

3Q FY2018 Tokuyama Corporation
Investor Meeting Q&A (Excerpts)

Date and time: January 31, 2019 (Thursday) 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. Question regarding full fiscal year results

Q1: What is the likelihood of your achieving full fiscal year forecast results?

A1: While our operating profit forecast of ¥38.0 billion identified at the beginning of the period remains unchanged, achieving the projected level in our cement operations is proving difficult from a business segment perspective. We are looking to offset any shortfall through the Life & Amenity and other segments.

2. Questions regarding trends in 2Q, 3Q and 4Q quarterly profits

Q2: Looking at the factors behind changes in operating profit, “fixed costs and others” have increased ¥2.9 billion on a cumulative basis. The increase up to the 2Q was ¥1.3 billion, which means that the increase in the 3Q alone was ¥1.6 billion. Is this a temporary incident or will this trend continue in the 4Q and beyond?

A2: We believe this is a temporary incident. The increase in the 3Q compared with the 1Q and 2Q is attributable to an upswing in repair costs.

Q3: Operating profit in the Others segment decreased year on year. Will we see an increase in the 4Q? Can we assume a return to between ¥5.0 and ¥6.0 billion in the next fiscal year?

A3: External sales of power make up the largest portion of operating profit in the Others segment. Sales volumes will fall substantially from levels projected at the beginning of the period owing to periodic maintenance undertaken this year and the suspension of operations at large-scale power generation plants. While we will continue with efforts to boost sales volumes of power in the 4Q in order to achieve operating profit of ¥38.0 billion, full fiscal year results will not return to the level recorded in FY2017. Plans are also in place to consume large volumes of power in-house in FY2019. As a result, we feel it will be difficult to achieve operating profit on between ¥5.0 and ¥6.0 billion in the Others segment.

3. Questions regarding specialty products

Q4: I believe polycrystalline silicon volumes will remain unchanged on an annual basis. Can you elaborate on progress up to the 3Q?

A4: The volume of polycrystalline silicon shipments up to the 3Q were slightly lower compared with the previous year on a cumulative basis. Results are projected to increase around 10% compared with the previous year for the full fiscal year as forecast at the beginning of the period.

Q5: Can you tell us about polycrystalline silicon prices?

A5: During the 2Q FY2018 presentation, we mentioned that we were calling for an increase in selling prices as a part of ongoing negotiations. Thereafter, we gained the understanding of customers regarding prices from the next fiscal year and efforts aimed at restoring value through further discussion. In fact, we have received the acknowledgement of certain customers regarding the restoration of value during the fiscal year under review in advance.

Q6: Does that mean that efforts to restore the value of polycrystalline silicon are geared mainly toward high-end product use?

A6: We have no issues with that line of thought.

Q7: There are concerns that electronic material-related shipments may be affected moving into the 4Q. What are your thoughts?

A7: Limiting our comments solely to this company, we have heard nothing from customer about a decrease in sales volumes of such specialty products as developer, high-purity chemicals and thermal management materials at this point.

4. Question regarding the Medium-Term Management Plan

Q8: Having already achieved the financial target of a D/E ratio of 1.0 times or less, will you revise the Medium-Term Management Plan or the Company's financial strategy?

A8: While steps are being taken to review the Company's progress under its medium-term management plan, the major issue of transitioning toward a robust business structure remains. We will review the Medium-Term Management Plan as well as our financial strategy. However, we are yet to make a decision regarding the disclosure of details following this review.

5. Questions regarding traditional businesses

Q9: Can you advise us on how we should view polyvinyl chloride in Japan, shipments of caustic soda and domestic prices in the future?

A9: Naphtha prices increased over the 2H of 2018. We put forward to customers an increase in polyvinyl chloride of ¥15/kg in October. With the likelihood that naphtha prices would decline from 2019, however, we were unable to revise polyvinyl selling prices. As a result, profits declined. Currently, the price of naphtha is ¥40,000. This is lower than when prices surged sharply. As far as the Company is concerned, while recognizing the difficulties in lifting prices in order to continue business, we will look to maintain a certain profit margin. Turning to the price of caustic soda exports, we believe that levels will increase from spring should products comply with standards set by the Bureau of Indian Standard (BIS). From a domestic price perspective, price levels that were lifted last year have continued from the 2Q into the 3Q. We have gained the understanding of customers that price increases are necessary in order to ensure future stable supply. On this basis, we are confident that prices can be maintained.

Q10: Is there room for an increase in cement prices in the 4Q?

A10: Of course. The current proposal of ¥1,000 in progress is not enough. We will continue to push forward in the 4Q.