

Evolving unique chemical company

Third Quarter, 2011 Financial Results

- Consolidated -

SHOWA DENKO K.K.

November 1, 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: 42
Newly consolidated: 1 Thermal Technology Corporation of America (Aluminum)
- Equity method applied: 18
Newly applied: 1 NS Styrene Monomer Co., ltd. (Petrochemicals)

Selected Data

(Average figure)

	Jul.- Sept. 2010	Jul.- Sept. 2011	Increase
■ Exchange rate:¥/US\$	85.9	77.9	Yen strengthened by ¥8.0/\$
■ Domestic naphtha price: ¥/kl	42,700	54,900	12,200
■ Aluminum LME price: US\$/T	2,107.5	2,433.9	326.4

Exchange rate at June 30, 2011 ¥80.7/US\$, at September 30, 2011 ¥76.7/US\$

⇒Yen strengthened by ¥4.0/US\$

Summary

CQ3 (Jul. 1 – Sept. 30) 2010 v s. CQ3 (Jul. 1 – Sept. 30) 2011

(Unit: Billions of Yen)

	CQ3, 2010	CQ3, 2011	Increase
Net Sales	200.3	225.1	24.9
Operating Income	9.8	16.8	7.0
Non-operating income and expenses	-2.3	-2.0	0.3
Interest/Dividend income less expenses	-1.3	-1.2	0.1
Equity in earnings of affiliates	0.3	0.1	-0.2
Foreign exchange gain or loss	-0.9	-0.2	0.7
Ordinary Income	7.5	14.7	7.2
Extraordinary Income	0.1	0.2	0.1
Gain on sales of investment securities	0.1	0.0	-0.1
Extraordinary Loss	-3.8	-1.8	2.0
Loss on sales and retirement of noncurrent assets	-1.1	-0.4	0.7
Impairment loss	-0.2	-0.3	-0.1
Income before income taxes and minority interests	3.9	13.1	9.3
Income Taxes	-1.5	-2.9	-1.4
Income before minority interests	2.3	10.2	7.8
Minority Interests in income	-0.6	-0.6	0.0
Net Income	1.7	9.6	7.9

Consolidated Sales by Segment

(Unit: Billions of Yen)

	CQ3 2010	CQ3 2011	Increase/ decrease	
Petrochemicals	53.4	64.0	10.6	Olefins: sales increased (price up, reflecting higher raw material cost) Organic chemicals: sales increased (price up, shipment volumes of allyl alcohol up)
Chemicals	32.3	31.6	-0.7	AN, specialty gases: sales decreased (shipment volumes down) Functional polymer materials: sales slightly decreased (weakening market) Chloroprene rubber: sales increased (price up)
Electronics	32.9	52.1	19.2	HDS: sales substantially increased (shipment volumes up by the contribution of capacity expansion) Compound semiconductors: sales decreased (price down) Rare earth: sales substantially increased (shipment volumes up, price up: reflecting higher raw material cost)
Inorganics	20.4	18.8	-1.6	Graphite electrodes: sales decreased (yen appreciation) Ceramics: sales increased (strong sales in electronics applications)
Aluminum	34.1	32.7	-1.4	High-purity foils for capacitors: sales slightly increased (price up, reflecting higher raw material cost) Aluminum cylinders for LBP: sales decreased (shipment volumes down) Heat exchangers: sales decreased (shipment volumes down: auto industry cut production level due to the influence of the earthquake) Shotoc: sales increased (shipment volumes up) Aluminum cans: sales decreased (shipment volumes down due to downturn in consumption of beer)
Others	39.5	36.7	-2.9	LIB materials: sales increased (shipment volumes up) SHOKO Co., Ltd.: sales maintained at the year-earlier level Engineering: sales decreased (business restructured)
Adjustment	-12.4	-10.7	1.7	
Total	200.3	225.1	24.9	

Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	CQ3 2010	CQ3 2011	Increase/ decrease	
Petrochemicals	0.6	1.0	0.4	Profit increased (improvement of the difference between procurement and consumption prices for raw materials with the variation in naphtha price)
Chemicals	0.6	-0.5	-1.1	AN, industrial gases, specialty gases: profit decreased (shipment volumes down) Functional polymer materials: profit decreased (weakening market) Chloroprene rubber: profit increased (price up)
Electronics	3.5	12.5	9.0	HDs: profit increased (shipment volumes substantially up) Compound semiconductors: profit decreased (price down) Rare earth: profit increased (shipment volumes up, price up)
Inorganics	3.3	2.5	-0.8	Graphite electrodes: profit decreased (yen appreciation) Ceramics: profit increased (strong sales in electronics applications)
Aluminum	2.4	2.4	0.0	High-purity foils for capacitors: profit slightly decreased (higher cost of raw materials) Aluminum cylinders for LBP, Shotic: profit maintained at the year-earlier level Heat exchangers: profit decreased (shipment volumes down: auto industry cut production level due to the influence of the earthquake) Aluminum cans: profit increased (cost down)
Others	0.7	0.3	-0.4	Cost of battery materials increased
Adjustment	-1.3	-1.4	-0.1	
Total	9.8	16.8	7.0	

Summary

Jan. 1 – Sept. 30, 2010 v s. Jan. 1 – Sept. 30, 2011

(Unit: Billions of Yen)

	Jan.- Sept. 2010	Jan.- Sept. 2011	Increase
Net Sales	584.4	641.6	57.3
Operating Income	27.5	38.9	11.3
Non-operating income and expenses	-6.0	-6.1	-0.1
Interest/Dividend income less expenses	-3.4	-3.3	0.2
Equity in earnings of affiliates	1.0	0.5	-0.5
Foreign exchange gain or loss	-1.4	-0.7	0.6
Ordinary Income	21.6	32.8	11.2
Extraordinary Income	3.0	1.5	-1.5
Subsidy	2.0	-	-2.0
Reversal of provision for retirement benefits	-	0.7	0.7
Extraordinary Loss	-9.9	-10.2	-0.3
Loss on sales and retirement of noncurrent assets	-2.7	-1.0	1.7
Impairment loss	-1.3	-0.7	0.7
Loss on the Great East Japan Earthquake	-	-3.1	-3.1
Compensation for cancellation of contracts	-	-2.5	-2.5
Income before income taxes and minority interests	14.7	24.1	9.4
Income Taxes	-3.4	-4.4	-1.0
Income before minority interests	11.3	19.7	8.4
Minority Interests in income	-1.9	-2.2	-0.3
Net Income	9.4	17.5	8.1



Consolidated Sales by Segment

(Unit: Billions of Yen)

	Jan.-Sept. 2010	Jan.-Sept. 2011	Increase/ decrease	
Petrochemicals	144.1	191.1	47.0	Olefins: sales increased (shipment volumes up due to SDM* in March 2010, price up) Organic chemicals: sales increased (price up, shipment volumes of allyl alcohol up)
Chemicals	98.1	97.9	-0.2	AN, chloroprene rubber: sales increased (price up) Industrial gases, ammonia: sales decreased (shipment volumes down) Functional polymer materials, specialty gases: sales maintained at the year-earlier level
Electronics	105.7	120.6	14.9	HDs: sales maintained at the year-earlier level (shipment volumes up, yen appreciation) Compound semiconductors: sales decreased (shipment volumes down) Rare earth: sales increased (shipment volumes up, price up)
Inorganics	58.9	58.9	0.0	Ceramics: sales increased (strong sales in electronics applications) Graphite electrodes: sales decreased (yen appreciation)
Aluminum	98.8	94.4	-4.4	High-purity foils for capacitors, Shotoc: sales increased (shipment volumes up) Aluminum cylinders for LBP, aluminum cans: sales decreased (shipment volumes down) Heat exchangers: sales decreased (shipment volumes down: auto industry cut production level due to the influence of the earthquake)
Others	114.6	113.2	-1.3	LIB materials: sales increased (shipment volumes up) SHOKO Co., Ltd.: sales increased (increase in sales of metals) Engineering: sales decreased (business restructured)
Adjustment	-35.8	-34.5	1.3	
Total	584.4	641.6	57.3	

(note)SDM: shutdown maintenance

Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	Jan.-Sept. 2010	Jan.-Sept. 2011	Increase/ decrease	
Petrochemicals	0.8	5.1	4.3	Olefins: profit increased (shipment volumes up due to SDM* in March 2010, improvement of the difference between procurement and consumption prices for raw materials) Organic chemicals: profit increased (price up, shipment volumes of allyl alcohol up)
Chemicals	4.0	2.3	-1.6	AN, ammonia: profit decreased (shipment volumes down) Specialty gases: profit decreased (price down) IPP: profit decreased (higher fuel cost) Chloroprene rubber: profit increased (price up)
Electronics	10.5	20.0	9.5	HDs: profit increased (shipment volumes up) Compound semiconductors: profit maintained at the year-earlier level Rare earth: profit increased (shipment volumes up, price up)
Inorganics	7.3	8.1	0.8	Ceramics: profit increased (strong sales in electronics applications) Graphite electrodes: profit decreased (yen appreciation)
Aluminum	6.9	6.0	-0.9	High-purity foils for capacitors, Shotic, aluminum cans: profit maintained at the year-earlier level Aluminum cylinders for LBP: profit decreased (shipment volumes down) Heat exchangers: profit decreased (shipment volumes down: auto industry cut production level due to the influence of the earthquake)
Others	1.3	1.8	0.5	SHOKO Co., Ltd.: profit increased (increase in profit from metals)
Adjustment	-3.3	-4.5	-1.2	
Total	27.5	38.9	11.3	

(note)SDM: shutdown maintenance



Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Jun. 30, 2011	Sept. 30, 2011	Increase/ decrease	Liabilities and Net Assets	Jun. 30, 2011	Sept. 30, 2011	Increase/ decrease
Cash and deposits	37.1	35.9	-1.3	Notes and accounts payable	102.3	108.1	5.8
Notes and accounts receivable	146.5	151.1	4.5	Interest-bearing debt	359.3	355.6	-3.7
Inventories	108.0	120.1	12.1	Provision for retirement benefits	25.2	24.7	-0.5
Other current assets	31.0	30.8	-0.2	Other liabilities	152.1	153.6	1.5
<u>Total Current Assets</u>	<u>322.7</u>	<u>337.8</u>	<u>15.2</u>	<u>Total Liabilities</u>	<u>638.9</u>	<u>642.0</u>	<u>3.1</u>
Buildings and structures	87.9	85.4	-2.5	Capital stock	140.6	140.6	—
Machinery and equipment	136.7	130.8	-5.8	Capital surplus	62.2	62.2	0.0
Land	255.8	255.4	-0.4	Retained earnings	39.9	49.3	9.3
Other tangible fixed assets	15.7	16.6	0.9	Treasury stock	-0.1	-0.1	0.0
Tangible Fixed Assets	496.1	488.3	-7.7	<u>Total Shareholders' equity</u>	<u>242.6</u>	<u>251.9</u>	<u>9.3</u>
Intangible Fixed Assets	12.0	11.4	-0.6	Valuation difference on available-for-sale securities	-3.9	-4.7	-0.8
Investments and other assets	96.7	95.2	-1.5	Foreign currency translation adjustment, Deferred hedge gains	-16.3	-23.1	-6.8
Incl. Investment securities	60.5	59.5	-1.1	Revaluation reserve for land	22.5	22.7	0.2
				<u>Total valuations and adjustments</u>	<u>2.3</u>	<u>-5.1</u>	<u>-7.4</u>
				Minority Interests	43.6	43.9	0.3
<u>Total fixed assets</u>	<u>604.7</u>	<u>594.9</u>	<u>-9.8</u>	<u>Total net assets</u>	<u>288.5</u>	<u>290.7</u>	<u>2.2</u>
Total Assets	927.4	932.7	5.4	Total Liabilities and Net Assets	927.4	932.7	5.4

Total Assets, Interest-bearing Debt and D/E ratio

(Unit: Billions of Yen, times, %)

	Jun.30, 2011	Sept.30, 2011	Increase
● Total assets	927.4	932.7	5.4
● Interest-bearing debt	359.3	355.6	-3.7
● Debt/Equity ratio	1.25times	1.22times	-0.03p
● Stockholders' Equity ratio	26.4%	26.5%	0.1p

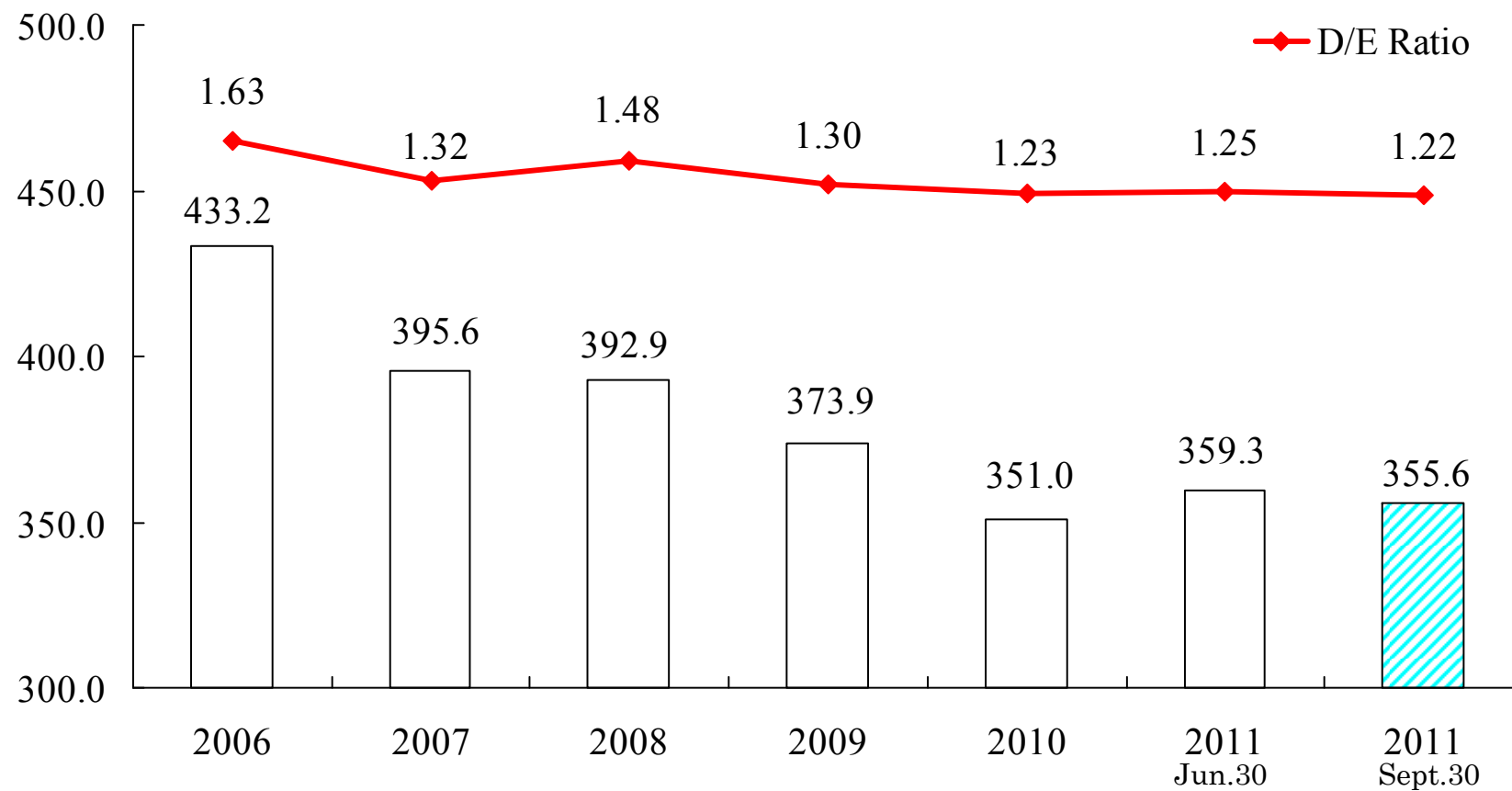
Consolidated Cash Flows

(Unit: Billions of Yen)

	Jan.-Sep., 2010	Jan.-Sep., 2011	Jul.-Sep., 2011
● CF from Operating Activities	39.9	29.7	15.8
● CF from Investing Activities	-40.3	-29.8	-10.6
● Free CF	-0.4	-0.1	5.2
● CF from Financing Activities	-24.6	-6.0	-4.7
● Others	-1.4	-1.8	-1.8
● Increase of cash and equivalents	-26.4	-7.9	-1.2

Interest-bearing Debt

(Unit: Billions of Yen)



Equity ratio	22.7%	26.9%	25.0%	25.5%	26.1%	26.4%	26.5%
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(Reference) Summary

CQ2 (Apr. 1 - Jun. 30) 2011 v s. CQ3 (Jul. 1 - Sept. 30) 2011

(Unit: Billions of Yen)

	CQ2, 2011	CQ3, 2011	Increase
Net Sales	223.5	225.1	1.6
Operating Income	12.7	16.8	4.0
Non-operating income and expenses	-2.6	-2.0	0.6
Interest/Dividend income less expenses	-1.0	-1.2	-0.2
Equity in earnings or losses of affiliates	0.0	0.1	0.1
Foreign exchange gain or loss	-0.6	-0.2	0.4
Ordinary Income	10.1	14.7	4.6
Extraordinary Income	1.1	0.2	-0.9
Extraordinary Loss	-4.3	-1.8	2.5
Income before income taxes and minority interests	6.9	13.1	6.2
Income Taxes	-1.0	-2.9	-2.0
Income before minority interests	5.9	10.2	4.2
Minority Interests in income	-0.7	-0.6	0.1
Net Income	5.2	9.6	4.3



(Reference) Consolidated Sales by Segment

(Unit: Billions of Yen)

	CQ2 2011	CQ3 2011	Increase/ decrease	
Petrochemicals	68.2	64.0	-4.1	Olefins: sales decreased (price down) Organic chemicals: sales decreased (shipment volumes of ethyl acetate down)
Chemicals	33.9	31.6	-2.3	SDM* in Kawasaki plant from August to September AN: sales decreased (shipment volumes down, price down) Specialty gases, functional polymer materials: sales decreased (shipment volumes down)
Electronics	42.1	52.1	10.0	HDs: sales increased (shipment volumes up by the contribution of capacity expansion) Compound semiconductors: sales increased (shipment volumes of ultrabright LEDs up) Rare earth: sales increased (shipment volumes up; price up, reflecting higher raw material cost)
Inorganics	20.3	18.8	-1.5	Ceramics: sales decreased (shipment volumes down) Graphite electrodes: sales decreased (yen appreciation)
Aluminum	32.0	32.7	0.6	Heat exchangers: sales increased (shipment volumes up due to the production recovery in auto industry)
Others	38.6	36.7	-1.9	SHOKO Co., Ltd.: sales decreased (decrease in sales of plastics)
Adjustment	-11.5	-10.7	0.8	
Total	223.5	225.1	1.6	

(note) SDM: shutdown maintenance

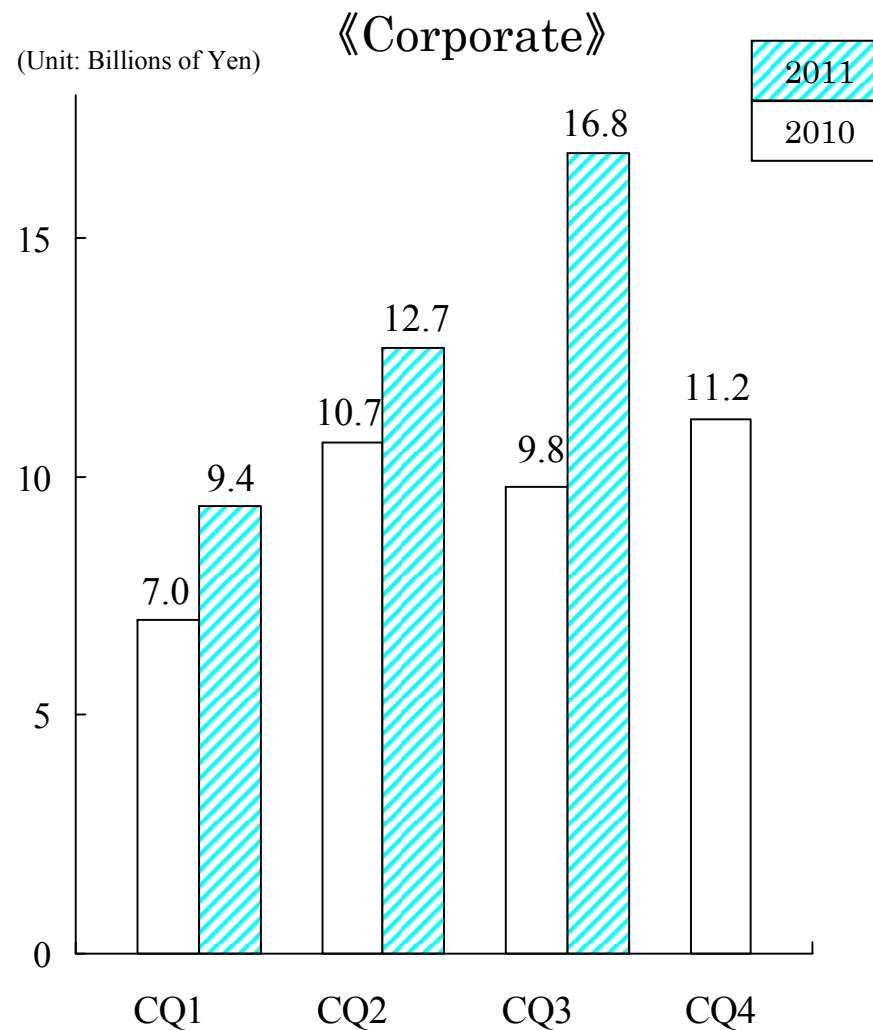
SHOWA DENKO (Reference) Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	CQ2 2011	CQ3 2011	Increase/ decrease	
Petrochemicals	2.0	1.0	-1.0	Olefins: profit decreased (worsening of the difference between procurement and consumption prices for raw materials)
Chemicals	1.1	-0.5	-1.6	SDM* in Kawasaki plant from August to September AN: profit decreased (shipment volumes down, price down) Industrial gases, functional polymer materials: profit decreased (shipment volumes down)
Electronics	5.4	12.5	7.1	HDs: profit increased (shipment volumes up by the contribution of capacity expansion) Rare earth: profit increased (shipment volumes up, price up)
Inorganics	3.2	2.5	-0.7	Ceramics: profit decreased (shipment volumes down) Graphite electrodes: profit decreased (yen appreciation)
Aluminum	2.0	2.4	0.4	Heat exchangers: profit increased (shipment volumes up due to the production recovery in auto industry)
Others	0.8	0.3	-0.5	SHOKO Co., Ltd.: profit decreased (decrease in profit of plastics)
Adjustment	-1.7	-1.4	0.3	
Total	12.7	16.8	4.0	

(note) SDM: shutdown maintenance

(Reference) Quarterly Operating Income

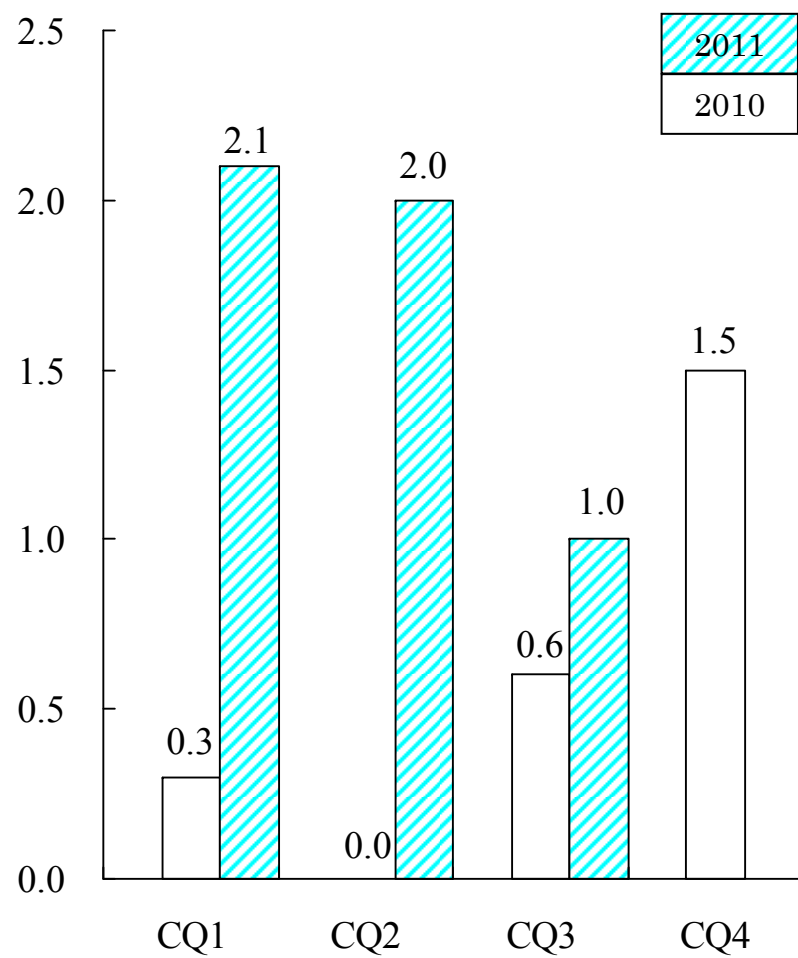


* As from the first quarter 2011, Showa Denko K.K. has changed the segment classification and the number of segments has increased from five to six. Segment figures for 2010 are reclassified in accordance with the new segmentation, for the reference purpose only.

(Reference) Quarterly Operating Income

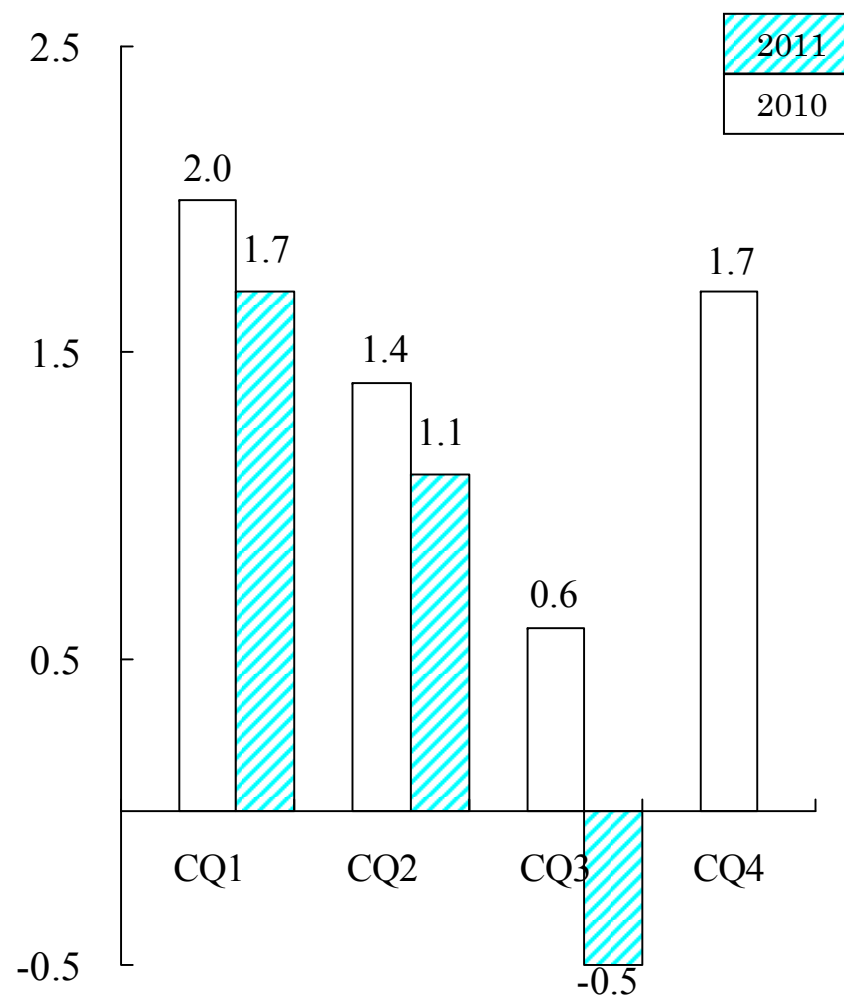
《Petrochemicals》

(Unit: Billions of Yen)



《Chemicals》

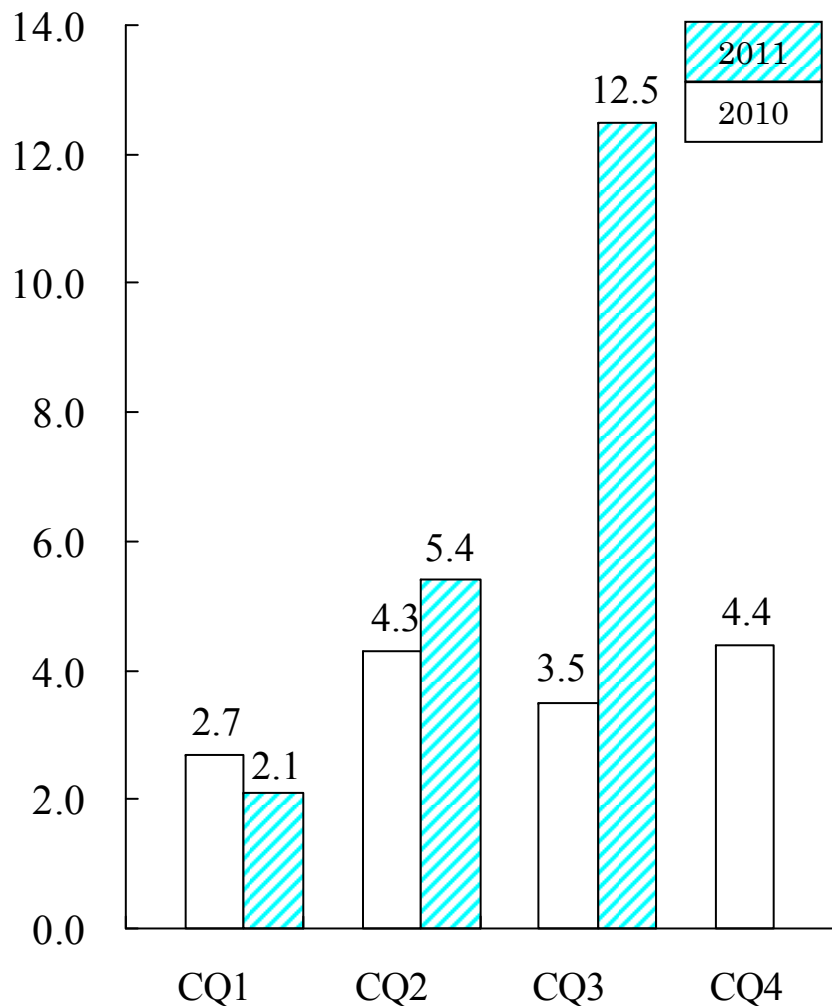
(Unit: Billions of Yen)



(Reference) Quarterly Operating Income

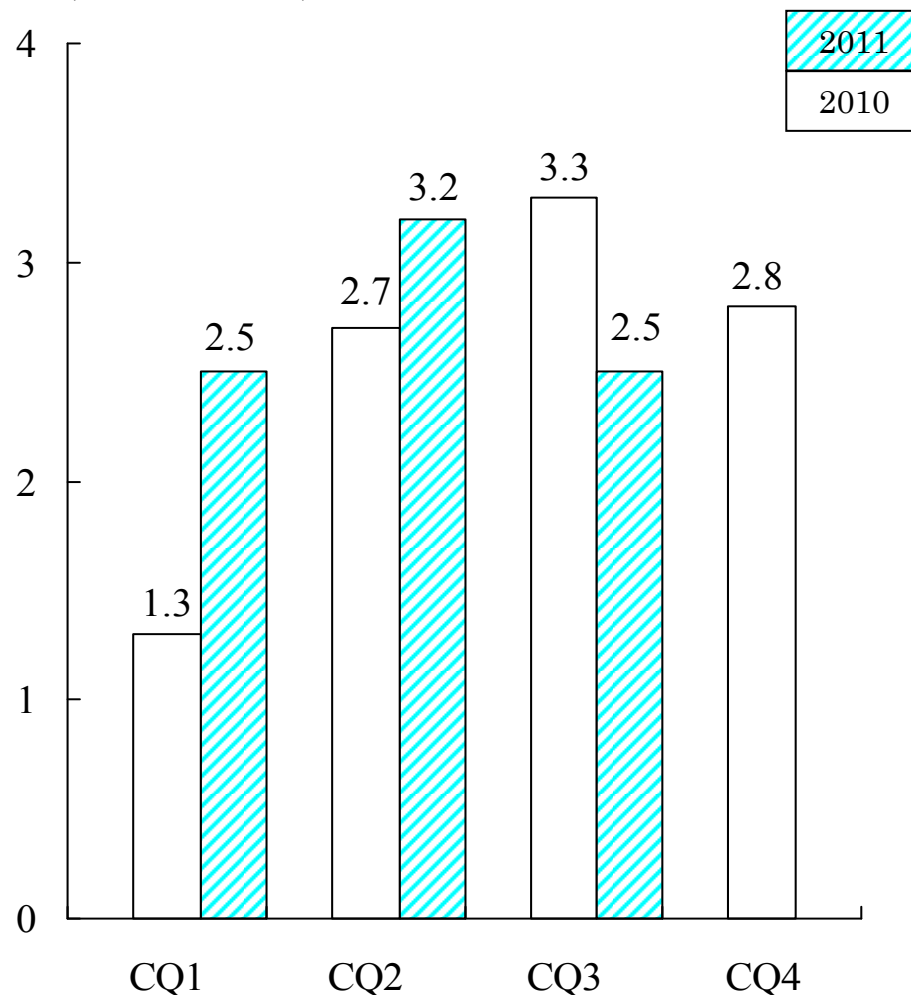
《Electronics》

(Unit: Billions of Yen)



《Inorganics》

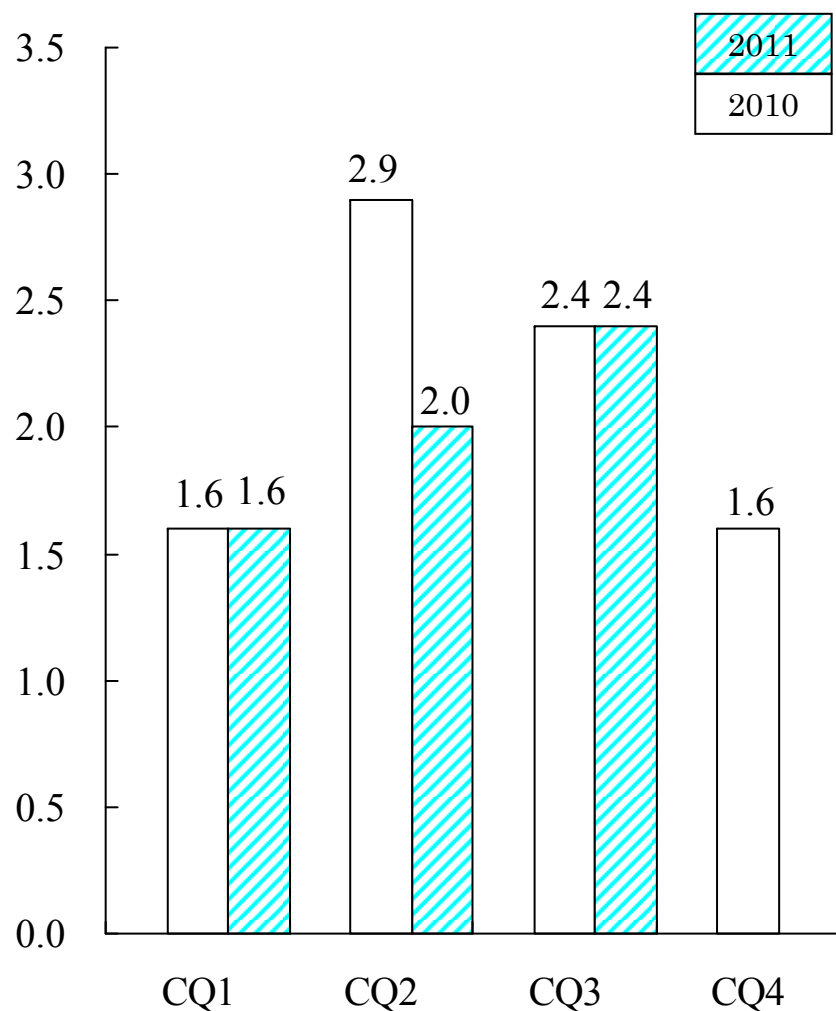
(Unit: Billions of Yen)



(Reference) Quarterly Operating Income

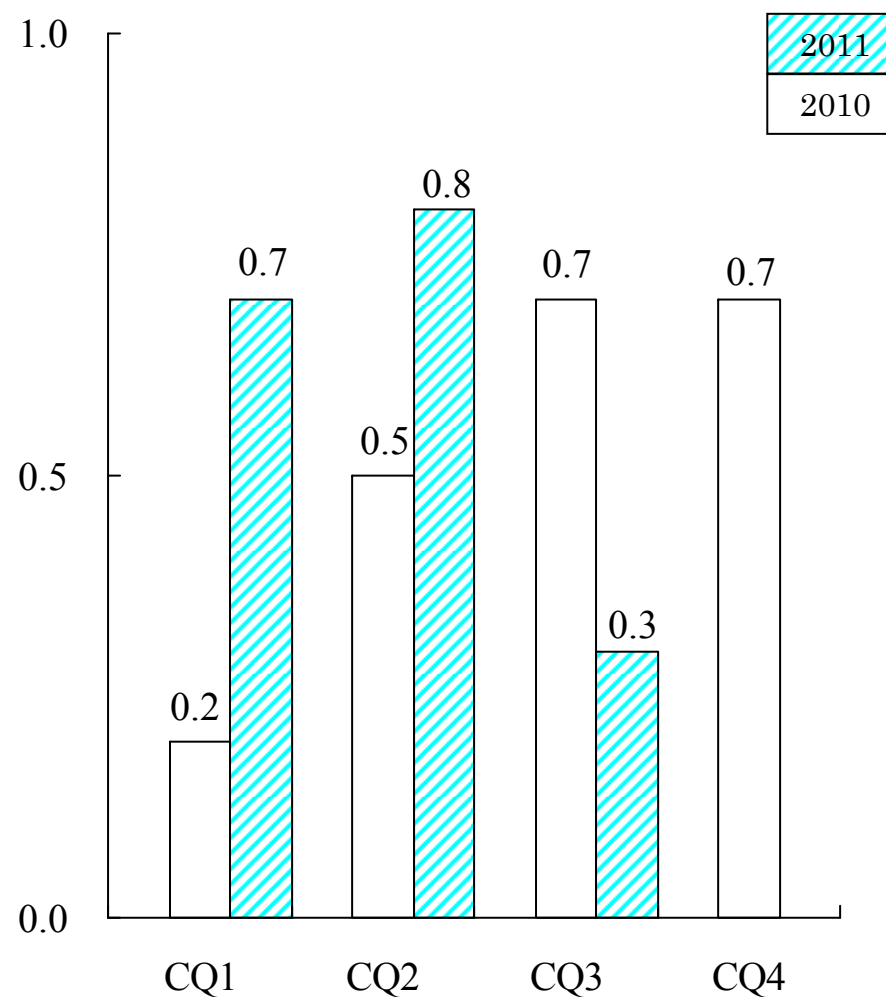
《Aluminum》

(Unit: Billions of Yen)



《Others》

(Unit: Billions of Yen)



■ Petrochemicals

● **Completion of a pilot plant for heat-resistant transparent film**

- ◆ In July, SDK completed a pilot plant for heat-resistant transparent film SHORAYAL™ within the premises of its Oita Complex, and started operations. SDK developed SHORAYAL™ based on its proprietary resin technology for glass lens applications. The film has high transparency necessary for optical films, and high heat resistance required at the time of production of displays, including touch screens.

■ Chemicals

● **Conclusion of agreement on transfer of industrial gas business**

- ◆ In October, SDK concluded an absorption-type split agreement for its industrial gas* business with its wholly owned subsidiary Showa Tansan Co., Ltd. (STK). This followed the decision SDK made in June to integrate its industrial gas business into that of STK effective January 1, 2012 through company split. On the same date, STK will change its name to “Showa Denko Gas Products Co., Ltd.”

*The Showa Denko Group’s industrial gas business covers air separation gases (oxygen, nitrogen, argon, etc.), compressed hydrogen, carbon dioxide and dry ice, etc.

Topics

■ Electronics

● **Launch of 2.5-inch 500 GB HD media**

- ◆ In July, SDK started commercial shipments of 2.5-inch HD media with storage capacity of 500 gigabytes per disk, using the sixth-generation perpendicular magnetic recording (PMR) technology. To the best of SDK's knowledge, its new 2.5-inch HD media had the world's highest storage capacity for this size available on the market as of August 3, 2011.

● **Completion of HD media production capacity expansion**

- ◆ SDK's total HD media production capacity has been increased to 27 million units a month since July this year, following the completion of capacity expansion at its subsidiary Showa Denko HD Singapore Pte. Ltd. Demand for hard disk drives will expand in the coming years for use in PCs and due to the growth of the servers market.

● **Expansion of rare earth magnetic alloy production capacity in China**

- ◆ In July, SDK increased rare earth magnetic alloy production capacity at its subsidiary Ganzhou Zhaori Rare Earth New Materials Co., Ltd., in Ganzhou, Jiangxi Province, China, from 2,000 tons per year to 3,000 tons per year. Together with another subsidiary in Baotou, Inner Mongolia, its rare earth magnetic alloy production capacity in China now amounts to 4,000 tons per year. The two subsidiaries in China are producing neodymium (Nd)-based alloys for high-performance magnets, which are used in motors for hybrid cars and voice coil motors of hard disk drives

Topics

■ Inorganics

● Completion of nanoparticle TiO₂ production capacity

- ◆ In August, SDK expanded the nanoparticle titanium-oxide production capacity at its subsidiary Showa Titanium Co., Ltd., to 240 tons a month, and started operations. The nanoparticle titanium-oxide product, sold under the trade name of Super-Titania™, is used in the production of multilayer ceramic capacitors (MLCCs). MLCCs are used mainly in light-weight electronic devices and in such energy-saving electric appliances as flat-panel TVs. Reflecting higher demand for these products, the MLCC market is continuing to grow.

■ Aluminum

● Decision to strengthen the high-purity aluminum foils business

- ◆ In August, SDK decided to expand its capacity to produce high-purity aluminum foils for electrolytic capacitors at Sakai Plant and establish a final processing site in China. As a result of the expansion, the Showa Denko Group's ability to provide high-purity aluminum foils will increase from 2,000 tons a month at present to 3,000 tons a month by the end of 2013. Aluminum electrolytic capacitors are now used widely in electric appliances, energy-saving devices for inverters, and IT equipment. Furthermore, demand will grow for such new applications as parts for electric vehicles and plug-in hybrid cars; and in the area of renewable energies, including wind energy and photovoltaic power generation. The expansion work will enable us to better meet the need for high-voltage aluminum electrolytic capacitors used in these new areas.

■ Aluminum

● Postponement of transfer of the business in heat exchangers for automotive air conditioners

- ◆ In August, SDK decided to split and transfer its automotive air-conditioner heat exchanger business to Keihin Corporation (Keihin) by establishing Thermal Technology Corporation as the succeeding company and transferring its shares to Keihin. SDK and its subsidiaries in U.S.A., Thailand, Czech and China are producing aluminum-based car air-conditioner condensers and evaporators. While the split and transfer was originally scheduled to take effect in October this year, it has been decided to postpone the effective date to January 2012 due to the delay in competition-law-based procedures in China.

■ Others

● Strengthening the LIB materials business

- ◆ SDK has decided to expand its production capacity for materials used in lithium-ion rechargeable batteries (LIBs), namely, artificial-graphite-based anode material (SCMGTM), and additive in anodes and cathodes (VGCFTM). It has also been decided that SDK's subsidiary Showa Denko Packaging Co., Ltd. will expand its production capacity for aluminum laminated films for LIB packaging. This is in response to the growing demand for large-sized LIBs for use in cars and storage batteries as well as for small-sized LIBs for use in smart phones and tablet-type devices. The production capacity will be increased from 1,000 t/y to 3,000 t/y for SCMGTM; from 100 t/y to 200 t/y for VGCFTM; and by 50% for aluminum laminated film, through debottlenecking and installment of new equipment. Some of the expanded facilities will start up at the end of this year, and the entire expansion work will be completed in the first half of next year.