

2Q FY2019 Tokuyama Corporation Investor Meeting

Q&A (Excerpts)

Date and time: October 31, 2019 (Thursday) 12:00 – 13:00

Participants:

Hiroshi Yokota, Representative Director, President and Executive Officer

Hideo Sugimura, Director, Managing Executive Officer, General Manager, Corporate Planning Div.

Taro Kobayashi, General Manager, Corporate Communications & Investor Relations Dept.

1. Questions regarding 1H results and full fiscal year forecasts by underlying factor

Q1: Recent coal prices are exhibiting a downward trend. Can you tell me about the contributions of coal inventory volumes on forecast coal prices as well as profit and loss in the 1H and 2H?

A1: Coal inventory volumes are trending around 200,000 tonnes. The price of coal was set at US\$105 per tonne at the beginning of the period, and has largely trended in line with forecasts during the 1H. Looking at the 2H, the price coal has been set at US\$75 per tonne up to December and US\$80 per tonne from January. As far as the impact on profit and loss is concerned, coal inventory volumes had a negative year-on-year impact of ¥0.1 billion in the 1H. Profit is projected to increase ¥3.0 billion in the 2H.

Q2: Can you provide a breakdown and details of domestic and export caustic soda prices as well as sales volumes in the Chemical Business Division?

A2: In overall terms, we were able to maintain 1H sales prices in Japan to around the same levels as the previous year. In light of weak overseas market conditions, sales prices are trending at US\$300 per tonne. While we believe that we can maintain domestic sales prices, we are forecasting overseas sales prices to come in at the 1H level. Our export ratio in the 1H was 17%. Taking into consideration the resumption of Indian imports, we are looking at a slight increase in export volumes in the 2H.

Q3: Why did profit in the Specialty Products Business Division deteriorate in the July to September 2Q compared with the April to June 1Q?

A3: In addition to weak demand for silica used in chemical mechanical polishing in the 1Q and 2Q, the deterioration in Specialty Products Business Division profit is due to a downturn in sales volumes of aluminum nitride for semiconductor production equipment.

Q4: In this instance, forecast operating profit in the Specialty Products Business Division has been revised to ¥7.5 billion compared with last year's annual operating profit of ¥9.9 billion. What are the factors behind the decline in profit in the 2H?

- A4: Trends in fumed silica are weak. As far as exports to South Korea are concerned, we were able to undertake shipments in the 1H as customers' requirements called for the restocking of inventories. Conditions in the 2H, however, are expected to be tough. Turning to China, large amounts of fumed silica are applied as a silicone filler. Once again, trends mainly for miscellaneous product use are soft due to the impact of trade friction between China and the U.S. Another factor is the decline in sales volumes of aluminum nitride for semiconductor production equipment.
- Q5: While shipments of polycrystalline silicon in the 1H fell 10% compared with plans, forecasts at the beginning of the period called for a 10% increase compared with the previous year. Will you be able to achieve annual shipments volumes as planned? At the same time, what are your thoughts on price trends?
- A5: Although we can secure shipment volumes with contracted customers, spot contract customers, which account for around 10% of total shipment volumes are soft. As a result, we are anticipating shipment volumes at roughly the same level as the previous year for the full period. As far as prices are concerned, levels are in line with contracts and forecasts as of the beginning of the period.
- Q6: Is it difficult to sell general application polycrystalline silicon?
- A6: Because of our concerns in this areas, we will continue to focus on high-end applications. When purchasing supplies of polycrystalline silicon, high-end users evaluate a variety of factors. Considerations not only encompass price, but also quality. We will work to capture the inevitable growth in demand and increase sales volumes.
- Q7: Turning to the Company's IC Chemicals Business, is there any change in isopropyl alcohol (IPA) sales volumes in Japan and Taiwan, where results were weak in the April to June quarter?
- A7: IPA shipment volumes to Taiwan returned from the middle of July. IPA production lines underwent periodic repairs and maintenance in October. We are considering shipments to cover the total quantities of customers' positive requests.
- Q8: In light of an increase of ¥0.6 billion in the Life & Amenity Business Division, attributable to photochromic dye materials and medical diagnosis systems, a 1H profit of ¥0.4 billion should remain even after taking into account dental material promotional expenses of ¥0.2 billion. What are the reasons for the discrepancy?
- A8: The discrepancy reflects the negative impact of ¥0.4 billion attributable to a large-scale ion exchange membrane project recorded in the corresponding period of the previous year.
- Q9: An operating profit margin of 6% in the Cement Business Division would appear low after factoring in the impact of a downturn in coal prices and somewhat unsatisfactory compared with three year ago. Can we assume this is just a steppingstone to further recovery?
- A9: Based on current conditions, we are looking at 2H shipment volumes in the Cement Business Division to increase compared with the 1H. We have already secured large-scale project orders, and

believe disaster recovery projects driven mainly by the public sector will begin to emerge from January. We are especially focusing on soil stabilization and repair materials from the next fiscal year on the understanding that these products will help in disaster recovery. While we are unable to comment on specific levels of contribution, we are expecting upside.

2. Questions regarding efforts to reduce CO₂ emissions

Q10: Taking into consideration the growing importance of renewable energy use, I believe that the electricity produced through in-house coal power generation is a source of considerable competitive advantage. As a result, bold measures and decisions will be required in order to effect a change. What timeframe and level of investment are you looking at?

A10: We recognize that an increase in biomass combustion will necessarily lead to higher costs. We are conducting simulations to ascertain what amounts of biomass to use with which boilers while taking into consideration boiler life. We will need to undertake capital expenditures if we are to use biomass as a fuel. We are therefore evaluating capacity levels to identify the appropriate amount of cost increase attributable to higher biomass consumption from a commercial standpoint at the same time. We intend to complete simulations by the end of the year and transition to an action plan.

Q11: It would appear that the Company is considering a wide range of internal measures. From an external perspective, however, there is a tendency for the focus to revolve solely around the amount of CO₂ emissions. It has been difficult to also visualize the Company's efforts, and I would ask that you actively disclose details and continue to provide updates going forward?

A11: I understand.

Q12: I believe that Tokuyama Factory is using an increasing amount of steam as a source of energy. What improvements have been made and how do you plan to reduce specific energy consumption as a part of efforts to optimize energy efficiency at Tokuyama Factory?

A12: We believe that the use of steam is a positive measure in promoting cogeneration. We hope to promote the use of cogeneration not only at Tokuyama Factory, but also through collaboration with Shunan City and the Shunan industrial zone.

Q13: Do you have any other special measures or projects underway?

A13: Currently, we are also supplying utilities to certain neighboring companies. We hope to expand the scope of these activities. As far as biomass is concerned, we have established a consortium to use the timber from forest thinning activities and bamboo in the areas throughout Yamaguchi Prefecture in conjunction with Shunan City, Yamaguchi Prefecture, and industrial complex companies. We are currently in the promoting efforts to put in place a mechanism to facilitate the stable procurement of biomass throughout the region.

Q14: Japan continues to confront issues regarding plastic waste due to import restrictions imposed by various countries throughout Asia. What impact if any is this having on the Company?

A14: Tokuyama employs plastic waste as a fuel alternative in its Cement Business Division. Our plans are to increase consumption compared with the previous year in the current period. While recognizing the need to undertake capital and other expenditures in the future, we will work actively to address the issue of plastic waste going forward.