



Annual Report 2014: Financial Section

Six-Year Summary

YEARS ENDED MARCH 31	2009	2010	2011	2012	2013	2014
Results of Operations (Millions of yen)						
Net sales	733,506	628,706	684,399	687,131	668,494	772,272
Operating income	-20,314	13,047	33,532	23,737	24,464	41,573
Operating income ratio (%)	-2.8	2.1	4.9	3.5	3.7	5.4
Net income (loss)	-25,262	6,890	10,015	9,379	16,867	29,564
Research and development expenses	14,373	13,819	13,427	12,880	12,208	12,513
Capital expenditures	49,100	30,000	24,700	19,300	26,100	23,700
Depreciation	60,908	51,983	50,317	44,481	36,943	34,677
Cash Flows (Millions of yen)						
Cash flows from operating activities	27,055	81,654	49,643	55,322	36,076	67,238
Cash flows from investing activities	-64,858	-29,150	-26,986	-17,582	-23,448	-26,066
Cash flows from financing activities	67,634	-51,893	-25,907	-22,661	-24,518	-45,534
Cash and cash equivalents at end of year	55,912	56,915	52,662	67,359	57,358	55,127
Financial Position (Millions of yen)						
Total assets	762,796	739,659	725,918	708,721	735,102	721,749
Total equity	185,880	190,898	193,512	200,197	219,286	249,797
Interest-bearing debt	435,564	387,529	364,173	343,559	325,995	286,205
Per Share Data (Yen)						
Net income (loss) per share	-42.20	11.51	16.74	15.67	28.17	49.35
Total equity per share	258.98	271.59	275.35	285.88	315.15	365.85
Dividends per share	6.00	6.00	6.00	6.00	6.00	6.00
Key Ratios						
Return on earnings (%)	-14.3	4.3	6.1	5.6	9.5	14.5
Return on assets (%)	-3.2	0.9	1.4	1.3	2.3	4.1
Total assets turnover (times)	0.93	0.84	0.93	0.96	0.93	1.06
Equity ratio (%)	20.3	22.0	22.7	24.1	25.7	30.4
Dividend payout ratio (%)	—	—	53.0	—	24.3	14.2
Debt-to-equity ratio (%)	281.0	238.5	221.0	200.8	172.7	130.6
Number of employees	11,166	11,089	11,221	11,238	11,268	11,421
Stock Indicators						
Stock price (closing), end of year (yen)	186	238	299	230	262	398
Market capitalization (millions of yen)	111,329	142,404	178,902	137,633	156,913	238,459
Price earnings ratio (times)	—	20.7	17.9	14.7	9.3	8.1
Price book-value ratio (times)	0.72	0.88	1.09	0.80	0.83	1.09

Management's Discussion and Analysis

Generally favorable business conditions in Japan and globally supported a strongly improved performance for the Tosoh Group in the fiscal year ended March 31, 2014.

The Japanese government's fiscal initiatives drove domestic economic recovery in the fiscal year under review. And that combined with improving markets overseas to better business conditions considerably for the Tosoh Group. Also of benefit to Tosoh and other Japanese exporting firms was a weak yen. As well, Tosoh negotiated price increases in many of its product categories in fiscal 2014 amid surging naphtha prices. Naphtha rose from ¥57,450 per kiloliter in fiscal 2013 to ¥67,275 per kiloliter in fiscal 2014.

Tosoh in addition took measures to better manage the profitability of its weak product lines, such as ethyleneamines. With the exception of its Engineering Group, Tosoh's business segments posted growth in sales and profits in fiscal 2014.

Changes in Accounting Standards

In fiscal 2014, the company and its domestic subsidiaries adopted, except for the revisions in the calculation method for retirement benefit obligations and service cost, "Accounting Standard for Retirement Benefits" (ASBJ Statement No. 26) and "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25). For an explanation of the effects of these standards on our operational results, see the Notes to the Consolidated Financial

Statements.

Net Sales

Tosoh's consolidated net sales for fiscal 2014 reflected the improved business climate. Consolidated net sales increased 15.5%, to ¥772.3 billion (US\$7.5 billion).

Operating Expenses and Operating Income

Our cost of sales increased 14.5%, to ¥629.8 billion (US\$6.1 billion). Gross profit rose 20.2%, to ¥142.5 billion (US\$1.4 billion). And our gross profit margin climbed to 18.5%, from 17.7% a year earlier.

Selling, general and administrative expenses expanded 7.2%, to ¥100.9 billion (US\$1.0 billion). R&D expenditures edged up 2.5%, to ¥12.5 billion (US\$121.6 million).

Operating income jumped 69.9%, to ¥41.6 billion (US\$403.9 million). Among other income (expenses), the impact of lower foreign exchange gains was somewhat tempered by the lack of major expenses.

Tosoh reported net other income of ¥6.0 billion (US\$57.9 million) in fiscal 2014, compared with net other income of ¥7.2 billion in the previous fiscal year. Income before income taxes and minority interests advanced 50.3%, to ¥47.5 billion (US\$461.9 million).

Net Income

Minority interests in the net income of subsidiaries totaled ¥0.5 billion (US\$4.4 million) in fiscal 2014, compared with ¥1.3 billion a year earlier. As a result, the Tosoh Group registered net income of ¥29.6 billion (US\$287.3 million), up 75.3% from fiscal 2013. Net income per share, undiluted, amounted to ¥49.35 (US\$0.48), compared with ¥28.17 in the previous fiscal year. Tosoh maintained its annual dividend per share at ¥6.00 (US\$0.06).

Performance by Geographic Region

Export sales and sales outside Japan by overseas subsidiaries were ¥313.6 billion (US\$3.0 billion) in fiscal 2014. This amount represented 40.6% of consolidated net sales, up 4.2 percentage points from fiscal 2013. Sales in Asia accounted for ¥234.4 billion (US\$2.3 billion) of total export sales and sales outside Japan and for 30.4% of consolidated net sales, an increase of 4.0 percentage points from a year earlier.

Dividend Policy

Tosoh aims to maintain a balance between its internal reserves for R&D; its capital expenditures, which are designed to sustain steady high growth; and its returns to its shareholders. The company intends to provide a stable dividend to shareholders on a continuous basis, subject to business conditions.

In fiscal 2014, our annual dividends per share were ¥6.00 (US\$0.06). As a result, the consolidated payout ratio for the year under review was 14.2%, compared with 24.3% in fiscal 2013. Tosoh will continue to invest its internal reserves in competitive product development and global business strategies in a bid to respond to anticipated changes in its business environment.

Financial Position and Liquidity

Fund Procurement and Liquidity Management

Tosoh raises working capital as necessary through short-term bank loans and other means. The company decides on the funding method for its long-term capital requirements, such as capital investment, after determining the investment recovery period and risk. In fiscal 2014, Tosoh financed its capital expenditure and R&D activities primarily from cash provided by operating activities.

Assets, Liabilities, and Net Assets

Current assets as of March 31, 2014, decreased 2.2% from a year earlier, to ¥402.0 billion (US\$3.9 billion). Cash and cash equivalents declined 3.9%, to ¥55.1 billion (US\$535.6 million). Trade receivables, a major component of current assets, decreased 5.0%, to ¥188.4 billion (US\$1.8 billion), while inventories edged up 0.7%, to ¥129.6 billion (US\$1.3 billion).

Current liabilities contracted 7.0% from the previous fiscal year, to ¥340.6 billion (US\$3.3 billion) in fiscal 2014. Working capital, therefore, totaled ¥61.3 billion (US\$595.9 million), compared with ¥44.7 billion a year earlier. The current ratio was 1.18 times, up from 1.12 times in fiscal 2013.

Property, plant and equipment moved down slightly, 3.3%, to ¥232.6 billion (US\$2.3 billion). Declines in current assets resulted in total assets decreasing 1.8% from a year earlier, to ¥721.7 billion (US\$7.0 billion). Interest-bearing debt was ¥286.2 billion (US\$2.8 billion) as of March 31, 2014, down from ¥326.0 billion at the previous fiscal year-end. Long-term debt continued its downward trend, dropping 15.7%, to ¥103.4 billion (US\$1.0 billion).

Total shareholders' equity increased 13.7% year on year, to ¥216.4 billion (US\$2.1 billion), mainly because of a 21.5% rise in retained earnings, to ¥146.4 billion (US\$1.4 billion). Net unrealized gains on securities reflected the rise in stock prices at fiscal year-end and rose 25.1%, to ¥6.2 billion (US\$59.9 million).

Total net assets climbed 13.9% year on year, to ¥249.8 billion (US\$2.4 billion). Net assets per share totaled ¥365.85 (US\$3.55), compared with ¥315.15 a year earlier. Return on average total net assets was 12.6%, and the net asset ratio was 30.4%, compared with 25.7% in fiscal 2013.

Capital Expenditures and Depreciation

Cash Flows

Net cash provided by operating activities was ¥67.2 billion (US\$653.3 million), an increase from ¥36.1 billion in fiscal 2013. The principal sources of cash were income before income taxes and minority interests and depreciation and amortization. The major use of cash was a decrease in trade payables.

Investing activities absorbed ¥26.1 billion (US\$253.3 million) in cash flows, up from ¥23.4 billion in the previous fiscal year. Increased payments for the purchases of property, plant and equipment and increased purchases of investment securities resulted in an overall rise in investment cash flows.

Free cash flow, therefore, was positive. The excess of cash flows from operating activities over the cash absorbed in investing activities amounted to ¥41.2 billion (US\$400.0 million), compared with free cash flow of ¥12.6 billion in fiscal 2013.

Net cash used in financing activities was ¥45.5 billion (US\$442.4 million), compared with ¥24.5 billion in the previous year. The principal reason for the increase in net cash used was a large reduction in proceeds from long-term debt. Cash and cash equivalents on March 31, 2014, were ¥55.1 billion (US\$535.6 million), down 3.9% from a year earlier.

Projections for Fiscal 2015

Tosoh is anticipating further growth in fiscal 2015. The company forecasts an increase in consolidated net sales, to ¥810 billion, resulting in operating income of ¥46 billion and net income of ¥52 billion.

In preparing these sales and earnings projections for fiscal 2015, Tosoh's management has assumed an average exchange rate of ¥100.00 to the US dollar, compared with ¥95 in fiscal 2014. Management has also assumed an average naphtha cost—a benchmark of raw material costs in the chemical industry—of ¥70,000 per kiloliter in Japan, up from the projection of ¥62,000 per kiloliter in fiscal 2014.

[Management's Discussion and Analysis](#) (PDF)

[Financial Statements](#) (PDF)