

Summary of Consolidated Financial Statements for the Third Quarter Fiscal 2016 (JPGAAP)

January 31, 2017

Tokuyama Corporation

(URL <http://www.tokuyama.co.jp/eng/>)

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Scheduled date for the filing of the quarterly consolidated financial statements: February 9, 2017

Scheduled date of dividends payout: -

Preparation of supplementary quarterly explanatory materials: Yes

Quarterly business results IR briefing to be held: Yes (for institutional investors and analysts)

1. Consolidated results for fiscal third quarter ended Dec. 31, 2016 (Apr. 1, 2016 – Dec. 31, 2016)

(1) Performance

Note: All amounts are rounded down to the nearest million yen.

	Net sales		Operating income		Ordinary income	
	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]	(millions of yen)	Year-on-year change [%]
Third Quarter Fiscal 2016	218,100	(3.8)	29,142	125.2	25,173	168.2
Third Quarter Fiscal 2015	226,658	2.1	12,940	(18.4)	9,386	(15.1)

(Note) Comprehensive income (loss): 3rd Q FY16: 26,637 million yen [-%] 3rd Q FY15: (118,527) million yen [-%]

	Profit (loss) attributable to owners of parent		Basic earnings (losses) per share	Diluted earnings per share
	(millions of yen)	Year-on-year change [%]	(yen)	(yen)
Third Quarter Fiscal 2016	24,866	-	70.01	58.37
Third Quarter Fiscal 2015	(115,806)	-	(332.91)	-

(2) Consolidated financial position

	Total assets (millions of yen)	Net assets (millions of yen)	Shareholders' Equity ratio (%)	Net assets per share (yen)
Dec. 31, 2016	405,362	108,157	24.5	227.01
Mar. 31, 2016	401,342	60,205	12.8	147.98

(Reference) Shareholders' equity: Dec. 31, 2016: 99,476 million yen Mar. 31, 2016: 51,473 million yen

2. Dividends

(Period)	Annual dividends per share				
	1st quarter	2nd quarter	3rd quarter	Year-end	Total
Fiscal 2015, ended Mar. 31, 2016	(yen) -	(yen) 0.00	(yen) -	(yen) 0.00	(yen) 0.00
Fiscal 2016, ending Mar. 31, 2017	-	0.00	-		
Fiscal 2016 (Forecast)				0.00	0.00

(Note) Revision of the latest dividends forecast: No

3. Consolidated performance forecast for fiscal 2016 (Apr. 1, 2016 – Mar. 31, 2017)

(% indicates the rate of change over the corresponding previous periods respectively)

	Net sales		Operating income		Ordinary income		Profit attributable to owners of parent		Basic earnings per share
	(millions of yen)	[%]	(millions of yen)	[%]	(millions of yen)	[%]	(millions of yen)	[%]	(yen)
Fiscal 2016	291,000	(5.2)	33,000	43.0	27,000	52.3	21,000	-	58.18

(Note) Revision of the latest consolidated performance forecast: No

*Notes

(1) Changes in significant subsidiaries during this period (Apr. 1, 2016 – Dec. 31, 2016)

: No

Addition to the scope of consolidation: -

Reduction from the scope of consolidation: -

(Note) This item means changes in significant subsidiaries with changes in the scope of consolidation during this period (Apr. 1, 2016 – Dec. 31, 2016).

(2) Application of accounting methods specific to the preparation of the quarterly consolidated financial statements

: Yes

(3) Changes of accounting policies, changes in accounting estimates, and retrospective restatements

i. Changes of accounting policies by revision of accounting standards: Yes

ii. Changes of accounting policies other than the above: No

iii. Changes in accounting estimates: No

iv. Retrospective restatements: No

(4) Number of shares issued (in common stock)

i. Number of shares issued at end of period (including treasury stock):	Third Quarter Fiscal 2016:	349,671,876	Fiscal 2015:	349,671,876
ii. Number of treasury stock at end of period:	Third Quarter Fiscal 2016:	1,845,549	Fiscal 2015:	1,832,788
iii. Average number of shares over period:	Third Quarter Fiscal 2016:	347,833,274	Third Quarter Fiscal 2015:	347,856,264

(Note) Notice on the implementation of quarterly review procedures

This summary of quarterly consolidated financial statements is not subject to quarterly review procedures in line with the Financial Instruments and Exchange Act. At the point of disclosure of this summary of quarterly consolidated financial statements, the quarterly consolidated financial statements review procedures in line with the Financial Instruments and Exchange Act are underway.

(Note) Cautions pertaining to appropriate use of performance forecast and other particular items

The performance forecast and other forward-looking statements contained in this material have been prepared on the basis of information available at this point and certain assumptions which are judged to be rational, and may be substantially different from the actual performance because of various factors that may arise from now on.

(Reference) Dividends for Class A shares

Dividends per share related to class shares are as follows:

Class A shares (Period)	Annual dividends per share				
	1st quarter (yen)	2nd quarter (yen)	3rd quarter (yen)	Year-end (yen)	Total (yen)
Fiscal 2015, ended Mar 31, 2016	—	—	—	—	—
Fiscal 2016, ending Mar 31, 2017	—	—	—		
Fiscal 2016 (Forecast)				38,082.20	38,082.20

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1. Qualitative information on consolidated results for this quarter

(1) Explanation concerning business results

Consolidated results for the third quarter fiscal 2016 (accumulated figures, April 1, 2016 - December 31, 2016) are summarized as follows:

(Unit: Millions of yen)

	Net sales	Operating income	Ordinary income	Profit (loss) attributable to owners of parent
Third Quarter Fiscal 2016	218,100	29,142	25,173	24,866
Third Quarter Fiscal 2015	226,658	12,940	9,386	(115,806)
Rate of change (%)	(3.8)	125.2	168.2	-

Net sales

Consolidated net sales decreased 3.8%, or ¥8,557 million compared with the corresponding period of the previous year, to ¥218,100 million. Despite an increased sales volume in polycrystalline silicon for both solar-cells and semiconductors, this was largely attributable to weak selling prices of petroleum products on the back of a downturn in domestic naphtha prices.

Cost of sales

Cost of sales decreased 12.6%, or ¥20,909 million compared with the corresponding period of the previous year, to ¥145,331 million. Despite an increased sales volume in polycrystalline silicon, this was due mainly to a downturn in raw material costs as a result of the drop in domestic naphtha prices.

SG&A expenses

SG&A expenses decreased 8.1%, or ¥3,848 million compared with the corresponding period of the previous year, to ¥43,627 million. This decrease primarily reflects a decrease in depreciation cost of mission-critical systems and lower R&D expenses.

Operating income

Operating income increased 125.2%, or ¥16,201 million compared with the corresponding period of the previous year, to ¥29,142 million. In addition to a downturn in production costs as a result of the drop in raw material and fuel prices, this was due mainly to operating rate improvement and decreased depreciation expenses at Tokuyama Malaysia Sdn. Bhd.

Non-operating income/expenses, Ordinary income

Non-operating income/expenses deteriorated ¥413 million compared with the corresponding period of the previous year, due chiefly to increase in trial production expenses at Tokuyama Malaysia Sdn. Bhd.

As a result of the above, ordinary income increased 168.2%, or ¥15,787 million compared with the corresponding period of the previous year, to ¥25,173 million.

Extraordinary income/losses, Income before income taxes, Profit/loss, Profit/loss attributable to owners of parent

Extraordinary income/losses improved by ¥121,164 million compared with the corresponding period of the previous year.

As a result of the above, income before income taxes improved by ¥136,952 million compared with the corresponding period of the previous year, to income of ¥29,730 million.

Income taxes decreased ¥3,952 million compared with the corresponding period of the previous year. This was attributable to the decision on the business transfer of Tokuyama Malaysia Sdn. Bhd. As a result of this, profit/loss improved by ¥140,904 million compared with the corresponding period of the previous year, to profit of ¥25,727 million. Profit/loss attributable to owners of parent improved by ¥140,673 million compared with the corresponding period of the previous year, to profit of ¥24,866 million.

(Operating results by segment)

Sales

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated income statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
Third Quarter Fiscal 2016	60,003	47,369	61,392	38,296	39,468	246,531	(28,430)	218,100
Third Quarter Fiscal 2015	66,122	40,856	64,993	43,333	40,565	255,871	(29,213)	226,658
Rate of change (%)	(9.3)	15.9	(5.5)	(11.6)	(2.7)	(3.7)	-	(3.8)

Operating income (loss)

(Unit: Millions of yen)

	Reportable segment				Others	Total	Adjustment	Figures in quarterly consolidated income statement
	Chemicals	Specialty Products	Cement	Life & Amenity				
Third Quarter Fiscal 2016	9,823	5,484	6,271	4,107	4,593	30,280	(1,138)	29,142
Third Quarter Fiscal 2015	5,623	(3,784)	4,131	4,986	4,065	15,022	(2,081)	12,940
Rate of change (%)	74.7	-	51.8	(17.6)	13.0	101.6	-	125.2

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

Chemicals

Sales of caustic soda were down compared with the corresponding period of the previous year. While domestic sales volumes were steady, this decrease was attributable to weak trends in selling prices.

Sales of vinyl chloride monomer (VCM) were down compared with the corresponding period of the previous year. Despite an increase in the volume of export mainly for Asian market, the decline was primarily due to weak trends in selling prices as a result of the drop in domestic naphtha prices.

Sales of vinyl chloride resin declined. While a recovery in the number of housing starts and other factors contributed to firm trends in sales volumes, this downturn largely reflects weak selling prices as a result of the drop in domestic naphtha prices. Earnings on the other hand improved due mainly to the suspension of operations at the Chiba factory of Shin Dai-ichi Vinyl Corporation.

With regard to soda ash and calcium chloride, sales were essentially unchanged from the corresponding period of previous fiscal year. Despite decreased sales volume, this was mainly owing to efforts to revise selling prices.

As a result of the above, segment net sales decreased 9.3% compared with the corresponding period of the previous year, to ¥60,003 million and operating income increased 74.7% to ¥9,823 million. The segment reported higher earnings on lower sales.

Specialty Products

Sales of semiconductor-grade polycrystalline silicon increased. This was primarily due to robust shipping reflecting the growing trend to highly functional mobile devices including smartphones.

Sales of solar-grade polycrystalline silicon increased on the back of higher sales volumes, reflecting the operating rate improvement at Tokuyama Malaysia Sdn. Bhd.

Sales of fumed silica decreased compared with the corresponding period of previous fiscal year. In addition to the weak trend in sales of such applications as a polishing material for semiconductors, this was mainly due to appreciated yen.

With regard to high-purity chemicals for electronics manufacturing, sales decreased compared with the corresponding period of the previous year. Despite robust sales volume in such applications as semiconductor manufacturing, this decrease was mainly owing to appreciated yen.

With regard to aluminum nitride, sales were essentially unchanged from the corresponding period of the previous fiscal year. This was attributable to robust sales volumes in such applications used for semiconductor manufacturing equipment.

As a result of the above, segment net sales increased 15.9% compared with the corresponding period of the previous year, to ¥47,369 million and operating income improved to income of ¥5,484 million (Posted operating loss of ¥3,784 million in the corresponding period of the previous year). The segment reported higher earnings on higher sales.

Cement

Sales of cement decreased. Despite an increase in the volume of exports on the back of robust demand in the Asia region, this decrease was mainly due to the drop in export prices reflecting such factors as the impact of appreciation in the value of the yen as well as a downturn in sales volumes in Japan due to weak public- and private-sector demand. Meanwhile, successful steps were taken to reduce manufacturing costs. In addition to a drop in raw material and fuel prices, this reduction on manufacturing costs was mainly due to improvements in the basic unit of production.

In the recycling and environment-related business, the Company accepted a higher volume of waste including coal ash compared with the previous fiscal year. As a result of this, sales increased from the previous fiscal year.

Consolidated subsidiary net sales declined. This mainly reflected corrections to robust shipping trends of such products as ready-mixed concrete targeting large-scale projects in the corresponding period of the previous fiscal year.

As a result of the above, segment net sales decreased 5.5% compared with the corresponding

period of the previous year, to ¥61,392 million and operating income increased 51.8% to ¥6,271 million. The segment reported higher earnings on lower sales.

Life & Amenity

Sales of active pharmaceutical ingredients decreased. This reflected the decreased sales volume of generic pharmaceuticals compared with the corresponding period of the previous fiscal year.

With regard to plastic lens-related materials, sales were essentially unchanged from the corresponding period of the previous fiscal year. This reflected robust sales volumes of photochromic dye materials for eyeglass lenses.

With regard to microporous film, sales of such applications as sanitary articles including disposable diapers at oversea consolidated subsidiaries decreased. As a result of this, sales decreased compared with the corresponding period of the previous year.

With regard to polyolefin film, sales were declined compared with the corresponding period of the previous year. Despite firm trends in sales mainly for application in packaging materials for products sold at convenience stores, this decrease was largely the result of weak trends in selling prices on the back of the decline in domestic naphtha prices.

With regard to dental materials and equipment, sales increased compared with the corresponding period of the previous fiscal year, due to higher sales volumes of new products as well as products targeting overseas markets.

With regard to medical diagnosis systems, sales increased compared with the corresponding period of the previous year. This largely reflected robust sales of blood testing products.

In gas sensors, Figaro Engineering Inc. was removed from the Company's scope of consolidation effective from the second quarter of the fiscal year under review. This reflected the transfer of a portion of the company's shares.

As a result of the above, segment net sales decreased 11.6% compared with the corresponding period of the previous year, to ¥38,296 million and operating income decreased 17.6% to ¥4,107 million. The segment reported lower earnings on lower sales.

(2) Explanation concerning financial position

(Status of assets, liabilities and net assets)

As of December 31, 2016, total assets amounted to ¥405,362 million, an increase of ¥4,020 million compared with those as of March 31, 2016.

This increase primarily reflects an increase of ¥5,874 million in notes and accounts receivable and an increase of ¥3,476 million in investment securities owing to fair market valuation, despite a decrease of ¥4,206 million in cash and deposits.

Total liabilities amounted to ¥297,204 million, down ¥43,931 million compared with those as of

March 31, 2016.

This largely reflected the downturn in the balances of income taxes payable, current portion of bonds, long-term loans payable and current portion of long-term loans payable, short-term loans payable of ¥10,866 million, ¥10,000 million, ¥9,719 million, and ¥7,365 million, respectively.

Net assets totaled ¥108,157 million, an increase of ¥47,952 million compared with those as of March 31, 2016.

This increase mainly reflects the increase in retained earnings of ¥24,866 million as a result of posting profit attributable to owners of parent, and the increase in shareholders' equity of ¥20,000 million as a result of issuance of class A shares.

(3) Explanation concerning information related to future prediction such as consolidated performance forecast

Although the future business environment is uncertain because of the fluctuations in 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 October 28, 2016.

The performance forecast has been prepared on the basis of information available at this point and certain assumptions which are judged to be rational, and may be substantially different from the actual performance because of various factors that may arise from now on.

2. Consolidated Quarterly Financial Statements

(1) Consolidated Quarterly Balance Sheets

	Millions of yen	
	3/31/2016	12/31/2016
Assets		
Current assets		
Cash and deposits	121,508	117,301
Notes and accounts receivable - trade	68,569	74,443
Lease receivables and investment assets	6	6
Merchandise and finished goods	14,012	16,445
Work in process	10,882	8,983
Raw materials and supplies	15,933	16,594
Deferred tax assets	4,256	3,014
Other	8,788	8,726
Allowance for doubtful accounts	(192)	(153)
Total current assets	243,766	245,363
Non-current assets		
Property, plant and equipment		
Buildings and structures	101,982	99,922
Accumulated depreciation	(74,022)	(72,283)
Buildings and structures, net	27,959	27,638
Machinery, equipment and vehicles	461,619	451,050
Accumulated depreciation	(410,707)	(404,511)
Machinery, equipment and vehicles, net	50,912	46,538
Tools, furniture and fixtures	22,661	21,903
Accumulated depreciation	(20,890)	(20,312)
Tools, furniture and fixtures, net	1,771	1,590
Land	31,327	31,070
Leased assets	2,237	3,464
Accumulated depreciation	(1,041)	(1,242)
Leased assets, net	1,196	2,221
Construction in progress	6,597	10,847
Total property, plant and equipment	119,764	119,907
Intangible assets		
Goodwill	3,738	2,699
Leased assets	41	38
Other	2,613	2,554
Total intangible assets	6,393	5,291
Investments and other assets		
Investment securities	15,765	19,241
Long-term loans receivable	3,094	2,931
Deferred tax assets	610	1,048
Net defined benefit asset	8,057	8,459
Other	4,190	3,297
Allowance for investment loss	(22)	(22)
Allowance for doubtful accounts	(278)	(157)
Total investments and other assets	31,417	34,799
Total non-current assets	157,575	159,998
Total assets	401,342	405,362

Millions of yen

3/31/2016 12/31/2016

Liabilities	3/31/2016	12/31/2016
Current liabilities		
Notes and accounts payable - trade	35,388	37,938
Short-term loans payable	9,382	2,016
Current portion of long-term loans payable	17,036	15,788
Current portion of bonds	10,000	—
Lease obligations	356	567
Income taxes payable	11,888	1,021
Deferred tax liabilities	2	0
Provision for bonuses	1,830	918
Provision for repairs	1,480	1,732
Provision for product warranties	85	59
Provision for loss on purchase contract	2,656	2,558
Other	23,093	19,723
Total current liabilities	113,200	82,327
Non-current liabilities		
Bonds payable	34,400	34,400
Long-term loans payable	172,877	164,406
Lease obligations	931	1,821
Deferred tax liabilities	457	497
Provision for directors' retirement benefits	231	134
Provision for repairs	3,691	2,804
Allowance for loss on compensation for building materials	384	329
Provision for environmental measures	85	173
Provision for loss on purchase contract	2,716	333
Net defined benefit liability	1,354	1,416
Asset retirement obligations	6	6
Other	10,799	8,553
Total non-current liabilities	227,935	214,877
Total liabilities	341,136	297,204
Net assets		
Shareholders' equity		
Capital stock	53,458	10,000
Capital surplus	57,532	41,545
Retained earnings	(61,281)	45,212
Treasury shares	(1,439)	(1,444)
Total shareholders' equity	48,270	95,313
Accumulated other comprehensive income		
Valuation difference on available-for-sale securities	(1,020)	447
Deferred gains or losses on hedges	(526)	(299)
Foreign currency translation adjustment	2,362	1,574
Remeasurements of defined benefit plans	2,386	2,441
Total accumulated other comprehensive income	3,202	4,163
Non-controlling interests	8,732	8,681
Total net assets	60,205	108,157
Total liabilities and net assets	401,342	405,362

(2) Consolidated Quarterly Statements of Income

Millions of yen

	Q3 FY2015 YTD	Q3 FY2016 YTD
Net sales	226,658	218,100
Cost of sales	166,240	145,331
Gross profit	60,417	72,769
Selling, general and administrative expenses		
Selling expenses	28,772	28,274
General and administrative expenses	18,703	15,352
Total selling, general and administrative expenses	47,476	43,627
Operating income	12,940	29,142
Non-operating income		
Interest income	105	39
Dividend income	448	234
Share of profit of entities accounted for using equity method	593	723
Compensation income	—	464
Foreign exchange gains	414	436
Other	1,083	1,194
Total non-operating income	2,646	3,093
Non-operating expenses		
Interest expenses	3,611	3,187
Trial production expenses	377	1,853
Other	2,211	2,021
Total non-operating expenses	6,201	7,061
Ordinary income	9,386	25,173
Extraordinary income		
Gain on sales of non-current assets	4,066	14
Gain on sales of investment securities	3,318	1
Gain on sales of shares of subsidiaries and associates	—	1,934
Subsidy income	25	2,298
Gain on write-off debts	—	1,268
Other	1,067	1,300
Total extraordinary income	8,477	6,818
Extraordinary losses		
Loss on sales of non-current assets	71	3
Impairment loss	124,600	1,475
Loss on disaster	5	15
Loss on reduction of non-current assets	26	50
Loss on disposal of non-current assets	324	423
Provision for environmental measures	—	101
Loss on transfer from business divestitures	—	98
Litigation expenses	56	91
Total extraordinary losses	125,085	2,261
Profit (loss) before income taxes	(107,221)	29,730
Income taxes	7,955	4,003
Profit (loss)	(115,176)	25,727
Profit attributable to non-controlling interests	629	860
Profit (loss) attributable to owners of parent	(115,806)	24,866

(3) Consolidated Quarterly Statements of Comprehensive Income

	Millions of yen	
	Q3 FY2015 YTD	Q3 FY2016 YTD
Profit (loss)	(115,176)	25,727
Other comprehensive income		
Valuation difference on available-for-sale securities	(2,258)	1,451
Deferred gains or losses on hedges	(150)	230
Foreign currency translation adjustment	(787)	(593)
Remeasurements of defined benefit plans, net of tax	(3)	55
Share of other comprehensive income of entities accounted for using equity	(151)	(235)
Total other comprehensive income	(3,350)	909
Comprehensive income	(118,527)	26,637
Comprehensive income attributable to		
Owners of the Parent	(119,130)	25,827
Non-controlling interests	603	809

(4) Segment information

Third Quarter Fiscal 2015 (accumulated figures, Apr. 1, 2015 – Dec. 31, 2015)

1. Information on sales and income (loss) by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated income statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	65,592	30,259	64,879	41,819	24,107	226,658	-	226,658
Inter-segment sales/transfer	529	10,596	114	1,514	16,457	29,213	(29,213)	-
Total	66,122	40,856	64,993	43,333	40,565	255,871	(29,213)	226,658
Segment income	5,623	(3,784)	4,131	4,986	4,065	15,022	(2,081)	12,940

*1 The “Others” segment comprises businesses other than those of the reportable segments. Specifically, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

*2 The segment income adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment.

*3 With regard to segment income, operating income in the quarterly consolidated statement of income has been calculated by making an adjustment to the sum total of the reportable segments’ income and the “Others” segment’s income.

Third Quarter Fiscal 2016 (accumulated figures, Apr. 1, 2016– Dec. 31, 2016)

1. Information on sales and income (loss) by reportable segment

(Millions of yen)

	Reportable segments				Others*1	Total	Adjustment*2	Figures in quarterly consolidated income statement*3
	Chemicals	Specialty Products	Cement	Life & Amenity				
Sales								
Sales to customers	59,384	39,080	61,299	36,714	21,621	218,100	-	218,100
Inter-segment sales/transfer	618	8,289	93	1,581	17,847	28,430	(28,430)	-
Total	60,003	47,369	61,392	38,296	39,468	246,531	(28,430)	218,100
Segment income (loss)	9,823	5,484	6,271	4,107	4,593	30,280	(1,138)	29,142

*1 The “Others” segment comprises businesses other than those of the reportable segments. Specifically, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

*2 The segment income adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment.

*3 With regard to segment income, operating income in the quarterly consolidated statement of income has been calculated by making an adjustment to the sum total of the reportable segments’ income and the “Others” segment’s income.