Q2 FY2016 Tokuyama Corporation Earnings Conference Call (October 28, 2016)

Q&A (Excerpts)

Participants:

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1. Question regarding 2Q financial results

Q1: Revenue and earnings in the Life & Amenity segment declined year on year. Which area of business saw the most change?

A1: The drop in sales was almost entirely due to the removal of Figaro Engineering Inc. from the Company's scope of consolidation. In addition to the removal of Figaro, the downturn in earnings reflected corrections following the surge in shipments of generic pharmaceuticals and medical diagnosis systems in the corresponding period of the previous fiscal year.

2. Questions regarding full fiscal year forecasts

Q2: Can you elaborate on why 2H operating income forecasts in each of the Specialty Products and Cement businesses were revised downward in the 2H?

A2: In the Specialty Products business, we have factored in a decline in operating income due mainly to the forecast deterioration in earnings at Tokuyama Malaysia Sdn. Bhd. and the impact of fluctuations in foreign currency exchange rates on semiconductor-grade polycrystalline silicon. In the Cement business, the decision to revise downward 2H forecasts reflects the anticipated slight drop in sales volume as well as increases in raw material and fuel costs.

Q3: You mention that the effects of movements in raw material and fuel prices as well as foreign currency exchange rates have been factored into current forecasts. To what degree will each impact results?

A3: We estimate domestic naphtha prices will climb from ¥31,400/kl in the 1H to ¥33,000/kl in the 2H. While we believe that the upswing in naphtha prices can ultimately be absorbed through the increase in product prices, a movement of ¥1,000/kl in domestic naphtha prices will impact the cost of petrochemicals by between ¥500 to ¥600 million a year. Taking into consideration our use of around 2 million tonnes of coal each year, a change in procurement prices of say US$10 will have an impact of roughly ¥2 billion. Accounting for such factors as the level of inventory, practically the effects will be gradual. Looking at the Tokuyama Group as a whole, we are not overly affected by fluctuations in foreign currency exchange rates. This largely reflects the overall balance between the Group's export and import activities. In the event of a major shift in foreign currency exchange rates over the short term, net sales will be the first to be affected.

Q4: Can you explain once again your reasons for revising forecasts for ordinary income and profit attributable to owners of parent?

A4: We estimate ordinary income will come in at ¥27.0 billion. The Company reported an extraordinary gain of approximately ¥6.0 billion in the 1H. However, we are looking at an extraordinary loss of between ¥9.0 to ¥9.5 billion including roughly ¥8.5 billion attributable to the transfer of Tokuyama Malaysia in the 2H. Accounting for each of these factors, income before income taxes is expected to total around ¥23.5 billion. Meanwhile, tax expenses are anticipated to come in at ¥2.0 billion, roughly ¥8.0 billion lower than our initial estimate. This decrease is due to the transfer of Tokuyama Malaysia. As a result, profit attributable to owners of parent is forecast to total ¥21.0 billion.

Q5: Non-operating trial production expenses totaled ¥1.7 billion in the 1Q with virtually no increase in the 2Q. Can we assume that there will no further expenditure in this area in the future?

A5: The vast majority of 1Q trial production expenses were for periodic maintenance and repairs conducted at the PS-1 Plant from March through to April. Operations at the Plant were terminated as of the end of September. Looking ahead, a small amount of expenditure will be incurred in October. We are not anticipating any further major expenditure in the future.

3. Question regarding the Company's capital policy

Q6: What are your thoughts regarding the resumption of common stock dividends? Can you elaborate on the Company's capital policy including the early redemption of preferred stock totaling ¥20.0 billion?

A6: The timing of a resumption in the payment of cash dividends will depend on three broad factors. First, we will look at results for the fiscal year under review and our outlook for fiscal 2017. Second, we will work toward the redemption of preferred stock and third, we will confirm completion of the transfer of Tokuyama Malaysia.

4. Question regarding the transfer of Tokuyama Malaysia to OCI Company Ltd. (OCI)

Q7: Should you experience a delay in the transfer of Tokuyama Malaysia as a result of such concerns as competition law, will we see any major change in performance forecasts for the fiscal year under review?

A7: Should the transfer be postponed beyond the end of March due to such concerns as competition law, we are confident that any impact of results will be immaterial. This is because of the absence of the forecast extraordinary loss attributable to the transfer as well as the decrease in income tax expenses.