

## Consolidated Financial Statements

For the first three quarters ended September 30, 2005

### Consolidated Financial Results

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

	Results for the first three quarters ( Jan. 1 – Sep. 30 )			
	2005	2004	Increase	2005
	¥	¥	%	\$
Net sales	<b>593,699</b>	537,156	10.5	<b>5,245,158</b>
Operating income	<b>41,557</b>	36,216	14.7	<b>367,143</b>
Ordinary income	<b>35,386</b>	26,672	32.7	<b>312,626</b>
Net income	<b>27,946</b>	11,782	137.2	<b>246,892</b>
Net income per share: Basic	<b>24.46</b>	10.35	–	<b>0.216</b>
Net income per share: Diluted	<b>22.73</b>	9.67	–	<b>0.201</b>

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

	Sep. 30, 2005	Sep. 30, 2004	Sep. 30, 2005
	¥	¥	\$
Total assets	<b>943,739</b>	954,409	<b>8,337,656</b>
Stockholders' equity	<b>210,526</b>	182,024	<b>1,859,935</b>
Stockholders' equity per share	<b>184.27</b>	159.31	<b>1.63</b>
	%	%	%
Stockholders' equity ratio	<b>22.3</b>	19.1	<b>22.3</b>

#### Notes

- 1) Simple calculation methods are adopted with regard to several items, including income taxes.
- 2) Change in accounting policies : applicable
- 3) Four companies have been removed from consolidation.
- 4) The equity method has been applied to one additional company while two companies have been excluded from the application.
- 5) The figures in the Consolidated Financial Statements are unaudited.
- 6) The U.S. dollar is valued at ¥113.19 throughout this statement for convenience only.

As to the forecast of performance for the fiscal year ending December 31, 2005, please refer to the news release issued separately on November 15, 2005.

## 1. 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 nine months of 2005 (January 1 – September 30), the Company recorded a 14.7% increase in operating income over the corresponding period of 2004, to ¥41,557 million, on net sales up 10.5%, to ¥593,699 million. Ordinary income increased 32.7%, to ¥35,386 million. Net income of the period jumped 137.2%, to ¥27,946 million. A breakdown of net sales and operating income by segment in the first nine months is as follows:

In the Petrochemicals segment, operating income increased 24.2%, to ¥17,386 million, on sales up 20.1%, to ¥219,367 million. In the third quarter (July-September), sales of olefins and organic chemicals were up due to higher selling prices, reflecting 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, operating income was up 41.4%, to ¥3,226 million, despite a 5.3% decline in sales, to ¥53,436 million. In the third quarter, sales of acrylonitrile and ammonia were up due to steady demand and those of *Shoprene* polychloroprene synthetic rubber were also up, reflecting a rise in selling prices. Shipment volumes of industrial gases (oxygen, nitrogen, etc.) were maintained at the year-earlier level. Sales of agrochemicals decreased substantially following the sale of SDS Biotech K.K. in March.

In the Electronics segment, operating income increased 20.2%, to ¥13,141 million, on sales up 18.6%, to ¥96,998 million. In the third quarter, sales of hard disk (HD) media increased substantially, reflecting continued brisk demand and the contribution of capacity expansions carried out in the second half of 2004. Sales of rare earth magnetic alloys were up due to a rise in the shipment volumes and sales of specialty gases for semiconductor processing also rose. Meanwhile, the shipment volumes of compound semiconductors fell substantially due to inventory adjustments by the LED industry.

In the Inorganic Materials segment, sales increased 11.7%, to ¥45,137 million and operating income climbed 44.9%, to ¥6,199 million. In the third quarter, sales of ceramics and graphite electrodes increased due continued steady shipments, reflecting brisk demand.

In the Aluminum segment, sales rose 1.6%, to ¥178,762 million, but operating income fell 30.0%, to ¥6,495 million. In the third quarter, sales of *Shotic* forgings

were slightly up while sales of aluminum ingot, rolled products and extrusions fell, reflecting declines in shipment volumes. Sales of automotive heat exchangers in Japan fell due to lower shipment volumes, but those in the United States and the Czech Republic increased due to higher shipment volumes. Sales of aluminum cans were down due to lower shipment volumes.

## 2. Financial conditions (as compared with the conditions at June 30, 2005)

Total assets at September 30, 2005 amounted to ¥943,739 million, an increase of ¥12,125 million from the level at June 30, reflecting an increase in inventories due to higher raw material costs. Interest-bearing debt decreased ¥15,504 million, to ¥459,793 million, as a result of our continuous efforts to reduce debt. Stockholders' equity at the end of the third quarter increased ¥11,864 million, to ¥210,526 million, due mainly to an increase in retained earnings.

## 3. Major steps taken after the announcement of the half-year results

### [Petrochemicals]

- Modification of the ethylene plant to increase the use of non-naphtha feedstock  
SDK decided to modify its ethylene plant at the Oita Petrochemical Complex to increase the use of non-naphtha feedstock, including natural gas liquids, to a maximum of 50% of the total requirement. Major part of the modification work will be conducted during the maintenance shutdown starting in the middle of March 2006. At the same time, SDK will modify certain lines of the ethylene plant to increase efficiency, thereby increasing the production capacity by 24,000 tons a year. These modifications will cost around ¥2 billion.

### [Chemicals]

- Launch of a new isocyanate monomer "Karenc BEI"  
SDK started selling a new grade of high-performance isocyanate monomer under the brand name of Karenc BEI. With photo-setting speed two times that of the conventional grade, the new product enables precision surface treatment of liquid crystal displays (LCDs) and semiconductors.

### [Electronics]

- Joint development of the SiC epitaxial wafer technology  
In August, SDK started research for commercial production of high-performance silicon carbide (SiC) epitaxial wafers jointly with the National Institute of Advanced Industrial Science and Technology, and the Central Research Institute of Electric Power Industry. Compared with silicon-based semiconductors, SiC-based semiconductors are expected to have such advantages as smaller size and lower loss. Applications will include switching for power conversion and heavy-current, high-frequency communication devices.
- Construction of a new R&D facility for HD media development  
SDK decided to build a new R&D facility to promote the development of the next-generation HD media with greater storage capacity. The facility, to be built

at the premises of Showa Denko HD K.K., will be completed at the end of April 2006 with the investment of approximately ¥3 billion.

#### [Inorganic Materials]

- Start of commercial production of 32" graphite electrodes  
SDK started commercial production of 32-inch-diameter graphite electrodes at its Omachi Plant. The product represents the largest diameter for graphite electrodes used in electric-arc-furnace steel production. SDK's U.S. subsidiary Showa Denko Carbon, Inc. will also start production of this size when demand grows further.
- Doubling fused alumina abrasives production capacity  
SDK introduced a continuous production system for Single Morundum—specialty alumina abrasives used in grinding stones for hard materials, including auto parts. The process change will result in doubling of the production capacity, to 4,000 tons a year.
- Termination of carbon black joint venture  
SDK decided to terminate, effective November 2005, the shareholders agreement with Cabot Corporation of the United States concerning their carbon black joint venture Showa Cabot K.K.

#### [Aluminum and others]

- Expansion of production capacity for aluminum cylinders for laser printers  
SDK decided to expand its capacity for producing aluminum cylinders for laser printers from the current nine million tubes per month to 15 million tubes per month by the end of 2006. The expansion will be achieved by construction of a new three-million-tubes-per-month production line at the cost of around ¥2 billion and by way of debottlenecking. The expansion reflects an increasing demand for color printers that use four aluminum cylinders per unit compared with monochrome printers that use only one aluminum cylinder per unit.
- Participation in solvent recycling business in China  
In September, Shoko Co., Ltd., the core trading firm in the SDK Group, participated in the production and recycling of solvents in China by investing in a Chinese firm jointly with Toyodakagaku Kogyo Co., Ltd. The Chinese firm, Guanzhou Raysound Chemical Co., Ltd., produces solvents for paints used in car production.

## Consolidated Balance Sheets

(¥ in millions, US\$ in thousands)

	Sep. 30 2005 (A)	Jun. 30 2005 (B)	(A)–(B)	Dec. 31 2004 (C)	(A)–(C)	Sep. 30 2005
<b>Assets</b>	<b>¥</b>					<b>\$</b>
<b>Current assets</b>						
Cash and deposit	25,979	29,597	(3,617)	29,627	(3,648)	229,519
Notes and accounts receivable	143,957	141,568	2,390	150,275	(6,318)	1,271,820
Inventories	74,891	70,856	4,035	68,736	6,154	661,638
Other current assets	38,930	34,601	4,329	39,268	(338)	343,932
Total current assets	<b>283,757</b>	276,621	7,136	287,906	(4,149)	<b>2,506,909</b>
<b>Fixed assets</b>						
Tangible fixed assets	516,237	517,737	(1,500)	518,371	(2,133)	4,560,803
Intangible fixed assets	24,558	25,319	(761)	25,956	(1,398)	216,960
Investments and other assets	119,187	111,937	7,250	111,675	7,512	1,052,984
Total fixed assets	<b>659,982</b>	654,994	4,989	656,001	3,981	<b>5,830,747</b>
<b>Total assets</b>	<b>943,739</b>	931,614	12,125	943,908	(168)	<b>8,337,656</b>
<b>Liabilities</b>						
<b>Current liabilities</b>						
Notes and accounts payable	122,285	120,456	1,829	120,456	1,829	1,080,352
Short-term loans payable	102,213	100,821	1,391	100,146	2,067	903,018
Commercial paper	342	522	(180)	325	17	3,021
Current portion of long-term loans payable	95,068	97,344	(2,275)	89,314	5,755	839,900
Current portion of corporate bonds	15,930	10,930	5,000	44,384	(28,454)	140,737
Other current liabilities	46,353	37,990	8,363	47,485	(1,132)	409,514
Total current liabilities	<b>382,191</b>	368,064	14,127	402,109	(19,918)	<b>3,376,543</b>
<b>Long-term liabilities</b>						
Corporate bonds	37,500	52,500	(15,000)	50,430	(12,930)	331,301
Long-term loans payable	208,740	213,180	(4,440)	217,834	(9,094)	1,844,157
Accrued pension and severance costs	9,903	9,762	141	8,879	1,023	87,487
Other long-term liabilities	46,863	42,259	4,604	41,807	5,056	414,020
Total long-term liabilities	<b>303,006</b>	317,701	(14,695)	318,951	(15,945)	<b>2,676,965</b>
Total liabilities	<b>685,197</b>	685,764	(568)	721,060	(35,863)	<b>6,053,508</b>
<b>Minority interests</b>	<b>48,017</b>	47,189	828	45,147	2,870	<b>424,213</b>
<b>Stockholders' equity</b>						
Common stock	110,451	110,451	–	110,451	–	975,805
Capital stock	11,090	11,090	0	11,089	1	97,978
Retained earnings	42,970	35,775	7,196	18,316	24,655	379,631
Revaluation reserve (Land revaluation)	33,280	33,280	–	33,280	–	294,016
Securities valuation surplus	13,385	9,218	4,167	7,842	5,544	118,254
Foreign currency translation adjustments	(569)	(1,076)	507	(3,213)	2,644	(5,025)
Treasury stock	(82)	(76)	(6)	(64)	(18)	(724)
Total Stockholders' equity	<b>210,526</b>	198,662	11,864	177,701	32,825	<b>1,859,935</b>
<b>Total liabilities, minority interests and stockholders' equity</b>	<b>943,739</b>	931,614	12,125	943,908	(168)	<b>8,337,656</b>

## Consolidated Statements of Income

(¥ in millions, US\$ in thousands)

	Results for the first three quarters ( Jan.1–Sep.30 )			
	2005(A)	2004(B)	(A)–(B)	2005
	¥			\$
Net sales	593,699	537,156	56,543	5,245,158
Cost of sales	490,098	438,512	51,586	4,329,871
Selling, general and administrative expenses	62,044	62,428	(384)	548,144
Operating income	41,557	36,216	5,341	367,143
Non–operating income	5,276	2,993	2,283	46,615
Non–operating expense	11,447	12,537	(1,090)	101,132
Ordinary income	35,386	26,672	8,715	312,626
Extraordinary profit	5,918	2,731	3,186	52,280
Extraordinary loss	3,343	6,626	(3,284)	29,530
Income before income taxes	37,961	22,777	15,185	335,376
Income taxes	8,395	10,130	(1,735)	74,170
Minority interests	1,620	865	756	14,314
Net income	27,946	11,782	16,163	246,892

(¥ in millions, US\$ in thousands)

	Results for the third quarter ( Jul. 1 – Sep. 30 )			
	2005(A)	2004(B)	(A)–(B)	2005
	¥			\$
Net sales	202,749	188,872	13,877	1,791,228
Cost of sales	167,934	153,833	14,101	1,483,651
Selling, general and administrative expenses	20,373	21,050	(677)	179,986
Operating income	14,442	13,990	452	127,592
Non–operating income	1,224	683	541	10,817
Non–operating expense	3,726	4,222	(496)	32,919
Ordinary income	11,940	10,450	1,490	105,490
Extraordinary profit	869	542	327	7,676
Extraordinary loss	798	408	391	7,053
Income before income taxes	12,011	10,584	1,427	106,112
Income taxes	4,374	4,642	(268)	38,643
Minority interests	557	541	16	4,924
Net income	7,080	5,401	1,679	62,545

## Net Sales and Operating Income by Segment

(¥ in millions, US\$ in thousands)

Segment		Results for the first three quarters ( Jan. 1 – Sep. 30 )			
		2005 (A)	2004 (B)	(A) – (B)	2005
Petrochemicals	Net sales	219,367	182,634	36,733	1,938,042
	Operating income	17,386	13,997	3,389	153,600
Chemicals	Net sales	53,436	56,421	(2,986)	472,087
	Operating income	3,226	2,282	944	28,503
Electronics	Net sales	96,998	81,815	15,183	856,947
	Operating income	13,141	10,936	2,206	116,099
Inorganic Materials	Net sales	45,137	40,407	4,729	398,768
	Operating income	6,199	4,279	1,920	54,767
Aluminum	Net sales	178,762	175,879	2,884	1,579,313
	Operating income	6,495	9,273	(2,778)	57,385
HQ costs and other	Net sales	—	—	—	—
	Operating income	(4891)	(4551)	(340)	(43211)
Total	Net sales	593,699	537,156	56,543	5,245,158
	Operating income	41,557	36,216	5,341	367,143

Segment		Results for the third quarter ( Jul. 1 – Sep. 30 )			
		2005 (A)	2004 (B)	(A) – (B)	2005
		¥			\$
Petrochemicals	Net sales	76,756	65,376	11,380	678,120
	Operating income	5,978	6,372	(393)	52,816
Chemicals	Net sales	17,185	17,871	(686)	151,828
	Operating income	649	624	26	5,736
Electronics	Net sales	34,331	30,403	3,927	303,301
	Operating income	5,374	4,053	1,321	47,474
Inorganic Materials	Net sales	15,294	13,709	1,585	135,116
	Operating income	2,047	1,511	536	18,085
Aluminum	Net sales	59,183	61,513	(2,330)	522,864
	Operating income	1,941	2,948	(1,007)	17,147
HQ costs and other	Net sales	—	—	—	—
	Operating income	(1,547)	(1,517)	(30)	(13,667)
Total	Net sales	202,749	188,872	13,877	1,791,228
	Operating income	14,442	13,990	452	127,592