

Summary of Questions and Answers at a Briefing on SDK's First Half 2019 Results

10:00 - 11:30, Thursday, August 8, 2019

Briefer: Kohei Morikawa, President and CEO

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

[General]

Q. What is your idea about return to shareholders?

What is your policy on repurchasing of the company's own stock?

A. Under our policy on total return ratio to make it 30% by 2021, which is stated in our medium-term business plan "The TOP 2021," we are considering repurchasing of the company's own stock as an option. We will give consideration to the idea to agilely repurchase the company's own stock upon determining right timing. We will maintain our total return ratio for 2019 at the level of 2018 at least.

[Petrochemicals segment]

Q. The Asian market for petrochemicals is sluggish. How do you foresee the Asian market will be?

A. Our sales plan for petrochemicals assumes that petrochemicals produced by newly or extensionally constructed petrochemical plants in Asia including China will be consumed mainly in China because the Chinese economy will continue growing (Middle class people will consume more petrochemical products than before). The demand for petrochemicals in Asia remains strong. However, growth of Chinese economy is decelerating due to the US-China trade friction. We are watching the situation carefully because there is a risk of imbalance between supply and demand for petrochemicals in Asia due to further deceleration in Chinese economy.

[Chemicals segment]

(High-purity gases for electronics)

Q. What are the prospects for your sales of high-purity gases in the second half of this year? How is the situation concerning the export regulation for high-purity hydrogen fluoride?

A. Our sales of high-purity gases for electronics is assumed to recover in the second half of this year from the production forecast of our customers. Though the production forecast varies from customer to customer, the demand will start to recover in the 4th quarter of this year at the earliest. Our sales figure of high-purity hydrogen fluoride is quite small. As for the export regulation, export of hydrogen fluoride is not prohibited under the new regulation.

Therefore, we will continue managing our export to be in line with laws and regulations.

[Electronics segment]

(HD media)

Q. How is the situation for adoption of MAMR by HDD manufacturers? Is the demand for glass HD media for near-line servers increasing?

A. SDK has the highest level technology to develop large capacity HD media including media for MAMR, and our HD media's high quality and reliability are recognized by HDD manufacturers. We think both glass media and aluminum media are necessary for HDD manufacturers in order to enrich their product lineup. Therefore, we expect that the demand for both media will increase when the demand for HDDs recovers and increases in the near future.

[Inorganics segment]

(Graphite electrodes)

Q. When you acquired SGL GE in October 2016, you said you would rather improve profitability than increase sales figure. Your stance on your graphite electrode business is not changed, is it?

A. We maintain our stance on our GE business. We will improve stability of the profit earned by our GE business. We have been selling highest-quality UHP GEs customized for each customer's sizes of electric furnaces, the way each customer uses electric furnaces, and each customer's conditions to melt scrap steel. We will make effort to increase the ratio of custom-made GEs in our total sales of GEs.

Q. You said you would decrease production of GEs in this year by 15%. Do you have any idea in which area you are going to decrease your sales of GEs?

A. This time, we reduced our forecast for the sales figure of GEs in this year by 15%. We will reduce our production of GEs mainly in Europe because of economic slowdown in that area. We started our investment program to upgrade product quality in May 2019, and started to decrease production of GEs in Europe from the second quarter of this year. We also reduced our production of GEs in China. The demand for GEs in the US, Japan and East Asia remains strong,

Q. What is the difference between highest-quality UHP GEs and general-purpose UHP GEs?

A. Difference in quality matters. UHP GE with inferior quality shows higher wastage rate than that with highest-quality, and tends to be chipped off during use. If carbon gets mixed with melted steel, quality of steel will become worse. We believe firmly that our customers using our highest-quality UHP GEs will not switch to general-purpose UHP GEs with inferior quality due only to difference in cost.

Q. You expect that the demand for GEs will continue increasing. What are primary factors that support market growth?

A. For two to three years now, electric steel manufacturers in the US are increasing their production capacities. In addition, the demand for electric steel in China will increase in the coming years. If the more scrap steel with good quality is put on the market, the more electric steel with good quality can be produced. We expect that the market for GEs will continue growing, and we will make the most of this golden opportunity.

*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 half ended June 30, 2019 which were announced on August 7, 2019.