Q1 FY2016 Tokuyama Corporation Earnings Conference Call (July 29, 2016)
Q&A (Excerpts)

Participants:
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1. Questions regarding solar-grade polycrystalline silicon

Q1: What are your thoughts on market conditions in the future?
A1: We are hearing talk of a resumption of operations in line with the improvement in market conditions. We are thinking that might be a slight decline in spot prices from the summer. We estimate that the average price will come in at around US$15/kg over the medium term.

Q2: Tokuyama Malaysia Sdn. Bhd. reported net sales of ¥4.0 billion for the 1Q of FY2016. Net sales for the full fiscal year are projected to come in at ¥11.0 billion. Can we assume there is an upside to this projection should production continue along current lines?
A2: We do not envisage encountering any problems with respect to sales. Should production continue along current lines, we do see some potential for net sales to exceed forecasts.

2. Questions regarding the Chemicals business

Q3: Operating income remains steady at around ¥3.0 billion compared with the previous quarter. Which products have shown the most improvement in earnings?
A3: A number of factors and products have contributed to earnings. In addition to the effects that continue to emerge from an increase in the price of soda ash, profits from such petroleum products as vinyl chloride monomers have benefitted from a drop in the price of naphtha, a raw material. Another contributing factor is the reduction in costs attributable to the closure of the PVC Chiba Factory of Shin Dai-ichi Vinyl Corporation.

Q4: Can you sustain 1Q profit levels in the 2Q and beyond?
A4: We believe that profit margins will remain unchanged so long as trends in naphtha prices continue along their recent path. Results for the 2Q and beyond are also not expected to differ materially from budgets identified at the beginning of the period.

3. Questions regarding the Cement business

Q5: What factors contributed to the ¥0.7 billion year-on-year increase in earnings? What are your thoughts on cement shipments in the future?

A5: The total volume of shipments increased thanks to the upswing in exports. Other contributing factors include the decline in coal prices as well as distribution costs. As far as domestic shipments are concerned, we are anticipating a weak trend in the 2Q. On a positive note, we are projecting a modest recovery in the 2H.

Q6: It would appear that the operating margin has also has reached a fairly high level in the 1Q compared with the previous period. Can we assume that this is because of the factors explained in the Medium-Term Management Plan including cutbacks in distribution and other costs at Tokuyama Factory?

A6: Our plans are to reduce costs at Tokuyama Factory by ¥4.0 billion through to FY2020. We believe that a little more time will be required before we start to see the effects. In this instance, the drop in coal and oil prices are contributing to the decline in costs.

4. Questions regarding the Life & Amenity business

Q7: Looking at progress during the 1Q, there would appear to be considerable upside with respect to full fiscal year forecasts.

A7: Looking at conditions as they stand, we anticipate results will come in roughly in line with forecasts.

Q8: Can you elaborate on the overall status of microporous film operations?

A8: The production of microporous films is undertaken in Japan as well as Shanghai and Tianjin in China. While sales in Japan are firm, volumes in China are experiencing slight difficulties.

5. Questions regarding finances

Q9: The Company’s cash currently stands at ¥130.0 billion. Can you provide details of future plan? Is it safe to assume that the Company’s financial position allows it to repurchase preferred stock at any time?

A9: We plan to reduce interest-bearing debt, which currently stands at ¥238.0 billion, to ¥120.0 billion by fiscal 2020. The cash we have in hand in earmarked for this purpose. Although not factored into our plans, we are considering reducing interest-bearing debt in advance should profit continue to remain steady. As far as the redemption of preferred stock is concerned, we intend to redeem the total amount of ¥20.0 billion in June 2019 in line with our Medium-Term Management Plan. Redemption can be executed in lots of ¥5.0 billion. We will assess the potential for the redemption of preferred stock totaling ¥5.0 billion or ¥10.0 billion should our performance remain on track throughout the current fiscal year and if we can hold together current figures as of March 2017 for the following fiscal year.

Q10: Will Class A shares be transferred to C Class shares if the Company's balance sheet improved as of the end of March next year?

A10: We can exercise the option from the end of March 2018 and not next year. We will make a decision based on the amount of our net assets on a non-consolidated basis at that time. As our finances improve according to plans, we also intend to transfer A Class shares to C Class shares at that time.