



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

2006 Financial Results

- Consolidated -

SHOWA DENKO K.K.

February 9, 2007

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: 1

- Taiwan Showa Chemicals Manufacturing Co., Ltd. (Electronics)

■ Excluded from the consolidation: 3

- Showa Aluminum Powder K.K. (Sold Petrochemicals)
- Medix Showa Co., Ltd. (Sold Petrochemicals)
- Showa Denko HD K.K (Merger Electronics)

■ Equity method applied: 24

■ Newly applied: 1

- Summit Showa Aluminum Ltd. (Aluminum)

■ Excluded: 1

- Showa Film K.K (Petrochemicals)

Major Selected Data

	2006	2005	Increase
■ Exchange rate: ¥/US\$	116.4	110.2	Yen depreciated by ¥6.2/\$
■ Domestic naphtha price: ¥/kl	49,300	39,100	+10,200
■ Aluminum LME price: US\$/T	2,595	1,900	+695

Summary of 2006 Financial Results

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

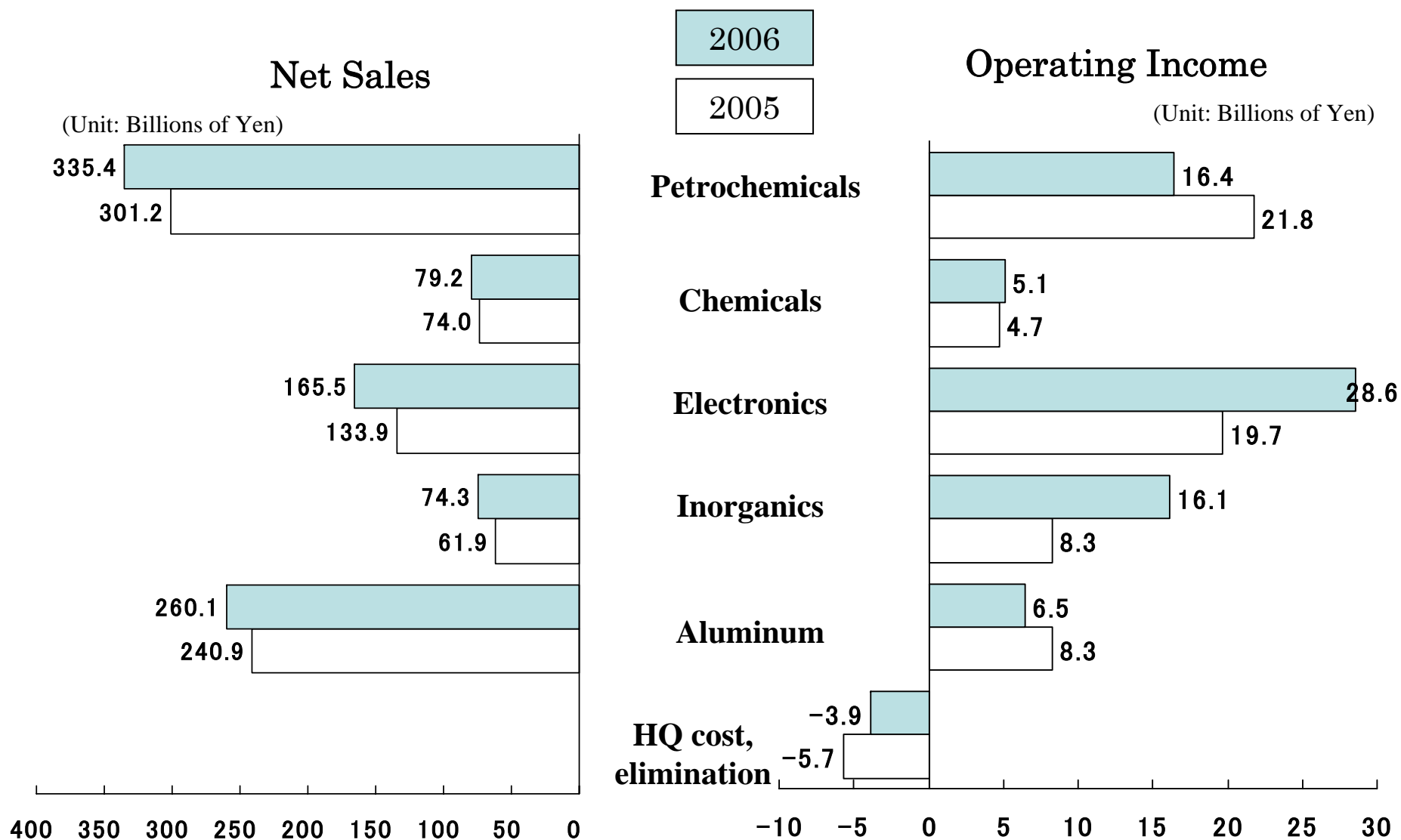
	2006	2005	Increase	
Net Sales	914.5	811.9	102.6	12.6%
Operating Income	68.7	57.2	11.5	20.2%
[Rate to net sales]	7.5%	7.0%	+0.5 point	
Interest/dividend income less interest expenses	-5.7	-6.8	1.1	
Equity Method	2.5	1.7	0.7	
Ordinary Income	57.5	47.0	10.6	22.5%
Extraordinary Profit	11.7	10.4	1.3	
Extraordinary Loss	-19.6	-39.6	20.0	
Net Income before taxes	49.6	17.8	31.8	
Corporate Taxes	-17.9	0	-18.0	
Minority Interests	-2.8	-2.1	-0.7	
Net Income	28.8	15.6	13.2	84.3%
Net Income per Share	¥ 25.01	¥ 13.70	¥ 11.31	82.6%

Extraordinary Profit/Loss

(Unit: Billions of Yen)

	2006	2005	Increase
■ Extraordinary Profit	11.7	10.4	1.3
● Gain on the sale of property	0.1	4.4	-4.3
● Gain on the sale of investment securities	6.7	4.4	2.2
● Other	4.9	1.5	3.4
■ Extraordinary Loss	-19.6	-39.6	20.0
● 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	-5.7	-2.0	-3.7
● Loss from impairment of fixed assets	-4.9	-1.2	-3.7
● Reserve for restructuring expenses	-1.9	-0.2	-1.7
● Other	-7.1	-3.6	-3.5
■ Extraordinary Profit/Loss, Net	-7.9	-29.2	-21.3

Sales and Operating Income by Segment



Consolidated Sales by Segment

(Unit: Billions of Yen)

	2006	2005	Increase	Increase by Business
Petrochemicals	335.4	301.2	+34.2	Olefins: Sales increased (price up) Organic chemicals: Sales slightly increased (price up) Showa Highpolymer Co., Ltd: Sales increased Sold Showa Aluminum Powder K.K.
Chemicals	79.2	74.0	+5.2	AN•caustic soda: Sales increased (price up) <i>Shoprene</i> • <i>Shodex</i> : continued brisk demand.
Electronics	165.5	133.9	+31.6	HDs: volume increase thanks to capacity expansion Compound semiconductors: sales volume increased Rare earth: price up Specialty gases • electronic ceramics • fine carbons: volume up
Inorganics	74.3	61.9	+12.4	Ceramics: sales increased (alumina) Carbons: sales increased (graphite electrodes in tight supply in domestic and overseas markets)
Aluminum	260.1	240.9	+19.2	Ingots: sales increased (price up) <i>Shotic</i> : sales volume increased. Alloys: excluded from the consolidation. Heat exchangers: sales volume increased in Japan, North America and Europe
Total	914.5	811.9	+102.6	

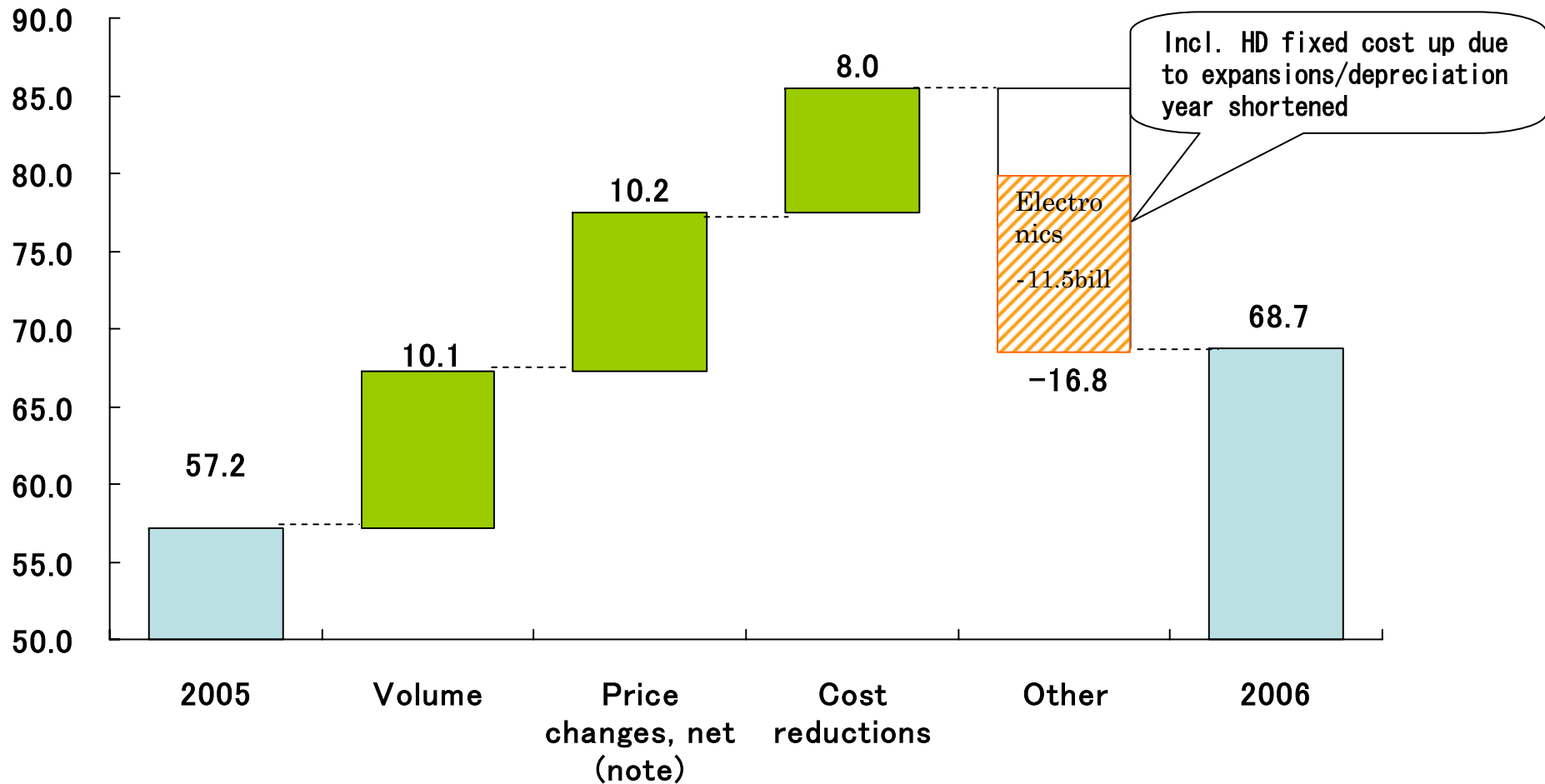
Consolidated Operating Income by Segment

(Unit: Billions of Yen)

	2006	2005	Increase	Increase by business
Petrochemicals	16.4	21.8	-5.5	Olefins • Organic: volume down due to maintenance shutdown.
Chemicals	5.1	4.7	+0.4	Gas & Chemicals • commodity industrial gases: maintained at the year-earlier level. Specialty Chemicals • <i>Shoprene</i> :Sales price up
Electronics	28.6	19.7	+8.9	HDs: volume increase thanks to capacity expansion Compound semiconductors: sales volume increased. Specialty gases: sales volume increased. R&D cost increased.
Inorganics	16.1	8.3	+7.8	Ceramics: price up Carbons: graphite electrodes in tight supply in domestic and overseas markets
Aluminum	6.5	8.3	-1.8	Aluminum ingot: Cost increased due to the rise in raw material costs. Aluminum Cans: operating income dropped due to the rise in raw material costs High purity foil: material cost up <i>Shotic</i> • extrusions/specialty products: operating income increased due to sales volume increases. Heat exchangers: decreased in North America due to cost increase as a result of new model start-up
HQ costs, elimination	-3.9	-5.7	+1.8	Part of R&D cost transferred to segments. Cost reduction
Total	68.7	57.2	+11.5	

Operating Income Breakdown by Factor

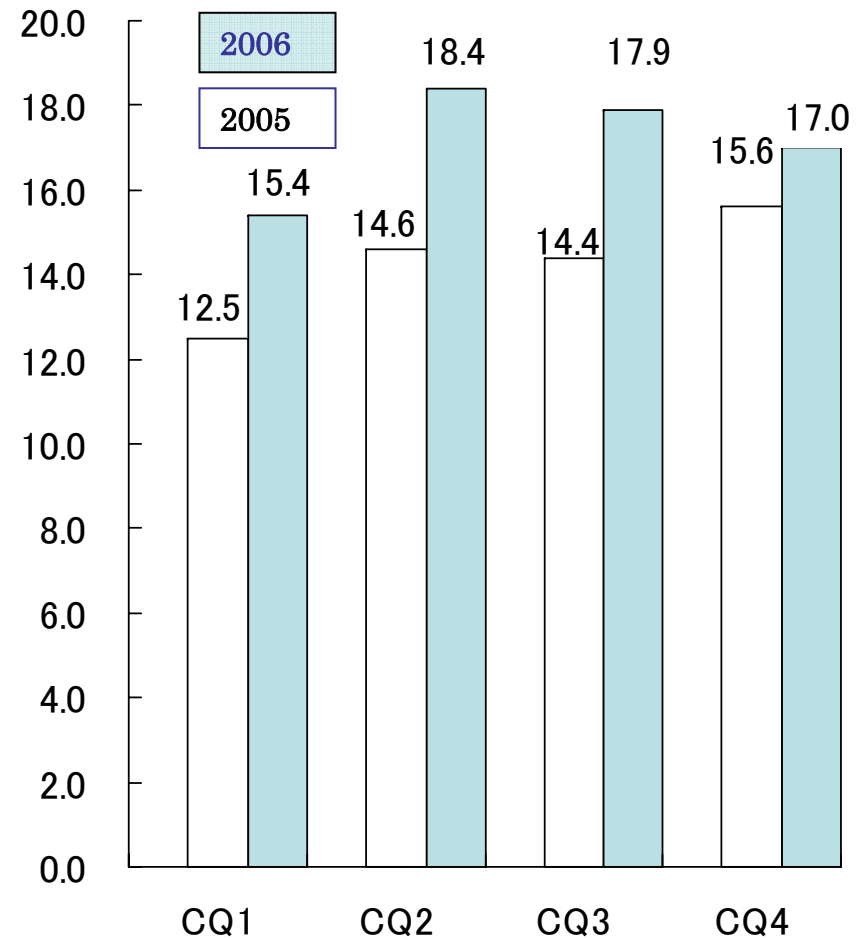
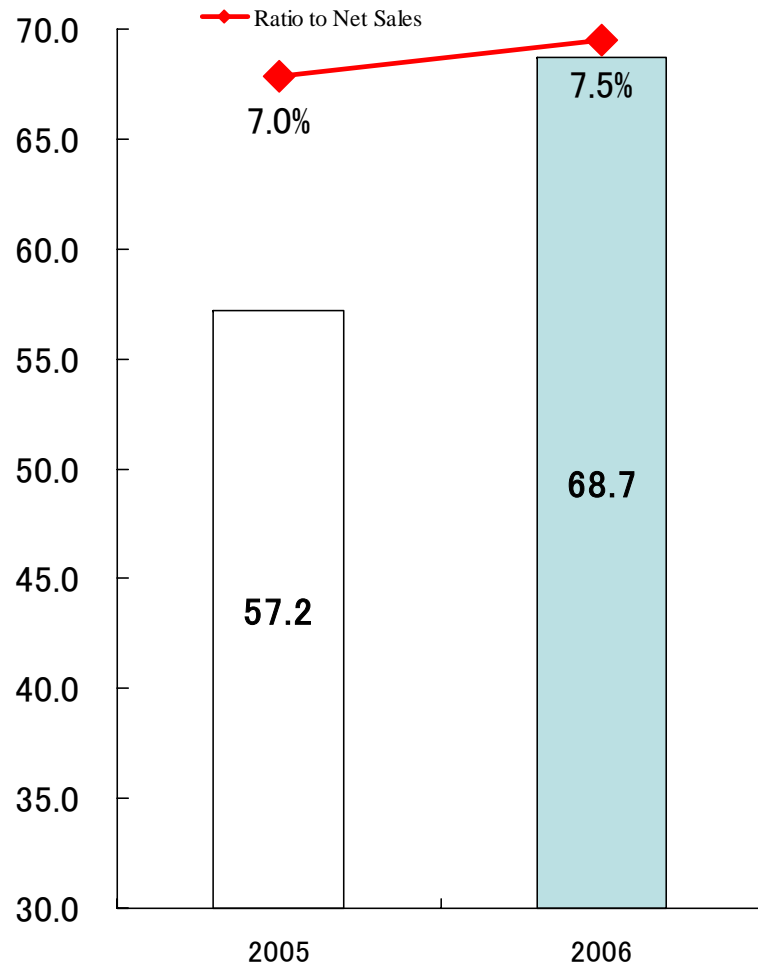
(Unit: Billions of Yen)



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

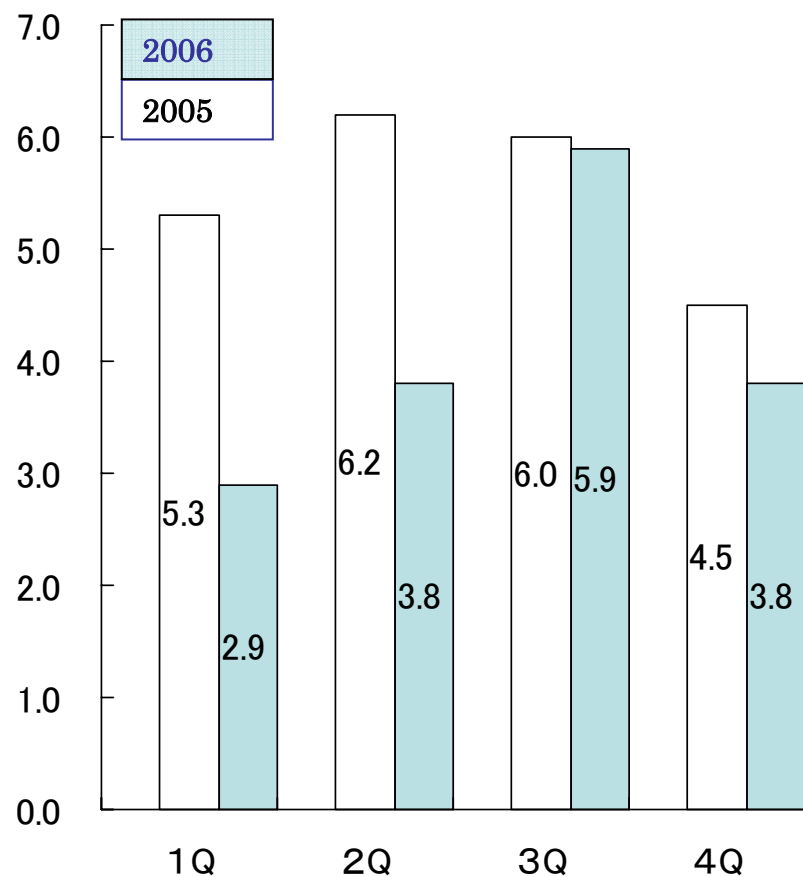
Operating Income, Quarterly

(Unit: Billions of Yen)

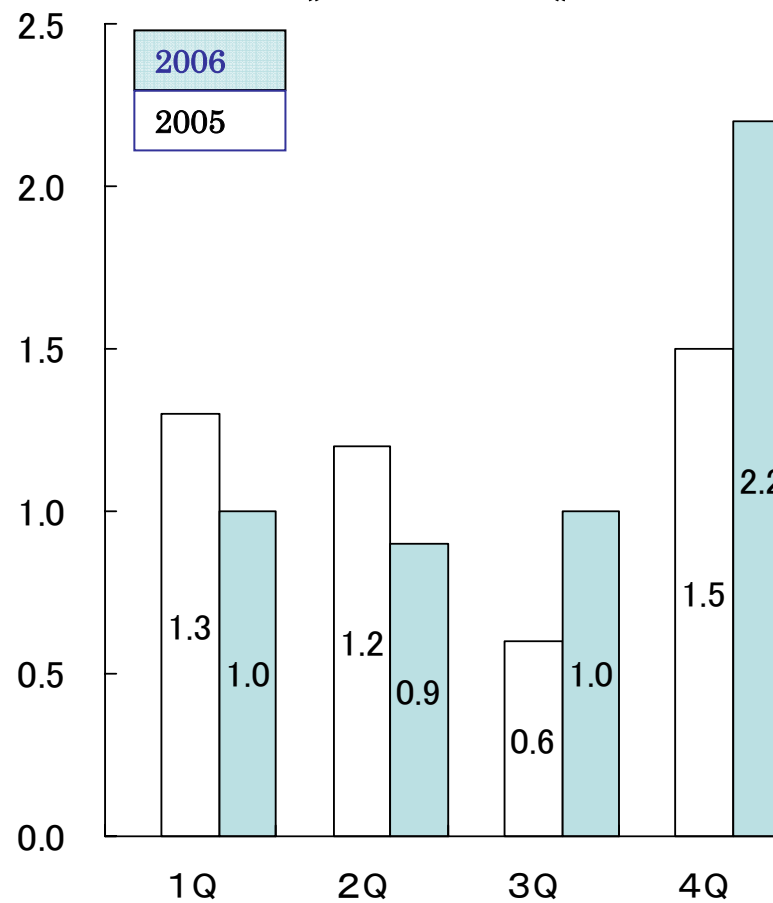


Operating Income by Segment (Quarterly)

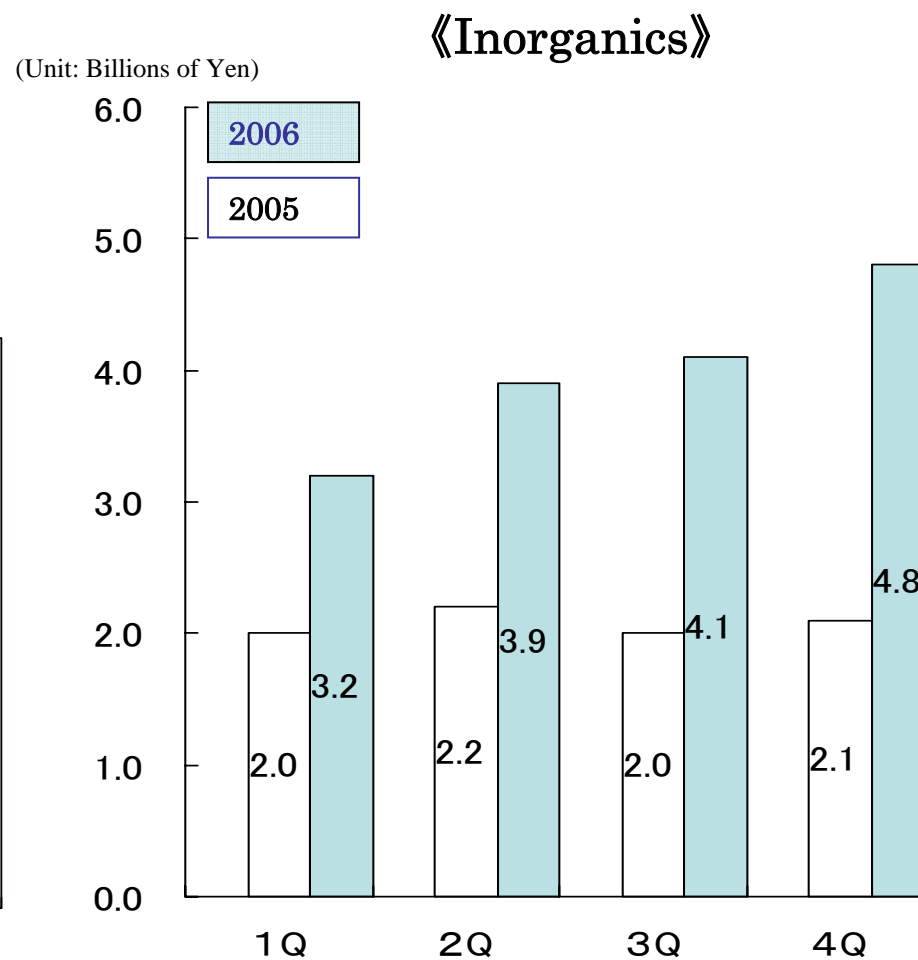
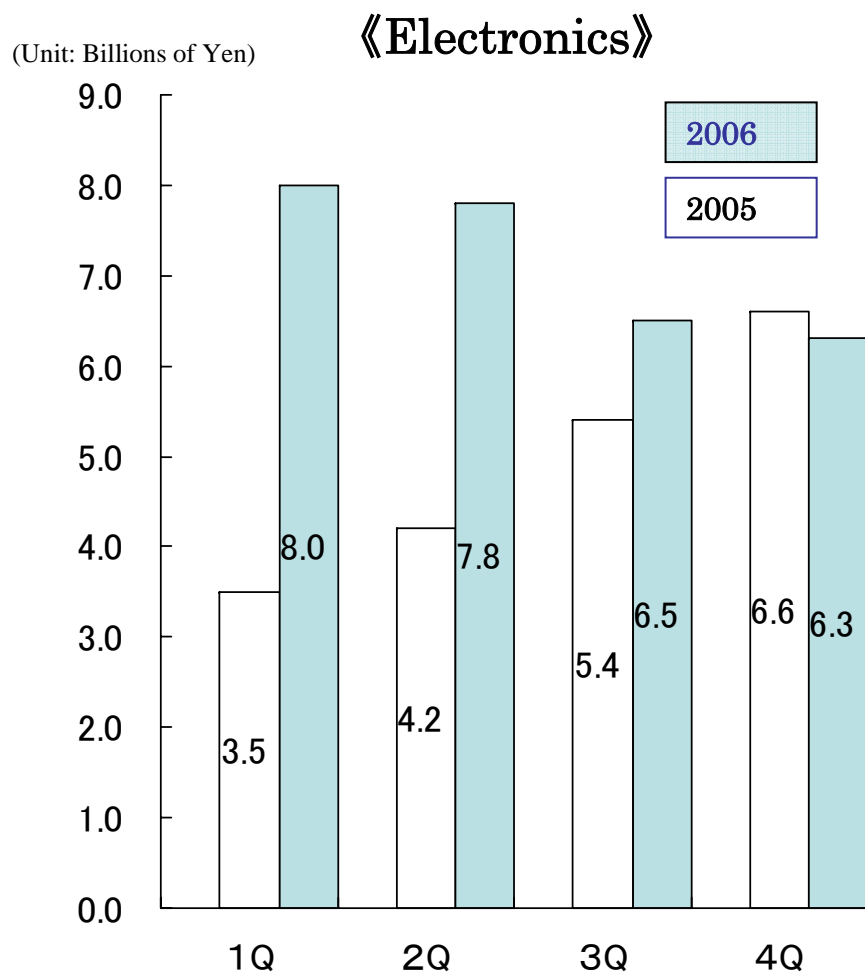
(Unit: Billions of Yen) **《Petrochemicals》**



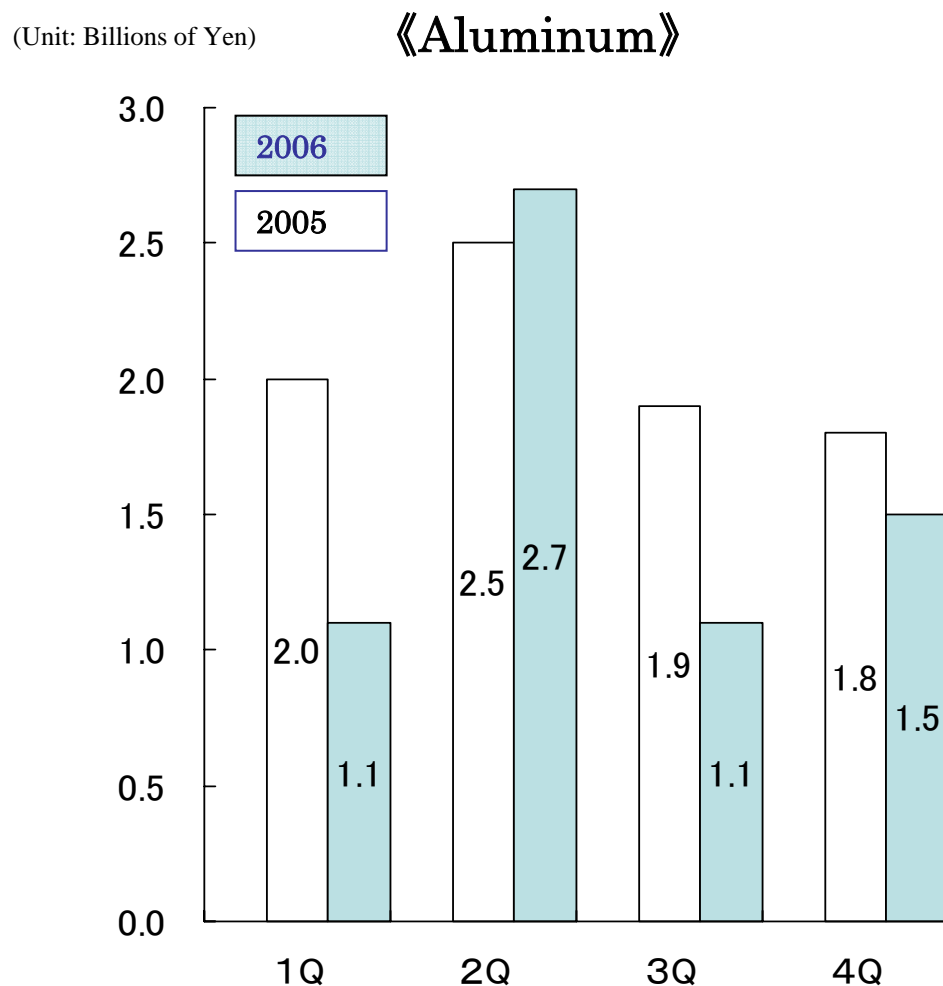
(Unit: Billions of Yen) **《Chemicals》**



Operating Income by Segment (Quarterly)



Operating Income by Segment (Quarterly)



Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Dec. 31, 2006	Dec. 31, 2005	Increase	Liabilities and Stockholders' Equity	Dec 31, 2006	Dec. 31, 2005	Increase
Cash and deposits	55.4	37.3	18.2	Accounts payable	161.5	140.2	21.3
Accounts receivable	176.2	161.1	15.2	Interest-bearing debt	433.2	448.8	-15.7
Inventories	86.3	77.3	9.0	Deferred tax liabilities due to land revaluation	46.9	29.1	17.8
Deferred tax assets	3.2	6.8	-3.6	Accrued pension and severance costs	34.9	42.6	-7.7
Other current assets	27.3	35.6	-8.3	Other liabilities	95.9	69.7	26.2
<u>Current Assets</u>	<u>348.5</u>	<u>318.0</u>	<u>30.4</u>	<u>Total Liabilities</u>	<u>772.3</u>	<u>730.4</u>	<u>41.9</u>
Buildings and structures	93.4	95.4	-1.9	Common stock	110.8	110.5	0.4
Machinery and equipment	137.4	125.4	12.0	Capital surplus	26.9	11.1	15.8
Land	263.9	268.1	-4.2	Retained earnings	47.3	21.9	25.5
Other tangible fixed assets	55.2	22.0	33.2	Treasury stock	-0.2	-0.1	-0.1
<u>Tangible Fixed Assets</u>	<u>550.0</u>	<u>510.9</u>	<u>39.1</u>	<u>Total Stockholders' equity</u>	<u>184.9</u>	<u>143.3</u>	<u>41.6</u>
Intangible Fixed Assets	18.4	24.3	-5.9	Securities valuation surplus	19.3	19.5	-0.2
Investments and other assets	121.0	133.0	-12.0	Foreign currency translation adjustment • Deferred hedge gains (losses)	7.2	1.6	5.6
Incl. Investment securities	97.0	107.8	-10.8	Revaluation surplus –Land	24.0	42.3	-18.3
Deferred tax assets	7.6	11.4	-3.8	<u>Total valuations and adjustments</u>	<u>50.5</u>	<u>63.4</u>	<u>-12.9</u>
				Minority Interest	30.1	49.1	-19.0
<u>Total fixed assets</u>	<u>689.4</u>	<u>668.2</u>	<u>21.2</u>	Total equity	<u>265.5</u>	<u>255.8</u>	9.7
Total Assets	1,037.8	986.2	51.6	Total liabilities and equity	1,037.8	986.2	51.6

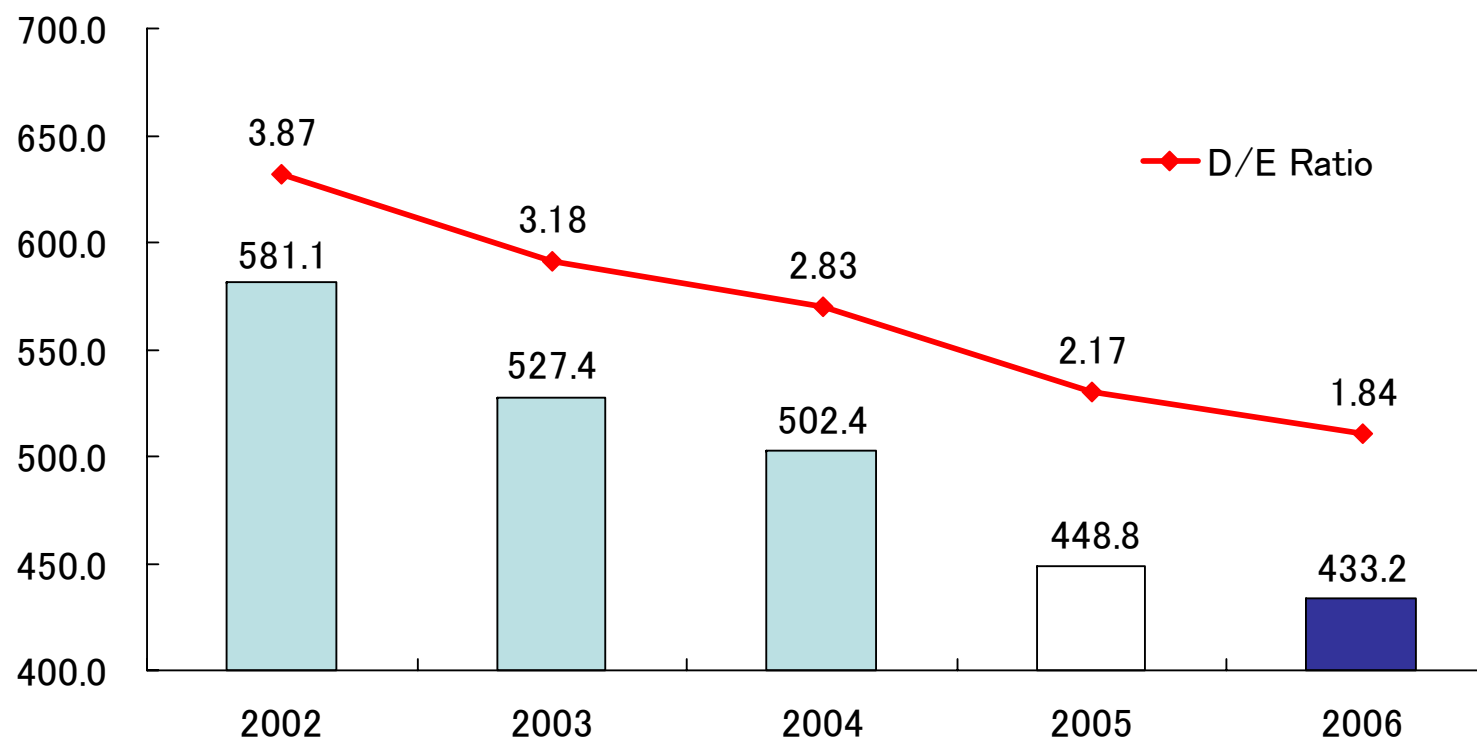
Total Assets, Interest-bearing Debt and D/E ratio

- **Total assets** **¥1,037.8 billion**
(Increased by ¥51.6 billion from Dec. 31, '05)
- **Interest-bearing debt** **¥433.2 billion**
(Decreased by ¥15.7 billion)
- **Debt/Equity ratio** **1.84 times**
(Improved by 0.33 point)
- **Stockholders' Equity ratio** **22.7%**
(Improved by 1.7 point)

Interest-bearing Debt

2002 - 2006

(Unit: Billions of Yen)



Equity ratio	15.2%	17.7%	18.8%	21.0%	22.7%
--------------	-------	-------	-------	-------	-------

Consolidated Cash Flows

(Unit: Billions of Yen)

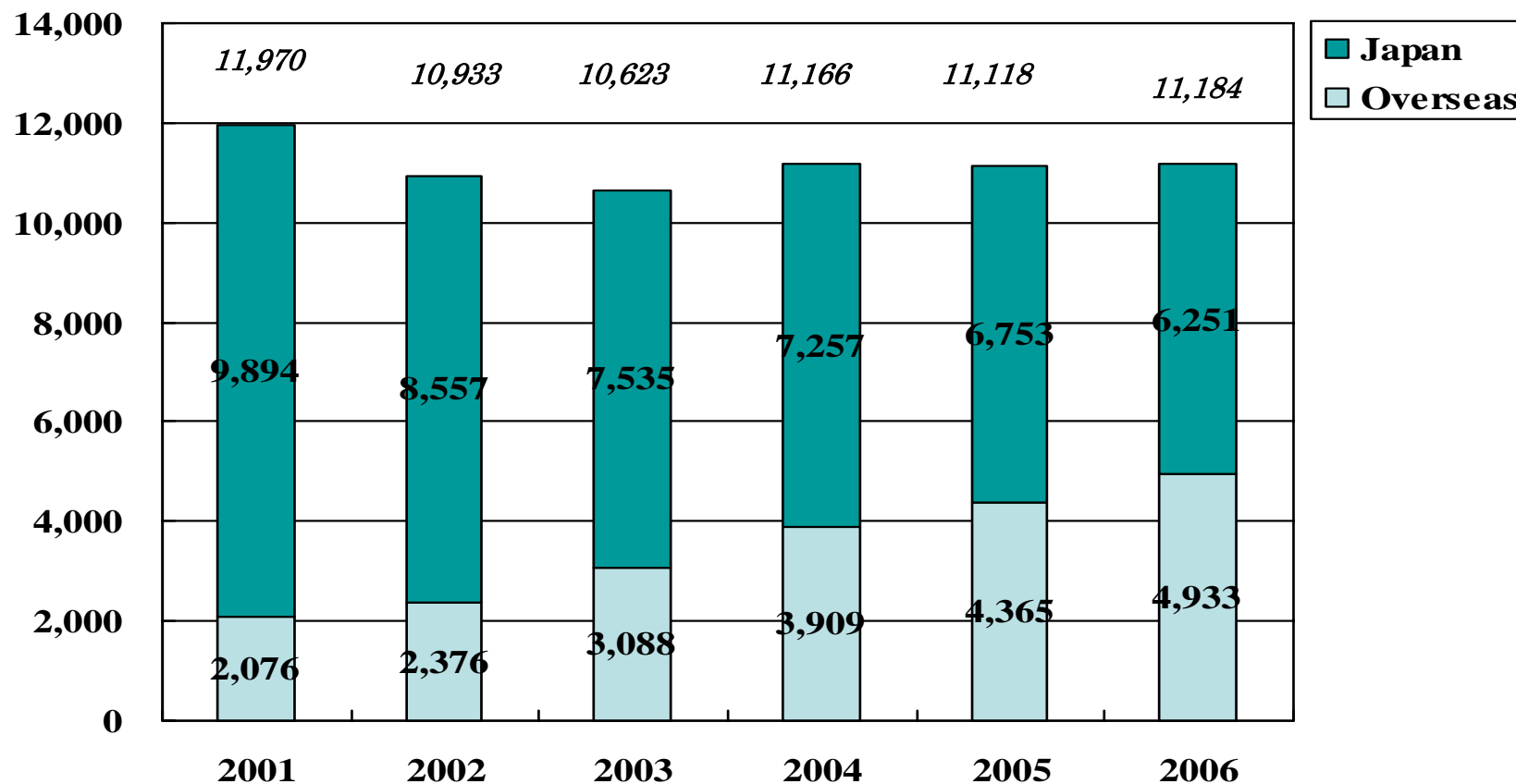
	2006	2005	Increase
● CF from Operating Activities	91.4	78.0	+13.4
● CF from Investing Activities	-55.9	-18.0	-38.0
● Free CF	35.5	60.0	-24.5
● CF from Financing Activities	-18.0	-53.4	+35.4
● Others	0.5	1.5	-1.1
Increase of cash and equivalents	17.9	8.1	+9.8

Selected Data (Consolidated)

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

	2006	2005	Increase
● Interest/dividend income less interest expenses	-5.7	-6.8	+1.1
● Capital expenditures	90.8	41.2	+49.6
● Depreciation and amortization	38.0	34.2	+3.8
● R&D expenditures	19.5	17.4	+2.1
● Number of employees	11,184	11,118	+6.6
● Total employment cost	77.0	80.5	-3.5

Total number of employees and breakdown by location



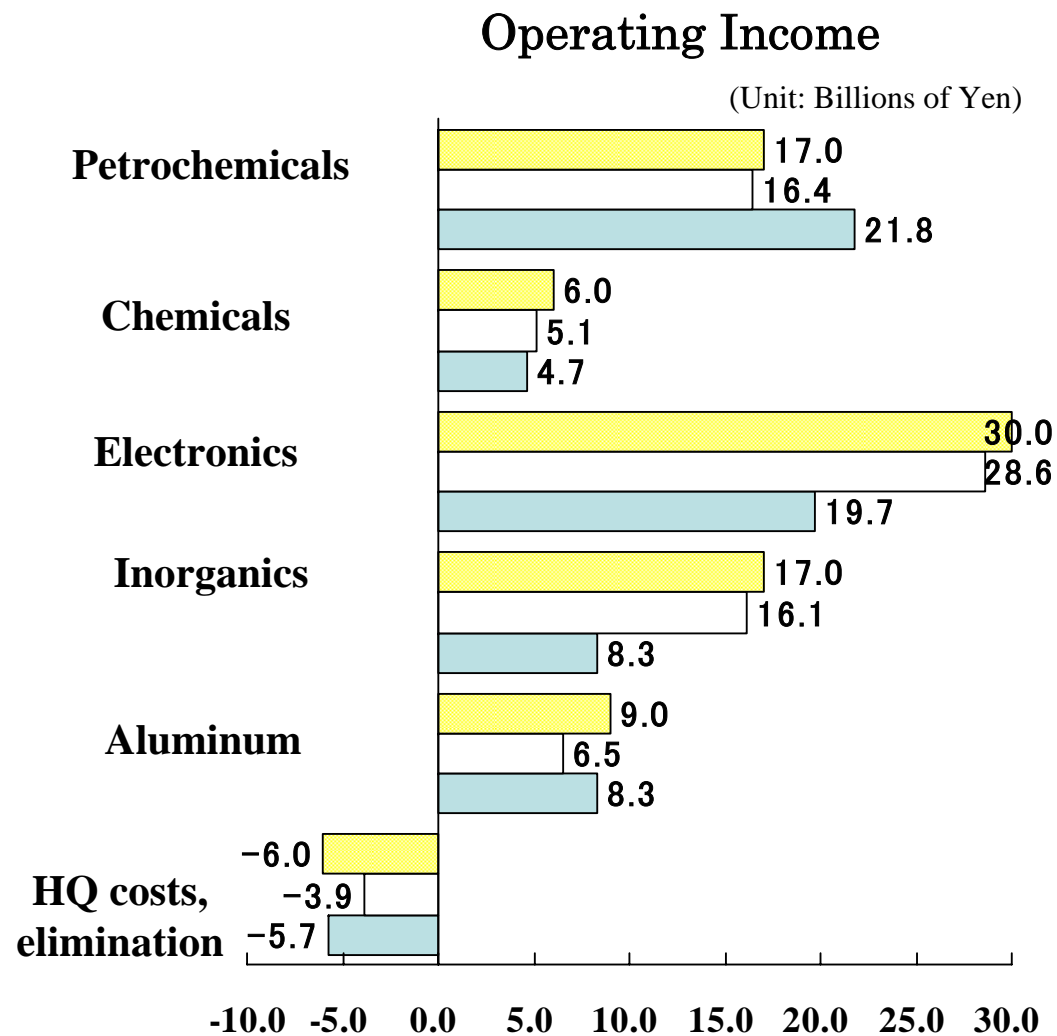
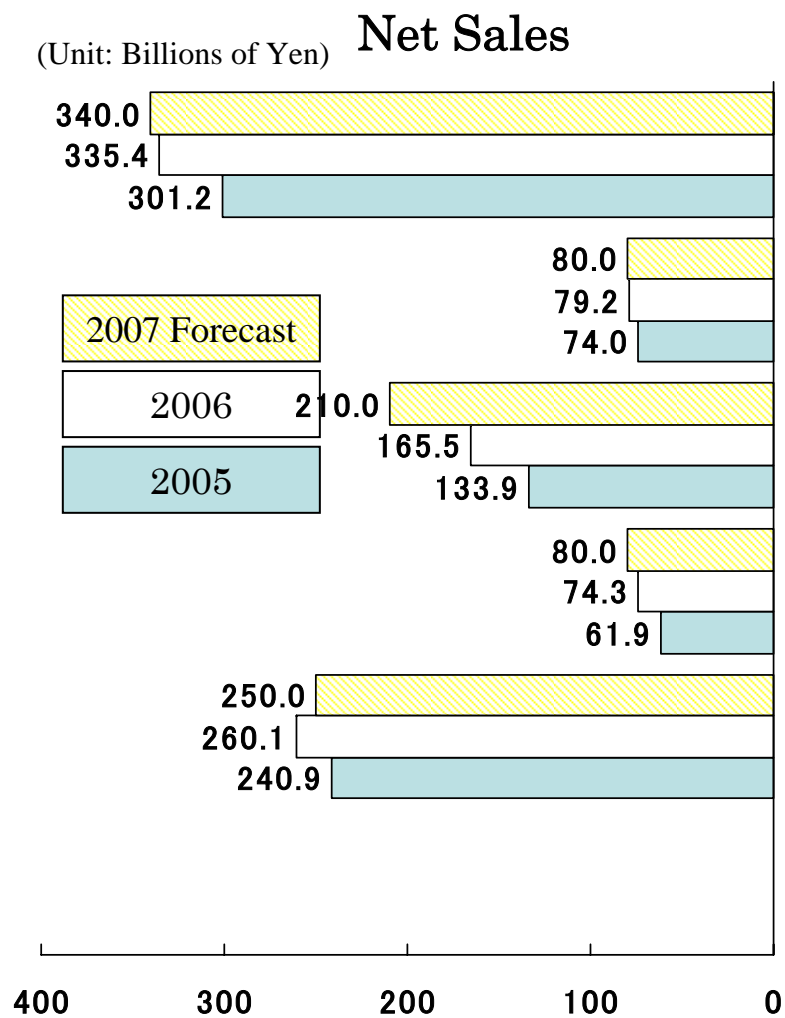
Japan	82.7%	78.3%	70.9%	65.0%	60.7%	55.9%
Overseas	17.3%	21.7%	29.1%	35.0%	39.3%	44.1%

Forecast for 2007 (Consolidated)

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

	2007 Forecast	2006	Increase
Net Sales	960.0	914.5	+45.5
Operating Income	73.0	68.7	+4.3
Interest/dividend income less interest expenses	-8.1	-5.7	-2.4
Ordinary Income	60.5	57.5	+3.0
Extraordinary Profit/Loss, net	-6.5	-7.9	+1.4
Net Income	31.5	28.8	+2.7
Cash dividends per Share	¥4.0	¥4.0	—
Net Income per Share	¥26.80	¥25.01	+¥1.79

Sales and Operating Income Forecast for 2007



Net Sales by Segment 2007 Forecast

(Unit: Billions of Yen)

	2007 (Forecast)		2006		Increase	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Petrochemicals	340.0	260.0	335.4	245.3	4.6	-14.7
Chemicals	80.0	65.0	79.2	66.4	0.8	-1.4
Electronics	210.0	115.0	165.5	105.1	44.5	9.9
Inorganics	80.0	50.0	74.3	49.1	5.7	0.9
Aluminum	250.0	170.0	260.1	168.8	-10.1	1.2
Total	960.0	660.0	914.5	634.7	45.5	25.3

Operating Income by Segment 2007 Forecast

(Unit: Billions of Yen)

	2007 (Forecast)		2006		Increase	
	Consolidated	Parent	Consolidated	Parent	Consolidated	Parent
Petrochemicals	17.0	14.5	16.4	13.5	+0.6	+1.0
Chemicals	6.0	5.0	5.1	4.7	+0.9	+0.3
Electronics	30.0	17.0	28.6	10.9	+1.4	+6.1
Inorganics	17.0	9.0	16.1	8.3	+0.9	+0.7
Aluminum	9.0	5.0	6.5	5.9	+2.5	-0.9
HQ cost, elimination	-6.0	-6.0	-3.9	-3.7	-2.1	-2.3
Total	73.0	44.5	68.7	39.6	+4.3	+4.9

Capital expenditures/ Depreciation by Segment 2007 Forecast

(Unit: Billions of Yen)

	2007 (Forecast)		2006		Increase		2005	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Petrochemicals	6.9	5.7	9.3	5.4	-2.4	+0.3	5.3	5.4
Chemicals	9.0	5.3	5.6	4.9	+3.4	+0.4	4.2	5.1
Electronics	42.9	29.9	62.9	16.1	-20.1	+13.8	20.5	10.9
Inorganics	3.2	2.9	3.9	2.6	-0.7	+0.3	3.1	2.7
Aluminum	17.4	9.2	9.1	9.0	+8.3	+0.2	8.0	10.2
Total	79.5	53.0	90.8	38.0	-11.4	+14.9	41.2	34.2

Consolidated Cash Flows

2007 Forecast

(Unit: Billions of Yen)

	2007 (Forecast)	2006	Increase
● CF from Operating Activities	96.9	91.4	+5.5
● CF from Investing Activities	-90.5	-55.9	-34.6
● Free CF	6.4	35.5	-29.1
● CF from Financing Activities	-9.1	-18.0	+8.9
● Others	-	0.5	-0.5
Increase of cash and equivalent	-2.7	17.9	-20.6

Selected Data 2007 Forecast (Consolidated)

	2007 (Forecast)	2006	(Unit: Billions of Yen) Increase
● Exchange rate: ¥/US\$	115	116	Yen appreciated by ¥1/\$
● Domestic naphtha price: ¥/kl	46,000	49,300	-3,300
● Aluminum LME price: US\$/T	2,660	2,595	+65
● Interest-bearing debt	430.0	433.2	+3.2
● Interest/dividend income less interest expenses	-8.1	-5.7	-2.4
● R&D expenditures	18.2	19.5	-1.3
● Number of employees	11,202	11,184	+1.8
● Total employment cost	74.2	77.0	-2.8

Topics

■ Petrochemicals

- **Further diversification of ethylene feedstock and capacity expansion**
 - ◆ SDK modified its ethylene plant to increase the use of non-naphtha feedstock, and increased the production capacity by 24,000 tons a year to 672,000 tons a year.

- **Expansion of Acetic Acid/Vinyl Acetate production capacities**
 - ◆ SDK increased its production capacity of acetic acid from 100,000 tons a year to 130,000 tons a year, and that of vinyl acetate from 120,000 tons per year to 175,000 tons a year, respectively.

- **Turning Showa Highpolymer into a fully owned subsidiary**
 - ◆ In September, the Company made Showa Highpolymer Co., Ltd. (SHP) a fully owned subsidiary through a share exchange arrangement. SHP is a key player in the Company's specialty polymers operations and a leader in the domestic market for vinyl ester, biodegradable plastics and emulsion.

■ Petrochemicals

● Shares in Showa Aluminum Powder transferred to The ITOCHU Group

- ◆ The majority of shares in Showa Aluminum Powder K.K, a fully owned subsidiary of SDK, was transferred to ITOCHU Corporation and ITOCHU CHEMICAL FRONTIER Corporation.

● Structural reform of plastic processing businesses

- ◆ In December, the Company transferred its medical packaging business of Showa Denko Plastic Products Co., Ltd. (SPP) to Hosokawa Yoko Co., Ltd. Meanwhile, the Company signed an agreement with Okamoto Industries, Inc. to transfer SPP's business in moisture removal sheet for perishable foods to Okamoto by April 2007. In January 2007, the Company transferred all the shares in its fully owned subsidiary Heisei Polymer Co., Ltd., to Toyo Denka Kogyo Co., Ltd.

Topics

■ Chemicals

- **Launch of “gentle-to-hair” new curling agent**
 - ◆ SDK started selling “gentle-to-hair” new curling agent, which efficiently gives natural curling, under the trade name of *Spiera*.

- **Launch of new additive for photo-curing resins**
 - ◆ SDK started selling multifunctional-thiol-based compounds for addition to photo-curing resins to improve their performances. The product, sold under the trade name of *Karenz MT*, represents the world’s first commercial production of multifunctional-thiol-based compounds for this application.

- **Launch of insulating ink for LCD panels**
 - ◆ In December 2006, the Company’s consolidated subsidiary, Nippon Polytech Corporation, started selling a new high-performance electrical insulating ink for manufacturing electronic parts based on the chip-on-film technology for use in TV/PC LCD panels. The ink is made using the Company’s newly developed urethane-based thermoset resin. Demand for the ink is expected to increase substantially, reflecting the growth of the LCD panel TV market.

Topics

■ Electronics

- **Expansion of HD media production capacity to 15.75 million disks per month**
 - ◆ In April 2006, the Showa Denko Group increased its HD media production capacity to 13.75 million disks a month to meet a growing demand. At the end of December, the capacity was further increased to 15.75 million disks a month through construction of new lines at Showa Denko HD Trace Corporation in Taiwan and debottlenecking at other production sites.

- **Completion of a new HD media plant in Singapore**
 - ◆ In December, the Showa Denko Group's fourth HD media plant was completed in Singapore. We will install additional production lines at the new plant in Singapore to meet growing demand, increasing our total capacity to 24 million disks a month by the end of 2008. Our investment in the building, clean room and production lines (present and future) at the new plant in Singapore is expected to total ¥60 billion.

- **Production of 2.5-inch, 100 GB HD Media Using Perpendicular Magnetic Recording Technology**
 - ◆ SDK started commercial production of 2.5-inch hard disk (HD) media with storage capacity of 100 gigabytes per disk in the third quarter, using the innovative perpendicular magnetic recording (PMR) technology.

Topics

■ Electronics

● **Completion of a new HD media R&D facility**

- ◆ In August, the Company completed a new R&D facility in Chiba, Japan, to improve the PMR technology and to promote the development of the next-generation HD media. In view of the strong demand, part of the facility is to be used for commercial production.

● **Merger of Showa Denko HD K.K.**

- ◆ In November, the Company merged its fully owned subsidiary Showa Denko HD K.K. The step was taken to enhance the efficiency of the HD media business through integration of the development, marketing and production functions.

● **Expansion of high-purity chlorine production capacity**

- ◆ The Company started expanding its production capacity of high-purity chlorine at Kawasaki to meet growing demand for use in the manufacture of semiconductors and liquid crystal displays (LCDs). The purification capacity will increase from 300 tons a year to 1,000 tons a year, and the filling capacity from 300 tons a year to 600 tons a year, both by the end of first half, 2007.

Topics

■ Electronics

● **Establishment of a specialty-gas marketing company in South Korea**

- ◆ In November, we started full-scale marketing of our specialty gases for the South Korean semiconductor/LCD market through a newly established subsidiary, Korea Showa Chemicals Co. Under the new setup, the Showa Denko Group will provide its specialty gases through five marketing units located in Japan, Taiwan, China, Singapore and South Korea.

● **Construction of second rare-earth magnetic alloy plant**

- ◆ We established a new subsidiary, Ganzhou Zhaori Rare Earth New Materials Co., Ltd., at Ganzhou, Jiangxi Province, China, in cooperation with Tokai Trade Co., Ltd. of Japan and two Chinese rare-earth mineral producers. We intend to ensure stable procurement of raw materials for high-performance magnets for the fast growing automotive market. We are already operating a rare-earth magnetic alloy plant in Baotou, Inner Mongolia. Upon completion of the second plant, we will have a total production capacity of 3,000 tons a year.

● **Expansion of *VGCF* carbon nanofiber production capacity**

- ◆ We decided to increase our production capacity of *VGCF* carbon nanofibers from 40 tons a year to 100 tons a year. The new facility will start up in early 2007. *VGCF* carbon nanofibers are used mainly as additives in lithium-ion batteries.

Topics

■ Electronics

- **Expansion of ultra bright red/yellow LED production capacity**
 - ◆ The Company decided to increase its capacity for producing aluminum-gallium-indium-phosphide (AlGaInP) ultra bright LED chips to meet growing demand for use in LCD backlighting and automotive parts. The production capacity will be increased from 30 million units a month at present to 100 million units a month. Our AlGaInP ultra bright LED chips produce diverse colors, such as red, yellow, and orange, based on our proprietary technologies. We can also provide these LED chips in a large size or special sizes as required by respective customers. We aim to expand this business as a new “growth driver” business.

Topics

■ Inorganics

- **Increased production of 30-inch- and 32-inch-diameter graphite electrodes**
 - ◆ To meet growing demand from electric arc furnace steelmakers, we decided to increase our production of large-sized graphite electrodes. SDK is providing both 30-inch-diameter and the world's largest 32-inch-diameter electrodes.

- **Development of large-sized sintered compacts of CBN**
 - ◆ In April, SDK started selling sintered compacts of cubic boron nitride to be used mainly for cutting automotive parts. The compacts can be provided in thicknesses at the highest levels in the world.

- **Joint F/S for alumina project in Indonesia**
 - ◆ SDK reached agreement with PT. ANTAM Tbk of Indonesia, Straits Trading Amalgamated Resources Private Limited of Singapore, and Marubeni Corporation on implementation of a joint feasibility study for a chemical-grade alumina plant in Indonesia.

- **New Ceramic Abrasives Plant in China**
 - ◆ SDK started commercial production of ceramic abrasives in Lianyungang, Jiangsu Province, China, as a joint venture with Mitsubishi Corporation.

Topics

■ Aluminum

- **Expansion of production capacity for aluminum cylinders for laser printers**
 - ◆ In September, the Group started up its state-of-the-art aluminum cylinders production facility at the Oita Complex to meet growing demand for use in office color laser printers. The Company also upgraded existing plants, increasing the total production capacity from nine million units a month to 15 million units a month. Total investment amounted to around ¥2.5 billion.

- **Expansion of high-purity aluminum foils production capacity**
 - ◆ The Group decided to increase its production capacity of high-purity aluminum foils for electrolytic capacitors used in cars and digital equipment, from 1,500 tons a month to 1,800 tons a month.

- **Consolidation of aluminum alloys business**
 - ◆ In July, the Company transferred the aluminum alloys business of its fully owned subsidiary Showa Aluminum Alloy K.K. to Summit Showa Aluminum Ltd. (former name: Summit Aluminum Ltd.), a consolidated subsidiary of Sumitomo Corporation. At the same time, the Company subscribed for new shares in Summit Showa Aluminum issued “for allotment to third party.”

Topics

■ Aluminum

- **Withdrawal from commodity aluminum foils business**
 - ◆ The Company decided to withdraw from the production and sale of commodity aluminum foils used mainly for food packaging.

- **Launch of *Showa Ecopipe* based on used PET bottles**
 - ◆ In July, the Company's consolidated subsidiary Showa Denko Kenzai K.K. started commercial shipments of new drainage/ventilation pipes for homes. The product, sold under the trade name of *Showa Ecopipe*, is produced using recycled PET bottles.