

## **FY2016 Tokuyama Corporation Investor Meeting (April 28, 2017)**

### **Q&A (Excerpts)**

Participants:

Hiroshi Yokota, Representative Director, President and Executive Officer

Akihiro Hamada, Director, Managing Executive Officer, General Manager of Financial Div.

#### **Question regarding year-end financial results**

Q1 Can you explain us about FY2016 operating income and profit attributable to owners of parent?

A1 Operating income increased due to an operating rate improvement at Tokuyama Malaysia coupled with cost reductions and a downturn in raw material and fuel costs at the Tokuyama Factory.

As a result of the decision on the business transfer of Tokuyama Malaysia, net income increased primarily due to a ¥8,000 million reduction in taxes payable in addition to income taxes decreasing by a total of ¥25,800 million due to the recording of ¥17,800 million in deferred tax assets over a five-year period.

#### **Questions regarding full fiscal year forecasts**

Q2 What are the reasons behind the profit attributable to owners of the parent for FY2017, the fiscal year ending March 31, 2018, being forecast at ¥13,000 million, or 75% decrease from that of FY2016?

A2 Ordinary profit is forecast at ¥32,000 million, which is not greatly different from that recorded in FY2016, but there will be a significant change in profit from that recorded in FY2016 depending on the differences in recording the profit and loss relating to the Tokuyama Malaysia business transfer. Whereas in FY2016 we were able to record tax benefits in recognition of the Tokuyama Malaysia business transfer, the plan for FY2017 is to record a business transfer loss of approximately ¥10,000 million following the completion of the Tokuyama Malaysia business transfer.

Profit attributable to owners of the parent will thus fluctuate greatly due to the recognition and completion of the business transfer falling in different fiscal years.

Q3 What impact are coal prices having on raw material and fuel costs?

A3 When compared with FY2016, we think that costs will rise by something like ¥5,000 million.

- Q4 In newspaper reports, it appears that quite significant price rises are being accepted for caustic soda and polyvinyl chloride by customers. What are your thoughts about that?
- A4 We feel that any response from our customers should be given sooner than after the budget for the current year has been formulated.

#### **Questions regarding progress of Tokuyama's Medium-Term Management Plan**

- Q5 What have been the effects of the cost reductions at the Tokuyama Factory?
- A5 The effect of the cost reductions in FY2016 amounted to ¥2,300 million. We are progressing slightly ahead toward the ¥4,000 million target set in the Medium-Term Management Plan. By conducting a review of logistics, bringing down costs by inventory reductions and addressing the effective distribution of energy as well as other initiatives, we will pass the ¥3,000 million mark in the current fiscal year.
- Q6 When looking ahead three years or so, please tell us your thoughts as president about the monetary amounts you may be able to achieve from the cost reduction at the Tokuyama Factory.
- A6 Although the figure of ¥4,000 million has always been something of a talking point within the Company, my feeling is that the amount will probably be higher than that. With regard to logistics costs, we will actively invest in areas that have an investment effect and lead to reductions in cost. In the case of energy, we will bring about an increase in external sales of electricity by the more efficient internal use of electricity and steam. Please note that ¥4,000 million should be regarded as a conservative target.
- Q7 You have announced the redemption of preferred stock and the resumption of common stock dividends, but will you be going ahead with the increase in shareholders' equity ahead of schedule?
- A7 Yes, I think we will. Furthermore, with regard to interest-bearing debt, as we have around ¥120,000 million on hand, we will request prepayments to financial institutions and work to reduce our interest burden.

#### **Question regarding capital expenditures**

- Q8 One gets the impression that you have been showing restraint in capital expenditures for a while, but what are your thoughts going forward?

A8 Basically, we are thinking that capital expenditures will be at around the ¥96,000 million mark in around five years' time.

**Question regarding semiconductor-grade polycrystalline silicon**

Q9 As it is quite difficult for silicon wafer makers to produce high-end products, it seems that they are asking device manufacturers to greatly increase prices. Can Tokuyama also increase its unit prices on the back of the quality of its polycrystalline silicon?

A9 It's not easy, but I feel that things are heading that way.

**Questions regarding the Cement business segment**

Q10 What is the status of your cement exports?

A10 In terms of areas, we would like to keep pace with demand in Southeast Asia and Oceania as well as in Pacific islands like New Caledonia. We plan to export 1.1 million tonnes in the current fiscal year, but would like to increase that to 1.5 million tonnes in the years ahead.

Q11 And what about your waste acceptance?

A11 Following the expansion and upgrading of our analysis laboratory and other moves that have enabled us to accept higher priced waste, we will expand our recycling and environment-related business.