Tokuyama Corporation Investor Meeting (April 30, 2014)
Q&A (Excerpts)

Participants:
Kazuhisa Kogo, President
Tatsuo Segawa, Representative Director and Senior Managing Executive Officer
Takeshi Nakahara, Managing Executive Officer, General Manager of Corporate Planning Div.

Q. Total sales volume of semiconductor-grade and solar-grade polycrystalline silicon is projected to each approximately 13,000 tonnes in FY2014. With the startup of solar-grade production at Tokuyama Malaysia PS-2 scheduled around the middle of this year, can we assume that this sales projection is based on close to full production capacity?

A. Solar-grade sales are expected to account for about 60% of the total projected sales volume of 13,000 tonnes in FY2014. Tokuyama Malaysia PS-2 is anticipated to operate at a utilization rate of between 70 and 80% in FY2014.

Q. How many purchasers of Tokuyama Malaysia PS-2 solar-grade polycrystalline silicon have you secured to date?

A. We have conducted market research since spring of last year and are well underway with customer negotiations. Internal reports indicate that these negotiations are progressing positively. While the number of contracts entered into is small, we have reached agreements with certain customers.

Q. Looking at movements in operating income in FY2014 on page 16 of the presentation materials, the revision of selling prices in the Chemicals segment is a factor behind the projected increase. To what degree have increases in the prices of caustic soda and vinyl chloride resin taken hold? How much will you be able to raise the prices of other products including cement?

A. In overall terms, increases in the prices of caustic soda and vinyl chloride resin have progressed according to plan. At present, raising the price of cement is not an easy task.

Q. The Company's non-operating income and expenses have deteriorated due mainly to borrowing-related costs, which arose from the procurement of funds through a subordinated loan in FY2013. Your forecasts for FY2014 indicate a further deterioration in non-operating income and expenses that would appear to go beyond the effect of these borrowing-related costs. Can you elaborate on the factors behind this larger than expected deterioration?

A. The principal reason for the deterioration is the interest burden associated with the subordinated loan. Any further deterioration can be attributed to the interest burden applicable to loans that we plan to undertake in FY2014.

Q. Company-level expenses in FY2013 were reduced more than was first anticipated at the beginning of the period. Meanwhile, expenses including repair costs are expected to increase in FY2014. What are your plans for Companywide expenses in FY2014?

A. The increase in these expenses is one reason for the forecast decline in earnings in FY2014. We cut back overhead and repair costs by a considerable amount, and also reduced personnel expenses in FY2013. We plan to return a portion of repair costs and personnel expenses in FY2014. As a result, expenses are forecast to increase.

Q. You have explained that depreciation expenses will increase around ¥5 billion in FY2014. Can we assume that this increase relates mainly to the commencement of sales at Tokuyama Malaysia PS-2 around the middle of this year? Can we also assume that depreciation expenses are yet to accrue at Tokuyama Malaysia PS-1?

A. Yes, that is correct.

Q. Is there a problem with Tokuyama Malaysia PS-1 that has delayed its progress? When will this problem be resolved, and when do you expect shipments of samples for customer certification will commence?

A. We deeply regret any concern this delay may have caused, which can in large part be attributed to certain faulty equipment and devices as well as several incidents of malfunction. While some incidents were easily resolved through onsite recovery work, others required the procurement of component parts in Japan and overseas. As a result, we were forced to suspend trial operations. Moreover, Tokuyama Malaysia PS-1 is a semiconductor-grade polycrystalline silicon production facility. As you know, semiconductor-grade production requires an extremely high degree of quality. This high degree of quality is essential across all equipment employed. At this stage, the level of quality stability required can only be guaranteed for certain equipment. We must therefore undertake extremely burdensome tasks to make the necessary adjustments to ensure quality stability. Having said this, we will do everything in our power to quickly commence the shipment of samples for customer certification. These shipments are expected to begin in FY2015 at the latest.

Q. You are telling us that you have encountered difficulties in ensuring the stable production of high-quality products across all equipment used at Tokuyama Malaysia PS-1. Furthermore, these difficulties are limited to the production of semiconductor-grade polycrystalline silicon.

Can we therefore assume that there are no such problems with the solar-grade production facility, Tokuyama Malaysia PS-2, which is scheduled to come online sometime in the middle of this year?

A. The level of quality required is the main difference between semiconductor-grade and solar-grade polycrystalline silicon. At this stage, there are no problems associated with solar-grade facility Tokuyama Malaysia PS-2.

Q. How sensitive is the Company to movements in foreign currency exchange rates?

A. In FY2013, we held down the export of solar-grade polycrystalline silicon and related activities while importing such fuels as coal. This left us with an import excess. As a result, the weakening of the yen led to a slight decline in earnings. In FY2014, we plan to commence sales of the polycrystalline silicon produced at Tokuyama Malaysia PS-2. A further weakening of the yen will therefore have an advantageous effect.

Q. Turning again to your thoughts on the Cement segment in FY2014, you mentioned that raising prices would be difficult. Despite an increase in the volume of sales, earnings are projected to decline ¥1.1 billion. This would suggest a substantial increase in expenses. Can you please explain to us the background behind your forecasts for this segment?

A. As was mentioned earlier, we took aggressive steps to cut back repair costs during FY2013. The return of a portion of these costs is one cause for the increase in expenses. At the same time, the increase in expenses can be attributed to capital expenditure. For example, two cement transportation vessels will be newly constructed and commence operation from 2014. We will also establish clinker shipping facilities. On the domestic front, distribution costs will naturally rise with growth in sales volume. Although not exclusive to the Cement segment, head office expenses are allocated to each segment on the basis of sales and facility book value ratios. As you are aware, an impairment loss on polycrystalline silicon manufacturing facilities was recorded as of the end of FY2012. As a result, the burden of head office expenses declined in the Specialty Products segment, but increased in the Cement and other segments.

Q. Operating income in the three-month 4Q period of FY2013 (January 2014 to March 2014) was ¥7.8 billion. For the 1H of FY2014, however, operating income is projected at ¥7.5 billion. This increase in operating income in the 4Q of FY2013 can be attributed to a variety of factors including the upswing in sales volume of semiconductor-grade polycrystalline silicon and seasonal factors impacting the Life & Amenity segment. However, other than the factors that have been previously identified, are there any other extraordinary or accounting reasons for the increase in the 4Q of FY2013? Also, is the forecast drop in operating income in the 1H of

FY2014 due to the increase in expenses mentioned earlier? Can you please elaborate?

A. As you have stated, the principal reason for the increase in operating income in the 4Q of FY2013 is the upswing in sales volume of semiconductor-grade polycrystalline silicon. In addition, because there was an upswing in the sales volume of polycrystalline silicon, residual inventories as a result of the impact of impairment and devaluation losses contributed to a decrease in the cost of sales. In the 1H of FY2014, the downturn in operating income is largely due to the increase in expenses.

Q. Let me ask a question about your thoughts on adopting a rolling three-year plan approach. In this instance, you have deferred any change to the numerical targets for FY2015 and FY2017 identified in February last year. Despite substantial changes to the assumptions that underpin the targets, such as adjustments to the schedule of production facilities in Malaysia, growth in solar-grade polycrystalline silicon demand, and greater than expected cuts in corporate-wide expenses, the targets remain unchanged. Can you please explain?

A. The purpose of adopting a rolling three-year plan approach is to factor in changes in the business environment and to review initiatives in order to achieve targets each year. Numerical targets are naturally reviewed at the same time as ongoing initiatives. On this basis, we have reconfirmed those numerical targets identified in February last year as minimum standards of achievement and in this instance decided to maintain the goals set unchanged. Looking at internal reviews of earnings plans, it is safe to assume that numerical targets are above those identified.

Q. From what you are saying, can we assume that the Profit Improvement Plan has considerable upside thanks to a positive turnaround in the external environment brought about such favorable trends as an increase in solar-grade polycrystalline silicon demand as well as greater than expected cuts in corporate-wide expenses, together with internal efforts compared with the time of announcement in February last year?

A. Naturally, if we look at the individual components of the Plan, there is both upside and downside. Nevertheless, it is safe to say that the Profit Improvement Plan offers upside going forward as the entire Company works diligently to carry out the initiatives of each rolling three-year plan.