

## **Summary of Questions and Answers at a Briefing on SDK's First Quarter 2020 Results**

18:00 - 19:00, Friday, May 15, 2020

Briefer: Motohiro Takeuchi, Representative Director, Managing Corporate Officer, CFO

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

### **[General]**

**Q. How was the influence of the pandemic of COVID-19 on your performance? How much did the pandemic reduce your operating income for the first quarter of 2020?**

A. We cannot clearly indicate how much the pandemic depressed our operating income, because it is difficult to separate the influence of COVID-19 from other factors. But the amount of the negative impact was not small. For example, with regard to our graphite electrode business, steel production in Europe was decreased, and the demand for graphite electrodes was postponed. We expect the influence of COVID-19 will be more significant in the second quarter. In the East Asian market, there is an influence of prohibition on going out and suspension of production activities, and the pandemic is negatively affecting our customers including HDD manufacturers. On the other hand, the demand for HD media to be used in servers in data centers is strong because of the spread of telework and online applications. Therefore, we expect further increase in the demand for HD media for servers in data centers. Shipment volumes of high-purity gases for production of memory chips also remain strong.

**Q. I was disappointed to hear that you changed your forecast of dividend to "undecided." Why was it difficult for you to maintain your plan to pay annual dividend of ¥130 per share based on the medium- to long-term outlook?**

A. The negative impact of the pandemic of COVID-19 on the world economy and our performance has become considerably greater than that we expected when we started TOB for shares in Hitachi Chemical Company, Ltd. in March 2020. We will re-estimate the amount of our operating income for 2020. We want to continue paying dividend, if the negative influence of COVID-19 will not be worsened than the current level.

### **[Petrochemicals segment]**

**Q. How is the operating rate of your ethylene plant?**

A. In the first quarter of 2020, we had periodic maintenance of facilities to produce derivatives. So, the operating rate was a little less than 90%. In the second quarter, we expect a slightly better operating

rate because the shutdown maintenance was completed in the first quarter.

**Q. How does the fall in crude-oil prices affect your petrochemicals business?**

A. Due to the pandemic of COVID-19, crude-oil prices dropped sharply in March, and a weak market continues since then. In the second quarter, the changes in the value of our naphtha inventory will be worsened very much because market price of naphtha produced in Japan is expected to be reduced by half from that in the first quarter. The time-lag factor will also worsen the situation. Therefore, we expect the performance of the Petrochemicals segment will be worsened from that in the first quarter.

### **[Electronics segment]**

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

**Q. How are the sales volumes of your HD media?**

A. Shipment volumes of HD media for use in near-line servers in data centers increased. As a result, sales volumes of HD media in the first quarter increased 20% from the year-before period. This amount is slightly lower than that in the fourth quarter of 2019 due to seasonal factor. Shipment volumes of HD media for use in PCs remain strong, though the level is still lower than that in the golden days. The regulations on going out in Southeast Asian countries due to the pandemic of COVID-19 is significantly limiting production activities of HDD manufacturers. This affects shipment volumes of our HD media in the second quarter. However, the recent trend is for an increase in the demand for HD media due to the progress in digitalization in society. We expect that production volumes of HDDs by our customers in Southeast Asia will recover in the second half of 2020.

### **[Inorganics segment]**

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

**Q. How were the sales volumes of graphite electrodes, prices of needle coke as raw material, and inventories in the first quarter? How do you expect the situation in the second quarter will be?**

A. For the first quarter, we forecasted sales volumes of graphite electrodes would be 30,000 tons. However, the actual sales volumes were slightly less than 20,000 tons. We are strengthening reduction in production of graphite electrodes, as response to a reduction in steel production in the world. In the second quarter, we expect an increase in sales volumes. Our current policy is to continue reduction in production for a while, in order to improve the level of

inventories of graphite electrodes toward optimum one step by step. Sales prices of graphite electrodes has been falling since the second half of 2019, and this trend will continue in the second quarter. In April, we had a price revision in East Asia. We expect hard conditions concerning prices of graphite electrodes in the European and North American markets due to the pandemic of COVID-19.

\*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 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, 2020 which were announced on May 15, 2020.