1Q FY2018 Tokuyama Corporation Investor Meeting

Q&A (Excerpts)

Date and time: July 31, 2018 (Tuesday) 14:00 – 14:45

Participants:

Akihiro Hamada, Director, Managing Executive Officer, General Manager of the Financial Div.

Taro Kobayashi, General Manager, Corporate Communications & Investor Relations Dept.

1. Questions regarding 1Q results

Q1: How have 1Q results compared with forecasts?

A1: In overall terms, operating profit exceeded forecasts by roughly ¥1 billion. Operating profit surpassed forecasts by ¥0.7 billion and ¥0.4 billion in the Chemicals and Life & Amenity segments, respectively, fell short of forecasts by ¥0.3 billion in the Specialty Products segment, and was basically in line with plans in the Cement segment.

Q2: Are you seeing a pickup in R&D expenses, fixed costs, and other items, which were strictly managed up to the previous fiscal year?

A2: Progress is in line with plans.

2. Questions regarding the outlook from the 2Q

Q3: Naphtha and coal accounted for ¥1.5 billion and ¥0.8 billion, respectively, of the total increase in raw material and fuels costs to ¥2.7 billion. Looking at the Company's forecast at the beginning of the period, raw material and fuels costs are projected to come in at ¥10.5 billion for the full fiscal year. What are your thoughts on progress as of the end of the 1Q compared with plans? What is your outlook from the 2Q?

A3: While results were in line with budgets, the price of naphtha came in at ¥48,700. This is higher than our assumption at the beginning of the period of ¥48,000. While the most recent spot price for coal has climbed to US$120, we maintain stock procured prior to the 1Q. As a result, the increase in costs has not exceeded expectations on a moving average basis. Should the spot price of coal remain at US$120, expenses will increase from the 2Q.

Q4: Turning to "Changes in Operating Profit" on slide 9 of the presentation materials, selling price forecasts provided during the Company's presentation of FY2017 results in April indicated a full fiscal year increase of ¥9.2 billion. On this basis, the ¥3.7 billion increase for the 1Q three months comes in at roughly 40% of plans. Should this trend continue, are you looking at an increase in selling prices for the full fiscal year?

A4: Revisions to the selling price of caustic soda had a significant impact in 1Q results. Should raw material and fuel prices continue to exceed forecasts in the future, we will be forced to lift prices. In that case, the amount attributable to movements in selling prices will increase.

Q5: Do you expect sales volumes of cement to expand going forward? What are your thoughts on sales volumes from the 2Q?

A5: While sales volumes were slightly weak in the 1Q, we anticipate domestic levels for the full fiscal year will come in at the forecast amount of 3.05 million tonnes owing mainly to construction work for the upcoming Olympics. Moreover, we are looking at exporting 1.35 million tonnes.

Q6: What is the full fiscal year outlook for the Life & Amenity segment?

A6: Results for such items as pharmaceuticals and eyeglass-related materials surpassed forecast figures in the 1Q. We expect to achieve around the same level of operating profit for full fiscal year as the previous fiscal year.

3. Questions regarding chemical products

Q7: While you have explained that exports of caustic soda will increase from the 2Q, the spot market price in Asia is declining. What are your thoughts on market prices?

A7: There are instances when the spot market price in Asia temporarily fluctuates in a volatile manner due to shifts in supply and demand. However, from a medium-term perspective, the gap between supply and demand throughout the region appears to be tightening. On this basis, market prices can be expected to recover.

Q8: Turning to polyvinyl chloride, are the effects of price increases in early spring waning amid the increase in naphtha prices?

A8: The increase in naphtha prices during the 1Q exceeded forecasts. Should this trend continue, we will need to consider lifting prices.

4. Questions regarding specialty products

Q9: Are there any differences in customers' inquiries regarding semiconductor-related products between the January to March and April to June quarters?

A9: Inquiries regarding semiconductor-related products remain strong. Production is essentially progressing at full capacity. We have also made the decision to increase developing fluid capacity.

Q10: With the decline in market prices of solar-grade polycrystalline silicon, I believe there may be instances where certain manufacturers of solar-grade polycrystalline silicon convert to semiconductor-grade polycrystalline silicon. Do you see this as a threat?

A10: As far as semiconductor-grade polycrystalline silicon is concerned, customers' look for companies with considerable expertise in manufacturing methods and a leading market share. For these reasons, we will continue to enhance quality. With this in mind, we feel confident in our ability to maintain our technological advantage.

5. Questions regarding the Others segment

Q11: Can you provide details about the Others segment from the 2Q.

A11: The downturn from the previous year is attributable to periodic maintenance, which has led to a drop in operations at power generation plants. As a result, the amount of power sold has fallen. We anticipate that results from the 2Q will come close to forecasts announced in April.

6. Questions regarding the Company's financial position

Q12: Can you tell us about the Company's credit rating.

A12: While our credit rating has improved to "BBB+ Positive," ratings agencies have commented that the Company's accumulated shareholders' equity is low. Our goal is to restore our "A" rating and to this end we are targeting a shareholders' equity ratio of 50% and a D/E ratio of 0.5. With this in mind, building up the Company's shareholders' equity is of paramount importance.

Q13: What are your thoughts on the return of profits to shareholders?

A13: Although the speed and steps to be taken to reach to our goal may change depending on our results and accumulated shareholders' equity, we are targeting a dividend payout ratio of 30%, which is in line with industry peers.

Q14: Can you comment on the Company's subordinated loans?

A14: We are unable to make any announcements at this time. We will, however, provide details as and when determined in a timely manner.