

Q1 FY2017 - Apr 1, 2017 to Jun 30, 2017 -

# Presentation for IR Meeting

**Tokuyama Corporation**

July 28, 2017



## Key points of the first quarter of fiscal 2017

- Sustained momentum from the previous fiscal year mainly with respect to chlor-alkali trends; progress in excess of expectations
- Transfer of Tokuyama Malaysia Sdn. Bhd. completed as of the end of May in line with plans
- Following completion of the aforementioned transfer, Tokuyama posted a loss on business transfer as an extraordinary loss; at the same time, the Company posted an amount equivalent to the equity held by OCI Company Ltd. from the total amount of net assets of Tokuyama Malaysia, which is to be excluded from the scope of consolidation, to equity in loss of non-controlling interests
- Effective from the fiscal year ending March 31, 2018, the cost of idle operations has been reclassified from non-operating expenses to cost of sales; figures from the previous fiscal year have been adjusted to reflect this reclassification

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# **1** Financial Results for Q1 FY2017

1. Financial Highlights
2. Net Sales / Operating Income by Business Segment
3. Changes in Operating Income
4. Changes in Net Sales / Operating Income by Business Segment



# 1. Financial Highlights Consolidated (year-on-year change)

(Billions of yen)

|   | Q1 FY2016 | Q1 FY2017 | Difference |     |
|---|-----------|-----------|------------|-----|
|   |           |           | Amount     | %   |
| Net sales                               | 73.1      | 72.4      | (0.7)      | (1) |
| Operating income                        | 9.3       | 8.4       | (0.9)      | (9) |
| Ordinary income                         | 6.4       | 7.7       | +1.3       | +20 |
| Profit attributable to owners of parent | 5.5       | (8.1)     | (13.6)     | -   |

|                                |        |        |
|--------------------------------|--------|--------|
| Basic earnings per share (yen) | 15.91  | 28.09  |
| Exchange rate (¥/\$)           | 108    | 111    |
| Domestic naphtha price (¥/kl)  | 31,600 | 39,100 |

## Qualitative information

(Net sales)

Plus: increased sales volume in major products and price revision of caustic soda and petroleum products

Minuses: decreased sales volume of products which made in Tokuyama Malaysia

(included in the current consolidated term due to delay in transfer) , deconsolidation of subsidiaries

(Operating income)

Plus: revision of selling prices

Minuses: included in the current consolidated term due to delay in transfer of Tokuyama Malaysia , upturn in raw material and fuel costs

(Ordinary income)

Plus: improvement of non-operating income / expenses

(Profit attributable to owners of parent)

5 Minus: posting loss on the business transfer of Tokuyama Malaysia and loss on non-controlling interests

# 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, 2017 | As of Jun 30, 2017 | Changes   |
|----------------------------|--------------------|--------------------|-----------|
| Total assets               | 424.4              | 390.5              | (33.9)    |
| Shareholders' equity       | 127.0              | 97.3               | (29.7)    |
| Shareholders' equity ratio | 29.9%              | 24.9%              | (5.0) pts |
| Interest-bearing debt      | 213.9              | 212.4              | (1.5)     |
| D/E ratio                  | 1.68               | 2.18               | +0.50     |
| Net D/E ratio*             | 0.73               | 1.17               | +0.44     |
| Net assets per share (yen) | 305.49             | 279.99             |           |

## Qualitative information

(Total assets)

Decrease factor: decrease in cash and deposits

(Shareholders' equity)

Decrease factor: decrease in shareholders' equity as a result of cancellation of class shares

(Interest-bearing debt)

Decrease factor: decrease in long-term loans payable and others

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

## 2. Net Sales/Operating Income by Business Segment

(Year-on-year change)

(Billions of yen)

|  | Q1 FY2016   |                  | Q1 FY2017   |                  | Difference   |            |                  |             |
|--|-------------|------------------|-------------|------------------|--------------|------------|------------------|-------------|
|  | Net sales   | Operating income | Net sales   | Operating income | Net sales    | %          | Operating income | %           |
| Chemicals  | 20.2        | 2.8              | 22.7        | 3.5              | +2.4         | +12        | +0.6             | +24         |
| Specialty Products                                     | 16.1        | 2.0              | 13.0        | 1.5              | (3.1)        | (19)       | (0.5)            | (24)        |
| Cement   | 19.4        | 1.5              | 21.0        | 1.0              | +1.5         | +8         | (0.5)            | (32)        |
| Life & Amenity   | 13.8        | 1.7              | 11.8        | 0.7              | (2.0)        | (15)       | (0.9)            | (56)        |
| Others   | 13.1        | 1.5              | 13.1        | 1.5              | (0.0)        | (0)        | (0.0)            | (4)         |
| <b>Total</b>   | <b>82.7</b> | <b>9.8</b>       | <b>81.6</b> | <b>8.5</b>       | <b>(1.0)</b> | <b>(1)</b> | <b>(1.3)</b>     | <b>(14)</b> |
| Inter-segment eliminations and corporate-wide expenses | (9.6)       | (0.5)            | (9.2)       | (0.0)            | +0.3         | -          | +0.5             | -           |
| <b>Consolidated results</b>                            | <b>73.1</b> | <b>9.3</b>       | <b>72.4</b> | <b>8.4</b>       | <b>(0.6)</b> | <b>(1)</b> | <b>(0.8)</b>     | <b>(9)</b>  |

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

(Reference)

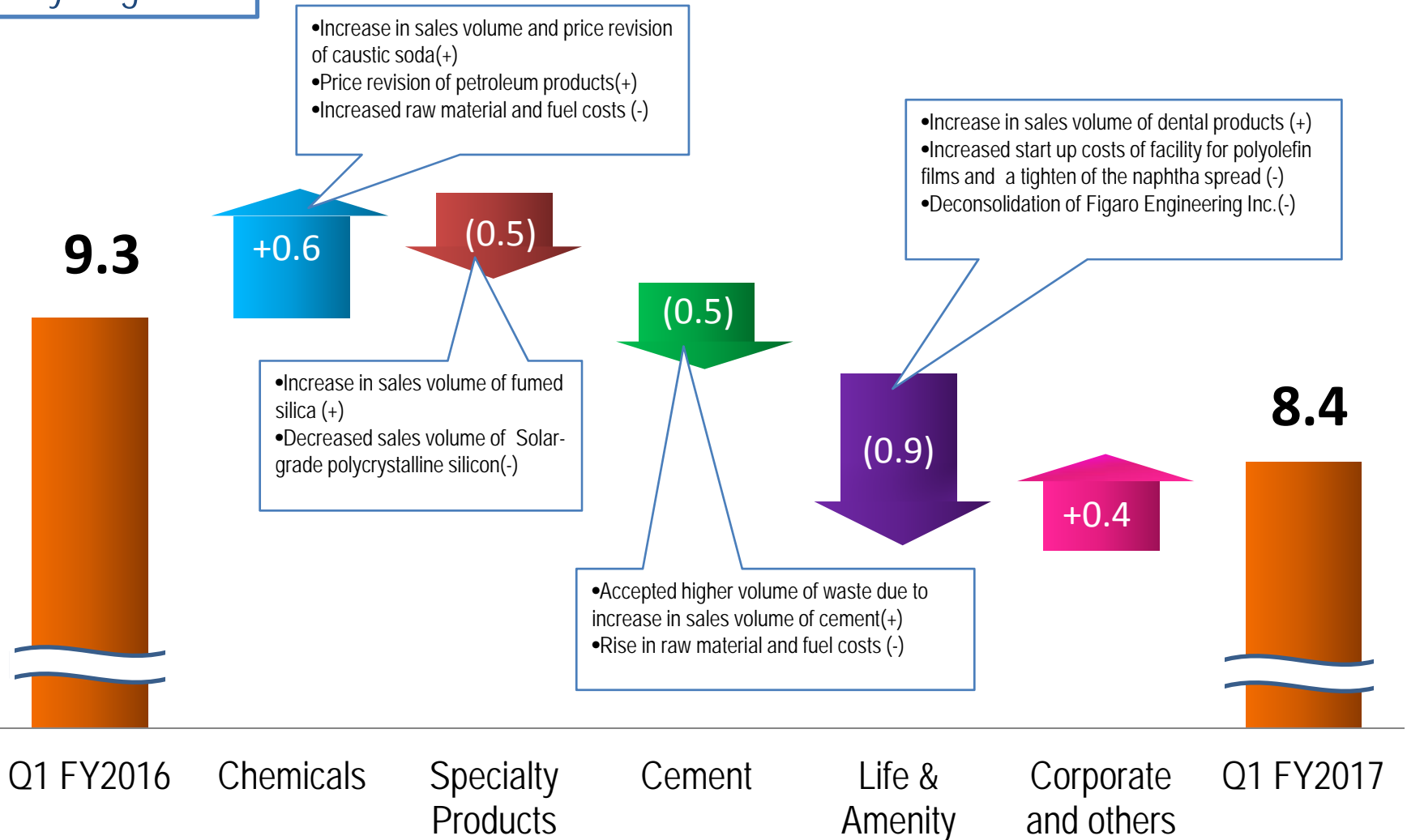
|                   |     |       |     |       |       |      |       |   |
|-------------------|-----|-------|-----|-------|-------|------|-------|---|
| Tokuyama Malaysia | 4.0 | (0.0) | 1.6 | (0.6) | (2.3) | (59) | (0.6) | - |
|-------------------|-----|-------|-----|-------|-------|------|-------|---|

# 3. Changes in Operating Income

(Year-on-year change)

(Billions of yen)

By Segment





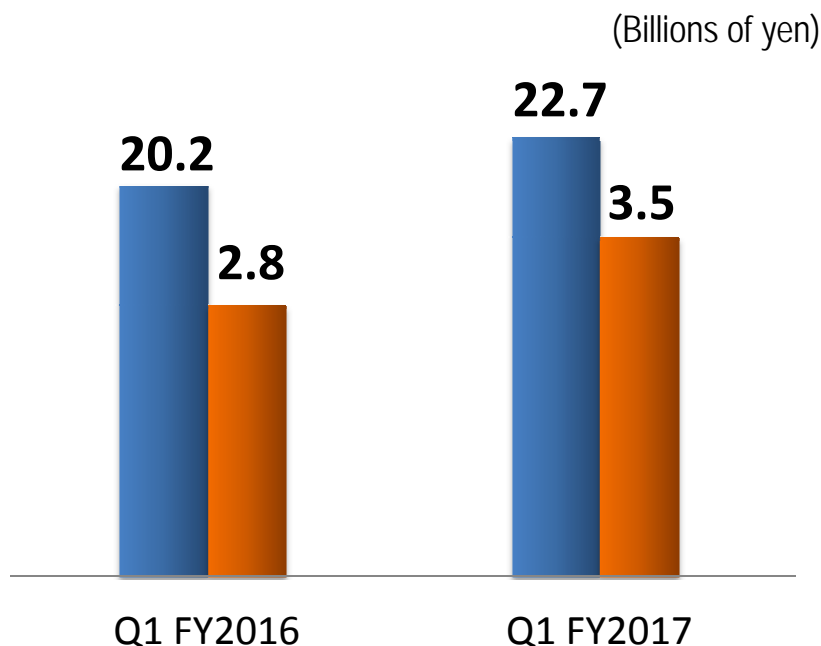
## 4. Changes in Net Sales / Operating Income by Business Segment

(Year-on-year change)

### Chemicals

*Higher earnings on lower sales*

■ Net Sales ■ Operating Income



### Qualitative information

(Caustic soda)

- Net sales increased due to higher volume of domestic sales and exports, and the revision in selling prices

(Vinyl chloride monomer (VCM))

- Net sales increased due to higher sales volume of exports for Asian market

(Vinyl chloride resin)

- Sales for the domestic customers was steady
- Net sales increased due to price revision

(Soda ash and Calcium chloride)

- Sales volume remained at the same level, and sales was almost same

## 4. Changes in Net Sales / Operating Income by Business Segment

(Year-on-year change)

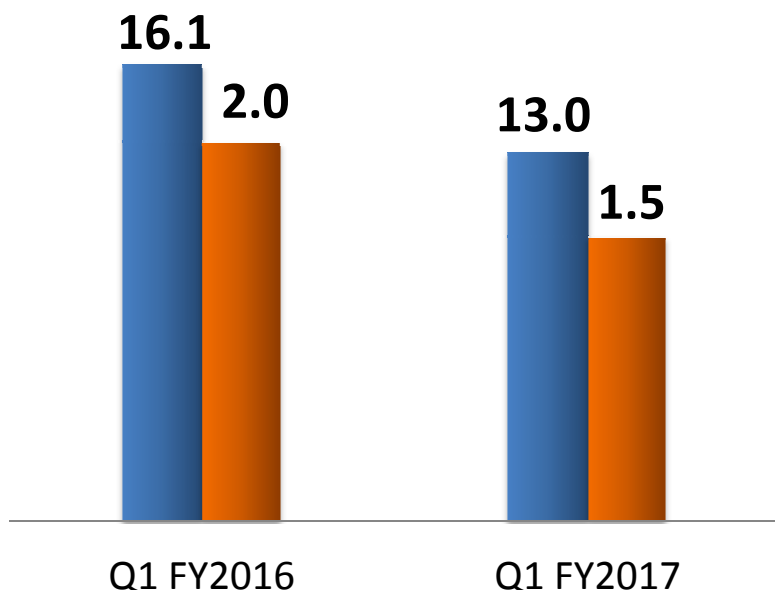
### Specialty Products

*Higher earnings on higher sales*

#### Qualitative information

■ Net Sales ■ Operating Income

(Billions of yen)



(Solar-grade polycrystalline silicon)

- Decreased sales volume
- Included in the current consolidated term due to delay in transfer

(Semiconductor-grade polycrystalline silicon)

- Net sales decreased due to the difference of shipment schedule

(Fumed Silica)

- Higher sales volume to of such applications as a polishing material for semiconductors

(High-purity chemicals for electronics manufacturing)

- Net sales were steady in such applications used for semiconductor manufacturing

(Aluminum nitride)

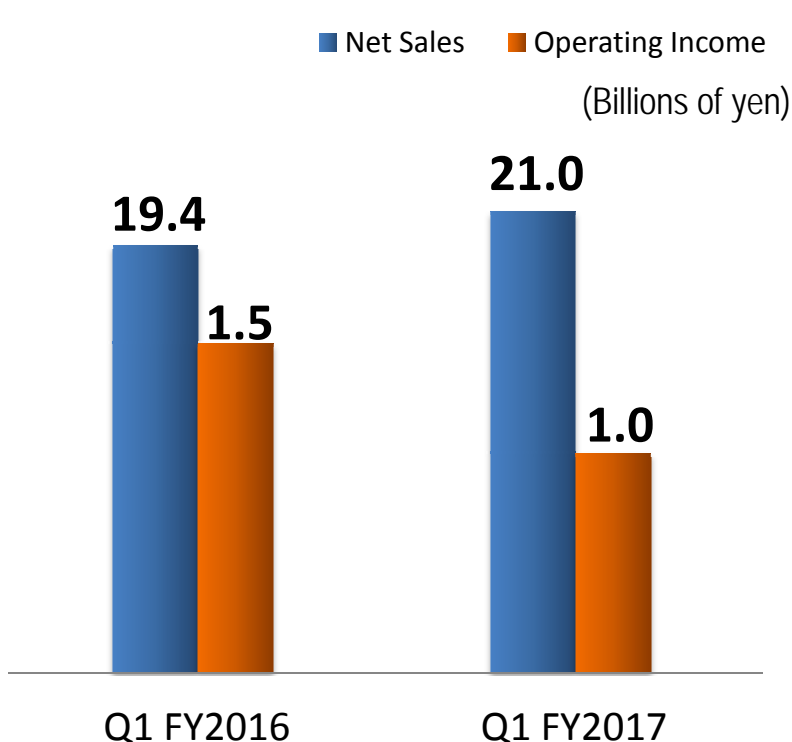
- Higher sales volume of such applications used for semiconductor manufacturing equipment

## 4. Changes in Net Sales / Operating Income by Business Segment

(Year-on-year change)

### Cement

*Higher earnings on lower sales*



### Qualitative information

(Cement)

- Sales of cement increased. With the construction of infrastructure related to Tokyo Olympic becoming more active, domestic sales increased at Tokyo and other areas, and the volume of exports increased on the back of robust demand in the Asian region
- Consolidated subsidiary net sales increased, because of the robust shipping trends of such products as ready-mixed concrete
- Lower earnings due to increased production costs as a results of the rise in raw material costs such as coal

(Recycling and environment-related business)

- The Company accepted higher volume of waste

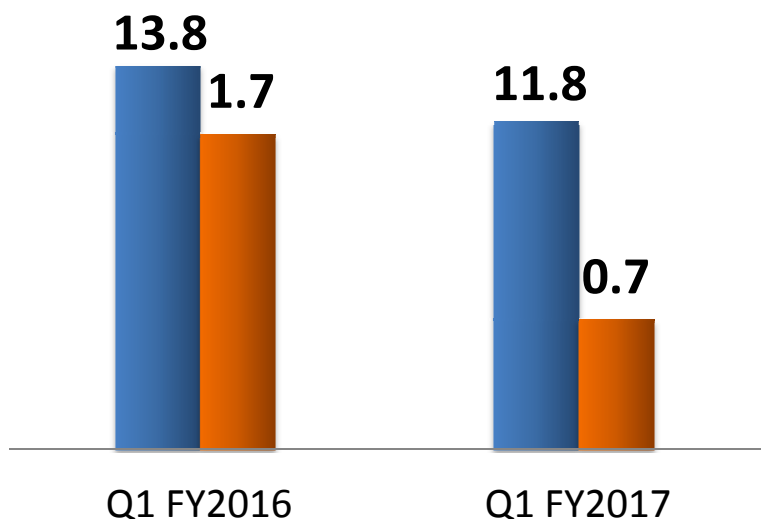
## 4. Changes in Net Sales / Operating Income by Business Segment

(Year-on-year change)

### Life & Amenity

*Higher earnings on lower sales*

■ Net Sales ■ Operating Income  
(Billions of yen)



#### Qualitative information

(Active pharmaceutical ingredient)

- Decreased sales volume of products for generic pharmaceuticals

(Polyolefin film)

- Increased start up costs of facility for polyolefin films and a tighten of the naphtha spread

(Dental materials and equipment)

- Higher sales volume of new products and increased export

(Medical diagnosis system)

- Sales were down due to the decrease of sales targeting large-scale projects



## **2** Performance Forecasts for FY2017

1. Performance Forecasts
2. Performance Forecasts by Business Segment

# 1. Performance Forecasts

Consolidated  
(Year-on-year change based on FY2017 forecasts)

(Billions of yen)

|   | FY2016 Results | FY2017 Forecasts<br>(April 28, 2017) | Difference |      |
|---|----------------|--------------------------------------|------------|------|
|   |                |                                      | Amount     | %    |
| Net sales   | 299.1          | 300.0                                | +0.8       | +0   |
| Operating income                                  | 38.5           | 36.0                                 | (2.5)      | (7)  |
| Ordinary income                                   | 33.9           | 32.0                                 | (1.9)      | (6)  |
| Profit (loss)<br>attributable to owners of parent | 52.1           | 13.0                                 | (39.1)     | (75) |
| Basic earnings per share (yen)                    | 147.78         | 36.72                                |            |      |
| Exchange rate (¥/\$)                              | 108            | 105                                  |            |      |
| Domestic naphtha price (¥/kl)                     | 34,700         | 40,000                               |            |      |

Although the future business environment is uncertain because of the fluctuations in spot price of such product as solar-grade polycrystalline silicon, exchange rate and 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 April 28, 2017.

## 2. Performance Forecasts by Business Segment

(Year-on-year change based on FY2017 forecasts)

(Billions of yen)

|  | FY2016 Results |                  | FY2017 Forecasts |                  | Difference  |           |                  |            |
|--|----------------|------------------|------------------|------------------|-------------|-----------|------------------|------------|
|  | Net sales      | Operating income | Net sales        | Operating income | Net sales   | %         | Operating income | %          |
| Chemicals  | 83.3           | 12.9             | 89.0             | 13.0             | +5.6        | +7        | +0.0             | +0         |
| Specialty Products                                     | 67.7           | 9.2              | 56.0             | 9.5              | (11.7)      | (17)      | +0.2             | +3         |
| Cement   | 82.9           | 7.5              | 86.0             | 5.5              | +3.0        | +4        | (2.0)            | (27)       |
| Life & Amenity   | 50.7           | 5.3              | 54.0             | 4.0              | +3.2        | +6        | (1.3)            | (26)       |
| Others   | 52.1           | 5.9              | 52.0             | 5.5              | (0.1)       | (0)       | (0.4)            | (8)        |
| <b>Total</b>   | <b>336.9</b>   | <b>41.1</b>      | <b>337.0</b>     | <b>37.5</b>      | <b>+0.0</b> | <b>+0</b> | <b>(3.6)</b>     | <b>(9)</b> |
| Inter-segment eliminations and corporate-wide expenses | (37.8)         | (2.5)            | (37.0)           | (1.5)            | +0.8        | -         | +1.0             | -          |
| <b>Consolidated Results</b>                            | <b>299.1</b>   | <b>38.5</b>      | <b>300.0</b>     | <b>36.0</b>      | <b>+0.8</b> | <b>+0</b> | <b>(2.5)</b>     | <b>(7)</b> |

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

## **3** Topics

1. Complete the transfer of Tokuyama Malaysia





# 1. Complete the transfer of Tokuyama Malaysia

The third-party allotment of the new shares and transfer of all shares to OCI Company Ltd. had been completed on May 31, 2017.

Following completion of the aforementioned transfer, Tokuyama Malaysia was excluded from scope of consolidation from June 2017.

An extraordinary loss of 8.0 billion yen was posted as a loss on transfer.

At the same time, equity in loss of non-controlling interests of 3.1 billion yen was posted, which was an amount equivalent to the equity held by OCI Company Ltd. (16.54%) from the total amount of net assets of Tokuyama Malaysia, which is to be excluded from scope of consolidation.

(Billions of yen)

|                   | Q1 FY2016 |                  | Q1 FY2017 |                  |           |                  |
|-------------------|-----------|------------------|-----------|------------------|-----------|------------------|
|                   | Net sales | Operating income | Net sales | Operating income | Net sales | Operating income |
| Tokuyama Malaysia | 4.0       | (0.0)            | 1.6       | (0.6)            | (2.3)     | (0.6)            |

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## **4** Supplementary Data

1. Cancellation of Class A Shares
2. Consolidated Financial Statements
3. Performance Trend

## 1. Cancellation of Class A Shares

Tokuyama had decided to acquire all of Class A Shares of 20 billion yen from Japan Industrial Solutions for cash consideration due to the decision made to transfer Tokuyama Malaysia Sdn. Bhd., and the expected recovery and enhancement of consolidated net assets.

All of Class A Shares had been acquired and cancelled on June 14, 2017.

## 2. Consolidated Financial Statements

### Income Statements

(Billions of yen)

|  | Q1 FY2016 | Q1 FY2017 | Difference |      |
|--|-----------|-----------|------------|------|
|  |           |           | Amount     | %    |
| Net sales                                    | 73.1      | 72.4      | (0.6)      | (1)  |
| Cost of sales                                | 48.7      | 49.3      | +0.6       | +1   |
| Selling, general and administrative expenses | 15.1      | 14.6      | (0.4)      | (3)  |
| Operating income                             | 9.3       | 8.4       | (0.8)      | (9)  |
| Non-operating income/expenses                | (2.8)     | (0.7)     | +2.0       | -    |
| Ordinary income                              | 6.4       | 7.7       | +1.2       | +20  |
| Extraordinary income/expenses                | 2.4       | (8.2)     | (10.7)     | -    |
| Income/loss before income taxes              | 8.9       | (0.5)     | (9.4)      | -    |
| Income taxes                                 | 3.0       | 4.1       | +1.1       | +36  |
| Non-controlling interests                    | 0.3       | 3.4       | +3.2       | +947 |
| Profit attributable to owners of parent      | 5.5       | (8.1)     | (13.6)     | -    |

## 2. Consolidated Financial Statements Balance Sheets

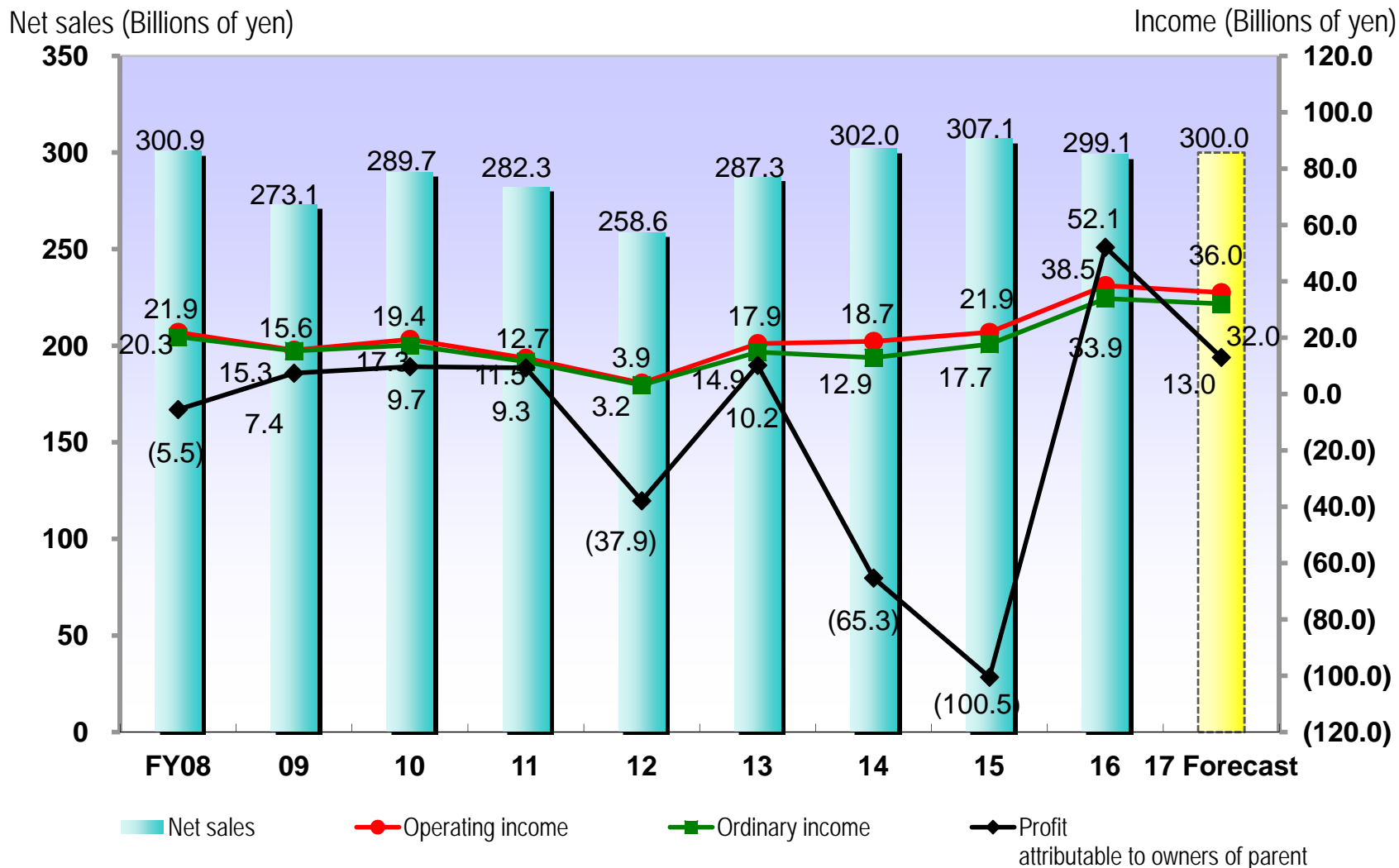
(Billions of yen)

|                              | 3/31/2017 | 6/30/2017 | Changes |      |
|------------------------------|-----------|-----------|---------|------|
|                              |           |           | Amount  | %    |
| Total assets                 | 424.4     | 390.5     | (33.9)  | (8)  |
| Current assets               | 246.6     | 222.9     | (23.7)  | (10) |
| Tangible fixed assets        | 119.2     | 112.2     | (7.0)   | (6)  |
| Intangible fixed assets      | 4.7       | 3.7       | (1.0)   | (21) |
| Investments and other assets | 53.7      | 51.6      | (2.1)   | (4)  |

|                       | 3/31/2017 | 6/30/2017 | Changes |      |
|-----------------------|-----------|-----------|---------|------|
|                       |           |           | Amount  | %    |
| Total liabilities     | 288.4     | 283.9     | (4.5)   | (2)  |
| Current liabilities   | 79.1      | 78.2      | (0.9)   | (1)  |
| Long-term liabilities | 209.3     | 205.7     | (3.6)   | (2)  |
| Total net assets      | 135.9     | 106.5     | (29.4)  | (22) |

# 3. Performance Trend

Consolidated (Annual)

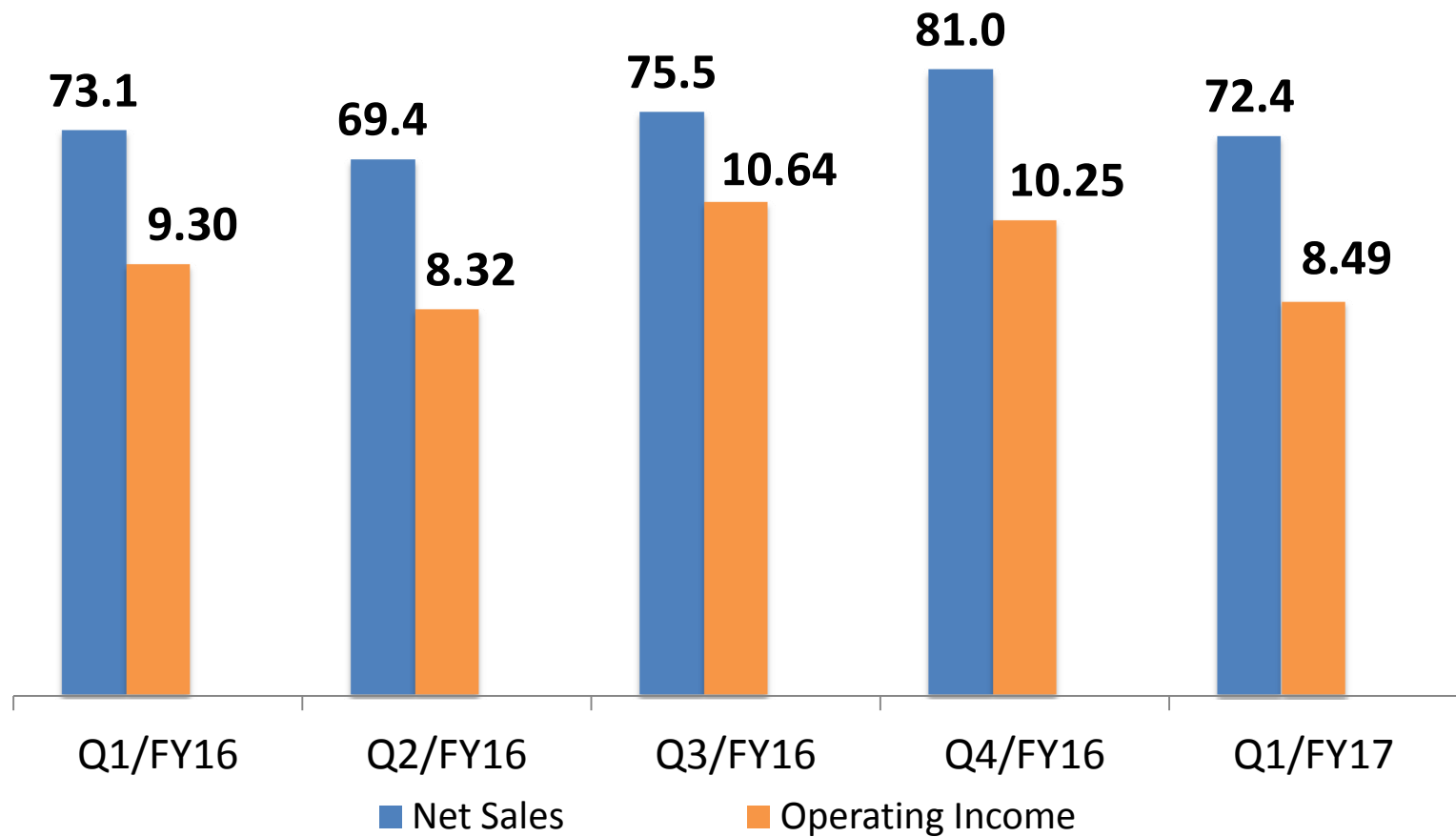


# 3. Performance Trend

(Quarter)

Consolidated

(Billions of yen)



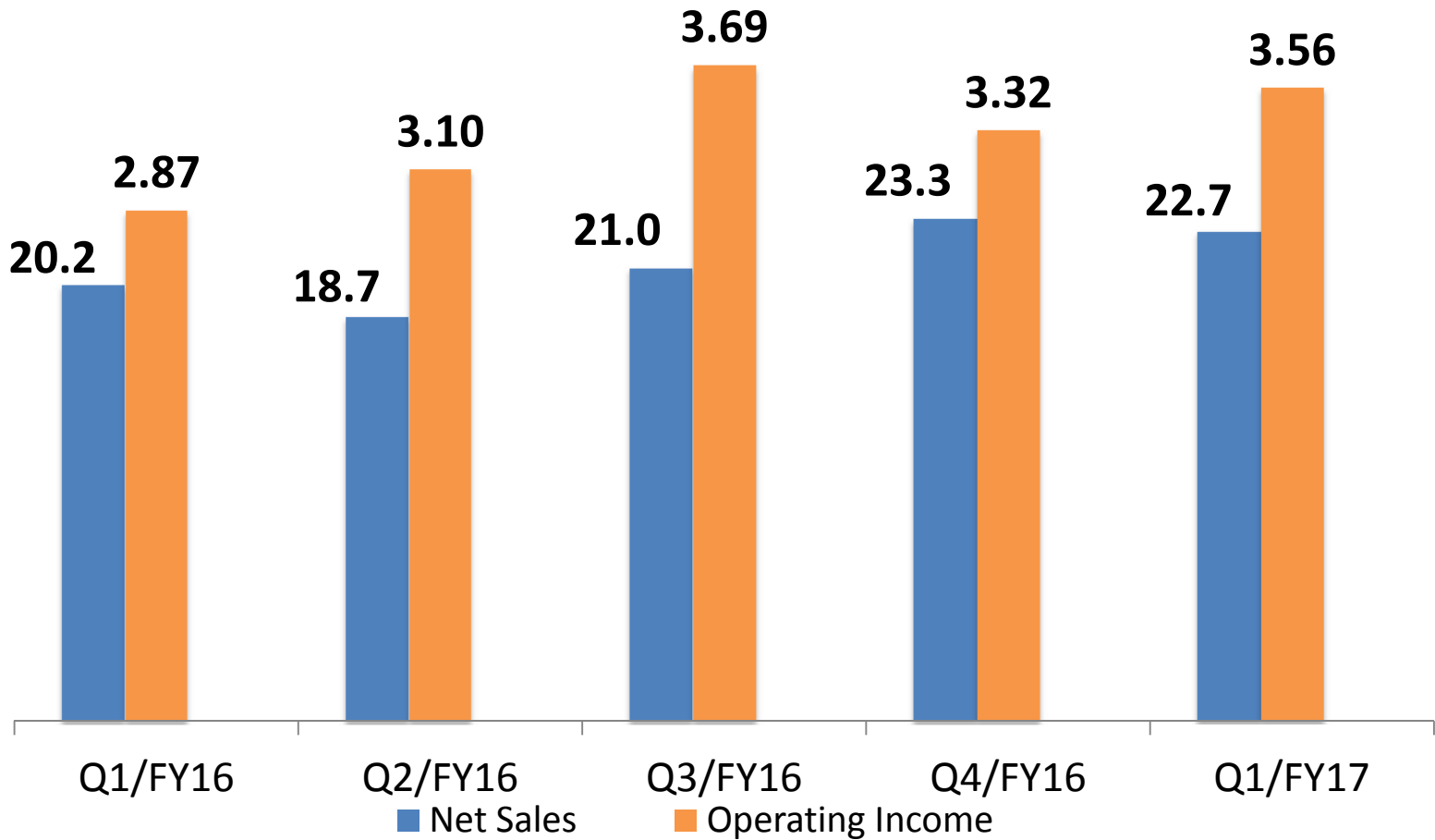


# 3. Performance Trend

(Quarter)

Chemicals

(Billions of yen)

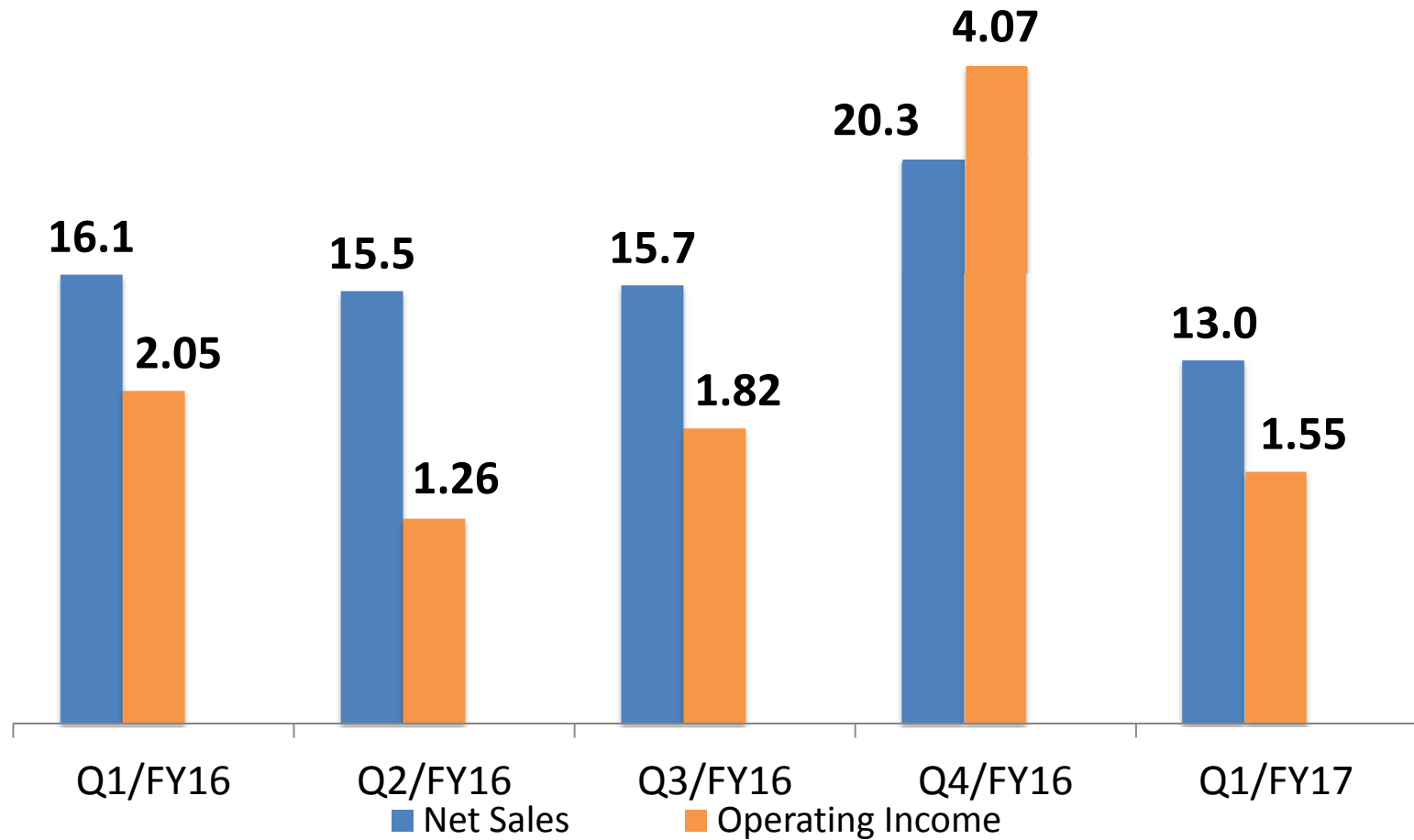


### 3. Performance Trend

(Quarter)

#### Specialty Products

(Billions of yen)

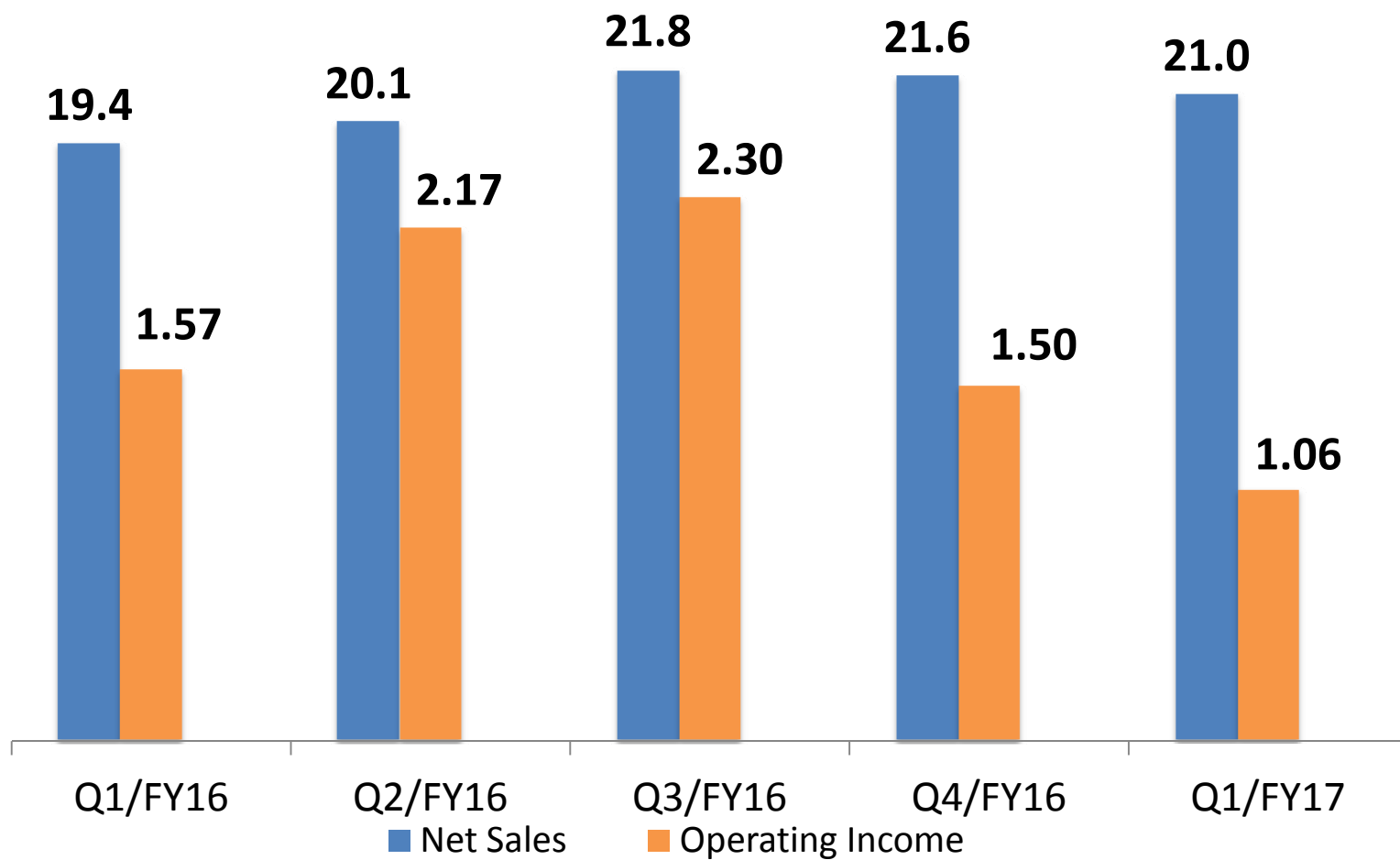


### 3. Performance Trend

(Quarter)

Cement

(Billions of yen)

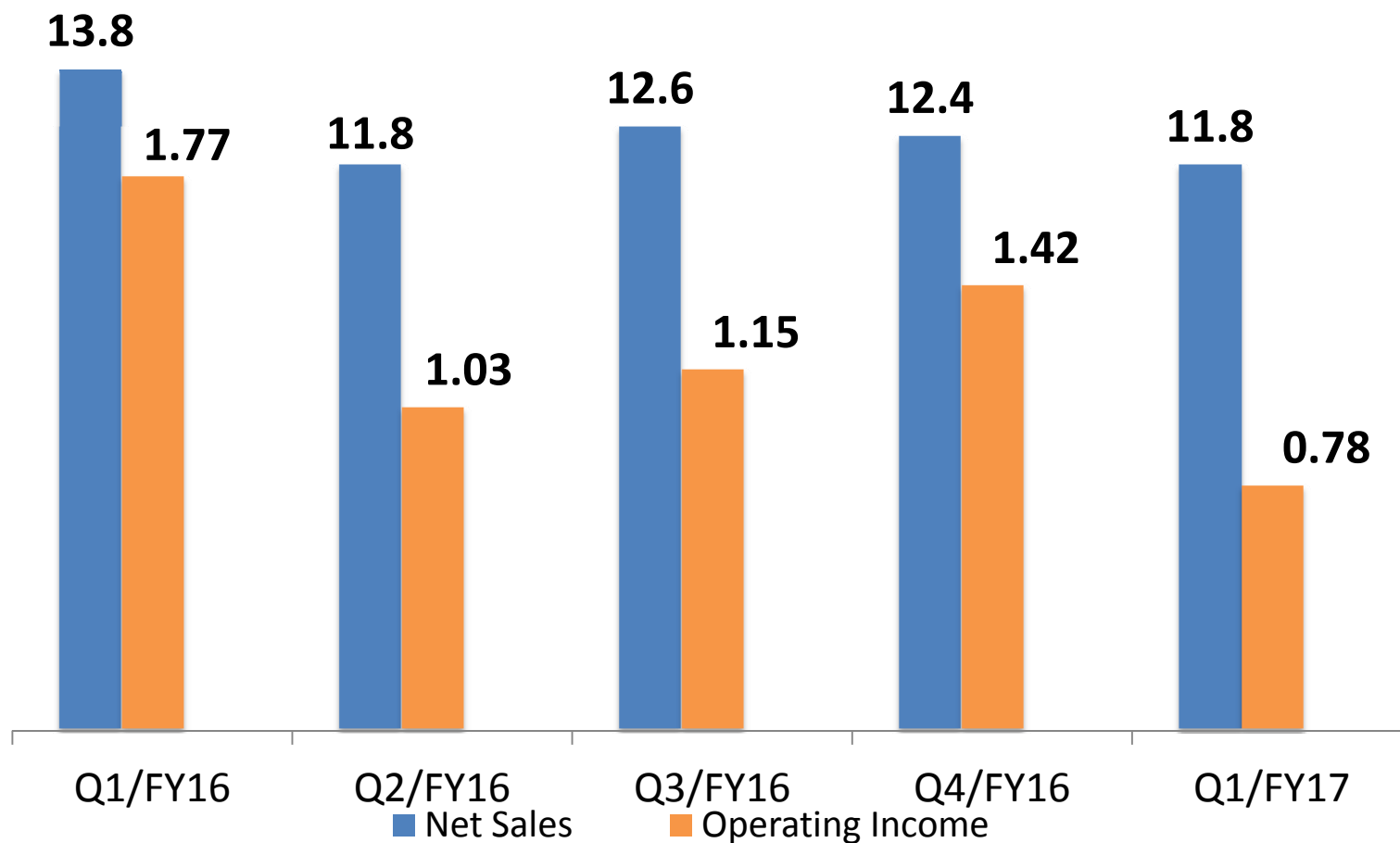


### 3. Performance Trend

(Quarter)

Life & Amenity

(Billions of yen)



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