

NEWS RELEASE

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SDK Maps Out New Business Plan “PEGASUS” for 2011-2015 Period --In Pursuit of “Evolving Chemical Company with Individualized Products”--

Showa Denko K.K. (SDK) has prepared a new medium-term consolidated business plan named “PEGASUS” for the 2011-2015 period in which SDK will, as an “evolving chemical company with individualized products,” aim to build up strong and diversified businesses on a global scale and establish leading positions on the market.

In response to the drastic changes in the business environment since the latter half of 2008, SDK has been carrying out structural reform under Passion Extension for the 2009-2010 period. As a result of withdrawal from unprofitable operations, drastic cost reductions, and improvement in profitability of base businesses, SDK is achieving V-shaped recovery in performance this year. Thus, SDK has decided to launch a new consolidated business plan for 2011 and after.

1. PEGASUS: Concept and basic strategy

a. Concept

While rapid economic growth in emerging countries is bringing about the rise in living standards, there is increasing need for concerted efforts to control impacts on the global environment. This social trend is producing new market needs. Specifically, demand is growing for compact electronic devices with higher quality, speed, and capacity, which will lead to more convenience and comfort.

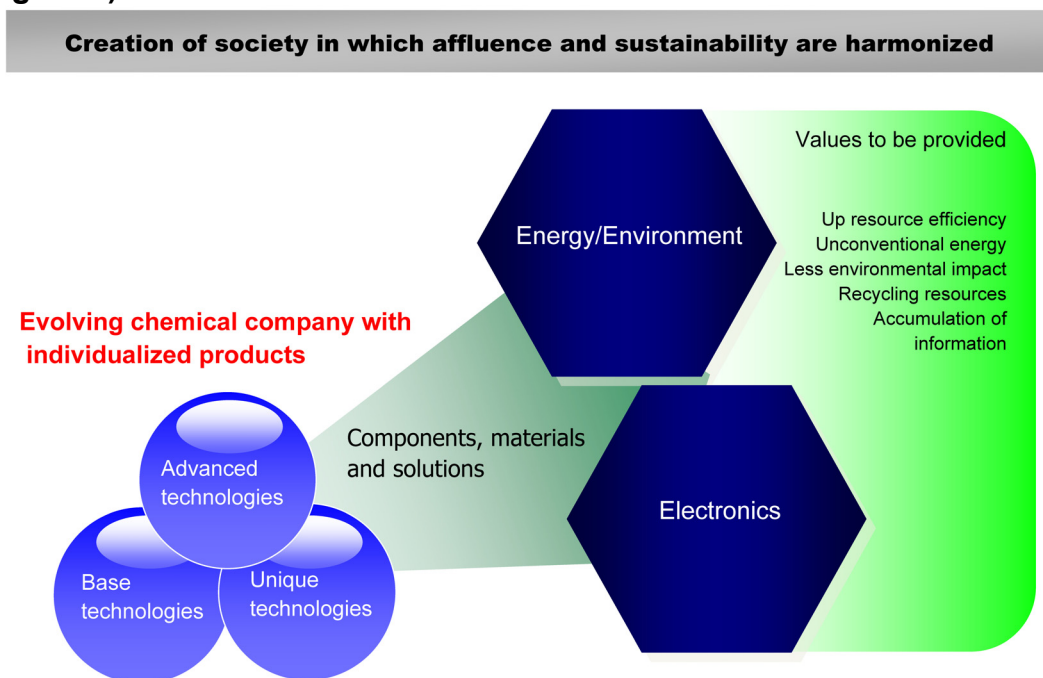
Furthermore, new technologies are needed to realize healthy and safe lifestyles through various environmental protection measures, including those against global warming. And the security of energy supply should be achieved through reductions in dependence on fossil fuels and conservation of energy.

To meet these global market requirements, we have decided to focus on the two business domains of “Energy/Environment” and “Electronics.” (See Figure 1.) We will provide components, materials and solutions in these areas based on our proprietary advanced technologies, thereby contributing to the creation of society in which affluence and sustainability are harmonized.

b. Basic strategy

In the business portfolio we aim to realize, we will classify businesses into three categories: growing base businesses, stable base businesses, and growth/new growth businesses. We will promote our growth strategy by concentrating our managerial resources on globally competitive operations. (See Figure 2.)

(Figure 1) Two business domains



1) Main businesses

“HD media” and “graphite electrodes” will be positioned as the main businesses. We will implement aggressive growth strategy for these two businesses, including expansion of production capacity. The two businesses will serve as major contributor to SDK’s profit and cash flows.

2) Growth/new growth businesses

We will expand businesses in high-purity gases for semiconductor processing and various functional materials. We will also aim to quickly commercialize new businesses in advanced materials for lithium-ion batteries, etc., SiC epitaxial wafers for power devices, and ally derivatives such as heat-resistant transparent films.

3) Overseas operations

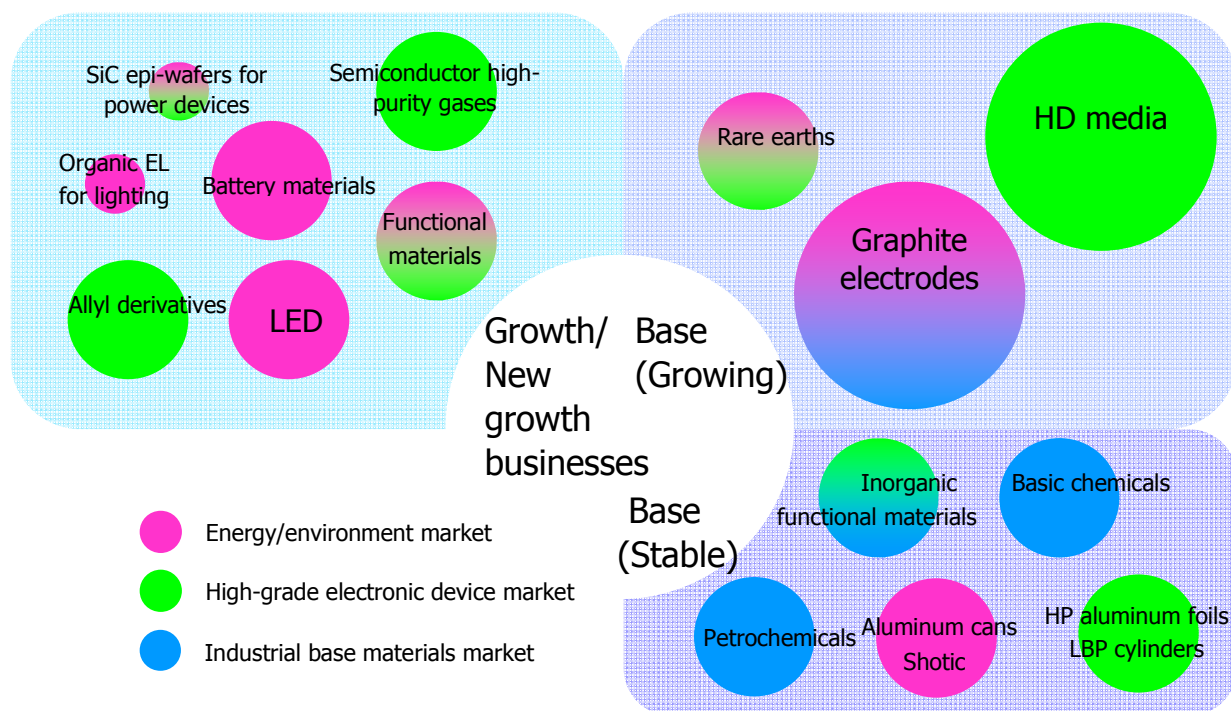
We will expand operations in growing markets, centering on Asia. In addition to the HD media and graphite electrode businesses, we will further expand our overseas operations in such areas as rare earth magnetic alloys, high-purity aluminum foils for capacitors, and aluminum cylinders for laser beam printers.

4) Utilization of M&A and partnerships

In addition to existing managerial resources, we will utilize M&A and partnerships, when necessary for promotion of business strategies and R&D, to accelerate the speed of launching new businesses.

Under PEGASUS, we will aim to record operating income of ¥80 billion and free cash flows of ¥40 billion in 2013.

(Figure 2) SDK's new business portfolio



2. Business strategy in priority areas

1) HD media

We expect that demand for hard disk drives (HDDs) will continue to grow by about 10% a year. This is because demand for notebook PCs in the emerging countries will maintain high growth and demand for high-capacity servers will grow for information processing at data centers with the progress in cloud computing. To meet growing demand, we will expand our production capacity, mainly in Singapore, and maximize capacity of existing facilities. We will speedily commercialize the sixth-generation PMR (perpendicular magnetic recording) media, and develop the next-generation SWR (shingled-write recording) media. Thus, we will aim to establish our leading position in the production of high-capacity HD media.

2) Graphite electrodes

Electric steel production is expected to grow at around 6% a year through 2015, centering on emerging countries, due to increasing need for iron resource recycling and reduction in environmental impact. SDK is the leading manufacturer of high-value-added very-large-diameter electrodes for electric steelmaking, having a 40% share in the global market in that sector. In view of the growing demand for electric steel driven by emerging economies, we will consider expanding production capacity in the U.S. and building a new production site (in addition to the existing two sites, one each in Japan and the U.S.). We will also secure stable procurement of needle coke. We will improve our production technology further to maintain our top-level status in terms of product quality and cost-competitiveness.

3) High-purity gases for semiconductor processing

The electronics industry continues to grow rapidly in such areas as semiconductors, LCD panels, LEDs, and solar cells, centering on Asian markets. In response to growing demand for specialty high-purity gases for the electronics industry, we have established operation sites in China, Taiwan, Korea, and Singapore. In view of the growing demand for gases for oxide/nitride film deposition, we will further expand our high-purity

gas operations in Asia and strengthen our presence. We will aim to quickly commercialize hydrogen selenide for solar cell applications, and develop a variety of new products, including the next-generation high-purity gases for film deposition.

4) LEDs

Demand for high-brightness LEDs will increase steadily for such applications as LCD TV backlight and general lighting, growing to ¥1.3 trillion by 2015. In the gallium nitride (GaN) LED chip business, we will improve productivity and efficiency to strengthen cost-competitiveness. Furthermore, we will commercialize large-diameter GaN epitaxial wafers based on our proprietary Hybrid PPD™ technology as a core field in LED operations.

3. R&D strategy

We will invest a total of ¥120 billion in R&D in the 2011-2015 period. We will promote R&D in areas to be directly linked to our growth. We will allocate 60% of the amount in growing base businesses and growth businesses, while allocating 20% in new growth businesses and in themes for search. Out of the new growth businesses, the following four items will be positioned as priority themes for quick commercialization:

- 1) Advanced battery materials: We will develop new electrolyte salt and liquid electrolytes for lithium-ion batteries. We will aim to establish technology for electric vehicles by 2012 and achieve commercialization by 2015.
- 2) SiC epitaxial wafers for power devices: We will aim to speedily realize stable supply of high-quality epitaxial wafers, meeting the needs for medium- to high-voltage applications.
- 3) Heat-resistant transparent films: After the scheduled start-up of a pilot plant in 2011, we will accelerate marketing efforts to ensure speedy commercialization.
- 4) Organic EL for general lighting: We will aim to achieve emissive efficiency of 80 lumen/watt and life of 40,000 hours to enable commercial use in lighting equipment.

4. Performance targets

1) Overall targets

Unit: Billion yen

	2011 Plan	2012 Plan	2013 Plan	2015 Image
Net sales	880	930	1,000	1,100
Operating income	45	62	80	110
Profit rate	5%	7%	8%	10%
Free cash flows	70 (Cumulative: 2011-2013)			50
ROA			7%	10%

2) Breakdown by segment

Unit: Billion yen

		2011	2012	2013
Petrochemicals	Sales	250	260	270
	O.I.	5	6.5	9
Chemicals	Sales	130	140	160
	O.I.	7	10	13
Electronics	Sales	200	220	235.0
	O.I.	25	32	33
Inorganics	Sales	90	100	110
	O.I.	10.5	16.5	23
Aluminum	Sales	120	115	120
	O.I.	7	7.5	9
Other	Sales	90	95	105
	O.I.	-9.5	-10.5	-7
Total	Sales	880	930	1,000
	O.I.	45	62	80

Notes:

The above segment-wise breakdown is based on our method of classification in accordance with internal business divisions ("management approach"). Major changes from the existing segmentation are as follows:

1. Former Showa Highpolymer is changed from "Petrochemicals" to "Chemicals."
2. The IPP (independent power provider) business is changed from "Aluminum and Other" to "Chemicals."
3. The business in high-purity gases for semiconductor processing is changed from "Electronics" to "Chemicals."
4. Shoko Co., Ltd.'s figures, now allocated business-wise, are to be included in "Other."

3) Capital investment plans

We will invest a total of ¥220 billion in the 2011-2013 period. By segment, priority will be given to Electronics, which includes the businesses in HD media and rare earth magnetic alloys; Inorganics, where capacity expansion for graphite electrodes is being considered; and Chemicals, in which operation sites in Asia are to be expanded for high-purity gases for semiconductor processing.

For further information, contact:

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