



Progress in the Medium-term Business Plan “PEGASUS Phase ” (2014 ~ 2015)



*Notes to this presentation material
are on page 43.

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Review of PEGASUS (2011 ~ 2014)

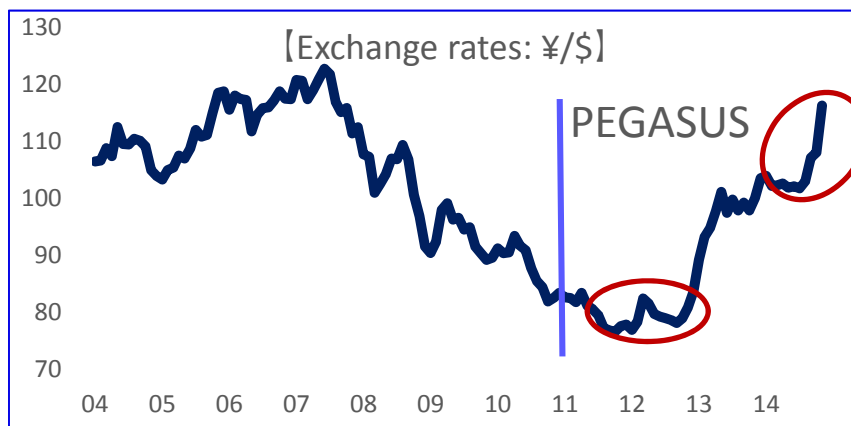
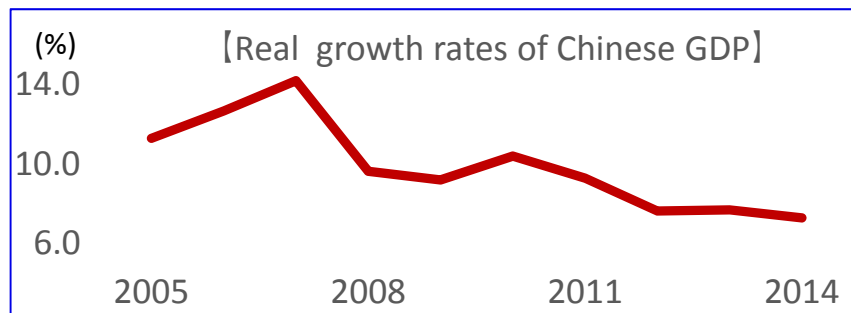
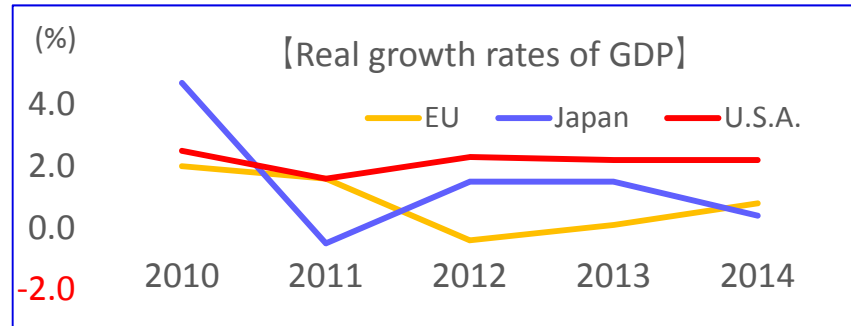
Changes in macro economic environment

Structural change in the world economy

Drastic changes in exchange rates

Tough global competition in manufacturing industry

Rise in electricity cost



Changes in the business environment-1

“Two wings” of PEGASUS

Hard disc (HD) media

Stable demand

Restructuring of HD industry is in progress

Shift in application

(from PCs to servers)

SDK increases its share in the OEM HD media market



Graphite electrodes (GE)

Failed to achieve our goal due to upheaval in the business environment

Easy supply-demand balance in global steel market

USA: Market remains firm

EU: Recovery expected but sluggish

China: Oversupply continues



Changes in the business environment-2

Naphtha and petrochemicals prices plummeted

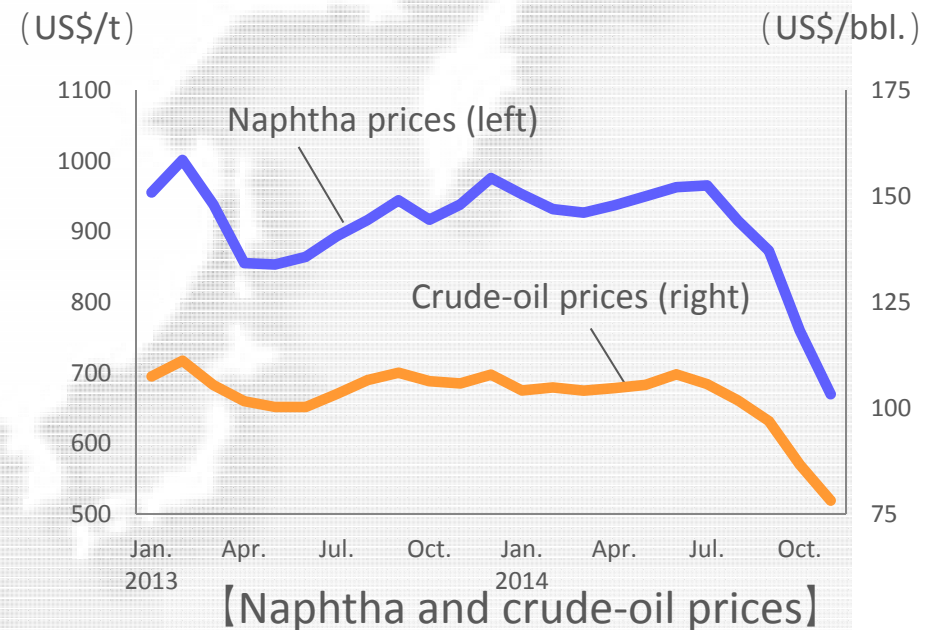
- Increase in shale oil & gas production
- Crude-oil prices plummeted

China restricts rare-earth export

Aluminum price soared in East Asia



【Domestic aluminum prices】



In Japan, extremely strong yen damaged SDK's revenue base

Structural changes in customer industries (Electronics, Cars)

Rise in material and energy cost of basic chemicals (Electricity, LNG)

Measures taken in PEGASUS

PEGASUS

Structural reform to cope with drastic changes in the business environment

- 1) Strategy to accelerate growth
 - 2) Restructuring of business scheme
 - 3) R&D focusing on promising themes
- 2015: Acceleration of structural reform

Improvement in earning power

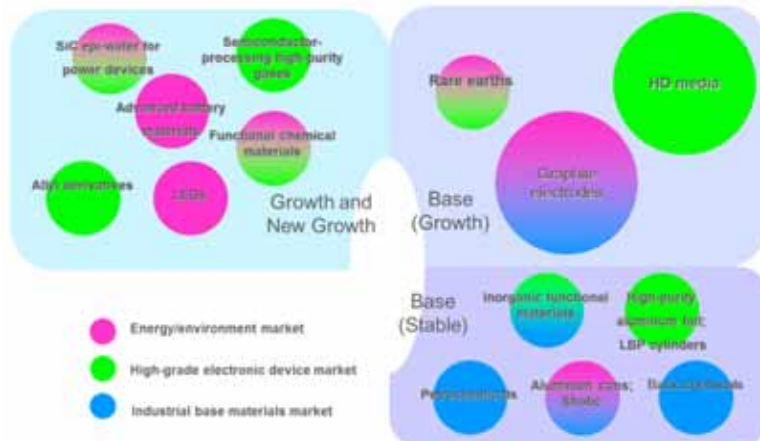
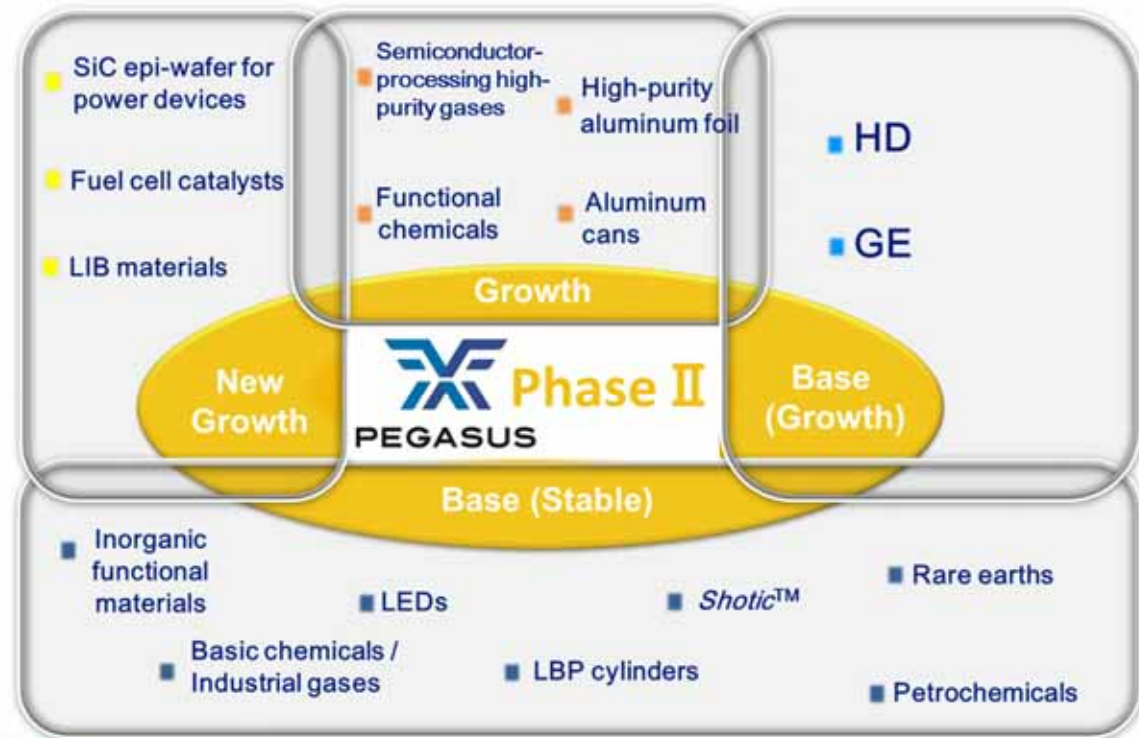


**Post-PEGASUS
Faster Growth**



Business portfolio in PEGASUS

Phase II
(2014~2015)

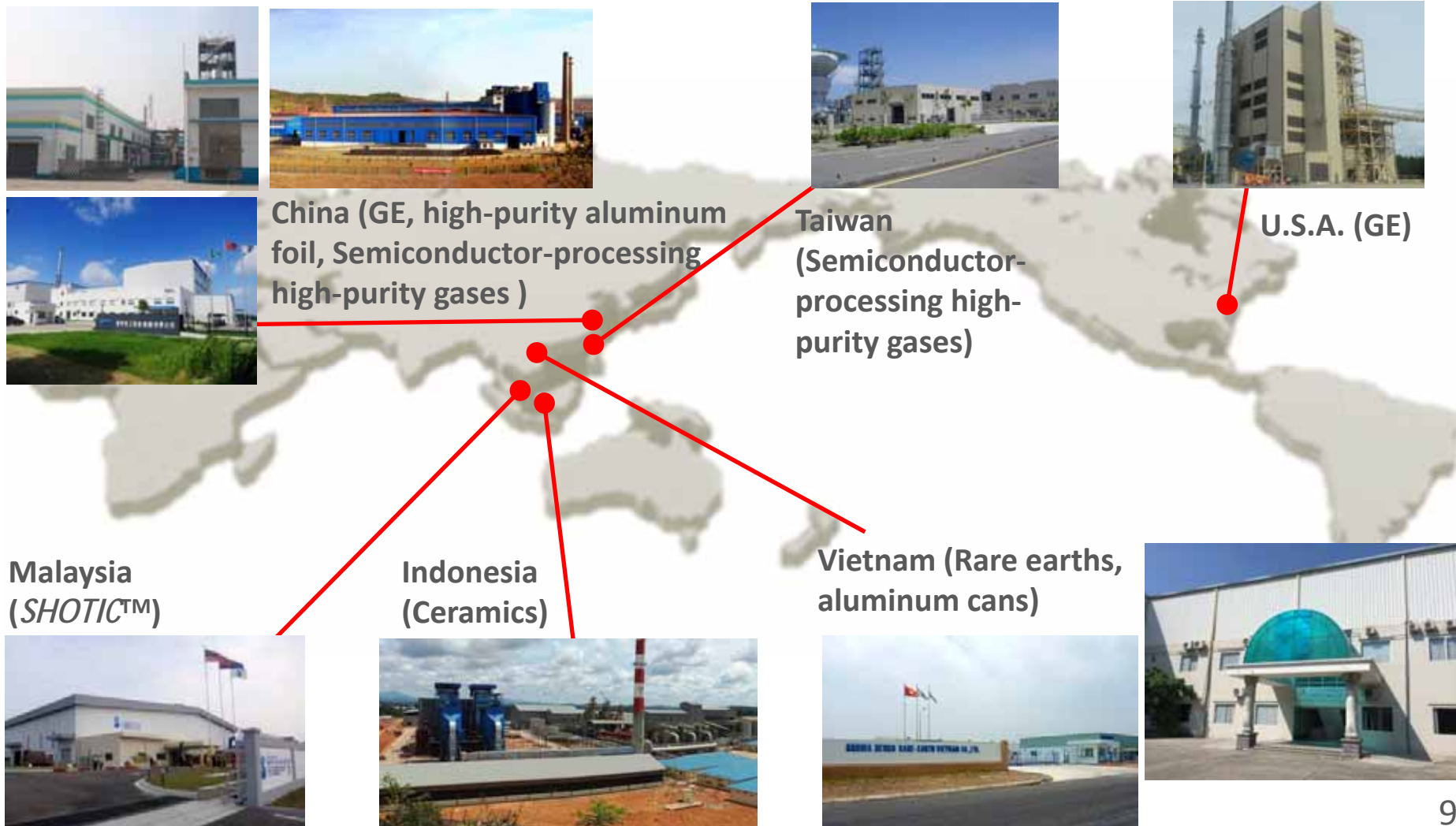


Phase I
(2011~2013)

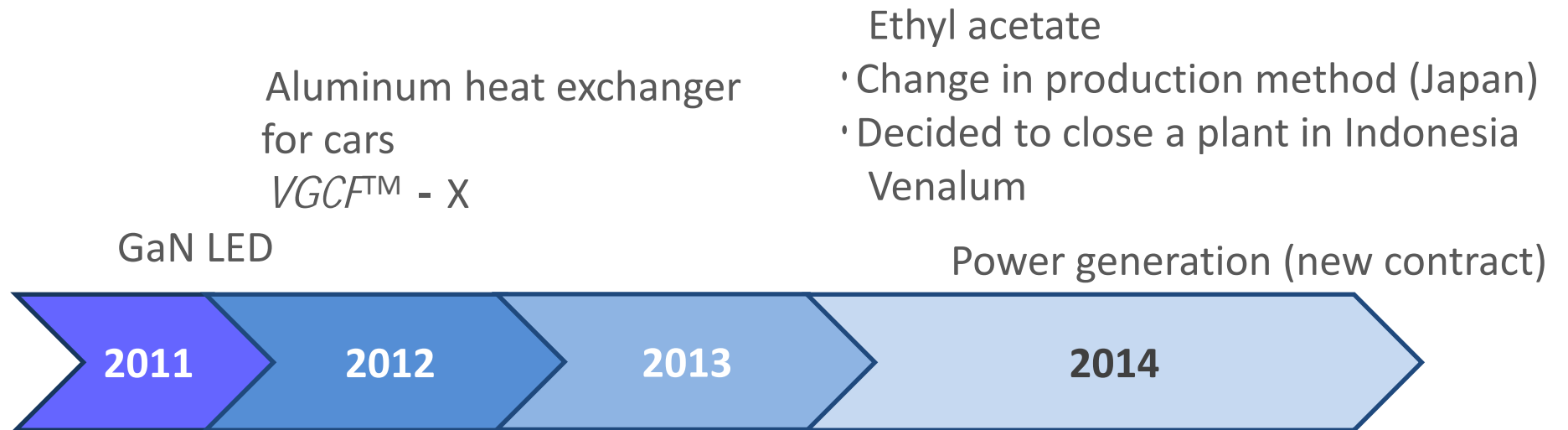


1) Strategy to accelerate growth

Investment overseas, focusing on Asia



2) Restructuring of business scheme



【Power generation plant in Kawasaki】

Aluminum panels
Aluminum alloys

Alumina

- Closing Yokohama Plant
- Shifting to new plant in Indonesia

Ceramics

- Integration of domestic plants

Acquisition of treasury stocks

First case for SDK

Acquired treasury stocks amount to
68.3 million shares (¥10 billion)

Considering repetition

2)-2 Restructuring of aluminum business

Concentrate resources on high value-adding businesses with technical advantages

Materials & processing business

Heat exchanger for cars :

Transferred to Keihin Corp.

Alloy: Transferred to Asahi Seiren Co., Ltd.

Panels:

Transferred to Fukushima Industries Corp.

Restructured overseas aluminum refining businesses

Devalued shares of Venalum

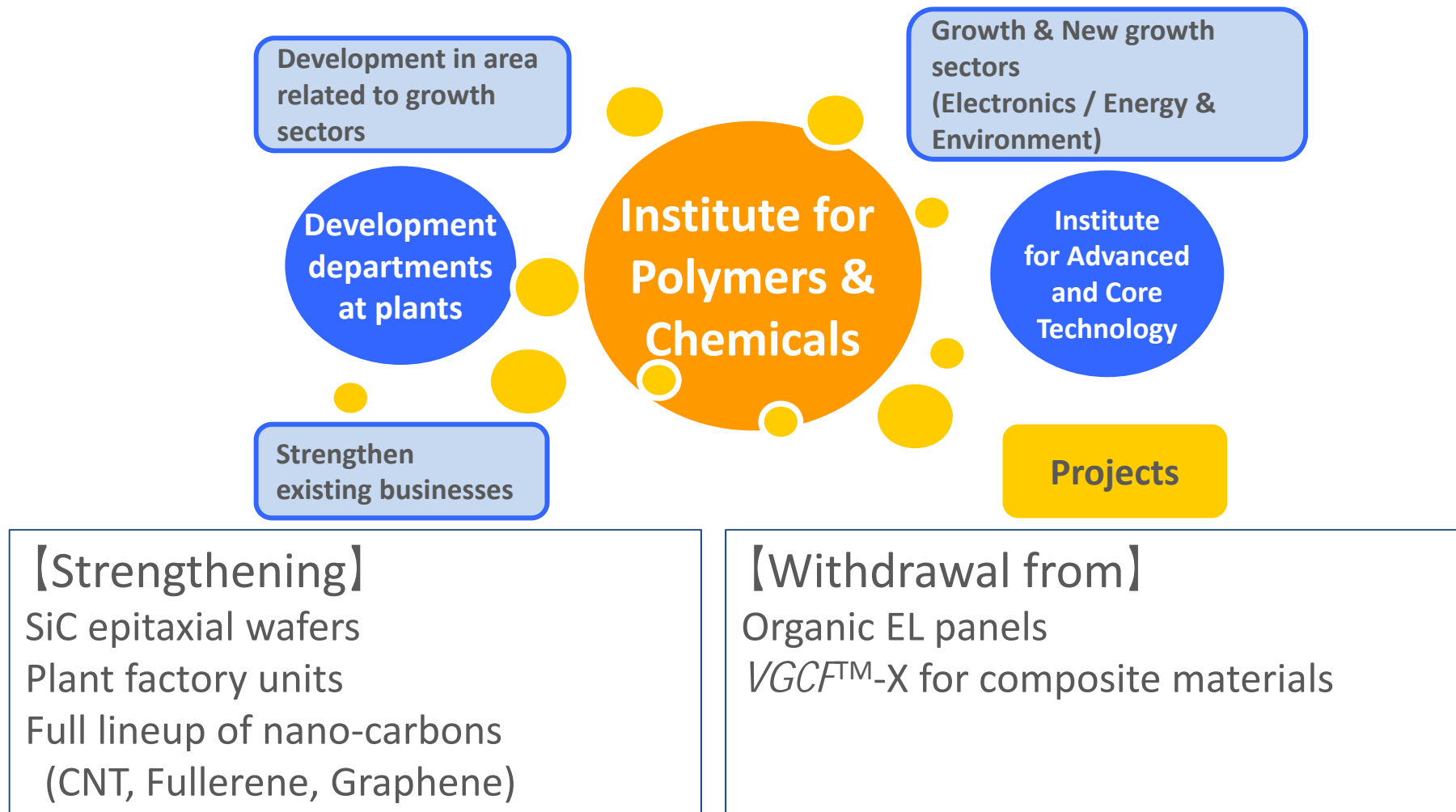
Termination of Asahan Project

【Focusing on core business cluster】



3) R&D focusing on promising themes

Focuses on supporting expansion of existing businesses



Revision of 2014 financial forecast

(Billions of yen)

	2014 Previous forecast*	2014 Latest forecast	Increase/ decrease
Net sales	895.0	885.0	-10.0
Operating Income	32.0	25.0	-7.0
Ordinary Income	26.0	24.0	-2.0
Net Income	7.0	5.0	-2.0

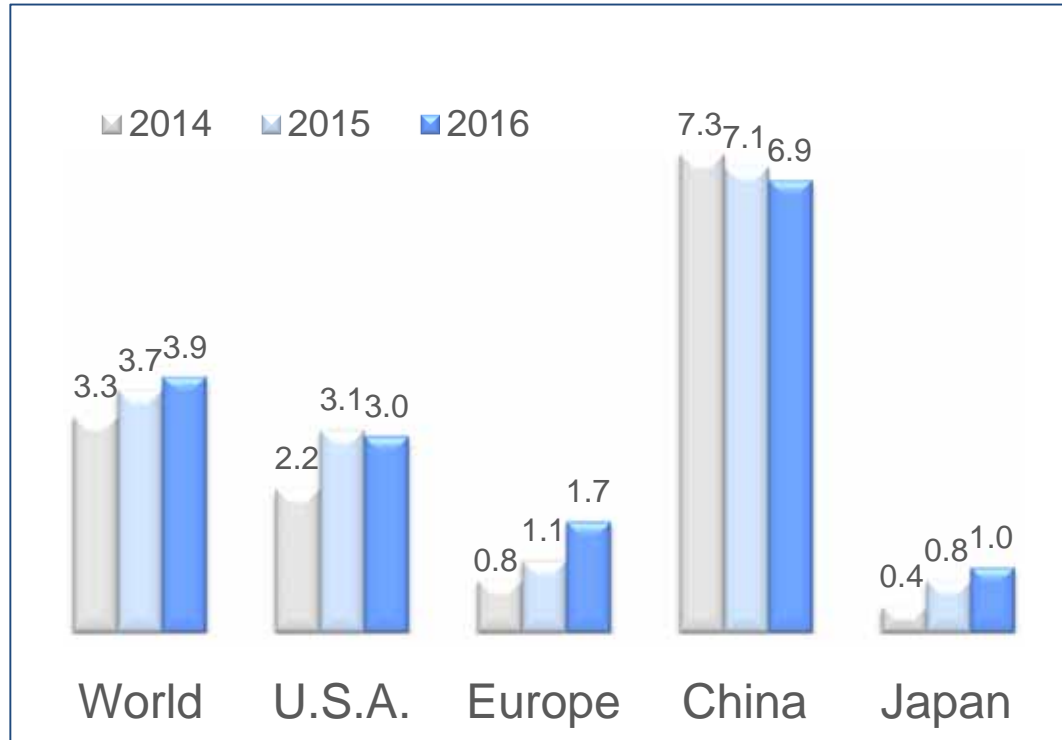
*Announced on July 31, 2014

【Primary factors in the profit decrease】

- Petrochemicals: Naphtha price plummeted. Loss margin accrued from the difference between procurement and consumption prices of raw materials.
- Aluminum: Rise in aluminum metal price

Outlook and business strategies for 2015

Outlook for world economy



【OECD: Economic outlook (real GDP growth rates)】

(November 2014)

Overseas

U.S.A.: Strong growth
 Europe: Delay in recovery
 China: Slower growth continues

Japan

Graver uncertainty
 Exchange rates, Oil prices
 Tax system including consumption tax
 Electricity rates
 Implementation of growth strategy

2015 Financial outlook: Considerable increase in profit

2015 Management policy

Cope with upheaval in the business environment

Steady implementation of measures

Make utmost effort to come closer to the Phase target

Overseas: Put launched projects onto growth paths

In Japan: Steady restructuring

Formulate post-PEGASUS business plan

Measures for improvement

Petrochemicals:

Make measures effective

Maximize profit (Strengthen earning power of organics sector.

Achieve high operating rate of ethylene plant)

GE: Tight supply and demand in North America Price revision

Aluminum cans:

Soaring aluminum metal price

Make sales prices fair

Realize the benefits of weaker yen

Reduce extraordinary losses by making considerable progress in restructuring

Financial goals and assumptions

(Billions of yen)

	2014 Latest forecast	2015 Image	2015 Phase target
Net sales	885.0	960.0	950.0
Operating income	25.0	40.0	50.0
Net income	5.0	15.0	25.0
ROA (%)*	2.5	4.0	5.0

*Operating income / Total assets

【2015 assumptions】

Exchange rate: 115 yen to USD

Naphtha price: 60,000 yen per KL

Factors in deviation from 2015 initial plan

Factors to increase income

Business slowdown in Japan and China

Sluggish demand

GE: Delay in recovery of market price

Aluminum cans and High-purity aluminum foil:

Substantial rise in aluminum metal price and energy cost

RE: Delayed market recovery

LIB materials: Delay in dissemination of car use

Factors to decrease income

Semiconductor-processing high-purity gas :

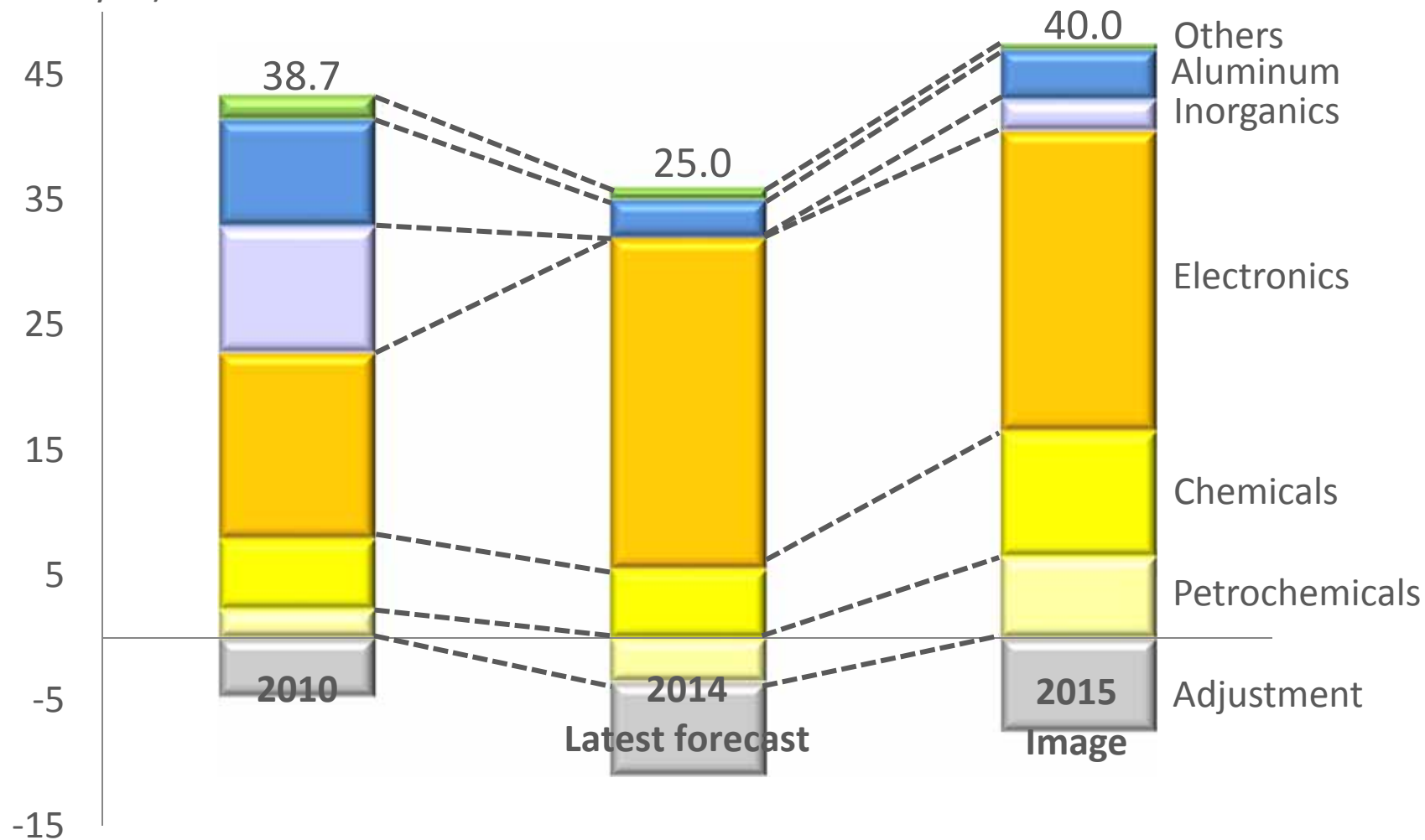
Market expansion in Asia

Successful expansion strategy

Benefit of a weak yen

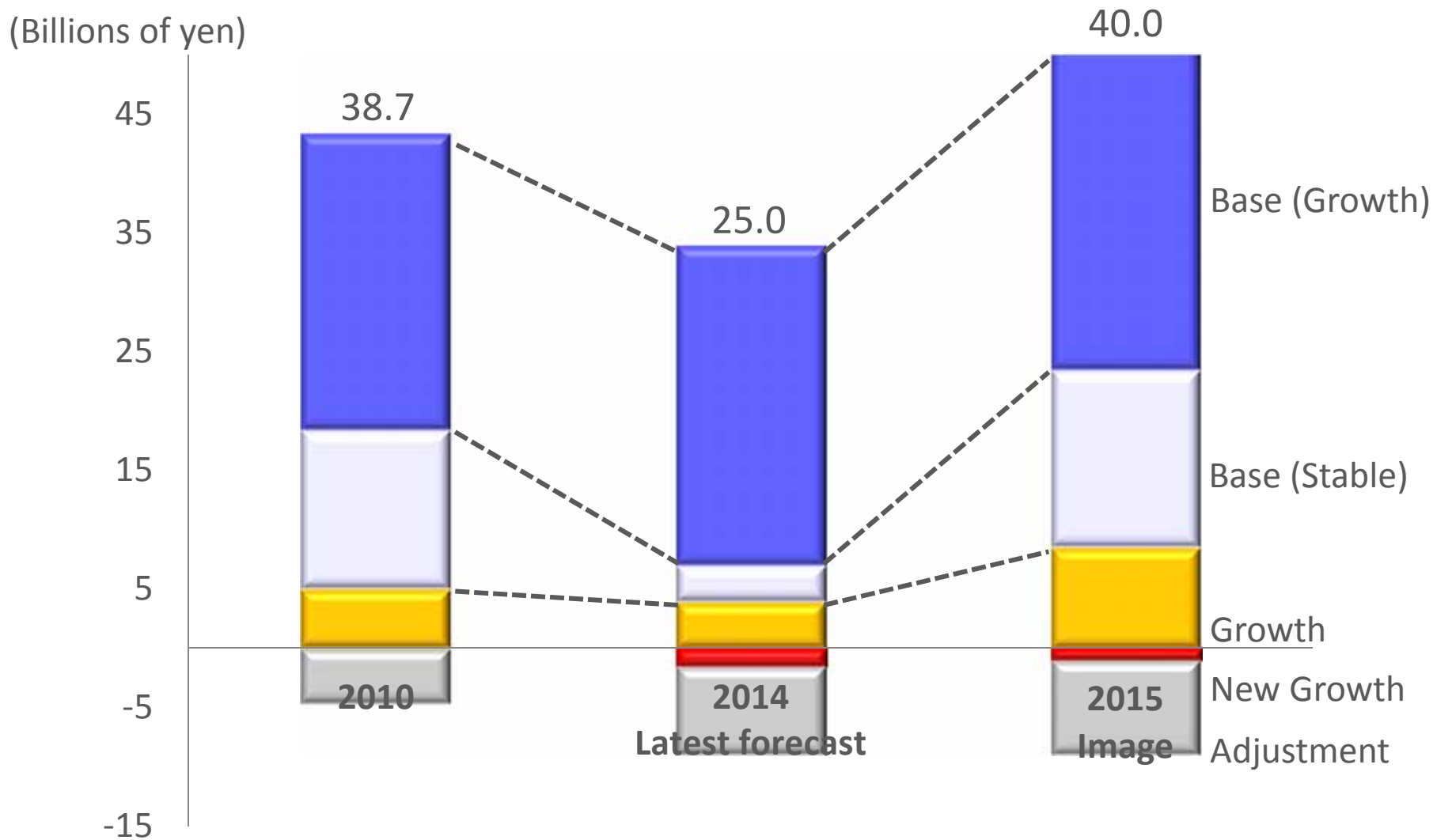
Operating income by segment

(Billions of yen)

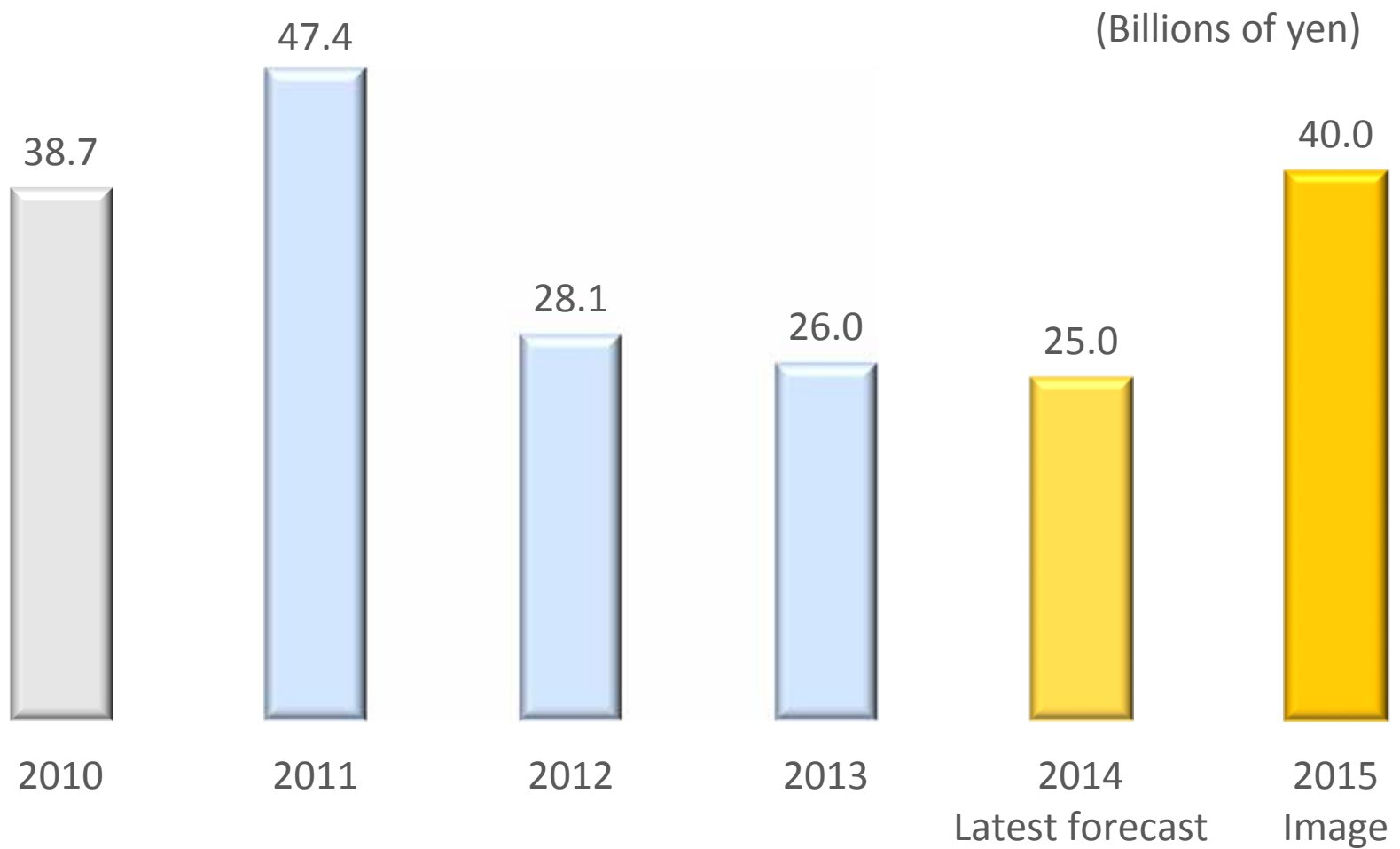


*The data of 2010 is recalculated with new segmentation.

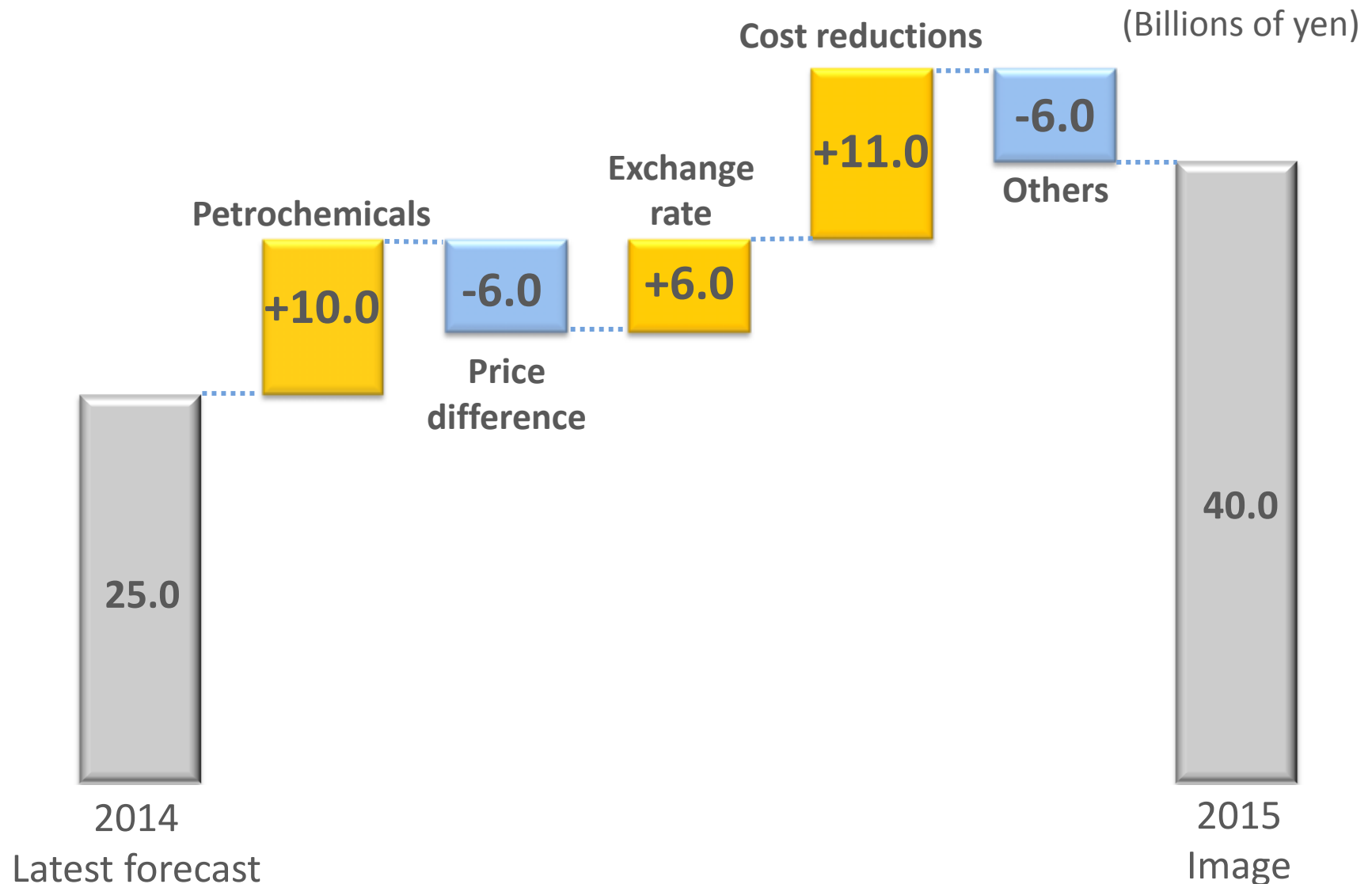
Operating income by business portfolio



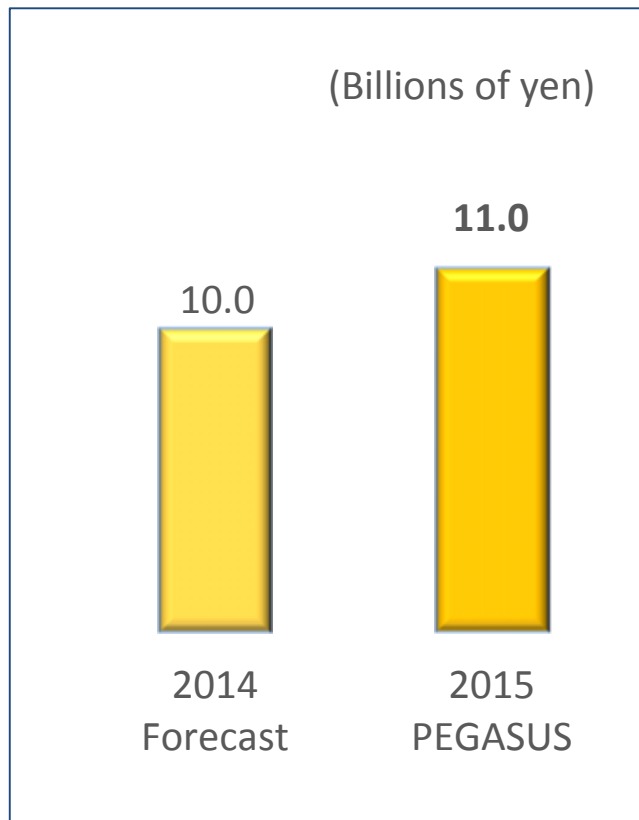
Operating income



Analysis of changes in operating income by factor (2014 vs. 2015)



Cost reduction plan



Major cost reduction efforts

HD: Optimize functions of each site to produce aluminum substrates

RE: Reinforce materials recycling plant in Vietnam

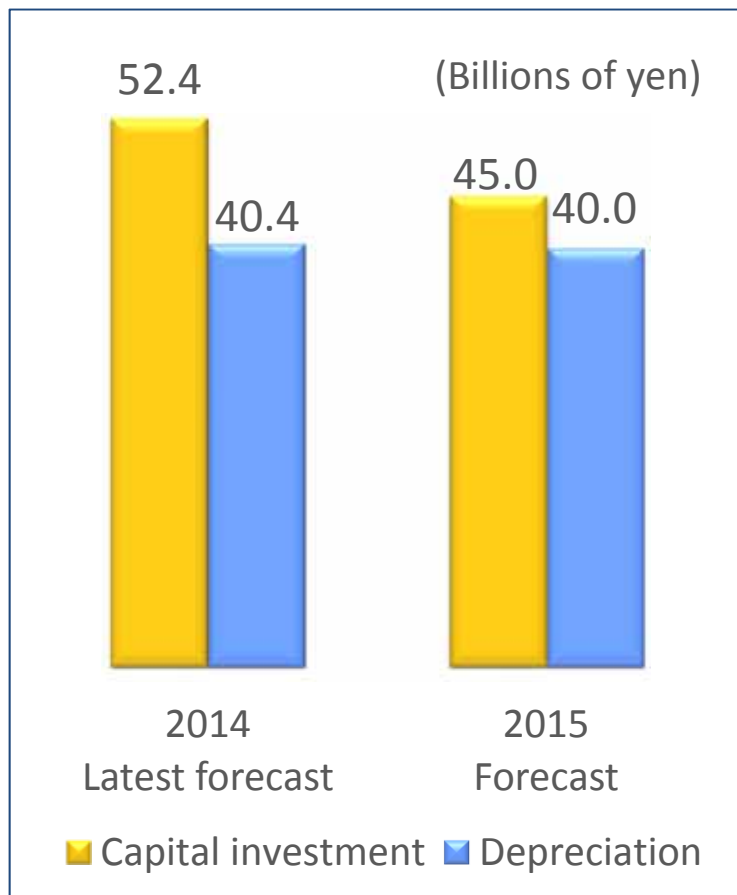
Chemicals: Wider use of recycled plastics as materials to produce ammonia

Organics: Full year use of new method to produce ethyl acetate

Alumina: Stop Yokohama Plant

→ Start production in Indonesia

Capital investment plan



Major investments

(2014)

GE: Plant expansion in U.S.A. completed

Petrochemicals: Periodic maintenance in large scale, Change in method of ethyl acetate production

SHOTIC™:

New plant in Malaysia starts operation

LIB packaging materials: Plant expansion

(2015)

Aluminum cans: Reinforce subsidiary's plant in Vietnam

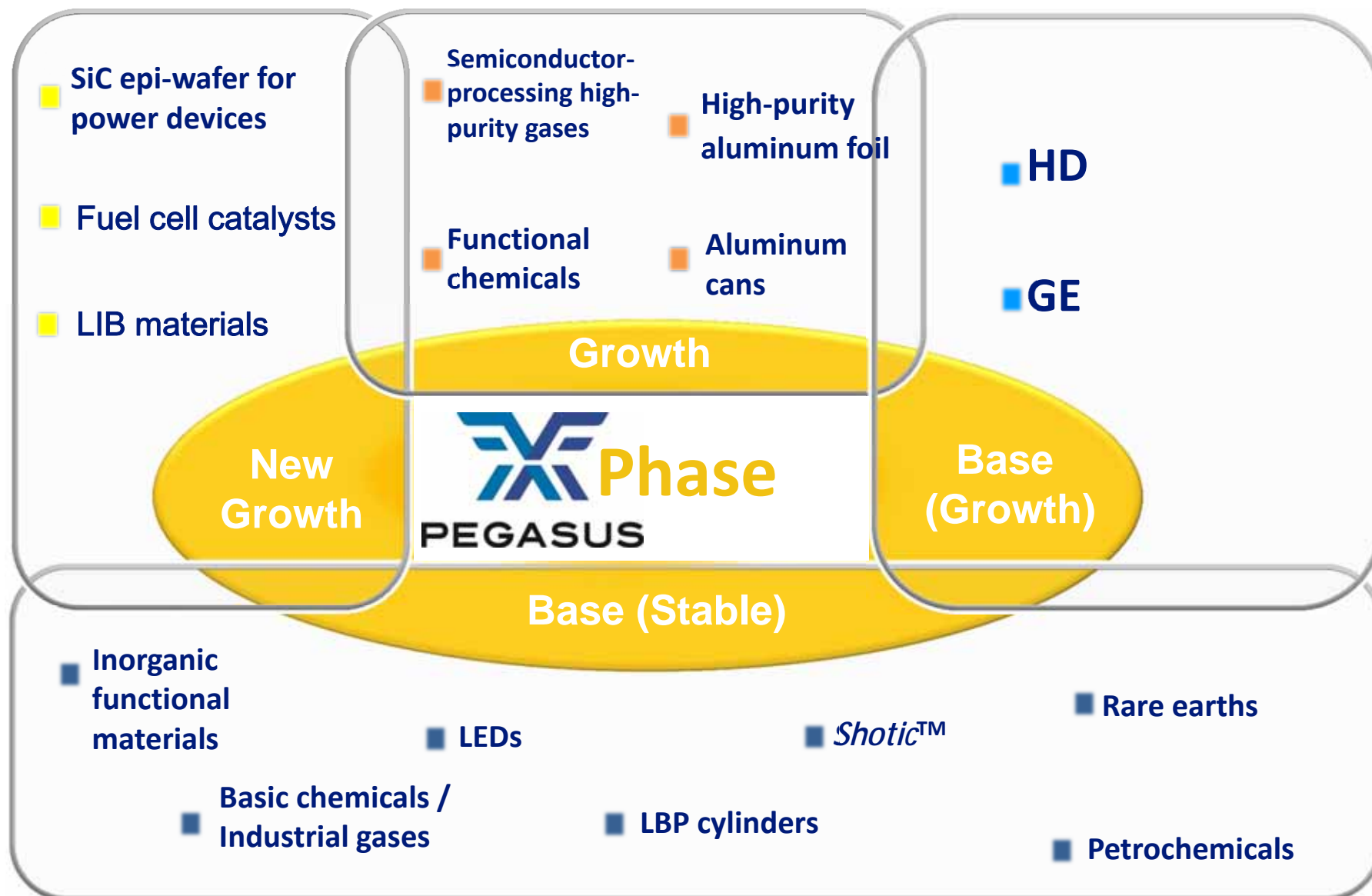
Semiconductor-processing high-purity gases:

Reinforce production facilities in Asia

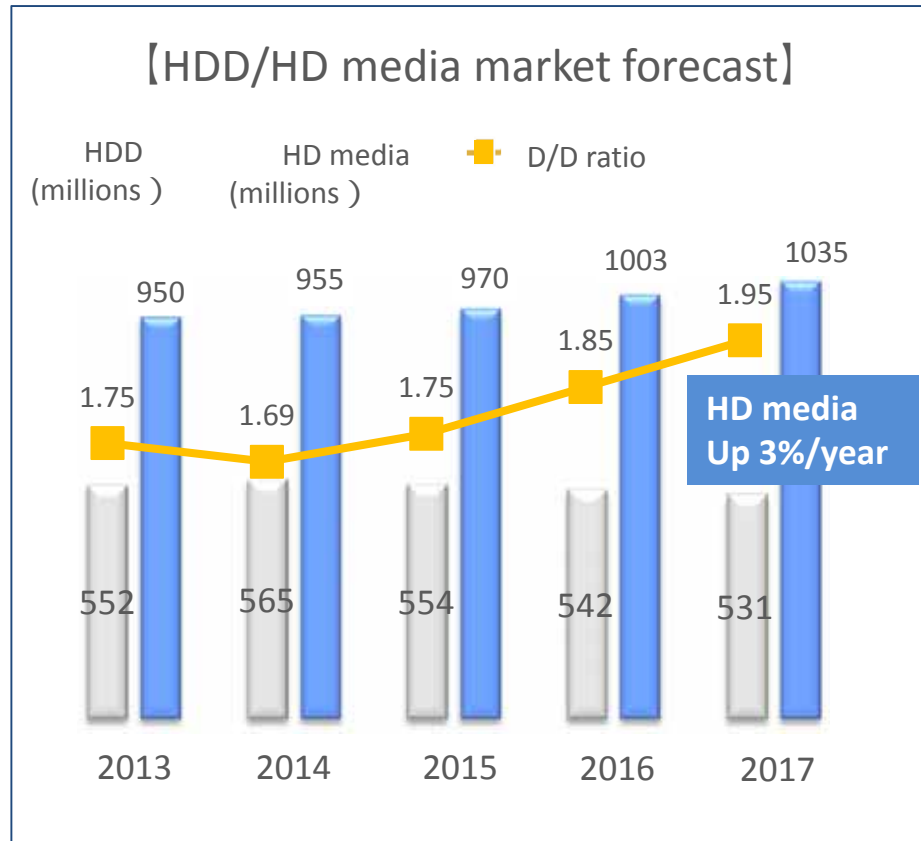
Major investment will be finished by 2015

Increase in free cash flow

Business portfolio in Phase



HD-1 Market environment of HDD & HD media



Market forecast

Number of HDDs sold in 2015 will be at the same level as 2014

For PCs: Steady demand

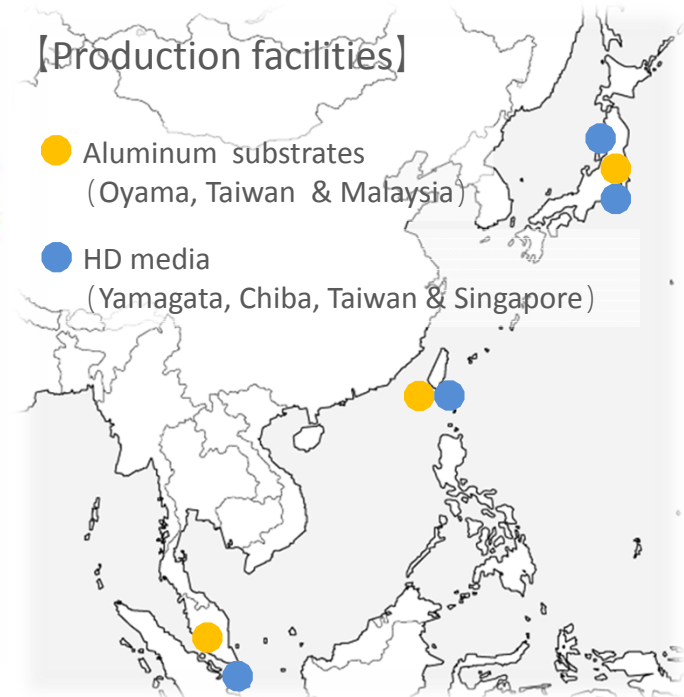
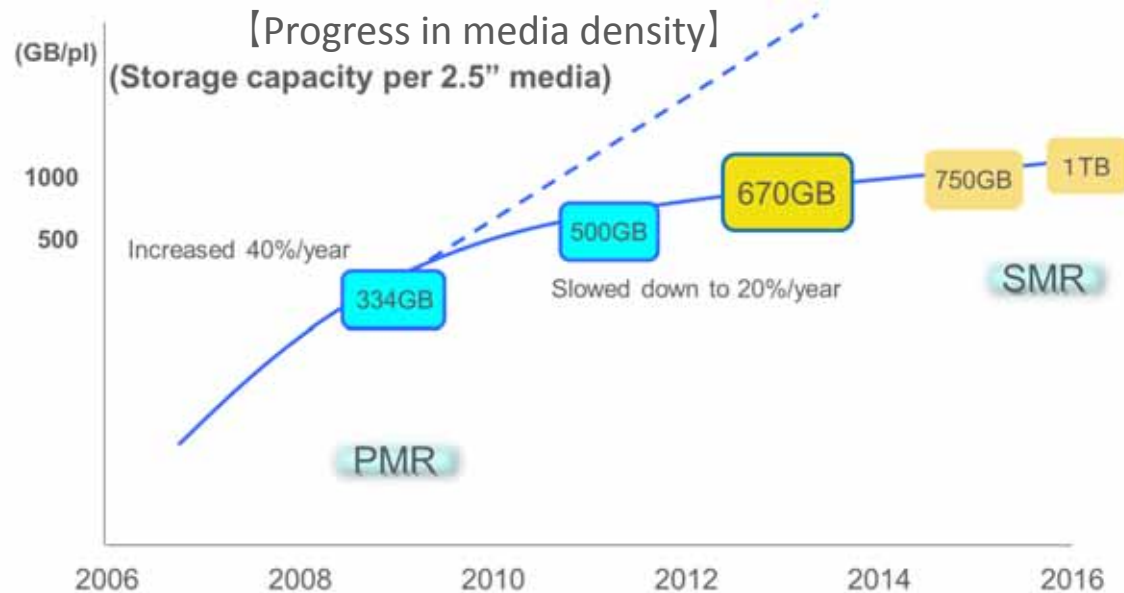
Needs for near-line servers will increase

Shipment of aluminum media will increase

Aluminum substrates:

Supply and demand situation will be tight

HD-2 Further progress in “Best in Class” strategy



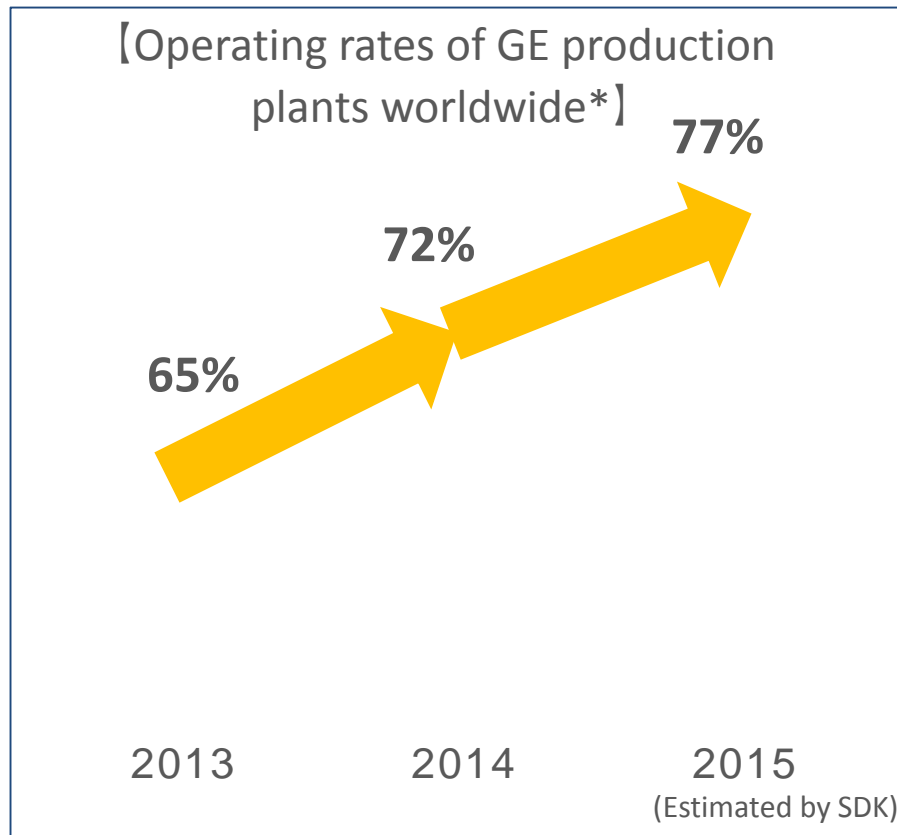
Important themes

Accelerate development of high-density media

Optimize functions of each site to produce aluminum substrates

Increase media shipment for HDDs to be used in servers

GE-1 Trends in electric furnace steel and graphite electrode market



* Except China

Electric furnace steel market forecast

Supply-demand gap will be gradually narrowed from 2015

U.S.A.: Strong demand, narrower supply demand gap

Japan: Steady demand by automotive industry

Europe : Delay in recovery

China : Still needs time for solution of steel overproduction issue

GE-2 SDKC's plant expanded, starts sales



【SDKC's new plant in U.S.A.】



【Omachi Plant】

Important themes

Thorough cost reduction of materials needed

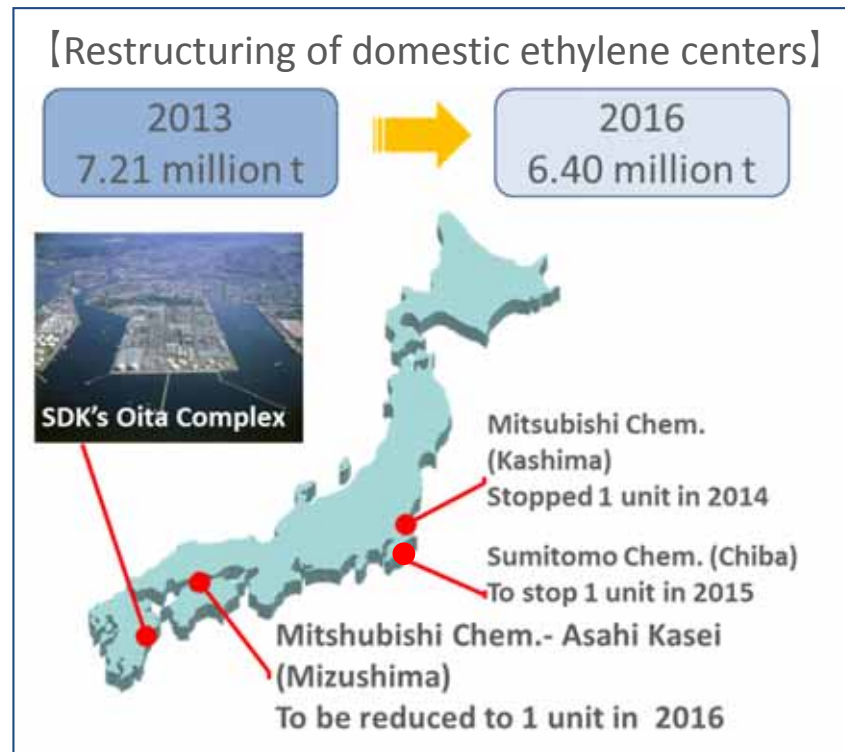
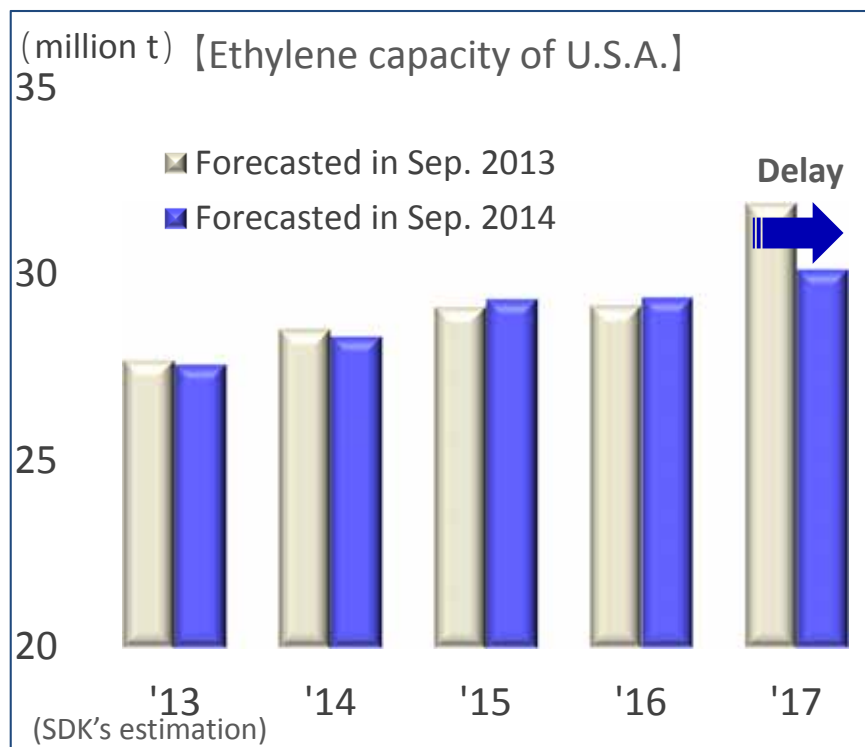
Normalize sales prices

SDKC: Sales of GE produced by new facilities will start in 2Q, 2015

Omachi: Strengthen earning power through productivity improvement

Sichuan: Establish UHP electrode production facilities and start volume production

Petrochemicals-1 Asian market outlook



Market forecast

Steady demand and supply, unstable oil prices

U.S.A.: Delay in shift to shale-oil petrochemicals

China: Business slowdown but steady demand

Petrochemicals-2 “Compact, Open, Well balanced”



【Left: New ethyl acetate plant, Middle: Ethylene plant, Right: *SHORAYAL™*】

Important themes

Olefins: Stable operation at full capacity

Butadiene: Establish new production method

Reinforce cooperation with upstream (oil refining)

Organics: Increase profitability

Ethyl acetate: Operate new plant at full capacity

SHORAYAL™: Expand sales

Ceramics-1 “Attain Global top position”



Photocatalyst LUMI-RESH™



Abrasives & grinding materials



Alumina, boron nitride, and filler



High-purity titanium oxide for capacitors

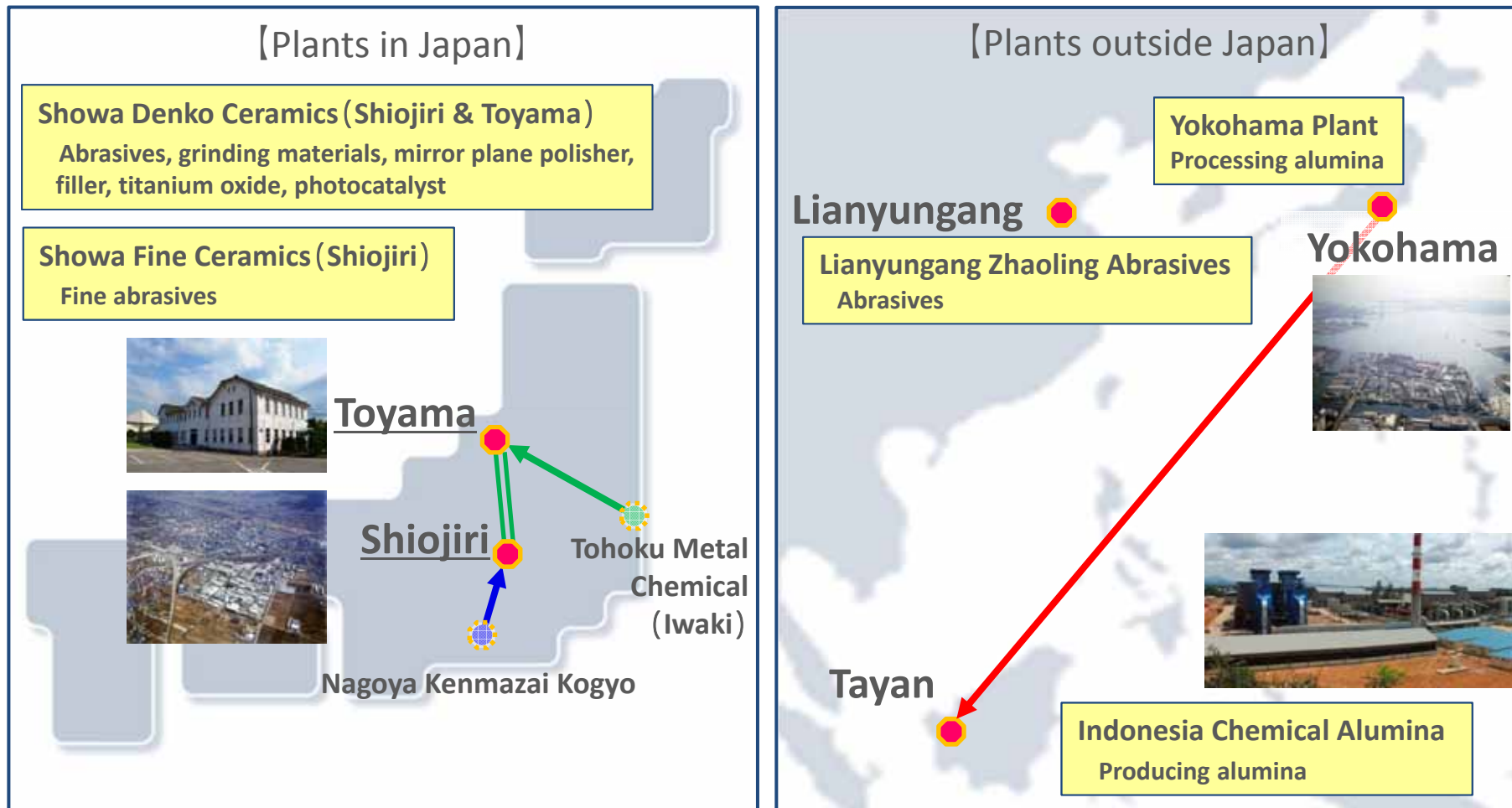


cBN sintered compacts for cutting tools

Important themes

Japan: Make the most of production facility relocation
Overseas: Strengthen cost competitiveness of general-purpose products

Ceramics-2 Reorganizing plants to improve productivity



4 “Growth” businesses: Aggressive investment in Asia

**Semiconductor-
processing high-
purity gases**



Functional chemicals



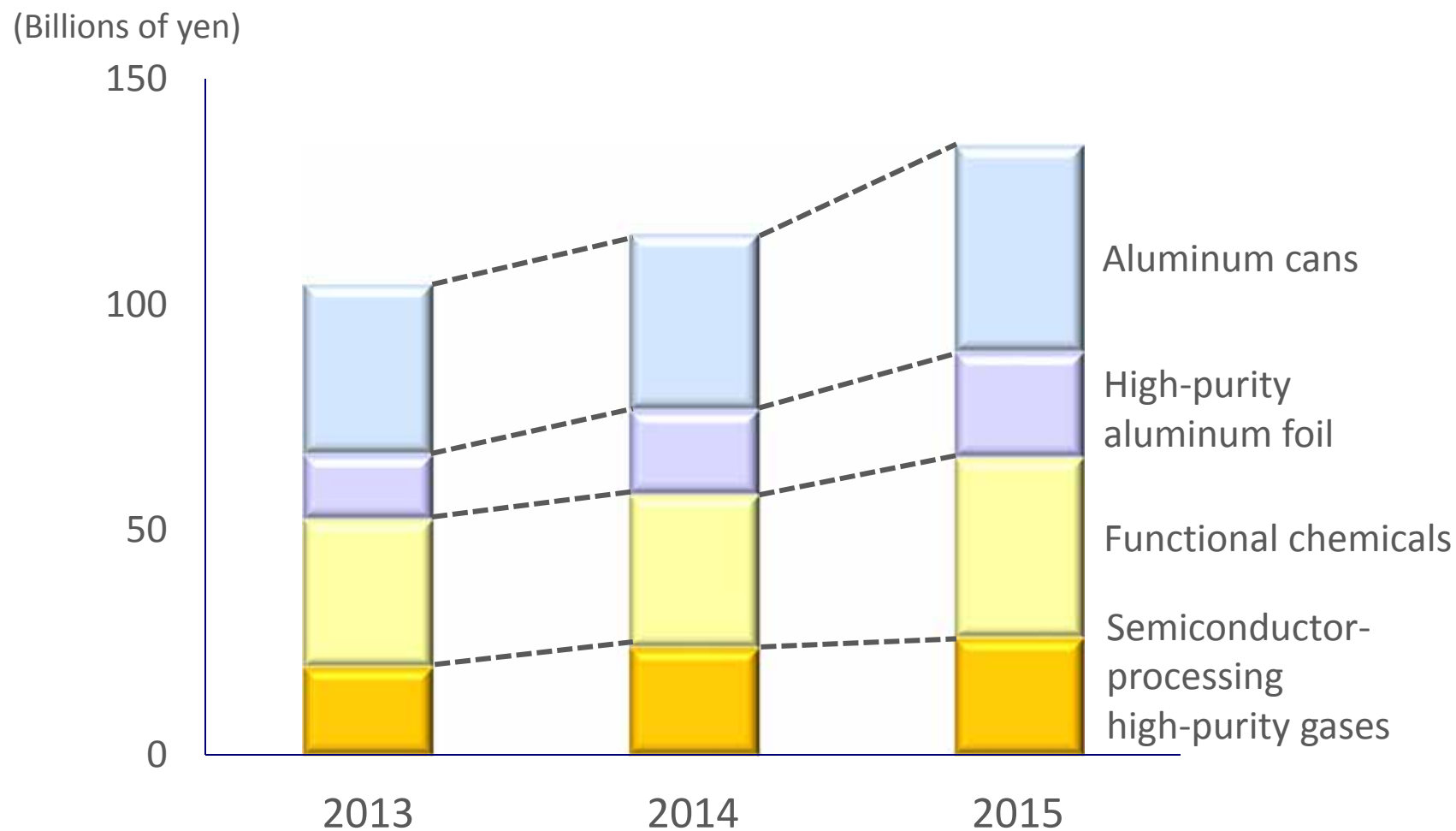
High-purity aluminum foil



Aluminum cans



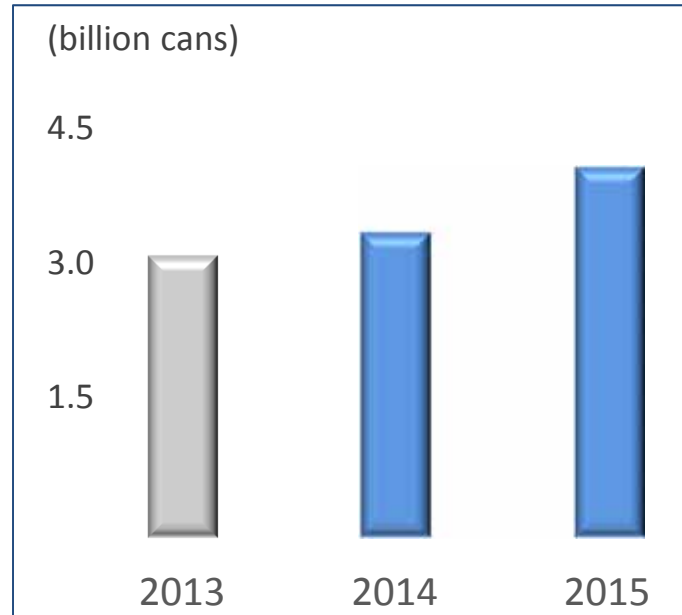
Sales in 4 “Growth” businesses



Growth-1 Aluminum cans



【Hanacans of Vietnam】



【Sales forecast for SDK's cans】

Important themes

- Hanacans of Vietnam: Expand business
- Improve printing technology and productivity
 - Lid production line to start in 4Q, 2015
- Reflect material and energy cost increase into sales prices
- Expand sales of cans for soft drinks

Growth-2 Semiconductor-processing high-purity gases

Accelerate growth through Matrix Strategy



Important themes

Increase production capacity (HBr)

Vitalize overseas plants (N_2O , Cl_2)

Sophisticate SCM in China

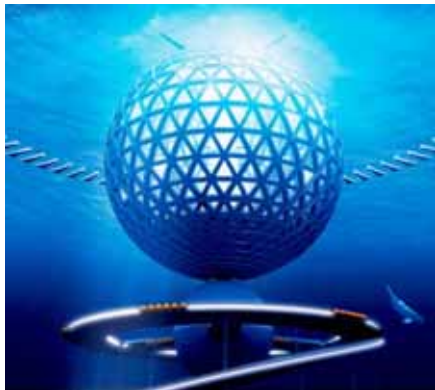
High-purity solvent: Locate plants
next to customers

Decomposer: Overseas production

Growth-3 Functional chemicals



[Head light reflectors utilizing BMC]



[Idea to utilize FRP/resin concrete]
(OCEAN SPIRAL Photo by Shimizu Corporation)



[Biodegradable plastic, *Bionolle*TM]

Important themes

BMC: Increase sales in Asia

Composites: Cultivate needs for infrastructure and maintenance use and create new markets

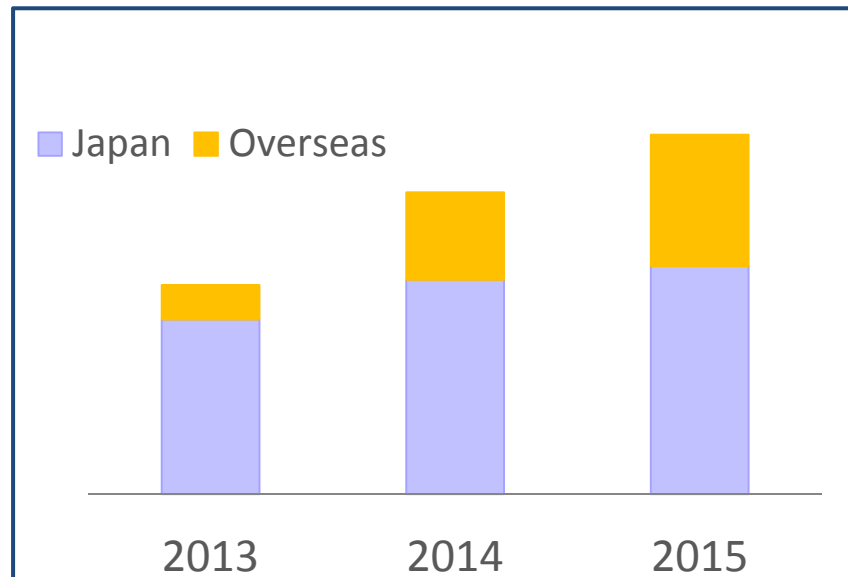
*Bionolle*TM: New environmental regulations in Europe and China

Creation of new prospective market expected

Growth-4 High-purity aluminum foil



【Showa Denko Aluminum (Nantong), China】



【Sales forecast for our high-purity Al foil】

Important themes

Japan : Increase market share to more than 60%

Revise roll margins

Improve productivity and profitability

Enhance product grades with high-functions

China: Increase production capacity of Nantong plant, and increase sales to manufacturers in China

SiC epi-wafer for power devices: 6" wafer mass production



(From JR East website)

【New cars for JR Yamanote Line】

<Advantages of SiC power devices>

Less electricity loss compared to Si devices

Heavy-current, High-voltage, Compact

Home appliances

-Inverter air conditioners

-Power control unit for solar panels

Railcars

Applied to commuting trains in 2015

Car

application

Widely applied by 2020

Smart grids

【Market forecast for SiC power devices】

(millions of USD)

1200

1000

800

600

400

200

0



Car application

40% growth/year

2014

2020

(Yole Développement, SDK's estimation)

Important themes

Further expand 6" wafer production

Implement full-scale marketing

Toward post-PEGASUS (2016 ~)

Formulation of post-PEGASUS

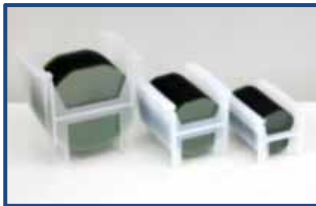
Return to growth track

Expand businesses in the growing Asian market

In Japan: Streamline general-purpose business

Add high-value to leading-edge businesses

Realize best mix of capital investment, R&D, and M&A



Management focusing on sustainability

Strengthen safe and stable operation of plants

Daringly contribute to realization of “Clean Energy Society” with less energy consumption and reduced environmental burden

Keep and deepen management based on CSR:

Corporate governance
Diversity management





Notes

Performance forecasts and other statements pertaining to the future as contained in this presentation are based on the information available as of today and assumptions as of today regarding risk factors that could affect our future performance. (We will announce our financial forecast for 2015 at the same time of the announcement of our 2014 financial results.) Actual results may differ materially from the forecasts due to a variety of risk factors, including, but not limited to, the economic conditions, costs of naphtha and other raw materials, demand for our products, market conditions, and foreign exchange rates. We undertake no obligation to update the forward-looking statements unless required by law.



**Shape your ideas!
Give your dreams, wishes
and ideas Happy Ending!**

