

Q3 Fiscal 2014 - Apr 1, 2014 to Dec 31, 2014 -

Financial Results

Tokuyama Corporation

Jan 30, 2015



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1 Financial Results for Q3 FY2014

1. Financial Highlights
2. Changes in Operating Income
3. Net Sales/Operating Income by Business Segment
4. Resolution of Infringements of Certain Loan Agreement Financial Covenants



1. Financial Highlights

Consolidated (year-on-year change)

(Billions of yen)

	Q3 FY2013 YTD	Q3 FY2014 YTD	Difference	
			Amount	%
Net sales	207.9	222.0	+14.1	+7
Operating income	12.5	15.8	+3.3	+27
Ordinary income	9.8	11.0	+1.2	+12
Net income/loss	7.4	(78.8)	(86.3)	-
Net income/loss per share (yen)	21.53	(226.73)		
Exchange rate (¥/\$)	99	107		
Domestic naphtha price (¥/kl)	65,700	68,900		

Qualitative information

(Net sales) ¥222.0 billion, up 7%

Pluses: increased sales volume of polycrystalline silicon, high-purity chemicals for electronics manufacturing, active pharmaceutical ingredients and other products;
selling price revisions of petrochemicals, caustic soda and other products;
commencement of the operation of the newly added consolidated subsidiaries

(Operating income) ¥15.8 billion, up 27%

Pluses: increased sales volume, profitability improvement of petrochemicals

1. Financial Highlights

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Exchange rate (¥/\$)	99	107		
Domestic naphtha price (¥/kl)	65,700	68,900		

Qualitative information

(Ordinary income) ¥11.0 billion, up 12%

Pluses: increased operating income, decrease in costs of idle operations

Minuses: increase in interest expenses, posting of trial production expenses at Tokuyama Malaysia Sdn. Bhd

(Net loss) (¥78.8 billion), fall into the red

Plus: increased ordinary income

Minus: posting of impairment loss on the polycrystalline silicon manufacturing facilities of Tokuyama Malaysia.

1. Financial Highlights

Consolidated (compared with the previous fiscal year-end)

(Billions of yen, except Shareholders' equity ratio and D/E ratio)

	As of Mar 31, 2014	As of Dec 31, 2014	Changes
Total assets	576.3	564.5	(11.7)
Shareholders' equity	229.6	153.7	(75.9)
Shareholders' equity ratio	39.9%	27.2%	(12.6 pts)
Interest-bearing debt	240.7	290.4	+49.6
D/E ratio	1.05	1.89	+0.84
Net D/E ratio*	0.74	1.15	+0.41
Net assets per share (yen)	660.18	441.98	

Qualitative information

*Net D/E ratio: (Interest-bearing debt – Cash and deposits, Cash equivalents)/Shareholders' equity

(Total assets)

Decrease factor: decrease in property, plant and equipment resulting from the impairment of polycrystalline silicon manufacturing facilities of Tokuyama Malaysia

(Shareholders' equity)

Decrease factor: decrease in retained earnings resulting from the posting of impairment loss

(Interest-bearing debt)

Increase factor: increased long-term loans payable through a medium-term commitment line agreement

2. Changes in Operating Income



(Notes) Sales volume = (sales volume in Q3 FY2014 – sales volume in Q3 FY2013) x (unit selling price in Q3 FY2013 – unit variable cost in Q3 FY2013)

Selling price = (unit selling price in Q3 FY2014 – unit selling price in Q3 FY2013) x sales volume in Q3 FY2014

Others includes change in unit variable cost, fixed cost and others

3. Net Sales/Operating Income by Business Segment

(Year-on-year change)

(Billions of yen)

	Q3 FY2013 YTD		Q3 FY2014 YTD		Difference			
	Net sales	Operating income	Net sales	Operating income	Net sales	%	Operating income	%
Chemicals	64.0	1.3	68.1	3.8	+4.0	+6	+2.4	+172
Specialty Products	35.2	2.3	38.4	3.6	+3.2	+9	+1.3	+58
Cement	58.1	4.7	60.3	3.5	+2.2	+4	(1.2)	(26)
Life & Amenity	40.5	3.0	43.8	3.6	+3.2	+8	+0.5	+19
Others	35.7	3.4	38.3	4.4	+2.5	+7	+0.9	+28
Total	233.7	15.0	249.1	19.0	+15.3	+7	+4.0	+27
Inter-segment eliminations and corporate-wide expenses	(25.8)	(2.4)	(27.0)	(3.1)	(1.2)	-	(0.6)	-
Consolidated results	207.9	12.5	222.0	15.8	+14.1	+7	+3.3	+27

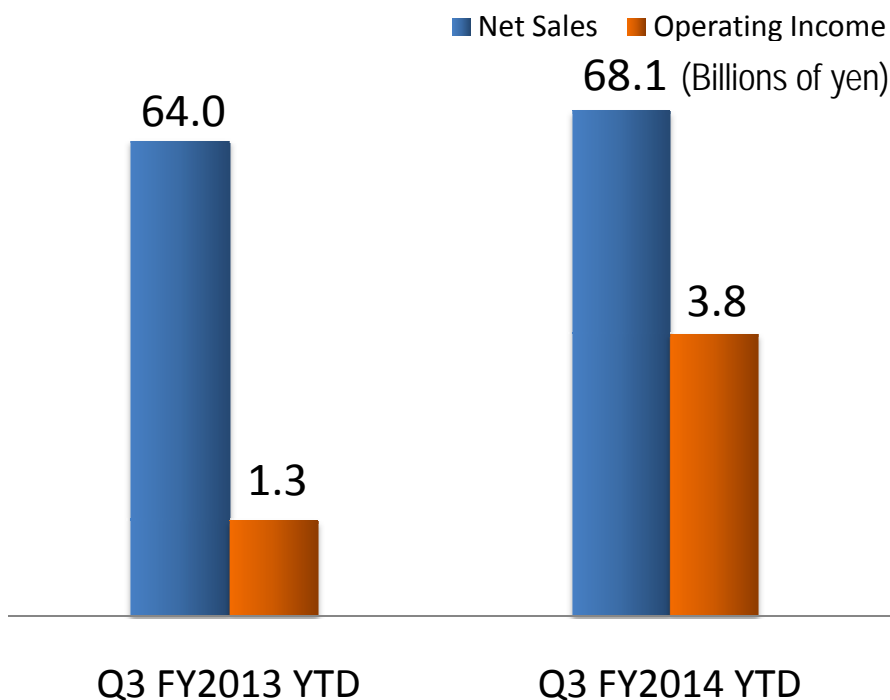
(Note) Sales and operating income shown above include inter-segment transactions.

3. Net Sales/Operating Income by Business Segment

(Year-on-year change)

Chemicals

Higher earnings on higher sales



Qualitative information

(Caustic soda)

- Sales volume increase in domestic market
- Selling price revision in order to absorb a rise in raw material prices

(Soda ash and calcium chloride)

- Increased net sales due to commencement of the operation of TOKUYAMA & CENTRAL SODA Inc.

(Vinyl chloride monomer (VCM))

- Increase in raw material costs arising from domestic naphtha price hikes
- Improved profitability owing to high export prices against the backdrop stronger Asian market conditions and the weaker yen

(Vinyl chloride resin)

- Decreased sales volume due to a drop in housing starts
- Increase in raw material costs arising from domestic naphtha price hikes
- Selling price revision in order to absorb a rise in raw material prices

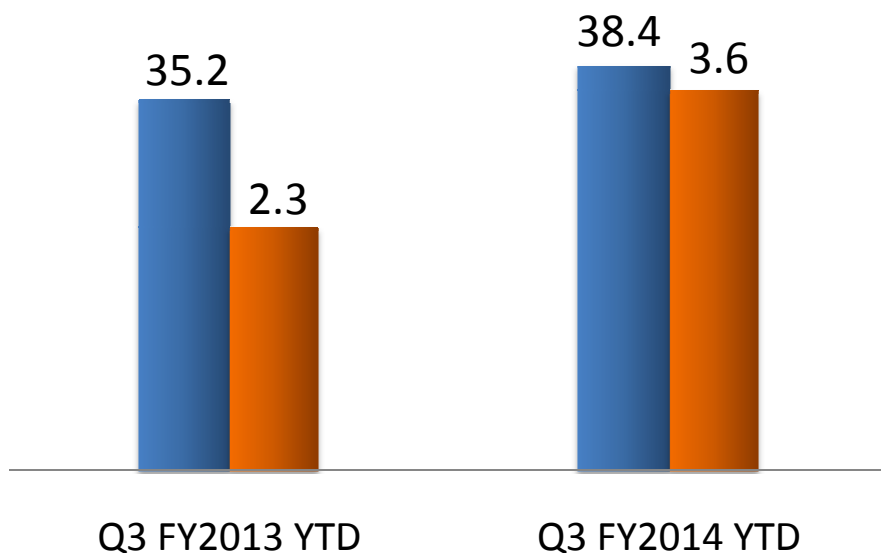
3. Net Sales/Operating Income by Business Segment

(Year-on-year change)

Specialty Products

Higher earnings on higher sales

■ Net Sales ■ Operating Income
(Billions of yen)



Qualitative information

(Polycrystalline silicon)

- Higher sales volume of semiconductor-grade polycrystalline silicon owing mainly to strong demand for mobile terminals including smartphones
- Increased sales volume of solar-grade polycrystalline silicon resulting from commencement of shipments from Tokuyama Malaysia

(Fumed silica)

- Increased sales volume, mainly of its application as a polishing material for semiconductors

(Aluminum nitride)

- Higher sales volume of such applications as heat sink materials used for power devices and LEDs

(High-purity chemicals for electronics manufacturing)

- Higher sales volume of such applications as semiconductor and liquid crystal production

3. Net Sales/Operating Income by Business Segment

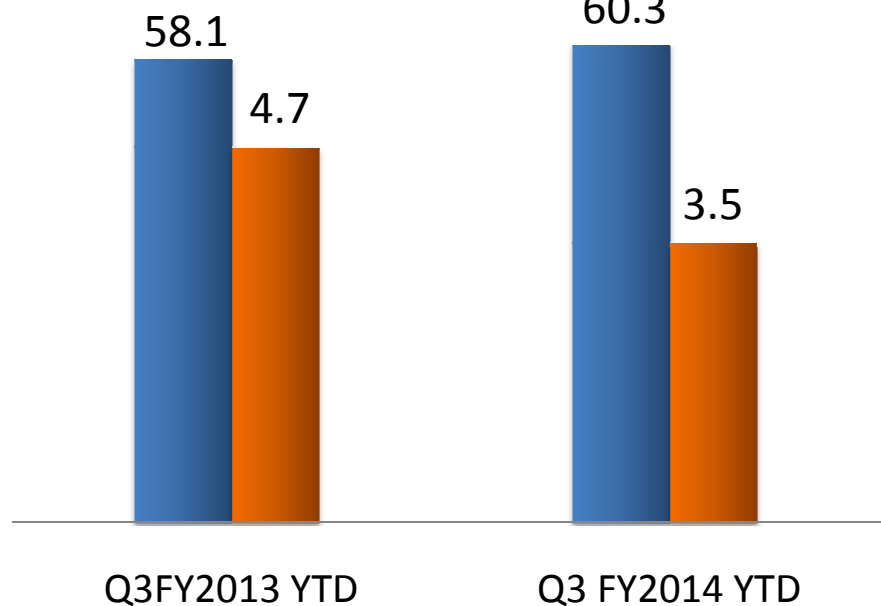
(Year-on-year change)

Cement

Lower earnings on higher sales

■ Net Sales ■ Operating Income

(Billions of yen)



Qualitative information

(Cement)

- Sluggish sales volume in domestic market due to delay in construction work caused by a labor shortage and unseasonably bad weather
- Increased exports to Asia against the backdrop of steady demand in the Asian market
- Increased distribution costs due to the construction of new cement tankers.
- Increased net sales owing to commencement of the operation of Hiroshima Tokuyama Ready Mixed Concrete Co., Ltd.

(Recycling and environment-related business)

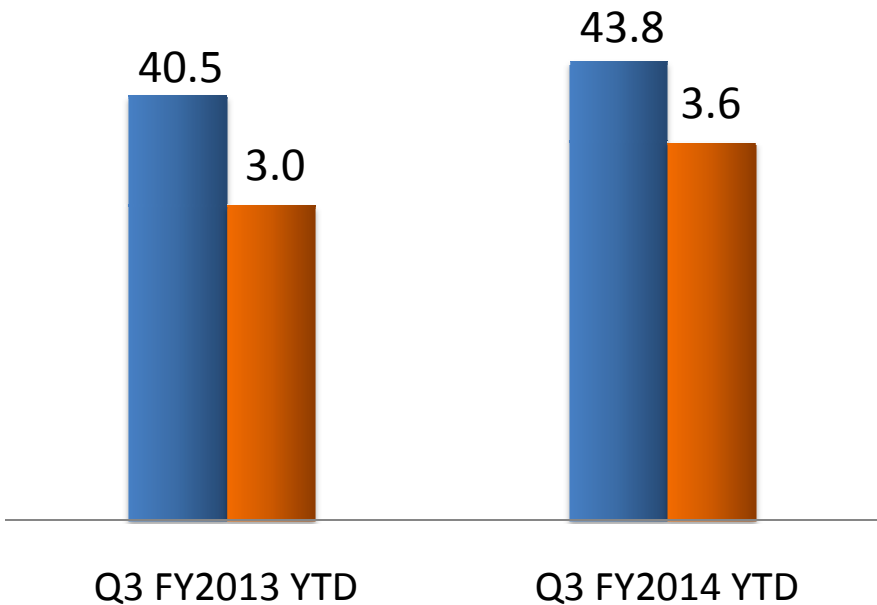
- The amount of waste the Company accepted remained almost flat

3. Net Sales/Operating Income by Business Segment

(Year-on-year change)

Life & Amenity

■ Net Sales ■ Operating Income
(Billions of yen)



Higher earnings on higher sales

Qualitative information

(Active pharmaceutical ingredient)

- Increased sales volume, mainly of such applications as generic drugs

(Microporous film)

- Increased sales volume due to commencement of operation in Tianjin

(Polyolefin film)

- Increased sales volume of its application as packaging material for everyday items at convenience stores

- Selling price revision in order to absorb a rise in raw material prices

(Gas sensor)

- Increase sales volume of such applications as gas alarm devises and air cleaners

(Medical diagnosis system)

- Increase sales volume of products for blood testing
- Improved profitability resulting from cost reduction efforts

(Plastic window sash)

- Decreased sales volume arising from reaction to the rush demand before the consumption tax increase

4. Resolution of Infringements of Certain Loan Agreement Financial Covenants

- Tokuyama has received notification of approval from all subject financial institutions following its requests to exempt the Company from infringements of financial covenants and continuous transaction relating to the term-out medium-term commitment line agreement with The Bank of Tokyo-Mitsubishi UFJ, Ltd. and the revolving credit facility agreement (short-term commitment line agreement) with eight lenders with The Bank of Tokyo-Mitsubishi UFJ, Ltd. serving as lead manager. In the second quarter of fiscal 2014, the fiscal year ending March 31, 2015, Tokuyama had infringed financial covenants of each of the loan agreements mentioned above.
- Tokuyama has received approval from certain other financial institutions to its exemption from financial covenants while at the same time executing revised agreements in connection with a syndicated loan agreement with seven lenders with the Development Bank of Japan Inc. serving as lead manager, a syndicated loan agreement with six lenders with The Bank of Tokyo-Mitsubishi UFJ, Ltd. serving as lead manager, and a syndicated loan agreement with nine lenders with Sumitomo Mitsui Trust Bank, Limited serving as lead manager. Exemption from financial covenants and the execution of revised agreements follow ongoing negotiations by the Company based on concerns that it would infringe certain financial covenants of the aforementioned agreements at the time of its settlement of accounts for the fiscal year ending March 31, 2015.

As a result of the actions taken, the Company has fully resolved all issues relating to infringements of loan agreement financial covenants and concerns regarding future infringement.

There are no changes to the interest rate burden applicable to loan agreements following the aforementioned actions taken with only a limited increase in incidental expenses. Accordingly, there is no material impact on the Company's consolidated performance forecast for the full fiscal year ending March 31, 2015.

*For details, please refer to the news release "Notice concerning Resolution of Infringements of Certain Loan Agreement Financial Covenants" on Jan 30, 2015



2 Performance Forecasts for FY2014

1. Performance Forecasts
2. Performance Forecasts by Business Segment

1. Performance Forecasts

Consolidated (year-on-year change)

(Billions of yen)

	FY2013 Results	FY2014 Forecast (Oct 31, 2014)	Difference	Q3 FY2013 YTD Results
Net sales	287.3	309.0	+21.6	222.0
Operating income	20.2	21.0	+0.7	15.8
Ordinary income	14.9	15.0	+0.0	11.0
Net income/loss	10.2	(75.0)	(85.2)	(78.8)
Net income per share (yen)	29.37	(215.58)		(226.73)
Exchange rate (¥/\$)	100	104		107
Domestic naphtha price (¥/kl)	67,300	69,700		68,900

Although the future business environment is uncertain because of the sharp depreciation of the yen and fluctuations in raw material and fuel prices, the Company's results were in line with our expectations at this time. Therefore, the Company has not revised the performance forecasts, announced on October 31, 2014.

2. Performance Forecasts by Business Segment

(Year-on year change)

(Billions of yen)

	FY2013 Results		FY2014 Forecast (Oct 31, 2014)		Deference		Q3 FY2014 YTD Results	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Chemicals	86.4	2.2	96.0	4.5	+9.5	+2.2	68.1	3.8
Specialty Products	52.4	6.0	59.5	6.0	+7.0	(0.0)	38.4	3.6
Cement	78.9	6.6	81.5	5.0	+2.5	(1.6)	60.3	3.5
Life & Amenity	57.0	4.8	58.0	4.5	+0.9	(0.3)	43.8	3.6
Others	47.2	4.1	51.0	5.5	+3.7	+1.3	38.3	4.4
Total	322.2	24.0	346.0	25.5	+23.7	+1.4	249.1	19.0
Inter-segment eliminations and corporate-wide expenses	(34.9)	(3.7)	(37.0)	(4.5)	(2.0)	(0.7)	(27.0)	(3.1)
Consolidated Results	287.3	20.2	309.0	21.0	+21.6	+0.7	222.0	15.8

(Note) Sales and operating income shown above include inter-segment transactions.

3 Tokuyama Malaysia

1. Current Status and Schedule Going Forward
2. Causes behind Posting an Impairment Loss



1. Current Status and Schedule Going Forward

【Tokuyama Malaysia】

- Commenced shipments to solar wafer manufacturers and other customers
- Plans are in place to complete all essential improvements and to increase operations to full capacity at the polycrystalline silicon second plant (PS-2) at the time of periodic repairs scheduled for the second half of fiscal 2015.



Tokuyama Malaysia

2. Causes behind Posting an Impairment Loss

Tokuyama Corporation (hereafter referred to as "Tokuyama" or "the Company") announced details of its decision to post an impairment loss in connection with the polycrystalline silicon first plant (PS-1) of Tokuyama Malaysia on October 31, 2014. As a result, an investigative committee mainly comprising the Audit & Supervisory Board (including external auditors) was established the same day.

This committee then delivered a report on its investigation of the relevant facts leading up to the Company's decision as well as an analysis of the causes that led to the posting of an impairment loss.

In addition to reviewing this report, Tokuyama conducted a further investigation and analysis.

Brief details are presented as follows.

By undertaking an analysis of the causes behind the posting of an impairment loss, this report also serves to ensure that the Company carries out all necessary improvement and reform measures to prevent a recurrence of this incident. At the same time, the report provides the impetus through which Tokuyama will work diligently to restore its credibility and to maintain its presence as a going concern and a company that contributes to society going forward.

2. Causes behind Posting an Impairment Loss


Details of investigation on the causes that led to the posting of an impairment loss

1. Based on polycrystalline silicon market conditions at the time the plan was first proposed, the Company factored in the risk of a future decline in prices and decided to invest in a business plan that was disproportionately large when compared with its business scale. Thereafter, however, fluctuations in market conditions far exceeded expectations highlighting deficiencies in the Company's deliberations to offset risk with respect to its investment amount.
2. Moving forward and with the emergence of each issue resulting from shifts in its operating environment, Tokuyama took steps to reconsider the commercial viability of the plan as well as changes to its strategy and other factors. Despite these endeavors, the Company was unable to implement the necessary changes and revisions to offset deterioration in conditions.
3. Despite considering all technical aspects as well as associated risks with respect to such key aspects as the selection of critical equipment, and while allocating an appropriate amount of time and human resources to match the substantial scale of the business plans, the Company's efforts were insufficient to ensure that the plan would be brought to fruition. This reflected the Company's focus on carrying out the business in a timely manner as well as cost competitiveness. Moreover, and when considering the selection of critical equipment, Tokuyama believed that its production and operating technologies and know-how were sufficient to ensure high-purity production even in the event of certain difficulties. Coupled with the focus on speed, the Company's considerations were lacking at that time. This deficiency in initial considerations with regard to such factors as the aforementioned selection of critical equipment was a major factor in the subsequent problems and issues that arose at the plant.

2. Causes behind Posting an Impairment Loss

4. At the same time, the distribution of information to certain parts of the organization was lacking when management undertook decisions relating to these issues. As a result, the ability of the organization of the project to introduce multi-faceted and objectives as inherently intended and to provide support as and when required failed to fully function.

5. With respect to the introduction of human resources and efforts to promote the project, the structure of the organization, which entailed top management assuming responsibility, had some positive effect. However, the result was a lack of appropriate changes and revisions to the subsequent deterioration in operating conditions and each issue.



Looking ahead, Tokuyama will put in place and carry out improvement measures.

There are no indications of any breach from a compliance perspective as a result of the investigation by the committee.



4 Supplementary Data

1. Consolidated Financial Statements
2. Performance Trend
3. Performance Forecasts (1H/2H)
4. Performance Forecasts by Business Segment (1H/2H)
5. PV Market Conditions
6. Polysilicon Market Conditions

1. Consolidated Financial Statements

Income Statements

(Billions of yen)

	Q3 FY2013 YTD	Q3 FY2014 YTD	Difference	
			Amount	%
Net sales	207.9	222.0	+14.1	+7
Cost of sales	151.2	159.3	+8.1	+5
Selling, general and administrative expenses	44.1	46.7	+2.6	+6
Operating income	12.5	15.8	+3.3	+27
Non-operating income/expenses	(2.6)	(4.8)	(2.1)	-
Ordinary income	9.8	11.0	+1.2	+12
Extraordinary income/expenses	(0.4)	(88.2)	(87.7)	-
Income before income taxes and minority interests	9.3	(77.1)	(86.5)	-
Income taxes and minority interests	1.8	1.7	(0.1)	(10)
Net income/loss	7.4	(78.8)	(86.3)	-

1. Consolidated Financial Statements Balance Sheets

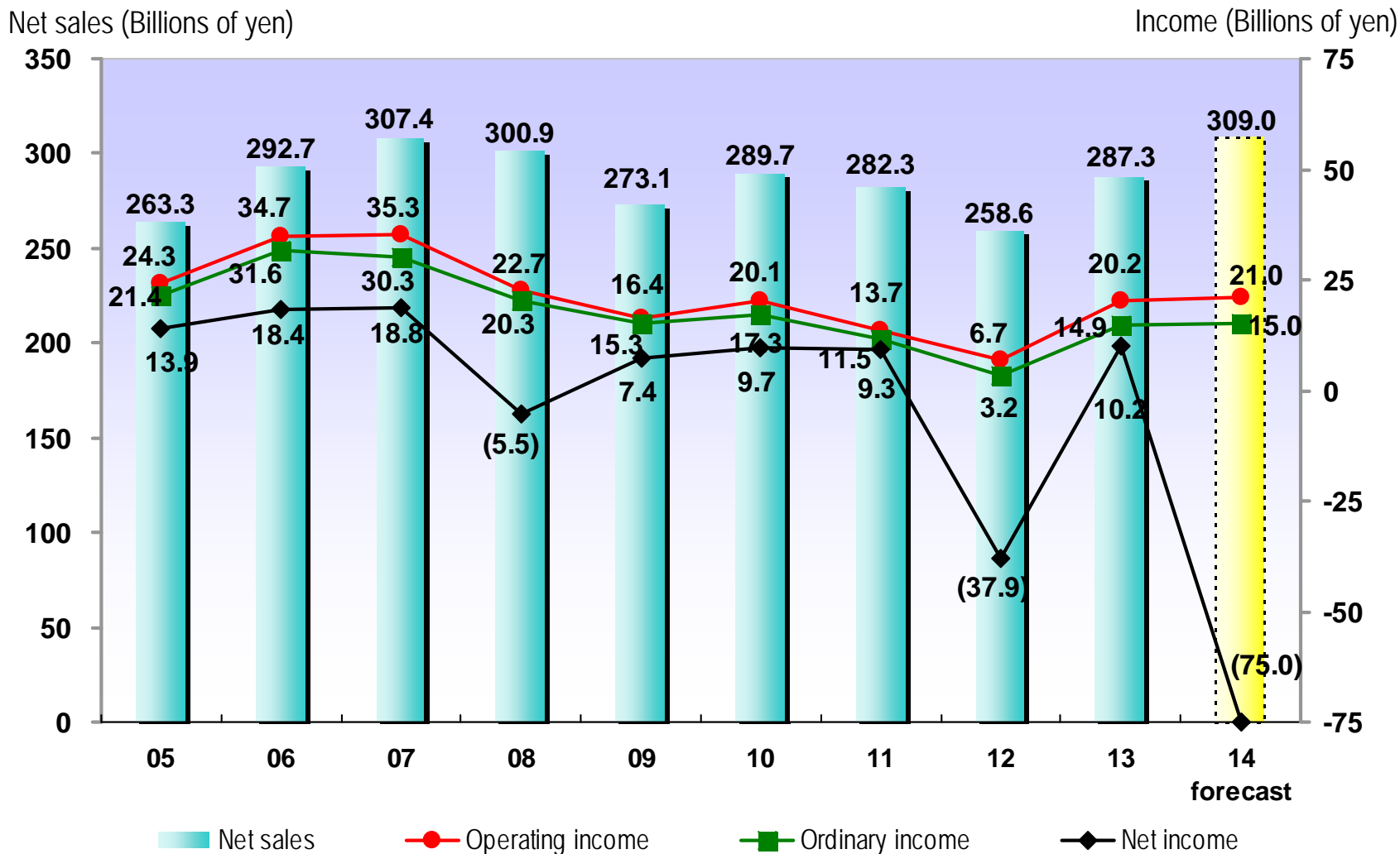
(Billions of yen)

	3/31/2014	12/31/2014	Changes	
			Amount	%
Total assets	576.3	564.5	(11.7)	(2)
Current assets	191.6	244.6	+52.9	+28
Tangible fixed assets	323.1	254.8	(68.2)	(21)
Intangible fixed assets	10.1	10.8	+0.6	+7
Investments and other assets	51.4	54.2	+2.8	+5

	3/31/2014	12/31/2014	Changes	
			Amount	%
Total liabilities	339.8	404.0	+64.2	+19
Current liabilities	99.2	128.5	+29.2	+29
Long-term liabilities	240.5	275.4	+34.9	+15
Total net assets	236.4	160.4	(75.9)	(32)

2. Performance Trend

Consolidated (Annual)

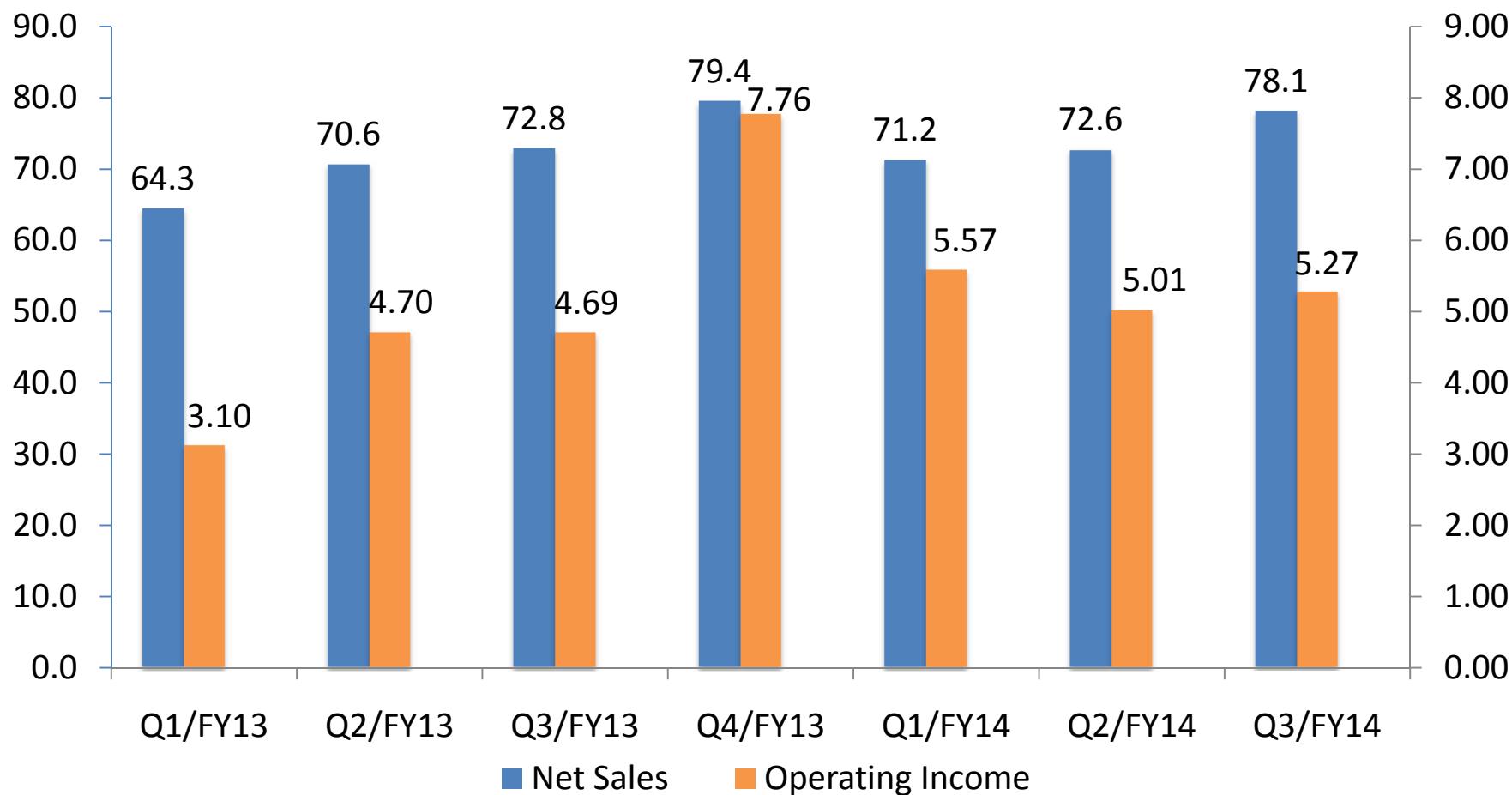


2. Performance Trend

(Quarter)

Consolidated

(Billions of yen)

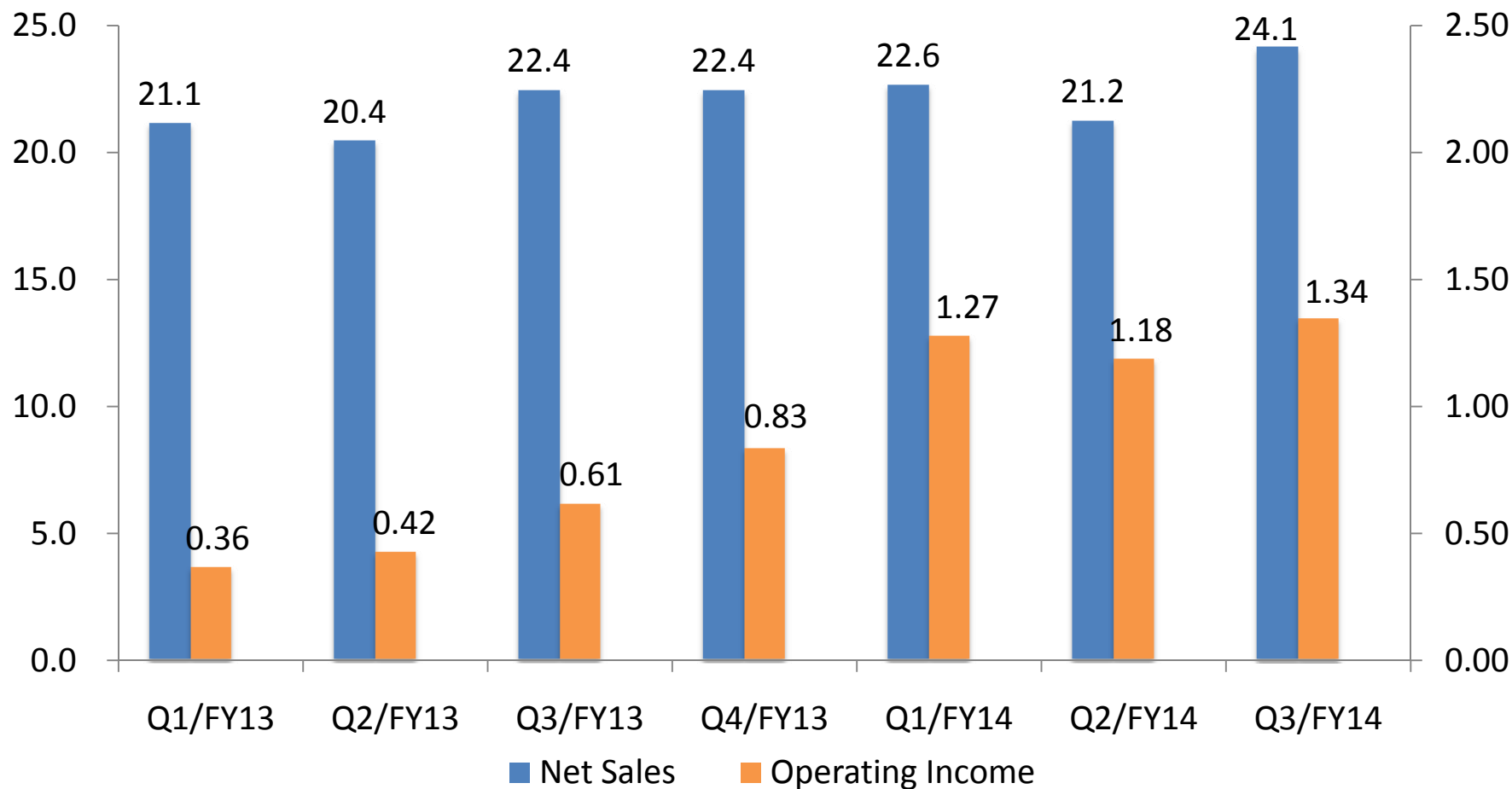


2. Performance Trend

(Quarter)

Chemicals

(Billions of yen)

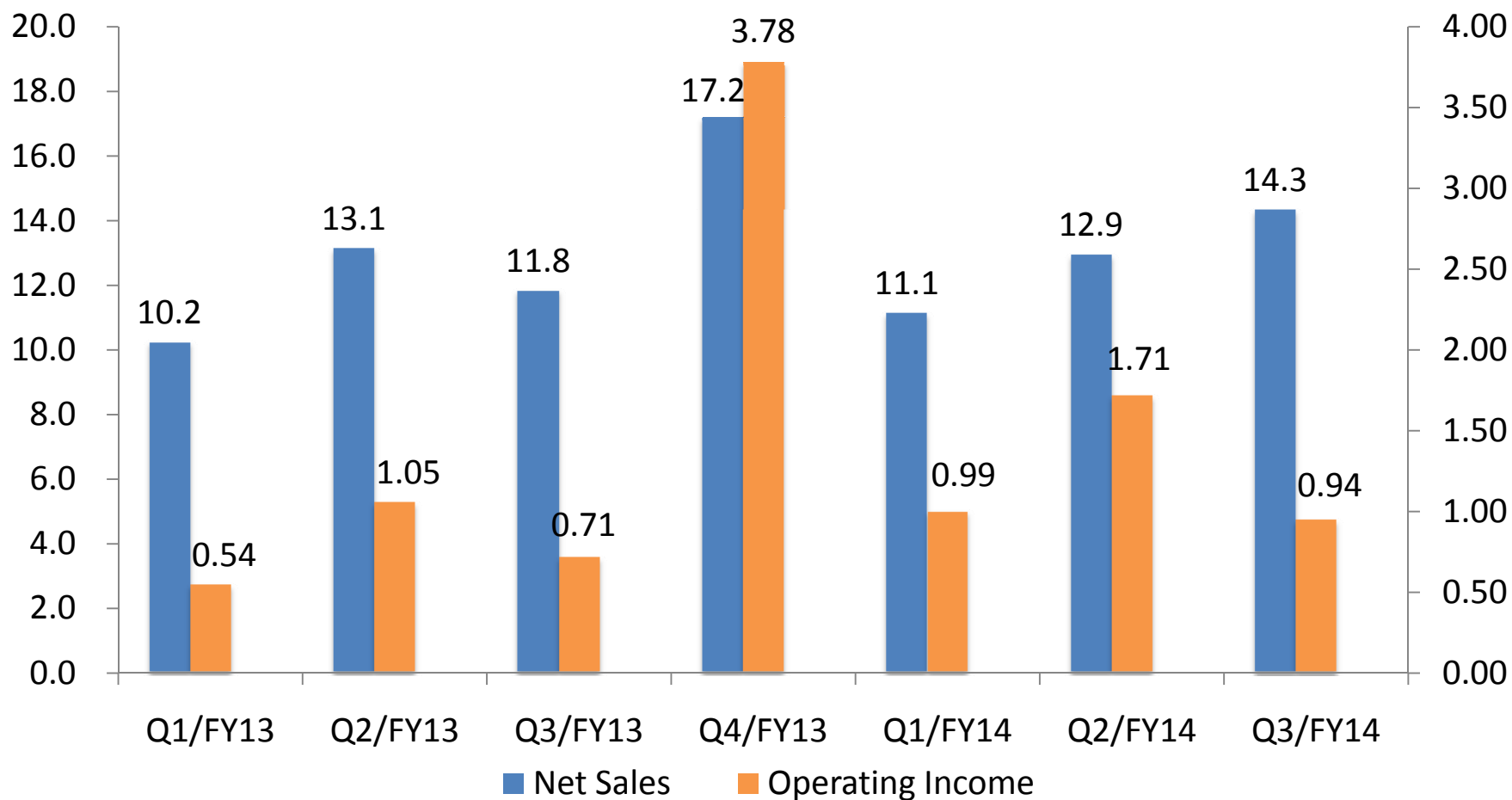


2. Performance Trend

(Quarter)

Specialty Products

(Billions of yen)

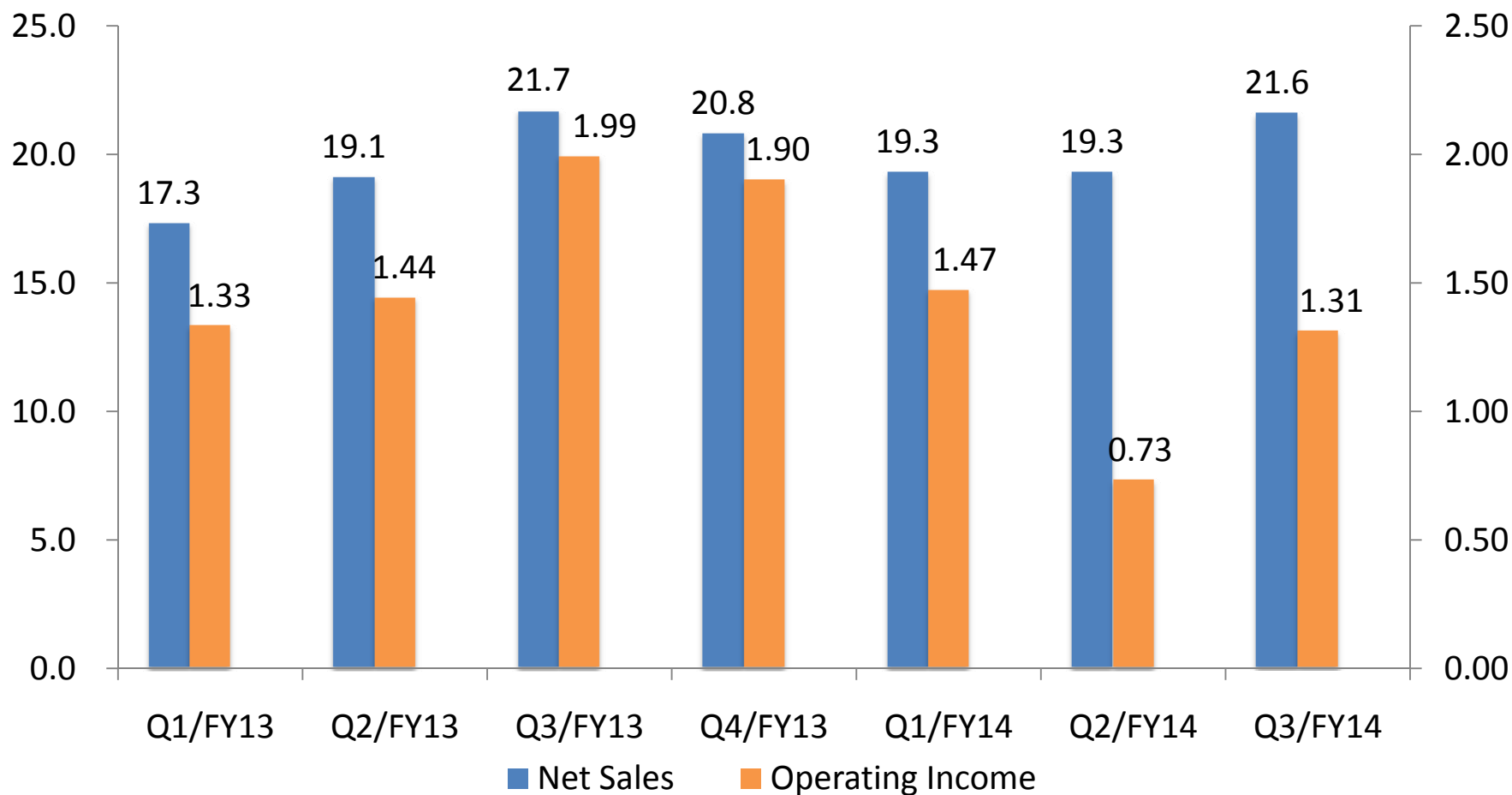


2. Performance Trend

(Quarter)

Cement

(Billions of yen)

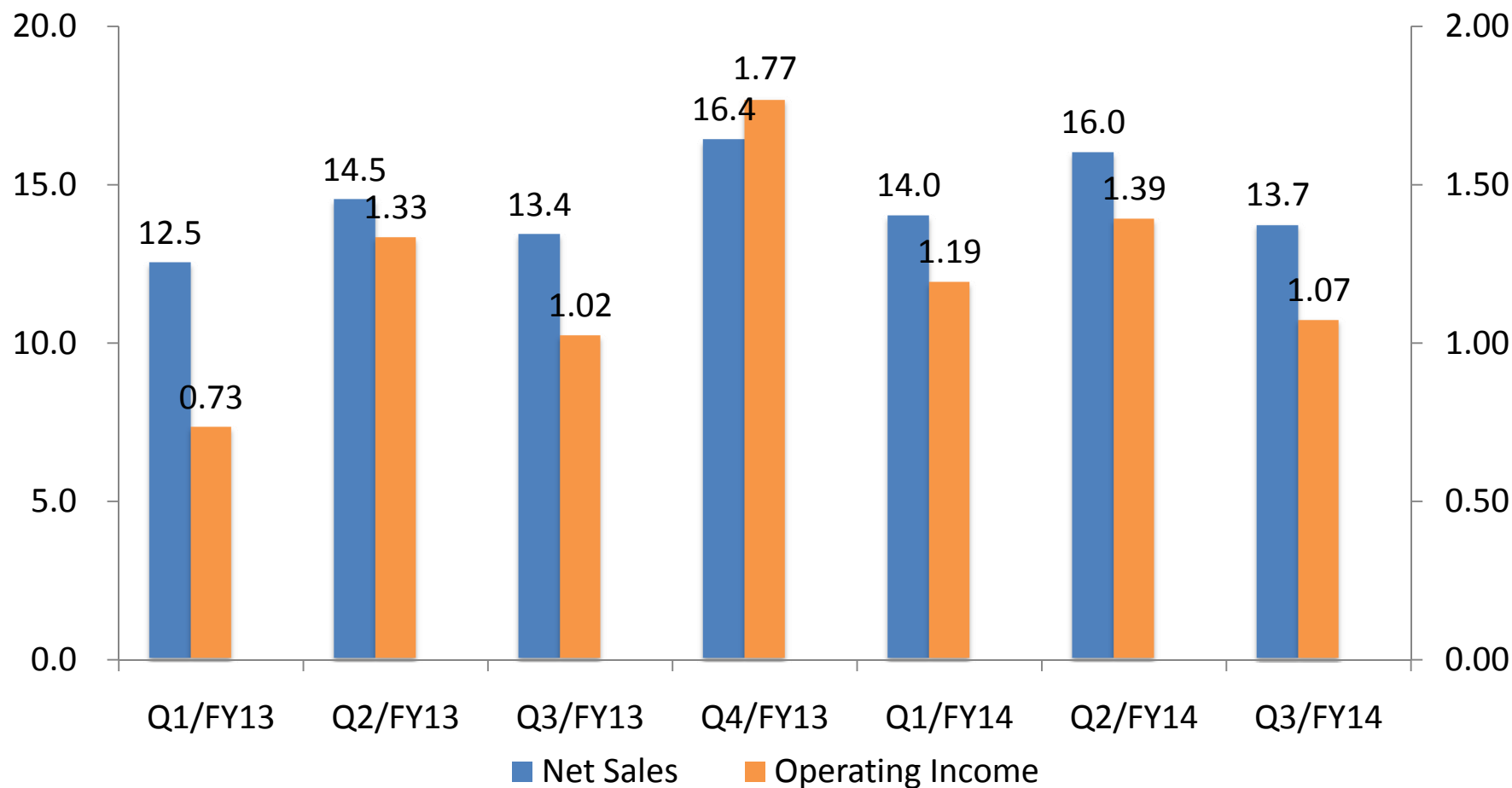


2. Performance Trend

(Quarter)

Life & Amenity

(Billions of yen)



3. Performance Forecasts (1H/2H)

(Year-on year change)

(Billions of yen)

	FY2013 Results			FY2014 Forecast (Oct31, 2014)		
	1H	2H	Total	1H	2H	Total
Net sales	135.0	152.2	287.3	143.8	165.1	309.0
Operating income	7.8	12.4	20.2	10.5	10.4	21.0
Ordinary income	6.0	8.8	14.9	8.2	6.7	15.0
Net income	4.5	5.7	10.2	(80.5)	5.5	(75.0)
Net income per share (yen)	12.99	16.38	29.37	(231.40)	15.82	(215.58)
Exchange rate (¥/\$)	99	102	100	103	105	104
Domestic naphtha price (¥/kl)	64,700	69,900	67,300	70,400	69,000	69,700

4. Performance Forecasts by Business Segment (1H/2H)

(Year-on-year change)

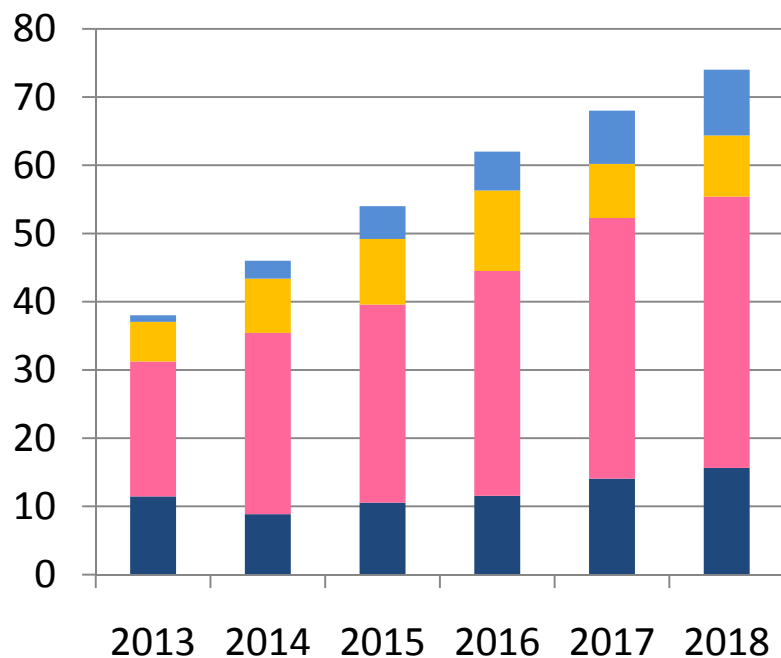
(Billions of yen)

	FY2013 Results						FY2014 Forecast (Oct 31, 2014)					
	1H		2H		Total		1H		2H		Total	
	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income	Net sales	Operating income
Chemicals	41.5	0.7	44.8	1.4	86.4	2.2	43.9	2.4	52.0	2.0	96.0	4.5
Specialty Products	23.4	1.5	29.0	4.4	52.4	6.0	24.1	2.7	35.3	3.2	59.5	6.0
Cement	36.4	2.7	42.5	3.9	78.9	6.6	38.6	2.2	42.8	2.7	81.5	5.0
Life & Amenity	27.1	2.0	29.8	2.8	57.0	4.8	30.0	2.5	27.9	1.9	58.0	4.5
Others	23.2	2.1	24.0	2.0	47.2	4.1	24.9	2.6	26.0	2.8	51.0	5.5
Total	151.8	9.3	170.3	14.6	322.2	24.0	161.7	12.6	184.2	12.8	346.0	25.5
Inter-segment eliminations and corporate-wide expenses	(16.8)	(1.5)	(18.0)	(2.2)	(34.9)	(3.7)	(17.9)	(2.0)	(19.0)	(2.4)	(37.0)	(4.5)
Consolidated Results	135.0	7.8	152.2	12.4	287.3	20.2	143.8	10.5	165.1	10.4	309.0	21.0

5. PV Market Conditions

Forecasts of installed PV capacity by region

Unit:GW



Europe (Big 9)
 Asia
 N. America
 ROW

(Note) Tokuyama estimate based on IHS Market Tracker (PV Integrated) Q4 2014

Conditions in each country

<China>

◆ In a bid to ensure sound industry growth, the government announced specific targets for the introduction of solar power generation facilities: A cumulative total of 70GW by 2017

◆ 26.5GW: cumulative total of photovoltaic power generation introduced up to the end of 2014

<Japan>

◆ Since the launch of the existing feed-in tariff system in July 2012, Japan has witnessed a rapid surge in the amount of solar power generation introduction

◆ The total amount introduced for the nine-month period from Jan-Sep 2014 exceeded the total amount introduced in 2013 (in excess of 6GW)

<U.S.>

◆ Policy measures aimed at promoting the widespread use of a variety of solar power generation facilities is driving market growth; in particular, public policy measures at the state level are pushing forward the large-scale solar power generation market

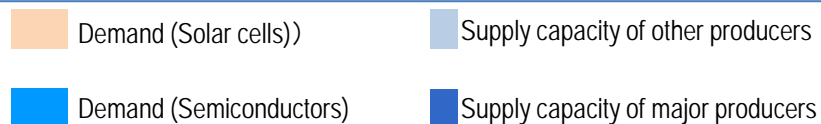
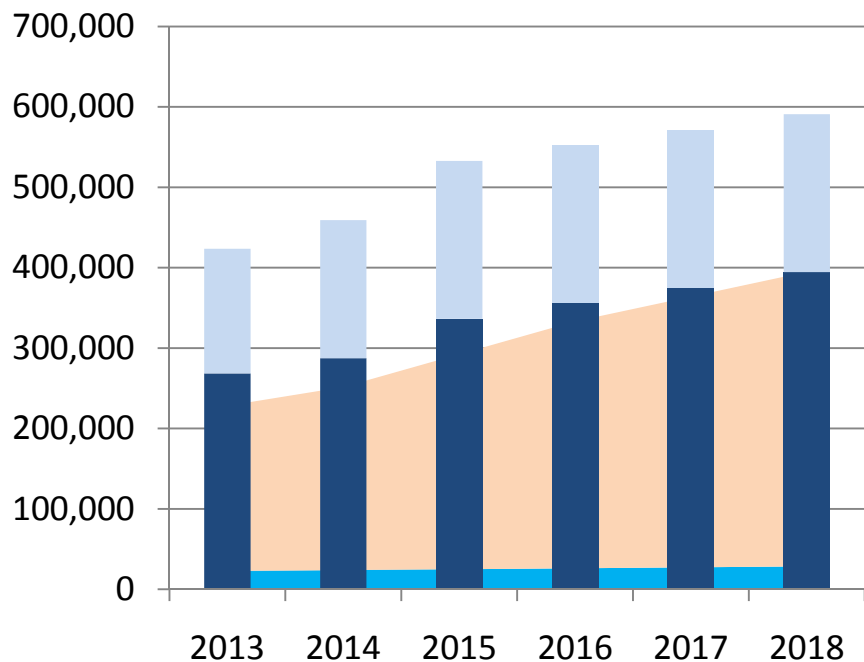
<Europe>

◆ The solar power generation market seems to have contracted slightly in 2014 due the successive shrinking and termination of policy support measures; From 2015, the market is expected to enter a growth trend on the back of a recovery in demand from major countries

6. Polysilicon Market Conditions

Supply-demand forecast of polysilicon

Supply capacity/Demand (tonnes) *Tokuyama estimate



(Note 1) Major producers mean Tier1 manufactures in the classification by IHS.

(Note 2) Demand is estimated by Tokuyama based IHS

Forecasts

<Semiconductor-grade polysilicon demand>

- Projected annual increase of 5% on the back of an upswing in demand for use in tablet terminals and smartphones
- Continued inventory adjustments across the entire supply chain

<Solar cell-grade polysilicon demand>

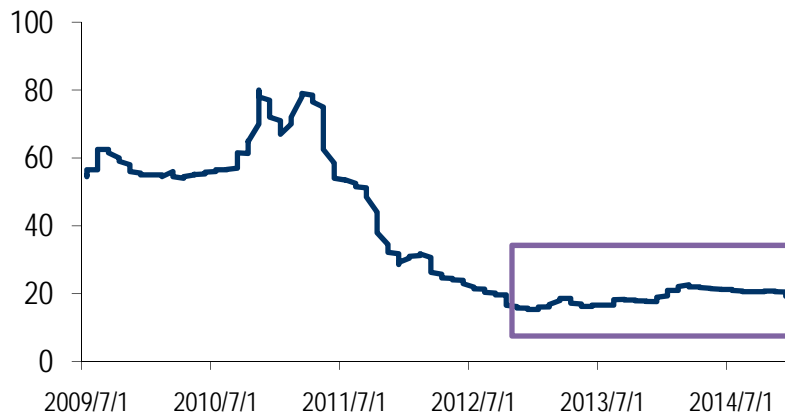
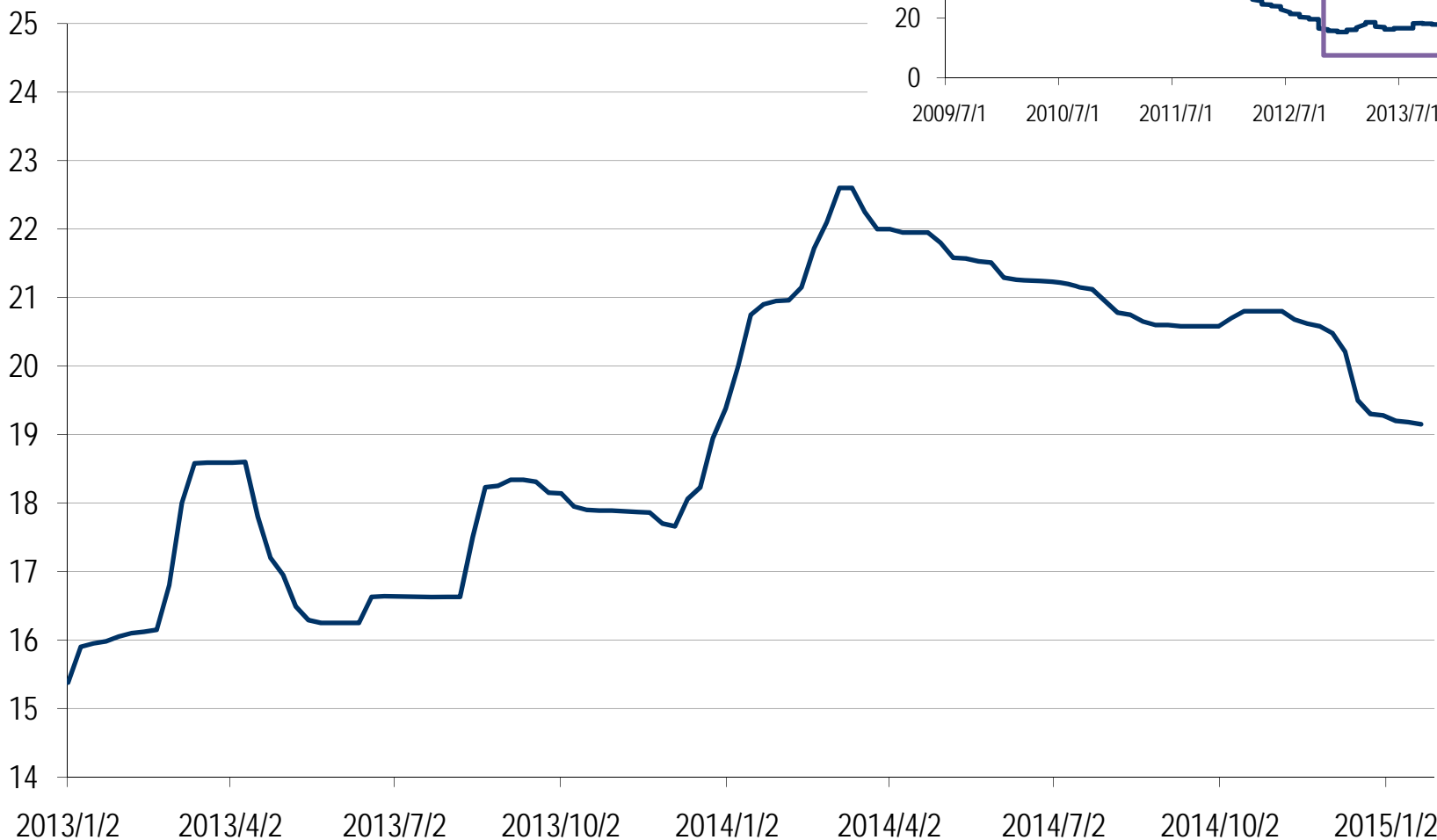
- Despite a substantial decline in installed PV capacity owing mainly to cutbacks in subsidies in Europe, projected annual increase in demand exceeding 15% largely reflecting forecast growth due attributable to aggressive installation initiatives in such countries as Japan, China, and the U.S.

<Supply side>

- Excess supply capacity expected to continue for the foreseeable future; cost competitiveness recognized as the key to survival

6. Polysilicon Market Conditions

Polysilicon Spot Price Trend



Source : PV insights

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Chemistry with a heart

TOKUYAMA

