



We aim to establish ourselves as the “unique chemical company with individualized products”.

2005 Financial Results

- Consolidated -

SHOWA DENKO K.K.

February 9, 2006

(Amended on March 15, 2006)

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: 42

■ Newly consolidated: none

■ Excluded from the consolidation: 5

- Shotic America Corporation -- Absorbed into Showa Aluminum Corporation of America
- SDS Biotech K.K. (Sold)
- Hymold Co., Ltd. (Sold)
- Showa Alumi Viewtech Co., Ltd. -- Dissolved.
- Showa Baido K.K.

■ Equity method applied: 24

■ Newly applied: 1

- Grand Ocean-Showa Auto Air Conditioning (Dalian) Co.,Ltd.

■ Excluded: 3

- Middelburg Technochrome Co., Ltd. (Sold)
- Showa Cabot K.K. (Sold)
- Dan Sangyo K.K. (Sold)

Major Selected Data

	2005	2004	Increase
■ Exchange rate: ¥/US\$	110.2	108	Yen depreciated by ¥2/\$
■ Domestic naphtha price: ¥/kl	39,100	30,800	+8,300
■ Aluminum LME price: US\$/T	1,900	1,721	+179

Summary of 2005 Financial Results

(Unit: Billions of Yen, except Net income per share)

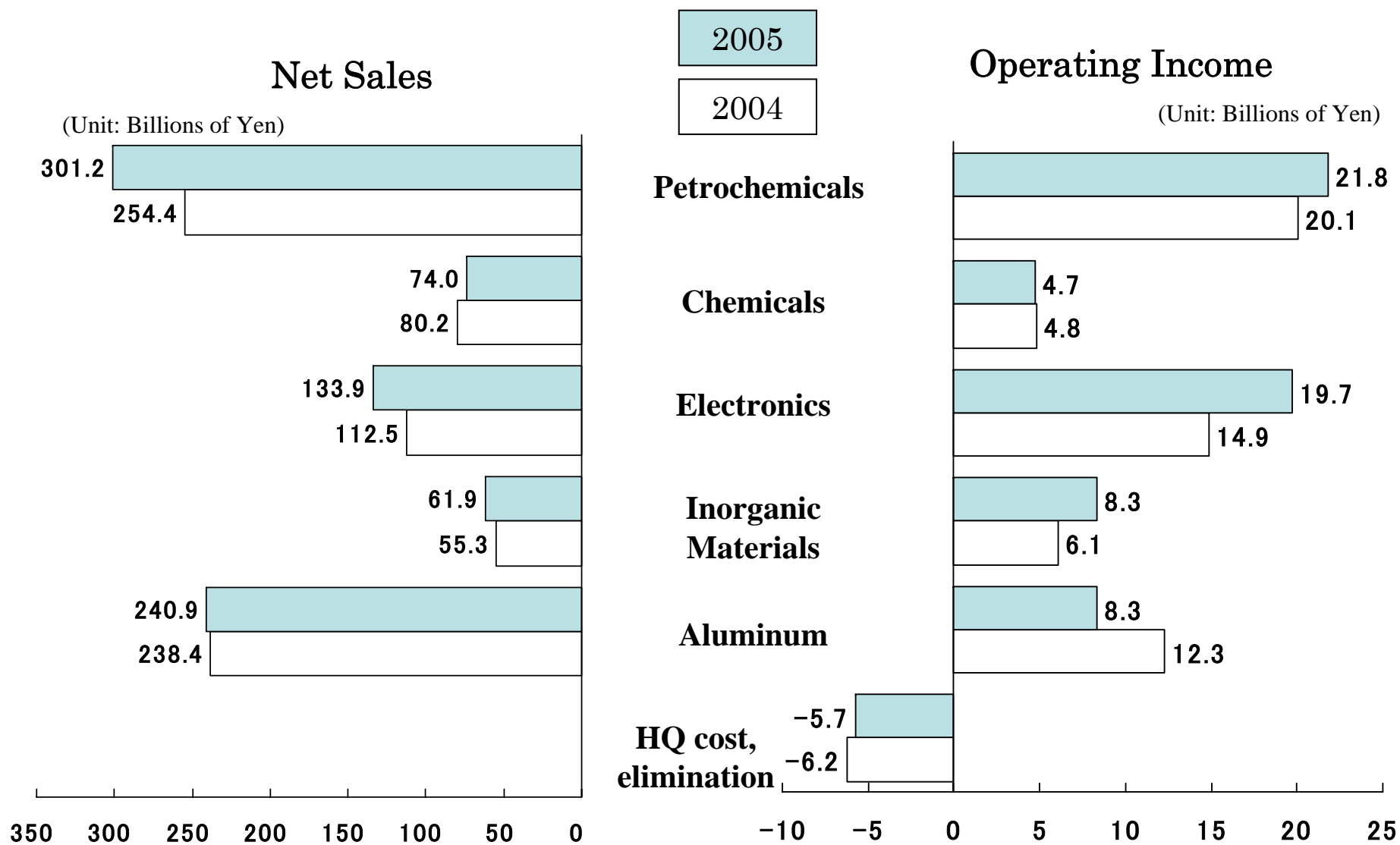
	2005	2004	Increase	
Net Sales	811.9	740.7	71.2	9.6%
Operating Income	57.2	52.1	5.1	9.8%
[Rate to net sales]	7.0%	7.0%	+0.0 point	
Interest/dividend income less interest expenses	-6.8	-8.6	1.9	
Equity Method	1.7	1.1	0.7	
Ordinary Income	47.0	38.9	8.0	20.7%
Extraordinary Profit	10.4	5.6	4.8	
Extraordinary Loss	-39.6	-25.6	-13.9	
Net Income before taxes	17.8	18.8	-1.1	
Corporate Taxes	0	-9.4	9.4	
Minority Interests	-2.1	-1.9	-0.3	
Net Income	15.6	7.6	8.1	106.0%
Net Income per Share	¥ 13.70	¥ 6.66	¥ 7.04	105.7%

Extraordinary Profit/Loss

(Unit: Billions of Yen)

	2005	2004	Increase
■ Extraordinary Profit	10.4	5.6	4.8
● Gain on the sale of property	4.4	1.4	3.1
● Gain on the sale of investment securities	4.4	2.4	2.0
● Other	1.5	1.8	-0.3
■ Extraordinary Loss	-39.6	-25.6	-13.9
● Collective amortization of unrecognized transition amounts resulting from the adoption of the new accounting method for employees' retirement benefits	-32.6	-	-32.6
● Loss on sale or disposal of fixed assets	-2.0	-4.9	2.9
● Loss from impairment of fixed assets	-1.2	-11.8	10.6
● Reserve for restructuring expenses	-0.2	-2.6	2.3
● Other	-3.6	-6.4	2.8
■ Extraordinary Profit/Loss, Net	-29.2	-20.1	-9.1

Sales and Operating Income by Segment



Consolidated Sales by Segment

(Unit: Billions of Yen)

	2005	2004	Increase	Increase by Business
Petrochemicals	301.2	254.4	+46.8	Olefins +29.1 (price increased), Organic Chemicals +12.9 (price increased)
Chemicals	74.0	80.2	-6.2	AN & Ammonia (brisk demand), Specialty Chemicals (sales slightly decreased), SDS Biotech -6.6 (sold)
Electronics	133.9	112.5	+21.4	HD (full year consolidation of Trace), Compound semiconductors (sales volume decreased)
Inorganic Materials	61.9	55.3	+6.6	Ceramics (sales slightly increased), Carbons (graphite electrode in tight supply),
Aluminum	240.9	238.4	+2.5	Ingots & alloys +2.0, <i>Shotic</i> +0.5, Sheets -1.2, Extrusions & Specialty Products -1.2, Heat Exchangers -1.2, Shoko Co., Ltd. +3.1
Total	811.9	740.7	+71.2	

Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	2005	2004	Increase	Increase by business
Petrochemicals	21.8	20.1	+1.7	Olefins: Spread improved due to advancing market and ethylene plant in full operation Organic Chemicals: Sales price increased
Chemicals	4.7	4.8	-0.1	Gas & Chemicals: Sales volume and price slightly increased Specialty Chemicals: Volume of Vitamin C for feed additive decreased
Electronics	19.7	14.9	+4.8	HD: Consolidation of Trace and capacity expansion Compound Semiconductors: Volume decreased due to inventory adjustment
Inorganic Materials	8.3	6.1	+2.2	Ceramics: Alumina supply-demand balance improved Carbons: Graphite electrode supply-demand balance improved
Aluminum	8.3	12.3	-4.0	Ingot: time lag of passing increases in raw material costs to sales price Aluminum Cans: raw material price hike and lower sales price Heat Exchangers: low shipment Aluminum cylinders for laser printers: sales volume increased
HQ costs, elimination	-5.7	-6.2	+0.5	System development cost decreased
Total	57.2	52.1	+5.1	

Listed subsidiaries

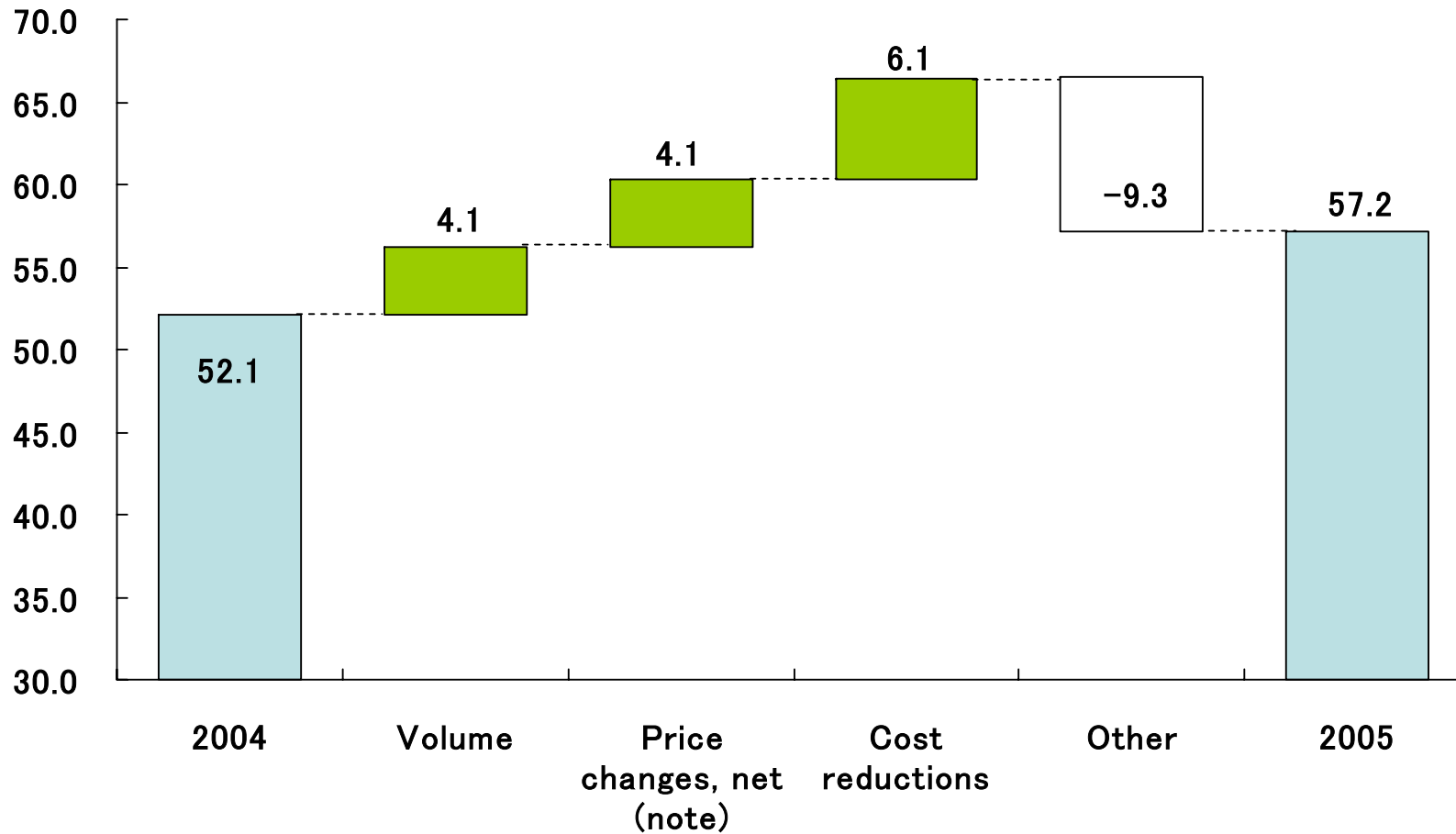
(Unit: Billions of Yen)

Subsidiary	Sales (note)			Operating Income		
	2005	2004	Increase	2005	2004	Increase
Showa Highpolymer Co., Ltd.	29.3	27.8	1.5	0.6	1.2	-0.7
Shoko Co., Ltd. (note)	135.0	125.5	9.5	1.6	1.5	0.1

(note) Sales before consolidation elimination

Operating Income Breakdown by Factor

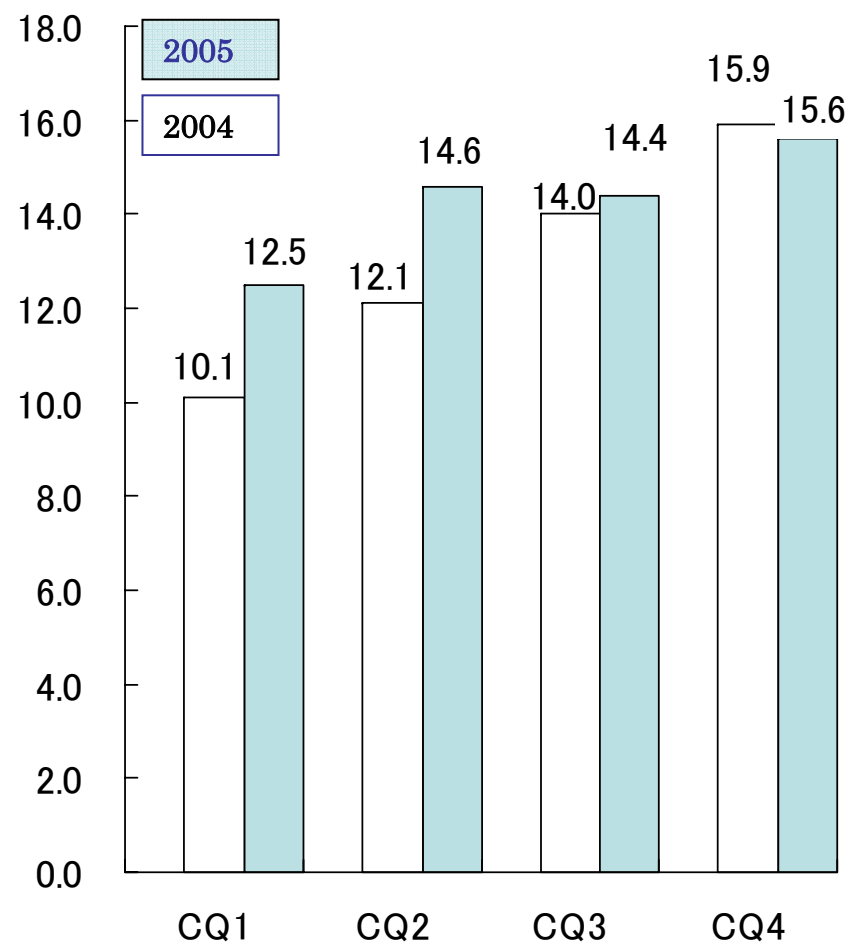
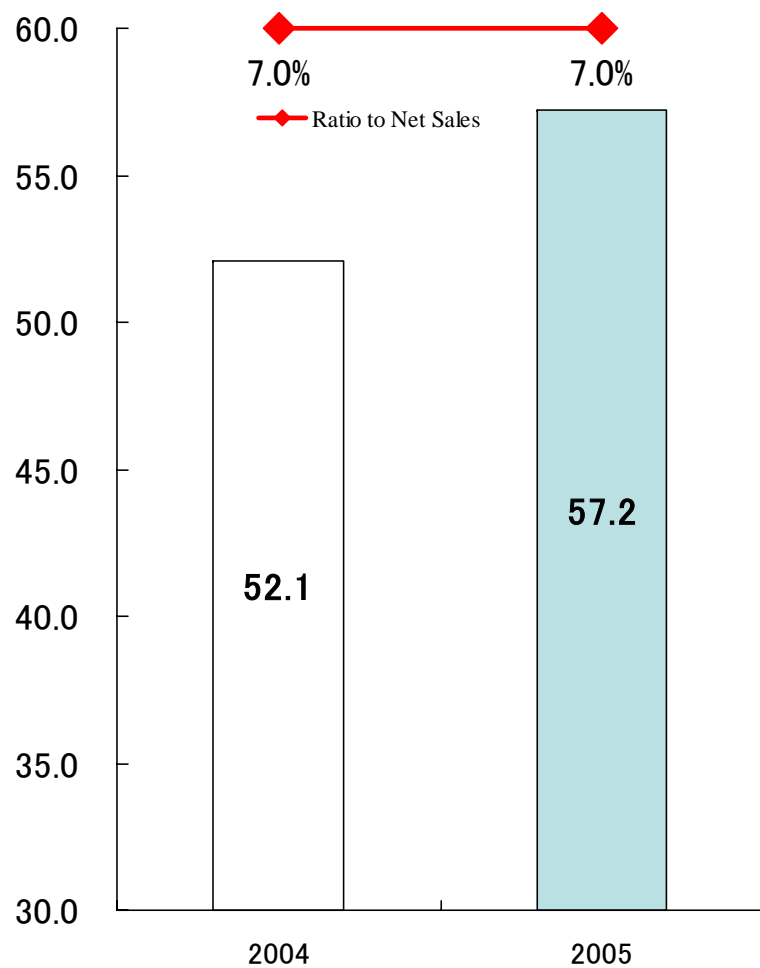
(Unit: Billions of Yen)



(note) Price changes, net includes changes of both sales prices and purchasing prices.

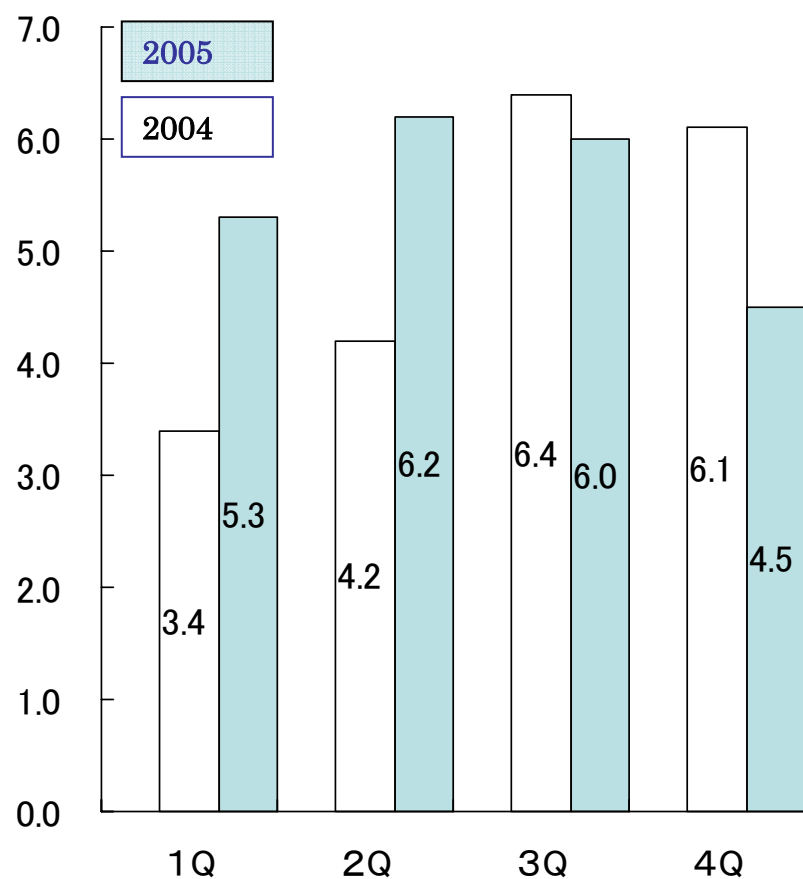
Operating Income, Quarterly

(Unit: Billions of Yen)

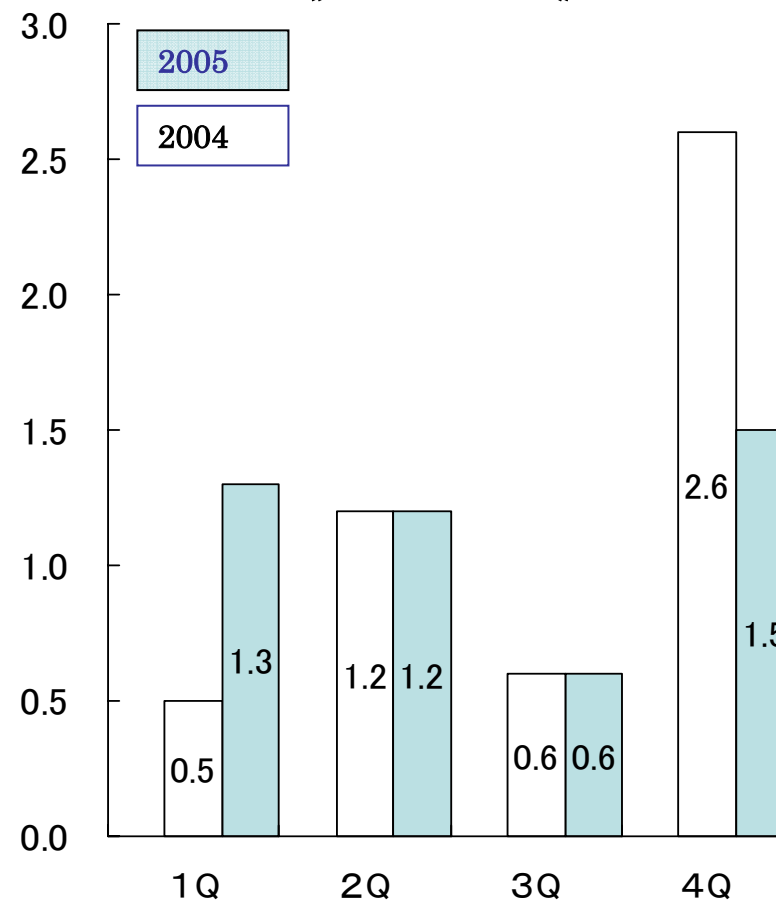


Operating Income by Segment (Quarterly)

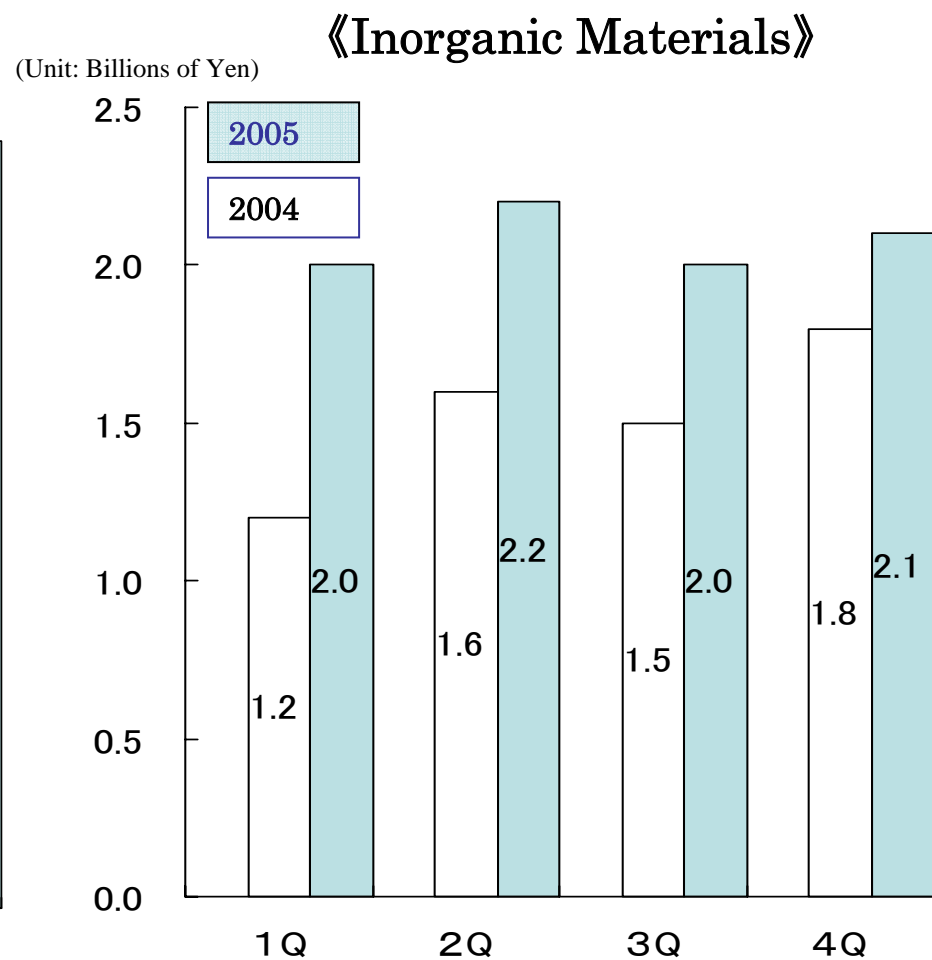
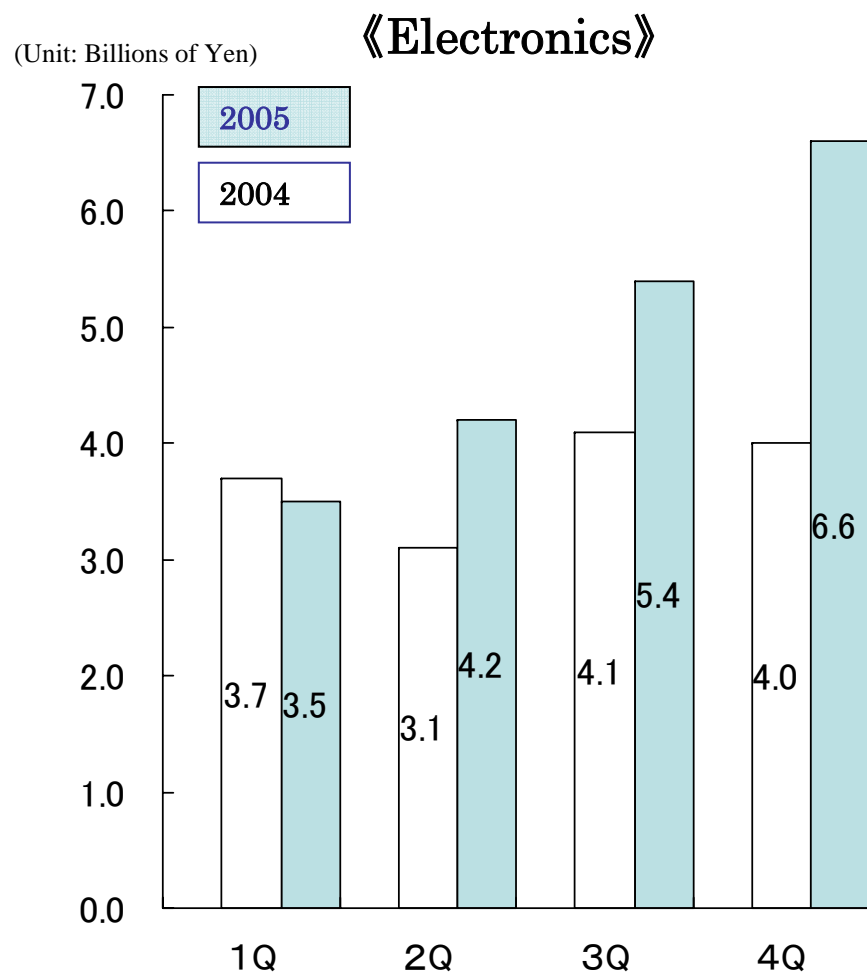
(Unit: Billions of Yen) **《Petrochemicals》**



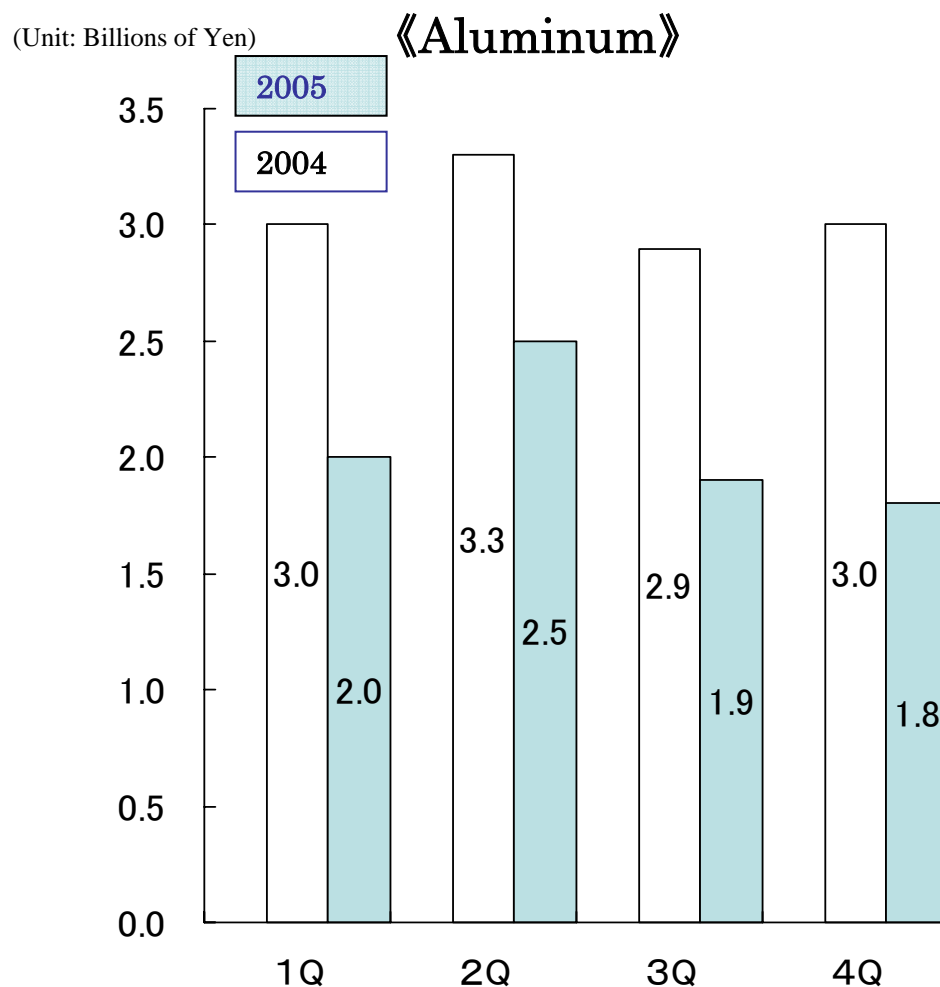
(Unit: Billions of Yen) **《Chemicals》**



Operating Income by Segment (Quarterly)



Operating Income by Segment (Quarterly)



Consolidated Balance Sheet

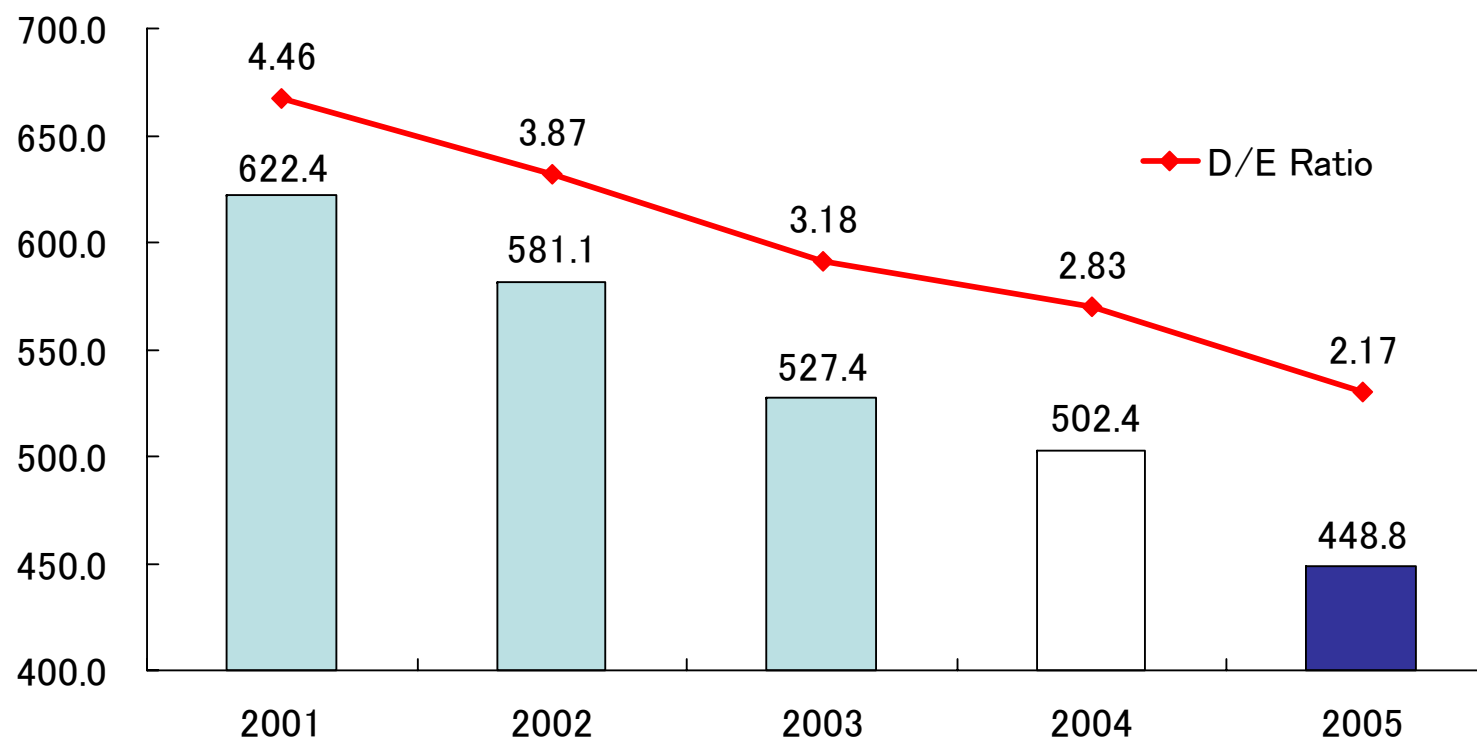
(Unit: Billions of Yen)

Assets	2005	2004	Increase	Liabilities and Stockholders' Equity	2005	2004	Increase
Cash and deposits	37.3	29.6	7.6	Accounts payable	140.2	120.5	19.7
Accounts receivable	161.1	150.3	10.8	Interest-bearing debt	448.8	502.4	-53.6
Inventories	77.3	68.7	8.6	Reserve for restructuring expenses	0.9	5.6	-4.6
Deferred income tax	6.8	7.7	-0.8	Accrued liabilities (income taxes on revaluation surplus)	29.1	22.9	6.2
Other current assets	35.6	31.6	4.0	Accrued pension and severance costs	42.6	8.9	33.7
<u>Current Assets</u>	<u>318.0</u>	<u>287.9</u>	<u>30.1</u>	Other liabilities	68.8	60.9	8.0
Building and structures	95.4	99.0	-3.6	<u>Total Liabilities</u>	<u>730.4</u>	<u>721.1</u>	<u>9.4</u>
Machinery and equipment	125.4	123.3	2.1	Minority Interest	49.1	45.1	3.9
Land	268.1	276.4	-8.3	Common stock	110.5	110.5	—
Other fixed assets	22.0	19.6	2.4	Additional paid-in capital	11.1	11.1	0
Tangible assets	510.9	518.4	-7.5	Retained earnings	21.9	18.3	3.6
Intangible assets	24.3	26.0	-1.7	Revaluation surplus -Land	42.3	33.3	9.1
Investments and other	133.0	111.7	21.3	Evaluation surplus -Investment securities	19.5	7.8	11.6
Incl. Investment securities	107.8	90.1	17.7	Foreign currency translation adjustment	1.6	-3.2	4.8
Incl. Deferred income tax	11.4	7.6	3.8	Treasury stock	-0.1	-0.1	-0
<u>Total fixed assets</u>	<u>668.2</u>	<u>656.0</u>	<u>12.2</u>	<u>Total stockholder's equity</u>	<u>206.7</u>	<u>177.7</u>	<u>29.0</u>
Total Assets	986.2	943.9	42.3	Total liabilities, minority interest and Stockholders' equity	986.2	943.9	42.3

Interest-bearing Debt

2001 - 2005

(Unit: Billions of Yen)



Equity ratio	13.5%	15.2%	17.7%	18.8%	21.0%
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Consolidated Cash Flows

(Unit: Billions of Yen)

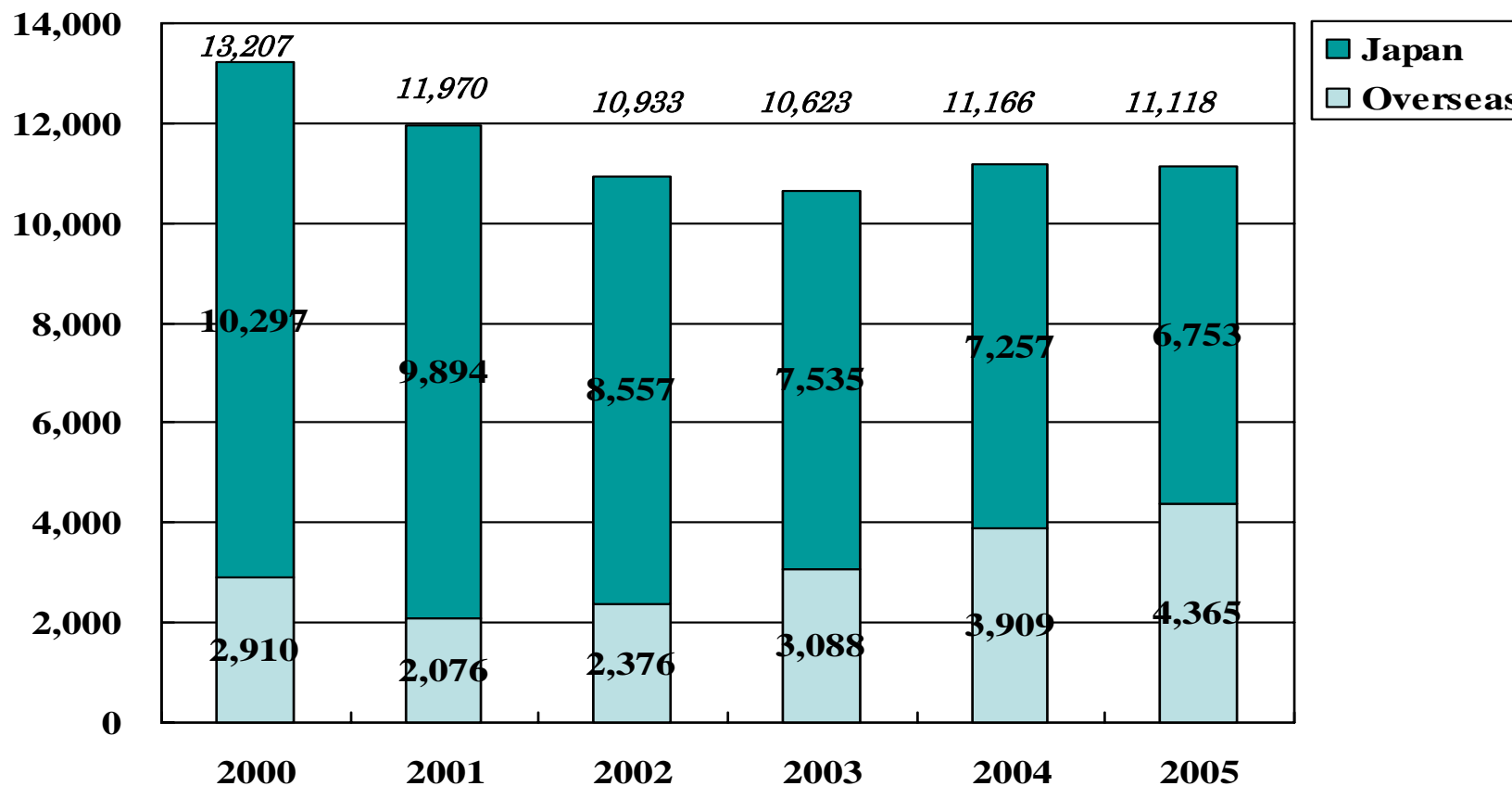
	2005	2004	Increase
● CF from Operating Activities	78.0	59.5	+18.4
● CF from Investing Activities	-18.0	-12.4	-5.6
● Free CF	60.0	47.1	+12.9
● CF from Financing Activities	-53.4	-45.1	-8.3
● Others	1.5	0.7	+0.9
Increase of cash and equivalents	8.1	2.7	+5.4

Selected Data (Consolidated)

(Unit: Billions of Yen, except number of employees)

	2005	2004	Increase
● Gap between interest/dividend income less interest expenses	-6.8	-8.6	+1.9
● Capital expenditures	41.2	29.9	+11.3
● Depreciation and amortization	34.2	34.1	+0.1
● R&D expenditures	17.4	17.6	-0.2
● Number of employees	11,118	11,166	-48
● Total employment cost	80.5	81.0	-0.5

Total number of employees and breakdown by location



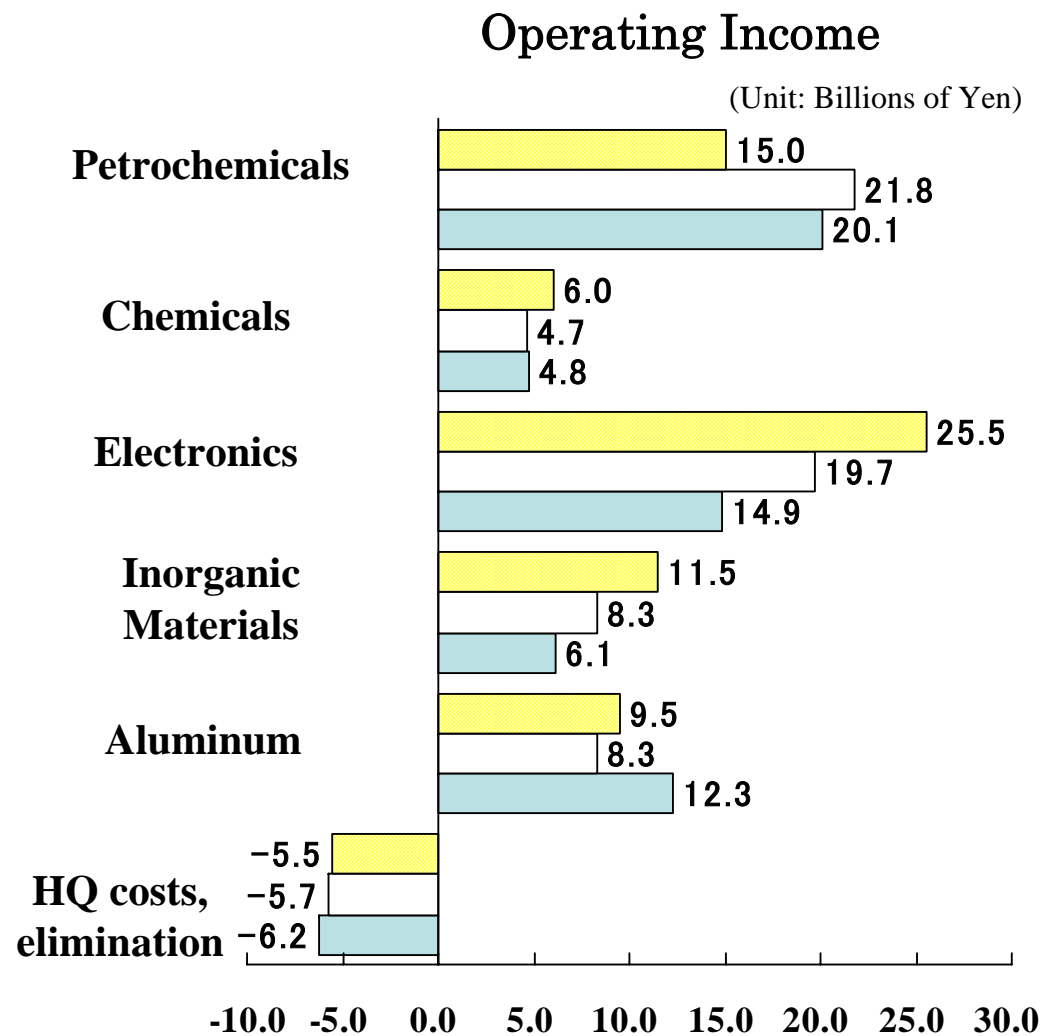
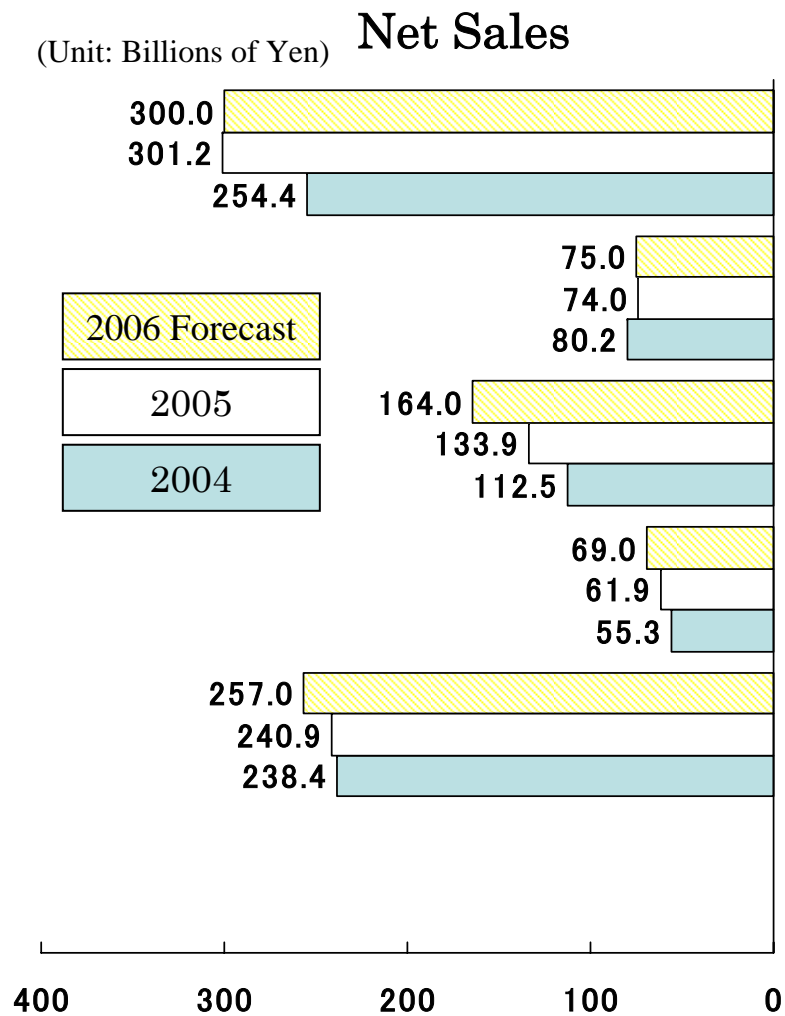
Japan	78.0%	82.7%	78.3%	70.9%	65.0%	60.7%
Overseas	22.0%	17.3%	21.7%	29.1%	35.0%	39.3%

Forecast for 2006 (Consolidated)

(Unit: Billions of Yen except Cash dividends per Share and Net income per Share)

	2006 Forecast	2005	Increase
Net Sales	865.0	811.9	+53.1
Operating Income	62.0	57.2	+4.8
Gap between interest/dividend income less interest expenses	-7.1	-6.8	-0.3
Ordinary Income	51.0	47.0	+4.0
Extraordinary Profit/Loss, net	-9.0	-29.2	+20.2
Net Income	24.5	15.6	+8.9
Cash dividends per Share	¥3.0	¥3.0	—
Net Income per Share	¥21.45	¥13.70	+¥7.75

Sales and Operating Income Forecast for 2006



Net Sales by Segment 2006 Forecast

(Unit: Billions of Yen)

	2006 (Forecast)		2005		Increase	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Petrochemicals	300.0	220.0	301.2	220.1	-1.2	-0.1
Chemicals	75.0	63.0	74.0	58.9	1.0	4.1
Electronics	164.0	107.0	133.9	91.6	30.1	15.4
Inorganic Materials	69.0	45.0	61.9	42.4	7.1	2.6
Aluminum	257.0	160.0	240.9	155.0	16.1	5.0
Total	865.0	595.0	811.9	568.1	53.1	26.9

Operating Income by Segment 2006 Forecast

(Unit: Billions of Yen)

	2006 (Forecast)		2005		Increase	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Petrochemicals	15.0	11.5	21.8	19.2	-6.8	-7.7
Chemicals	6.0	5.0	4.7	3.6	+1.3	+1.4
Electronics	25.5	10.5	19.7	8.4	+5.8	+2.1
Inorganic Materials	11.5	6.5	8.3	5.1	+3.2	+1.4
Aluminum	9.5	6.0	8.3	5.6	+1.2	+0.4
HQ cost, elimination	-5.5	-5.5	-5.7	-5.9	+0.2	+0.4
Total	62.0	34.0	57.2	36.0	+4.8	-2.0

Capital expenditures/ Depreciation by Segment 2006 Forecast

(Unit: Billions of Yen)

	2006 (Forecast)		2005		Increase		2004	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Petrochemicals	6.2	5.8	5.3	5.4	+0.8	+0.4	3.8	6.0
Chemicals	5.5	5.4	4.2	5.1	+1.3	+0.3	3.8	5.5
Electronics	65.6	13.1	20.5	10.9	+45.0	+2.2	11.7	8.2
Inorganic Materials	3.3	2.9	3.1	2.7	+0.2	+0.2	2.1	2.7
Aluminum	10.0	10.7	8.0	10.2	+2.0	+0.5	8.5	12.0
Total	90.6	37.8	41.2	34.2	+49.4	+3.6	29.9	34.1

Consolidated Cash Flows

2006 Forecast

(Unit: Billions of Yen)

	2006 (Forecast)	2005	Increase
● CF from Operating Activities	71.2	78.0	-6.8
● CF from Investing Activities	-90.0	-18.0	-72.0
● Free CF	-18.8	60.0	-78.8
● CF from Financing Activities	7.6	-53.4	+61.0
● Others	-	1.5	-1.5
Increase of cash and equivalent	-11.2	8.1	-19.3

Selected Data

2006 Forecast (Consolidated)

(Unit: Billions of Yen)

	2006 (Forecast)	2005	Increase
● Exchange rate: ¥/US\$	110	110	-
● Domestic naphtha price: ¥/kl	45,000	39,100	+5,900
● Aluminum LME price: US\$/T	2,000	1,900	+100
● Interest-bearing debt	461.0	448.8	+12.2
● Gap between interest/dividend income less interest expenses	-7.1	-6.8	-0.3
● R&D expenditures	18.9	17.4	+1.5
● Number of employees	11,768	11,118	+650
● Total employment cost	76.7	80.5	-3.8

Listed Subsidiaries 2006 Forecast

(Unit: Billions of Yen)

Subsidiary	Net Sales (note)			Operating Income		
	2006 Forecast	2005	Increase	2006 Forecast	2005	Increase
Showa Highpolymer Co., Ltd.	30.3	29.3	1.0	0.9	0.6	0.3
Shoko Co., Ltd. (note)	136.0	135.0	1.0	1.7	1.6	0.1

(note) Sales before consolidation elimination

Topics

■ Petrochemicals

● Accomplished Reform of Plastic Processing Businesses

- ◆ SDK completed overall restructuring of its petrochemicals operations.
- ◆ Sold shares in Hymold to a subsidiary of Toyo Denka Kogyo Co., Ltd. in July.

● Modification of the ethylene plant to increase the use of non-naphtha feedstock.

- ◆ SDK will modify its ethylene plant at the Oita Petrochemical Complex to increase the use of non-naphtha feedstock, including natural gas liquids.
- ◆ SDK will modify its ethylene plant to increase efficiency, thereby increasing the production capacity by 24,000 tons a year.

● Expanding Acetic Acid/Vinyl Acetate Production capacities

- ◆ SDK decided to expand its production capacity of acetic acid and vinyl acetate during the maintenance shutdown of the Oita Petrochemical Complex scheduled for 2006.
- ◆ The annual production capacity of acetic acid will be increased from 100,000 tons to 130,000 tons, and that of vinyl acetate from 120,000 tons to 175,000 tons.

Topics

■ Chemicals

- **Dissolved Nylon Specialty JV with EMS-CHEMIE AG of Switzerland.**
 - ◆ With the dissolution, SDK completely withdrew from the specialty nylon business.

- **Sold all shares in SDS Biotech via MBO**
 - ◆ SDK transferred all of its shares in SDS Biotech K.K. (SDS), an agrochemical business subsidiary, to board members of SDS and Mizuho Capital Partners Co., Ltd. through a management buyout (MBO) scheme.

- **Launch of a new isocyanate monomer “Karenz BEI”**
 - ◆ SDK started selling a new grade of high-performance isocyanate monomer under the brand name of Karenz BEI. With photo-setting speed two times that of the conventional grade, the new product enables precision surface treatment of liquid crystal displays (LCDs) and semiconductors.

Topics

■ Electronics

- **Started Production of World's First Perpendicular Magnetic Recording Technology based HD Media**
 - ◆ SDK started commercial production of 1.89-inch-diameter media based on the perpendicular magnetic recording technology, enabling a dramatic increase in media recording density.

- **The world's smallest 0.85-inch diameter HD media**
 - ◆ SDK started commercial production of the world's smallest 0.85-inch diameter HD media for installation in cellular phones to enable handling of music and TV programs transmitted via Internet.

- **Expanding Hard Disk Media Production**
 - ◆ SDK will expand its hard disk (HD) media production capacity by 3.05 million disks a month, to 13.75 million disks a month, by March 2006 to meet a growing demand.
 - ◆ SDK decided to build a new hard disk (HD) media plant in Singapore.
 - ◆ By 2008, SDK will further increase the capacity to 24 million disks per month, including the capacity at the new plant in Singapore.

- **Building New R&D Facility for Large Capacity HD Media**
 - ◆ SDK will build a new R&D facility in Chiba, Japan, to promote the development of the next-generation HD media with greater storage capacity.

Topics

■ Electronics

- **Launched GaN-based Near Ultraviolet and Green LED Chips**
 - ◆ SDK established a wide-ranging product line of GaN-based LED chips covering the wavelengths from near ultraviolet to green, in addition to the already commercialized aluminum-gallium-indium-phosphide (AlGaInP) red to yellow-green LED. Thus SDK now offers high-brightness LEDs for all colors from the infrared LED to high-power near ultraviolet LED.
- **Joint development of the SiC epitaxial wafer technology**
 - ◆ SDK started research for commercial production of high-performance silicon carbide (SiC) epitaxial wafers jointly with the National Institute of Advanced Industrial Science and Technology, and the Central Research Institute of Electric Power Industry.

■ Inorganic Materials

- **Dissolved JV in Low-Carbon Ferrochrome Business**
 - ◆ SDK sold its shares in Middelburg Technochrome (Pty) Ltd. (MTC), a joint venture for the production of low-carbon ferrochrome, to the joint venture partner Samancor Limited of South Africa. With this, SDK completed the restructuring of its metallic materials business.
- **Developed Molded Carbon/Resin Separator for Fuel Cell**
 - ◆ SDK developed a high-performance molded carbon/resin separator for polymer electrolyte fuel cell (PEFC) to be used as a power source for homes, cars and mobile devices.

Topics

■ Inorganic Materials

- **Start of commercial production of 32” graphite electrodes**
 - ◆ SDK started commercial production of 32-inch-diameter graphite electrodes at its Omachi Plant. The product represents the largest diameter for graphite electrodes used in electric-arc-furnace steel production.

- **Doubling fused alumina abrasives production capacity**
 - ◆ SDK introduced a continuous production system for Single Morundum—specialty alumina abrasives used in grinding stones for hard materials, including auto parts. The process change resulted in doubling of the production capacity, to 4,000 tons a year.

- **Termination of Carbon black joint venture**
 - ◆ SDK terminated the shareholders agreement with Cabot Corporation of the United States concerning their carbon black joint venture Showa Cabot K.K.

Topics

■ Aluminum

● Sold Shares in Nippon Amazon Aluminium

- ◆ SDK completed the transfer of its shares in Nippon Amazon Aluminium Co., Ltd. (NAAC) to Mitsui & Co., Ltd. in January.

● Dissolving Showa Alumi Viewtech Co., Ltd.

- ◆ SDK dissolved its aluminum extrusions manufacturing subsidiary Showa Alumi Viewtech at the end of the year.

● Consolidated commodity aluminum sheet business

- ◆ SDK Group's commodity aluminum sheet sales in Eastern Japan were consolidated at Showa Denko Aluminum Trading K.K. (SDAT) as from October. At the same time, SDAT took over aluminum sheet processing operation from Showa Denko Sakai Aluminum K.K.

● Developing New Condenser for Car Air-Conditioners

- ◆ SDK developed a new high-performance condenser for car air-conditioners and started selling the product under the trade name of "NRT (new refrigerant tube) III." Some Japanese and foreign carmakers have adopted or decided to install the product in several new models they will launch in and after 2006.

Topics

■ Aluminum

● Expansion of production capacity for aluminum cylinders for laser printers

- ◆ SDK decided to expand its capacity for producing aluminum cylinders for laser printers from the current nine million tubes per month to 15 million tubes per month by the end of 2006.
- ◆ The expansion reflects an increasing demand for color printers that use four aluminum cylinders per unit compared with monochrome printers that use only one aluminum cylinder per unit.

● Cooperation with Veolia Water in Water Treatment

- ◆ SDK decided to have its consolidated subsidiary Showa Engineering Co., Ltd. cooperate with Veolia Water S.A. of France to conduct a water treatment business in Japan and other Asian countries.