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Notice concerning the Procurement of Funds through a Subordinated Loan

Tokuyama Corporation (“Tokuyama” or “the Company”) today announced details of its decision to procure funds by drawing down a subordinated loan on March 20, 2014. Brief details are presented as follows.

1. Objective and Significance of the Subordinated Loan

Tokuyama traces its roots back to 1918, when it began producing soda ash in Tokuyama, Yamaguchi Prefecture. While adding various chemicals to its product lineup, the Company has grown to incorporate diverse businesses covering a wide range of products including organic and inorganic chemicals, plastics, cement/building materials, electronic materials, and materials used in the medical field.

In 2008, Tokuyama identified efforts to strengthen strategically growing businesses while bolstering its international competitiveness as basic strategies under its overarching commitment to a venture spirit & innovation. As a part of these endeavors, the Company has continued to reinforce the competitiveness of Tokuyama Factory while promoting growth strategies that include the construction of a polycrystalline silicon plant in Malaysia. Despite this hard work, Tokuyama reported a substantial downturn in earnings in fiscal 2012, the fiscal year ended March 31, 2013, resulting in a decrease in shareholders’ equity. This decline was largely attributable to the drop in polycrystalline silicon business earnings on the back of the rapid deterioration in business conditions and most notably the glut in supply of solar cell-related materials and inventory adjustments in semiconductor-related materials.

Recognizing that such products as polycrystalline silicon are highly susceptible to changes in market conditions, the Tokuyama Group places considerable emphasis on maintaining an appropriate level of shareholders’ equity in its bid to secure a sound financial position. Taking the aforementioned into consideration, Tokuyama has determined the critical need to improve its financial standing by strengthening its equity credit attributes. As a result, the Company has decided to procure funds through a subordinated loan. It is expected that ratings agencies will recognize the equity credit attributes of the subject subordinated loan. On this basis, the Company is anticipating to bolster its capital position and to restore its shareholders’ equity in real terms without any subsequent dilutive effect on its shares. At the same time, Tokuyama will work diligently to promote growth strategies in a bid to enhance its corporate value.

Plans are in place to utilize the bulk of the funds procured from the subordinated loan to repay interest-bearing debt.

2. Characteristics of the Subordinated Loan

The subordinated loan is hybrid financing, the characteristics of which place it midway between equity and debt. Although it is debt, it also has aspects and characteristics similar to equity, such as the mandatory deferral of interest payments and an especially long repayment period. As a result, it is expected that the ratings agency, Rating and Investment Information, Inc., will recognize 70% of the total value of the financing as having equity credit attributes for the purpose of rating.

3. Overview of the Subordinated Loan

- (1) Total amount of the funds to be procured: ¥60 billion
- (2) Date of agreement execution: March 11, 2014
- (3) Drawdown date: March 20, 2014
- (4) Final repayment term: March 20, 2074

However, Tokuyama may make an early repayment of all or a portion of the principal of the subordinated loan on any interest payment date on or after March 20, 2019. Furthermore, the Company may also make an early repayment of all or a portion of the principal of the subordinated loan in each of the following cases:

- (i) When Tokuyama is seriously and unavoidably disadvantaged as a result of the handling of the interest on the subordinated loan on or after the date of drawdown due to taxation considerations despite reasonable efforts by the Company; or
- (ii) When there is a public announcement or the Company receives notification that ratings agencies have determined that the subordinated loan has equity credit attributes that are lower than the subordinated loan at the time of drawdown; or
- (iii) When there is an agreement with all lenders and agents.

(5) Replacement clause

In the case of an early repayment of the subordinated loan, Tokuyama intends to procure funds, within a 12-month period before the date on which it will make that early repayment, that have been approved by ratings agencies as having equity credit attributes equal to or greater than the subordinated loan.

(6) Applicable interest rate

A floating rate of interest based on six-month JPY LIBOR from March 20, 2014 to March 20, 2019; stepped up floating rate (1% higher) from March 20, 2019.

(7) Interest payment dates

March 20 and September 20 each year with September 20, 2014 as the first interest payment date.

(8) Constraints on interest payment

1) Mandatory suspension of interest

The payment of all or a portion of the interest on the subordinated loan shall be deferred in the case of each of the following specified cases:

- i) The interest payable on the relevant interest payment date shall be deferred in full when the EBITDA margin (the ratio of the sum of operating income and depreciation expenses to net sales) is less than 8% for the most recent two consecutive fiscal years with respect to the Company's settlement period consolidated financial statements.
- ii) The interest payable on the relevant interest payment date shall be deferred in full when the ratio of net liabilities to total capital exceeds 70% with respect to the Company's settlement and interim period consolidated financial statements.
- iii) In addition to the above, there is a provision that allows for the deferral of interest payable either in part or in full when there is a distributable amount stipulated under the Companies Act of Japan or preferred stocks depending on the status of distribution.

2) Optional suspension of interest

Tokuyama may, at its discretion, defer all or a portion of the interest on the subordinated loan.

(9) Subordination

1) In the event liquidation proceedings are commenced, the decision to commence bankruptcy proceedings is made, or the decision to commence reorganization, rehabilitation, or any other proceedings is made against the Company, the provider of the subordinated loan may request repayment or redemption under the agreement after the repayment of all liabilities in full excluding the subordinated loan or other liabilities of a similar nature to the subordinated loan.

2) Any change to the terms and conditions of the agreement that disadvantage any creditors other than the creditors of the subordinated loan in any respect whatsoever shall not be recognized.

(10) Equity credit attributes of the subordinated loan evaluated by ratings agencies
Class 4 / 70% (Rating and Investment Information, Inc.)

(11) Investors (lenders) participating in the subordinated loan
The Bank of Tokyo-Mitsubishi UFJ, Ltd.
Mizuho Bank, Ltd.
The Yamaguchi Bank, Ltd.
Four other banks