

Investor Meeting

Profit Improvement Plan

Kazuhisa Kogo, President
Tokuyama Corporation

February 28, 2013



Disclaimer

This material is supplied to provide information of Tokuyama and its Group companies, and is not intended as a solicitation for investment or other actions.

This material has been prepared based on the information currently available and involves uncertainties. Tokuyama and its Group companies accept no liability in relation to the accuracy and completeness of the information contained in this material.

Tokuyama and its Group companies assume no responsibility whatever for any losses or deficits resulting from investment decisions based entirely on projections, numerical targets and other information contained in this material.



CONTENTS

- 1 Current Status and Targets
- 2 Polycrystalline Silicon Business Reconstruction
- 3 Other Business Profit Improvement
- 4 Companywide Profit Improvement
- 5 Profit and Funding Plans



1 Current Status and Targets

- 1. Revisions of Performance and Year-end Dividend Forecasts for FY2012**
- 2. Performance Trends**
- 3. Current Three-Year Management Plan and Comparison with Performance Forecast for FY2012**
- 4. Numerical Targets of the Profit Improvement Plan**

1 Current Status and Targets

1. Revisions of Performance and Year-end Dividend Forecasts for FY2012

(Billions of yen)

Consolidated results	Newly revised forecast (Feb 27, 2013)	Previous forecast (Feb 5, 2013)	Difference	
			Amount	%
Net sales	258.5	258.5	0.0	0
Operating income	4.0	4.0	0.0	0
Ordinary income	0.0	0.0	0.0	0
Net income (loss)	(41.0)	(11.5)	(29.5)	-

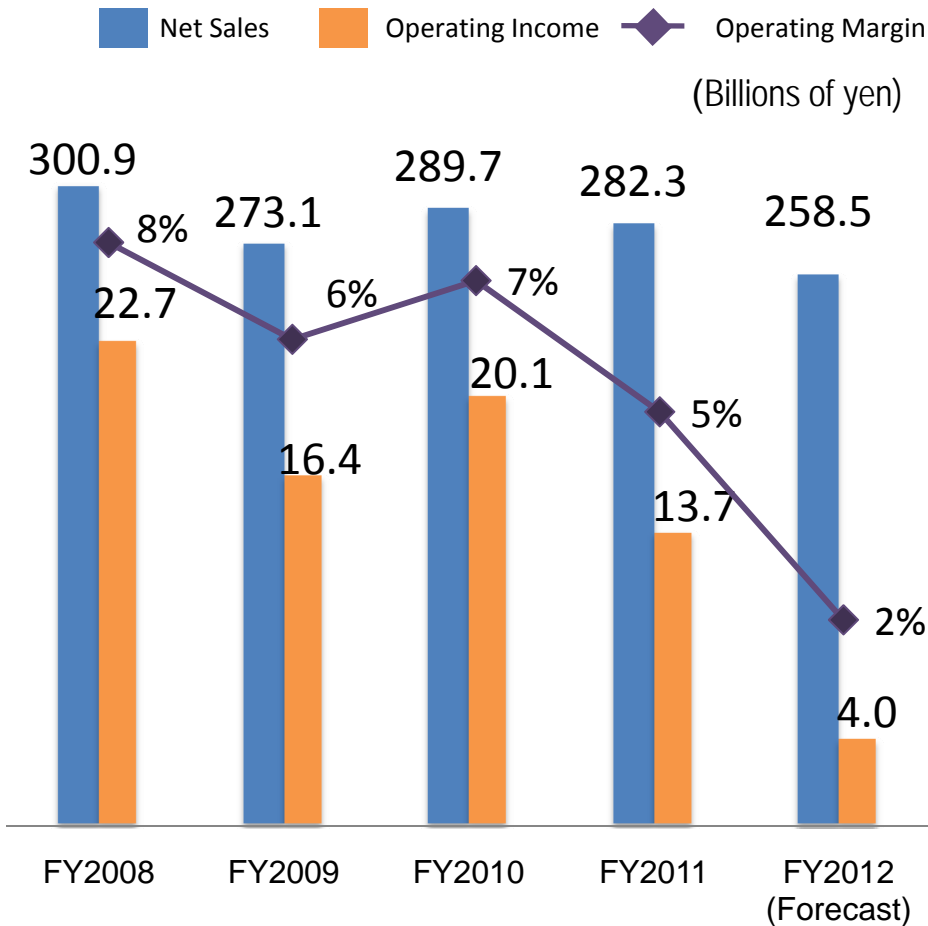
Loss on the impairment of polysilicon and fumed silica manufacturing facilities: approx. ¥27.5 billion
 Valuation loss on polysilicon raw materials: approx. ¥2.0 billion

	Dividends per share (yen)		
	Interim	Year-end	Total
FY2012 Forecast	0.00 (result)	3.00	3.00
FY2011 Results	3.00	3.00	6.00

1 Current Status and Targets

2. Performance Trends

Consolidated



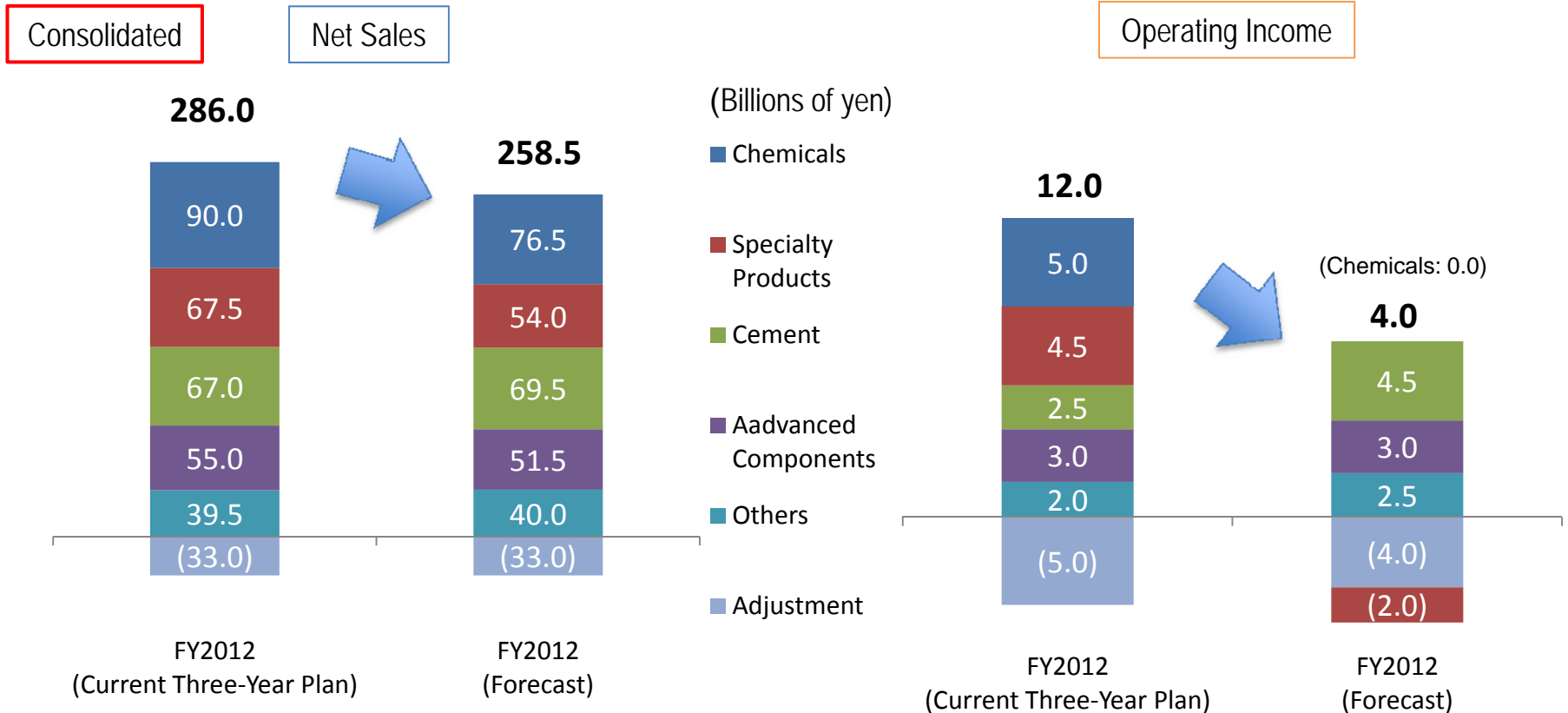
Current Status

- Earnings are projected to substantially decline in FY2012. This is largely attributable to the downturn in polycrystalline silicon business profits as a result of the rapidly deteriorating market environment
- Urgent need for the polycrystalline silicon business together with the Group as a whole to implement robust structural reform measures and improve profit

1 Current Status and Targets

3. Current Three-Year Management Plan and Comparison with Performance Forecast for FY2012

Tokuyama is expected to fall well short of the numerical targets identified under the Company's current Three-Year Management Plan. This is primarily due to the downturn in polysilicon earnings.



1 Current Status and Targets

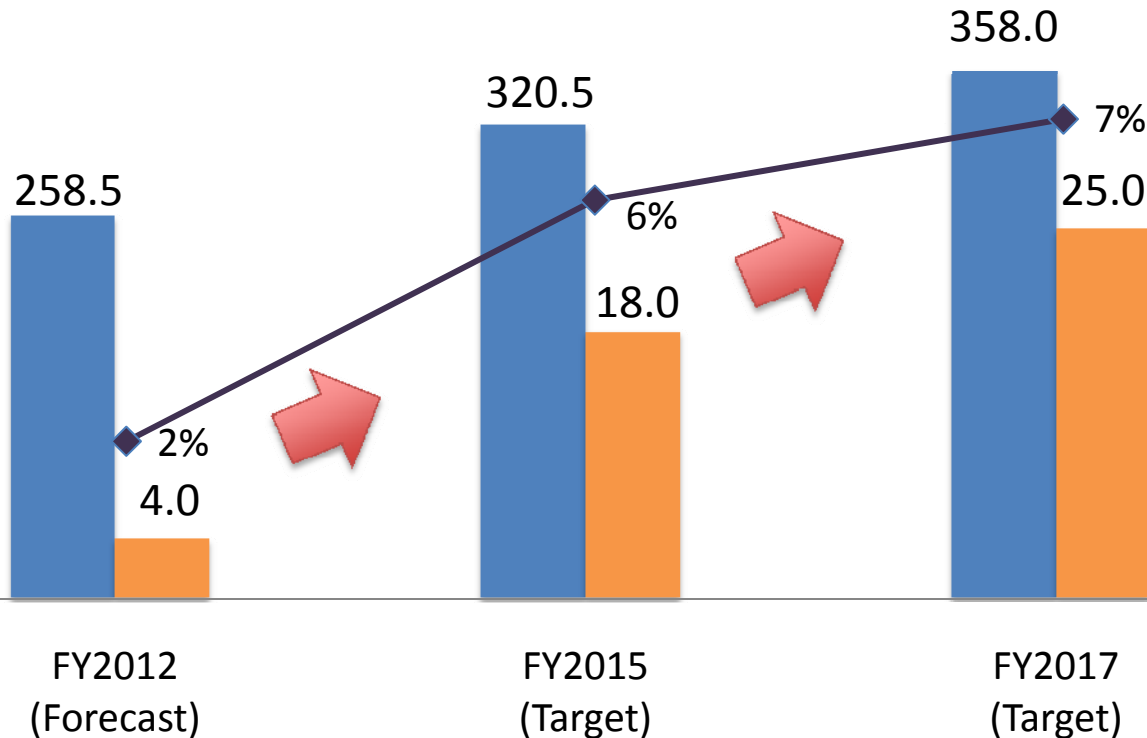
4. Numerical Targets of the Profit Improvement Plan

Tokuyama is targeting a substantial improvement in earnings by implementing the Profit Improvement Plan that focuses on reconstructing its polycrystalline silicon business, boosting profits in both existing and new businesses, and adhering strictly to a Companywide policy of expenditure reduction.

Consolidated

■ Net Sales ■ Operating Income ◆ Operating Margin

(Billions of yen)



(Assumption)
 Exchange rate:
 ¥90/\$
 Domestic naphtha:
 ¥60,000/kl

2 Polycrystalline Silicon Business Reconstruction

1. Polycrystalline Silicon Business Environment
2. Business Reconstruction
3. Summary



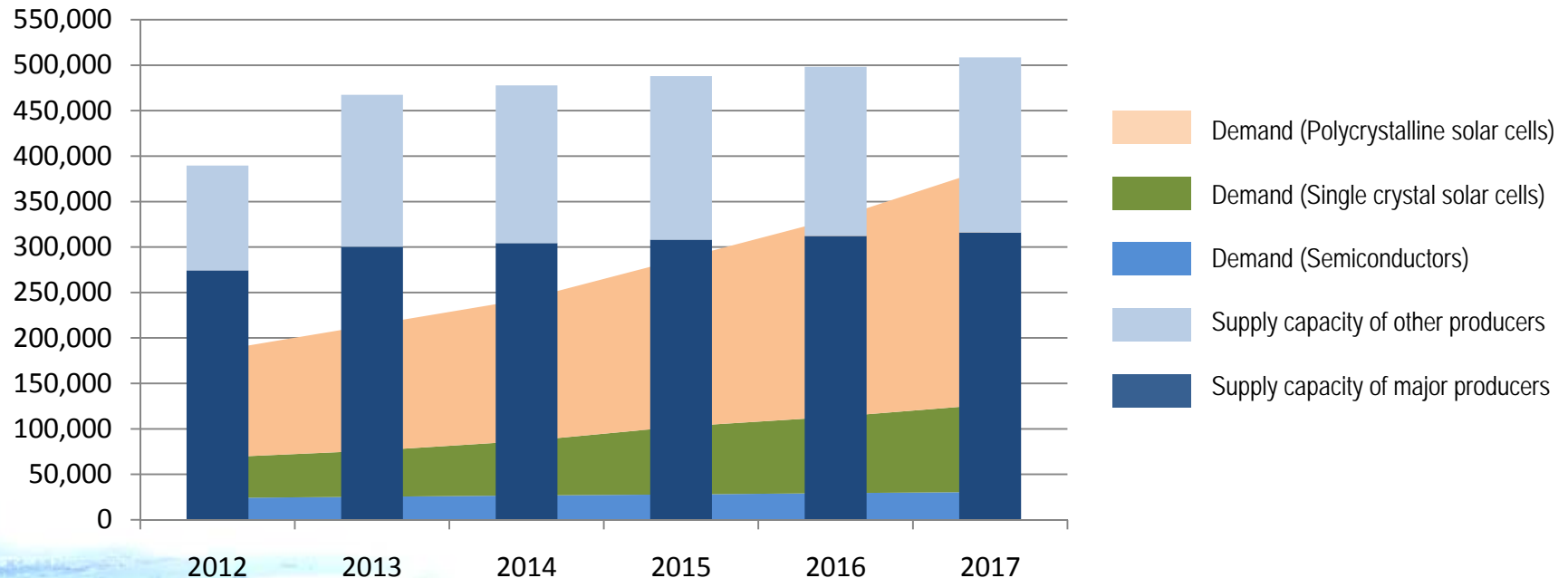
2 Polycrystalline Silicon Business Reconstruction

1. Polycrystalline Silicon Business Environment

- Rapid deterioration in market conditions due to the impact of such negative factors as the supply glut of semiconductor- and solar cell-grade polysilicon. Market conditions are projected to remain weak for the foreseeable future.
- The supply-demand gap is expected to gradually narrow over the medium to long term owing mainly to such factors as expanding demand and moves by uncompetitive manufacturers to discontinue production. Demand and the supply capacity of major producers are anticipated to strike a balance around 2015.

Supply capacity/Demand (tonnes)

*Tokuyama estimate



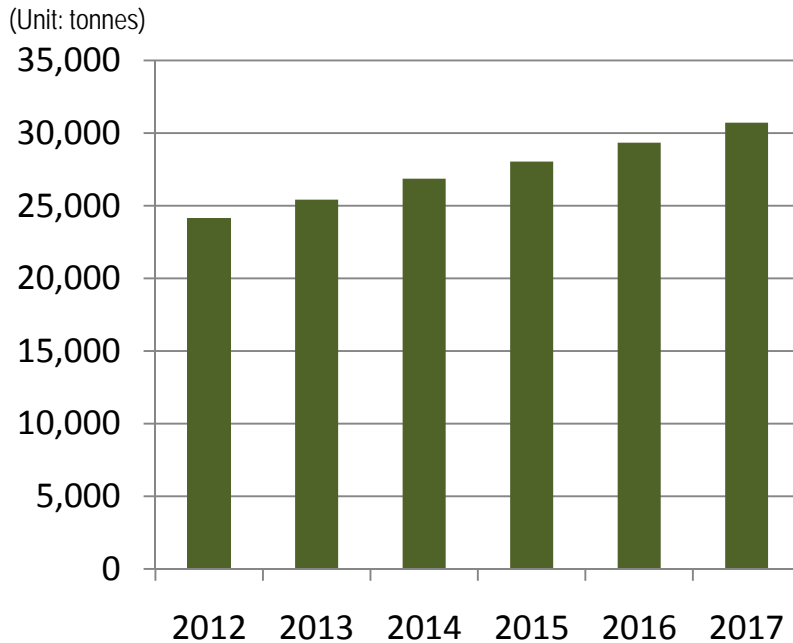
(Note 1) Major producers mean Tier1 manufactures in the classification by Solarbuzz.

(Note 2) Demand is estimated by Tokuyama based on iSuppli and Solarbuzz.

2 Polycrystalline Silicon Business Reconstruction

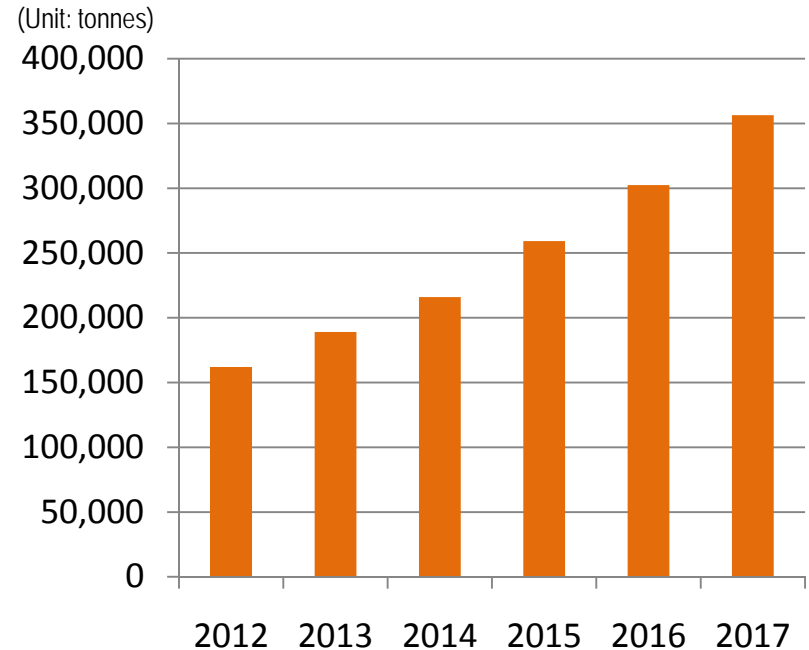
1. Polycrystalline Silicon Business Environment

Forecast of semiconductor-grade polysilicon demand



(Note) Tokuyama estimate based on SEMI announcements

Forecast of solar cell-grade polysilicon demand



(Note) Tokuyama estimate based on iSuppli and Solarbuzz

Demand for semiconductor-grade polysilicon is estimated to remain firm increasing at an annual rate of around 4%. This is largely attributable to such factors as the upswing in demand for mobile devices in newly developing countries.

Installed photovoltaic (PV) capacity is forecast to grow at an annual rate of between 10 to 20%. Demand for solar cell-grade polysilicon is projected to increase by 100,000 tonnes and 200,000 tonnes in 2015 and 2017, respectively, compared with the level recorded in 2012.

2 Polycrystalline Silicon Business Reconstruction

2. Business Reconstruction (1) Outline

	Outline
Sales Strategy	<ul style="list-style-type: none"> ■ Focus on profits as opposed to volume for the foreseeable future ■ FY2017: <ul style="list-style-type: none"> Semiconductor-grade: Secure the world's market share of 25% or more Solar cell-grade: Ensure the complete sale of product volumes manufactured by Tokuyama Malaysia
Production Strategy	<ul style="list-style-type: none"> ■ Build an optimal polysilicon production structure at Tokuyama Malaysia Sdn. Bhd. and Tokuyama Factory ■ Ensure an optimal production balance between polysilicon and such concurrent products as silica and silane gas at Tokuyama Factory
Manufacturing Costs	<ul style="list-style-type: none"> ■ Tokuyama Malaysia Sdn. Bhd.: Reduce cash costs by 30% or more ■ Tokuyama Factory: Minimize manufacturing costs by ensuring optimal balance in production together with silica and silane gas
Impairment Loss and Valuation Loss	<ul style="list-style-type: none"> ■ Loss on the impairment of Tokuyama Factory's polysilicon manufacturing facilities ■ Valuation loss on polysilicon raw materials

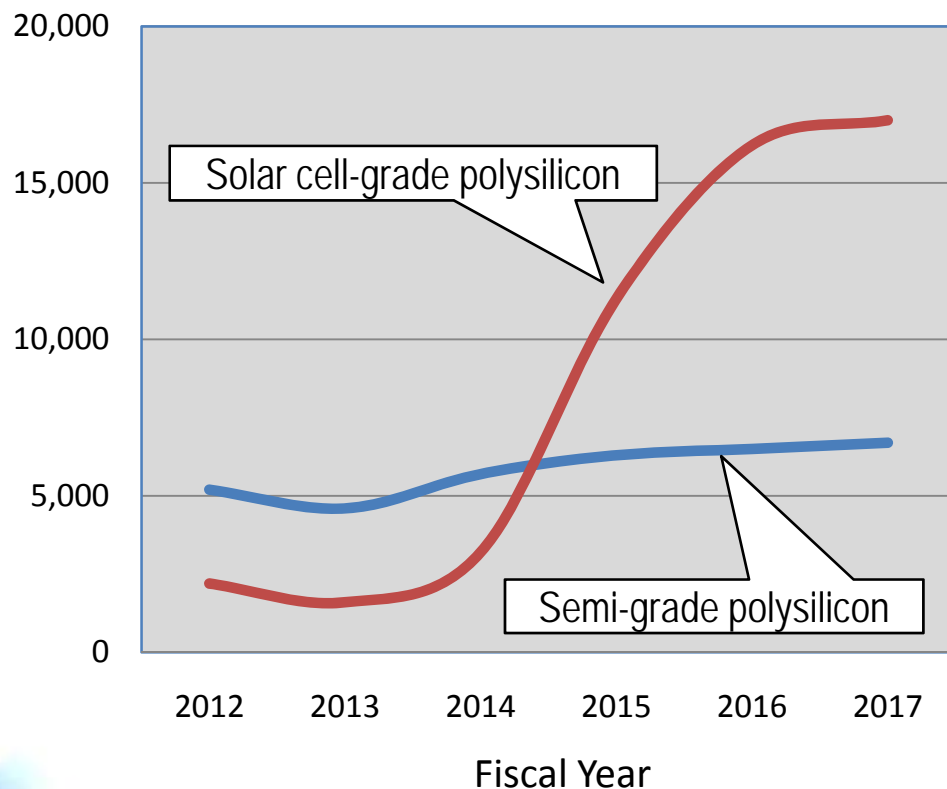
Note: The polycrystalline silicon business identified under this Plan refers to the Tokuyama Group's polysilicon, silica, and silane gas activities.

2 Polycrystalline Silicon Business Reconstruction

2. Business Reconstruction

(2) Sales Strategy

Sales Qty (tonnes)



Measures aimed at strengthening semiconductor-grade polysilicon sales

- Strengthen relationships with major customers
- Capture new customers

Measures aimed at strengthening solar cell-grade polysilicon sales

- Expand transactions with existing customers
- Increase sales volume by coordinating with downstream businesses
- Strengthen solution proposal marketing capabilities

2 Polycrystalline Silicon Business Reconstruction

2. Business Reconstruction (3) Production Strategy

Base / Plant	Production Grade	Production Strategy
Tokuyama Malaysia PS-1	Produce mainly semiconductor-grade	<ul style="list-style-type: none"> ■ Operations to commence in June 2013 ■ Work toward the early acquisition of semiconductor-grade production certification
Tokuyama Malaysia PS-2	Solar cell-grade	<ul style="list-style-type: none"> ■ Operations to commence in April 2015 (Note) ■ Work toward achieving full-scale production at an early stage
Tokuyama Factory	Produce mainly semiconductor-grade	<ul style="list-style-type: none"> ■ Gradually reduce production volumes in line with the status of semiconductor-grade production certification acquisition by Tokuyama Malaysia ■ Ensure an optimal production balance between polysilicon and such concurrent products as silica and silane gas

Note : While adopting a flexible approach that takes into consideration changes in the market environment, an underlying assumption of this Plan is the commencement of operations in April 2015.

2 Polycrystalline Silicon Business Reconstruction

2. Business Reconstruction (4) Manufacturing Cost Reduction

Base	Manufacturing Cost Reduction
Tokuyama Malaysia	<ul style="list-style-type: none"> ■ Diversify raw materials procurement sources ■ Further improve productivity ■ Promote the localization of management <p>⇒ Reduce cash costs by 30% or more (compared with level estimated at the time the Malaysia Project was formulated)</p>
Tokuyama Factory	<ul style="list-style-type: none"> ■ Ensure an optimal production balance between polysilicon and such concurrent products as silica and silane gas ■ Diversify raw materials procurement sources ■ Record losses on the impairment of equipment and facilities ■ Downsize the manufacturing staff <p>⇒ Minimize manufacturing costs</p>



2 Polycrystalline Silicon Business Reconstruction

2. Business Reconstruction

(5) Loss on the Impairment of Equipment and Facilities / Valuation loss on raw materials

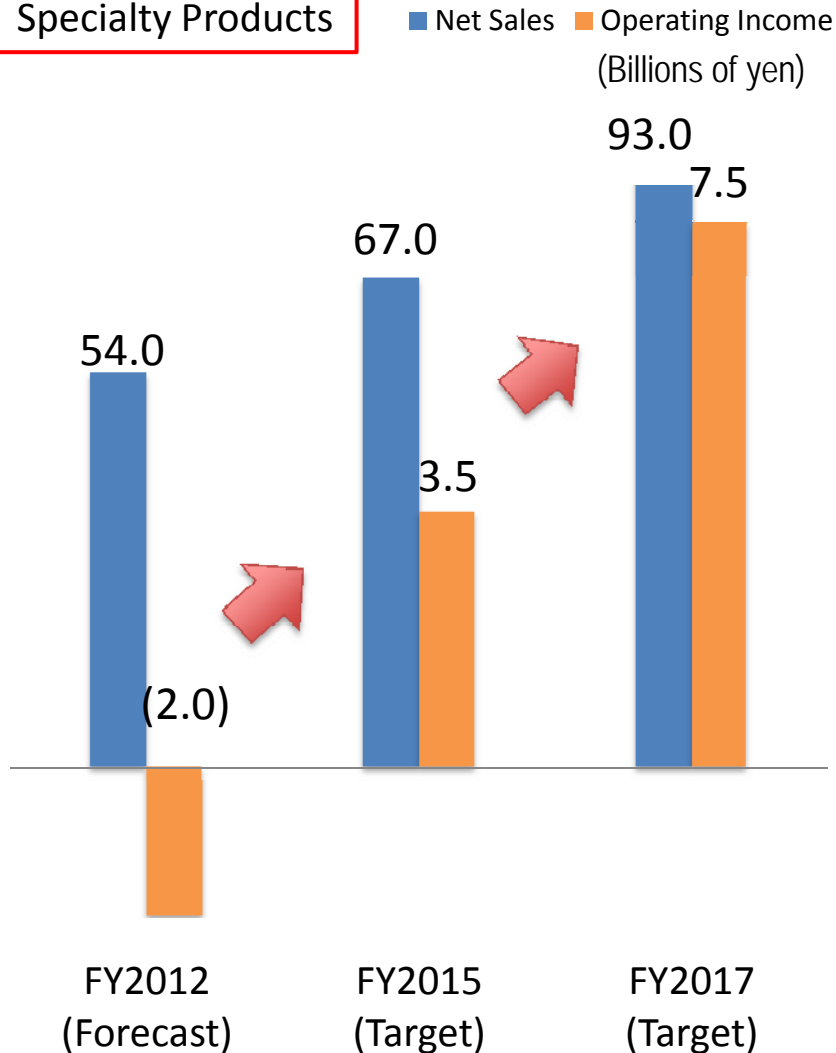
Impairment Loss and Valuation Loss	Amount
Loss on the impairment of Tokuyama Factory's polysilicon manufacturing facilities (including fumed silica manufacturing facilities)	Approximately ¥27.5 billion (plan to record as of the end of FY2012)
Valuation loss on polysilicon raw materials	Approximately ¥2.0 billion (plan to record as of the end of FY2012)



2 Polycrystalline Silicon Business Reconstruction

3. Summary

Specialty Products



■ The operating environment of polysilicon is forecast to enter a recovery trend from 2015 and beyond

■ FY2017:

- Tokuyama Malaysia: Full-scale production and sale
- Tokuyama Factory: Ensure an optimal production balance between polysilicon and such concurrent products as silica and silane gas
- Bring new silica products to the market



Position as an earnings pillar by putting in place a business structure that is capable of generating a continuous stream of profits and entering a trajectory of renewed growth in global markets

(Assumption)

Exchange rate: ¥90/\$

Method of depreciation of Tokuyama Malaysia facilities:
 15 years, straight line method

3 Other Business Profit Improvement

1. New Businesses and Structural Reforms
2. Priority Issues for Consideration



3 Other Business Profit Improvement

1. New Businesses and Structural Reforms

Establish new businesses while implementing structural reforms that contribute to earnings growth by FY2017

Segment	New Businesses and Structural Reforms
Chemicals	<ul style="list-style-type: none"> ■ Ensure the successful launch of the liquid hydrogen business (scheduled to commence operations in June 2013)
Cement	<ul style="list-style-type: none"> ■ Ensure the successful launch of the waste gypsum board recycling business (scheduled to commence operations in March 2013)
Advanced Components	<ul style="list-style-type: none"> ■ NF Business Establish a supply and sales structure that accurately addresses the increase in demand for disposable diapers (second phase construction of production facilities at Tianjin Tokuyama Plastics: scheduled to commence operations in October 2013) ■ Excel Shanon Corporation Promote a resurgence and growth through a process of business reconstruction

3 Other Business Profit Improvement

2. Priority Issues for Consideration

Priority issues for consideration in endeavoring to further increase profits

Segment	Priority Issues for Consideration
Chemicals	<ul style="list-style-type: none"> ■ Review the chlorine derivatives portfolio ■ Conduct a feasibility study on chlor-alkali business activities in Malaysia
Cement	<ul style="list-style-type: none"> ■ Consider developing businesses overseas ■ Strengthen infrastructure
R&D	<ul style="list-style-type: none"> ■ Start the fuel cell materials business ■ Start the aluminum nitride single crystal business



4 Companywide Profit Improvement

Cost-reduction measures from FY2013 to 2017

Item	Amount of Reduction (Compared with Levels Recorded in FY2012)
Overhead expenses	FY2013: ¥0.3 billion From FY2014 onward: ¥0.5 billion
Purchasing costs	FY2013: ¥1.7 billion From FY2014 onward: ¥2.0 billion
Distribution costs	From FY2013 onward: ¥0.5 billion
Repair expenses	From FY2013 onward: ¥0.5 billion (average amount from FY2013 to 2017)
Personnel expenses	FY2013: ¥2.0 billion Reduction in compensation paid to executives and cuts in employee salaries; temporary release from work; early retirement system expansion; other FY2014 onward: ¥3.5 billion (average amount from FY2014 to 2017) Cutbacks in recruiting activities / new hires (Group companies included); review of various allowances and employee benefits programs; other

Item	Target
R&D expenses	Stringent selection of R&D themes
CAPEX	FY2013 onward: Total investment less than 75% of total depreciation expenses (on a non-consolidated basis)

5 Profit and Funding Plans

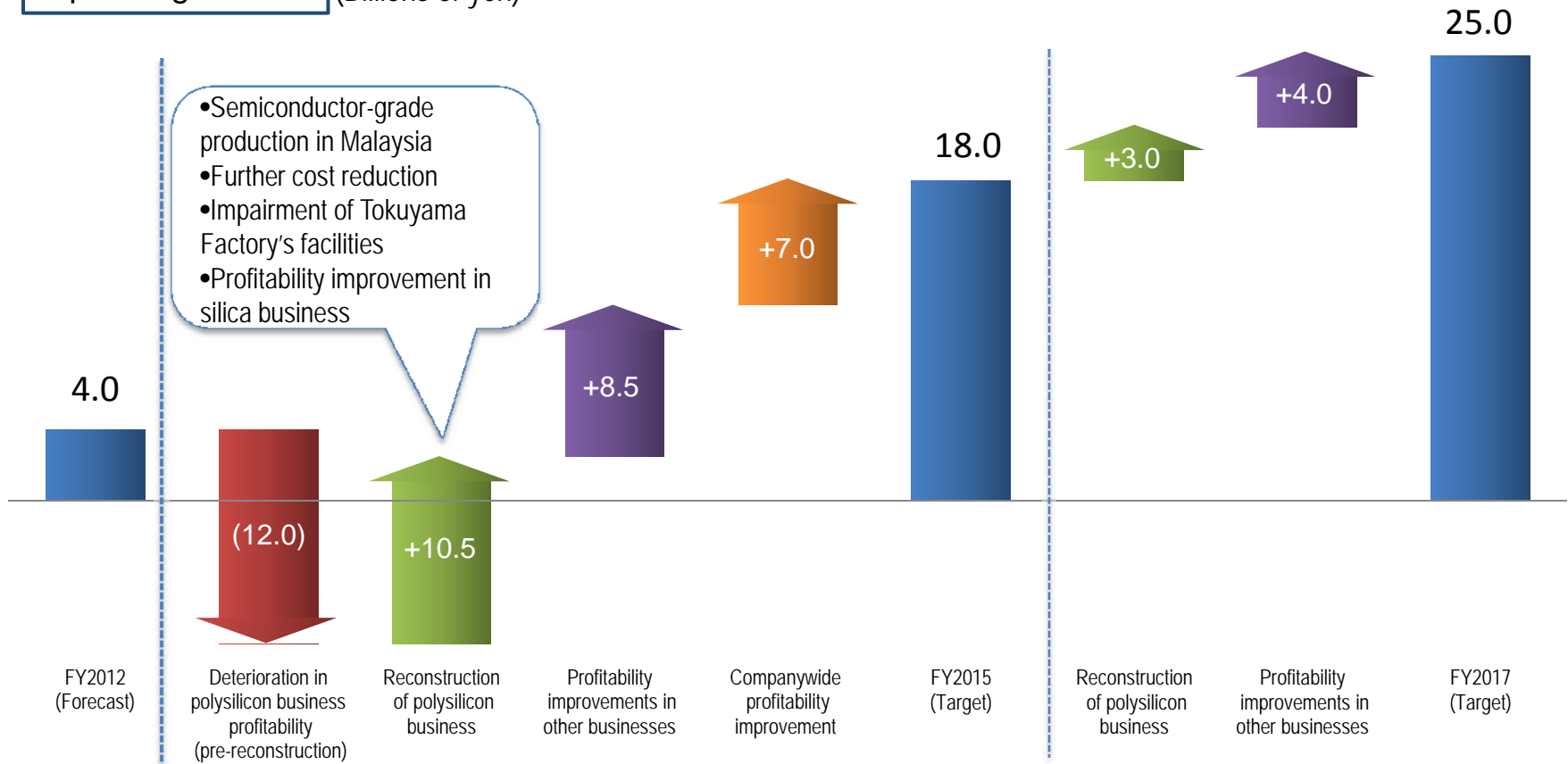
1. Profit Improvement Roadmap
2. Cash Flow Plan
3. Interest-Bearing Debt

5 Profit and Funding Plans

1. Profit Improvement Roadmap



Operating Income (Billions of yen)



- Semiconductor-grade production in Malaysia
- Further cost reduction
- Impairment of Tokuyama Factory's facilities
- Profitability improvement in silica business

5 Profit and Funding Plans

2. Cash Flow Plan

Non-Consolidated

<p>Through FY2014</p>	<p>Continued negative free cash flows owing mainly to investments in Tokuyama Malaysia</p>
<p>From FY2015 onward</p>	<p>Secure free cash flows of about ¥20 billion stably through Companywide structural reforms, successful efforts to curtail expenditure, and investment recovery from Tokuyama Malaysia</p>

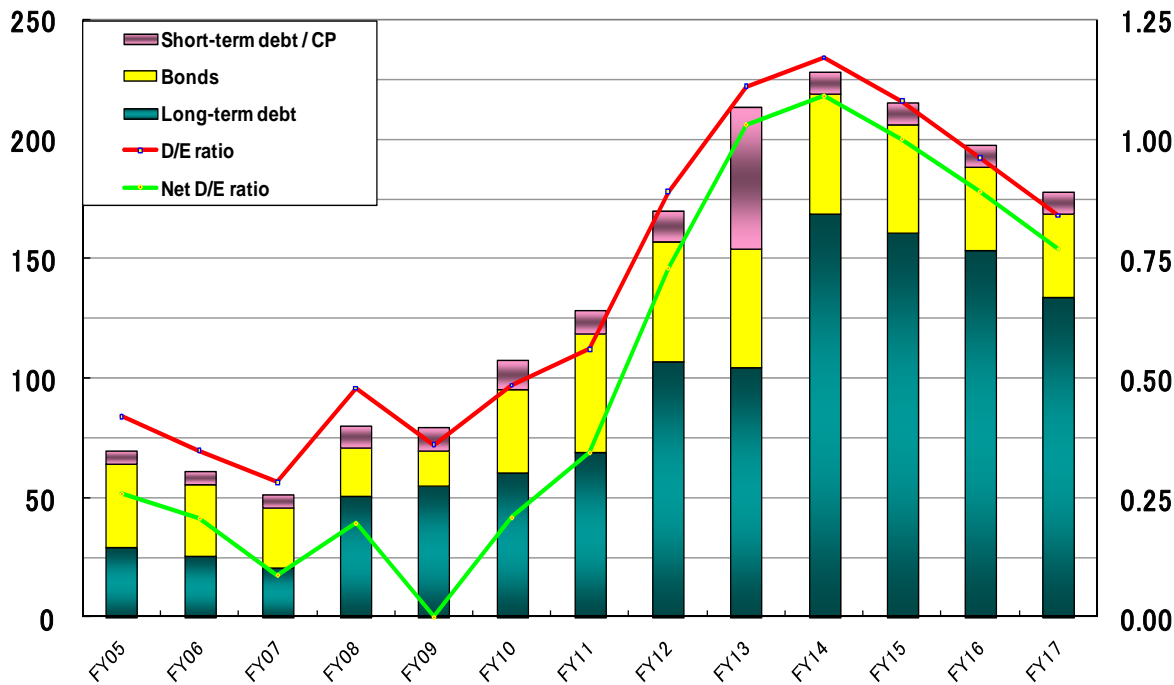


5 Profit and Funding Plans

3. Interest-Bearing Debt Non-Consolidated

(Billions of yen)

(D/E ratio)



FY2014 (Plan)	
Interest-bearing debt	¥228.0 billion
D/E ratio	1.2



FY2017 (Plan)	
Interest-bearing debt	¥178.0 billion
D/E ratio	0.8

Secure free cash flows through improvements in the profitability of each business including the polycrystalline silicon business, successful efforts to reduce Companywide overhead expenses, and investment recovery from Tokuyama Malaysia; undertake the repayment of interest-bearing debt

Chemistry with a heart
TOKUYAMA 

