

**Consolidated Financial Statements**

For the first quarter ended March 31, 2007



**Consolidated Financial Results**

(¥ in millions, US\$ in thousands, except for net income per share)

	Results for the first quarter ( Jan. 1 – Mar. 31 )			
	2007	2006	Increase	2007
	¥	¥	%	\$
Net sales	<b>229,079</b>	205,407	11.5	<b>1,940,522</b>
Operating income	<b>15,009</b>	15,412	(2.6)	<b>127,141</b>
Ordinary income	<b>10,591</b>	12,821	(17.4)	<b>89,718</b>
Net income	<b>6,473</b>	7,869	(17.7)	<b>54,832</b>
Net income per share: Basic	<b>5.50</b>	6.89	–	<b>0.047</b>
Net income per share: Diluted	<b>5.19</b>	6.46	–	<b>0.044</b>

(¥ in millions, US\$ in thousands, except for stockholders' equity per share)

	Mar. 31, 2007	Mar. 31, 2006	Mar. 31, 2007
	¥	¥	\$
Total assets	<b>1,041,004</b>	972,503	<b>8,818,333</b>
Total equity	<b>266,591</b>	195,439	<b>2,258,286</b>
Total equity per share	<b>200.85</b>	171.01	<b>1.70</b>
	%	%	
Stockholders' equity ratio	<b>22.7</b>	20.1	

Notes

- 1) Simple calculation methods are adopted with regard to several items, including income taxes.
- 2) Change in accounting policies : not applicable
- 3) One company has been removed from consolidation.
- 4) One company has been excluded from the equity method application.
- 5) The figures in the Consolidated Financial Statements are unaudited.
- 6) The U.S. dollar is valued at ¥118.05 throughout this statement for convenience only.

We expect the consolidated performance for fiscal 2007 will be basically in line with the forecast we announced on February 8, 2007. Thus, we see no need to change our half-year and full-year forecast.

※The above forecast is based on the information available at this point of time. It is also based on risk factors, considered being present as of May 8, 2007, that could adversely affect our future performance. Actual results may differ materially due to a variety of reasons.

## 4. Business Results and Financial Conditions

### 1) Review of Operations

Showa Denko K.K. and its Group companies are carrying out a three-year consolidated business plan, the Passion Project, that runs from 2006 through 2008, with the aim of establishing the groundwork for long-term sustainable growth. Under the project, we are continuing to expand strategic growth businesses while promoting structural reforms and cost reductions.

In the first quarter of 2007 (January 1 - March 31), the Company recorded an 11.5% increase in net sales over the first quarter of 2006, to ¥229,079 million. However, operating income decreased 2.6%, to ¥15,009 million, and ordinary income fell 17.4%, to ¥10,591 million. Net income of the quarter was down 17.7%, to ¥6,473 million. A breakdown of net sales and operating income by segment in the first quarter is as follows:

In the Petrochemicals segment, sales rose 24.3%, to ¥87,798 million, and operating income jumped 66.4%, to ¥4,872 million. While there was a maintenance shutdown of the ethylene plant—conducted once in every four years—in the same quarter last year, there was no such shutdown this quarter. As a result, sales of olefins and organic chemicals were up due to higher shipment volumes. Sales of plastics by Showa Highpolymer Co., Ltd., increased due to the rise in selling prices.

In the Chemicals segment, sales increased 4.7%, to ¥18,774 million, and operating income jumped 55.7%, to ¥1,590 million. Sales of acrylonitrile were up due to the rise in selling prices. Sales of caustic soda and hydrochloric acid were also up due to steady shipment volumes and selling prices. Meanwhile, sales of commodity industrial gases, such as oxygen, nitrogen and hydrogen, decreased. In specialty chemicals, sales of *Shoprene*<sup>TM</sup> chloroprene rubber, amino acids, and *Shodex*<sup>TM</sup> chromatography columns increased due to higher shipment volumes.

In the Electronics segment, sales increased 0.9%, to ¥39,138 million. However, operating income fell 48.8%, to ¥4,110 million due mainly to the shift in production to higher-capacity hard disk (HD) media and increased depreciation expenses following the expansions of HD media production capacity ahead of schedule. Sales from HD operations were maintained at the year-earlier level despite the rise in shipment volumes of HD media as sales of substrates to outside the Group decreased. Sales of compound semiconductors were also maintained at the year-earlier level. Sales of rare earth magnetic alloys were up due to the rise in shipment volumes. Meanwhile, sales of specialty gases for semiconductor processing were down due to the fall in the shipment volumes of cleaning agents for LCD panels.

In the Inorganics segment, sales increased 11.1%, to ¥18,675 million and operating income climbed 35.0%, to ¥4,342 million. Although sales of ceramics slipped, sales of graphite electrodes increased due to steady demand.

In the Aluminum segment, sales rose 5.7%, to ¥64,694 million, and operating income climbed 29.7%, to ¥1,383 million. Sales of rolled products increased due to the rise in shipment volumes, while sales of extrusions/specialty products were up due to the rise in shipment volumes and selling prices. Sales of heat exchangers increased, mainly in the Japanese market. Sales of *Shotric*<sup>TM</sup> forged products rose due to the rise in shipment volumes for auto parts applications. Sales of aluminum cans also rose due to higher selling prices. Meanwhile, sales of aluminum alloys fell as the business was removed from consolidation in the second half of 2006.

2) Financial conditions for the January 1 - March 31, 2007 period (as compared with the conditions at December 31, 2006)

Total assets at the end of the quarter amounted to ¥1,041,004 million, an increase of ¥3,181 million from the level at December 31, 2006, owing to an increase in inventories, reflecting higher raw material costs, and an increase in fixed assets as a result of capital investment. Interest-bearing debt increased ¥1,481 million, to ¥434,653 million. Stockholders' equity at the end of the quarter increased ¥1,098 million, to ¥266,591 million.

3) Major steps taken since the beginning of 2007

#### [Electronics]

- Developing high-performance, large area-emission organic EL panels  
We have developed singlelayer organic electroluminescent (organic EL) devices based on innovative phosphorescent polymer materials, achieving the highest-level external quantum efficiency and durability of 350,000 hours. We are developing a large area-emission panel based on this polymer technology, aiming to commercialize high-performance organic EL panels for use in displays and illumination.
- New crystal growth technology for nitride-based semiconductors  
We have succeeded in developing a new process for making high-quality nitride-based compound semiconductors to meet growing demand for use in blue/white LEDs. The process, called "*Hybrid PPD*<sup>TM</sup>," enables the production of four-inch epitaxial wafers with high quality. We have also succeeded, using the *Hybrid PPD*<sup>TM</sup> process, in developing blue LEDs with the highest-level brightness on the market today. We will start commercial shipments of these blue LEDs within this year.

#### [Inorganics]

- Capacity expansion for 30"- and 32"-diameter graphite electrodes  
Last year, we began strengthening the production setup of 30-inch and 32-inch-diameter graphite electrodes for use in electric arc furnace steelmaking. As a result, a new line of graphitizing furnace will be completed at the Omachi Plant, Japan, in July this year and expanded facility will start up at our U.S. subsidiary Showa Denko Carbon, Inc. in the third quarter. Upon completion, our total production capacity of these large-diameter graphite electrodes will increase from 15,000 tons to 25,000 tons. We are investing slightly over ¥1 billion for the

said capacity expansion.

- Establishment of JV for F/S regarding alumina project in Indonesia  
We reached formal agreement with PT. ANTAM Tbk of Indonesia, Straits Trading Amalgamated Resources Private Limited of Singapore, and Marubeni Corporation of Japan to establish a joint venture for implementation of a feasibility study for a chemical-grade alumina plant in Indonesia. The name of the joint venture is P.T. Indonesia Chemical Alumina.

[Aluminum and other]

- Expanding automotive heat exchanger business in China  
We decided to increase our equity participation in Grand Ocean-Showa Auto Air Conditioning (Dalian) Co., Ltd. and to make it our consolidated subsidiary. Grand Ocean-Showa will expand its production capacity and start producing innovative *NRT III*<sup>TM</sup> condensers with around 20% higher performance compared with existing products.
- Absorption of Showa Financing K.K.  
We decided to absorb our wholly owned subsidiary Showa Financing K.K. in July this year. By taking over Showa Financing's operations, we will enhance the efficiency of financing activities within our Group.

## Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Mar. 31 2007 (A)	Dec. 31 2006 (B)	(A)-(B)	Mar. 31 2007
Assets	¥			\$
Current assets				
Cash and deposit	37,591	55,424	(17,834)	318,431
Notes and accounts receivable	170,556	176,218	(5,662)	1,444,782
Inventories	103,281	86,313	16,968	874,889
Other current assets	32,265	30,498	1,767	273,313
Total current assets	343,692	348,453	(4,761)	2,911,414
Fixed assets				
Tangible fixed assets	562,475	549,991	12,484	4,764,718
Intangible fixed assets	17,762	18,408	(646)	150,461
Investments and other assets	117,075	120,972	(3,897)	991,740
Total fixed assets	697,312	689,370	7,942	5,906,919
<b>Total assets</b>	<b>1,041,004</b>	<b>1,037,823</b>	<b>3,181</b>	<b>8,818,333</b>
Liabilities				
Current liabilities				
Notes and accounts payable	159,800	161,456	(1,655)	1,353,665
Short-term loans payable	99,748	110,348	(10,600)	844,960
Current portion of long-term loans payable	84,062	83,899	163	712,088
Commercial Paper	8,000	6,000	2,000	67,768
Current portion of corporate bonds	8,500	8,500	—	72,003
Other current liabilities	56,721	58,623	(1,902)	480,479
Total current liabilities	416,830	428,825	(11,995)	3,530,964
Long-term liabilities				
Corporate bonds	40,792	41,257	(465)	345,548
Long-term loans payable	193,552	183,168	10,383	1,639,574
Accrued pension and severance costs	33,943	34,919	(976)	287,528
Other long-term liabilities	89,297	84,162	5,135	756,432
Total long-term liabilities	357,583	343,506	14,077	3,029,083
<b>Total liabilities</b>	<b>774,414</b>	<b>772,331</b>	<b>2,082</b>	<b>6,560,047</b>
Equity				
Stockholders' equity				
Common stock	111,057	110,824	233	940,766
Capital surplus	27,116	26,883	233	229,696
Retained earnings	49,154	47,333	1,821	416,387
Treasury stock	(164)	(152)	(12)	(1,393)
Total stockholders' equity	187,163	184,888	2,275	1,585,455
Validation and adjustments				
Securities valuation surplus	18,742	19,286	(543)	158,766
Deferred hedge gains (losses)	3,491	3,607	(115)	29,576
Revaluation reserve (Land revaluation)	23,934	23,996	(62)	202,741
Foreign currency translation adjustments	3,037	3,633	(597)	25,723
Total valuations and adjustments	49,204	50,521	(1,317)	416,805
Minority interests	30,224	30,083	141	256,026
<b>Total equity</b>	<b>266,591</b>	<b>265,492</b>	<b>1,098</b>	<b>2,258,286</b>
<b>Total liabilities and equity</b>	<b>1,041,004</b>	<b>1,037,823</b>	<b>3,181</b>	<b>8,818,333</b>



