

Consolidated Financial Statements

For the first quarter ended March 31, 2004

. Consolidated Financial Results

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

| | Results for the first quarter (Jan. 1 - Mar. 31) | | | |
|-------------------------------|----------------------------------------------------|---------|------------------------|-----------|
| | 2004 | 2003 | Increase (Decrease) | 2004 |
| | ¥ | ¥ | % | \$ |
| Net sales | 168,357 | 170,349 | (1.2) | 1,579,478 |
| Operating income | 10,137 | 7,361 | 37.7 | 95,105 |
| Recurring profit | 7,213 | 4,693 | 53.7 | 67,668 |
| Net income | 4,538 | 1,327 | 242.1 | 42,578 |
| Net income per share: Basic | 3.99 | 1.17 | - | 0.037 |
| Net income per share: Diluted | 3.72 | - | - | 0.035 |

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

| | March 31, 2004 | March 31, 2003 | March 31, 2004 |
|--------------------------------|----------------|----------------|----------------|
| | ¥ | ¥ | \$ |
| Total assets | 956,096 | 997,671 | 8,969,847 |
| Stockholders' equity | 172,244 | 151,544 | 1,615,949 |
| Stockholders' equity per share | 151.37 | 133.17 | 1.42 |
| Stockholders' equity ratio | 18.0% | 15.2% | 18.0% |

Notes

- 1) Simple calculation methods are adopted with regard to several items, including income taxes.
- 2) Three new companies have been consolidated while one company has been removed from consolidation.
- 3) SDK started disclosure of its quarterly consolidated financial results beginning with the first quarter of 2004. Figures for the year-earlier quarter are shown for reference.
- 4) The U.S. dollar is valued at ¥106.59 throughout this statement for convenience only.
- 5) The figures in the Consolidated Financial Statements are unaudited.

. Forecast of performance for the fiscal year ending December 31, 2004

We expect the consolidated performance for fiscal 2004 will be basically in line with the forecast we announced on February 17, 2004. 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. 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.

1. Review of Operations

Showa Denko K.K. and its Group companies are progressing with the implementation of the medium-term consolidated business plan the "Sprout Project," fostering "strategic growth businesses" while renovating operations and reducing costs.

As a result, in the first quarter of 2004, the Company recorded a 37.7% increase in operating income over the first quarter of 2003, to ¥10,137 million, despite a 1.2%-decline in net sales, to ¥168,357 million. Ordinary profit and net income of the quarter also increased, by 53.7%, to ¥7,213 million, and 242.1%, to ¥4,538 million, respectively. A breakdown of net sales and operating income by segment in the first quarter is as follows:

In the Petrochemicals segment, operating income increased 18.7%, to ¥3,433 million, on sales of ¥56,279 million, down 4.6%. Sales of olefins were up due to higher sales volumes that reflected high utilization of the Company's ethylene plant and higher selling prices. Sales of organic chemicals were also up due to increases in sales volumes. Meanwhile, sales of plastics declined substantially as a result of transfer in September 2003 of the polyethylene business from Japan Polyolefins Co., Ltd. to a new affiliated company, Japan Polyethylene Corporation, to which the equity method was applied. Showa Highpolymer Co., Ltd.'s sales improved due mainly to recovery of the polyester market.

In the Chemicals segment, sales increased 2.6%, to ¥18,948 million, but operating income fell 60.4%, to ¥477 million. Sales of gases & chemicals were maintained at the level of the first quarter 2003, while sales of specialty chemicals increased slightly. However, operating income was affected by lower selling prices of acrylonitrile and lower exporting prices of agrochemicals due to the appreciation of the yen.

In the Electronics segment, sales increased 20.3%, to ¥26,027 million and operating income jumped 138.5%, to ¥3,740 million. This was due to higher sales volumes of hard disks, compound semiconductors, and specialty gases for semiconductor processing.

In the Inorganic Materials segment, operating income climbed 238.1%, to ¥1,163 million, despite a decline of 1.2% in sales, to ¥12,681 million. Sales volume of ceramics rose. Both sales volumes and selling prices of graphite electrodes increased. Nevertheless, the segment's sales slightly fell as a result of our withdrawal from ferrochrome production in Japan in the first half of 2003.

In the Aluminum segment, sales fell 6.8%, to ¥54,422 million, but operating income improved 20.3%, to ¥3,028 million, due to cost reductions. Sales of extrusions were maintained at nearly a-year-earlier level, and sales volumes of rolled products, *Shot*ic forgings, and specialty products increased. On the other hand, sales volumes of heat exchangers in Japan declined and sales of aluminum cans fell.

2. Financial conditions for the January 1-March 31, 2004 period (as compared with the conditions at December 31, 2003)

Total assets at the end of the quarter amounted to ¥956,096 million, an increase of ¥16,217 million from the level at December 31, 2003. This was due to increases in cash and cash equivalents following the issue of ¥23,000-million euro-yen-based convertible bonds in the quarter. As a result of the bond issue, interest-bearing debt increased ¥16,212 million, to ¥543,601 million. Stockholders' equity at the end of the quarter increased ¥6,157 million, to ¥172,244 million, due to increases in retained earnings and securities valuation surplus.

3. Major steps taken during the first quarter of 2004

a) Issue of euro-yen-based convertible bonds in the amount of ¥23,000 million, due 2009

Date of issue and due date of payment: March 25, 2004

Maturity: March 25, 2009

Interest rate: 0%

b) Decision to turn Heisei Polymer Co., Ltd. into a fully owned subsidiary through a share exchange

Date of signing the share exchange agreement: March 22, 2004

Regular shareholders' meeting of Heisei Polymer to approve the share exchange agreement: To be held on June 29, 2004

Date of share exchange: Scheduled for August 3, 2004

(Showa Denko will follow the simplified procedure for share exchange as provided for in Article 358 of the Commercial Code. Thus, Showa Denko will not refer the matter to its shareholders' meeting.)

For each share of Heisei Polymer's common stock, 0.41 share of Showa Denko's common stock will be allocated.

c) Signing of MOU on investment in Trace of Taiwan in the HD business (February)

Showa Denko is negotiating with Trace Storage Technology Corp. of Taiwan concerning the possibility of subscribing to new shares to be issued by Trace for allocation to third parties. An investment scheme and other details will be finalized after completion of due diligence. Showa Denko is studying the possibility of expanding the production capacity at Trace after completion of the investment. Showa Denko is thus planning to increase its total supply capability to more than 10 million hard disks a month.

Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

| | March 31, 2004 (A) | March 31, 2003 (B) | (A)-(B) | March 31, 2004 |
|---------------------------------------------------|-----------------------|-----------------------|---------------|-------------------|
| Assets | ¥ | | | \$ |
| Current assets | | | | |
| Cash and deposit | 50,380 | 26,791 | 23,589 | 476,676 |
| Notes and accounts receivable | 123,135 | 136,405 | (13,270) | 1,165,056 |
| Inventories | 63,697 | 60,921 | 2,776 | 602,677 |
| Other current assets | 37,889 | 38,185 | (296) | 358,490 |
| Total current assets | 275,100 | 262,301 | 12,799 | 2,602,899 |
| Fixed assets | | | | |
| Tangible fixed assets | 536,034 | 538,154 | (2,120) | 5,071,758 |
| Intangible fixed assets | 26,064 | 23,163 | 2,901 | 246,612 |
| Investments and other assets | 118,889 | 116,244 | 2,645 | 1,124,888 |
| Total fixed assets | 680,988 | 677,561 | 3,427 | 6,443,258 |
| Deferred assets | 8 | 17 | (9) | 73 |
| Total assets | 956,096 | 939,879 | 16,217 | 9,046,230 |
| Liabilities | | | | |
| Current liabilities | | | | |
| Notes and accounts payable | 106,308 | 113,351 | (7,043) | 1,005,851 |
| Short-term loans payable | 123,124 | 117,729 | 5,395 | 1,164,952 |
| Current portion of corporate bonds | 2,000 | - | 2,000 | 18,923 |
| Current portion of long-term loans payable | 71,251 | 73,830 | (2,579) | 674,148 |
| Other current liabilities | 42,439 | 38,105 | 4,334 | 401,546 |
| Total current liabilities | 345,122 | 343,016 | 2,106 | 3,265,420 |
| Long-term liabilities | | | | |
| Corporate bonds | 92,814 | 71,814 | 21,000 | 878,172 |
| Long-term loans payable | 254,413 | 264,015 | (9,602) | 2,407,159 |
| Employees' severance indemnities | 8,553 | 8,640 | (87) | 80,922 |
| Other long-term liabilities | 43,367 | 45,012 | (1,645) | 410,319 |
| Total long-term liabilities | 399,146 | 389,481 | 9,665 | 3,776,573 |
| Total liabilities | 744,268 | 732,496 | 11,772 | 7,041,992 |
| Minority interests | 39,584 | 41,295 | (1,711) | 374,529 |
| Stockholders' equity | | | | |
| Common stock | 110,451 | 110,451 | - | 1,045,051 |
| Capital stock | 8,875 | 8,175 | 700 | 83,971 |
| Retained earnings | 15,541 | 13,271 | 2,270 | 147,045 |
| Revaluation reserve (Land revaluation) | 34,832 | 34,832 | - | 329,566 |
| Securities valuation surplus | 6,474 | 2,501 | 3,973 | 61,257 |
| Foreign currency translation adjustments | (3,880) | (3,096) | (784) | (36,711) |
| Treasury stock | (50) | (47) | (3) | (469) |
| Total Stockholders' equity | 172,244 | 166,087 | 6,157 | 1,629,709 |
| Total liabilities and stockholders' equity | 956,096 | 939,879 | 16,217 | 9,046,230 |

Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

| | Results for the first quarter (Jan. 1 - Mar. 31) | | | |
|---------------------------------------------|----------------------------------------------------|---------|-----------|-----------|
| | 2004(A) | 2003(B) | (A) - (B) | 2004 |
| | ¥ | | | \$ |
| Net sales | 168,357 | 170,349 | (1,992) | 1,592,928 |
| Cost of sales | 137,823 | 140,946 | (3,123) | 1,304,027 |
| Selling, general and administrative expense | 20,397 | 22,042 | (1,645) | 192,986 |
| Operating profit | 10,137 | 7,361 | 2,776 | 95,915 |
| Non-operating income | 1,078 | 1,342 | (264) | 10,204 |
| Non-operating expense | 4,003 | 4,011 | (8) | 37,874 |
| Recurring profit | 7,213 | 4,693 | 2,520 | 68,244 |
| Extraordinary profit | 1,934 | 129 | 1,805 | 18,302 |
| Extraordinary loss | 689 | 1,150 | (461) | 6,520 |
| Income before income taxes | 8,458 | 3,671 | 4,787 | 80,026 |
| Income taxes | 3,591 | 2,207 | 1,384 | 33,978 |
| Minority interests | 329 | 138 | 191 | 3,108 |
| Net income | 4,538 | 1,327 | 3,211 | 42,940 |

Note) SDK started disclosure of its quarterly consolidated financial results beginning with the first quarter of 2004.
 Figures for the year-earlier quarter are shown for reference.

Net Sales and Operating Income by Segment

(¥ in millions, US\$ in thousands)

| Segment | | Results for the first quarter (Jan. 1 - Mar. 31) | | | |
|---------------------|------------------|----------------------------------------------------|---------|-----------|------------------|
| | | 2004(A) | 2003(B) | (A) - (B) | 2004 |
| Petrochemicals | Net sales | 56,279 | 58,981 | (2,702) | 527,994 |
| | Operating income | 3,433 | 2,892 | 541 | 32,204 |
| Chemicals | Net sales | 18,948 | 18,474 | 474 | 177,765 |
| | Operating income | 477 | 1,206 | (729) | 4,476 |
| Electronics | Net sales | 26,027 | 21,642 | 4,385 | 244,180 |
| | Operating income | 3,740 | 1,568 | 2,172 | 35,091 |
| Inorganic Materials | Net sales | 12,681 | 12,836 | (155) | 118,969 |
| | Operating income | 1,163 | 344 | 819 | 10,916 |
| Aluminum | Net sales | 54,422 | 58,415 | (3,993) | 510,570 |
| | Operating income | 3,028 | 2,518 | 510 | 28,408 |
| HQ costs and other | Net sales | 0 | 0 | 0 | 0 |
| | Operating income | (1,704) | (1,167) | (537) | (15,990) |
| Total | Net sales | 168,357 | 170,349 | (1,992) | 1,579,478 |
| | Operating income | 10,137 | 7,361 | 2,776 | 95,105 |

Note) SDK started disclosure of its quarterly consolidated financial results beginning with the first quarter of 2004. Figures for the year-earlier quarter are shown for reference.