

## Summary of Q&A at SDK's 3Q 2019 Earnings Conference Call for Investors

Date: November 6, 2019 (Wednesday), from 6:00 to 7:00 p.m.

Respondent: Motohiro Takeuchi, CFO (Director and Corporate Officer)

\*The following answers are based on information available at the time of the conference.

### **[Overall]**

#### **Q What is your prospect of performance of each business segment in 4Q?**

A The Inorganics segment's performance in 4Q is expected to remain at approximately the same level as in 3Q. In other segments, we are seeing signs of gradual recovery.

### **[Petrochemicals segment]**

#### **Q The ethylene market in East Asia was weak in 3Q. But this segment produced relatively good results. Why?**

A Although the ethylene market fell in 3Q, the market for propylene and benzene was relatively steady. Furthermore, SunAllomer's performance was solid.

### **[Chemicals segment]**

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

#### **Q Did you see signs recovery in shipment volumes of high-purity gases for electronics? How is the shipment trend in 4Q? How about the applications?**

A Although the volume was not so large, shipment volumes gradually recovered in 3Q, mainly for use in 3D-NAND production. In 4Q, shipment volumes will increase from 3Q, reflecting recovery in customers' production centering on memories.

### **[Electronics segment]**

#### **(HD)**

#### **Q How are shipments of HD media for 14TB HDDs for data centers?**

A Despite some delay, SDK began shipments of HD media in 2Q for 14TB HDDs. Shipment volumes increased in 3Q, almost recovering to the level of the same quarter last year. We expect a further increase in 4Q. In 2020, we expect full-scale investments in data centers. We therefore believe

that our HD media shipment volumes will continue to rise.

### **[Inorganics segment]**

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

#### **Q SDK explained in August that it would cut production by around 15%. How is the actual rate of production cut at the moment? Do you cut production mainly in Europe? Have you cut production in East Asia and the United States as well?**

A Compared with August, steel production further fell in Europe owing to economic slowdown. Thus, we have increased the rate of production cut to approx. 30%. However, the utilization rate of our plant in the United States remains at a high level. Demand in Japan and East Asia is relatively strong, and we are cutting production slightly. In China, the situation remains difficult.

#### **Q When will customers' inventory adjustment end?**

A In August, we thought the inventory adjustment would end by the end of this year. However, we now think the inventory adjustment will continue till the middle of 2020 because of the low levels of steel production, reflecting economic slowdown in Europe. SDK is cutting back on production in response to customers' inventory adjustment. At the same time, we are investing in quality improvement projects at our production sites in Europe.

#### **Q How about the graphite electrode market in the second half of this year?**

A In the first half of this year, the market price was about five times that of 2017. In 3Q, the market price fell slightly, to less than five times. As for our contracts with customers in East Asia for the October-March period, the price level is maintained at high levels, despite a slight decline.

\* Actual business results may differ materially from the above forecast due to a variety of risk factors, including, but not limited to, the following:

- Economic conditions, costs of naphtha and other raw materials, demand and market prices for graphite electrodes and other products, foreign exchange rates, legal changes, and lawsuits.

As for our assumptions of foreign exchange rates, naphtha prices in Japan, etc., please refer to our financial statements announced on November 6, 2019.