

Q3 FY2013 Tokuyama Corporation Earnings Conference Call (January 31, 2014)

Q&A (Excerpts)

Participants:

Tatsuo Segawa, Representative Director and Senior Managing Executive Officer

Takeshi Nakahara, Executive Officer, General Manager of Corporate Planning Div.

Q. Could you please provide us with an explanation of activities and results by quarter in the Specialty Products and Cement segments in the context of full fiscal 2013 performance forecasts?

In the Specialty Products segment, 3Q net sales and operating income are down compared with the 2Q. On the other hand, 4Q net sales and operating income are projected to increase compared with the 3Q.

In addition, 4Q net sales and operating income in the Cement segment are forecast to fall below results recorded in the 3Q. While this can be attributed to seasonal factors, the downturn in the 4Q seems larger than in previous years.

Can you please elaborate on the business environments and movements in operating income for both these segments?

A. Movements in Specialty Products net sales and operating income are linked to sales volumes of polycrystalline silicon. More specifically, sales volume declined in the 3Q compared with the 2Q. In contrast, sales volume in the 4Q is projected to surpass levels recorded in the 3Q.

Results in the Cement segment parallel sales volumes of cement. Historically, sales volume is high in the 3Q. Accordingly, we anticipate sales volume to fall in the 4Q. In addition, performance forecasts for the full fiscal year are presented in units of ¥0.5 billion. While results may appear to decline in the 4Q, no extraordinary factors that would drive down operating income have been incorporated into 4Q forecasts.

Q. Looking at the status of startup operations at Tokuyama Malaysia PS-1, production conditions are currently being confirmed as a part of efforts to acquire semiconductor-grade certification. Is there a chance that Tokuyama Malaysia PS-2 will record sales ahead of Tokuyama Malaysia PS-1?

A. Yes, it is possible.

Q. Under current circumstances, is it likely then that Tokuyama Malaysia PS-1 will require a little more time?

A. Yes. As conditions currently stand, we cannot comment with confidence when Tokuyama

Malaysia PS-1 will be in a position to deliver products at the level of quality to which we aspire. At present, every effort is being made. We will provide a more detailed report when matters become clear.

Meanwhile, plans call for Tokuyama Malaysia PS-2 to produce and market solar cell-grade polysilicon. Accordingly, it does not require the same high level of technological capability as Tokuyama Malaysia PS-1. Construction of the plant has now been completed and steps are being taken to conduct trial operations with little or no fuss. On this basis, we anticipate a structure that is capable of production and sales will be fully in place around six months from now.

- Q. In its Profit Improvement Plan announced in February 2013, I believe that the Company identified an operating income target of ¥18 billion for FY2015. Recently, you have upwardly revised your full fiscal year forecasts for FY2013 with operating income projected to reach exactly ¥18 billion. While I suspect that you will shortly be taking steps to review your three-year rolling plan, can you tell us more about the Company's progress under the Profit Improvement Plan, including the impact of delays in bringing Tokuyama Malaysia PS-1 fully online compared with the original schedule announced in February last year, and how we should view activities and performance in FY2014.
- A. We are indeed in the process of reviewing the plan including the impact of these changes. As a result, we are not currently in a position to comment. We plan to hold a briefing session in May at which time we intend to elaborate.
- Q. It is generally accepted that the Company will succeed in its efforts to promote increased efficiency in its overall fumed silica business by shifting operations of surface treatment grade fumed silica to China and that this relocation can be achieved with the relatively small investment of approximately ¥0.9 billion. Please tell us about the impact of this initiative on future earnings?
- A. While we are not able to provide specific details of the impact on future earnings, we do anticipate that this move will have an extremely favorable effect on profitability. As you have mentioned, this is thanks to the small investment amount. We are indeed taking considerable steps to hold down investments. We are confident, however, that this investment has substantial value.
- Q. In the Company's previous 2Q financial results presentation materials, depreciation expenses and investments for the fiscal year under review were projected at ¥16.9 billion and ¥55.5 billion, respectively. Is there any change to these amounts?

A. There is no change.

Q. Tokuyama's Malaysia Project, which is estimated to cost a total of ¥200 billion, is scheduled to come online in FY2014. Looking at a flat rate of 15 years, this translates to a substantial annual depreciation expense. Please tell us about your forecasts for depreciation expenses?

A. The investment amounts for Tokuyama Malaysia PS-1 and Tokuyama Malaysia PS-2 differ. The Company's investments are ¥80 billion and ¥120 billion, respectively, for a total of ¥200 billion.

Q. The amount will most likely change depending on when Tokuyama Malaysia PS-1 and Tokuyama Malaysia PS-2 come online. Can we assume, however, that the Company will incur a substantial depreciation expense burden in the next fiscal year?

A. Yes, that is correct.