

Consolidated Financial Statements
For the first three quarters ended September 30, 2008



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)			
	2007	2008	Increase (Decrease)	2008
	¥	¥	%	\$
Net sales	743,985	792,452	6.5	7,651,362
Operating income	52,408	35,385	(32.5)	341,650
Ordinary income	39,134	25,464	(34.9)	245,862
Net income	21,008	19,019	(9.5)	183,635
Net income per share: Basic	17.71	15.24	–	0.147
Net income per share: Diluted	16.83	–	–	–

Notes

Important changes in accounting policies : not applicable

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

	Sep. 30, 2007	Sep. 30, 2008	Sep. 30, 2008
	¥	¥	\$
Total assets	1,065,458	1,027,519	9,921,013
Total equity	301,546	303,750	2,932,802
Total equity per share	216.41	222.78	2.15
	%	%	%
Stockholders' equity ratio	25.3	27.1	27.1

II . Forecast of performance for the year ending December 31, 2008

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

	2008	
	¥	\$
Net sales	1,050,000	10,138,071
Operating income	34,000	328,280
Ordinary income	20,500	197,934
Net income	10,000	96,553
Net income per share	8.02	0.08
Dividend	5.0	0.05

Notes

The U.S. dollar is valued at ¥103.57 throughout this statement for convenience only.

※We have revised our performance forecast for full-year 2008 and our dividend forecast at term-end from the figures announced on August 7, 2008 in view of the recent trends. For details, please refer to the separate news release issued today entitled "SDK Revises Forecast for 2008 Performance and Dividend."

※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.

[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, 2008), the Company recorded an 8.8% increase in net sales over the same period of 2007, to ¥281,663 million. However, operating income dropped 38.4%, to ¥10,758 million, due mainly to the influence of the economic slowdown on the performance of the Electronics and Aluminum segments and the rise in depreciation expenses. Ordinary income decreased 38.5%, to ¥7,417 million. Net income of the quarter rose 22.8%, to ¥7,289 million, due partly to the gain on the sale of investment securities.

As for the first nine months of 2008 (January 1 - September 30), the Company posted a 6.5% increase in net sales over the same period of 2007, to ¥792,452 million. However, operating income fell 32.5%, to ¥35,385 million, due mainly to the influence of the economic slowdown on the performance of the Electronics, Aluminum, and Petrochemicals segments and the rise in raw material costs and depreciation expenses. Ordinary income fell 34.9%, to ¥25,464 million, and net income of the quarter was down 9.5%, to ¥19,019 million.

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

In the Petrochemicals segment, sales in the third quarter rose 22.8%, to ¥122,923 million. Sales of olefins increased, reflecting the rise in raw material costs. Sales of organic chemicals decreased due to the decline in exports, reflecting the fall of acetic acid prices on overseas markets. Operating income in the third quarter rose 8.4%, to ¥3,639 million. As for the first nine months of 2008, the Petrochemicals segment's sales were up 12.1%, to ¥327,575 million. However, operating income fell 32.1%, to ¥9,670 million, due to the fall in acetic acid exports and the rise in raw material costs.

In the Chemicals segment, sales in the third quarter rose 39.7%, to ¥25,889 million, due to the steady shipment volumes of ammonia and other basic chemicals, the rise in selling prices of amino acids, and the consolidation of Showa Tansan Co., Ltd. Operating income rose 0.9%, to ¥1,661 million. As for the first nine months of 2008, the Chemicals segment's sales were up 15.6%, to ¥66,659 million, and operating income increased 8.3%, to ¥5,326 million.

In the Electronics segment, sales in the third quarter fell 9.5%, to ¥49,965 million. Sales of hard disk (HD) media were down, reflecting stagnant demand for aluminum-based media for desktop PC applications. Sales of compound semiconductors increased due partly to the start of sales of ultrabright LED chips, while sales of semiconductor-processing specialty gases decreased owing to

stagnant demand for semiconductors. Meanwhile, sales of rare earth magnetic alloys were up owing to higher shipment volumes and selling prices. Operating income dropped 64.8%, to ¥2,469 million, due to lower shipment volumes of aluminum-based HD media and the rise in depreciation expenses. As for the first nine months, the Electronics segment's sales rose 7.1%, to ¥151,026 million. However, the segment's operating income for the period fell 40.7%, to ¥9,942 million.

In the Inorganics segment, sales in the third quarter rose 5.4%, to ¥21,994 million. Sales of ceramics rose, reflecting the rise in raw material costs, and sales of graphite electrodes increased owing to continued steady demand at home and abroad. Operating income fell 15.7%, to ¥4,299 million, due to soaring raw material/fuel costs in the ceramics business and the negative impact of the appreciation of the yen against the U.S. dollar on the performance of the graphite electrode business in the United States. As for the first nine months, sales were up 8.7%, to ¥65,498 million, but operating income fell 3.7%, to ¥14,116 million.

In the Aluminum and Other segment, sales in the third quarter fell 5.1%, to ¥60,893 million. Sales from ingot marketing fell due to lower shipment volumes. Sales of rolled products fell slightly, while sales of extrusions/specialty products decreased as a result of lower shipment volumes for construction material applications. Sales of heat exchangers rose in Japan, Europe and Asia, while sales in the U.S.A. fell. Sales of *Shotec* forged aluminum products fell as a result of lower shipment volumes for automotive parts applications. Sales of aluminum cans were down slightly owing to the fall in shipment volumes. Operating income dropped 92.8%, to ¥133 million, due to the sharp rise in fuel costs for the power generation business as an independent power provider, and lower demand in the construction/automobile/beer breweries industries. As for the first nine months, sales fell 5.7%, to ¥181,694 million, and operating income dropped 85.7%, to ¥849 million.

2. Financial conditions at September 30, 2008 (as compared with the conditions at June 30, 2008)

Total assets at the end of the third quarter amounted to ¥1,027,519 million, an increase of ¥10,776 million from the level at June 30, 2008. Despite continued efforts toward reduction, total assets increased owing partly to the rise in notes and accounts receivable. Interest-bearing debt increased ¥12,142 million, to ¥416,224 million. Total equity at the end of the quarter dropped ¥2,886 million, to ¥303,750 million, despite the addition of the quarterly net income. The drop was attributable to decreases in securities valuation surplus (due to the fall in share prices) and in foreign currency translation adjustments (due to the appreciation of the yen).

3. Forecast of full-year business results

As for our performance forecast for full-year 2008, please refer to the separate news release entitled "SDK Revises Forecast for 2008 Performance and Dividend" issued on November 6, 2008.

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

- Manufacture of n-propyl acetate

In October, we decided to manufacture n-propyl acetate for use in solvents for ink for special gravure printing. Commercial shipments will start in early 2010. Compared with existing organic-compounds-based solvents, n-propyl acetate contributes to better working environment. Thus, demand for n-propyl acetate is expected to grow in the future.

[Chemicals]

- Waste anesthetic gas disposal system provided to Swedish firm
We provided our waste anesthetic gas disposal system technology (*AnescleanSW*TM) to Qmt tech ab, a medical equipment engineering company in Sweden. The *AnescleanSW*TM system decomposes nitrous oxide, a greenhouse gas used as inhalation anesthetic at hospitals. We granted Qmt the right to sell the system to hospitals in North European countries.
- Acquisition of shares in F2 Chemicals of U.K.
We reached agreement with Asahi Glass Co., Ltd., Mitsubishi Corporation, and Mitsubishi's Italian subsidiary MITENI S.p.A. to purchase all the shares of their joint venture F2 Chemicals Limited of the United Kingdom. By combining F2 Chemicals' fluorine technologies with our own technologies, we aim to expand the lineup of our fluorine compounds.
- Establishment of analytical equipment marketing JV in China
We decided to establish a joint venture in December in China, with our consolidated subsidiary Shoko Co., Ltd., to strengthen customer support regarding our high-performance liquid chromatography columns. The columns are used in analyzing chemical substances in food, pharmaceuticals and agrochemicals as well as the quality of water.

[Electronics]

- Consolidation of HD media operations with HOYA
We reached basic agreement with Hoya Corporation to consolidate the two companies' HD media operations by establishing a joint venture in January 2009. The joint venture will be owned about 75% by Showa Denko and about 25% by HOYA. By combining their respective technical strengths, Showa Denko and HOYA will strengthen R&D to develop new HD media products with higher storage capacity. At the same time, the two companies will increase the efficiency of their operation sites to ensure sustainable competitive power.
- Shipments of HD media with the world's highest storage capacity
In August, we began commercial shipments of 1.89-inch HD media with storage capacity of 120 gigabytes per disk. 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 11, 2008. In September, we began commercial shipments of 2.5-inch HD media with storage capacity of 250 gigabytes per disk. To the best of our knowledge, this represented the world's highest storage capacity for 2.5-inch HD media available on the market as of September 17, 2008. 1.89-inch HD media are used in mobile music players, high-definition camcorders, and small-sized notebook PCs. Meanwhile, 2.5-inch HD media are used mainly in notebook PCs. Demand for high-capacity HD media is expected to grow.

- Establishment of rare earth metal subsidiary in Vietnam
In October, we established Showa Denko Rare-Earth Vietnam Co., Ltd. in Ha Nam Province, Vietnam, as our 90%-owned subsidiary. In April 2010, the new company will begin producing 800 tons a year in total of didymium and dysprosium, which will be used as raw material for neodymium-based high-performance magnetic alloys. We are producing rare earth magnetic alloys at three plants—one in Japan and two in China—with combined capacity of 8,000 tons a year. With the establishment of the new company in Vietnam, we will be able to ensure stable procurement of raw materials for our neodymium-based high-performance magnetic alloy production and further strengthen the business.

- Establishment of electronics materials sales firm in Taiwan
In September, we established a wholly owned subsidiary Taiwan Showa Denko Electronics Co., Ltd. to strengthen sales of LED chips.

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

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Jun. 30 2008 (A)	Sep. 30 2008 (B)	(B)-(A)	Dec. 31 2007 (C)	(B)-(C)	Sep. 30 2008
Assets		¥				\$
Current assets						
Cash on hand and in banks	21,864	28,168	6,304	31,894	(3,726)	271,969
Notes and accounts receivable	166,202	172,983	6,781	177,607	(4,625)	1,670,201
Inventories	123,667	129,826	6,159	109,335	20,491	1,253,512
Other current assets	32,034	34,728	2,694	29,533	5,194	335,306
Total current assets	343,768	365,704	21,937	348,369	17,335	3,530,988
Fixed assets						
Tangible fixed assets	554,583	548,279	(6,304)	559,283	(11,004)	5,293,800
Intangible fixed assets	14,412	13,856	(556)	15,141	(1,285)	133,780
Investments and other assets	103,981	99,680	(4,300)	106,835	(7,155)	962,445
Total fixed assets	672,976	661,815	(11,161)	681,259	(19,445)	6,390,024
Total assets	1,016,744	1,027,519	10,776	1,029,629	(2,110)	9,921,013
Liabilities						
Current liabilities						
Notes and accounts payable	145,364	149,831	4,466	168,604	(18,773)	1,446,661
Short-term loans payable	83,801	96,932	13,131	87,424	9,508	935,904
Current portion of long-term loans payable	52,890	54,090	1,200	60,433	(6,342)	522,259
Commercial paper	15,500	14,500	(1,000)	6,500	8,000	140,002
Current portion of corporate bonds	3,000	3,000	-	3,000	-	28,966
Other current liabilities	58,116	59,375	1,259	54,768	4,607	573,285
Total current liabilities	358,671	377,728	19,056	380,728	(3,000)	3,647,076
Long-term liabilities						
Corporate bonds	36,000	36,000	-	36,000	-	347,591
Long-term loans payable	212,891	211,703	(1,189)	202,289	9,414	2,044,052
Accrued pension and severance costs	30,085	29,357	(728)	31,176	(1,819)	283,449
Other long-term liabilities	72,459	68,982	(3,477)	80,777	(11,795)	666,042
Total long-term liabilities	351,436	346,041	(5,395)	350,242	(4,201)	3,341,135
Total liabilities	710,107	723,769	13,662	730,970	(7,201)	6,988,211
Equity						
Stockholders' equity						
Common stock	121,904	121,904	-	121,904	-	1,177,019
Capital surplus	37,952	37,949	(3)	37,892	57	366,409
Retained earnings	81,307	88,597	7,289	75,856	12,741	855,427
Treasury stock	(198)	(196)	2	(199)	3	(1,890)
Total Stockholders' equity	240,966	248,254	7,288	235,453	12,800	2,396,965
Valuations and adjustments						
Securities valuation surplus	14,094	10,340	(3,754)	16,075	(5,736)	99,833
Deferred hedge gains (losses)	2,219	(602)	(2,821)	436	(1,038)	(5,815)
Revaluation reserve (Land revaluation)	23,441	23,440	(1)	23,676	(235)	226,323
Foreign currency translation adjustments	52	(3,474)	(3,526)	1,722	(5,196)	(33,540)
Total Valuations and adjustment	39,806	29,704	(10,102)	41,909	(12,205)	286,800
Minority interests	25,864	25,793	(72)	21,297	4,496	249,036
Total equity	306,636	303,750	(2,886)	298,659	5,091	2,932,802
Total liabilities and equity	1,016,744	1,027,519	10,776	1,029,629	(2,110)	9,921,013

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first three quarters (Jan.1–Sep.30)			
	2007(A)	2008(B)	(B)–(A)	2008
		¥		\$
Net sales	743,985	792,452	48,467	7,651,362
Cost of sales	626,862	690,286	63,424	6,664,921
Gross profit	117,123	102,166	(14,957)	986,441
Selling, general and administrative expenses	64,714	66,781	2,067	644,791
Operating income	52,408	35,385	(17,024)	341,650
Non–operating income	4,874	4,908	35	47,393
Non–operating expense	18,148	14,829	(3,319)	143,181
Ordinary income	39,134	25,464	(13,670)	245,862
Extraordinary profit	3,008	10,427	7,418	100,674
Extraordinary loss	5,082	6,277	1,196	60,611
Income before income taxes	37,060	29,613	(7,447)	285,925
Income taxes	14,495	9,841	(4,654)	95,020
Minority interests	1,557	753	(804)	7,271
Net income	21,008	19,019	(1,989)	183,635

(¥ in millions, US\$ in thousands)

	Results for the third quarter (Jul. 1 – Sep. 30)			
	2007(A)	2008(B)	(B)–(A)	2008
		¥		\$
Net sales	258,857	281,663	22,806	2,719,544
Cost of sales	220,238	246,912	26,674	2,384,015
Gross profit	38,619	34,751	(3,868)	335,529
Selling, general and administrative expenses	21,166	23,993	2,826	231,655
Operating income	17,453	10,758	(6,695)	103,874
Non–operating income	1,044	875	(169)	8,449
Non–operating expense	6,446	4,217	(2,229)	40,713
Ordinary income	12,051	7,417	(4,635)	71,610
Extraordinary profit	23	6,095	6,072	58,852
Extraordinary loss	567	1,723	1,156	16,637
Income before income taxes	11,508	11,789	281	113,825
Income taxes	5,090	4,094	(995)	39,533
Minority interests	480	406	(74)	3,919
Net income	5,938	7,289	1,351	70,373

Net Sales and Operating Income by Segment

(¥ in millions, US\$ in thousands)

Segment		Results for the first three quarters (Jan. 1 – Sep. 30)			
		2007 (A)	2008 (B)	(B) – (A)	2008
			¥		\$
Petrochemicals	Net sales	292,260	327,575	35,315	3,162,835
	Operating income	14,239	9,670	(4,569)	93,369
Chemicals	Net sales	57,673	66,659	8,986	643,614
	Operating income	4,918	5,326	408	51,423
Electronics	Net sales	141,016	151,026	10,009	1,458,201
	Operating income	16,777	9,942	(6,834)	95,997
Inorganics	Net sales	60,261	65,498	5,238	632,406
	Operating income	14,658	14,116	(542)	136,295
Aluminum	Net sales	192,775	181,694	(11,081)	1,754,307
	Operating income	5,934	849	(5,085)	8,197
HQ costs and other	Net sales	—	—	—	—
	Operating income	(4,118)	(4,519)	(401)	(43,632)
Total	Net sales	743,985	792,452	48,467	7,651,362
	Operating income	52,408	35,385	(17,024)	341,650

Segment		Results for the third quarter (Jul. 1 – Sep. 30)			
		2007 (A)	2008 (B)	(B) – (A)	2008
			¥		\$
Petrochemicals	Net sales	100,065	122,923	22,858	1,186,856
	Operating income	3,356	3,639	283	35,133
Chemicals	Net sales	18,536	25,889	7,352	249,962
	Operating income	1,646	1,661	15	16,039
Electronics	Net sales	55,237	49,965	(5,272)	482,423
	Operating income	7,007	2,469	(4,538)	23,841
Inorganics	Net sales	20,863	21,994	1,131	212,361
	Operating income	5,099	4,299	(801)	41,507
Aluminum	Net sales	64,156	60,893	(3,263)	587,942
	Operating income	1,835	133	(1,702)	1,283
HQ costs and other	Net sales	—	—	—	—
	Operating income	(1,491)	(1,443)	49	(13,928)
Total	Net sales	258,857	281,663	22,806	2,719,544
	Operating income	17,453	10,758	(6,694)	103,874