Chemistry with a heart
TOKUYAMA

Annual Report 2014

Year ended March 31, 2014

Contents

Profile

Tokuyama Corporation was founded in 1918 to begin production in Japan of soda ash, also known as sodium carbonate, which was being imported at that time. As a fundamental material for industry, soda ash was indispensable for facilitating the country's industrial development in the early 20th century.

The company has gone on to produce and supply a wide range of chemical products. Building on this foundation, Tokuyama is currently expanding its main businesses globally, with a special focus on its information and electronics business, which markets semiconductor-related products, the life and healthcare business, which includes eyeglass lens materials, dental materials and other products, and the environment and energy business, which handles polycrystalline silicon for solar cells as well as recycling and environment-related operations. Our products and technologies are being used in a vast array of goods that are useful in people's everyday lives.

Tokuyama's 100th anniversary is February 16, 2018. As this major milestone approaches, everyone at the Tokuyama Group is committed to living up to the ideals of the Centennial Vision: "As a prominent manufacturer, we will continue to be responsive to society and help create a better future through the vitality of our human resources and the creativity of chemistry." As we work to expand our business globally, we will channel the collective capabilities of the Tokuyama Group toward creating new businesses and also improving and strategically reorganizing existing businesses.

Company History

1918～1944	**Establishment and specialization in soda production**
February 1918	Nihon Soda Kogyo Co., Ltd. (currently Tokuyama Corporation) was established to produce soda ash
March 1938	Commenced cement business
January 1940	Expansion of inorganic chemicals business
1945～1960	**Further expansion of inorganic chemicals business**
March 1952	Commenced electrolytic chlor-alkali business
1961～1974	**Entry into petrochemicals business**
July 1964	Commenced petrochemicals business
September 1966	Commenced polyvinyl chloride business
March 1967	Commenced ion exchange membrane business
March 1970	Commenced polypropylene business
1975～1989	**Entry into specialty and processing business**
January 1976	Commenced polyolefin film business
March 1978	Commenced dental materials and equipment business
February 1981	Commenced building materials business
April 1982	Commenced life-related business
August 1982	Commenced fine chemicals business
August 1983	Commenced IC chemicals business (high-purity chemicals for electronics manufacturing)
December 1983	Commenced medical diagnosis systems business
July 1984	Commenced electronic materials business (polycrystalline silicon)
April 1985	Commenced aluminum nitride business
December 1985	Commenced gas sensors business
1990～2004	**Strengthening and restructuring of business**
February 1992	Established Sun • Tox Co., Ltd. as a joint venture for manufacture and sale of polyolefin film
July 1995	Established Shin Dai-ichi Vinyl Corporation as a joint concern for manufacture and sale of polyvinyl chloride
August 2000	Commenced recycling & environment-related business
2005～	**Aiming toward raising corporate value**
August 2009	Established Tokuyama Malaysia Sdn. Bhd. in Malaysia as a manufacturing and sales company of polycrystalline silicon

Consolidated Financial Highlights

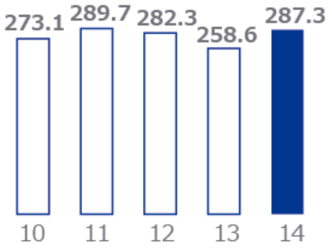
Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31

	Millions of yen					Thousands of U.S. dollars (Note1)
	2010	2011	2012	2013	**2014**	**2014**
Net sales	273,154	289,786	282,381	258,632	287,330	2,789,614
Operating income	16,483	20,144	13,720	6,772	20,270	196,802
Net income (loss)	7,458	9,765	9,351	(37,916)	10,218	99,208
Per share amounts (in yen, dollars)						
Net income (loss)	23.52	28.06	26.87	(108.98)	29.37	0.285
Cash dividends	6.00	6.00	6.00	3.00	6.00	0.058
Net assets	682.03	693.18	716.39	625.29	660.18	6.409
Total assets	452,893	474,708	501,181	518,251	576,315	5,595,297
Net assets	243,606	247,656	255,460	223,871	236,453	2,295,663
Cash flows from operating activities	29,380	37,043	27,060	17,071	34,105	331,121
Cash flows from investing activities	(36,468)	(88,508)	(57,666)	(60,673)	(64,402)	(625,264)
Cash flows from financing activities	46,990	23,994	20,791	36,465	45,939	446,014
Cash and cash equivalents at end of the year	95,945	68,624	58,476	52,431	69,973	679,357
Capital expenditures	26,557	35,807	77,602	97,549	61,051	592,734
Depreciation and amortization (Note 2)	37,688	31,476	28,492	23,242	16,770	162,825
R&D expenses	11,817	11,469	11,704	10,076	8,709	84,557
Shareholders' equity ratio (in percentage)	52.4	50.8	49.7	42.0	39.9	-
Return on equity (in percentage)	3.5	4.1	3.8	(16.2)	4.6	-
Number of employees	5,444	5,493	5,506	5,651	5,756	-
Consolidated subsidiaries	49	50	48	49	53	-

Note 1: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥103=US$1.
Note 2: Depreciation and amortization includes amortization of long-term prepaid expenses.

Net Sales

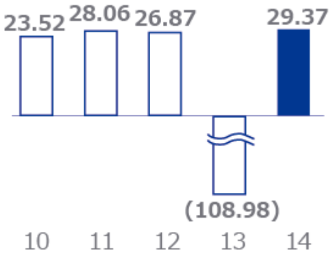
(Billions of yen)



Years ended March 31

Net Income (Loss) per Share

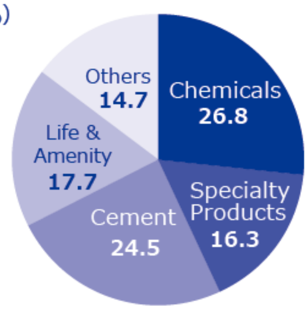
(Yen)



Years ended March 31

Sales Composition

(%)



Year ended March 31, 2014

Segment Information

CHEMICALS

Tokuyama's Chemicals segment handles basic chemicals used as raw materials for an array of products that are essential for people's livelihoods. Among these are soda ash, which Tokuyama has been producing since its founding in 1918, and caustic soda, a material which is said to be "essential for the manufacture of products in factories." These and other chlorine derivatives are used in a very wide range of applications and are essential for all kinds of industries. The caustic soda business also plays an additional role in Tokuyama's earnings platform, as its manufacturing process generates chlorine and hydrogen that are used in processes for producing the Company's polycrystalline silicon. In addition, Yamaguchi Liquid Hydrogen Corporation, a joint venture for liquid hydrogen production, commenced operations in 2013. Through these operations, the Company's hydrogen is also used for rocket fuel at the Tanegashima Space Center of Japan Aerospace Exploration Agency (JAXA). In this way, the segment is contributing to the development of space exploration.

With the goal to continue ensuring that Tokuyama is the preferred choice of customers, the Chemicals segment oversees three business units and Group companies while working to provide a stable supply of products and services that meet the expectations and needs of customers in a timely manner.

Business Unit	Major Products
Soda Ash and Calcium Chloride	Soda ash, Calcium chloride, Sodium silicate and Sodium bicarbonate
Chlor-Alkali and Vinyl Chloride	Caustic Soda, Vinyl chloride monomer, Propylene oxide and Methylene chloride
New Organic Chemicals	Isopropyl alcohol (IPA)
Group Companies	Polyvinyl chloride (PVC) [Shin Dai-ichi Vinyl Corp.]

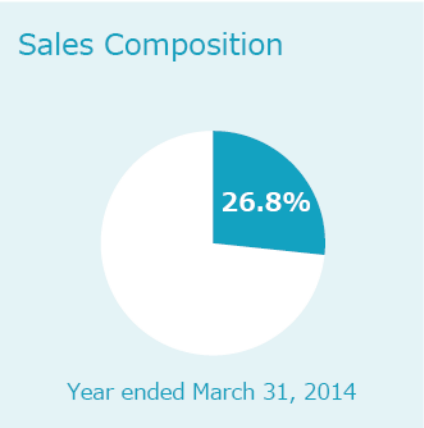
Operating Results for the Fiscal Year ended March 31, 2014

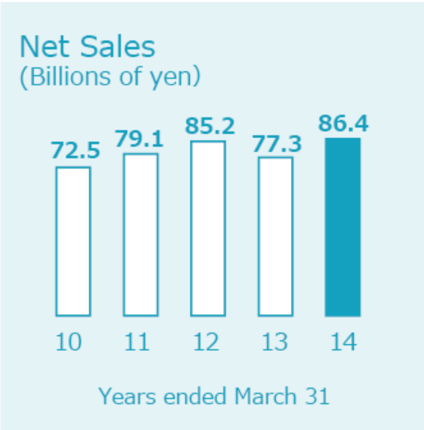
With regard to vinyl chloride monomer (VCM), sales increased compared with the previous fiscal year. In addition to the fact that difficulties at the Company's VCM plant, which occurred in the previous fiscal year, were overcome, this was attributable to a rise in export prices resulting from the weaker yen.

With regard to caustic soda, the facility utilization rate of the electrolysis plant rose, as the above-mentioned difficulties at the VCM plant were overcome. Due to this factor, domestic sales volume recovered.

With regard to polyvinyl chloride (PVC), we worked to revise selling prices to absorb a rise in the price of domestic naphtha.

As a result of the above, segment net sales increased 11.8% compared with the previous fiscal year, to ¥86.4 billion and operating income increased 424.1% to ¥2.2 billion. The segment reported higher earnings on higher sales.





Strategies

In addition to recording stable profits and providing the underlying strength to support the Company's earnings as a whole, we will work toward further growth by reviewing the business portfolio. To achieve this end, we will undertake the following priority measures.

■Soda Ash and Calcium Chloride Business

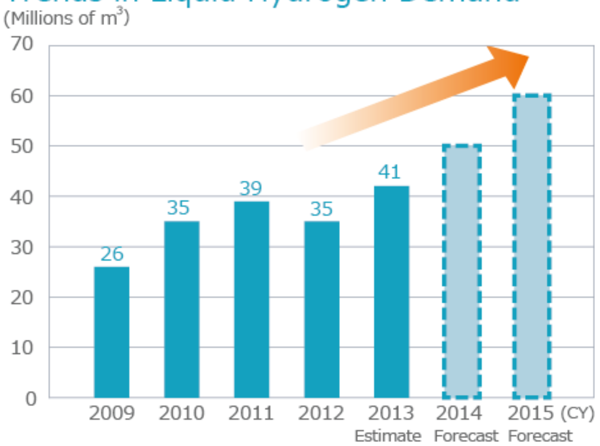
Tokuyama reached an agreement with Central Glass Co., Ltd. to establish a joint-venture business (TOKUYAMA & CENTRAL SODA Inc.) while transferring and consolidating marketing activities in connection with the sales of soda ash and calcium chloride. The production of soda ash in Japan will be undertaken only by Tokuyama from June 2015. In this manner, we will work to improve profits in the soda ash business.

■Chlor-Alkali and Vinyl Chloride Business

The production of liquid hydrogen began at Yamaguchi Liquid Hydrogen Corporation, a joint venture formed with Iwatani Corporation, in June 2013. In addition to rocket fuel, liquid hydrogen is used in the manufacture of solar cells and LEDs. Looking ahead, demand is projected to expand substantially as use is extended to such areas as fuel-cell powered vehicles. While liquefaction capacity currently stands at 3,000L/h, sights are being set on enhancing capacity.

Against the backdrop of such factors as the recovery in automobile production in Asia, steps will be taken to expand production facilities of propylene oxide, a major chlorine derivative with various applications including as a raw material in urethane, in July 2014. Plans are in place to increase production capacity by 10,000 tonnes to 89,000 tonnes per year.

Trends in Liquid Hydrogen Demand



(Note) Iwatani and Tokuyama forecast

SPECIALTY PRODUCTS

The Specialty Products segment offers products for a wide range of fields including energy, electronics and the environment. Our high-purity polycrystalline silicon is used for semiconductors and solar cells. Tokuyama is one of the leading companies in the world's polycrystalline silicon market. Fumed silica, which is produced from a by-product of polycrystalline silicon manufacture, is used for silicone rubber, copier toner and other applications. Aluminum nitride, which boasts excellent heat dissipation properties, is used for semiconductor production equipment and energy-saving applications such as inverters and LEDs. Our high-purity chemicals for electronics manufacturing are used chiefly for production of semiconductors and LCD panels. The Specialty Products segment will continue to build on its advanced chemical technologies to create unique products that are useful to society.

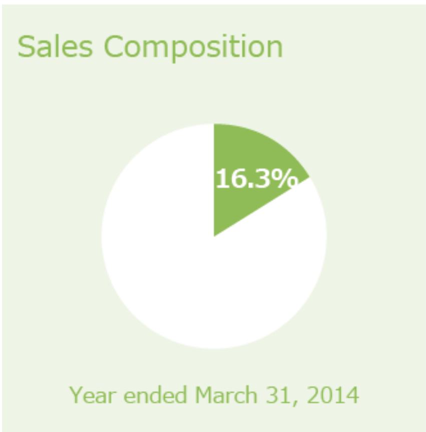
Business Unit	Major Products
Electronic Materials	Polycrystalline silicon
Fumed Silica	Fumed silica
SHAPAL	Aluminum nitride
IC Chemicals	High-purity chemicals for electronics manufacturing
Cleaning System	Methylene chloride for metal cleaning
Group Companies	Polycrystalline silicon [Tokuyama Malaysia Sdn. Bhd.] Fumed silica [Tokuyama Chemicals (Zhejiang) Co., Ltd.] Aluminum nitride [Tokuyama-Dowa Power Materials Co., Ltd.]

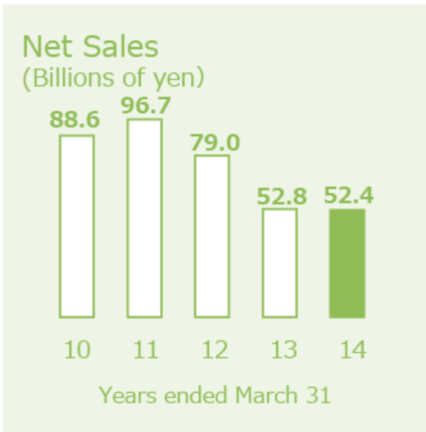
Operating Results for the Fiscal Year ended March 31, 2014

With regard to semiconductor-grade polycrystalline silicon, although market conditions were about level with those of the previous fiscal year, sales decreased due to a price slump in the supply chain. With regard to solar cell-grade polycrystalline silicon, the market remained sluggish due to excess supply. Against this backdrop, we adopted a sales strategy that focused on profits and as a result, sales volume was low. Despite the above, earnings in the polycrystalline silicon business increased compared with the previous fiscal year, due largely to a decrease in depreciation expenses after the impairment of manufacturing facilities in the previous fiscal year.

With regard to fumed silica and high-purity chemicals for electronics manufacturing, we revised selling prices in order to absorb the rise of raw material and fuel prices. In addition to this, due to a rise in export prices arising from the weaker yen, sales of these products increased compared with the previous fiscal year.

As a result of the above, segment net sales decreased 0.7% compared with the previous fiscal year, to ¥52.4 billion, while operating income was ¥6.0 billion. The segment reported higher earnings on lower sales.





Strategies

We will promote a sales strategy that serves to maximize profits in line with demand while building an optimal production structure. To achieve this end, we will undertake the following priority measures.

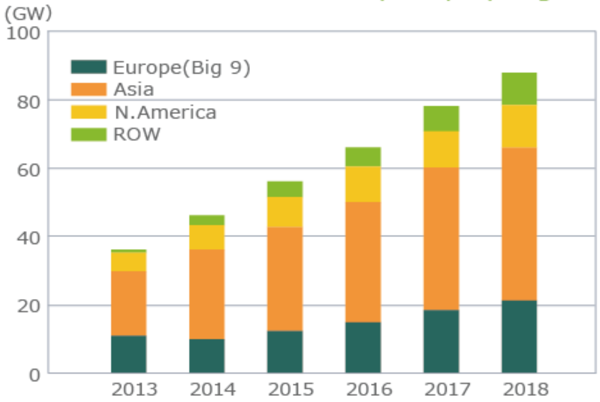
■Polycrystalline Silicon Business

Although the market is on the path of recovery in both semiconductor and solar cell fields, the polycrystalline silicon business is forecast to confront a persistently harsh operating environment due to the glut in supply. Every effort will be made to maximize profits by promoting an optimal polycrystalline silicon production balance at Tokuyama Factory. At Tokuyama Malaysia, we will commence sales of solar cell-grade polycrystalline silicon around the middle of 2014. We will also endeavor to optimize production conditions of semiconductor-grade polycrystalline silicon while initiating shipments of samples for customer certification as quickly as possible.

■Fumed Silica Business

We will work toward optimizing business operations of fumed silica, a co-product with polycrystalline silicon, at the two bases of Tokuyama Factory and Tokuyama Chemicals (Zhejiang) Co., Ltd. The decision was made to transfer a portion of Tokuyama Factory's annual production capacity of 2,000 tonnes to Tokuyama Chemicals (Zhejiang) with the aim of further expanding the rapidly growing fumed silica (surface treatment grade) business in China and other Asian markets. Operations are to commence in June 2015. Fumed silica (surface treatment grade) has a wide range of applications including as a viscosity control agent, an anti-settling agent, and an agent to improve the flow of paint, adhesives, ink, and other products. Looking ahead, this product is expected to enjoy an increase in demand.

Forecasts of installed PV capacity by region



(Note) Tokuyama estimate based mainly on data of IHS iSuppli Market Tracker (PV Integrated) Q1 2014

CEMENT

Tokuyama launched its cement business in 1938 out of a desire to efficiently make use of by-products produced at the Tokuyama Factory, an environmental approach that was ahead of its time in Japan. The segment produces cement and such related products as cement-type soil solidifiers at the Nanyo Plant of the Tokuyama Factory. These products are used for ready-mixed concrete and secondary concrete items, which in turn are used to help build infrastructure essential for people's lives, including residences, buildings, structures which support essential utilities, and transportation facilities such as ports, bridges, and roads.

In the cement production process, we accept a large volume of waste matter, including waste plastic and household garbage incineration ash from outside the Company as well as inside the Company, and utilize it as raw materials or fuel sources. In this way, the segment is promoting a recycling approach that is responsive to the needs of society, thereby helping promote a recycling-oriented society that effectively makes use of resources as much as possible.

Tokuyama Mtech Corporation manufactures and sells a various types of building material products including cement-type products and mortar-type products. Moreover, the Cement segment strives to develop products that can create new business possibilities. For example, it has applied Tokuyama's proprietary plaster sheet-making technology to develop interior design materials and Fresco Giclee, a plaster-coated paper for inkjet printers.

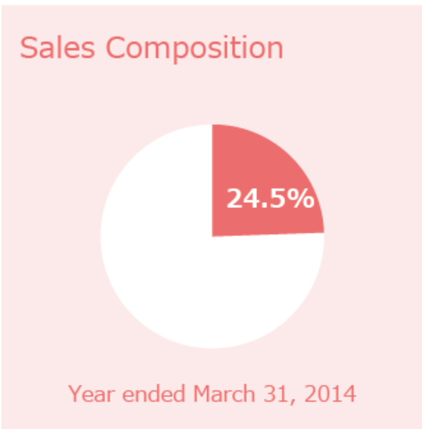
Business Unit	Major Products
Cement	Portland cement, Portland blast furnace slag cement and Cement-type soil solidifier
Recycling and Environment	Recycling of wastes
Group Companies	Ready-mixed concrete [Tokyo Tokuyama Concrete Co., Ltd., etc.]

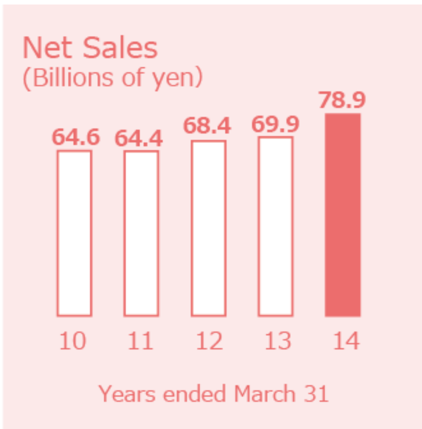
Operating Results for the Fiscal Year ended March 31, 2014

With regard to cement, sales volume increased due to the recovery in demand in Japan. In addition, the Company made Tokuyama Nouvelle Calédonie S.A. a subsidiary in June 2013. Due to these factors, sales increased compared with the previous fiscal year.

In the recycling and environment-related business, the Company accepted a larger volume of waste as a result of its higher cement production.

As a result of the above, segment net sales increased 12.9% compared with the previous fiscal year, to ¥78.9 billion and operating income increased 25.3% to ¥6.6 billion. The segment reported higher earnings on higher sales.





Strategies

We will put in place an optimal production, sales, and distribution structure that is capable of addressing changes in the business environment while cultivating and strengthening overseas as well as new businesses. To achieve this end, we will undertake the following priority measures.

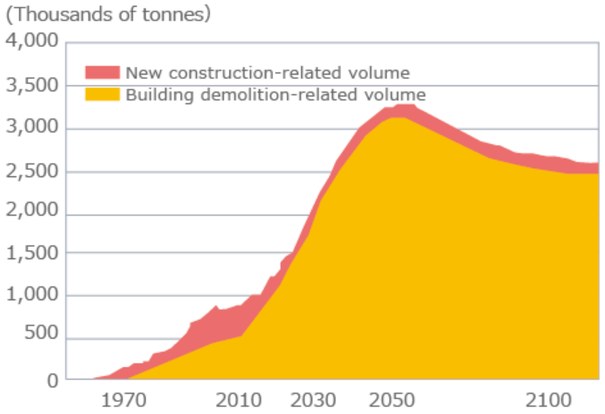
■Cement Business

We will expand transportation capacity in Japan with the addition of two new tanker ships. Moreover, we will establish a clinker export structure and ensure stable operations at Tokuyama Nouvelle Calédonie S.A. as a part of our overseas operations. In order to help develop and maintain social infrastructure, we will upgrade and expand our repair and reinforcement business through Tokuyama Mtech Corporation.

■Recycling and Environment-related Business

Operations commenced at Tokuyama Chiyoda Gypsum Co., Ltd., a business that engages in the recycling of waste gypsum boards, in 2013. For the most part, the growing volume of waste gypsum board is subject to landfill disposal. As a result, recycling is a major issue. In addition to solving a major social issue, this initiative is also expected to provide gypsum board makers with a valuable source of supply of raw material gypsum. Plans are in place to expand the business on a nationwide basis going forward.

Long-Term Projection of Waste Gypsum Board Volume



Source: Gypsum Board Association of Japan

LIFE & AMENITY

The Life & Amenity segment oversees Group companies manufacturing and selling polyolefin films, plastic window sashes, medical diagnosis systems, dental materials and equipment, gas sensors, ion exchange membranes and other products, and is also in charge of Tokuyama's fine chemicals business and NF business. From April 2013, the Advanced Components segment was renamed the Life & Amenity segment.

In the fine chemicals business, utilizing our organic synthetic technology to advantage, we are expanding this business with eyeglass lens materials, active pharmaceutical ingredients for generic drugs, and intermediates as our main products. In the NF business, we manufacture and sell air-permeable films (microporous films) that repel water but allow air and moisture to penetrate.

Shanghai Tokuyama Plastics Co., Ltd., one of the Group companies we are responsible for, manufactures and sells air-permeable films used for disposable diapers, demand for which is climbing rapidly in China and other emerging countries.

Business Unit	Major Products
Fine Chemicals	Plastic lens-related materials, Active pharmaceutical ingredients and intermediates
NF	Microporous film
Group Companies	Polyolefin film [Sun • Tox Co., Ltd.] Plastic window sashes [Excel Shanon Corp.] Medical diagnosis systems [A&T Corp.] Dental materials/equipment [Tokuyama Dental Corp.] Gas sensors [Figaro Engineering Inc.] Ion exchange membranes [ASTOM Corp.]

Operating Results for the Fiscal Year ended March 31, 2014

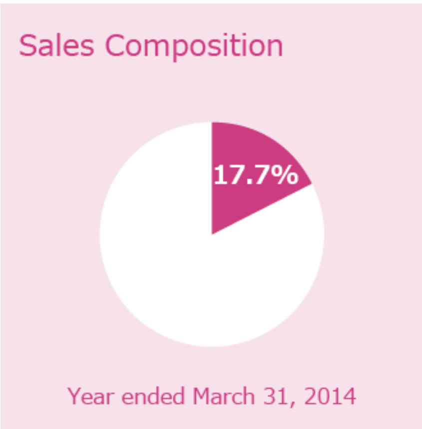
Sales volumes of plastic lens-related materials increased owing to the recovery from damage to the supply chain caused by the flooding in Thailand, which occurred in 2011.

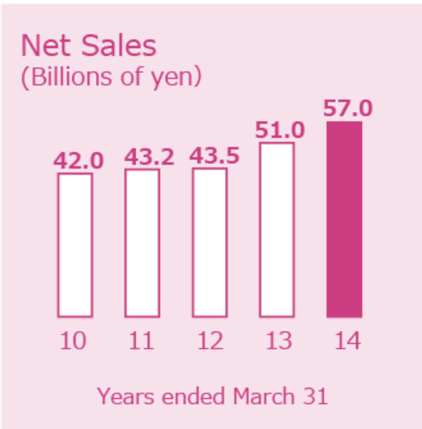
With regard to polyolefin film, we revised selling prices to absorb price increases in raw materials and worked to expand sales. Due to these efforts, sales increased compared with the previous fiscal year.

With regard to dental materials and equipment, sales increased due largely to sales expansion of products shipped to overseas markets and a rise in export prices arising from the weaker yen.

With regard to plastic window sashes, sales volume increased due to business reconstruction and sales expansion on the back of the recovery in housing starts.

As a result of the above, segment net sales increased 11.9% compared with the previous fiscal year, to ¥57.0 billion and operating income increased 65.8% to ¥4.8 billion. The segment reported higher earnings on higher sales.





Strategies

We will expand our business by establishing and strengthening a customer-oriented development, production and sales structure while obtaining an advantageous position in the domestic and international markets, thereby contributing to the enhancement of people's quality of life (QOL). To achieve this end, we will undertake the following priority measures.

■Fine Chemicals Business
We will increase orders for active pharmaceutical ingredients for generic drugs and expand market share in photochromic dye materials for use in eyeglass lenses.

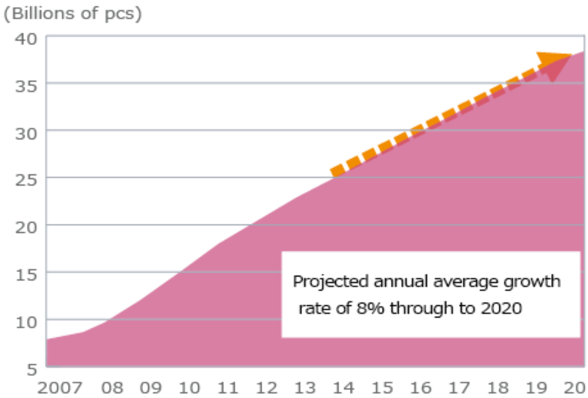
■NF Business
Addressing the rapid increase in the usage of disposable diapers, a main application of microporous films, in China and other Asian countries, we will expand microporous film manufacturing capacity of the Group's manufacturing base in Shanghai and Tianjin. We will capture rapidly growing demand steadily by promoting ties with disposable diaper manufacturers, who possess factories in China.

■Polyolefin Film Business (Sun • Tox)
We will increase profits by expanding sales of products for use in everyday items, which continue to enjoy robust growth at convenience stores, tapping into new markets, and reducing costs.

■Plastic Window Sash Business (Excel Shanon)
We will expand market share by strengthening alliances with building contractors and major home builders and promote increased use of plastic window sashes.

■Dental Materials/Equipment Business (Tokuyama Dental)
We will develop new products and accelerate the pace of overseas business development.

Infant Disposable Diaper Consumption in China



(Note) China Paper Association estimate

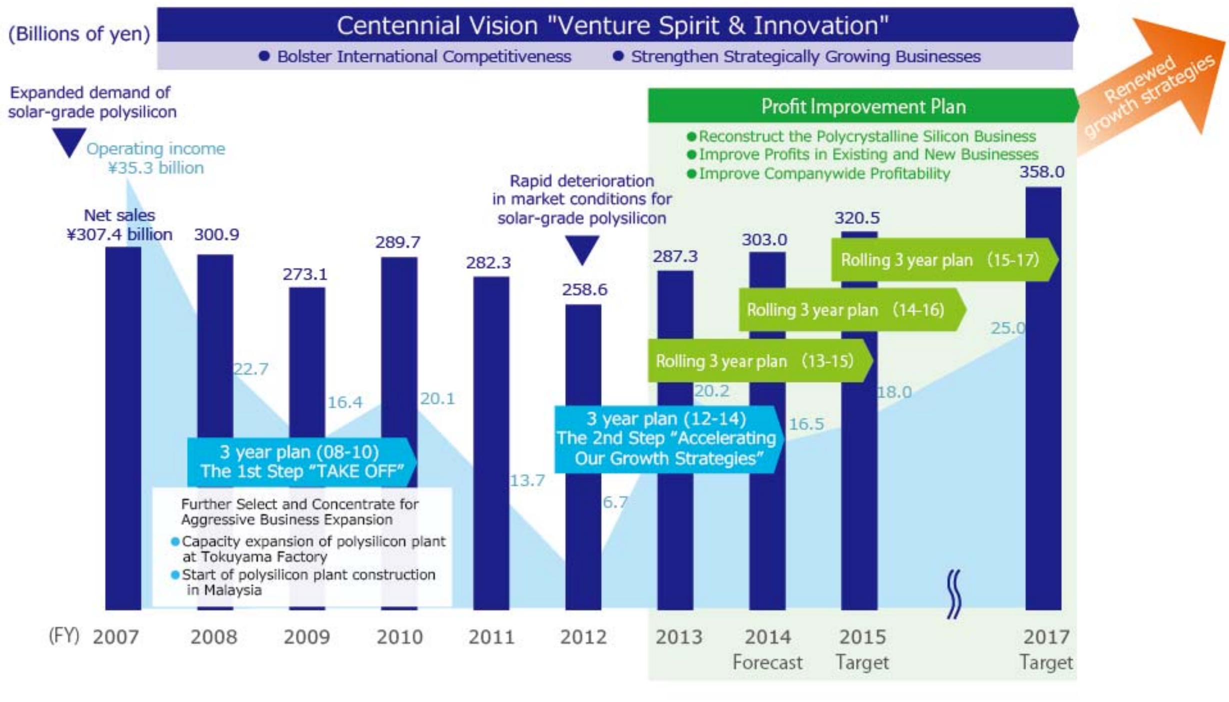
Medium-Term Management Plan

February 2008 marked Tokuyama's 90th anniversary. As we work toward our 100th anniversary, we have put in place a Centennial Vision that identifies the ideal scenario for the Group together with its basic strategies and support structure.

Against this backdrop and despite commencing the Three-Year Management Plan, which was positioned as the second step to achieve our Centennial Vision, in April 2012, the polycrystalline silicon business, a core earnings pillar, witnessed a rapid deterioration in market conditions. Under these circumstances, the Group recorded a consolidated net loss for fiscal 2012, the fiscal year ended March 31, 2013.

In order to break free from this negative spiral and rebuild a profitable platform, in February 2013 we decided to pull together measures aimed at improving profits, Profit Improvement Plan, including efforts to reconstruct the polycrystalline silicon business. The Profit Improvement Plan also incorporates a mechanism under which we closely reexamine initiatives each year on a constant three-year rolling cycle. The Company will promote its Profit Improvement Plan by implementing three rolling three-year plans that begin in fiscal 2013, 2014 and 2015 respectively. The rolling three-year plan focuses on implementing structural reforms, putting in place growth strategies, and returning Tokuyama to its true position and form.

We set numerical targets for fiscal 2017, the final year of the Profit Improvement Plan ending March 2018, including net sales of ¥358 billion and operating income of ¥25 billion. In the rolling three-year plan (fiscal 2014-2016) that begins in the current fiscal year, the Company is confident that it can achieve the numerical targets through to fiscal 2017 outlined in the Profit Improvement Plan by steadily promoting revised initiatives. Accordingly, these numerical targets remain unchanged.



Profit Improvement Plan

Tokuyama is carrying forward its endeavors to promote the three core pillars of its Profit Improvement Plan. Accordingly, the Company is taking ongoing steps to reconstruct the polycrystalline silicon business, improve profits in existing and new businesses, and improve Companywide profitability. Extending well beyond the scope of emergency countermeasures, we will push forward structural reforms that increase the productivity of not only business divisions, but also back-office and functional divisions as well as our affiliated companies, and work to improve our financial condition as a part of efforts to secure enduring profits.

(1) Reconstruct the Polycrystalline Silicon Business

In fiscal 2012, Tokuyama incurred an extraordinary loss in its polycrystalline silicon business, which exhibited a marked deterioration in profit due to the downturn in market conditions. This loss was largely due to the impairment of Tokuyama Factory's manufacturing facilities for polycrystalline silicon and concurrent fumed silica. Looking ahead, the Company will place a particular emphasis on securing an optimal production balance between polycrystalline silicon, fumed silica, and silane gas at Tokuyama Factory as a part of efforts to maximize profits.

Meanwhile, in an effort to strengthen and expand the polycrystalline silicon business, we constructed a new factory within the Samalaju Industrial Park located in the suburban area of Bintulu, Sarawak, Malaysia to serve as a second polycrystalline silicon manufacturing base. The strengths of the factory include: (1) the ability to purchase cost effective and stable amounts of energy required to power manufacturing activities through abundant and clean sources of hydroelectricity, and: (2) the ability to garner the cooperation of federal and provincial governments with respect to taxation incentives as well as licenses and public authority approvals. As a result, this factory boasts considerable global-scale competitive advantage in terms of cost. Looking ahead, we will focus energies toward further reducing costs by adopting such wide-ranging initiatives as the diversification of raw material procurement and the enhancement of productivity. Through these means, we will overcome and excel in what is expected to become an increasingly intense cost competitive market. Accordingly, we will endeavor to secure full production and sales at the Malaysia factory at the earliest possible opportunity.

(2) Improve Profits in Existing/New Businesses

We will secure 10 or more projects that are each capable of generating profits of between ¥0.5 and ¥1.0 billion by the fiscal year ending March 31, 2018 by creating new businesses and promoting the structural reform of existing businesses.

In the Chemicals segment, we launched a liquid hydrogen business in June 2013 while restructuring our soda ash and calcium chloride activities. In the Cement segment, we will take steps to place the waste gypsum board recycling business, which commenced operations last year, on a firm track, while further developing our cement business overseas. In the Life & Amenity segment, we will accelerate growth by placing the utmost emphasis on customer-oriented solution proposals and developing products that resolve customers' problems.

Focusing on research and development themes, we will look to commercialize materials for fuel cell use and aluminum nitride single crystals.

(3) Improve Companywide Profitability

Looking ahead, steps will be taken to cut back on recruiting activities as well as new hires across the Group as a whole, thereby downsizing staff. In addition to streamlining back-office and functional divisions at the headquarters level in line with the size of business, we will promote optimal staff redeployment both within and outside the Group. Moreover, we will endeavor to secure permanent reductions in expenses by continuing to review overhead and other expenses, improve productivity and promote structural reforms.

From an R&D perspective, we will strive to curtail expenses by ensuring the stringent selection of themes.

We will hold capital expenditure to less than 75% of depreciation expenses, while making thoroughgoing efforts to control inventories. Through these means, we will focus on improving cash flows.

Message from the President

“Keeping a Tight Rein and Ensuring Our Maximum Effort on Business Structural Reforms”

Business Results for Fiscal 2013

Kazuhisa Kogo
President

In fiscal 2013, the fiscal year ended March 31, 2014, economic conditions continued to exhibit a mild recovery. Buoyed by the increasingly visible flow-on effects of aggressive economic policy measures and ongoing efforts to ease monetary conditions implemented by the Abe administration in Japan, this positive trend was largely reflected in improvements in corporate-sector earnings and particularly a broad spectrum of automotive-related industries, which benefited from the weak yen.

Under these circumstances, Tokuyama has carried forward its endeavors to promote the three core pillars of its Profit Improvement Plan from last year. Accordingly, the Company took ongoing steps to reconstruct the polycrystalline silicon business, improve profits in existing and new businesses, and improve Companywide profitability.

In the fiscal year under review, each and every employee remained committed to reducing costs. As a part of efforts to improve Companywide profitability, Tokuyama called on the support of suppliers and subcontractors to bring forward cutbacks in expenses. Thanks to these collective efforts, the Company achieved a substantial increase in earnings.

Despite these positive trends, Tokuyama continues to confront a harsh operating environment. With the exception of cement, the downturn in domestic demand for its mainstay products remains unchecked. With regard to polycrystalline silicon, while semiconductor and solar cell applications are enjoying a modest recovery, conditions are expected to remain difficult due to the persistent glut in supply.

Progress under the Profit Improvement Plan

Under the Profit Improvement Plan formulated during the previous year, Tokuyama has adopted a three-year rolling mechanism that allows the Company to closely reexamine and modify measures each year. Under this framework, we are better positioned to flexibly and swiftly respond to changes in the business environment in the lead up to our centennial celebrations in the fiscal year ending March 31, 2018.

In the rolling three-year plan that begins in the current fiscal year, the Company is confident that it can achieve the numerical targets through to fiscal 2017 outlined in the Profit Improvement Plan by promoting the following initiatives. Accordingly, these numerical targets remain unchanged.

(1) Reconstruct the Polycrystalline Silicon Business

Market conditions for solar cell-grade polycrystalline silicon are showing a slight improvement. Against this backdrop, we will bring online the Tokuyama Malaysia second plant (PS-2) around the middle of the year and work toward quickly contributing to profits. The Tokuyama Malaysia first plant (PS-1), which is scheduled to manufacture semiconductor-grade polycrystalline silicon, is experiencing delays in startup operations. This is largely attributable to troubles associated with plant equipment and facilities as well as difficulties in implementing measures aimed at meeting high-quality specifications. By modifying machinery and equipment and dispatching highly qualified engineers from Japan, the entire Group will work in unison to ensure the successful start of operations.

During the period under review, the decision was made to transfer a portion of Tokuyama Factory’s annual production capacity of fumed silica, a co-product with polycrystalline silicon, to Tokuyama Chemicals (Zhejiang) Co., Ltd. in China. By steadfastly carrying out this transfer, the Group will bolster its business activities by cultivating new applications at locations that are in close proximity to customers.

(2) Improve Profits in Existing and New Businesses
In the Chemicals segment, operations at Yamaguchi Liquid Hydrogen Corporation, a company that manufactures liquid hydrogen, commenced in June last year. In the soda ash business, which continues to suffer under narrowing domestic demand, the Company established TOKUYAMA & CENTRAL SODA Inc., a joint-venture business with Central Glass Co., Ltd., to rebuild a business structure that is more in line with the market’s scale. Operations are scheduled to commence in October 2014 with the production of soda ash in Japan undertaken only by Tokuyama from June 2015. Through these means, the Tokuyama Group is looking to improve profitability in the soda ash business. Turning to propylene oxide, a major chlorine derivative, the export environment for our customers was robust. Under these circumstances, the Company has decided to increase production capacity by 10,000 tonnes.

In the Cement segment, operations commenced at Tokuyama Chiyoda Gypsum Co., Ltd., a business that engages in the recycling of waste gypsum boards, from last year. After acquiring an equity stake in Tokuyama Nouvelle Calédonie S.A. in June 2013, plans are in place to establish a shipping facility in October 2014. Thereafter, we will commence the export of clinker.

In the Group’s Life & Amenity segment, Excel Shanon Corporation, which is active in the manufacture and sale of plastic window sashes, returned to the black in the fiscal year under review thanks to successful business restructuring endeavors. In microporous films used in disposable diapers, efforts to expand our business operations were buoyed by the commencement of operations at a manufacturing facility in Tianjin last year complementing existing activities in Shanghai. Looking ahead, we will work to expand sales in China where demand growth is expected.

Each of these businesses will play an important part in changing the profit structure of the Company. By actively promoting growth strategies, I am confident that each business will contribute significantly to increasing the Group’s earnings.

(3) Improve Companywide Profitability
Each and every employee is working in unison to curtail overhead, purchasing and personnel expenses. In the fiscal year under review, we were successful in cutting back expenses by more than ¥7.0 billion compared with the previous fiscal year, contributing significantly to an increase in profits.

Moving forward, we will not only work to reduce expenses, but also enhance productivity while promoting structural reforms. Through these means, we will transform the Company to a lean and robust entity.

As stated above, we will quickly start up operations at Tokuyama Malaysia PS-1 and PS-2, swiftly rebuild the polycrystalline silicon business, and improve profits in existing and new businesses. One by one, we will build up a business portfolio whose components are capable of individually generating profits of between ¥0.5 and ¥1.0 billion. As we work toward our centennial celebrations in fiscal 2017, we will achieve operating income of ¥25 billion.

In Closing
In allocating profits to shareholders, Tokuyama maintains the basic policy of paying continuous and stable dividends while taking into consideration performance trends and both medium- and long-term business plans. Based on this basic policy, the Company paid a year-end dividend of ¥3 per share.

In the fiscal year under review, Tokuyama was able to secure an increase in profits by bringing forward the reduction of expenses. However, the Company is only halfway to carrying out its Profit Improvement Plan which includes rebuilding the polycrystalline silicon business. With this in mind, it is vital that we keep a tight rein on completing structural reforms. As we work toward achieving our goals, we kindly request the continued support of all stakeholders.

Kazuhisa Kogo
President
June 2014

【SPECIAL FEATURE】Tokuyama Malaysia

Tokuyama Corporation has established a wholly owned subsidiary, Tokuyama Malaysia Sdn. Bhd., and constructed plants for the production of polycrystalline silicon at the Samalaju Industrial Park, which is located northeast of central Bintulu, Sarawak, Malaysia. Trial operations are currently being conducted at the plants. (As of June 2014)

Fulfilling Responsibilities as the New President of Tokuyama Malaysia

The course ahead for Tokuyama Malaysia

I see my role as steering the plants to an early start-up. Moving forward, it is important that we quickly commence the production and sales of competitive products, thereby putting the polycrystalline silicon business in Malaysia on a firm footing.

However, operating conditions in the polycrystalline silicon business remain difficult and it is imperative that we carry out the following measures if we are to secure a steady stream of earnings.

1. Drawing on the technologies and experience of Tokuyama Factory, we must ensure high quality while adhering strictly to a policy of cost reduction.
2. We must work closely with Tokuyama Corporation in Japan as well as Tokuyama Chemicals (Zhejiang) Co., Ltd. in China in order to maximize the Group's synergies.
3. We must focus on local employee education and training while promoting the transfer of technology and minimizing the number of personnel dispatched from Japan.

Takeo Suzuki
Managing Executive Officer,
Tokuyama Corporation
President of Tokuyama Malaysia

Overcoming issues in the leadup to production

With the exception of certain facilities, construction at the first plant (PS-1) was completed in February 2013. However, difficulties with ancillary facilities and defects in new facilities adopted to enhance competitive advantage have combined with other factors to delay the startup of operations compared with original plans.

We have taken steps to clearly ascertain the causes of this delay and to implement appropriate measures. Accordingly, we are well on our way to overcoming each issue and are in the final stages of implementation while actually engaging in plant operations.

Overview of Tokuyama Malaysia

Product	Polycrystalline silicon
Production method	Siemens method
Annual production capacity	1st plant: 6,200 tonnes 2nd plant: 13,800 tonnes
Investment (Plan)	1st plant: Approx. ¥80 billion 2nd plant: Approx. ¥120 billion

Project History

Nov 2008	Announced the outlines of the plan
Aug 2009	Decided to construct PS-1 Established Tokuyama Malaysia Sdn. Bhd.
Feb 2011	Commenced construction of PS-1
May 2011	Decided to construct PS-2
Feb 2012	Commenced construction of PS-2
Feb 2013	Completed construction of PS-1 Commenced trial operations
Jan 2014	Completed construction of PS-2 Commenced trial operations

Taking into consideration our experiences with the PS-1 construction project, construction at the second plant (PS-2) was completed essentially in line with plans in January 2014. We are currently engaging in trial operations. All related parties are working tirelessly toward the start of production and sales around the middle of this year.

Future aspirations

Our goal is to become an independent force that contributes to the overall earnings of the Group as a second mainstay polycrystalline silicon production base. Moreover, we are looking to support the local community through economic and technological investments as well as the development of human resources.

In addition, we are setting our sights on genuinely protecting the global environment by manufacturing the principal solar power generation material used in the creation of renewable energy by utilizing hydroelectric power, which is renewable energy itself.

Research and Development

Research and Development Principles and Policies

Based on the principle that research and development should contribute to the advancement of society through chemistry, Tokuyama engages in R&D with the aim of 1) creating novel, best-in-class technologies through the refinement of its core technologies and their fusion with new technologies, and 2) creating proprietary products that incorporate market needs, centered on its technologies.

With regard to the former, Tokuyama proactively pursues open innovation through joint research with universities and partnerships with external research institutions and other organizations, based on extensive technologies it has accumulated over many years as a chemical maker in such areas as inorganic and organic materials synthesis, refinement, crystallization, electrochemistry, and high-polymer chemistry. With regard to the latter, Tokuyama continues to rapidly develop technologies and products that address social issues and needs, such as the creation of new materials for the clean energy and energy conservation fields.

In accordance with this R&D policy, Tokuyama concentrates the investment of its R&D resources on key fields that provide new value, materials and services in line with changes in society, such as the graying of society and ageing of infrastructure. On this basis, Tokuyama aims to accelerate the pace at which it creates innovative technologies and products that cannot be matched by other companies.

Research and Development Bases

Tokuyama's two-pronged R&D structure in eastern and western Japan comprises the Tsukuba Research Laboratory in Tsukuba City, Ibaraki Prefecture, and the Tokuyama Research Laboratory in Shunan City, Yamaguchi Prefecture.

Tsukuba Research Laboratory

The Tsukuba Research Laboratory is situated in the peaceful setting of Tsukuba Science City in Ibaraki Prefecture. This laboratory conducts research on fundamental and advanced technologies from a medium- to long-term perspective while promoting research in medical products and organic fine chemicals. Also, the laboratory goes beyond the development and provision of functional materials, performing applied R&D for systems and services.

Tsukuba Research Laboratory

Tokuyama Research Laboratory

Tokuyama Research Laboratory

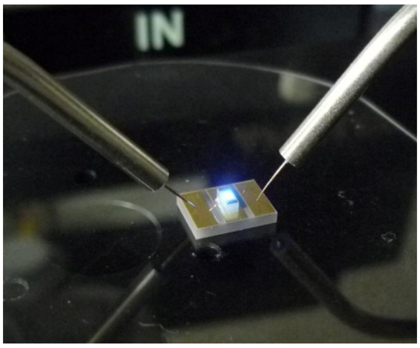
Located within the Tokuyama Factory site, the Tokuyama Research Laboratory is in charge of the Company's core R&D. Taking advantage of its close proximity to manufacturing facilities of the Tokuyama Factory, this laboratory incorporates requests from business divisions into its product development in a timely manner. Covering wide-ranging fields—from basic chemicals to cement—the laboratory undertakes basic and applied research as well as process development.

R&D Activities in Fiscal 2013

The Research & Development Division develops new products and refines the Company's technologies in line with its mission to create new products and businesses for the next stage of growth at Tokuyama. We have formed partnerships with many external research institutions in order to accelerate R&D and increase development efficiency. Of the numerous possible R&D themes, we have been focusing our development energies on technologies with strong commercial feasibility, such as materials for anion exchange membrane fuel cells, deep ultraviolet light emitting diodes (DUV-LEDs) based on single crystal aluminum nitride, and high-performance neutron detection scintillator materials.

In the development of materials for fuel cells, Tokuyama has concentrated on the development of materials for anion exchange membrane fuel cells, which do not require platinum-based catalysts. We aim to commercialize these materials based on feedback from our customers. In the development of deep ultraviolet light emitting diodes (DUV-LEDs), through joint research with external institutions, Tokuyama has succeeded in the development of light emitting diodes which are capable of generating wavelengths in the 260nm range and boast the world-leading output capacity in this range. Currently, mercury lamps are typically used as a source of deep ultraviolet light. The development of a DUV-LED would make much more compact equipment a distinct possibility, raising expectations for its deployment in a variety of fields, including the environment, healthcare and agriculture. Tokuyama began shipping samples in fiscal 2013 and aims to commercialize DUV-LEDs by fiscal 2016. In the development of high-performance neutron detection scintillator materials, Tokuyama has discovered that special fluoride single crystal containing lithium 6 (^{6}Li), which is highly sensitive to neutron, is a promising alternative to helium 3 (^{3}He) gas, which is becoming more difficult to obtain due to resource depletion, as a material for high-performance neutron detection scintillators. We are currently developing highly selective neutron beam sensors with high energy research bodies around the world with an eye toward commercialization by fiscal 2015. Moreover, we are also developing new application in partnership with research institutions across the world.

In fiscal 2013, the fiscal year ended March 31, 2014, the Tokuyama Group’s R&D spending totaled ¥8,709 million, including ¥3,053 million for basic research expenditures that are not allocable to a specific segment.



Aluminum nitride single-crystal substrates
(Deep ultraviolet light emitting diode)


Fluoride single crystal for scintillators

Below is a description of R&D projects underway and spending by segment.

Chemicals Segment
R&D is aggressively pursued in this segment to strengthen the competitiveness of existing product lineups and to develop new applications for these products. Focusing on the development of processes, research into catalysts and the development of environmentally conscious products, R&D strengthens our technological prowess and contributes to business. In polyvinyl chloride resin, we continued to reduce costs, improve production technologies, and develop various grades and upgrade them to meet the specific requirements of our customers. In crystalline-layered sodium silicate, progress was made on developing applications as a builder for commercial and industrial detergents and as a material for functional materials.

R&D expenditures totaled ¥535 million in the Chemicals segment.

Specialty Products Segment
In polycrystalline silicon, Tokuyama has advanced process development to increase the production efficiency of silicon at its existing plants in order to reduce costs amid a slump in the polycrystalline silicon market. Regarding silica, the Company developed new silica in response to customers’ requests. In aluminum nitride, efforts focused on the development of high heat dissipation sheets for use as heat dissipation materials for such devices as power semiconductors and power LEDs and aluminum nitride fillers targeting heat-dissipating adhesive materials.

R&D expenditures came to ¥1,551 million in the Specialty Products segment.

Cement Segment
Tokuyama has continued to aggressively pursue R&D in the use of various wastes as raw materials and fuels for the production of cement. On this front, the Company concentrated on the development of technologies for processing waste gypsum boards and coal ash. In waste gypsum boards, Tokuyama commenced recycling operations at Tokuyama Chiyoda Gypsum Co., Ltd. after establishing technology for producing gypsum dihydrate, which has an equivalent level of quality to raw material gypsum, from waste gypsum through crystallization. The Company also made progress in basic research for cement and concrete, contributing to production technologies and an improvement in quality. In addition, Tokuyama improved and developed various grades of cement-related products, such as cement-type soil solidifiers, grout materials, and self-leveling materials. Moreover, the Company focused on the development and

improvement of various products for repairing and reinforcing concrete structures, such as cross section repairing materials.

Meanwhile, Tokuyama has also been working to develop environmentally conscious plaster material and broaden its application. As a part of these endeavors, we developed and improved a new grade of printing media called Fresco Giclee for inkjet printers.

R&D expenditures were ¥680 million in the Cement segment.

Life & Amenity Segment

We made progress developing next-generation photochromic materials for eyeglass lenses. We also worked on the development of processes for active pharmaceutical ingredients. In the healthcare and clinical testing fields, marked progress was made on the integrated development of products including diagnostic reagents and laboratory information systems, clinical analyzers, and laboratory automation systems. In gas sensors, we advanced the development of various sensors and applied products in the alarm device and air quality fields. In the dental care field, continued steps were taken to develop products such as restorative composite resins and orthodontic adhesives. In ion exchange membranes, progress was made on the development of high-efficiency bipolar membrane electrodialysis technology, highly functional ion exchange membranes, and other products.

R&D expenditures totaled ¥2,888 million in the Life & Amenity segment.

CSR Initiatives

Tokuyama approaches and promotes its CSR activities in accordance with its CSR management basic philosophy and basic CSR policy of engaging in corporate management that is responsive to society. In this manner, we work diligently to establish and develop stronger relationships with stakeholders.

At the same time, we place particular emphasis on building an optimally balanced CSR platform. Recognizing that internal control systems provide the foundation for CSR, we make every effort to promote proper corporate governance and compliance, strengthen risk management, and pursue responsible care (RC), an important activity given our status as a chemical manufacturer.

In order to realize sustainable growth as the corporate group of choice for our customers, we have put in place the Tokuyama Group Code of Conduct as well as the Tokuyama Group's Five Conscience Clauses for each and every executive and employee. In order to ensure that all executives and employees are fully aware of both this Code of Conduct and Conscience Clauses, posters are displayed at the Group's business establishments and offices and a handbook distributed to all staff. Moreover, we have issued the Tokuyama Group Guidelines for Business Activities as a means to clarify the principles for actions taken by members of the Tokuyama Group and to establish parameters for a relationship with each stakeholder.

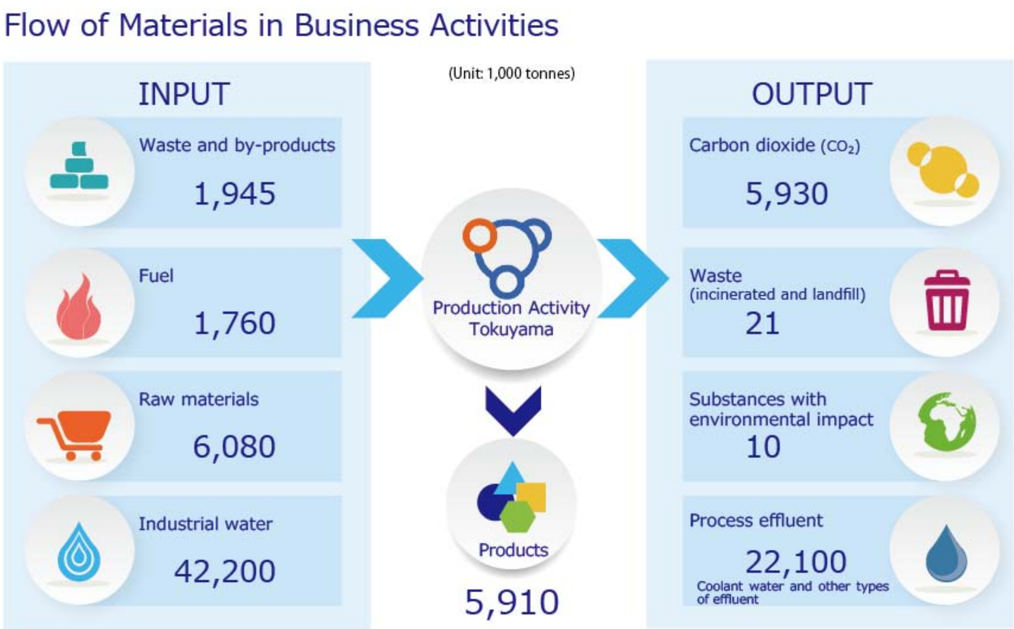
Involvement in the Environment

One of our most important corporate social responsibilities is to actively protect the global environment. Tokuyama practices environmental management with an emphasis on environmental perspectives in all of its business activities.

Tokuyama's Environmental Performance for Fiscal 2013

Tokuyama strives to obtain accurate data on the input and output of materials and substances in its business activities and reduce the environmental impact of these activities to meet its environmental targets.

In fiscal 2013, among targets for reducing environmental impact, Tokuyama did not meet its target for COD, owing to an increased burden at treatment facilities as a result of the higher operating rates of facilities subject to environmental regulations, nor its target for unit energy consumption, owing to a decline in the Tokuyama Factory's overall facility operating rate. However, Tokuyama achieved its targets for soot and dust, water pollutant reductions (nitrogen and phosphorus), PRTR, recycling, and zero emissions.



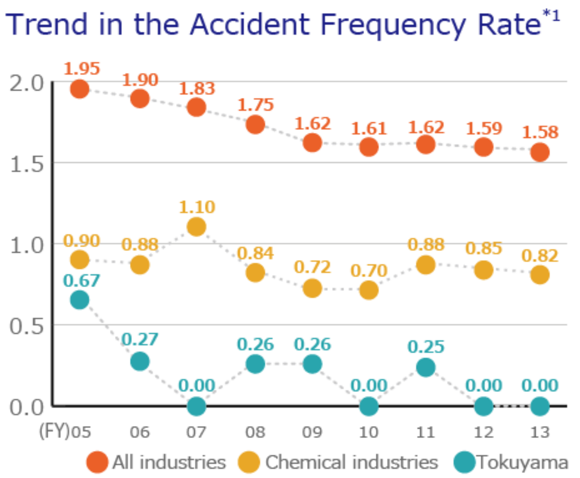
*Result for Fiscal 2013 (Non-consolidated)

Involvement in Society

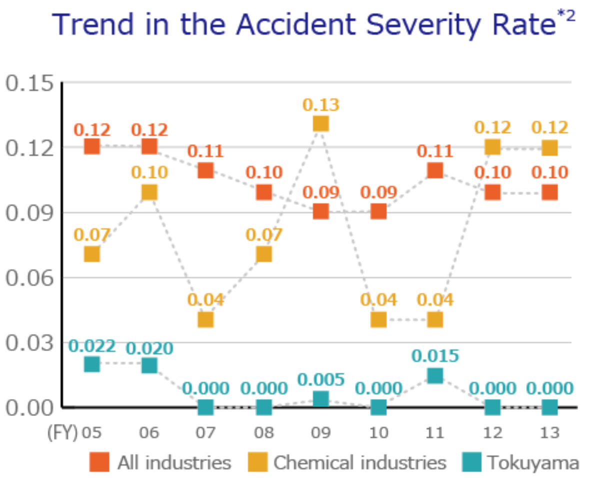
Tokuyama places great importance on communication with its stakeholders as a means of remaining a company needed by communities and society as a whole.

Process Safety, Disaster Prevention and Occupational Health and Safety

Tokuyama believes that safety is an essential part of business activities and that ensuring safety is the first step in achieving coexistence with society. In taking this stance on safety, Tokuyama thoroughly conducts process safety and disaster prevention activities as well as occupational health and safety efforts. By doing so, the Company endeavors to prevent accidents and disasters while striving to provide a favorable working environment.



*1 The accident frequency rate refers to the number of workers forced into absence through industrial accidents per one million cumulative working hours. This reflects the frequency at which industrial accidents occur.



*2 The accident severity rate refers to the number of lost work days per one thousand cumulative working hours. This reflects the magnitude of industrial accidents that have taken place.

For more information on Tokuyama's CSR initiatives, see the Company's *CSR Report and Corporate Profile* or the Company's website:
http://www.tokuyama.co.jp/eng/csr/index.html

Corporate Governance

Tokuyama believes that corporate governance is an important foundation for maximizing its corporate value. The Company also believes that it must conduct daily inspections and periodic reviews to ensure its corporate governance systems always function appropriately.

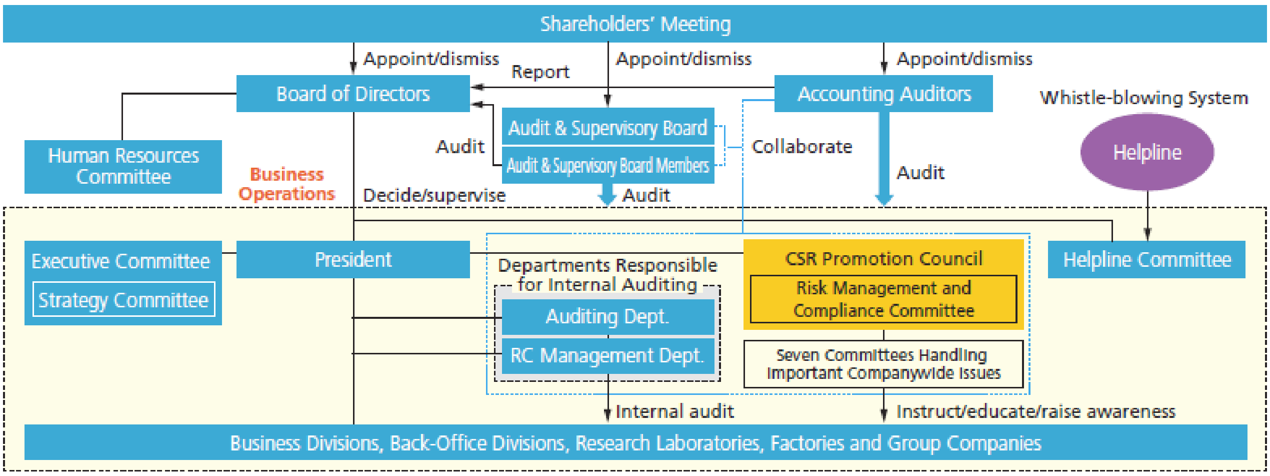
At the same time, Tokuyama is working consistently to strengthen its compliance with corporate ethics, laws and regulations as a means of enhancing its corporate value. Furthermore, we believe that we can gain the trust of stakeholders—including shareholders, customers, trading partners, employees and local communities—by accurately understanding our social responsibility and pursuing corporate management that is responsive to society.

Corporate Governance Structure

Tokuyama is a company with a board of corporate auditors (audit & supervisory board). Looking at the function of directors and in order to bolster the supervisory function of the Board of Directors, the Company appointed an external director to its Board of Directors in June 2011. From an audit perspective, two of the four Audit & Supervisory Board members are appointed from outside the Company. In this manner, every effort is being made to maintain sound management by ensuring the transparency and fairness of Tokuyama's corporate management. Meanwhile, the Company adopted an executive officer system in April 2011 for the purpose of separating the supervisory function from the business execution function.

The Company's present structure and systems ensure the function of swift decision-making as well as adequate supervisory and auditing functions as a company with an audit & supervisory board. Through these structure and systems, we believe that we can improve our corporate governance.

Below are main organizations and committees that compose the Company's corporate governance structure.



Board of Directors and Executive Officer System

As of June 25, 2014, Tokuyama's Board of Directors comprised eight members, including two external directors. The Company has appointed external directors in order to reinforce the supervisory function of the Board. The term of office of directors is set at one year in order to ensure clear accountability as well as the ability to swiftly address changes in the operating environment.

In addition to deliberating and making resolutions on important matters relating to business execution, the Board of Directors supervises business execution. During fiscal 2013, the Board of Directors met on 17 occasions. Tokuyama adopted an executive officer system in April 2011 with the aim of separating the supervisory and executive functions for business operations. As of June 25, 2014, the Company had 18 executive officers. Based on a resolution of the Board of Directors, executive officers are empowered with the specific delegated authority to carry out business operations.

Audit & Supervisory Board

The Company's Audit & Supervisory Board consists of four members, two of whom are appointed from outside the Company. The Audit & Supervisory Board holds meetings to report on, discuss and make resolutions on important matters. Audit & Supervisory Board members attend meetings of the Board of Directors and various other key meetings to listen carefully to reports on the status of business execution. Members of the Audit & Supervisory Board also gather information through other methods, thereby overseeing the execution of duties by directors. During fiscal 2013, the Audit & Supervisory Board met on 14 occasions.

Human Resources Committee

The Human Resources Committee consists of representative directors and external directors. This committee holds discussions on such matters as the remuneration for directors and executive officers and the selection of director and executive officer candidates before Board of Directors meetings take place.

Executive Committee

Members of the Executive Committee are selected by the president from among the Company's executive officers. In principle, the committee meets twice a month and serves as an advisory body to the president. In response to requests for advice from the president, the committee deliberates on such matters as management plans and important strategies in line with the basic policies determined by the Board of Directors and reports directly to the president. Taking this advice into consideration, the president then makes decisions regarding the execution of business operations.

Strategy Committee

Members of the Strategy Committee are selected by the president from among the Company's executive officers. The committee meets once a month and serves as an advisory body to the president. The committee discusses important projects including the launch and discontinuation of businesses and the undertaking of large-scale investments, deliberating on whether or not to green-light projects and the manner in which they should be implemented. Through these deliberations, the president determines the overall direction of policies concerning business execution.

CSR Promotion Council

Chaired by the president, the CSR Promotion Council is comprised of all executive officers working in Japan. The Council sets policies on CSR and lays out the goals of our CSR activities, facilitating the execution and attainment of all such activities and goals. The Council focuses on maintaining appropriate corporate governance and internal control, which together are the foundations of CSR. It also discusses important matters regarding internal control.

Risk Management and Compliance Committee

Tokuyama's Risk Management and Compliance Committee, chaired by the director supervising the Corporate Social Responsibility Division, operates under the CSR Promotion Council. The Committee takes the initiative in promoting risk management and compliance, which are central to effective internal control.

Helpline Committee

The Helpline Committee is responsible for the administration of Tokuyama's helpline (whistle-blowing) system, which has been established for the purpose of enabling the internal reporting of legally questionable actions and behavior by Group executives and employees.

Departments Responsible for Internal Auditing

Tokuyama has established the Auditing Department and the RC Management Department, which are responsible for internal auditing. These departments perform internal audits of individual divisions and departments of the Company as well as of Group companies.

Compensation Paid to Directors and Corporate Auditors

In fiscal 2013, a total of ¥209 million, ¥39 million and ¥44 million was paid to nine directors, three corporate auditors (Audit & Supervisory Board members) and four external officers, respectively.

The aforementioned compensation paid to directors includes retirement benefits totaling ¥48 million paid to one director, who resigned as of the close of the Company's 149th Ordinary General Meeting of Shareholders held on June 25, 2013.

In addition to the aforementioned compensation, an amount of ¥39 million was paid as salaries to four employees, who hold the concurrent position of director.

Anti-takeover Measures

Tokuyama recognizes the need to put in place appropriate countermeasures to protect both the interests of the Company's shareholders and the Company's corporate value from large-scale purchases of its shares (hereinafter referred to as a "Large-Scale Purchase") by another party (hereinafter referred to as a "Large-Scale Purchaser") in cases where the Large-Scale Purchase is judged to significantly damage the common interests of Tokuyama's shareholders and Tokuyama's corporate value.

Accordingly, the Company established a set of large-scale purchase rules to ensure that these interests and the Company's corporate value are preserved. Under these rules, each Large-Scale Purchaser is required to provide an adequate amount of information to Tokuyama's Board of Directors prior to undertaking a Large-Scale Purchase. Moreover, an appropriate amount of time must be set aside to allow the Company's Board of Directors to assess and consider the terms and conditions of the Large-Scale Purchase and to put forward its opinion as well as alternative proposals.

In the event that a Large-Scale Purchaser fails to comply with the large-scale purchase rules or when a Large-Scale Purchaser complies with the large-scale purchase rules, but is deemed to significantly damage the common interests of the Company's shareholders and the Company's corporate value, Tokuyama may undertake appropriate countermeasures to protect the common interests of the Company's shareholders and the Company's corporate value. In specific terms, Tokuyama shall take such countermeasures as issuing new shares and/or issuing subscription rights to shares under the authority of the Company's Board of Directors under the provisions prescribed under Japan's Companies Act, other relevant legislation and the Company's Articles of Incorporation. The decision regarding which particular countermeasure shall be applied shall be determined according to the option deemed appropriate at the time.

Specific details outlined above were collated into the Company's "Policy regarding Large-scale Purchases of Tokuyama Corporation's Company Shares (Anti-Takeover Measures)." This policy was approved by the Company's shareholders at the 148th Ordinary General Meeting of Shareholders held on June 26, 2012.

Details of the Policy have been posted on the Company's website:
URL: http://www.tokuyama.co.jp/eng/company/governance/anti_takeover.html

Business and Other Risks

Set out below are those matters relevant to the Tokuyama Group's business status and financial conditions that could potentially have a significant influence on investor decisions. Please note that the matters listed do not cover all risks relevant to the Tokuyama Group, and it is thought that there are risks other than those matters listed that could potentially influence investor decisions.

The matters listed are those regarded as relevant as at June 26, 2014.

(1) Procurement/Market Conditions of Raw Materials and Fuels, etc.

The Tokuyama Group procures the raw materials and fuels essential to the carrying out of its production operations from all over the world. Moreover, for some of its products, the Group uses special raw materials and materials that have limited numbers of suppliers.

With regard to the procurement of raw materials and fuels, the Company engages in long-term, stable, low-cost procurement by combining, for example, medium- to long-term contracts and purchases on spot markets. However, in the event that a soaring market or resource nationalism give rise to the tight supply of raw materials and fuels or to delivery delays, or were the Group's production operations to be seriously compromised or manufacturing costs to rise drastically, there is the possibility that any such situation may greatly affect the Group's business performance and financial condition.

(2) Dependence on Electronic Materials Business

The operating income from the Tokuyama Group's Electronic Materials Business has an important bearing on the operating income of the Group as a whole. In the event that pronounced peaks and troughs in the information and electronics industry markets lead in turn to a deterioration in the Electronics Materials Business earnings, there is the possibility that any such situation may greatly affect the Group's business performance and financial condition.

(3) Environmental Regulations, etc.

The Tokuyama Group operates a range of businesses that use natural resources and energy in large quantities. For that reason, the Group enhances both capital expenditures designed to reduce its environmental impact and its resource recycling systems, and accepts waste as alternative fuel and raw materials. At the same time, the Group also works to reduce its environmental impact by, for example, promoting Zero Emission initiatives and improving its unit energy consumption centered on energy conservation. However, in the event of a situation arising that requires the making of more stringent environment-related regulations or demands a new social responsibility for environmental protection, there is the possibility that any such situation may greatly affect the Group's business performance and financial condition.

(4) Contractual Disputes/Litigation

Centered on its Legal & Credit Management Department and Intellectual Property Department, the Tokuyama Group takes day-to-day precautions against patent or contract disputes and litigation. However, with regard to both its domestic and overseas businesses, there exists the possibility of the Company becoming the subject of a legal dispute or litigation. Moreover, in the event of a major lawsuit being filed, there is the possibility that such a situation may greatly affect the Group's business performance and financial condition.

(5) Effect of Disasters/Accidents

To minimize the adverse effects from any disruption to its production operations, the Tokuyama Group performs day-to-day and periodic facility maintenance. Such maintenance, however, is unable to completely prevent or reduce the adverse effects on production facilities from disasters or accidents (including earthquakes and other natural disasters). Moreover, the Group also has products for which alternative production arrangements could not be immediately made. Should events lead to a significant decrease in production volume or, in the worst case, the Company be forced to discontinue production for a protracted period, there is the possibility that any such situation may greatly affect the

Group’s business performance and financial condition.

(6) Product Liability

The Tokuyama Group makes all-out efforts in quality control so that it is able to ensure proper quality in accordance with product characteristics. However, in the event that, due to unexpected circumstances, a quality problem leads to a free product recall or a product safety-related product liability (PL) issue arises, there is the possibility that any such situation may greatly affect the Group’s business performance and financial condition.

(7) Market Economic Trends/Conditions

The supply of and demand for Tokuyama Group products are subject to the trends of their respective markets, which are primarily the chemicals industry, the construction and construction materials industries as well as the information and electronics industries. Sold mainly in Japan, the United States, Asia, and Europe, the economic conditions in each country exert a great influence on sales of the Group’s products. The Group targets production improvements and higher quality and also promotes cost reductions, but a fall in demand in these markets and industries or an economic slowdown in a sales area may greatly affect the Group’s business performance and financial condition.

(8) Price Competitiveness

In each of the businesses that the Tokuyama Group is developing, competitors that supply similar products to those of the Group are present throughout the world. Maintaining a competitive advantage in terms of quality and price, the Group supplies products to its customers. In the event of low-cost imports flooding a market or a price war breaking out between rival companies due to unforeseen circumstances, and were that situation to continue for a prolonged period of time and cause a lowering of the Group’s profitability, there is the possibility that any such situation may greatly affect the Group’s business performance and financial condition.

(9) Effect of Plastic Window Sash Issue

Following the incident concerning “Plastic Window Sashes (fireproof and fire-resistant grade) with Different Specifications from Individually Authorized Fireproof and Fire-resistant Specifications,” which was made public on January 8, 2009, the Company recorded cost estimates for repairs and improvements as allowance for loss on compensation for building materials. As the provision of detailed advice on repair methods to customers is ongoing, there is the possibility that the repair and improvements costs could increase or decrease.

As the Company is at the present time unable to rationally estimate the compensation payments related to this incident, in the event of a large lawsuit being filed without the costs having been recorded, there is the possibility that such a situation may greatly affect the Group’s business performance and financial condition.

(10) Overseas Business Development

The new polycrystalline silicon factory that the Tokuyama Group has built in the Malaysian state of Sarawak is comparatively larger in scale than the Group’s existing overseas bases. In the event of a discrepancy arising in the plant’s stable operation or sales strategy, of unexpected changes being made to systems, laws and regulations, or of labor-management problems arising, there is the possibility that any such situation may greatly affect the Group’s business performance and financial condition.

(11) Financing Arrangements

The Tokuyama Group arranges financing through loans or the issue of unsecured bonds, but the cost of financing arrangements could increase due to changes in the market environment, such as in interest rates. There is thus the possibility that such a situation may greatly affect the Group’s business performance and financial condition. Moreover, in arranging financing through a new loan from a financial institution or the issue of unsecured bonds, there is no guarantee of the Company being able to perform under the same conditions. In the event of the Group being unable to raise funds in a timely manner by means of loans from financial institutions or by issuing unsecured bonds, there is the possibility that any such situation may greatly affect the Group’s financing arrangements.

Corporate Officers

(As of June 25, 2014)

Directors

Kazuhisa Kogo
Representative Director,
President and Executive Officer

Tatsuo Segawa
Representative Director,
Senior Managing Executive Officer

Yukio Muranaga
Director,
Managing Executive Officer

Katsuyuki Masuno
Director,
Managing Executive Officer

Hisashi Yasui
Director,
Managing Executive Officer

Takeshi Nakahara
Director,
Managing Executive Officer

Akio Fujiwara
External Director

Takeru Ishibashi
External Director

Audit & Supervisory Board

Masaki Akutagawa
Standing Auditor

Youji Miyamoto
Audit & Supervisory Board Member

Ryuji Hori
External Auditor

Shin Kato
External Auditor

Executive Officers

President and Executive Officer	Kazuhisa Kogo	
Senior Managing Executive Officer	Tatsuo Segawa	Assistant to the President
Managing Executive Officer	Yukio Muranaga	General Manager of T&M Business Promotion Div.
	Katsuyuki Masuno	General Manager of MOT Div.
	Hidenori Okamoto	Deputy General Manager of MOT Div., General Manager of Technology Management Center
	Hisashi Yasui	General Manager of Chemicals Business Div.
	Hideyoshi Koya	General Manager of Cement Business Div.
	Takeshi Nakahara	General Manager of Corporate Planning Div.
	Takeo Suzuki	President of Tokuyama Malaysia Sdn. Bhd.
Executive Officer	Hideki Adachi	General Manager of Tokuyama Factory
	Akihiro Hamada	General Manager of Corporate Administration Div., Management Support Center
	Masao Fukuoka	General Manager of General & Personnel Affairs Div.
	Hiroshi Terao	General Manager of Manufacturing Technology Div.
	Fuminori Sekiguchi	General Manager of Osaka Branch
	Hiroya Yamashita	General Manager of Research & Development Div., Tsukuba Research Lab.
	Ryo Sugiyama	General Manager of Life & Amenity Business Div.
	Toshihiko Annaka	General Manager of Corporate Social Responsibility Div., Legal & Credit Management Dept.
	Hiroshi Yokota	General Manager of Specialty Products Business Div.,

Financial Section

Income Analysis

In the fiscal year ended March 31, 2014 (April 1, 2013 to March 31, 2014), despite the instability of emerging nations' economies, the global economy was on track for a gradual recovery. In addition to the recovery in private demand on the back of the firm employment situation in the U.S., this was largely attributable to signs of recovery in the European economy.

On the other hand, with regard to the Japanese economy, production and employment recovered on the back of correction of the yen appreciation and higher stock prices. Under such situations, the economy was headed for a gradual recovery led by robust domestic demand which was mainly personal consumption.

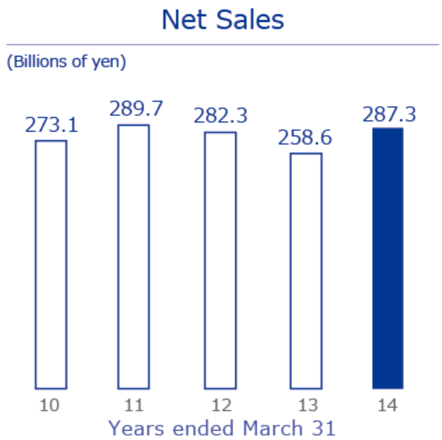
Under these circumstances, the Tokuyama Group reported a substantial increase in both net sales and operating income compared with the previous fiscal year. This was attributable to polycrystalline silicon business reconstruction, an improvement in profits in existing and new businesses, and Companywide profitability improvement.

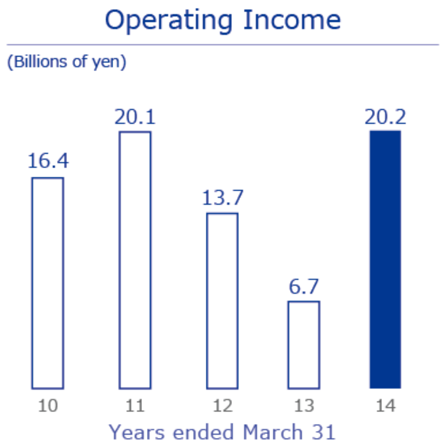
Despite such negative factors as decreased sales volumes of polycrystalline silicon, consolidated net sales for the fiscal year under review increased 11.1%, or ¥28,698 million compared with the previous fiscal year, to ¥287,330 million (US$2,789 million). In addition to increased sales volumes of cement and its related products, this was largely attributable to revisions to the selling price of petrochemicals and the increase in sales volume after overcoming difficulties at the Company's vinyl chloride monomer (VCM) plant.

Despite decreased sales volumes of polycrystalline silicon, Companywide thoroughgoing cutbacks in costs and other factors, cost of sales increased 8.1%, or ¥15,495 million compared with the previous fiscal year, to ¥206,989 million (US$2,009 million), due chiefly to increased sales volumes of such products as VCM and cement as well as domestic naphtha price hikes.

Despite such negative factors as higher distribution costs as a result of increased sales volumes of cement and its related products, SG&A expenses decreased 0.5%, or ¥296 million compared with the previous fiscal year, to ¥60,069 million (US$583 million), due mainly to Companywide thoroughgoing cutbacks in costs.

Operating income increased 199.3%, or ¥13,498 million compared with the previous fiscal year, to ¥20,270 million (US$196 million), due chiefly to Companywide thoroughgoing cutbacks in costs. The operating margin (the ratio of operating income to net sales) was 7.1%, an increase of 4.4 percentage points compared with the figure of 2.6% recorded in the previous fiscal year.





Non-operating income/expenses deteriorated by ¥1,765 million compared with the previous fiscal year, due chiefly to borrowing costs which arose from the procurement of funds through a subordinated loan. As a result of this, ordinary income improved by ¥11,732 million compared with the previous fiscal year, to ¥14,965 million (US$145 million) (up 363.0% year on year).

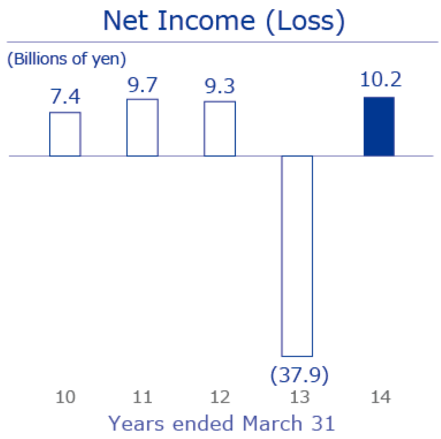
Extraordinary income/losses improved by ¥29,272 million compared with the previous fiscal year. This was largely attributable to the fact that in the fiscal year under review the Company posted neither impairment loss on polycrystalline silicon and concurrent fumed silica manufacturing facilities nor loss from inventory revaluation, both of which were posted in the previous fiscal year.

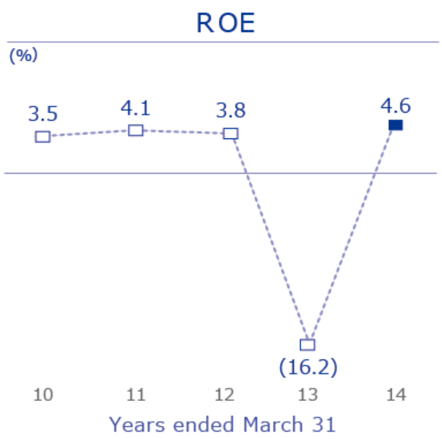
As a result of the above, income/loss before income taxes and minority interests improved by ¥41,005 million compared with the previous fiscal year, to income of ¥12,939 million (US$125 million).

Income/loss before minority interests improved by ¥48,074 million from the previous fiscal year, to income of ¥10,493 million (US$101 million), mainly because the Company did not post a reversal of deferred tax assets in the fiscal year under review, which was posted in the previous fiscal year. After deducting minority interests, the Company recorded net income of ¥10,218 million (US$99 million). Net income/loss improved by ¥48,135 million from the previous fiscal year.

Net income per share was ¥29.37 (US$0.285), up from net loss per share of ¥108.98 in the previous fiscal year. Dividends per share were ¥6.00 (US$0.058).

Return on equity (ROE) and return on assets (ROA) were 4.6% and 1.8%, respectively, compared with -16.2% and -7.3% in the previous fiscal year.





Segment Information

The Tokuyama Group is composed of the parent company, Tokuyama Corporation ("the Company"), 54 subsidiaries and 33 affiliated companies. The Group's operations are divided into the four business segments of Chemicals, Specialty Products, Cement, and Life & Amenity. For accounting purposes, 53 of the Company's subsidiaries are consolidated, while nine affiliates are accounted for using the equity method.

Chemicals

The Chemicals segment includes the operations of the Company and three consolidated subsidiaries.

With regard to vinyl chloride monomer (VCM), sales increased compared with the previous fiscal year. In addition to the fact that difficulties at the Company's VCM plant, which occurred in the previous fiscal year, were overcome, this was attributable to a rise in export prices resulting from the weaker yen.

With regard to caustic soda, the facility utilization rate of the electrolysis plant rose, as the above-mentioned difficulties at the VCM plant were overcome. Due to this factor, domestic sales volume recovered.

With regard to polyvinyl chloride (PVC), we worked to revise selling prices to absorb a rise in the price of domestic naphtha.

As a result of the above, segment net sales increased 11.8% compared with the previous fiscal year, to ¥86,457 million (US$839 million) and operating income increased 424.1% to ¥2,235 million (US$21 million). The segment reported higher earnings on higher sales.

Specialty Products
The Specialty Products segment includes the operations of the Company, five consolidated subsidiaries and one equity-method affiliate.

With regard to semiconductor-grade polycrystalline silicon, although market conditions were about level with those of the previous fiscal year, sales decreased due to a price slump in the supply chain. With regard to solar cell-grade polycrystalline silicon, the market remained sluggish due to excess supply. Against this backdrop, we adopted a sales strategy that focused on profits and as a result, sales volume was low. Despite the above, earnings in the polycrystalline silicon business increased compared with the previous fiscal year, due largely to a decrease in depreciation expenses after the impairment of manufacturing facilities in the previous fiscal year.

With regard to fumed silica and high-purity chemicals for electronics manufacturing, we revised selling prices in order to absorb the rise of raw material and fuel prices. In addition to this, due to a rise in export prices arising from the weaker yen, sales of these products increased compared with the previous fiscal year.

As a result of the above, segment net sales decreased 0.7% compared with the previous fiscal year, to ¥52,483 million (US$509 million), while operating income was ¥6,090 million (US$59 million). The segment reported higher earnings on lower sales.

Cement
The Cement segment comprises the operations of the Company, 17 consolidated subsidiaries and three equity-method affiliates.

With regard to cement, sales volume increased due to the recovery in demand in Japan. In addition, the Company made Tokuyama Nouvelle Calédonie S.A. a subsidiary in June 2013. Due to these factors, sales increased compared with the previous fiscal year.

In the recycling and environment-related business, the Company accepted a larger volume of waste as a result of its higher cement production.

As a result of the above, segment net sales increased 12.9% compared with the previous fiscal year, to ¥78,981 million (US$766 million) and operating income increased 25.3% to ¥6,682 million (US$64 million). The segment reported higher earnings on higher sales.

Life & Amenity
The Life & Amenity segment includes the operations of the Company, 15 consolidated subsidiaries and two equity-method affiliates.

Sales volumes of plastic lens-related materials increased owing to the recovery from damage to the supply chain caused by the flooding in Thailand, which occurred in 2011.

With regard to polyolefin film, we revised selling prices to absorb price increases in raw materials and worked to expand sales. Due to these efforts, sales increased compared with the previous fiscal year.

With regard to dental materials and equipment, sales increased due largely to sales expansion of products shipped to overseas markets and a rise in export prices arising from the weaker yen.

With regard to plastic window sashes, sales volume increased due to business reconstruction and sales expansion on the back of the recovery in housing starts.

As a result of the above, segment net sales increased 11.9% compared with the previous fiscal year, to ¥57,057 million (US$553 million) and operating income increased 65.8% to ¥4,863 million (US$47 million). The segment reported higher earnings on higher sales.

Financial Position and Liquidity

As of March 31, 2014, total assets amounted to ¥576,315 million (US$5,595 million), an increase of ¥58,064 million from the figure of ¥518,251 million as of the previous fiscal year-end.

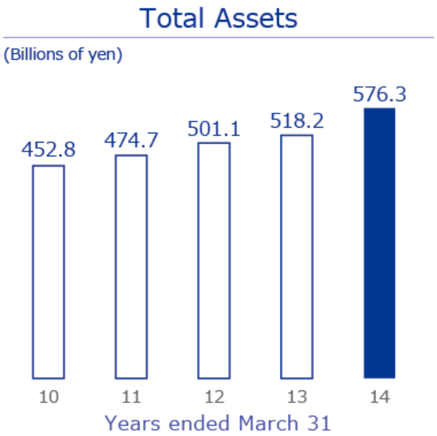
Current assets increased 3.0% compared with the previous fiscal year-end to ¥191,623 million (US$1,860 million). This was due primarily to an increase in securities. Current liabilities fell 17.8% to ¥99,297 million (US$964 million). This mainly reflected a decrease in current portion of long-term loans payable. As a result, the current ratio was up to 1.93 times, from 1.54 times as of the previous fiscal year-end.

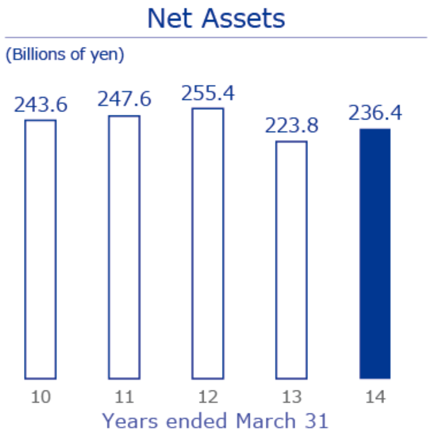
Property, plant and equipment increased 17.8% in comparison with the previous fiscal year-end to ¥323,100 million (US$3,136 million). This was due chiefly to an increase in construction in progress.

Intangible assets and investments and other assets rose 6.6% over the previous fiscal year-end to ¥61,591 million (US$597 million). This was primarily due to an increase in goodwill.

As of March 31, 2014, total liabilities amounted to ¥339,862 million (US$3,299 million), an increase of 15.5% compared with the previous fiscal year-end figure of ¥294,380 million. The main contributory factor was an increase in long-term loans payable. Interest-bearing debt increased 28.3% from ¥187,706 million as of the previous fiscal year-end to ¥240,767 million (US$2,337 million).

Minority interests increased 7.4% from ¥6,316 million as of the previous fiscal year-end to ¥6,785 million (US$65 million). Net assets increased 5.6% compared with the previous fiscal year-end, from ¥223,871 million to ¥236,453 million (US$2,295 million). This was due chiefly to a decrease in retained earnings. The ratio of shareholders' equity to total assets was 39.9%, down from 42.0% as of the previous fiscal year-end. The amount of net assets per share was ¥660.18 (US$6.410), up from ¥625.29 as of the previous fiscal year-end.





Capital Expenditures

Capital expenditures totaled ¥61,503 million (US$597 million), a decrease of 37.8% compared with the previous fiscal year's figure of ¥98,908 million.

Cash Flows

Net cash provided by operating activities totaled ¥34,105 million (US$331 million). Principal items included income before income taxes and minority interests of ¥12,939 million (US$125 million), up from loss of ¥28,065 million in the previous fiscal year, and depreciation and amortization of ¥16,642 million (US$161 million), down from ¥23,099 million in the previous fiscal year.

Net cash used in investing activities totaled ¥64,402 million (US$625 million). Major contributory factors were purchase of property, plant and equipment, from ¥33,970 million in the previous fiscal year to ¥29,907 million (US$290 million), and net expenditure for money held in trust of ¥30,807 million (US$299 million) (¥24,980 million in the previous fiscal year).

Net cash provided by financing activities came to ¥45,939 million (US$446 million). This was primarily attributable to proceeds from long-term loans payable of ¥68,829 million (US$668 million), up from ¥50,729 million in the previous fiscal year, and repayments of long-term loans payable of ¥22,623 million (US$219 million) (¥12,530 million in the previous fiscal year).

As a result of the above, cash and cash equivalents increased by ¥17,542 million (US$170 million) compared with the previous fiscal year-end, to ¥69,973 million (US$679 million).

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Assets :			
Current assets :			
Cash and deposits (Note 5)	27,605	44,897	268,015
Notes and accounts receivable - trade (Note 5)	67,495	65,371	655,292
Securities (Note 5, Note 15)	43,050	8,310	417,961
Merchandise and finished goods	14,131	20,275	137,195
Work in process	9,896	13,277	96,086
Raw materials and supplies	17,878	17,110	173,577
Deferred tax assets (Note 6)	1,068	547	10,376
Other	10,635	16,528	103,253
Allowance for doubtful accounts	(138)	(205)	(1,341)
Total current assets	191,623	186,114	1,860,417
Noncurrent assets :			
Property, plant and equipment :			
Buildings and structures (Note 5)	102,709	100,129	997,180
Accumulated depreciation	(71,685)	(68,452)	(695,974)
Buildings and structures, net	31,024	31,676	301,206
Machinery, equipment and vehicles (Note 5)	441,874	451,758	4,290,043
Accumulated depreciation	(392,062)	(401,103)	(3,806,428)
Machinery, equipment and vehicles, net	49,812	50,655	483,615
Tools, furniture and fixtures	23,002	23,044	223,322
Accumulated depreciation	(21,360)	(21,086)	(207,379)
Tools, furniture and fixtures, net	1,642	1,958	15,943
Land (Note 5)	32,667	32,895	317,163
Lease assets	2,156	1,482	20,937
Accumulated depreciation	(895)	(685)	(8,690)
Lease assets, net	1,261	796	12,246
Construction in progress	206,692	156,388	2,006,724
Total property, plant and equipment	323,100	274,370	3,136,899
Intangible assets			
Goodwill	3,608	175	35,031
Lease assets	29	22	289
Other	6,493	7,757	63,039
Total intangible assets	10,131	7,955	98,360
Investments and other assets			
Investment securities (Note 4 , Note 5)	33,334	31,476	323,632
Long-term loans receivable	3,473	4,017	33,723
Deferred tax assets (Note 6)	839	965	8,145
Net defined benefit asset (Note 7)	7,804	-	75,768
Other (Note 7)	6,264	13,710	60,821
Allowance for investment loss	(21)	(21)	(203)
Allowance for doubtful accounts	(233)	(337)	(2,268)
Total investments and other assets	51,460	49,811	499,619
Total noncurrent assets	384,692	332,137	3,734,879
Total assets	576,315	518,251	5,595,297

See notes to consolidated financial statements

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Liabilities :			
Current liabilities :			
Notes and accounts payable - trade	40,089	38,152	389,216
Short-term loans payable (Note 5)	12,347	8,912	119,883
Commercial papers (Note 5)	4,000	4,000	38,834
Current portion of long-term loans payable (Note 5)	8,811	22,144	85,547
Lease obligations (Note 5)	376	338	3,653
Income taxes payable (Note 6)	1,865	948	18,113
Deferred tax liabilities (Note 6)	1	1,377	12
Provision for bonuses	2,056	1,949	19,965
Provision for repairs	1,429	1,755	13,877
Provision for product warranties	132	94	1,283
Provision for restructuring	13	29	132
Other	28,173	35,923	273,529
Total current liabilities	99,297	115,626	964,050
Noncurrent liabilities :			
Bonds payable (Note 5)	50,000	50,000	485,436
Long-term loans payable (Note 5)	164,278	101,796	1,594,938
Lease obligations (Note 5)	953	514	9,258
Deferred tax liabilities (Note 6)	7,338	5,993	71,246
Provision for retirement benefits (Note 7)	-	969	-
Provision for directors' retirement benefits	207	214	2,011
Provision for repairs	2,747	2,687	26,676
Allowance for loss on compensation for building materials	842	1,276	8,183
Provision for environmental measures	131	156	1,281
Net defined benefit liability (Note 7)	1,112	-	10,804
Asset retirement obligations	5	5	51
Other	12,946	15,138	125,695
Total noncurrent liabilities	240,565	178,753	2,335,583
Total liabilities	339,862	294,380	3,299,634
Contingent liabilities (Note 17)			
Net assets :			
Shareholders' equity (Note 12) :			
Capital stock			
Authorized : 700,000,000 shares			
Issued : 349,671,876 shares	53,458	53,458	519,019
Capital surplus	57,670	57,670	559,904
Retained earnings	107,155	99,058	1,040,346
Treasury stock			
2013 : 1,742,749 shares			
2014 : 1,782,644 shares	(1,428)	(1,414)	(13,869)
Total shareholders' equity	216,856	208,773	2,105,401
Accumulated other comprehensive income :			
Valuation difference on available-for-sale securities	8,369	7,566	81,254
Deferred gains or losses on hedges	749	2,238	7,277
Foreign currency translation adjustment	2,710	(1,023)	26,315
Remeasurements of defined benefit plans	982	-	9,536
Total accumulated other comprehensive income	12,811	8,781	124,382
Minority interests	6,785	6,316	65,878
Total net assets	236,453	223,871	2,295,663
Total liabilities and net assets	576,315	518,251	5,595,297

See notes to consolidated financial statements

Consolidated Statements of Income

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Net sales	287,330	258,632	2,789,614
Cost of sales (Note 10)	206,989	191,494	2,009,609
Gross profit	80,340	67,137	780,004
Selling, general and administrative expenses (Note 9) :			
Selling expenses	35,275	34,131	342,478
General and administrative expenses (Note 10)	24,794	26,234	240,723
Total selling, general and administrative expenses	60,069	60,365	583,201
Operating income	20,270	6,772	196,802
Non-operating income :			
Interest income	45	73	444
Dividends income	552	496	5,365
Equity in earnings of affiliates	519	433	5,044
Foreign exchange gains	432	459	4,200
Technical support fee	373	135	3,622
Other	1,143	1,447	11,100
Total non-operating income	3,067	3,044	29,778
Non-operating expenses :			
Interest expenses	2,755	2,364	26,751
Cost of idle operations	2,309	2,778	22,426
Borrowing cost	1,916	-	18,607
Other	1,390	1,442	13,503
Total non-operating expenses	8,372	6,584	81,289
Ordinary income	14,965	3,232	145,291
Extraordinary income :			
Gain on sales of noncurrent assets	212	692	2,063
Gain on sales of investment securities	379	156	3,688
State subsidy	3	184	34
Other	96	-	939
Total extraordinary income	692	1,033	6,725
Extraordinary loss :			
Loss on sales of noncurrent assets	84	485	818
Impairment loss (Note 11)	374	27,260	3,635
Loss on disaster	120	9	1,166
Loss on reduction of noncurrent assets	1	161	17
Loss on disposal of noncurrent assets	1,671	564	16,229
Loss on sales of investment securities	1	-	12
Loss on sales of shares of subsidiaries and associates	78	-	761
Cost of compensation for building materials	336	32	3,264
Other	49	3,816	480
Total extraordinary losses	2,717	32,330	26,386
Income (loss) before income taxes and minority interests	12,939	(28,065)	125,630
Income taxes (Note 6) :			
Current	2,870	1,850	27,865
Deferred	(423)	7,665	(4,111)
Total income taxes	2,446	9,515	23,753
Income (loss) before minority interests	10,493	(37,580)	101,876
Minority interests in income	274	336	2,667
Net income (loss)	10,218	(37,916)	99,208

	Yen		U.S. dollars
	2014	2013	**2014**
Per share amounts :			
Net income (loss)	29.37	(108.98)	0.285
Cash dividends	6.00	3.00	0.058

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Income (loss) before minority interests	10,493	(37,580)	101,876
Other comprehensive income			
Valuation difference on available-for-sale securities	816	3,606	7,931
Deferred gains or losses on hedges	(1,488)	1,727	(14,455)
Foreign currency translation adjustment	3,540	1,731	34,375
Share of other comprehensive income of entities accounted for using equity	392	271	3,811
Total other comprehensive income	3,261	7,337	31,662
Total comprehensive income	13,754	(30,243)	133,538
Attributable to:			
Owners of parent	13,265	(30,644)	128,795
Minority interests	488	400	4,742

See notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

[2014]

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Minority interests	Total net assets
Balance at beginning of year	53,458	57,670	99,058	(1,414)	208,773	7,566	2,238	(1,023)	-	8,781	6,316	223,871
Changes during the fiscal year												
Cash dividends			(2,087)		(2,087)							(2,087)
Net income (loss)			10,218		10,218							10,218
Purchase of treasury stock				(14)	(14)							(14)
Disposal of treasury stock			(0)	0	0							0
Change of scope of consolidation			(33)		(33)							(33)
Net changes of items other than shareholders' equity						802	(1,488)	3,733	982	4,029	469	4,499
Total changes of items during the period	-	-	8,097	(13)	8,083	802	(1,488)	3,733	982	4,029	469	12,582
Balance at end of year	53,458	57,670	107,155	(1,428)	216,856	8,369	749	2,710	982	12,811	6,785	236,453

[2013]

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Minority interests	Total net assets
Balance at beginning of year	53,458	57,670	138,040	(1,416)	247,753	3,965	510	(2,966)	-	1,509	6,198	255,460
Changes during the fiscal year												
Cash dividends			(1,043)		(1,043)							(1,043)
Net income (loss)			(37,916)		(37,916)							(37,916)
Purchase of treasury stock				(3)	(3)							(3)
Disposal of treasury stock			(4)	5	1							1
Change of scope of consolidation			(16)		(16)							(16)
Net changes of items other than shareholders' equity						3,601	1,727	1,943	-	7,272	117	7,390
Total changes of items during the period	-	-	(38,982)	2	(38,980)	3,601	1,727	1,943	-	7,272	117	(31,589)
Balance at end of year	53,458	57,670	99,058	(1,414)	208,773	7,566	2,238	(1,023)	-	8,781	6,316	223,871

[2014]

Thousands of U.S. dollars (Note 2)

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Minority interests	Total net assets
Balance at beginning of year	519,019	559,904	961,733	(13,733)	2,026,923	73,461	21,733	(9,934)	-	85,259	61,322	2,173,505
Changes during the fiscal year												
Cash dividends			(20,267)		(20,267)							(20,267)
Net income (loss)			99,208		99,208							99,208
Purchase of treasury stock				(143)	(143)							(143)
Disposal of treasury stock			(4)	8	4							4
Change of scope of consolidation			(323)		(323)							(323)
Net changes of items other than shareholders' equity						7,793	(14,455)	36,249	9,536	39,123	4,556	43,679
Total changes of items during the period	-	-	78,613	(135)	78,478	7,793	(14,455)	36,249	9,536	39,123	4,556	122,157
Balance at end of year	519,019	559,904	1,040,346	(13,869)	2,105,401	81,254	7,277	26,315	9,536	124,382	65,878	2,295,663

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2014 and 2013

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2014	2013	**2014**
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	12,939	(28,065)	125,630
Depreciation and amortization	16,642	23,099	161,579
Increase (decrease) in allowance for loss on compensation for building materials	(433)	(1,169)	(4,208)
Increase (decrease) in other provision	(260)	(1,277)	(2,529)
Increase(decrease) in net defined benefit liability	118	-	1,149
Increase(decrease) in net defined benefit asset	629	-	6,106
Interest and dividends income	(598)	(569)	(5,809)
Foreign exchange losses (gains)	(78)	148	(761)
Loss (gain) on sales of property, plant and equipment	(128)	(207)	(1,245)
Loss (gain) on sales of investment securities	(378)	(156)	(3,675)
Loss (gain) on sales of shares of subsidiaries and associates	78	-	761
Equity in (earnings) losses of affiliates	(519)	(433)	(5,044)
Subsidy income	(3)	(184)	(34)
Interest expenses	2,755	2,364	26,751
Borrowing cost	1,800	-	17,475
Loss on reduction of noncurrent assets	1	161	17
Impairment loss	374	27,260	3,635
Loss (gain) on disposal of noncurrent assets	1,671	564	16,229
Decrease (increase) in notes and accounts receivable - trade	(484)	4,939	(4,707)
Decrease (increase) in inventories	9,485	(2,080)	92,091
Decrease (increase) in other current assets	(1,619)	(534)	(15,723)
Increase (decrease) in notes and accounts payable - trade	710	(3,581)	6,897
Increase (decrease) in other current liabilities	(1,290)	1,544	(12,532)
Other, net	(3,310)	(2,638)	(32,141)
Subtotal	38,100	19,184	369,911
Interest and dividends income received	498	891	4,843
Interest expenses paid	(2,153)	(2,333)	(20,905)
Income taxes paid	(2,340)	(670)	(22,727)
Net cash provided by (used in) operating activities	34,105	17,071	331,121
Net cash provided by (used in) investing activities			
Payments into time deposits	(37)	(72)	(364)
Proceeds from withdrawal of time deposits	211	540	2,055
Purchase of property, plant and equipment	(29,907)	(33,970)	(290,361)
Proceeds from sales of property, plant and equipment	520	3,039	5,052
Purchase of investment securities	(812)	(706)	(7,892)
Proceeds from sales of investment securities	984	350	9,555
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(4,115)	-	(39,958)
Payments of long-term loans receivable	(15)	(416)	(153)
Collection of long-term loans receivable	257	326	2,498
Purchase of money held in trust	(34,300)	(25,000)	(333,009)
Proceeds from cancellation of money held in trust	3,492	19	33,906
Proceeds from subsidy income	3	184	34
Other, net	(682)	(4,967)	(6,625)
Net cash provided by (used in) investing activities	(64,402)	(60,673)	(625,264)
Net cash provided by (used in) financing activities			
Increase (decrease) in short-term loans payable	2,668	(56)	25,908
Proceeds of long-term loans payable	68,829	50,729	668,242
Repayment of long-term loans payable	(22,623)	(12,530)	(219,649)
Cash dividends paid	(2,080)	(1,047)	(20,195)
Cash dividends paid to minority shareholders	(397)	(283)	(3,863)
Decrease (increase) in treasury stock	(97)	(2)	(942)
Other, net	(359)	(343)	(3,485)
Net cash provided by (used in) financing activities	45,939	36,465	446,014
Effect of exchange rate change on cash and cash equivalents	1,485	641	14,418
Net increase (decrease) in cash and cash equivalents	17,127	(6,493)	166,291
Cash and cash equivalents at beginning of period	52,431	58,476	509,041
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	414	448	4,024
Cash and cash equivalents at end of period	69,973	52,431	679,357

See notes to consolidated financial statements

1. BASIS OF FINANCIAL STATEMENTS

The accompanying consolidated financial statements have been prepared from accounts and records maintained by Tokuyama Corporation (the "Company") and its subsidiaries. The Company and its consolidated domestic subsidiaries have maintained their accounts and records in accordance with the provisions set forth in the Companies Act (the "Act") and the Financial Instruments and Exchange Act and in conformity with accounting principles and practices generally accepted in Japan, which are different from the accounting and disclosure requirements of International Financial Reporting Standards.

The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The consolidated financial statements are not intended to present the consolidated financial position, results of operations and cash flows in accordance with accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

2. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts included in the consolidated financial statements and notes represent the arithmetic results of translating Japanese yen to U.S. dollars at the rate of ¥103=US$1, the approximate exchange rate on March 31, 2014. The U.S. dollar amounts are included solely for the convenience of readers outside Japan, and are not intended to imply that the assets and liabilities that originated in yen have been or could be readily converted, realized, or settled in U.S. dollars at this or at any other rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its 53 significant subsidiaries (49 in 2013). Significant intercompany transactions and accounts have been eliminated in consolidation.

In total, 17 subsidiaries are consolidated on the basis of their original fiscal years ended at December 31. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

Investments in 9 affiliates (9 in 2013) are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

The excess of investment cost over equity in net assets acquired is amortized on a straight-line basis over five years.

FOREIGN CURRENCY TRANSACTIONS:

Revenue and expenses items denominated in foreign currencies are translated into Japanese yen at the rates of respective transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into yen at the exchange rate in effect at the balance sheet date and the resulting exchange gains or losses are credited or charged to income as incurred.

FOREIGN CURRENCY FINANCIAL STATEMENTS (ACCOUNTS OF OVERSEAS SUBSIDIARIES AND AFFILIATES):

All assets and liabilities are translated into yen at the exchange rate in effect at the balance sheet date except for shareholders' equity, which is translated at the historical exchange rates. Revenue and expense accounts of the consolidated overseas subsidiaries are translated at the average rates of exchange prevailing during the year. The resulting translation adjustments are shown as "Foreign currency translation adjustments" in net assets.

CASH AND CASH EQUIVALENTS:

Cash and cash equivalents include all highly liquid time deposits with maturities of three months or less, and certificates of deposit included in securities.

MARKETABLE AND INVESTMENT SECURITIES:

Securities are classified into four groups: trading securities, held-to-maturity debt securities, securities of subsidiaries and affiliates, and available-for-sale securities. Trading securities are stated at fair market value, held-to-maturity debt securities at amortized cost, and securities of subsidiaries and affiliates are stated at cost determined by the moving-average method. Available-for-sale securities with a quoted current price are stated at fair value, and those without a quoted current price are stated at cost determined by the moving-average method. Net unrealized gains or losses of available-for-sale securities are stated as “Valuation difference on available-for-sale securities” in net assets after applying tax effect accounting. The Company and its subsidiaries do not hold trading securities.

INVENTORIES:

Inventories held for sale in the ordinary course of business are stated at cost determined mainly by the moving-average method. The balance sheet value of the inventories is determined by write-down based on their decreased profitability.

PROPERTY, PLANT AND EQUIPMENT:

Property, plant and equipment are stated at cost. Depreciation is computed mainly by the straight-line method for buildings, and mainly by the declining-balance method for property, plant and equipment other than buildings at rates based on the estimated useful lives of assets prescribed by the Corporation Tax Act. The range of estimated useful lives is principally from 3 to 75 years for buildings and structures, and from 2 to 20 years for machinery, equipment and vehicles.

Significant renewals and betterments are capitalized. Maintenance expenses are charged to income as incurred.

RESEARCH AND DEVELOPMENT EXPENSES:

Research and development expenses are charged to income as incurred.

DERIVATIVES AND HEDGE ACCOUNTING:

All derivative financial instruments, except hedging instruments, are stated at fair value. For the method of hedge accounting, in general, the deferral hedge accounting is applied. Among hedging instruments, Interest rate swaps that fulfill the requirement for preferential treatment are subjected to the preferential treatment. The Company uses forward exchange contracts and interest rate swaps in hedging instruments subject to hedge accounting.

The Company utilizes financial derivative transactions only for the purpose of hedging foreign exchange risk arising from normal operating activities and for managing interest rate risks. The Company does not hold or issue derivatives for dealing or speculative purposes. All derivative transactions are performed and controlled by the financial section. Directors in charge approve all derivative transactions entered into.

As the counterparties to these derivative transactions are limited to major financial institutions with high credit standings, the Company does not anticipate nonperformance by the counterparties to these agreements, and no material losses are expected.

LEASES:

Leased assets related to finance lease transactions that do not transfer ownership are depreciated by the straight-line method using the lease term as the useful life and until the residual value becomes zero.

With respect to finance lease transactions that do not transfer ownership whose starting date was on or before March 31, 2008, the accounting treatment similar to that applicable to ordinary rental transactions continues to be applied.

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

The allowance for doubtful accounts of the Company and its consolidated subsidiaries is provided in amounts sufficient to cover possible losses on collection. In determining the allowance for doubtful accounts for normal receivables, regard is taken of the historical default rate. With receivables where there is an acknowledged credit risk, allowances for doubtful accounts are provided for taking account of collectability on a case-by-case basis.

INCOME TAXES:

The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting is recognized as deferred tax assets (liabilities). The provision for income taxes is computed based on the pretax income included in the consolidated statement of income. The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

RETIREMENT BENEFITS:

(i) Employees

Recognition of accrued retirement benefits for employees for the fiscal year under review is based on actual valuation of projected benefit obligations and plan assets at the end of the fiscal year.

Prior service costs are charged to income as incurred.

Actuarial differences are amortized by using the straight-line method over a period of time within the average remaining service period of employees (mainly 16 years), from the subsequent fiscal year when they are incurred.

(ii) Directors and corporate auditors

Certain consolidated subsidiaries record accrued retirement benefits for directors and corporate auditors on the basis of the amounts required as of the end of the fiscal year under review based on internal rules.

ACCOUNTING FOR CONSUMPTION TAX:

Consumption tax and local consumption tax are accounted for using the tax-excluded method. The consumption tax amount not subject to tax credit is classified as a period expense.

NET INCOME PER SHARE:

Net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each fiscal year. Diluted net income per share is calculated based on the assumption that all diluted convertible bonds were converted at the beginning of the fiscal year. Diluted net income per share for the fiscal years ended March 31, 2014, 2013 and 2012 was not presented because there was no dilutive effect on any assumed conversion of convertible bonds for the fiscal years ended March 31, 2014, 2013 and 2012.

ADOPTION OF THE ACCOUNTING STANDARD FOR RETIREMENT BENEFITS:

Effective from the end of the fiscal year under review, the Company adopted the “Accounting Standard for Retirement Benefits” (ASBJ Statement No. 26, issued on May 17, 2012; hereinafter “Retirement Benefits Accounting Standard”) and the “Guidance on Accounting Standard for Retirement Benefits” (ASBJ Guidance No. 25, issued on May 17, 2012; hereinafter “Retirement Benefits Implementation Guidance”); except for, however, the provisions specified under the main clause of Section 35 of Retirement Benefits Accounting Standard and the main clause of Section 67 of Retirement Benefits Implementation Guidance. Under the new accounting policy, the amount of benefit obligations less plan assets is recorded as net defined benefit liabilities (in case that the amount of plan assets exceeds benefit obligations, it is recorded as net defined benefit assets), and the unrecognized actuarial differences were recorded in net defined benefit liabilities.

Retirement Benefits Accounting Standard and Retirement Benefits Implementation Guidance are adopted in accordance with the transitional treatment as provided for in Section 37 of the Retirement Benefits Accounting Standard, and the effects associated with this change were reflected by adding or subtracting an amount from remeasurements of defined benefit plans under accumulated other comprehensive income in the fiscal year under review.

As a result, as of the end of the fiscal year under review, net defined benefit assets of ¥7,804 million (US$75 million) and net defined benefit liabilities of ¥1,112 million (US$10 million) were recorded, and accumulated other comprehensive income increased by ¥982 million (US$9 million).

Net assets per share increased by ¥2.82 (US$0.027).

4. SECURITIES

Held-to-maturity debt securities at March 31, 2014 were as follows:

	Millions of yen		
	Book value	**Fair value**	**Unrealized gain**
Held-to-maturity debt securities :			
Government and municipal bonds	3	3	-
Corporate bonds	-	-	-
Other	-	-	-
Total	3	3	-

	Thousands of U.S. Dollars		
	Book value	**Fair value**	**Unrealized gain**
Held-to-maturity debt securities :			
Government and municipal bonds	33	33	-
Corporate bonds	-	-	-
Other	-	-	-
Total	33	33	-

Available-for-sale securities at March 31, 2014 were as follows:

	Millions of yen		
	Book value	**Acquisition cost**	**Unrealized gain**
Available-for-sale securities:			
Equity securities	26,874	13,928	12,945
Total	26,874	13,928	12,945

	Thousands of U.S. Dollars		
	Book value	**Acquisition cost**	**Unrealized gain**
Available-for-sale securities:			
Equity securities	260,919	135,230	125,688
Total	260,919	135,230	125,688

The sales amount of available-for-sale securities for the fiscal year ended March 31, 2014 was as follows:

	Millions of yen		
	Proceeds	**Gain on sales**	**Loss on sales**
Available-for-sale securities sold during 2014 :			
Equity securities	921	379	1
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	921	379	1

	Thousands of U.S. Dollars		
	Proceeds	**Gain on sales**	**Loss on sales**
Available-for-sale securities sold during 2014 :			
Equity securities	8,944	3,688	12
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	8,944	3,688	12

5. BORROWINGS

Bonds payable at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
0.537% unsecured bonds in yen due September 9, 2015	5,000	5,000	48,543
0.575% unsecured bonds in yen due September 8, 2016	10,000	10,000	97,087
1.760% unsecured bonds in yen due March 10, 2020	10,000	10,000	97,087
1.478% unsecured bonds in yen due September 9, 2020	15,000	15,000	145,631
1.371% unsecured bonds in yen due September 8, 2021	10,000	10,000	97,087
Total	50,000	50,000	485,436

The aggregate annual maturities at March 31, 2014 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2015	-	-
2016	5,000	48,543
2017	10,000	97,087
2018	-	-
2019	-	-
Thereafter	35,000	339,805
Total	50,000	485,436

Loans payable at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Short-term loans payable (1.39%)	12,347	8,912	119,883
Current portion of long-term loans payable (1.64%)	8,811	22,144	85,547
Current portion of lease obligations	376	338	3,653
Long-term loans payable, due in 2015-2074 (1.99%)	164,278	101,796	1,594,938
Lease obligations, due in 2015-2020	953	514	9,258
Commercial papers (0.10%)	4,000	4,000	38,834
Total	190,767	137,706	1,852,115

The aggregate annual maturities of long-term loans payable at March 31, 2014 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2015	8,811	85,547
2016	17,111	166,133
2017	9,171	89,044
2018	7,071	68,652
2019	10,208	99,112
Thereafter	120,715	1,171,995
Total	173,090	1,680,486

The aggregate annual maturities of lease obligations at March 31, 2014 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2015	376	3,653
2016	242	2,355
2017	191	1,855
2018	172	1,675
2019	162	1,577
Thereafter	184	1,793
Total	1,329	12,911

Assets pledged as collateral for certain loans and other liabilities at March 31, 2014 and 2013 are summarized as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Pledged Assets			
Cash and deposits	228	227	2,222
Notes and accounts receivable - trade	18	51	174
Securities	-	10	-
Buildings and structures	2,245	2,268	21,803
Machinery, equipment and vehicles	2,332	2,643	22,644
Land	785	890	7,624
Investment securities	3	3	33
Total	5,613	6,095	54,504

The Company has a loan commitment agreement with eight banks in order to procure operating capital efficiently.

The balance of unexecuted loans under this agreement at March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Lines of credit	15,000	15,000	145,631
Credit used	-	-	-
Available credit	15,000	15,000	145,631

The Company has an agreement for a term-out medium-term commitment line with The Bank of Tokyo-Mitsubishi UFJ, Ltd. in order to efficiently raise funds for its polycrystalline silicon second plant construction project in Malaysia.

The balance of unexecuted loans under this agreement at March 31, 2014 and 2013 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Lines of credit	50,000	50,000	485,436
Credit used	-	-	-
Available credit	50,000	50,000	485,436

6. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of income taxes that, in the aggregate, indicate a statutory tax rate in Japan for the respective fiscal years. Overseas subsidiaries are subject to income taxes of countries where they are domiciled.

The significant differences between the statutory tax rate and effective tax rate for consolidated financial statement purposes for the fiscal years ended March 31 were summarized as follows.

	2014	2013
Statutory tax rate	37.8 %	This information is omitted, as the company posted a loss before income taxes during the period under review.
Increase (decrease) in income taxes resulting from :		
Change in valuation allowance allocated to income tax expenses	(34.9)	
Inter-company eliminations of allowance for investment loss	(7.2)	
Permanent difference	(6.1)	
Equity in earnings of affiliates	(1.4)	
Effect of tax credits	(1.4)	
Amortization of goodwill	1.1	
Inter-company eliminations of provision for loss on business of subsidiaries and affiliates	1.1	
Retained earnings of subsidiaries and affiliates	1.2	
Difference tax rate of recovery special tax	2.1	
Unrealized intercompany profits	3.1	
Lower tax rates of overseas consolidated subsidiaries	5.1	
Inter-company eliminations of allowance for doubtful accounts	7.1	
Inter-company eliminations of dividends income	8.1	
Other	3.3	
Effective income tax rate	18.9 %	

Significant components of deferred tax assets and liabilities at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Deferred tax assets：			
Deficits	9,122	9,845	88,564
Property, plant and equipment	8,618	10,971	83,678
Provision for repairs	1,313	1,487	12,755
Provision for bonuses	735	742	7,140
Other	947	2,108	9,203
Subtotal	20,738	25,156	201,343
Less valuation allowance	(18,389)	(23,021)	(178,541)
Total deferred tax assets	2,348	2,135	22,801
Deferred tax liabilities：			
Valuation difference of available-for-sale securities	(4,554)	(4,143)	(44,220)
Appropriations for advanced depreciation	(1,581)	(1,544)	(15,355)
Retained earnings of subsidiaries and affiliates	(776)	(531)	(7,543)
Other	(867)	(1,773)	(8,419)
Total deferred tax liabilities	(7,780)	(7,993)	(75,539)
Net deferred tax assets/(liabilities)	(5,431)	(5,858)	(52,737)

7. RETIREMENT AND SEVERANCE PLAN

The Company and its consolidated domestic subsidiaries have lump-sum severance benefits plans and defined benefit pension plans as vested benefits system (DB scheme). They also have defined contribution pension plans as DC scheme.

The Company and its consolidated domestic subsidiaries may pay, under certain circumstances, extra retirement allowances when their employees leave the Companies.

The Company has a retirement benefit trust.

Benefit obligations for the fiscal year ended March 31, 2013 were as follows:

	Millions of yen
	2013
Project benefit obligation	(18,832)
Fair value of plan assets	23,203
Funded status	4,371
Unrecognized actuarial loss	1,553
Net amount shown on balance sheets	5,924
Prepaid pension expense	6,894
Provision for retirement benefits	(969)

Benefit costs for the fiscal year ended March 31, 2013 were as follows:

	Millions of yen
	2013
Service cost	916
Interest cost	386
Recognized actuarial loss	582
Benefit cost	1,884
Other	462
Total	2,347

Assumptions used in the actuarial calculation for the fiscal year ended March 31, 2013 were as follows:

Period allocation method for estimated retirement benefits	Straight-line method for the period
Discount rate	Mainly 2.0%
Expected return on plan assets	Mainly 0.0%
Period of amortization of prior service cost	Charge off all at once
Period of amortizing actuarial differences	Mainly 16 years

The reconciliation of beginning and ending balances of benefit obligations for the fiscal year ended March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. Dollars
	2014	**2014**
Balance of defined benefit obligations at beginning of year	18,832	182,837
Service cost	860	8,353
Interest cost	358	3,484
Occurrence of actuarial loss	(190)	(1,846)
Payments of retirement benefits	(1,609)	(15,624)
Occurrence of prior service cost	6	66
Other	42	413
Balance of defined benefit obligations at end of year	18,301	177,684

The reconciliation of beginning and ending balances of plan assets for the fiscal year ended March 31, 2014 was as follows:

	Millions of yen	Thousands of U.S. Dollars
	2014	**2014**
Balance of plan assets at beginning of year	23,203	225,274
Expected return on plan assets	3	33
Occurrence of actuarial loss	2,533	24,597
Corporation's contributions	699	6,792
Payments of retirement benefits	(1,447)	(14,048)
Balance of plan assets at end of year	24,992	242,648

As at March 31, 2014, the reconciliation of the ending balance of benefit obligations and plan assets to net defined benefit liabilities and net defined benefit assets recorded on the balance sheet was as follows:

	Millions of yen	Thousands of U.S. Dollars
	2014	2014
Funded defined benefit obligations	17,283	167,798
Plan assets	(24,992)	(242,648)
	(7,709)	(74,850)
Unfunded defined benefit obligations	1,018	9,886
Net amount shown on balance sheets	(6,691)	(64,963)
Net defined benefit liability	1,112	10,804
Net defined benefit asset	(7,804)	(75,768)
Net amount shown on balance sheets	(6,691)	(64,963)

Benefit costs and a breakdown of the benefit costs for the fiscal year ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. Dollars
	2014	2014
Service cost	860	8,353
Interest cost	358	3,484
Expected return on plan assets	(3)	(33)
Recognized actuarial loss	350	3,398
Amortization of prior service cost	6	66
Other	53	523
Periodic benefit costs of retirement benefit plan	1,626	15,793

The remeasurements of defined benefit plans for the fiscal year ended March 31, 2014 were as follows:

	Millions of yen	Thousands of U.S. Dollars
	2014	2014
Unrecognized actuarial loss	(1,519)	(14,756)
Total	(1,519)	(14,756)

Principal items of plan assets for the fiscal year ended March 31, 2014 were as follows:

Domestic stocks	31 %
Foreign stocks	19
Domestic bonds	17
Foreign bonds	7
Insurance product (General account)	23
Other	3
Total	100

(Note) The total of plan assets includes the retirement benefit trust, which has been established for the Company's pension plans, of 10%.

Method for setting the expected long-term rate of return

The expected long-term rate of return on plan assets has been set based on the allocation of the plan assets as well as the current and expected rate of return from each category of the plan assets.

Items regarding the basis for calculation used in the actuarial calculation for the fiscal year ended March 31, 2014 were as follows:

Discount rate	Mainly 2.0%
Expected long-term return on plan assets	Mainly 0.0%

Defined contribution scheme

The amount which the Company and its consolidated subsidiaries were required to contribute to the defined contribution scheme was ¥529 million (US$5 million).

8. LEASES

(1)Lessee

(i)Finance lease

Lease payments on finance lease contracts that do not transfer ownership for the fiscal year ended March 31, 2014 amounted to ¥36 million (US$350 thousand). Lease payments corresponding to depreciation expenses for the fiscal year ended March 31, 2014, which were computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥15 million (US$150 thousand).

If the leases were capitalized, the acquisition cost of assets and accumulated depreciation etc. at March 31, 2014 and 2013 would be as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Machinery, equipment and vehicles	-	56	-
Tools, furniture and fixtures	-	324	-
Less accumulated depreciation	-	(345)	-
Less accumulated impairment	-	(20)	-
Total	-	14	-

The future lease payments on finance leases at March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Due within one year	-	28	-
Due beyond one year	-	7	-
Total	-	35	-

(ii) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2014 and 2013 were as follows.

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Due within one year	491	491	4,767
Due beyond one year	689	1,180	6,693
Total	1,180	1,671	11,461

(2) Lessor

(i) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2014 and 2013 were as follows.

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Due within one year	9	9	93
Due beyond one year	141	151	1,375
Total	151	161	1,469

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses for the fiscal years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Selling expenses :			
Freight-out expenses	19,413	18,667	188,482
Salaries and bonuses	4,947	4,900	48,033
Shipping charges	4,739	4,755	46,015
Provision for bonuses	264	251	2,564
Retirement benefit expenses	165	197	1,609
Provision of allowance for doubtful accounts	22	(88)	217
Provision for repairs	0	2	6

General and administrative expenses for the fiscal years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
General and administrative expenses :			
Technical research expenses	7,816	8,905	75,891
Salaries and bonuses	5,146	5,159	49,964
Provision for bonuses	291	281	2,834
Retirement benefit expenses	231	280	2,249
Provision for directors' retirement benefits	59	55	574

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the fiscal years ended March 31, 2014 and 2013 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Research and development expenses	8,709	10,076	84,557

11. IMPAIRMENT LOSS

The Company's Group groups its assets mainly according to the smallest units independently generating cash flows based on business categories. During the fiscal year ended March 31, 2014, the Group recorded impairment losses for the following asset groups.

Use	Location	Asset category	Millions of yen 2014	Thousands of U.S. Dollars 2014
Demonstration facilities for sapphire substrate	Misato-cho, Senboku-gun, Akita	Buildings and structures	144	1,401
		Machinery, equipment and vehicles	59	576
		Tools, furniture and fixtures	16	164
		Total	220	2,142

Because the Company decided to discontinue the commercialization of sapphire single crystal wafers, the book value of the assets of this business was written down to the recoverable value, and the amount of the write-downs was accounted for as an impairment loss in the extraordinary loss.

The recoverable value was measured based on the net selling value, and was valued based on the planned sales value.

Use	Location	Asset category	Millions of yen 2014	Thousands of U.S. Dollars 2014
Land to let	Imabari-shi, Ehime	Land	148	1,439

With regard to land located in Imabari, Ehime Prefecture, because there was a significant difference between the book value and the market value due to a drop in the price of land, the book value of this asset was written down to the recoverable value, and the amount of the write-downs was accounted for as an impairment loss in the extraordinary loss.

The recoverable value was measured based on the net selling value. The net selling value was valued based on the appraisal evaluated by a real estate appraiser.

Use	Location	Asset category	Millions of yen 2014	Thousands of U.S. Dollars 2014
Idle fixed assets	Hakuba-mura, Kitaazumi-gun, Nagano	Land	5	54

With regard to idle land owned by Figaro Engineering Inc., because there was a significant difference between the book value and the market value due to a drop in the price of land, the book value of this asset was written down to the recoverable value, and the amount of the write-downs was accounted for as an impairment loss in the extraordinary loss.

The recoverable value was measured based on the net selling value. The net selling value was valued based on the appraisal evaluated by a real estate appraiser.

12. SHAREHOLDERS' EQUITY

The "Act" provides that an amount equal to 10% of dividends from surplus shall be appropriated and set aside as a legal reserve until the total amount of legal reserve and additional paid-in capital equals 25% of capital stock.

On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of capital stock, they are available for distributions and certain other purposes by the resolution of the shareholders' meeting.

The legal reserve is included in the retained earnings and is not allowed to show separately in the accompanying consolidated financial statements.

13. ASSET RETIREMENT OBLIGATIONS

Since the amount of asset retirement obligations at the fiscal year-end under review was immaterial, the preparation of an asset retirement obligations schedule was omitted.

14. SEGMENT INFORMATION

BUSINESS SEGMENT INFORMATION

(1) Summary of reportable segments

The reportable segments in the Company Group are defined as individual units, where separate financial information is available and which are subject to regular review to evaluate their results and decide the allocation of management resources by the board of directors of the Company.

The Company has business divisions by product group, and the Company Group conducts business operations through each business division devising its comprehensive product strategy for domestic and overseas markets.

The Company Group is, therefore, composed of segments by product group based on business divisions, and has four reportable segments, “Chemicals,” “Specialty Products,” “Cement,” and “Life & Amenity.”

Main products and services of each reportable segment are as follows:

Chemicals: Caustic soda, soda ash, calcium chloride, sodium silicate, vinyl chloride monomer, polyvinyl chloride resin, propylene oxide, isopropyl alcohol and methylene chloride

Specialty Products: Polycrystalline silicon, fumed silica, aluminum nitride, metal cleaning solvent, high-purity chemicals for electronics manufacturing, and environment-related equipment

Cement: Ordinary Portland cement, high early strength Portland cement, Portland blast-furnace slag cement, ready-mixed concrete, cement-type soil solidifier and waste treatment

Life & Amenity: Polyolefin film, plastic window sashes, medical diagnosis systems, dental materials and equipment, gas sensors, ion exchange membranes, active pharmaceutical ingredients and intermediates, plastic lens-related materials for glasses, and microporous film

(2) Calculation of sales, income (loss), assets and other financial items by reportable segment

The accounting treatment methods applied to reportable segments are identical to those stated in “3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.”

Inter-segment sales or transfer are based on market prices.

Reportable segment’s income (loss) is based on operating income.

[2014]

	Millions of yen							
	Chemicals	Specialty Products	Cement	Life & Amenity	Others*1	Total	Adjustment*2	Consolidated*3
Sales								
Sales to customers	85,385	41,890	78,814	55,552	25,687	287,330	-	287,330
Inter-segment sales/transfer	1,071	10,593	166	1,505	21,594	34,931	(34,931)	-
Total sales	86,457	52,483	78,981	57,057	47,281	322,262	(34,931)	287,330
Segment income	2,235	6,090	6,682	4,863	4,168	24,041	(3,770)	20,270
Segment assets	55,421	256,736	58,058	51,133	28,374	449,724	126,590	576,315
Other items								
Depreciation and amortization	2,967	1,676	2,776	2,005	1,349	10,774	5,868	16,642
Increase in tangible and intangible fixed assets	1,142	53,871	2,824	2,309	1,239	61,386	117	61,503

(Note 1) The "Others" segment comprises businesses other than those of the reportable segments. Concretely, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

(Note 2) The segment income adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment. Included in the segment assets adjustment amount are corporate assets that are not allocated to a specific reportable segment (¥145,249 million).

(Note 3) With regard to segment income, operating income in the consolidated financial statements has been calculated by making an adjustment to the sum total of the reportable segments' income and the "Others" segment's income.

[2013] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others*1	Total	Adjustment*2	Consolidated*3
Sales								
Sales to customers	76,384	44,235	69,776	49,267	18,968	258,632	-	258,632
Inter-segment sales/transfer	968	8,608	184	1,742	21,187	32,691	(32,691)	-
Total sales	77,352	52,844	69,961	51,009	40,156	291,324	(32,691)	258,632
Segment income	426	391	5,333	2,932	2,615	11,699	(4,927)	6,772
Segment assets	52,664	212,008	48,797	44,887	26,563	384,922	133,328	518,251
Other items								
Depreciation and amortization	3,498	7,176	2,628	1,795	1,260	16,358	6,741	23,099
Increase in tangible and intangible fixed assets	2,234	86,582	3,013	3,601	824	96,256	2,652	98,908

(Note 1) The "Others" segment comprises businesses other than those of the reportable segments. Concretely, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

(Note 2) The segment income adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment. Included in the segment assets adjustment amount are corporate assets that are not allocated to a specific reportable segment (¥150,319 million).

(Note 3) With regard to segment income, operating income in the consolidated financial statements has been calculated by making an adjustment to the sum total of the reportable segments' income and the "Others" segment's income.

[2014] Thousands of U.S. Dollars

	Chemicals	Specialty Products	Cement	Life & Amenity	Others*1	Total	Adjustment*2	Consolidated*3
Sales								
Sales to customers	828,986	406,702	765,188	539,341	249,395	2,789,614	-	2,789,614
Inter-segment sales/transfer	10,406	102,845	1,620	14,619	209,652	339,144	(339,144)	-
Total sales	839,393	509,548	766,808	553,960	459,047	3,128,758	(339,144)	2,789,614
Segment income	21,708	59,134	64,879	47,220	40,469	233,411	(36,608)	196,802
Segment assets	538,073	2,492,589	563,673	496,444	275,478	4,366,259	1,229,037	5,595,297
Other items								
Depreciation and amortization	28,806	16,274	26,959	19,466	13,100	104,606	56,973	161,579
Increase in tangible and intangible fixed assets	11,090	523,019	27,422	22,423	12,029	595,985	1,137	597,123

(Note 1) The "Others" segment comprises businesses other than those of the reportable segments. Concretely, the segment includes overseas sales companies, a distribution company, a real estate business, etc.

(Note 2) The segment income adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment. Included in the segment assets adjustment amount are corporate assets that are not allocated to a specific reportable segment (US$1,410 million).

(Note 3) With regard to segment income, operating income in the consolidated financial statements has been calculated by making an adjustment to the sum total of the reportable segments' income and the "Others" segment's income.

RELATED INFORMATION

Information by Region

(1) Sales

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Japan	233,557	216,496	2,267,545
Asia	40,176	31,138	390,061
Others	13,596	10,997	132,007
Total	287,330	258,632	2,789,614

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Japan	107,398	112,203	1,042,704
Malaysia	201,256	151,383	1,953,950
Others	14,445	10,784	140,244
Total	323,100	274,370	3,136,899

INFORMATION ON IMPAIRMENT LOSS OF NON-CURRENT ASSETS BY REPORTABLE SEGMENT

[2014]

	Millions of yen						
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others**	**Adjustment**	**Total**
Impairment loss	-	-	-	5	-	368	374

[2013]

	Millions of yen						
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others**	**Adjustment**	**Total**
Impairment loss	-	26,631	-	38	-	590	27,260

[2014]

	Thousands of U.S. Dollars						
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others**	**Adjustment**	**Total**
Impairment loss	-	-	-	54	-	3,581	3,635

INFORMATION ON AMORTIZATION OF GOODWILL AND UNAMORTIZED BALANCE BY REPORTABLE SEGMENT

[2014] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	-	419	0	-	-	419
Unamortized balance	-	-	3,622	-	-	-	3,622

[2013] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	-	65	3	-	-	69
Unamortized balance	-	-	218	-	-	-	218

[2014] Thousands of U.S. Dollars

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	-	4,070	0	-	-	4,070
Unamortized balance	-	-	35,172	-	-	-	35,172

[2014] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of negative	-	-	29	-	-	-	29
Unamortized balance	-	-	14	-	-	-	14

[2013] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of negative	-	-	29	-	-	-	29
Unamortized balance	-	-	43	-	-	-	43

[2014] Thousands of U.S. Dollars

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of negative	-	-	282	-	-	-	282
Unamortized balance	-	-	141	-	-	-	141

15. FINANCIAL INSTRUMENTS

(1) Management policy on financial instruments

The Company’s Group raises necessary funds (mainly with bank loans and by the issuance of corporate bonds) in line with its business investment program to implement its growth strategies, such as “Further select and concentrate for aggressive business expansion,” “Create new businesses for us to win in the global markets,” and “Reinforce competitiveness by improving productivity” based on two basic strategies, “Strengthen strategically growing businesses” and ”Bolster our international competitiveness.”

The Group invests occasional spare cash in financial assets with high safety, and raises short-term operating capital with bank loans and CP (commercial paper). We use derivatives only to hedge against risks, and have a management policy of not implementing derivative transactions for speculative purposes.

(2)Fair value of financial instruments

As at March 31, 2014, the book value of financial instruments, their fair value, and the differences between the two were as follows. The financial instruments whose fair value is extremely difficult to estimate are not given in the table below.

	Millions of yen		
	Book value	**Fair value**	**Difference**
Cash and deposits	27,605	27,605	-
Notes and accounts receivable - trade	67,495	67,495	-
Securities and Investment securities			
Securities	43,050	43,050	-
Held-to-maturity debt securities	3	3	-
Available-for-sale securities	26,874	26,874	-
Long-term loans receivable	3,473	3,473	-
Total assets	168,502	168,502	-
Notes and accounts payable - trade	40,089	40,089	-
Short-term loans payable	12,347	12,347	-
Commercial papers	4,000	4,000	-
Bonds payable	50,000	49,923	(76)
Long-term loans payable	173,090	172,491	(598)
Total liabilities	279,527	278,852	(675)
Derivative financial instruments			
In which hedge accounting is not applied	155	155	-
In which hedge accounting is applied	1,159	389	(770)
Total derivative financial instruments	1,315	545	(770)

	Thousands of U.S. Dollars		
	Book value	**Fair value**	**Difference**
Cash and deposits	268,015	268,015	-
Notes and accounts receivable - trade	655,292	655,292	-
Securities and Investment securities			
Securities	417,961	417,961	-
Held-to-maturity debt securities	33	33	-
Available-for-sale securities	260,919	260,919	-
Long-term loans receivable	33,723	33,723	-
Total assets	1,635,946	1,635,946	-
Notes and accounts payable - trade	389,216	389,216	-
Short-term loans payable	119,883	119,883	-
Commercial papers	38,834	38,834	-
Bonds payable	485,436	484,694	(742)
Long-term loans payable	1,680,486	1,674,672	(5,813)
Total liabilities	2,713,857	2,707,301	(6,556)
Derivative financial instruments			
In which hedge accounting is not applied	1,506	1,506	-
In which hedge accounting is applied	11,261	3,785	(7,476)
Total derivative financial instruments	12,768	5,291	(7,476)

16. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

	Millions of yen			
	Notional value	Maturing after one year	Fair value	Appraised gains
Off-market transactions				
Forward exchange agreements				
Call				
Euros	701	-	155	155
Total	701	-	155	155

		Millions of yen		
	Main hedging targets	Notional value	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign	1,689	19	579
Euros	Forecast transaction in foreign	446	-	55
Ringgit malaysia	Forecast transaction in foreign	2,266	-	522
Singapore dollars	Forecast transaction in foreign	8	-	2
Total		4,410	19	1,159

(2) Interest-related derivatives

There are no interest-related derivative transactions to which hedge accounting is not applied

Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

		Millions of yen		
	Main hedging targets	Notional value	Maturing after one year	Fair value
Hedge accounting method				
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	37,660	35,054	(770)
Total		37,660	35,054	(770)

	Thousands of U.S. Dollars			
	Notional value	Maturing after one year	Fair value	Appraised gains
Off-market transactions				
Forward exchange agreements				
Call				
Euros	6,807	-	1,506	1,506
Total	6,807	-	1,506	1,506

(2) Interest-related derivatives

		Thousands of U.S. Dollars		
	Main hedging targets	Notional value	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign	16,399	191	5,627
Euros	Forecast transaction in foreign	4,332	-	538
Ringgit malaysia	Forecast transaction in foreign	22,004	-	5,072
Singapore dollars	Forecast transaction in foreign	87	-	23
Total		42,823	191	11,261

	Main hedging targets	Thousands of U.S. Dollars Notional value	Maturing after one year	Fair value
Hedge accounting method				
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	365,636	340,335	(7,476)
Total		365,636	340,335	(7,476)

17. CONTINGENT LIABILITIES

As at March 31, 2014 and 2013, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. Dollars
	2014	2013	**2014**
Notes discounted or endorsed	204	224	1,982
Loans guaranteed	164	336	1,597
Commitments to guarantee	96	160	932

18. FINANCIAL COVENANTS

The Company has a syndicated loan agreement (issue date: December 22, 2011) with seven lenders with the Development Bank of Japan Inc. as the lead manager. This agreement has the following financial covenants related to the Company's consolidated financial statements.

(1) The amount of total net assets at the end of each fiscal year, less minority interests and the items reported in comprehensive income, must not fall below 75% of the amount of total net assets at the end of the previous fiscal year, less minority interests and the items reported in comprehensive income.

(2) There must not be two consecutive fiscal years of ordinary losses.

(3) The borrower must maintain a credit rating of at least BB+ from Rating and Investment Information, Inc.

The Company has a syndicated loan agreement (issue date: July 24, 2012) with six lenders with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lead manager. The Company also has a syndicated loan agreement (issue date: September 26, 2012) with nine lenders with Sumitomo Mitsui Trust Bank, Limited as the lead manager. These agreements have the following financial covenants.

(1) The borrower firmly promises to not let the amount of total net assets on its consolidated balance sheet at the end of each fiscal year, less any amounts of subscription rights to shares, minority interests, deferred gains or losses on hedges, foreign currency translation adjustment, or valuation difference on available-for-sale securities, fall below 75% of the larger of either the identically calculated amount as of the end of the preceding fiscal year or the identically calculated amount as of March 31, 2012.

(2) The borrower firmly promises to not record two consecutive fiscal years of ordinary losses on its consolidated statements of income.

The Company has an agreement (issue date: September 30, 2011) for a term-out medium-term commitment line with The Bank of Tokyo-Mitsubishi UFJ, Ltd. This agreement has the following financial covenant.

The borrower must not let the amount of total net assets on its consolidated balance sheet at the end of the first half and second half of each fiscal year, less any amounts of subscription rights to shares, minority interests, deferred gains or losses on hedges, foreign currency translation adjustment, or valuation difference on available-for-sale securities, fall below 75% of identically calculated amounts at the end of the first half and second half of the preceding fiscal year.

19. SUBSEQUENT EVENTS

At the annual shareholders' meeting of the Company held on June 25, 2014, the appropriation of retained earnings for the fiscal year ended March 31, 2014 was approved as follows:

	Millions of yen	Thousands of U.S. Dollars
	2014	**2014**
Cash dividends（￥3.00 per share)	1,043	10,132

Independent Auditor's Report

TO THE BOARD OF DIRECTORS OF TOKUYAMA CORPORATION

We have audited the accompanying consolidated balance sheet of Tokuyama Corporation and consolidated subsidiaries as of March 31, 2014, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in conformity with accounting principles generally accepted in Japan, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in conformity with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokuyama Corporation and consolidated subsidiaries as of March 31, 2014, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

Our audit also comprehended the translation of Japanese yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made in conformity with the basis stated in Note 2. Such U.S. dollar amounts are presented solely for the convenience of readers outside Japan.

Yamaguchi Audit Corporation

YAMAGUCHI Audit Corporation
Shunan, Japan
June 12, 2014

Business Locations

JAPAN

Tokyo Head Office
Kasumigaseki Common Gate West Tower, 2-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-8983, Japan
TEL: +81-3-6205-4800
FAX: +81-3-6205-4886

Domestic Offices:
Osaka, Hiroshima, Takamatsu, Fukuoka, Sendai, Nagoya

Tokuyama Factory [Registered Address]
1-1, Mikage-cho, Shunan, Yamaguchi 745-8648, Japan
TEL: +81-834-34-2000
FAX: +81-834-33-3790

Kashima Factory
26 Sunayama, Kamisu, Ibaraki 314-0255, Japan
TEL: +81-479-46-4700
FAX: +81-479-46-1933

Tsukuba Research Lab
40 Wadai, Tsukuba, Ibaraki 300-4247, Japan
TEL: +81-29-864-6000
FAX: +81-29-864-6050

Asia/Oceania

Tokuyama (Shanghai) Co., Ltd.
1003, Shanghai International Group, Mansion, 511 WeiHai Road, Shanghai China 200041
TEL: +86-21-6218-1177
FAX: +86-21-5382-2894

Tokuyama Trading (Shanghai) Co., Ltd.
1003, Shanghai International Group, Mansion, 511 WeiHai Road, Shanghai China 200041
TEL: +86-21-6218-1177
FAX: +86-21-5382-2894

Tokuyama Chemicals (Zhejiang) Co., Ltd.
No.555 Yashan West Road, Economic Development Zone, Zhapu Port, Jiaxing, Zhejiang China 314201
TEL: +86-573-8552-7887
FAX: +86-573-8552-3355
http://www.tokuyama.net.cn/

Shanghai Tokuyama Plastics Co., Ltd.
138 Xintao Road, Qingpu Industrial Zone, Shanghai China 201707
TEL: +86-21-5970-5669
FAX: +86-21-5970-3756
http://www.tokuyama.com.cn/

Tianjin Tokuyama Plastics Co., Ltd.
Building 2, No.1, XEDA North 3rd Road, Xiqing Economic Development Area, Tianjin China 300385
TEL: +86-22-8720-2155
FAX: +86-22-8720-2156

Tianjin Figaro Electronic Co., Ltd.
No.19, Weishan Road, Tianjin Economic-Technological Development Area, Tianjin China 300457
TEL: +86-22-6629-7458
FAX: +86-22-2532-5908
Email: tfyyb@tjfigaro.com

Tokuyama Korea Co., Ltd.
#415 Korea Air City Terminal Bldg., 22, Teheran-ro 87-gil, Gangnam-gu, Seoul 135-728， Korea
TEL: +82-2-517-3851
FAX: +82-2-517-3856

Hantok Chemicals Co., Ltd.
Samsung Fine Chemical Research Center 4th Fl., Electronics Material Research Park,
130 Samsung-Ro, YoungTong-Gu, Gyeonggi-Do, Suwon 443-803 Korea
TEL: +82-31-8061-3890
FAX: +82-31-8061-3899

Taiwan Tokuyama Corporation
21 Shi Jian Road,Hsin Chu Industrial Park, Hu Kou, Hsin Chu 303,Taiwan, R.O.C.
TEL: +886-3-597-9108
FAX: +886-3-597-9208

Tokuyama Asia Pacific Pte. Ltd.
61 Robinson Road, #14-02 Robinson Centre Singapore 068893
TEL: +65-6533-5258
FAX: +65-6533-5256
http://www.tokuyama-asia.com/

Tokuyama Electronic Chemicals Pte. Ltd.
21 Gul Road, Singapore 629355
TEL: +65-6862-1081
FAX: +65-6862-1267

Tokuyama Malaysia Sdn. Bhd.
Lot 600, 6th Floor Wisma Bukit Mata Kuching, Jalan Tunku Abdul Rahman 93100 Kuching, Sarawak, Malaysia
TEL: +60-82-422-705
FAX: +60-82-427-708
http://www.tokuyama.com.my/

Tokuyama Nouvelle Calédonie S.A.
Pointe Kuari, Baie de Numbo - BP 310 98845 NOUMÉA, Nouvelle Calédonie
TEL: +687-24-32-95
FAX: +687-28-18-12

America

Tokuyama America Inc.
121 South Wilke Road, Suite 300, Arlington Heights, IL 60005, U.S.A.
TEL: +1-847-385-2195
FAX: +1-847-832-1705
http://www.tokuyama-a.com/

Figaro USA, Inc.
121 South Wilke Road, Suite 300, Arlington Heights, IL 60005, U.S.A.
TEL: +1-847-385-1701
FAX: +1-847-832-1705
http://www.figarosensor.com/

Europe

Tokuyama Europe GmbH
Oststrasse 10, 40211 Düsseldorf, Germany
TEL: +49-211-1754480
FAX: +49-211-357379
http://www.tokuyama-europe.com/

Major Subsidiaries and Affiliates

（As of March 31, 2014）

Company	Capital (millions of yen, local currency in thousands)	Ownership （%）	Scope
Chemicals			
Shin Dai-ichi Vinyl Corporation	2,000	71.0	Production and sale of polyvinyl chloride
Sun Arrow Kasei Co., Ltd.	98	100	Production and sale of polyvinyl chloride compounds
Tokuyama Siltech Co., Ltd.	200	100	Production and sale of layered sodium silicate
Category also includes another unconsolidated subsidiary and 4 affiliates			
Specialty Products			
Tokuyama Chemicals (Zhejiang) Co., Ltd.	CNY 351,200	100	Production and sale of fumed silica
Tokuyama-Dowa Power Materials Co., Ltd.	250	65.0	Production and sale of aluminum nitride
Tokuyama Electronic Chemicals Pte. Ltd.	SGD 11,000	100	Production of high purity chemicals for electronics manufacturing
Taiwan Tokuyama Corporation	TWD 200,000	100	Production and sale of high purity chemicals for electronics manufacturing
Tokuyama Malaysia Sdn. Bhd.	129,998	100	Production and sale of polycrystalline silicon
*Hantok Chemicals Co., Ltd.	KRW 4,500,000	50.0	Production of photoresist developer
Cement			
Tokyo Tokuyama Concrete Co., Ltd.	80	99.9	Production and sale of ready-mixed concrete and concrete products
Seibu Tokuyama Ready Mixed Concrete Co., Ltd.	100	100	Production and sale of ready-mixed concrete
Kyushu Tokuyama Ready Mixed Concrete Co., Ltd.	50	100	Production and sale of ready-mixed concrete
Chugoku Ready Mixed Concrete Co., Ltd.	80	52.3	Production and sale of ready-mixed concrete
Notsuharu Co., Ltd	3	100	Production and sale of ready-mixed concrete
Tokuyama Tsusho Trading Co., Ltd.	95	100	Sale of cement and ready-mixed concrete
Kansai Tokuyama Trading Co., Ltd.	80	100	Sale of cement and ready-mixed concrete
Tokusho Co., Ltd.	40	100	Sale of cement and ready-mixed concrete
Tokushin Co., Ltd.	40	100	Sale of cement and ready-mixed concrete
Tokuyama Mtech Corporation	50	100	Processing and sale of building materials
Tokuyama Nouvelle Calédonie S.A.	XPF 210,000	74.1	Production and sale of cement
Category also includes another 6 consolidated subsidiaries, 3 equity method affiliates and 13 affiliates			
Life & Amenity			
Shanghai Tokuyama Plastics Co., Ltd.	CNY 85,689	100	Production and sale of microporous film
Tianjin Tokuyama Plastics Co., Ltd.	CNY 70,515	100	Production and sale of microporous film
Sun•Tox Co., Ltd.	1,600	100	Production and sale of polyolefin films
A&T Corporation	577	40.2	Production and sale of diagnostic reagents, analyzers and systems
Figaro Engineering Inc.	99	100	Production and sale of sensor devices

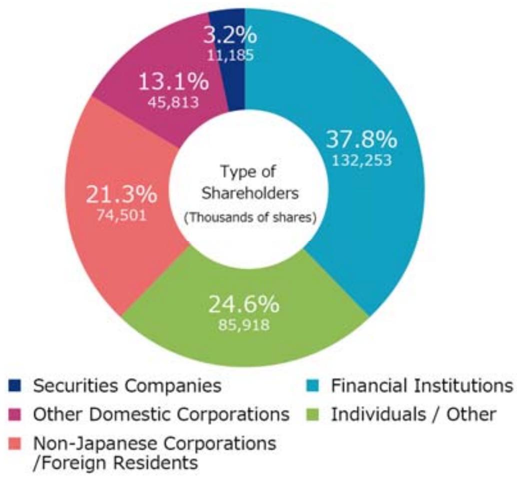
Company	Capital (millions of yen, local currency in thousands)	Ownership (%)	Scope
Tianjin Figaro Electronic Co., Ltd.	CNY 23,670	55.7	Production and sale of sensor devices
Figaro USA, Inc.	USD 200	100	Production and sale of sensor devices
Tokuyama Dental Corporation	100	100	Production and sale of dental and medical materials
ASTOM Corporation	450	55.0	Production and sale of ion-exchange membranes and related equipment
Eurodia Industrie S.A.	EUR 1,360	60.2	Production and sale of ion-exchange membranes related equipment
Excel Shanon Corporation	495	100	Production and sale of plastic window sashes
Tohoku Shanon Co., Ltd.	300	72.0	Production of plastic window sashes
*Neusoft A&T Diagnostics Co., Ltd.	CNY 60,000	49.0	Production and sale of diagnostic reagents, analyzers and systems
Category also includes another 3 consolidated subsidiaries, 1 equity method affiliates and 2 affiliates			
Other			
Tokuyama Asia Pacific Pte. Ltd.	SGD 800	100	Sale of Tokuyama's products
Tokuyama Europe GmbH	EUR 255	100	Sale of Tokuyama's products
Tokuyama Trading (Shanghai) Co., Ltd.	CNY 5,258	100	Sale of Tokuyama's products
Tokuyama (Shanghai) Co., Ltd.	CNY 12,339	100	Management company to provide services for other group companies in China
Tomitec Co., Ltd.	100	60.0	Production and sale of plastic molded products
Shunan System Sangyo Co., Ltd.	151	100	Real estate, civil engineering, construction
Tokuyama Logistics Corporation	100	100	Transportation and warehousing
Tokuyama Information Serivce Corporation	20	100	Information processing services
Shunan Bulk Terminal Co., Ltd.	150	72.2	Warehouse operations for bulk cargoes of coal etc.
* Covalent Materials Tokuyama Corporation	100	30.0	Production and sale of ceramics and electrochemical products
* Tokuyama Polypropylene Co., Ltd.	500	50.0	Production and sale of polypropylene
* Nishinihon Resicoat Co., Ltd.	50	50.0	Production of metal parts and anti-rust surface coating materials
Category also includes another 4 consolidated subsidiaries and 5 affiliates			

Corporate Data and Stock Information

（As of March 31, 2014）

Company Name:	Tokuyama Corporation
Established:	February 16, 1918
Capital:	¥53,458 million
Employees:	5,756 (Consolidated)
Fiscal Year:	From April 1 to March 31
General Meeting of Shareholders:	June
Stock Listing:	Tokyo
Minimum Number of Shares per Trade:	1,000 shares
Stock:	4043

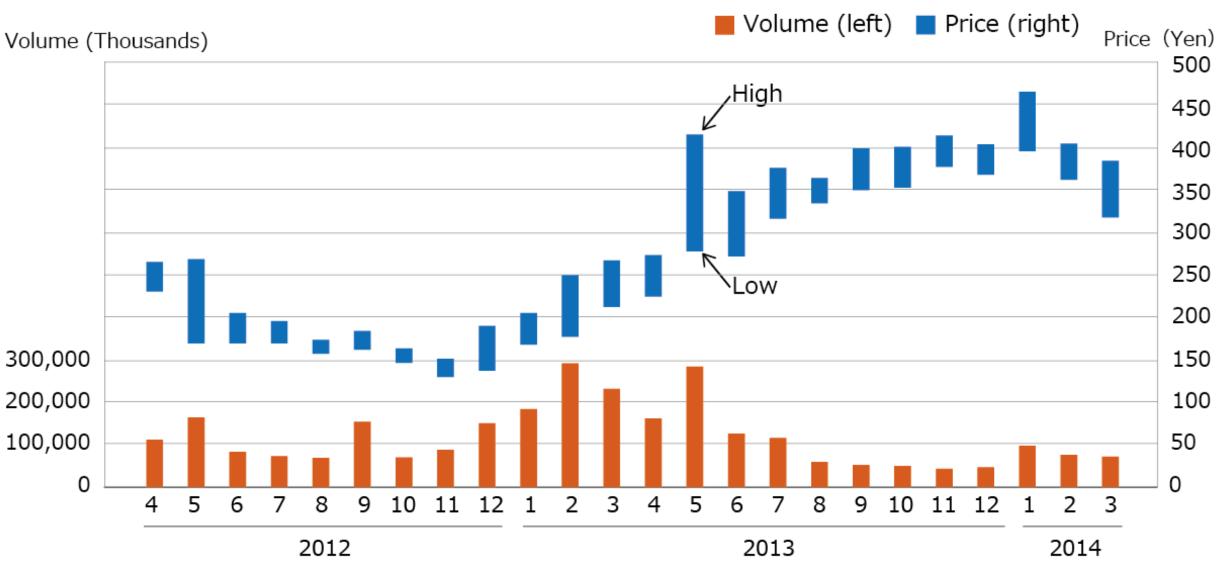
Composition of Shareholders



Major Shareholders

Name	Number of Shares Held (Thousands)	Percentage of Total Shares
The Master Trust Bank of Japan, Ltd. (trust account)	24,411	6.98
Japan Trustee Services Bank, Ltd. (trust account)	16,104	4.61
Nippon Life Insurance Company	13,204	3.78
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	9,375	2.68
The Yamaguchi Bank, Ltd.	8,246	2.36
Meiji Yasuda Life Insurance Company	7,442	2.13
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	2.03
Sojitsu Corporation	6,484	1.85
Sumitomo Metal Mining Co., Ltd.	5,904	1.69
Mitsubishi UFJ Trust and Banking Corporation	5,852	1.67

Stock Chart



Tokuyama Corporation

Kasumigaseki Common Gate West Tower
2-1, Kasumigaseki 3-chome, Chiyoda-ku, Tokyo 100-8983, Japan
Corporate Communications & Investor Relations Department
TEL: +81-3-6205-4832 FAX: +81-3-6205-4881
URL: http://www.tokuyama.co.jp/eng/