NEWS RELEASE

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August 6, 2020

SDK to Record Operating/Non-operating Expenses for Acquisition of Hitachi Chemical's Shares, and Extraordinary Loss; Revises Forecast of Consolidated Performance and Dividend Payment for First Half of 2020

Showa Denko (SDK) (TOKYO: 4004) announces that it will record expenses of ¥21.6 billion, consisting of ¥4.3 billion operating expenses and ¥17.3 billion non-operating expenses, in the first half of 2020 with regard to its acquisition of shares in Hitachi Chemical Company, Ltd. (Hitachi Chemical). SDK will also record an extraordinary loss of ¥4.7 billion as it adjusts graphite electrode production capacity.

Furthermore, SDK has decided to revise its forecast of consolidated performance for the first half of 2020 as described below. (In our earlier news release of May 15, 2020, performance forecast was left "undecided."). In the graphite electrode business, where demand is sluggish, SDK has decided to record a ¥21.7 billion loss on valuation of inventory in accordance with the "lower of cost or market" accounting method. In addition, SDK has reviewed the influence of the coronavirus disease 2019 (COVID-19), and the sharp decline in crude oil prices, on SDK's financial results. Forecast of dividend payment is revised accordingly.

SDK is now examining its forecast of consolidated performance for full-year 2020, as business results after integration with Hitachi Chemical. Explanations will be provided at the time of announcement of the second quarter, 2020 business results on August 12, 2020.

1. Recording of expenses for acquisition of shares in Hitachi Chemical

SDK will record expenses of ¥21.6 billion, consisting of ¥4.3 billion operating expenses and ¥17.3 billion non-operating expenses, in the first half of 2020 with regard to its acquisition of shares in Hitachi Chemical. "Advisory fee, attorney's fee, post-merger integration (PMI) expenses, expenses related to fund-raising, and registration and license tax" are temporary expenses. "Interest on borrowing related to share acquisition" represents expenses corresponding to the first half of 2020.

(1)	Advisory fee, attorney's fee, etc.	¥3.5 billion	(Operating expenses)
(2)	Post-merger integration (PMI) expenses	¥0.8 billion	(Operating expenses)
(3)	Expenses related to fund-raising, registration tax, etc.	¥16.1 billion	(Non-operating expenses)
(4)	Interest on borrowing related to share acquisition, etc.	¥1.2 billion	(Non-operating expenses)
	Total	¥21.6 billion	

2. Recording of extraordinary loss

(1) Provision for closure of Meitingen Plant, Germany, in the graphite electrode business

We are facing prolonged graphite-electrode-inventory adjustments by electric steelmakers. In the European market, in particular, where economic slowdown is serious, our operating rates are low. After discussions with the labor union, we reached agreement on the closure of a production site in Meitingen, Germany, belonging to SHOWA DENKO CARBON Products Germany GmbH & Co. KG and SHOWA DENKO CARBON Germany GmbH. Thus, to cover expenses relating to the closure, we will record ¥4.7 billion expenses for business structure improvement as extraordinary loss during the first half of 2020.

3. Revised forecast of consolidated business results

(1) For the first half of 2020 (Jan. 1 – June 30, 2020)

(Millions of yen, excepting net income per share)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share (¥)
Earlier forecast (A) (Announced on May 15, 2020)	Undecided	Undecided	Undecided	Undecided	Undecided
Revised forecast (B) (Announced on Aug. 6, 2020)	326,600	-25,800	-43,200	-54,500	-373.60
(B) - (A)	-	-	-	-	
Percentage of changes	-	-	-	-	
Reference (Results for the first half of 2019)	475,494	85,471	84,830	65,813	451.16

(2) Reasons for the revision

Sales in the Inorganics segment will decline sharply. This is because demand for graphite electrodes (used in electric steelmaking) has fallen considerably due to the spread of slowdown in steel production from Europe to the rest of the world, resulting in a sharp decline in sales volumes and market price. Sales in the Petrochemicals segment will also fall sharply due to the fall in product market price, reflecting the rapid decline in naphtha prices. The impact of COVID-19 includes lower shipment volumes of basic chemicals and industrial gases due to the shrink of domestic demand; lower shipment volumes of aluminum fabricated products due to the slowdown in the world's automobile production; and lower shipment volumes of aluminum cans, reflecting production cuts by beer producers in Vietnam in April and May. Thus, sales in the Chemicals and Aluminum segments will decline.

The Inorganics segment will record a large amount of operating loss. This is due to the fall in sales volumes and market prices in the graphite electrode business, as well as the recording of the ¥21.7 billion loss on valuation of inventory in accordance with the "lower of cost or market" accounting method. The Petrochemicals segment expects a fall in operating income due mainly to the negative influence of the difference between the receipts and disbursements of raw materials, reflecting the sharp decline in naphtha prices. The Chemicals and Aluminum segments expect a fall in operating income due to lower shipment volumes under COVID-19.

Ordinary income reflects non-operating expenses for the acquisition of shares in Hitachi Chemical as described in 1 above. Net income attributable to owners of the parent reflects the extraordinary loss as described in 2 above.

4. Revised forecast of dividend payment

(1) Revised forecast

	Dividend per share (Unit: yen)				
	End of 1Q	End of 2Q	End of 3Q	Year-end	Total
Earlier forecast	-	Undecided	-	Undecided	Undecided
Revised forecast	-	0.00	-	Undecided	Undecided
Actual dividends for 2019	-	50.00	-	80.00	130.00

(2) Reasons for the revision

Based on the forecast of the performance for the first half of 2020, we have revised our forecast of dividend payment. In view of the severe business environment, we will not pay dividends at the end of the second quarter.

Note: The forecast in this document has been worked out based on information available as of today, and assumptions as of today about uncertain factors that can affect our future performance. Actual business results may differ materially from the above forecast due to a variety of risk factors, including, but not limited to, the impact of COVID-19 on the world economy, economic conditions, costs of naphtha and other raw materials, demand and market prices for graphite electrodes and other products, and foreign exchange rates.

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