

*We aim to establish ourselves as the “unique chemical company with individualized products.”*

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# First Half, 2008 Financial Results

## - Consolidated -

# SHOWA DENKO K.K.

August 8, 2008



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: 41

### ■ Newly consolidated: 4

- Showa Tansan Co., Ltd. (Chemicals)
- Shotan Shoji Kaisha Ltd. (Chemicals)
- Ganzhou Zhaori Rare Earth New Material Co., Ltd. (Electronics)
- Shoko Insurance Service Co., Ltd. (Aluminum)

### ■ Excluded from the consolidation: 1

- Kokusai Eisei Co., Ltd. (Sold, Chemicals)

## ■ Equity method applied: 20

### ■ Excluded :2

- Showa Tansan Co., Ltd. (Chemicals)
- Shotan Shoji Kaisha Ltd. (Chemicals)

## Major Selected Data

	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2008	Increase
■ Exchange rate: ¥/US\$	120.2	104.9	Yen strengthen by ¥15.3/\$
■ Domestic naphtha price: ¥/kl	53,300	68,800	+15,500
■ Aluminum LME price: US\$/T	2,773	2,887	+114

Exchange rate at December 31, 07 ¥/US\$114.2, at June 30, 08 ¥/US\$106.4  
 ⇒ Yen strengthened by 7.8¥/US\$

# Summary

(Unit: Billions of Yen)

	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2008	Increase	
Net Sales	485.1	510.8	25.7	5.3%
Operating Income [Ratio to net sales]	35.0 7.2%	24.6 4.8%	-10.3 -2.4 point	-29.5%
Interest/Dividend income less interest expenses	-3.1	-2.9	0.2	
Equity Method	1.4	0.2	-1.1	
Currency exchange gain (loss)	0.8	-3.1	-3.9	
New HD media factory start-up cost	-3.5	-	3.5	
Ordinary Income	27.1	18.0	-9.0	-33.4%
Extraordinary Profit	3.0	4.3	1.3	
Extraordinary Loss	-4.5	-4.6	-0.0	
Net Income before taxes	25.6	17.8	-7.7	
Corporate Taxes	-9.4	-5.7	3.7	
Minority Interests	-1.1	-0.3	0.7	
Net Income	15.1	11.7	-3.3	-22.2%

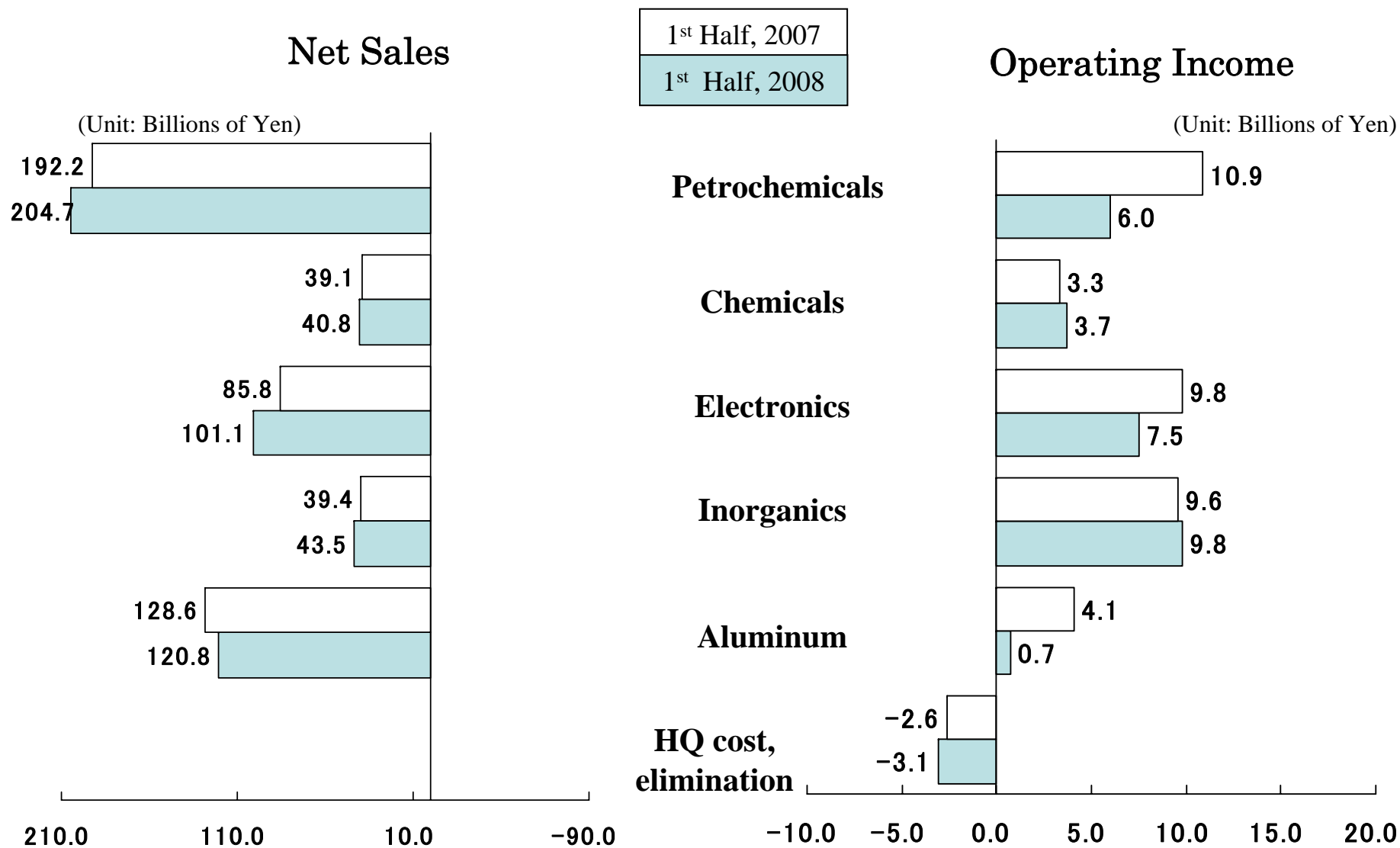
※Note: As to 1<sup>st</sup> half 2008, increase in depreciation expenses, following the tax system revision, was 2.5 billion yen.

# Extraordinary Profit/Loss

(Unit: Billions of Yen)

	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2008	Increase
<b>■ Extraordinary Profit</b>	3.0	4.3	1.3
<ul style="list-style-type: none"> <li>● Gain on the sale of investment securities</li> <li>● Gain on fixed assets sold</li> <li>● Other</li> </ul>	1.2 0.4 1.4	1.8 0.7 1.9	0.6 0.3 0.5
<b>■ Extraordinary Loss</b>	-4.5	-4.6	-0.0
<ul style="list-style-type: none"> <li>● Loss on fixed assets sold or retired</li> <li>● Loss on impairment of fixed assets</li> <li>● Other</li> </ul>	-2.7 -0.4 -1.4	-2.4 - -2.2	0.3 0.4 -0.7
<b>■ Extraordinary Profit/Loss, Net</b>	-1.5	-0.2	1.3

# Sales and Operating Income by Segment



# Consolidated Sales by Segment

(Unit: Billions of Yen)

	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2008	Increase	Increase by Business
Petrochemicals	192.2	204.7	12.5	Olefins: price up. Organic chemicals: shipment volume of acetic acid decreased
Chemicals	39.1	40.8	1.6	AN· chloroprene rubber : shipment volume increased, price up Ammonia : price up. Industrial gases, Amino acids, agrochemicals : shipment volume increased
Electronics	85.8	101.1	15.3	HDs: shipment volume increased as a result of capacity expansions. Compound semiconductors: sales increased due to ultrabright LEDs start up. Specialty gases: maintained at the year-earlier level Rare earth: shipment volume increased, price up
Inorganics	39.4	43.5	4.1	Ceramics: sales slightly increased Carbons: Sales increased. (mainly export steady)
Aluminum	128.6	120.8	-7.8	Aluminum Ingots: shipment volume decreased Rolled products: shipment volume decreased as a result of our withdrawal from the commodity foils; the shipment volume of high-purity foils for capacitors was steady. Extrusions/ specialty products: commodity extrusions shipment volume decreased due to weaker demand for construction material applications. Heat exchangers: sales slightly increased .(North America decreased, Japan maintained at the year-earlier level and Europe increased) <i>Shotic</i> , Aluminum cans: sales volume decreased.
Total	485.1	510.8	25.7	

## Consolidated Operating Income by Segment

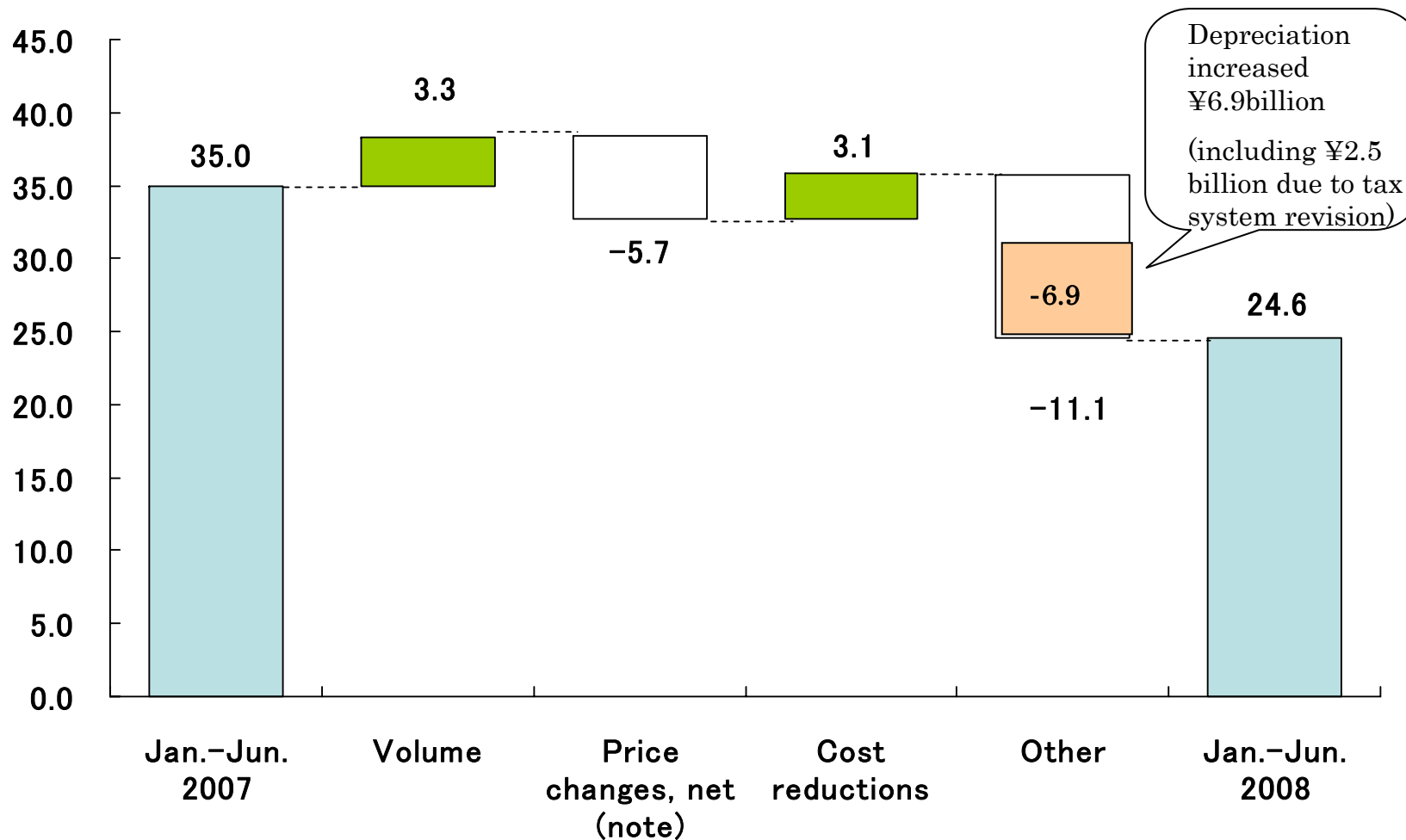
(Unit: Billions of Yen)

	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2008	Increase	Increase by business
Petrochemicals	10.9	6.0	-4.9	Olefins: export margins squeezed. Organic: higher cost of methanol and weaker market price for acetic acid .
Chemicals	3.3	3.7	0.4	Caustic soda: Price up Amino acid, agrochemicals : shipment volumes increased. AN, chloroprene rubber : maintained at the year-earlier level
Electronics	9.8	7.5	-2.3	HDs: Increased depreciation expenses due to the expansion of HD media production capacity. Yen appreciation. Compound semiconductors: fall in shipment volume of commodity LEDs, ultrabright LED development cost increased. Specialty gases: Yen appreciation (export for semiconductor processing) Rare earth: shipment volume increased, price up
Inorganics	9.6	9.8	0.3	Ceramics: profit decreased due to soaring fuel/raw material costs. Graphite electrode: tight supply continued in export markets
Aluminum	4.1	0.7	-3.4	Rolled products: operating income increased due to increasing shipment volumes for high-purity foils for capacitors. Extrusions/ specialty products: commodity extrusions profit decreased due to lower shipment volumes, fuel cost up. <i>Shotic</i> , Heat exchangers: lower shipment volumes for automobiles. Power generation business as an independent power provider: profit decreased due to time lag in raising prices in response to higher fuel cost. Aluminum cans: Shipment volumes decreased.
HQ costs, elimination	-2.6	-3.1	-0.4	
Total	35.0	24.6	-10.3	



# Operating Income Breakdown by Factor

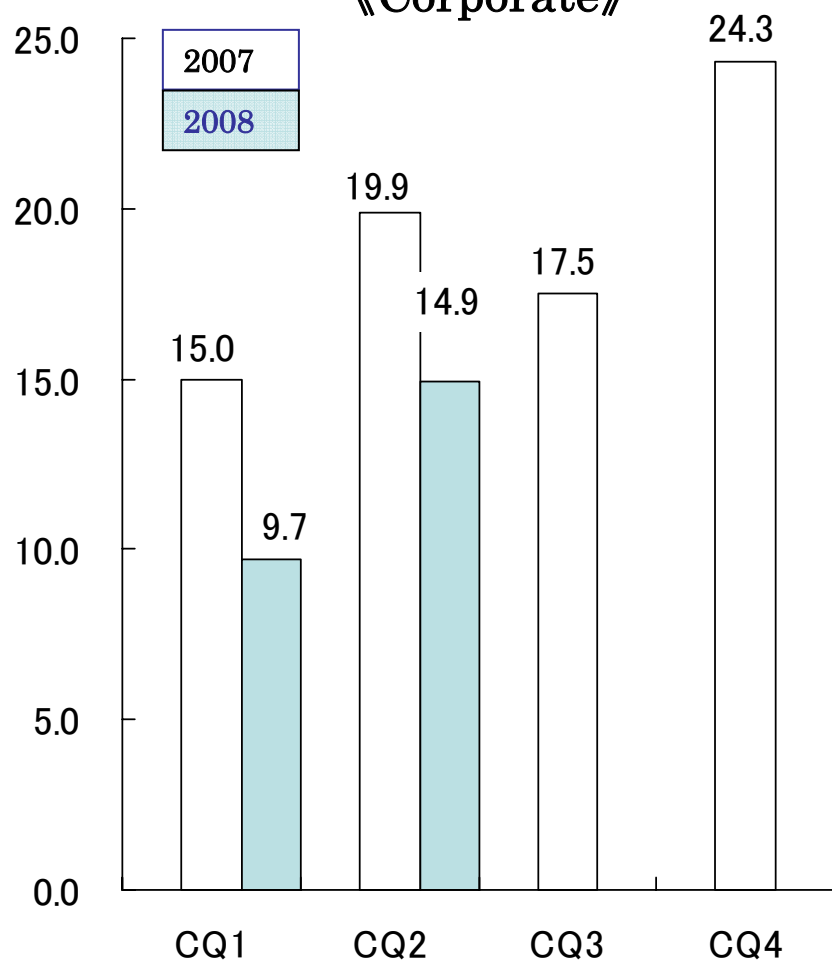
(Unit: Billions of Yen)



# Reference: Operating Income (Quarterly)

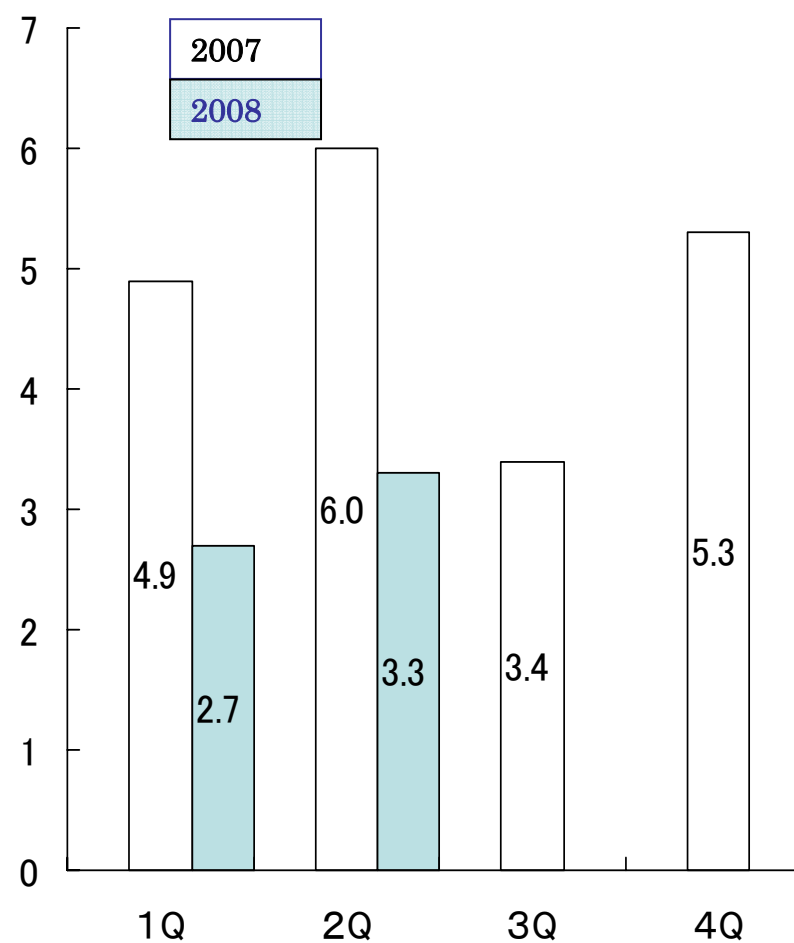
(Unit: Billions of Yen)

## 《Corporate》

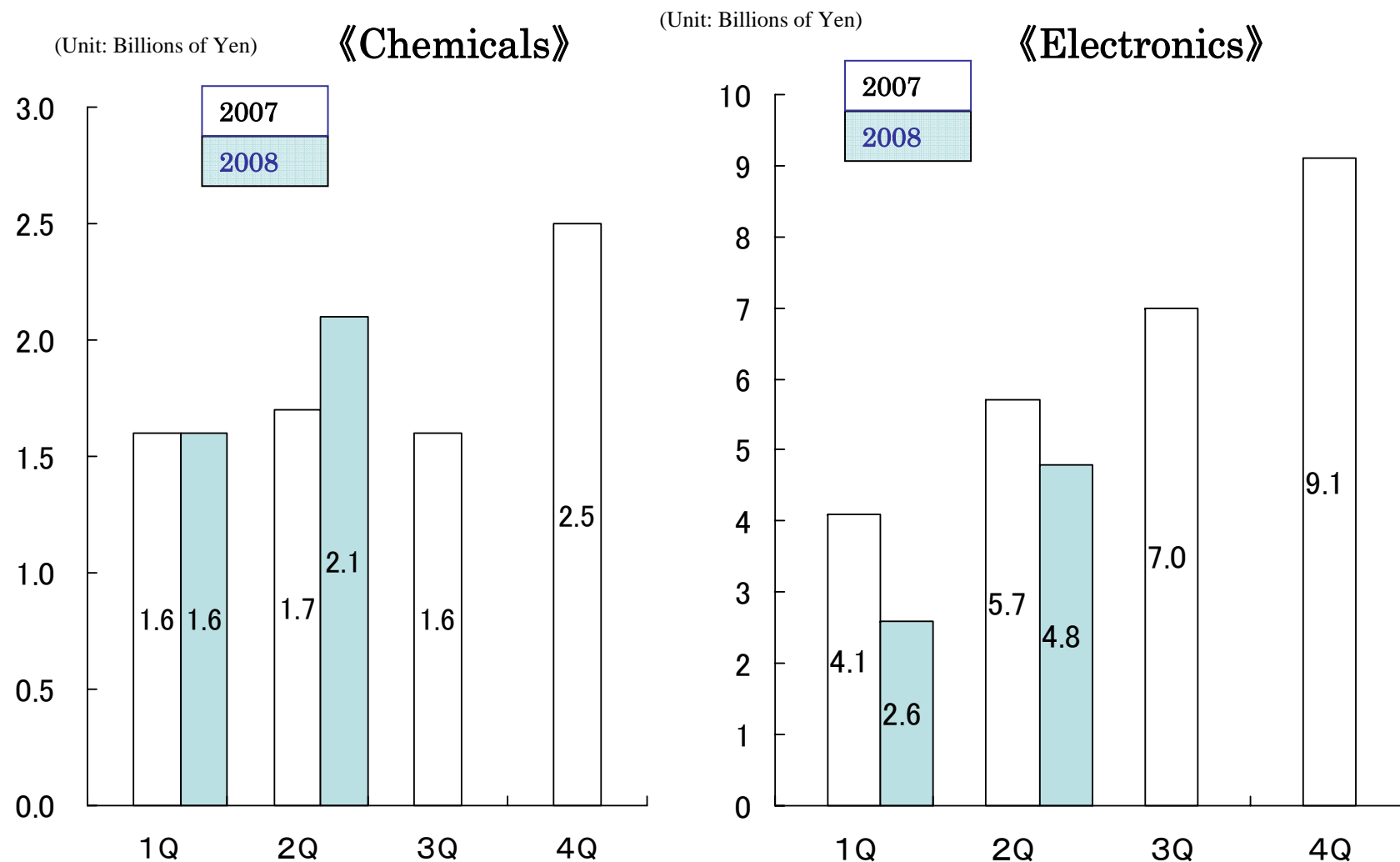


(Unit: Billions of Yen)

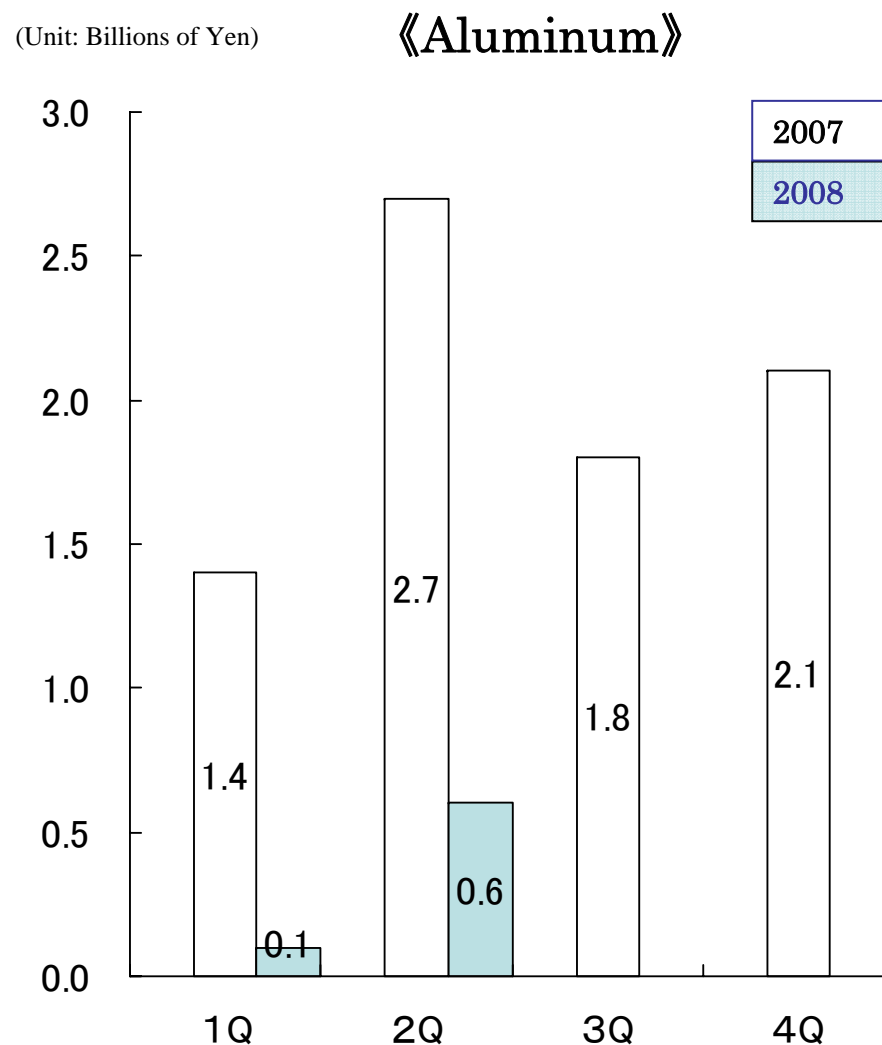
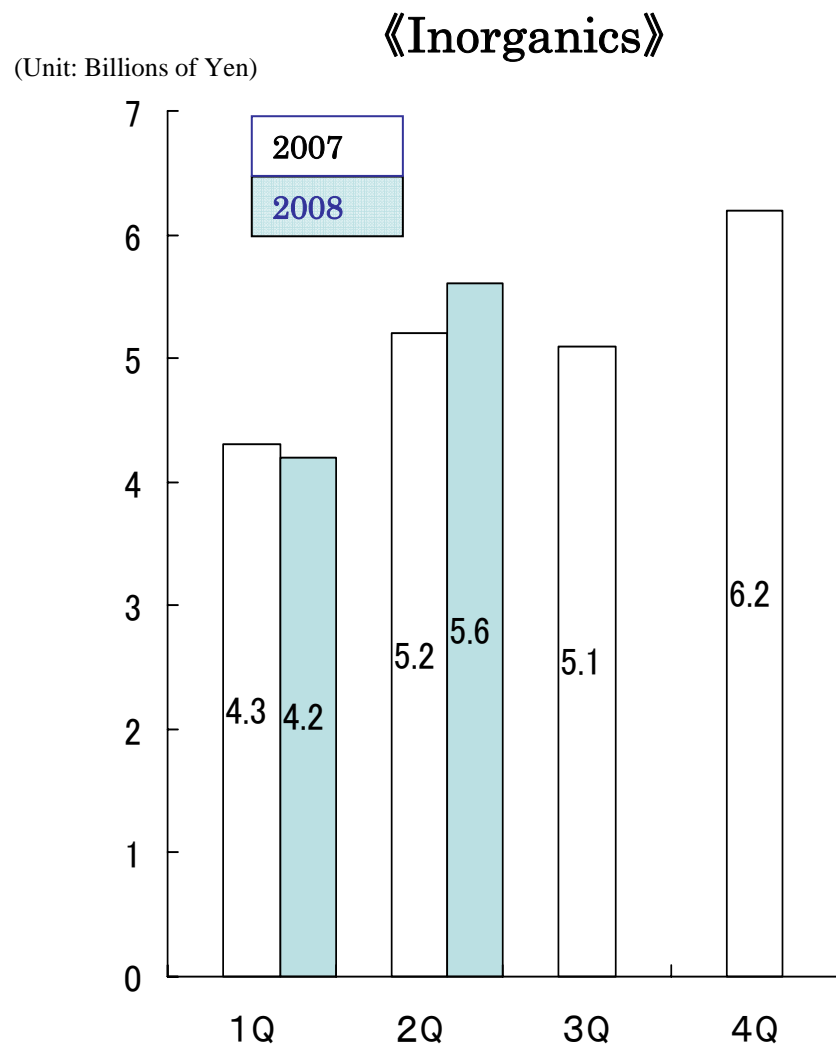
## 《Petrochemicals》



# Reference: Operating Income (Quarterly)



# Reference: Operating Income (Quarterly)



# Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Dec. 31, 2007	Jun. 30, 2008	Increase	Liabilities and Stockholders' Equity	Dec. 31, 2007	Jun. 30, 2008	Increase
Cash and deposits	31.9	21.9	-10.0	Accounts payable	168.6	145.4	-23.2
Accounts receivable	177.6	166.2	-11.4	Interest-bearing debt	395.6	404.1	8.4
Inventories	109.3	123.7	14.3	Deferred tax liabilities due to land revaluation	46.5	47.1	0.5
Deferred tax assets	3.2	2.3	-1.0	Accrued pension and severance costs	31.2	30.1	-1.1
Other current assets	26.3	29.8	3.5	Other liabilities	89.0	83.5	-5.5
<u>Current Assets</u>	<u>348.4</u>	<u>343.8</u>	<u>-4.6</u>	<u>Total Liabilities</u>	<u>731.0</u>	<u>710.1</u>	<u>-20.9</u>
Buildings and structures	101.1	100.2	-1.0	Common stock	121.9	121.9	-
Machinery and equipment	169.2	165.7	-3.5	Capital surplus	37.9	38.0	0.1
Land	260.6	260.0	-0.6	Retained earnings	75.9	81.3	5.5
Other tangible fixed assets	28.4	28.7	0.3	Treasury stock	-0.2	-0.2	0.0
<u>Tangible Fixed Assets</u>	<u>559.3</u>	<u>554.6</u>	<u>-4.7</u>	<u>Total Stockholders' equity</u>	<u>235.5</u>	<u>241.0</u>	<u>5.5</u>
Intangible Fixed Assets	15.1	14.4	-0.7	Securities valuation surplus	16.1	14.1	-2.0
Investments and other assets	106.8	104.0	-2.9	Foreign currency translation adjustment • Deferred hedge gains	2.2	2.3	0.1
Incl. Investment securities	86.8	83.5	-3.3	Revaluation surplus –Land	23.7	23.4	-0.2
Deferred tax assets	7.5	8.2	0.7	<u>Total valuations and adjustments</u>	<u>41.9</u>	<u>39.8</u>	<u>-2.1</u>
				Minority Interest	21.3	25.9	4.6
<u>Total fixed assets</u>	<u>681.3</u>	<u>673.0</u>	<u>-8.3</u>	Total equity	<u>298.7</u>	<u>306.6</u>	8.0
<b>Total Assets</b>	<b>1,029.6</b>	<b>1,016.7</b>	<b>-12.9</b>	<b>Total liabilities and equity</b>	<b>1,029.6</b>	<b>1,016.7</b>	<b>-12.9</b>

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

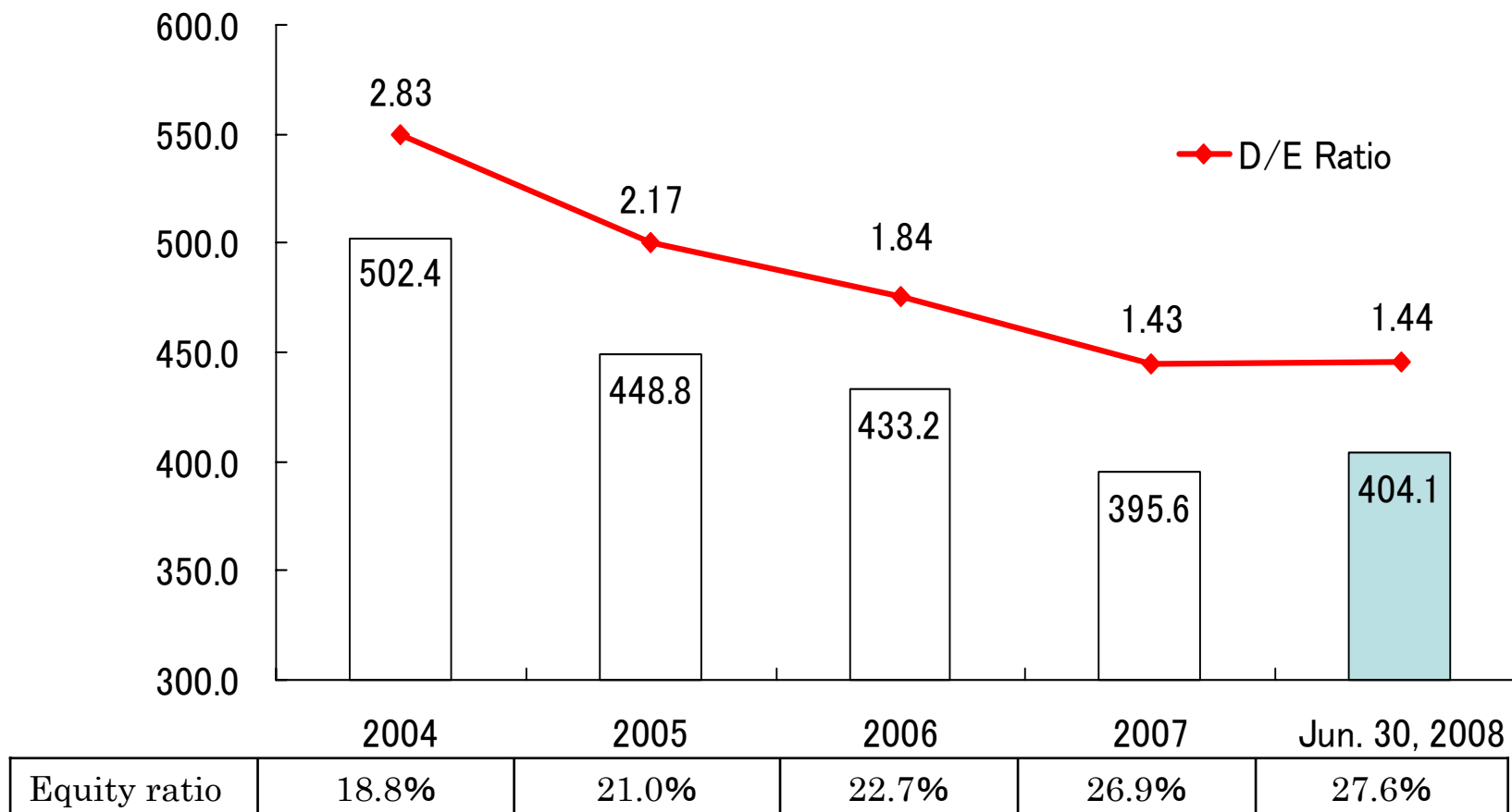
(Unit: Billions of Yen, times, %)

	Dec.31 2007	Jun.30 2008	Increase/ decrease
● <b>Total assets</b>	1,029.6	1,016.7	-12.9
● <b>Interest-bearing debt</b>	395.6	404.1	8.4
● <b>Debt/Equity ratio</b>	1.43times	1.44times	0.01p
● <b>Stockholders' Equity ratio</b>	26.9%	27.6%	0.7p

# Interest-bearing Debt

2004 – Jun. 30, 2008

(Unit: Billions of Yen)



# Consolidated Cash Flow

(Unit: Billions of Yen)

	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2008	Increase
● CF from Operating Activities	20.1	12.5	-7.5
● CF from Investing Activities	-32.5	-24.4	8.2
● Free CF	-12.5	-11.9	0.6
● CF from Financing Activities	-14.1	1.7	15.8
● Other	0.6	0.1	-0.5
● Increase, Decrease of cash and equivalent	-26.0	-10.0	16.0



## Selected Data (Consolidated)

(Unit: Billions of Yen)

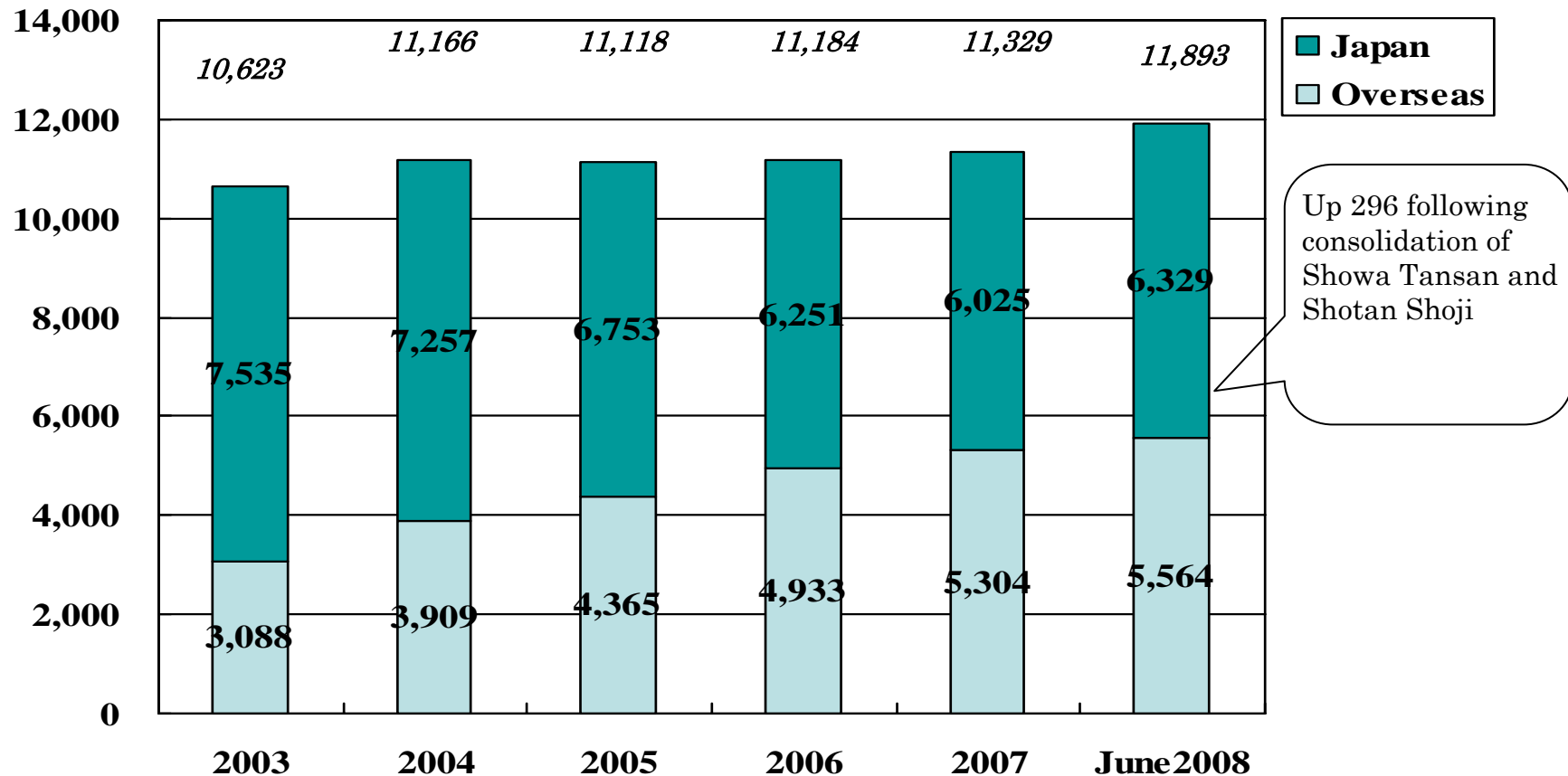
	1 <sup>st</sup> Half 2007	1 <sup>st</sup> Half 2008	Increase
● Interest/dividend income less interest expenses	-3.1	-2.9	0.2
● Capital expenditures	42.8	25.9	-16.9
● Depreciation and amortization	22.4	29.3	6.9
● R&D expenditures	9.4	9.3	-0.1
● Number of employees	11,321	11,893	572
● Total employment cost	37.1	38.1	1.0

# Capital expenditures/ Depreciation by Segment

(Unit: Billions of Yen)

	1 <sup>st</sup> Half 2007		1 <sup>st</sup> Half 2008		Increase		Depreciation cost increase due to planned changes in tax systems in 2008.
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation	
Petrochemicals	3.1	2.9	4.5	3.3	1.3	0.4	0.6
Chemicals	2.5	2.5	2.9	3.1	0.4	0.6	0.5
Electronics	30.3	11.5	12.4	16.6	-17.9	5.1	0.4
Inorganics	1.9	1.3	1.3	1.5	-0.7	0.2	0.3
Aluminum	5.1	4.3	4.9	4.8	-0.1	0.6	0.7
Total	42.8	22.4	25.9	29.3	-16.9	6.9	2.5

# Total number of employees and breakdown by location



Japan	70.9%	65.0%	60.7%	55.9%	53.2%	53.2%
Overseas	29.1%	35.0%	39.3%	44.1%	46.8%	46.8%

# Forecast for 2008

(Unit: Billions of Yen)

	2008 Forecast announced on Feb7, 2008	2008 Forecast announced on Aug 7, 2008	Increase	2007
Net Sales	1,110.0	1,120.0	10.0	1,023.2
Operating Income	79.0	59.0	-20.0	76.7
Interest/Dividend income less interest expenses	-8.4	-6.7	1.7	-6.8
Ordinary Income	63.5	46.5	-17.0	60.0
Extraordinary Profit/Loss, net	-7.5	-1.7	5.8	-3.7
Net Income	35.5	28.0	-7.5	33.1
Net income per share	¥28.45	¥22.44	¥-6.01	¥27.52
Cash dividends per share	¥6.0	¥ 6.0	-	¥5.0

Note: As to the forecast for 2008, it is assumed that increases in depreciation expenses, following the tax system revision, will cause operating income to decrease 5.4 billion.

# Net Sales by Segment Forecast for 2008

(Unit: Billions of Yen)

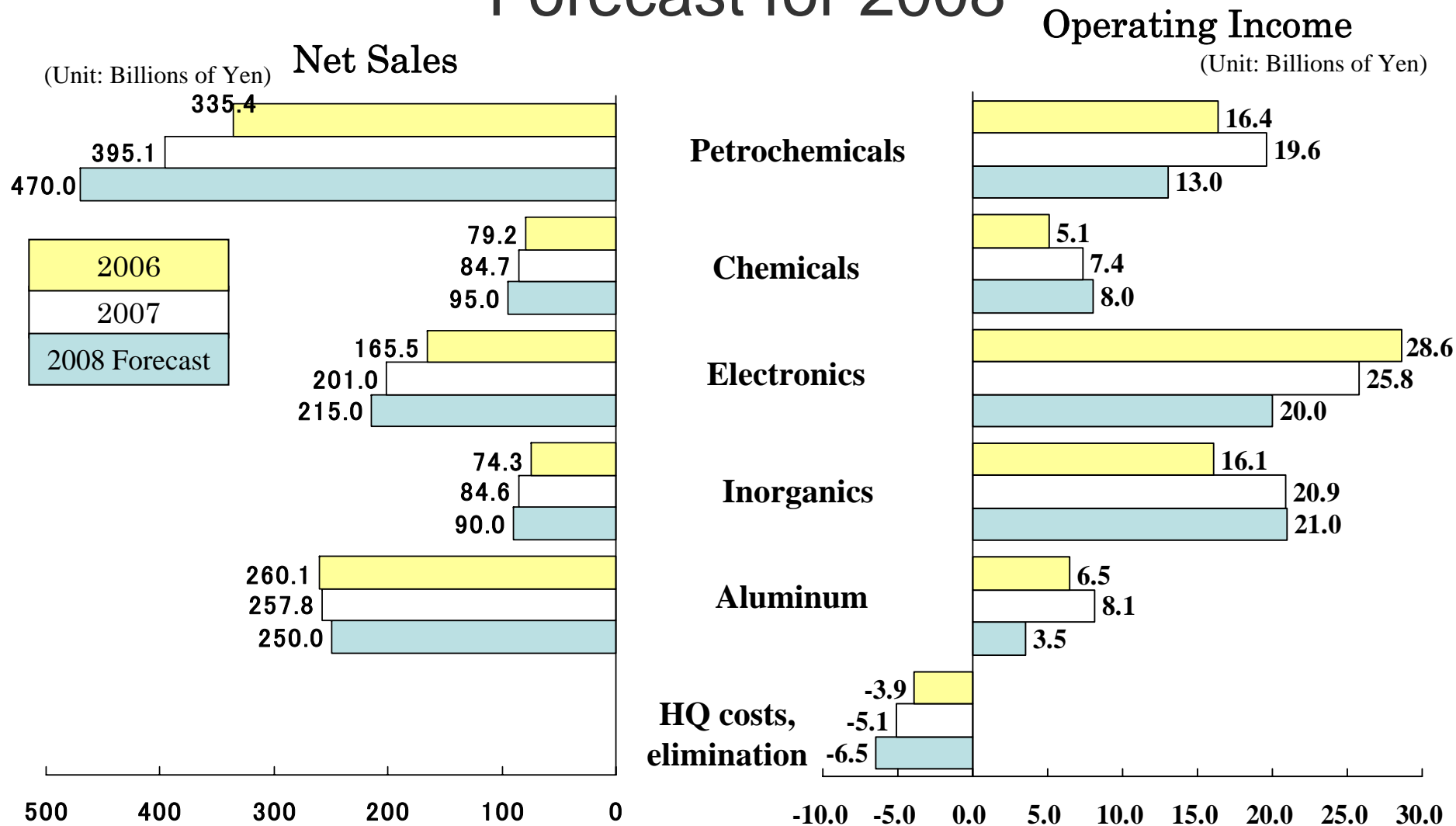
	2008 Forecast announced on Feb 7, 2008	2008 Forecast announced on Aug 7, 2008	Increase	2007
Petrochemicals	420.0	470.0	50.0	395.1
Chemicals	85.0	95.0	10.0	84.7
Electronics	265.0	215.0	-50.0	201.0
Inorganics	85.0	90.0	5.0	84.6
Aluminum	255.0	250.0	-5.0	257.8
Total	1,110.0	1,120.0	10.0	1,023.2

# Operating Income by Segment Forecast for 2007

(Unit: Billions of Yen)

	2008 Forecast announced on Feb 7, 2008	2008 Forecast announced on Aug 7, 2008	Increase	2007
Petrochemicals	15.0	13.0	-2.0	19.6
Chemicals	7.5	8.0	0.5	7.4
Electronics	33.0	20.0	-13.0	25.8
Inorganics	21.0	21.0	0.0	20.9
Aluminum	8.5	3.5	-5.0	8.0
HQ cost, elimination	-6.0	-6.5	-0.5	-5.1
Total	79.0	59.0	-20.0	76.7

# Sales and Operating Income Forecast for 2008



## Selected Data, Forecast

	1 <sup>st</sup> Half 2008	2 <sup>nd</sup> Half 2008 forecast	Increase	Initial forecast
● Exchange rate: ¥/US\$	105	105	0	110
● Domestic naphtha price: ¥/kl	68,800	85,800	17,000	63,000
● Aluminum LME price: US\$/T	2,887	2,600	-287	2,600

(Unit: Billions of Yen)

	2007	2008 Forecast	Increase	Initial forecast
● Interest-bearing debt	395.6	400.0	4.4	400.0
● Interest/dividend income less interest expenses	-6.8	-6.7	0.1	-8.4
● R&D expenditures	17.4	20.8	3.4	21.1
● Number of employees	11,329	11,933	604	11,551
● Total employment cost	74.2	78.0	3.8	76.5



# Capital expenditures/ Depreciation by Segment Forecast for 2008

(Unit: Billions of Yen)

	2007		2008 Forecast		Increase		Initial forecast		Expected depreciation cost increase due to planned changes in tax systems in 2008.
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation	
Petrochemicals	5.6	5.7	6.2	6.4	0.6	0.7	4.4	6.8	1.3
Chemicals	5.1	5.0	9.0	6.9	4.0	1.9	9.4	6.6	1.0
Electronics	44.4	27.7	33.0	35.0	-11.4	7.3	51.9	37.4	1.0
Inorganics	3.7	2.8	3.5	3.2	-0.3	0.4	4.3	3.4	0.6
Aluminum	10.6	8.6	12.0	10.3	1.4	1.7	12.2	11.3	1.4
Total	69.3	49.8	63.7	61.9	-5.7	12.2	82.2	65.6	5.4

# Topics

## ■ Petrochemicals

### ● **Expansion of allyl alcohol production capacity at Oita**

- ◆ In May, SDK completed the expansion of its allyl alcohol production capacity at Oita Petrochemical Complex, raising the capacity from 56,000 tons a year to 70,000 tons a year. Allyl alcohol is used as raw material for perfume, pharmaceutical intermediates and allyl ester resin (for use in spectacle lenses).

## ■ Chemicals

### ● **Sale of shares in Kokusai Eisei**

- ◆ In March, SDK sold 90% of the shares it owned in its wholly owned consolidated subsidiary Kokusai Eisei Co., Ltd., to Iwatani International Corporation.

# Topics

## ■ Chemicals

### ● Installation of GHG decomposition unit

◆ In June, SDK decided to install a greenhouse gas (GHG) decomposition unit at its Kawasaki site for start-up in March 2009. The installation of the unit will enable the Showa Denko Group to reduce GHG emissions by 6% in compliance with the Kyoto Protocol without relying on emission trading.

### ● Tender offer for Showa Tansan's common stock

◆ In June, SDK changed the status of Showa Tansan Co., Ltd. from an affiliate, to which the equity method was applied, to a consolidated subsidiary by increasing its ownership of Showa Tansan's shares through a tender offer.

# Topics

## ■ Chemicals

### ● **Expansion of chloroprene rubber production capacity**

- ◆ SDK has decided to expand its chloroprene rubber production capacity at its Kawasaki site from 20,000 tons a year to 23,000 tons a year. The construction work began in July, for completion in September this year. Demand for chloroprene rubber is steadily increasing for use in automotive parts and many other applications owing to the material's high resistance to oils, heat and weather as well as its high flame retardance.

## ■ Electronics

### ● **Launch of the world's first 1.3-inch HD media**

- ◆ In January, the Company began commercial shipments of 1.3-inch HD media with storage capacity of 40 gigabytes per disk. The product had, in our estimate, the world's highest storage capacity for this size available on the market as of the end of July this year. The product will help produce light-weight hard disk drives with lower electricity consumption and higher resistance to shock.

# Topics

## ■ Electronics

### ● **Launch of 80 lm/W AlGaInP ultrabright red LED chips**

- ◆ In May, the Company started commercial shipment of AlGaInP ultrabright red LED chips with luminous efficiency of 80 lumen per watt, representing a 40% improvement over the Company's existing grade. To the best of our knowledge, the product had the world's highest luminous efficiency for this type available on the market as of May this year. AlGaInP ultrabright LED chips are now used mainly in outdoor displays. However, new applications are being developed, including automotive parts (rear lights, interior lighting) and LCD backlighting for flat-panel TVs.

## ■ Inorganics

### ● **Graphite electrode production capacity expansion**

- ◆ In the graphite electrode business, the SDK Group has maximized production/distribution efficiency at the two production bases—one each in Japan and the United States. The Group has also established technical advantages, as demonstrated by its position as the first company to produce the world's largest 32-inch-diameter graphite electrodes. Showa Denko Carbon, Inc. (SDKC), our consolidated subsidiary in the U.S., has been leading the industry in production efficiency, providing high-quality graphite electrodes in a large amount. SDKC has recently completed a series of debottlenecking, expanding its capacity to 45,000 tons a year (up 5,000 tons a year). As a result, the Group's total graphite electrode production capacity has reached 105,000 tons a year.

# Topics

## ■ Aluminum and other

### ● High-purity aluminum foil production capacity expansion

◆ In January, our subsidiary Showa Denko Sakai Aluminum K.K. (SSK) completed a new line for refining aluminum slabs. With the completion, SSK's high-purity foil production capacity was expanded from 1,500 tons a month to more than 1,800 tons a month. High-purity aluminum foils are used in the production of electrolytic capacitors, whose demand has increased substantially in recent years for use in high-performance electric appliances, such as flat-panel TVs, and automotive parts. We are the leading supplier of high-purity aluminum foils in Japan and overseas markets. We will continue to meet customer expectations through further capacity expansion in a timely manner and the provision of high-quality products.

### ● Environment-friendly pipes made from recycled PET bottles

◆ In June, *Showa Ecopipe*<sup>TM</sup>, a drainage/ventilation pipe produced and marketed by our subsidiary Showa Denko Kenzai K.K. using recycled PET bottles, was adopted commercially for the first time in a condominium. Compared with existing hard PVC pipes, *Showa Ecopipe*<sup>TM</sup> needs only one-third energy-input for production, contributing to the reduction in CO<sub>2</sub> emissions. Also, *Showa Ecopipe*<sup>TM</sup> does not emit chlorine-based toxic gases at the time of incineration. Thus, *Showa Ecopipe*<sup>TM</sup> has been certified as "Eco Mark product" by the Japan Environment Association.

# Topics

## ■ Aluminum and other

### ● New aluminum melting furnace at Oyama

- ◆ In June, SDK completed the modernization work of aluminum casting facilities at its Oyama Plant, installing new melting furnaces with the capacity of producing 60,000 tons of billets a year. The modernization is intended as a measure to ensure the delivery of high-quality fabricated aluminum products to customers.