

Summary of Questions and Answers at a Briefing on SDK's 1st Quarter 2022 Financial Results

17:30 – 18:30, Wednesday, May 11, 2022

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

[General]

Q. How was your business performance in the first quarter in comparison with your plan? Please assess that of the whole company and each segment separately.

A. Net sales and operating income of the whole company were slightly higher than we had planned due partly to more-than-expected depreciation of the yen. In the Semiconductor and Electronic Materials segment, net sales and operating income were higher than we had expected. In other segments, however, they were lower than expected. Our Petrochemicals business recorded operating loss, which was significantly worse than we had expected, due mainly to higher-than-expected naphtha price and the impact of worse-than-expected spread between raw naphtha price and prices of our petrochemical products.

Q. In the first quarter, you recorded expenditure for post-merger integration (PMI) amounting to ¥800 million, which was significantly lower than one fourth of ¥7,700 million which you had planned for the full year. Why?

A. To cope with considerable uncertainty in our business environment, we have been making every effort to reduce costs including PMI costs. However, we are making our best effort to avoid negative impact of the reduction in our expenditure for PMI on our actions to promote integration.

[Semiconductor and Electronic Materials segment]

Q. How was the segment's performance in the first quarter in comparison with your plan?

A. Sales in the Front-end Semiconductor Materials and Back-end Semiconductor Materials subsegments were larger than we had expected. In addition, sales in the Device Solutions subsegment were substantially larger than expected due mainly to an increase in shipment volumes of HD media caused by moving up of the demand from the second quarter and after. SiC epitaxial wafers were also selling well.

Q. How do you expect the performance of your SiC epitaxial wafer business will be?

A. In the first quarter, we became to believe firmly that the market for SiC epi-wafers will continue expanding and our products will maintain technical superiority. We recognize that our urgent task is to increase capacity to produce SiC

epi-wafers in order to meet strong demand. Our pressing matter is that the period required for delivery of some equipment to produce SiC epi-wafers has become quite longer than before. Therefore, it is difficult for us to increase production capacity in a short period, and we have to tackle this problem.

Q. Are you successfully passing the jump in raw material costs on to the prices of your products?

A. We are passing the jump in costs on to the product prices to some extent. However, progress in this issue is slower than we planned. We will continue negotiation with our customers.

[Chemicals segment]

Q. Why your petrochemicals business recorded operating loss in the first quarter?

A. We had already taken into account the once-in-four-year periodic shutdown maintenance of Oita Complex, which took place in the first and second quarters. However, a strong earthquake in Hyuga-nada in January 2022 also stopped our production. In addition, the spread between raw naphtha price and petrochemical products' prices became narrower than we had expected. These factors negatively impacted the segment's operating income.

Q. How were changes in sales of graphite electrodes since the fourth quarter of 2021? Please explain price factor and volume factor separately.

A. Sales volumes of graphite electrodes in the first quarter of 2022 were 10% less than those in the fourth quarter of 2021. The demand was strong, and our production facilities were operating practically at full capacity. However, shipment of graphite electrodes was stagnated by worldwide delays in distribution of goods due partly to delays in operation of container ships. Sales prices of graphite electrodes in the fourth quarter of 2021 were twice as high as those in 2017. Average of those in the first quarter of 2022 was more than double the average of those in 2017. We aim to make the average of sales prices of graphite electrodes in 2022 30% higher than that in 2021. We will continue negotiations about sales prices of graphite electrodes, including pricing formulae, with our customers, aiming to pass rises in energy costs and raw-material costs on to sales prices as much as possible.

*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 international situation, 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 2022, please refer to the "Consolidated Financial Statements for 2021" which were announced on February 14, 2022.