

Q2 FY2013 Tokuyama Corporation Earnings Conference Call (October 31, 2013)

Q&A (Excerpts)

Participants:

Kazuhisa Kogo, President

Tatsuo Segawa, Representative Director and Senior Managing Executive Officer

Q. The Company's presentation materials for the 2Q of FY2013 indicate that Tokuyama Malaysia PS-1 production is scheduled to commence in November 2013. This is a little later than previously advised. Could you provide us with an explanation?

A. The commencement of production refers to the bringing online of all facilities including distillation towers at full capacity. We plan to achieve this complete structure upon entering November. In this context, there is little change from previous announcements and forecasts.

Q. Turning to the schedule for Tokuyama Malaysia PS-2, the Company had previously targeted April 2015 for the commencement of solar cell-grade polysilicon production and sale. As a part of its report on 2Q financial results, the Company has brought this schedule forward to around the middle of 2014. Did you decide to bring production and sale forward on the understanding that operations at PS-2 could contribute to earnings given current market conditions and exchange rates?

A. Construction continues to proceed as scheduled. Plans are in place for work on the plant to be completed at the end of this year. Our intention is then to commence operations on a trial basis. By the middle of next year, we hope to have stabilized quality and to start up operations across all lines. Again, these plans have not significantly changed from earlier projections. Meanwhile, we have witnessed a further weakening of the yen compared with our U.S. dollar / yen exchange rate forecast 1.00 to 90.00 in February. If the market for solar cell-grade polysilicon continues to exhibit an underlying strength after having bottomed out, we would look to comment production and sales around the middle of next year.

Q. Please tell us about the state of discussions with prospective purchasers of PS-2 solar cell-grade polysilicon?

A. We plan to commence shipments of PS-1 samples that will allow prospective purchasers to undertake the necessary assessments including quality confirmation.

Q. The Company's free cash flows remained negative throughout the 1H of the fiscal year under review. When do you expect free cash flows to turn positive?

Furthermore, the balance of inventories has declined considerably as of September 30, 2013. Please explain to use in terms of the Company's cash movements the reasons behind this decline.

A. As things currently stand, we expect free cash flows to turn positive from FY2015.

Turning to the decline in the balance of inventories as of September 30, 2013, the principal factor can be attributed to the downturn in inventories of polycrystalline silicon work in process and finished goods held as of March 31, 2013.

Q. The Company has deferred making any new forecasts for the full fiscal year. Operating income for the 1H of FY2013 was ¥1.8 billion higher than the forecast announced at the beginning of the period. Does this decision to defer making any new forecasts suggest that operating income will decline in the 2H? Meanwhile, what do you see as 2H risks?

A. By segment, we see some upside movement in our Cement business. In contrast, we consider an upswing in the price of naphtha in Japan and expectations that prices will continue to hover at a high level to be a major risk factor in the Chemicals business.

Turning to the Specialty Products business as well as the Life & Amenity business, we anticipate trends will remain essentially in line with plans.

Moreover, the increase in 1H operating income can be attributed to successful efforts to bring forward expenditure reduction measures compared with initial forecasts.

Q. To date, the Company has spoken of its intention to lower cash costs at Tokuyama Malaysia. What levels do you hope to achieve and how would you assess progress?

A. When we included PS-2, plant construction work is yet to be completed. As we move toward completion, we will work to ensure a wide range of improvements drawing on our experience. In this manner, we are confident that plant work remains on track to achieve our objectives.

Q. In the event that you are able to lower cash costs at Tokuyama Malaysia in accordance with plans, and should the competitiveness of other countries further deteriorate as they are forced to overcome high utilities costs three years hence, we would expect the Company to enjoy slightly improved operating conditions. What are your thoughts on this forecast scenario?

A. In China, a major polycrystalline silicon market, conditions were projected to rise slightly due to the impact of antidumping taxes. This scenario has not materialized. All in all, it is difficult to anticipate a substantial upswing in market conditions over the next three to four years. During this period, the degree to which major polycrystalline silicon manufacturers including Tokuyama outside China can reduce costs will prove vital. Accordingly, we will adopt a strict cost reduction policy in Malaysia. Moving forward, we take up the challenge of ensuring a price level that best fits the market while building in quality at the production process.