

NEWS RELEASE

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SDK Improves Financial Strength; Transforming Itself into A Focused, Individualized Chemical Company

Showa Denko K.K. (SDK) will have accomplished most of its goals of improving financial strength by the end of this year when the current medium-term consolidated business plan (the "Cheetah Project") is finished, although the initial profit targets will not be reached due to the drastic changes in the economic situation.

During the 2000-2002 period, SDK has carried out a plan to renovate operations to pave the way for future growth. SDK has strategically reduced the scope of its operations while maintaining investments in high growth potential areas. To improve its financial strength, SDK has been reducing fixed costs and improving the consolidated balance sheet by selling operations and affiliated companies that are not consistent with its target business portfolio as well as reducing debt and personnel.

Following the successful implementation of the Cheetah Project, SDK has mapped out a new consolidated business plan for the 2003-2005 period (the "Sprout Project") in which SDK will shift its focus from restructuring to expansion in strategically selected market areas of high growth potential.

Under the slogan of "Transforming a diversified chemical company into a focused, individualized chemical company," SDK will introduce individualized, competitive and high-value product lines based on leading-edge technologies developed through the interconnection of inorganic/aluminum and organic chemical technologies. SDK will target the three major growing markets of electronics, automotive parts, and personal care/environmental goods, while identifying 12 specific segments named "strategic market units (SMUs)."

The following explains the accomplishments achieved by SDK under the Cheetah Project and how the Company is preparing itself for the start of the new Sprout Project.

. Accomplishments under the Cheetah Project

1. Forecast of 2002 Results (Announced on August 20, 2002)

Net sales	¥ 680,000 million
Operating income	30,000
Ordinary profit	16,500
Net income	14,500
Retained earnings	3,000
Interest-bearing debt	590,000

2. Improvement in balance sheet

- (1) Elimination of accumulated deficit (Target: Elimination by the end of 2002)
While we had a deficit of ¥900 million at the end of June 2002, we will eliminate the deficit and record a ¥ 3 billion retained earnings at the end of December 2002.
- (2) Reduction in debt (Target: To ¥600 billion or less)
Compared with the debt of ¥711.6 billion at the end of 1998, SDK's debt at the end of 2002 is estimated at ¥590 billion, representing a reduction of ¥121.6 billion.
- (3) Improvement in debt equity ratio (Target: 4.0 or less)
The debt equity ratio, which was 8.2 at the end of 1998, is expected to improve to 3.9 at the end of 2002.
- (4) Reduction in personnel (Target: By 2,500 employees or more)
The number of employees will decrease to 10,973 at the end of 2002, from 13,464 at the end of 1998 (a reduction of 2,491). However, when we exclude 2,758 employees of the firms newly consolidated under the "virtual control" accounting standard, the number of employees at the end of 2002 would be 8,215, representing a decrease of 5,249.
- (5) Reduction in total labor cost (Target: By ¥20 billion)
Total labor cost for 2002 is estimated at ¥84.4 billion, a decline of ¥17.6 billion from ¥102 billion in 1998. When the newly consolidated subsidiaries are excluded, total labor cost for 2002 will be ¥72.7 billion. This means that total labor cost has actually been reduced by ¥29.3 billion.

3. Sale of operations and affiliated companies

The Cheetah Project called for the sale of 15 or more operations and affiliated companies to reduce debt by ¥50 billion. Actual results will be the sale of 25 firms/operations by the end of 2002, resulting in the reduction of debt by ¥28 billion.

	Petro-chemicals	Chemicals	Electronics	Inorganic materials	Aluminum	Other	Total
No. of firms / operations sold	9	6	1	1	4	4	25
Business areas	Six overseas injection molding firms (Hymold) and others	Hokkaido Industrial Gases and others	Showa Cabot Super-metals	High-purity electrolytic iron operation	Aluminum panel subsidiary and others	Mibugawa Electric Power, Showa Distribution and others	

4. Capital investment and R&D spending

(1) Capital investment

The aggregate amount of capital investment in the 2000-2002 period is estimated at ¥101 billion (depreciation in the same period: ¥118 billion), somewhat lower than the initial plan of ¥120 billion (planned depreciation: ¥126 billion). This is because some projects have been postponed due to the IT recession and because we made investments in a very efficient manner.

(2) R&D spending

The aggregate amount of R&D spending in the three-year period is estimated at ¥60 billion as compared with the initial plan of ¥61 billion.

5. Cost reductions (2002 vs.1999)

(1) SDK has reduced total cost by ¥40 billion. This consists of ¥14 billion in total labor cost, ¥20 billion in manufacturing cost, ¥4 billion in distribution cost, and ¥2 billion in general administrative expenses.

(2) As part of the above, SDK has cut expenses at the head office by ¥4 billion.

6. Steady implementation of business strategies in line with the target portfolio

(1) Electronics

Expanding into new areas and further increasing the technological strengths

- HD business strengthened
- Compound semiconductor business expanded and strengthened
- A 1.5-ton rare earth alloy furnace installed
- Overseas network for specialty gas operation established

(2) Aluminum

Pursuing synergies from merger, and accelerating rationalization and overseas expansion

- Merged with Showa Aluminum Corporation and Shotic Corporation
- Global setup of producing heat exchangers (sites in Japan, USA, Europe and Asia)
- Global setup of producing *Shotic* forged products (sites in Japan, USA, Europe and Asia)
- Accelerating cost reductions in commodity businesses

(3) Chemicals

Steadily expanding profitable operations and reducing costs

- Launch of independent power provider (IPP) operations at Kawasaki
- Closer cooperation with Asahi Glass Co., Ltd. in the refrigerant business
- Expansion of the pharmaceutical/agrochemical intermediate product lines

(4) Petrochemicals

Curtailment of ethylene capacity at Oita; thoroughgoing cost reductions at Oita and Tokuyama; restructuring of acetyls business

- Strategic reduction in ethylene production capacity at Oita (To 600,000 tons per year)
- Secured a long-term guaranteed supply of methanol-process acetic acid from BPPA plant in Malaysia

(5) Inorganic materials

Rationalization and withdrawal from unprofitable operations

- Decided to withdraw from the ferrochrome business at Shunan Denko K.K.
- Withdrew from the commodity ceramics business (commodity refractory products, etc.)

7. Summary

(1) Strategic reduction in the scope of operations for future growth

- Although the profit level is lower than the targets set forth in the Cheetah Project, we are successfully improving our financial strength by eliminating accumulated deficit and substantially reducing debt.
- Based on the successful top-down implementation of the Cheetah Project, SDK has mapped out the Sprout Project, which is an action plan for growth.

(2) Corporate culture innovation

We have reformed our corporate culture to ensure that employees become more alert and ready to assume full accountability for his/her actions. We have also reformed the performance rating system and carried out organizational changes. Through these measures, we have reformed the SDK Group into a more focused organization where all employees share the same goals and get united.

Corporate culture innovation: Sharing of the sense of crisis; Greatest emphasis on speed; Stricter compliance with laws and regulations

Reform of performance rating system (Based on the levels of financial targets achieved, including ROA and cash flows)

- Reformed the system of remuneration for directors of SDK and its Group companies
- Reformed the system of performance rating for employees who are staff managers or in higher positions

Organizational changes

- Reform at the head office (Concentration and strengthening of corporate strategy functions)
- Reform at respective business sectors (Reorganization of the Works whereby their functions are now directly managed by executive officers of respective business sectors; Introduction of the supply chain management system, etc.)

8. Basic strategy for the 2000-2005 period (Prepared in 1999)

- 2000-2002: Cheetah Project (Strategic reduction in the scope of operations for future growth)
- 2003-2005: An action plan for the remaining three-year period (Shifting to a growth strategy)

SDK announced the outline of the Sprout Project in January 2002 based on the successful implementation of the Cheetah Project. During the period of the Sprout Project, SDK will vigorously pursue growth under the slogan of "Transforming a diversified chemical company into a focused, individualized chemical company."

. Promotion of the Sprout Project

1. SDK's Vision (Announced in January 2002)

“SDK will provide products and services that are useful and safe and meet the customer requirements, thereby enhancing the Company's value, giving satisfaction to our shareholders, and contributing to the sound growth of international society.”

By pursuing the growth strategy as defined in the Sprout Project, we will realize this vision.

2. Basic concept of the growth strategy

(1) Pursuit of technological synergies

We are transforming ourselves from a diversified chemical company (operating many businesses with little synergy) into a focused and individualized chemical company by pursuing synergies through the interconnection of inorganic/aluminum and organic chemical technologies.

(2) Change to market-oriented way of thinking

We are changing our way of thinking from a production-based concept (only offering the product we produce) to a market-oriented concept. This means that we determine our business domains in view of the target markets (SMUs) and our individualized technology base.

3. Business portfolio

(1) Background

We first examined our existing extensive businesses and technical capabilities and analyzed our three major target markets, namely, electronics, automotive parts, and personal care/environmental goods. Then we identified the areas where we can expect high growth by fully utilizing our core technologies. Based on the specific market segments thus identified (SMUs), we have classified all our businesses into the following three categories:

“Strategic growth businesses” that are directly linked to SMUs and will serve as growth engines for SDK and its Group companies

“Base businesses” that will, despite their relatively low growth potential, support the strategic growth businesses

Businesses that need restructuring regardless of current earnings power

(2) Business portfolio

Segment	Strategic growth businesses	Base businesses	Businesses that need restructuring
Petrochemicals		Specialty polymers (vinyl ester, allyl ester)	Olefins Organic chemicals Polyolefins Plastic products
Chemicals	Specialty chemicals (Raw material for cosmetics; Pharmaceutical/agrochemical intermediates; Amino acids, etc.)	Basic chemicals (ammonia, industrial gases, etc.) Agrochemicals Fumigant	

Electronics	Specialty gases & chemicals for semiconductor processing Compound semiconductors Rare earths Solid conductive polymer aluminum capacitors		Hard disks Memory disks
Inorganic materials	Fine carbons Advanced ceramics	Graphite electrodes	Commodity ceramics
Aluminum and others	High-performance aluminum components (<i>Shotic</i> forgings; <i>ST60</i> aluminum alloy for heat sinks; Photosensitive drums for laser printers) High-purity aluminum foil for capacitors Heat exchangers Environment-related business	Aluminum cans	Ingot/alloys Commodity aluminum materials

4. Strategic market units (SMUs)

We have identified the following 12 SMUs in view of our competitive edges and market growth potential. All strategic growth businesses under the Sprout Project will be conducted through the SMU approaches.

[Electronics]

Communications devices; Displays and their materials; Semiconductor processing materials; Capacitors and their materials; Battery materials; Magnetic materials

[Automotive parts]

Parts/components that facilitate the production of lighter cars; Heat exchangers

[Personal care/Environmental goods]

Raw material for cosmetics; Life science products; Energy-saving systems; Printer parts

5. Preparations already made for the start of the Sprout Project

(1) Technology

- Consolidation of the Technology & Research Headquarters and the Production Technology Headquarters into one Technology Headquarters
- Establishment of the Technology Platform system (27 platforms corresponding to the 27 core technologies)
- Introduction of the Stage Gate system for R&D

(All of the above were implemented in March 2002.)

(2) SMU

- Launch of 12 SMU projects (May 2002)
- Establishment of the SMU strategy (July 2002)
- Start-up of the information sharing system among respective SMU project members (December 2002)

(3) Strategy for individual businesses

Specific business strategies were established for all of the individual businesses, including those in the categories of “Base businesses” and “Businesses that need restructuring.” (October 2002)

6. SDK's core technologies

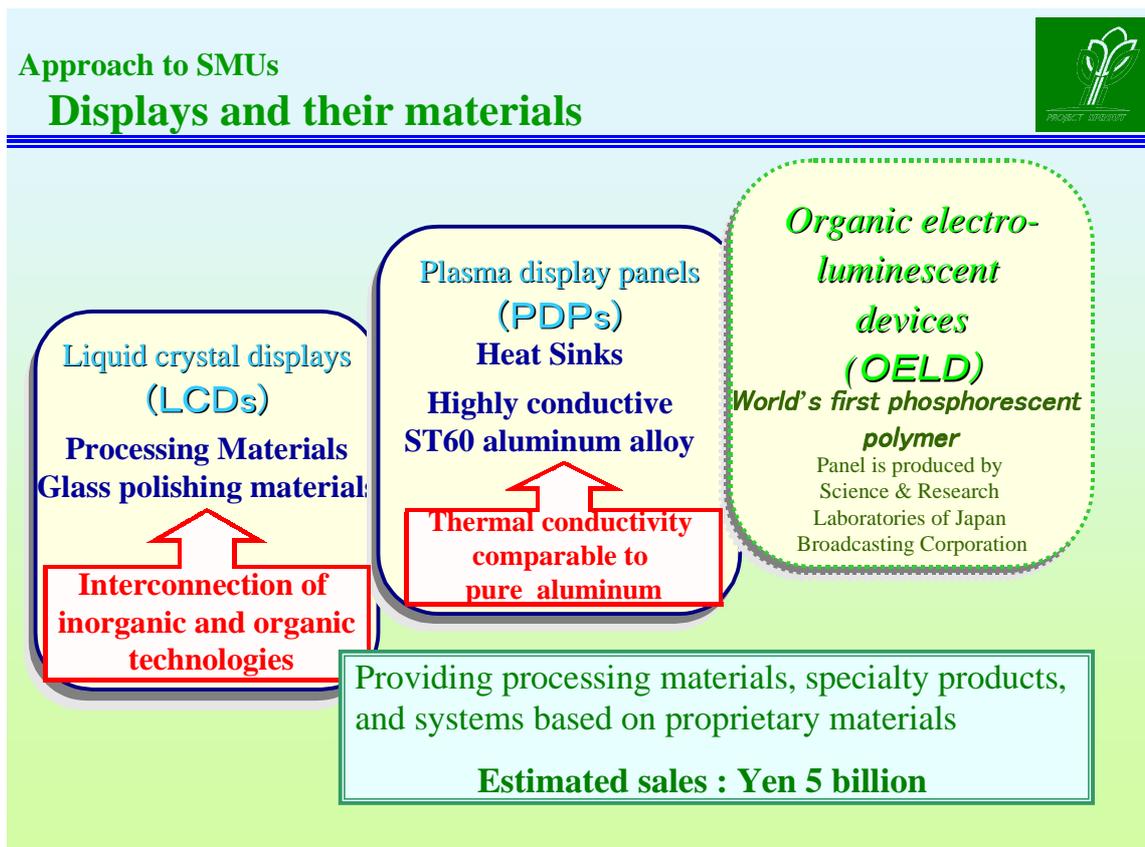
SDK possesses the following 27 core technologies. By further developing and interconnecting each of these core technologies, SDK will provide customers with individualized products meeting their requirements.

Organic electronic materials; Batteries; Capacitors; Magnetic recording materials; Inorganic electronic materials; Crystal growth process; Thin film deposition process; Precision fabricating process; Micro-system process; Functional gases; Ultimate conditions process; Heat transfer system; Casting process; Plasticity processing; Bonding; Functional metallic materials; Functional molecular design; Controlled reaction design; High-performance catalysts; Specialty polymer design; Fine particles; Biochemistry; Organic chemicals manufacturing process; Surface and interface chemistry; Structural analysis; Chemical analysis; and Computational science

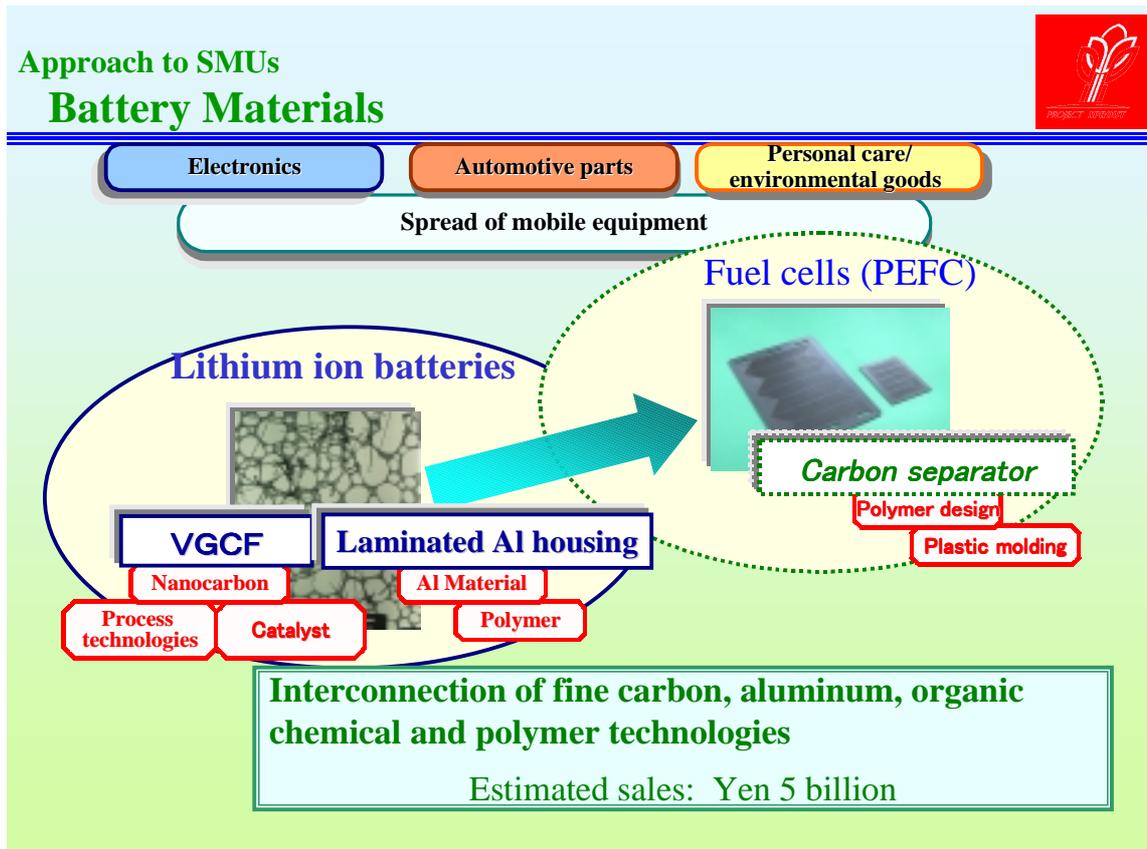
7. Approach to SMUs

In all areas of strategic growth businesses, we will develop individualized products differentiated from those of competitors and having high value. The following shows specific examples of how we will approach targeted market segments based on the SMU concept:

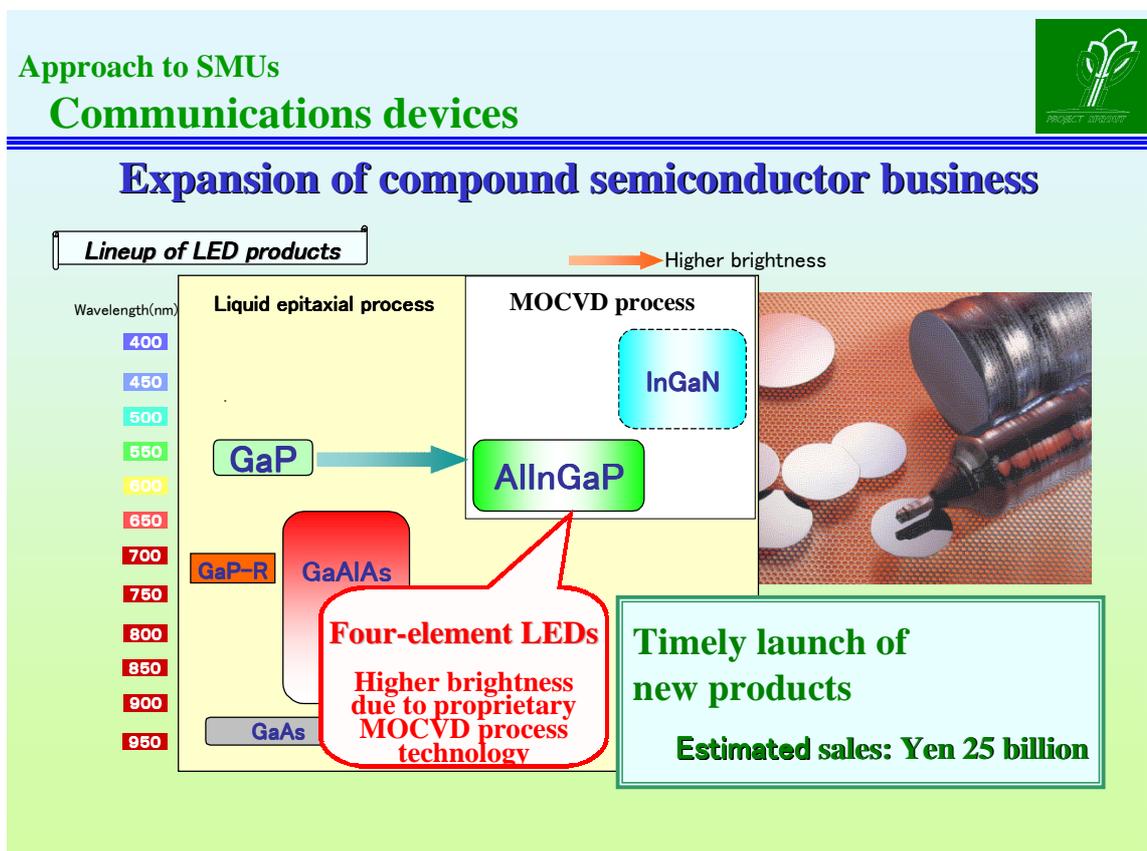
(1) Displays and their materials



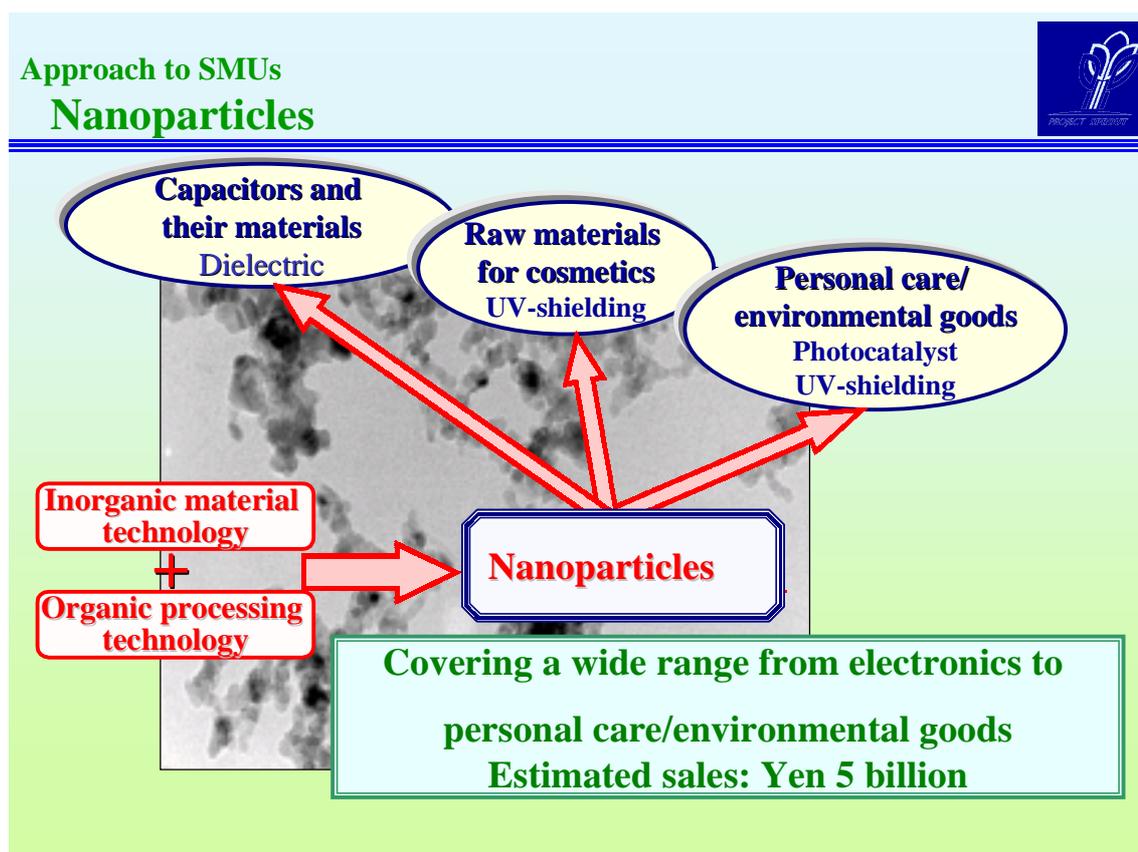
(2) Battery materials



(3) Communications devices



(4) Nanoparticles



8. Base businesses; Businesses that need restructuring

(1) Base businesses

- Basic chemicals

Strengthening competitive position through cost reduction and other measures
(Example: Production of ammonia by gasifying waste plastic)

- Graphite electrodes

Production sites in Japan and USA, with the best quality and cost competitiveness in the world

(2) Businesses that need restructuring

- Petrochemicals

In the process of establishing first-class cost competitive position in Asia at our ethylene plant in Oita

Planning to form a polyethylene alliance with Japan Polychem Corporation

Expanding acetyls operations

- HD and MD

Acquired Mitsubishi Chemical Group's HD business, becoming the largest OEM maker in the world (with a 15% share of the world's HD production, including HDs produced for internal use)

- Commodity ceramic products

Shift of production to sites in China

- Commodity aluminum materials
 Rolled products operations being shifted to strategic growth products such as high-thermal-conductivity *ST60* aluminum alloy and high-purity aluminum foil for capacitors
 Extrusion operations shifting to high-value products, with consolidation of production sites
 SKY Aluminum and the aluminum business of Furukawa Electric Co., Ltd. are going to be merged.

9. Globalization strategy, focusing on China and other Asian countries

Location close to customers	Location for the benefit of cost and raw material procurement
HDs (Singapore)* MDs (Malaysia) Specialty gases for semiconductor processing (Taiwan, Shanghai, Singapore) Heat exchangers (Thailand, USA, Czech) <i>Shotec</i> (USA, Singapore, Portugal) Photosensitive drums (USA) Ethyl acetate (Indonesia) Graphite electrodes (USA) Vinyl ester, BMC (Shanghai)	Rare earth (China)* Heat exchangers (the Philippines, Indonesia) Acetic acid (Malaysia) Commodity ceramics (China)*

* Projects to be launched under the Sprout Project
 Several other projects are being considered.

10. Further improvement in financial strength

	2002	2005
ROA (operating income basis)	3.0% □	5.1%
Interest-bearing debt	¥590 billion □	¥520 billion
Debt equity ratio	3.9 □	2.8

11. Organizational changes to take effect in January 2003

- (1) The Fine Carbon Department under the Carbons & Metallic Materials Division will be reorganized into an independent Fine Carbon Division. The new division will proceed with the expansion of nanocarbon materials business (*VGCF*, *VGNF*, etc.). It will also play a leading role in the promotion of "Battery materials SMU" project.
- (2) The HD Division and the MD Division will be consolidated to coincide with the acquisition of Mitsubishi Chemical Group's HD business.
- (3) Corporate Ethics Committee will be established as a means to ensure stricter compliance with laws and regulations.

12. Cost reductions to be realized in 2003 (Compared with the 2002 levels)

Labor cost / "Small head office"	¥2 billion
Manufacturing cost	¥4 billion
Purchasing	¥2 billion
<u>SCM / Distribution</u>	<u>¥2 billion</u>
Total	¥10 billion

SDK is committed to fully implementing the strategies under the Sprout Project, thereby enhancing the corporate value and realizing its vision.

For further information, contact:

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