NEWS RELEASE

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Showa Denko Maps Out New Medium-term Business Plan "Project 2020+"

Showa Denko (SDK) (TOKYO: 4004) has prepared a new medium-term consolidated business plan "Project 2020+" for the 2016-2020 period in which SDK will aim to solidify the revenue bases of its diversified businesses, expand its individualized businesses, and make the Showa Denko Group become a corporate group that continuously leads the market under fierce global competition.

During the five years from 2011 through 2015, SDK promoted its medium-term consolidated business plan "PEGASUS" and its latter half "PEGASUS Phase II." Since the start of PEGASUS, SDK has steadily implemented management measures including active business expansion in China and ASEAN, strengthening of competitiveness of its domestic businesses, and intensive input of management resources to its core businesses, though there were drastic changes in the surrounding business environment such as the Great East Japan Earthquake in March 2011, the following steep rises in electricity and energy prices, substantial rises and falls in prices of naphtha and aluminum metal, and oversupply of steel in China. Thus, SDK has decided to launch a new consolidated business plan for 2016 and after.

1. Project 2020+: Concept and basic strategy

a. Concept

Under the global megatrends such as climate change, depletion of natural resources, urbanization, multipolarization in world economy, technological breakthrough, and drastic changes in feedstock/fuel market, SDK will aim to contribute to the solution of these social issues in global scale by providing high-value-added products, technology and services to five market domains, namely, "Infrastructure," "Energy," "Mobility," "Living environment," and "Electronics."

SDK will also aim to become a "social contribution company" that contributes to the creation of society where prosperity and sustainability are harmonized, by realizing dreams and wishes of the people and society as many as possible with the power of chemistry.

b. Basic strategy

In the global market, SDK will expand its "individualized businesses" which maintain high-level profitability and stability. We will enhance our capability to resist fluctuation in market prices of products and raise our corporate value by providing customers with attractive products and services and holding many businesses that have top shares in the competitive markets of global or certain scale.

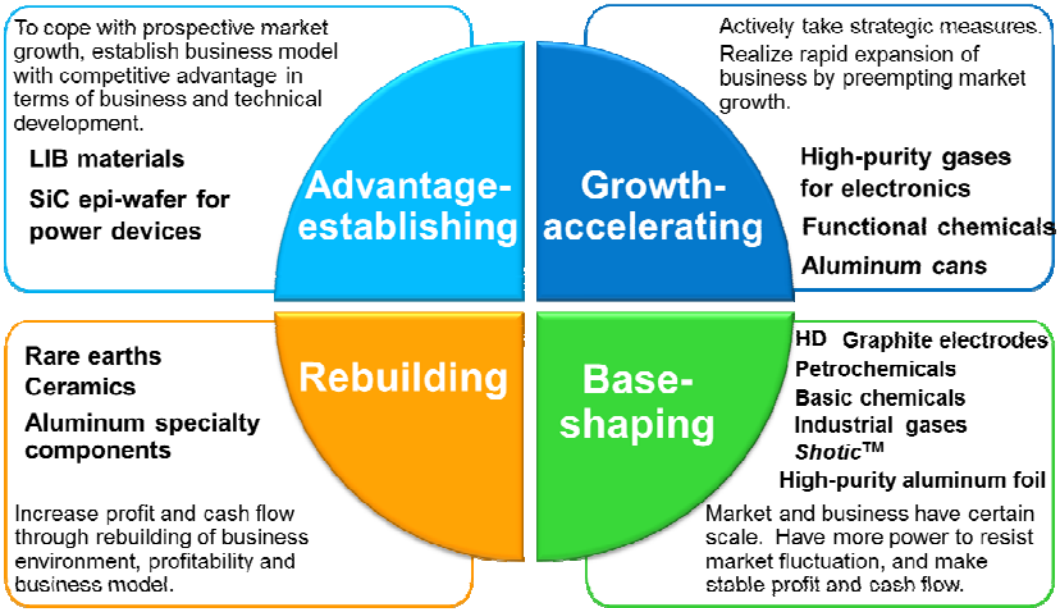
As in the target image of the Showa Denko Group in 2025, we will aim to increase shares of our individualized businesses in net sales from 30% to 50%, and also increase shares of overseas sales in net sales from 40% to 60%, in order to reduce the rate of change in our profitability.

For the five year period from 2016 to 2020, we will have four business categories in our business portfolio, and define missions for each business category in order to strengthen our businesses. We will further strengthen earning power of our existing businesses by reforming business models, and also promote M&A and business alliances with other companies, aiming to introduce new growth businesses from outside entities. In addition, aiming to promote globalization of our business activities and expand our "individualized businesses" further, we will implement strategic capital investment in growing Asian/ASEAN market, and also pursue growth opportunities in developed countries in Europe and North America. The four business categories in our business portfolio mentioned above are as follows:

1) Growth-accelerating businesses
This business category includes high-purity gases for electronics, functional chemicals and aluminum cans businesses. In this business category, we will positively take strategic measures to accelerate growth of these three businesses in order to take advantage of growth of overseas markets including Asian and ASEAN markets.

2) Advantage-establishing businesses
This business category includes lithium-ion-battery (LIB) materials and SiC epitaxial-wafer for power devices businesses. In this business category, we will establish business models with competitive advantages in terms of business operation and technology development, since the markets for these two businesses are expected to have rapid growth in the near future.

3) Base-shaping businesses
This business category includes hard disk (HD) media, graphite electrode, petrochemicals, and other businesses. These businesses are expected to keep certain scales in terms of business operation and market size. Therefore, we will make these businesses have more power to resist fluctuation of product prices in the market and earn stable profit and cash flow.



Business portfolio in Project 2020+

As for Rebuilding businesses, we will increase profit and cash flow earned by these businesses by rebuilding their competitive environment, profitability and business models.

Through expansion of Growth-accelerating businesses including high-purity-gas-for-electronics business and full-scale commercialization of Advantage-establishing businesses, SDK will increase combined sales in these two business categories 30% from the current level, and double their combined operating income, both by 2018.

2. Business strategy in priority areas

1) High-purity gases for electronics

We expect that demand for electronic materials will continue to be lively, centering on use in mobile devices including smart phones and tablets. The market for semiconductors continues to expand, and enhancement in microscopic and multi-layer structure continues. Therefore, consumption of high-purity gases in production of semiconductors has been continuously increasing. Moreover, production of LCDs in China is rapidly increasing, while the on-board use of LEDs in automobiles is in progress. We will aim to be a leading company in high-purity gas industry by strengthening logistics and marketing functions of our high-purity gas business which are necessary for global expansion of our operation, and by increasing capacities of existing supply bases and establishing new sales bases in North America and China.

2) Functional chemicals

We expect that demand for functional chemicals will continue to increase due to special boom caused by Tokyo Olympics and renewal of aging infrastructure. In addition, we anticipate that demand for functional resins and monomers in China and ASEAN region, centering on use in infrastructure building and automobile manufacturing. We will aim to expand our functional chemicals business by enhancing our market share and earning power through strengthening of sales and development capability in domestic market, by promoting early start of unsaturated polyester resin plant in in Zhuhai, China, and by expanding sales of functional monomers.

3) Aluminum cans

We expect that there will be rapid expansion of the market for aluminum cans to contain beer in rising ASEAN region market, especially in Vietnam, due to population increase and the rise in standard of living. We will expand our sales of aluminum cans to existing and new customers in overseas markets by increasing cost competitiveness of the aluminum can manufacturing subsidiary in Vietnam which we acquired last year, through strengthening of its printing and manufacturing technologies. On the other hand, in the domestic market, we will aim to stabilize business income by strengthening our position in the market.

4) Hard disk (HD) media

Demand for HD media in total is expected to increase steadily due to gradual increase in demand for near-line servers for data centers, though demand for mobile PCs is gradually decreasing. While storage density of HD media continues to increase 20% a year, we expect that HD media featured by next-generation technology will be launched in or after 2018. We have been producing HD media with top-level quality and performance by developing leading-edge technology ahead of other HD media manufacturers. We will further improve quality and performance of our 3.5-inch HD media, demand for which is expected to increase due to expansion in use in servers for data centers, and establish flexible production system to meet demand in order to enhance earning power of our HD

media business.

5) Graphite electrodes

Global steel demand will continue low growth rate of about 1% a year in the future, and it will take time to have solution of overcapacity problem in the Chinese steel industry. On the other hand, the graphite electrode industry is now experiencing development in reorganization including production capacity reduction in global scale. SDK will review its production system of graphite electrodes with three production bases located in the U.S., Japan and China, and rebuild optimum production system that corresponds to the scale of demand. We will also steadily promote structural reform including cost reduction and productivity improvement, aiming to increase earning power of our graphite electrode business.

3. Performance targets

1) Overall targets

(Unit: Billion yen)	2015*	2016 Plan	2017 Plan	2018 Plan	2020 Image
Net sales	785	810	850	855	930
Operating income	34	36	50	57	70
Net income	7	20		30	
FCF	15	68（Cumulative: 2016-2018）			
ROA（%）	3%			6%	
ROE（%）	2%			9%	

*Announced on December 4, 2015

2) Breakdown by segment

(Unit: Billion yen)	2015*		2018	
	Sales	O.I.	Sales	O.I.
Petrochemicals	231	10.5	225	8.0
Chemicals	145	11.0	170	17.0
Electronics	130	17.5	130	18.0
Inorganics	65	0.0	85	10.5
Aluminum	102	2.5	120	7.5
Others	154	0.5	175	4.0
Adjustment	-42	-8.0	-50	-8.0
Total	785	34.0	855	57.0

*Announced on December 4, 2015

3) Capital investment plan

We will carry out capital investment amounting to ¥130 billion during three years from 2016 through 2018. We will invest strategically especially in Growth-accelerating and Advantage-establishing businesses in order to expand facilities in the aluminum-can subsidiary in Vietnam, expand production capacity and establish sales bases for high-purity gases for electronics at home and abroad, expand production facilities for LIB materials, and SiC epi-wafer for power devices. Moreover, in the market domains of Energy and Living environment, we will invest in the business to promote use of recycled plastics, countermeasures against global warming including energy/electricity-saving, and introduction of latest-type hydropower generation facilities, aiming to reduce GHG emission and strengthen resource-recycling businesses.

4) Cost reduction strategy

We will implement measures to reduce cost for ¥20 billion in total during the three year period from 2016 through 2018, centering on Base-shaping businesses.

5) Financial strategy and improvement in return to shareholders

We will strive to improve our financial standing by increasing net income, carefully selecting capital investments, adequately controlling inventories, and improving efficiency in use of assets. We will improve our D/E ratio to be 1.0 by the end of 2018, from the current level of 1.2. We will also set target payout ratio as 30%, in order to improve return to shareholders.

4. R&D strategy

In order to solve social issues and create new value concerning the five market domains of “Infrastructure,” “Energy,” “Mobility,” “Living environment,” and “Electronics,” we will promote our original R&D programs by deepening and fusing our diverse business domains, “Core technologies” as elemental technologies with competitive advantages, and “Strategic technologies,” which are world-top-level technologies we cultivated over many years. During the three year period from 2016 through 2018, we will invest ¥60 billion in our R&D activities. Thus, we will intensively input our business resources into R&D activities related to core and peripheral fields of our businesses, and promote utilization of open innovation and M&A, aiming to create next-generation business themes that lead to the prosperity of the Showa Denko Group in the future.

For further information, contact:
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Note: The above forecast is based on the information available as of today and assumptions as of today regarding risk factors that could affect our future performance. Actual results may differ materially from the forecast due to a variety of risk factors, including, but not limited to, the economic conditions, costs of naphtha and other raw materials, demand for our products, market conditions, and foreign exchange rates.