

Summary of Questions and Answers at a Briefing on SDK's Third Quarter, 2021 Results

17:30 – 18:30, Wednesday, November 10, 2021

Briefer: 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. Do you pass the jump in material, distribution and other costs on to selling prices of products?

A. We have formulated our policy that we pass the jump in costs on to selling prices of products while taking measures to reduce costs as far as possible. We are steadily negotiating with our customers about price change. As to products whose prices are determined through certain formulas prepared in advance, there may be a time lag between a rise in raw material prices and selling prices of our products. However, our operating income is not affected.

Q. How do you expect the effects of integration with Showa Denko Materials will be in the future?

A. We will take various measures to improve business efficiency, including integration of decision making processes and staff departments, thereby getting good results of the integration as early as possible.

Q. Would you please explain your aim of nominating the same person as the presidents of Showa Denko and Showa Denko Materials, which you announced recently?

A. Our operation to integrate the two companies is going well, and we are changing ourselves greatly. Under such circumstances, we have decided to nominate Hidehito Takahashi as the new common president of the two companies, aiming to accelerate the process of integration.

Q. What is your intention in issuing straight bonds? How will the impact of the reduction in the interest expense in the future be on your financial standing?

A. This time, we decided to issue straight bonds because it has become clear that the purpose of the nonrecourse loan, which was to reduce financial risk accompanying the integration of the two companies, will be achieved due to the steady progress in the process toward substantial integration of the two companies, which is scheduled to be completed in January 2022. Therefore, we decided to repay a part of the nonrecourse loan by issuing straight bonds, taking the current financial conditions into account. Through implementation of this financial operation, we expect that we can reduce interest expense of about one billion yen every year and disperse the timings of repayment of our financial liabilities.

[Electronics segment]

Q. The demand for smartphones and PCs is slowing down. How is the impact of this issue on the demand for your HD media?

A. The main use of our HD media is hard-disk drives for near-line servers. Therefore, that issue will have only a slight influence on the demand for our HD media in the near future.

Q. How will your sales of SiC epitaxial wafers be in the near future?

A. We have concluded long-term contracts with several semiconductor manufacturers to provide them with our SiC epitaxial wafers. Thus we have strengthened the business makeup of our SiC epitaxial wafer sector. We hope we can realize further growth of our SiC epitaxial wafer business.

[Inorganics segment]

Q. How much were your sales volumes and sales prices of graphite electrodes in the second and the third quarter of 2021?

A. We sold about forty thousand tons of graphite electrodes in the second and third quarters of 2021 respectively. Sales prices of graphite electrodes in the third quarter of 2021 were a little less than twice as much as those in 2017.

Q. How much will your sales volumes and sales prices of graphite electrodes be in the fourth quarter of 2021 and throughout 2022?

A. We expect that we will sell 20% to 30% more graphite electrodes than those we sold in the first half of 2021, which were seventy thousand ton. This increase is in line with our expectation. Sales prices of graphite electrodes in the fourth quarter will be 10% higher than those in the third quarter. Thus sales prices of graphite electrodes in the fourth quarter of 2021 will be twice as much as those in 2017. We expect that sales prices of graphite electrodes in the first half of 2022 will be a little less than three times as much as those in 2017, taking the current status of price negotiations into account. At present, we expect we will maintain sales volumes of graphite electrodes in the first and second halves of 2022 at the level of those in the second half of 2021.

[Showa Denko Materials segment]

Q. Why Showa Denko Materials' operating income in the third quarter of 2021 increased from that in the second quarter, although net sales were at the same level and raw material and distribution costs increased?

A. SDMC's Information and Communication business showed good performance. In addition, SDMC's cost

reduction efforts as countermeasures against increases in raw material prices were effective in increasing operating income. At present, grounds for our concern are possible decreases in the sales volumes of products of our mobility and energy-storage device businesses due to a decrease in car production resulting from short supply of semiconductors.

*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 foreign exchange rates, domestic naphtha price and other factors for the forecast of financial results for 2021, please refer to the "Consolidated Financial Statements for the First Three Quarters of 2021" which were announced on November 10, 2021.