

## Consolidated Financial Statements

For the first quarter ended March 31, 2005

### Consolidated Financial Results

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

	Results for the first quarter ( Jan. 1 – Mar. 31 )			
	2005	2004	Increase	2005
	¥	¥	%	\$
Net sales	<b>190,245</b>	168,357	13.0	<b>1,771,537</b>
Operating income	<b>12,492</b>	10,137	23.2	<b>116,322</b>
Ordinary income	<b>10,366</b>	7,213	43.7	<b>96,527</b>
Net income	<b>13,130</b>	4,538	189.3	<b>122,265</b>
Net income per share: Basic	<b>11.49</b>	3.99	–	<b>0.107</b>
Net income per share: Diluted	<b>10.60</b>	3.72	–	<b>0.099</b>

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

	Mar. 31, 2005	Mar. 31, 2004	Mar. 31, 2005
	¥	¥	\$
Total assets	<b>939,670</b>	956,096	<b>8,750,071</b>
Stockholders' equity	<b>189,844</b>	172,244	<b>1,767,800</b>
Stockholders' equity per share	<b>166.17</b>	151.37	<b>1.55</b>
	%	%	%
Stockholders' equity ratio	<b>20.2</b>	18.0	<b>20.2</b>

#### Notes

- 1) Simple calculation methods are adopted with regard to several items, including income taxes.
- 2) Change in accounting policies : not applicable
- 3) Two companies have been removed from consolidation.
- 4) One company has been excluded from the application of the equity method.
- 5) The figures in the Consolidated Financial Statements are unaudited.
- 6) The U.S. dollar is valued at ¥107.39 throughout this statement for convenience only.

As to the forecast of performance for the first half of 2005, please refer to the news release issued separately on May 12th.

## Business Results and Financial 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 2005 (January 1 - March 31), the Company recorded a 23.2% increase in operating income over the first quarter of 2004, to ¥12,492 million, on net sales up 13.0%, to ¥190,245 million. Ordinary income increased 43.7%, to ¥10,366 million. Net income of the quarter jumped 189.3%, to ¥13,130 million, reflecting extraordinary profit of ¥3,785 million, which was due mainly to the sale of shares in SDS Biotech K.K. A breakdown of net sales and operating income by segment in the first quarter is as follows:

In the Petrochemicals segment, operating income increased 53.0%, to ¥5,254 million, on sales up 18.5%, to ¥66,692 million. Sales of olefins and organic chemicals were up due to higher selling prices, reflecting a tight supply-demand situation and a rise in the raw material costs. Plant utilization remained at high levels due to continued brisk demand. Sales of plastics by Showa Highpolymer Co., Ltd. increased slightly due to a rise in the selling prices, reflecting increases in the raw material costs.

In the Chemicals segment, sales increased 3.4%, to ¥19,595 million. Operating income was up 178.4%, to ¥1,328 million, due partly to the fact that, whereas there was a long scheduled shutdown of the ammonia plant in the first quarter of 2004, there was no such shutdowns in the first quarter of 2005. Sales of acrylonitrile and ammonia were up. However, overall sales of gases & chemicals were maintained at the year-earlier level due to the transfer in July 2004 of the sales of commodity industrial gases (oxygen, nitrogen, etc.) to TG Showa K.K., a joint venture with the Tokyo Gas Group, to which the equity method was applied. Sales of specialty chemicals increased slightly as an increase in the shipment volumes of *Shoprene* polychloroprene synthetic rubber more than offset the effect of sluggish demand for amino acids. Sales of agrochemicals by SDS Biotech K.K. increased slightly.

In the Electronics segment, sales increased 14.4%, to ¥29,782 million, while operating income decreased 5.5%, to ¥3,534 million. Sales of hard disk (HD) media increased, reflecting continued brisk demand and the consolidation of Showa Denko HD Trace Corporation since July 2004. Meanwhile, the shipment volumes of compound semiconductors fell substantially due to inventory adjustments by the electronic parts industry, and sales of specialty gases for semiconductor processing also fell. Sales of rare earth magnet alloys were up due to a rise in the shipment volumes.

In the Inorganic Materials segment, sales increased 13.4%, to ¥14,386 million and operating income climbed 68.4%, to ¥1,959 million. The selling prices of alumina

increased, and those of graphite electrodes rose slightly both in Japan and the United States.

In the Aluminum segment, sales rose 9.9%, to ¥59,790 million, but operating income fell 33.7%, to ¥2,007 million. Sales of aluminum ingot were up, reflecting increases in shipment volumes and selling prices. Sales of *Shotic* forgings and aluminum cans rose due to increases in shipment volumes. Sales of rolled products and extrusions/specialty products increased slightly. Shipment volumes of automotive heat exchangers remained at low levels.

2. Financial conditions for the January 1 - March 31, 2005 period (as compared with the conditions at December 31, 2004)

Total assets at the end of the quarter amounted to ¥939,670 million, a decrease of ¥4,237 million from the level at December 31, 2004. Interest-bearing debt decreased ¥11,321 million, to ¥491,111 million, as a result of our continuous efforts to reduce debt. Stockholders' equity at the end of the quarter increased ¥12,143 million, to ¥189,844 million, due mainly to an increase in retained earnings and payment of dividends.

3. Major steps taken since the beginning of 2005

[Chemicals]

- Transfer of shares in the agrochemical subsidiary through MBO

In March, SDK sold its shares in SDS Biotech, a consolidated subsidiary in the agrochemical business, to the management of SDS Biotech and Mizuho Capital Partners Co., Ltd. through a management buyout scheme.

[Electronics]

- Expansion of HD media production capacity

In April, SDK announced expansion of its HD media production capacity by 3.05 million disks a month, to 13.75 million disks a month, to meet a growing demand for small-diameter HD media for use in mobile music players. The expansion will be completed by March 2006 through construction of new lines and debottlenecking of existing lines. Capital investment for this project will amount to approximately ¥12 billion.

[Inorganic Materials]

- Dissolution of a joint venture for low-carbon ferrochrome business

In April, SDK announced sale of its shares in Middelburg Technochrome (Pty) Ltd. to Samancor Limited of South Africa. Middelburg Technochrome was a joint venture with Samancor and Marubeni Corporation for the production of low-carbon ferrochrome. With the sale, SDK is completing the restructuring of its metallic materials business.

- Development of molded carbon/resin separator for fuel cells

In April, SDK announced the development of a high-performance molded carbon/resin separator for polymer electrolyte fuel cell to be used as a power source for homes, cars and mobile devices. In addition to basic performances

comparable to those of existing products, the newly developed separator has further advantages of higher cracking resistance and lower cost. The new product is an example of the interconnection of SDK's inorganic chemical technology (artificial graphite with electrical conductivity 10 times that of conventional one) and organic chemical technology (resin selection and processing).

[Aluminum]

- Transfer of shares in Nippon Amazon Aluminium

In January, SDK transferred all of its shares in Nippon Amazon Aluminium Co., Ltd.--an investor in the aluminum smelting operations in Brazil--to Mitsui & Co., Ltd.

- Decision to dissolve Showa Alumi Viewtech

In February, SDK decided to dissolve its aluminum extrusions manufacturing subsidiary, Showa Alumi Viewtech Co., Ltd., by the end of 2005. SDK already provided allowance for the dissolution in its settlement of accounts for 2004 both on consolidated and non-consolidated basis.

## Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Mar. 31 2005 (A)	Dec. 31 2004 (B)	(A)-(B)	Mar. 31 2005
Assets	¥			\$
Current assets				
Cash and deposit	32,395	29,627	2,768	301,661
Notes and accounts receivable	137,378	150,275	(12,897)	1,279,247
Inventories	70,655	68,736	1,918	657,926
Other current assets	42,216	39,268	2,949	393,111
Total current assets	282,645	287,906	(5,262)	2,631,945
Fixed assets				
Tangible fixed assets	518,055	518,371	(316)	4,824,052
Intangible fixed assets	25,408	25,956	(548)	236,591
Investments and other assets	113,563	111,675	1,888	1,057,483
Total fixed assets	657,026	656,001	1,024	6,118,126
<b>Total assets</b>	<b>939,670</b>	<b>943,908</b>	<b>(4,237)</b>	<b>8,750,071</b>
Liabilities				
Current liabilities				
Notes and accounts payable	113,297	120,456	(7,158)	1,055,009
Short-term loans payable	99,108	100,146	(1,038)	922,878
Commercial Paper	333	325	8	3,103
Current portion of long-term loans payable	90,768	89,314	1,454	845,217
Current portion of corporate bonds	42,384	44,384	(2,000)	394,674
Other current liabilities	46,805	47,485	(680)	435,838
Total current liabilities	392,695	402,109	(9,414)	3,656,718
Long-term liabilities				
Corporate bonds	53,430	50,430	3,000	497,532
Long-term loans payable	205,088	217,834	(12,746)	1,909,752
Accrued pension and severance costs	8,903	8,879	23	82,899
Other long-term liabilities	43,889	41,807	2,082	408,690
Total long-term liabilities	311,310	318,951	(7,641)	2,898,874
<b>Total liabilities</b>	<b>704,005</b>	<b>721,060</b>	<b>(17,055)</b>	<b>6,555,592</b>
Minority interests	45,821	45,147	674	426,679
Stockholders' equity				
Common stock	110,451	110,451	—	1,028,507
Capital stock	11,089	11,089	0	103,262
Retained earnings	28,007	18,316	9,691	260,796
Revaluation reserve (Land revaluation)	33,280	33,280	—	309,895
Securities valuation surplus	9,199	7,842	1,358	85,664
Foreign currency translation adjustments	(2,109)	(3,213)	1,104	(19,636)
Treasury stock	(74)	(64)	(10)	(689)
Total Stockholders' equity	189,844	177,701	12,143	1,767,800
<b>Total liabilities, minority interests and stockholders' equity</b>	<b>939,670</b>	<b>943,908</b>	<b>(4,237)</b>	<b>8,750,071</b>

## Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first quarter ( Jan.1–Mar.31 )			
	2005(A)	2004(B)	(A)–(B)	2005
	¥			\$
Net sales	190,245	168,357	21,889	1,771,537
Cost of sales	156,484	137,823	18,661	1,457,155
Selling, general and administrative expenses	21,270	20,397	873	198,061
Operating income	12,492	10,137	2,355	116,322
Non–operating income	1,632	1,078	554	15,198
Non–operating expense	3,758	4,003	(245)	34,993
Ordinary income	10,366	7,213	3,153	96,527
Extraordinary profit	3,785	1,934	1,851	35,245
Extraordinary loss	399	689	(290)	3,714
Income before income taxes	13,752	8,458	5,294	128,058
Income taxes	89	3,591	(3,502)	830
Minority interests	533	329	204	4,963
Net income	13,130	4,538	8,592	122,265

## Net Sales and Operating Income by Segment

(¥ in millions, US\$ in thousands)

Segment		Results for the first quarter ( Jan. 1 - Mar. 31 )			
		2005(A)	2004(B)	(A) - (B)	2005
Petrochemicals	Net sales	66,692	56,279	10,413	621,027
	Operating income	5,254	3,433	1,821	48,922
Chemicals	Net sales	19,595	18,948	647	182,468
	Operating income	1,328	477	851	12,369
Electronics	Net sales	29,782	26,027	3,755	277,330
	Operating income	3,534	3,740	(207)	32,907
Inorganic Materials	Net sales	14,386	12,681	1,705	133,958
	Operating income	1,959	1,163	796	18,242
Aluminum	Net sales	59,790	54,422	5,368	556,753
	Operating income	2,007	3,028	(1,021)	18,691
HQ costs and other	Net sales	0	0	0	0
	Operating income	(1,590)	(1,704)	114	(14,809)
Total	Net sales	190,245	168,357	21,889	1,771,537
	Operating income	12,492	10,137	2,355	116,322