

Summary of Questions and Answers at a Briefing on SDK's First Half 2022 Financial Results

17:00 – 18:00, Thursday, August 4, 2022

Briefer: Hideki Somemiya, Director & Managing Corporate Officer, CFO

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

[General]

Q. Please explain about early buy-back of preferred stocks in detail?

A. Although it had already been stipulated beforehand that Showa Denko can buy back preferred stocks after the integration of legal entities of SDK and SDMC which is scheduled in January 2023, the Company offered holders of the preferred stocks to buy back them earlier than the schedule, and those stockholders acknowledged our proposal. In and after 2023, we expect this buy-back will improve our net income attributable to owners of the parent by about 7 billion yen per year.

Q. In your revised performance forecast, cash flow from operating activities is expected to deteriorate from the previous forecast. However, cash flow from investing activities is expected to be improved from the previous forecast. Please explain the background of these changes in your forecast.

A. A deterioration of cash flow from operating activities is expected due mainly to an increase in the book value of inventories caused by a steep rise in prices of raw materials and an increase in account receivable-trade caused by an increase in net sales. Cash flow from investing activities is expected to improve due mainly to partial postponing and careful selection of the Group's investment in plant and equipment.

[Semiconductor and Electronic Materials segment]

Q. You expect operating income of this segment in the second half of 2022 will be higher than that in the first half. Please explain a detailed breakdown of this improvement for each of subsegments, namely Front-end Semiconductor Materials, Back-end Semiconductor Materials, and Device Solutions.

A. We expect operating income of all of these three subsegments will increase in the second half of 2022. We also expect that sales of HD media will significantly increase due partly to seasonal cycle. Thus, in the second half of 2022, Device Solutions subsegment is expected to record the largest increase in operating income among these three subsegments.

[Mobility segment]

Q. You revised full-year performance forecast for the Mobility segment downward. What kind of trend do

you expect to see in the car production volume for the second half of 2022? What is the difference between the previous forecast and the revised forecast?

A. At the beginning of this year, we expected that car production would recover gradually in the first half of the year, and return to the normal level in the second half. However, in reality, the recovery in the first half of the year was slower than expected. Therefore, now we expect that car production in the second half will be fewer than the forecast we made at the beginning of this year.

Q. The Mobility segment was in the red in the first half of the year, and you also forecast that the segment will continue in the red in the second half. What will you do to restore profitability of your Mobility segment?

A. We will do our best to pass the jump in raw material costs on to the prices of products at the timing of sales price negotiation. We will also reduce our fixed costs further.

[Chemicals segment]

Q. Please tell us the reason why operating income of the Chemicals segment in the second quarter increased from that in the first quarter.

A. An increase in operating income of the Petrochemicals subsegment was the main factor. Petrochemicals subsegment's operating income in the second quarter significantly increased from that in the first quarter due partly to the difference between purchase price and delivery price of raw naphtha, which we purchased before substantial rise in price.

Q. Please tell us your forecast of sales prices and sales volumes of graphite electrodes for the second half of this year?

A. Sales price negotiation is in progress as we expected at the beginning of this year, and we are confident that we will achieve our target to raise sales prices of graphite electrodes by an average of 30% from the level of the previous year. On the other hand, we have made a downward revision of the sales volume target of graphite electrodes for the second half from the level we set at the beginning of this year.

*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 the first half year (January 1 to June 30, 2022)" which were announced on August 4, 2022.