

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

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# 3rd Quarter, 2008 Financial Results

## - Consolidated -

# SHOWA DENKO K.K.

November 6, 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 applied, Excluded: none

※As for Showa Tansan Co.,Ltd and Shotan Shoji Kaisha Ltd consolidated in June 2008, their results are included in the balance sheet as from the end of June 2008 and in the statement of income as from the third quarter 2008.

### ■ Equity method applied: 20

#### ■ Newly applied, Excluded: none

## Exchange rates, Naphtha & Aluminum Prices

	July-Sept. 2007	July-Sept. 2008	Increase
■ Exchange rate (yen/US\$)	117.9	107.7	The Yen strong by 10.2yen
■ Naphtha (domestic)	59,700yen/KL	85,800yen/KL	+26,100yen
■ Aluminum (LME)	US\$2,605.6/T	US\$2,838.9/T	+US\$233.3

Exchange rate at June 30, 08 ¥/US\$106.4,      September 30, 08 ¥/US\$103.6

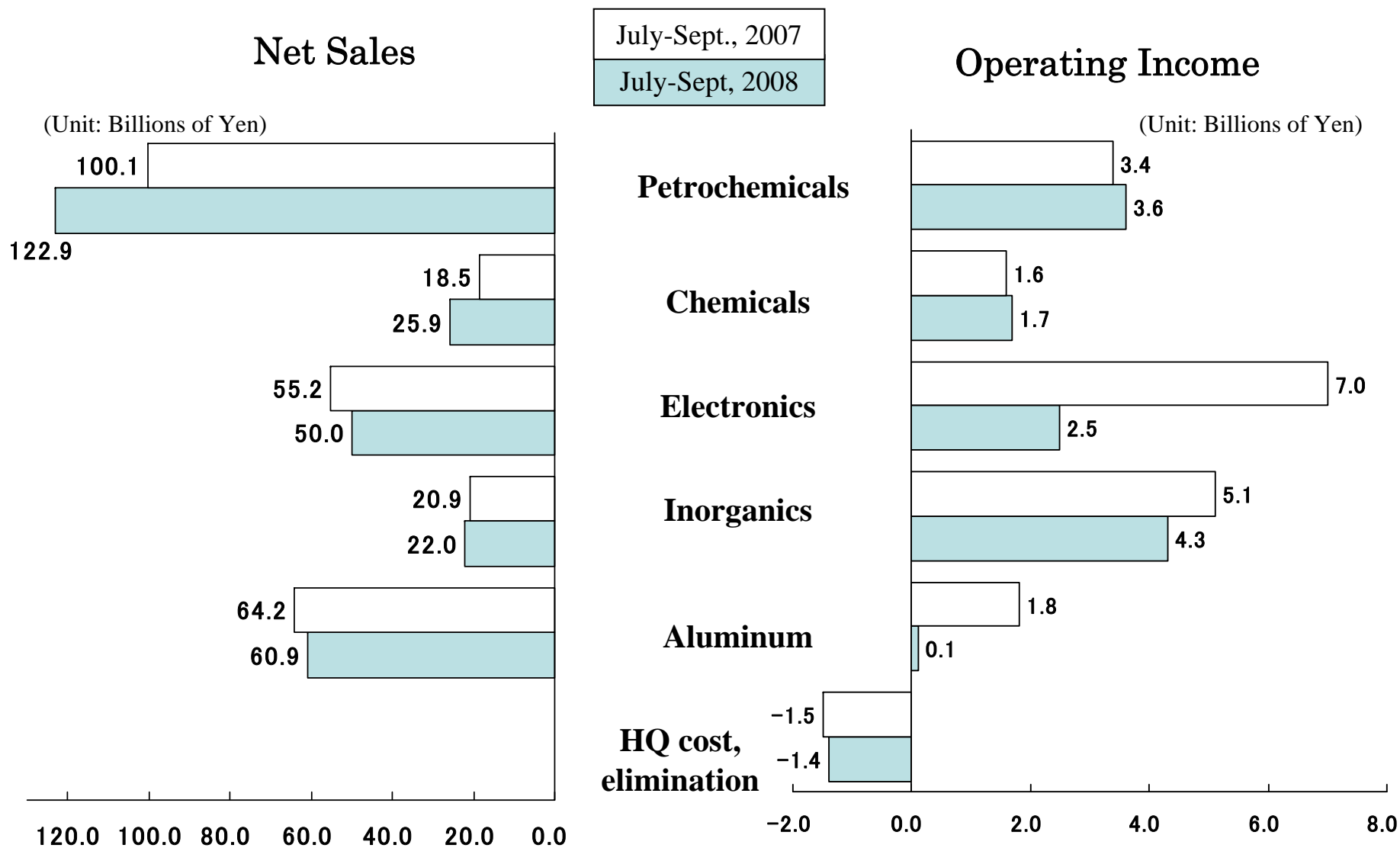
⇒ Yen strengthened by 2.8¥/US\$

# July-Sept. 2008 Summary

(Unit: Billions of Yen)

	July-Sept. 2007	July-Sept. 2008	Increase	
Net Sales	258.9	281.7	22.8	8.8%
Operating Income	17.5	10.8	-6.7	-38.4%
[Ratio to net sales]	6.7%	3.8%	-2.9 point	
Interest/Dividend income less interest expenses	-2.2	-1.8	0.3	
Equity method	0.3	-0.3	-0.6	
Currency exchange gain (loss)	-1.5	0.1	1.5	
other	-2.1	-1.3	0.8	
Ordinary Income	12.1	7.4	-4.6	-38.5%
Extraordinary Profit	0.0	6.1	6.1	
Gain on the sale of investment securities	0.0	6.1	6.1	
Extraordinary Loss	-0.6	-1.7	-1.2	
Net Income before taxes	11.5	11.8	0.3	2.5%
Corporate Taxes	-5.1	-4.1	1.0	
Minority Interests	-0.5	-0.4	0.1	
Net Income	5.9	7.3	1.4	22.8%

# Sales and Operating Income by Segment



# Consolidated Sales by Segment (Unit: Billions of Yen)

	July-Sept. 2007	July-Sept. 2008	Increase	Increase by Business
Petrochemicals	100.1	122.9	+22.9	Olefins: sales increased, reflecting the rise in raw material costs. Organic Chemicals: shipment volume of acetic acid decreased.
Chemicals	18.5	25.9	+7.4	Basic chemicals (AN, Ammonia, Industrial gases) : shipment volume increased. Amino acids: price up. SDK consolidated Showa Tansan Co., Ltd.
Electronics	55.2	50.0	-5.3	HDs: volume of glass-based media increased, volume of aluminum-based media for desktop PC decreased due to stagnant demand. Compound semiconductors: sales increased due to the start of sales of ultrabright LEDs Specialty gases: sales decreased due to stagnant demand for semiconductors. Rare earth: shipment volumes increased, price up.
Inorganics	20.9	22.0	+1.1	Ceramics: sales increased, reflecting a rise in the raw material costs. Carbons: sales increased. (graphite electrode in tight supply)
Aluminum	64.2	60.9	-3.3	Aluminum ingots: shipment volume decreased. Rolled products: sales slightly decreased Extrusions: sales fell as a result of lower shipment volumes for construction material applications. <i>Shotic</i> : lower shipment volumes for automotive parts applications. Heat Exchangers: sales decreased in North America, increased in Japan and Europe. Aluminum Cans: sales slightly decreased due to the fall in shipment volumes.
Total	258.9	281.7	+22.8	

# Consolidated Operating Income by Segment

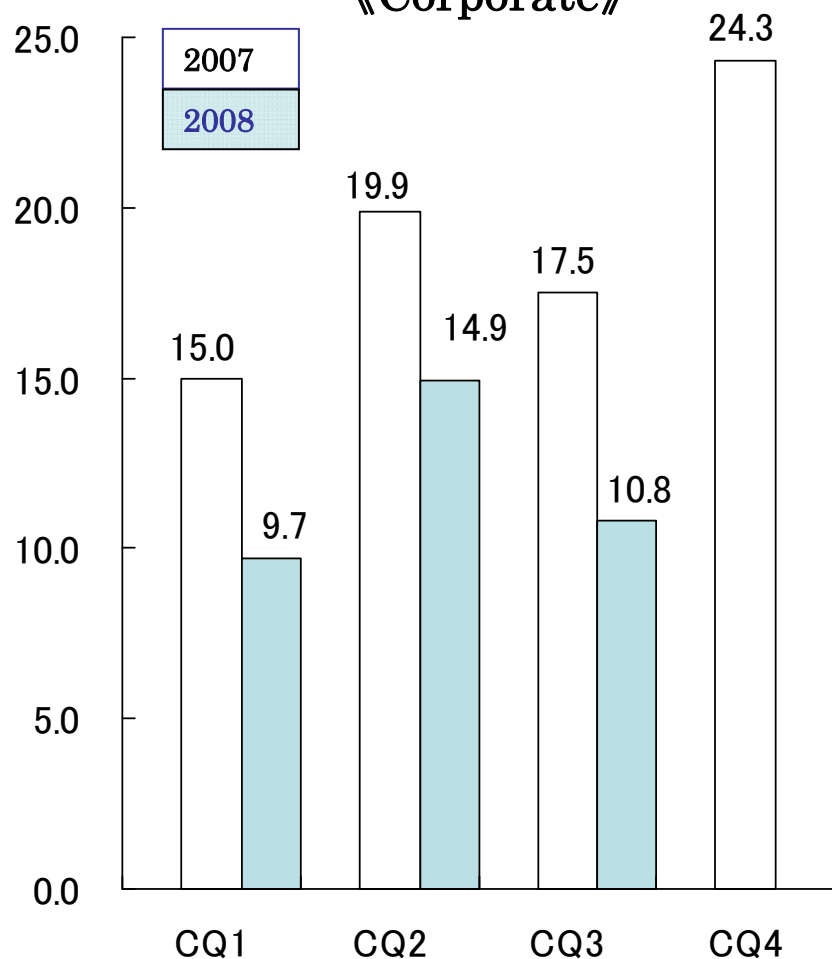
(Unit: Billions of Yen)

	July-Sept. 2007	July-Sept. 2008	Increase	Increase by business
Petrochemicals	3.4	3.6	+0.3	Olefins: profit rose by difference in procurement and consumption prices of raw materials. Organic: profit fell due to the fall in acetic acid demand and the rise in raw material costs.
Chemicals	1.6	1.7	+0.0	Amino acid: steady demand. Chloroprene rubber was affected by the rise in raw material costs. Operating income slightly increased.
Electronics	7.0	2.5	-4.5	HDs: shipment volumes of glass-based HD media increased, profit decreased due to lower shipment volumes of aluminum-based HD media, the rise in depreciation expenses, yen appreciation. Compound semiconductor: development cost increased. Specialty gases: operating income decreased due to stagnant demand. Rare earths: operating income decreased due to the rise in raw material costs.
Inorganics	5.1	4.3	-0.8	Ceramics: profit decreased due to soaring fuel/raw material cost. Carbon: profit increased in Japan, decreased in America (delays in shipment, Yen appreciation)
Aluminum	1.8	0.1	-1.7	Rolled products: profit slightly decreased due to the rise in raw material costs. Extrusions: profit fell as a result of lower shipment volumes for construction material applications. <i>Shotoc</i> : profit decreased due to lower shipment volumes for automobiles. Heat Exchangers: profit decreased in Japan, improved both in America and Europe. Aluminum cans: profit decreased due to lower shipment volumes. Power generation business as an independent power provider: profit decreased due to higher fuel cost.
HQ costs, elimination	-1.5	-1.4	+0.0	
Total	17.5	10.8	-6.7	

# Reference: Operating Income (Quarterly)

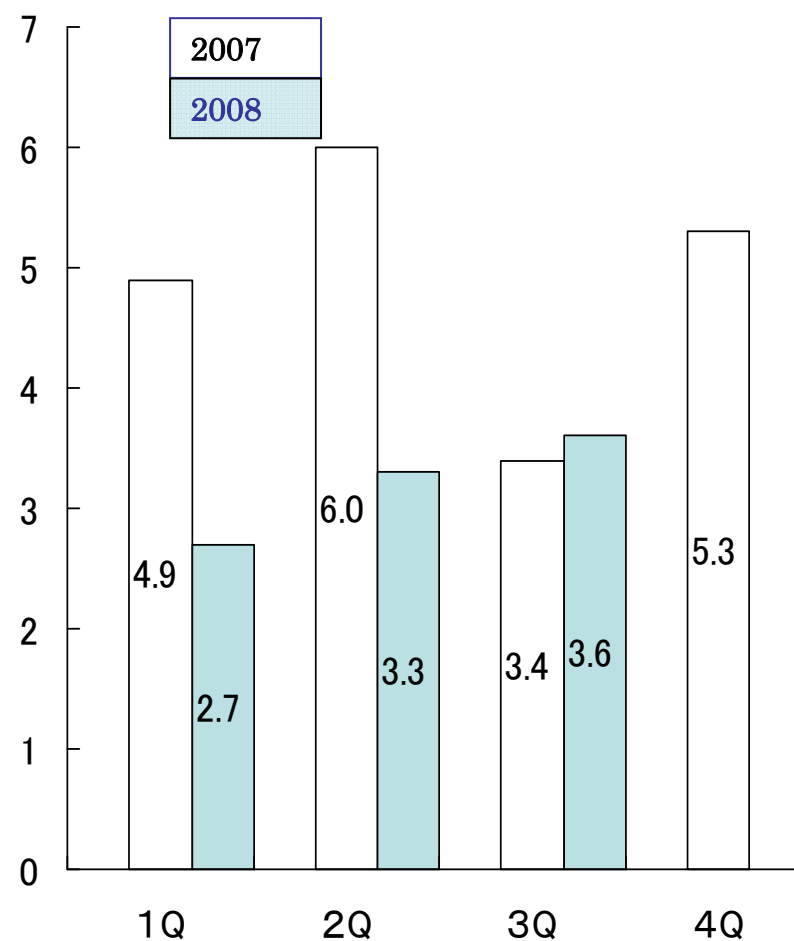
(Unit: Billions of Yen)

## 《Corporate》



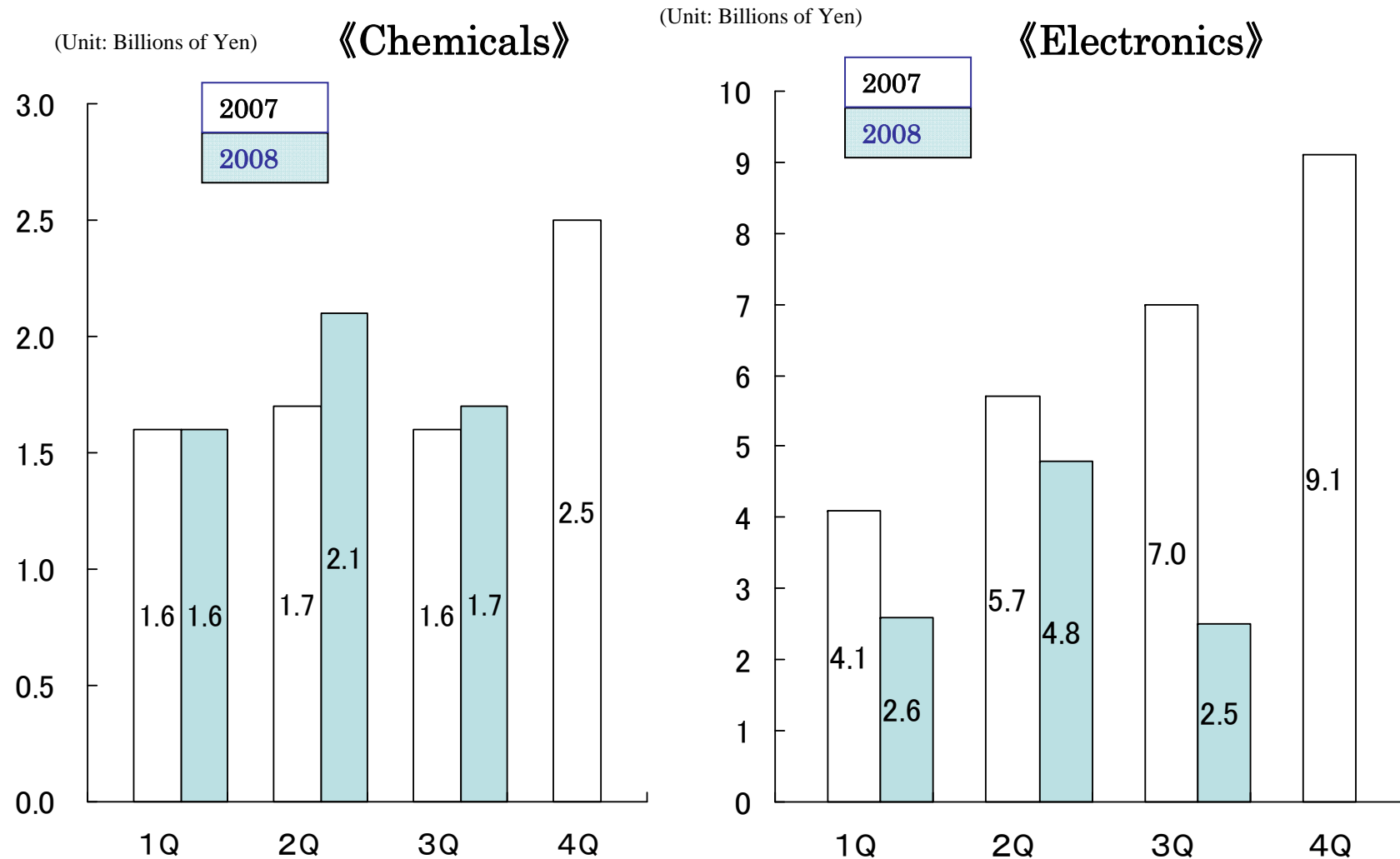
(Unit: Billions of Yen)

## 《Petrochemicals》

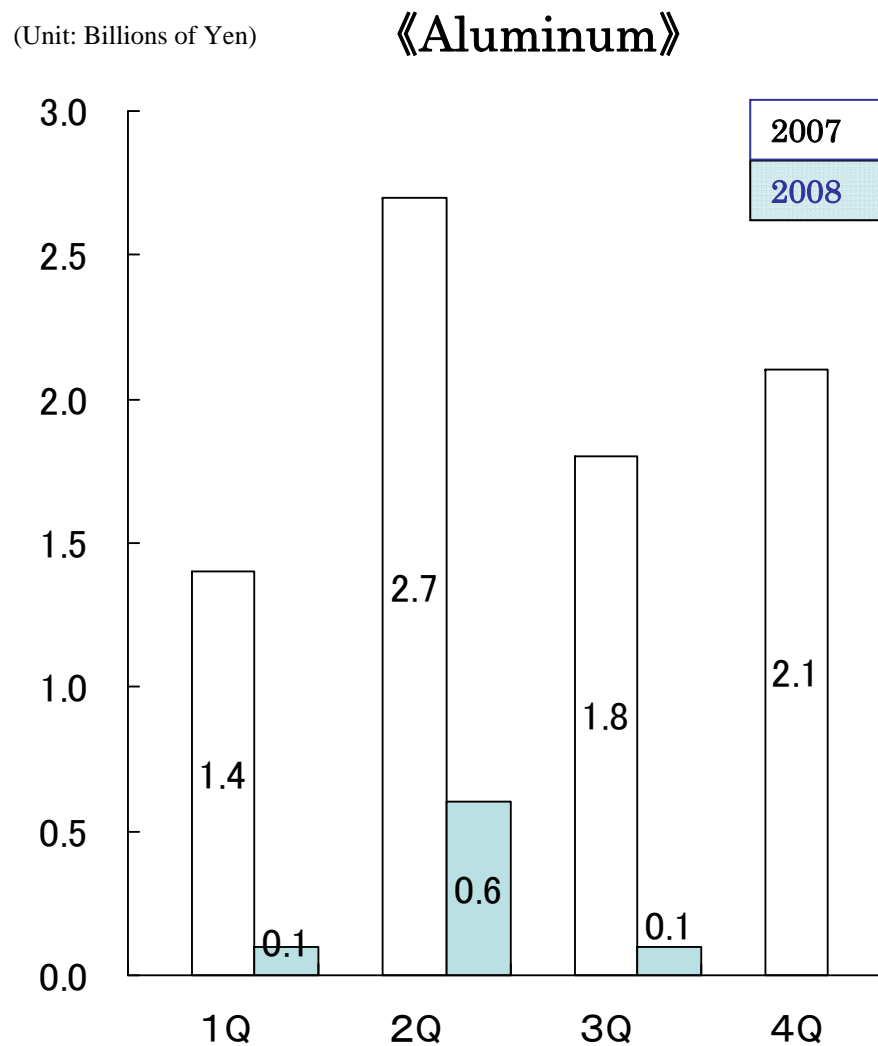
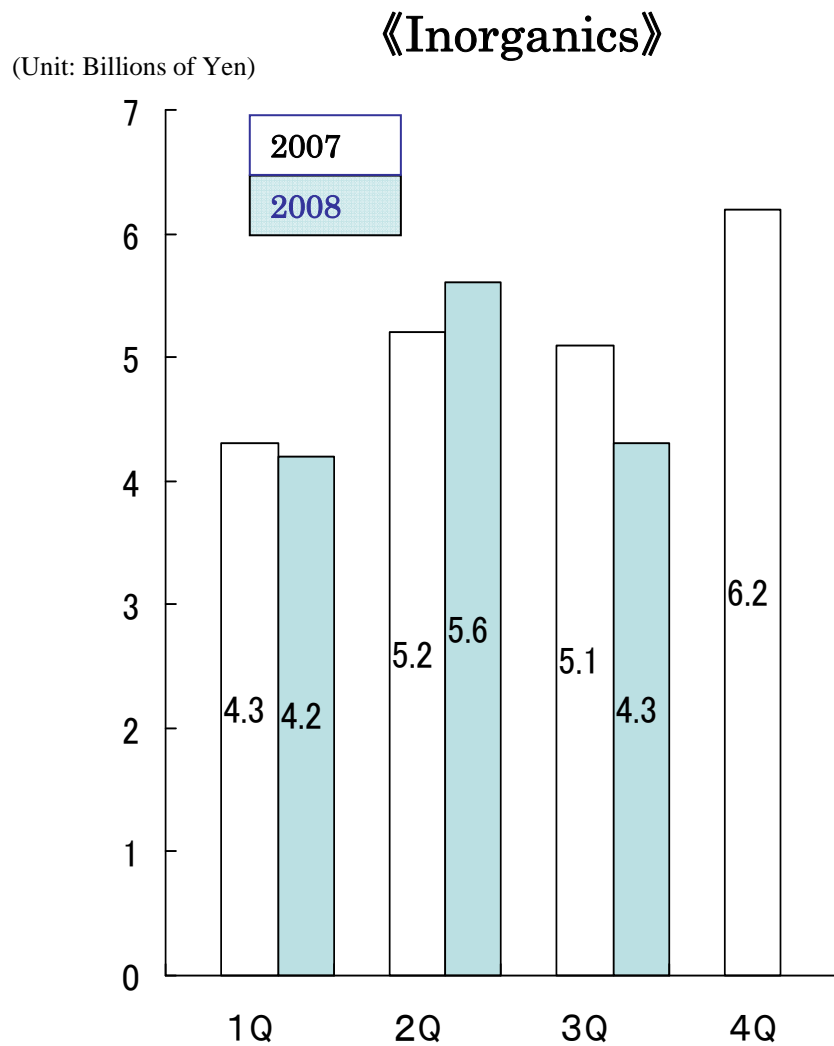




# Reference: Operating Income (Quarterly)



# Reference: Operating Income (Quarterly)



# Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Jun. 30, 2008	Sep. 30, 2008	Increase	Liabilities and Stockholders' Equity	Jun. 30, 2008	Sep. 30, 2008	Increase
Cash and deposits	21.9	28.2	6.3	Accounts payable	145.4	149.8	4.5
Accounts receivable	166.2	173.0	6.8	Interest-bearing debt	404.1	416.2	12.1
Inventories	123.7	129.8	6.2	Accrued pension and severance costs	30.1	29.4	-0.7
Deferred tax assets	2.3	5.3	3.1	Other liabilities	130.6	128.4	-2.2
Other current assets	29.8	29.4	-0.4				
<u>Current Assets</u>	<u>343.8</u>	<u>365.7</u>	<u>21.9</u>	<u>Total Liabilities</u>	<u>710.1</u>	<u>723.8</u>	<u>13.7</u>
				Common stock	121.9	121.9	-
				Capital surplus	38.0	37.9	-0.0
				Retained earnings	81.3	88.6	7.3
				Treasury stock	-0.2	-0.2	0.0
Tangible Fixed Assets	554.6	548.3	-6.3	<u>Total Stockholders' equity</u>	<u>241.0</u>	<u>248.3</u>	<u>7.3</u>
Intangible Fixed Assets	14.4	13.9	-0.6	Securities valuation surplus	14.1	10.3	-3.8
Investments and other assets	104.0	99.7	-4.3	Foreign currency translation adjustment • Deferred hedge gains	2.3	-4.1	-6.3
				Revaluation surplus –Land	23.4	23.4	-0.0
				<u>Total valuations and adjustments</u>	<u>39.8</u>	<u>29.7</u>	<u>-10.1</u>
				Minority Interest	25.9	25.8	-0.1
<u>Total fixed assets</u>	<u>673.0</u>	<u>661.8</u>	<u>-11.2</u>	Total equity	<u>306.6</u>	<u>303.8</u>	<u>-2.9</u>
<b>Total Assets</b>	<b>1,016.7</b>	<b>1,027.5</b>	<b>10.8</b>	<b>Total liabilities and equity</b>	<b>1,016.7</b>	<b>1,027.5</b>	<b>10.8</b>

# Total Assets

## Interest-bearing Debt and D/E ratio

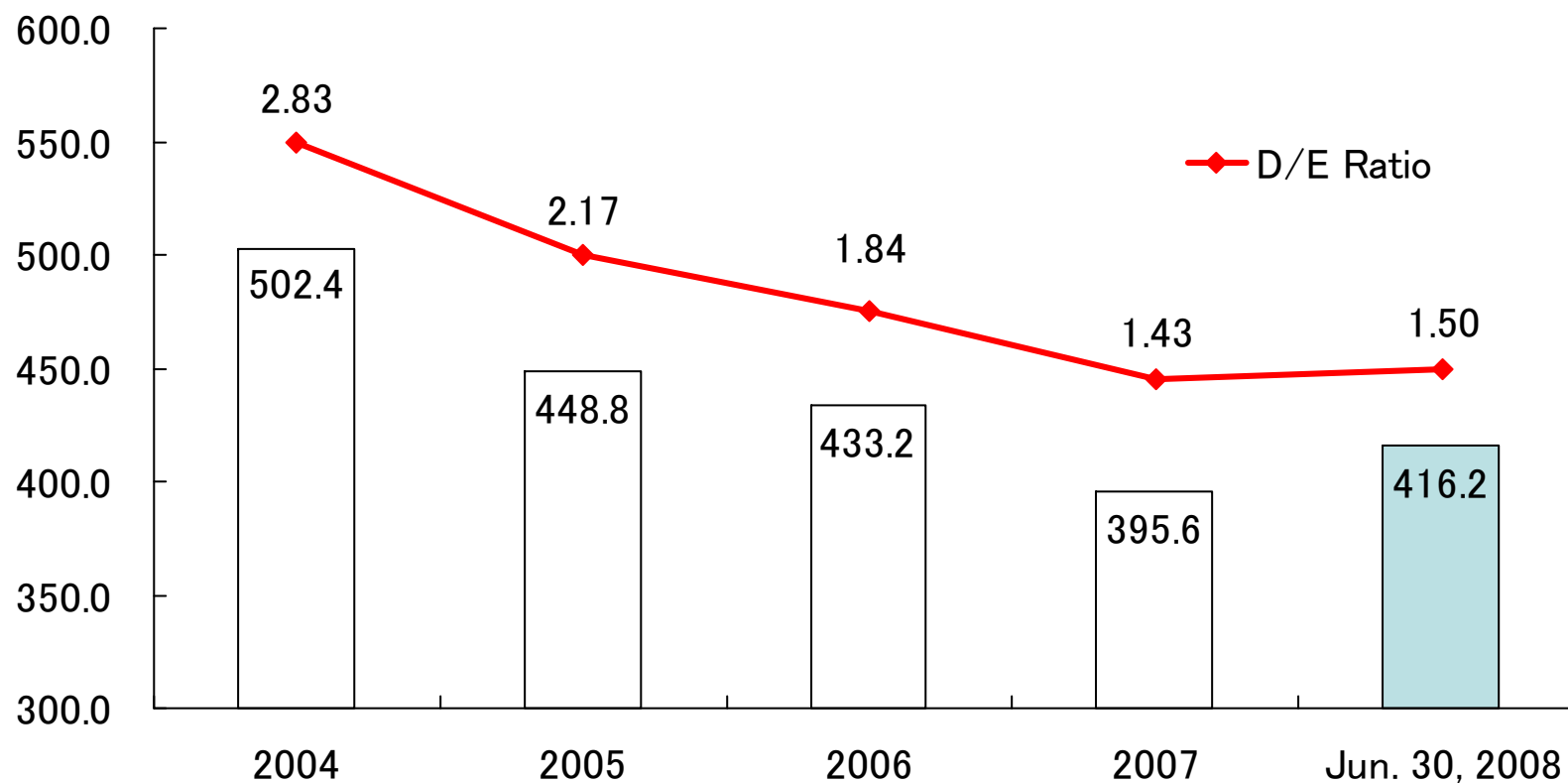
(Unit: Billions of Yen, times, %)

	Jun.30 2008	Sep.30 2008	Increase/ decrease
● <b>Total assets</b>	1,016.7	1,027.5	+10.8
● <b>Interest-bearing debt</b>	404.1	416.2	+12.1
● <b>Debt/Equity ratio</b>	1.44times	1.50times	+0.06p
● <b>Stockholders' Equity ratio</b>	27.6%	27.1%	-0.5p

# Interest-bearing Debt

2004 – Jun. 30, 2008

(Unit: Billions of Yen)



Equity ratio	18.8%	21.0%	22.7%	26.9%	27.1%
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# Forecast for 2008

(Unit: Billions of Yen)

	2008 Forecast announced on Aug 7, 2008	2008 Forecast announced on Nov 6, 2008	Increase	2007
Net Sales	1,120.0	1,050.0	-70.0	1,023.2
Operating Income	59.0	34.0	-25.0	76.7
Interest/Dividend income less interest expenses	-6.7	-6.5	+0.2	-6.8
Ordinary Income	46.5	20.5	-26.0	60.0
Extraordinary Profit/Loss, net	-1.7	-4.9	-3.2	-3.7
Net Income	28.0	10.0	-18.0	33.1
Net income per share	¥22.44	¥8.02	¥-14.42	¥27.52
Cash dividends per share	¥ 6.0	¥ 5.0	¥-1.0	¥5.0

# Net Sales by Segment Forecast for 2008

(Unit: Billions of Yen)

	2008 Forecast announced on Aug 7, 2008	2008 Forecast announced on Nov 6, 2008	Increase	2007
Petrochemicals	470.0	415.0	-55.0	395.1
Chemicals	95.0	100.0	+5.0	84.7
Electronics	215.0	205.0	-10.0	201.0
Inorganics	90.0	90.0	0.0	84.6
Aluminum	250.0	240.0	-10.0	257.8
Total	1,120.0	1,050.0	-70.0	1,023.2

# Operating Income by Segment Forecast for 2008

(Unit: Billions of Yen)

	2008 Forecast announced on Aug 7, 2008	2008 Forecast announced on Nov 6, 2008	Increase	breakdown	2007
Petrochemicals	13.0	2.5	-10.5	Sharp drop in naphtha prices and subsequent temporary influence on feedstock inventory evaluation	19.6
Chemicals	8.0	6.5	-1.5	An market weakened	7.4
Electronics	20.0	12.0	-8.0	Lower shipment volumes of aluminum-based HD media for desktop PC applications, notwithstanding solid demand for glass-based HD media	25.8
Inorganics	21.0	18.5	-2.5	Impact of the appreciation of the yen	20.9
Aluminum	3.5	1.0	-2.5	Fall in demand from the automotive and construction industries.	8.0
HQ cost, elimination	-6.5	-6.5	0.0		-5.1
Total	59.0	34.0	-25.0		76.7



# Topics by Segment

## ■ Petrochemicals

### ● **Manufacture of n-propyl acetate**

In October, SDK decided to manufacture n-propyl acetate for use in solvents for ink for special gravure printing.

Commercial shipments will start in early 2010. Compared with existing organic-compounds-based solvents, n-propyl acetate contributes to better working environment. Thus, demand for n-propyl acetate is expected to grow in the future.

## ■ Chemicals

### ● **Waste anesthetic gas disposal system provided to Swedish firm**

SDK provided its waste anesthetic gas disposal system technology (*AnescleanSW*<sup>TM</sup>) to Qmt tech ab, a medical equipment engineering company in Sweden. The *AnescleanSW*<sup>TM</sup> system decomposes nitrous oxide, a greenhouse gas used as inhalation anesthetic at hospitals. SDK granted Qmt the right to sell the system to hospitals in North European countries.

# Topics by Segment

## ■ Chemicals

### ● **Acquisition of shares in F2 Chemicals of U.K.**

SDK reached agreement with Asahi Glass Co., Ltd., Mitsubishi Corporation, and Mitsubishi's Italian subsidiary MITENI S.p.A. to purchase all the shares of their joint venture F2 Chemicals Limited of the United Kingdom. By combining F2 Chemicals' fluorine technologies with its own technologies, SDK aims to expand the lineup of its fluorine compounds.

### ● **Establishment of analytical equipment marketing JV in China**

SDK decided to establish a joint venture in December in China, with its consolidated subsidiary Shoko Co., Ltd., to strengthen customer support regarding its high-performance liquid chromatography columns. The columns are used in analyzing chemical substances in food, pharmaceuticals and agrochemicals as well as the quality of water.

# Topics by Segment

## ■ Electronics

### ● **Consolidation of HD media operations with HOYA**

SDK reached basic agreement with Hoya Corporation to consolidate the two companies' HD media operations by establishing a joint venture in January 2009. The joint venture will be owned about 75% by SDK and about 25% by HOYA. By combining their respective technical strengths, SDK and HOYA will strengthen R&D to develop new HD media products with higher storage capacity. At the same time, the two companies will increase the efficiency of their operation sites to ensure sustainable competitive power.

### ● **Shipments of HD media with the world's highest storage capacity**

In August, SDK began commercial shipments of 1.89-inch HD media with storage capacity of 120 gigabytes per disk. To the best of our knowledge, this represented the world's highest storage capacity for 1.89-inch HD media available on the market as of September 11, 2008. In September, SDK began commercial shipments of 2.5-inch HD media with storage capacity of 250 gigabytes per disk. To the best of our knowledge, this represented the world's highest storage capacity for 2.5-inch HD media available on the market as of September 17, 2008. 1.89-inch HD media are used in mobile music players, high-definition camcorders, and small-sized notebook PCs. Meanwhile, 2.5-inch HD media are used mainly in notebook PCs. Demand for high-capacity HD media is expected to grow.

# Topics by Segment

## ■ Electronics

### ● **Establishment of rare earth metal subsidiary in Vietnam**

In October, SDK established Showa Denko Rare-Earth Vietnam Co., Ltd. in Ha Nam Province, Vietnam, as its 90%-owned subsidiary. In April 2010, the new company will begin producing 800 tons a year in total of didymium and dysprosium, which will be used as raw material for neodymium-based high-performance magnetic alloys. SDK is producing rare earth magnetic alloys at three plants—one in Japan and two in China—with combined capacity of 8,000 tons a year. With the establishment of the new company in Vietnam, SDK will be able to ensure stable procurement of raw materials for its neodymium-based high-performance magnetic alloy production and further strengthen the business.

### ● **Establishment of electronics materials sales firm in Taiwan**

In September, SDK established a wholly owned subsidiary Taiwan Showa Denko Electronics Co., Ltd. to strengthen sales of LED chips.


**SHOWA DENKO** Appendix Jan.-Sept. 2008 Summary

(Unit: Billions of Yen)

	Jan.-Sept. 2007	Jan.-Sept. 2008	Increase	
Net Sales	744.0	792.5	48.5	6.5%
Operating Income	52.4	35.4	-17.0	-32.5%
[Ratio to net sales]	7.0%	4.5%	-2.5 point	
Interest/Dividend income less interest expenses	-5.2	-4.8	0.5	
Equity method	1.7	-0.0	-1.7	
Currency exchange gain (loss)	-0.7	-3.1	-2.4	
other	-9.0	-2.1	6.9	
Ordinary Income	39.1	25.5	-13.7	-34.9%
Extraordinary Profit	3.0	10.4	7.4	
Gain on the sale of investment securities	1.2	7.8	6.7	
Extraordinary Loss	-5.1	-6.3	-1.2	
Net Income before taxes	37.1	29.6	-7.4	-20.1%
Corporate Taxes	-14.5	-9.8	4.7	
Minority Interests	-1.6	-0.8	0.8	
Net Income	21.0	19.0	-2.0	-9.5%

# Appendix Net Sales by Segment

(Unit: Billions of Yen)

	2007/1-9	2008/1-9	Increase
Petrochemicals	292.3	327.6	+35.3
Chemicals	57.7	66.7	+9.0
Electronics	141.0	151.0	+10.0
Inorganics	60.3	65.5	+5.2
Aluminum	192.8	181.7	-11.1
Total	744.0	792.5	+48.5

## Operating Income by Segment

(Unit: Billions of Yen)

	2007/1-9	2008/1-9	Increase
Petrochemicals	14.2	9.7	-4.6
Chemicals	4.9	5.3	+0.4
Electronics	16.8	9.9	-6.8
Inorganics	14.7	14.1	-0.5
Aluminum	5.9	0.8	-5.1
HQ cost, elimination	-4.1	-4.5	-0.4
Total	52.4	35.4	-17.0