

**Consolidated Financial Statements**  
For the first three quarters ended September 30, 2007



**I . Consolidated Financial Results**

(1) Results of operations: (¥ in millions, US\$ in thousands, except for net income per share)

	Results for the first three quarters ( Jan. 1 – Sep. 30 )			
	2006	2007	Increase (Decrease)	2007
	¥	¥	%	\$
Net sales	666,396	743,985	11.6	6,445,331
Operating income	51,709	52,408	1.4	454,027
Ordinary income	44,148	39,134	(11.4)	339,025
Net income	25,002	21,008	(16.0)	181,997
Net income per share: Basic	21.81	17.71	–	0.153
Net income per share: Diluted	20.47	16.83	–	0.146

Notes

Important changes in accounting policies : not applicable

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

	Sep. 30, 2006	Sep. 30, 2007	Sep. 30, 2007
	¥	¥	\$
Total assets	1,027,664	1,065,458	9,230,339
Total equity	256,887	301,546	2,612,374
Total equity per share	194.74	216.41	1.87
	%	%	%
Stockholders' equity ratio	22.2	25.3	25.3

**II . Forecast of performance for the year ending December 31, 2007**

We see no need to change our full-year forecast we announced on August 7, 2007.

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

	2007	
	¥	\$
Net sales	1,000,000	8,663,259
Operating income	74,000	641,081
Ordinary income	60,500	524,127
Net income	33,000	285,888
Net income per share	27.49	0.24

※The above forecast is based on the information available at this point of time. Actual results may differ materially due to a variety of reasons, including such economic factors as fluctuations in foreign currency exchange rates as well as market supply and demand conditions.

Notes

The U.S. dollar is valued at ¥115.43 throughout this statement for convenience only.

## [Business Results and Financial Conditions]

### 1. Consolidated business results

#### 1) Review of Operations

Showa Denko K.K. and its Group companies are carrying out the Passion Project, a consolidated business plan that runs from 2006 through 2008, with the aim of establishing the groundwork for long-term sustainable growth. Under the project, we are developing “new growth driver” businesses while promoting structural reforms and cost reduction efforts.

In the third quarter (July 1 through September 30, 2007), the Company recorded an 8.1% increase in net sales over the same period of 2006, to ¥258,857 million. However, operating income dropped 2.6%, to ¥17,453 million, and ordinary income decreased 22.9%, to ¥12,051 million, owing partly to exchange losses. Net income of the period fell 40.3%, to ¥5,938 million.

As for the first nine months of 2007 (January 1 - September 30), the Company posted a 1.4% increase in operating income over the same period of 2006, to ¥52,408 million, on net sales up 11.6%, to ¥743,985 million. Ordinary income fell 11.4%, to ¥39,134 million, and net income of the period was down 16.0%, to ¥21,008 million.

#### 2) A breakdown of net sales and operating income by segment

In the Petrochemicals segment, sales in the third quarter rose 4.2%, to ¥100,065 million. This was due to high plant utilization, reflecting brisk demand for olefins and organic chemicals, and price increases against the background of soaring raw material costs. However, operating income fell 43.0%, to ¥3,356 million, owing to the rise in raw material costs. As for the first nine months of 2007, the Petrochemicals segment's sales were up 21.1%, to ¥292,260 million, and operating income rose 12.8%, to ¥14,239 million.

In the Chemicals segment, sales in the third quarter fell 4.8%, to ¥18,536 million, but operating income jumped 70.4%, to ¥1,646 million. Sales of acrylonitrile and *Shoprene*<sup>TM</sup> chloroprene rubber increased, while sales of part of industrial gases decreased. As for the first nine months of 2007, the Chemicals segment's sales were up 0.3%, to ¥57,673 million, and operating income increased 68.2%, to ¥4,918 million.

In the Electronics segment, sales in the third quarter increased 32.2%, to ¥55,237 million, and operating income rose 7.8%, to ¥7,007 million. Sales of hard disk (HD) media in the July-September period were up, reflecting the increase in production capacity following the start-up of our new plant in Singapore. Sales of compound semiconductors increased slightly, reflecting the rise in shipment volumes. Sales of semiconductor-processing specialty gases were maintained at the year-earlier level. Meanwhile, sales of rare earth magnetic alloys were up owing to higher shipment volumes and selling prices. As for the first nine months,

the Electronics segment's sales rose 17.1%, to ¥141,016 million. However, the segment's operating income for the period fell 24.9%, to ¥16,777 million. This was due to cost increases pertaining to the shift to HD media with higher storage capacity, and the rise in depreciation expenses (incurred mainly in the first six months) following the expansion of HD media production capacity.

In the Inorganics segment, sales in the third quarter increased 13.5%, to ¥20,863 million and operating income rose 24.4%, to ¥5,099 million. While sales of ceramics were maintained at the year-earlier level, sales of graphite electrodes increased owing to continued steady demand at home and abroad. As for the first nine months, sales were up 12.4%, to ¥60,261 million, and operating income climbed 30.3%, to ¥14,658 million.

In the Aluminum segment, sales in the third quarter rose 0.7%, to ¥64,156 million, and operating income jumped 61.0%, to ¥1,835 million. Sales of rolled products were up owing to the rise in selling prices, reflecting higher aluminum ingot costs, and increased shipment volumes of high-purity aluminum foils for capacitors. Sales of extrusions fell as a result of lower shipment volumes for construction material applications. Sales of heat exchangers rose in Japan and Europe, while sales in the U.S.A. fell. Sales of aluminum cans were up owing to the increase in shipment volumes and selling prices. As for the first nine months, sales fell 0.4%, to ¥192,775 million, owing partly to the sale of the alloys business in the second half of last year. However, operating income for the period increased 20.3%, to ¥5,934 million.

## 2. Financial conditions at September 30, 2007 (as compared with the conditions at June 30, 2007)

Total assets at the end of the third quarter amounted to ¥1,065,458 million, an increase of ¥16,958 million from the level at June 30, 2007. Despite continued efforts toward reduction, total assets increased owing partly to the rise in notes and accounts receivable. Interest-bearing debt decreased ¥3,471 million, to ¥422,846 million, as a result of continued debt reduction efforts. Total equity at the end of the quarter increased ¥18,419 million, to ¥301,546 million, owing partly to the addition of the quarterly net income and conversion of zero coupon convertible bonds.

## 3. Forecast of full-year business results

Our revised performance forecast for full-year 2007 was announced on August 7, 2007, together with the announcement of the first-half results.

## 4. Major steps taken after the announcement of the half-year results [Electronics]

- Shipments of 1.89-inch, 80 GB hard disk media

In August, we began commercial shipments of 1.89-inch HD media with storage capacity of 80 gigabytes per disk, using the innovative perpendicular magnetic recording (PMR) technology. To the best of our knowledge, this represented the world's highest storage capacity for 1.89-inch HD media available on the market

as of September 6, 2007. Demand for high-capacity HD media is growing year by year in line with increases in shipments of HDD recorders that can record high-definition TV programs, and high-definition camcorders. We have established a setup for ensuring speedy and stable deliveries of HD media based on the PMR technology.

- Further expansion of GaN-based blue LED chip production capacity

We have decided to expand our production capacity of gallium-nitride (GaN)-based blue LED chips at our Chiba site to 200 million units a month by the end of June 2008. The expansion is in addition to the ongoing work at the site to increase the blue LED chip production capacity to 100 million units a month by the end of 2007. While GaN-based LEDs are currently used in mobile phones and displays, demand for the product is expected to grow substantially owing to the development of such new applications as LCD backlighting.

- Completion of second magnetic alloy plant in China

We have started up our 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. Our first rare-earth magnetic alloy plant in China has been in operation at Baotou, Inner Mongolia.

#### 5. Other information

1) Changes in the scope of important subsidiaries subject to consolidation

None

2) Adoption of simple accounting methods

We have adopted simple accounting methods for part of the standards for allocating corporate tax.

3) Revision of accounting methods effected this financial year

None





