MESSAGE FROM THE MANAGEMENT

In 2002, the third and last year of our medium-term consolidated business plan called the "Cheetah Project," we achieved the goal of improving our financial strength by eliminating accumulated deficit and substantially cutting debt and total labor costs.

Despite the fact that the Japanese chemical industry continued to face a severe business environment due to the overall decline in selling prices caused by deflation, Showa Denko K.K.'s business performance showed a considerable improvement over the preceding year, thanks to the successful restructuring efforts under the Cheetah Project.

As for the Company's consolidated performance in 2002, net sales totaled ¥674.0 billion, a decrease of 4.9% from the previous term. However, operating income was up 63.3%, to ¥31.3 billion, as all business segments, except Inorganic Materials, recorded increases in profits due to reductions in labor and other costs.

In the first half of the year, we recorded extraordinary profit, mainly gain on the sale of securities. However, due to the devaluation of investment securities at the end of the term, we ended up with net income of ¥13.0 billion. Thus, we eliminated accumulated deficit by the end of the year.

Nevertheless, we are still undergoing the process of structural reform. We again had to forgo the payment of dividends for the term, and we deeply apologize for this to our stockholders.

Regarding capital investment in 2002, we expanded our hydrofluorcarbon production capacities and newly constructed compound semiconductor manufacturing facilities. Together with expenditures for other expansions, maintenance, and environmental preservation work, our capital expenditures in 2002 totaled ¥28.4 billion.

To reduce debt and improve our financial strength, we worked hard to increase operating income, cut inventories, and sell assets, including disposal of shares in affiliates. As a result, the outstanding balance of interest-bearing debt as of the end of 2002 decreased ¥41.3 billion, to ¥581.1 billion, falling below the line of "¥600 billion or less" targeted under the Cheetah Project.

**Launch of the “Sprout Project”**

Based on the achievements made under the Cheetah Project, which aimed to renovate operations and improve financial strength, we have launched a new consolidated business plan for the 2003-2005 period named the "Sprout Project.” The main goal of the new business plan is to establish Showa Denko as a focused and individualized chemical company that pursues synergies by nurturing the interconnection of inorganic/aluminum and organic chemical technologies and by the use of market-oriented business strategies.

We will view things from a customer standpoint in our development efforts so as to provide individualized new products that will fully satisfy our customers. At the same time, we will allocate resources in an efficient and focused manner in accordance with a clear business portfolio as defined in the new business plan.

To cope with the progress of deflation in Japan, we will further reduce costs with a view to enhancing our competitiveness and improving profitability.

In January 2003, we established a Corporate Ethics Committee to further strengthen compliance with laws and regulations at Showa Denko K.K. and its Group companies.
**Segment Performances**

In terms of net sales for the year, the Petrochemicals Segment contributed 33.8%, Chemicals Segment 10.2%, Electronics Segment 11.2%, Inorganic Materials Segment 8.4%, and Aluminum Segment 36.4%. Although net sales decreased ¥34.9 billion from the preceding year, both operating income and net income substantially improved, to ¥31.3 billion and ¥13.0 billion, respectively. A breakdown of net sales and operating income by segment is as follows:

In the Petrochemicals Segment, sales fell 2.5%, to ¥227.8 billion, but operating income rose 62.4%, to ¥10.0 billion, due to cost reductions and increases in the selling prices of organic chemicals in the second half of the year. Sales from olefins operations decreased owing to a decline in shipments in the wake of a maintenance shutdown and a fall in selling prices. In the area of organic chemicals, sales of acrylonitrile increased due to a rise in selling prices and sales of acetic acid increased due to an increase in shipments. However, sales of vinyl acetate monomer and ethyl acetate decreased as the influence of low selling prices in the first half of the year overwhelmed the rise in selling prices in the second half. As a result, overall sales from organic chemicals operations fell.

Sales of polyethylene declined due to the fall in selling prices. Sales from plastic products operations also decreased following the sale of overseas injection molding subsidiaries in late 2001. Showa Highpolymer Co., Ltd., which had been consolidated in the latter half of 2001, contributed to the increase in the Petrochemicals Segment’s sales on a full-year basis. Meanwhile, Heisei Polymer Co., Ltd.’s sales decreased as a result of the transfer of its laminate business.

In the Chemicals Segment, sales decreased 6.1%, to ¥68.5 billion, but operating income increased 20.6%, to ¥5.7 billion, mainly due to cost reductions. Sales from gases & chemicals operations were down owing to the decrease in shipments of industrial gases and chemicals amid the recession. In specialty chemicals operations, shipments of raw materials for cosmetics and new chelating agents increased. However, due to decreases in shipments of raw materials for agrochemicals and specialty polymers, sales from specialty chemicals operations declined slightly. Sales from agrochemicals operations increased owing to contributions by the new herbicides we had acquired in 2001.

In the Electronics Segment, sales decreased 3.2%, to ¥75.2 billion, but operating income shot up 335.2%, to ¥6.2 billion, mainly due to increases in sales volumes of hard disks (HDDs). Shipments of gallium phosphide (GaP) LEDs were almost unchanged. Sales of specialty gases for semiconductor processing were almost the same level as that of the preceding year. Sales volumes of
the LCD polishing agent increased, but sales volumes and selling prices of rare earth magnetic alloys decreased. In addition, the sale of capacitor-grade tantalum powder was terminated. As a result, sales of electronic materials as a whole decreased.

In the Inorganic Materials Segment, sales rose 4.3%, to ¥56.9 billion, but operating income was down 61.0%, to ¥1.4 billion. Sales from ceramics operations decreased owing to a continued stagnation in the customer industries, which led to decreases in both sales volumes and selling prices. Sales from carbons & metallic materials operations also fell due to the fact that increases in sales volumes of graphite electrodes were not sufficient to offset decreases in their selling prices. Showa Denko Carbon, Inc., our graphite electrode subsidiary in the United States, saw a decline in sales due to the fall in selling prices that more than offset the rise in shipments.

In the Aluminum Segment, sales were down 9.0%, to ¥245.6 billion, but operating income soared 60.5%, to ¥12.9 billion, due to cost reductions. Sales volumes of rolled products increased as a result of recovery in demand for high-purity foils. Shipments of extrusions fell, reflecting the fall in demand from the construction industry. In the heat exchangers operation, sales volumes in Japan decreased, due partly to the shift of production to overseas subsidiaries. Shipments of Shotic continuously cast aluminum rods and their forged products increased, centering on high-value-added product lines. Demand for photosensitive drums for laser printers was on a recovery trend, but failed to reach the preceding year’s level. Meanwhile, aluminum ingots saw a slight increase in sales volumes, but their selling prices decreased. Showa Aluminum Alloy K.K. increased its sales volumes of alloys for use in automobiles.

Start of Ammonia Production through Recycling of Waste Plastic

From April 2003, Showa Denko will use waste plastic to produce ammonia and other chemical products in Kawasaki. This project will receive a total of about ¥3.7 billion in subsidies from the Ministry of Economy, Trade and Industry as well as from the Kawasaki municipal government.

Expansion of HD Business

Showa Denko is the only independent vendor in the world that can provide both aluminum- and glass-substrate HDs in commercial quantities. To meet the increasing demand for HDs for use in notebook PCs and car navigation systems, Showa Denko acquired the Mitsubishi Chemical Corporation Group’s HD business in Singapore in January 2003. We now have the capacity to produce 5.3 million HDs a month (2.1 million in Singapore and 3.2 million in Japan), becoming a first-class HD manufacturer in terms of technical capabilities and production capacity. We will continue to develop and offer high-quality HDs.
Strengthening Our Presence Overseas in Heat Exchangers Business

We are currently producing automobile air-conditioner condensers in the United States, the Czech Republic, and Thailand, in addition to our sites in Japan. In 2002, we suspended heat exchanger production at Hikone, Japan, and strengthened our overseas sites in order to improve the global cost-competitiveness of the business.

At Showa Aluminum Czech S.R.O., the automobile air-conditioner condenser production capacity has been doubled to meet growing demand in Europe and to increase cost-competitiveness. At the same time, Showa Aluminum (Thailand) Co., Ltd.’s capacity has also been doubled, following the transfer of part of the Hikone Plant’s production facilities.

Rare Earth Magnet Alloy Production in China Planned

Showa Denko is one of the largest manufacturers of rare earth magnet alloys in Japan. The neodymium-iron-boron alloys we produce in Chichibu are being used for the production of the strongest magnets on the market.

We will start producing rare earth magnet alloys in Baotou, Inner Mongolia, China, in the middle of 2003 through a joint venture we have established with Chinese companies. This project will enable us to secure a stable, long-term supply of raw materials and low cost production since China accounts for more than 80% of the world’s neodymium production. Baotou Iron and Steel (Group) Co., Ltd., which is the parent company of our joint venture partner, Inner Mongolia Baotou Steel Rare Earth Hi-Tech Co., Ltd., owns many neodymium mines in China.

Promotion of Responsible Care Activities

We are committed to the principles of Responsible Care, which means that we are working to ensure the safety and health of our employees and of people everywhere as well as to protect the environment from harm caused by chemical substances throughout such substances’ entire life cycles, namely, the development, production, distribution, use, final consumption, and disposal of these substances.

As part of our efforts to contribute to the prevention of global warming and protect natural resources, we reduced our rate of energy consumption by basic energy unit in 2001 to 86% of the 1990 figure. Furthermore, approximately 20% of our total electricity requirements are met by our hydroelectric power plants, a clean source of energy.

In 2002, we achieved our goal of obtaining certification of compliance with the ISO 14001 international standards for environmental management systems at all Showa Denko K.K. sites.

Showa Denko promises to establish itself as a focused and individualized chemical company by carrying out the Sprout Project. By doing so, we will enhance our corporate value, give satisfaction to our stockholders, meet customers’ expectations, and contribute to the sound growth of society on a global scale.

Management is looking forward to your continued support.

March 28, 2003

Mitsuo Ohashi, President and CEO