Chemistry with a heart
TOKUYAMA

TOKUYAMA CORPORATION
Annual Report 2016

Year ended March 31, 2016

Contents

CAUTIONARY NOTES:
FORWARD-LOOKING STATEMENTS

This annual report contains information about forward-looking statements related to such matters as the Company's plans, strategies and business results. These forward-looking statements represent judgments made by the Company based on information available at the time of preparing this report, and are inherently subject to a variety of risks and uncertainties. The Company's actual activities and business results could differ significantly from the forward-looking statements due to changes including, but not limited to, those in the economic environment, business environment, demand and exchange rates.

DISCLAIMER

This annual report is supplied to provide information of the Company, and is not intended as a solicitation for investment or other actions. The Company assumes no responsibility whatever for any losses or deficits resulting from investment decisions based entirely on projections, numerical targets and other information contained in this report.

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 cement, recycling and environment-related businesses.

Tokuyama's 100th anniversary is February 16, 2018. We at the Tokuyama Group are committed to creating new value centered on the field of chemistry. In creating a constant stream of new value, we will contribute to people's happiness as well as the growth and development of society.

Company History

1918～1944 Establishment and specialization in soda production

1918 Nihon Soda Kogyo Co., Ltd. (currently Tokuyama Corporation) was established to produce soda ash
1938 Commenced cement business
1940 Expansion of inorganic chemicals business

The Factory as it was established

1945～1960 Further expansion of inorganic chemicals business

1952 Commenced electrolytic chlor-alkali business

1960's Cement kiln (length: 185m)

1961～1974 Entry into petrochemicals business

1964 Commenced petrochemicals business
1966 Commenced polyvinyl chloride business
1967 Commenced ion exchange membrane business
1970 Commenced polypropylene business

1975～1989 Entry into specialty and processing business

1976 Commenced polyolefin film business
1978 Commenced dental materials and equipment business
1981 Commenced building materials business
1982 Commenced life-related business
Commenced fine chemicals business
1983 Commenced IC chemicals business (high-purity chemicals for electronics manufacturing)
Commenced medical diagnosis systems business
1984 Commenced electronic materials business (polycrystalline silicon)
1985 Commenced aluminum nitride business
Commenced gas sensors business

Tokuyama Factory (Current)

1990～2004 Strengthening and restructuring of business

1992 Established Sun • Tox Co., Ltd. as a joint venture for manufacture and sale of polyolefin film
1995 Established Shin Dai-ichi Vinyl Corporation as a joint concern for manufacture and sale of polyvinyl chloride
2000 Commenced recycling & environment-related business

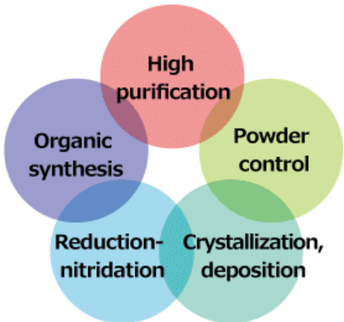
2005～ Accelerating overseas business expansion

2005 Established Tokuyama Chemicals (Zhejiang) Co., Ltd. in Zhejiang, China as a manufacturing and sales company of fumed silica
2009 Established Tokuyama Malaysia Sdn. Bhd. in Malaysia as a manufacturing and sales company of polycrystalline silicon
2013 Started operation of Tokuyama Chiyoda Gypsum Co., Ltd as a joint venture for developing a waste gypsum board recycling business
Established Tokuyama Nouvelle Calédonie S.A., in New Caledonia, as a manufacturing and sales company of cement

A Value Creation Cycle that Spans Close to a Century

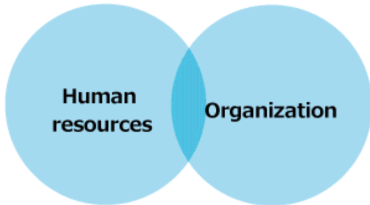
Drawing on its unique technologies in the manufacture and development of inorganic and organic chemicals, Tokuyama has continued to refine its capabilities as the driving force behind its value creation endeavors for just short of a century. As a platform for the manufacture and seamless delivery of products that employ these technologies to reduce costs to an unprecedented level, the Company also makes full use of the industry-leading port infrastructure and in-house power generation facilities owned and operated by Tokuyama Factory. Located in the Shunan Industrial Zone, Tokuyama Factory works diligently to deepen ties with neighboring companies. In addition to the supply of electric power and raw materials, Tokuyama Factory actively engages in the collection of waste. As the Group's main manufacturing facility, Tokuyama Factory boasts a highly efficient production structure and systems that link several plants and operational units to ensure the integrated and effective use of raw materials, products, byproducts, and waste.

Taking full advantage of its tangible and intangible asset including unique technologies, competitive manufacturing facilities as well as human resources and organizations with professional skills and experience, the Tokuyama Group provides products and services that match the needs of the market. With a proven track record of creating value with our customers for a century, we will continue to fine tune our business model as a core and inherent strength..



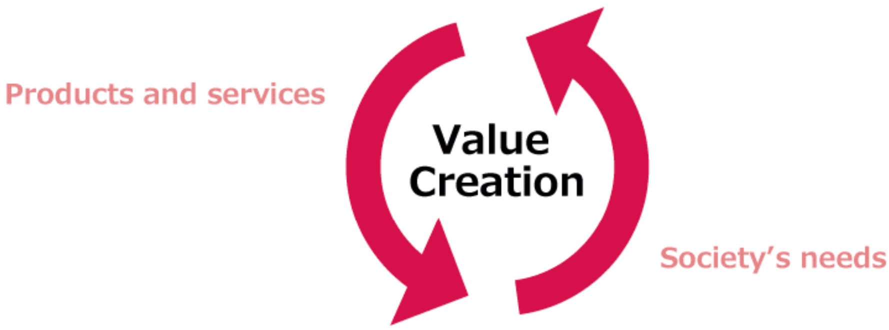
Unique technologies for inorganic and organic materials


Tokuyama Factory enjoys one of Japan's leading port infrastructure and in-house power generation facilities



Human resources and organizations with professional skills and experience

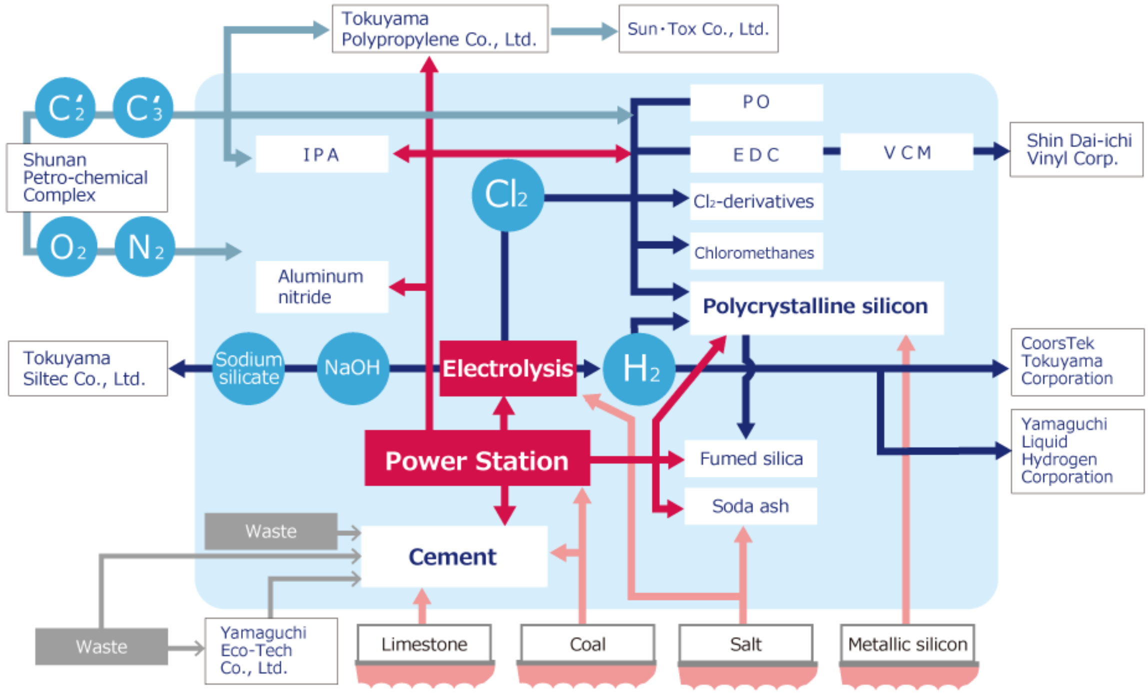
Source of Value Creation



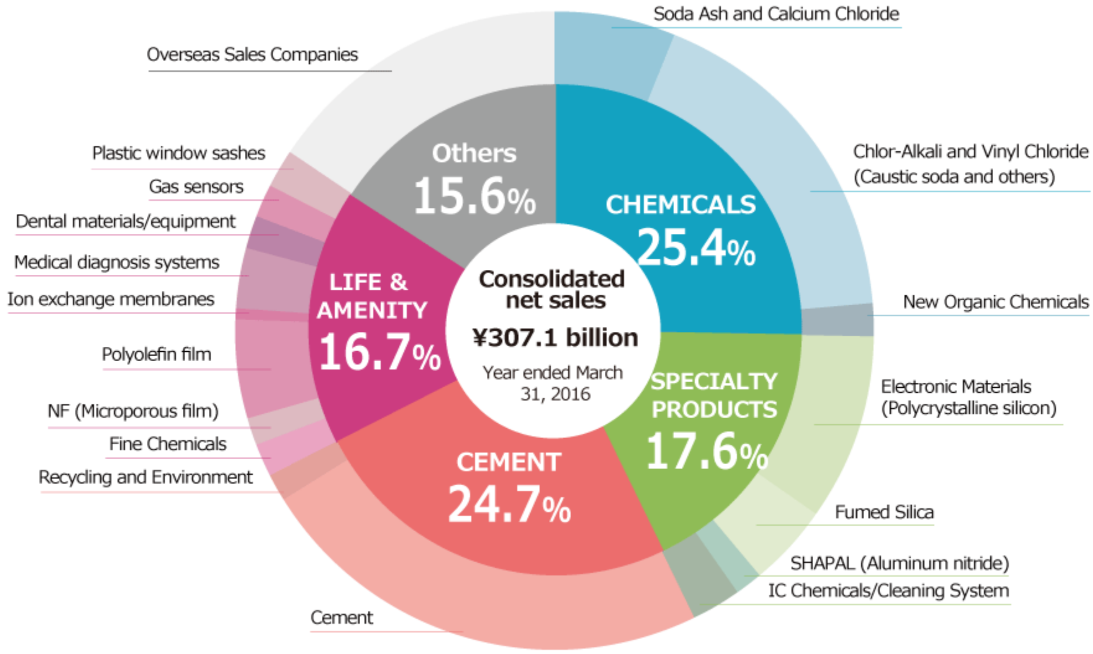
Business Field

Customers			
	Information and electronics	Semiconductor-grade polycrystalline silicon High-purity chemicals for electronics manufacturing Fumed silica	
	Environment and energy	Solar-grade polycrystalline silicon Aluminum nitride Ion exchange membranes	Recycling and environment-related business Plastic window sashes
	Life and healthcare	Caustic soda Chlorine derivatives Polyvinyl chloride Soda ash Cement Polyolefin film	Plastic lens-related materials Active pharmaceutical ingredients Microporous film Gas sensors Dental materials/equipment Medical diagnosis systems

Open Integration in the Tokuyama Factory



Our Business Portfolio

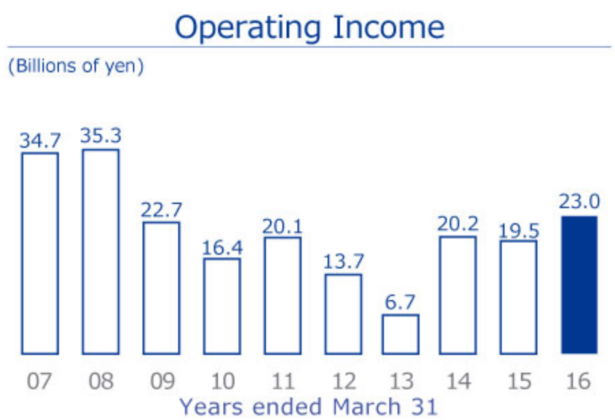


Consolidated Financial Highlights

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31

	Millions of yen				
	2007	2008	2009	2010	2011
Net sales	292,764	307,453	300,999	273,154	289,786
Operating income	34,737	35,325	22,738	16,483	20,144
Profit (loss) attributable to owners of parent	18,460	18,888	(5,597)	7,458	9,765
Per share amounts (in yen)					
Basic earnings (loss)	67.24	68.85	(20.42)	23.52	28.06
Cash dividends	6.00	9.00	6.00	6.00	6.00
Net assets	699.69	725.37	669.80	682.03	693.18
Total assets	373,745	383,264	403,613	452,893	474,708
Net assets	197,811	206,135	189,757	243,606	247,656
Cash flows from operating activities	34,225	47,698	42,480	29,380	37,043
Cash flows from investing activities	(22,531)	(25,664)	(56,506)	(36,468)	(88,508)
Cash flows from financing activities	(13,836)	(10,176)	29,246	46,990	23,994
Cash and cash equivalents at end of the year	29,222	41,057	55,365	95,945	68,624
Capital expenditures	22,656	37,001	52,550	26,557	35,807
Depreciation and amortization (Note 1)	18,144	21,451	22,986	37,688	31,476
R&D expenses	10,756	11,161	11,872	11,817	11,469
Shareholders' equity ratio (%)	51.4	51.9	45.5	52.4	50.8
Return on equity (%)	10.0	9.7	(2.9)	3.5	4.1
Number of employees	4,852	5,057	5,295	5,444	5,493
Consolidated subsidiaries	44	47	46	49	50

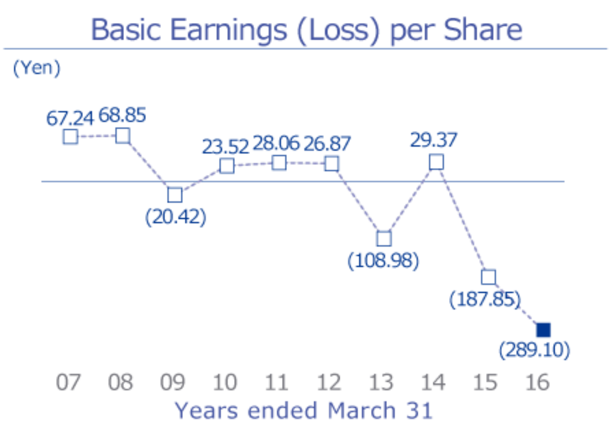
Note 1: Depreciation and amortization includes amortization of long-term prepaid expenses.

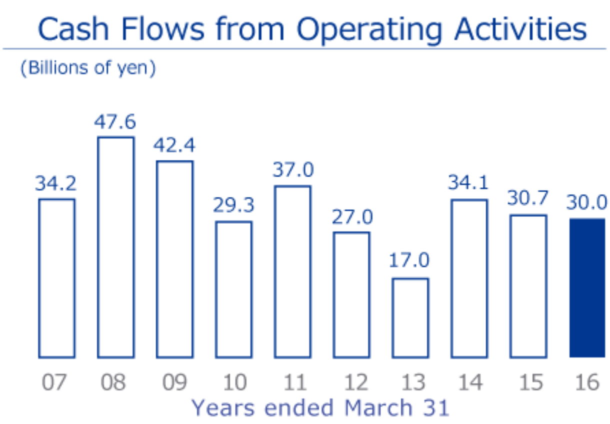


	Millions of yen					Thousands of U.S. dollars (Note2)
	2012	2013	2014	2015	**2016**	**2016**
Net sales	282,381	258,632	287,330	302,085	307,115	2,717,833
Operating income	13,720	6,772	20,270	19,530	23,071	204,170
Profit (loss) attributable to owners of parent	9,351	(37,916)	10,218	(65,349)	(100,563)	(889,945)
Per share amounts (in yen, dollars)						
Basic earnings (loss)	26.87	(108.98)	29.37	(187.85)	(289.10)	(2.56)
Cash dividends	6.00	3.00	6.00	-	-	-
Net assets	716.39	625.29	660.18	467.36	147.98	1.31
Total assets	501,181	518,251	576,315	554,527	401,342	3,551,699
Net assets	255,460	223,871	236,453	169,445	60,205	532,792
Cash flows from operating activities	27,060	17,071	34,105	30,772	30,098	266,358
Cash flows from investing activities	(57,666)	(60,673)	(64,402)	(25,519)	13,400	118,585
Cash flows from financing activities	20,791	36,465	45,939	40,502	(37,689)	(333,538)
Cash and cash equivalents at end of the year	58,476	52,431	69,973	116,122	121,166	1,072,269
Capital expenditures	77,602	97,549	61,051	25,345	13,945	123,410
Depreciation and amortization (Note 1)	28,492	23,242	16,770	18,845	20,084	177,738
R&D expenses	11,704	10,076	8,709	10,156	8,522	75,423
Shareholders' equity ratio (%)	49.7	42.0	39.9	29.3	12.8	-
Return on equity (%)	3.8	(16.2)	4.6	(33.3)	(94.0)	-
Number of employees	5,506	5,651	5,756	5,852	5,759	-
Consolidated subsidiaries	48	49	53	54	55	-

Note 1: Depreciation and amortization includes amortization of long-term prepaid expenses.

Note 2: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥113=US$1.





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.

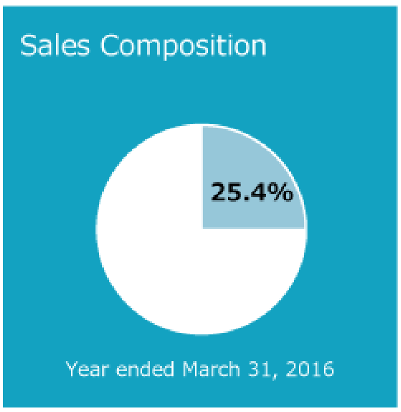
Business Unit	Major Products
Soda Ash and Calcium Chloride	Soda ash, Calcium chloride, Sodium silicate and Sodium bicarbonate
Chlor-Alkali and Vinyl Chloride	Caustic soda, Vinyl chloride monomer (VCM), Propylene oxide and Methylene chloride
New Organic Chemicals	Isopropyl alcohol (IPA)
Group Companies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

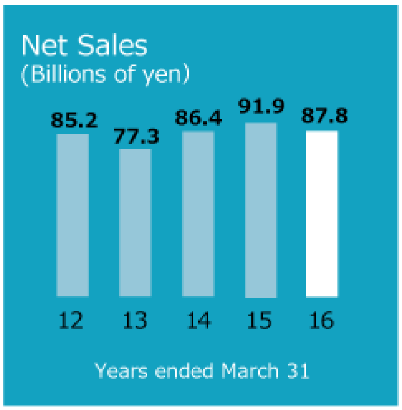
Operating Results for the Fiscal Year ended March 31, 2016

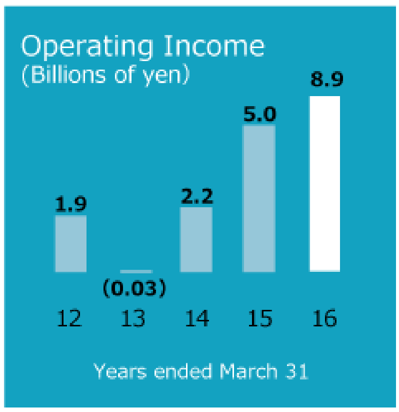
Sales of caustic soda were down compared with the previous fiscal year. While domestic sales volumes were steady, this decrease was attributable to weak trends in selling prices.

With regard to vinyl chloride monomer (VCM), profitability improved on the back of a drop in raw material costs due to the downturn in domestic naphtha prices.

Despite a favorable export environment, sales of polyvinyl chloride (PVC) declined. This was mainly due to a drop in sales volumes following the closure of the Chiba factory.







With regard to soda ash and calcium chloride, sales increased compared with the previous fiscal year. This reflected the startup of operations by Tokuyama & Central Soda Inc. in October 2014.

As a result of the above, segment net sales decreased 4.5% compared with the previous fiscal year, to ¥87,801 million, while operating income increased 76.0% to ¥8,900 million. The segment reported higher earnings on lower sales.

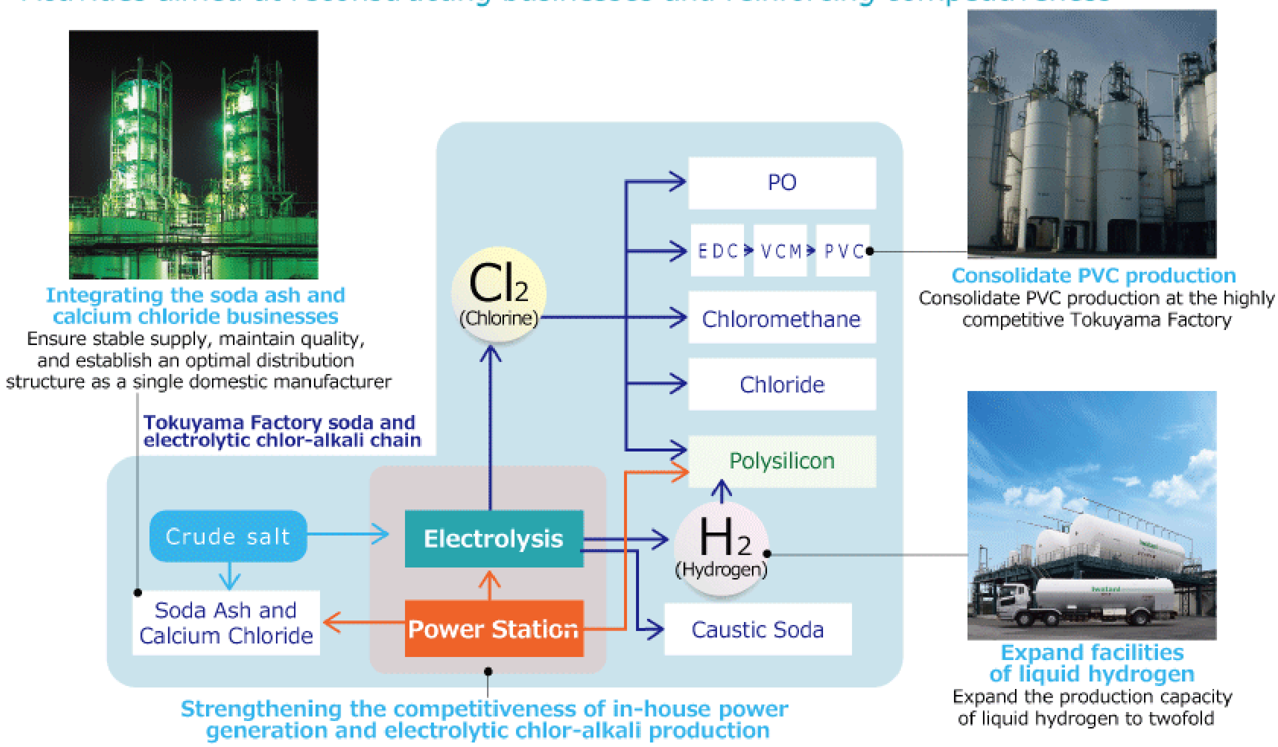
Strategies going forward

Tokuyama will contribute to the development of customers' businesses by delivering high-quality, cost-competitive basic chemical materials and services that accurately reflect customers' needs. At the same time, we will help to ensure the Company's stable and continuous earnings growth, all through our activities as the core business of the Company. Guided by this basic policy, we will push forward the following priority measures.

■ Soda Ash and Calcium Chloride Business
We will ensure the stable supply while maintaining the quality of products as a single domestic manufacturer.

■ Chlor-Alkali and Vinyl Chloride Business
We will strengthen the competitiveness of our in-house power generation and electrolytic chlor-alkali production with the aim of further reducing the cost of caustic soda and chlorine. At the same time, we will strengthen the profitability of the chlorine derivatives business including vinyl chloride, propylene oxide, and chloromethane. Moving forward, we will double the liquid hydrogen production capacity of Yamaguchi Liquid Hydrogen Corporation. The supply of liquid hydrogen produced by the expanded line is scheduled to start in November 2017.

Activities aimed at reconstructing businesses and reinforcing competitiveness



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, polishing material for semiconductors manufacturing, 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 such as high purification, powder control and others, 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 substrate [Tokuyama-Dowa Power Materials Co., Ltd.]

Operating Results for the Fiscal Year ended March 31, 2016

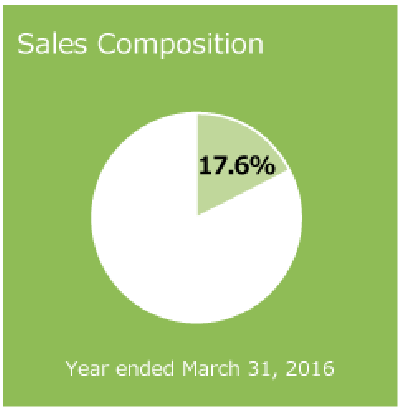
Sales of semiconductor-grade polycrystalline silicon were essentially unchanged from the previous fiscal year. This largely reflected firm overall trends in sales volumes, which offset the slowdown in demand for certain semiconductor products targeting various fields including smartphones.

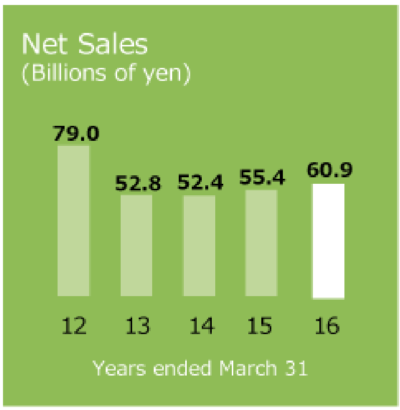
Sales of solar-grade polycrystalline silicon increased on the back of higher sales volumes. This was mainly due to the start of sales and marketing by Tokuyama Malaysia in October 2014. In contrast, profitability deteriorated owing to such factors as the marked drop in spot price and sluggish operating rates.

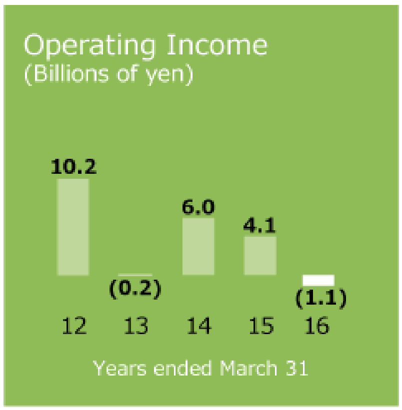
Sales of fumed silica increased compared with the previous fiscal year due to steady sales of such applications as a polishing material for semiconductors manufacturing.

Sales volume of high-purity chemicals for electronic manufacturing were firm thanks largely to semiconductor product applications. However, sales declined as a result of soft trends in selling prices.

With regard to aluminum nitride, sales increased compared with the previous fiscal year. This was attributable to an increase in sales volumes of such applications as heat sink materials used for power devices for industrial machinery and LEDs.







As a result of the above, the segment reported a loss on higher sales. Segment net sales increased 9.8% compared with the previous fiscal year, to ¥60,902 million. However, this segment incurred an operating loss of ¥1,157 million during the fiscal year under review.

Strategies going forward

Tokuyama will adhere strictly to a policy of QCD (quality, cost, delivery) improvement while continuing to put forward development product proposals in order to remain the preferred supplier of customers. To achieve this end, we will undertake the following priority measures.

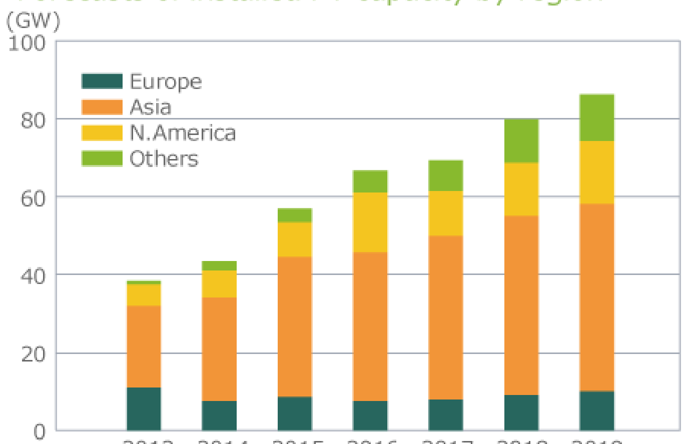
■ Electronic Materials Business (Polycrystalline Silicon)
With regard to the semiconductor-grade polycrystalline silicon, we will contribute to the development and growth of the semiconductor industry by accurately grasping the needs of customers with respect to product quality and then reflecting these requirements in efforts to improve the quality of our own products. Concerning solar-grade polycrystalline silicon, we will secure stable operations at Tokuyama Malaysia.

■ IC Chemicals Business
We will expand sales and improve the quality of products that target the advanced semiconductor field.

■ Fumed Silica Business
In addition to upgrading and expanding highly functional products, we will establish optimal production with Tokuyama Chemicals (Zhejiang) Co., Ltd.

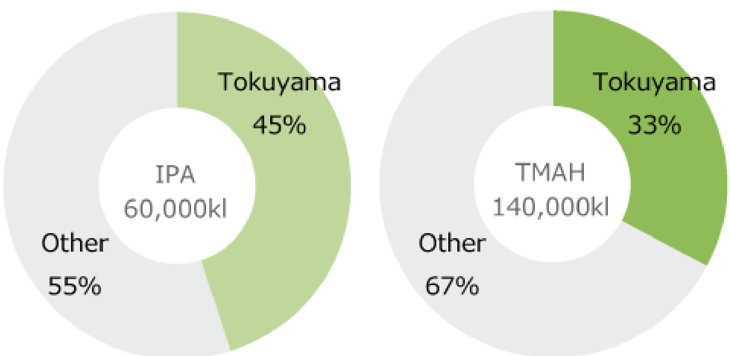
■ Shapal Business (Aluminum Nitride)
We will expand business in the heat sink market targeting the power device and semiconductor equipment fields.

Forecasts of installed PV capacity by region



Note: Tokuyama estimate based on IHS Market Tracker (PV Integrated) Q1 2016

Tokuyama's Share of the High-Purity Chemicals Market for Electronics Manufacturing (Asia)



Note: Company estimate

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 various types of building materials products including cement- and mortar-type products. Moreover, the Cement segment strives to develop products that can create new business possibilities by employing the technologies it has developed in the cement and building material fields. For example, steps are being taken to roll out Fresco Graph and other cutting-edge techniques that incorporate 3-D modeling technologies using Shikkui Lemarge interior design materials and other classic style fresco painting plaster techniques.

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.]

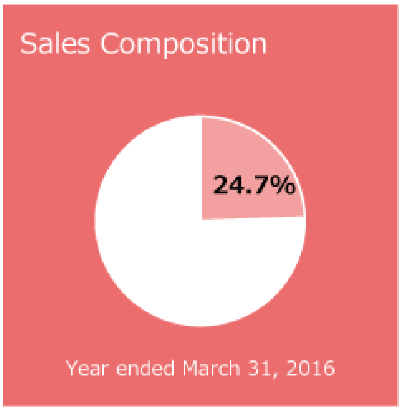
Operating Results for the Fiscal Year ended March 31, 2016

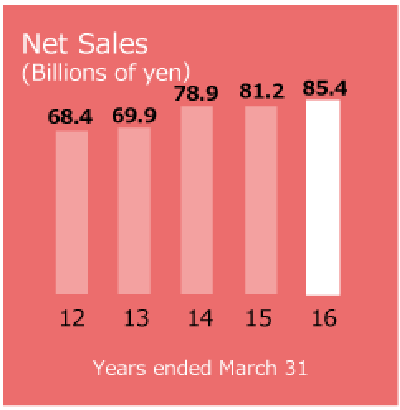
In the cement business, sales declined compared with the previous fiscal year, as a result of decreased sales volumes. This decrease reflected sluggish trends in both public and private-sector demand impacted by such factors as the decrease in public works and delays in construction attributable to unseasonably bad weather in Japan.

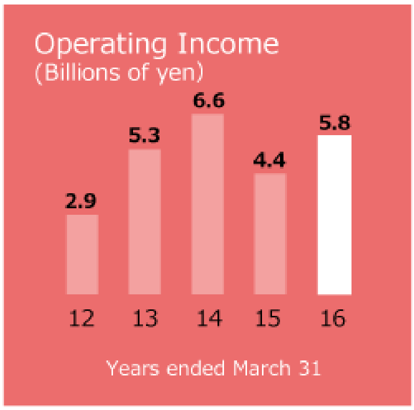
In the recycling and environment-related business, the Company accepted a higher volume of waste including construction waste soil compared with the previous fiscal year. As a result of this, sales increased from the previous fiscal year.

With regard to consolidated subsidiaries, sales increased compared with the previous fiscal year, because sales volumes of such products as ready mixed concrete for large-scale projects increased in certain areas.

As a result of the above, segment net sales increased 5.2% compared with the previous fiscal year, to ¥85,469 million and operating income increased 31.1% to ¥5,832 million. The segment reported higher earnings on higher sales.







Strategies going forward

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.

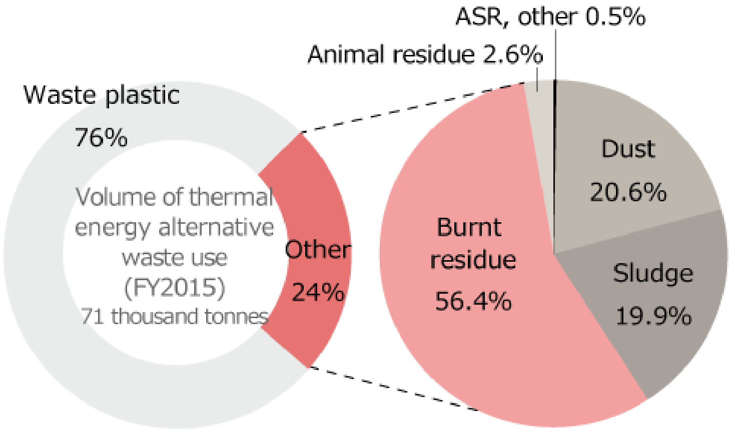
■ Cement Business

Tokuyama will cut back costs by focusing on efforts aimed at reducing the use of coal and increasing the use/intake of combustible waste. We will endeavor to secure earnings by expanding exports that maximize the use of the No. 4 kiln. Energies will also be channeled toward upgrading and expanding the infrastructure maintenance and reinforcement business through Tokuyama Mtech Corporation.

■ Recycling and Environment Business

We will promote the use of combustible waste and optimize the fuel plant business. We will also expand the business for recycling waste gypsum boards in line with the start of operations at the Kanto Plant of Tokuyama Chiyoda Gypsum Co., Ltd.

Status of thermal energy alternative waste use



LIFE & AMENITY

The Life & Amenity Division oversees Group companies that handle such wide-ranging products as polyolefin films, medical diagnosis systems, dental materials, gas sensors, ion exchange membranes and plastic window sashes. The Division is also in charge of the Tokuyama's fine chemicals and NF businesses. 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 pharmaceuticals, 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	Active pharmaceutical ingredients and intermediates, Plastic lens-related materials
NF	Microporous film
Group Companies	Polyolefin film [Sun•Tox Co., Ltd.] Medical diagnosis systems [A&T Corp.] Dental materials/equipment [Tokuyama Dental Corp.] Gas sensors [Figaro Engineering Inc.] Ion exchange membranes [ASTOM Corp.] Plastic window sashes [Excel Shanon Corp.]

Operating Results for the Fiscal Year ended March 31, 2016

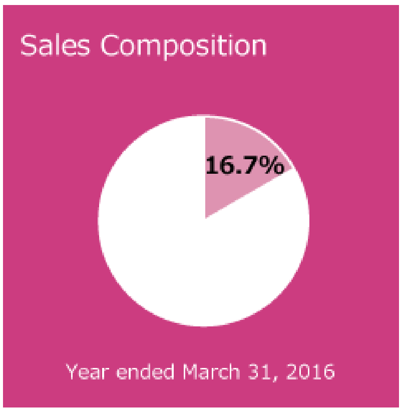
Sales of active pharmaceutical ingredients were on par with the previous fiscal year. This was in large part due to solid sales volumes of products used for generic pharmaceuticals.

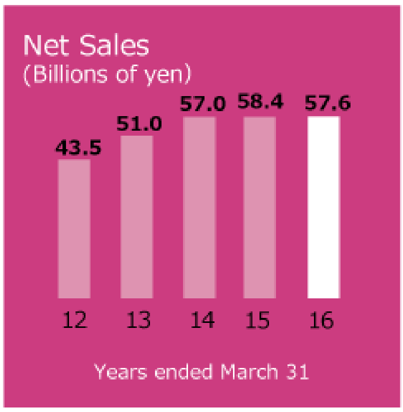
With regard to plastic lens-related materials, sales volumes of photochromic dye materials for eyeglass lenses increased. As a result of this, sales increased compared with the previous fiscal year.

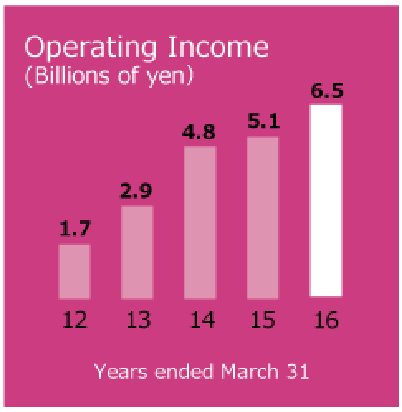
With regard to microporous film, sales increased year on year. This was mainly the result of sound sales for use as sanitary articles including disposable diapers.

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

With regard to dental materials and equipment, sales increased compared with the previous fiscal year, due to the launch of new products and increased sales in overseas markets.







With regard to medical diagnosis systems, sales were up compared with the previous fiscal year. This was due to the upswing in large-scale orders in Japan for blood testing products.

With regard to gas sensors, sales increased compared with the previous fiscal year. This was attributable to strong overseas sales volume of such applications as gas alarm devices.

As a result of the above, segment net sales decreased 1.3% compared with the previous fiscal year, to ¥57,677 million, while operating income increased 27.9% to ¥6,598 million. The segment reported higher earnings on lower sales.

Strategies going forward

Tokuyama is securing a position of advantage in markets both in Japan and overseas, pursuing business expansion, and contributing to the improvement of people's quality of life by establishing and strengthening its customer-oriented development, manufacturing, and sales structure. Driven by this policy, we will advance the following priority measures.

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

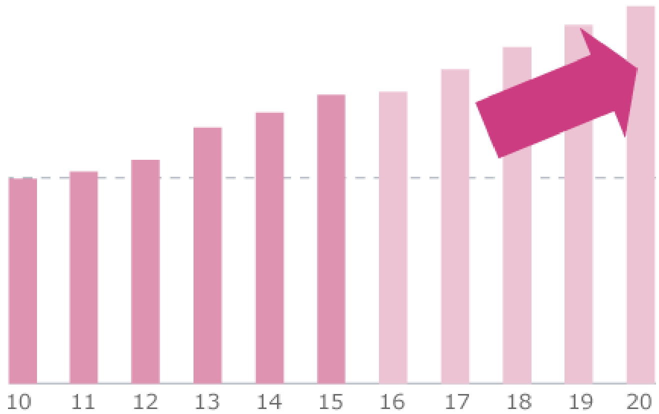
■ NF Business (Microporous Film)
Addressing the rapid increase in use of disposable diapers, a main application for microporous films, in China and other Asian countries, we will increase earnings at the Group's manufacturing bases in Shanghai and Tianjin by promoting ties with disposable diaper manufacturers, who possess factories in China.

■ Polyolefin Film Business (Sun･Tox Co., Ltd.)
Every effort will be made to improve productivity by implementing a scrap and build approach toward manufacturing facilities.

■ Medical Diagnosis System Business (A&T Corporation)
We will strengthen the OEM business and expand overseas sales channels.

■ Dental Materials/Equipment Business (Tokuyama Dental Corporation)
Steps will be taken to accelerate the pace of overseas business development focusing mainly on aesthetic filling materials (composite resins).

Trends in Dental Materials and Equipment Business Sales



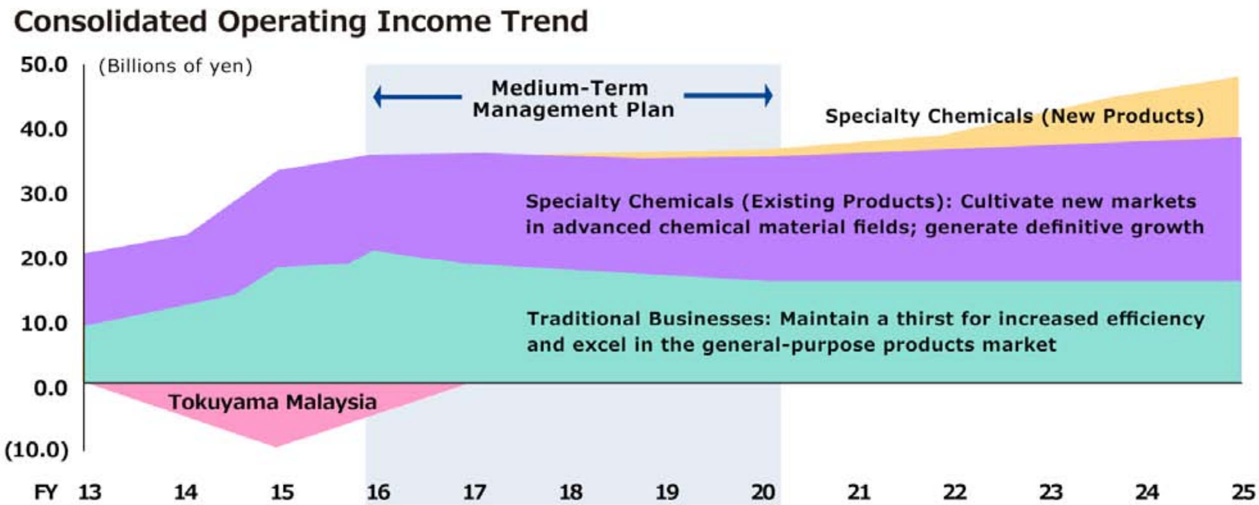
Note: Graph with FY2010 as a base of 100.
Forecast data for FY2016 to FY2020.

Medium-Term Management Plan

Lay the Cornerstone of the Group's Revitalization

Tokuyama announced its Medium-Term Management Plan 2017 in July 2015 with the view of rebuilding its financial platform. In the ensuing period, the Group as a whole worked in unison to rebuild its management structure in a bid to secure profits. Based on these endeavors, the Company reported an increase in both net sales and operating income in fiscal 2015, the fiscal year ended March 31, 2016. Despite achieving a certain level of success, however, Tokuyama was forced to incur a net loss for the period owing mainly to a substantial impairment loss.

Looking ahead, forecasts for certain existing businesses indicate that the general-purpose product market in Japan will contract. At the same time, a slowdown in electronic materials business growth is also expected. Under these circumstances, and recognizing the need to create the necessary driving force to propel new profit growth, Tokuyama undertook a fundamental review of its previous Medium-Term Management Plan. Guided by the overarching vision toward "New Foundation," the Company put in place a five-year medium-term management plan, commencing from fiscal 2016, as the "cornerstone of the Group's revitalization."



Going forward, Tokuyama is committed to carrying out the following two priority management strategies by fiscal 2025, the fiscal year ending March 31, 2026.

1. Transition toward a robust business structure that is resilient against changes in the Company's operating environment and is capable of sustainable growth

The Tokuyama Group has set the goal of becoming a global leader in advanced materials through unique technologies across growth businesses including the Specialty Products as well as Life & Amenity segments together with the development of new products. In such traditional businesses as the Cement and Chemicals segments, the Group will work to become a leader in Japan through strengthening competitiveness.

2. Transition to a Group-wide low-cost structure by undertaking a comprehensive review of existing work practices

The Tokuyama Group will reduce costs by adopting a cross-departmental approach that differs from conventional methods and undertaking strategic capital expenditures as a part of efforts to cut back principal costs including raw material, fuel, repairs and maintenance, and distribution expenses.

A number of factors led to the Company's current difficult position. This is largely due to overdependence on Tokuyama Factory's competitiveness, inward posture spread among employees, corporate governance which was loosening owing to upswing in the profit of polysilicon business, and lack of management's leadership. Taking these factors into consideration, Tokuyama is cognizant of the vital need to overcome these issues and to create the necessary driving force to propel new profit growth. With this in mind, the Company will accordingly work to definitively change its organizational climate, rebuild its business strategies, strengthen Group management, and improve its financial position.

Outline of the plan

1) Positioning of the Plan

The Medium-Term Management Plan has been set up as a milestone toward achieving the Group's aspirations. Through implementing the Plan, the Tokuyama Group will lay the cornerstone for the Group's revitalization.

2) Term of the Plan

April 1, 2016 to March 31, 2021

3) Priority issues and measures

1. Change the Group's organizational culture and structure

Steps will be taken to review personnel evaluation systems, actively promote the exchange of human resources between Group companies, and drastically reform structures and systems through a variety of initiatives including the vigorous introduction of outside personnel.

2. Rebuild the Group's business strategies

The Group will strictly adhere to a customer-oriented approach on the conduct of its business activities. At the same time, the Group will transition to a research and development structure that is in tune with customers' needs. Through these means, energies will be channeled toward cultivating new business domains that employ unique technologies. In addition, the Group will reinforce management resources including personnel and information through alliance with other companies or utilizing open innovation.

3. Strengthen Group management

Each company of the Tokuyama Group will once again clarify its role and position. Seeking to contribute to the Group's growth strategy as well as the reduction of costs, particular emphasis will be placed on further strengthening the management of the Group as a whole.

4. Improve the Company's financial position

Every effort will be made to restore the Company's shareholders' equity by steadily building up profits. At the same time, Tokuyama will issue classified stock (preferred stock) to quickly stabilize the Company's financial position, thereby ensuring that the Group is well positioned to flexibly pursue opportunities including M&As that are designed to accelerate the pace of growth.

4) Targets to be achieved by the final fiscal year of the Medium-Term Management Plan (Fiscal 2020)

Net sales: ¥335.0 billion
Operating income: ¥36.0 billion
ROA: 10%
CCC: 55 days
D/E ratio 1.0

[Assumptions]
Exchange rate: ¥110/US$
Domestic naphtha price: ¥58,000/kl

(Note) ROA: Operating income / Total assets;
Cash Conversion Cycle (CCC): Accounts receivable turnover period + Inventory turnover period – Accounts payable turnover period

Message from the President

Hiroshi Yokota, President

In fiscal 2015, the fiscal year ended March 31, 2016, Tokuyama incurred an impairment loss of ¥123.8 billion due mainly to a deterioration in its business environment and the sharp drop in solar-grade polycrystalline silicon market conditions. Buoyed by robust trends in existing businesses, both net sales and operating income increased compared with the previous fiscal year. Despite these favorable results, the Company has decided to forego the payment of a cash dividend for the fiscal year under review owing to the substantial net loss for the period. I deeply regret these current circumstances and extend my deepest apologies for the considerable anxiety and inconvenience caused to all shareholders.

Since assuming the position of president in March 2015, I have taken steps to install a new management structure and implement various reforms in an effort to ensure the Group's revitalization. Despite the decision to post impairment losses over the recent past, I have become acutely aware of the Company's enormous potential through repeated discussions with employees and customers. I would like to take this opportunity to provide details of our business and performance over the past 12 months as well as explain our management policies going forward. As we work toward achieving our established goals, I kindly request the continued support and understanding of all stakeholders.

A Definitive First Step toward Rebuilding Our Financial Platform

In taking over the helm of the Company's operations, my first priority was to rebuild our financial platform. With the medium-term goal of lowering the Company's debt-to-equity ratio to below 1.0, I have continued to oversee efforts aimed at building up business profits mainly through the sale of fixed assets and the reduction of costs. In the fiscal year under review, operating income climbed ¥3.5 billion compared with the previous fiscal year. This largely reflected the upswing in net sales and improvements in the profitability of petroleum chemicals. Despite an increase in extraordinary gains of ¥10.9 billion, Tokuyama suffered a substantial downturn in its shareholders' equity after taking into account the impairment loss at Tokuyama Malaysia Sdn. Bhd. and posting a second consecutive fiscal year of net loss. Recognizing the urgent need to strengthen our financial platform, we decided to issue class shares totaling ¥20.0 billion by way of a third-party allotment at a Board of Directors' meeting held in May 2016. This initiative is aimed at quickly regaining the confidence of stakeholders and restoring our shareholders' equity in a timely manner. Faced with a number of options, we took into consideration the impact on existing shareholders when determining how best to increase capital. An increase in common stock, for example, was deemed inappropriate due to the resulting substantial dilutive effect. As a result, we decided on the issuance of class shares. At the same time, the Company also recognized the possibility that it would infringe upon certain loan agreement financial covenants as a result of the impairment loss incurred in the fiscal year under review. Accordingly, we took steps to obtain the understanding of all major lenders to our efforts to rebuild the Company's business and financial platform. This understanding was the basis for executing revised loan agreement and gaining the consent of all financial institutions to continuous transactions going forward. Despite the deterioration in our financial position, we maintain sufficient cash on hand to fund working capital needs as well as the repayment of loans outstanding. We strongly believe that our operations remain unaffected and are confident in our ability to procure funds for the future.

Seizing the Future amid a Difficult Environment

Tokuyama' s business activities are essentially underpinned by its proprietary technologies, developed over many years, and the competitive advantage of Tokuyama Factory. With an established management approach that favored the output of products (product-oriented), we have tended to lose sight of the needs of the market and customers in the recent past. Prior to my appointment as president, we remained transfixed on a business process that focused on past examples of success. This in turn contributed to the ongoing development of an insular corporate culture. In carrying out various tasks, I gradually became aware that this approach was impeding business growth. Despite receiving the opinions and comments of customers, we failed to take heed of the many important hints being provided. Unable as an organization to take advantage of these seeds, we squandered several opportunities to generate new profits. In this regard, the members responsible for the Company's business and development activities neglected to coordinate directly with customers when working through the creating process and endeavoring to resolve issues. A marked and regrettable feature of this neglect has been our inability to launch any product that has subsequently evolved into a core earnings pillar over roughly the past two decades.

Reflecting on this culture, subsequent deficiencies within the Company, and the need to enter a new era of renewed growth, I have made every effort to reform the mindsets of employees over the past 12 months. In order, as a first step, to align the understanding of management with employees at the frontline, I have held a series of in-depth discussions with the managers of each division. In addition to clarifying the issues that we face, we have put in place detailed plans and schedules to resolve each and every challenge. Today we are monitoring the progress of these plans and schedules on a monthly basis. We are also promoting thoroughgoing frontline deliberations in order to restore the Company's focus on its customers and place increased importance on adopting an outward-looking approach. This mirrors my strong belief that each individual must take the initiative rather than rely on the collective strength of the Group. In order to change the mindsets of employees, top management must set the example. It is my intention therefore to actively spearhead our efforts to take bold action. I am confident this will help to motivate division leaders as well as division staff.

Engaging in discussions with business divisions has generated various other benefits. Through close-knit dialog, we have again uncovered unique proprietary technologies that have the potential to address customers' needs and to help differentiate our products. In the growth business specialty chemicals field in particular, which targets the ICT and healthcare sectors, we have identified a number of themes that are consistent not only with the times, but also social trends. Looking ahead, we will nurture this field as a major pillar of new growth as a part of our business restructuring endeavors.

The Essence of Our New Medium-Term Management Plan

Tokuyama unveiled its new Medium-Term Management Plan in May 2016. Based on the ideal image of the Company in the fiscal year ending March 31, 2026, the new Medium-Term Management Plan sets out specific numerical targets to be achieved by the fiscal year ending March 31, 2021. In addition to detailing certain priority issues that we believe need to be addressed, we have positioned the Medium-Term Management Plan as a mid-point from which to measure our progress. At the same time, I strongly believe that the Medium-Term Management Plan will serve as a conduit through which we will instill in each and every member of the Group as a whole the importance of promoting customer satisfaction as the source of profit growth. Profits are a barometer for measuring the level of customer satisfaction. Our ability to generate high profits will therefore reflect an awareness among customers of the Company's added value. In order to achieve this awareness, it is vital that evolve into an outward-looking company. It is equally important that vigorously reform our corporate culture while transitioning to an R&D structure that reflects the customer-oriented nature of our business activities. Ultimately, our goals are to become a global leader in advanced materials through unique technologies in the Specialty Products, Life & Amenity, and other growth businesses and to become a leader in Japan in each of traditional Cement and Chemicals businesses by strengthening competitiveness in the decade ahead.

As the first year of the new Medium-Term Management Plan, it is vital that top management play a leadership role in changing the Group's organizational culture and structure, rebuilding the Group's business strategies, strengthening Group management, and improving the Company's financial position throughout the fiscal year ending March 31, 2017. At the same time, it is imperative that we take bold steps toward further increasing our operating results and improving our finances in order to resume the payment of dividends as quickly as possible. As we toward achieving these goals, we kindly request the continued support and understanding of all stakeholders.

Hiroshi Yokota

Hiroshi Yokota
President
June 2016

Research and Development

Research and Development Principles and Policies

With the basic philosophy of contributing to the world by applying chemistry-based technologies, Tokuyama engages in research and development activities with the aims of (1) promoting research and development with a commitment to business that is based on a customer-focused approach, (2) refining its core technologies and combining them with new technologies to develop highly unique, leading-edge technologies, and (3) creating original products by incorporating market needs in accordance with technical standards.

Societal trends are entering a period of substantial change with the advance of an aging society, focus on the environment, and the dramatic growth and penetration of ICT technology. Under these circumstances, expectations toward the chemical industry and associated technology development continue to mount. As researcher and engineer, we are being asked to develop products that meet the changing needs of society in a timely manner.

As a manufacturer of chemicals, we continue to draw on our accumulated organic and inorganic synthesis, purification, crystallization and deposition, powder control, and sintering technologies in an effort to seamlessly integrate new technologies and lead the world in the research and development of cutting-edge materials. In addition, we work diligently expand existing businesses, extend into new business domains, and contribute to the growth and development. To this end, we pursue research and development that is aligned to the needs of customers and the market as well as social and business trends with a sense of speed while placing the utmost importance on the ideas and efforts of researchers.

Research and Development Bases

Tokuyama's two-pronged R&D structure comprises the Corporate Development Dept. (Tsukuba Research Laboratory) in Tsukuba City, Ibaraki Prefecture, in Eastern Japan, and the Analytical Science Dept. (Tokuyama Research Laboratory) in Shunan City, Yamaguchi Prefecture, in Western Japan.

Corporate Development Dept. (Tsukuba Research Laboratory)

The Tsukuba Research Laboratory is situated in the peaceful setting of Tsukuba Science City in Ibaraki Prefecture. The lab pursues leading-edge technologies from a medium- to long-term perspective, conducting research and development of analysis techniques as platform technologies, composite materials used especially in the field of dentistry, and high-value-added products targeting the organic fine chemicals field.

Tsukuba Research Laboratory

Tokuyama Research Laboratory

Analytical Science Dept. (Tokuyama Research Laboratory)

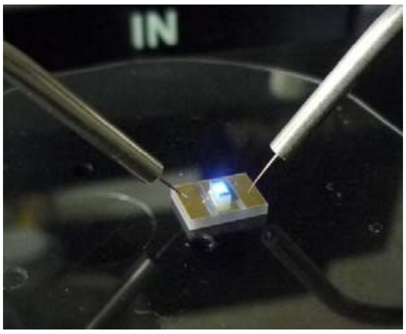
Located on the grounds of the Tokuyama Factory, the Tokuyama Research Lab serves as the Company's research and development facility. Tokuyama Research Lab provides a solid environment for the development units in the Tokuyama region. It also takes full advantage of its immediate proximity to the Company's manufacturing operations at the factory to further enhance the research environment.

R&D Activities in Fiscal 2015

Positioning chemicals as the cornerstone of its efforts to expand business, the Tokuyama Group continues to engage in research and development in each of the key energy-saving, environment, and health care fields.

In August 2015, Tokuyama undertook a comprehensive review of its Technology Strategy Department, which was responsible for the Company's corporate research and development function. Following this review, the existing nine operating areas that comprised the department were consolidated into three distinct areas and renamed the Research & Development Division. At the same time, Tokuyama took steps to sort the development themes that were in progress, which were then reassigned together with pertinent staff to business segment and companies. Looking ahead, every effort will be made to bolster collaboration with each business segment and to push forward research and development that is committed to robust operations in a bid to strengthen business profitability.

The Research & Development Division works closely with the development groups of each segment and engages in the development of technologies relating to each business department's peripheral theme. In specific terms, the Research & Development Division conducts basic market surveys and develops technologies for each business department's peripheral theme. Each business department is then responsible for bringing final products to market. Currently, Tokuyama is working to narrow new development themes and is in the process of completing basic evaluations of promising opportunities. The Company has continued to pursue the development of neutron-detection scintillators as well as deep ultraviolet LEDs and is actively seeking the assessment of customers. Work is now underway to accelerate the pace of commercialization.



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

Fluoride single crystal for scintillators

In fiscal year ended March 31, 2016, the Tokuyama Group's R&D spending totaled ¥8,522 million, including ¥2,420 million for basic research expenditures that are not allocable to a specific segment.

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 and organic / inorganic materials, R&D strengthens our technological prowess and contributes to business. In polyvinyl chloride, 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 ¥553 million in the Chemicals segment.

Specialty Products Segment

In polycrystalline silicon, Tokuyama has carried on the 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. With regard to heat sink materials, efforts focused on the development of high heat dissipation sheets, aluminum nitride fillers targeting heat-dissipating adhesive materials, and boron nitride fillers for use as heat sink materials for such devices as power semiconductors and power LEDs.

R&D expenditures came to ¥1,760 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 recycling waste gypsum boards and coal ash. The Tokuyama Group also conducts basic research into cement and concrete. Ongoing study is being given to the reduction of cement clinker firing temperatures from an energy conservation and efficiency perspective. In addition, Tokuyama improved and developed various grades of cement-related products, such as 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.

R&D expenditures were ¥697 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 manufacturing 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 ¥3,090 million in the Life & Amenity segment.

CSR Initiatives

Tokuyama works diligently to fulfill its corporate social responsibility (CSR) in an effort to nurture sound relationships with all stakeholders in accordance with its basic philosophy of CSR-oriented management. Recognizing that the purpose and purport of the Corporate Governance Code—ensuring sustainable corporate growth while enhancing corporate value over the medium to long term— is directly linked to the principles of CSR, Tokuyama has positioned internal control at the heart of its CSR activities and is taking practical steps to adhere to the Corporate Governance Code. In this regard, we are placing considerable weight on both risk management and compliance as the key elements of our internal control endeavors. As a company that manufactures chemicals, we are also aware of the importance that responsible care plays in advancing CSR. In addition to putting in place a Companywide promotion structure, we are working to ensure the proper operation and continuous upgrade of our safety, environmental and quality management systems.

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

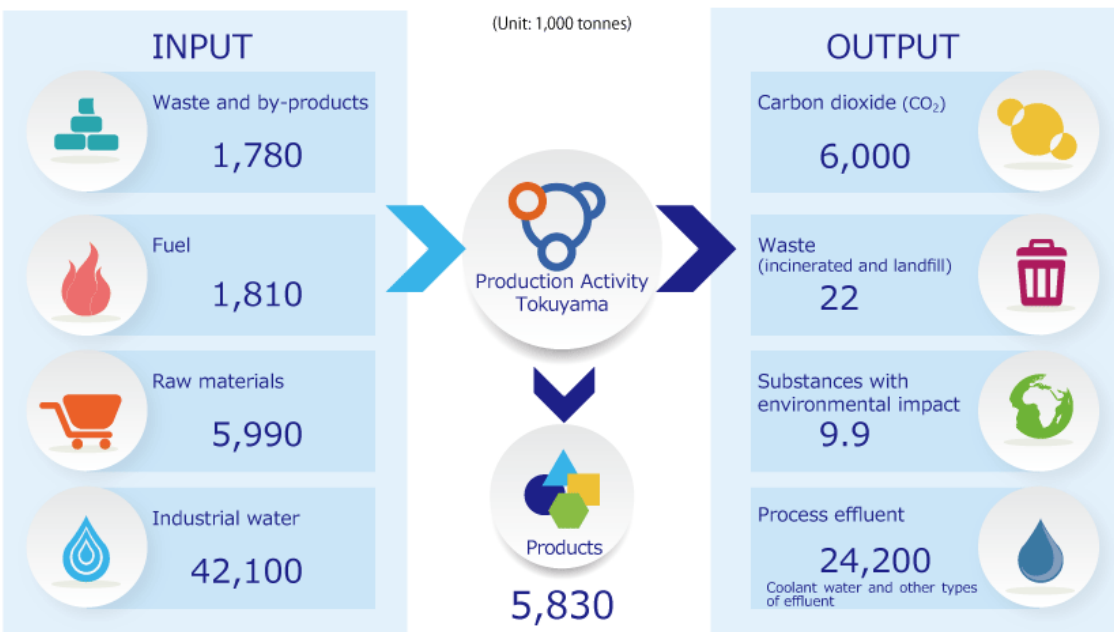
One of our most important corporate social responsibilities is to actively protect the global environment. Tokuyama practices environmental management with an emphasis on environmental perspectives in all of its business activities.

Tokuyama's Environmental Performance for Fiscal 2015

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 2015, Tokuyama achieved its goals for recycling and zero emissions. Turning to unit energy consumption, Tokuyama is making steady progress toward meeting its newly established target of a 3% improvement compared with the level recorded in fiscal 2005 by fiscal 2020.

Flow of Materials in Business Activities



*Result for Fiscal 2015 (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.

Social Contribution Activities

In an effort to deepen understanding toward the Company's process safety, disaster prevention, and environmental protection activities, Tokuyama places the utmost emphasis on promoting communication and dialogue with the local community. We engage in a wide range of activities in a bid to remain an essential partner to the local community and society at large.

Tokuyama Factory Responsible Care Community Dialogue

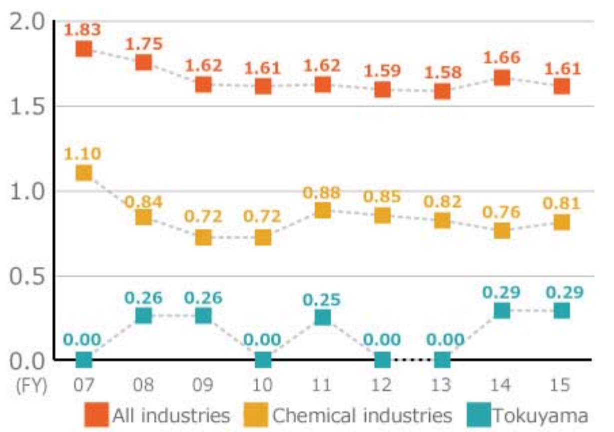
Since fiscal 2004, Tokuyama Factory has held and conducted an annual responsible care community dialogue. The purpose of this event is to provide the neighboring residents' association with a deeper understanding of Tokuyama Factory's process safety, disaster prevention, and environmental protection activities. In fiscal 2015, the event was held on September 17, with the dialogue comprising three parts: a presentation meeting; tour of the facility; and a roundtable discussion to exchange information. Representing the 12th annual community dialogue meeting, 35 members of the residents' association, eight representatives from Shunan City, and 16 employees from Tokuyama Factory including the general manager took part in discussions on promoting the effective use of hydrogen.

A tour of the hydrogen station during Tokuyama Factory's annual responsible care community dialogue initiative

Process Safety, Disaster Prevention and Occupational Health and Safety

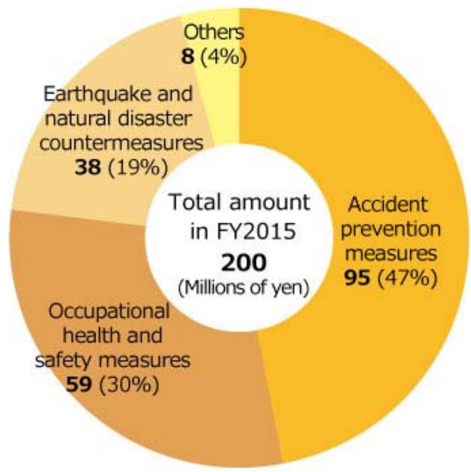
Tokuyama believes that safety is an essential part of business activities and that ensuring safety is the first step in achieving coexistence with society. In taking this stance on safety, Tokuyama thoroughly conducts process safety and disaster prevention activities as well as occupational health and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

Trend in the Accident Frequency Rate*1



*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.

Expenditures for accident prevention and occupational health and safety



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

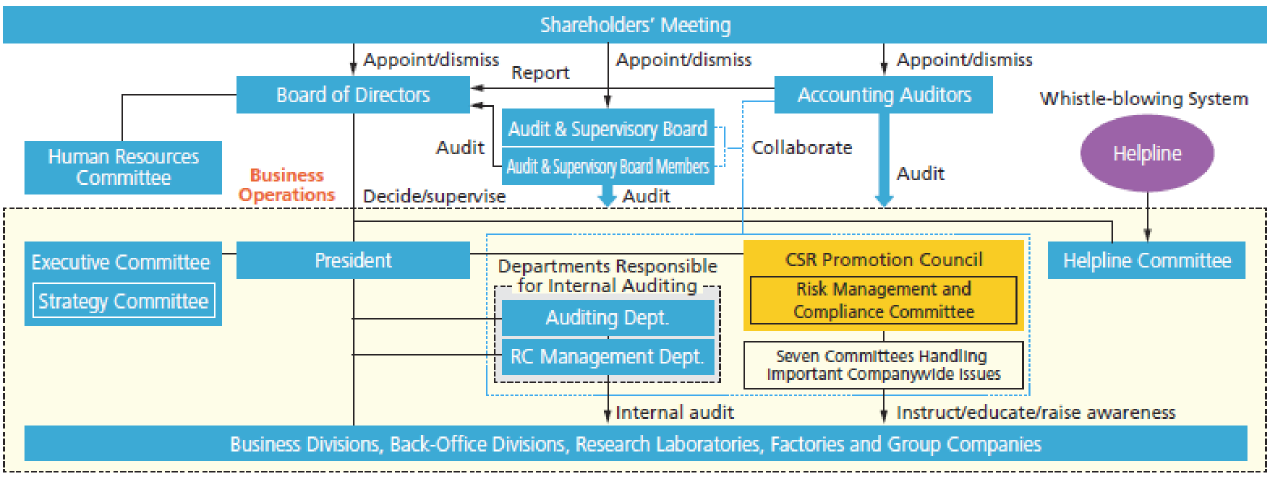
Corporate Governance

Tokuyama strongly believes creating and continuously providing new value is made possible through the trust of and cooperation with its stakeholders, which include shareholders, customers, trading partners, employees and local communities. This in turn enables the Company to grow on a sustainable basis and to increase its corporate value over the medium to long term. In order to make this a reality, Tokuyama has positioned corporate governance as a key management priority. Taking into consideration the introduction of the Corporate Governance Code in Japan, the Company places the utmost emphasis on ensuring the rights and equality of its shareholders while strengthening the supervisory function and securing the independence of the Board of Directors. At the same time, Tokuyama works diligently to accelerate decision making and to clarify the business execution responsibilities of its Board of Directors while ensuring appropriate disclosure and transparency and promoting constructive dialogue with shareholders.

Corporate Governance Structure

Tokuyama is a company with an Audit & Supervisory Board. Working through its Board of Directors, which is comprised of nine members, four of whom are appointed from outside the Company, Tokuyama is endeavoring to increase the efficacy of its supervisory and oversight functions with respect to the execution of business. In addition, Tokuyama maintains an Audit & Supervisory Board that is made up of five members, three of whom are appointed from outside the Company. Again, every effort is being made to enhance the efficacy of the Company's audit function through the Audit & Supervisory Board. In order to ensure transparency and objectivity, Tokuyama has established the Human Resources Committee. Comprising a majority of external directors, the Human Resources Committee deliberates on the selection of and remuneration paid to directors. With the aim of separating the supervisory and executive functions, Tokuyama adopted an executive officer system in April 2011. Tokuyama is confident that its current structure and systems ensure that decisions are made in a timely manner. Taking full advantage of this framework, the Company is maximizing the efficacy of the supervisory and audit functions while enhancing corporate governance.

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



Board of Directors and Executive Officer System

In addition to deliberating and making resolutions on important matters relating to the activities of the Company, the Board of Directors supervises business operations. During fiscal 2015, the Board of Directors met on 19 occasions.

As of June 27, 2016, Tokuyama's Board of Directors comprised nine members. The Company appointed four external directors thereby bolstering the supervisory function of the Board of Directors. Meanwhile, 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.

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 27, 2016, the Company had 14 executive officers.

Based on the rules for approval determined by the Board of Directors, authority is delegated to the business executive system.

Audit & Supervisory Board

Members of the Audit & Supervisory Board attend meetings of the Board of Directors and various other key meetings to listen carefully to reports on the status of business execution. Audit & Supervisory Board members also audit the execution of duties by directors. In fiscal 2015, the Audit & Supervisory Board met on 14 occasions to report on, discuss and make resolutions on important matters. On and after June 24, 2015, the Company's Audit & Supervisory Board consisted of five members, three of whom were appointed from outside the Company.

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 representative director and president from among the Company's executive officers. The Executive Committee serves as the Company's decision-making body with respect to the execution of business operations. In principle, the committee meets two times each month. Based on the approval rules and regulations determined by the Board of Directors, the Executive Committee deliberates and makes decisions on strategies and other important matters.

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. In addition to deliberating on the direction of business execution, the Committee takes steps to confirm the allocation of management resources aimed at evaluating conditions relating to the execution of business with respect to important matters requiring approval while setting the direction of policies relating to the execution of business with respect to specific projects.

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.

Policies and Procedures for Appointing Management Executives and Nominating Director and Auditor Candidates

To enable supervision of appropriate decision making and business execution with regard to the Company's business operations that are centered on chemicals, the selection of internal candidates for directorships appoints people who are well-balanced in terms of their knowledge of each business segment and area as well as the experience they possess. By adding external directors who possess high-level insight and wide-ranging experience as managers, the Company ensures the balance and diversity of the Board of Directors as a whole.

When nominating director candidates, discussions are held at a Human Resources Committee meeting in advance of the subject appearing on the agenda at a Board of Directors' meeting. Comprising representative directors and external directors, the Human Resources Committee is the entity that nominates directors, executive officers and others, and discusses such matters as remuneration. The Board of Directors makes its decisions in response to the Human Resources Committee's report.

In the case of the nomination of auditor candidates, the Board of Directors makes its decisions having received the assent of the Audit & Supervisory Board.

Policies and Procedures for Determining the Company's Executives Remuneration

The policy relating to the amount of remuneration for the Company's executives and determining method to calculate such amounts is based on rules of executive remuneration, which are as follows.

1. The remuneration of directors and Audit & Supervisory Board members shall be within a range of remuneration obtained by resolution at a Shareholders' Meeting.
2. Having received the proposals of remuneration from the President in advance, such proposals shall be discussed at a Human Resources Committee meeting.
3. Individual executive remuneration shall be in accordance with the amounts decided for each executive and determined by Board of Directors' resolution.
4. The specific amounts of remuneration for Audit & Supervisory Board members shall be determined by the resolution of Audit & Supervisory Board.

In fiscal 2015, a total of ¥138 million, ¥40 million and ¥59 million was paid to ten directors, two corporate auditors (Audit & Supervisory Board members) and six external officers, respectively.

In addition to the aforementioned compensation, an amount of ¥29 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 cases where 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 take such measures as the allotment of share options without contribution as stipulated under Article 277 and the following provisions of Japan's Companies Act, for the purpose of protecting the common interests of Tokuyama's shareholders and Tokuyama's corporate value, and oppose the Large-Scale Purchase.

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 151th Ordinary General Meeting of Shareholders held on June 24, 2015.

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 27, 2016.

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

Tokuyama Group procures the raw materials and fuels essential to conduct production operations from various area in the world. Also, for some of its products, Tokuyama Group uses special raw materials and materials which have a limited number of suppliers. With regard to the procurement of raw materials and fuels, Tokuyama Group 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 causes the tight supply of raw materials and fuels or delays in delivery hinders Tokuyama Group's production operations causing manufacturing costs to rise drastically, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(2) Electronic Materials Business Market Environment

While the Electronic Materials Business is one of Tokuyama Group's main businesses, in the event that the economical trough in the information and electronics industry leads to a deterioration of the earnings from Electronics Materials Business, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(3) Environmental Regulations, etc.

Tokuyama Group operates a range of businesses that use natural resources and energy in large quantities. Tokuyama Group enhances the investment in resource recycling systems and the facility designed to reduce its environmental impact and accepts waste as an alternative fuel and raw materials. At the same time, Tokuyama Group also works to reduce its environmental impact by, for example, promoting Zero Emission initiatives and improving its unit energy consumption. However, in the event that more stringent environment-related regulation is approved or a new social responsibility for environmental protection becomes required, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(4) Contractual Disputes/Litigation

The Legal & Credit Management Department and the Intellectual Property Department of Tokuyama Groups take lead in day-to-day precaution against patent or contract disputes and litigation. However, in both its domestic and overseas businesses, there exists the possibility that Tokuyama Group becomes the subject of a legal dispute or litigation. In the event that a major lawsuit is filed, there is the possibility that such a situation greatly affects Tokuyama Group's business performance and financial condition.

(5) Effect of Disasters/Accidents

Tokuyama Group performs day-to-day and periodic facility maintenance to minimize the adverse effects from any disruption to its production operations. Such maintenance, however, is unable to completely prevent or may not effectively reduce the adverse effects on production facilities from disasters or accidents (including earthquakes and other natural disasters). Also, while Tokuyama Group manufactures products for which alternative production arrangements could not immediately be made, should events lead to a significant decrease in production volume or, in the worst case, Tokuyama Group be forced to discontinue production for a protracted period, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(6) Product Liability

Tokuyama Group makes an honest effort to ensure the proper quality in accordance with product characteristics. However, in the event that, due to unexpected circumstances, a quality problem leads to a product recall or a product safety-related product liability (PL) issue arises, there is the possibility that any such situation greatly affects Tokuyama 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 chemical industries, the construction and construction material industries as well as the information and electronic industries. The products from Tokuyama Group are sold mainly in Japan, the United States, Asia, and Europe, and the economic conditions in such country could exert a great influence on the sales. Tokuyama Group targets production improvements and higher quality and also promotes cost reductions however a fall in demand in the market and industries or an economic slowdown in the sales area may greatly affect Tokuyama Group’s business performance and financial condition.

(8) Price Competitiveness

In each of the business that Tokuyama Group conducts, similar products may be available from competitors. Tokuyama Group supplies products to customers maintaining a competitive advantage in terms of quality and price. However, in the event that low-cost imported products flood the market or a price war breaks out between rival companies due to unforeseen circumstances, and that the situation continues for a prolonged period of time deteriorating Tokuyama Group’s profitability, there is the possibility that any such situation greatly affects Tokuyama Group’s business performance and financial condition.

(9) Overseas Business Development

The polycrystalline silicon factory that Tokuyama Group built in the Malaysian state of Sarawak is comparatively larger in scale than Tokuyama Group’s other existing overseas facilities. In the event that the stable operation or sales is disturbed, unexpected changes are made to the society system, laws and regulations or labor-management problems arise, there is the possibility that any such situation greatly affects Tokuyama Group’s business performance and financial condition.

(10) Financing Arrangements

Tokuyama Group arranges financing through loans or the issuance of unsecured bonds and the cost of financing arrangements, such as interest rates, could increase due to the changes in market environment. There is thus the possibility that such a situation greatly affects Tokuyama Group’s business performance and financial condition. Also, in arranging financing through a new loan from a financial institution or the issuance of unsecured bonds, there is no guarantee that the financing is always available under the same conditions. In the event that Tokuyama Group is 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 greatly affects Tokuyama Group’s financing arrangements.

Corporate Officers

(As of June 27, 2016)

Directors

(From the left of the back row)

Takeru Ishibashi
External Director

Akihiro Hamada
Director
Managing Executive Officer

Akio Fujiwara
External Director

Toshihide Mizuno
External Director

Hiroshi Akao
External Director

(From the left of the front row)

Takeshi Nakahara
Director
Managing Executive Officer

Masao Kusunoki
Chairman
Representative Director

Hiroshi Yokota
President
Representative Director

Hideki Adachi
Director
Managing Executive Officer

Audit & Supervisory Board

Masaki Akutagawa
Standing Auditor

Youji Miyamoto
Audit & Supervisory Board Member

Ryuji Hori
External Auditor

Shin Kato
External Auditor

Yoshikazu Tsuda
External Auditor

Executive Officers

Chairman and Executive Officer	Masao Kusunoki	
President and Executive Officer	Hiroshi Yokota	
Managing Executive Officer	Takeshi Nakahara	General Manager of Research & Development Div. and Corporate Development Dept.
	Hideki Adachi	General Manager of Tokuyama Factory and Manufacturing Technology Div.
	Akihiro Hamada	General Manager of Financial Div.
	Masao Fukuoka	General Manager of General & Personnel Affairs Div.
	Toshihiko Annaka	General Manager of Corporate Social Responsibility Div. and Procurement & Logistics Div.
Executive Officer	Fuminori Sekiguchi	President of Tokuyama Logistics Corporation
	Hiroya Yamashita	With responsibility for special missions (R&D)
	Ryo Sugiyama	General Manager of Life & Amenity Business Div.
	Hiroshi Nomura	General Manager of Specialty Products Business Div. and President of Tokuyama Malaysia Sdn. Bhd.
	Hideo Sugimura	General Manager of Corporate Planning Div.
	Kazuo Matsuya	General Manager of Chemicals Business Div. and Chemicals Planning Dept.
	Sadayuki Kuzuhara	General Manager of Cement Business Div.

Financial Section

Income Analysis

In the fiscal year ended March 31, 2016 (April 1,2015 to March 31, 2016), signs of a slowdown in the pace of economic growth in China became increasingly clear. As a result, the prices of resources including crude oil declined substantially. Due to the decision by the U.S. Federal Reserve Board to raise interest rates for the first time in around nine years, the outflow of investment funds from emerging and resource-rich countries gathered pace. At the same time, signs of uncertainty surrounding growth in emerging countries and especially the BRICS nations began to emerge. Taking each of these factors into consideration, conditions throughout the global economy witnessed significant change during the fiscal year under review.

Meanwhile, the Japanese economy remained shrouded in uncertainty. Despite expectations of growth on the back of lower crude oil prices and the weaker yen, this uncertainty largely reflected faltering personal consumption, capital expenditure, and export activity.

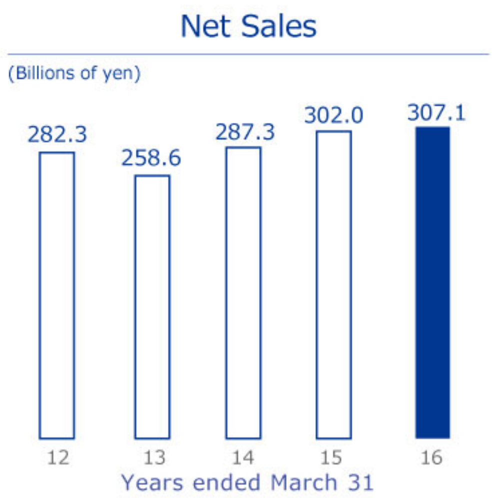
Against this backdrop, the Tokuyama Group was able to make some headway toward addressing the priority issues identified in its Medium-Term Management Plan 2017 announced in July 2015. Under the guidance of a new management structure, the Group took steps to strengthen business profitability, generate profits at Tokuyama Malaysia, and rebuild the Company's financial platform. Despite these endeavors, the net loss for the period increased after posting an impairment loss of ¥123,875 million in connection with Tokuyama Malaysia Sdn. Bhd., a consolidated subsidiary.

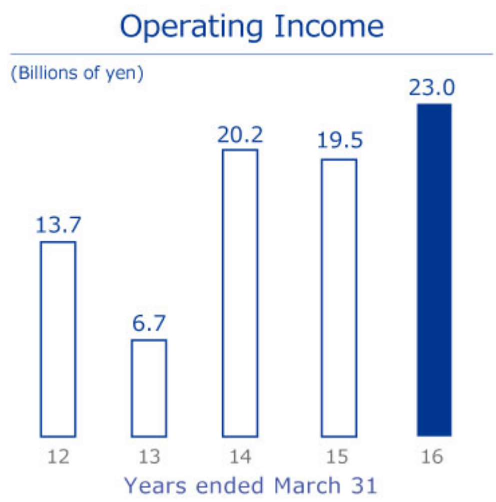
Consolidated net sales increased 1.7%, or ¥5,029 million compared with the previous fiscal year, to ¥307,115 million (US$2,717million). Despite weaker selling prices of petroleum chemicals on the back of a downturn in domestic naphtha prices, this was largely attributable to the upswing in sales volumes of soda ash and calcium chloride as well as solar-grade polycrystalline silicon.

Cost of sales increased 0.8%, or ¥1,720 million compared with the previous fiscal year, to ¥220,638 million (US$1,952 million). Despite a downturn in raw material costs as a result of the drop in domestic naphtha prices, this was due mainly to the increased sales volume of solar-grade polycrystalline silicon.

SG&A expenses decreased 0.4%, or ¥231 million compared with the previous fiscal year, to ¥63,405 million (US$561 million). Despite the increase in distribution costs associated with the increase in sales volumes of such products as soda ash and calcium chloride, this decrease primarily reflected our efforts to reduce Companywide expenses.

Operating income increased 18.1%, or ¥3,540 million compared with the previous fiscal year, to ¥23,071 million (US$204 million). Despite the deteriorated profitability of solar-grade polycrystalline silicon at Tokuyama Malaysia Sdn. Bhd., this was largely attributable to profitability improvement of petroleum chemicals impacted by the drop in domestic naphtha prices and the weaker yen. The operating margin (the ratio of operating income to net sales) was 7.5%, an increase of 1.0 percentage points compared with the figure of 6.5% recorded in the previous fiscal year.





Non-operating income/expenses improved ¥1,264 million compared with the previous fiscal year, due chiefly to a change from foreign exchange losses, recorded in the previous fiscal year, to foreign exchange gains.

As a result, ordinary income increased 37.2%, or ¥4,804 million compared with the previous fiscal year, to ¥17,725 million (US$156 million).

Extraordinary income/losses deteriorated by ¥26,318 million compared with the previous fiscal year. Despite the recording of gains on sales of fixed assets, this was largely attributable to the posting of an impairment loss on the polycrystalline silicon manufacturing facilities at Tokuyama Malaysia Sdn. Bhd.

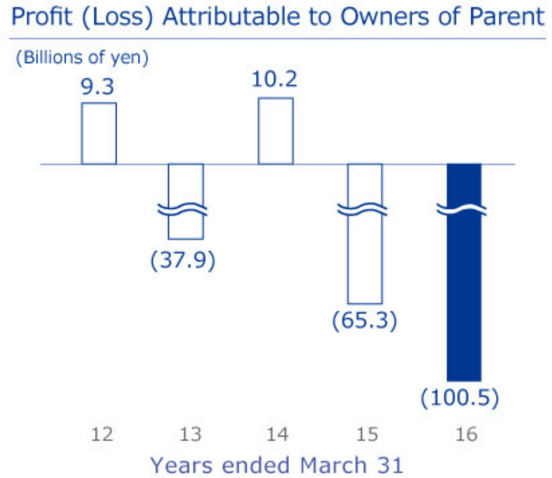
As a result of the above, loss before income taxes was ¥86,500 million (US$765 million), which deteriorated by ¥21,513 million compared with the previous fiscal year.

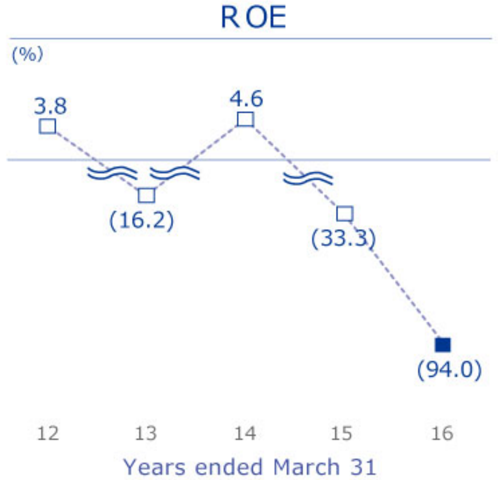
After deducting income taxes calculated in an appropriate way, the Company recorded a loss of ¥99,520 million (US$880 million), which deteriorated by ¥34,192 million compared with the previous fiscal year.

Loss attributable to owners of parent was ¥100,563 million (US$889 million), which deteriorated by ¥35,214 million compared with the previous fiscal year.

Basic earnings per share was loss of ¥289.10 (US$2.558), down from basic earnings per share of loss of ¥187.85 in the previous fiscal year. Dividends per share were ¥0.00 (US$0.000).

Return on equity (ROE) and return on assets (ROA) were -94.0% and -25.1%, respectively, compared with -33.3% and -11.8% in the previous fiscal year.





Segment Information

The Tokuyama Group is composed of the parent company, Tokuyama Corporation ("the Company"), 55 subsidiaries and 30 affiliated companies. The Group's operations are divided into the four business segments of Chemicals, Specialty Products, Cement, and Life & Amenity. For accounting purposes, 55 of the Company's subsidiaries are consolidated, while 10 affiliates are accounted for using the equity method.

Chemicals

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

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

With regard to vinyl chloride monomer (VCM), profitability improved on the back of a drop in raw material costs due to the downturn in domestic naphtha prices.

Despite a favorable export environment, sales of polyvinyl chloride (PVC) declined. This was mainly due to a drop in sales volumes following the closure of the Chiba factory.

With regard to soda ash and calcium chloride, sales increased compared with the previous fiscal year. This reflected the startup of operations by TOKUYAMA & CENTRAL SODA Inc. in October 2014.

As a result of the above, segment net sales decreased 4.5% compared with the previous fiscal year, to ¥87,801 million (US$777 million), while operating income increased 76.0% to ¥8,900 million (US$78 million). The segment reported higher earnings on lower sales.

Specialty Products

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

Sales of semiconductor-grade polycrystalline silicon were essentially unchanged from the previous fiscal year. This largely reflected firm overall trends in sales volumes, which offset the slowdown in demand for certain semiconductor products targeting various fields including smartphones.

Sales of solar-grade polycrystalline silicon increased on the back of higher sales volumes. This was mainly due to the start of sales and marketing by Tokuyama Malaysia in October 2014. In contrast, profitability deteriorated owing to such factors as the marked drop in spot price and sluggish operating rates.

Sales of fumed silica increased compared with the previous fiscal year due to steady sales of such applications as a polishing material for semiconductors.

Sales volume of high-purity chemicals for electronic manufacturing was firm thanks largely to semiconductor product applications. However, sales declined as a result of soft trends in selling prices.

With regard to aluminum nitride, sales increased compared with the previous fiscal year. This was attributable to an increase in sales volumes of such applications as heat sink materials used for power devices for industrial machinery and LEDs.

As a result of the above, segment net sales increased 9.8% compared with the previous fiscal year, to ¥60,902 million (US$538 million). However, this segment incurred an operating loss of ¥1,157 million (US$10 million) during the fiscal year under review. The segment reported a loss on higher sales.

Cement

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

In the cement business, sales declined compared with the previous fiscal year, as a result of decreased sales volumes. This decrease reflected sluggish trends in both public and private-sector demand impacted by such factors as the decrease in public works and delays in construction attributable to unseasonably bad weather in Japan.

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

With regard to consolidated subsidiaries, sales increased compared with the previous fiscal year, because sales volumes of such products as ready mixed concrete for large-scale projects increased in certain areas.

As a result of the above, segment net sales increased 5.2% compared with the previous fiscal year, to ¥85,469 million (US$756 million) and operating income increased 31.1% to ¥5,832 million (US$51 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 of active pharmaceutical ingredients were on par with the previous fiscal year. This was in large part due to solid sales volumes of products used for generic pharmaceuticals.

With regard to plastic lens-related materials, sales volumes of photochromic dye materials for eyeglass lenses increased. As a result of this, sales increased compared with the previous fiscal year.

With regard to microporous film, sales increased year on year. This was mainly the result of sound sales for use as sanitary articles including disposable diapers.

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

With regard to dental materials and equipment, sales increased compared with the previous fiscal year, due to increased sales volumes of new products and products for overseas markets.

With regard to medical diagnosis systems, sales were up compared with the previous fiscal year. This was due to the upswing in large-scale orders in Japan for blood testing products.

With regard to gas sensors, sales increased compared with the previous fiscal year. This was attributable to strong overseas sales volume of such applications as gas alarm devices.

As a result of the above, segment net sales decreased 1.3% compared with the previous fiscal year, to ¥57,677 million (US$510 million), while operating income increased 27.9% to ¥6,598 million (US$58 million). The segment reported higher earnings on lower sales.

Financial Position and Liquidity

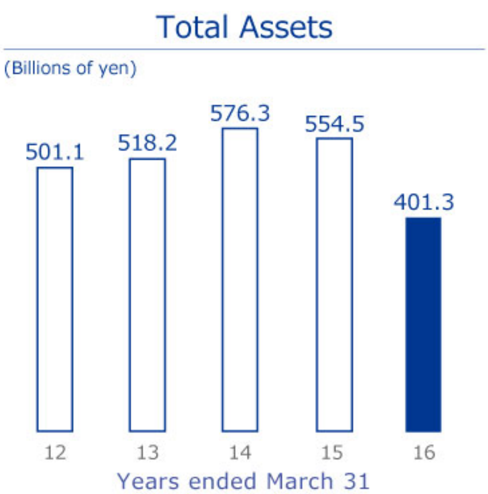
As of March 31, 2016, total assets amounted to ¥401,342 million (US$3,551 million), a decrease of ¥153,185 million from the figure of ¥554,527 million as of the previous fiscal year-end.

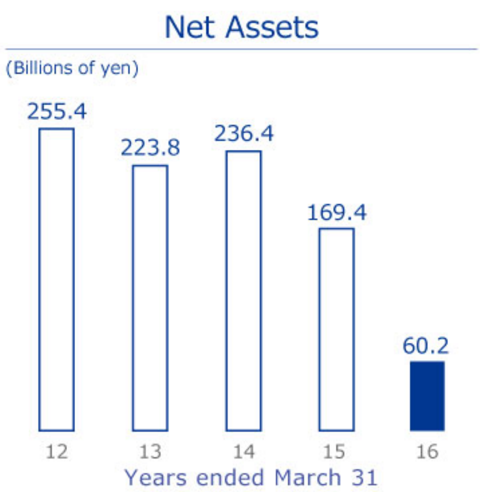
Current assets decreased 0.1% compared with the previous fiscal year-end to ¥243,766 million (US$2,157 million). This was due primarily to a decrease in inventory. Current liabilities decreased 3.5% to ¥113,200 million (US$1,001 million). This mainly reflected a decrease in current portion of long-term loans payable. As a result, the current ratio was up to 2.15 times, from 2.08 times as of the previous fiscal year-end.

Property, plant and equipment decreased 52.7% in comparison with the previous fiscal year-end to ¥119,764 million (US$1,059 million). This was largely attributable to a decrease in property, plant and equipment resulting from the posting of a loss on the impairment of polycrystalline silicon manufacturing facilities of Tokuyama Malaysia Sdn. Bhd. Intangible assets and investments and other assets dropped 33.9% over the previous fiscal year-end to ¥37,811 million (US$334 million). This was primarily due to a decrease in investment securities.

As of March 31, 2016, total liabilities amounted to ¥341,136 million (US$3,018 million), a decrease of 11.4% compared with the previous fiscal year-end figure of ¥385,082 million. The main contributory factor was a decrease in long-term loans payable, bonds payable and provision for loss on purchase contract. Interest-bearing debt decreased 13.8% from ¥283,196 million as of the previous fiscal year-end to ¥244,152 million (US$2,160 million).

Non-controlling interests increased 27.1% from ¥6,868 million as of the previous fiscal year-end to ¥8,732 million (US$77 million). Net assets decreased 64.5% compared with the previous fiscal year-end, from ¥169,445 million to ¥60,205 million (US$532 million). This was due chiefly to a decrease in retained earnings resulting from the posting of the impairment loss. The ratio of shareholders' equity to total assets was 12.8%, down from 29.3% as of the previous fiscal year-end. The amount of net assets per share was ¥147.98 (US$1.310), down from ¥467.36 as of the previous fiscal year-end.





Capital Expenditures
Capital expenditures totaled ¥13,945 million (US$123 million), a decrease of 45.0% compared with the previous fiscal year's figure of ¥25,345 million.

Cash Flows
Net cash provided by operating activities totaled ¥30,098 million (US$266 million). Principal items included depreciation expenses of ¥20,084 million (US$177 million) (¥18,845 million in the previous fiscal year).

Net cash provided by investing activities totaled ¥13,400 million (US$118 million). Major contributory factors were payments for purchases of property, plant and equipment resulting from construction of polycrystalline silicon manufacturing facilities at Tokuyama Malaysia Sdn. Bhd. of ¥14,334 million (US$126 million) (¥32,470 million in the previous fiscal year), proceeds from sales of property, plant and equipment of ¥17,841 million (US$157 million) (¥109 million in the previous fiscal year), and proceeds from sales of investment securities of ¥10,932 million (US$96 million) (¥16,746 million in the previous fiscal year).

Net cash used in financing activities came to ¥37,689 million (US$333 million). This was primarily attributable to repayment of long-term loans payable of ¥31,175 million (US$275 million) (¥41,286 million in the previous fiscal year), and redemption of bonds of ¥5,600 million (US$49 million) (no account in the previous fiscal year).

As a result of the above, cash and cash equivalents increased by ¥5,044 million (US$44 million) compared with the previous fiscal year-end, to ¥121,166 million (US$1,072 million).

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
Assets :			
Current assets :			
Cash and deposits (Note 5)	121,508	61,364	1,075,296
Notes and accounts receivable - trade (Note 5)	68,569	69,371	606,812
Lease receivables and investment assets	6	30	61
Securities (Note 5, Note 15)	-	55,053	-
Merchandise and finished goods	14,012	15,456	124,004
Work in process	10,882	11,606	96,302
Raw materials and supplies	15,933	18,026	141,005
Deferred tax assets (Note 6)	4,256	4,772	37,670
Other	8,788	8,396	77,774
Allowance for doubtful accounts	(192)	(103)	(1,699)
Total current assets	243,766	243,975	2,157,227
Noncurrent assets :			
Property, plant and equipment :			
Buildings and structures (Note 5)	101,982	137,347	902,501
Accumulated depreciation	(74,022)	(74,090)	(655,069)
Buildings and structures, net	27,959	63,257	247,431
Machinery, equipment and vehicles (Note 5)	461,619	546,388	4,085,126
Accumulated depreciation	(410,707)	(401,461)	(3,634,576)
Machinery, equipment and vehicles, net	50,912	144,927	450,550
Tools, furniture and fixtures	22,661	23,261	200,543
Accumulated depreciation	(20,890)	(20,974)	(184,871)
Tools, furniture and fixtures, net	1,771	2,286	15,672
Land (Note 5)	31,327	33,149	277,236
Lease assets	2,237	2,135	19,803
Accumulated depreciation	(1,041)	(936)	(9,217)
Lease assets, net	1,196	1,199	10,585
Construction in progress	6,597	8,511	58,382
Total property, plant and equipment	119,764	253,331	1,059,859
Intangible assets			
Goodwill	3,738	5,097	33,080
Lease assets	41	44	368
Other	2,613	4,641	23,132
Total intangible assets	6,393	9,784	56,581
Investments and other assets			
Investment securities (Note 4 , Note 5)	15,765	31,062	139,517
Long-term loans receivable	3,094	3,248	27,383
Deferred tax assets (Note 6)	610	669	5,403
Net defined benefit asset (Note 7)	8,057	8,765	71,300
Other	4,190	4,015	37,083
Allowance for investment loss	(22)	(22)	(194)
Allowance for doubtful accounts	(278)	(303)	(2,464)
Total investments and other assets	31,417	47,436	278,030
Total noncurrent assets	157,575	310,552	1,394,471
Total assets	401,342	554,527	3,551,699

See notes to consolidated financial statements

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
Liabilities :			
Current liabilities :			
Notes and accounts payable - trade	35,388	40,567	313,171
Short-term loans payable (Note 5)	9,382	12,212	83,029
Commercial papers (Note 5)	-	3,000	-
Current portion of long-term loans payable (Note 5)	17,036	25,110	150,762
Current portion of bonds (Note 5)	10,000	5,000	88,495
Lease obligations (Note 5)	356	340	3,150
Income taxes payable (Note 6)	11,888	1,318	105,209
Deferred tax liabilities (Note 6)	2	-	26
Provision for bonuses	1,830	1,911	16,194
Provision for repairs	1,480	1,284	13,102
Provision for product warranties	85	132	753
Provision for loss on compensation for damage	-	50	-
Provision for loss on purchase contract	2,656	3,183	23,511
Other	23,093	23,186	204,368
Total current liabilities	113,200	117,298	1,001,776
Noncurrent liabilities :			
Bonds payable (Note 5)	34,400	45,000	304,424
Long-term loans payable (Note 5)	172,877	191,552	1,529,893
Lease obligations (Note 5)	931	981	8,240
Deferred tax liabilities (Note 6)	457	6,409	4,050
Provision for directors' retirement benefits	231	226	2,044
Provision for repairs	3,691	3,458	32,665
Allowance for loss on compensation for building materials	384	574	3,406
Provision for environmental measures	85	91	752
Provision for loss on purchase contract	2,716	6,250	24,041
Net defined benefit liability (Note 7)	1,354	1,162	11,982
Asset retirement obligations	6	5	55
Other	10,799	12,071	95,572
Total noncurrent liabilities	227,935	267,783	2,017,130
Total liabilities	341,136	385,082	3,018,906
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	473,088
Capital surplus	57,532	57,670	509,137
Retained earnings	(61,281)	39,286	(542,309)
Treasury stock			
2015 : 1,805,814 shares			
2016 : 1,832,788 shares	(1,439)	(1,434)	(12,740)
Total shareholders' equity	48,270	148,981	427,175
Accumulated other comprehensive income :			
Valuation difference on available-for-sale securities	(1,020)	5,829	(9,030)
Deferred gains or losses on hedges	(526)	330	(4,659)
Foreign currency translation adjustment	2,362	4,196	20,910
Remeasurements of defined benefit plans	2,386	3,239	21,120
Total accumulated other comprehensive income	3,202	13,596	28,341
Non-controlling interests	8,732	6,868	77,275
Total net assets	60,205	169,445	532,792
Total liabilities and net assets	401,342	554,527	3,551,699

See notes to consolidated financial statements

Consolidated Statements of Income

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
Net sales	307,115	302,085	2,717,833
Cost of sales (Note 10)	220,638	218,917	1,952,552
Gross profit	86,476	83,167	765,280
Selling, general and administrative expenses (Note 9) :			
Selling expenses	38,099	36,566	337,167
General and administrative expenses (Note 10)	25,305	27,070	223,942
Total selling, general and administrative expenses	63,405	63,636	561,110
Operating income	23,071	19,530	204,170
Non-operating income :			
Interest income	121	110	1,077
Dividends income	443	629	3,927
Share of profit of entities accounted for using equity method	668	684	5,919
Foreign exchange gains	542	-	4,801
Other	1,576	1,465	13,954
Total non-operating income	3,353	2,889	29,680
Non-operating expenses :			
Interest expenses	4,668	4,756	41,318
Cost of idle operation	1,134	825	10,038
Other	2,896	3,917	25,629
Total non-operating expenses	8,699	9,499	76,986
Ordinary income	17,725	12,920	156,864
Extraordinary income :			
Gain on sales of noncurrent assets	14,144	73	125,172
Gain on bargain purchase	-	5	-
Gain on sales of investment securities	6,190	10,442	54,778
Gain on sales of shares of subsidiaries and associates	-	20	-
State subsidy	50	24	443
Other	1,092	-	9,669
Total extraordinary income	21,477	10,566	190,063
Extraordinary loss :			
Loss on sales of noncurrent assets	130	8	1,154
Impairment loss (Note 11)	124,706	76,010	1,103,599
Loss on disaster	5	383	50
Loss on reduction of noncurrent assets	108	27	960
Loss on disposal of noncurrent assets	486	420	4,305
Loss on sales of shares of subsidiaries and associates	-	8	-
Provision for loss on purchase contract	-	9,433	-
Loss on purchase contract	-	1,489	-
Other	264	692	2,344
Total extraordinary losses	125,702	88,473	1,112,415
Profit(loss) before income taxes	(86,500)	(64,986)	(765,487)
Income taxes (Note 6) :			
Current	14,408	3,747	127,508
Deferred	(1,387)	(3,405)	(12,280)
Total income taxes	13,020	341	115,227
Profit (loss)	(99,520)	(65,327)	(880,714)
Profit attributable to non-controlling interests	1,043	21	9,230
Profit (loss) attributable to owners of parent	(100,563)	(65,349)	(889,945)

	Yen		U.S. dollars (Note 2)
	2016	2015	**2016**
Per share amounts :			
Net income (loss)	(289.10)	(187.85)	(2.558)
Cash dividends	-	-	-

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
Profit(loss)	(99,520)	(65,327)	(880,714)
Other comprehensive income			
Valuation difference on available-for-sale securities	(6,851)	(2,535)	(60,628)
Deferred gains or losses on hedges	(901)	(419)	(7,978)
Foreign currency translation adjustment	(1,758)	1,299	(15,559)
Remeasurements of defined benefit plans, net of tax	(861)	2,257	(7,620)
Share of other comprehensive income of entities accounted for using equity	(150)	189	(1,334)
Total other comprehensive income	(10,522)	791	(93,122)
Total comprehensive income	(110,043)	(64,536)	(973,836)
Attributable to:			
Owners of parent	(110,957)	(64,564)	(981,923)
Non-controling interests	913	28	8,086

See notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2016 and 2015

[2016]

	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	Non-controling interests	Total net assets
Balance at beginning of year	53,458	57,670	39,286	(1,434)	148,981	5,829	330	4,196	3,239	13,596	6,868	169,445
Changes during the fiscal year												
Profit (loss) attributable to owners of parent			(100,563)		(100,563)							(100,563)
Purchase of treasury stock		(0)		(6)	(6)							(6)
Disposal of treasury stock			(1)	1	0							0
Change of scope of consolidation			(2)		(2)							(2)
Capital increase of consolidated subsidiaries		(118)			(118)							(118)
Purchase of shares of consolidated subsidiaries		(19)			(19)							(19)
Net changes of items other than shareholders' equity						(6,849)	(856)	(1,833)	(852)	(10,393)	1,863	(8,529)
Total changes of items during the period	-	(137)	(100,567)	(5)	(100,710)	(6,849)	(856)	(1,833)	(852)	(10,393)	1,863	(109,239)
Balance at end of year	53,458	57,532	(61,281)	(1,439)	48,270	(1,020)	(526)	2,362	2,386	3,202	8,732	60,205

[2015]

	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	Non-controling interests	Total net assets
Balance at biginning of year	53,458	57,670	107,155	(1,428)	216,856	8,369	749	2,710	982	12,811	6,785	236,453
Cumulative effects of changes in accounting policies			(1,842)		(1,842)							(1,842)
Restated balance	53,458	57,670	105,313	(1,428)	215,013	8,369	749	2,710	982	12,811	6,785	234,610
Changes during the fiscal year												
Cash dividends			(1,043)		(1,043)							(1,043)
Net income (loss)			(65,349)		(65,349)							(65,349)
Purchase of treasury stock				(7)	(7)							(7)
Disposal of treasury stock			(1)	2	0							0
Effect of changes in fiscal year of consolidated subsidiaries			356		356							356
Change of scope of consolidation			10		10							10
Net changes of items other than shareholders' equity						(2,539)	(419)	1,486	2,257	784	82	867
Total changes of items during the period	-	-	(66,026)	(5)	(66,032)	(2,539)	(419)	1,486	2,257	784	82	(65,165)
Balance at end of year	53,458	57,670	39,286	(1,434)	148,981	5,829	330	4,196	3,239	13,596	6,868	169,445

[2016]

	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	Non-controling interests	Total net assets
Balance at biginning of year	473,088	510,355	347,667	(12,693)	1,318,417	51,587	2,924	37,139	28,667	120,319	60,779	1,499,516
Changes during the fiscal year												
Profit (loss) attributable to owners of parent			(889,945)		(889,945)							(889,945)
Purchase of treasury stock		(0)		(60)	(60)							(60)
Disposal of treasury stock			(9)	13	3							3
Change of scope of consolidation			(22)		(22)							(22)
Capital increase of consolidated subsidiaries		(1,044)			(1,044)							(1,044)
Purchase of shares of consolidated subsidiaries		(173)			(173)							(173)
Net changes of items other than shareholders' equity						(60,618)	(7,583)	(16,229)	(7,547)	(91,978)	16,495	(75,482)
Total changes of items during the period	-	(1,217)	(889,977)	(47)	(891,241)	(60,618)	(7,583)	(16,229)	(7,547)	(91,978)	16,495	(966,724)
Balance at end of year	473,088	509,137	(542,309)	(12,740)	427,175	(9,030)	(4,659)	20,910	21,120	28,341	77,275	532,792

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2016 and 2015

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2016	2015	**2016**
Cash flows from operating activities			
Profit (loss) before income taxes	(86,500)	(64,986)	(765,487)
Depreciation and amortization	20,084	18,845	177,738
Increase (decrease) in allowance for loss on compensation for building materials	(189)	(268)	(1,675)
Increase (decrease) in provision for loss on purchase contract	(4,059)	9,433	(35,928)
Increase (decrease) in other provision	322	450	2,856
Increase(decrease) in net defined benefit liability	93	79	829
Increase(decrease) in net defined benefit asset	(431)	442	(3,820)
Interest and dividends income	(565)	(739)	(5,004)
Foreign exchange losses (gains)	(176)	1,070	(1,560)
Gain on bargain purchase	-	(5)	-
Loss (gain) on sales of property, plant and equipment	(14,013)	(64)	(124,017)
Loss (gain) on sales of investment securities	(6,190)	(10,442)	(54,778)
Loss (gain) on sales of shares of subsidiaries and associates	-	(12)	-
Equity in (earnings) losses of affiliates	(668)	(684)	(5,919)
Subsidy income	(50)	(24)	(443)
Interest expenses	4,668	4,756	41,318
Loss on reduction of noncurrent assets	108	27	960
Impairment loss	124,706	76,010	1,103,599
Loss (gain) on disposal of noncurrent assets	486	420	4,305
Decrease (increase) in notes and accounts receivable - trade	301	(2,520)	2,670
Decrease (increase) in inventories	4,402	1,136	38,963
Decrease (increase) in other current assets	(355)	681	(3,146)
Increase (decrease) in notes and accounts payable - trade	(4,750)	1,443	(42,037)
Increase (decrease) in other current liabilities	(130)	808	(1,156)
Other, net	607	2,689	5,375
Subtotal	37,701	38,546	333,639
Interest and dividends income received	1,178	1,189	10,433
Interest expenses paid	(4,725)	(4,732)	(41,821)
Income taxes paid	(4,055)	(4,232)	(35,892)
Net cash provided by (used in) operating activities	30,098	30,772	266,358
Cash flows from investing activities			
Payments into time deposits	(84)	(34)	(743)
Proceeds from withdrawal of time deposits	34	429	300
Purchase of property, plant and equipment	(14,334)	(32,470)	(126,857)
Proceeds from sales of property, plant and equipment	17,841	109	157,888
Purchase of investment securities	(12)	(7,967)	(111)
Proceeds from sales of investment securities	10,932	16,746	96,745
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	-	(633)	-
Additional purchase of investments in consolidated subsidiaries	-	(23)	-
Payments of long-term loans receivable	(40)	(20)	(362)
Collection of long-term loans receivable	239	244	2,123
Proceeds from subsidy income	50	2,659	443
Payments for transfer of business	(37)	(3,750)	(328)
Other, net	(1,187)	(810)	(10,512)
Net cash provided by (used in) investing activities	13,400	(25,519)	118,585
Cash flow from financing activities			
Increase (decrease) in short-term loans payable	(2,648)	(5)	(23,440)
Increase (decrease) in commercial papers	(3,000)	(1,000)	(26,548)
Proceeds of long-term loans payable	4,631	84,311	40,982
Repayment of long-term loans payable	(31,175)	(41,286)	(275,893)
Redemption of bonds	(5,600)	-	(49,557)
Payments from changes in ownership interests in subsidiaries that do not	(25)	-	(224)
Cash dividends paid	(1)	(1,043)	(15)
Cash dividends paid to non-controlling interests	(386)	(437)	(3,419)
Decrease (increase) in treasury stock	(6)	(75)	(56)
Other, net	523	40	4,634
Net cash provided by (used in) financing activities	(37,689)	40,502	(333,538)
Effect of exchange rate change on cash and cash equivalents	(792)	392	(7,009)
Net increase (decrease) in cash and cash equivalents	5,016	46,147	44,395
Cash and cash equivalents at beginning of period	116,122	69,973	1,027,629
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	27	10	244
Increase (decrease) in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	-	(8)	-
Cash and cash equivalents at end of period	121,166	116,122	1,072,269

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 ¥113=US$1, the approximate exchange rate on March 31, 2016. 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 55 significant subsidiaries (54 in 2015). Significant intercompany transactions and accounts have been eliminated in consolidation.

A&T Corporation is 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 10 affiliates (10 in 2015) 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.

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, 2016, 2015 and 2014 was not presented because there was no dilutive effect on any assumed conversion of convertible bonds for the fiscal years ended March 31, 2016, 2015 and 2014.

APPLICATION OF THE ACCOUNTING STANDARD FOR BUSINESS COMBINATIONS AND OTHER ACCOUNTING STANDARDS:

Effective from the fiscal year under review, Tokuyama has applied the “Accounting Standard for Business Combinations” (Accounting Standards Board of Japan (ASBJ) Statement No. 21; issues on September 13, 2013), the “Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No. 22; issues on September 13, 2013), and the “Accounting Standard for Business Divestitures” (ASBJ Statement No. 7; issued on September 13, 2013), etc. In conjunction with the application of these and other standards, the Company made certain changes. In specific terms, the difference caused by the change in equity of subsidiaries over which the Company continued to maintain control was recorded as capital surplus. Acquisition costs were recorded as costs in the consolidated fiscal year in which the acquisition costs were incurred. For business combinations conducted on or after the beginning of the fiscal year under review, Tokuyama has changed the method by which adjusted acquisition costs are allocated by way of provisional accounting treatment confirmation in the consolidated financial statements of the fiscal year in which business combinations were conducted. In addition, the Company has changed the manner in which it records net income as well as minority interests in income as non-controlling interests. In order to reflect these changes, the consolidated financial statements of the previous fiscal year have been reclassified.

In connection with the application of the Accounting Standard for Business Combinations and other accounting standards, Tokuyama has applied its methods prospectively from the beginning of the fiscal year ended March 31, 2016, based on the transitional period treatments defined in Clause 58-2(4), of the Accounting Standard for Business Combinations, Clause 44-5(4), of the Accounting Standard for Consolidated Financial Statements, and Clause 57-4 (4), of the Accounting Standard for Business Divestitures.

Accounting for these factors, the effect of these changes on the balance of capital surplus as of the end of the fiscal year under review as well as operating income, ordinary income, and the loss before income taxes for the fiscal year under review were immaterial.

In the Company’s consolidated statement of cash flows for the fiscal year ended March 31, 2016, Tokuyama has changed the definition of cash flows from payments or proceeds from changes in ownership interests in subsidiaries that do not result in a change in scope of consolidation to cash flows from financing activities.

There are no material changes to the balance of capital surplus as of the beginning of the fiscal year under review in the consolidated statements of changes in net assets and per share information.

4. SECURITIES

There are no held-to-maturity debt securities.

Available-for-sale securities at March 31, 2016 were as follows:

Millions of yen

	Book value	Acquisition cost	Unrealized gain
Available-for-sale securities:			
Equity securities	10,897	9,478	(1,418)
Total	10,897	9,478	(1,418)

Thousands of U.S. Dollars

	Book value	Acquisition cost	Unrealized gain
Available-for-sale securities:			
Equity securities	96,439	83,883	(12,556)
Total	96,439	83,883	(12,556)

The sales amount of available-for-sale securities for the fiscal year ended March 31, 2016 was as follows:

Millions of yen

	Proceeds	Gain on sales	Loss on sales
Available-for-sale securities sold during 2016 :			
Equity securities	10,915	6,102	-
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	10,915	6,102	-

Thousands of U.S. Dollars

	Proceeds	Gain on sales	Loss on sales
Available-for-sale securities sold during 2016 :			
Equity securities	96,594	54,003	-
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	96,594	54,003	-

5. BORROWINGS

Bonds payable at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
0.537% unsecured bonds in yen due September 9, 2015	-	5,000	-
0.575% unsecured bonds in yen due September 8, 2016	10,000	10,000	88,495
1.760% unsecured bonds in yen due March 10, 2020	10,000	10,000	88,495
1.478% unsecured bonds in yen due September 9, 2020	15,000	15,000	132,743
1.371% unsecured bonds in yen due September 8, 2021	9,400	10,000	83,185
Total	44,400	50,000	392,920

The aggregate annual maturities at March 31, 2016 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2017	10,000	88,495
2018	-	-
2019	-	-
2020	10,000	88,495
2021	15,000	132,743
Thereafter	9,400	83,185
Total	44,400	392,920

Loans payable at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Short-term loans payable (0.91%)	9,382	12,212	83,029
Current portion of long-term loans payable (0.89%)	17,036	25,110	150,762
Current portion of lease obligations	356	340	3,150
Long-term loans payable, due in 2017-2074 (1.71%)	172,877	191,552	1,529,893
Lease obligations, due in 2017-2021	931	981	8,240
Commercial papers	-	3,000	-
Total	200,583	233,196	1,775,076

The aggregate annual maturities of long-term loans payable at March 31, 2016 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2017	17,036	150,762
2018	15,260	135,045
2019	19,157	169,533
2020	14,733	130,385
2021	18,318	162,111
Thereafter	105,408	932,818
Total	189,914	1,680,656

The aggregate annual maturities of lease obligations at March 31, 2016 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2017	356	3,150
2018	309	2,736
2019	282	2,503
2020	208	1,841
2021	89	790
Thereafter	41	368
Total	1,287	11,390

Assets pledged as collateral for certain loans and other liabilities at March 31, 2016 and 2015 are summarized as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Pledged Assets			
Cash and deposits	662	270	5,864
Notes and accounts receivable - trade	59	80	530
Buildings and structures	2,087	2,225	18,473
Machinery, equipment and vehicles	1,771	2,118	15,673
Land	785	785	6,950
Investment securities	33	3	293
Total	5,399	5,483	47,785

The Company maintained a commitment line of credit with eight banks in order to procure operating capital efficiently. This line of credit expired in July 2015. Tokuyama did not maintain a commitment line of credit as of March 31, 2016. The balance of unexecuted loans was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Lines of credit	-	15,000	-
Credit used	-	-	-
Available credit	-	15,000	-

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.

	2016	2015
Statutory tax rate	This information is omitted, as the company posted a loss before income taxes during the period under review.	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		
Inter-company eliminations of allowance for investment loss		
Permanent difference		
Equity in earnings of affiliates		
Effect of tax credits		
Amortization of goodwill		
Inter-company eliminations of provision for loss on business of subsidiaries and affiliates		
Retained earnings of subsidiaries and affiliates		
Difference tax rate of recovery special tax		
Unrealized intercompany profits		
Lower tax rates of overseas consolidated subsidiaries		
Inter-company eliminations of allowance for doubtful accounts		
Inter-company eliminations of dividends income		
Other		
Effective income tax rate		

Significant components of deferred tax assets and liabilities at March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Deferred tax assets：			
Property, plant and equipment	4,496	6,109	39,789
Deficits	3,272	3,984	28,958
Provision for repairs	1,313	1,224	11,621
Accrued business office taxes	899	245	7,962
Provision for bonuses	578	636	5,117
Unrealized holding gains on the other securities	528	(22)	4,676
Other	812	621	7,191
Subtotal	11,900	12,800	105,317
Less valuation allowance	(5,380)	(8,309)	(47,617)
Total deferred tax assets	6,520	4,490	57,699
Deferred tax liabilities：			
Appropriations for advanced depreciation	(1,217)	(1,422)	(10,777)
Retained earnings of subsidiaries and affiliates	(751)	(839)	(6,646)
Other	(144)	(3,195)	(1,278)
Total deferred tax liabilities	(2,113)	(5,457)	(18,702)
Net deferred tax assets/(liabilities)	4,406	(966)	38,996

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.

The reconciliation of beginning and ending balances of benefit obligations for the fiscal year ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Balance of defined benefit obligations at beginning of year	19,465	18,301	172,261
Cumulative effects of changes in accounting policies	-	1,837	-
Restated balance	19,465	20,139	172,261
Service cost	931	960	8,239
Interest cost	153	158	1,355
Occurrence of actuarial loss	(90)	(205)	(798)
Payments of retirement benefits	(1,702)	(1,553)	(15,065)
Other	7	(33)	63
Balance of defined benefit obligations at end of year	18,764	19,465	166,056

The reconciliation of beginning and ending balances of plan assets for the fiscal year ended March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Balance of plan assets at beginning of year	27,075	24,992	239,608
Expected return on plan assets	602	0	5,330
Occurrence of actuarial loss	(1,322)	2,870	(11,701)
Corporation's contributions	625	632	5,539
Payments of retirement benefits	(1,514)	(1,420)	(13,401)
Balance of plan assets at end of year	25,467	27,075	225,374

The reconciliation of the defined benefit obligations and plan assets to the liabilities and assets on retirement benefits recognized in the consolidated balance sheet as of March 31, 2016 and 2015 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Funded defined benefit obligations	17,524	18,355	155,085
Plan assets	(25,467)	(27,075)	(225,374)
	(7,942)	(8,720)	(70,289)
Unfunded defined benefit obligations	1,239	1,117	10,971
Net amount shown on balance sheets	(6,702)	(7,603)	(59,318)
Net defined benefit liability	1,354	1,162	11,982
Net defined benefit asset	(8,057)	(8,765)	(71,300)
Net amount shown on balance sheets	(6,702)	(7,603)	(59,318)

Benefit costs and a breakdown of the benefit costs for the fiscal year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Service cost	931	960	8,239
Interest cost	153	158	1,355
Expected return on plan assets	602	0	5,330
Recognized actuarial loss	(6)	178	(55)
Periodic benefit costs of retirement benefit plan	1,680	1,298	14,869

The remeasurements of defined benefit plans for the fiscal year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Actuarial loss	1,238	(3,248)	10,959
Total	1,238	(3,248)	10,959

The remeasurements of defined benefit plans for the fiscal year ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Unrecognized actuarial loss	(3,529)	(4,768)	(31,235)
Total	(3,529)	(4,768)	(31,235)

Principal items of plan assets for the fiscal year ended March 31, 2016 and 2015 were as follows:

	%	
	2016	2015
Domestic stocks	15	19
Foreign stocks	7	10
Domestic bonds	27	42
Foreign bonds	3	4
Insurance product (General account)	27	16
Other	21	9
Total	100	100

(Note) The total of pension assets as of March 31, 2015 and March 31, 2016 included a retirement benefit trust, established for the Company's pension plans that represented 10% and 8% of the total of pension assets, respectively.

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, 2016 and 2015 were as follows:

	2016	2015
Discount rate	Mainly 0.8%	Mainly 0.8%
Expected long-term return on plan assets	Mainly 2.5%	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 ¥538million (US$4 million).

8. LEASES

(1)Lessee

(i) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2016 and 2015 were as follows.

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Due within one year	143	503	1,271
Due beyond one year	56	200	502
Total	200	703	1,773

(2) Lessor

(i) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2016 and 2015 were as follows.

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Due within one year	9	9	85
Due beyond one year	121	131	1,075
Total	131	140	1,161

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Selling expenses :			
Freight-out expenses	21,328	20,330	188,746
Shipping charges	5,489	4,618	48,577
Salaries and bonuses	5,079	5,260	44,955
Provision for bonuses	246	261	2,182
Retirement benefit expenses	60	137	533
Provision of allowance for doubtful accounts	(1)	122	(9)

General and administrative expenses for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
General and administrative expenses :			
Technical research expenses	7,506	9,235	66,430
Salaries and bonuses	4,573	4,950	40,470
Provision for bonuses	256	220	2,268
Provision for directors' retirement benefits	61	59	539
Retirement benefit expenses	57	178	510

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the fiscal years ended March 31, 2016 and 2015 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Research and development expenses	8,522	10,156	75,423

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, 2016, the Group recorded impairment losses for the following asset groups.

Details of the Company's impairment loss have been omitted due to the low level of importance except for those items, which are presented briefly as follows.

			Millions of yen	Thousands of U.S. Dollars
Use	**Location**	**Asset category**	**2016**	**2016**
Company houses	Sagamihara-shi, Kanagawa	Buildings and structures	12	103
	Yokohama-shi, Kanagawa	Land	94	834
		Buildings and structures	68	605
	Koshigaya-shi, Saitama	Buildings and structures	25	219
	Saitama-shi, Saitama	Buildings and structures	77	679
	Tsukuba-shi, Ibaraki	Land	189	1,668
		Buildings and structures	80	712
	Kamisu-shi, Ibaraki	Land	66	585
		Buildings and structures	124	1,096
		Tools, furniture and fixtures	0	0
		Total	735	6,506

In light of the execution of sales contracts and the decision to dispose of certain assets, Tokuyama recognized a notable difference between the recoverable amounts and book values of the housing facilities described above owned by the Company and Shunan Sangyo Co., Ltd. As a result, Tokuyama decided to write down the book values of these assets to their recoverable amounts and to post the amount of write-down as an impairment loss in extraordinary losses. Recoverable amounts represent estimates of net realizable values based on sales contract and other factors.

			Millions of yen	Thousands of U.S. Dollars
Use	**Location**	**Asset category**	**2016**	**2016**
Idle fixed assets	Ishikari-shi, Hokkaidou	Land	73	646
		Total	73	646

Tokuyama recognized a notable difference between the book and market value of the idle land described above owned by the Company owing to the drop in land prices. As a result, Tokuyama decided to write down the book value of idle land to its recoverable amounts and to post the amount of write-down as an impairment loss in extraordinary losses. The recoverable amount represents an estimate of net realizable value based on the real estate appraisal value.

Use	Location	Asset category	Millions of yen 2016	Thousands of U.S. Dollars 2016
Manufacturing facilities for polyolefin film	Shunan-shi, Yamaguchi	Buildings and structures	15	133
		Machinery, equipment and vehicles	1	8
		Tools, furniture and fixtures	0	0
		Total	16	143

Sun・Tox Co., Ltd. determined that there was little or no prospect of a recovery following the decision to discontinue operations at certain manufacturing facilities. As a result, the company wrote down the book values of the relevant assets and to post the amount of write-down as an impairment loss in extraordinary losses. The recoverable amounts of assets groups represent estimates of net realizable values. The assets described above have been written down to their memorandum values.

Use	Location	Asset category	Millions of yen 2016	Thousands of U.S. Dollars 2016
Manufacturing facilities for polycrystalline silicon	Sarawak, Malaysia	Buildings and structures	31,866	282,004
		Machinery, equipment and vehicles	90,143	797,727
		Tools, furniture and fixtures	625	5,531
		Intangible assets-other	172	1,522
		Construction in progress	1,069	9,456
		Total	123,875	1,096,242

Engaged in the manufacture of solar-grade polycrystalline silicon, the PS-2 Plant operated by Tokuyama Malaysia Sdn. Bhd. came online in October 2014. Due to the global glut in supply and the prolonged substantial drop in sales prices, however, the decision was made to write down the book value of the plant to its recoverable value and to post the amount of write-down as an impairment loss in extraordinary losses. The decision to undertake this write-down reflects the forecast continued decline in selling prices to a level that is significantly below the Company’s business plans. The recoverable amount has been determined using the utility value of assets and a discount rate of 6.2% for calculating the utility value based on future cash flows. Meanwhile, an impairment loss of ¥389 million (US$3 million) applicable to manufacturing facilities at the PS-1 polycrystalline silicon Plant is included in construction in progress totaling ¥1,069 million (US$9 million).

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 chlorinated solvents

Specialty Products: Polycrystalline silicon, fumed silica, tetrachlorosilane, aluminum nitride, high-purity chemicals for electronics manufacturing, and photoresist developer

Cement: Cement, ready-mixed concrete, cement-type stabilizer, and resourece recycling business

Life & Amenity: Polyolefin film, plastic window sashes, medical diagnosis systems, dental materials and equipment, gas sensors, ion exchange membranes, 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.

[2016] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others*1	Total	Adjustment*2	Consolidated*3
Sales								
Sales to customers	87,042	47,664	85,320	55,679	31,408	307,115	-	307,115
Inter-segment sales/transfer	759	13,237	148	1,998	22,275	38,420	(38,420)	-
Total sales	87,801	60,902	85,469	57,677	53,684	345,535	(38,420)	307,115
Segment income	8,900	(1,157)	5,832	6,598	5,668	25,842	(2,771)	23,071
Segment assets	46,381	66,287	55,952	56,649	43,825	269,097	132,244	401,342
Other items								
Depreciation and amortization	2,517	5,956	3,211	2,132	3,565	17,384	2,700	20,084
Increase in tangible and intangible fixed assets	2,000	4,588	2,437	3,111	1,595	13,733	585	14,319

(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 (loss) 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 (¥174,924million).
(Note 3) With regard to segment income (loss), 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.
(Note 4) Included in depreciation expenses is the long-term prepaid expense depreciation amount.
(Note 5) Included in increase in tangible and intangible fixed assets is the long-term prepaid expense increase amount.

[2015] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others*1	Total	Adjustment*2	Consolidated*3
Sales								
Sales to customers	91,122	43,787	81,100	56,683	29,391	302,085	-	302,085
Inter-segment sales/transfer	805	11,663	118	1,774	22,076	36,438	(36,438)	-
Total sales	91,927	55,450	81,219	58,457	51,468	338,523	(36,438)	302,085
Segment income	5,056	4,122	4,446	5,159	6,023	24,808	(5,278)	19,530
Segment assets	55,785	194,868	60,770	51,352	28,260	391,037	163,490	554,527
Other items								
Depreciation and amortization	2,706	4,314	2,841	2,341	1,447	13,650	5,194	18,845
Increase in tangible and intangible fixed assets	2,054	17,456	3,734	1,693	1,085	26,023	239	26,262

(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 (¥190,190 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.
(Note 4) Included in depreciation expenses is the long-term prepaid expense depreciation amount.
(Note 5) Included in increase in tangible and intangible fixed assets is the long-term prepaid expense increase amount.

[2016]

	Thousands of U.S. Dollars							
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others*1**	**Total**	**Adjustment*2**	**Consolidated*3**
Sales								
Sales to customers	770,283	421,810	755,050	492,736	277,952	2,717,833	-	2,717,833
Inter-segment sales/transfer	6,721	117,148	1,318	17,682	197,132	340,003	(340,003)	-
Total sales	777,004	538,959	756,368	510,419	475,084	3,057,837	(340,003)	2,717,833
Segment income	78,767	(10,242)	51,610	58,395	50,165	228,696	(24,526)	204,170
Segment assets	410,459	586,611	495,157	501,326	387,837	2,381,393	1,170,306	3,551,699
Other items								
Depreciation and amortization	22,277	52,715	28,424	18,875	31,551	153,844	23,893	177,738
Increase in tangible and intangible fixed assets	17,702	40,607	21,572	27,536	14,115	121,535	5,185	126,720

(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 (loss) 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$1,548 million).
(Note 3) With regard to segment income (loss), 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.
(Note 4) Included in depreciation expenses is the long-term prepaid expense depreciation amount.
(Note 5) Included in increase in tangible and intangible fixed assets is the long-term prepaid expense increase amount.

RELATED INFORMATION

Information by Region

(1) Sales

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Japan	239,143	240,932	2,116,313
Asia	54,714	47,099	484,200
Others	13,257	14,052	117,319
Total	307,115	302,085	2,717,833

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Japan	98,199	104,791	869,021
Asia	20,415	147,331	180,670
Others	1,149	1,208	10,168
Total	119,764	253,331	1,059,859

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

[2016] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Impairment loss	-	123,882	-	16	276	531	124,706

[2015] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Impairment loss	1,101	74,870	5	-	-	32	76,010

[2016] Thousands of U.S. Dollars

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Impairment loss	-	1,096,304	-	143	2,450	4,702	1,103,599

INFORMATION ON AMORTIZATION OF GOODWILL AND UNAMORTIZED BALANCE BY REPORTABLE SEGMENT

[2016] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	3	1,369	-	-	-	1,373
Unamortized balance	-	31	3,706	-	-	-	3,738

[2015] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	-	1,212	-	-	-	1,212
Unamortized balance	-	-	5,097	-	-	-	5,097

[2016] Thousands of U.S. Dollars

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	30	12,121	-	-	-	12,152
Unamortized balance	-	278	32,802	-	-	-	33,080

[2015]

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

15. FINANCIAL INSTRUMENTS

(1) Management policy on financial instruments

The Tokuyama Group raises funds as required (mainly through bank loans and the issuance of corporate bonds) in line with its business investment program aimed at implementing a customer-oriented approach toward strengthening the profitability of its businesses.”

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, 2016, 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	121,508	121,508	-
Notes and accounts receivable - trade	68,569	68,569	-
Securities and Investment securities			
The other securities	9,478	9,478	-
Long-term loans receivable	3,094	3,094	-
Total assets	202,651	202,651	-
Notes and accounts payable - trade	35,388	35,388	-
Short-term loans payable	9,382	9,382	-
Commercial papers	-	-	-
Bonds payable	44,400	40,676	(3,723)
Long-term loans payable	189,914	191,032	1,118
Total liabilities	279,084	276,480	(2,604)
Derivative financial instruments			
In which hedge accounting is not applied	-	-	-
In which hedge accounting is applied	(834)	(2,333)	(1,499)
Total derivative financial instruments	(834)	(2,333)	(1,499)

	Thousands of U.S. Dollars		
	Book value	**Fair value**	**Difference**
Cash and deposits	1,075,296	1,075,296	-
Notes and accounts receivable - trade	606,812	606,812	-
Securities and Investment securities			
The other securities	83,883	83,883	-
Long-term loans receivable	27,383	27,383	-
Total assets	1,793,376	1,793,376	-
Notes and accounts payable - trade	313,171	313,171	-
Short-term loans payable	83,029	83,029	-
Commercial papers	-	-	-
Bonds payable	392,920	359,971	(32,948)
Long-term loans payable	1,680,656	1,690,555	9,898
Total liabilities	2,469,777	2,446,727	(23,050)
Derivative financial instruments			
In which hedge accounting is not applied	-	-	-
In which hedge accounting is applied	(7,381)	(20,652)	(13,270)
Total derivative financial instruments	(7,381)	(20,652)	(13,270)

16. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative transactions to which hedge accounting is not applied

There are no 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				
Principle-based accounting Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign currencies	29	-	(0)
Euros	Forecast transaction in foreign currencies	1,445	90	(59)
Subtotal		1,474	90	(59)
Allocation method Forward exchange agreements				
Put				
U.S. dollars	Forecast transaction in foreign currencies	1,051	-	-
Subtotal		1,051	-	-
Total		2,525	90	(59)

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 currencies	257	-	(2)
Euros	Forecast transaction in foreign currencies	12,790	799	(528)
Subtotal		13,047	799	(530)
Allocation method Forward exchange agreements				
Put				
U.S. dollars	Forecast transaction in foreign currencies	9,302	-	-
Subtotal		9,302	-	-
Total		22,349	799	(530)

(2) Interest-related derivatives

		Millions of yen		
	Main hedging targets	Notional value	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	60,300	60,300	(774)
Subtotal		60,300	60,300	(774)
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	45,159	39,183	(1,499)
Subtotal		45,159	39,183	(1,499)
Total		105,459	99,483	(2,273)

		Thousands of U.S. Dollars		
		Notional value	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	533,628	533,628	(6,850)
Subtotal		533,628	533,628	(6,850)
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	399,642	346,757	(13,270)
Subtotal		399,642	346,757	(13,270)
Total		933,270	880,386	(20,121)

17. CONTINGENT LIABILITIES

As at March 31, 2016 and 2015, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. Dollars
	2016	2015	**2016**
Notes discounted or endorsed	417	331	3,696
Loans guaranteed	157	165	1,397
Commitments to guarantee	-	32	-

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 on the borrower's consolidated balance sheet at the end of each fiscal year, less any amounts of subscription rights to shares, non-controlling interests, deferred gains or losses on hedges, foreign currency translation adjustment, or valuation difference on available-for-sale securities, must not fall below 75% of the larger of either (i) the identically calculated amount as of the end of the preceding fiscal year or (ii) the identically calculated amount as of March 31, 2016.

(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. This agreement has the following financial covenants.

(1) The borrower 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, non-controlling 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, 2016.

(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

The decision not to pay a period-end cash dividend for the fiscal year ended March 31, 2016 was approved at the Company's Ordinary General Meeting of Shareholders held on June 24, 2016.

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, 2016, 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, 2016, 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 15, 2016

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JAPAN

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Major Subsidiaries and Affiliates

(As of March 31, 2016)

Company	Capital (millions of yen)	Ownership (%)	Scope
Chemicals			
Shin Dai-ichi Vinyl Corporation	2,000	71.0	Production and sale of polyvinyl chloride
Tokuyama & Central Soda Inc.	10	65.0	Sale of soda ash and calcium 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 4 affiliates			
Specialty Products			
Tokuyama Chemicals (Zhejiang) Co., Ltd.	CNY 377 million	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 thousand	100	Production and sale of high purity chemicals for electronics manufacturing
Taiwan Tokuyama Corporation	TWD 200 million	100	Production and sale of high purity chemicals for electronics manufacturing
Tokuyama Malaysia Sdn. Bhd.	131,344	100	Production and sale of polycrystalline silicon
*Hantok Chemicals Co., Ltd.	KRW 4,500 million	50.0	Production and sale of photoresist developer
Category also includes another 1 consolidated subsidiary			
Cement			
Tokyo Tokuyama Concrete Co., Ltd.	80	99.9	Production and sale of ready-mixed concrete and concrete products
Hiroshima Ready Mixed Concrete Co., Ltd	100	67.2	Production and sale of ready-mixed concrete
Seibu Tokuyama Ready Mixed Concrete Co., Ltd.	100	100	Production and sale of ready-mixed concrete
Kawasaki Tokuyama Ready Mixed Concrete Co., Ltd.	40	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 million	75.3	Production and sale of cement
*Yamaguchi Eco-tech Corporation	90	50.0	Recycling business of incinerated ash of wastes
Category also includes another 4 consolidated subsidiaries, 3 equity method affiliates and 13 affiliates			
Life & Amenity			
Shanghai Tokuyama Plastics Co., Ltd.	CNY 85 million	100	Production and sale of microporous film
Tianjin Tokuyama Plastics Co., Ltd.	CNY 129 million	100	Production and sale of microporous film
Sun•Tox Co., Ltd.	300	80.0	Production and sale of polyolefin films

Company	Capital (millions of yen)	Ownership (%)	Scope
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
Tianjin Figaro Electronic Co., Ltd.	CNY 23 million	55.7	Production and sale of sensor devices
Figaro USA, Inc.	USD 200 thousand	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, sale and maintenance of ion-exchange membranes and 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 million	49.0	Production and sale of diagnostic reagents, analyzers and systems
Category also includes another 4 consolidated subsidiaries, 1 equity method affiliate and 1 affiliate			
Other			
Tokuyama Asia Pacific Pte. Ltd.	SGD 800 thousand	100	Sale of Tokuyama's products
Tokuyama Europe GmbH	EUR 255 thousand	100	Sale of Tokuyama's products
Tokuyama Trading (Shanghai) Co., Ltd.	CNY 5 million	100	Sale of Tokuyama's products
Tokuyama (Shanghai) Co., Ltd.	CNY 12 million	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
Shunan Swimming Club Corporation	50	100	Swimming and other sports training, health maintenance / promotion
Tokuyama Logistics Corporation	100	100	Transportation and warehousing
Tokuyama Information Service Corporation	20	100	Information processing services
Shunan Bulk Terminal Co., Ltd.	150	72.2	Warehouse operations for bulk cargoes of coal etc.
* CoorsTek 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 3 consolidated subsidiaries and 2 affiliates			

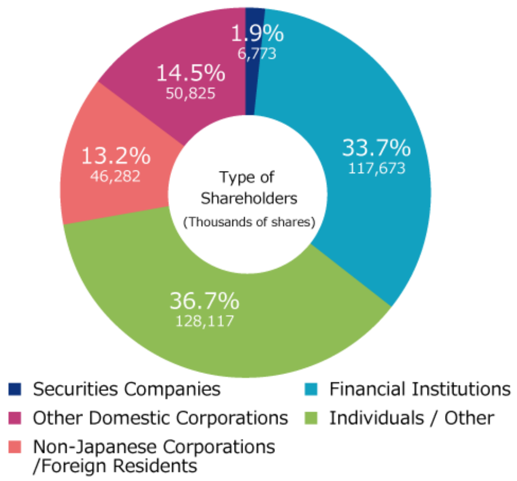
*Equity method affiliates

Corporate Data and Stock Information

(As of March 31, 2016)

Company Name:	Tokuyama Corporation
Established:	February 16, 1918
Capital:	¥53,458 million
Employees:	5,759 (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

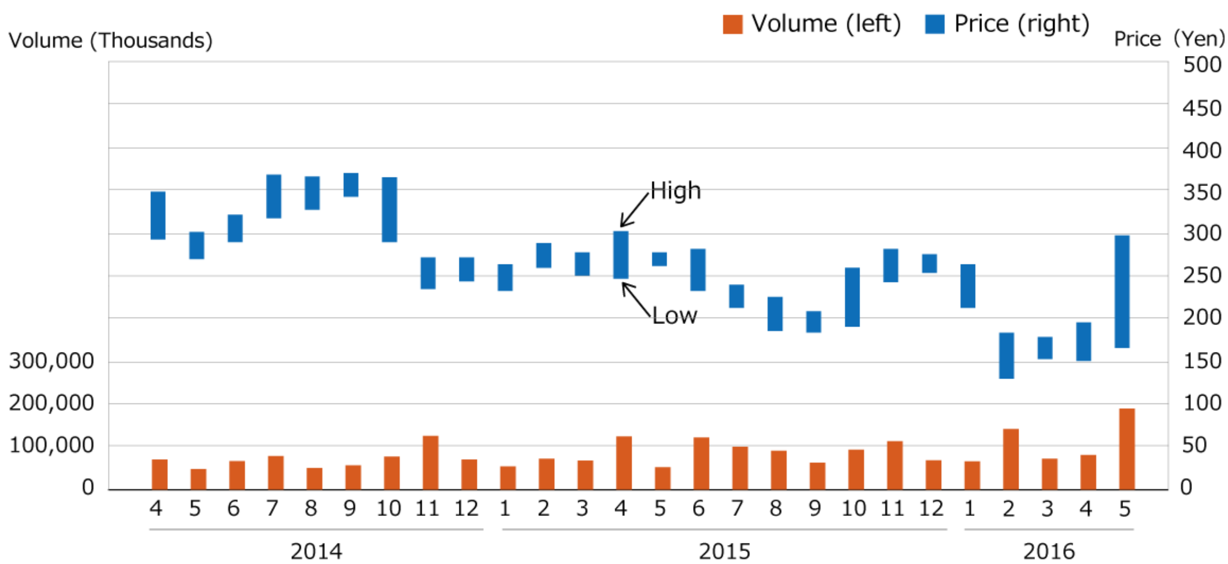
Composition of Shareholders



Major Shareholders

Name	Number of Shares Held (Thousands)	Percentage of Total Shares
The Master Trust Bank of Japan, Ltd. (trust account)	19,916	5.70
Japan Trustee Services Bank, Ltd. (trust account)	12,804	3.66
Nippon Life Insurance Company	10,874	3.11
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
BNY GCM CLIENT ACCOUNT JPRD AC ISG (FE-AC)	6,068	1.74
Sumitomo Metal Mining Co., Ltd.	5,904	1.69
Mitsubishi UFJ Trust and Banking Corporation	5,852	1.67

Stock Chart



Our Vision

Mission

Centered on the field of chemistry,
the Tokuyama Group will continue
to create value that enhances people's lives

Aspirations

Shift from a focus on quantity to quality

<FY2025>

Global leader in advanced materials

Leader in its traditional businesses in Japan

Values

Customer satisfaction is the source of profits

A higher and broader perspective

Personnel who consistently surpass their predecessors

Integrity, perseverance, and a sense of fun

Tokuyama Corporation

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