SHOWA DENKO K.K.

Consolidated Financial Statements

For the 1st half year (January 1 to June 30, 2005)

Ⅰ. Consolidated Financial Results

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

	Results for the 1st half year			
	2005	2004	Increase (Decrease)	2005
	¥	¥	%	$
Net sales	390,950	348,284	12.3	3,534,174
Operating income	27,115	22,226	22.0	245,117
Ordinary income	23,446	16,221	44.5	211,949
Net income	20,866	6,382	227.0	188,629
Net income per share: Basic	18.26	5.61	−	0.165
Net income per share: Diluted	16.87	5.26	−	0.153

Notes

Changes in accounting policies : applicable

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

	Jun. 30, 2005	Jun. 30, 2004	Jun. 30, 2005
	¥	¥	$
Total assets	931,614	937,824	8,421,755
Stockholders' equity	198,662	174,936	1,795,893
Stockholders' equity per share	173.88	153.73	1.57
	%	%	%
Stockholders' equity ratio	21.3	18.7	21.3

(3) Cash flows: (¥ in millions, US$ in thousands)

	Results for the 1st half year		
	2005	2004	2005
	¥	¥	$
Cash flows from operating activities	36,722	18,983	331,965
Cash flows from investing activities	(13,259)	(7,638)	(119,861)
Cash flows from financing activities	(23,509)	(9,571)	(212,520)
Cash and cash equivalents at end of the year	29,485	28,964	266,543

(4) Subsidiaries and affiliates

Consolidated subsidiaries	45 companies	
Non-consolidated subsidiaries	42 companies	(The equity method was applied to 4 companies.)
Affiliates	58 companies	(The equity method was applied to 22 companies.)

1) 2 companies has been removed from consolidation.

2) The equity method has been applied to 1 additional company while 1 company have been excluded from the application.

Ⅱ. Forecast of performance for the year ending December 31, 2005

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

	2005	
	¥	$
Net sales	790,000	7,141,566
Operating income	56,000	506,238
Ordinary income	46,500	420,358
Net income	31,000	280,239
Net income per share	27.13	0.25

※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 ¥110.62 throughout this statement for convenience only.

Ⅲ. Management Policy

1. Showa Denko's basic management policy

(Vision)

We at Showa Denko K.K. and its Group companies will provide products and services that are useful and safe and exceed our customers' expectations, thereby enhancing the value of the Group, giving satisfaction to our shareholders, and contributing to the sound growth of society on a global scale.

(Code of conduct as basic management policy)

(1) We will develop and provide useful and safe technologies, products, and services to contribute to the sound growth of society.
(2) We will observe the laws of Japan and of the foreign countries in which we operate, abide by the company rules, and strive to maintain the social order.
(3) We will conduct business in Japan and abroad based on the principle of fair and free competition.
(4) We will do our best to ensure safety and to protect the global environment.
(5) We will make sure that we maintain good communications with the public and disclose accurate information on our company in a timely manner.
(6) We will respect human rights and create a cheerful and comfortable working environment.
(7) We will act as a member of the international society and contribute to the development of regions in which we operate.

2. Management indexes

The Showa Denko Group regards operating income, which shows the results of operations, and ROA (operating income/total assets ratio) as important management indexes.

3. Basic policy regarding appropriation of the Company's profits

The Company considers the payment of dividends as an important obligation to its shareholders. The Company's basic policy is to decide on dividends after consideration of the profit level for the term and the need for internal reserve for use in future business expansions.

4. Medium to long-term business strategy

Under the three-year consolidated business plan named the "Sprout Project," the Company attaches the utmost importance to the process of transforming itself into a "focused and individualized chemical company." Specifically, the Company is promoting its growth strategy by viewing things from a customer standpoint and establishing technical advantages.

The transformation will be achieved through accelerated development of individualized, competitive, high-value product lines. At the same time, the Company will further clarify its business portfolio and allocate resources in a more efficient and concentrated manner, thereby ensuring speedy realization of satisfactory results. We will further curtail costs to enhance competitiveness and improve earning power.

The Company will establish itself as a “focused and individualized chemical company” by carrying out the Sprout Project. By doing so, we will enhance our corporate value, give satisfaction to shareholders, meet customers’ expectations and contribute to the sound growth of society on a global scale. In 2005, the final year under the Sprout Project, we will make sure to complete the project and announce, by the end of this year, a new medium-term consolidated business plan for 2006 and thereafter.

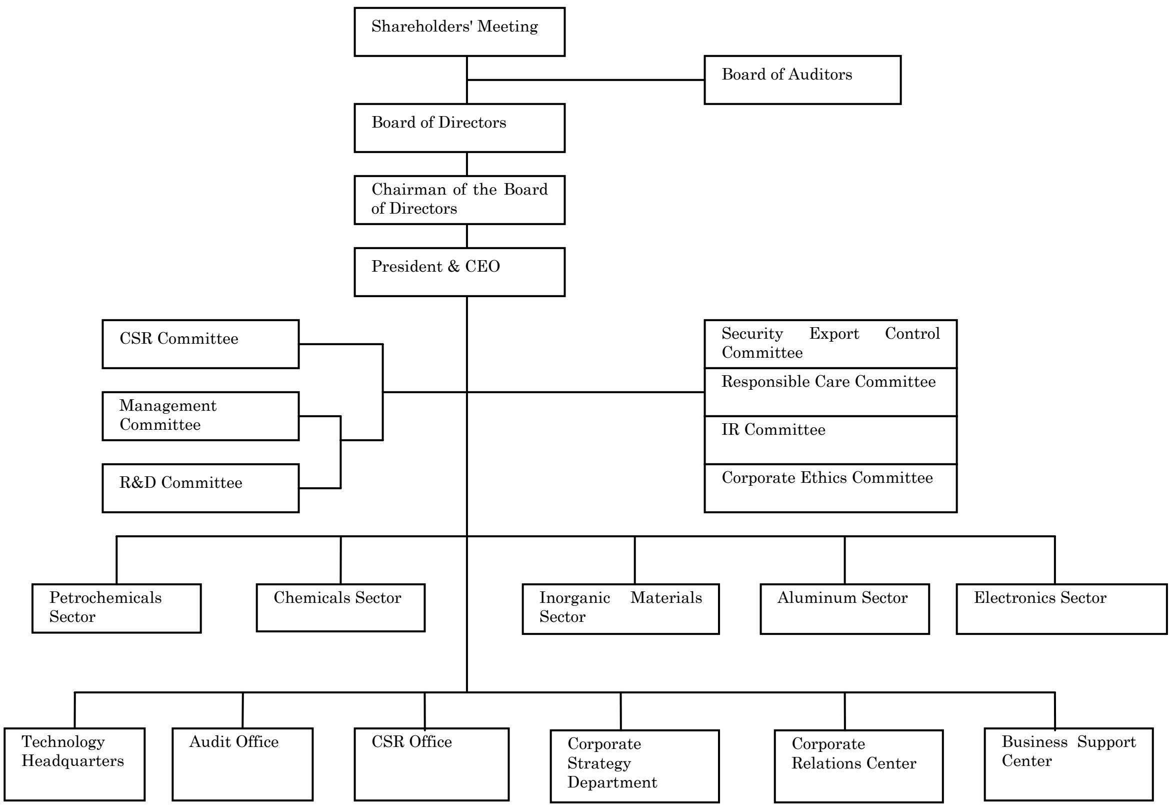
5. Basic concept regarding corporate governance and implementation of measures

(1) Basic concept regarding corporate governance

We fully recognize the importance of corporate governance and compliance, and have been taking various measures in this regard to ensure the sustainable growth and long-term value of the Company.

(2) The Company’s decision-making, execution, supervision, and other corporate-governance-related systems

The Company’s management system is as shown below:



① Board of auditors

The Company's board of auditors consists of four statutory auditors, including three outside auditors. The board operates based on Rules on Board of Auditors. The auditors attend the board of directors' meetings and other important internal meetings, offering opinions as necessary. To ensure sound management of the Company, they audit execution of operations, make proposals, and provide advice and recommendation. They are committed to strengthening consolidated auditing system for the benefit of Group companies. The auditing process is conducted according to Standards for Auditing by Statutory Auditors.

② Board of directors

The Company's board of directors consists of 12 members. It decides the Company's basic policy, and deliberates and decides on matters provided for in the Commercial Code and the Articles of Incorporation as well as important matters for execution of the Company's operations. It also supervises the execution of business by directors. The Representative Director and Chairman of the Board of Directors serves as chairman of the board meetings. The board of directors' meetings are conducted according to Rules on Board of Directors.

③ Corporate Officers

The Company introduced the corporate officers system in March 2001 to clearly separate management supervision functions from business execution functions.

④ Management, R&D and CSR committees

The Management Committee deliberates and decides on matters to be referred to the board of directors' meetings and important matters pertaining to overall management of the Company. The committee meets once a week in principle and is operated according to Rules on Management Committee. The R&D Committee deliberates and decides on important matters pertaining to research and development. The CSR Committee deliberates and decides on basic policy and comprehensive measures pertaining to the Group's corporate social responsibility (CSR) initiatives, controlling overall CSR activities.

⑤ Various other committees

The Company has Security Export Control, Responsible Care, IR and Corporate Ethics committees to handle specific matters important for execution of businesses. These committees investigate, study and deliberate on management issues under their jurisdiction.

⑥ Audit Office

The Audit Office investigates overall execution of business, checking for accuracy, propriety and efficiency. It also investigates the management policy, business plans and their execution, checking for consistency and soundness.

⑦ CSR Office

The CSR Office drafts basic policy and comprehensive measures for CSR activities. It also collects and evaluates relevant information, and clarifies goals and priorities. Furthermore, it works out specific action plans, investigating and evaluating their execution.

(3) Risk management

Relevant staff departments, under the supervision of the top management, investigate and evaluate various risk factors to prevent troubles. In the event of an emergency, the Company will set up crisis headquarters to take swift actions and minimize damage.

(4) Personal/financial relations and interests between the Company and outside directors/auditors

The Company does not have outside directors. While the Company has three outside auditors, there are no special interests between the Company and the outside auditors.

(5) Steps taken for improvement of corporate governance

① Establishment of a Corporate Ethics Committee

We have Code of Conduct and its Guidelines to promote compliance and corporate ethics. In addition, we established a Corporate Ethics Committee in 2003. At the same time, we opened new channels of communications whereby anyone can send information directly to a Company official by intranet, e-mail, or telephone. We also started observing a Corporate Ethics Month as from 2004.

In February 2005, however, it was found that Showa Aluminum Alloy K.K., one of our subsidiaries in Chiba area, had breached its pollution prevention agreement with local authorities. We immediately took measures to prevent its recurrence and strengthened our control system. From now on, we will further promote our campaign for compliance and corporate ethics to win back public trust.

② Establishment of CSR-related organizations

In July 2005, the Company established the CSR Committee and the CSR Office to promote CSR activities.

③ Promotion of Responsible Care activities

As part of corporate governance, we are promoting Responsible Care activities, which mean that we ensure the safety and health and protect the environment from harm caused by chemical substances throughout their entire life cycles, namely, the development, production, distribution, use, final consumption, and disposal. Responsible Care activities are conducted at the head office, within our five business segments, branches, an R&D Center, and major subsidiaries and affiliates, based on voluntary, specific action plans prepared in line with the company-wide basic plan.

We have been working hard to acquire certification under the ISO 14001 international standard for environmental management systems. As of July 2005, all of Showa Denko K.K.'s 12 operation sites and 16 of our subsidiaries and affiliates are certified to the standard.

④ Protection of personal information

Following the enforcement in April 2005 of the Law for Protection of Personal Information, the Company established relevant policy, rules and control systems.

6. Changes in management organizations

(1) Reorganization at Chemicals segment

In the Chemicals segment, we merged the Gases & Chemicals and Specialty Chemicals divisions into a new Chemicals Division. At the same time, we established a Chemicals Production Center to control production and take responsibility for production cost control. This is intended as a measure to increase operational efficiency and accelerate expansion of strategic growth businesses.

Ⅳ. Business Results

1. Business results

Despite inventory adjustments by the electronic parts industry, the Japanese economy underwent a gradual recovery in the first six months of 2005 owing to improved consumer spending and economic recovery in the United States and Asia.

In the chemical and nonferrous metals industries, costs of naphtha, aluminum ingot, and other raw materials remained at high levels. However, demand for chemical products increased, helped by steady exports to China and other Asian countries. In the electronic parts/materials industry, the situation remained severe due to prolonged inventory adjustments that had started in the latter half of 2004.

Under the circumstances, the Showa Denko Group proceeded with the development of the "strategic growth businesses" as defined in the Sprout Project, while continuing to restructure operations and reduce costs.

As a result, consolidated net sales in the first half of 2005 increased 12.3% from the same period of last year, to ¥390,950 million, and operating income jumped 22.0%, to ¥27,115 million. Ordinary income also rose 44.5%, to ¥23,446 million, due partly to improvement in the balance between interest expense and interest/dividend income. Net income was up 227.0%, to ¥20,866 million, due partly to ¥5,049 million of extraordinary profit, including gain on the sale of shares in SDS Biotech K.K.

2. Appropriation of profits

As to appropriation of profits for the first half of 2005, the Company has decided to forgo the payment of interim dividends.

3. Summary of results by business segment

(Petrochemicals)

Production of ethylene and propylene in the first half of 2005 increased slightly over the same period of last year due to steady demand. Sales of olefins were up due to higher selling prices, reflecting soaring raw material costs. Sales of organic chemicals were also up due to the rise in selling prices of acetic acid, vinyl acetate and ethyl acetate, reflecting higher feedstock costs.

Sales of plastics by Showa Highpolymer Co., Ltd. and sales of plastic products by Heisei Polymer Co., Ltd. both increased slightly due to an increase in selling prices, reflecting the rise in feedstock costs.

As a result, the Petrochemicals segment’s sales rose 21.6%, to ¥142,611 million, and operating income shot up 49.6%, to ¥11,408 million.

(Chemicals)

Production of liquefied ammonia increased over the same period of last year when there was a scheduled shutdown. In the gases & chemicals operations, sales of industrial gases fell as a result of the transfer in 2004 of the commodity gas business to TG Showa K.K. Sales of industrial chemicals, including acryolonitrile and ammonia, were up due to steady shipment volumes and prices. Thus, overall sales of gases & chemicals increased slightly.

In the specialty chemicals operations, sales of *Shoprene* polychloroprene synthetic rubber increased due to steady shipment volumes and prices. Shipment volumes of isophthalonitrile (an agrochemical intermediate) rose while those of feed-additive vitamin C and chelating agents fell. Thus, overall sales of specialty chemicals declined slightly.

Sales of agrochemicals fell sharply following the sale of SDS Biotech K.K. in March 2005.

As a result, the Chemicals segment's sales fell 6.0%, to ¥36,250 million, but operating income rose 55.4%, to ¥2,577 million.

(Electronics)

Shipment volumes of hard disk (HD) media increased substantially over the same period of last year following the consolidation of Showa Denko HD Trace Corporation in Taiwan in July 2004 and the expansion of the Group's HD capacities in the latter half of 2004. Meanwhile, shipment volumes of gallium phosphide (GaP) for LEDs declined substantially due to inventory adjustments by the LED industry. Combined sales of HD media and compound semiconductors were up.

In the electronic materials business, sales of semiconductor-processing specialty gases and electroceramics decreased due to inventory adjustments by the electronic parts industry. However, shipment volumes of magnetic alloys increased due to the recovery of demand for rare earth magnets. Shipment volumes of fine carbons increased as well. Thus, overall sales of electronic materials were up slightly.

As a result, the Electronics segment's sales increased 21.9%, to ¥62,667 million, and operating income rose 12.8%, to ¥7,768 million.

(Inorganic Materials)

Production of graphite electrodes increased from the same period of last year. Sales of ceramics were up due to brisk demand for alumina. The graphite electrode business of both Showa Denko K.K. and its U.S. subsidiary Showa Denko Carbon, Inc. recorded increased sales, reflecting a growing demand for steel worldwide.

As a result, the Inorganic Materials segment's sales increased 11.8%, to ¥29,843 million, and operating income jumped 50.0%, to ¥4,152 million.

(Aluminum)

Production of automotive heat exchangers in the first half of 2005 increased in North America, but decreased in Japan and Europe. Production of extrusions and rolled products fell, but production of *Shotic* forged products rose.

Sales from ingot marketing rose slightly, reflecting the trends in the international market. Sales of rolled products fell slightly as increases in the shipment volumes of high purity foils for capacitors were more than offset by decreases in the shipment volumes of general extruded sheets. In the extrusions/specialty products business, shipment volumes of extrusions decreased while those of aluminum cylinders for laser printers increased, resulting in a slight decline in overall sales. Sales of heat exchangers decreased as shipment volumes fell in Japan and Europe. Sales of *Shotic* forged products increased due to a growing demand for automotive parts applications. Sales of aluminum cans also increased due to increases in shipment volumes.

As a result, the Aluminum segment's sales increased 4.6%, to ¥119,580 million, but operating income decreased 28.0%, to ¥4,554 million.

4. Major steps taken in the first half of 2005

(Petrochemicals)

・Completion of structural reform of plastic processing businesses

The Company decided to transfer its shares in Hymold Co., Ltd., a consolidated subsidiary engaged in the plastic processing business, to the Toyo Denka Kogyo Group. The Company also took measures to increase efficiency at Heisei Polymer Co., Ltd. and Showa Denko Plastic Products Co., Ltd., both engaged in the plastic processing business. Thus, the Company completed overall restructuring in this sector in accordance with the Sprout Project.

(Chemicals)

・ Sale of an agrochemicals subsidiary through MBO

In March, the Company transferred all of its shares in SDS Biotech K.K., a consolidated subsidiary engaged in the agrochemicals business, to the board members of SDS and Mizuho Capital Partners Co., Ltd. through a management buyout (MBO) scheme.

・Dissolution of a nylon specialty joint venture

In June, the Company transferred all of its shares in EC-SHOWA DENKO K.K. to the joint venture partner EMS-CHEMIE AG of Switzerland, withdrawing completely from the nylon specialty business.

(Electronics)

・Expansion of HD media production capacity

The Company has decided to increase its hard disk (HD) media production capacity by 3.05 million disks a month, to 13.75 million disks a month, by March 2006 to meet a growing demand for small diameter media for use in mobile music players. The expansion will be carried out through construction of new lines and debottlenecking of existing lines with capital investment of approximately ¥12 billion.

・Commercial production of perpendicular magnetic recording technology HD media

The Company started the world's first commercial production of perpendicular-magnetic-recording-technology-based HD media, enabling a dramatic increase in media recording density. They are 1.89-inch-diameter media for use in mobile music players, having the capacity of 40 gigabytes per disk—double the capacity of conventional longitudinal-recording-technology-based products of the same size.

・Commercial production of 0.85-inch-diameter HD media

The Company started commercial production of the world's smallest 0.85-inch-diameter HD media. Demand for very-small-diameter HD media, including the 0.85-inch type, is expected to grow rapidly in the near future as they will be installed in cellular phones to enable handling of music and TV programs transmitted via Internet.

・Development of new charge dissipating agent for processing of semiconductors

The Company developed a new grade of charge dissipating agent, *Espacer 300F* series, substantially enhancing the efficiency of electron-beam lithography process in the production of integrated circuits. The agent helps ensure pattern accuracy by preventing positional errors due to electrostatic charge. A further integration of ICs requires semiconductor processing at narrower line widths. *Espacer 300F* contains a proprietary conductive polymer.

(Inorganic Materials)

・Dissolution of a low-carbon ferrochrome joint venture

In March, the Company transferred all of its shares in Middelburg Technochrome (Pty) Ltd., a joint venture with Samancor Limited of South Africa and Marubeni Corporation for the production of low-carbon ferrochrome, to Samancor. With this, SDK completed restructuring of its metallic materials business.

・Development of separators for high-performance fuel cell

The Company developed 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 properties comparable to those of conventional separators, the new product offers such advantages as higher crack resistance and lower cost. The product is a fruit of interconnections of inorganic and organic chemical technologies, namely, the development of artificial graphite with electrical conductivity 10 times that of conventional one; and the selection of an appropriate binder resin and its processing.

(Aluminum, etc.)

・Sale of shares in Nippon Amazon Aluminium

In January, the Company sold all of its shares in Nippon Amazon Aluminuim Co., Ltd. (NAAC) to Mitsui & Co., Ltd. NAAC is a company established by Japanese investors in the aluminum smelting business in Brazil.

・Dissolution of Showa Alumi Viewtech

In February, the Company decided to dissolve, by the end of 2005, its aluminum extrusion consolidated subsidiary Showa Viewtech Co., Ltd.

・Consolidation of aluminum sheet sales

To strengthen competitiveness in the rolled products business, the Company will consolidate the commodity aluminum sheet sales in Eastern Japan at its consolidated subsidiary Showa Denko Aluminum Trading K.K. (SDAT) in October 2005. Commodity aluminum sheet sales in Western Japan has already been consolidated at SDAT since January 2004. SDAT will also take over aluminum sheet processing operation from Showa Denko Sakai Aluminum K.K., optimizing the production and increasing efficiency.

・Cooperation in water treatment business

Our consolidated subsidiary Showa Engineering Co., Ltd. (SEC) formed an alliance with Veolia Water S.A. of France in the environmental protection business, centering on waste water treatment. SEC transferred 49% of shares in Showa Environment System Co., Ltd., its subsidiary engaged in waste water treatment operation, to the Veolia Water Group to jointly conduct a water treatment business.

5. Projections for 2005 (full-year)

(1) Overall projections

As to the Japanese economy in the second half of 2005, production and exports are expected to remain steady owing to continued growth of overseas economies, centering on the United States and China. However, due to the influence of inventory adjustments by the electronic parts industry, and expected continuation of high prices of oil and other raw materials, the business environment is forecast to remain severe.

Under the circumstances, the Company will promote the growth strategy as defined in the Sprout Project and pursue thorough cost reductions, thereby striving to improve competitiveness and earning power. The Showa Denko Group’s performance forecast for 2005 (full-year) is as follows:

(Unit: millions of yen)

	Forecast for the term ending Dec. 31, ‘05	Results for the term ended Dec. 31, ‘04	Differ-ence	Rate of change
Net sales	790,000	740,706	49,294	6.7%
Operating income	56,000	52,071	3,929	7.5%
Ordinary income	46,500	38,912	7,588	19.5%
Net income	31,000	7,596	23,404	308.1%

Net sales, operating income and ordinary income will increase over the previous year to ¥790,000 million, ¥56,000 million, and ¥46,500 million, respectively. Net income will increase about ¥23,400 million, to ¥31,000 million, as we expect a decline in extraordinary loss. The above forecast is based on the assumption that the exchange rate of the yen will be ¥105 to the U.S. dollar and the naphtha price will be ¥35,000/KL.

(2) Net sales by business segment

(Unit: millions of yen)

	Forecast for the term ending Dec. 31, '05	Results for the term ended Dec. 31, '04	Differ-ence	Rate of change
Petrochemicals	287,000	254,351	32,649	12.8%
Chemicals	73,000	80,188	- 7,188	- 9.0%
Electronics	130,000	112,455	17,545	15.6%
Inorganic Materials	60,000	55,295	4,705	8.5%
Aluminum	240,000	238,419	1,581	0.7%
Total	790,000	740,706	49,294	6.7%

6. Operation risks and other risks

Showa Denko K.K. and its Group companies are taking steps to minimize risks to the Group's operations. While the SDK Group is implementing the three-year (2003-2005) consolidated business plan, the Sprout Project, we consider we face the risks as explained below that could adversely affect our future performances and financial conditions. The following cover important risk factors considered being present as of this August 9, 2005. The list is not inclusive.

(1) Substantial fluctuations in the business environment

The SDK Group is manufacturing and selling a wide variety of products, such as petrochemicals, chemicals, electronics, inorganic materials and aluminum. The Group's performances and financial conditions can be adversely affected by changes in demand for those products, price competition, and changes in market prices of naphtha, crude oil and aluminum ingot.

・Overseas operations

The Group is producing and selling in Asia, North America and Europe. Operations overseas involve such special risks as unexpected changes in laws and regulations, deterioration in political/economic situations, and social disorder due to war and terrorism. Such risks can become real and affect our overseas operations, resulting in adverse impacts on the Group's performances and financial conditions.

(2) Unexpected fluctuations in financial conditions and cash flows

・Substantial fluctuations in exchange rates

The Group imports part of its feedstock requirements from overseas and exports part of its domestic production to foreign countries. The Group makes its best efforts to minimize relevant exchange rate fluctuation risks mainly through exchange contracts. However, substantial fluctuations in exchange rates can affect the Group's foreign-currency-based transactions and assets/liabilities, and affect the Group's performances and financial conditions.

Exchange rate fluctuations can affect the Group's overseas subsidiaries in the like manner. Furthermore, the exchange rate fluctuations can affect the Group's performances and financial conditions through conversion of overseas subsidiaries' financial statements into the Japanese yen.

・Trends in financial markets

The Group has been making continuous efforts to reduce its interest-bearing debt, resulting in a substantial decline in the ratio of interest-bearing debt to shareholders' equity. However, the trends in the financial markets can change the fund-raising and interest-rate situations, and affect the Group's performances and financial conditions.

・Employees' severance indemnities

The Group's employees' severance indemnities and expenses are calculated based on various basic rates and yield of pension assets used in pension calculations. Fluctuations in the current price of pension assets, trends in interest rates, and changes in the retirement benefit/pension systems can affect the Group's performances and financial conditions.

・Securities

As the Group owns securities with current prices, fluctuations in stock prices can result in valuation losses, and affect the Group's performances and financial conditions.

・Accounting for impairment of fixed assets

The Group adopted the accounting standards regarding impairment of fixed assets in 2004. The Group may incur additional losses from impairment of fixed assets as a result of future decline in the current prices of land and other fixed assets or a substantial change in the business environment.

・Deferred tax assets

The Group's financial statements include deferred tax assets in relation to temporary differences (differences between the assets/liabilities on the consolidated financial statements and the assets/liabilities in calculation of taxable income). The calculation of deferred tax assets is based on various projections for future taxable income. Thus, when actual results differ from the projections and when it becomes necessary to revise deferred tax assets, it can affect the Group's performances and financial conditions.

(3) Specific regulations

The Group's businesses are subject to various restrictions as stipulated by laws and regulations. The restrictions relate to industrial safety (such as Law for Prevention of Disasters at Petroleum Complex, etc.; Fire Service Law; High Pressure Gas Safety Law) and the environment and chemical substances (such as Basic Environment Law; Air Pollution Control Law; Law concerning the Examination and Regulation of Manufacture, etc. of Chemical Substances). The Group observes these laws and regulations as it conducts respective businesses. In the event the Group fails to observe any of the laws and regulations, the Group's activities can be restricted. In case more strict regulations are introduced, resulting in higher costs, that can affect the Group's performances and financial conditions.

(4) Important lawsuits

While the Group makes best efforts to observe pertinent laws and regulations, the Group may be sued as it conducts its wide-ranging businesses.

(5) Others

・R&D

In line with its policy of securing market orientation and establishing technical advantages, the Group is engaged in continuous R&D to improve its core inorganic/aluminum and organic chemical technologies and achieve synergies in an effort to create individualized products and high-value businesses. However, in case the actual results materially differ from original plans, the Group's performances and financial conditions can be affected.

・Intellectual property

The Group is making best efforts to protect its accumulated patent rights and know-how in recognition of their ability to make the Group's businesses more competitive. However, in the event of failure to duly protect any of the patent rights or know-how, infringement by a third party, or if the Group is considered to have infringed a third party's patent right, that can cause trouble with the Group's operations, and affect the Group's performances and financial conditions.

・Product quality and product liability

The Group has established its internal rules on quality assurance and quality control, as well as organizations for managing and promoting quality assurance. Furthermore, the Group has obtained certification under ISO 9001 standards to ensure strict quality control. However, in the event of a serious quality defect or being sued for product liability, the Group's reputation can be damaged and the Group may be forced to pay compensation to customers. This can affect the Group's performances and financial conditions.

・Accidents and disasters

The Group is committed to securing steady and safe operations. The Group conducts regular inspections of all manufacturing facilities in an effort to minimize any risk factors pertaining to suspension of operations or accidents due to troubles with manufacturing facilities. In the event of injury or damage to property due to an accident or a natural disaster, the Group's reputation can be damaged and the Group may incur a lot of costs and lose business opportunities due to suspension of production. This can affect the Group's performances and financial conditions.

・Impact on environment

The Group is committed to the principles of Responsible Care, which means that we are working to ensure the safety and health of everyone and to protect the environment from harm caused by chemical substances throughout their life cycles, namely, development, production, distribution, use, and disposal. In the event of causing impacts on the environment, the Group's reputation can be damaged. The Group may incur a lot of costs, including compensation, lose business opportunities due to suspension of production and pay compensation to customers. This can affect the Group's performances and financial conditions.

Ⅴ. Financial Conditions

1. Assets, liabilities and equity at June 30, 2005

As we continued our efforts to reduce total assets, including the sale of SDS Biotech in the first half of 2005, the figure decreased ¥12,293 million, to ¥931,614 million. Interest-bearing debt further decreased ¥27,135 million, to ¥475,297 million. As a result, total liabilities fell ¥35,296 million, to ¥685,764 million.

Stockholders' equity increased ¥ 20,961 million, to ¥198,662 million, due to increases in retained earnings and security valuation surplus.

2. Cash flows in first half of 2005

Net cash provided by operating activities increased ¥17,739 million from the same period of last year, to ¥36,722 million, due to a substantial rise in operating income. Net cash used in investing activities increased ¥5,621 million, to ¥13,259 million, due to higher capital expenditures than in the same period of last year.

Thus, free cash flow increased ¥12,118 million, to ¥23,463 million. Net cash used in financing activities increased ¥13,938 million, to ¥23,509 million, due to reductions in interest-bearing debt. As a result, cash and cash equivalents at June 30, 2005 increased ¥333 million, to ¥29,485 million, after changes in accounting period of some of the consolidated subsidiaries.

3. Projections for 2005 (full-year)

For the full-year of 2005, cash flows from operating activities will increase due mainly to the rise in operating income. Net cash used in investing activities will also increase due to the rise in capital investments. Thus, free cash flow for the year is expected to decrease around ¥6,100 million, to ¥41,000 million. Interest-bearing debt at the end of the year will be ¥452,000 million, down ¥50,400 million from the end of last year.

4. Trends in cash flow indexes

	2002	1H 2003	2003	1H 2004	2004	1H 2005
Equity ratio	15.2%	16.2%	17.7%	18.7%	18.8%	21.3%
Equity ratio on a market value basis	17.4%	24.7%	29.2%	33.1%	32.0%	32.3%
Debt maturity (years)	15.5	--	8.3	--	8.4	--
Interest coverage ratio	3.3	4.7	6.0	3.9	5.9	8.2

[Notes]

Equity ratio: Shareholders' equity / Total assets

Equity ratio on a market value basis: Total market value of listed shares / Total assets

Debt maturity (years): Interest-bearing debt / Cash flows from operating activities

Interest coverage ratio: Cash flows from operating activities / Interest payment

- Each index is calculated by relevant formulas with financial figures quoted from the consolidated balance sheet.
- Market capitalization is calculated by multiplying the closing share price at the year-end by the number of shares issued, after deduction of own shares at year-end.
- As to the cash flows, the amount of "cash flows from operating activities" in the consolidated cash flow statement is used. "Interest-bearing debt" refers to all debts with interest out of all liabilities listed in the consolidated balance sheet.
- As to the interest payment, the amount of "interest expense" in the consolidated cash flow statement is used.

Consolidated Balance Sheets

(¥ in millions, US$ in thousands)

	Jun. 30, 2005 (A)	Dec. 31, 2004 (B)	(A)-(B)	Jun. 30, 2004	Jun. 30, 2005
Assets	¥	¥		¥	$
Current assets					
Cash and deposit	29,597	29,627	(30)	29,147	267,552
Notes and accounts receivable	141,568	150,275	(8,708)	134,094	1,279,766
Inventories	70,856	68,736	2,119	64,357	640,533
Deferred tax assets	6,753	7,665	(912)	6,845	61,043
Other current assets	29,011	34,100	(5,089)	35,214	262,260
Allowance for doubtful receivables	(1,163)	(2,497)	1,334	(1,185)	(10,513)
Total current assets	276,621	287,906	(11,285)	268,473	2,500,641
Fixed assets					
Tangible fixed assets	517,737	518,371	(634)	529,550	4,680,320
Buildings and structures	96,698	99,008	(2,310)	98,233	874,142
Machinery and transports	124,041	123,281	759	127,737	1,121,322
Equipments	8,986	9,159	(173)	9,173	81,235
Land	272,942	276,438	(3,495)	285,257	2,467,384
Construction in process	15,070	10,485	4,586	9,151	136,237
Intangible fixed assets	25,319	25,956	(637)	25,957	228,884
Goodwill	14,102	14,677	(574)	14,526	127,483
Other intangible fixed assets	11,217	11,279	(62)	11,431	101,401
Investments and other assets	111,937	111,675	263	113,841	1,011,909
Investment securities	92,418	90,094	2,324	91,529	835,456
Deferred tax assets	6,397	7,631	(1,234)	10,276	57,832
Other investments	15,776	16,751	(975)	14,586	142,611
Allowance for doubtful accounts	(2,654)	(2,802)	148	(2,549)	(23,989)
Total fixed assets	654,994	656,001	(1,008)	669,348	5,921,113
Deferred assets	—	—	—	3	—
Total assets	931,614	943,908	(12,293)	937,824	8,421,755
Liabilities					
Current liabilities					
Notes and accounts payable	120,456	120,456	0	108,112	1,088,917
Short-term loans payable	100,821	100,146	675	102,711	911,422
Commercial paper	522	325	197	—	4,721
Current portion of long-term loans payable	97,344	89,314	8,030	76,219	879,982
Current portion of bonds	10,000	15,500	(5,500)	5,500	90,400
Current portion of convertible bonds	930	28,884	(27,954)	28,884	8,407
Reserve for periodic repairs	1,676	106	1,570	15	15,154
Reserve for bonus payment	2,003	2,034	(31)	2,103	18,111
Reserve for restructuring expenses	2,416	5,569	(3,153)	4,765	21,838
Other current liabilities	31,895	39,776	(7,882)	31,354	288,326
Total current liabilities	368,064	402,109	(34,046)	359,663	3,327,278
Long-term liabilities					
Bonds	29,500	26,500	3,000	36,500	266,679
Convertible bonds	—	930	(930)	930	—
Bonds with subscription warrant	23,000	23,000	—	23,000	207,919
Long-term loans payable	213,180	217,834	(4,654)	249,108	1,927,137
Deferred tax liabilities	6,723	6,224	499	5,421	60,775
Deferred tax liabilities due to land revaluation	22,864	22,864	—	24,052	206,687
Accrued pension and severance costs	9,762	8,879	883	8,470	88,248
Reserve for directors' retirement allowance	516	1,332	(816)	847	4,665
Reserve for periodic repairs	45	924	(879)	458	411
Other long-term liabilities	12,111	10,463	1,647	13,591	109,480
Total long-term liabilities	317,701	318,951	(1,250)	362,376	2,872,001
Total liabilities	685,764	721,060	(35,296)	722,039	6,199,279
Minority interests	47,189	45,147	2,042	40,849	426,583
Stockholders' equity					
Common stock	110,451	110,451	—	110,451	998,476
Capital surplus	11,090	11,089	0	8,875	100,251
Retained earnings	35,775	18,316	17,459	15,993	323,400
Revaluation reserve (Land revaluation)	33,280	33,280	—	35,011	300,846
Securities valuation surplus	9,218	7,842	1,377	7,804	83,331
Foreign currency translation adjustments	(1,076)	(3,213)	2,137	(3,148)	(9,727)
Treasury stock	(76)	(64)	(12)	(51)	(685)
Total stockholders' equity	198,662	177,701	20,961	174,936	1,795,893
Total liabilities, minority interests and stockholders' equity	931,614	943,908	(12,293)	937,824	8,421,755

Consolidated Statements of Income

(¥ in millions, US$ in thousands)

	Results for the half year (Jan. 1 – Jun. 30)			
	2005(A)	2004(B)	(A)-(B)	2005
	¥	¥		$
Net sales	390,950	348,284	42,666	3,534,174
Cost of sales	322,164	284,679	37,485	2,912,346
Selling, general and administrative expense	41,672	41,379	293	376,711
Operating income	27,115	22,226	4,889	245,117
Non-operating income	4,052	2,310	1,742	36,630
Interest and dividend income	1,080	743	337	9,764
Equity in earnings of non-consolidated subsidiaries and affiliates	1,622	664	958	14,662
Miscellaneous incomes	1,350	903	447	12,205
Non-operating expense	7,721	8,315	(594)	69,798
Interest paid	4,416	4,892	(476)	39,921
Miscellaneous expenses	3,305	3,423	(118)	29,878
Ordinary income	23,446	16,221	7,224	211,949
Extraordinary profit	5,049	2,190	2,859	45,641
Gain on fixed assets sold	17	11	6	155
Gain on investment securities sold	3,956	1,918	2,038	35,766
Reversal of allowance for doubtful receivables	853	71	782	7,709
Other extraordinary profits	222	190	32	2,011
Extraordinary loss	2,544	6,219	(3,675)	22,999
Loss on fixed assets sold or retired	899	2,302	(1,404)	8,123
Special severance pay	148	783	(634)	1,340
Reserve for restructuring expenses	653	1,039	(386)	5,903
Allowance for doubtful receivables	23	—	23	208
Other extraordinary losses	821	2,095	(1,274)	7,425
Income before income taxes	25,950	12,192	13,758	234,590
Income taxes (current)	2,560	1,976	585	23,146
Income taxes (deferred)	1,461	3,512	(2,051)	13,206
Minority interests	1,063	323	740	9,608
Net income	20,866	6,382	14,485	188,629

Consolidated Statements of Surplus

(¥ in millions, US$ in thousands)

	Results for the half year (Jan. 1 - Jun. 30)		
	2005	2004	2005
Capital surplus	¥	¥	$
Balance at January 1	11,089	8,175	100,246
Net increase	0	700	4
Increase resulting from merger with subsidiary	—	700	—
Gain on treasury stock sold	0	0	4
Balance at June 30	11,090	8,875	100,251
Retained earnings			
Balance at January 1	18,316	13,271	165,572
Net increase	20,898	6,387	188,915
Net income for the year	20,866	6,382	188,629
Increase due to changes in consolidated subsidiaries	—	5	—
Increase due to changes of settling term by subsidiaries	32	—	285
Net decrease	3,439	3,665	31,086
Cash dividends	3,428	2,276	30,988
Decrease due to changes in consolidated subsidiaries	11	1,210	98
Reversal of revaluation reserve	—	179	—
Balance at June 30	35,775	15,993	323,400

Consolidated Statements of Cash Flows

(¥ in millions, US$ in thousands)

	Results for the 1st half year (Jan. 1 - Jun. 30)		
	2005	2004	2005
	¥	¥	$
Cash flows from operating activities			
Income before income taxes	25,950	12,192	234,590
Adjustments for:			
Depreciation and amortization	16,852	16,158	152,344
Amortization of excess of cost over equity in net assets acquired	707	650	6,388
Increase (decrease) in reserve for business restructuring expenses	(3,066)	551	(27,719)
Interest and dividend income	(1,080)	(743)	(9,764)
Interest expense	4,416	4,892	39,921
Equity in earnings of the non-consolidated subsidiaries and affiliates	(1,622)	(664)	(14,662)
Loss on sale and write-down of investment securities, net	(3,916)	(1,902)	(35,399)
Loss on the disposal of property, plant and equipment	1,166	1,696	10,538
Loss on sale of property, plant and equipment	(8)	889	(70)
(Increase) decrease in trade receivables	6,345	2,550	57,360
(Increase) decrease in inventories	(4,115)	(3,323)	(37,199)
Increase (decrease) in trade payables	(332)	(4,677)	(3,002)
Others	1,452	(2,508)	13,126
Subtotal	42,749	25,762	386,451
Interest and dividend received	1,425	689	12,886
Interest paid	(4,471)	(4,880)	(40,414)
Income taxes paid	(2,982)	(2,588)	(26,953)
Net cash provided by operating activities	36,722	18,983	331,970
Cash flows from investing activities			
Proceeds from sales of marketable securities	2	3	21
Payments for purchases of property, plant and equipment	(20,336)	(14,688)	(183,834)
Proceeds from sales of property, plant and equipment	1,971	2,175	17,819
Payments for purchases of investment securities	(841)	(464)	(7,603)
Proceeds from sales of investment securities	3,411	3,897	30,837
Proceeds from sales of consolidated subsidiaries	2,562	—	23,160
Payments for purchases of minority interests	—	(160)	—
(Increase) decrease in short-term loans, net	(86)	(297)	(777)
Payments for long-term loans	(5)	(9)	(45)
Proceeds from collection of long-term loans	193	302	1,747
Others	(132)	1,604	(1,191)
Net cash used in investing activities	(13,259)	(7,638)	(119,865)
Cash flows from financing activities			
Decrease in short-term debt, net	3,907	(15,007)	35,316
Proceeds from issuance of long-term debt	51,601	28,161	466,471
Repayments of long-term debt	(43,708)	(40,683)	(395,121)
Proceeds from issuance of bonds	3,000	23,000	27,120
Redemption of bonds	(34,384)	—	(310,830)
Proceeds from issuance of stock to minority shareholders	—	81	—
Payments of dividends	(3,428)	(2,276)	(30,988)
Payments of dividends to minority shareholders	(366)	(1,843)	(3,307)
Others	(131)	(1,004)	(1,182)
Net cash used in financing activities	(23,509)	(9,571)	(212,522)
Effect of exchange rate changes on cash and cash equivalents	394	20	3,559
Increase (decrease) in cash and cash equivalents	348	1,793	3,142
Cash and cash equivalents at beginning of the year	29,153	26,485	263,541
Effect of adjustment of newly consolidated subsidiaries on cash and cash equivalents at beginning of the year	—	686	—
Effect of changes of settling term by subsidiaries	(15)	—	(135)
Cash and cash equivalents at end of the year	29,485	28,964	266,547

SEGMENT INFORMATION

The operations of the Companies for the half-years ended June 30, 2005 and 2004 are summarized by industry segment as follows:

Half-year ended June 30, 2005	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic materials	Aluminium	Elimination	Consolidated
Sales							
Outside customers	¥142,611	¥36,250	¥62,667	¥29,843	¥119,580	¥–	¥390,950
Inter-segment	1,316	235	119	99	10,485	(12,253)	–
Total	143,926	36,485	62,786	29,942	130,065	(12,253)	390,950
Operating costs	132,519	33,908	55,019	25,790	125,510	(8,909)	363,835
Operating income	¥11,408	¥2,577	¥7,768	¥4,152	¥4,554	¥(3,344)	¥27,115

Half-year ended June 30, 2004	Millions of yen						
	Petrochemicals	Chemicals	Electronics	Inorganic materials	Aluminium	Elimination	Consolidated
Sales							
Outside customers	¥117,258	¥38,550	¥51,412	¥26,698	¥114,366	¥–	¥348,284
Inter-segment	1,003	446	260	128	9,572	(11,409)	–
Total	118,262	38,996	51,672	26,826	123,938	(11,409)	348,284
Operating costs	110,636	37,337	44,789	24,058	117,613	(8,375)	326,058
Operating income	¥7,625	¥1,658	¥6,883	¥2,768	¥6,325	(¥3,034)	¥22,226

Half-year ended June 30, 2005	Thousands of U.S. dollars						
	Petrochemicals	Chemicals	Electronics	Inorganic materials	Aluminium	Elimination	Consolidated
Sales							
Outside customers	$1,289,193	$327,700	$566,509	$269,778	$1,080,994	$–	$3,534,174
Inter-segment	11,895	2,121	1,076	893	94,784	(110,769)	–
Total	1,301,088	329,822	567,584	270,671	1,175,778	(110,769)	3,534,174
Operating costs	1,197,962	306,526	497,365	233,137	1,134,605	(80,538)	3,289,057
Operating income	$103,126	$23,296	$70,219	$37,534	$41,172	$(30,230)	$245,117

The operations of the Companies for the half-year ended June 30,2005 and 2004 are summarized by geographic area as follows:

Half-year ended June 30, 2005	Millions of yen			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers	¥344,604	¥46,346	¥–	¥390,950
Inter-segment	9,443	4,359	(13,802)	–
Total	354,047	50,705	(13,802)	390,950
Operating costs	329,186	45,069	(10,420)	363,835
Operating income	¥24,861	¥5,636	¥(3,382)	¥27,115

Half-year ended June 30, 2004	Millions of yen			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers	¥315,587	¥32,697	¥–	¥348,284
Inter-segment	8,771	2,852	(11,623)	–
Total	324,358	35,549	(11,623)	348,284
Operating costs	300,905	33,572	(8,419)	326,058
Operating income	¥ 23,453	¥ 1,978	¥(3,204)	¥ 22,226

Half-year ended June 30, 2005	Thousands of U.S. dollars			
	Domestic Companies	Overseas Companies	Elimination	Consolidated
Sales				
Outside customers	$3,115,204	$418,970	$–	$3,534,174
Inter-segment	85,364	39,402	(124,766)	–
Total	3,200,568	458,371	(124,766)	3,534,174
Operating costs	2,975,825	407,425	(94,193)	3,289,057
Operating income	$224,744	$50,946	$(30,573)	$245,117

Overseas sales, which represent sales to customers outside of Japan, of the Companies for the half-years ended June 30, 2005 and 2004 are summarized by geographic area as follows:

Half-year ended June 30, 2005	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales・・・・・・・・・・・・・・・・・・	¥81,909	¥24,992	¥106,901
Consolidated net sales・・・・・・・・・・・・			390,950
Ratio of overseas sales to consolidated net sales・・・・・・・・・・・・・	21.0%	6.4%	27.3%

Half-year ended June 30, 2004	Millions of yen		
	Asia	Others	Overseas sales
Overseas sales・・・・・・・・・・・・・・・・・・	¥63,569	¥26,412	¥89,981
Consolidated net sales・・・・・・・・・・・・			348,284
Ratio of overseas sales to consolidated net sales・・・・・・・・・・・	18.3%	7.6%	25.8%

Half-year ended June 30, 2005	Thousands of U.S. dollars		
	Asia	Others	Overseas sales
Overseas sales・・・・・・・・・・・・・・・・・・	$740,452	$225,925	$966,377

Showa Denko. K.K. and Consolidated Subsidiaries

1. BASIS OF REPORTING FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared in accordance with accounting principles and practices generally accepted in Japan and from the consolidated financial statements which had been or will be filed with the Kanto Local Finance Bureau as required by the Securities and Exchange Law of Japan.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Principles of Consolidation

The consolidated financial statements for the half-years ended June 30, 2005 and 2004 include the accounts of the Company and its 45 significant subsidiaies (collectively ''the Companies'').

For the purposes of the consolidated financial statements, all significant intercompany transactions, account balances and unrealized profits among the Companies are entirely eliminated and the portions attributable to minority interests are credited or charged to income.

Accounts of subsidiaries whose business year-ends differ by more than three months from December 31 have been included using appropriate interim financial information.

The excess of cost over equity in net assets is amortized on a straight-line basis within a period of 20 years.

(b) Investments in Non-Consolidated Subsidiaries and Affiliates

The Company applies the equity method of accounting for investments in 4 non-consolidated subsidiaries and 22 affiliates for the half-year ended June 30, 2005 and investments in 4 non-consolidated subsidiaries and 29 affiliates for the half-year ended June 30, 2004.

All underlying intercompany profits obtained from transactions among the Companies and non-consolidated subsidiaries and affiliates to which the equity method is applied are eliminated in the consolidated financial statements.

(c) Translation of Foreign Currency Accounts

All receivables and payables denominated in foreign currencies at the balance sheet date are translated into Japanese yen at the current exchange rates.

The resulting exchange gains or losses are credited or charged to income.

The monetary amounts stated in the financial statements of certain consolidated subsidies of foreign nationality are translated into Japanese yen at the half-year-end rate for assets and liabilities, at historical rates for other balance sheet accounts exclusive of net income, and at the average annual rate for revenue and expense accounts and net income.

Translation adjustments resulting from the process of translating the financial statements of foreign subsidiaries into Japanese yen are accumulated and reported as a component of stockholders' equity on the consolidated balance sheet.

(d) Cash and Cash Equivalents

Cash and cash equivalents in the consolidated statement of cash flows are composed of cash on hand, bank deposits available for withdrawal on demand and short-term investments with original maturities of three months or less and minor risk for value fluctuation.

(e) Securities

Debt securities that are intended to be held to maturity (''held-to-maturity debt securities'') are measured at amortized cost in the balance seat. Other securities with quoted market prices are stated at their market prices prevailing at the balance sheet date.

Other securities without quoted market prices are stated at cost by the moving-average method.

(f) Allowance for Doubtful Receivables

To provide for losses from bad debts, the allowance is provided according to the actual rate of non-recovery for ordinary claims and in view of the probability of recovery for specific doubtful receivables.

(g) Inventories

Finished goods are stated principally at the lower of cost or market, using the gross-average cost method. Other inventories are stated principally at cost as determined by the gross-average method.

(h) Property, Plant and Equipment

Property, plant and equipment is stated at cost, in principle. With the adoption of the fixed asset impairment accounting standard from 2004, however, aggregated amounts of impairment losses are deducted directly from respective items. Depreciation of property, plant and equipment is computed principally by the straight-line method with the exception that the declining-balance method is applied to certain factories of the Company and some of the consolidated subsidiaries.

(i) Intangible Assets

The Company and some of the consolidated subsidiaries principally apply the straight-line method to amortize intangible assets.

(j) Reserve for Restructuring Expenses

The Company and some of the consolidated subsidiaries record the reserve for restructuring expenses on an accrual basis to provide for expenses and losses resulting from their restructuring programs.

(k) Accrued Pension and Severance Costs

Accrued pension and severance costs are provided based on the estimated retirement benefit obligation and the pension assets.
The figure is based on the amount of severance benefit obligations at the balance sheet date and the estimated amount of the pension fund.
Transition amounts resulting from the initial adoption of the new accounting method for employees' retirement benefits are amortized over 15 years, except for a certain consolidated subsidiary in which the amount is amortized over 5 years.

Prior service costs are amortized on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods.

Unrecognized actuarial loss is amortized starting the year after such actuarial loss is determined on a straight-line basis over certain periods (mainly 12 years) within the average remaining service periods. However, a certain consolidated subsidiary recognized such total actuarial loss as a one-time loss when determined.

(l) Reserve for Directors' Retirement Allowance

Some of the consolidated subsidiaries provide for the retirement allowance for directors and statutory auditors in an amount determined by those companies' internal guidelines.

The Company abolished this system on March 30, 2005 and charged remainder to long-term unpaid liabilities (included in "Other long-term liabilities'').

(m) Reserve for Periodic Repairs

The Company provides a reserve for periodic repairs in an amount estimated by the maintenance schedule for production equipment.

(n) Income Taxes

Periodical allocation of corporate tax is being made, in principle, regarding taxes pertaining to all temporary differences (differences between the assets/liabilities on the consolidated financial statements and the assets/liabilities in the calculation of taxable income).

(o) Leases

Finance leases other than those that are deemed to transfer the ownership of the leased assets to the lessees are principally accounted for by the method that is applicable to ordinary operating leases.

3. CHANGES IN ACCOUNTING POLICIES

In order to ensure a sound financial structure, from the half-year ended June 30, 2005, inventories are stated at the lower of cost or market using gross-average cost method.

Due to this change, the cost of sales increased by ¥388 million from the numbers calculated under the previous policy.

4. TRANSLATION INTO U.S. DOLLARS

The Companies' accounting records are maintained in yen. The U.S. dollar amounts appearing in the accompanying financial statements and notes thereto represent the arithmetical results of translating yen into U.S. dollars at the rate of ¥110.62 to US$1.00, the approximate rate of exchange at June 30, 2005. The inclusion of such U.S. dollar amounts is solely for the convenience of readers; it does not carry with it any implication that yen amounts have been or could be converted into U.S. dollars at that rate.