Chemistry with a heart

# TOKUYAMA CORPORATION

## Annual Report 2012

Year ended March 31, 2012

Tokuyama traces its roots back to 1918, when it began producing soda ash (sodium carbonate), one of the basic materials used in various industries.

While adding various chemicals to our product lineup, we have grown to incorporate diverse businesses covering a wide range of products including organic and inorganic chemicals, plastics, cement/building materials, electronic materials, and materials used in the medical field. In this way, Tokuyama has continued to serve industry and a variety of markets for more than 90 years.

Tokuyama aims to be a thoroughly unique company, characterized by technology, thereby achieving sustainable corporate growth. At the same time, we strive to become a meaningful presence in society, full of originality, and to generate increased corporate value from a medium- to long-term perspective while also practicing a style of management that is both future-oriented and in harmony with society.

# PROFILE

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**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 present 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.

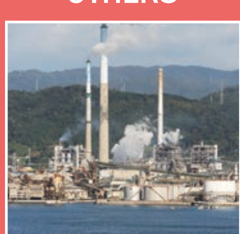
# CONSOLIDATED FINANCIAL HIGHLIGHTS

**Tokuyama Corporation and Consolidated Subsidiaries** **Years ended March 31, 2012 and 2011**

| | Millions of yen | | Change (%) | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2012** | 2011 | 2012/2011 | **2012** |
| Net sales | **¥282,382** | ¥289,787 | (2.6)% | **$3,443,681** |
| Operating income | **13,721** | 20,145 | (31.9) | **167,323** |
| Income before income taxes | **14,816** | 15,550 | (4.7) | **180,679** |
| Net income | **9,351** | 9,766 | (4.2) | **114,038** |
| Per share amounts (in yen, U.S. dollars) | | | | |
| Net income | | | | |
| Basic | **26.87** | 28.06 | (4.2) | **0.328** |
| Diluted | **—** | — | — | **—** |
| Cash dividends | **6.00** | 6.00 | — | **0.073** |
| Total assets | **501,181** | 474,708 | 5.6 | **6,111,967** |
| Net assets | **255,461** | 247,656 | 3.2 | **3,115,378** |
| Capital expenditures | **78,281** | 40,725 | 92.2 | **954,641** |
| Depreciation | **28,380** | 31,257 | (9.2) | **346,098** |
| R&D expenses | **11,705** | 11,469 | 2.1 | **142,740** |
| Number of employees | **5,506** | 5,493 | — | **—** |
| Consolidated subsidiaries | **48** | 50 | — | **—** |

Note: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥82=US$1.

# AT A GLANCE

| Group Segment | Business Unit | Major Direct Products |
|---|---|---|
| CHEMICALS  | Soda ash and Calcium chloride | Soda ash, Calcium chloride |
| | Chlor-alkali | Caustic soda, Propylene oxide, Chlorine derivatives |
| | Vinyl chloride | Vinyl chloride monomer |
| | New organic chemicals | Isopropyl alcohol (IPA) |
| SPECIALTY PRODUCTS  | Electronic materials | Polycrystalline silicon |
| | Fumed silica | Fumed silica |
| | Precipitated silica | Precipitated silica (white carbon) |
| | Fine chemicals | Active pharmaceutical ingredients (API) |
| | | Plastic lens materials for glasses |
| | Shapal | Aluminum nitride (AℓN) |
| | IC chemicals | High-purity chemicals for electronics manufacturing |
| | Cleaning system | Metal-cleaning solvents |
| | NF | Microporous film |
| CEMENT  | Cement | Ordinary Portland cement |
| | | Other cement |
| | Recycling and environment | Recycling of waste and by-products |
| ADVANCED COMPONENTS  | ■ Polypropylene film【Sun•Tox】 | |
| | ■ Clinical analyzers / Laboratory information systems【A&T】 | |
| | ■ Dental materials / equipment【Tokuyama Dental】 | |
| OTHERS  | ■Others【Shunan System Sangyo etc.】 | |

## Major Products of Group Companies

Year ended March 31, 2012

■ Vinyl chloride resin【Shin Dai-ichi Vinyl】

■ Fumed silica
【Tokuyama Chemicals (Zhejiang) (China)】
■ Precipitated silica
【Tokuyama Siam Silica (Thailand)】

■ Alminum nitride
【Tokuyama-Dowa Power Materials】

■ Microporous film
【Shanghai Tokuyama Plastics (China)】

■ Ready-mixed concrete
【Ready-mixed concrete companies】

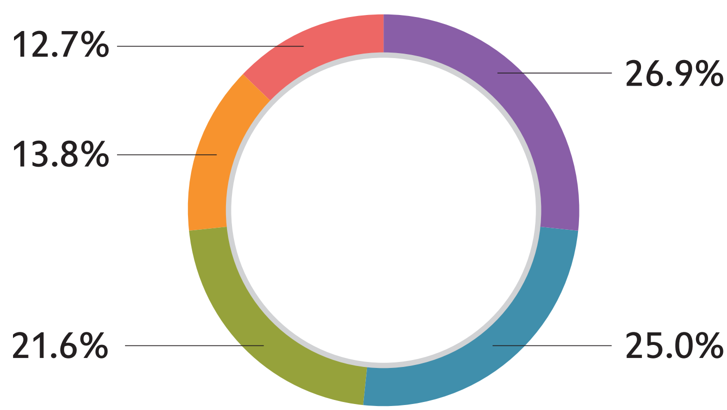
■ Cement / Building materials
【Tokuyama Tsusho Trading, etc.】

■ Ion exchange membranes / Systems【ASTOM】

■ Gas sensors / detectors【Figaro Engineering】

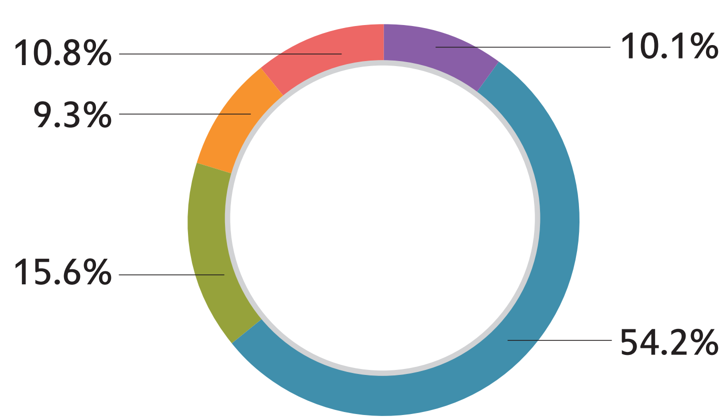
■ Plastic window sashes【Excel Shanon】

### Sales Composition




■ Chemicals
■ Specialty Products
■ Cement
■ Advanced Components
■ Others

### Operating Income Composition



## Our Centennial Vision is the Cornerstone of a Revitalized Tokuyama Group

Kazuhisa Kogo
President

### Please provide us with your review of the previous Three-Year Management Plan.

Our previous Three-Year Management Plan, which began in fiscal 2008 (the year ended March 31, 2009), represented our first step toward achieving our Centennial Vision. In addition to launching the Malaysia Project to lay a robust foundation for future growth and restructuring our cement business, we carried out some of our appropriate measures as initially planned to attain a measure of progress and success.

Regrettably, however, we were unable to achieve the numerical targets established at the outset of the Plan. This was largely attributable to dramatic deterioration in market conditions and our business environment following the Lehman Brothers shock and intense polycrystalline silicon price competition.

In our chemicals and cement businesses geared toward addressing demand in Japan, rising energy costs and appreciation in the value of the yen leave little or no hope of substantive growth. Against this backdrop, we are confronted by several issues that require immediate attention including the creation of new businesses, the nurturing of highly profitable businesses, and the establishment of a sales and marketing system that boasts strong proposal capabilities.

With this in mind, fiscal 2011, ended March 2012, was positioned as a year in which the Tokuyama Group would take all preparatory steps to review its medium- to long-term growth strategies. In addition to reassessing our business strategies, we adopted a selection and concentration approach toward development projects, adhered strictly to a policy of rationalization in our production fields, and worked diligently to improve productivity.

## What are the key points to achieving the targets of the new Three-Year Management Plan?

There are aspects of our Centennial Vision that perhaps place undue emphasis on our quest toward an ideal image. We therefore took steps to go back to the starting point and assess exactly what is required to achieve our targets. Drawing on our conclusions, we have put in place a new Three-Year Management Plan that focuses on three growth strategies. Moving forward, we will endeavor to establish a support structure that is capable of “strengthening strategically growing businesses,” “restructuring businesses in which we aim to improve profitability,” and “bolstering international competitiveness.”

Among these overarching growth strategies, steadily carrying out our Malaysia Project is a key priority in strengthening strategically growing businesses. We will look carefully to identifying the key construction, operation and sales factors required for success as we work toward the start of the first phase of operation in June 2013 and the second phase in April 2014. Through these means, energies will be channeled toward producing polycrystalline silicon of high purity and at low cost for use in solar cells. By engaging in highly competitive polycrystalline silicon activities, we are taking steps to position this business as a mainstay earnings pillar.

In addition, to nurture second and third pillars that can support the polycrystalline silicon business and provide complementary sources of profits is considered a pressing need. With this in mind, we will redouble our efforts to bring promising new products to market. In creating new businesses, we will, for example, quickly establish a mass production technology for single crystal sapphire wafers. Expectations are also high that the establishment in fiscal 2013 of the liquid hydrogen business and new businesses in the recycling and environment field will help further boost earnings.

The Tokuyama Group recognizes that by undertaking to reform the structure of its management and enhancing its corporate culture, it will be better placed to implement its growth strategies in the new Three-Year Plan. In pushing forward the aforementioned structural reform, we have separated and bolstered the supervisorial and business execution functions with the aims of expediting our decision making and putting in

| Malaysia Project | | |
|---|---|---|
| | 1st Phase | 2nd Phase |
| LOCATION | Samalaju Industrial Park in Sarawak, Malaysia | |
| ANNUAL PRODUCTION CAPACITY | 6,200 tonnes | 13,800 tonnes |
| PRODUCTION METHOD | Siemens method | |
| TARGET USAGE OF POLYCRYSTALLINE SILICON | Solar cells | |
| SCHEDULE (START OF OPERATIONS) | June 2013 | April 2014 |

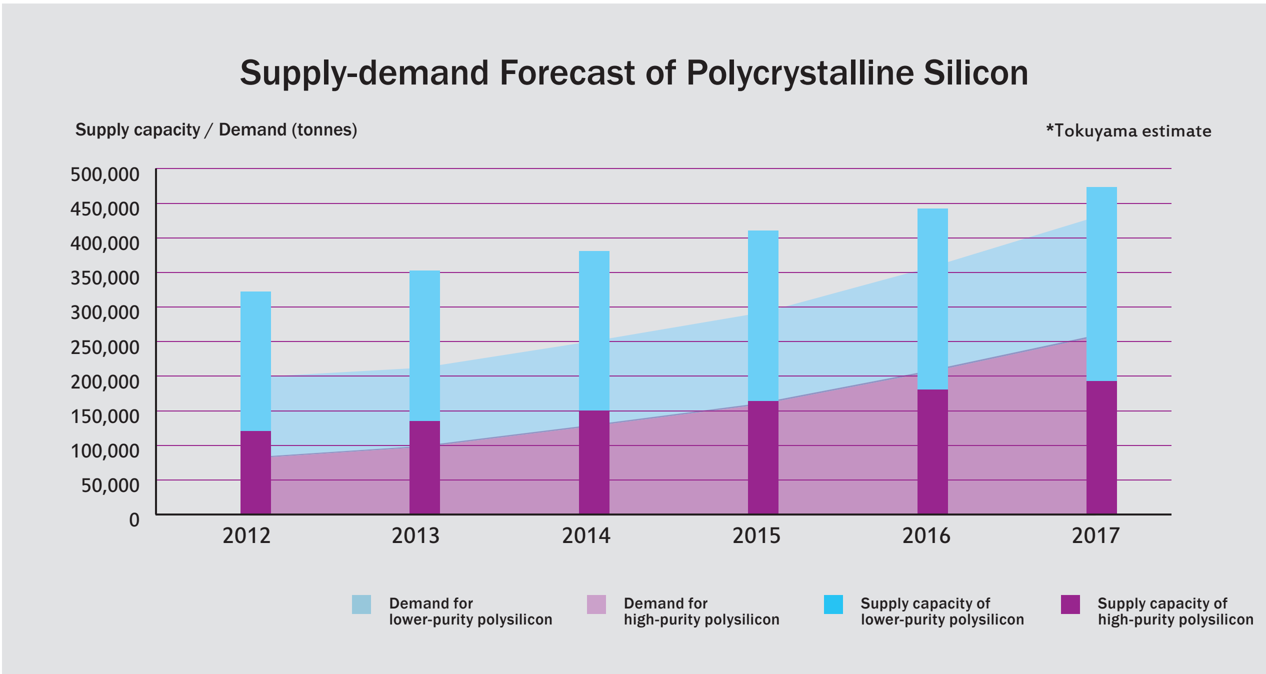
place a management structure that is capable of responding swiftly to changes in the Group's operating environment. At the same time, we will endeavor to develop a bright and vibrant workplace environment in which each and every employee can push the limits of his or her potential and skills. This is in fact the ultimate in corporate culture reform.

Under the guidance of the Venture Spirit & Innovation Project, created in 2011 as a task force to help realize the Group's Centennial Vision, all Tokuyama Group employees are working in unison to bring about and implement comprehensive corporate reform. Building on these endeavors, we are fostering an environment that will allow employees to steadfastly stride forward beyond the scope of their allotted duties and tasks.

As I have mentioned, we will push forward efforts to strengthen our organizational functions and change our corporate culture by adopting both top-down and bottom-up approaches.

## In carrying out these growth strategies that emphasize change, what is your ideal image of the Company?

Our standing as a company that can win over the competition is in jeopardy if we are unable to expand our business portfolio and bring about corporate growth. Since the Lehman Brothers shock, the Company's net sales have remained flat at around ¥300 billion. Over the same period, the operating margin (the ratio of operating income to net sales) has steadily declined. At the same time, our overseas net sales ratio is between 20 and 24%




against a domestic chemical industry average of around 40%. Taking these factors into consideration, it is imperative that we break free from a product portfolio that is dependent on domestic demand and accelerate efforts to ensure a structure and systems that are capable of excelling on the global stage.

I am convinced that genuine change, which includes globalization, will come about when the Company boasts net sales in excess of ¥500 billion and the overseas net sales ratio over 50%. In this regard, our Centennial Vision is indeed the cornerstone of a revitalized Tokuyama Group.

### Please provide us with your views on fiscal 2012 (the year ending March 2013), the first year of the new Three-Year Management Plan, and details of initiatives that you plan to implement.

In the Specialty Products segment, the U.S., China and Japan, three countries that are aggressively introducing renewable energy, are expected to drive the solar cell market forward. Polycrystalline silicon for use in semiconductors is also projected to benefit from robust trends in emerging countries particularly in the area of smart phones. This is in turn anticipated to offset the decline in personal computer and LCD markets.

Under these circumstances, we will work diligently to boost the presence and standing of our brand and reinforce profitability by steadily executing the Malaysia Project while increasing production capacity and improving operational processes at the Tokuyama Factory.

In the Chemicals segment, we continue to confront difficult operating conditions. Due largely to the downturn in the rate of economic growth in China from the second half of last year, vinyl chloride resin exports have declined. This has in turn led to a drop in operating rates at electrolysis facilities and, as a result, increasingly tight caustic soda supply and demand in Japan. Vinyl chloride monomer activities are faring little better owing to persistent weak conditions. In this regard, orders from China and Southeast Asia remain subdued. Moving forward, we are determined to review our logistics and sales structure in fiscal 2012, and to revise caustic soda prices.

In the Cement segment, there are signs of a recovery in demand particularly from the Kanto and Kansai areas including redevelopment projects in Osaka. After a continuous period of decline that has extended for more than 15 years, there is sense that the market may have turned a corner.

Unfortunately, demand in western Japan, Tokuyama's principal sales area, is expected to remain weak. As a result, we will continue our policy of comprehensive rationalization, take steps to revise sales prices, and work to further improve profits.

Our energies in the Advanced Components segment will be directed toward increasing revenues through the development of existing and new markets. From a profit perspective, we will endeavor to boost earnings by actively cutting costs. The Excel Shanon group will continue to promote repair and replacement work for affected customers in an effort to address outstanding issues on a building by building basis and restore its reputation and trust.

## Can you provide us with your thoughts on returning profits to shareholders?

Tokuyama positions the return of profits to shareholders as a key management priority. The Company maintains the basic policy of providing continuous, stable cash dividends while taking into consideration the importance of a sound financial position and robust profit structure. In the fiscal year under review, we paid an interim cash dividend of ¥3 per share and a period-end cash dividend of ¥3 per share for an annual cash dividend of ¥6 per share.

Moving forward, and from the fiscal year ending March 31, 2013, we will implement our new Three-Year Management Plan and work to improve earnings in an effort to ensure the payment of continuous, stable cash dividends.

As we work toward achieving our established goals, we kindly request your continued support and understanding.


Kazuhisa Kogo
President
June 2012

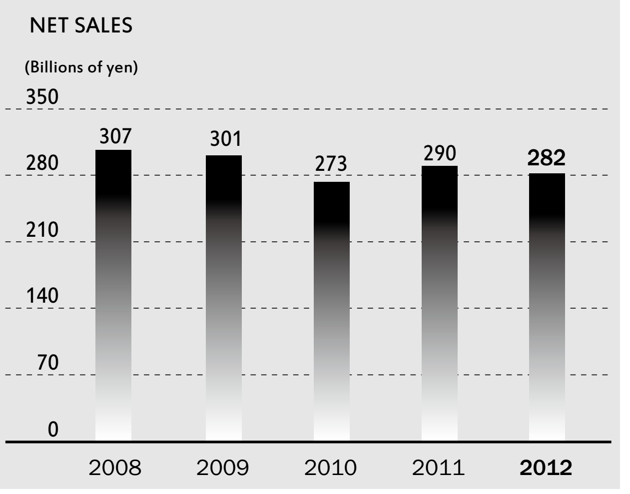
## INCOME ANALYSIS

In the year ended March 31, 2012, the worsening debt crisis in Europe acted as a hindrance to the economic recovery in developed countries while the growth rates of China and other emerging countries showed signs of slowdown. Reflecting these factors, the global economy exhibited a relatively weak trend.

The Japanese economy started out under a severe economic environment at the beginning of the fiscal year under review. For example, restrictions occurred in corporate production activities due to the serious impact of the Great East Japan Earthquake. Although the Japanese economy showed signs of recovery in the second half of the fiscal year owing to the reconstruction of supply chains and expectations of reconstruction demand, its future trend remains uncertain due chiefly to the prolonged strong yen and instability of employment.

Under such circumstances, the Tokuyama Group revised selling prices and undertook rationalization efforts. However, our efforts could not absorb price increases in raw materials and fuels such as coal, ethylene and propylene, and moreover the business environment for polycrystalline silicon, which is our pillar of profit, deteriorated further. As a result, the Tokuyama Group reported lower operating income on lower sales compared with the previous fiscal year.

Consolidated net sales for fiscal 2012 amounted to ¥282,382 million (US$3,444 million), a decrease of 2.6% compared with the previous fiscal year, chiefly due to damage to supply chains caused by the Great East Japan Earthquake and decreased sales volume of polycrystalline silicon arising mainly from the slumping solar cell and semiconductor markets caused by the global recession.

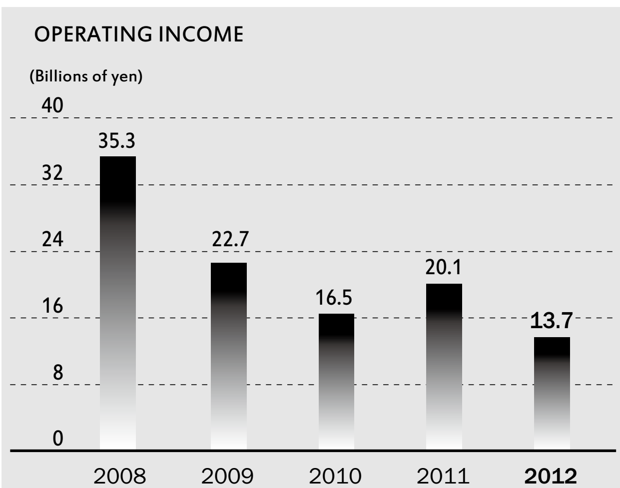



By business segment, Chemicals segment sales increased 7.7% year on year to ¥85,274 million (US$1,040 million), sales in the Specialty Products segment fell 18.3% year on year to ¥79,080 million (US$964 million), sales recorded by the Cement segment increased 6.1% year on year to ¥68,421 million (US$834 million), and sales in the Advanced Components segment increased 0.7% year on year to ¥43,581 million (US$531 million).

Despite a rise in prices of ethylene and propylene, both of which are main raw materials for the Company's petrochemicals, cost of sales decreased 2.8% compared with the previous fiscal year, to ¥203,763 million (US$2,485 million), owing chiefly to decreased polycrystalline silicon sales volume and a decrease in depreciation expenses of polycrystalline silicon manufacturing facilities.

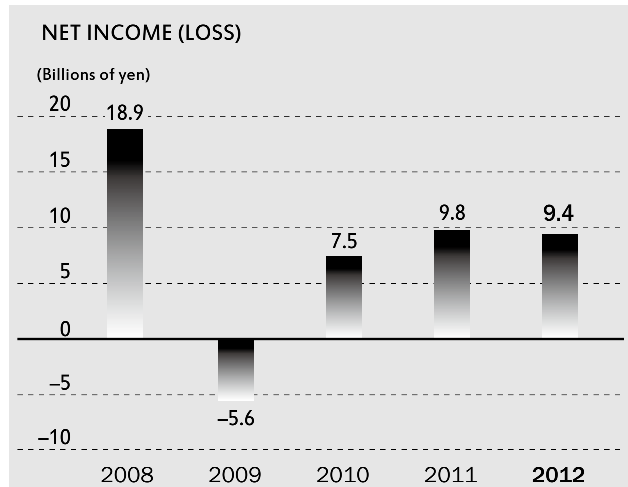
SG&A expenses increased 8.3% compared with the previous fiscal year, to ¥64,898 million (US$791 million), due mainly to an increase in depreciation expenses arising from the start of operations at a new information line of business (LOB) system.

Operating income decreased 31.9% year on year to ¥13,721 million (US$167 million), due mainly to lower sales volume of polycrystalline silicon and increased depreciation expenses arising from the start of operations at the new information LOB system. The operating margin (the ratio of operating income to net sales) was 4.9%, a decrease of 2.1 percentage points compared with the figure of 7.0% recorded in the previous fiscal year.




In other income and expenses, the Company reported net other income of ¥1,095 million (US$13 million), owing chiefly to a decrease in foreign exchange losses.

Income before income taxes was ¥14,816 million (US$181 million), a fall of ¥734 million compared with income before income taxes of ¥15,550 million in the previous fiscal year. After deducting income taxes etc. calculated in an appropriate way, we recorded net income of ¥9,351 million (US$114 million), a fall of ¥414 million compared with net income of ¥9,766 million in the previous fiscal year. Net income per share was ¥26.87 (US$0.328), down from net income per share of ¥28.06 in the previous fiscal year. Dividends per share were ¥6.00 (US$0.073).




Return on equity (ROE) and return on assets (ROA) were 3.8% and 1.9%, respectively, compared with 4.1% and 2.1% in the previous fiscal year.

## SEGMENT INFORMATION

The Tokuyama Group is composed of the parent company, Tokuyama Corporation ("the Company"), 52 subsidiaries and 32 affiliated companies. The Group's operations are divided into the five business segments of Chemicals, Specialty Products, Cement, Advanced Components, and Others. For accounting purposes, 48 of the Company's subsidiaries are consolidated, while eight affiliates are accounted for using the equity method.

### *Chemicals*

The Chemicals segment includes the operations of three consolidated subsidiaries.

Segment net sales increased 7.7% year on year to ¥85,274 million (US$1,040 million), while operating income declined 21.2% year on year to ¥1,901 million (US$23 million).

Net sales in this segment increased, owing mainly to the revision of selling prices of petrochemicals such as vinyl chloride resin and PO (propylene oxide) in response to higher naphtha prices, and an increase in sales volume of caustic soda, vinyl chloride resin and other products resulting from the temporary suspension of competitors' operations caused by the Great East Japan Earthquake. On the profit front, despite the above-mentioned positive factors, operating income declined, reflecting a decline in vinyl chloride monomer export profitability arising from sluggish demand for vinyl chloride resin in Asia due to the global recession and the strong yen; lower profit of soda ash arising from higher prices of raw materials and fuels; and other factors.

### *Specialty Products*

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

This segment's net sales decreased 18.3% year on year to ¥79,080 million (US$964 million) and operating income decreased 37.7% year on year to ¥10,216 million (US$125 million).

Sales of polycrystalline silicon decreased due mainly to damage to supply chains caused by the Great East Japan Earthquake, a drop in solar cell prices, the slumping semiconductor market and the strong yen. On the profit front, despite the decrease in depreciation expenses of manufacturing facilities that commenced operations in the year ended March 2010, operating income decreased due mainly to higher raw material and fuel prices as well as the aforementioned factors.

Fumed silica sales decreased due chiefly to the strong yen and decreased sales volume of its application to polishing material used for CMP for semiconductor wafers, which arose from the slumping semiconductor market.

Sales of the segment's other products such as aluminum nitride and high-purity chemicals for electronics manufacturing declined due mainly to the slumping semiconductor and LCD markets and the strong yen.

### *Cement*

The Cement segment comprises the operations of 14 consolidated subsidiaries and two equity-method affiliates.

Segment net sales increased 6.1% year on year to ¥68,421 million (US$834 million) and operating income increased 41.2% year on year to ¥2,938 million (US$36 million).

In the cement business, sales were firm on the back of solid domestic private-sector demand and sales volume of cement increased. In addition, we revised selling prices in response to the rising prices of raw materials and fuels. In the recycling and environment business, sales increased due to the revision of unit prices for accepting wastes from outside the Company.

On the profit front, the segment reported an increase in operating income owing to the aforementioned factors and the fundamental structural reform of its cement operations centered on the restructuring of our production structure and the rationalization of our logistics and sales structure, which were launched in the previous fiscal year.

### *Advanced Components*

The Advanced Components segment includes the operations of 13 consolidated subsidiaries and two equity-method affiliates.

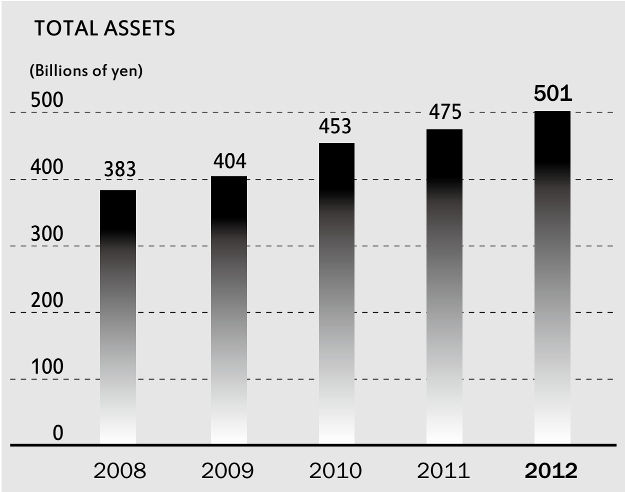
Net sales in this segment increased 0.7% year on year to ¥43,581 million (US$531 million) and operating income decreased 13.7% year on year to ¥1,746 million (US$21 million).

Gas sensor sales at Figaro Engineering Inc. declined due mainly to the strong yen, and Excel Shanon Corporation reported soft sales due to repair and replacement work arising from the plastic window sash (fireproof and fire-resistant grade) problem. Despite such negative factors, the segment reported an increase in net sales owing chiefly to higher sales of clinical analyzers and laboratory information systems at A&T Corporation and increased sales of ASTOM Corporation.

On the profit front, the segment reported a decrease in operating income due mainly to lower profit at Sun-Tox Co., Ltd. arising from higher raw material and fuel prices and increased distribution costs, as well as the aforementioned negative impact of the sales decline of Figaro Engineering Inc.

## FINANCIAL POSITION AND LIQUIDITY

As of March 31, 2012, total assets amounted to ¥501,181 million (US$6,112 million), an increase of ¥26,473 million from the figure of ¥474,708 million at the previous fiscal year-end.



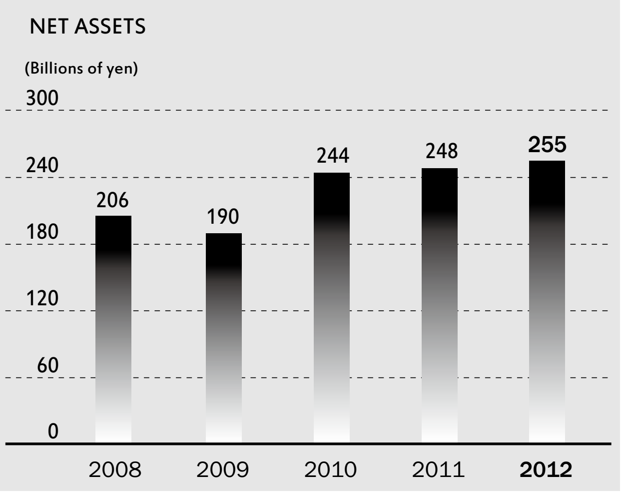

Current assets decreased 1.8% compared with the previous fiscal year-end to ¥214,800 million (US$2,620 million). This was due primarily to a decrease in marketable securities. Current liabilities rose 5.8% to ¥102,773 million (US$1,253 million). This mainly reflected an increase in trade notes and accounts payable. As a result, the current ratio was down to 2.09 times, from 2.25 times at the previous fiscal year-end.

Investments and other assets fell 22.9% over the previous fiscal year-end to ¥60,068 million (US$733 million). This was primarily due to a decrease in trust in deposits.

Property, plant and equipment increased 27.0% in comparison with the previous fiscal year-end to ¥226,314 million (US$2,760 million). This was due chiefly to an increase in construction in progress.

As of March 31, 2012, total liabilities amounted to ¥245,720 million (US$2,997 million), an increase of 8.2% compared with the previous fiscal year-end figure of ¥227,052 million. The main contributory factors were the issue of corporate bonds and an increase in long-term debt. Interest-bearing debt increased 17.8% from ¥126,220 million at the previous fiscal year-end to ¥148,668 million (US$1,813 million).

Minority interests in consolidated subsidiaries decreased 4.1% from ¥6,460 million as of the previous fiscal year-end to ¥6,198 million (US$76 million). Net assets increased 3.2% compared with the previous fiscal year-end, from ¥247,656 million to ¥255,461 million (US$3,115 million). This was due chiefly to an increase in retained earnings. The ratio of shareholders' equity to total assets was 49.7%, down from 50.8% at the previous fiscal year-end. The amount of net assets per share was ¥716.39 (US$8.736), up from ¥693.18 at the previous fiscal year-end.




## CAPITAL EXPENDITURES

Capital expenditures totaled ¥78,281 million (US$955 million), an increase of 92.2% compared with the previous fiscal year's figure of ¥40,725 million.

## CASH FLOWS

Net cash provided by operating activities totaled ¥27,060 million (US$330 million). Principal items included depreciation expenses of ¥28,380 million (US$346 million), down from ¥31,257 million in the previous fiscal year.

Net cash used in investing activities totaled ¥57,667 million (US$703 million). Major contributory factors were payments for purchases of property, plant and equipment, from ¥21,728 million in the previous fiscal year to ¥44,237 million (US$539 million), and payments for purchases of money held in trust of ¥22,465 million (US$274 million) (¥69,896 million in the previous fiscal year).

Net cash provided by financing activities equaled ¥20,792 million (US$254 million). This was primarily attributed to proceeds from long-term debt of ¥17,466 million (US$213 million), up from ¥8,872 million in the previous fiscal year, repayments of long-term debt of ¥8,238 million (US$100 million) (¥4,057 million in the previous fiscal year), and proceeds from the issue of corporate bonds of ¥20,000 million (US$244 million) (¥20,000 million in the previous fiscal year).

As a result of the above, cash and cash equivalents decreased by ¥10,147 million (US$124 million) compared with the previous fiscal year-end, to ¥58,477 million (US$713 million).

# Consolidated Balance Sheets

**Tokuyama Corporation and Consolidated Subsidiaries** **Years ended March 31, 2012 and 2011**

| | Millions of yen | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|
| **ASSETS** | **2012** | 2011 | **2012** |
| **Current assets:** | | | |
| Cash in hand and deposits at bank | **¥ 32,677** | ¥ 28,324 | **$ 398,495** |
| Time deposits | **986** | 984 | **12,024** |
| Short-term investments | **310** | 921 | **3,781** |
| Marketable securities (Note 5, Note 19) | **25,800** | 40,300 | **314,634** |
| Receivables: | | | |
| Trade notes and accounts | **69,455** | 74,891 | **847,015** |
| Others | **7,649** | 3,420 | **93,274** |
| Less allowance for doubtful accounts | **(240)** | (248) | **(2,927)** |
| | **76,864** | 78,063 | **937,362** |
| Inventories (Note 6) | **48,393** | 36,305 | **590,156** |
| Trust in deposits | **26,431** | 30,254 | **322,335** |
| Deferred tax assets (Note 8) | **1,737** | 2,426 | **21,185** |
| Other current assets | **1,602** | 1,113 | **19,536** |
| Total current assets | **214,800** | 218,690 | **2,619,508** |
| **Property, plant and equipment (Note 7):** | | | |
| Land | **34,537** | 35,026 | **421,188** |
| Buildings and structures | **106,569** | 104,538 | **1,299,619** |
| Machinery and equipment | **478,945** | 475,601 | **5,840,797** |
| Construction in progress | **81,095** | 23,056 | **988,963** |
| Others | **1,331** | 1,123 | **16,228** |
| | **702,477** | 639,344 | **8,566,795** |
| Less accumulated depreciation | **(476,163)** | (461,212) | **(5,806,868)** |
| | **226,314** | 178,132 | **2,759,927** |
| **Investments and other assets** | | | |
| Investment securities (Note 5) | **21,634** | 21,040 | **263,829** |
| Investments in unconsolidated subsidiaries and affiliates | **4,552** | 4,718 | **55,509** |
| Long-term receivables | **3,907** | 3,997 | **47,640** |
| Prepaid pension cost | **6,946** | – | **84,703** |
| Less allowance for doubtful accounts | **(432)** | (270) | **(5,272)** |
| Intangible assets | **8,291** | 9,490 | **101,104** |
| Trust in deposits | **7,728** | 23,407 | **94,241** |
| Deferred tax assets (Note 8) | **3,385** | 5,617 | **41,282** |
| Goodwill | **216** | – | **2,629** |
| Others | **3,840** | 9,887 | **46,867** |
| | **60,067** | 77,886 | **732,532** |
| Total assets | **¥501,181** | ¥474,708 | **$6,111,967** |

See notes to consolidated financial statements

| LIABILITIES AND NET ASSETS | Millions of yen 2012 | Millions of yen 2011 | Thousands of U.S. dollars (Note 2) 2012 |
|---|---|---|---|
| **Current liabilities:** | | | |
| Short-term bank loans (Note 6) | ¥ 8,474 | ¥ 10,194 | $ 103,346 |
| Commercial papers | 4,000 | 4,000 | 48,780 |
| Current portion of long-term debt (Note 6) | 12,191 | 13,091 | 148,671 |
| Deferred tax liabilities (Note 7) | 15 | 7 | 188 |
| Notes and accounts payable: | | | |
| Trade notes and accounts | 41,119 | 35,196 | 501,446 |
| Others | 14,477 | 12,702 | 176,559 |
| | 55,596 | 47,898 | 678,005 |
| Accrued income taxes (Note 7) | 1,112 | 3,143 | 13,567 |
| Accrued expenses | 5,843 | 6,082 | 71,257 |
| Guarantee deposits received from dealers | 5,061 | 5,174 | 61,722 |
| Other current liabilities | 10,481 | 7,579 | 127,796 |
| Total current liabilities | 102,773 | 97,168 | 1,253,332 |
| **Long-term liabilities:** | | | |
| Long-term debt, less current portion (Note 6) | 123,113 | 98,156 | 1,501,384 |
| Accrued retirement and severance benefits (Note 8) | 1,051 | 1,041 | 12,818 |
| Deferred tax liabilities (Note 7) | 256 | 277 | 3,120 |
| Allowance for loss on compensation for building materials | 2,444 | 13,221 | 29,803 |
| Other long-term liabilities | 16,083 | 17,189 | 196,132 |
| Total long-term liabilities | 142,947 | 129,884 | 1,743,257 |
| Total liabilities | 245,720 | 227,052 | 2,996,589 |
| **Contingent liabilities (Note 19)** | | | |
| **Shareholders' equity (Note 14):** | | | |
| Common stock, ¥50 par value: | | | |
| Authorized: 700,000,000 shares | | | |
| Issued: 349,671,876 shares | 53,459 | 53,459 | 651,939 |
| Additional paid-in capital | 57,670 | 57,670 | 703,295 |
| Retained earnings | 138,041 | 130,792 | 1,683,423 |
| Less treasury stock, at cost | (1,417) | (1,414) | (17,275) |
| Total shareholders' equity | 247,753 | 240,507 | 3,021,382 |
| **Valuation, translation adjustments and others (Note 3):** | | | |
| Unrealized holding gains on available-for-sale securities | 3,965 | 3,647 | 48,356 |
| Foreign currency translation adjustments | (2,966) | (2,958) | (36,178) |
| Deferred hedge profit and loss | 511 | — | 6,227 |
| Total valuation, translation adjustments and others | 1,510 | 689 | 18,405 |
| **Minority interests in consolidated subsidiaries:** | 6,198 | 6,460 | 75,591 |
| Total net assets | 255,461 | 247,656 | 3,115,378 |
| Total liabilities and net assets | ¥501,181 | ¥474,708 | $6,111,967 |

See notes to consolidated financial statements

# Consolidated Statements of Income

**Tokuyama Corporation and Consolidated Subsidiaries** **Years ended March 31, 2012, 2011 and 2010**

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| **Net sales** | **¥282,382** | ¥289,787 | ¥273,155 | **$3,443,681** |
| Cost of sales | **203,764** | 209,714 | 196,490 | **2,484,920** |
| Gross profit | **78,618** | 80,073 | 76,665 | **958,761** |
| **Selling, general and administrative expenses (Note 10)** | **64,897** | 59,928 | 60,181 | **791,438** |
| Operating income | **13,721** | 20,145 | 16,484 | **167,323** |
| **Other income (expenses):** | | | | |
| Interest and dividend income | **588** | 606 | 605 | **7,170** |
| Interest expenses | **(2,047)** | (1,817) | (1,758) | **(24,958)** |
| Loss from disposal of property, plant and equipment | **(796)** | (695) | (474) | **(9,706)** |
| Impairment loss on fixed assets | **(160)** | (223) | (341) | **(1,949)** |
| Gain on sale of marketable and investment securities | **—** | 1,721 | 1,584 | **—** |
| Loss on write-down of marketable and investment securities | **(64)** | (163) | (12) | **(784)** |
| Foreign exchange gain (loss) | **(478)** | (1,889) | 294 | **(5,824)** |
| Seconded employee labor cost | **(317)** | (309) | (314) | **(3,863)** |
| Gain (loss) on changes in retirement benefit plans(Note 9) | **—** | — | — | **—** |
| Costs of idle operations | **(999)** | (831) | (997) | **(12,180)** |
| Equity in earnings of unconsolidated subsidiaries and affiliates | **287** | 631 | 826 | **3,504** |
| Provision for loss on compensation for building materials | **0** | (700) | (1,000) | **0** |
| Other-net | **5,081** | (926) | (2,033) | **61,946** |
| | **1,095** | (4,595) | (3,620) | **13,356** |
| **Income (loss) before income taxes** | **14,816** | 15,550 | 12,864 | **180,679** |
| **Income taxes (Note 7):** | | | | |
| Current | **2,003** | 5,054 | 3,789 | **24,431** |
| Deferred | **2,879** | 276 | 1,614 | **35,102** |
| | **4,882** | 5,330 | 5,403 | **59,533** |
| **Minority interests** | **(583)** | (454) | (3) | **(7,108)** |
| **Net income (loss)** | **¥ 9,351** | ¥ 9,766 | ¥ 7,458 | **$ 114,038** |

| | Yen | | | U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| **Per share amounts:** | | | | |
| Net income (loss) | | | | |
| Basic | **¥ 26.87** | ¥ 28.06 | ¥ 23.52 | **$ 0.328** |
| Diluted | **—** | — | — | **—** |
| Cash dividends | **6.00** | 6.00 | 6.00 | **0.073** |

See notes to consolidated financial statements

# Consolidated Statements of Comprehensive Income

**Tokuyama Corporation and Consolidated Subsidiaries** **Years ended March 31, 2012, 2011 and 2010**

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| **Income before minority interests** | **¥ 9,934** | ¥10,220 | — | **$121,145** |
| Valuation difference of securities | **324** | (2,792) | — | **3,945** |
| Deferred gains or losses on hedges | **511** | — | — | **6,227** |
| Foreign currency translation adjustments | **206** | (948) | — | **2,515** |
| Share of other comprehensive income of companies accounted for by the equity method | **(21)** | (139) | — | **(245)** |
| **Other comprehensive income** | **1,020** | (3,879) | — | **12,442** |
| **Total comprehensive income** | **10,954** | 6,341 | — | **133,587** |
| Attributable to: | | | | |
| Shareholders of Tokuyama Corporation | **10,171** | 5,959 | — | **124,038** |
| Minority interests | **¥ 783** | ¥ 382 | — | **$ 9,549** |

See notes to consolidated financial statements

# Consolidated Statements of Changes in Net Assets

**Tokuyama Corporation and Consolidated Subsidiaries** **Years ended March 31, 2012, 2011 and 2010**

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| **Common stock** | | | | |
| Balance at beginning of year | **¥ 53,459** | ¥ 53,459 | ¥ 29,976 | **$ 651,939** |
| Issuance of common stock | **—** | — | 23,483 | **—** |
| Balance at end of year | **¥ 53,459** | ¥ 53,459 | ¥ 53,459 | **$ 651,939** |
| **Additional paid-in capital** | | | | |
| Balance at beginning of year | **¥ 57,670** | ¥ 57,670 | ¥ 34,187 | **$ 703,295** |
| Issuance of common stock | **—** | — | 23,483 | **—** |
| Gain on disposal of treasury stock | **—** | — | — | **—** |
| Balance at end of year | **¥ 57,670** | ¥ 57,670 | ¥ 57,670 | **$ 703,295** |
| **Retained earnings** | | | | |
| Balance at beginning of year | **¥130,792** | ¥123,116 | ¥117,584 | **$ 1,595,020** |
| Net income | **9,351** | 9,766 | 7,458 | **114,038** |
| Cash dividends paid | **(2,088)** | (2,088) | (1,866) | **(25,460)** |
| Disposal of treasury stock | **(1)** | (2) | (1) | **(14)** |
| Adjustment for changes in consolidated subsidiaries and affiliates accounted for by the equity method | **(13)** | — | (59) | **(161)** |
| Balance at end of year | **¥138,041** | ¥130,792 | ¥123,116 | **$ 1,683,423** |
| **Less treasury stock, at cost** | | | | |
| Balance at beginning of year | **¥ (1,414)** | ¥ (1,402) | ¥ (1,382) | **$ (17,242)** |
| Net change | **(3)** | (12) | (20) | **(33)** |
| Balance at end of year | **¥ (1,417)** | ¥ (1,414) | ¥ (1,402) | **$ (17,275)** |
| **Unrealized holding gains on available-for-sale securities** | | | | |
| Balance at beginning of year | **¥ 3,647** | ¥ 6,434 | ¥ 5,379 | **$ 44,480** |
| Net change | **318** | (2,787) | 1,055 | **3,876** |
| Balance at end of year | **¥ 3,965** | ¥ 3,647 | ¥ 6,434 | **$ 48,356** |
| **Deferred gains or losses on hedges** | | | | |
| Balance at beginning of year | **¥ —** | ¥ — | ¥ — | **$ —** |
| Net change | **511** | — | — | **6,227** |
| Balance at end of year | **¥ 511** | ¥ — | ¥ — | **$ 6,227** |
| **Foreign currency translation adjustments** | | | | |
| Balance at beginning of year | **¥ (2,958)** | ¥ (1,939) | ¥ (2,204) | **$ (36,074)** |
| Net change | **(8)** | (1,019) | 265 | **(102)** |
| Balance at end of year | **¥ (2,966)** | ¥ (2,958) | ¥ (1,939) | **$ (36,176)** |
| **Minority interest in consolidated subsidiaries** | | | | |
| Balance at beginning of year | **¥ 6,460** | ¥ 6,268 | ¥ 6,218 | **$ 78,782** |
| Net change | **(262)** | 192 | 50 | **(3,191)** |
| Balance at end of year | **¥ 6,198** | ¥ 6,460 | ¥ 6,268 | **$ 75,591** |

See notes to consolidated financial statements

# Consolidated Statements of Cash Flows

**Tokuyama Corporation and Consolidated Subsidiaries** **Years ended March 31, 2012, 2011 and 2010**

| | Millions of yen | | | Thousands of U.S. dollars (Note 2) |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| **Cash flows from operating activities:** | | | | |
| Income (loss) before income taxes | **¥ 14,816** | ¥ 15,550 | ¥ 12,864 | **$ 180,679** |
| **Adjustments to reconcile net cash provided by operating activities:** | | | | |
| Depreciation | **28,380** | 31,257 | 37,484 | **346,098** |
| Increase in allowance for loss on compensation for building materials | **(10,778)** | (6,029) | (386) | **(131,435)** |
| Increase (decrease) in provision | **(289)** | 714 | 3 | **(3,521)** |
| Interest and dividend income | **(588)** | (606) | (605) | **(7,170)** |
| Gain on sale of marketable and investment securities | **—** | (1,721) | (1,584) | **—** |
| Foreign exchange gain | **(40)** | (434) | (221) | **(493)** |
| Loss on sale and disposal of property, plant and equipment | **1,047** | 707 | 619 | **12,763** |
| Impairment losses on fixed assets | **160** | 223 | 341 | **1,949** |
| Equity in earnings of unconsolidated subsidiaries and affiliates | **(287)** | (631) | (826) | **(3,504)** |
| Interest expenses | **2,047** | 1,817 | 1,758 | **24,958** |
| Write-down of marketable and investment securities | **64** | 163 | 12 | **784** |
| (Increase) decrease in trade receivables | **4,816** | 96 | (11,812) | **58,733** |
| (Increase) decrease in inventories | **(12,616)** | 4,229 | (3,422) | **(153,856)** |
| Increase (decrease) in trade payable | **6,298** | 1,626 | 3,445 | **76,810** |
| Increase in other long-term liabilities | **705** | (4,036) | (2,815) | **8,601** |
| Other | **(273)** | (2,543) | 2,862 | **(3,320)** |
| Sub total | **33,462** | 40,382 | 37,717 | **408,076** |
| Interest and dividend received | **1,047** | 918 | 862 | **12,771** |
| Interest paid | **(2,034)** | (1,793) | (1,758) | **(24,800)** |
| Income taxes paid | **(5,415)** | (2,463) | (7,441) | **(66,043)** |
| Net cash provided by operating activities | **27,060** | 37,044 | 29,380 | **330,004** |
| **Cash flows from investing activities:** | | | | |
| Increase in time deposits | **(115)** | (324) | (790) | **(1,406)** |
| Decrease in time deposits | **50** | 297 | 394 | **615** |
| Payments for purchases of property, plant and equipment | **(44,237)** | (21,728) | (34,707) | **(539,473)** |
| Proceeds from sales of property, plant and equipment | **123** | 425 | 476 | **1,498** |
| Payments for purchases of intangible assets | **(2,265)** | (4,933) | (1,497) | **(27,627)** |
| Payments for purchases of investment securities | **(764)** | (1,244) | (1,489) | **(9,322)** |
| Proceeds from sales of investment securities | **2,084** | 2,772 | 1,870 | **25,411** |
| Increase in loans receivable | **(812)** | (33) | (281) | **(9,905)** |
| Decrease in loans receivable | **340** | 348 | 406 | **4,147** |
| Payments for purchases of money held in trust | **(22,465)** | (69,896) | — | **(273,958)** |
| Proceeds from cancellation of money held in trust | **10,780** | 5,239 | — | **131,470** |
| Other | **(386)** | 568 | (850) | **(4,704)** |
| Net cash used in investing activities | **(57,667)** | (88,509) | (36,468) | **(703,254)** |
| **Cash flows from financing activities:** | | | | |
| Increase (decrease) in short-term loans | **(769)** | 1,855 | (218) | **(9,381)** |
| Increase in commercial paper | **—** | — | 1,600 | **—** |
| Proceeds of long-term debt | **17,466** | 8,872 | 8,742 | **212,996** |
| Repayments of long-term debt | **(8,238)** | (4,057) | (4,045) | **(100,462)** |
| Proceeds from issue of bonds | **20,000** | 20,000 | 10,000 | **243,902** |
| Redemption of bonds | **(5,100)** | — | (15,000) | **(62,195)** |
| Issuance of common stock | **—** | — | 46,966 | **—** |
| Cash dividends paid | **(2,051)** | (2,088) | (1,866) | **(25,017)** |
| Cash dividends paid to minority interest | **(172)** | (190) | (129) | **(2,099)** |
| Increase in treasury stock | **(4)** | (14) | (21) | **(48)** |
| Other | **(340)** | (383) | 962 | **(4,135)** |
| Net cash (used in) provided by financing activities | **20,792** | 23,995 | 46,991 | **253,561** |
| Effect of exchange rate changes on cash and cash equivalents | **(250)** | 67 | 273 | **(3,060)** |
| Net increase (decrease) in cash and cash equivalents | **(10,065)** | (27,403) | 40,176 | **(122,749)** |
| Cash and cash equivalents at beginning of the year | **68,624** | 95,945 | 55,366 | **836,879** |
| Increase in cash and cash equivalents due to changes of scope of consolidation | **(82)** | 82 | 403 | **(1,000)** |
| Cash and cash equivalents at end of year | **¥ 58,477** | ¥ 68,624 | ¥ 95,945 | **$ 713,130** |

See notes to consolidated financial statements

# Notes to Consolidated Financial Statements

**Tokuyama Corporation and Consolidated Subsidiaries**

## 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.

Certain items presented in the consolidated financial statements filed with the appropriate Local Finance Bureau of the Ministry of Finance in Japan have been reclassified for the convenience of readers outside Japan. Such reclassifications have no effect on net income or retained earnings.

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 ¥82=US$1, the approximate exchange rate on March 31, 2011. 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 48 significant subsidiaries (50 in 2011 and 49 in 2010). Significant intercompany transactions and accounts have been eliminated in consolidation.

In total, 15 subsidiaries are consolidated on the basis of their original fiscal years ended at December 31. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

Investments in 8 unconsolidated subsidiaries and affiliates (9 in 2011 and 11 in 2010) 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 short-term investments and marketable securities which are readily convertible into cash and have no significant risk of change in value.

### MARKETABLE AND INVESTMENT SECURITIES:

Securities are classified into four groups: trading securities, held-to-maturity debt securities, securities of subsidiaries and affiliates, and other 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. Other securities with a quoted current price are stated at fair value, and those without a quoted current price are stated at cost, cost being determined by the moving-average method. Net unrealized gains or losses of other securities are stated as "Unrealized holding gains on available-for-sale securities" in shareholders' equity after applying tax effect accounting. The Company and 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 mainly computed by the declining-balance method for structures, machinery and equipment, and by the straight-line method for 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 2 to 75 years for buildings and structures, and from 2 to 20 years for machinery and equipment.

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

### RESEARCH AND DEVELOPMENT EXPENSES:

Research and development expenses are charged to income as incurred.

### DERIVATIVES AND HEDGE ACCOUNTING:

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

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

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

### LEASES:

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

With respect to finance lease transactions that do not transfer ownership whose starting date was on or before March 31, 2009, the accounting treatment similar to that applicable to ordinary rental transactions continues to be applied.

### ALLOWANCE FOR DOUBTFUL ACCOUNTS:

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

### INCOME TAXES:

The tax effects of temporary differences between the carrying amounts of assets and liabilities for tax and financial reporting is recognized as deferred income taxes. 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.

### ACCRUED 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 (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 REVENUE AND COSTS OF CONSTRUCTION CONTRACTS:

(i) Construction contracts in which the outcome of the construction activity carried out by the end of the fiscal year under review is deemed certain during the course of the activity

Percentage-of-completion method (The percentage of completion of construction activity is estimated based on the percentage of the cost incurred to the estimated total cost)

(ii) Construction contracts other than the above

Completed-contract method

### 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, 2012, 2011 and 2010 was not presented because there was no dilutive effect on any assumed conversion of convertible bonds for the fiscal years ended March 31, 2012, 2011 and 2010.

## 4. FAIR VALUE INFORMATION

The fair values and net unrealized gains of quoted securities at March 31, 2012 were as follows:

| | Millions of yen | | |
|---|---|---|---|
| | Book value | Fair value | Difference |
| Held-to-maturity bonds: | | | |
| Government securities and municipal bonds | ¥14 | ¥14 | ¥— |
| Bonds and others | — | — | — |
| Total | ¥14 | ¥14 | ¥— |

| | Millions of yen | | |
|---|---|---|---|
| | Acquisition cost | Book value | Unrealized gain |
| The other securities: | | | |
| Listed corporate shares | ¥13,619 | ¥19,752 | ¥6,133 |
| Bonds and others | — | — | — |
| Total | ¥13,619 | ¥19,752 | ¥6,133 |

| | Millions of yen |
|---|---|
| | Book value |
| Non-quoted main securities: | |
| Held-to-maturity bonds | ¥ — |
| Certificates of deposit | 25,800 |
| The other securities | 1,785 |
| Total | ¥27,585 |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Book value | Fair value | Difference |
| Held-to-maturity debt securities: | | | |
| Government securities and municipal bonds | $167 | $167 | $— |
| Bonds and others | — | — | — |
| Total | $167 | $167 | $— |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Acquisition cost | Book value | Unrealized gain |
| The other securities: | | | |
| Listed corporate shares | $166,091 | $240,880 | $74,789 |
| Bonds and others | — | — | — |
| Total | $166,091 | $240,880 | $74,789 |

| | Thousands of U.S. dollars |
|---|---|
| | Book value |
| Non-quoted main securities: | |
| Held-to-maturity bonds | $ — |
| Certificates of deposit | 314,634 |
| The other securities | 21,774 |
| Total | $336,408 |

## 5. INVENTORIES

Inventories at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Finished products and merchandise | **¥21,562** | ¥17,112 | **$262,948** |
| Work in progress | **13,502** | 8,306 | **164,663** |
| Raw materials and supplies | **13,329** | 10,887 | **162,545** |
| Total | **¥48,393** | ¥36,305 | **$590,156** |

## 6. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans at March 31, 2011 represent loans, which principally bear interest at rates ranging from 0.00 % to 6.35 % per annum.

A summary of long-term debt at March 31, 2012 and 2011 was as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Loans principally from banks and insurance companies, due through 2025 with interest rates ranging from 0.00 percent to 6.35 percent | **¥ 85,304** | ¥ 76,147 | **$ 1,040,299** |
| 1.36 percent unsecured bonds in yen due May 11, 2011 | **—** | 5,000 | **—** |
| 1.60 percent unsecured bonds in yen due March 30, 2012 | **—** | 100 | **—** |
| 0.54 percent unsecured bonds in yen due September 9, 2015 | **5,000** | 5,000 | **60,976** |
| 0.58 percent unsecured bonds in yen due September 8, 2016 | **10,000** | — | **121,951** |
| 1.76 percent unsecured bonds in yen due March 10, 2020 | **10,000** | 10,000 | **121,951** |
| 1.48 percent unsecured bonds in yen due September 9, 2020 | **15,000** | 15,000 | **182,927** |
| 1.37 percent unsecured bonds in yen due September 8, 2021 | **10,000** | — | **121,951** |
| | **¥135,304** | ¥111,247 | **$ 1,650,055** |
| Less current maturities | **(12,191)** | (13,191) | **(148,671)** |
| | **¥123,113** | ¥ 98,056 | **$ 1,501,384** |

The aggregate annual maturities of long-term debt at March 31, 2012 are summarized as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2012 | ¥ 12,191 | $ 148,671 |
| 2013 | 21,740 | 265,124 |
| 2014 | 6,547 | 79,837 |
| 2015 | 13,530 | 164,994 |
| 2016 | 10,806 | 131,775 |
| Thereafter | 70,491 | 859,654 |
| | ¥135,305 | $1,650,055 |

The aggregate annual maturities of lease obligations at March 31, 2012 are summarized as follows:

| Years ending March 31 | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| 2012 | ¥287 | $ 3,497 |
| 2013 | 286 | 3,492 |
| 2014 | 181 | 2,207 |
| 2015 | 69 | 847 |
| 2016 | 36 | 438 |
| Thereafter | 30 | 357 |
| | ¥889 | $10,838 |

Assets pledged as collateral for certain loans and other liabilities at March 31, 2012 and 2011 are summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| **Pledged Assets** | | | |
| Property, plant and equipment | **¥17,007** | ¥19,833 | **$207,401** |
| Other | **356** | 385 | **4,344** |
| | **¥17,363** | ¥20,218 | **$211,745** |

## 7. 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.

| | 2012 | 2011 |
|---|---|---|
| Statutory tax rate | 40.4% | 40.4% |
| Increase (decrease) in income taxes resulting from: | | |
| Change in valuation allowance allocated to income tax expenses | (66.2) | 12.1 |
| Permanent difference | (2.2) | (1.2) |
| Effect of tax credits | (1.1) | (5.5) |
| Inter-company eliminations of dividends received | 3.0 | 2.1 |
| Inter-company eliminations of allowance for bad debts | 27.2 | (23.7) |
| Inter-company eliminations of provision for loss on business of subsidiaries and affiliates | 28.2 | 16.3 |
| Utilization of loss carryforward | — | (3.6) |
| Lower tax rates of overseas consolidated subsidiaries | — | (2.4) |
| Equity in earnings of unconsolidated subsidiaries and affiliates | — | (1.6) |
| Other | 3.7 | 1.4 |
| Effective income tax rate | 33.0% | 34.3% |

Significant components of deferred tax assets and liabilities at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Deferred tax assets: | | | |
| Allowance for loss on compensation for building materials | ¥ 866 | ¥ 5,353 | $ 10,559 |
| Eliminated loss on business of subsidiaries and affiliates | 586 | 3,576 | 7,151 |
| Eliminated allowance for bad debts | 2,329 | 6,761 | 28,401 |
| Allowance for repairs | 1,793 | 1,888 | 21,868 |
| Fixed assets | 1,408 | 1,384 | 17,171 |
| Deficits | 8,602 | 8,600 | 104,906 |
| Others | 2,131 | 3,863 | 25,979 |
| Subtotal | 17,715 | 31,425 | 216,035 |
| Less valuation allowance | (7,864) | (18,229) | (95,897) |
| Total deferred tax assets | 9,851 | 13,196 | 120,138 |
| Deferred tax liabilities: | | | |
| Unrealized holding gains on the other securities | (2,201) | (2,446) | (26,846) |
| Special depreciation reserve | — | (492) | — |
| Appropriations for advanced depreciation | (1,574) | (1,795) | (19,198) |
| Others | (1,225) | (703) | (14,934) |
| Gross deferred tax liabilities | (5,000) | (5,436) | (60,978) |
| Net deferred tax assets/(liabilities) | ¥ 4,851 | ¥ 7,760 | $ 59,160 |

## 8. RETIREMENT AND SEVERANCE PLAN

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

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

The Company has a retirement benefit trust.

Benefit obligations for the fiscal years ended March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Project benefit obligation | **¥(20,129)** | ¥(19,465) | **$(245,470)** |
| Fair value of plan assets | **20,158** | 19,860 | **245,833** |
| Funded status | **29** | 395 | **363** |
| Unrecognized actuarial loss | **5,866** | 5,466 | **71,522** |
| Net amount shown on balance sheets | **5,895** | 5,861 | **71,885** |
| Prepaid pension expense | **6,946** | 6,902 | **84,703** |
| Accrued retirement and severance benefits | **¥ (1,051)** | ¥ (1,041) | **$ (12,818)** |

Benefit costs for the fiscal years ended March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Service cost | **¥ 853** | ¥ 829 | **$10,404** |
| Interest cost | **461** | 482 | **5,616** |
| Recognized actuarial loss | **524** | 394 | **6,398** |
| Benefit cost | **1,838** | 1,705 | **22,418** |
| Other | **468** | 550 | **5,703** |
| Total | **¥2,306** | ¥2,255 | **$28,121** |

Assumptions used in the actuarial calculation were as follows:

| | |
|---|---|
| Period allocation method for estimated retirement benefits | Straight-line method for the period |
| Discount rate | 2.0% |
| Expected return on plan assets | 0.0% |
| Period of amortization of prior service cost | Charge off all at once |
| Period of amortizing actuarial differences | 16 years |
| Period of amortization of net transition asset | The Company is not arised. Consolidated subsidiaries is amortized for 5 years. |

## 9. LEASES

**(1) Lessee**

(i) Finance lease

Lease payments on finance lease contracts that do not transfer ownership for the fiscal year ended March 31, 2012 amounted to ¥ 124million (US$ 1,509 thousand). Lease payments corresponding to depreciation expenses for the fiscal year ended March 31, 2011, which were computed by the straight-line method over a period up to the maturity of the relevant lease contracts with no residual value, amounted to ¥ 55million (US$ 669thousand).

If the leases were capitalized, the acquisition cost of assets and accumulated depreciation etc. at March 31, 2012 and 2011 would be as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Machinery, equipment and vehicles | **¥ 104** | ¥ 140 | **$ 1,263** |
| Other | **477** | 1,058 | **5,813** |
| Less accumulated depreciation | **(460)** | (954) | **(5,608)** |
| Less accumulated impairment | **(80)** | (147) | **(965)** |
| Total | **¥ 41** | ¥ 97 | **$ 503** |

The future lease payments on finance leases at March 31, 2012 and 2011 were as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Due within one year | **¥ 86** | ¥126 | **$1,049** |
| Due beyond one year | **34** | 119 | **419** |
| Total | **¥120** | ¥245 | **$1,468** |

(ii) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2012 and 2011 were as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Due within one year | **¥ 491** | ¥ 421 | **$ 5,988** |
| Due beyond one year | **1,672** | 2,163 | **20,385** |
| Total | **¥2,163** | ¥2,584 | **$26,373** |

**(2) Lessor**

(i) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2012 and 2011 were as follows.

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Due within one year | **¥ 10** | ¥ 10 | **$ 118** |
| Due beyond one year | **161** | 170 | **1,963** |
| Total | **¥171** | ¥180 | **$2,081** |

## 10. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the fiscal years ended March 31, 2012, 2011 and 2010 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| Carriage and shipping | **¥25,512** | ¥24,672 | ¥24,048 | **$311,117** |
| Salaries and bonuses | **9,537** | 9,266 | 9,587 | **116,303** |
| Research and development expenses | **10,437** | 10,229 | 10,532 | **127,281** |
| Rent | **1,722** | 1,575 | 1,606 | **20,995** |
| Traveling expenses and postage | **2,018** | 1,828 | 1,763 | **24,613** |
| Welfare expense | **1,695** | 1,637 | 1,600 | **20,676** |
| Other | **13,977** | 10,721 | 11,045 | **170,453** |
| Total | **¥64,898** | ¥59,928 | ¥60,181 | **$791,438** |

## 11. DEPRECIATION

Depreciation for the fiscal years ended March 31, 2012, 2011 and 2010 was as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| Depreciation | **¥28,380** | ¥31,257 | ¥37,484 | **$346,098** |

## 12. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the fiscal years ended March 31, 2012, 2011 and 2010 were as follows:

| | Millions of yen | | | Thousands of U.S. dollars |
|---|---|---|---|---|
| | **2012** | 2011 | 2010 | **2012** |
| Research and development expenses | **¥11,705** | ¥11,469 | ¥11,818 | **$142,740** |

## 13. 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, 2012, the Group recorded impairment losses for the following asset groups.

| | | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|
| Use | Location | Asset category | 2012 | 2012 |
| Manufacturing facilities for plastic window sashes | Kuriyama-cho, Yubari County, Hokkaido Prefecture | Machinery and equipment | ¥ 8 | $ 92 |
| | | Tools, furniture and fixtures | 4 | 50 |
| | | Others | 57 | 703 |
| | | Total | ¥69 | $845 |

During the fiscal year ended March 31, 2012, because profitability of the abovementioned assets owned by the Excel Shanon Group decreased significantly, the book value of these assets was written down to the recoverable value, and the amount of the write-downs was accounted for as impairment losses in the extraordinary loss.

The recoverable value of these assets was measured based on their net selling value. The book value of the abovementioned assets was written down to a memorandum value.

| | | | Millions of yen | Thousands of U.S. dollars |
|---|---|---|---|---|
| Use | Location | Asset category | 2012 | 2012 |
| Manufacturing facilities for high-purity chemicals for electronic manufacturing | Suzhou Industrial Park, China | Machinery and equipment | ¥84 | $1,025 |
| | | Tools, furniture and fixtures | 7 | 79 |
| | | Total | ¥91 | $1,104 |

During the fiscal year ended March 31, 2012, because the continuance of the operation of Tokuyama Electronic Materials (Suzhou) Co., Ltd. was made impossible, the book value of its assets was written down to the recoverable value, and the amount of the write-downs was accounted for as an impairment loss in the extraordinary loss.

The recoverable value of this asset group was measured based on the net selling value.

## 14. SHAREHOLDERS' EQUITY

The "Act" provides that an amount equal to at least 10% of cash dividends and other cash appropriations 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 common stock.

On condition that the total amount of legal reserve and additional paid-in capital remains being equal to or exceeding 25% of common 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.

## 15. ASSET RETIREMENT OBLIGATIONS

Since the amount of asset retirement obligations at the fiscal year-end under review represented less than one-hundredth of total liabilities and net assets at the same fiscal year-end, the preparation of an asset retirement obligations schedule was omitted.

## 16. 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 also develops business in the field of advanced components through a group of subsidiaries that have comprehensive management structure including R&D and are functionally independent. The Company has the independent Business Management Div. that takes control of business activities of these subsidiaries.

The Company Group is, therefore, composed of segments by product group based on business divisions and the independent Business Management Div., and has four reportable segments. “Chemicals,” “Specialty Products,” “Cement,” and “Advanced Components.”

Main products etc. of each reportable segment are as follows:

*Chemicals:* Caustic soda, soda ash, calcium chloride, layered sodium disilicate, vinyl chloride monomer, polyvinyl chloride resin, propylene oxide, isopropyl alcohol, methylene chloride

*Specialty Products:* Polycrystalline silicon, fumed silica, precipitated silica, aluminum nitride, pharmaceutical ingredients and intermediates, plastic lens related materials for glasses, metal washing solvent, high-purity chemicals for electronics manufacturing, environment-related equipment, microporous film

*Cement:* Ordinary Portland cement, high early-strength Portland cement, Portland blast-furnace slag cement, ready-mixed concrete, cement-type stabilizer, waste treatment

*Advanced Components:* Biaxial-oriented polypropylene film, co- extrusion multi-layer film, cast polypropylene film, plastic window sashes, clinical analyzes and systems, dental materials and equipment, gas sensors, ion exchange membranes

**(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 is based on operating income.

| | Millions of yen | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2012 | Chemicals | Specialty products | Cement | Advanced Components | Others | Total | Corporate or elimination | Consoli-dated |
| **1. Sales** | | | | | | | | |
| Sales to customers | ¥84,336 | ¥ 67,732 | ¥68,045 | ¥42,679 | ¥19,590 | ¥282,382 | ¥ — | ¥282,382 |
| Inter-segment sales/transfer | 938 | 11,348 | 376 | 902 | 20,748 | 34,312 | (34,312) | — |
| Total sales | ¥85,274 | ¥ 79,080 | ¥68,421 | ¥43,581 | ¥40,338 | ¥316,694 | ¥ (34,312) | ¥282,382 |
| Operating income | 1,901 | 10,216 | 2,938 | 1,746 | 2,034 | 18,835 | (5,114) | 13,721 |
| **2. Assets** | | | | | | | | |
| Assets | ¥55,077 | ¥167,107 | ¥47,284 | ¥33,097 | ¥26,770 | ¥329,335 | ¥171,846 | ¥501,181 |
| Depreciation | 4,226 | 10,773 | 3,115 | 1,438 | 1,056 | 20,608 | 7,772 | 28,380 |
| Impairment loss on fixed assets | — | 91 | — | 69 | — | 160 | — | 160 |
| Capital expenditures | 2,684 | 64,282 | 2,372 | 906 | 4,706 | 74,950 | 3,331 | 78,281 |

| 2012 | Chemicals | Specialty products | Cement | Advanced Components | Others | Total | Corporate or elimination | Consoli-dated |
|---|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | | |
| **1. Sales** | | | | | | | | |
| Sales to customers | $1,028,491 | $ 825,998 | $829,817 | $520,474 | $238,901 | $3,443,681 | $ — | $3,443,681 |
| Inter-segment sales/transfer | 11,434 | 138,386 | 4,589 | 11,006 | 253,029 | 418,444 | (418,444) | — |
| Total sales | $1,039,925 | $ 964,384 | $834,406 | $531,480 | $491,930 | $3,862,125 | $ (418,444) | $3,443,681 |
| Operating income | 23,185 | 124,582 | 35,834 | 21,295 | 24,805 | 229,701 | (62,378) | 167,323 |
| **2. Assets** | | | | | | | | |
| Assets | $ 671,666 | $2,037,887 | $576,636 | $403,628 | $326,460 | $4,016,277 | $2,095,690 | $6,111,967 |
| Depreciation | 51,540 | 131,373 | 37,982 | 17,535 | 12,882 | 251,312 | 94,786 | 346,098 |
| Impairment loss on fixed assets | — | 1,104 | — | 845 | — | 1,949 | — | 1,949 |
| Capital expenditures | 32,726 | 783,929 | 28,923 | 11,046 | 57,402 | 914,026 | 40,615 | 954,641 |

| 2012 | Chemicals | Specialty products | Cement | Advanced Components | Others | Total | Corporate or elimination | Consoli-dated |
|---|---|---|---|---|---|---|---|---|
| | Millions of yen | | | | | | | |
| Amortization of goodwill | ¥— | ¥— | ¥ 44 | ¥5 | ¥— | ¥ 49 | ¥— | ¥ 49 |
| Unamortized balance | — | — | 285 | 4 | — | 288 | — | 288 |

| 2012 | Chemicals | Specialty products | Cement | Advanced Components | Others | Total | Corporate or elimination | Consoli-dated |
|---|---|---|---|---|---|---|---|---|
| | Thousands of U.S. dollars | | | | | | | |
| Amortization of goodwill | $— | $— | $ 534 | $62 | $— | $ 596 | $— | $ 596 |
| Unamortized balance | — | — | 3,470 | 46 | — | 3,516 | — | 3,516 |

**OVERSEAS SALES INFORMATION**

Overseas sales of the Company and its consolidated subsidiaries for the fiscal years ended March 31, 2012 and 2011 were summarized as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | **2012** | 2011 | **2012** |
| Asia | **¥41,816** | ¥45,086 | **$509,957** |
| Others | **13,544** | 16,813 | **165,169** |
| Total | **¥55,360** | ¥61,899 | **$675,126** |

## 17. DERIVATIVE FINANCIAL INSTRUMENTS

**(1) Management policy on financial instruments**

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

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

**(2) Fair value of financial instruments**

As of March 31, 2012, 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 in hand and deposits at bank | ¥ 33,663 | ¥ 33,663 | ¥ — |
| Trade notes and accounts | 69,455 | 69,455 | — |
| Marketable securities and Investment securities | | | |
| Marketable securities | 25,800 | 25,800 | — |
| Held-to-maturity bonds | 14 | 14 | — |
| The other securities | 19,751 | 19,751 | — |
| Money held in trust | 34,159 | 34,159 | — |
| Long-term receivables | 3,907 | 3,907 | — |
| Less allowance for doubtful accounts | — | — | — |
| Total | ¥186,749 | ¥186,749 | ¥ — |
| Trade notes and accounts | 41,119 | 41,119 | — |
| Short-term bank loans | 8,474 | 8,474 | — |
| Commercial papers | 4,000 | 4,000 | — |
| Bonds | 50,000 | 51,180 | 1,180 |
| Long-term debt | 85,305 | 85,881 | 576 |
| Total | ¥188,898 | ¥190,654 | ¥1,756 |
| Derivatives | | | |
| In which hedge accounting is not applied | 80 | 80 | — |
| In which hedge accounting is applied | 821 | 337 | (484) |
| Total | ¥ 901 | ¥ 417 | ¥ (484) |

| | Thousands of U.S. dollars | | |
|---|---|---|---|
| | Book value | Fair value | Difference |
| Cash in hand and deposits at bank | $ 410,520 | $ 410,520 | $ — |
| Trade notes and accounts | 847,015 | 847,015 | — |
| Marketable securities and Investment securities | | | |
| Marketable securities | 314,634 | 314,634 | — |
| Held-to-maturity bonds | 167 | 167 | — |
| The other securities | 240,880 | 240,880 | — |
| Money held in trust | 416,575 | 416,575 | — |
| Long-term receivables | 47,640 | 47,640 | — |
| Less allowance for doubtful accounts | — | — | — |
| Total | $2,277,431 | $2,277,431 | $ — |
| Trade notes and accounts | 501,446 | 501,446 | — |
| Short-term bank loans | 103,346 | 103,346 | — |
| Commercial papers | 48,780 | 48,780 | — |
| Bonds | 609,756 | 624,140 | 14,384 |
| Long-term debt | 1,040,300 | 1,047,332 | 7,032 |
| Total | $2,303,628 | $2,325,044 | $ 21,416 |
| Derivatives | | | |
| In which hedge accounting is not applied | 981 | 981 | — |
| In which hedge accounting is applied | 10,004 | 4,110 | (5,894) |
| Total | $ 10,985 | $ 5,091 | $ (5,894) |

## 18. CONTINGENT LIABILITIES

At March 31, 2012 and 2011 the Company and its consolidated subsidiaries were contingently liable as follows:

| | Millions of yen | | Thousands of U.S. dollars |
|---|---|---|---|
| | 2012 | 2011 | 2012 |
| Notes discounted or endorsed | ¥221 | ¥ 260 | $2,694 |
| Loans guaranteed | 580 | 1,083 | 7,070 |
| Commitments to guarantee | 224 | 288 | 2,732 |

## 19. SUBSEQUENT EVENTS

At the annual shareholders' meeting of the Company held on June 26, 2012, the appropriation of retained earnings for the fiscal year ended March 31, 2012 was approved as follows:

| | Millions of yen | Thousands of U.S. dollars |
|---|---|---|
| Cash dividends (¥3.00 per share) | ¥1,044 | $12,730 |

## 20. REVISIONS TO THE AMOUNTS OF DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES DUE TO CHANGES IN THE CORPORATE INCOME TAX RATE

Effective from the fiscal year starting on or after April 1, 2012, corporate income tax rates are lowered and a special reconstruction corporate tax is imposed by the promulgation on December 2, 2011 of two new laws: “The Act for Partial Revision of the Income Tax Act, etc. for the Purpose of Constructing a Taxation System Addressing Changes in the Socio-Economic Structure” (Act No. 114 of 2011) and the “Act on Special Measures for Securing Financial Resources Necessary to Implement Measures for Reconstruction following the Great East Japan Earthquake” (Act No. 117 of 2011).

In accordance with this change, the statutory tax rate used for calculating deferred tax assets and deferred tax liabilities will change to 37.8% for temporary differences expected to be resolved during April 1, 2012 to March 31, 2015 and to 35.4% for temporary differences expected to be resolved on or after April 1, 2015 from the 40.4% which was previously used.

As a result of this change in tax rates, the amount of deferred tax assets (the amount after the deduction of deferred tax liabilities) decreased by ¥18 million, while the amount of income taxes-deferred, unrealized holding gains on available-for-sale securities and deferred hedge profit (loss) increased by ¥341 million, ¥300 million and ¥21 million, respectively.

## 21. ADOPTION OF THE ACCOUNTING STANDARD FOR ACCOUNTING CHANGES AND ERROR CORRECTIONS

Effective from the fiscal year under review, the Company and its consolidated domestic subsidiaries have adopted an “Accounting Standard — ASBJ Statement No.24 Accounting Standard for Accounting Changes and Error Corrections” (issued on December 4, 2009) and its “Implementation Guidance — ASBJ Guidance No.24 Guidance on Accounting Standard for Accounting Changes and Error Corrections” (issued on December 4, 2009) to accounting changes and corrections of prior period errors that are made on or after the beginning of the fiscal year under review.

# Independent Auditor's Report

Tokuyama Corporation and Consolidated Subsidiaries

## 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, 2012, 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, 2012, 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 13, 2012

# Directory

## Head Office

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## Domestic Offices:

Sendai, Nagoya, Osaka,
Hiroshima, Takamatsu, Fukuoka

## Research Laboratories:

Tsukuba, Tokuyama

## Factories:

**Tokuyama Factory**
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Yamaguchi 745-8648, Japan
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**Kashima Factory**
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## Overseas:

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**Figaro USA, Inc.**
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Fax: +1-847-832-1705
Email: figarousa@figarosensor.com
URL: http://www.figarosensor.com/

**Eurodia Industrie S.A.**
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Fax: +65-6533-5256
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URL: http://www.tokuyama-asia.com/

**Tokuyama Trading (Shanghai) Co., Ltd.**
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Shanghai China 200041
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Fax: +86-21-5382-2894
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# Major Subsidiaries and Affiliates

**As of March 31, 2012**

| Company | Capital (millions of yen, local currency in thousands) | Ownership (%) | Scope |
|---|---|---|---|
| **Chemicals** | | | |
| ■ Shin Dai-ichi Vinyl Corporation | 2,000 | 71 | Production and sale of polyvinyl chloride |
| ■ Sun Arrow Kasei Co., Ltd. | 98 | 100 | Production and sale of polyvinyl chloride compounds |
| ■ Tokuyama Siltech Co., Ltd. | 200 | 100 | Production and sale of layered silicate |
| (Category also includes another 4 affiliates) | | | |
| **Specialty Products** | | | |
| ■ Tokuyama Chemicals (Zhejiang) Co., Ltd. | RMB351,200 | 100 | Production and sale of fumed silica |
| ■ Tokuyama-Dowa Power Materials Co., Ltd. | 250 | 65 | Production and sale of aluminum nitride |
| ■ Tokuyama Electronic Chemicals Pte. Ltd. | S$11,000 | 100 | Production of solvent for semiconductor base materials |
| ■ Taiwan Tokuyama Corporation | NT$200,000 | 100 | Production and sale of solvent for semiconductor base materials |
| ■ Tokuyama Malaysia Sdn. Bhd. | 76,594 | 100 | Production and sale of polycrystalline silicon |
| ■ Shanghai Tokuyama Plastics Co., Ltd. | RMB85,689 | 100 | Production and sale of microporous film |
| * Hantok Chemicals Co., Ltd. | Won4,500,000 | 50 | Production of developers for photolithography |
| (Category also includes another 2 unconsolidated subsidiaries) | | | |
| **Cement** | | | |
| ■ Tokyo Tokuyama Concrete Co., Ltd. | 80 | 92.04 | Production and sale of ready-mixed concrete and concrete products |
| ■ Seibu Tokuyama Ready Mixed Concrete Co., Ltd. | 100 | 100 | Production and sale of ready-mixed concrete |
| ■ Kyushu Tokuyama Ready Mixed Concrete Co., Ltd. | 50 | 100 | Production and sale of ready-mixed concrete |
| ■ Chugoku Ready Mixed Concrete Co., Ltd. | 80 | 52.36 | Production and sale of ready-mixed concrete |
| ■ Tokuyama Tsusho Trading Co., Ltd. | 95 | 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 |
| ■ Kansai Tokuyama Trading Co., Ltd. | 80 | 100 | Sale of cement and ready-mixed concrete |
| ■ Tokuyama Mtech Corporation | 50 | 100 | Processing and sale of building materials |
| (Category also includes another 5 consolidated subsidiaries, 1 unconsolidated subsidiary, 2 equity method affiliates and 14 affiliates) | | | |
| **Advanced Components** | | | |
| ■ Sun•Tox Co., Ltd. | 1,600 | 100 | Production and sale of plastic films |
| ■ A&T Corporation | 577.6 | 40.21 | 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. | RMB23,670 | 55.7 | Production and sale of sensor devices |
| ■ Tokuyama Dental Corporation | 100 | 100 | Production and sale of dental and medical materials |
| ■ ASTOM Corporation | 450 | 55 | Production and sale of ion-exchange membranes |
| ■ Eurodia Industrie S.A. | EUR1,360 | 99.99 | Sale of ion-exchange membranes and maintenance and leasing of related equipment |
| ■ Excel Shanon Corporation | 495 | 100 | Production, processing and sale of building materials, including plastic window sashes and doors |
| ■ Tohoku Shanon Co., Ltd. | 300 | 72 | Production of plastic window sashes |
| (Category also includes another 4 consolidated subsidiaries, 2 equity method affiliates and 2 affiliates) | | | |
| **Others** | | | |
| ■ Tomitec Co., Ltd. | 100 | 60 | Production of plastic molding and moisture absorbing agents, as well as components for gas sensors and office equipments |
| ■ Tokuyama Asia Pacific Pte.Ltd. | S$800 | 100 | Sale of Tokuyama's products |
| ■ Tokuyama Europe GmbH | €255 | 100 | Sale of Tokuyama's products |
| ■ Shunan System Sangyo Co., Ltd. | 151 | 100 | Real estate, civil engineering, construction |
| ■ Tokuyama Logistics Corporation | 100 | 100 | Transportation and warehousing |
| ■ Tokuyama Information Serivce Corporation | 20 | 100 | Information processing services |
| ■ Shunan Bulk Terminal Co., Ltd. | 150 | 65 | Warehouse operations for bulk cargoes of coal etc. |
| * Nishinihon Resicoat Co., Ltd. | 50 | 50 | Manufacture of metal parts and anti-rust surface coating materials |
| * Tokuyama Polypropylene Co., Ltd. | 500 | 50 | Production and sale of polypropylene |
| * Covalent Materials Tokuyama Corporation | 1,600 | 30 | Production and sale of ceramics and electrochemical products |
| (Category also includes another 5 consolidated subsidiaries, 1 unconsolidated subsidiary and 4 affiliates) | | | |

■Consolidated subsidiary *Affiliate accounted for by the equity method

# Executive Team

As of June 26, 2012

## DIRECTORS

*Representative Director*

**Kazuhisa Kogo**

*Representative Director*

**Yoshikazu Mizuno**
Supervision over Auditing Dept., Secretarial Dept.

*Directors*

**Tatsuo Segawa**
Supervision over Corporate Administration Div., Independent Business Management Div., and Corporate Social Responsibility Div.

**Yukio Muranaga**
Supervision over Specialty Products Business Div.

**Shigeki Yuasa**
Supervision over Corporate Planning Div., General & Personnel Affairs Div., Research & Development Div., and Management of Technology Div.

**Toshiaki Tsuchiya**
Supervision over Chemicals Business Div., Cement Business Div., and all branches

**Tetsushi Yamada**
Supervision over Tokuyama Factory, Manufacturing Technology Div., and Kashima Factory

*External Director*

**Akio Fujiwara**

## AUDITORS

*Standing Auditor*

**Isao Aso**

*Auditor*

**Masaki Akutagawa**

*External Auditors*

**Ryuji Hori**
**Takeru Ishibashi**

## EXECUTIVE OFFICERS

*President and Executive Officer*

**Kazuhisa Kogo**
General Manager of Malaysia Project Promotion Div.

*Senior Managing Executive Officers*

**Yoshikazu Mizuno**
Assistant to the President

**Tatsuo Segawa**
General Manager of Independent Business Management Div.

*Managing Executive Officers*

**Yukio Muranaga**
General Manager of Specialty Products Business Div.

**Shigeki Yuasa**
General Manager of Corporate Planning Div.

**Toshiaki Tsuchiya**
General Manager of Chemicals Business Div.

**Akira Sanuki**
President of Tokuyama Malaysia Sdn. Bhd.

**Tetsushi Yamada**
General Manager of Tokuyama Factory

**Toyoki Fukuoka**
General Manager of General & Personnel Affairs Div.

**Katsuyuki Masuno**
General Manager of Research & Development Div.

**Hidenori Okamoto**
General Manager of Management of Technology Div.

**Hisashi Yasui**
General Manager of Corporate Administration Div.

**Hideyoshi Koya**
General Manager of Cement Business Div.

*Executive Officers*

**Kanji Sakata**
General Manager of R&D Planning Dept.

**Taishi Kutose**
General Manager of Personnel Dept.

**Osamu Nomura**
General Manager of Manufacturing Technology Div.

**Naoyuki Usagawa**
General Manager of Osaka Branch

**Shigetaka Misaka**
Deputy General Manager of Malaysia Project Promotion Div., General Manager of Polysilicon Sales Dept.

**Takeshi Nakahara**
General Manager of Corporate Strategic Planning Dept.

**Takeo Suzuki**
Deputy General Manager of Tokuyama Factory, General Manager of Steam & Power Generation Dept.

**Hideki Adachi**
Deputy General Manager of Cement Business Div., General Manager of Cement Manufacturing Dept.

**Akihiro Hamada**
Deputy General Manager of Corporate Administration Div.,
General Manager of Management Support Center

**Masao Fukuoka**
General Manager of Corporate Social Responsibility Div.

## Main Products

**Chemicals**

Caustic soda
Soda ash
Calcium chloride
Vinyl chloride monomer
Polyvinyl chloride
Propylene oxide
Isopropyl alcohol
Methylene chloride

**Specialty Products**

Polycrystalline silicon
Fumed silica
Aluminium nitride
Pharmaceutical bulks and intermediates
Plastic lens materials
Methylene chloride for washing metal
Solvent for semiconductor base materials
Microporous film

**Cement**

Ordinary Portland cement
High early strength Portland cement
Blast furnace slag cement
Ready-mixed concrete
Cement type stabilizer

**Advanced Components**

Biaxial-oriented polypropylene film
Multilayer co-extrusion films
Cast polypropylene films
Dental materials
Ion-exchange membranes
Medical diagnosis systems
Gas sensors and gas detection equipments
Plastic window sashes

## Corporate Data

**As of March 31, 2012**

**Established:**
February 16, 1918

**Capital:**
¥53,459 million

**Employees (consolidated):**
5,506

**Shares Authorized:**
700,000,000

**Shares Issued:**
349,671,876

**Shareholders:**
34,258

**Major Shareholders:**

| | Number of Shares Held (Thousands) | Percentage of Total Shares |
|---|---|---|
| Japan Trustee Services Bank, Ltd. (trust account) | 24,896 | 7.16 |
| The Master Trust Bank of Japan, Ltd. (trust account) | 17,483 | 5.02 |
| Nippon Life Insurance Company | 15,534 | 4.46 |
| Japan Trustee Services Bank, Ltd. (trust account 9) | 11,972 | 3.44 |
| The Yamaguchi Bank, Ltd. | 8,246 | 2.37 |
| Meiji Yasuda Life Insurance Company | 7,442 | 2.14 |
| The Nomura Trust and Banking Co., Ltd. | 7,429 | 2.14 |
| The Bank of Tokyo-Mitsubishi UFJ, Ltd. | 7,095 | 2.04 |
| Sojitsu Corporation | 6,484 | 1.86 |
| Mitsubishi UFJ Trust and Banking Corporation | 5,852 | 1.68 |

**Composition of Shareholders:**

| | Number of Shares Held (Thousands) | Percentage of Total Shares |
|---|---|---|
| Financial Institutions | 152,672 | 43.7 |
| Individuals/Other | 94,968 | 27.2 |
| Non-Japanese Corporations/Foreign Residents | 50,307 | 14.4 |
| Other Domestic Corporations | 42,814 | 12.2 |
| Securities Companies | 8,908 | 2.5 |

**Tokuyama Corporation**
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