Q1 FY2014 Tokuyama Corporation Earnings Conference Call (July 31, 2014)
Q&A (Excerpts)

Participant:
Tatsuo Segawa, Representative Director and Senior Managing Executive Officer

1. Questions regarding the solar cell-grade polysilicon in Tokuyama Malaysia (PS-2)

Q: You said that Tokuyama Malaysia PS-2 is one month behind schedule compared with initial plans. Is this due to a serious mechanical problem, or is it simply a delay? Can you go into more detail about this?

A: A part of the problem is mechanical, which is being addressed. To prosper in this business, we must achieve both cost competitiveness and reliable quality, or else growth will be elusive. We are confirming equipment modifications in the final stages of trial operations. Ensuring stable quality has required extensive fine tuning, so we have fallen behind the initial schedule. (On a budget basis, we are two months behind schedule.)

Q: You said that you plan to start operations in September. What are your forecasts for capacity utilization? When do you think production will reach full capacity?

A: We expect capacity utilization to be well over 50% at launch, and then gradually increase. We plan to conduct various trials from January to March, 2015, and gear up to full production capacity from FY2015.

2. Questions regarding the semiconductor-grade polysilicon in Tokuyama Malaysia (PS-1)

Q: Please give us an update on progress toward commencing sample shipments from Tokuyama Malaysia PS-1 in FY2015.

A: Modifications that we initially anticipated have been progressing well at this stage. While adjusting the machinery, we are also fine-tuning reaction conditions.

Q: Is it safe to assume that you have found the root cause of problems at Tokuyama Malaysia PS-1?

A: We have received reports from onsite managers that the investigation into the fundamental cause of problems has been more or less completed.

Q: Is there the possibility of impairment loses if the launch of Tokuyama Malaysia is delayed?

A: We have periodically worked with accountants to ascertain whether impairment losses are

necessary on Tokuyama Malaysia or each of PS-1 and PS-2, respectively, but none have been deemed necessary yet.

3. Questions regarding earnings

Q: At the start of the fiscal year, you explained that extensive cost cuts last year are likely to result in higher spending on maintenance and repairs this fiscal year. Can you explain whether costs have been reduced as a consequence of lower projections for coal prices, or whether your outlook has changed since the beginning of the fiscal year, and if so, in what direction?

A: In 1Q, we were able to reduce costs by approximately ¥300 million compared with initial projections. We currently forecast around ¥1 billion in cost reductions for the entire year. Our forecast partially reflects lower coal prices.

Q: Would it be correct to understand that roughly half (¥1 billion) of your forecast for a ¥2 billion increase in annual operating income will come from cost reductions? And that most of this figure can be attributed to lower coal prices?

A: Yes, that is correct.

Q: With operating income peaking out at ¥5.5 billion in 1Q, and an implied forecast for ¥4.5 billion in operating income in 2Q, an increase in depreciation following the launch of the Malaysia plant in September is likely to lead to progressively smaller profits in 2Q and 2H. What are your thoughts on this scenario playing out? Or is profit likely to decline from a peak in 1Q due to a major increase in costs elsewhere?

A: Our forecasts for 1H and the fiscal year take into account the major impact of the Malaysia plant launch, as you mentioned. In addition, we think the boost from selling price revisions will gradually fade, considering the rise in domestic naphtha prices, which look likely to hover around the ¥71,000 level.

Q: Why do you expect non-operating income/expenses to improve by ¥1.5 billion this fiscal year compared with initial forecasts?

A: In light of 1Q results, we now expect non-operating income/expenses to improve by ¥1.5 billion for the fiscal year.

Q: Interest expenses amounted to ¥1.16 billion in 1Q. Would multiplying this figure by four to derive annual interest expenses be a correct assumption?

A: Yes, it would.

Q: What about non-operating income/expenses in the next fiscal year?

A: Interest expenses have increased due to subordinated loans, especially during this fiscal year, and we expect the current situation in non-operating income/expenses to remain unchanged in the next fiscal year.

4. Questions regarding operations

Q: In the Cement business, you lowered your sales forecast for 1H reflecting construction delays. Is there a risk of this factor appearing in 2H?

A: In 1Q, shipments of cement have been lower than we had projected due to construction delays, but we see signs of the situation improving, so we refrained from revising our cement-related forecasts for 2H.

Q: Please break down the year-on-year growth in profits for all products of Specialty Products segment except polysilicon.

A: We recorded higher sales for fumed silica, aluminum nitride and high-purity chemicals for electronics manufacturing.

Q: You commented that prices were unfavorable for vinyl chloride monomer and vinyl chloride resin, even with the rise in domestic naphtha prices. Can you give us more detail about the situation?

A: Losses in vinyl chloride monomer have been reduced considerably, as export prices increased in 1Q. For vinyl chloride resin, sales this fiscal year have been based on new prices after we implemented price hikes last autumn. Since then, domestic naphtha price has risen by ¥4,000 to ¥5,000. Our forecasts for 2Q onward reflect concerns that domestic naphtha prices will remain high.