

Consolidated Financial Statements
For the first quarter ended March 31, 2008



I . Consolidated Financial Results

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

	Results for the first quarter (Jan. 1 - Mar. 31)			
	2007	2008	Increase (Decrease)	2008
	¥	¥	%	\$
Net sales	229,079	246,882	7.8	2,464,134
Operating income	15,009	9,709	(35.3)	96,901
Ordinary income	10,591	4,815	(54.5)	48,060
Net income	6,473	3,210	(50.4)	32,034
Net income per share: Basic	5.50	2.57	-	0.026
Net income per share: Diluted	5.19	-	-	-

Notes

Important changes in accounting policies : not applicable

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

	Mar. 31, 2007	Mar. 31, 2008	Mar. 31, 2008
	¥	¥	\$
Total assets	1,041,004	996,531	9,946,408
Total equity	266,591	288,109	2,875,621
Total equity per share	200.85	214.25	2.14
	%	%	%
Stockholders' equity ratio	22.7	26.8	26.8

II . Forecast of performance for the 1st half year ending June 30, 2008

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

	Forecast for Jan.1-June.30,2008	
	¥	\$
Net sales	510,000	5,090,328
Operating income	24,000	239,545
Ordinary income	16,000	159,697
Net income	8,500	84,839
Net income per share	6.81	0.07

※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.

※As for the full-year performance forecast, no new calculations have been made yet.

Notes

The U.S. dollar is valued at ¥100.19 throughout this statement for convenience only.

[Business Results and Financial Conditions]

1. Analysis of business results

(1) Summary

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 2008 (January 1 - March 31), the Company recorded a 7.8% increase in net sales over the first quarter of 2007, to ¥246,882 million. However, operating income decreased 35.3%, to ¥9,709 million, due mainly to the rise in depreciation expenses, the appreciation of the yen against the U.S. dollar, and soaring raw material/fuel costs. Ordinary income fell 54.5%, to ¥4,815 million, and net income of the quarter was down 50.4%, to ¥3,210 million.

(2) A breakdown of net sales and operating income by segment (January 1 - March 31, 2008)

In the Petrochemicals segment, sales rose 14.4%, to ¥100,425 million. While sales of organic chemicals were maintained at the level of the first quarter of the previous year, sales of olefins increased due to the rise in selling prices, reflecting soaring raw material costs. Operating income decreased 43.6%, to ¥2,749 million, due to lower export prices of olefins and higher cost of methanol used as raw material for acetic acid.

In the Chemicals segment, sales increased 3.4%, to ¥19,415 million, and operating income rose 0.2%, to ¥1,594 million. Sales of acrylonitrile were up, reflecting steady selling prices and shipment volumes. Sales of ammonia increased due to the rise in selling prices. Sales of chloroprene rubber rose, reflecting steady shipment volumes and selling prices, while sales of amino acids increased due to the rise in shipment volumes.

In the Electronics segment, sales increased 25.7%, to ¥49,194 million. Sales of hard disk (HD) media increased due to the rise in shipment volumes as a result of capacity expansions and steady demand. Sales of compound semiconductors fell due to lower shipment volumes, while sales of specialty gases for semiconductor processing increased slightly. Sales of rare earth magnetic alloys were up due to the rise in shipment volumes as well as the rise in selling prices, reflecting soaring raw material costs. Operating income fell 35.9%, to ¥2,636 million. This was due mainly to the rise in depreciation expenses, reflecting the expansion of HD media production capacity, lower-than-expected output of HD media as a result of the switching of production lines, and the appreciation of the yen.

In the Inorganics segment, sales increased 5.7%, to ¥19,747 million. Sales of ceramics rose slightly while sales of graphite electrodes increased due to steady demand. Operating income fell 2.4%, to ¥4,236 million, reflecting soaring fuel/raw material costs for the ceramics business.

In the Aluminum segment, sales fell 10.2%, to ¥58,101 million. Sales of aluminum ingots fell due to lower shipment volumes. Although the business of high-purity foils for

capacitors was steady, overall sales of rolled products decreased as a result of our withdrawal from the commodity foils operations. Sales of extrusions/specialty products fell, notwithstanding higher shipment volumes of aluminum cylinders for laser printers, as shipment volumes of commodity extrusions decreased in the aftermath of the revision of the Building Standard Law. Sales of heat exchangers were maintained at the level of the same period of 2007. Sales of *Shotec* forged products and aluminum cans decreased due to the fall in shipment volumes. Operating income decreased 90.2%, to ¥136 million, due partly to the rise in fuel costs for the power generation business as an independent power provider.

2. Financial conditions for the January 1 - March 31, 2008 period (as compared with the conditions at December 31, 2007)

Total assets at the end of the quarter amounted to ¥996,531 million, a decrease of ¥33,098 million from the level at December 31, 2007, owing to decreases in accounts receivable and fixed assets. Interest-bearing debt increased ¥10,163 million, to ¥405,809 million. Total equity at the end of the quarter decreased ¥10,551 million, to ¥288,109 million, despite the quarterly net income, owing to the payment of dividends and the fall in the foreign exchange adjustment account.

3. Performance forecast for the first half of the year

As for the performance forecast for the first half of the year, please refer to the attached news release issued today.

4. Major steps taken during the first quarter of 2008

[Electronics]

- Launch of the world's first 1.3-inch HD media based on PMR technology

In January, we began commercial shipments of the world's first 1.3-inch HD media with storage capacity of 40 gigabytes per disk, using our perpendicular magnetic recording (PMR) technology. To the best of our knowledge, our 1.3-inch HD media had the world's highest storage capacity for this size available on the market as of the end of April 2008. As the new product ensures the manufacture of lighter HD drives with lower electricity consumption and higher resistance to shock, it is expected to be used in such applications as high-definition camcorders, mobile music players, and very small notebook PCs.

[Chemicals]

- Sale of shares in Kokusai Eisei

In March, we sold 90% of the shares we owned in our wholly consolidated subsidiary Kokusai Eisei Co., Ltd., to Iwatani International Corporation. Kokusai Eisei's operations center on sanitary control. The sale of shares is intended as a measure to expand Kokusai Eisei's business through synergies with Iwatani's operations.

[Aluminum]

- Completion of a new aluminum slab refining line

In January, our consolidated subsidiary Showa Denko Sakai Aluminum K.K. (SSK) completed construction of a new aluminum slab refining line. Following the start-up of the new refining line, SSK's high-purity aluminum foil production capacity increased from 1,500 tons a month to more than 1,800 tons a month. SSK sells its high-purity

aluminum foils for use in aluminum electrolytic capacitors for high-performance digital electric appliances, including flat-panel TVs, and for automobiles. SSK has the largest share in the high-purity aluminum foil market in Japan and overseas. We will continue to meet growing demand through further capacity expansion in a timely manner and the provision of high-quality product.

5. Other information

(1) Changes in 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 income taxes.

(3) Revision of accounting methods effected this financial year

None

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Dec. 31 2007 (A)	Mar. 31 2008 (B)	(B)-(A)	Mar. 31 2008
Assets		¥		\$
Current assets				
Cash on hand and in banks	31,894	27,007	(4,887)	269,554
Notes and accounts receivable	177,607	147,821	(29,786)	1,475,407
Inventories	109,335	120,476	11,141	1,202,477
Other current assets	29,533	34,957	5,424	348,910
Total current assets	348,369	330,261	(18,108)	3,296,349
Fixed assets				
Tangible fixed assets	559,283	548,791	(10,492)	5,477,505
Intangible fixed assets	15,141	14,393	(748)	143,655
Investments and other assets	106,835	103,085	(3,750)	1,028,900
Total fixed assets	681,259	666,269	(14,990)	6,650,059
Total assets	1,029,629	996,531	(33,098)	9,946,408
Liabilities				
Current liabilities				
Notes and accounts payable	168,604	143,920	(24,684)	1,436,466
Short-term loans payable	87,424	79,456	(7,968)	793,050
Current portion of long-term loans payable	60,433	56,820	(3,613)	567,119
Commercial paper	6,500	11,000	4,500	109,791
Current portion of corporate bonds	3,000	3,000	-	29,943
Other current liabilities	54,768	53,629	(1,139)	535,275
Total current liabilities	380,728	347,824	(32,904)	3,471,645
Long-term liabilities				
Corporate bonds	36,000	36,000	-	359,317
Long-term loans payable	202,289	219,533	17,244	2,191,170
Accrued pension and severance costs	31,176	30,307	(869)	302,495
Other long-term liabilities	80,777	74,758	(6,019)	746,159
Total long-term liabilities	350,242	360,598	10,356	3,599,141
Total liabilities	730,970	708,422	(22,548)	7,070,787
Equity				
Stockholders' equity				
Common stock	121,904	121,904	-	1,216,727
Capital surplus	37,892	37,892	0	378,205
Retained earnings	75,856	72,781	(3,075)	726,426
Treasury stock	(199)	(198)	1	(1,974)
Total Stockholders' equity	235,453	232,379	(3,074)	2,319,384
Valuations and adjustments				
Securities valuation surplus	16,075	12,284	(3,792)	122,605
Deferred hedge gains (losses)	436	3,118	2,683	31,124
Revaluation reserve (Land revaluation)	23,676	23,676	-	236,308
Foreign currency translation adjustments	1,722	(4,158)	(5,880)	(41,503)
Total Valuations and adjustment	41,909	34,920	(6,989)	348,534
Minority interests	21,297	20,810	(487)	207,704
Total equity	298,659	288,109	(10,551)	2,875,621
Total liabilities and equity	1,029,629	996,531	(33,098)	9,946,408

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter (Jan.1–Mar.31)			
	2007(A)	2008(B)	(B)–(A)	2008
		¥		\$
Net sales	229,079	246,882	17,803	2,464,134
Cost of sales	193,878	215,880	22,003	2,154,710
Gross profit	35,201	31,001	(4,200)	309,424
Selling, general and administrative expenses	20,192	21,293	1,101	212,523
Operating income	15,009	9,709	(5,300)	96,901
Non–operating income	2,128	1,543	(585)	15,396
Non–operating expense	6,545	6,436	(109)	64,237
Ordinary income	10,591	4,815	(5,776)	48,060
Extraordinary profit	1,818	2,814	997	28,091
Extraordinary loss	699	1,225	526	12,229
Income before income taxes	11,710	6,404	(5,305)	63,922
Income taxes	4,659	2,910	(1,749)	29,044
Minority interests	578	285	(293)	2,843
Net income	6,473	3,210	(3,263)	32,034

Net Sales and Operating Income by Segment

(¥ in millions, US\$ in thousands)

Segment		Results for the first quarter (Jan. 1 – Mar. 31)			
		2007 (A)	2008 (B)	(B) – (A)	2008
			¥		\$
Petrochemicals	Net sales	87,798	100,425	12,626	1,002,344
	Operating income	4,872	2,749	(2,122)	27,442
Chemicals	Net sales	18,774	19,415	641	193,779
	Operating income	1,590	1,594	3	15,905
Electronics	Net sales	39,138	49,194	10,056	491,005
	Operating income	4,110	2,636	(1,473)	26,311
Inorganics	Net sales	18,675	19,747	1,073	197,098
	Operating income	4,342	4,236	(106)	42,282
Aluminum	Net sales	64,694	58,101	(6,593)	579,908
	Operating income	1,383	136	(1,247)	1,358
HQ costs and other	Net sales	-	-	-	-
	Operating income	(1,287)	(1,643)	(355)	(16,396)
Total	Net sales	229,079	246,882	17,803	2,464,134
	Operating income	15,009	9,709	(5,300)	96,901