Acquisition of the Graphite Electrode Business of SGL Carbon SE

Showa Denko K.K.
October 20, 2016

Showa Denko K.K. (SDK, Tokyo: 4004) agreed with SGL Carbon SE, a carbon and graphite product manufacturer headquartered in Wiesbaden, Germany ("SGL Carbon", Xtra: SGL), that SDK will acquire SGL GE Holding GmbH ("SGL GE"), which engages in the graphite electrode business, from SGL Carbon group ("SGL Group") for an enterprise value of EUR350 million.

Through this acquisition, SDK aims to become a truly global leader in graphite electrode industry by establishing a cost competitive platform in all three key regions, Europe, the U.S. and Asia, and by producing the highest quality graphite electrodes globally.

A sale and purchase agreement was approved both by SDK's board of directors and by SGL's supervisory board, and executed today. Subject to the approval of the relevant authorities under the applicable competition laws of the relevant countries including the U.S. and Germany, and other preconditions, we expect to close the transaction in early to mid-2017.

1. Background of the acquisition

SDK had announced, in its medium-term business plan "Project 2020+", a core business strategy to increase the corporate value. Such strategy includes global expansion of "individualized businesses", unique and differentiated business units maintaining high profitability and stability, profitability improvement of existing businesses through renewal of business models, and overseas sales expansion.

SDK considers its graphite electrode business a "base-shaping" business in "Project 2020+" and aims to increase its durability to market fluctuations and to generate stable profit and cash flow. Since it started producing graphite electrodes for electric steelmaking at the Omachi Plant in 1938, SDK has been operating globally with its production bases in Japan, the U.S., and China. It supplies high-quality products to major electric steelmakers at home and abroad, and has the third largest production capacity in the world (as of 2015).

SGL Carbon is a carbon and graphite product manufacturer headquartered in Germany, and has the second largest production capacity of graphite electrodes in the world (as of 2015). In its July 2015 press release, SGL Carbon announced that it had decided to separate the performance products ("PP") business unit (which includes graphite electrode business) during a re-evaluation of the business unit, and it completed the carve-out and organizational restructuring of the PP business unit in June 2016.

The business environment in the graphite electrode industry remains challenging due to weak demand and severe competition, with the global demand for steel predicted to continue to grow at a low rate of approximately 1% per year. Under these circumstances, SDK has decided to increase the competitiveness of its graphite electrode business by acquiring SGL GE, which has highly cost-

competitive and high quality production bases in the three key regions, Europe, the U.S., and Southeast Asia.

By making SGL GE its subsidiary, the Company will enhance its efficiency in a highly competitive market, which will enable it to pursue a higher level of growth by promoting cost-competitiveness and increasing business durability.

Specifically, SDK aims to establish an optimal production and sales structure with the most cost-competitive facilities located in Europe, the U.S. and Asia, by: (1) enhancing cost-competitiveness by introducing the best practices of both companies; (2) reducing fixed costs by integrating headquarter functions and adopting a global operating structure; (3) improving efficiency in logistics and supply chains by optimizing production regions; (4) reinforcing brand equity by increasing quality of the products; and (5) increasing purchasing power in raw materials procurement. Through these initiatives, SDK will further increase competitiveness in its graphite electrode business by offering more attractive products and services to its customers.

The graphite electrode business is expected to maintain a certain market size in the future. SDK has been supplying graphite electrodes primarily from two regions, Asia and the U.S. With the acquisition of SGL GE, SDK can cover all areas around the world, including Europe, and becomes the global leading supplier of graphite electrodes. Based on the new platform, SDK plans to revitalize the graphite electrode business into a major profit source.

2. Profile of SGL GE (as of June 30, 2016)

(1) Head office: Meitingen, Germany
(2) Representative: Klaus Unterharnscheidt, Managing Director
(3) Business description: Manufacture, research, development and sales of graphite electrodes
(4) Establishment: December 11, 2015
(5) 3-year performance of the relevant business* (in million Euros):

Fiscal year	2013/12	2014/12	2015/12
Net sales	614	444	375
Adjusted EBITDA	73	33	22

(6) Operating sites: 6 (Germany, Austria, Spain, the U.S. (2 sites), and Malaysia)
(7) Number of employees: Approximately 900

* SGL GE was incorporated through the carve-out of the PP business unit completed in June 2016 as mentioned above. For reference, 3-year performance of the graphite electrode business of SGL Carbon group, which is now SGL GE and its subsidiaries, is stated above.

3. Transaction Overview

(1) Enterprise Value: EUR 350 million
(2) Purchase Price of Equity: JPY 15.6 billion **
(3) Expected Closing Date: Early to Mid-2017 ***

** The purchase price mentioned above has been calculated by adding estimated advisory fee, etc. to the equity value of SGL GE at the conversion rate of 115 Yen to Euro. The purchase price will be finalized to reflect purchase price adjustments on the date of the closing under the share purchase agreement.

*** Depending on the progress with obtaining the approval of the relevant authorities under the applicable competition laws.

About Showa Denko K.K.

Showa Denko K.K. (SDK, Tokyo: 4004, ISIN: JP3368000000), which was established in 1939, is one of Japan's leading chemical companies and traces its roots back to 1908. The Showa Denko Group had annual consolidated sales of 781 billion yen in the year ending December 2015, and consists of 151 companies with more than 10,000 employees worldwide.

SDK Group's business portfolio includes six segments; Petrochemicals, Chemicals, Electronics, Inorganics, Aluminum, and "Others" including materials for lithium-ion batteries. Based on its inorganic, metal and organic chemical technologies, the SDK Group provides individualized products in various areas including energy/environment, electronics, and basic materials for industrial use. Aiming to become a company contributing to the sound growth of society where affluence and sustainability are harmonized, SDK continues providing society with useful products and services.

About SGL Group – The Carbon Company

SGL Group is one of the world's leading manufacturers of carbon-based products and materials. It has a comprehensive portfolio ranging from carbon and graphite products to carbon fibers and composites. SGL Group's core competencies are its expertise in high-temperature technology as well as its applications and engineering know-how gained over many years. These competencies enable the Company to make full use of its broad material base. SGL Group's carbon-based materials combine several unique properties such as very good electrical and thermal conductivity, heat and corrosion resistance as well as high mechanical strength combined with low weight. Due to industrialization in the growth regions of Asia and Latin America and increased substitution of traditional with innovative materials, there is a growing demand for SGL Group's high-performance materials and products. Products from SGL Group are used predominantly in the steel, aluminum, automotive and chemical industries as well as in the semiconductor, solar and LED sectors and in lithium-ion batteries. Carbon-based materials and products are also being used increasingly in the wind power, aerospace and defense industries.

With 40 production sites in Europe, North America and Asia as well as a service network covering more than 100 countries, SGL Group is a company with a global presence. In 2015, the Company's workforce of around 5,700 employees generated sales of €1,323 million. The Company's head office is located in Wiesbaden.

Further information on SGL Group can be found in SGL Group's newsroom at www.sglgroup.com/press or at www.sglgroup.com.

Disclaimer Regarding Forward-Looking Statements:
Any statements made in this communication that are not descriptions of historical facts, including those relating to the anticipated timing, closing conditions, completion and success of the proposed transaction, and the potential effects and benefits of the transaction on SDK and any other statements about future expectations, are forward-looking statements that are based on management's beliefs, certain assumptions and current expectations and evaluated as such. Forward-looking statements are based on, among other things, opinions, assumptions, estimates and analyses that are inherently subject to significant risks, uncertainties, contingencies and other factors that may cause actual results and events to differ materially from those expressed or implied by the forward-looking statements. There are a number of important factors that could cause actual results or events to differ materially from those indicated by such forward looking statements. These risks and uncertainties include, but are not limited to, general economic and market conditions and the satisfaction of the conditions to the consummation of the proposed transaction. Further, forward-looking statements speak only as of the date they are made, and SDK does not undertake any obligation to update or revise any forward-looking statements to reflect changed assumptions, the occurrence of unanticipated events or changes to future operating results over time, except as required by laws.