

NEWS RELEASE

SHOWA DENKO K.K.

13-9, Shiba Daimon 1-chome
Minato-ku Tokyo 105-8518

October 27, 2020

SDK to Split Its Optical Semiconductor Business

Showa Denko (SDK) (TOKYO: 4004) decided at its Board of Directors' meeting today to split its business in optical semiconductors and rare earth alloys through an absorption-type company split effective January 1, 2021 (hereinafter "the Company Split"). Showa Denko Photonics Co., Ltd., a wholly-owned subsidiary of SDK, will succeed to the business.

As the Company Split is to be implemented through a simplified absorption-type company split between SDK and its wholly-owned subsidiary, part of details is omitted in this disclosure.

1. Objective of the Company Split

In its medium-term business plan "The TOP 2021," SDK aims to establish itself as a "KOSEIHA Company," which means a group of KOSEIHA businesses that can maintain their profitability and stability at high levels over a long period. The optical semiconductor business is classified as one of the "Grow" businesses under the plan. SDK aims to expand the business in this growth market by providing products and technologies meeting customer needs, thereby developing it into one of its KOSEIHA businesses.

To achieve this goal, SDK will make the business an operating company, increasing the speed of decision-making and sharing of the latest market information. By focusing on the growing business in infrared light-receiving/emitting devices, we will meet customers' requirements, taking advantage of our industry-leading product quality and customizing capability.

We will transfer the business to a newly-established subsidiary Showa Denko Photonics through an absorption-type company split.

2. Outline of the company split

(1) Schedules

Approval of the contract by SDK's Board of Directors' meeting	October 27, 2020
Conclusion of the contract	November 6, 2020
Approval of the contract by Showa Denko Photonics's shareholders' meeting	October 27, 2020
Effective date	January 1, 2021 (planned)

Note: The Company Split will be a simplified company split under Article 784, paragraph 2, of the Companies Act. Thus, there will be no procedure for approval by SDK's shareholders' meeting.

(2) Method of company split

This will be an absorption-type company split, with SDK serving as the splitting company and Showa Denko Photonics as the succeeding company.

(3) Allotment pertaining to company split

At the time of the Company Split, Showa Denko Photonics will deliver its 100 common shares to SDK.

(4) Handling of warrant and bond with warrant pertaining to company split
Not available

(5) Increase/decrease in capital stock due to company split
There will be no change in SDK's capital stock due to the Company Split.

(6) Rights and obligations to be transferred
As the succeeding company, Showa Denko Photonics will assume SDK's rights and obligations regarding the business in optical semiconductors and rare earth alloys on the effective date.

(7) Prospect of fulfillment of obligations
SDK considers that there will be no problem about the prospect of fulfillment of obligations by Showa Denko Photonics after the Company Split.

3. Outline of the parties to company split (as of October 27, 2020)

	Splitting company	Succeeding company
(1) Name	Showa Denko K.K.	Showa Denko Photonics Co., Ltd.
(2) Location	13-9, Shiba Daimon 1-chome, Minato-ku, Tokyo	1505 Shimokagemori, Chichibu, Saitama Prefecture
(3) Representative	Kohei Morikawa, President	Masahiko Usuda, President
(4) Scope of business	Production and sale of petrochemicals, gas products, specialty chemicals, electronics, inorganics, aluminum, etc.	Production and sale of visible-light & infrared LEDs, light-receiving epitaxial wafers, and rare earth alloys
(5) Capital stock	¥140,564 million	¥1
(6) Date of incorporation	June 1, 1939	October 9, 2020
(7) Number of shares issued	1,497,112,926	100
(8) Accounting term	December 31	December 31
(9) Major shareholders and rate of shareholding	The Master Trust Bank of Japan Ltd. (Trust Account) 7.24% KOREA SECURITIES DEPOSITORY-SAMSUNG 4.80% Japan Trustee Services Bank, Ltd. (Trust Account) 3.51% Fukoku Mutual Life Insurance Company 3.09% Japan Trustee Services Bank, Ltd. (Trust Account 7) 2.21%	
(10) Net assets	¥519,433 million	¥1
(11) Total assets	¥1,076,381 million	¥1
(12) Net assets per share	¥3,423.25	¥0.01
(13) Net sales	¥906,454 million	-
(14) Operating income	¥120,798 million	-
(15) Ordinary income	¥119,293 million	-
(16) Net income attributable to owners of the parent	¥73,088 million	-
(17) Net income per share	¥501.03	-

As for item (9), descriptions about SDK represent the situation as of June 30, 2020.

As for items from (10) through (17), figures for SDK are based on the financial statements for the fiscal year ended December 2019.

4. Outline of the business division to be split

(1) Scope of business of the division to be split

Production and sale of SDK's visible-light and infrared LEDs, light-receiving epitaxial wafers, and rare earth alloys

(2) Performance of the division to be split (for the fiscal year ended December 2019)

Net sales	¥4,799 million
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(3) Items and amounts of assets/liabilities to be split

Assets		Liabilities	
Item	Book value	Item	Book value
Current assets	¥1,185 million	Current liabilities	¥0 million
Fixed assets	¥559 million	Long-term liabilities	¥0 million
Total	¥1,744 million	Total	¥0 million

Note: The figures shown above are based on the balance sheet as of June 30, 2020. The actual amount of assets and liabilities to be split will be finalized in consideration of increases/decreases until the effective date.

5. Outline of listed company and succeeding company after absorption-type company split

	Splitting company	Succeeding company
(1) Name	Showa Denko K.K.	Showa Denko Photonics Co., Ltd.
(2) Location	13-9, Shiba Daimon 1-chome, Minato-ku, Tokyo	1505 Shimokagemori, Chichibu, Saitama Prefecture
(3) Representative	Kohei Morikawa, President	Masahiko Usuda, President
(4) Scope of business	Production and sale of petrochemicals, gas products, specialty chemicals, electronics, inorganics, aluminum, etc.	Production and sale of visible-light & infrared LEDs, light-receiving epitaxial wafers, and rare earth alloys
(5) Capital stock	¥140,564 million	¥100 million
(8) Accounting term	December 31	December 31

6. Future prospects

As the Company Split is to be implemented as a business transfer to a wholly-owned consolidated subsidiary of SDK, it will have only minor influence on SDK's business performance.

[Reference] Forecast of consolidated business results (for fiscal year ending December 2020) (as announced on August 12, 2020)

	Net sales	Operating income	Ordinary income	Net income attributable to owners of the parent	Net income per share
	Million yen	Million yen	Million yen	Million yen	Yen
2020 (forecast)	960,000	-30,000	-55,000	-90,000	-616.94
2019 (actual)	906,454	120,798	119,293	73,088	501.03

For more information, contact:

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