

NEWS RELEASE

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SDK Announces Structural Reform Efforts in 2009/2010 and Strategic Concepts for 2011 and Thereafter

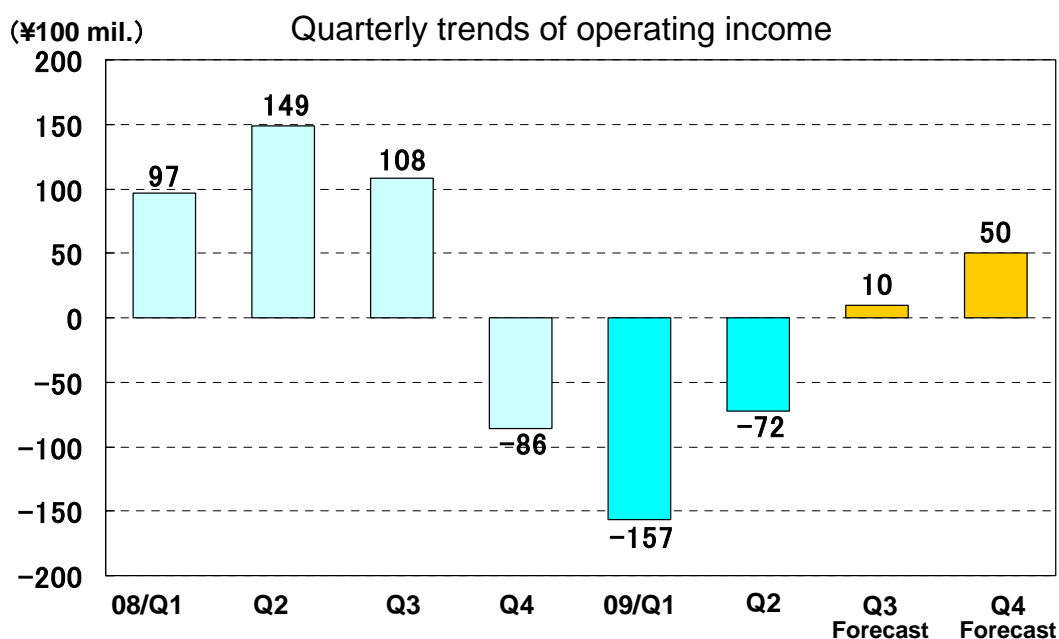
Showa Denko K.K. (SDK) is proceeding with its structural reform efforts for the 2009-2010 period and improving its competitive positions, in response to the drastic changes in economic conditions that have taken place since last year. At the same time, SDK is working on its new medium-term consolidated business plan for 2011 and thereafter. SDK will announce the new business plan in the second half of 2010.

1. Performance forecast for 2009/2010 and structural reform

1) Operating income

In 2009, the profitability is improving, after hitting the bottom in the first quarter. The amount of operating loss in the second quarter was half the amount in the first quarter. We expect to start recording operating income in and after the third quarter. For the second half of the year, all segments will record operating income.

In 2010, we expect an operating income of ¥30 billion. Thus we will recover our profitability, which began to fall in the second half of 2008, and prepare for the start of the new business plan for 2011 and thereafter.



	2009 Estimate	2010 Forecast	(¥100 mil.) Target announced in Feb. '09
Net sales	6,700	8,000	9,000
Operating income	- 170	300	400
Profit rate (operating income basis)	- 2.5%	3.8%	4.4%
Interest-bearing debt at year-end	4,200	4,300	3,600

2) Major steps

In 2009 and 2010, we will take emergency measures to cope with the slump in the world economy, and work to improve our competitive position. Thus we will lay the groundwork for growth under the new consolidated business plan for 2011 and thereafter.

a. Improving competitive positions

In the Petrochemicals business, we will install new naphtha cracking furnaces at our ethylene plant during its scheduled maintenance in 2010. As a result, our naphtha cracker will have the highest-level competitiveness in the world.

In the graphite electrode business, we will pursue drastic improvement in productivity and expand operations in the area of large-diameter graphite electrodes.

Furthermore, we will take steps to ensure that our operations will be profitable at plant utilization rates of around 70%. Specifically, we will consolidate organic chemicals production facilities, suspend the operation of CFC-substitute gas production facilities, and reorganize production sites and lines for HD media. We will optimize production setup by reducing personnel for the Aluminum segment by approximately 400 and reduce outsourcing costs by shifting to in-house production.

b. Exit strategy and accounting for impaired assets

We will promote our exit strategy, including the sale of the capacitors business to Murata Manufacturing Co., Ltd. (to be completed by the end of 2009), withdrawal from the sale of aluminum ingots to outside (end of June, 2009), and withdrawal from the commodity aluminum extrusions for construction materials (to be completed by the end of 2009). We will carry out drastic structural reform of our heat exchangers business. In response to the changes in business environment, we recorded loss on impairment of fixed assets pertaining to our heat exchanger and alumina production facilities in Japan.

c. Reduction in personnel expenses

We will reduce employees by approximately 940 from the total workforce at the end of 2008, excluding the increase of 360 as a result of the consolidation of Showa Denko HD Yamagata K.K. We are implementing personnel cost reduction measures since the first half of 2009, reducing remunerations for officers by 15-25% and salaries for managers by 10%, as well as decreasing bonuses for general employees. In the first half of 2009, we temporarily suspended operations at many of our plants in Japan,

receiving employment adjustment subsidies.

d. Cost reductions

In 2009, we aim to reduce costs by ¥15 billion, up ¥3 billion from the initial targets. We are planning to reduce costs also by ¥15 billion in 2010, for a total of ¥30 billion in the two-year period.

3) Extraordinary losses

In the first half of 2009, we recorded extraordinary losses of ¥16.4 billion, centering on loss from valuation of inventory and loss on impairment of fixed assets. When the structural reform cost for the aluminum business in the second half is included, the total amount of extraordinary losses in 2009 will reach ¥26 billion. We also expect to record extraordinary losses of ¥8 billion in 2010 as we proceed with our overall structural reform efforts.

2. Concepts of the new business plan for the 2011-2015 period

1) Future social needs

SDK is implementing the "Passion Extension" for 2009 and 2010. This plan has been worked out by reviewing the accomplishments under the three-year (2006-2008) consolidated business plan, the Passion Project, and in response to the drastic changes in economic conditions in 2008.

In view of the global warming issue and limitations of crude oil and other mineral resources, we expect increased social demand for environmental protection and energy conservation technologies. We will strengthen our position as a "unique chemical company with individualized products," developing various components, materials and solutions. We will contribute to the sound growth of society by meeting the needs for energy conservation, health and safety, and higher efficiency.

2) Business portfolio

In 2011 and thereafter, the HD media business will be included in the category of "base business," in addition to such businesses as olefins, basic chemicals, graphite electrodes and fabricated aluminum products. The ultrabright LED, fine carbon and rare earth magnetic alloy businesses will be classified as "growth driver" businesses. As for the automotive heat exchanger, acetyl derivative and other businesses, we will identify areas where we should carry out structural reform with drastic measures. Our "new growth driver" businesses will cover such areas as organic electroluminescent (organic EL) devices, fuel cell components, fluorine-based chemicals and functional monomers. We will preferentially allocate resources to these areas. We will make sure that these "new growth driver" businesses and other new businesses will account for 10% of our consolidated operating income in 2015.

3) Business policy for major product lines

a. HD media

As an independent HD media supplier, we will establish our overwhelmingly strong position in the market. As a "base business," our HD media operation will provide profit and cash flows in a stable manner. The HD media market is expected to continue its growth at around 8-10% a year. We will achieve drastic improvement in efficiency by reviewing our operation sites, and lead the market in the development of the next-generation recording technologies.

b. Petrochemicals

During the scheduled maintenance of the Oita Complex in 2010, we will replace cracking furnaces of our ethylene plant, improving its energy efficiency to the highest level in the world. We will also strengthen ties with respective derivative manufacturers.

c. Graphite electrodes

We expect a long-term increase in demand for large-diameter graphite electrodes—an area we have competitive edges. We will therefore expand our production capacities for the product on a global scale by 2015.

d. Aluminum

We will complete structural reform of this business by 2010, and optimize our production setup. We will concentrate on areas where we can fully utilize our individualized technologies; namely, aluminum cylinders for laser beam printers, high-purity aluminum foils for capacitors, laminated packaging for lithium-ion batteries, etc.

4) Financial targets

a. Net sales, operating income and interest-bearing debt

(¥100 mil.)

	2009 Estimate	2010 Forecast	2013 Image	2015 Image
Net sales	6,700	8,000	9,500	11,000
Operating income	- 170	300	800	1,000
Profit rate (operating income basis)	- 2.5%	3.8%	8.4%	9.1%
Interest-bearing debt at year-end	4,200	4,300	3,800	3,500

b. Capital expenditure

During the three-year period (2011-2013), we will spend a total of ¥200 billion in capital expenditure as well as loans and investments. Approximately half of the budget will be spent for the growing electronics business. As for the HD media and graphite electrode operations, which are classified as “base businesses,” we will also make aggressive investments.

c. R&D expenses

During the said three-year period, we will spend a total of ¥60 billion in R&D expenses. We will preferentially allocate resources to “growth driver” and “new growth driver” businesses. We will also make aggressive R&D investments in the HD media business.

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