



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

2007 Financial Results

- Consolidated -

SHOWA DENKO K.K.

February 8, 2008

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: 38

■ Newly consolidated: 1

- Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd. (equity method → consolidated, Aluminum)

■ Excluded from the consolidation: 3

- Heisei Polymer Co., Ltd. (Sold, Petrochemicals)
- Showa Financing K.K (Mergerd, Aluminum and others)
- Showa Aluminum Alloy K.K. (Liquidated, Aluminum and others)

■ Equity method applied: 22

■ Newly applied: none

■ Excluded: 2

- Shinko Kasei Co., Ltd. (Sold, Petrochemicals)
- Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd. (equity method → consolidated, Aluminum)

Major Selected Data

	2006	2007	Increase
■ Exchange rate: ¥/US\$	116.4	117.8	Yen depreciated by ¥1.4/\$
■ Domestic naphtha price: ¥/kl	49,300	56,975	+7,675
■ Aluminum LME price: US\$/T	2,595	2,662	+67

Summary of 2007 Financial Results

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

	2006	2007	Increase	
Net Sales	914.5	1,023.2	108.7	11.9%
Operating Income	68.7	76.7	7.9	11.6%
[Rate to net sales]	7.5%	7.5%	0.0 point	
Interest/dividend income less interest expenses	-5.7	-6.8	-1.2	
Equity Method	2.5	2.4	-0.1	
Other	-8.0	-12.2	-4.2	
Ordinary Income	57.5	60.0	2.5	4.3%
Extraordinary Profit	11.7	5.5	-6.2	
Extraordinary Loss	-19.6	-9.1	10.5	
Net Income before taxes	49.6	56.3	6.8	
Corporate Taxes	-17.9	-21.0	-3.1	
Minority Interests	-2.8	-2.2	0.6	
Net Income	28.8	33.1	4.2	14.7%
Net Income per Share	¥ 25.01	¥ 27.52	¥ 2.51	10.0%

Extraordinary Profit/Loss

(Unit: Billions of Yen)

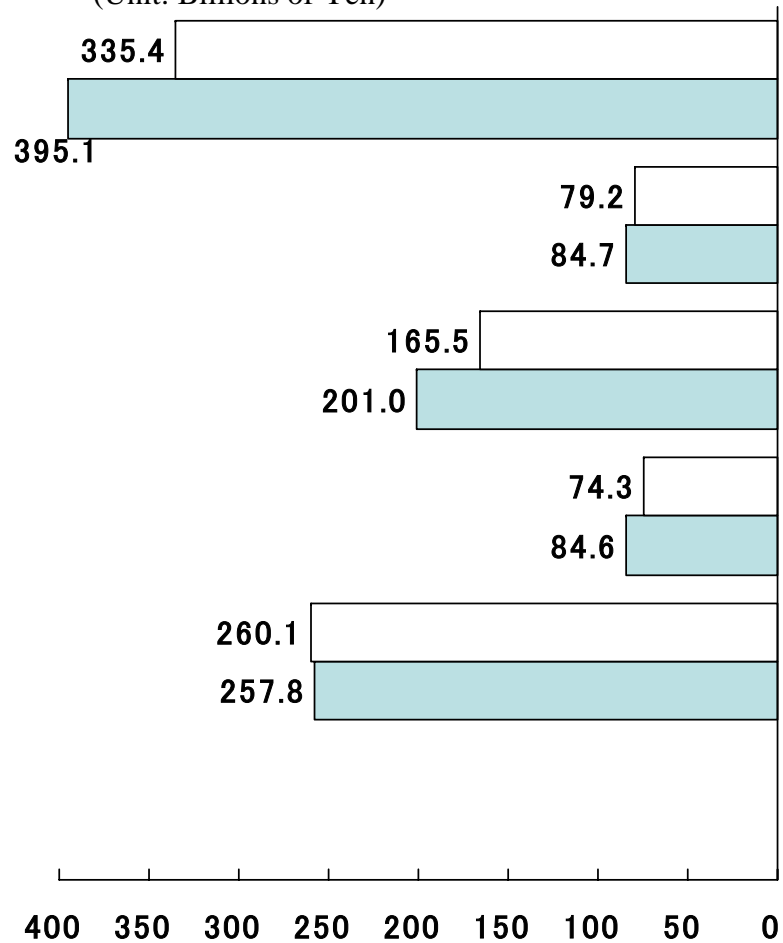
	2006	2007	Increase
■ Extraordinary Profit	11.7	5.5	-6.2
● Gain on the sale of property	0.1	0.7	0.6
● Gain on the sale of investment securities	6.7	2.5	-4.2
● Other	4.9	2.3	-2.6
■ Extraordinary Loss	-19.6	-9.1	10.5
● Loss on sale or disposal of fixed assets	-5.7	-4.6	1.2
● Loss from impairment of fixed assets	-4.9	-1.7	3.2
● Reserve for restructuring expenses	-1.9	—	1.9
● Other	-7.1	-2.8	4.2
■ Extraordinary Profit/Loss, Net	-7.9	-3.7	4.3

Sales and Operating Income by Segment

2006
2007

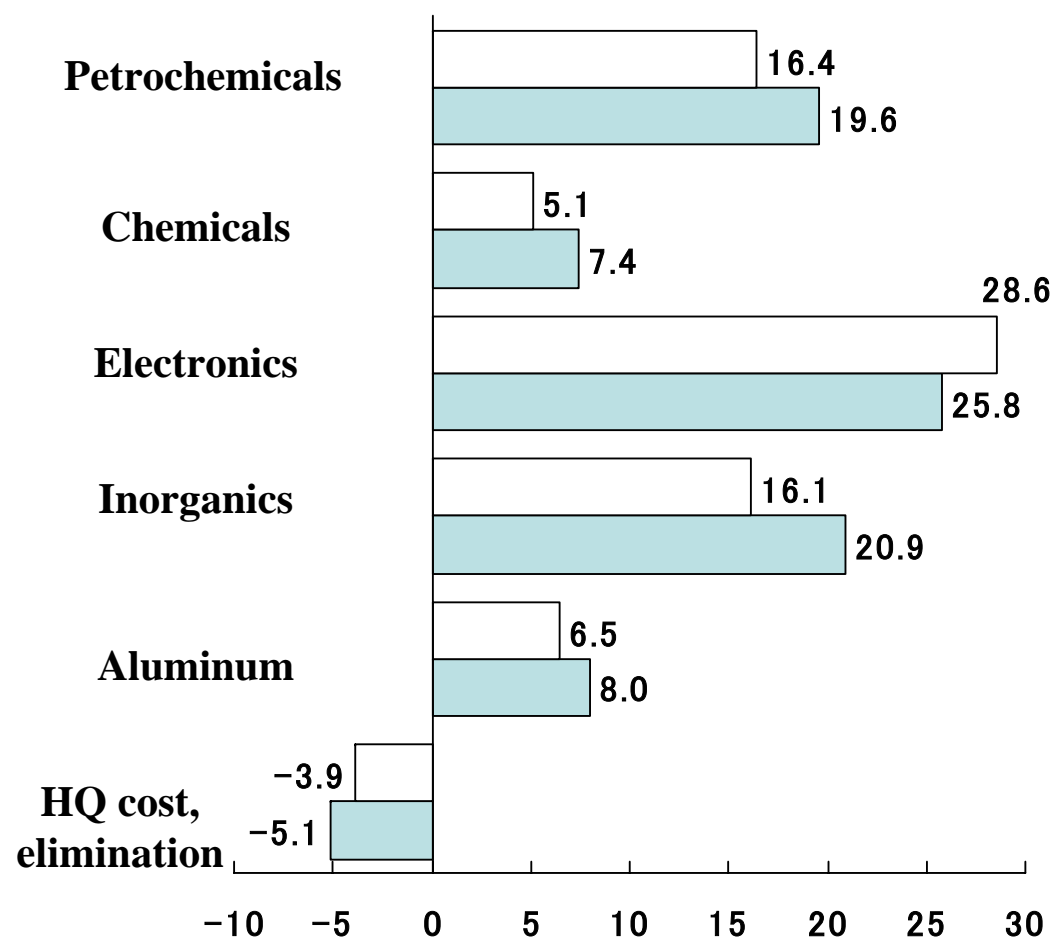
Net Sales

(Unit: Billions of Yen)



Operating Income

(Unit: Billions of Yen)



Consolidated Sales by Segment

(Unit: Billions of Yen)

	2006	2007	Increase	Increase by Business
Petrochemicals	335.4	395.1	+59.7	Olefins: shipment volume increased*, price up Organic chemicals: vinyl acetate monomer's shipment volume increased.
Chemicals	79.2	84.7	+5.5	AN • <i>Shoprene</i> : price up due to the tighter market. Caustic soda • <i>Elaslen</i> • <i>Shodex</i> : shipment volume increased .
Electronics	165.5	201.0	+35.5	HDs: volume increased thanks to capacity expansion Compound semiconductors: shipment volume increased Specialty gases: sales decreased due to weak shipment of cleaning agents. Rare earth: shipment volume increased, price up.
Inorganics	74.3	84.6	+10.3	Ceramics: maintained at the year-earlier level Carbons: sales increased (graphite electrodes in tight supply in domestic and overseas markets)
Aluminum	260.1	257.8	-2.3	Ingots: sales decreased (shipment volume decreased) Aluminum alloys :removed from consolidation in 2006 Sheets • Extruded products: shipment volume increased <i>Shotic</i> : price up. Aluminum cans: shipment volume increased, sales- price-increase partly realized Heat exchangers: sales volume increased in Japan and Europe, slightly decreased in North America.
Total	914.5	1,023.2	+108.7	

* Ethylene plant shutdown maintenance was conducted in the 1st half 2006.

Consolidated Operating Income by Segment

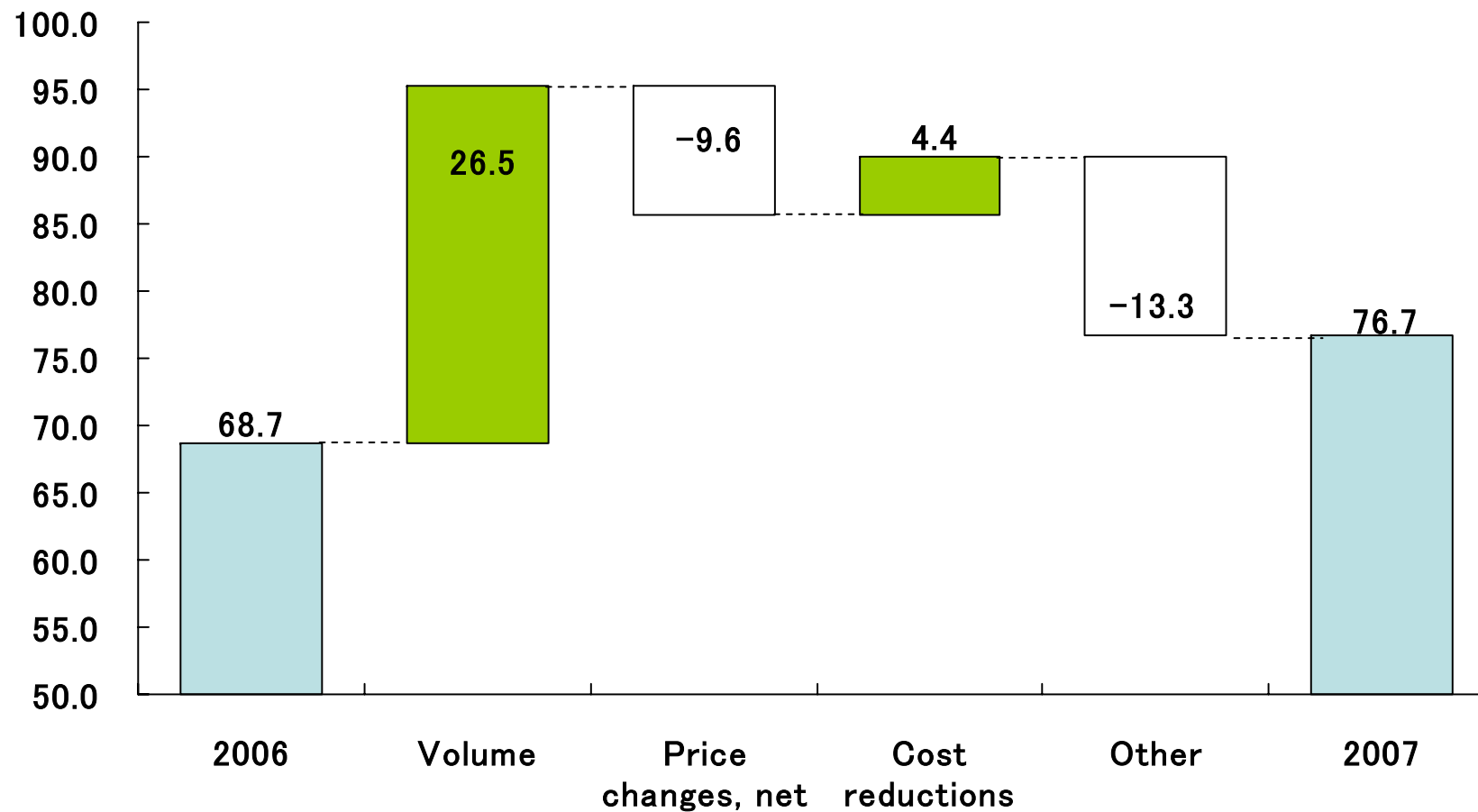
(Unit: Billions of Yen)

	2006	2007	Increase	Increase by business
Petrochemicals	16.4	19.6	+3.2	Olefins • Organic chemicals: shipment volume increased*, price up.
Chemicals	5.1	7.4	+2.3	AN • <i>Shoprene</i> : price up due to the tighter market. <i>Shodex</i> : shipment volume increased .
Electronics	28.6	25.8	-2.8	HDs: volume increase thanks to capacity expansion Compound semiconductors: sales volume increased. Rare earth: shipment volume increased, price up.
Inorganics	16.1	20.9	+4.8	Ceramics: profit decreased due to higher raw material cost. Carbons: graphite electrodes in tight supply in domestic and overseas markets
Aluminum	6.5	8.0	+1.6	Sheets: profit of high-purity foils for capacitors increased due to volume up and price-increase partly realized. Extrusions : profit fell as a result of lower shipment volumes for construction material applications. Heat exchangers: profit improved in North America. Aluminum cans: volume increased, price up.
HQ costs, elimination	-3.9	-5.1	-1.2	R&D cost increased.
Total	68.7	76.7	+7.9	

* Ethylene plant shutdown maintenance was conducted in the 1st half 2006.

Operating Income Breakdown by Factor

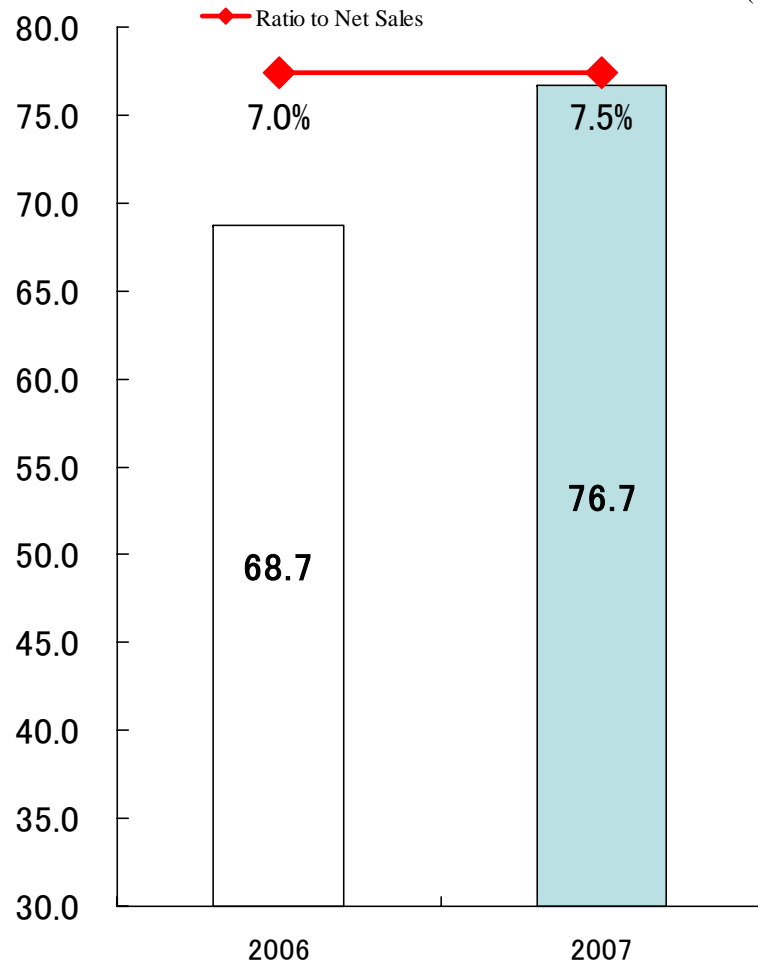
(Unit: Billions of Yen)



Operating Income, Quarterly

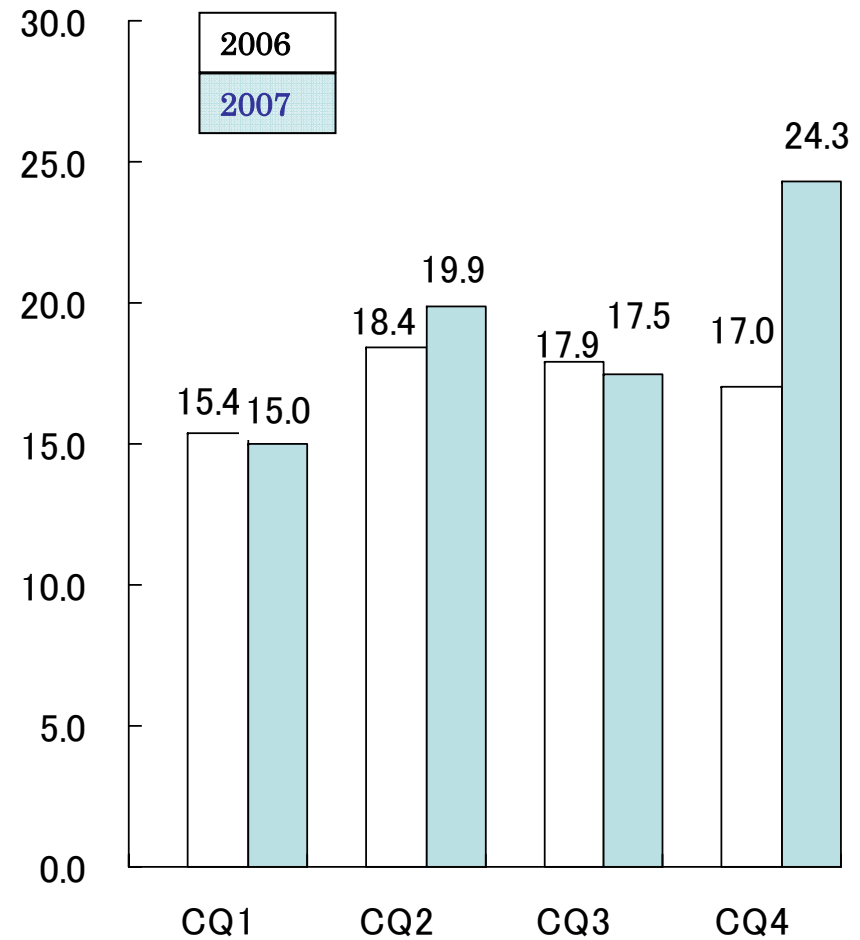
《Operating Income》

(Unit: Billions of Yen)



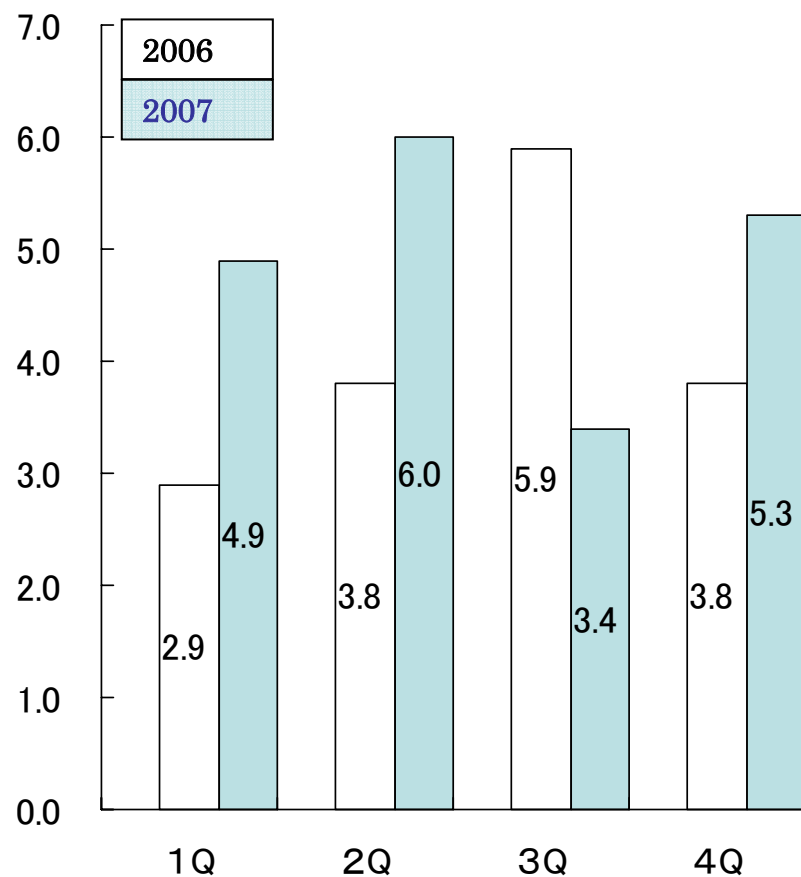
《Operating Income, quarterly》

(Unit: Billions of Yen)

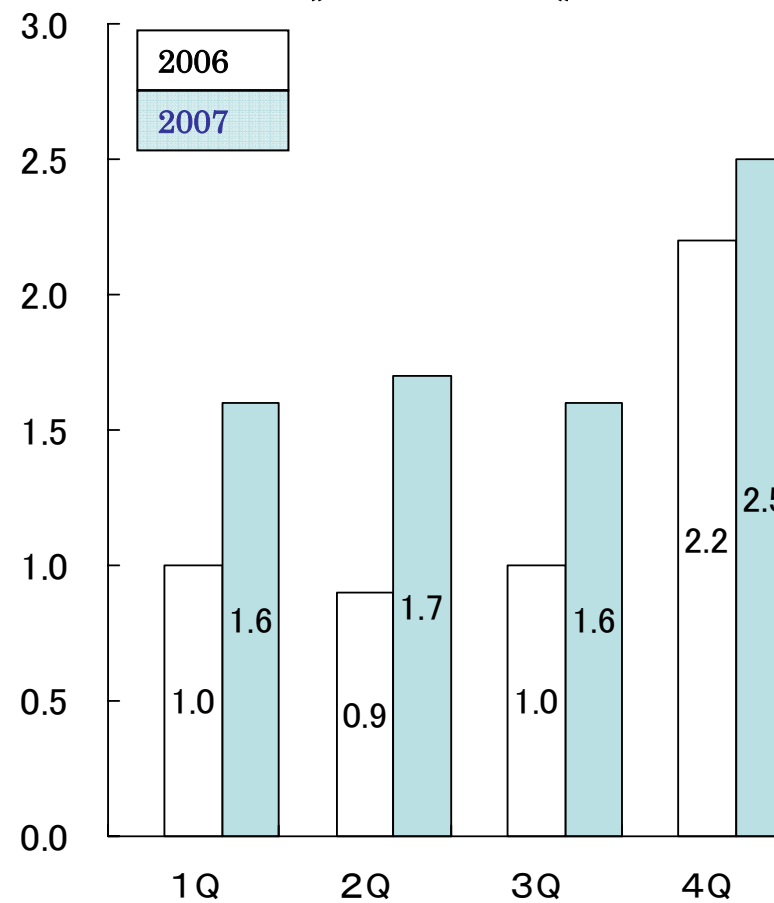


Operating Income by Segment (Quarterly)

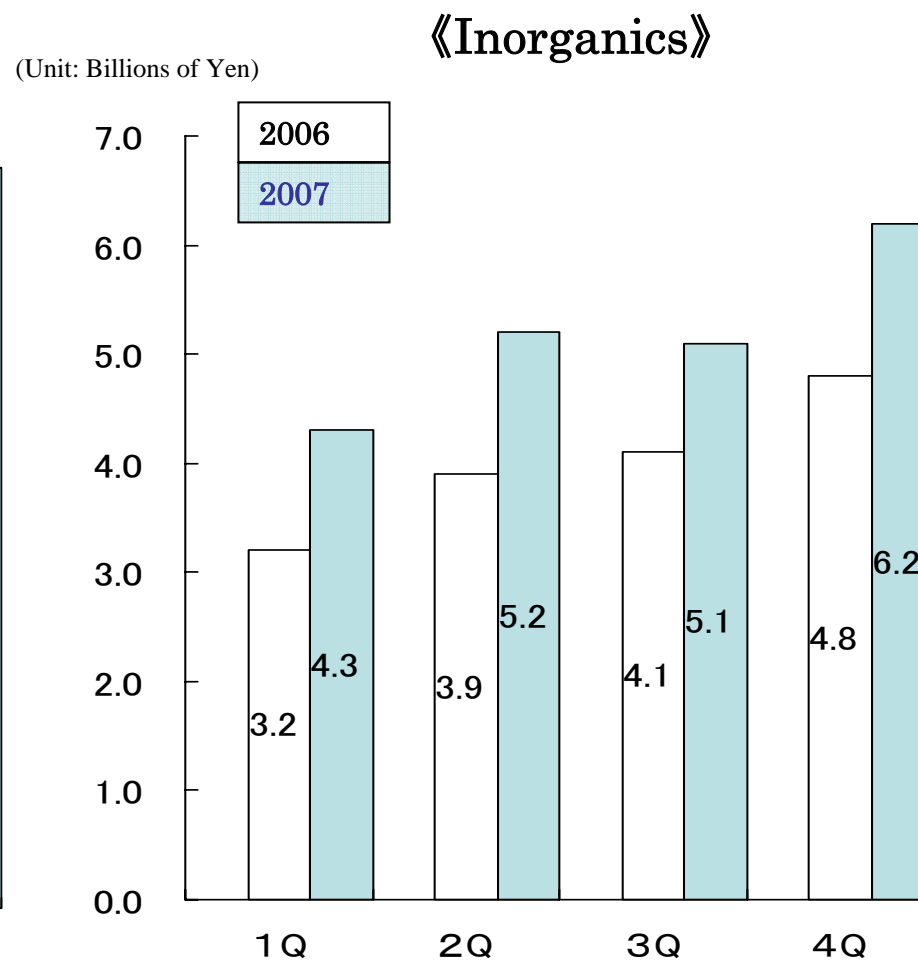
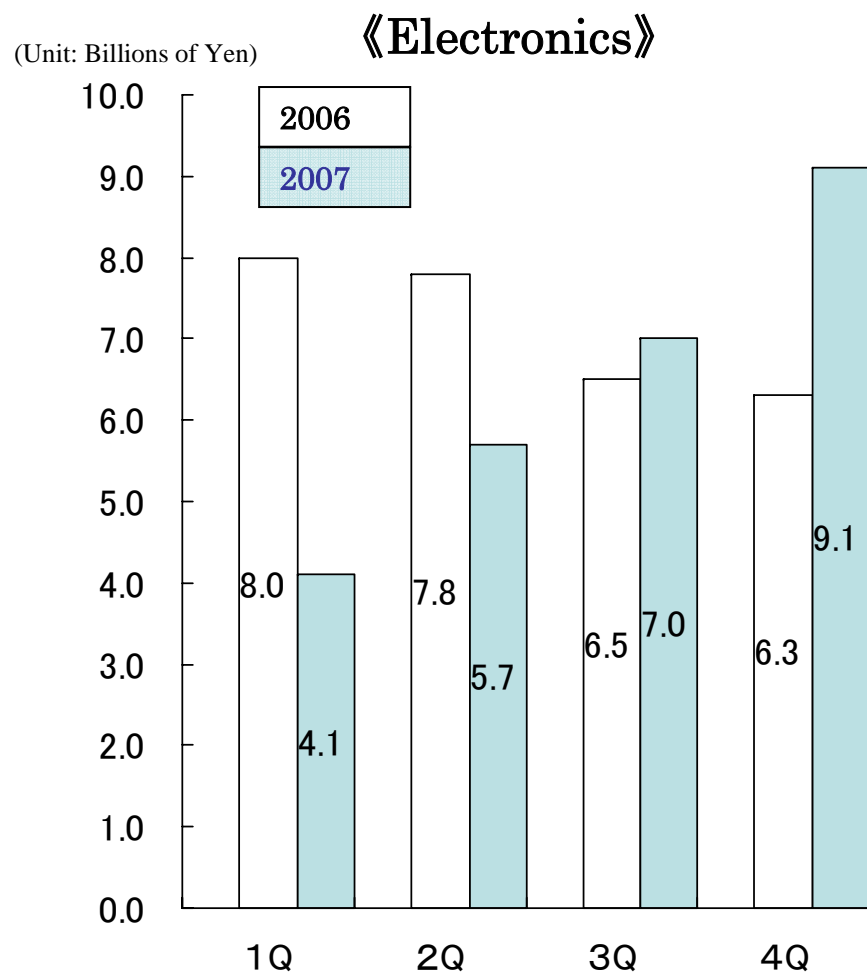
(Unit: Billions of Yen) **《Petrochemicals》**



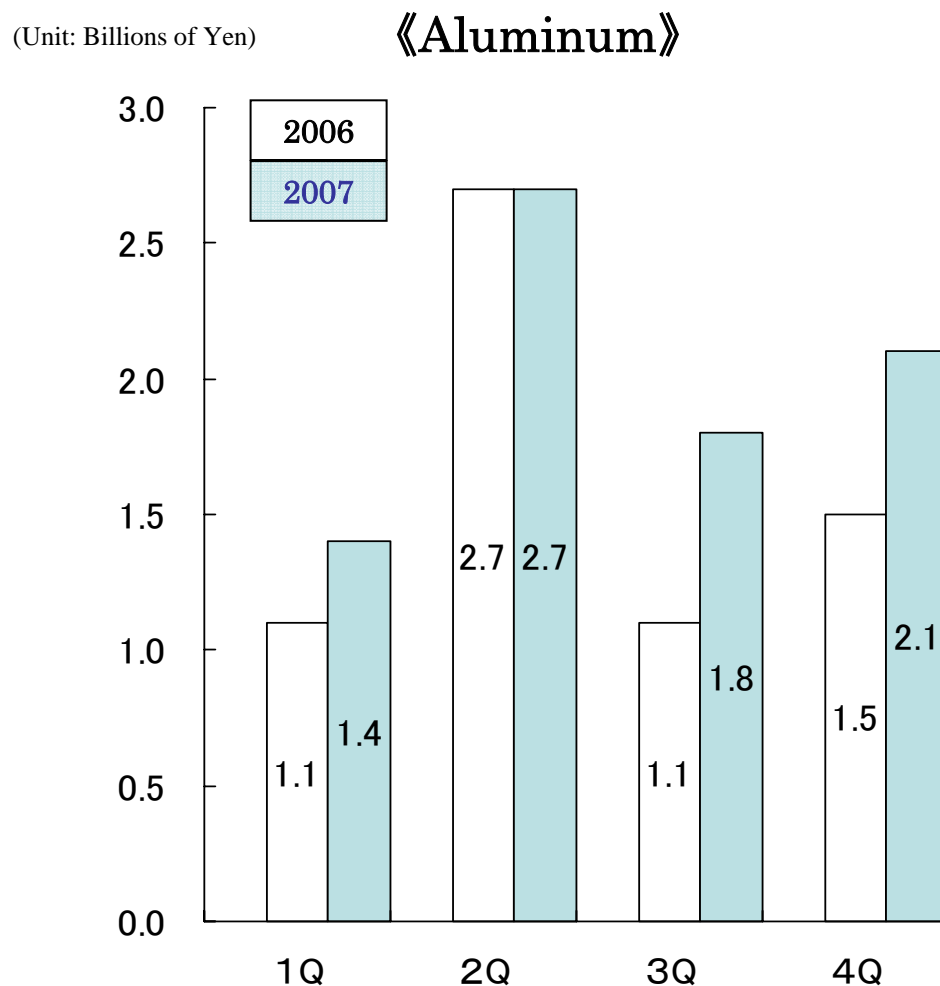
(Unit: Billions of Yen) **《Chemicals》**



Operating Income by Segment (Quarterly)



Operating Income by Segment (Quarterly)



Consolidated Balance Sheet

(Unit: Billions of Yen)

Assets	Dec. 31, 2006	Dec. 31, 2007	Increase	Liabilities and Stockholders' Equity	Dec 31, 2006	Dec. 31, 2007	Increase
Cash and deposits	55.4	31.9	-23.5	Accounts payable	161.5	168.6	7.1
Accounts receivable	176.2	177.6	1.4	Interest-bearing debt	433.2	395.6	-37.5
Inventories	86.3	109.3	23.0	Deferred tax liabilities due to land revaluation	46.9	46.5	-0.4
Deferred tax assets	3.2	3.2	-0.0	Accrued pension and severance costs	34.9	31.2	-3.7
Other current assets	27.3	26.3	-1.0	Other liabilities	95.9	89.0	-6.9
<u>Current Assets</u>	<u>348.5</u>	<u>348.4</u>	<u>-0.1</u>	<u>Total Liabilities</u>	<u>772.3</u>	<u>731.0</u>	<u>-41.4</u>
Buildings and structures	93.4	101.1	7.7	Common stock	110.8	121.9	11.1
Machinery and equipment	137.4	169.2	31.8	Capital surplus	26.9	37.9	11.0
Land	263.9	260.6	-3.4	Retained earnings	47.3	75.9	28.5
Other tangible fixed assets	55.2	28.4	-26.8	Treasury stock	-0.2	-0.2	-0.0
<u>Tangible Fixed Assets</u>	<u>550.0</u>	<u>559.3</u>	<u>9.3</u>	<u>Total Stockholders' equity</u>	<u>184.9</u>	<u>235.5</u>	<u>50.6</u>
Intangible Fixed Assets	18.4	15.1	-3.3	Securities valuation surplus	19.3	16.1	-3.2
Investments and other assets	121.0	106.8	-14.1	Foreign currency translation adjustment • Deferred hedge gains (losses)	7.2	2.2	-5.1
Incl. Investment securities	97.0	86.8	-10.3	Revaluation surplus –Land	24.0	23.7	-0.3
Deferred tax assets	7.6	7.5	-0.0	<u>Total valuations and adjustments</u>	<u>50.5</u>	<u>41.9</u>	<u>-8.6</u>
				Minority Interest	30.1	21.3	-8.8
<u>Total fixed assets</u>	<u>689.4</u>	<u>681.3</u>	<u>-8.1</u>	Total equity	<u>265.5</u>	<u>298.7</u>	33.2
Total Assets	1,037.8	1,029.6	-8.2	Total liabilities and equity	1,037.8	1,029.6	-8.2

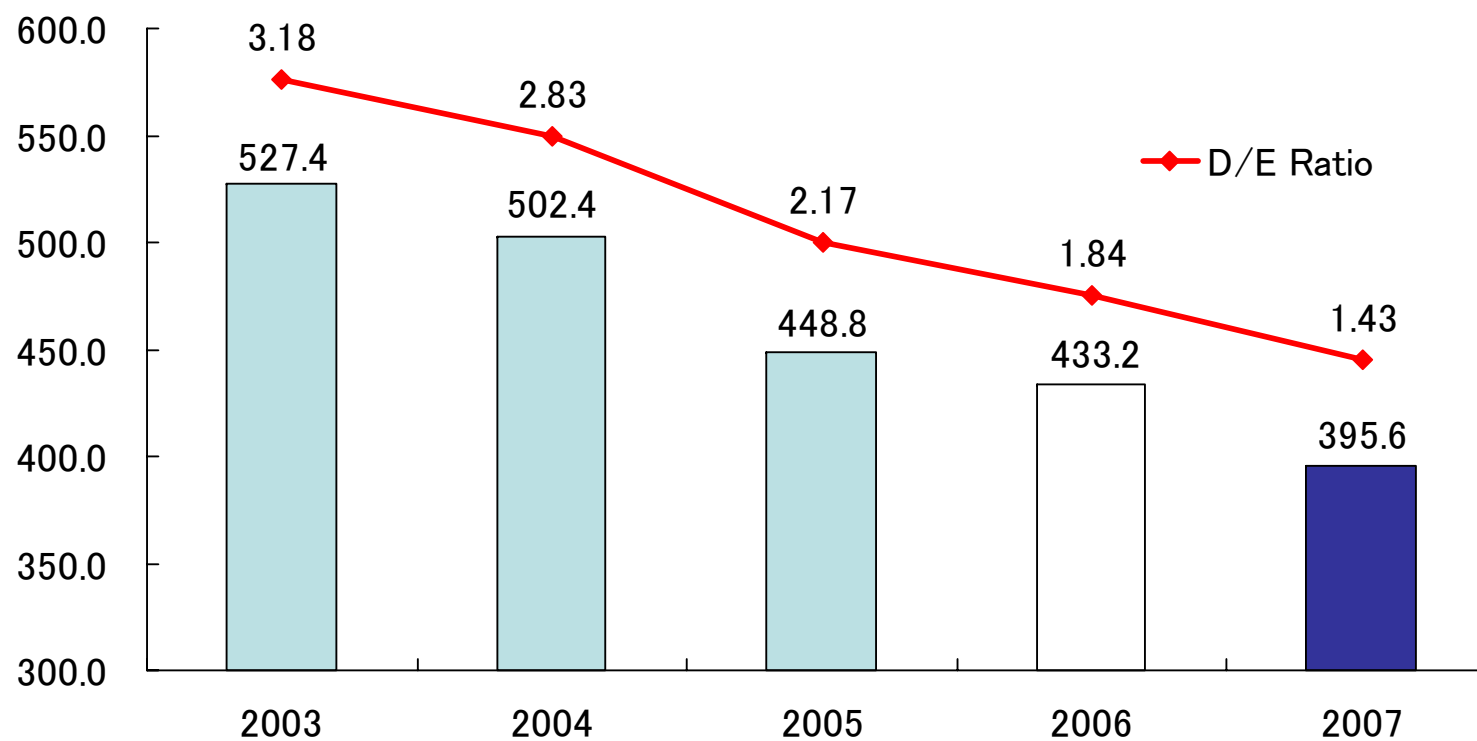
Total Assets, Interest-bearing Debt and D/E ratio

- **Total assets** **¥1,029.6 billion**
(Decreased by ¥8.2 billion from Dec. 31, '06)
- **Interest-bearing debt** **¥395.6 billion**
(Decreased by ¥37.5 billion from Dec. 31, '06)
- **Debt/Equity ratio** **1.43 times**
(Improved by 0.41 point from Dec. 31, '06)
- **Stockholders' Equity ratio** **26.9%**
(Improved by 4.2 point from Dec. 31, '06)

Interest-bearing Debt

2003 - 2007

(Unit: Billions of Yen)



Equity ratio	17.7%	18.8%	21.0%	22.7%	26.9%
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Consolidated Cash Flows

(Unit: Billions of Yen)

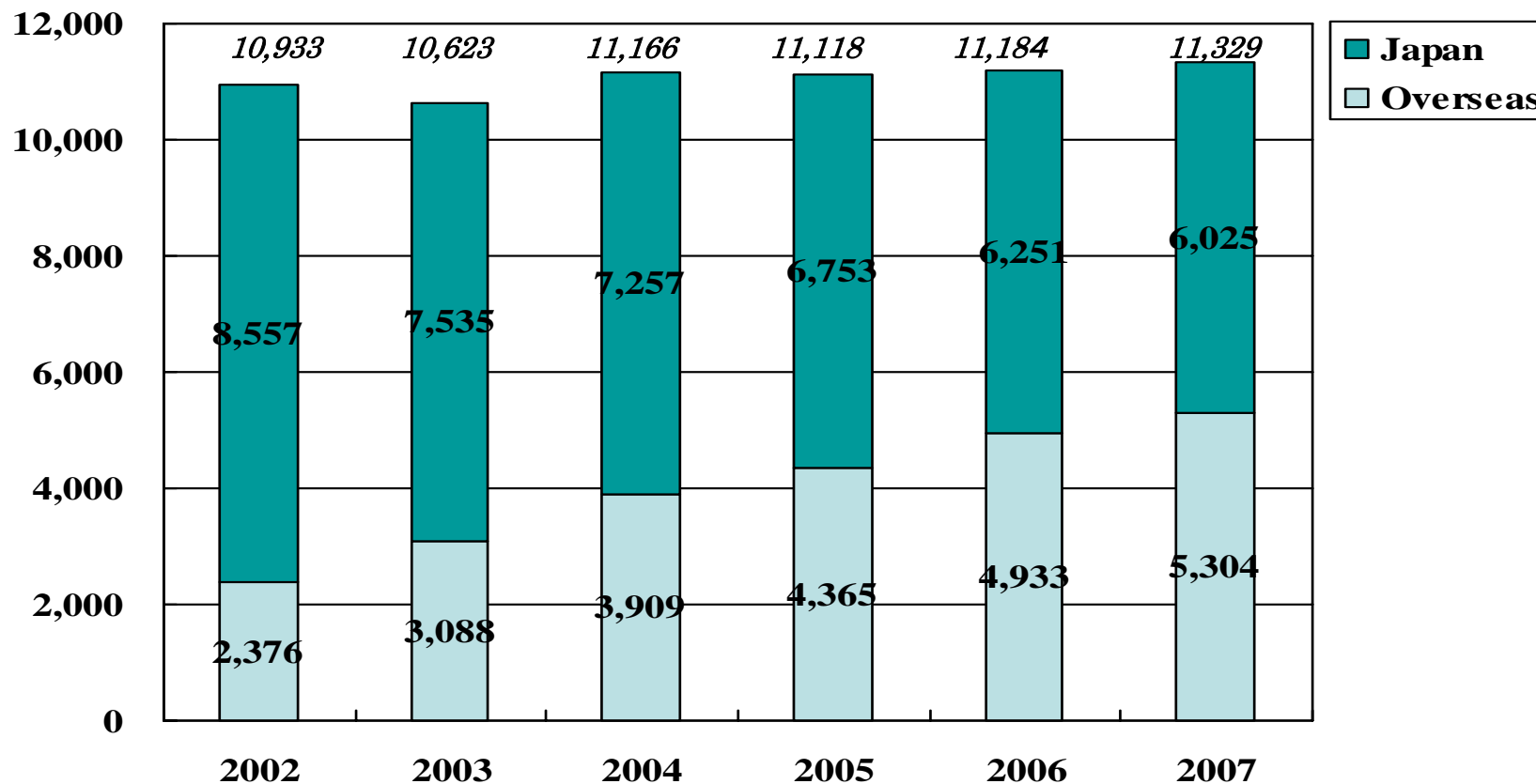
	2006	2007	Increase
● CF from Operating Activities	91.4	67.3	-24.1
● CF from Investing Activities	-55.9	-69.7	-13.7
● Free CF	35.5	-2.3	-37.8
● CF from Financing Activities	-18.0	-20.6	-2.5
● Others	0.5	-0.3	-0.8
Increase of cash and equivalents	17.9	-23.2	-41.1

Selected Data (Consolidated)

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

	2006	2007	Increase
● Interest/dividend income less interest expenses	-5.7	-6.8	-1.2
● Capital expenditures	90.8	69.3	-21.5
● Depreciation and amortization	38.0	49.8	+11.7
● R&D expenditures	19.5	17.4	-2.1
● Number of employees	11,184	11,329	+145
● Total employment cost	77.0	74.2	-2.8

Total number of employees and breakdown by location



Japan	78.3%	70.9%	65.0%	60.7%	55.9%	53.2%
Overseas	21.7%	29.1%	35.0%	39.3%	44.1%	46.8%

Forecast for 2008 (Consolidated)

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

	2007	2008 Forecast	Increase
Net Sales	1,023.2	1,110.0	+86.8
Operating Income	76.7	79.0	+2.3
Interest/dividend income less interest expenses	-6.8	-8.4	-1.6
Ordinary Income	60.0	63.5	+3.5
Extraordinary Profit/Loss, net	-3.7	-7.5	-3.8
Net Income	33.1	35.5	+2.4
Cash dividends per Share	¥5	¥6	+¥1
Net Income per Share	¥27.52	¥28.45	+¥0.93

Net Sales by Segment 2008 Forecast (Consolidated)

(Unit: Billions of Yen)

	2007	2008(Forecast)	Increase
Petrochemicals	395.1	420.0	24.9
Chemicals	84.7	85.0	0.3
Electronics	201.0	265.0	64.0
Inorganics	84.6	85.0	0.4
Aluminum	257.8	255.0	-2.8
Total	1,023.2	1,110.0	86.8

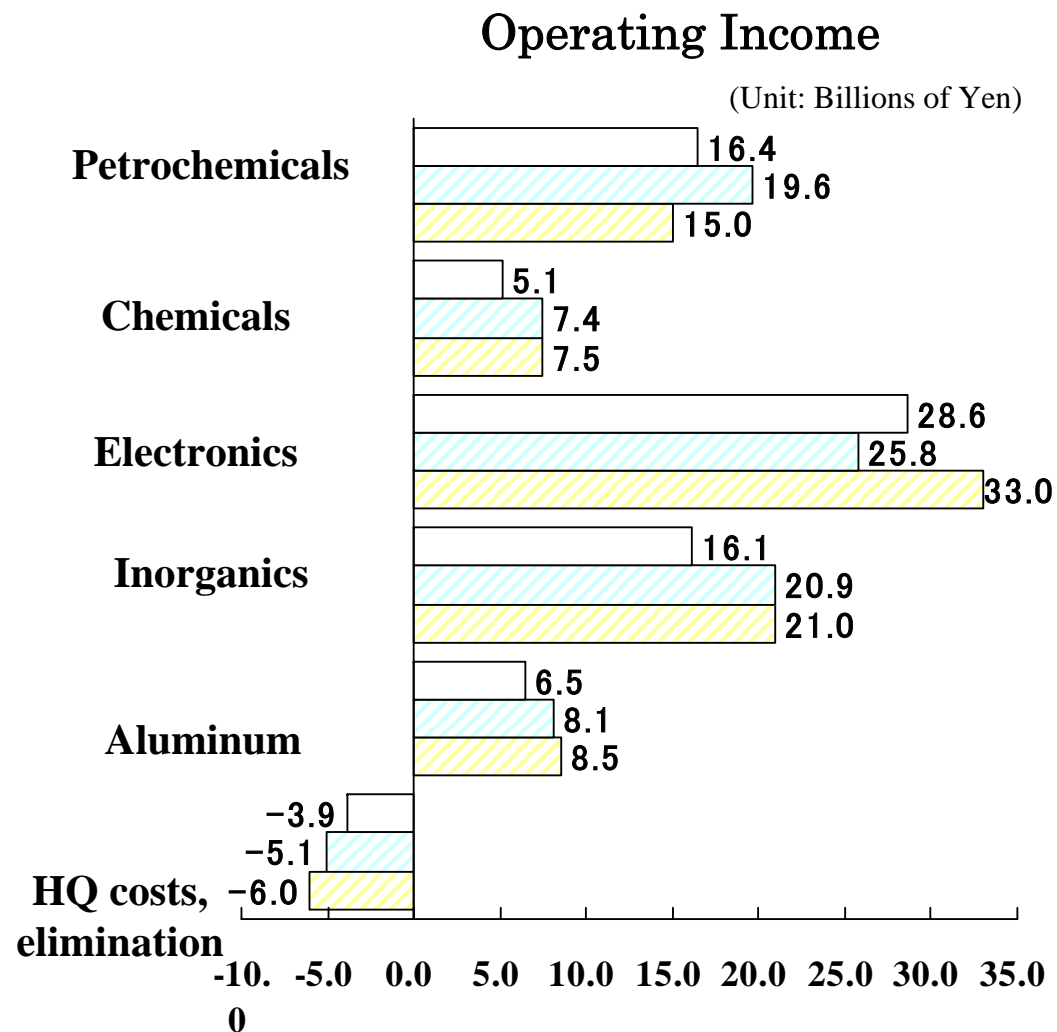
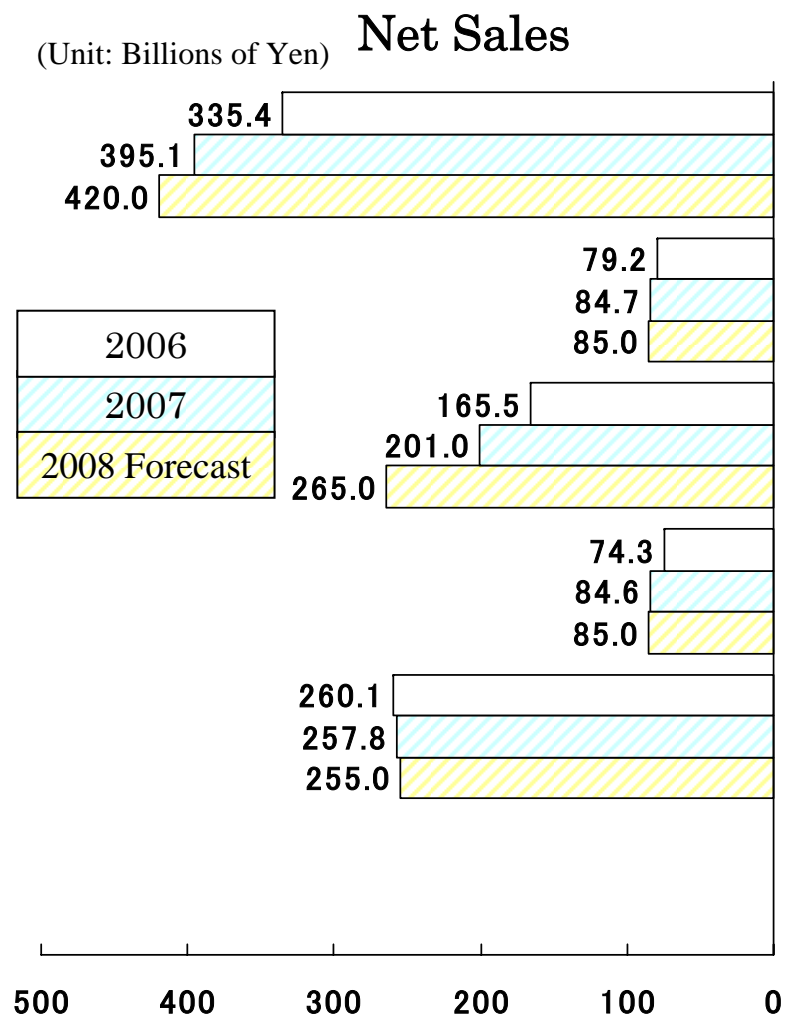
Operating Income

2008 Forecast (Consolidated) (Unit: Billions of Yen)

	2007	2008(Forecast)	Increase	Expected depreciation cost increase due to planned changes in tax systems in 2008.	2008 Passion
Petrochemicals	19.6	15.0	-4.6	1.4	18.0
Chemicals	7.4	7.5	0.1	1.0	8.0
Electronics	25.8	33.0	7.2	1.5	37.0
Inorganics	20.9	21.0	0.1	0.6	12.0
Aluminum	8.0	8.5	0.5	1.5	17.0
HQ cost, elimination	-5.1	-6.0	-0.9	—	-7.0
Total	76.7	79.0	2.3	6.0	85.0

※As to the forecast for 2008, it is assumed that increases in depreciation expenses, following the tax system revision, will cause operating income to decrease \$6 billion.

Sales and Operating Income Forecast for 2008



Capital expenditures/ Depreciation by Segment 2008 Forecast

(Unit: Billions of Yen)

	2007		2008(Forecast)		Increase		2006	
	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation	Capital expenditures	Depreciation
Petrochemicals	5.6	5.7	4.4	6.8	-1.2	1.1	9.3	5.4
Chemicals	5.1	5.0	9.4	6.6	4.3	1.6	5.6	4.9
Electronics	44.4	27.7	51.9	37.4	7.5	9.7	62.9	16.1
Inorganics	3.7	2.8	4.3	3.4	0.5	0.6	3.9	2.6
Aluminum	10.6	8.6	12.2	11.3	1.6	2.7	9.1	9.0
Total	69.3	49.8	82.2	65.6	12.8	15.8	90.8	38.0

Consolidated Cash Flows

2008 Forecast

(Unit: Billions of Yen)

	2007	2008 (Forecast)	Increase
● CF from Operating Activities	67.3	90.0	+22.7
● CF from Investing Activities	-69.7	-85.0	-15.3
● Free CF	-2.3	5.0	+7.3
● CF from Financing Activities	-20.6	-4.0	+16.6
● Others	-0.3	0.0	+0.3
Increase of cash and equivalent	-23.2	1.0	+24.2

Selected Data

2008 Forecast (Consolidated)

(Unit: Billions of Yen)

	2007	2008 (Forecast)	Increase
● Exchange rate: ¥/US\$	118	110	Yen appreciated by ¥8/\$
● Domestic naphtha price: ¥/kl	56,975	63,000	+6,025
● Aluminum LME price: US\$/T	2,662	2,600	-62
● Interest-bearing debt	395.6	400.0	+4.4
● Interest/dividend income less interest expenses	-6.8	-8.4	-1.6
● R&D expenditures	17.4	21.1	+3.7
● Number of employees	11,329	11,551	+222
● Total employment cost	74.2	76.5	+2.3

Topics

■ Petrochemicals

● **Modification of the ethylene plant at Oita Petrochemical Complex**

- ◆ SDK decided to modify its ethylene plant at the Oita Petrochemical Complex on a large scale to improve the plant's energy efficiency and cost-competitiveness. The modification work will be completed in 2010, when the next maintenance shutdown of the ethylene plant is scheduled. SDK will install two modern high-efficiency cracking furnaces to replace seven existing furnaces, while improving the waste heat recovery system and the preliminary distillation system.

● **Development of heat-resistant, transparent sheet and film for displays**

- ◆ SDK has developed heat-resistant, transparent sheet and film for displays, utilizing its proprietary resin. The newly developed sheet is characterized by its high thermal deformation temperature, good optical properties, high surface hardness and resistance to chemicals. Thus the sheet is expected to help improve the safety of display components and reduce their weight. Meanwhile, the newly developed film is characterized by its low linear expansion coefficient. The use of this film as base material will enable the production of transparent electrodes that resist heat and have low electrical resistance. These electrodes will be used in various types of flexible displays, including electronic paper and organic EL displays.

Topics

■ Chemicals

● Development of new photo-curing isocyanate monomer

- ◆ SDK developed a new grade of photo-curing isocyanate monomer product (*KarenzMOITM-EG*) and started sample shipments in July. Compared with the existing *KarenzMOITM* product, which is used mainly for the production of LCD panels and semiconductors, the new grade features high adhesion strength and curing rate while reducing cure shrinkage by 40%. As a result, *KarenzMOITM-EG* is expected to find such new applications as surface coating and adhesives.

● Launch of water-soluble vitamin E derivative for skin care

- ◆ SDK began full-scale marketing of a new water-soluble vitamin E derivative (*TPNaTM*) for use in cosmetics. *TPNaTM* is readily soluble in aqueous solutions, enabling easy formulation. It is readily absorbed through the skin, and transformed quickly into vitamin E in the skin. Thus, *TPNaTM* is expected to be effective as raw material for skin care product.

■ Electronics

Topics

● Commercial production of 1.89- and 3.5-inch HD media with world's largest storage capacity

◆ In June, SDK began commercial shipments of 334 gigabyte, 3.5-inch HD media based on the PMR technology. Furthermore, in August, SDK began commercial shipments of 80 gigabyte, 1.89-inch HD media based on the same technology. To the best of our knowledge and as of the end of January 2008, these products represented the world's largest storage capacities for the respective sizes. Demand for large-storage-capacity HD media is growing because of the rise in shipment volumes of notebook PCs that enable storage and editing of moving pictures, HDD recorders that enable high-vision recording of digital high-vision TV programs, and HDD-containing camcorders. In the first half of the year, SDK started up a PMR-technology-based new plant in Singapore, ensuring speedy and stable supply of large-storage-capacity HD media to our customers.

● Commercial production of the world's first 1.3-inch HD media based on PMR technology

◆ In January 2008, SDK began commercial production of 1.3-inch HD media with storage capacity of 40 gigabytes per disk, using the PMR technology. To the best of our knowledge and as of the end of January 2008, the product represented the world's largest storage capacity as a 1.3-inch type. Because of its contribution to the production of lightweight HDDs with lower electricity consumption and higher resistance to shock, the new product is expected to be increasingly used in high-definition camcorders, mobile music players and very small notebook PCs.

Topics

■ Electronics

● **New crystal growth technology for nitride-based semiconductors; expansion of GaN-based LED chip production capacity**

◆ SDK succeeded in developing a new process for making high-quality nitride-based compound semiconductors. The process, called the “*Hybrid PPD*™,” enables the use of four-inch epitaxial wafers with high quality. The Company also succeeded in developing blue LEDs with the highest-level brightness on the market today. While blue LEDs are currently used mainly in mobile phones and displays, a sharp increase in demand is expected owing to the development of new applications, including LCD backlighting. In view of substantial increases in orders, the Company decided to expand its LED chip production capacity at its Chiba site from the originally planned level of 100 million units a month to 200 million units a month by the end of June 2008.

● **Additional expansion of AlGaInP ultrabright LED chip production capacity**

◆ SDK decided to increase its production capacity of AlGaInP ultrabright red/orange/yellow LED chips at its Chichibu site from 100 million units a month at present to 200 million units a month by the end of 2008. The Company will invest ¥1.2 billion for the expansion to meet growing demand for use in outdoor displays and automotive parts. The expansion is in addition to the earlier expansion from 30 million units a month to 100 million units a month completed in October 2007.

Topics

■ Electronics

● **Completion of a high-purity ammonia plant in Taiwan**

◆ In November, the Company expanded the high-purity ammonia production capacity at its subsidiary Taiwan Showa Chemicals Manufacturing Co., Ltd., from 1,000 tons a year to 1,200 tons a year, to meet growing demand from the electronics industry of East Asian countries. Reflecting sharp rises in the production of semiconductors and LCD panels in the region, demand for high-purity ammonia is also increasing for use as a nitride-film-forming gas in the production process. As a result of the expansion, the Company has further strengthened its position as a stable supplier of high-purity ammonia.

● **Specialty gas storage facility in South Korea**

◆ In June, the Company's specialty gas storage facility was completed in Anseong-si, Gyeonggi-do, South Korea. The facility is intended as a measure to better serve the rapidly growing semiconductor and LCD panel market in that country. With the completion of the facility, the Company will provide specialty gases to its customers in South Korea in a more timely and reliable manner.

Topics

■ **Electronics**

● **Development of high-performance, large area-emission organic EL panels**

◆ The Company is developing singlelayer organic electroluminescent (organic EL) devices based on innovative phosphorescent polymer materials. We have achieved the highest-level external quantum efficiency of 17% for green light and 16% for blue light, respectively. The Company is developing a large area-emission panel based on this polymer technology, aiming to commercialize high-performance organic EL panels for use in displays and general lighting.

● **Completion of second magnetic alloy plant in China**

◆ In September, the Company started up its second rare earth magnetic alloy plant in China at Ganzhou, Jiangxi Province. The plant has the capacity to produce 2,000 tons a year of alloys for high-performance neodymium-based magnets. Together with the existing plant at Baotou, Inner Mongolia, the Company now has a total capacity for producing 8,000 tons a year of rare earth magnetic alloys.

Topics

■ Inorganics

● **Expansion of large-diameter graphite electrode production capacity**

- ◆ In 2006, the Company began strengthening its production setup for 30- and 32-inch-diameter graphite electrodes for use in electric arc furnace steelmaking. In July 2007, the Company completed a new line of graphitizing furnace at its Omachi Plant in Japan. In November 2007, Showa Denko Carbon, Inc., of the United States expanded its facilities. As a result, our total production capacity for these large-diameter graphite electrodes has increased from 15,000 tons a year to 25,000 tons a year.

● **Establishment of JV for F/S regarding alumina project in Indonesia**

- ◆ In April, the Company established P.T. Indonesia Chemical Alumina, a joint venture with PT. ANTAM Tbk of Indonesia, Straits Trading Amalgamated Resources Private Limited of Singapore, and Marubeni Corporation of Japan. The JV was established to jointly study the feasibility of a chemical-grade alumina plant in Indonesia.

Topics

■ Aluminum, etc.

● Expansion of automotive heat exchanger business in China

- ◆ In June, we increased our equity participation in Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd., making it our consolidated subsidiary. Grand Ocean-Showa expanded its capacity and began producing, in May, new *NRT*TM*III* condensers with around 20% higher performance compared with existing products.

● Absorption of Showa Financing K.K.

- ◆ In July, SDK absorbed its wholly owned subsidiary Showa Financing K.K. with a view to enhancing the efficiency of the Group's financing activities. This reflected substantial decreases in the balance of Showa Financing's loans following the steady reductions in the Group's interest-bearing debt.