

Q2 FY2014 Tokuyama Corporation Financial Results

Q&A (Excerpts)

Date & Time: October 31, 2014 (Friday) 19:45 to 20:45

Respondents: Kazuhisa Kogo, Representative Director and President

Tatsuo Segawa, Representative Director and Senior Managing Executive Officer

1. Questions regarding the Tokuyama Malaysia PS-1

Q: Can you provide us with more details in connection with the extraordinary loss?

A: While trial operations commenced in February 2013, questions arose regarding the quality of items produced by deposition equipment in December of the same year. Minor adjustments were then made in consultation with the manufacturer. Thereafter, and by the end of July 2014, the required levels of productivity and quality had not been achieved. Accordingly, the manufacturer started to undertake performance assurance tests in August 2014. Despite several attempts, each test resulted in failure. Recognizing the substantial delay in the start of commercial production, the Company commenced steps to measure the degree of impairment loss. In the end, Tokuyama decided to post an impairment loss with the exception of certain equipment.

Q: Can the items produced be used as solar-grade polycrystalline silicon?

A: While we believe that the items produced can be used as solar-grade polycrystalline silicon, productivity levels are low and there is little possibility of recouping cash. As a result, we decided to post an impairment loss with the exception of certain equipment.

Q: You have identified expenses totaling ¥11.2 billion following a review of the Company's business plan. What is this expense?

A: An allowance for electricity expenses.

Q: You have indicated that the Group will continue to engage in development activities. Are there are factors that will lead to a substantial increase in costs in the future?

A: We do not envisage any substantial increase in costs.

2. Questions regarding the Tokuyama Malaysia PS-2

Q: What are your thoughts on the price of solar-grade polycrystalline silicon and PS-2 earnings going forward?

A: We believe that the price of solar-grade polycrystalline silicon will remain around the spot price. As far as earnings are concerned, we are targeting a sales price of \$20/kg and an EBITDA margin of 30% or higher. Commercial operations commenced at a utilization rate of around 70% in October 2014 (sales prices were slightly above cash costs). We anticipate operations will be at full capacity some time during the next fiscal year. Under the current rolling three-year plan, we project operations to turn a profit at the beginning of fiscal 2016, by when work on improvements requiring a small investment will come to an end.

Q: What were your reasons for extending the term of PS-2 depreciation from 15 to 25 years?

A: Each year, we assess and confirm the durability of equipment and other facilities in accordance with international accounting standards. Based on this assessment, and taking into consideration assessments by other companies and our own case studies, we came to the conclusion that 25 years represented an accurate measure economic useful life. The decision to extend the term of depreciation is therefore based on the understanding that 25 years better reflects the period during which these facilities will contribute to the Company.

Q: Has the decline in depreciation attributable to this change in depreciation term been factored into earnings for the second half?

A: The decline has indeed been factored into earnings for the second half.

Q: The Company incurred difficulties with deposition equipment at PS-1. Are the deposition equipment used at PS-1 and PS-2 made by different manufacturers?

A: Yes.

3. Question regarding the rolling three-year plan

Q: Have you included the structural reform of the Group's vinyl chloride resin activities in the most recently revised rolling three-year plan?

A: Measures aimed at reforming the structure of our vinyl chloride resin activities and to bolster aluminum nitride manufacturing facilities have not been included. We plan to include these measures in the rolling three-year plan to be announced in April 2015.

4. Question regarding borrowings from banks and unsecured bonds

Q: Turning to the Group's bank loans payable, what portion infringes borrowing covenants?

A: Of the Group's many agreements, one as of September 30, 2014 infringed covenants. In the event

that the financial institution that provides the funds exercises its rights, essentially all borrowings including unsecured bonds will breach covenants. However, we have already entered into discussions with the financial institution, which is considering our proposals in a positive manner.

5. Question regarding off-balance accounting

Q: Is there any possibility of a change occurring with respect to retirement benefit and other off-balance accounting?

A: We do not expect any change at this stage.

6. Question regarding employee morale

Q: What message do you intend to convey to employees as president and how will you lead the Group going forward?

A: I have already sent out a message by mail to all employees today. On Tuesday, after the long weekend, I will distribute an online message to appeal directly to all employees. My responsibility is to once again restore our credibility. To this end, we must improve profitability in a definitive manner, enhance our corporate value, and work diligently to achieve our rolling three-year plan and Centennial Vision.