

# Third Quarter, 2009 Financial Results

## - Consolidated -



# SHOWA DENKO K.K.

October 30, 2009

Ichiro Nomura, CFO

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
  - Newly consolidated:  
Showa Denko HD Yamagata K.K. (Electronics)
  
- Equity method applied: 18
  - Newly applied, Excluded: none

## Selected Data

	Jul.-Sept. 2008	Jul.-Sept. 2009	Increase
■ Exchange rate: ¥/US\$	107.7	93.7	Yen strengthened by ¥14.0/\$
■ Domestic naphtha price: ¥/kl	85,800	41,300	-44,500
■ Aluminum LME price: US\$/T	2,838.9	1,842.6	-996.3

Exchange rate at June 30, 09 ¥/US\$96.0, at September 30, 09 ¥/US\$90.2

⇒ Yen strengthened by 5.8 ¥/US\$

# Summary

CQ3 (Jul. 1 – Sept. 30) 2008 v s. CQ3 (Jul. 1 – Sept. 30) 2009

(Unit: Billions of Yen)

	CQ3, 2008	CQ3, 2009	Increase
Net Sales	281.7	185.3	-96.4
Operating Income	10.8	6.7	-4.1
Non-operating income and expense	-3.3	-4.1	-0.7
Interest/Dividend income less interest expenses	-1.8	-1.6	0.3
Equity Method	-0.3	-0.1	0.2
Currency exchange gain	0.1	-0.9	-0.9
Other	-1.3	-1.6	-0.3
Ordinary Income	7.4	2.6	-4.8
Extraordinary Profit	6.1	0.1	-6.0
Gain on the sale of investment securities	6.1	0.0	-6.0
Extraordinary Loss	-1.7	-3.8	-2.1
Loss from impairment of fixed assets	-	-2.1	-2.1
Net Income before taxes	11.8	-1.1	-12.9
Corporate Taxes	-4.1	1.0	5.1
Minority Interests	-0.4	-0.3	0.1
Net Income	7.3	-0.4	-7.7

## Consolidated Sales by Segment

(Unit: Billions of Yen)

	CQ3 2008	CQ3 2009	Increase/ decrease	
Petrochemicals	122.9	67.2	-55.8	Olefins: sales decreased (sales price down, shipment volumes maintained at the year-earlier level.) Organic chemicals: sales decreased. (sales price down, withdrawal from large-lot sale of acetic acid)
Chemicals	25.9	21.8	-4.1	AN, chloroprene rubber: sales decreased (sales price down, shipment volumes decreased) Oxygen, nitrogen:sales increased (sales price up)
Electronics	50.0	38.6	-11.4	HDs: sales decreased (appreciating yen, sales price down) Compound semiconductors, specialty gases, rare earth, : sales decreased (shipment volumes decreased)
Inorganics	22.0	13.5	-8.5	Ceramics: sales decreased (shipment volumes decreased) Graphite electrode: sales decreased (shipment volumes decreased)
Aluminum	60.9	44.3	-16.6	Aluminum ingot: sales decreased (shipment volumes decreased.) Rolled products, Extrusions/specialty products, <i>Shotie</i> : sales decreased (shipment volumes decreased) Heat exchangers: sales increased in China. Sales decreased in Japan, U.S.A. and Europe. Aluminum cans:maintained at the year-earlier level.
Total	281.7	185.3	-96.4	

## Consolidated Operating Income by Segment (Unit: Billions of Yen)

	CQ3 2008	CQ3 2009	Increase/ decrease	
Petrochemicals	3.6	3.7	0.1	Olefins: maintained at the year-earlier level. Organic chemicals: profit increased (withdrawal from large-lot sale of acetic acid)
Chemicals	1.7	0.7	-1.0	AN, chloroprene rubber : profit decreased (sales price down)
Electronics	2.5	1.4	-1.1	HDs: Profit increased (shipment volumes increased, cost reduction) Compound semiconductors: profit decreased (shipment volumes decreased.) Specialty gases: profit decreased (shipment volumes decreased.) Rare earth: profit decreased (shipment volumes decreased.)
Inorganics	4.3	0.5	-3.8	Ceramics: profit decreased (shipment volumes decreased.) Graphite electrode: profit decreased (shipment volumes decreased in Japan and U.S.A.)
Aluminum	0.1	0.8	0.7	Rolled products, Extrusions/specialty products, <i>Shotic</i> : profit decreased (shipment volumes decreased.) Heat exchangers: profit increased in China, profit slightly increased in U.S.A.(restructuring), profit decreased in Japan and Europe (shipment volumes decreased.) Aluminum cans: profit increased.(regaining profitability) Power generation business as an independent power provider: profit increased (lower fuel cost)
HQ costs, elimination	-1.4	-0.4	1.0	Cost reduction
Total	10.8	6.7	-4.1	

# Summary

CQ2 (Apr. 1 - Jun. 30) 2009 v s. CQ3 (Jul. 1 - Sept. 30) 2009

(Unit: Billions of Yen)

	CQ2, 2009	CQ3, 2009	Increase
Net Sales	165.6	185.3	19.7
Operating Income	-7.2	6.7	13.9
Non-operating income and expense	-3.5	-4.1	-0.6
Interest/Dividend income less interest expenses	-1.1	-1.6	-0.5
Equity Method	0.2	-0.1	-0.3
Currency exchange gain	-0.3	-0.9	-0.6
Other	-2.3	-1.6	0.7
Ordinary Income	-10.7	2.6	13.3
Extraordinary Profit	1.9	0.1	-1.8
Extraordinary Loss	-9.1	-3.8	5.4
Loss on impairment of fixed assets	-8.2	-2.1	6.1
Net Income before taxes	-18.0	-1.1	16.8
Corporate Taxes	-6.5	1.0	7.5
Minority Interests	0.0	-0.3	-0.3
Net Income	-24.4	-0.4	24.0

## Consolidated Sales by Segment

CQ2 (Apr. 1 - Jun. 30) 2009 v s. CQ3 (Jul. 1 - Sept. 30) 2009

(Unit: Billions of Yen)

	CQ2 2009	CQ3 2009	Increase/ decrease	
Petrochemicals	56.1	67.2	11.1	Olefins: sales increased (shipment volumes increased, sales price up.) Organic chemicals: sales slightly decreased. (shipment volumes of vinyl acetate and ethyl acetate decreased.)
Chemicals	27.0	21.8	-5.2	Ammonia, chloroprene rubber: sales increased (shipment volumes increased.) Showa Tansan Co., Ltd.: sales decreased. (in CQ2, consolidated 6 months as a result of changes in accounting term)
Electronics	27.1	38.6	11.4	HDs: sales increased. (substantial increase in demand, shipment volumes increased by new consolidation of Showa Denko HD Yamagata K.K.) Compound semiconductors, specialty gases, rare earth: sales increased (shipment volumes increased)
Inorganics	12.4	13.5	1.0	Ceramics, graphite electrodes: sales increased (shipment volumes increased.)
Aluminum	43.0	44.3	1.3	Aluminum ingot: sales decreased (shipment volumes decreased.) Rolled products: sales increased (shipment volumes of high-purity foils for capacitors increased.) Extrusions/specialty products: sales increased (shipment volumes of aluminum cylinder for LBP increased.) Heat exchangers: sales increased in Japan, China and Thailand. Sales in U.S.A. and Europe maintained at the CQ2 level. <i>Shotoc</i> : sales increased (shipment volumes increased) Aluminum cans: sales decreased (shipment volumes decreased.)
Total	165.6	185.3	19.7	



# Consolidated Operating Income by Segment

~ Achievement of profit in all segments ~

(Unit: Billions of Yen)

	CQ2 2009	CQ3 2009	Increase/ decrease	
Petrochemicals	2.6	3.7	1.2	Olefins: profit increased (improvement of the market situation) Organic chemicals: Maintained at the CQ2 level.
Chemicals	-0.3	0.7	1.0	AN, ammonia, industrial gases: profit increased (shipment volumes increased.)
Electronics	-6.3	1.4	7.7	HDs: profit increased (shipment volumes increased.) Compound semiconductors, specialty gases, rare earth: profit increased (shipment volumes increased.)
Inorganics	-0.1	0.5	0.6	Ceramics, graphite electrode: profit increased (shipment volumes increased.)
Aluminum	-2.3	0.8	3.1	Rolled products: profit increased (shipment volumes of high-purity foils for capacitors increased.) Extrusions/specialty products: profit increased (shipment volumes of aluminum cylinder for LBP increased.) Heat exchangers: profit slightly increased in Japan, U.S.A., China and Thailand. Profit in Europe maintained at the CQ2 level. <i>Shotic</i> : profit increased (shipment volumes increased.) Aluminum cans: profit increased.(cost reduction) Power generation business as an independent power provider: profit increased (lower fuel cost)
HQ costs, elimination	-0.7	-0.4	0.3	
Total	-7.2	6.7	13.9	

# Summary

Jan. 1 – Sept. 30, 2008 v s. Jan. 1 – Sept. 30, 2009

(Unit: Billions of Yen)

	Jan.- Sept, 2008	Jan.- Sept, 2009	Increase
Net Sales	792.5	472.0	-320.5
Operating Income	35.4	-16.2	-51.6
Non-operating income and expense	-9.9	-15.6	-5.6
Interest/Dividend income less interest expenses	-4.8	-4.3	0.5
Equity Method	-0.0	-1.2	-1.2
Currency exchange gain	-3.1	-0.4	2.6
Other	-2.1	-9.6	-7.6
Ordinary Income	25.5	-31.8	-57.2
Extraordinary Profit	10.4	2.0	-8.4
Gain on the sale of investment securities	7.8	1.6	-6.3
Extraordinary Loss	-6.3	-20.2	-13.9
Loss on impairment of fixed assets	-	-10.5	-10.5
Net Income before taxes	29.6	-50.0	-79.6
Corporate Taxes	-9.8	3.2	13.1
Minority Interests	-0.8	-0.2	0.5
Net Income	19.0	-47.0	-66.0



## Consolidated Sales by Segment

Jan. 1 – Sept. 30, 2008 v s. Jan. 1 – Sept. 30, 2009

(Unit: Billions of Yen)

	Jan.-Sept. 2008	Jan.-Sept. 2009	Increase/ decrease	
Petrochemicals	327.6	163.4	-164.2	Olefins, organic chemicals: sales decreased. (shipment volumes decreased, sales price down)
Chemicals	66.7	68.6	2.0	Showa Tansan Co., Ltd. :newly consolidated in previous year. AN: sales decreased. (sales price down) Chloroprene rubber: sales decreased (shipment volumes decreased.)
Electronics	151.0	81.6	-69.4	HDs: sales decreased (shipment volumes decreased during Jan.-Jun.) Compound semiconductors, specialty gases, rare earth: sales decreased (shipment volumes decreased)
Inorganics	65.5	36.3	-29.2	Ceramics, graphite electrodes: sales decreased. (shipment volumes decreased)
Aluminum	181.7	122.0	-59.7	Aluminum ingot: sales decreased (shipment volumes decreased.) Rolled products: sales decreased (shipment volumes of high-purity foils for capacitors decreased ) Extrusions/specialty products: sales decreased. (shipment volumes of aluminum cylinder for LBP decreased.) Heat exchangers: sales increased in China. Sales decreased in Japan, U.S.A, Europe and Thailand. <i>Shotic</i> : sales decreased (shipment volumes decreased.) Aluminum cans: sales increased (shipment volumes increased.)
Total	792.5	472.0	-320.5	



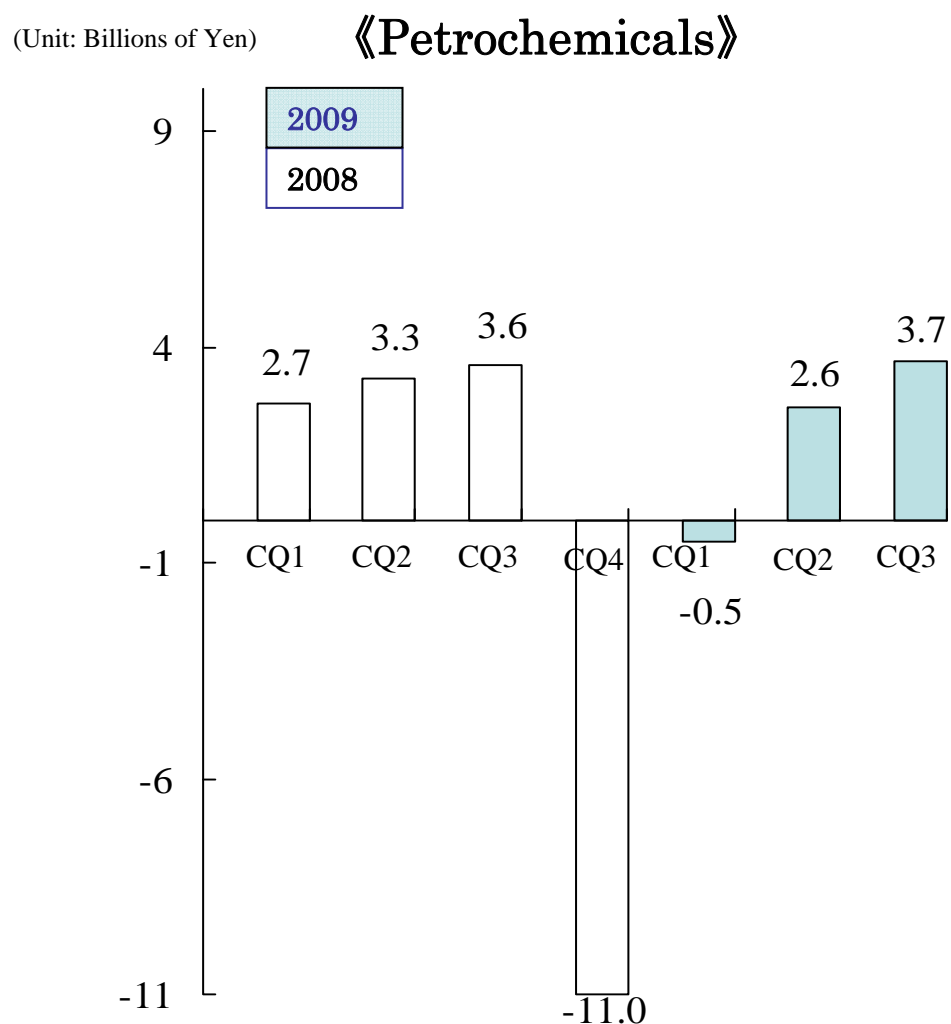
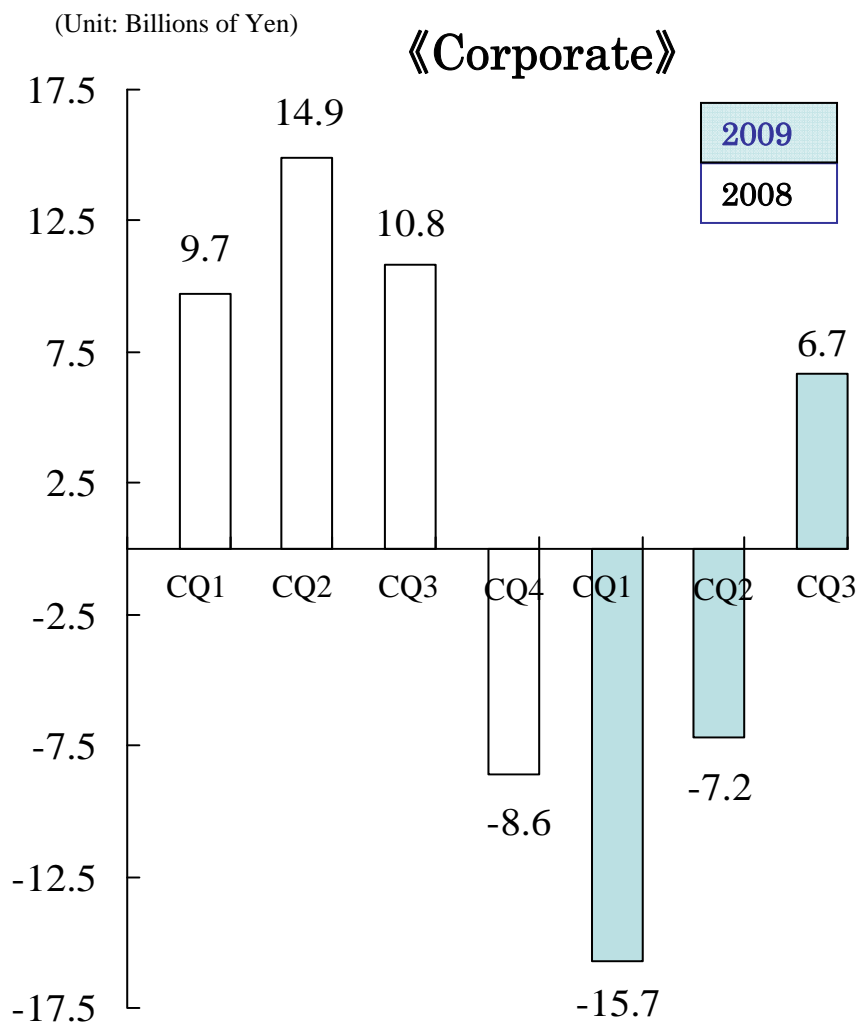
# Consolidated Operating Income by Segment

Jan. 1 – Sept. 30, 2008 v s. Jan. 1 – Sept. 30, 2009

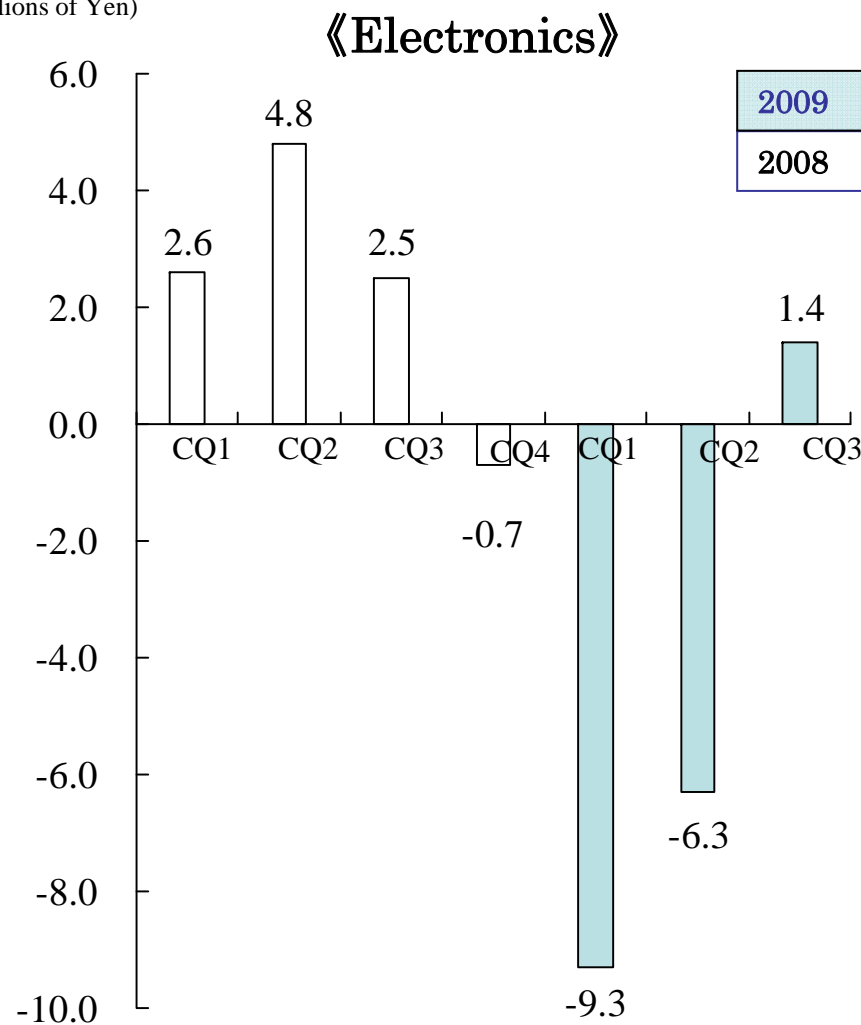
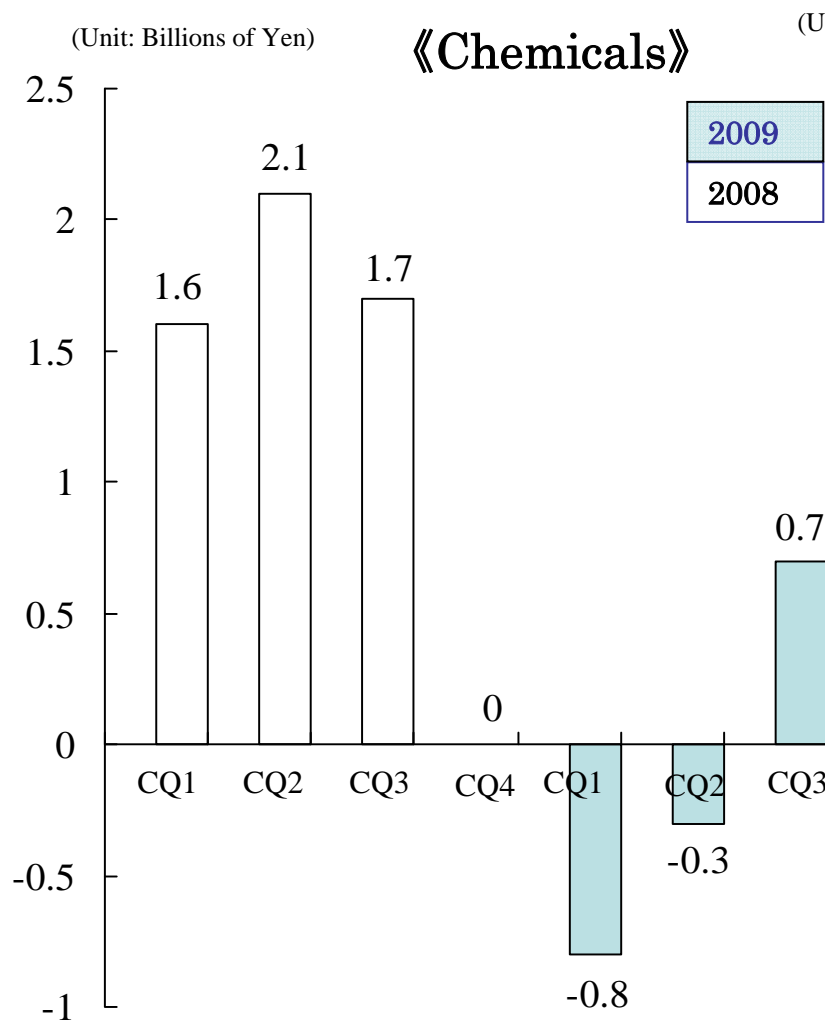
(Unit: Billions of Yen)

	Jan.-Sept. 2008	Jan.-Sept. 2009	Increase/ decrease	
Petrochemicals	9.7	5.8	-3.9	Olefins, organic chemicals: profit decreased (shipment volumes decreased) Showa Highpolymer Co., Ltd.: profit increased. (shipment volumes decreased)
Chemicals	5.3	-0.5	-5.8	AN: profit decreased (sales price down) Chloroprene rubber: profit decreased (shipment volumes decreased.)
Electronics	9.9	-14.3	-24.3	HDs: profit decreased (shipment volumes decreased during Jan.- Jun.) Compound semiconductors, specialty gases, rare earth: profit decreased (shipment volumes decreased.)
Inorganics	14.1	0.8	-13.3	Ceramics, graphite electrode: profit decreased (shipment volumes decreased)
Aluminum	0.8	-5.9	-6.8	Rolled products: profit decreased (shipment volumes of high-purity foils for capacitors decreased.) Extrusions/specialtyproducts: profit decreased (shipment volumes of aluminum cylinder for LBP decreased.) Heat exchangers: profit increased in China. Profit slightly increased in U.S.A. profit slightly decreased in Japan, Europe and Thailand. <i>Shotic</i> : profit decreased (shipment volumes decreased.) Aluminum cans: profit increased(shipment volumes increased.)
HQ costs, elimination	-4.5	-2.0	2.5	Cost reduction
Total	35.4	-16.2	-51.6	

# Operating Income (Quarterly)



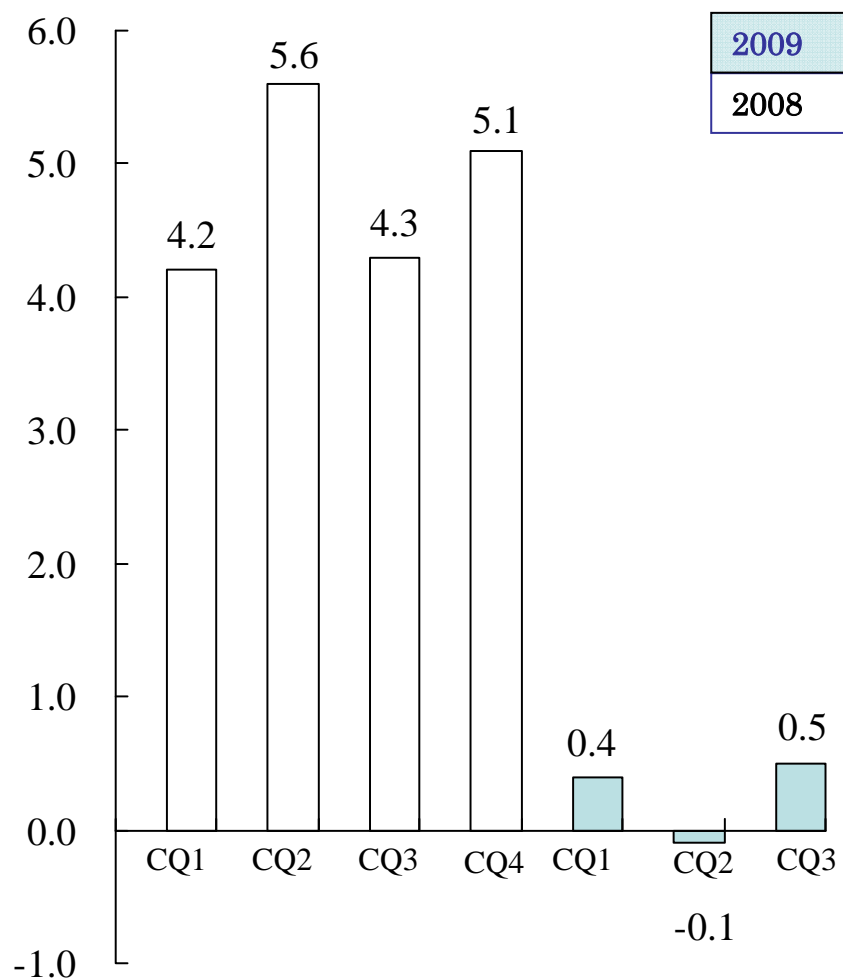
# Operating Income (Quarterly)



# Operating Income (Quarterly)

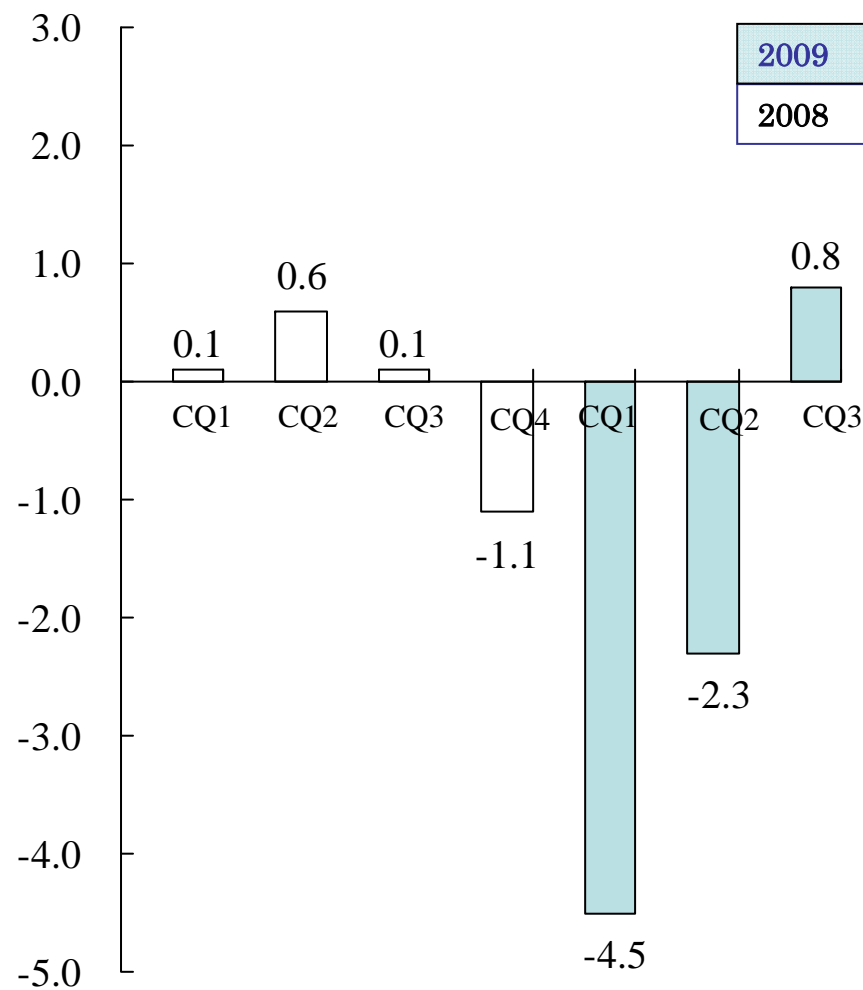
(Unit: Billions of Yen)

## 《Inorganics》



(Unit: Billions of Yen)

## 《Aluminum》





# Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Jun. 30, 2009	Sept. 30, 2009	Increase	Liabilities and Stockholders' Equity	Jun. 30, 2009	Sept. 30, 2009	Increase
Cash and deposits	43.4	38.7	-4.8	Accounts payable	84.8	98.3	13.5
Accounts receivable	101.1	122.2	21.1	Interest-bearing debt	432.2	418.2	-14.0
Inventories	98.2	96.9	-1.3	Deferred tax liabilities due to land revaluation	46.0	46.0	—
Deferred tax assets	4.9	6.3	1.4	Accrued pension and severance costs	27.6	27.3	-0.2
Other current assets	29.0	26.2	-2.7	Other liabilities	98.9	109.4	10.5
<u>Current Assets</u>	<u>276.5</u>	<u>290.2</u>	<u>13.7</u>	<u>Total Liabilities</u>	<u>689.5</u>	<u>699.2</u>	<u>9.8</u>
Buildings and structures	92.1	91.5	-0.7	Common stock	121.9	121.9	—
Machinery and equipment	143.0	139.1	-3.9	Capital surplus	37.9	37.9	—
Land	256.1	256.0	-0.1	Retained earnings	20.6	20.2	-0.4
Other tangible fixed assets	26.0	24.5	-1.6	Treasury stock	-0.2	-0.2	-0.0
<u>Tangible Fixed Assets</u>	<u>517.3</u>	<u>511.1</u>	<u>-6.2</u>	<u>Total Stockholders' equity</u>	<u>180.3</u>	<u>179.9</u>	<u>-0.4</u>
Intangible Fixed Assets	13.8	13.8	-0.0	Securities valuation surplus	5.9	4.7	-1.2
Investments and other assets	99.2	100.0	0.8	Foreign currency translation adjustment • Deferred hedge gains	-14.5	-14.4	0.1
Incl. Investment securities	68.3	65.8	-2.5	Revaluation surplus –Land	21.9	21.9	0.0
Deferred tax assets	16.6	21.1	4.5	<u>Total valuations and adjustments</u>	<u>13.3</u>	<u>12.2</u>	<u>-1.1</u>
				Minority Interest	23.8	23.8	0.0
<u>Total fixed assets</u>	<u>630.3</u>	<u>624.9</u>	<u>-5.4</u>	Total equity	<u>217.4</u>	<u>215.9</u>	<u>-1.5</u>
<b>Total Assets</b>	<b>906.9</b>	<b>915.1</b>	<b>8.3</b>	<b>Total liabilities and equity</b>	<b>906.9</b>	<b>915.1</b>	<b>8.3</b>



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

(Unit: Billions of Yen, times, %)

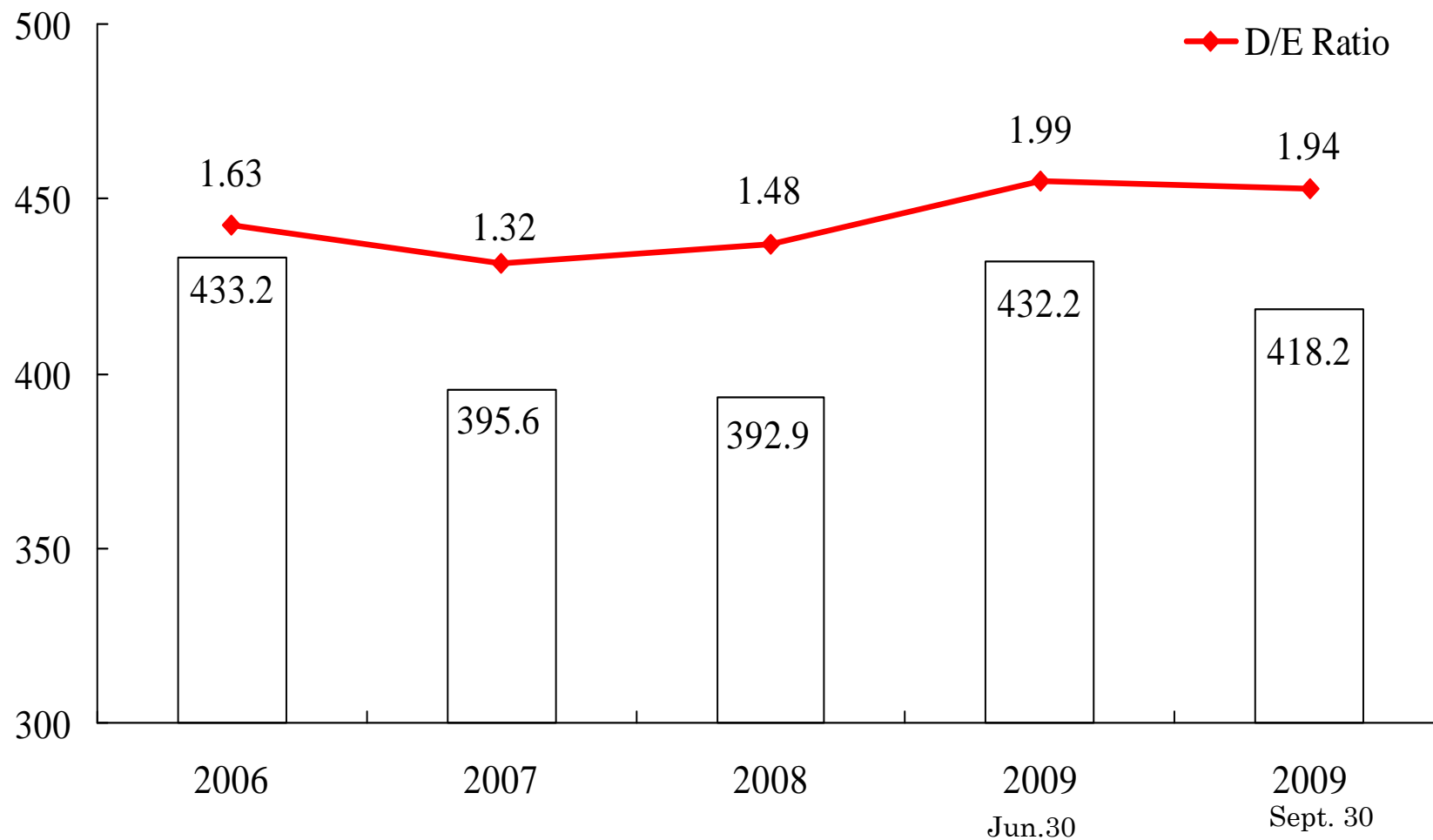
	Jun.30 2009	Sept.30 2009	Increase/ decrease
● <b>Total assets</b>	906.9	915.1	8.3
● <b>Interest-bearing debt</b>	432.2	418.2	-14.0
● <b>Debt/Equity ratio<sup>(note)</sup></b>	1.99times	1.94times	-0.05p
● <b>Stockholders' Equity ratio</b>	21.4%	21.0%	-0.4p

(note) Calculation formula of D/ E ratio was changed as follows:  

$$\text{D/E ratio} = \text{Interest-bearing debt} / \text{Net asset}$$

# Interest-bearing Debt

(Unit: Billions of Yen)



(note) Calculation formula of Debt / Equity ratio: Interest-bearing debt / Net asset

# Topics

## ■ Corporate

### ● Structural reform in 2009/2010 and strategic concepts for 2011 and thereafter (Announced on July 30)

#### ◆ Passion Extension 2009/2010

In 2009 and 2010, we will lay the groundwork for growth in preparation for the new medium-term consolidated business plan for 2011 and thereafter. At the same time, we are carrying out structural reform by drastically reviewing various operations and optimizing our production setup.

#### ◆ Strategic concepts for 2011 and thereafter

In view of the global warming issue and limitations of crude oil and other 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. We will efficiently allocate resources to these growth areas so as to accelerate the development of high-performance products.

# Topics

## ■ Corporate

- **Issuance of new shares and sale of shares; issuance by third-party allotment of Euro-Yen convertible bonds with warrants due 2014 (with subordination clause); and issuance by an overseas special-purpose subsidiary of Euro-Yen permanent preferred securities with the right of conversion into common stock (Announced on September 29)**
  - ◆ In preparation for the launch of a new consolidated business plan, we decided to increase our capital by public offering. Proceeds from the public offering will be used mainly for capital investment in the growing Electronics segment and in base businesses such as Petrochemicals. The remainder will be used for repayment of interest-bearing debt. Furthermore, to restrict dilution of our common stock as much as possible, we decided to use hybrid finance in combination. We issued convertible bonds and preferred securities, which are in-between of capital and debt.
  - ◆ Thus, in addition to restricting dilution, we are going to improve financial strength through virtual capital increase. Proceeds from the hybrid finance will be used for repayment of interest-bearing debt. Total proceeds from the financing scheme are expected to amount to ¥62.8 billion at the maximum, comprising ¥38.8 billion from public offering (including over allotment) and ¥24.0 billion from hybrid finance.

# Topics

## ■ Chemicals

### ● **Conclusion of a share exchange agreement to make Showa Tansan a wholly owned subsidiary (Announced on September 29)**

- ◆ SDK and Showa Tansan Co., Ltd. decided that Showa Tansan should become SDK's wholly owned subsidiary through share exchange in order to strengthen the Showa Denko Group's industrial gas operations. The two companies will consolidate their operations at Kawasaki (the site of the Group's industrial gas production) as a means to ensure speedy and efficient use of resources, strengthen competitiveness, and accelerate expansions in the Asian market. Based on the share exchange agreement, Showa Tansan is scheduled to become SDK's wholly owned subsidiary effective December 24, 2009.

## ■ Electronics

### ● **Launch of Showa Denko HD Yamagata (Announced on July 1)**

- ◆ We started up Showa Denko HD Yamagata K.K. on July 1, by acquiring Fujitsu Limited's HD media production subsidiary. The company is SDK's fourth HD media production site in the world, following the existing sites in Chiba Prefecture (Japan), Taiwan and Singapore. As the world's largest independent HD media supplier, SDK will continue developing and supplying large-capacity HD media to meet customer needs.

# Topics

## ■ Electronics

### ● **Development of organic EL devices with light output of 40% (Announced on July 28)**

◆ We have developed a new structure for our organic electroluminescent (organic EL) devices, achieving approximately 40% in light output, which represents the highest level in the world. As a result, we have achieved a 30 lm/W emissive efficiency for our coated phosphorescent-polymer-based organic EL devices. (Emissive efficiency refers to the quantity of light emitted from light source, divided by electric power consumed.) The 30 lm/W emissive efficiency represents the highest level among coated-type organic EL devices that have been announced in the world. We are planning to commercialize our coated phosphorescent-polymer-based organic EL devices for use in general lighting.

### ● **Launch of 2.5-inch 334 GB HD media (Announced on September 8)**

◆ In August, we began commercial shipments of 2.5-inch HD media with storage capacity of 334 gigabytes per disk, using the fifth-generation perpendicular magnetic recording (PMR) technology. To the best of our knowledge, this product had the world's highest storage capacity for this size available on the market as of September 8, 2009. We are already providing 1.89-, 2.5-, and 3.5-inch large-capacity HD media using the fourth-generation PMR technology. Demand for high-capacity HD media is growing for such applications as PCs that can record and edit moving pictures as well as high-definition HDD recorders that can record digital high-definition TV programs. We will continue meeting the requirements of customers both in terms of quality and quantity as the world's largest independent HD media supplier.

# Topics

## ■ Electronics

### ● **Establishment of Advanced Battery Materials Dept. (Announced on September 15)**

- ◆ We have established an Advanced Battery Materials Department for R&D, production and sale of lithium ion battery (LIB) components, including VGCF<sup>TM</sup> (additive in cathodes/anodes of high-performance LIBs) and SCMG<sup>TM</sup> (graphite anode material already adopted in LIBs for electric vehicles). The department will collect and analyze relevant information in a unified manner, accelerating the development of innovative technologies for battery components. With the establishment of the new department, we will speedily fulfill customers' requirements.

## ■ Aluminum and other

### ● **Withdrawal from aluminum extrusions business and rationalization by personnel reduction (Announced on August 26)**

- ◆ We are working to fundamentally reform and strengthen our aluminum business in response to drastic changes in the economic conditions since last year. As part of these efforts, we have decided to withdraw from the business in commodity aluminum extrusions, centering on building materials, and reduce personnel in the Aluminum segment. We aim to improve profitability through these measures and return to the track of sustainable growth.

# Topics

## ■ Aluminum and other

### ● Consolidation of engineering functions in the Group (Announced on September 24)

- ◆ SDK has decided to absorb the engineering business of its consolidated subsidiary Showa Engineering Co., Ltd. SDK will take unified control of plant design and construction operations for its Group companies, cutting down the lead time from product development to commercialization. SDK will also provide engineering support to the Group companies' environmental protection efforts, accelerating the reductions in greenhouse gas emissions.

## ■ Technology Headquarters

### ● Development of bipolar-type carbon separators for PEFCs (Announced on July 23)

- ◆ We have developed new technologies to produce low-cost carbon separators that will increase output density of polymer electrolyte fuel cells (PEFCs). Specifically, we have established new technologies to produce carbon separators with lower cost and lighter weight by making substantial changes in the process and raw materials. At the same time, we have achieved an increase of around 30% in output density compared with PEFCs we made earlier on a trial basis. These technical developments have been supported by the New Energy and Industrial Technology Development Organization (NEDO).

### ● Development of platinum-substitute PEFC catalysts with high efficiency (Announced on July 26)

- ◆ We have developed new platinum-substitute catalysts for PEFCs under a project sponsored by NEDO. These new catalysts comprise a niobium-oxide-based catalyst and a titanium-oxide-based catalyst, each containing carbon and nitrogen atoms. They will substantially reduce costs and prolong the life of PEFCs.