

## **Summary of Questions and Answers at a Briefing on SDK's First Quarter 2019 Results**

18:00 - 19:00, Thursday, May 9, 2019

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

### **[General]**

#### **Q. How do you expect each segment's operating income for the first half of 2019 will be in comparison with your performance forecast?**

A. We expect that operating income of our Inorganics segment will be as much as we forecasted. That of Petrochemicals segment will be better than our forecast, and that of Electronics segment will be less than our forecast. However, shipment volumes of HD media hit the bottom in the first quarter of 2019, and will steadily recover hereafter.

#### **Q. Why your inventories at the end of the first quarter of 2019 increased by ¥18.5 billion from those at the end of 2018.**

A. Main reasons are appreciation of inventories of finished graphite electrodes and needle coke as raw material.

#### **Q. Why the amount of adjustment in your consolidated operating income improved by ¥1.7 billion, to minus ¥0.8 billion?**

A. The reason is that we changed standards for allocation of the cost of staff departments in the head office to each segment when we launched the new medium-term business plan this year.

#### **Q. ¥4 billion as the cost for introduction of SAP S/4HANA into a company as big as SDK is relatively cheap. Why?**

A. In January 2020, we will start to introduce SAP S/4HANA into SDK as the parent. ¥4 billion is the cost of introduction of SAP S/4HANA to SDK only, not including subsidiaries. We will expand the system to cover our overseas subsidiaries step by step in the future.

### **[Petrochemicals segment]**

#### **Q. How was the changes in the value of your naphtha inventory due to changes in market price? How was the effect of the situation that you did not have periodic shutdown maintenance in the first quarter of 2019?**

A. Total operating income of the Petrochemicals segment increased by ¥600 million. However, our olefin business's operating income decreased by about ¥500 million. Major factors are as follows: The situation of no-shutdown-maintenance pushed up operating income of the segment by ¥3 billion; a reduction in naphtha price reduced operating income

of the segment by ¥2 billion; and a reduction in market prices of C4 distillates and cracked gasoline reduced spreads between the price of naphtha and petrochemical products, and this factor reduced operating income of the segment by ¥2 billion. Operating income earned by organics business and SunAllomer increased.

### **[Chemicals segment]**

#### **(High-purity gases for electronics)**

#### **Q. You said the difference in component ratios of gases you shipped reduced your operating income. Please specify.**

A. Operating income earned by our high-purity gas business decreased due to a reduction in shipment volumes of high-purity gases with relatively high prices, resulting from adjustment of production in the IT industry. We expect that the shipment volumes of high-purity gases with higher prices will recover in the second half of 2019.

### **[Electronics segment]**

#### **Q. How are your HD media and SiC epitaxial wafer businesses going?**

A. Shipment volumes of HD media hit the bottom in the first quarter, and, in the second quarter, we are now increasing shipments of HD media for HDDs used in large datacenters. Shipment volumes of SiC epitaxial wafers increased in the first quarter. However, development costs for SiC epitaxial wafers also increased in the first quarter year on year.

#### **(HD media)**

#### **Q. How is the shipment of next-generation MAMR media?**

A. We will start commercial shipment of MAMR-technology-based media around the end of 2019.

### **[Inorganics segment]**

#### **(Graphite electrodes)**

#### **Q. U.S.-China trade friction and business slowdown in Europe are current topics. Is there any changes you foresee in demand for graphite electrodes by region?**

A. In China, the supply-demand situation of HP graphite electrodes eased in the first quarter. However, the demand for graphite electrodes in the U.S. market and East Asian market including

Japan remains strong. In the Chinese market, the prices of our UHP products are not affected much. Moreover, the share of the sales figure of our Chinese subsidiary in our total sales of graphite electrodes is quite limited. In the European market, the demand for graphite electrodes is slightly slowing down. However, in total, there is no change in our forecast for our total sales of graphite electrodes.

**Q. How were the sales prices of graphite electrodes and the purchase prices of needle coke in the first quarter?**

A. In the first quarter of 2019, sales prices of graphite electrodes were about 5 times as high as those in 2017, as we expected. Sales prices of graphite electrodes for our customers in East Asia were agreed on at the level 5 to 10% higher than those in the second half of 2018. Purchase prices of needle coke were agreed on at the levels 6 times as high as those in 2017, as we originally forecasted. As for the sales prices of graphite electrodes for our customers in Europe and the

U.S., negotiation has not started yet. So we cannot comment on them now. Our forecast for supply demand situation in global graphite electrode market is based on the strong demand in East Asia and the U.S. Therefore, we maintain our original forecast we announced at the beginning of 2019.

**[Aluminum segment]  
(Aluminum cans)**

**Q. When will the effect of establishment of the new aluminum can plant in Vietnam be realized and increase your income?**

A. We expect the amount of production in the new plant will increase gradually. The demand for beer cans in Vietnam has been steadily increasing in recent years, and we are sure our sales in Vietnam will continue to increase in coming years. This is the reason why we recently decided to establish our third production base in Vietnam.

\*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 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 quarter ended March 31, 2019 which were announced on May 9, 2019.