit: billions of yen)

Items	Dec.31, 2021	Mar.31, 2022	Increase/ decrease
Total Assets	2,142.4	2,147.6	5.2
Interest-Bearing Debt	850.6	850.1	(0.5)

The above forecast is based on the information available as of today and assumptions as of today regarding risk factors that could affect our future performance. Actual results may differ materially from the forecast due to a variety of risk factors, including, but not limited to, the influence of the coronavirus disease 2019 (COVID-19) on the world economy, the international situation, costs of naphtha and other raw materials, demand or market conditions for our products such as graphite electrodes and other commodities, and foreign exchange rates. We undertake no obligation to update the forward-looking statements unless required by law.