

Q3 FY2016 Tokuyama Corporation Earnings Conference Call (January 31, 2017)

Q&A (Excerpts)

Participants:

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1. Questions regarding 3Q financial results

Q1: What are the reasons behind the increase in operating income in the October-to-December 3Q compared with the July-to-September 2Q?

A1: Operating income in the Chemicals business climbed ¥600 million. This was largely due efforts aimed at maintaining petrochemical product profit margins and an increase in sales volumes of the calcium chloride used in snow-melting agents attributable to seasonal factors. Operating income in the Specialty Products business also improved ¥800 million. In addition to the upswing in solar-grade polycrystalline silicon market conditions toward the end of December, which contributed to an increase in the value of inventory, this growth in operating income mainly reflected higher shipments of semiconductor-grade polycrystalline silicon.

Q2: Coal price appears to have hiked from the 3Q. Has this had any impact on result?

A2: While the purchase price of coal is increasing, any impact on 3Q results has been limited. For the most part, this reflects existing inventory levels.

Q3: Operating income in the Others segment came to ¥1,900 million in the 3Q alone. This is good progress against a 2H forecast of ¥2,400 million. Can you provide us with any background information and your forecasts for the 4Q?

A3: Operating income results in the Others segment are largely attributable to substantial external sales of surplus power, which account for a significant portion of earnings in this segment. One boiler unit is scheduled to undergo periodic maintenance in the 4Q. As a result, we are anticipating a drop in earnings compared with the 3Q.

2. Questions regarding full fiscal year forecasts

Q4: To what degree will the increase in raw material and fuel prices including coal and domestic naphtha impact 4Q results?

A4: Increases in coal prices will of course lift costs. In this instance, we are looking at an impact of

less than ¥1,000 million. Domestic naphtha prices are projected to climb from ¥34,000 in the 3Q to around ¥42,000 in the 4Q. This is expected to push up costs by more than ¥1,000 million.

Q5: Net income for the 3Q cumulative period has already exceeded the forecast for the full fiscal year. Are you anticipating a substantial upswing?

A5: Forecasts for the full fiscal year remain unchanged. This takes into account the projected loss of ¥8,000 million on transfer of Tokuyama Malaysia Sdn. Bhd. to OCI Company Ltd. in Korea at the end of March. Factoring in this extraordinary loss as the transfer is completed according to plans in the 4Q, net income is estimated to fall below the level recorded for the 3Q cumulative period.

Q6: Is there a possibility that the redemption of preferred stock will be brought forward if the Company's financial position improves at a faster than expected pace, as a result of any upside swing in the Business Plan?

A6: As I have mentioned in the past, we will consider the option of bringing forward the redemption of preferred stock if three conditions are met. We must be able to confirm: (1) the completion of Tokuyama Malaysia transfer; (2) results for the fiscal year under review in line with plans, and; (3) no major aberration from forecasts for the fiscal year ending March 31, 2018.

Q7: Should the transfer of Tokuyama Malaysia be completed as planned and any taxable losses confirmed, can we assume that the payment of taxes will decline substantially from the next fiscal year?

A7: Based on current calculations, we are looking at an annual reduction in tax payments of roughly ¥3,000 million for a period of eight years from the next fiscal year.

3. Questions regarding Tokuyama Malaysia Sdn. Bhd.

Q8: Profitability at Tokuyama Malaysia is projected to improve on the back of the positive upswing in spot price of solar-grade polycrystalline silicon to US\$16.00. What is your outlook for earnings in the 4Q?

A8: Deducting from unchanged forecasts for the full fiscal year, Tokuyama Malaysia will incur a loss of ¥1,900 million in the 4Q alone. We are working diligently to ensure that this does not happen.

Q9: The transfer of Tokuyama Malaysia is schedule to be completed as of the end of March. Is there any chance of a delay?

A9: The transferee, OCI Company Ltd., is attending to all of the necessary formalities and fulfilling the procedural requirements of authorities in each country. Documentation has been accepted and approved in Taiwan. Authorities in China have posed certain questions, and we are told that OCI is attending in a timely manner. We believe the transfer will be completed at the end of March.

4. Question regarding price hikes

Q10: What led to the recent announcement to increase prices of caustic soda and polyvinyl chloride?

A10: Because we need to secure stable supply of caustic soda, and such petrochemical products as polyvinyl chloride are looking at an increase in naphtha prices to around ¥42,000, prices are to be raised accordingly.

5. Question regarding semiconductor-grade polycrystalline silicon

Q11: Trends in such products as 3D-NAND flash memories are robust alongside semiconductor miniaturization. What is your outlook for semiconductor-grade polycrystalline silicon sales volumes in FY2017? Are you looking to increase capacity to meet the upswing in sales volumes?

A11: We are projecting an increase in sales volumes of around 10% in FY2017. The current status of our manufacturing capabilities allows for a little more capacity. Therefore, we are not looking to bolster capacity at this stage.