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The Showa Denko Group launched The TOP 2021, our medium-term business plan, in January 2019. For the Group to grow continuously, and to ensure that the Group is trusted and rated highly by society, it is important for us to raise the value by ourselves to satisfy all stakeholders, including shareholders, customers, suppliers, local communities and employees. We clearly state in the Showa Denko Group Vision that we will promote management that maximizes shareholders' value, customers' value, and social value.

The Showa Denko Group will steadily implement The TOP 2021 to strengthen earning power, control fluctuations in profits, increase corporate value, and establish a solid base for growth toward the future.

In 2019, under the tough business environment caused by US-China trade friction as well as the declining performance of the European automotive industry, the Group recorded operating income of ¥120,798 million, down ¥59,205 million from the previous year, while net income attributable to owners of the parent was ¥73,088 million, down ¥38,415 million from the previous year. At the same time, we continued to invest in plants and equipment, aiming to improve our performance in the future.

The sum of the dividends per share we paid for the year ending December 31, 2019 was ¥130, up ¥10 from the previous year.

On December 18, 2019, we announced that we would launch a tender offer for Hitachi Chemical Company, Ltd. In recent years, the structure of the chemical industry and the competitive environment have been changing dramatically. To cope with these changes in the business environment and to win the competition as a leading functional chemical company, we must evolve to become a "one-stop, advanced materials partner" for our customers, providing them not only with materials and parts but also with solutions.

In 2020, we will promote growth strategies for the second year of The TOP 2021, and accelerate our operations to realize substantial integration with Hitachi Chemical.

We have now defined our Mission as "to satisfy all stakeholders." We will contribute to the sound growth of society by maximizing shareholders' value, customers' value, and social value.

Note: For the details of our tender offer for Hitachi Chemical, please see Mergers and Acquisitions on page 10.

Structural businesses reforms implemented in 2019

In 2019, Showa Denko put a range of structural businesses reforms into practice.

For our graphite electrode business, we started investing more in plants and equipment, aiming to improve the quality of the graphite electrodes produced in our plants in Europe. Through this investment, we will expand our capacity to produce ultra-high-power (UHP) graphite electrodes in Europe and to propose UHP graphite electrodes to our customers. In this way, we will improve the productivity of our customers' electric arc furnaces and grow the market for UHP graphite electrodes in Europe. In February 2020, we started labor-management negotiations for the planned closure of the graphite electrode production site in Meitingen, Germany, where the operating rate had been declining due to a business slowdown in Europe.

For our functional chemicals business, in January 2020, we decided to end producing unsaturated polyester resin and vinyl ester resin

at our Isesaki Plant, Gunma Prefecture and to concentrate production of these materials at our Tatsuno Plant, Hyogo Prefecture, to cope with lower domestic demand for these products.

For our aluminum can business, in May 2019, we streamlined production capacity by stopping some production lines in the Oyama Plant, Tochigi Prefecture, and the Hikone Plant, Shiga Prefecture, aiming to cope with a major reduction in domestic demand for aluminum cans caused by beverage manufacturers shifting from aluminum cans to PET bottles.

The Showa Denko Group has been aggressively promoting structural reforms in all business segments in view of the integration with Hitachi Chemical. Under these circumstances, we are making every effort to achieve the goals stated in the current medium-term business plan, The TOP 2021.

2019 Performance

The Showa Denko Group recorded consolidated net sales of ¥906,454 million in 2019, down ¥85,682 million or 8.6% from the previous year. Although sales increased slightly in the Chemicals segment, sales declined in the Inorganics segment due to lower sales volumes of graphite electrodes resulting from reduced production to respond to an adjustment in inventories of graphite electrodes conducted by our customers who operate electric arc furnaces. Our sales in the Petrochemicals segment also declined due to a sluggish market for petrochemical products.

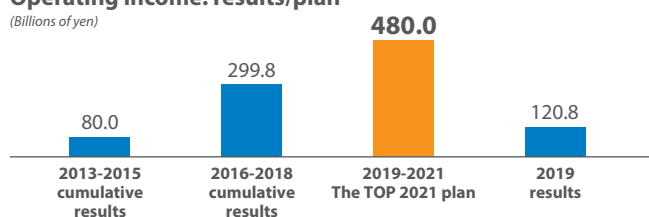
The Group's operating income substantially decreased by ¥59,205 million (down 32.9% year on year), to ¥120,798 million. Operating income fell in five segments including Inorganics, where income fell due to lower production of graphite electrodes, and the Electronics segment, where shipment volumes of HD media to be used in PCs were reduced.

The Group recorded net income attributable to owners of the parent of ¥73,088 million, a significant drop of ¥38,415 million or 34.5% from the previous year despite lower corporate taxes and an extraordinary loss caused by posting an impairment loss.

The debt-equity ratio, which is a financial indicator, improved from 0.62 times at the end of 2018 to 0.60 times at the end of 2019. Total dividends per share for fiscal 2019 increased to ¥130 from ¥120 for fiscal 2018.

Operating income: results/plan

(Billions of yen)



Medium-term business plan The TOP 2021

In January 2019, we started The TOP 2021, our medium-term business plan for 2019–2021.

Under The TOP 2021, we will establish a platform for growth, while building a promising future for the Showa Denko Group, and we will pursue progress and development toward becoming a *Koseiha*

(individualized) Company, which is our vision toward the year 2025.

A *Koseiha* Company is an aggregate of *Koseiha* Businesses, or businesses that we have established in the industry's No. 1 position by earning operating income of around several billion yen, while posting an operating margin in the double digits in markets with a scale of tens of billions of yen to hundreds of billions of yen as the appropriate market scale for our businesses. Our medium- to long-term management objective is to make at least half of our existing businesses into *Koseiha* Businesses by 2025.

Corporate Social Responsibility (Contribution to SDGs)

In May 2019, we revised the Group's CSR Policy. As a business operator, we have set the Group's goal: to develop, manufacture, and sell products and services that contribute to the SDGs. We revised this slightly by adding, as our important themes, "deepening risk management to be safer and more compliant" and "attaching high importance to CSR communication." We will echo the valuable information that we receive from stakeholders when we communicate with them, in our CSR activities.

In May 2019, we also announced that we have endorsed the aim of the Financial Stability Board (FSB) to establish the Task Force on Climate-related Financial Disclosures (TCFD). We will disclose the effect of climate change on our business in a positive way, by promoting cooperation among Group companies, business segments, plants, and staff departments. In July 2019, we set the goal of an 11% reduction in GHG (greenhouse gas) emissions from the Group's domestic bases by FY 2030, compared with FY 2013, and to announce the amount of the Showa Denko Group's GHG emissions in conformity with a global standard, the GHG Protocol. In addition, we will introduce an internal carbon pricing (ICP) system to assess the suitability of our investment programs.

As a business group, we create stable returns over the long term by promoting businesses that contribute to the creation of a sustainable society, and we will continue to evolve.

Conclusion

The Showa Denko Group is committed to satisfying all stakeholders, including shareholders, our customers' industries, suppliers, and employees. Toward that end, we will conduct business operations from a medium- to long-term perspective, and we will create excellent *Koseiha* products by deepening and fusing together the Group's organic chemistry, aluminum, and inorganic chemistry technologies. In this way, we aim to be business group that makes a social contribution, helping to create a society where affluence and sustainability are harmonized.

Going forward, the Showa Denko Group will change significantly in pursuit of growth. Our management team and employees will make concerted efforts to realize revolutionary changes in ourselves. As we push ahead, we ask for your continuing support of the Showa Denko Group.

Finally, we sincerely appreciate and look forward to the continued understanding, support, and encouragement of all our shareholders.

March 26, 2020