



*Evolving unique chemical company*

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# 2010 Financial Results

- Consolidated -

## SHOWA DENKO K.K.

February 10, 2011

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This presentation contains statements relating to management's projections of future profits and expectations for the Company's product development program. The Company cannot guarantee that these expectations and projections will be realized or correct. Please note that actual results may differ materially from the forecast due to a variety of factors, including changes in the market conditions. The timely commercialization of products under development by the Company may be disrupted or delayed by a variety of factors, including market acceptance, and the introduction of new products by competitors. The foregoing list of factors is not inclusive.

## Consolidated Companies

- Consolidated subsidiaries: 40  
Excluded: 1 Showa Highpolymer Co., Ltd. (Merger, Petrochemicals segment)
- Equity method applied: 17  
Excluded: 1 Crystal Specialties Inc. (Liquidation, Electronics segment)

### Selected Data

(Average figure)

	2009		2010		Increase	
		Oct.-Dec.		Oct.-Dec.		Oct.-Dec.
■ Exchange rate: ¥/US\$	93.6	89.7	87.8	82.6	Yen strengthened by ¥5.8/\$	Yen strengthened by ¥7.1/\$
■ Domestic naphtha price: ¥/kl	36,000	42,500	46,300	45,100	10,300	2,600
■ Aluminum LME price: US\$/T	1,699	2,037	2,199	2,368	500	331

Exchange rate at December 31, 2009 ¥92.1/US\$, at December 31, 2010 ¥81.5/US\$  
⇒ Yen strengthened by ¥10.6/US\$

# Summary

2009 (Jan.1 – Dec.31) v s. 2010 (Jan.1 – Dec.31)

(Unit: Billions of Yen)

	2009	2010	Increase
Net Sales	678.2	797.2	119.0
Operating Income	-5.0	38.7	43.7
Non-operating income and expenses	-17.3	-8.3	9.1
Interest/Dividend income less interest expenses	-5.6	-4.4	1.2
Equity in earnings or losses of affiliates	-1.2	1.2	2.4
Currency exchange gain or loss	-0.4	-2.2	-1.8
Loss on reduction in operations	-5.3	-0.1	5.1
Other	-4.9	-2.7	2.3
Ordinary Income	-22.3	30.5	52.8
Extraordinary Profit	6.6	4.9	-1.7
Extraordinary Loss	-28.4	-15.6	12.8
Net Income before taxes	-44.1	-19.8	63.9
Corporate Taxes	7.0	-4.8	-11.8
Minority Interests	-0.9	-2.3	-1.4
Net Income	-38.0	12.7	50.7
Net Income per share	¥-29.44	¥8.49	¥37.93
Cash dividends per Share	¥3.00	¥3.00	-

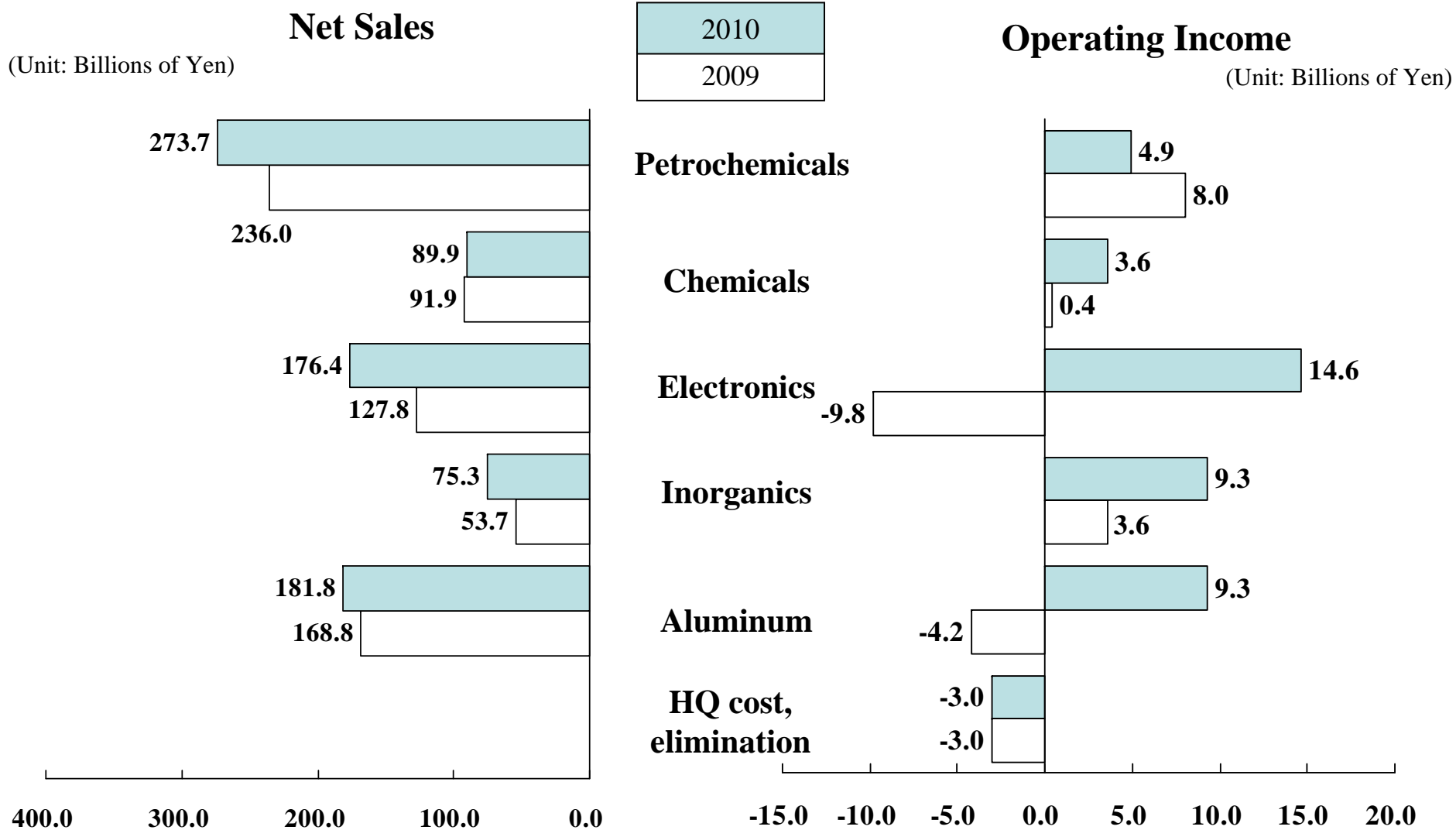
# Extraordinary Profit/Loss

(Unit: Billions of Yen)

	2009	2010	Increase
<b>■ Extraordinary Profit</b>	<b>6.6</b>	<b>4.9</b>	<b>-1.7</b>
● Gain on the sale of investment securities	4.8	0.1	-4.7
● Gain on subsidies	-	3.5	3.5
● Other	1.9	1.3	-0.6
<b>■ Extraordinary Loss</b>	<b>-28.4</b>	<b>-15.6</b>	<b>12.8</b>
● Loss on the disposal of fixed assets	-2.9	-3.4	-0.6
● Loss on impairment of fixed assets	-13.2	-4.6	8.6
● Loss on the valuation of inventories	-5.5	-	5.5
● Special severance pay	-3.2	-0.4	2.8
● Reserve for restructuring expenses	-0.2	-	0.2
● Other	-3.4	-7.2	-3.8
<b>■ Extraordinary Profit/Loss, Net</b>	<b>-21.8</b>	<b>-10.7</b>	<b>11.1</b>



# Sales and Operating Income by Segment



## Consolidated Sales by Segment

(Unit: Billions of Yen)

	2009	2010	Increase	
Petrochemicals	236.0	273.7	37.7	Olefins: sales increased (shipment volumes down due to Oita SDM*, price up) Organic chemicals: sales maintained (shipment volumes of ethyl acetate down due to integration of production into Oita)
Chemicals	91.9	89.9	-2.0	AN: sales increased.(shipment volumes up, price up) Chloroprene rubber. Ammonia: sales increased (shipment volumes up) Carbon dioxide and dry ice: sales decreased (2 companies including Showa Tansan changed their accounting term in June 2009)
Electronics	127.8	176.4	48.6	HDs, compound semiconductors, specialty gases: sales increased (shipment volumes up) Rare earth: sales increased (shipment volumes up, price up)
Inorganics	53.7	75.3	21.6	Ceramics: sales increased. (shipment volumes up) Graphite electrodes: sales increased (shipment volumes up in Japan and U.S.)
Aluminum	168.8	181.8	13.0	Rolled products: sales increased (shipment volumes of high-purity foils for capacitors up) Extrusions/ specialty products: sales slightly decreased (shipment volumes of aluminum cylinders for LBP up, withdrawal from the business in commodity extrusions for construction) Heat exchangers: sales increased (shipment volumes down in Europe, shipment volumes up in Japan, U.S., China and Thailand) <i>Shotic</i> : sales increased (shipment volumes for automobile up) Aluminum cans: sales increased (shipment volumes up)
Total	678.2	797.2	119.0	

(note) SDM: shutdown maintenance



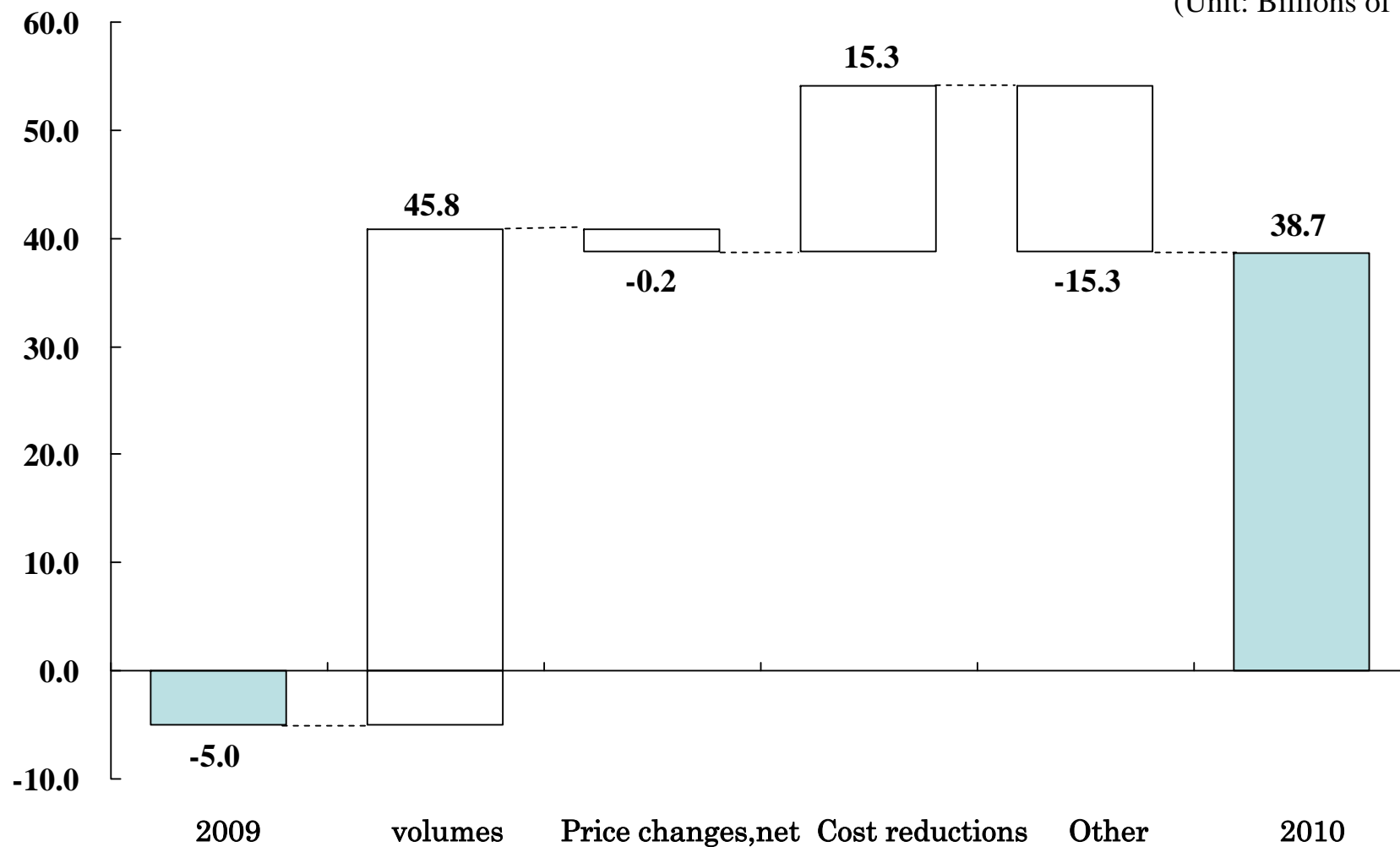
## Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	2009	2010	Increase	
Petrochemicals	8.0	4.9	-3.1	Olefins: profit decreased (shipment volumes down due to Oita SDM) Organic chemicals: profit increased (effect of rationalization due to integration of ethyl acetate production into Oita)
Chemicals	0.4	3.6	3.2	AN: profit increased (shipment volumes up, price up) Industrial gases: profit increased (shipment volumes up)
Electronics	-9.8	14.6	24.4	HDs, compound semiconductors, specialty gases: profit increased (shipment volumes up) Rare earth: profit increased (shipment volumes up, price up)
Inorganics	3.6	9.3	5.7	Ceramics: profit increased (shipment volumes up) Graphite electrodes: profit increased (shipment volumes up in Japan and U.S.)
Aluminum	-4.2	9.3	13.5	Rolled products: profit increased (shipment volumes of high-purity foils for capacitors up) Extrusions/ specialty products: profit increased (shipment volumes of aluminum cylinders for LBP up, improvement in profitability due to withdrawal from the business in commodity extrusions for construction) Heat exchangers: profit increased (profit increased at all locations) <i>Shotic</i> : profit increased (shipment volumes for automobile up) Aluminum cans: profit increased (shipment volumes up)
HQ costs, elimination	-3.0	-3.0	0.0	
Total	-5.0	38.7	43.7	

# Operating Income Breakdown by Factor

(Unit: Billions of Yen)







# Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Dec. 31, 2009	Dec. 31, 2010	Increase	Liabilities and Stockholders' Equity	Dec. 31, 2009	Dec. 31, 2010	Increase
Cash and deposits	62.5	43.6	-18.9	Accounts payable	116.6	114.2	-2.3
Accounts receivable	147.6	135.6	-12.0	Interest-bearing debt	373.9	351.0	-22.9
Inventories	92.3	100.7	8.3	Provision for retirement benefits	45.9	45.8	-0.1
Deferred tax assets	4.6	3.3	-1.3	Accrued pension and severance costs	27.1	26.3	-0.8
Other current assets	25.6	29.0	3.4	Other liabilities	108.1	102.1	-6.0
<u>Current Assets</u>	<u>332.7</u>	<u>312.2</u>	<u>-20.5</u>	<u>Total Liabilities</u>	<u>671.6</u>	<u>639.5</u>	<u>-32.1</u>
Buildings and structures	91.1	87.8	-3.3	Common stock	140.6	140.6	—
Machinery and equipment	134.8	142.7	7.9	Capital surplus	62.2	62.2	-0.0
Land	255.8	255.2	-0.6	Retained earnings	29.3	36.9	7.6
Other tangible fixed assets	22.6	14.2	-8.4	Treasury stock	-0.2	-0.2	-0.0
<u>Tangible Fixed Assets</u>	<u>504.3</u>	<u>499.8</u>	<u>-4.4</u>	<u>Total Stockholders' equity</u>	<u>231.9</u>	<u>239.5</u>	<u>7.6</u>
Intangible Fixed Assets	13.6	12.2	-1.4	Securities valuation surplus	2.6	-3.7	-6.3
Investments and other assets	107.8	100.3	-7.5	Foreign currency translation adjustment	-12.2	-16.5	-4.3
Incl. Investment securities	65.1	58.8	-6.3	Deferred hedge gains			
Deferred tax assets	27.7	27.5	-0.2	Revaluation surplus –Land	21.8	22.4	0.6
				<u>Total valuations and adjustments</u>	<u>12.2</u>	<u>2.1</u>	<u>-10.1</u>
				Minority Interest	42.6	43.3	0.7
<u>Total fixed assets</u>	<u>625.7</u>	<u>612.3</u>	<u>-13.4</u>	<u>Total equity</u>	<u>286.7</u>	<u>285.0</u>	<u>-1.8</u>
<b>Total Assets</b>	<b>958.3</b>	<b>924.5</b>	<b>-33.8</b>	<b>Total liabilities and equity</b>	<b>958.3</b>	<b>924.5</b>	<b>-33.8</b>

## Total Assets

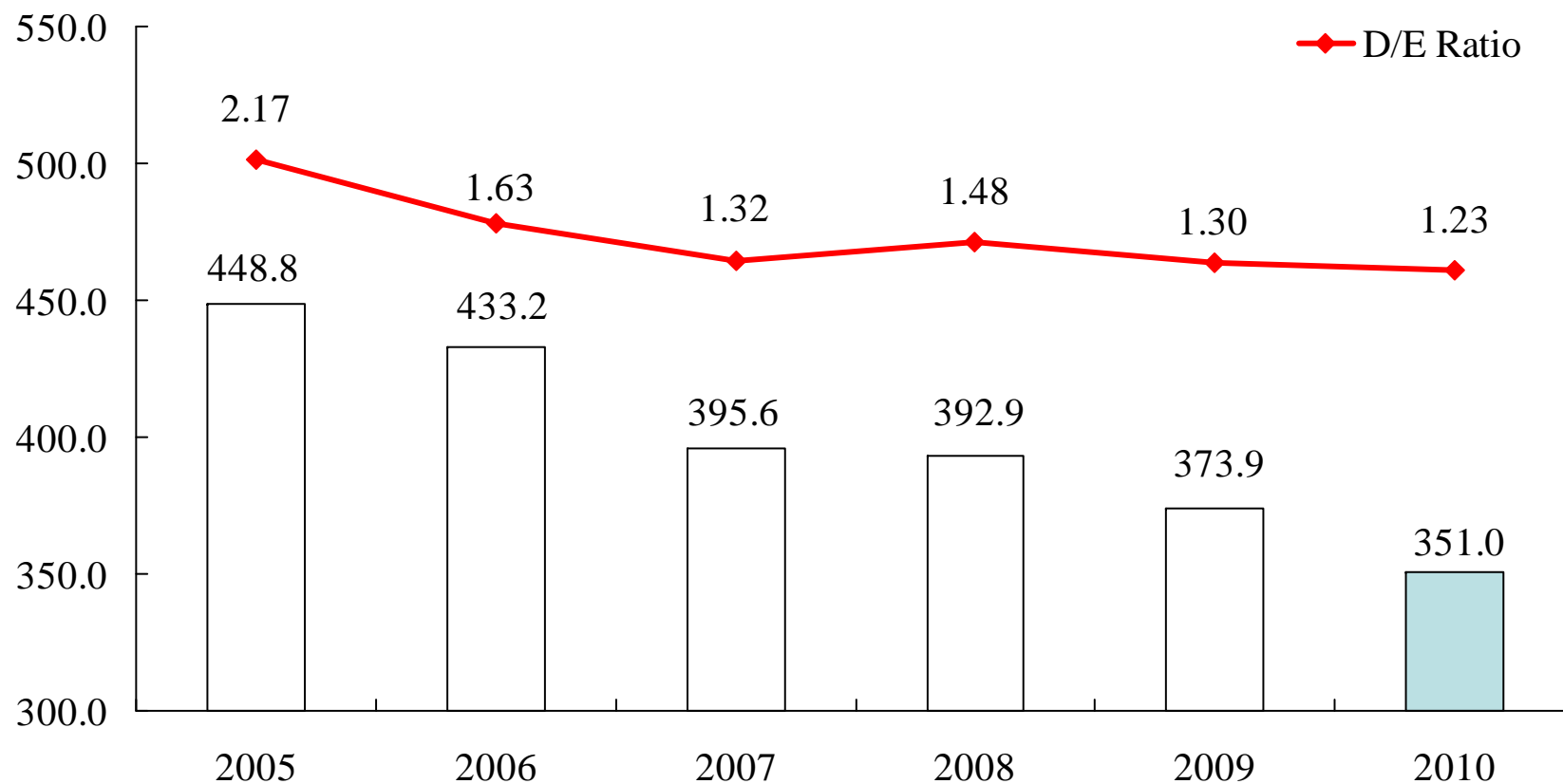
### Interest-bearing Debt and D/E ratio

(Unit: Billions of Yen, times, %)

	Dec.31, 2009	Dec.31, 2010	Increase
● <b>Total assets</b>	958.3	924.5	-33.8
● <b>Interest-bearing debt</b>	373.9	351.0	-22.9
● <b>Debt/Equity ratio</b>	1.30times	1.23times	-0.07p
● <b>Stockholders' Equity ratio</b>	25.5%	26.1%	0.6p

# Interest-bearing Debt

(Unit: Billions of Yen)



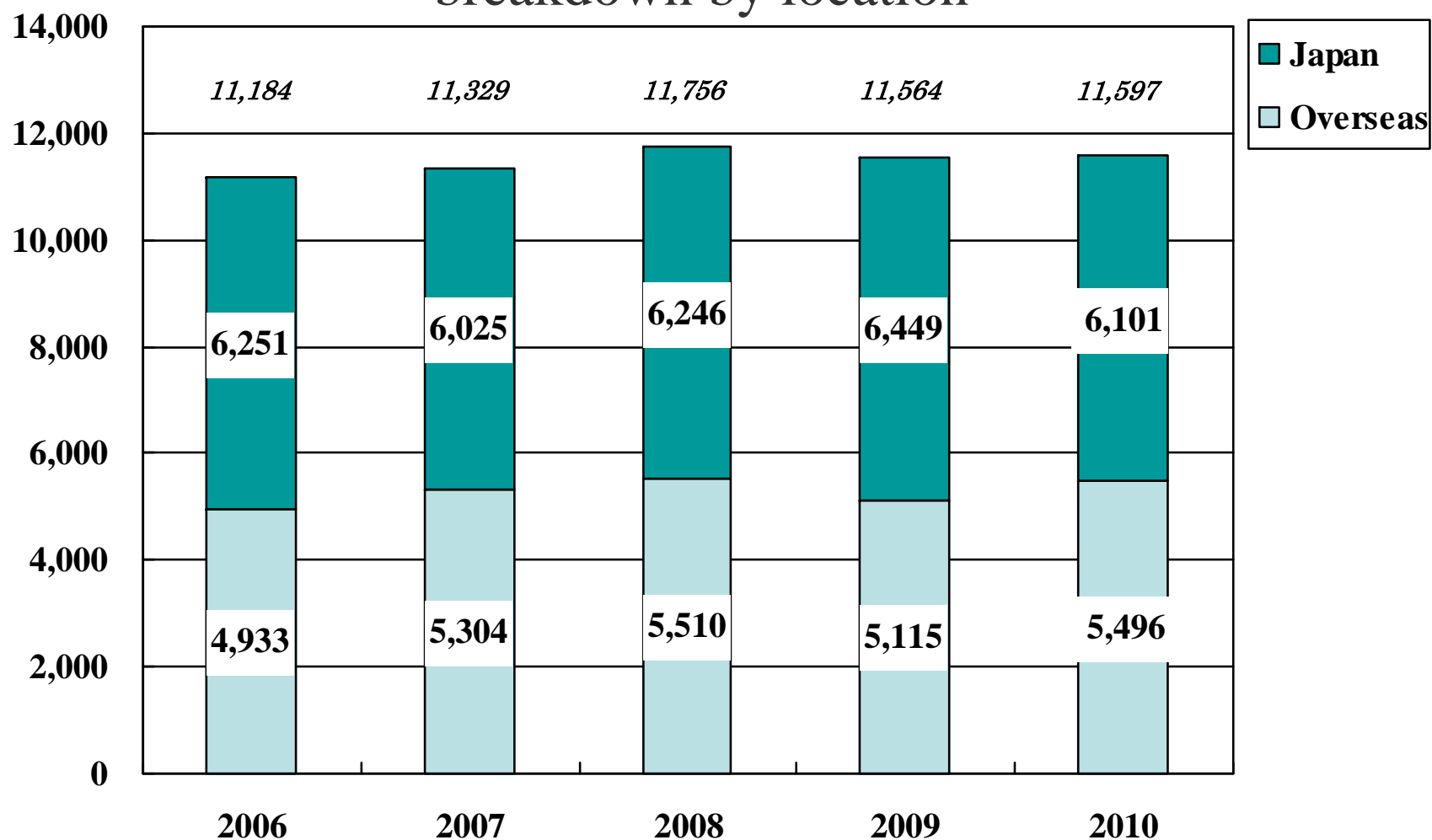
Equity ratio	21.0%	22.7%	26.9%	25.0%	25.5%	26.1%
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## Consolidated Cash Flows

(Unit: Billions of Yen)

	2009	2010	2010-2009 Increase	2011 Forecast	2011-2010 Increase
● CF from Operating Activities	19.8	66.3	46.4	68.0	1.7
● CF from Investing Activities	-26.6	-49.1	-22.5	-56.0	-6.9
● Free CF	-6.7	17.2	24.0	12.0	-5.2
● CF from Financing Activities	28.4	-34.5	-62.9	-5.7	28.8
● Others	-0.1	-1.8	-1.7	0.0	1.8
Increase of cash and equivalents	21.6	-19.0	-40.6	6.3	25.3

## Total number of employees and breakdown by location



	2006	2007	2008	2009	2010
Japan	55.9%	53.2%	53.1%	55.8%	52.6%
Overseas	44.1%	46.8%	46.9%	44.2%	47.4%



# Capital expenditures/ Depreciation by Segment

(Unit: Billions of Yen)

	2009		2010		Increase	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Petrochemicals	4.5	7.0	21.6	8.1	17.1	1.1
Chemicals	6.7	8.2	6.2	7.5	-0.5	-0.7
Electronics	14.6	25.7	22.5	23.2	7.9	-2.5
Inorganics	3.4	3.7	2.5	3.2	-0.8	-0.4
Aluminum	9.5	9.8	5.2	8.9	-4.3	-0.9
Total	38.7	54.4	58.0	50.9	19.4	-3.5



## Capital expenditures/Depreciation by Segment 2011 Forecast

(Unit: Billions of Yen)

	2010*		2011 Forecast		Increase	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Petrochemicals	19.6	6.4	4.1	7.2	-15.6	0.8
Chemicals	7.7	9.8	12.2	9.7	4.5	-0.1
Electronics	19.7	21.0	21.0	22.3	1.3	1.3
Inorganics	3.6	3.4	6.2	3.6	2.7	0.2
Aluminum	4.4	7.3	8.1	6.9	3.6	-0.5
Others	3.0	3.0	11.3	3.6	8.3	0.6
Total	58.0	50.9	62.8	53.3	4.8	2.4

(note) 2010 segment figures are reclassified by the new segmentation, for the reference purpose only.

## Selected Data 2010, 2011 Forecast (Consolidated)

(Unit: Billions of Yen)

	2009	2010	2010-2009 Increase	2011 Forecast	2011-2010 Increase
● Exchange rate: ¥/US\$	94	88	Yen strengthened by ¥6/\$	85	Yen strengthened by ¥3/\$
● Domestic naphtha price: ¥/kl	36,000	46,300	10,300	48,800	2,500
● Aluminum LME price: US\$/T	1,699	2,199	500	2,250	51
● Interest-bearing debt	373.9	351.0	-22.9	360.0	9.0
● Interest/dividend income less interest expenses	-5.6	-4.4	1.2	-4.8	-0.4
● R&D expenditures	20.7	20.7	-0.1	22.9	2.2
● Number of employees	11,564	11,597	33	10,150	-1,447
● Total employment cost	72.7	71.7	-1.0	76.0	4.3



## 2011 Forecast (Consolidated)

(Unit: Billions of Yen except Cash dividends per Share and Net income per Share)

	2010	2011 Forecast	Increase
Net Sales	797.2	870.0	72.8
Operating Income	38.7	45.0	6.3
Interest/dividend income less interest expenses	-8.3	-7.0	1.3
Ordinary Income	30.5	38.0	7.5
Extraordinary Profit	4.9	0.0	-4.9
Extraordinary Loss	-15.6	-10.0	5.6
Net Income	12.7	21.0	8.3
Net Income per Share	¥8.49	¥14.03	¥5.54
Cash dividends per Share	¥3.00	¥3.00	-

## Reclassification of segment (by applying “management approach”)

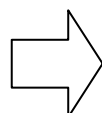
- From FY2011, Showa Denko K.K. changes the segment classification and the number of segments will increase from five to six.

(For your reference, 2010 segment figures are reclassified according the new segmentation.)

### ■ Net sales and Operating income by segment

(Unit: Billions of Yen)

Segment		Previous segmentation (Before application of management approach)
Petrochemicals	Net sales	273.7
	Operating Income	4.9
Chemicals	Net sales	89.9
	Operating Income	3.6
Electronics	Net sales	176.4
	Operating Income	14.6
Inorganics	Net sales	75.3
	Operating Income	9.3
Aluminum	Net sales	181.8
	Operating Income	9.3
HQ costs and other	Net sales	—
	Operating Income	-3.0
Total	Net sales	797.2
	Operating Income	38.7



(Unit: Billions of Yen)

Segment		New segmentation (After application of management approach)
Petrochemicals	Net sales	199.6
	Operating Income	2.3
Chemicals	Net sales	133.6
	Operating Income	5.6
Electronics	Net sales	148.0
	Operating Income	14.9
Inorganics	Net sales	78.0
	Operating Income	10.1
Aluminum	Net sales	130.1
	Operating Income	8.5
Others	Net sales	154.1
	Operating Income	2.0
Adjustment	Net sales	-46.1
	Operating Income	-4.8
Total	Net sales	797.2
	Operating Income	38.7

## Reclassification of segment (by applying “management approach”)

### ■ Major changes

#### 【 Previous segments 】

Petrochemicals	Olefins, Organic chemicals
	Former Showa Highpolymer Co., Ltd.

Chemicals	Chemicals
	(AN, chloroprene rubber, ammonia, industrial gases etc.)

Electronics	Hard disk
	Compound semiconductors
	Rare earth magnetic alloys
	High-purity gases for semiconductor processing
	Others
	Fine ceramics
	Advanced battery materials

Inorganics	Ceramics
	Graphite electrodes

Aluminum	Rolled products (High purity foils for capacitors)
	Extrusions/specialty products (aluminum cylinders for LBP)
	<i>Shotic</i>
	Heat exchangers
	Aluminum cans
	IPP (independent power provider)
	Showa Denko Packaging Co., Ltd.

Shoko Co., Ltd. (allocated business-wise)

#### 【 New segments 】

Petrochemicals

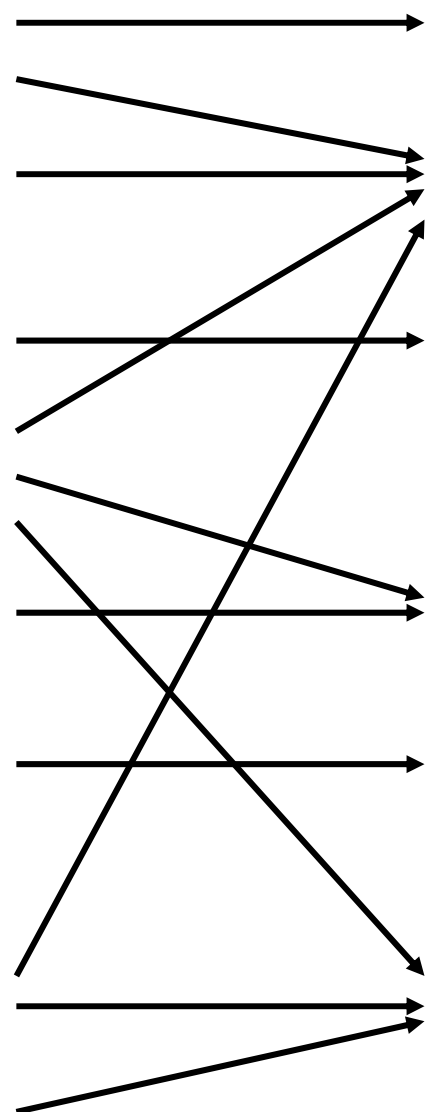
Chemicals

Electronics

Inorganics

Aluminum

Others



# SHOWA DENKO Net Sales by Segment 2011 Forecast (Consolidated)

(Unit: Billions of Yen)

	2010*	2011 Forecast	Increase	Comments
Petrochemicals	199.6	240.0	40.4	Olefins: shipment volumes up due to SDM conducted in 2010
Chemicals	133.6	135.0	1.4	
Electronics	148.0	180.0	32.0	HDs: effect of capacity expansion Compound semiconductors: shipment volumes up Rare earth: price up
Inorganics	78.0	90.0	12.0	Ceramics, graphite electrodes: shipment volumes up
Aluminum	130.1	120.0	-10.1	Heat Exchangers for Automotive Air Conditioners: business transfer planned to a JV in 2H
Others	154.1	150.0	-4.1	
Adjustment	-46.1	-45.0	1.1	
Total	797.2	870.0	7.28	

(note) 2010 segment figures are reclassified by the new segmentation, for the reference purpose only.

## Operating Income 2011 Forecast (Consolidated)

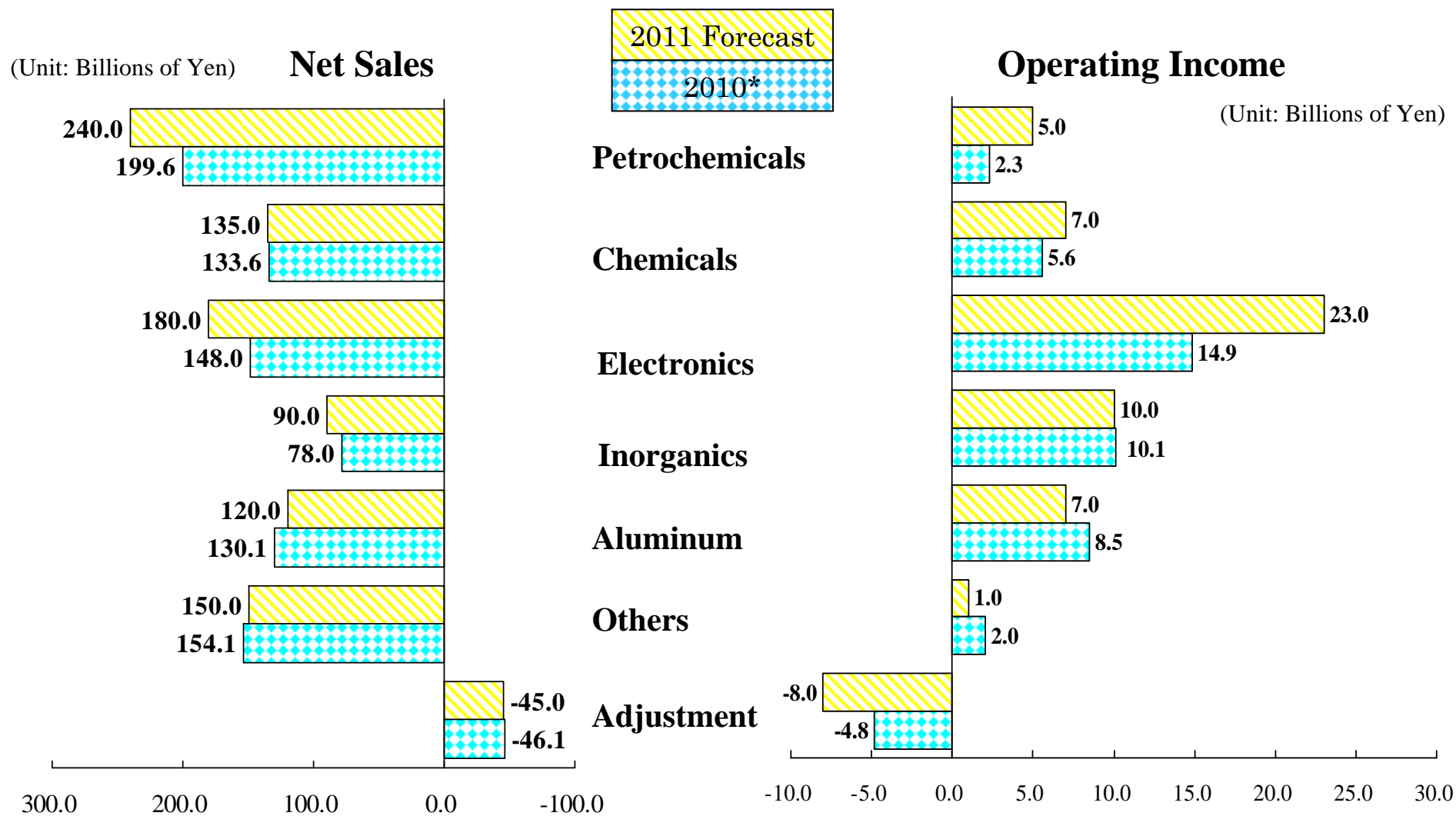
(Unit: Billions of Yen)

	2010*	2011 Forecast	Increase	Comments
Petrochemicals	2.3	5.0	2.7	Olefins: shipment volumes up due to SDM conducted in 2010
Chemicals	5.6	7.0	1.4	Chloroprene rubber: spread improvement Specialty gases: shipment volumes up
Electronics	14.9	23.0	8.1	HDs: effect of capacity expansion Compound semiconductors: shipment volumes up Rare earth: spread improvement compared to 1H 2010
Inorganics	10.1	10.0	-0.1	Graphite electrodes: maintain the same profit level as 2010 (shipment volumes up, spread down in 1H and yen appreciation)
Aluminum	8.5	7.0	-1.5	Heat Exchangers for Automotive Air conditioners: business transfer planned to a JV in 2H
Others	2.0	1.0	-1.0	
Adjustment	-4.8	-8.0	-3.2	R&D expenditures to increase
Total	38.7	45.0	6.3	

(note) 2010 segment figures are reclassified by the new segmentation, for the reference purpose only.



# Sales and Operating Income Forecast for 2011



(note) 2010 segment figures are reclassified by the new segmentation, for the reference purpose only.

# Summary

CQ4 (Oct. 1 – Dec. 31), 2009 v s. CQ4 (Oct. 1 – Dec. 31), 2010

(Unit: Billions of Yen)

	CQ4, 2009	CQ4, 2010	Increase
Net Sales	206.2	212.8	6.6
Operating Income	11.2	11.2	0.0
Non-operating income and expenses	-1.8	-2.3	-0.5
Interest/Dividend income less interest expenses	-1.4	-1.0	0.4
Equity in earnings or losses of affiliates	0.1	0.2	0.1
Currency exchange gain or loss	0.1	-0.8	-0.9
Ordinary Income	9.4	8.9	-0.5
Extraordinary Profit	4.6	1.9	-2.7
Extraordinary Loss	-8.2	-5.7	2.5
Net Income before taxes	5.9	5.1	-0.8
Corporate Taxes	3.7	-1.4	-5.1
Minority Interests	-0.6	-0.4	0.2
Net Income	9.0	3.3	-5.7



# (Reference) Consolidated Sales by Segment

CQ4 (Oct. 1 – Dec. 31), 2009 v s. CQ4 (Oct. 1 – Dec. 31), 2010

(Unit: Billions of Yen)

	CQ4 2009	CQ4 2010	Increase/ decrease	
Petrochemicals	72.6	75.7	3.1	Olefins: sales increased (price up) Organic chemicals: sales decreased (shipment volumes down due to integration of its production into Oita)
Chemicals	23.3	23.8	0.6	AN: sales increased (shipment volumes up, price up) Ammonia: sales increased (shipment volumes up) Industrial gases: sales decreased (shipment volumes of oxygen and nitrogen maintained at the CQ4, 2009 level, withdrawal from hydrochlorofluorocarbon business)
Electronics	46.2	49.3	3.1	HDs, compound semiconductors and specialty gases : sales increased (shipment volumes up) Rare earth: sales increased (shipment volumes up, sales price also up)
Inorganics	17.4	18.5	1.1	Ceramics: sales increased (shipment volumes up) Graphite electrodes: sales in U.S maintained at the CQ4, 2009 level, sales in Japan decreased (yen appreciation)
Aluminum	46.8	45.5	-1.3	Rolled products: sales increased (shipment volumes of high-purity foils for capacitors up) Extrusions/ specialty products: sales decreased (shipment volumes of aluminum cylinders for LBP down, withdrawal from the business in commodity extrusions for construction) Heat exchangers: sales decreased (sales down in Japan, U.S. and Europe, sales up in China and Thailand) <i>Shotric</i> : sales increased (shipment volumes up) Aluminum cans: sales maintained at the CQ4, 2009 level
Total	206.2	212.8	6.6	





# (Reference) Consolidated Operating Income by Segment

CQ4 (Oct. 1 – Dec. 31), 2009 v s. CQ4 (Oct. 1 – Dec. 31), 2010

(Unit: Billions of Yen)

	CQ4 2009	CQ4 2010	Increase/ decrease	
Petrochemicals	2.2	2.2	0.0	Olefins: profit increased (price up) Organic chemicals: profit maintained at the CQ4, 2009 level
Chemicals	0.9	1.1	0.2	AN: profit increased (shipment volumes up, price up) Ammonia: profit decreased (higher cost of raw materials)
Electronics	4.5	4.5	0.0	HDs: profit slightly decreased (yen appreciation) Compound semiconductors: profit increased (shipment volumes up) Specialty gases : profit maintained at the CQ4, 2009 level Rare earth: profit increased (shipment volumes up, price up)
Inorganics	2.8	2.5	-0.4	Ceramics: profit increased (shipment volumes up) Graphite electrodes: profit decreased (yen appreciation)
Aluminum	1.7	2.0	0.3	Rolled products: profit slightly increased (shipment volumes of high-purity foils for capacitors up) Extrusions/ specialty products: profit increased (improvement in profitability due to withdrawal from the business in commodity extrusions for construction) Heat exchangers: profit maintained at the CQ4, 2009 level <i>Shotic</i> : profit slightly decreased (higher cost of raw materials) Aluminum cans: profit decreased (higher cost of raw materials)
HQ costs, elimination	-1.0	-1.1	-0.1	
Total	11.2	11.2	0.0	

# Summary

CQ3 (Jul. 1 – Sept. 30) v s.CQ4 (Oct. 1 – Dec. 31)

(Unit: Billions of Yen)

	CQ3, 2010	CQ4, 2010	Increase
Net Sales	200.3	212.8	12.6
Operating Income	9.8	11.2	1.4
Non-operating income and expenses	-2.3	-2.3	-0.0
Interest/Dividend income less interest expenses	-1.3	-1.0	0.3
Equity in earnings or losses of affiliates	0.3	0.2	-0.1
Currency exchange gain or loss	-0.9	-0.8	0.0
Ordinary Income	7.5	8.9	1.4
Extraordinary Profit	0.1	1.9	1.8
Extraordinary Loss	-3.8	-5.7	-1.9
Net Income before taxes	3.9	5.1	1.3
Corporate Taxes	-1.5	-1.4	0.1
Minority Interests	-0.6	-0.4	0.2
Net Income	1.7	3.3	1.6



(Reference)

## Consolidated Sales by Segment

CQ3 (Jul. 1 – Sept. 30) v s.CQ4 (Oct. 1 – Dec. 31)

(Unit: Billions of Yen)

	CQ3 2010	CQ4 2010	Increase	
Petrochemicals	71.5	75.7	4.2	Olefins: sales increased (price up) Organic chemicals: sales increased (shipment volumes of vinyl acetate up)
Chemicals	21.5	23.8	2.3	AN: sales increased (shipment volumes up due to Kawasaki SDM in CQ3) Chloroprene rubber: sales increased (shipment volumes up due to SDM in CQ3)
Electronics	40.3	49.3	9.0	HDs, specialty gases: sales increased (shipment volumes up) Compound semiconductors: sales decreased (shipment volumes down) Rare earth: sales increased (price up)
Inorganics	19.7	18.5	-1.2	Ceramics: sales maintained at the CQ3 level Graphite electrodes: sales decreased (shipment volumes down)
Aluminum	47.2	45.5	-1.7	Rolled products: sales maintained at the CQ3 level Extrusions/ specialty products: sales decreased (shipment volumes of aluminum cylinders for LBP down) Heat exchangers: sales decreased (sales in Japan and U.S. down, sales in Europe up, sales in China and Thailand maintained at the CQ3 level) <i>Shotoc</i> : sales decreased (shipment volumes down) Aluminum cans: sales decreased (shipment volumes down)
Total	200.3	212.8	12.6	



(Reference)

# Consolidated Operating Income by Segment

CQ3 (Jul. 1 – Sept. 30) v s.CQ4 (Oct. 1 – Dec. 31)

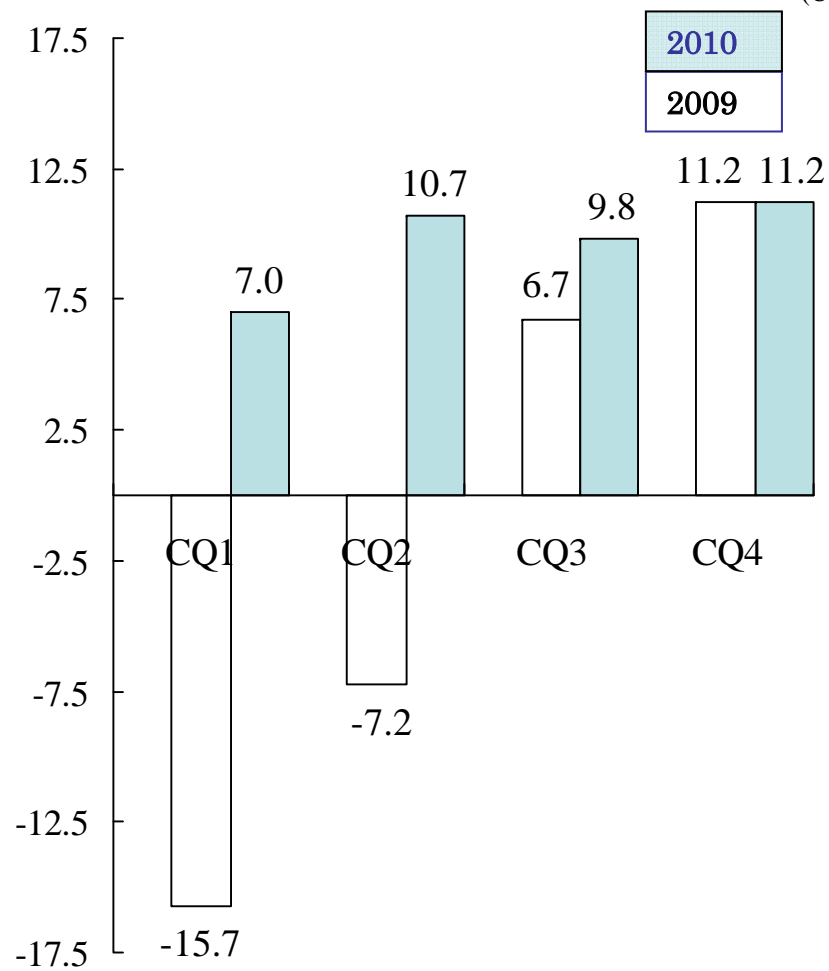
(Unit: Billions of Yen)

	CQ3 2010	CQ4 2010	Increase	
Petrochemicals	1.1	2.2	1.1	Olefins: profit increased (improvement of difference between procurement and consumption prices for raw materials) Organic chemicals: profit increased (shipment volumes of vinyl acetate up)
Chemicals	0.4	1.1	0.7	AN, chloroprene rubber : profit increased (shipment volumes up due to Kawasaki SDM in CQ3)
Electronics	3.3	4.5	1.2	HDs, specialty gases: profit increased (shipment volumes up) Rare earth: profit maintained at the CQ3 level Compound semiconductors: profit decreased (shipment volumes down)
Inorganics	3.1	2.5	-0.7	Ceramics, graphite electrodes: profit decreased (shipment volumes down)
Aluminum	2.7	2.0	-0.7	Rolled products: profit decreased (shipment volumes of high –purity foils for low voltage capacitors slightly down) Extrusions/ specialty products: profit decreased (shipment volumes of aluminum cylinders for LBP down) Heat exchangers: profit decreased (shipment volumes in Japan down due to the end of cash incentives for auto purchase, profit in U.S. Europe slightly decreased, profit in China increased) <i>Shotic</i> : profit decreased (shipment volumes down) Aluminum cans: profit decreased.(seasonal factors)
HQ costs, elimination	-0.9	-1.1	-0.2	
Total	9.8	11.2	1.4	

# Operating Income (Quarterly)

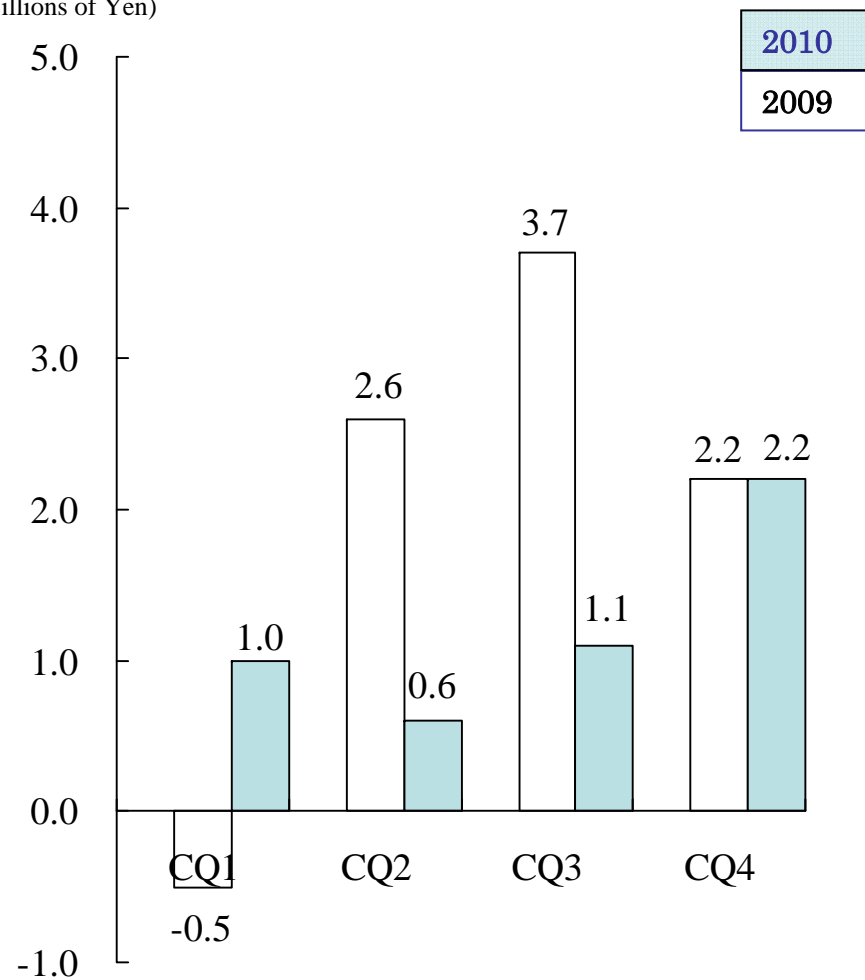
## 《Corporate》

(Unit: Billions of Yen)



## 《Petrochemicals》

(Unit: Billions of Yen)

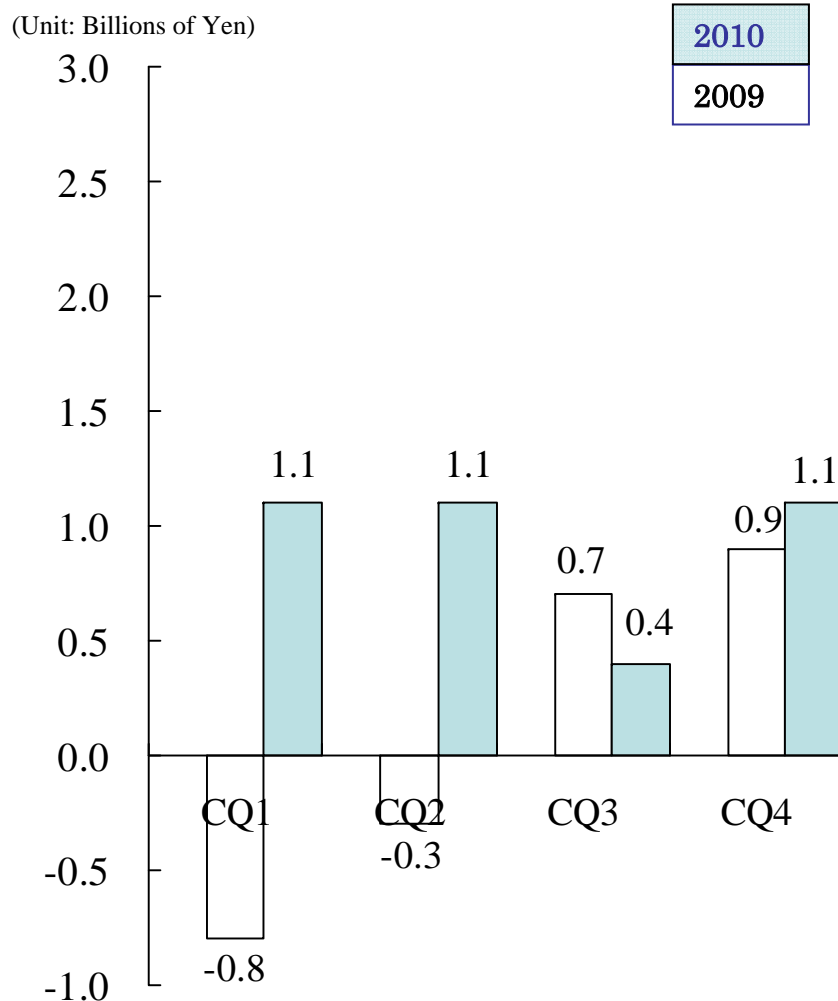




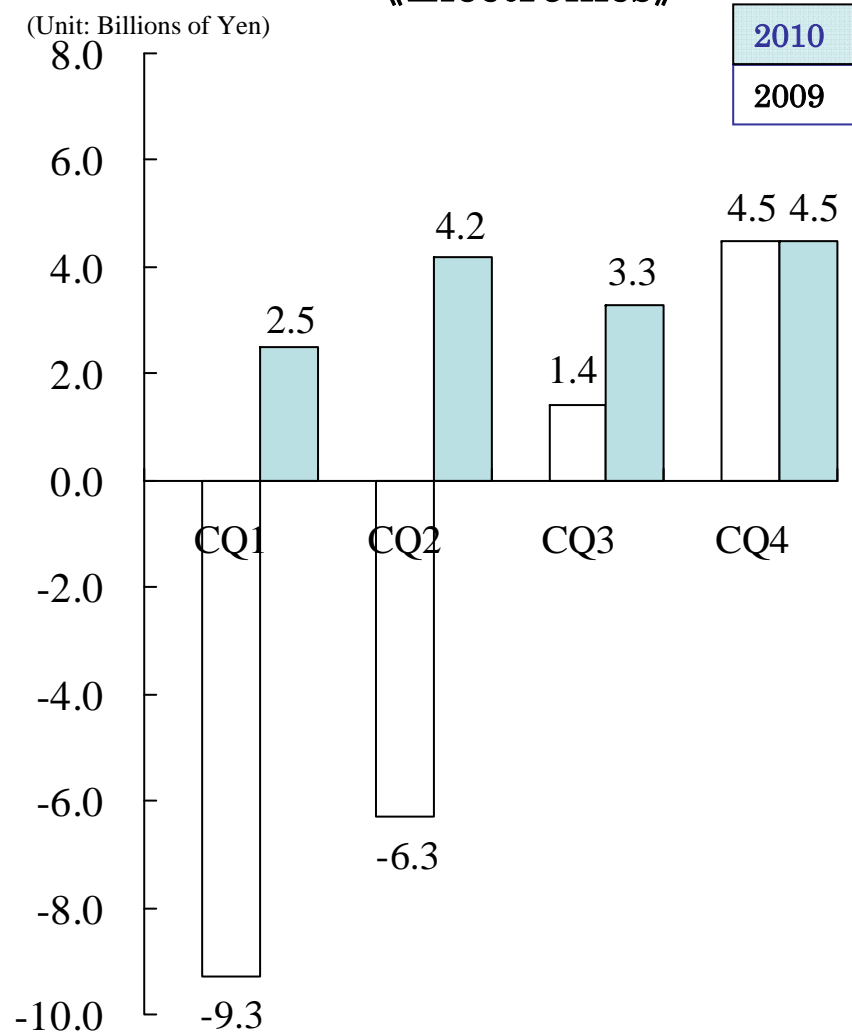
(Reference)

# Operating Income (Quarterly)

## 《Chemicals》



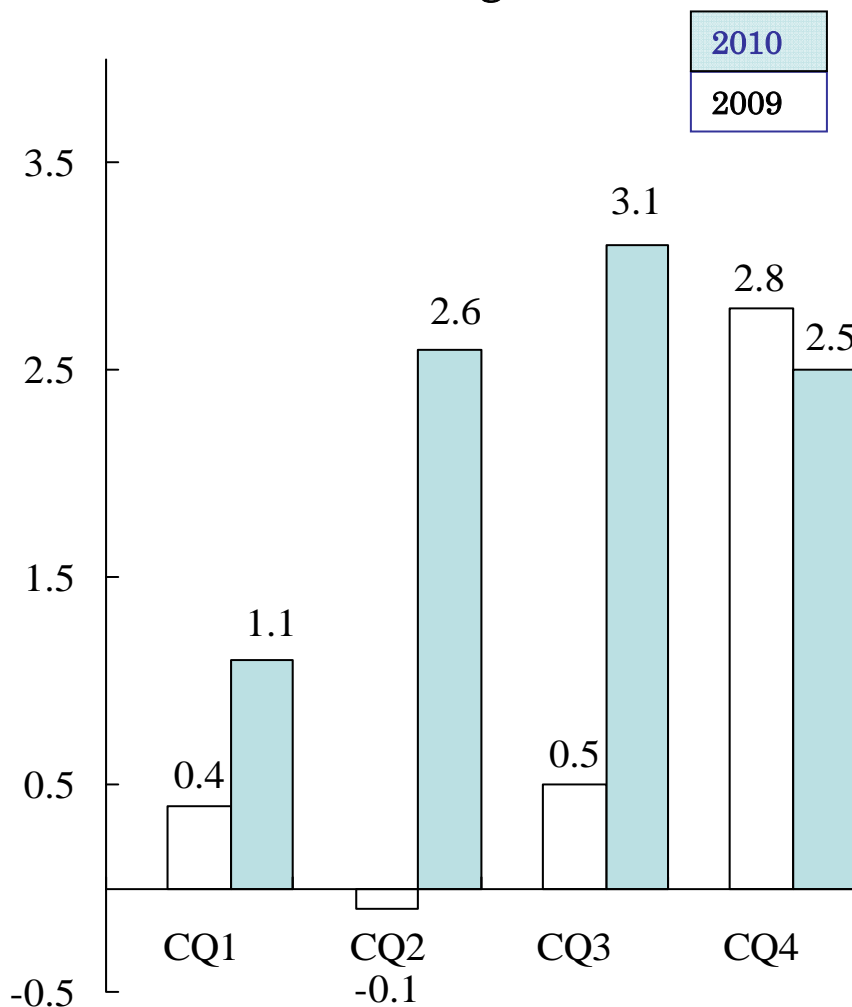
## 《Electronics》



# Operating Income (Quarterly)

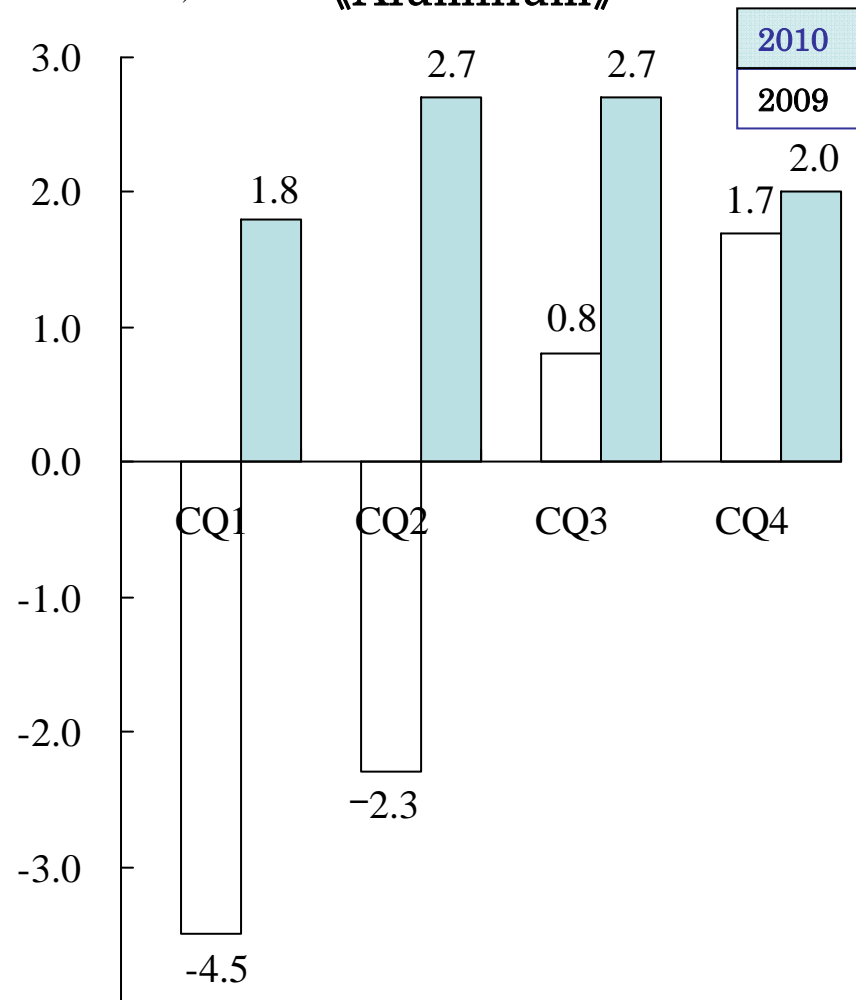
(Unit: Billions of Yen)

## 《Inorganics》



(Unit: Billions of Yen)

## 《Aluminum》



# Topics

- Launch of new medium-term consolidated business plan PEGASUS
  - ◆ In January 2011, SDK launched a new medium-term consolidated business plan PEGASUS for the 2011-2015 period.

**<New business domains>**

SDK has decided to focus on the two business domains of “Energy/Environment” and “Electronics.” SDK will provide components, materials and solutions in these areas based on our proprietary advanced technologies, thereby contributing to the creation of a society in which affluence and sustainability are harmonized.

**<Business portfolio>**

SDK classifies businesses into three categories: growing base businesses, stable base businesses, and growth/new growth businesses. SDK will promote our growth strategy by concentrating our managerial resources on globally competitive operations. “HD media” and “graphite electrodes” are positioned as our main businesses. SDK will implement aggressive growth strategies for these two businesses, including expansion of production capacity. The two businesses will serve as major contributors to our profit and cash flows.

- Acquisition of highest-level environmental rating from DBJ
  - ◆ In July 2010, SDK received a loan from Development Bank of Japan Inc. (DBJ), after acquiring the highest-level rating from DBJ for our environmental management. The rating was in recognition of our contribution to sustainable growth through the development of ultrabright LED chips and VGCF<sup>TM</sup> carbon nanotube; implementation of measures against global warming, such as the drastic cut in greenhouse gas emissions through the replacement of naphtha cracking furnaces at Oita Complex; and establishment of aggressive plans for further reductions. The Showa Denko Group attaches high priority to a sustainable growth of society, developing products and technologies that contribute to reductions in environmental impact and cutting emissions of greenhouse gases.



## ■ Petrochemicals

- Introduction of modern cracking furnaces at Oita Complex
  - ◆ SDK renovated its ethylene production facility at Oita Complex, mainly through the replacement of seven cracking furnaces with two modern high-efficiency furnaces (each having the capacity to produce 100,000 tons of ethylene a year). The renovation was conducted during the period of the shutdown maintenance, and the new facilities started up in May. As a result of the renovation, SDK has achieved the highest-level energy efficiency among petrochemical complexes in Japan, while reducing CO<sub>2</sub> emissions by approximately 60,000 tons a year.
  
- Full-scale production of environment-friendly solvent
  - ◆ In February, SDK started production of n-propyl acetate at its Oita Complex. The product is used as solvent for special gravure printing ink. Demand for n-propyl acetate is expected to increase owing to its lower impact on the environment as well as higher safety, compared with conventional solvents.
  
- Pilot plant for heat-resistant transparent film
  - ◆ SDK decided to build a pilot plant at Oita Complex to produce heat-resistant and transparent film for use in displays. The pilot plant is scheduled for start-up in June 2011. As the film has high transparency and high heat resistance, SDK will aim to quickly launch the business on a full scale. SDK will expand its film operations to cover not only the field of displays (touch screens, LCDs) but also optical films that require high performance.

## ■ Chemicals

- New functional monomer for paints, coatings and adhesives
  - ◆ SDK decided to start up a production facility for a new thiol-based curing agent Karenz MT™ PE1 in the middle of 2011 at Kawasaki Plant. The product will be used as curing agent to substantially improve the properties of epoxy resins for paints, coatings and adhesives, whose demand is increasing in the field of construction and vessels. SDK is already selling Karenz™ series functional monomers for electronics applications, and aim to strengthen our functional monomers business by broadening applications.
  
- Strengthening personal care products business
  - ◆ SDK decided to strengthen its personal care products business by integrating sales and R&D functions so far separately performed for three segments: materials for skin-care cosmetics; materials for curling agents; and medical-care-related materials, including those for medical equipment and base materials for pharmaceuticals for external application. The integration took effect in January 2011. SDK will strengthen the business by increasing the speed of product development through closer cooperation among sales, production and R&D units.

## ■ Electronics

### ● Expansion of HD media production capacity

- ◆ SDK decided to expand its HD media production capacity by 5 million disks per month, mainly through the installation of additional production lines at our subsidiary Showa Denko HD Singapore Pte. Ltd. The decision was made in view of the expected growth of demand for hard disk drives (HDDs) owing to increased use in PCs, servers and digital electric appliances. The capacity expansion will involve capital expenditure of ¥15.5 billion in total. The Showa Denko Group's total HD media production capacity will be increased by stages, from 22 million disks a month at the end of June 2010 to 27 million disks a month by the end of June 2011. SDK will continue examining measures to increase its HD media production capacity in response to the growing demand for HDDs.

### ● Completion of rare earth metal plant in Vietnam

- ◆ SDK's subsidiary Showa Denko Rare-Earth Vietnam Co., Ltd. completed a new rare earth metal plant in Vietnam and started production in May. The plant produces 800 tons a year in total of didymium and dysprosium metals, which are used as raw material for neodymium-based high-performance magnetic alloys. In addition to current applications in automotive parts and electronics, such as HDDs, neodymium-based high-performance magnets are expected to be increasingly used in electric vehicles and energy-saving electric appliances. In its rare earth metal production, Showa Denko Rare-Earth Vietnam will process raw materials and recycle magnets purchased from various sources inside and outside Vietnam. The metals thus produced will be used at our rare earth magnetic alloy plants.

# Topics

- Completion of blue LED chip production capacity expansion
  - ◆ SDK increased its blue LED chip production capacity at Chiba site from 200 million units per month to 340 million units per month, and started commercial operation of the expanded facility in July. Demand for blue LEDs is expected to grow due to increased use in such applications as backlight for LCD TVs and general lighting. SDK will promote technical development to further increase output of LED chips and improve production efficiency, thereby providing high-quality, high-performance and energy-saving products that fulfill customers' requirements.
  
- Production of electronic cleaning agents in China
  - ◆ In August, SDK started commercial production of high-purity cyclohexanone at a new plant built by its subsidiary Zhejiang Quzhou Juhua Showa Electronic Chemical Materials Co., Ltd., in Zhejiang Province, China. High-purity cyclohexanone is used as cleaning agent for removal of photoresist and as solvent for photoresist in the production of semiconductors and LCD panels. With the establishment of the high-purity cyclohexanone supply setup in China, SDK will strengthen its electronic cleaning agent business and serve the needs of the rapidly growing electronics industry in Asia

## Topics

- JV for specialty material gases for electronics
  - ◆ SDK and Air Water Inc. established a joint venture for the production of specialty material gases for the electronics industry in December 2010. The new company, Showa Denko Air Water Co., Ltd., is owned 51% by SDK. Demand for specialty material gases has steadily been growing, centering on Asian markets, for use in the production of solar cells, semiconductors, and LCD panels. The two companies agreed to form a partial alliance in the areas of advanced, innovative, and eco-friendly specialty material gases that can be marketed globally. As a first step, the JV will install a hydrogen selenide (H<sub>2</sub>Se) production facility within the premises of SDK's Tokuyama Plant. H<sub>2</sub>Se is used for forming light-absorbing films in CIGS (copper indium gallium diselenide) compound-semiconductor-based solar cells. The JV will start producing H<sub>2</sub>Se at the plant in June 2011. CIGS-type solar cells are expected to be widely used for large-scale photovoltaic power generation.
  
- Expansion of production capacity for titanium oxide nanoparticles
  - ◆ SDK decided to expand nanoparticle titanium-oxide production capacity at its subsidiary Showa Titanium Co., Ltd., from 180 tons a month at present to 240 tons a month as from June 2011. The product, sold under the trade name of Super-Titania<sup>TM</sup>, is used in the production of multilayer ceramic capacitors (MLCCs). MLCCs are used mainly in electronic devices that require small size and light weight, such as PCs and mobile phones, as well as in such digital electric appliances as flat-panel TVs. Demand for MLCCs is expected to continue growing.

## ■ Inorganics

### ● Decision to build chemical alumina plant in Indonesia

- ◆ SDK decided to have PT Indonesia Chemical Alumina (ICA) build a chemical alumina plant in West Kalimantan, Indonesia. ICA is a joint venture (owned 20% by SDK) with PT. Antam Tbk (Antam), of Indonesia. Chemical alumina is used for the production of various products, including electronics. The project cost, which is expected to total approx. US\$450 million, will be financed by investments by SDK and Antam as well as ICA's bank loans. The plant, with the capacity to produce 300,000 t/y of chemical alumina, is scheduled for start-up in 2014. SDK will take 200,000 t/y of chemical alumina from the new plant and use them to replace the current products from its Yokohama Plant. SDK will expand its chemical alumina operations in the growing Asian market.

## ■ Aluminum and other

### ● Transfer of business in heat exchangers for car air conditioners

- ◆ SDK reached basic agreement with Keihin Corporation (Keihin) to transfer SDK's automotive air-conditioner heat exchanger business to Keihin, which is the main customer for the business. SDK has been producing aluminum-based heat exchangers, including condensers and evaporators, in Japan, the United States, Europe, China and Thailand. SDK has judged that it will be difficult to enhance competitiveness of a stand-alone heat exchanger business, and that it is essential to integrate the business into automotive air-conditioning system operations to ensure further growth. After the transfer, SDK will further strengthen its Aluminum segment by allocating its resources to the development of high-value-added aluminum products.

## Topics

- Start-up of Cooling Device Business Development Dept.
  - ◆ In April 2010, SDK established a Cooling Device Business Development Department to meet growing demand for devices for cooling power electronics installed in hybrid cars. With the establishment of the new department that integrates development / production / marketing functions, SDK will expand the power electronics cooling device business to meet increasing demand for this energy-saving product.