

Summary of Questions and Answers at a Briefing on SDK's First Half 2020 Results

10:00 - 11:30, Thursday, August 13, 2020

Briefer: Kohei Morikawa, Representative Director, President and CEO

Motohiro Takeuchi, Representative Director, Managing Corporate Officer, CFO

*All contents are based on the information available as of the date and time of the briefing.

[General]

Q. With regard to the expenditure related to integration with Hitachi Chemical Company, Ltd., annual expenditure for 2021 and after is expected to be ¥38 billion, taking into consideration that depreciation of goodwill expected in the second half of this year is ¥18.7 billion. Are you confident with this estimate?

A. We expect the amount of annual amortization of goodwill will be about ¥38 billion, though it is still tentative estimate and we will make our calculation more accurate by the end of this year.

Q. How will the dividend yield of the preferred stock be? How about the average of rates of interest to be paid for loans?

A. The dividend yield of the preferred stock is expected to be slightly less than 5%. The average rate of interest to be paid for the total of senior loans and LBO loans will be slightly over 1%.

Q. Please tell us about your course of action to realize cost synergy that you can gain through integration with Hitachi Chemical.

A. We designed many measures for cost reduction, aiming to achieve cost reduction amounting to more than ¥20 billion. We will reform our purchasing and logistics system, business structure, and reduce administrative cost. We are scrutinizing our cost structure further, aiming to find additional synergy effects.

Q. You plan to divest businesses, and estimate that revenue on sale will be ¥200 billion. However, it seems that divestiture of businesses is becoming more and more difficult under the pandemic of COVID-19. How do you think?

A. Showa Denko and Hitachi Chemical are cooperatively investigating how our businesses should be in the future, and we are finding the way to achieve our ideal self-image. We think it is a great progress for us that we are clarifying which businesses are our non-core businesses. We will accelerate our speed to achieve divestiture of non-core businesses, though it will take time slightly more than we expected due to the pandemic of COVID-19.

[Electronics segment]

(HD media)

Q. How do you expect recovery of the demand for HD media for use in PCs and data centers will be in the second half of 2020?

A. Shipment volumes of HD media for use in data centers remain strong, though those for use in PCs remain stagnant. In the first quarter of 2020, shipment volumes of HD media for use in near-line servers recorded an all-time high, and 2020 full-year shipment volumes of HDDs for near-line servers will be 60 million units, up 20% from the previous year. To be in line with the expansion of the market for HDDs used in data centers, we are strengthening our effort to increase the sales of media for near-line servers.

[Inorganics segment]

(Graphite electrodes)

Q. How is your sales volume forecast for this year? How are your sales of graphite electrodes in each region?

A. Our sales volumes of graphite electrodes in the first half of 2020 were over 40,000 tons, while those in the first half of 2019 were slightly less than 100,000 tons. Those in the second half of 2020 are expected to be about 60,000 tons, while those in the second half of 2019 were 70,000 tons. In Europe and North America, sales volumes were stagnant, while those in Asia were relatively strong.

Q. How are your assumptions about market prices of graphite electrodes and needle coke? You forecast your graphite electrode business will have balance between sales and expenditure in the second half of 2020. How is your confidence in your forecast?

A. During the first half of 2020, market prices of graphite electrodes gradually declined. Meanwhile, we produced graphite electrodes from our inventory of needle coke (NC) whose acquisition cost in 2019 was high. Therefore, the spread between production cost and sales price was squeezed. However, we applied lower of cost or market accounting method (LCM) to our inventory of NC, and devaluated our inventory of NC to the level of the market price. Thus, we created an environment in

which we can achieve break-even if the sales of graphite electrodes in the second half of 2020 is 60,000 tons as we forecast. The latest acquisition cost of NC is low enough, and we believe we can secure enough spread between production cost and sales price of graphite electrodes from now on.

[Showa Denko Materials segment]

Q. You forecast that Hitachi Chemical's substantial operating income will be about ¥10 billion. Are you confident about this forecast?

A. Hitachi Chemical has capability to achieve substantial operating income (operating income before amortization of goodwill and devaluation of inventory) of about ¥10 billion in this second half of the year. Information and communication business will show steady performance. Though current situation of mobility business is hard, it will be improved in the second half of this year. Mobility business has already received many orders to supply parts for new models, and we are carefully watching the timing of recovery in the car market.

*Performance forecast and other statements pertaining to the future as contained in this material are based on the information available as of the date and time of the briefing 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 influence of the coronavirus disease 2019 (COVID-19), the economic conditions, costs of naphtha and other raw materials, demand for our products including graphite electrodes, market conditions, foreign exchange rates, changes in laws and regulations, and lawsuits. As to the assumptions about the consolidated performance forecast including exchange rates and domestic naphtha price, please refer to the Consolidated Financial Statements for the first half ended June 30, 2020 which were announced on August 12, 2020.