TOKUYAMA CORPORATION

Annual Report 2017

Year ended March 31, 2017

Contents

CAUTIONARY NOTES:

FORWARD-LOOKING STATEMENTS

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

DISCLAIMER

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

Profile

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

The company has gone on to produce and supply a wide range of chemical products. Building on this foundation, Tokuyama is currently expanding its main businesses globally, with a special focus on its information and electronics business, which markets semiconductor-related products, the life and healthcare business, which includes eyeglass lens materials, dental materials and other products, as well as cement, recycling and environment-related businesses.

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

Company History

1918～1944 Establishment and specialization in soda production

1918 Nihon Soda Kogyo Co., Ltd. (currently Tokuyama Corporation) was established to produce soda ash

1938 Commenced cement business

1940 Expansion of inorganic chemicals business

The Factory as it was established

1945～1960 Further expansion of inorganic chemicals business

1952 Commenced electrolytic chlor-alkali business

1961～1974 Entry into petrochemicals business

1964 Commenced petrochemicals business

1966 Commenced polyvinyl chloride business

1967 Commenced ion exchange membrane business

1970 Commenced polypropylene business

1960’s Cement kiln (length: 185m)

1975～1989 Entry into specialty and processing business

1976 Commenced polyolefin film business

1978 Commenced dental materials and equipment business

1981 Commenced building materials business

1982 Commenced life-related business
Commenced fine chemicals business

1983 Commenced IC chemicals business (high-purity chemicals for electronics manufacturing)
Commenced medical diagnosis systems business

1984 Commenced electronic materials business (polycrystalline silicon)

1985 Commenced aluminum nitride business
Commenced gas sensors business

Tokuyama Factory (Current)

1990～2004 Strengthening and restructuring of business

1992 Established Sun • Tox Co., Ltd. as a joint venture for manufacture and sale of polyolefin film

1995 Established Shin Dai-ichi Vinyl Corporation as a joint concern for manufacture and sale of polyvinyl chloride

2000 Commenced recycling & environment-related business

2005～ Accelerating overseas business expansion

2005 Established Tokuyama Chemicals (Zhejiang) Co., Ltd. in Zhejiang, China as a manufacturing and sales company of fumed silica

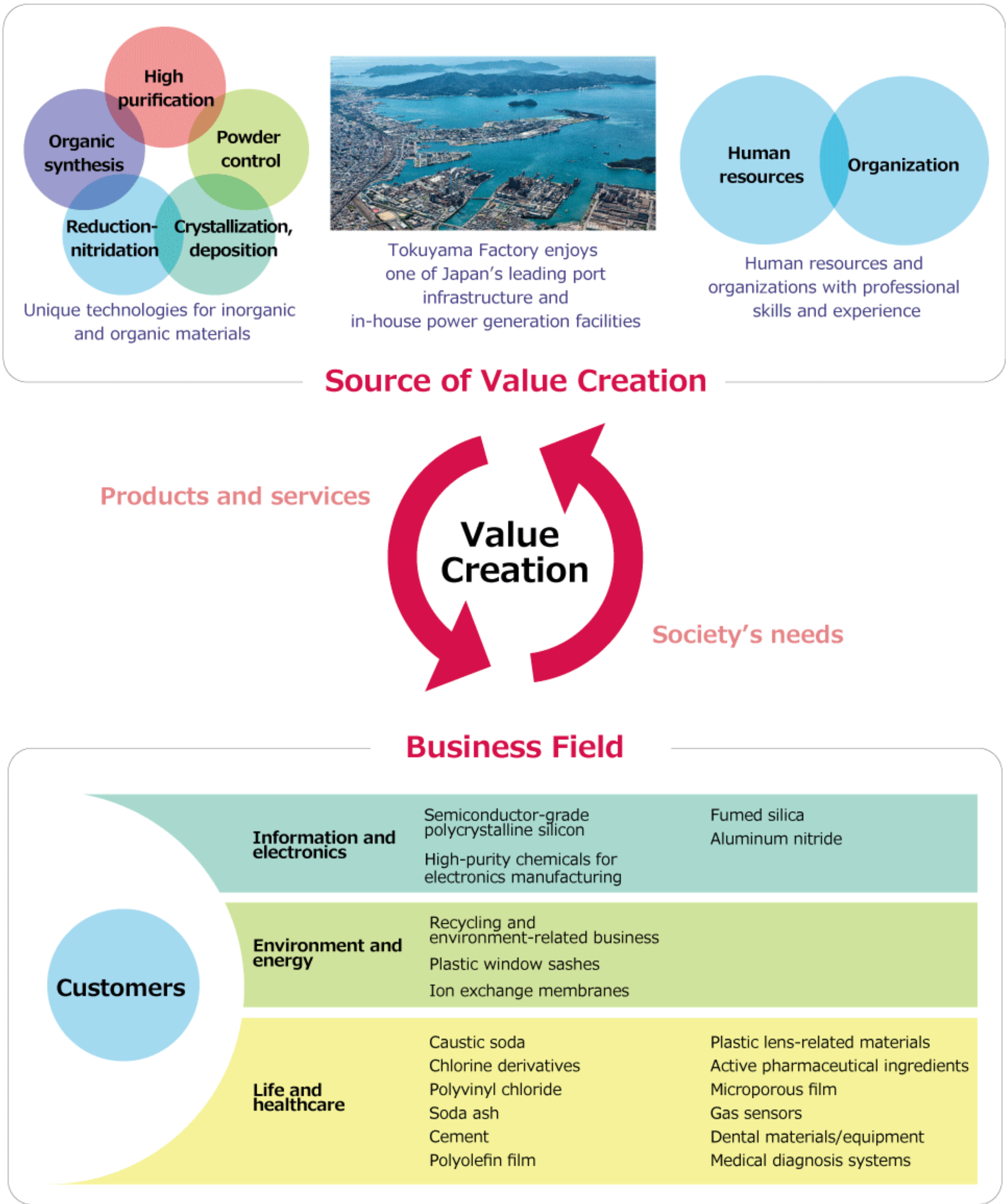
2013 Started operation of Tokuyama Chiyoda Gypsum Co., Ltd as a joint venture for developing a waste gypsum board recycling business
Established Tokuyama Nouvelle Calédonie S.A., in New Caledonia, as a manufacturing and sales company of cement

A Value Creation Cycle that Spans Close to a Century

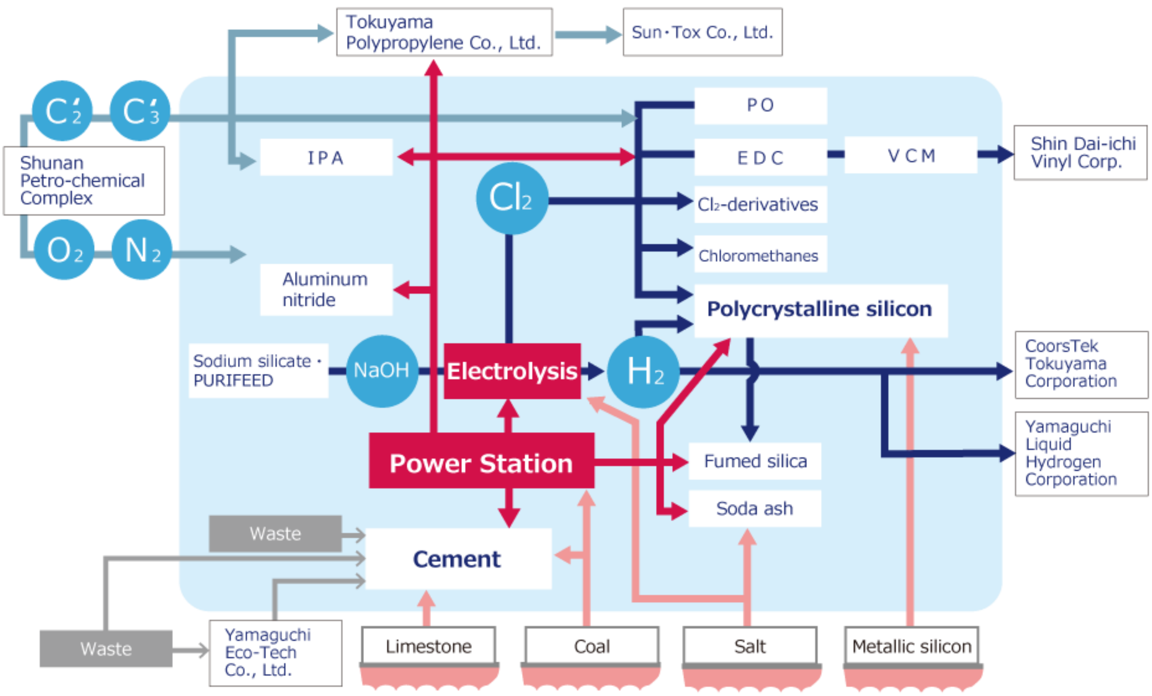
Drawing on its unique technologies in the manufacture and development of inorganic and organic chemicals, Tokuyama has continued to refine its capabilities as the driving force behind its value creation endeavors for just short of a century.

As a platform for the manufacture and seamless delivery of products that employ these technologies to reduce costs to an unprecedented level, the Company also makes full use of the industry-leading port infrastructure and in-house power generation facilities owned and operated by Tokuyama Factory. Located in the Shunan Industrial Zone, Tokuyama Factory works diligently to deepen ties with neighboring companies. In addition to the supply of electric power and raw materials, Tokuyama Factory actively engages in the collection of waste. As the Group's main manufacturing facility, Tokuyama Factory boasts a highly efficient production structure and systems that link several plants and operational units to ensure the integrated and effective use of raw materials, products, byproducts, and waste.

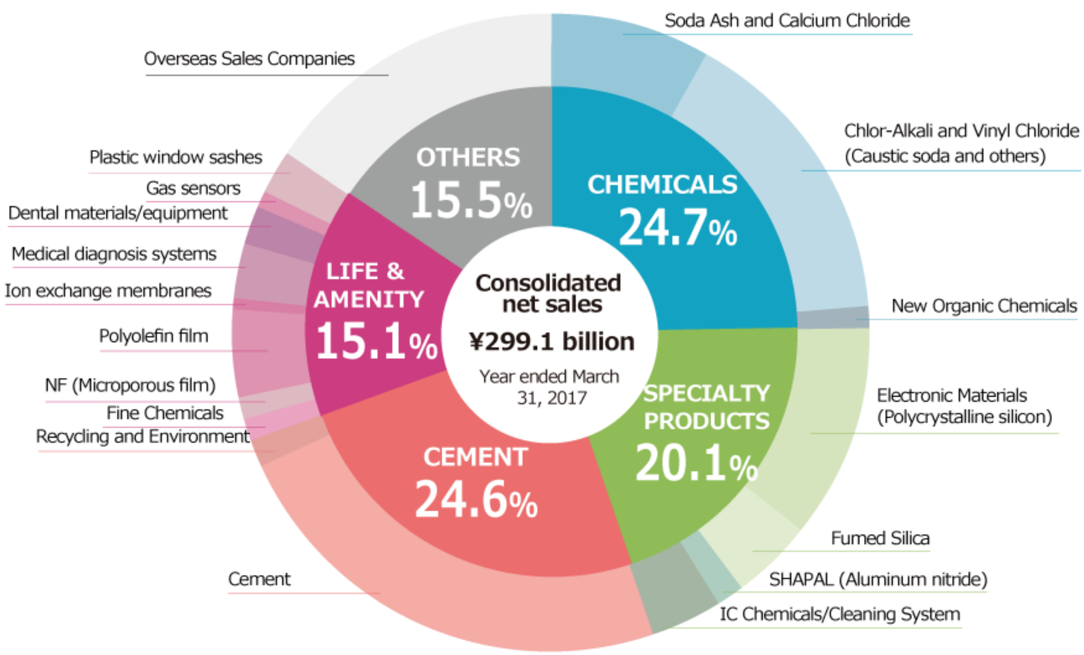
Taking full advantage of its tangible and intangible asset including unique technologies, competitive manufacturing facilities as well as human resources and organizations with professional skills and experience, the Tokuyama Group provides products and services that match the needs of the market. With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



Open Integration in the Tokuyama Factory



Our Business Portfolio

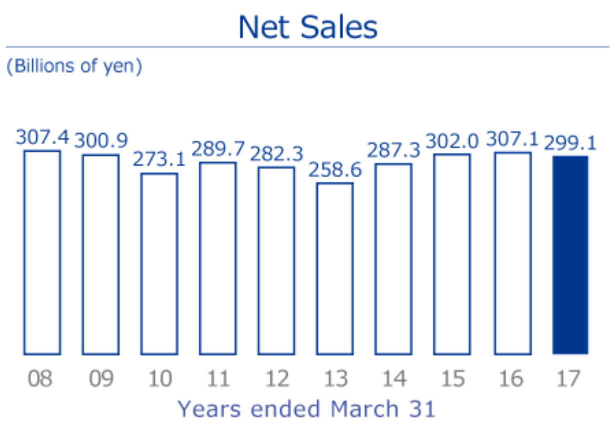


Consolidated Financial Highlights

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31

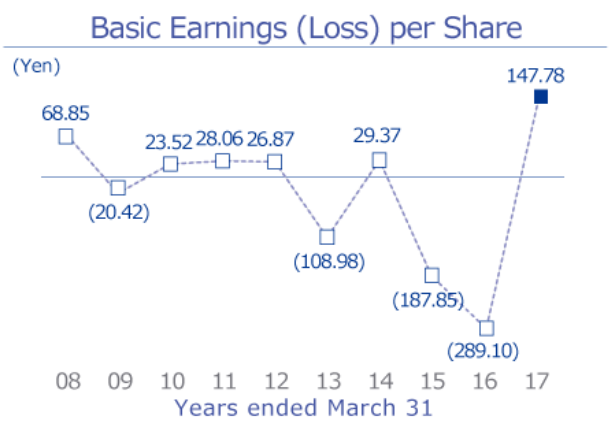
	Millions of yen				
	2008	2009	2010	2011	2012
Net sales	307,453	300,999	273,154	289,786	282,381
Operating profit	35,325	22,738	16,483	20,144	13,720
Profit (loss) attributable to owners of parent	18,888	(5,597)	7,458	9,765	9,351
Per share amounts (in yen)					
Basic earnings (loss)	68.85	(20.42)	23.52	28.06	26.87
Cash dividends	9.00	6.00	6.00	6.00	6.00
Net assets	725.37	669.80	682.03	693.18	716.39
Total assets	383,264	403,613	452,893	474,708	501,181
Net assets	206,135	189,757	243,606	247,656	255,460
Cash flows from operating activities	47,698	42,480	29,380	37,043	27,060
Cash flows from investing activities	(25,664)	(56,506)	(36,468)	(88,508)	(57,666)
Cash flows from financing activities	(10,176)	29,246	46,990	23,994	20,791
Cash and cash equivalents at end of the year	41,057	55,365	95,945	68,624	58,476
Capital expenditures	37,001	52,550	26,557	35,807	77,602
Depreciation and amortization (Note 1)	21,451	22,986	37,688	31,476	28,492
R&D expenses	11,161	11,872	11,817	11,469	11,704
Shareholders' equity ratio (%)	51.9	45.5	52.4	50.8	49.7
Return on equity (%)	9.7	(2.9)	3.5	4.1	3.8
Number of employees	5,057	5,295	5,444	5,493	5,506
Consolidated subsidiaries	47	46	49	50	48

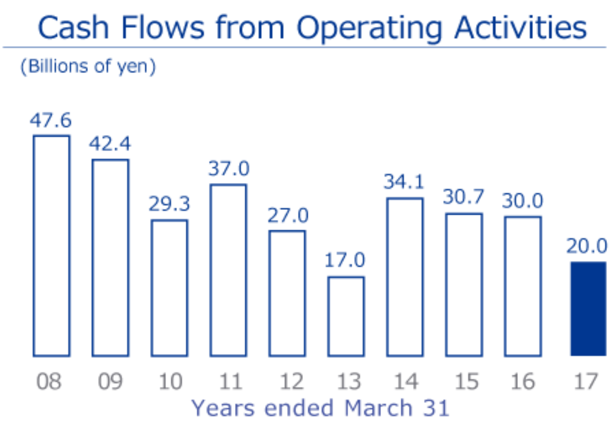
(Note 1): Depreciation and amortization includes amortization of long-term prepaid expenses.



	Millions of yen					Thousands of U.S. dollars
	2013	2014	2015	2016	**2017**	**2017**
Net sales	258,632	287,330	302,085	307,115	299,106	2,670,594
Operating profit	6,772	20,270	19,530	23,071	39,720	354,643
Profit (loss) attributable to owners of parent	(37,916)	10,218	(65,349)	(100,563)	52,165	465,763
Per share amounts (in yen, dollars)						
Basic earnings (loss)	(108.98)	29.37	(187.85)	(289.10)	147.78	1.32
Cash dividends	3.00	6.00	-	-	-	-
Net assets	625.29	660.18	467.36	147.98	305.49	2.73
Total assets	518,251	576,315	554,527	401,342	424,433	3,789,584
Net assets	223,871	236,453	169,445	60,205	135,976	1,214,075
Cash flows from operating activities	17,071	34,105	30,772	30,098	20,012	178,683
Cash flows from investing activities	(60,673)	(64,402)	(25,519)	13,400	(10,089)	(90,081)
Cash flows from financing activities	36,465	45,939	40,502	(37,689)	(11,911)	(106,351)
Cash and cash equivalents at end of the year	52,431	69,973	116,122	121,166	118,819	1,060,892
Capital expenditures	97,549	61,051	25,345	13,945	17,360	155,007
Depreciation and amortization (Note 1)	23,242	16,770	18,845	20,084	14,215	126,920
R&D expenses	10,076	8,709	10,156	8,522	7,508	67,043
Shareholders' equity ratio (%)	42.0	39.9	29.3	12.8	29.9	-
Return on equity (%)	(16.2)	4.6	(33.3)	(94.0)	58.5	-
Number of employees	5,651	5,756	5,852	5,759	5,406	-
Consolidated subsidiaries	49	53	54	55	51	-

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





Segment Information

CHEMICALS

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

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

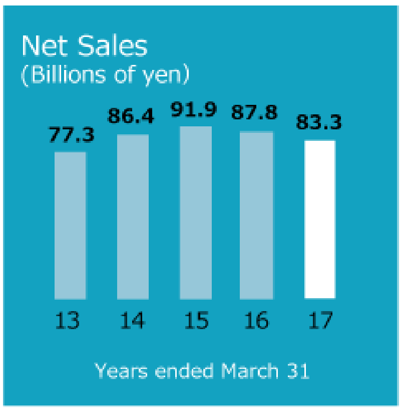
Business Unit	Major Products
Soda Ash and Calcium Chloride	Soda ash, Calcium chloride, Sodium silicate and Sodium bicarbonate
Chlor-Alkali and Vinyl Chloride	Caustic soda, Vinyl chloride monomer (VCM), Propylene oxide and Methylene chloride
New Organic Chemicals	Isopropyl alcohol (IPA)
Group Companies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

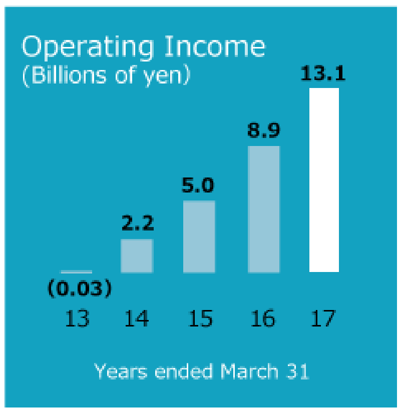
Operating Results for the Fiscal Year ended March 31, 2017

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

Sales of vinyl chloride monomer (VCM) were down compared with the previous fiscal year. Despite an increase in the volume of export mainly for Asian market, the decline was primarily due to weak trends in selling prices as a result of the drop in domestic naphtha prices.

Sales of vinyl chloride resin declined. While a recovery in the number of housing starts and other factors contributed to firm trends in sales volumes, this downturn largely reflects weak selling prices as a result of the drop in domestic naphtha prices. Earnings on the other hand improved due mainly to the suspension of operations at the Chiba factory of Shin Dai-ichi Vinyl Corporation.





With regard to soda ash and calcium chloride, sales were essentially unchanged from the previous fiscal year. Despite decreased sales volume, this was mainly owing to efforts to revise selling prices.

As a result of the above, segment net sales decreased 5.1% compared with the previous fiscal year, to ¥83,346 million and operating income increased 48.1% to ¥13,183 million. The segment reported higher earnings on lower sales.

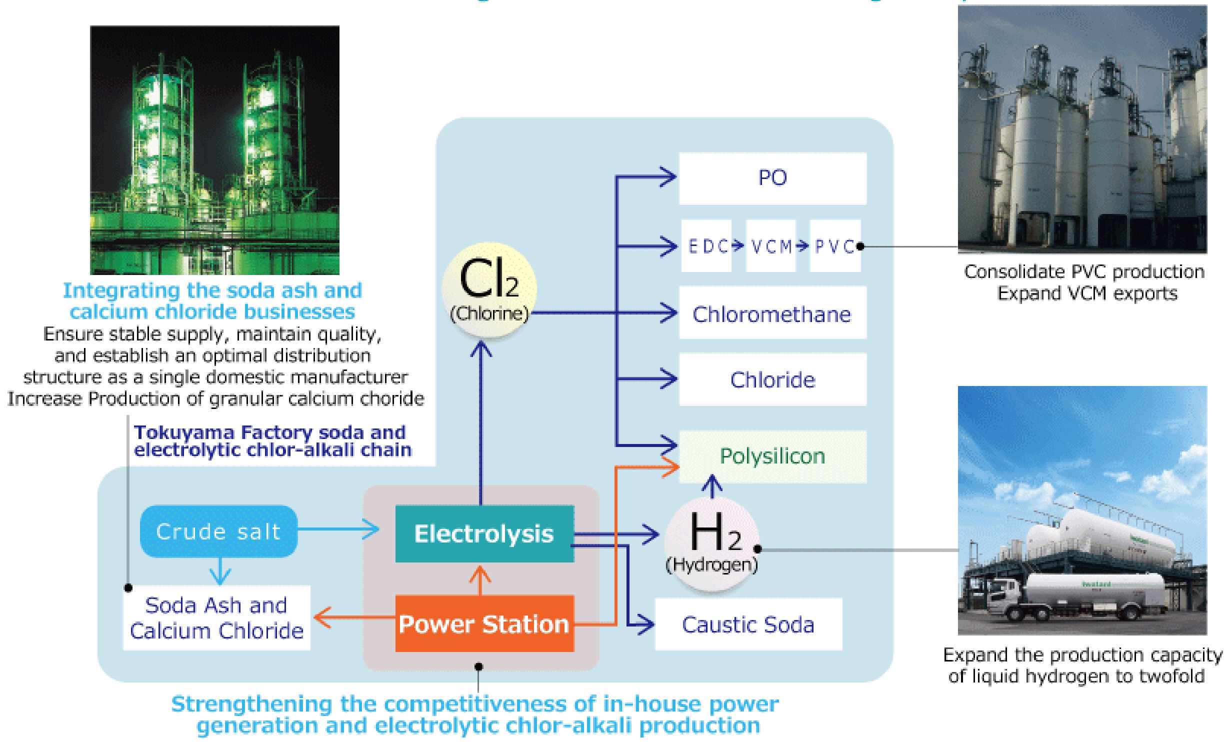
Strategies Going Forward

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

■ Soda Ash and Calcium Chloride Business
We will ensure the stable supply while maintaining the quality of products as a single domestic manufacturer. Production capacity of granular calcium chloride for use in the melting of snow will be increased in this year.

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

Activities Aimed at Reconstructing Businesses and Reinforcing Competitiveness



SPECIALTY PRODUCTS

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

The Specialty Products segment will continue to build on its advanced chemical technologies such as high purification, powder control and others, to create unique products that are useful to society.

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

Operating Results for the Fiscal Year ended March 31, 2017

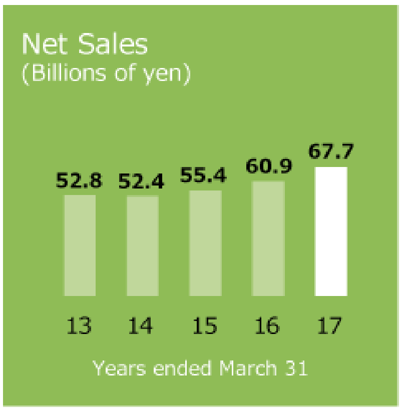
Sales of semiconductor-grade polycrystalline silicon increased. This was primarily due to robust shipping reflecting the growing trend to highly functional mobile devices including smartphones.

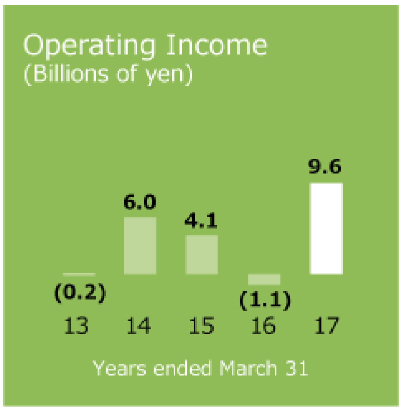
Sales of solar-grade polycrystalline silicon increased on the back of higher sales volumes, reflecting the operating rate improvement at Tokuyama Malaysia Sdn. Bhd.

Sales of fumed silica increased compared with the previous fiscal year. This was mainly due to firm trend in sales of such applications as a polishing material for semiconductors.

With regard to high-purity chemicals for electronics manufacturing, sales decreased compared with the previous fiscal year. Despite robust sales volume in such applications as semiconductor manufacturing, this decrease was mainly owing to appreciated yen.

With regard to aluminum nitride, sales increased from the previous fiscal year. This was attributable to robust sales volumes in such applications used for semiconductor manufacturing equipment.





As a result of the above, segment net sales increased 11.2% compared with the previous fiscal year, to ¥67,726 million and operating income improved to income of ¥9,649 million (Posted operating loss of ¥1,157 million in the previous fiscal year). The segment reported higher earnings on higher sales.

Strategies Going Forward

Tokuyama will expand business activities and earnings by supplying products and putting forward development product proposals that are consistently preferred by customers. To achieve this end, we will undertake the following priority measures.

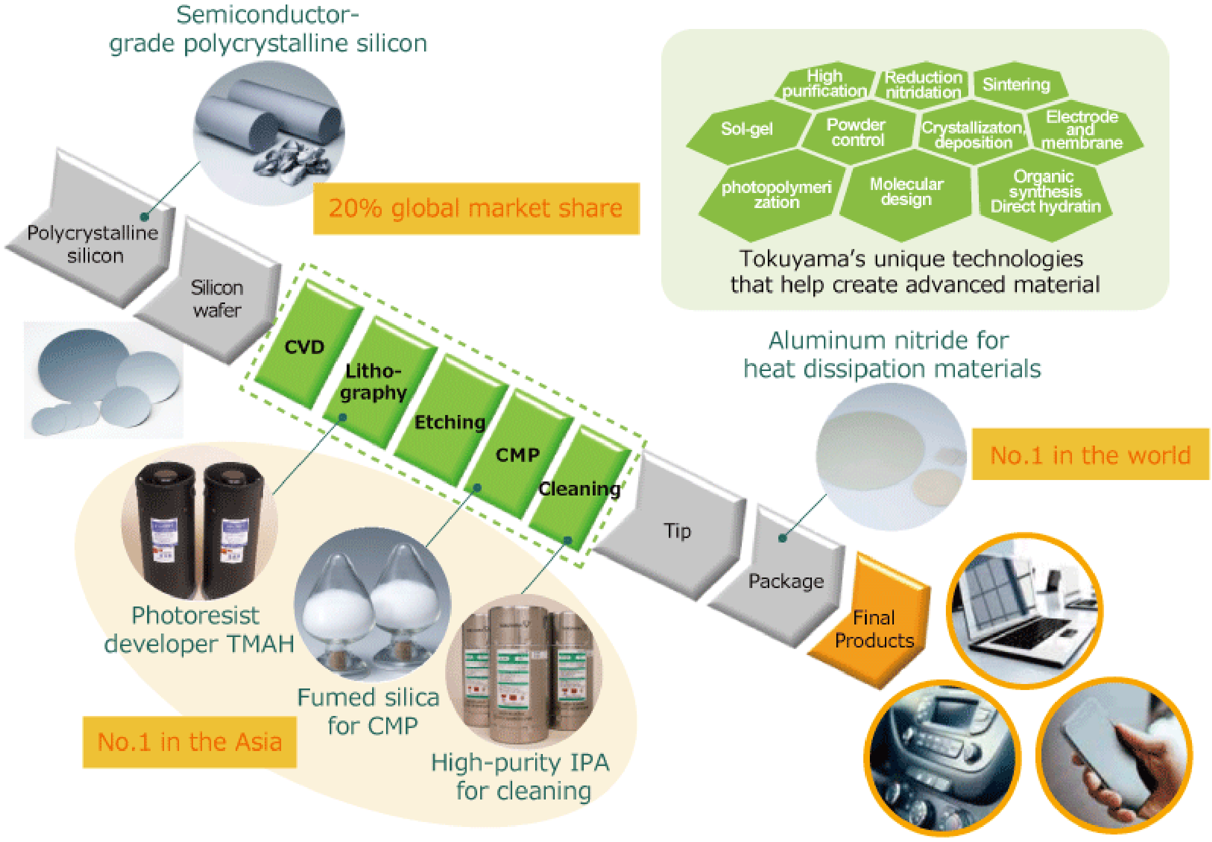
■Semiconductor-grade Polycrystalline Silicon Business
We will accurately grasp the customers' quality requirements of products including the latest ones; achieve world-leading quality while minimizing costs.

■ Fumed Silica Business
In addition to upgrading and expanding highly functional products on top of silicone- and CMP-related products, we will try to reduce production cost and promote high added value at Tokuyama Chemicals (Zhejiang) Co., Ltd.

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

■Thermal Management Material Business
We will increase production capacity of aluminum nitride powder by 120 tons per year to 600 tons per year with the start of commercial operations scheduled in April 2018.
We will commercialize the boron nitride and aluminum nitride filler.

Tokuyama's Semiconductor-Related Products that Underpin Advances in ICT



CEMENT

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

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

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

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

Operating Results for the Fiscal Year ended March 31, 2017

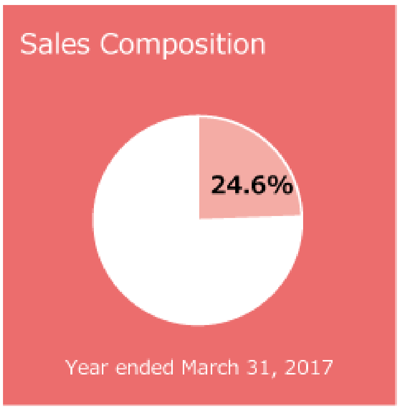
Sales of cement decreased. Despite an increase in the volume of exports on the back of robust demand in the Asia region, this decrease was mainly due to the drop in export prices reflecting such factors as the impact of appreciation in the value of the yen as well as a downturn in sales volumes in Japan due to weak public- and private-sector demand.

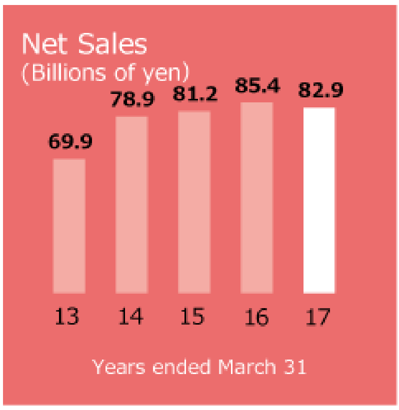
Meanwhile, successful steps were taken to reduce manufacturing costs. In addition to a drop in raw material and fuel prices, this reduction on manufacturing costs was mainly due to improvements in the basic unit of production.

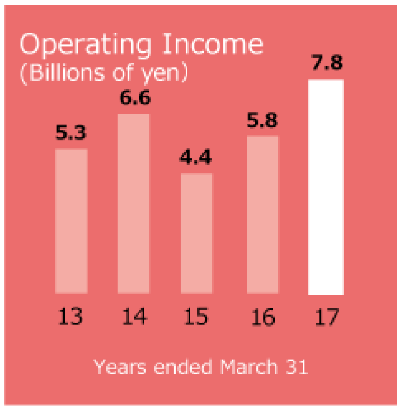
In the recycling and environment-related business, the Company accepted a higher volume of waste including coal ash compared with the previous fiscal year. As a result of this, sales increased from the previous fiscal year.

Consolidated subsidiary net sales declined. This mainly reflected corrections to robust shipping trends of such products as ready-mixed concrete targeting large-scale projects in the previous fiscal year.

As a result of the above, segment net sales decreased 2.9% compared with the previous fiscal year, to ¥82,995 million and operating income increased 35.1% to ¥7,878 million. The segment reported higher earnings on lower sales.







Strategies Going Forward

We will upgrade and build optimal production, sales, and distribution systems that are capable of flexibly addressing changes in the business environment, while maximizing waste acceptance earnings by increasing exports and working to strengthen competitive advantage by reducing costs. To achieve this end, we will undertake the following priority measures.

■ Cement Business

Tokuyama will improve production efficiency as well as unit consumption while reducing costs focusing mainly on efforts to increase the use/intake of waste. We will endeavor to secure earnings by expanding exports that maximize the use of the No. 4 kiln. Energies will also be channeled toward upgrading and expanding the infrastructure maintenance and reinforcement business through Tokuyama Mtech Corporation.

■ Recycling and Environment Business

We will optimize the application of raw materials and promote the use of combustible waste and optimize the fuel plant business. We will also promote stable operations in existing recycling businesses including the recycling of waste gypsum boards; create new recycling businesses.

Expand Cement Clinker Exports

Clinker ship loader (Tokuyama Factory)

Tokuyama Nouvelle Calédonie S.A.

LIFE & AMENITY

The Life & Amenity Division consists of Group companies that handle such wide-ranging products as polyolefin films, medical diagnosis systems, dental materials, gas sensors, ion exchange membranes and plastic window sashes. The Division is also in charge of the Tokuyama's fine chemicals and NF businesses. From April 2013, the Advanced Components segment was renamed the Life & Amenity segment.

In the fine chemicals business, utilizing our organic synthetic technology to advantage, we are expanding this business with eyeglass lens materials, active pharmaceutical ingredients for generic pharmaceuticals, and intermediates as our main products. In the NF business, we manufacture and sell air-permeable films (microporous films) that repel water but allow air and moisture to penetrate. Shanghai Tokuyama Plastics Co., Ltd., one of the Group companies we are responsible for, manufactures and sells air-permeable films used for disposable diapers, demand for which is climbing rapidly in China and other emerging countries.

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

Operating Results for the Fiscal Year ended March 31, 2017

Sales of active pharmaceutical ingredients decreased. This reflected the decreased sales volume of generic pharmaceuticals compared with the previous fiscal year.

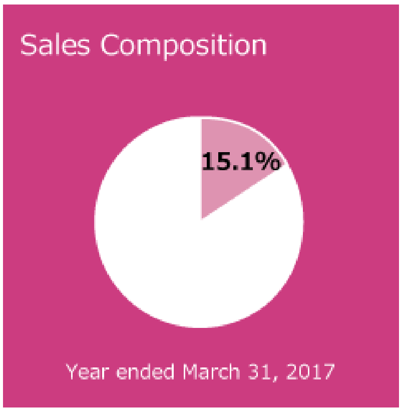
With regard to plastic lens-related materials, sales increased from the previous fiscal year. This reflected robust sales volumes of photochromic dye materials for eyeglass lenses.

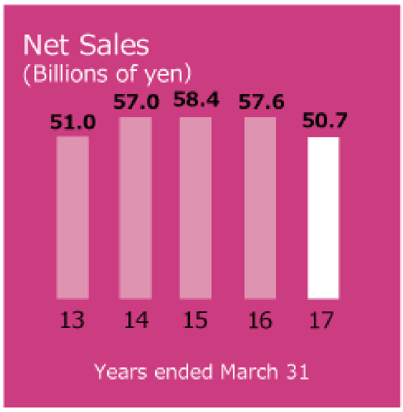
With regard to microporous film, sales of such applications as sanitary articles including disposable diapers at oversea consolidated subsidiaries decreased. As a result of this, sales decreased compared with the previous fiscal year.

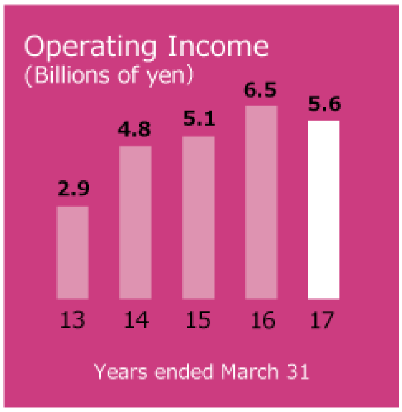
With regard to polyolefin film, sales were declined compared with the previous fiscal year. Despite firm trends in sales mainly for application in packaging materials for products sold at convenience stores, this decrease was largely the result of weak trends in selling prices on the back of the decline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

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

With regard to medical diagnosis systems, sales increased compared with the previous fiscal year. This largely reflected robust sales of blood testing products.







In gas sensors, Figaro Engineering Inc. was removed from the Company’s scope of consolidation effective from the second quarter of the fiscal year under review. This reflected the transfer of a portion of the company’s shares.

As a result of the above, segment net sales decreased 12.0% compared with the previous fiscal year, to ¥50,751 million and operating income decreased 14.6% to ¥5,632 million. The segment reported lower earnings on lower sales.

Strategies Going Forward

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

■ NF Business (Microporous Film)
We will endeavor to improve earnings by improving the quality and reducing costs at subsidiaries in China.

■ Fine Chemicals Business
We will expand market share and cultivate new applications in photochromic dye materials for use in eyeglass lenses.

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

■ Medical Diagnosis System Business (A&T Corporation)
We will strengthen the production structure and systems by expanding the Esashi Factory in September 2017.

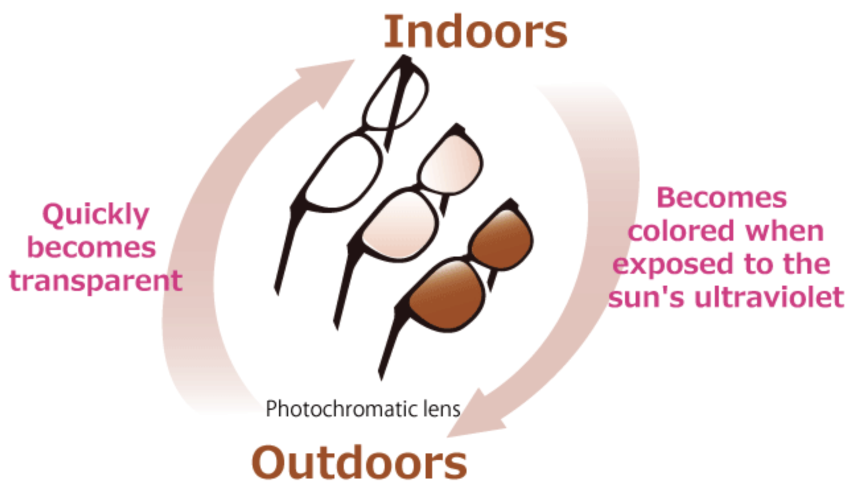
■ Polyolefin Film Business (Sun･Tox Co., Ltd.)
Every effort will be made to improve productivity by implementing a scrap and build approach toward manufacturing facilities.

■ Plastic Sash Business (Excel Shanon Corp.)
We will expand Zero Energy House (ZEH)-related sales.

Photochromic Dye Materials

Photochromic Dye Materials

Photochromic dye materials are clear resins that change color to either gray or brown when exposed to the sun's ultraviolet rays, and return to their colorless state when no longer exposed



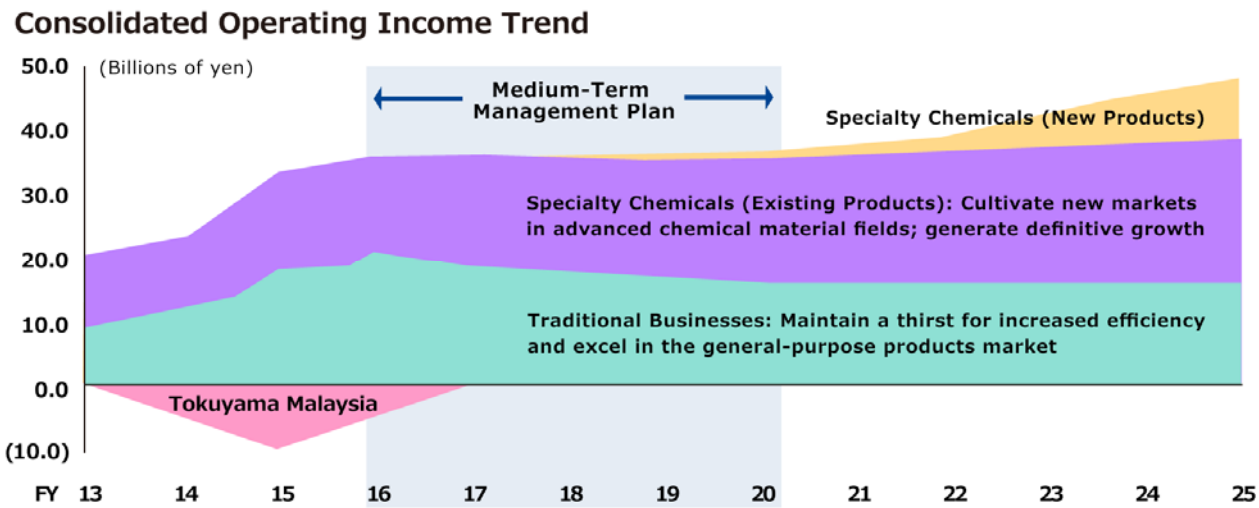
Features of Our Products

- Offers a number of color variations and can be colored with the three primary colors of red, blue, and yellow
- Quickly changes between transparent and colored
- Allows users to see fully vivid colors even on hot summer days
- Highly durable
- Blocks over 99% of ultraviolet rays

Medium-Term Management Plan

Outline

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



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

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

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

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

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

Tokuyama is cognizant of the vital need to create the necessary driving force to propel new profit growth. With this in mind, the Company will accordingly work to definitively change its organizational climate, rebuild its business strategies, strengthen Group management, and improve its financial position.

1. Change the Group’s organizational culture and structure

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

2. Rebuild the Group’s business strategies

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

3. Strengthen Group management

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

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

Progress

1. Financial indicators

		FY2015	FY2016	FY2020 Target	Comments (FY2016 results)
Net sales		¥307.1 billion	¥299.1 billion	¥335.0 billion	Increase in sales volume on the back of a recovery in economic conditions
Operating income		¥23.0 billion	¥39.7 billion	¥36.0 billion	Decrease in net sales owing mainly to a drop in unit selling prices in line with the downturn in raw material costs and the strong yen
ROA		5.7%	9.4%	10%	
	Operating margin	7.5%	13.3%	10%	Increase in earnings as a result of improvement in Tokuyama Malaysia and drop in raw material and fuel costs
	Total asset turnover	0.77 times	0.70 times	1.0 times	ROA was increased due to improved operating margin
Financial indicators	CCC	69 days	68 days	55 days	CCC was improved owing to reduce inventories
	D/E ratio	4.7	1.7	1.0	D/E ratio was improved by building up profits and issuing preferred stock
Exchange rate (¥/US$)		120	108	110	
Domestic naphtha price (¥/kl)		42,800	34,700	58,000	

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

2. Transfer of Tokuyama Malaysia Sdn. Bhd.
With regard to Tokuyama Malaysia Sdn. Bhd. which has recorded a loss of more than 200 billion yen due to two impairment losses so far, Tokuyama decided to transfer the whole shares of the company to OCI Company Ltd. in Korea in September 2016 and completed the transfer on May 31 this year.

Tokuyama had repeatedly made efforts to continue the business of Tokuyama Malaysia Sdn. Bhd., however, since the competitive environment of the polycrystalline silicon market for solar cells was severe and the impact on the Company's business performance was very huge, the Company made the decision to transfer Tokuyama Malaysia Sdn. Bhd.

Going forward, Tokuyama will concentrate its management resources on businesses that can take advantage of its strengths, such as unique technologies, and will focus on achieving the goals set at medium-term management plan.

3. Acquisition and Cancellation of Class A shares.
In June 2016, in order to reinforce the deteriorated shareholders' equity damaged by impairment losses posted for the manufacturing facilities of Tokuyama Malaysia Sdn. Bhd., Tokuyama issued Class A shares of 20 billion yen to Japan Industrial Solutions Fund I.

As the business risk was reduced due to the decision made to transfer Tokuyama Malaysia Sdn. Bhd., and based on the previous year's performance and the current outlook for this year, it was also expected to recover and enhance consolidated net assets that were decreased, by steadily generating revenue, all of Class A shares have been acquired for cash consideration and canceled.

By the earlier acquisition and cancellation of Class A shares, the Company will reduce the cost of redemption premiums and payment of dividends, and further improve its financial structure.

Message from the President

Hiroshi Yokota, President

Toward "Global Leader in Advanced Materials" and "Leader in Japan through Strengthening Competiveness in Traditional Business"

The second year since I took office as president, the fiscal year ended March 31, 2017 (fiscal 2016), was one blessed with good opportunities.

Looking back, my first year in office started with a posting of huge impairment loss related to our solar-grade polycrystalline silicon business. Thus regarding the rebuilding of our financial platform as a priority issue, we had taken decisive action by implementing various reforms to ensure the revitalization of the Tokuyama Group. In fiscal 2016, my second year in office, amid this difficult management situation, operating income greatly exceeded that forecast at the beginning of the fiscal year due to the ongoing positive flow-on effects of cutbacks in raw material and fuel costs as well as other factors, and we were able to complete the transfer of whole shares of the consolidated subsidiary engaged in the solar-grade polycrystalline silicon business that had been the cause of so much concern. Since we were therefore able to make progress with the regaining of shareholders' equity at a greater speed than planned, on June 14, 2017, we also acquired and canceled a total of ¥20 billion of Class A shares issued in fiscal 2016 as a cash consideration.

A harsh assessment of fiscal 2016 would be that the results were better than Tokuyama merited, particularly in terms of the improvement from the profit standpoint. On the other hand, however, I recognize that it was our daily unwavering efforts that enabled us to follow a course that enabled us to take advantage of the favorable conditions.

With regard to cash dividends, we are continuing to forego any payments for the time being. However, since we are projecting that profit will progress in line with our Medium-Term Management Plan for the current fiscal year, we are planning both interim and year-end* dividends of ¥2 per share for the current fiscal year, ending March 31, 2018, thereby resuming the payment of cash dividends for the first time in four years.
(*) In the event that five shares are consolidated into one share, the year-end dividend will be 10 yen.

Foundation of Medium-Term Management Plan: "Change the Group's Organizational Culture and Structure"

We launched the Medium-Term Management Plan in May 2016. In addition to reviewing, after an interval of 27 years, our corporate basic policy that had lost some of its substance and newly formulating the "Tokuyama Vision," we decided on becoming a “global leader in advanced materials through unique technologies” in growth businesses, such as Specialty Products as well as Life & Amenity, and “a leader in Japan through strengthening competiveness” in our traditional Chemicals and Cement businesses as an ideal Tokuyama Group in fiscal 2025. For this Medium-Term Management Plan, we also formulated management numerical targets for fiscal 2020 hence to act as milestones and are addressing the priority issues toward achieving those targets.

In promoting the Medium-Term Management Plan, the most important theme is to change the Group’s organizational culture and structure. I have become aware of the factor that has contributed to the posting of enormous losses for two consecutive fiscal years and that has been hindering business growth; that factor is Tokuyama’s insular corporate culture. I believe that recapturing the all-important culture of “focusing on our customers” and an “outward-looking approach,” which Tokuyama had lost over a period of many years, will result in achieving our targets for fiscal 2020 and realizing an ideal Tokuyama Group in fiscal 2025.

On the other hand, it is not easy to change a culture and a mindset that have been entrenched for many years. It is my belief that division leaders and division staff members are greatly motivated by senior management themselves firstly taking bold action and playing a leading role.

For this reason, in the first half of fiscal 2016, the first year of the Medium-Term Management Plan, we conducted briefings to explain our intentions directly to employees of the Group so that the “Tokuyama Vision” becomes deeply ingrained in all Tokuyama Group employees. At roundtable discussions aimed at manager-level personnel in the second half of fiscal 2016, we worked to exchange opinions and offer on-site guidance covering a number of areas, including reforms of business functions, work and awareness, and collectively revised management personnel systems. Unless there is conscious reform on the part of management personnel, who are the key to any organization—particularly at the manager level that offers guidance directly to division staff—the vision will not become deeply ingrained, and the change in corporate culture underpinned by that vision will not be achieved. Going forward, I would like to continue this course of action, in tandem with progress management, on a yearly basis.

Enhanced Profitability by Restructuring of Business Strategies

In order to accomplish the Medium-Term Management Plan, we have to not only reform the underlying organizational culture but also change into a highly investment-efficient company. Rather than drawing up business plans based on huge amounts of investment that would compromise the continued existence of an enterprise were they to fail, from now on we will devise a style of management that will enable us to generate earnings more steadily even on a small scale. While building a slim yet robust business structure that is resilient against changes in the economic environment, we will work to strengthen profitability from the two pillars that underpin the Medium-Term Management Plan: “Growth Businesses” and “Traditional Businesses.”

Growth businesses are particularly those in which profit growth is expected in the future. In semiconductor-related products, which are an important business domain, we will further hone the high quality and high purity that are Tokuyama’s strengths amid burgeoning needs for miniaturization, and build a value chain that meets qualitative and quantitative requirements.

In fiscal 2016, we restarted operations at the plant producing semiconductor-grade polycrystalline silicon at our Tokuyama Factory, which had been inactive, and increased production capacity from 6,200 tonnes to 8,500 tonnes. At the same time, if we rack our brains, we should be able to bring about further improvements in production efficiency. Consequently, for the time being we will seek out new possibilities geared toward higher quality and greater productivity without conducting any large-scale investment.

In heat dissipation materials, we have decided to increase production of the fifth line of high-purity aluminum nitride powder at our Tokuyama Factory, and plan to build a 600-tonne system, representing an annual production increase of 120 tonnes, in April 2018. We will advance the expansion of our product lineup, including boron nitride, and upgrade our systems to enable us to respond on the basis of customer needs. In the case of heat dissipation demand, we predict that demand for heat dissipation materials will get into full swing from 2020 onward and are preparing a thorough framework in terms of R&D and capital investment.

In the healthcare domain, we will cultivate business as four pillars: plastic lens-related materials; diagnostic reagent and clinical systems; dental materials and equipment; and active pharmaceutical ingredients (API). Here, the key to monetization lies in marketing. Particularly with the aim of acquiring new sales channels overseas, we will build partner relationships with market experts regardless of our own resources. Firmly putting channels for sales for our healthcare-related materials in place, we will accelerate the growth of our market share.

In the traditional business segment of Cement, although the industries in Japan are mature, overseas represents a large market where robust demand continues unabated. A socially beneficial business in that it accepts a large amount of waste, I believe that maintaining business soundness remains in the national interest. In the years to come, we will proactively promote the creation of mechanisms designed to expand sales channels primarily in Asia.

For Realization of “Global Leader in Advanced Materials” and “Leader in Japan through Strengthening Competiveness in Traditional Business”

In fiscal 2017, we will robustly promote the changes on the Group’s organizational culture and structure and work to foster a vibrant corporate culture that conducts business with more of a sense of urgency. To fulfill my role in top management, I myself will work on building outside relationships and expanding business opportunities, such as by absorbing and passing back to our company new knowledge and insights gleaned from meeting people from outside.

We will work hard on a daily basis to achieve the fiscal 2020 targets of the Medium-Term Management Plan and to realize an ideal Tokuyama Group for fiscal 2025.

As we move toward achieving those targets, we kindly request the continued support and understanding of all stakeholders, including our shareholders.

Hiroshi Yokota

Hiroshi Yokota
President
June 2017

Research and Development

Research and Development Principles and Policies

Contributing to the world by applying chemistry-based technologies lies at the heart of Tokuyama's research and development philosophy. Guided by this philosophy, the Company adheres strictly to a process of internal and external collaboration in a bid to promote a customer-focused approach. At the same time, we endeavor to integrate new technologies drawing on the strengths of our inherently unique and specialist capabilities and engage in research and development activities with the aim of producing advanced materials that lead the world.

In order to take another step toward a research and development promotion structure that is committed to producing technologies and materials with genuine commercial application, we organized our research and development activities of the Research and Development Division into three broad groups, the Tsukuba Research Laboratory, the Tokuyama Research Laboratory, and the New Business Promotion Dept. from July 2017. At each laboratory, we undertake development with our eyes fixed firmly on end results (a genuine commercial outcome) in collaboration with business segments in the medical and healthcare- as well as ICT-related domains. The New Business Promotion Dept. manages market information on a centralized basis. This information is then used to uncover and anticipate customers' needs and the underlying platform to put forward new proposals.

Research and Development Bases

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

Tsukuba Research Laboratory

The Tsukuba Research Laboratory is a development base that focuses on the medical and healthcare-related domain. The lab pursues leading-edge technologies from a medium- to long-term perspective, conducting research and development of analysis techniques as platform technologies, composite materials used especially in the field of dentistry, and high-value-added products targeting the organic fine chemicals field.

Tsukuba Research Laboratory

Tokuyama Research Laboratory

Tokuyama Research Laboratory

The Tokuyama Research Laboratory is a development base that focuses on the ICT-related domain. Spanning a wide variety of fields from basic chemicals to cement, the Laboratory engages in a broad array of research and development activities including basic research, application research, and the development of processes.

R&D Activities in Fiscal 2016

Based on our basic philosophy of "Centered on the field of chemistry, the Tokuyama Group will continue to create value that enhances people's lives ", Tokuyama is doing Research and Development with aiming to expand and develop each business based on chemistry, with priority areas being "Specialty Chemicals for ICT and Healthcare".

The Research and Development Division consists of three departments, Corporate Development Department, Analytical Science Department and the Intellectual Property Department. In collaboration with the development group of the business division belonging to each segment, the Research and Development Division is engaged in technological development of the theme of next generation and the theme around the field which cannot be handled by the business division on the development portfolio of the business divisions and group companies.

Regarding the development of scintillator materials for neutron detectors that we have been working on for the past, technological development has almost completed, and Tokuyama is waiting for new products made of this material coming from customers.

Regarding the development of deep ultraviolet LEDs that we have been promoting as an application development of the single crystal aluminum nitride substrates by the HVPE method (hydride vapor phase epitaxy method), Tokuyama has transferred know-how as well as development and production facilities related to our deep ultraviolet LEDs to Stanley Electric Co., Ltd. which has high competitiveness in the LEDs market. Tokuyama will concentrate resources on the development of single-crystal aluminum nitride substrate, aiming to deepen the cultivation of this technology in cooperation with customers such as Stanley Electric Co., Ltd., to realize early commercialization and new progress of material development.

Meanwhile, as a new initiative for healthcare, Tokuyama started material development in the field of animal healthcare. This has been the theme that was in line with the planning of the business division, but for the purpose of a wide range of material development, Tokuyama has moved the theme from the business division to the Research and Development Division and speed up the development.

In fiscal year ended March 31, 2017, the Tokuyama Group’s R&D spending totaled ¥7,508 million, including ¥1,636 million for basic research expenditures that are not allocable to a specific segment.

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

Chemicals Segment

Tokuyama develops technologies to cope with needs of environmental load reduction of chlorine-related products, reduce costs by improving production efficiency, and maintain and improve product quality. With vinyl chloride resin, Tokuyama also strengthened its technical services to supply products according to customers' requests, and actively worked on developing new grades that make use of the findings acquired from technical service. In developing inorganic chemicals, Tokuyama focused on investigating marketability based on customer evaluation, improvement of physical properties and manufacturing process.

R&D expenditures totaled ¥545 million in the Chemicals segment.

Specialty Products Segment

Regarding polycrystalline silicon, in order to respond quickly to the demands for higher purity and higher quality of polycrystalline silicon for semiconductors, Tokuyama located and concentrated development teams near the production side. With regard to silica, Tokuyama continued to develop new silica that responds to customers' requests, including improvements to existing products. For heat dissipating materials, Tokuyama focused on developing aluminum nitride and boron nitride fillers used in heat dissipation materials such as power semiconductors and LEDs. With regard to high-purity chemicals for the electronics industry, Tokuyama improved its analysis methods and worked to further reduce impurities.

R&D expenditures came to ¥1,745 million in the Specialty Products segment.

Cement Segment

Tokuyama has continued to aggressively pursue R&D in the use of various wastes as raw materials and fuels for the production of cement. In particular, Tokuyama focused on exploring substitutes for coal. From the viewpoint of further effective utilization of waste, we focused on developing applications other than cement manufacturing processes. As basic research on cement, Tokuyama continued to examine the reduction of burning temperature of cement clinker from the viewpoint of energy saving. As cement-related products, Tokuyama promoted development and improvement of various building materials products applied to repair and reinforce concrete structures such as cross section repairing materials, development and improvement of various grades of cement-based soil solidifiers.

R&D expenditures were ¥667 million in the Cement segment.

Life & Amenity Segment

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

R&D expenditures totaled ¥2,913 million in the Life & Amenity segment.

CSR Initiatives

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

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

Involvement in the Environment

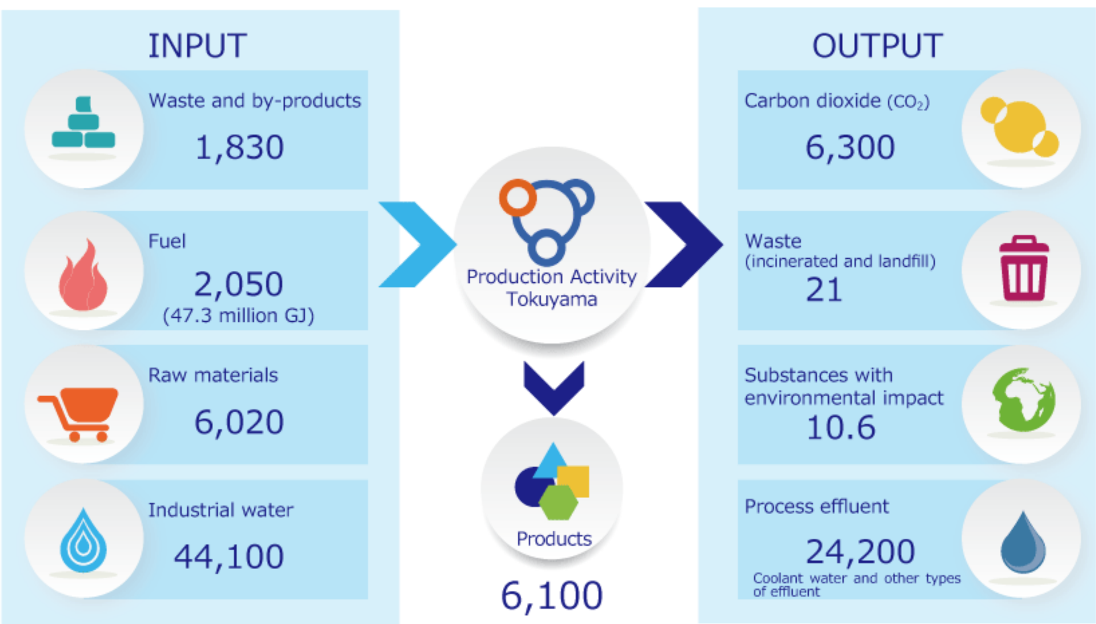
One of our most important corporate social responsibilities is to actively protect the global environment. Tokuyama practices environmental management with an emphasis on environmental perspectives in all of its business activities.

Tokuyama's Environmental Performance for Fiscal 2016

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

In fiscal 2016, Tokuyama achieved its goals for unit energy consumption, recycling and zero emissions. Regarding other performance data, Tokuyama has set a separate numerical management target for each department to maintain the current low-impact situation.

Flow of Materials in Business Activities (Unit: 1,000 tonnes)



* Result for Fiscal 2016 (Non-consolidated)

Involvement in Society

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

Social Contribution Activities

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

Employee's Volunteer Activities Deepening Interaction with Local Communities

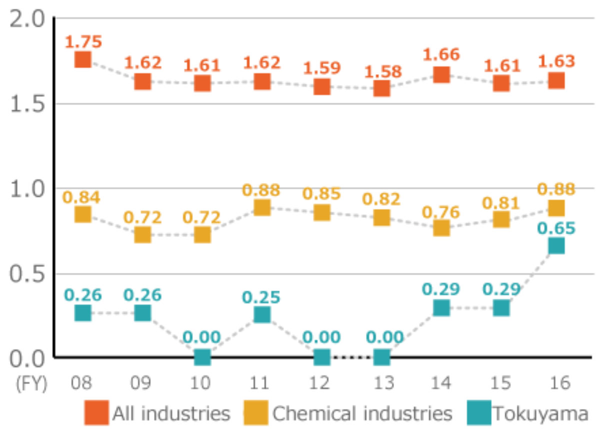
Tokuyama is doing a variety of activities in order to continue to be a company required by society. In response to the gas leakage accident at the factory, the "Mochitsuki Zo-san Group" was formed in 1983 by over 10 employees with the intention of restoring trust and security from neighboring residents. Since that time the group has been trying to communicate with the region through various volunteer activities for more than 30 years. Every year the group opens bazaars at the Tokuyama Summer Festival and Shunan Winter Tree Festival, and finances the activity funds with the proceeds from bazaars. In 2016, the Group donated rice cake rice to "Shirobato Gakuen", the welfare facility for disabled people, did the rice cake pounding with the students in the facility and tasted the rice cake together. In addition, the group visited the Christmas party of "Nozomi no Ie", the welfare facility for the disabled people, gave donations and gifts, and enjoyed the game with the facility's students and their families. The Company will continue to do steady activities and create a bright society with local communities.

Volunteer Activity (Mochitsuki Zo-san)

Process Safety, Disaster Prevention and Occupational Health and Safety

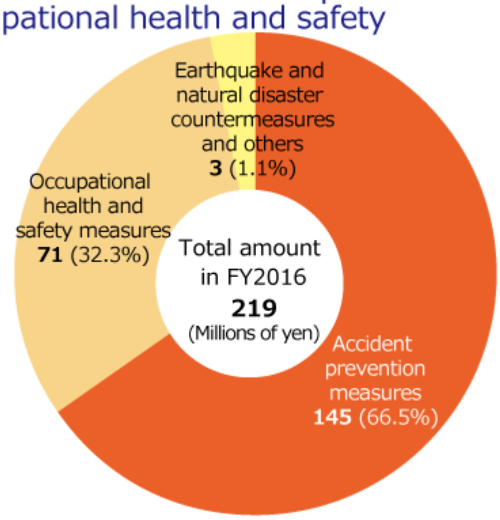
Tokuyama believes that safety is an essential part of business activities and that ensuring safety is the first step in achieving coexistence with society. In taking this stance on safety, Tokuyama thoroughly conducts process safety and disaster prevention activities as well as occupational health and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

Trend in the Accident Frequency Rate*1



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

Expenditures for accident prevention and occupational health and safety



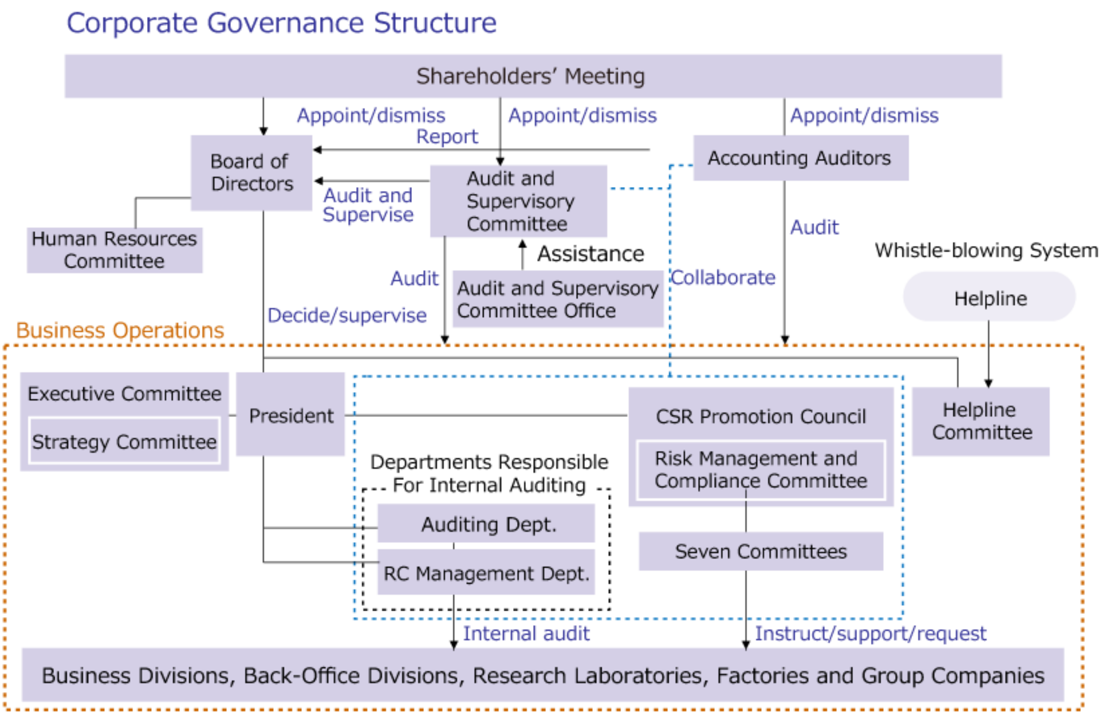
For more information on Tokuyama's CSR initiatives, see the Company's *CSR Report* or the Company's website:
http://www.tokuyama.co.jp/eng/csr/index.html

Corporate Governance

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

Corporate Governance Structure

The Company introduced an executive officer system to separate the supervision and execution functions in April 2011, assigning external directors in June of the said year. The number of external directors was subsequently increased in stages. On June 23, 2017, the Company transitioned from a company with a Board of Auditors to a company with an Audit and Supervisory Committee. The Audit and Supervisory Committee selects three external directors from five Committee members and endeavors to ensure management transparency and fairness. By doing so, it strives to maintain management soundness. As a company with an Audit and Supervisory Committee, the Company seeks to enhance corporate governance at all times by making the best of its rapid decision-making functions and effective supervising/auditing functions.



Board of Directors and Executive Officer System

In addition to deliberating and making resolutions on important matters relating to the activities of the Company, the Board of Directors supervises business operations. During fiscal 2016, the Board of Directors met on 22 occasions.

As of June 23, 2017, Tokuyama's Board of Directors comprised 12 members. The Company appointed three external directors thereby bolstering the supervisory function of the Board of Directors. Meanwhile, the term of office of directors (excluding directors who are Audit and Supervisory Committee members) is set at one year in order to ensure clear accountability as well as the ability to swiftly address changes in the operating environment.

Tokuyama adopted an executive officer system in April 2011 with the aim of separating the supervisory and executive functions for business operations. As of June 23, 2017, the Company had 13 executive officers.

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

Audit and Supervisory Committee

Directors who are Audit and Supervisory Committee members attend meetings of the Board of Directors and other important internal meetings for purposes such as gathering information on the status of the execution of businesses, and conduct audits of how the executive officers are executing their duties. As of June 23, 2017, the Audit and Supervisory Committee consists of five directors who are the members of the Committee, including three external directors.

Human Resources Committee

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

Executive Committee

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

Strategy Committee

Members of the Strategy Committee are selected by the president from among the Company's executive officers. The committee meets once a month and serves as an advisory body to the president. In addition to deliberating on the direction of business execution, the Committee takes steps to confirm the allocation of management resources aimed at evaluating conditions relating to the execution of business with respect to important matters requiring approval while setting the direction of policies relating to the execution of business with respect to specific projects.

CSR Promotion Council

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

Risk Management and Compliance Committee

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

Helpline Committee

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

Departments Responsible for Internal Auditing

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

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

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

When nominating director (excluding directors who are Audit and Supervisory Committee members) candidates, discussions are held at a Human Resources Committee meeting in advance of the subject appearing on the agenda at a

Board of Directors' meeting. Comprising representative directors and external directors, the Human Resources Committee is the entity that nominates directors, executive officers and others, and discusses such matters as remuneration. The Board of Directors makes its decisions in response to the Human Resources Committee's report.

In the case of the nomination of directors who are Audit and Supervisory Committee members candidates, the Board of Directors makes its decisions having received the assent of the Audit and Supervisory Committee.

Policies and Procedures for Determining the Company's Executives Remuneration

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

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

In fiscal 2016, a total of ¥114 million, ¥38 million and ¥71 million was paid to five directors, two corporate auditors (Audit and Supervisory Board members) and seven external officers, respectively.

In addition to the aforementioned compensation, an amount of ¥31 million was paid as salaries to three employees, who hold the concurrent position of director.

Anti-takeover Measures

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

The decision of whether to accept a Large-Scale Purchase is ultimately left to the discretion of Tokuyama's shareholders. Consequently, in cases where a Large-Scale Purchase is being attempted, we believe that the Large-Scale Purchaser's provision of an adequate amount of information is necessary. In addition, we believe that the appraisal and opinions of Tokuyama's Board of Directors, as well as the provision of information and the like based on the business features pertaining to any Large-Scale Purchase, are critical for the shareholders to make a decision of whether to accept said Large-Scale Purchase, and contribute to the common interests of Tokuyama's shareholders.

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

In cases where a Large-Scale Purchaser fails to comply with the large-scale purchase rules, or when a Large-Scale Purchaser complies with the large-scale purchase rules, but is deemed to significantly damage the common interests of the Company's shareholders and the Company's corporate value, Tokuyama's Board of Directors may take such measures as the allotment of share options without contribution as stipulated under Article 277 and the following provisions of Japan's Companies Act and oppose the Large-Scale Purchase.

Specific details outlined above were collated into the Company's "Policy regarding Large-scale Purchases of Tokuyama Corporation's Company Shares (Anti-Takeover Measures)." This policy was approved by the Company's shareholders at the 151th Ordinary General Meeting of Shareholders held on June 24, 2015.

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

Business and Other Risks

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

The matters listed are those regarded as relevant as at June 26, 2017.

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

Tokuyama Group procures the raw materials and fuels essential to conduct production operations from various area in the world. Also, for some of its products, Tokuyama Group uses special raw materials and materials which have a limited number of suppliers. With regard to the procurement of raw materials and fuels, Tokuyama Group engages in long-term, stable, low-cost procurement by combining, for example, medium- to long-term contracts and purchases on spot markets. However, in the event that a soaring market or resource nationalism causes the tight supply of raw materials and fuels or delays in delivery hinders Tokuyama Group's production operations causing manufacturing costs to rise drastically, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(2) Electronic Materials Business Market Environment

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

(3) Environmental Regulations, etc.

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

(4) Contractual Disputes/Litigation

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

(5) Effect of Disasters/Accidents

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

(6) Product Liability

Tokuyama Group makes an honest effort to ensure the proper quality in accordance with product characteristics. However, in the event that, due to unexpected circumstances, a quality problem leads to a product recall or a product safety-related product liability (PL) issue arises, there is the possibility that any such situation greatly affects Tokuyama Group's business performance and financial condition.

(7) Market Economic Trends/Conditions

The supply of and demand for Tokuyama Group products are subject to the trends of their respective markets, which are primarily the chemical industries, the construction and construction material industries as well as the information and electronic industries. The products from Tokuyama Group are sold mainly in Japan, the United States, Asia, and Europe, and the economic conditions in such country could exert a great influence on the sales. Tokuyama Group targets production improvements and higher quality and also promotes cost reductions however a fall in demand in the market and industries or an economic slowdown in the sales area may greatly affect Tokuyama Group's business performance and financial condition.

(8) Price Competitiveness

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

(9) Overseas Business Development

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

(10) Financing Arrangements

Tokuyama Group arranges financing through loans or issuance of unsecured bonds, and in preparation for changes in the market environment such as interest rates, in principle, measures to mitigate risks by hedging transactions such as fixed rate contracts or fixed interest rate swaps, however, there is a possibility that with some borrowing, cost of financing arrangements could increase due to changes in the market environment such as interest rate, which may have a significant impact on the performance and financial contents of the Tokuyama Group. In addition to changes in the market environment such as interest rates, since the amount of interest-bearing debt exceeded the amount of equity capital at the end of the consolidated fiscal year, or depending on the credit ratings or other conditions, there is no guarantee that the financing is always available under same conditions in arranging financing through a new loan from a financial institution or the issuance of unsecured bonds. In the event that Tokuyama Group is unable to raise funds in a timely manner by means of loans from financial institutions or by issuing unsecured bonds, there is the possibility that any such situation greatly affects Tokuyama Group's financing arrangements.Part of the long-term loan is subject to financial covenants, and in the event that there is a conflict with this provision, it may have a significant impact on the performance and financial content of the Group, such as an increase in the interest rate on loans or forfeiture of benefits of time.

(11) Fluctuation of Exchange Rate

Tokuyama Group exports products and imports raw materials, fuels, etc in foreign currencies. Although Tokuyama Group has taken measures to reduce risks by currency exposure management by balancing assets and liabilities denominated in foreign currencies or hedging transactions such as forward exchange contracts, there is a possibility that performance and financial content of the Tokuyama Group will be greatly affected by fluctuations in exchange rates. There is also the possibility that it will adversely affect the yen converted value of the financial statements of overseas consolidated subsidiaries when preparing consolidated financial statements.

(12) Impairment of Fixed Assets

Tokuyama Group adopts the accounting standard for impairment of fixed assets. In the event that there is a significant deterioration in the business environment or a decline in real estate prices, etc, there is a possibility that performance and financial content of the Tokuyama Group will be greatly affected by the recognition of impairment loss.

Corporate Officers

(As of July 1, 2017)

Masao Kusunoki
Representative Director
Chairman and Executive Officer

Hiroshi Yokota
Representative Director
President and Executive Officer

Takeshi Nakahara
Director
Managing Executive Officer

Hideki Adachi
Director
Managing Executive Officer

Akihiro Hamada
Director
Managing Executive Officer

Hideo Sugimura
Director
Managing Executive Officer

Hisashi Shimizu
Director

Masaki Akutagawa
Director, Audit & Supervisory Committee Member

Youji Miyamoto
Director, Audit & Supervisory Committee Member

Shin Kato
Director, Audit & Supervisory Committee Member
(External Director)

Toshihide Mizuno
Director, Audit & Supervisory Committee Member
(External Director)

Yoshikazu Tsuda
Director, Audit & Supervisory Committee Member
(External Director)

Executive Officers

Chairman and Executive Officer	Masao Kusunoki	
President and Executive Officer	Hiroshi Yokota	
Managing Executive Officer	Takeshi Nakahara	General Manager of Social Responsibility Div.
	Hideki Adachi	General Manager of Tokuyama Factory
	Akihiro Hamada	General Manager of Financial Div.
	Masao Fukuoka	General Manager of General & Personnel Affairs Div.
	Toshihiko Annaka	General Manager of Procurement & Logistics Div.
	Ryo Sugiyama	General Manager of Life & Amenity Business Div.
	Hideo Sugimura	General Manager of Corporate Planning Div.
Executive Officer	Hiroshi Nomura	General Manager of Specialty Products Business Div.
	Kazuo Matsuya	General Manager of Chemicals Business Div.
	Sadayuki Kuzuhara	General Manager of Cement Business Div.
	Fumiaki Iwasaki	General Manager of Research & Development Div., Tsukuba Research Laboratory and Medical Associated Dept.

Financial Section

Financial Review

Income Analysis

In the fiscal year ended March 31, 2017 (April 1, 2016 to March 31, 2017), the global economy experienced mixed conditions. In the first half, the pace of economic growth slowed owing mainly to concerns that the Chinese economy had stalled and confusion surrounding financial markets as a result of the U.K.'s decision to withdraw from the European Union. In the second half, however, the global economic conditions recovered. This was largely due to a pickup in the U.S. economy, various measures put forward by the Chinese government to arrest any decline, and the prompt action taken by the central banks of each country to prevent further confusion in financial markets.

Meanwhile, the Japanese economy continued to experience a modest recovery amid improvements in employment and disposable income conditions.

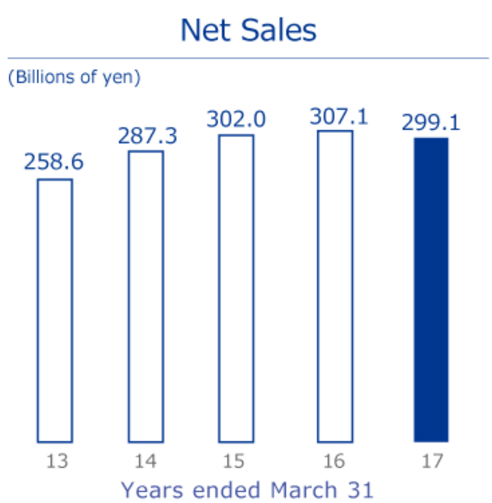
Against this backdrop, the Tokuyama Group worked diligently to implement the priority measures identified in its Medium-Term Management Plan announced in May 2016 in order to transition to a robust business structure that is resilient against changes in its operating environment and capable of sustainable growth. As a result, and despite net sales falling below the level recorded in the previous fiscal year, the Company reported a substantial improvement in operating profit for the fiscal year under review. This was mainly attributable to successful efforts aimed at narrowing the loss incurred by Tokuyama Malaysia Sdn. Bhd., a consolidated subsidiary, and reducing manufacturing costs in line with the downturn in raw material and fuel prices.

Consolidated net sales decreased 2.6%, or ¥8,008 million compared with the previous fiscal year, to ¥299,106 million (US$*2,670* million). Despite an increased sales volume in polycrystalline silicon for both solar-cells and semiconductors, this was largely attributable to weak selling prices of petroleum products on the back of a downturn in domestic naphtha prices.

Cost of sales decreased 8.8%, or ¥19,332 million compared with the previous fiscal year, to ¥201,305 million (US$*1,797* million). Despite an increased sales volume in polycrystalline silicon, this was due mainly to a downturn in raw material costs as a result of the drop in domestic naphtha prices.

SG&A expenses decreased 8.4%, or ¥5,324 million compared with the previous fiscal year, to ¥58,080 million (US$*518* million). This primarily reflects a decrease in depreciation cost of mission-critical system and lower R&D expenses.

Operating profit increased 72.2%, or ¥16,648 million compared with the previous fiscal year, to ¥39,720 million (US$*354* million). In addition to a decreased production costs as a result of the drop in raw material and fuel prices, this was due mainly to operating rate improvement and decreased depreciation expenses at Tokuyama Malaysia Sdn. Bhd. The operating margin (the ratio of operating profit to net sales) was 13.3%, an increase of 5.8 percentage points compared with the figure of 7.5% recorded in the previous fiscal year.



Non-operating income/expenses deteriorated ¥375 million compared with the previous fiscal year, due chiefly to increase in trial production expenses at Tokuyama Malaysia Sdn. Bhd.

As a result of the above, ordinary profit increased 91.8%, or ¥16,273 million compared with the previous fiscal year, to ¥33,998 million (US$*303* million).

Extraordinary income/losses improved by ¥108,752 million compared with the previous fiscal year.

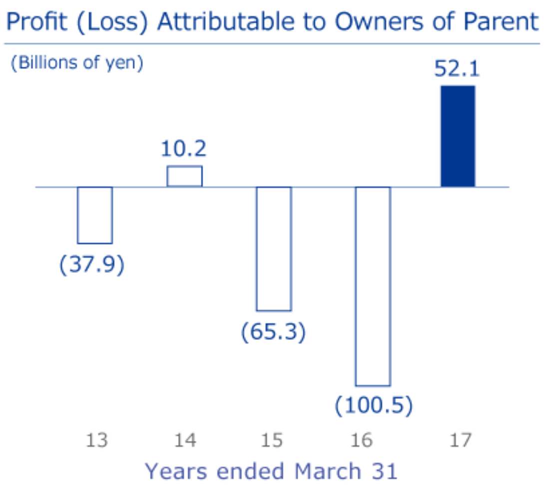
As a result of the above, profit before income taxes improved by ¥125,025 million compared with the previous fiscal year, to profit of ¥38,525 million (US$*343* million).

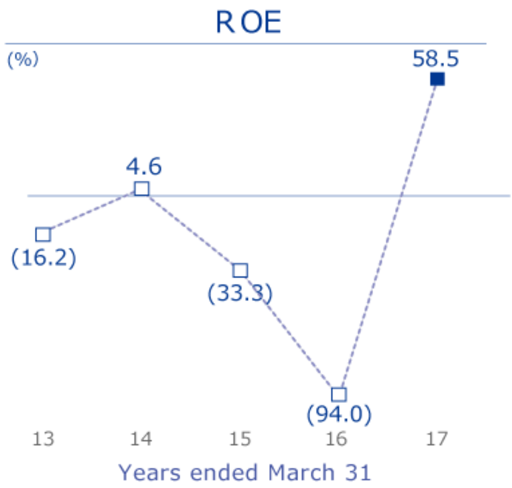
Income taxes decreased ¥27,891 million compared with the previous fiscal year. This was attributable to the decision on the business transfer of Tokuyama Malaysia Sdn. Bhd. As a result of this, profit/loss improved by ¥152,917 million compared with the previous fiscal year, to profit of ¥53,396 million (US$*476* million).

Profit/loss attributable to owners of parent improved by ¥152,729 million compared with the previous fiscal year, to profit of ¥52,165 million (US$*465* million).

Basic earnings per share was profit of ¥147.78 (US$1.319), up from basic earnings per share of loss of ¥289.10 in the previous fiscal year. Dividends per share were ¥0.00 (US$0.000).

Return on equity (ROE) and return on assets (ROA) were 58.5% and 12.3%, respectively, compared with -94.0% and -25.1% in the previous fiscal year.





Segment Information

The Tokuyama Group is composed of the parent company, Tokuyama Corporation ("the Company"), 51 subsidiaries and 28 affiliated companies. The Group's operations are divided into the four business segments of Chemicals, Specialty Products, Cement, and Life & Amenity. For accounting purposes, 51 of the Company's subsidiaries are consolidated, while 10 affiliates are accounted for using the equity method.

Chemicals

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

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

Sales of vinyl chloride monomer (VCM) were down compared with the previous fiscal year. Despite an increase in the volume of export mainly for Asian market, the decline was primarily due to weak trends in selling prices as a result of the drop in domestic naphtha prices.

Sales of vinyl chloride resin declined. While a recovery in the number of housing starts and other factors contributed to firm trends in sales volumes, this downturn largely reflects weak selling prices as a result of the drop in domestic naphtha prices. Earnings on the other hand improved due mainly to the suspension of operations at the Chiba factory of Shin Dai-ichi Vinyl Corporation.

With regard to soda ash and calcium chloride, sales were essentially unchanged from the previous fiscal year. Despite decreased sales volume, this was mainly owing to efforts to revise selling prices.

As a result of the above, segment net sales decreased 5.1% compared with the previous fiscal year, to ¥83,346 million (US$*744* million) and operating profit increased 48.1% to ¥13,183 million (US$*117* million). The segment reported higher earnings on lower sales.

Specialty Products

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

Sales of semiconductor-grade polycrystalline silicon increased. This was primarily due to robust shipping reflecting the growing trend to highly functional mobile devices including smartphones.

Sales of solar-grade polycrystalline silicon increased on the back of higher sales volumes, reflecting the operating rate improvement at Tokuyama Malaysia Sdn. Bhd.

Sales of fumed silica increased compared with the previous fiscal year. This was mainly due to firm trend in sales of such applications as a polishing material for semiconductors.

With regard to high-purity chemicals for electronics manufacturing, sales decreased compared with the previous fiscal year. Despite robust sales volume in such applications as semiconductor manufacturing, this decrease was mainly owing to appreciated yen.

With regard to aluminum nitride, sales increased from the previous fiscal year. This was attributable to robust sales volumes in such applications used for semiconductor manufacturing equipment.

As a result of the above, segment net sales increased 11.2% compared with the previous fiscal year, to ¥67,726 million (US$*604* million) and operating profit improved to profit of ¥9,649 million (US$*86* million) (Posted operating loss of ¥1,157 million in the previous fiscal year). The segment reported higher earnings on higher sales.

Cement

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

Sales of cement decreased. Despite an increase in the volume of exports on the back of robust demand in the Asia region, this decrease was mainly due to the drop in export prices reflecting such factors as the impact of appreciation in the value of the yen as well as a downturn in sales volumes in Japan due to weak public- and private-sector demand. Meanwhile, successful steps were taken to reduce manufacturing costs. In addition to a drop in raw material and fuel prices, this reduction on manufacturing costs was mainly due to improvements in the basic unit of production.

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

Consolidated subsidiary net sales declined. This mainly reflected corrections to robust shipping trends of such products as ready-mixed concrete targeting large-scale projects in the previous fiscal year.

As a result of the above, segment net sales decreased 2.9% compared with the previous fiscal year, to ¥82,995 million (US$*741* million) and operating profit increased 35.1% to ¥7,878 million (US$*70* million). The segment reported higher earnings on lower sales.

Life & Amenity

The Life & Amenity segment includes the operations of the Company, 11 consolidated subsidiaries and one equity-method affiliate.

Sales of active pharmaceutical ingredients decreased. This reflected the decreased sales volume of generic pharmaceuticals compared with the previous fiscal year.

With regard to plastic lens-related materials, sales increased from the previous fiscal year. This reflected robust sales volumes of photochromic dye materials for eyeglass lenses.

With regard to microporous film, sales of such applications as sanitary articles including disposable diapers at oversea consolidated subsidiaries decreased. As a result of this, sales decreased compared with the previous fiscal year.

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

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

With regard to medical diagnosis systems, sales increased compared with the previous fiscal year. This largely reflected robust sales of blood testing products.

In gas sensors, Figaro Engineering Inc. was removed from the Company’s scope of consolidation effective from the second quarter of the fiscal year under review. This reflected the transfer of a portion of the company’s shares.

As a result of the above, segment net sales decreased 12.0% compared with the previous fiscal year, to ¥50,751 million (US$*453* million) and operating profit decreased 14.6% to ¥5,632 million (US$*50* million). The segment reported lower earnings on lower sales.

Financial Position and Liquidity

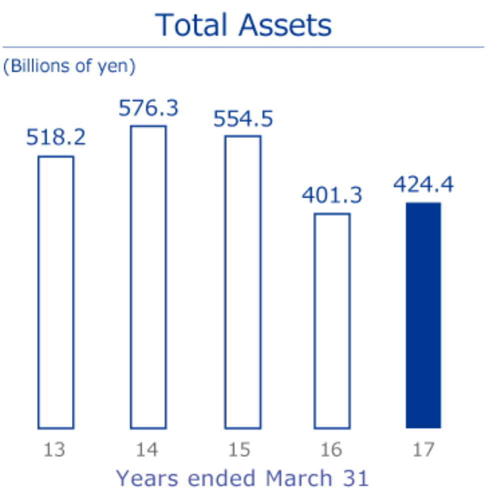
As of March 31, 2017, total assets amounted to ¥424,433 million (US$3,789 million), a increase of ¥23,091 million compared with the previous fiscal year-end.

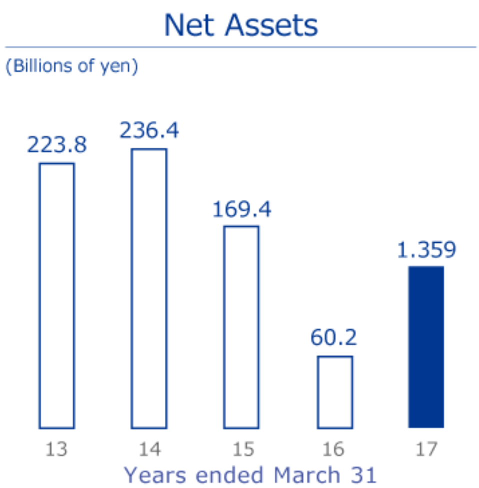
Current assets increased 1.2% compared with the previous fiscal year-end to ¥246,661 million (US$2,202 million). This was due primarily to an increase in notes and accounts receivable. Current liabilities decreased 30.1% to ¥79,153 million (US$706 million). This mainly reflected a decrease in income taxes payable and current portion of bonds payable. As a result, the current ratio was up to 3.12 times, from 2.15 times as of the previous fiscal year-end.

Property, plant and equipment decreased 0.4% in comparison with the previous fiscal year-end to ¥119,233 million (US$1,064 million). Intangible assets and investments and other assets increased 54.8% over the previous fiscal year-end to ¥58,537 million (US$522 million). This was primarily due to a increase in deferred tax asset.

As of March 31, 2017, total liabilities amounted to ¥288,457 million (US$2,575 million), a decrease of 15.4% compared with the previous fiscal year-end figure of ¥341,136 million. The main contributory factor was a decrease in long-term loans payable, income taxes payable and bonds payable. Interest-bearing debt decreased 12.4% from ¥244,152 million as of the previous fiscal year-end to ¥213,955 million (US$1,910 million).

Non-controlling interests increased 2.6% from ¥8,732 million as of the previous fiscal year-end to ¥8,960 million (US$80 million). Net assets increased 125.9% compared with the previous fiscal year-end, from ¥60,205 million to ¥135,976 million (US$1,214 million). This was due chiefly to a increase in retained earnings. The ratio of shareholders' equity to total assets was 29.9%, up from 12.8% as of the previous fiscal year-end. The amount of net assets per share was ¥305.49 (US$2.728), up from ¥147.98 as of the previous fiscal year-end.





Capital Expenditures

Capital expenditures totaled ¥17,360 million (US$155 million), a increase of 2.45% compared with the previous fiscal year's figure of ¥13,945 million.

Cash Flows

Net cash provided by operating activities totaled ¥20,012 million (US$178 million). Principal items included profit before income tax of ¥38,525 million (US$343 million) (net loss of ¥86,500 million in the previous fiscal year) and income tax paid of ¥18,065 million (US$161 million) (¥4,055 million in the previous fiscal year).

Net cash provided by investing activities totaled ¥10,089 million (US$90 million). Major contributory factors were payments for purchases of property, plant and equipment of ¥16,693 million (US$149 million) (¥14,334 million in the previous fiscal year), proceeds from sales of shares in subsidiary of ¥2,926 million (US$26 million) (no account in the previous fiscal year), and subsidy profit of ¥2,298 million (US$20 million) (¥50 million in the previous fiscal year).

Net cash used in financing activities came to ¥11,911 million (US$106 million). This was primarily attributable to proceeds for issuance of shares of ¥19,712 million (US$176 million) (no account in the previous fiscal year), repayment of long-term loans payable of ¥17,297 million (US$154 million) (¥31,175 million in the previous fiscal year), redemption of bonds of ¥10,000 million (US$89 million) (¥5,600 million in the previous fiscal year), and repayment of short-term loans payable of ¥6,625 million (US$59 million) (¥2,648 million in the previous fiscal year).

As a result of the above, cash and cash equivalents decreased by ¥2,346 million (US$20 million) compared with the previous fiscal year-end, to ¥118,819 million (US$1,060 million).

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Assets :			
Current assets :			
Cash and deposits *Note(2)	121,598	121,508	1,085,704
Notes and accounts receivable - trade *Note(2)	73,945	68,569	660,228
Lease receivables	6	6	62
Merchandise and finished goods	12,348	14,012	110,252
Work in process	9,919	10,882	88,566
Raw materials and supplies	16,567	15,933	147,922
Deferred tax assets	1,627	4,256	14,532
Other	10,798	8,788	96,413
Allowance for doubtful accounts	(150)	(192)	(1,345)
Total current assets	246,661	243,766	2,202,338
Non-current assets :			
Property, plant and equipment :			
Buildings and structures *Note(2),(3)	100,430	101,982	896,704
Accumulated depreciation	(72,723)	(74,022)	(649,320)
Buildings and structures, net	27,707	27,959	247,384
Machinery, equipment and vehicles *Note(2),(3)	450,926	461,619	4,026,133
Accumulated depreciation	(404,912)	(410,707)	(3,615,287)
Machinery, equipment and vehicles, net	46,014	50,912	410,846
Tools, furniture and fixtures *Note(3)	22,015	22,661	196,567
Accumulated depreciation	(20,222)	(20,890)	(180,554)
Tools, furniture and fixtures, net	1,793	1,771	16,013
Land *Note(2)	31,289	31,327	279,369
Leased assets	3,533	2,237	31,546
Accumulated depreciation	(1,329)	(1,041)	(11,871)
Leased assets, net	2,203	1,196	19,674
Construction in progress	10,225	6,597	91,298
Total property, plant and equipment	119,233	119,764	1,064,586
Intangible assets			
Goodwill	2,367	3,738	21,138
Leased assets	35	41	318
Other *Note(3)	2,384	2,613	21,291
Total intangible assets	4,787	6,393	42,748
Investments and other assets			
Investment securities *Note(1),(2)	19,083	15,765	170,388
Long-term loans receivable	2,833	3,094	25,296
Deferred tax assets	19,824	610	177,003
Net defined benefit asset	8,936	8,057	79,793
Other *Note(1)	3,221	4,190	28,760
Allowance for investment loss	-	(22)	-
Allowance for doubtful accounts	(148)	(278)	(1,329)
Total investments and other assets	53,750	31,417	479,912
Total non-current assets	177,771	157,575	1,587,246
Total assets	424,433	401,342	3,789,584

See notes to consolidated financial statements

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Liabilities :			
Current liabilities :			
Notes and accounts payable - trade *Note(2)	37,035	35,388	330,670
Short-term loans payable *Note(2)	2,138	9,382	19,091
Current portion of long-term loans payable *Note(2)	15,235	17,036	136,029
Current portion of bonds	-	10,000	-
Lease obligations	577	356	5,156
Income taxes payable	1,335	11,888	11,926
Deferred tax liabilities	-	2	-
Provision for bonuses	2,103	1,830	18,777
Provision for repairs	1,628	1,480	14,538
Provision for product warranties	81	85	729
Provision for loss on purchase contract	2,671	2,656	23,854
Other *Note(2)	16,346	23,093	145,951
Total current liabilities	79,153	113,200	706,725
Non-current liabilities :			
Bonds payable	34,400	34,400	307,142
Long-term loans payable *Note(2)	160,555	172,877	1,433,533
Lease obligations	1,787	931	15,957
Deferred tax liabilities	268	457	2,399
Provision for directors' retirement benefits	143	231	1,280
Provision for repairs	2,829	3,691	25,262
Allowance for loss on compensation for building materials	318	384	2,848
Provision for environmental measures	287	85	2,571
Provision for loss on purchase contract	-	2,716	-
Net defined benefit liability	1,430	1,354	12,768
Asset retirement obligations	6	6	56
Other	7,275	10,799	64,962
Total noncurrent liabilities	209,303	227,935	1,868,784
Total liabilities	288,457	341,136	2,575,509
Net assets :			
Shareholders' equity :			
Capital stock			
Authorized : 700,000,000 shares			
Issued : 349,691,876 shares	10,000	53,458	89,285
Capital surplus	41,545	57,532	370,938
Retained earnings	72,511	(61,281)	647,420
Treasury stock			
2016 : 1,832,788 shares			
2017 : 1,850,780 shares	(1,446)	(1,439)	(12,919)
Total shareholders' equity	122,609	48,270	1,094,725
Accumulated other comprehensive income :			
Valuation difference on available-for-sale securities	319	(1,020)	2,853
Deferred gains or losses on hedges	(274)	(526)	(2,453)
Foreign currency translation adjustment	1,528	2,362	13,646
Remeasurements of defined benefit plans	2,833	2,386	25,297
Total accumulated other comprehensive income	4,406	3,202	39,343
Non-controlling interests	8,960	8,732	80,005
Total net assets	135,976	60,205	1,214,075
Total liabilities and net assets	424,433	401,342	3,789,584

See notes to consolidated financial statements

Consolidated Statements of Income

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Net sales	299,106	307,115	2,670,594
Cost of sales *Note(1),(4)	201,305	220,638	1,797,372
Gross profit	97,800	86,476	873,221
Selling, general and administrative expenses :			
Selling expenses *Note(2)	37,916	38,099	338,538
General and administrative expenses *Note(3),(4)	20,164	25,305	180,039
Total selling, general and administrative expenses	58,080	63,405	518,578
Operating profit	39,720	23,071	354,643
Non-operating income :			
Interest income	54	121	489
Dividend income	249	443	2,228
Share of profit of entities accounted for using equity method	900	668	8,044
Compensation income	464	-	4,146
Foreign exchange gains	115	542	1,027
Other	1,374	1,576	12,271
Total non-operating income	3,159	3,353	28,208
Non-operating expenses :			
Interest expenses	4,224	4,668	37,716
Trial production expenses	1,853	636	16,545
Cost of idle operation	1,200	1,134	10,720
Other	1,602	2,259	14,308
Total non-operating expenses	8,880	8,699	79,290
Ordinary profit	33,998	17,725	303,561
Extraordinary income :			
Gain on sales of non-current assets *Note(5)	20	14,144	179
Gain on sales of investment securities	1	6,190	17
Gain on sales of shares of subsidiaries and associates	1,934	-	17,270
Subsidy income	2,298	50	20,518
Gain on write-off debts	1,268	-	11,329
Gain on sales of patent right and other	836	-	7,465
Settlement received	500	-	4,464
Gain on insurance adjustment	255	21	2,280
Other	202	1,071	1,808
Total extraordinary income	7,317	21,477	65,333
Extraordinary loss :			
Loss on sales of non-current assets *Note(6)	5	130	47
Impairment loss *Note(7)	1,683	124,706	15,028
Loss on disaster	90	5	809
Loss on reduction of non-current assets	50	108	454
Loss on disposal of noncurrent assets	560	486	5,006
Other	399	264	3,568
Total extraordinary losses	2,790	125,702	24,915
Profit(loss) before income taxes	38,525	(86,500)	343,980
Income taxes :			
Current	2,967	14,408	26,492
Deferred	(17,838)	(1,387)	(159,268)
Total income taxes	(14,870)	13,020	(132,775)
Profit (loss)	53,396	(99,520)	476,755
Profit attributable to non-controlling interests	1,231	1,043	10,992
Profit (loss) attributable to owners of parent	52,165	(100,563)	465,763

	Yen		U.S. dollars
	2017	2016	**2017**
Per share amounts :			
Net income (loss)	147.78	(289.10)	1.319
Cash dividends	-	-	-

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Profit(loss)	53,396	(99,520)	476,755
Other comprehensive income			
Valuation difference on available-for-sale securities	1,333	(6,851)	11,903
Deferred gains or losses on hedges	240	(901)	2,147
Foreign currency translation adjustment	(717)	(1,758)	(6,404)
Remeasurements of defined benefit plans, net of tax	448	(861)	4,004
Share of other comprehensive income of entities accounted for using equity	(138)	(150)	(1,238)
Total other comprehensive income *Note(1)	1,166	(10,522)	10,412
Total comprehensive income	54,562	(110,043)	487,168
Attributable to:			
Owners of parent	53,369	(110,957)	476,512
Non-controling interests	1,193	913	10,655

See notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

[2017]

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Non-controling interests	Total net assets
Balance at beginning of year	53,458	57,532	(61,281)	(1,439)	48,270	(1,020)	(526)	2,362	2,386	3,202	8,732	60,205
Changes during the fiscal year												
Issuance of new shares	10,000	10,000			20,000							20,000
Transfer to other capital surplus from capital stock	(53,458)	53,458			-							-
Deficit disposition		(81,928)	81,928		-							-
Profit (loss) attributable to owners of parent			52,165		52,165							52,165
Purchase of treasury stock				(7)	(7)							(7)
Disposal of treasury stock		(0)		0	0							0
Change of scope of consolidation			(302)		(302)							(302)
Capital increase of consolidated subsidiaries		2,482			2,482							2,482
Net changes of items other than shareholders' equity						1,339	251	(834)	446	1,203	228	1,432
Total changes of items during the period	(43,458)	(15,987)	133,792	(7)	74,338	1,339	251	(834)	446	1,203	228	75,770
Balance at end of year	10,000	41,545	72,511	(1,446)	122,609	319	(274)	1,528	2,833	4,406	8,960	135,976

[2016]

Millions of yen

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Non-controling interests	Total net assets
Balance at beginning of year	53,458	57,670	39,286	(1,434)	148,981	5,829	330	4,196	3,239	13,596	6,868	169,445
Changes during the fiscal year												
Profit (loss) attributable to owners of parent			(100,563)		(100,563)							(100,563)
Purchase of treasury stock		(0)		(6)	(6)							(6)
Disposal of treasury stock			(1)	1	0							0
Change of scope of consolidation			(2)		(2)							(2)
Capital increase of consolidated subsidiaries		(118)			(118)							(118)
Purchase of shares of consolidated subsidiaries		(19)			(19)							(19)
Net changes of items other than shareholders' equity						(6,849)	(856)	(1,833)	(852)	(10,393)	1,863	(8,529)
Total changes of items during the period	-	(137)	(100,567)	(5)	(100,710)	(6,849)	(856)	(1,833)	(852)	(10,393)	1,863	(109,239)
Balance at end of year	53,458	57,532	(61,281)	(1,439)	48,270	(1,020)	(526)	2,362	2,386	3,202	8,732	60,205

[2017]

Thousands of U.S. dollars

	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasurements of defined benefit plans	Total	Non-controling interests	Total net assets
Balance at beginning of year	477,312	513,683	(547,152)	(12,854)	430,989	(9,111)	(4,700)	21,097	21,309	28,594	77,965	537,549
Changes during the fiscal year												
Issuance of new shares	89,285	89,285			178,571							178,571
Transfer to other capital surplus from capital stock	(477,312)	477,312			-							-
Deficit disposition		(731,508)	731,508		-							-
Profit (loss) attributable to owners of parent			465,763		465,763							465,763
Purchase of treasury stock				(70)	(70)							(70)
Disposal of treasury stock		(3)		5	2							2
Change of scope of consolidation			(2,699)		(2,699)							(2,699)
Capital increase of consolidated subsidiaries		22,168			22,168							22,168
Net changes of items other than shareholders' equity						11,964	2,247	(7,451)	3,988	10,748	2,040	12,789
Total changes of items during the period	(388,026)	(142,745)	1,194,572	(64)	663,736	11,964	2,247	(7,451)	3,988	10,748	2,040	676,525
Balance at end of year	89,285	370,938	647,420	(12,919)	1,094,725	2,853	(2,453)	13,646	25,297	39,343	80,005	1,214,075

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2017 and 2016

	Millions of yen		Thousands of U.S. dollars
	2017	2016	**2017**
Cash flows from operating activities			
Profit (loss) before income taxes	38,525	(86,500)	343,980
Depreciation and amortization	14,215	20,084	126,920
Increase (decrease) in allowance for loss on compensation for building materials	(65)	(189)	(588)
Increase (decrease) in provision for loss on purchase contract	(2,701)	(4,059)	(24,123)
Increase (decrease) in other provision	(381)	322	(3,409)
Increase(decrease) in net defined benefit liability	135	93	1,211
Decrease(increase) in net defined benefit asset	(290)	(431)	(2,592)
Interest and dividends income	(304)	(565)	(2,718)
Foreign exchange losses (gains)	(13)	(176)	(120)
Loss (gain) on sales of property, plant and equipment	(14)	(14,013)	(131)
Loss (gain) on sales of investment securities	(1)	(6,190)	(17)
Loss (gain) on sales of shares of subsidiaries and associates	(1,934)	-	(17,270)
Share of profit of entities accounted for using equity method	(900)	(668)	(8,044)
Subsidy income	(2,298)	(50)	(20,518)
Interest expenses	4,224	4,668	37,716
Loss on reduction of noncurrent assets	50	108	454
Impairment loss	1,683	124,706	15,028
Gain on write-off of debts	(1,268)	-	(11,329)
Gain on insurance adjustment	(255)	-	(2,280)
Settlement received	(500)	-	(4,464)
Gain on sales of patent right and other	(836)	-	(7,465)
Loss (gain) on disposal of noncurrent assets	560	486	5,006
Decrease (increase) in notes and accounts receivable - trade	(7,744)	301	(69,147)
Decrease (increase) in inventories	824	4,402	7,358
Decrease (increase) in other current assets	(574)	(355)	(5,130)
Increase (decrease) in notes and accounts payable - trade	3,095	(4,750)	27,639
Increase (decrease) in other current liabilities	(815)	(130)	(7,278)
Other, net	(1,594)	607	(14,239)
Subtotal	40,818	37,701	364,446
Interest and dividends income received	750	1,178	6,702
Interest expenses paid	(4,246)	(4,725)	(37,911)
Proceeds from insurance income	255	-	2,280
Settlement package received	500	-	4,464
Income taxes paid	(18,065)	(4,055)	(161,298)
Net cash provided by (used in) operating activities	20,012	30,098	178,683
Cash flows from investing activities			
Payments into time deposits	(84)	(84)	(750)
Proceeds from withdrawal of time deposits	130	34	1,160
Purchase of property, plant and equipment	(16,693)	(14,334)	(149,049)
Proceeds from sales of property, plant and equipment	197	17,841	1,759
Purchase of investment securities	(305)	(12)	(2,731)
Proceeds from sales of investment securities	341	10,932	3,052
Proceeds from sales of shares of subsidiaries resulting in change in scope of consolidation	2,926	-	26,133
Payments of long-term loans receivable	(9)	(40)	(86)
Collection of long-term loans receivable	270	239	2,418
Proceeds from subsidy income	2,298	50	20,518
Payments for transfer of business	-	(37)	-
Proceeds from sales of patent right and other	905	-	8,080
Other, net	(65)	(1,187)	(586)
Net cash provided by (used in) investing activities	(10,089)	13,400	(90,081)
Cash flows from financing activities			
Increase (decrease) in short-term loans payable	(6,625)	(2,648)	(59,152)
Increase (decrease) in commercial papers	-	(3,000)	-
Proceeds of long-term loans payable	3,116	4,631	27,828
Repayment of long-term loans payable	(17,297)	(31,175)	(154,441)
Redemption of bonds	(10,000)	(5,600)	(89,285)
Payments from changes in ownership interests in subsidiaries that do not result in change in scope of consolidation	-	(25)	-
Proceeds from issuance of common shares	19,712	-	176,000
Cash dividends paid	(0)	(1)	(6)
Cash dividends paid to non-controlling interests	(294)	(386)	(2,633)
Decrease (increase) in treasury stock	(7)	(6)	(68)
Other, net	(514)	523	(4,592)
Net cash provided by (used in) financing activities	(11,911)	(37,689)	(106,351)
Effect of exchange rate change on cash and cash equivalents	(358)	(792)	(3,202)
Net increase (decrease) in cash and cash equivalents	(2,346)	5,016	(20,951)
Cash and cash equivalents at beginning of period	121,166	116,122	1,081,843
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	-	27	-
Cash and cash equivalents at end of period *Note(1)	118,819	121,166	1,060,892

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

Tokuyama Corporation and Consolidated Subsidiaries

1. BASIS OF CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

2. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts included in the consolidated financial statements and notes represent the arithmetic results of translating Japanese yen to U.S. dollars at the rate of ¥112=US$1, the approximate exchange rate on March 31, 2017. 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. SCOPE OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and its 51 significant subsidiaries (55 in 2016). Significant intercompany transactions and accounts have been eliminated in consolidation.

Major consolidated subsidiaries are as follows;
Sun•Tox Co., Ltd.
Shin Dai-ichi Vinyl Corporation
A&T Corporation
Excel Shanon Corporation
Tokuyama Dental Corporation
Hiroshima Tokuyama Ready Mixed Concrete Co., Ltd.
Tokuyama Mtech Corporation
Sun Arrow Kasei Co., Ltd.
Tokuyama Malaysia Sdn. Bhd.
Tokuyama Chemicals (Zhejiang) Co., Ltd.

Figaro Engineering Inc., which was a consolidated subsidiary until the previous fiscal year, was excluded from the Company's scope of consolidation effective from the fiscal year under review due to the sale of a portion of the company's shares held by the Company. In line with the sale of a portion of the company's shares, Tianjin Figaro Electronic Co., Ltd., Figaro USA, Inc. and one other company, which were consolidated subsidiaries until the previous fiscal year, were excluded from the scope of consolidation effective from the fiscal year under review due to a decline in the Group's ownership ratio.

Of consolidated subsidiaries, A&T Corporation closes its accounts on December 31. Its financial statements as of December 31 are used in the preparation of consolidated financial statements, and adjustments necessary for consolidation purposes are made to material transactions arising between that date and the consolidated fiscal year-end.

Of consolidated subsidiaries, Tokuyama Chemicals (Zhejiang) Co., Ltd. and other four companies whose original fiscal year-end is December 31, are consolidated by performing provisional settlement of accounts on March 31, the consolidated fiscal year-end, in compliance with the regular settlement of accounts.

Investments in 10 affiliates (10 in 2016) are accounted for by the equity method.

Major equity method affiliate is Hantok Chemicals Co., Ltd.

The equity method does not apply to them because they have little impact on the consolidated financial statements when

they are excluded from the scope of application of the equity method, nor have any material impact on an aggregate basis.
Major affiliate that are not accounted for by the equity is Oita Mining Co., Ltd.
Neusoft A&T Diagnostics Co., Ltd., which was an equity method affiliate until the previous fiscal year, was excluded from the scope of application of the equity method effective from the fiscal year under review due to a decline in the ownership ratio as a result of a capital increase by third-party allotment.
Figaro Engineering Inc., which was a consolidated subsidiary until the previous fiscal year, was excluded from the scope of consolidation and has been included in the scope of application of the equity method effective from the fiscal year under review due to the sale of a portion of its shares held by the Company.
Of equity method affiliates, with regard to the company of which the last date of its fiscal year is different from the consolidated fiscal year-end, the financial statements of its fiscal year are used in the preparation of consolidated financial statements.
The excess of investment cost over equity in net assets acquired is amortized on a straight-line method over five years.

4. SIGNIFICANT ACCOUNTING POLICIES

(1) Valuation basis and valuation methods for significant assets
(i) Securities
Available-for-sale securities
Securities with fair value
Stated at the fair value based on the quoted market price as of the fiscal year-end (Valuation differences are recognized in net assets; The cost of securities sold is calculated by the moving-average method).
Securities without fair value
Stated at cost by moving-average method.
(ii) Derivatives
Derivatives are stated at fair value.
(iii) Inventories
Inventories held for sale in the ordinary course of business
Stated at cost mainly by the moving-average method. (The balance sheet value of the inventories is calculated by write-down based on the decreased profitability.)

(2) Depreciation and amortization methods of significant depreciable and amortizable assets
(i) Property, plant and equipment (excluding leased assets)

Buildings and structures acquired on or after April 1, 2016:	Depreciated mainly by the straight-line method.
Other than the above:	Depreciated mainly by the declining-balance method.

The estimated useful lives of major items are as follows:
Buildings and structures: 3 to 75 years
Machinery, equipment and vehicles: 2 to 30 years
(ii) Intangible assets (excluding leased assets)

Mining right:	Amortized by the unit-of-production method.
Other:	Amortized mainly by the straight-line method.

Internal use software is amortized by the straight-line method over the internally expected useful life (5 years).
(iii) Leased assets
Leased assets in finance lease transactions that do not transfer ownership
Depreciated by the straight-line method based on the assumption that the useful life is equal to the lease term and the residual value is equal to zero.

(3) Significant allowances and provisions
(i) Allowance for doubtful accounts
To cover possible bad debt expenses on notes and accounts receivable – trade, loans receivable and others, the allowance for doubtful accounts is provided at the estimated uncollectable amounts based on the historical default rate for normal receivables, or taking into account collectability on a case-by-case basis for certain receivables such as doubtful receivables with higher possibility of default.
(ii) Allowance for investment loss
Allowance for investment loss is recorded, taking into account the asset position, etc. of investees.
(iii) Provision for bonuses
To prepare for the payment of next bonuses to employees, provision for bonuses is recorded based on the portion of the

estimated amount of bonus payments attributable to the fiscal year under review.

(iv) Provision for repairs

Repair expenses are calculated individually and recorded to prepare for periodic repairs of manufacturing facilities.

(v) Provision for product warranties

For required expenses incurred during the warranty period with free servicing (warranty expenses for free servicing) for clinical test information systems and laboratory test automation systems, the estimated amount of expenses is recorded based on the historical rate of incurrence (proportion of expenses paid to net sales).

(vi) Provision for loss on purchase contract

The estimated amount of losses is recorded to cover losses incurred due to purchase contracts for utilities.

(vii) Provision for directors' retirement benefits

At certain consolidated subsidiaries, the amount to be required at the end of the fiscal year under review in accordance with internal rules is recorded to prepare for payment of directors' retirement benefits.

(viii) Allowance for loss on compensation for building materials

The estimated amount of losses incurred in replacement, renovation, etc. is recorded to prepare for repairs and maintenance of plastic sashes for houses and buildings (fire protection and resistance grade).

(ix) Provision for environmental measures

Pursuant to the "Act on Special Measures concerning Promotion of Proper Treatment of PCB Wastes," the estimated amount at the end of the fiscal year under review is recorded to prepare for payments for disposal of PCB waste.

(4) Accounting method of retirement benefits

(i) Methods of attributing estimated retirement benefits to accounting periods

When calculating retirement benefit obligations, the benefit formula basis is used to attribute estimated retirement benefits to the period through the end of the fiscal year under review.

(ii) Amortization of actuarial differences

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.

(iii) Application of simplified accounting method used by small companies

In calculating net defined benefit liability and retirement benefit expenses, some of the consolidated subsidiaries apply a simplified accounting method in which an assumed amount of benefits to be paid for voluntary base retirement at the fiscal year-end is deemed as retirement benefit obligations.

(5) Accounting method for deferred assets

All deferred assets are charged to expenses when incurred.

(6) Translation of significant assets or liabilities denominated in foreign currencies into Japanese yen

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.

Assets and liabilities of overseas subsidiaries and the like are translated into yen at the exchange rate in effect at the balance sheet date, while their revenues and expenses are translated into yen at the average rates of exchange prevailing during the year. The resulting translation adjustments are included in "Foreign currency translation adjustment" and "Non-controlling interests" in net assets.

(7) Method of significant hedge accounting

(i) Method of hedge accounting

For the method of hedge accounting, in general, the deferral hedge accounting is applied. Among hedging instruments, forward exchange contracts that fulfill the requirement for allocation method are subjected to the allocation method. Interest rate swaps that fulfill the requirement for special treatment are subjected to the special treatment.

(ii) Hedging instruments and hedged items

Hedging instruments and hedged items to which hedge accounting has been applied in the fiscal year under review are as follows:

Hedging instruments:	Forward exchange contracts, interest rate swaps
Hedged items:	Forecast transactions in foreign currencies, accounts receivable denominated in foreign currencies and loans payable

(iii) Hedging policy

Foreign exchange risk and interest rate risk of hedged items are hedged within a certain range.

(iv) Method of assessing hedge effectiveness

Hedge effectiveness is assessed by comparing cumulative changes in cash flows or market fluctuations of hedged items and cumulative changes in cash flows or market fluctuations of hedging instruments on a quarterly basis and based on changes in the both, etc. For interest rate swaps to which the special treatment is applied, assessment of hedge effectiveness is omitted.

(8) Amortization method and amortization period of goodwill
Goodwill is equally amortized over five years.

(9) Scope of cash and cash equivalents in the consolidated statements of cash flows
Cash and cash equivalents in the consolidated statements of cash flows consist of cash on hand, at-call deposits with banks, and short-term investments that have maturities within three months from acquisition, are readily convertible to cash, and are subject to an insignificant risk of changes in value.

(10) Other significant matters forming the basis of preparing the consolidated financial statements
Accounting for consumption taxes
Consumption tax and local consumption tax are accounted for using the tax-excluded method. Non-deductible consumption tax and local consumption tax are accounted for as expenses for the fiscal year under review.

5. CHANGES IN ACCOUNTING POLICY

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)
Following the revision to the Corporation Tax Act, the Company has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (Accounting Standards Board of Japan (ASBJ) Practical Issues Task Force (PITF) No. 32; issued on June 17, 2016) from the fiscal year under review, and changed the depreciation method for structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method.
The impact of this change on operating profit, ordinary profit and profit before income taxes for the fiscal year under review is immaterial.

6. NEW ACCOUNTING STANDARDS NOT YET APPLIED

Information is omitted because of immateriality.

7. CHANGES IN PRESENTATION

(Consolidated Statements of Income)
In the fiscal year under review, “Trial production expenses” in “Non-operating expenses” is separately presented due to its increased significance. Items in the consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in the presentation.
Consequently, ¥636 million (US$5 million) that was presented in “Other” in “Non-operating expenses” in the previous fiscal year has been reclassified to “Trial production expenses.”
In the past, “Subsidy income” in “Extraordinary income” was presented as “State subsidy” in the consolidated financial statements, however, as the more appropriate item, “Subsidy income” is used from the fiscal year under review.
In the fiscal year under review, “Gain on insurance adjustment” in “Extraordinary income” is separately presented due to its increased significance. Items in the consolidated financial statements for the previous fiscal year have been reclassified to reflect this change in the presentation.
Consequently, ¥21 million (US$0 million) that was presented in “Other” in “Extraordinary income” in the previous fiscal year has been reclassified to “Gain on insurance adjustment”.

8. CHANGES IN ACCOUNTING ESTIMATES

Not applicable.

9. ADDITIONAL INFORMATION

(Application of ASBJ Guidance on Recoverability of Deferred Tax Assets)
Effective from the fiscal year under review, the Company has applied the “Guidance on Recoverability of Deferred Tax Assets” (ASBJ Guidance No. 26; issued on March 28, 2016).

10. CONSOLIDATED BALANCE SHEETS

(1) Items corresponding to unconsolidated subsidiaries and affiliates are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Investment securities	5,954	4,503	53,164
Investment and other assets-other	-	292	-

(2) Assets pledged as collateral and liabilities for which collateral is pledged

Assets pledged as collateral are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Pledged Assets			
Cash and deposits	869	662	7,761
Notes and accounts receivable - trade	7	59	66
Buildings and structures	1,876	2,087	16,753
Machinery, equipment and vehicles	1,514	1,771	13,522
Land	562	785	5,021
Investment securities	34	33	304
Total	4,864	5,399	43,429

(Note) In addition to the above assets, ¥195 million (US$1 million) as of the end of the previous fiscal year and ¥195 million (US$1 million) as of the end of the fiscal year under review have been pledged as collateral for shares of subsidiaries eliminated for consolidation purposes.

Liabilities for which collateral is pledged are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Pledged Debts			
Notes and accounts payable - trade	228	228	2,043
Short-term loans payable	325	436	2,910
Curent portion of long-term loans payable	559	677	4,994
Long-term loans payable	3,560	3,869	31,787
Other	18	13	165
Total	4,692	5,226	41,901

(3) Reduction entry

In the fiscal year under review, reduction entries of ¥0 million (US$0 million) for buildings and structures, ¥46 million (US$0 million) for machinery, equipment and vehicles, and ¥3 million (US$0 million) for tools, furniture and fixtures were made due to receipt of subsidies, etc.

In addition, as a result of the retirement of machinery, equipment and vehicles that were subject to the reduction entry, cumulative reduction entries decreased by ¥37 million (US$0 million), and as a result of the retirement of tools, furniture and fixtures that were subject to the reduction entry, cumulative reduction entries decreased by ¥1 million (US$0 million).

The cumulative reduction entries due to the receipt of subsidies, etc. in association with property, plant and equipment are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Buildings and structures	1,439	1,439	12,855
Machinery, equipment and vehicles	2,688	2,679	24,006
Tools, furniture and fixtures	186	183	1,665
Software	4	4	36
Total	4,319	4,306	38,563

(4) Guarantee obligation

The Company provides guarantee of obligations concerning loans from financial institutions by the following companies, etc.

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Employee	90	94	810
1 other company	-	63	-
Total	90	157	810

(5) Notes receivable endorsed

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Notes endorsed	508	417	4,540

(6). Financial covenants

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

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

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

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

The Company has a syndicated loan agreement (issue date: July 24, 2012) by six lenders with The Bank of Tokyo-Mitsubishi UFJ, Ltd. as the lead manager. This agreement has the following financial covenants.

(1) The borrower promises to not let the amount calculated after deducting subscription rights to shares, non-controlling interests, deferred gains or losses on hedges, foreign currency translation adjustment, and valuation difference on available-for-sale securities from total net assets on the borrower's consolidated balance sheet at the end of each fiscal year, fall below 75% of the larger of either the identically calculated amount as of the end of the preceding fiscal year or the identically calculated amount as of March 31, 2016.

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

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

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

11. CONSOLIDATED STATEMENTS OF INCOME

(1) Inventories at the fiscal year-end represent the amount after the book value was reduced in connection with a decline in the profitability, and the following losses on valuation of inventories (the amount in parentheses represents gains on reversal) are included in cost of sales.

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Loss on valuation of inventories	(26)	1,197	(239)

(2) Major items and amounts of selling expenses are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Selling expenses :			
Freight-out expenses	21,367	21,328	190,782
Shipping charges	5,668	5,489	50,609
Salaries and bonuses	5,017	5,079	44,795
Provision for bonuses	289	246	2,584
Retirement benefit expenses	66	60	589
Provision of allowance for doubtful accounts	(28)	(1)	(250)

(3) Major items and amounts of general and administrative expenses are as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
General and administrative expenses :			
Technical research expenses	6,473	7,506	57,796
Salaries and bonuses	3,997	4,573	35,693
Provision for bonuses	261	256	2,333
Retirement benefit expenses	68	57	607
Provision for directors' retirement benefits	47	61	427

(Note) Technical research expenses for the previous fiscal year include provision for bonuses of ¥179 million and retirement benefit expenses of ¥39 million.

Technical research expenses for the fiscal year under review include provision for bonuses of ¥215 million (US$2 million) and retirement benefit expenses of ¥42 million (US$0 million).

(4) Total amount of research and development expenses included in general and administrative expenses and production cost

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Research and development expenses	7,508	8,522	67,043

(5) The breakdown of gain on sales of non-current assets is as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Buildings and structures	5	13	48
Machinery, equipment and vehicles	12	92	107
Tools, furniture and fixtures	2	4	20
Land	0	14,034	3
Total	20	14,144	179

(6) The breakdown of loss on sales of non-current assets is as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Buildings and structures	0	13	8
Tools, furniture and fixtures	0	-	0
Land	4	117	38
Total	5	130	47

(7) Impairment loss

Fiscal year ended March 31, 2017

The 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, 2017, the Group recorded impairment losses for the following asset groups.

Use	Location	Asset category	Millions of yen 2017	Thousands of U.S. Dollars 2017
Idle fixed assets	Oita-shi, Oita	Land	33	297
		Total	33	297

The Company recognized a notable difference between the book value and market value of the idle land described above owned by the Company owing to the drop in land prices. As a result, the Company decided to write down the book value of idle land to its recoverable amount and to post the amount of write-down as an impairment loss in extraordinary losses.

The recoverable amount represents an estimate of net realizable value based on the real estate appraisal value.

Use	Location	Asset category	Millions of yen 2017	Thousands of U.S. Dollars 2017
Manufacturing facilities for polycrystalline silicon	Shunan-shi, Yamaguchi	Construction in progress	31	280
		Total	31	280

Since expectations cannot be established for operation of the above construction in progress of the Company, which is for reinforcing facilities, the Company decided to write down the book value of construction in progress to its recoverable amount and to post the amount of write-down as an impairment loss in extraordinary losses.

The recoverable amount has been determined using value in use and written down to its memorandum value for the above reason.

Use	Location	Asset category	Millions of yen 2017	Thousands of U.S. Dollars 2017
Manufacturing facilities for ethylene dichloride	Shunan-shi, Yamaguchi	Construction in progress	128	1,143
		Total	128	1,143

Since the Company is no longer able to form a concrete business plan to use the above construction in progress, which is a process package for expanding facilities, the Company decided to write down the book value of construction in progress to its recoverable amount and to post the amount of write-down as an impairment loss in extraordinary losses.

The recoverable amount has been determined using value in use and written down to its memorandum value for the above reason.

Use	Location	Asset category	Millions of yen 2017	Thousands of U.S. Dollars 2017
Manufacturing facilities for microporous film	Tianjin,China	Machinery, equipment and vehicles	1,278	11,414
		Investments and other assets-other	212	1,890
		Total	1,490	13,305

Tianjin Tokuyama Plastics Co., Ltd. decided to write down the book value of the above asset to its recoverable amount and to post the amount of write-down as an impairment loss in extraordinary losses due to deterioration in market conditions for microporous film.

The recoverable amount has been determined using value in use and a discount rate of 8.71% for calculating the value in use based on future cash flows.

Fiscal year ended March 31, 2016

The Group groups its assets mainly according to the smallest units independently generating cash flows based on business categories. During the fiscal year ended March 31, 2016, the Group recorded impairment losses for the following asset groups.

Details of impairment losses have been omitted due to immateriality except for the items presented below.

Use	Location	Asset category	Millions of yen 2016
Company houses	Sagamihara-shi, Kanagawa	Buildings and structures	12
	Yokohama-shi, Kanagawa	Land	94
		Buildings and structures	68
	Koshigaya-shi, Saitama	Buildings and structures	25
	Saitama-shi, Saitama	Buildings and structures	77
	Tsukuba-shi, Ibaraki	Land	189
		Buildings and structures	80
	Kamisu-shi, Ibaraki	Land	66
		Buildings and structures	124
		Tools, furniture and fixtures	0
		Total	735

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

Recoverable amounts represent estimates of net realizable values based on sales contract and other factors.

Use	Location	Asset category	Millions of yen 2016
Idle fixed assets	Ishikari-shi, Hokkaido	Land	73
		Total	73

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

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

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

Use	Location	Asset category	Millions of yen 2016
Manufacturing facilities for polycrystalline silicon	Sarawak, Malaysia	Buildings and structures	31,866
		Machinery, equipment and vehicles	90,143
		Tools, furniture and fixtures	625
		Intangible assets-other	172
		Construction in progress	1,069
		Total	123,875

Engaged in the manufacture of solar-grade polycrystalline silicon, the PS-2 Plant operated by Tokuyama Malaysia Sdn. Bhd. came online in October 2014. Due to the global glut in supply and the prolonged substantial drop in sales prices, however, the decision was made to write down the book value of the plant to its recoverable amount and to post the amount of write-down as an impairment loss in extraordinary losses. The decision to undertake this write-down reflects the forecast continued decline in sales prices to a level that is significantly below the Company's business plans.

The recoverable amount has been determined using value in use and a discount rate of 6.2% for calculating the value in use based on future cash flows.

Meanwhile, an impairment loss of ¥389 million applicable to manufacturing facilities at the PS-1 Plant is included in construction in progress totaling ¥1,069 million.

12. CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(1) Reclassification adjustments and tax effects relating to other comprehensive income

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Valuation difference on available-for-sale securities :			
Gains arising during the year	1,916	(3,705)	17,112
Reclassification adjustment to profit or loss	(1)	(6,328)	(17)
Amount before income tax effect	1,914	(10,033)	17,095
Income tax effect	(581)	3,182	(5,191)
Total valuation difference on available-for-sale securities	1,333	(6,851)	11,903
Deferred gains or losses on hedges :			
Gains arising during the year	373	(1,296)	3,338
Reclassification adjustment to profit or loss	(10)	(18)	(95)
Amount before income tax effect	363	(1,315)	3,243
Income tax effect	(122)	413	(1,096)
Total deferred gains or losses on hedges	240	(901)	2,147
Foreign currency translation adjustment :			
Gains arising during the year	(663)	(1,758)	(5,923)
Reclassification adjustment to profit or loss	(53)	-	(480)
Total Foreign currency translation adjustment	(717)	(1,758)	(6,404)
Remeasurements of defined benefit plans, net of tax :			
Gains arising during the year	755	(1,244)	6,741
Reclassification adjustment to profit or loss	(106)	6	(950)
Amount before income tax effect	648	(1,238)	5,791
Income tax effect	(200)	377	(1,787)
Total remeasurements of defined benefit plans, net of tax	448	(861)	4,004
Share of other comprehensive income of entities accounted for using equity :			
Gains arising during the year	(138)	(150)	(1,238)
Total Share of other comprehensive income of entities accounted for using equity	(138)	(150)	(1,238)
Total other comprehensive income	1,166	(10,522)	10,412

13. CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Fiscal year ended March 31, 2017

(1) Class and total number of shares issued and class and number of treasury stock

[2017]	Thousand shares			
	Beginning of year	**Increase during the fiscal year**	**Decrease during the fiscal year**	**End of year**
Issuanced shares				
Common shares	349,671	-	-	349,671
Class A shares (Note 1)	-	20	-	20
Total	349,691	20	-	349,691
Treasury shares				
Common shares (Note 2,3)	1,832	18	0	1,850
Total	1,832	18	0	1,850

(Note 1) The increase of 20 thousand shares in the total number of issued Class A shares is an increase in issuance of new shares by third-party allotment.

(Note 2). The increase of 18 thousand shares in the number of treasury stock of common stock is an increase due to the purchase of shares constituting less than one share unit.

(Note 3) The decrease of 0 thousand shares in the number of treasury stock of common stock is a decrease due to the request for additional purchase of shares constituting less than one share unit.

(2) Dividends

(i) Dividend amount paid

Not applicable.

(ii) Dividends whose record date is within the fiscal year and whose effective date is in the following fiscal year

Resolution	Class of shares	Dividend (Millions of yen)	Dividend per shares (yen)	Reference date	Effective date
Ordinary General Meeting of Shareholders (June 23, 2017)	Class A shares	761	38,082.20	March 31, 2017	June 26, 2017

Resolution	Class of shares	Dividend (Thousands of U.S. Dollars)	Dividend per shares (Dollars)	Reference date	Effective date
Ordinary General Meeting of Shareholders (June 23, 2017)	Class A shares	6,800	340.02	March 31, 2017	June 26, 2017

Fiscal year ended March 31, 2016

(1) Class and total number of shares issued and class and number of treasury stock

[2016]	Thousand shares			
	Beginning of year	**Increase during the fiscal year**	**Decrease during the fiscal year**	**End of year**
Issuanced shares				
Common shares	349,671	-	-	349,671
Total	349,671	-	-	349,671
Treasury shares				
Common shares (Note 1,2)	1,805	28	1	1,832
Total	1,805	28	1	1,832

(Note 1)The increase of 28 thousand shares in the number of treasury stock of common stock is an increase due to the purchase of shares constituting less than one share unit.

(Note 2) The decrease of one thousand shares in the number of treasury stock of common stock is a decrease due to the request for additional purchase of shares constituting less than one share unit.

(2) Dividends

Not applicable.

14. CONSOLIDATED STATEMENTS OF CASH FLOWS

(1) Reconciliation between the balance of cash and cash equivalents at end of period and relevant amount on the consolidated balance sheets

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Cash and deposits	121,598	121,508	1,085,704
Restricted cash	(2,482)	-	(22,168)
Time deposit whose deposit period exceeds 3 months	(296)	(342)	(2,643)
Cash and cash equivalents	118,819	121,166	1,060,892

15. LEASE TRANSACTIONS

(Lessee)

(1) Operating Lease transactions

Future lease payments related to noncancelable operating leases transactions

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Due within one year	505	143	4,511
Due beyond one year	1,030	56	9,200
Total	1,535	200	13,712

(Lessor)

(1) Operating Lease transactions

Future lease payments related to noncancelable operating leases transactions

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Due within one year	120	9	1,080
Due beyond one year	1,183	121	10,568
Total	1,304	131	11,648

16. FINANCIAL INSTRUMENTS

(1) Matters Regarding Financial Instruments

(i) Management policy on financial instruments

The Group raises funds as required (mainly through bank loans and the issuance of corporate bonds) in line with its business investment program aimed at implementing a customer-oriented approach toward “strengthening the profitability of its businesses.” The Group invests temporary surplus funds in highly secure financial assets, and raises short-term operating capital with bank loans and CP (commercial paper). We use derivatives only to hedge risks described below, and have a policy of not implementing derivative transactions for speculative purposes.

(ii) Type and risk of financial instruments

Notes and accounts receivable – trade, which are operating receivables, are exposed to credit risks of customers. Investment securities are mainly shares related to business or capital tie-ups with counterparties, etc., and available-for-sale securities are exposed to the risk of market price fluctuations. In addition, the Group provides long-term loans to counterparties and others.

Notes and accounts payable – trade, which are operating payables, mostly become due within one year. Loans payable and bonds payable are principally for raising funds necessary for capital investments, and the repayment date comes up to 56 years after the balance sheet date. Some of these loans and bonds are exposed to interest volatility risk because they bear floating interest rates, but the risk is hedged using derivative transactions (interest rate swap transactions). Some of long-term loans payable contain financial covenants and may affect liquidity risk associated with financing.

Interest rate swap transactions are used in order to fix interest rates on loans payable or reduce interest payable. For hedging instruments and hedged items, hedging policy, method of assessing hedge effectiveness, etc., see “4. (7) Method of significant hedge accounting.”

(iii) Risk management system for financial instruments

(a) Management of credit risk (risk related to default of counterparties, etc.)

With regard to operating receivables and loans receivable, the Company has a division in charge in each business department monitor the status of major counterparties regularly and manage maturities and balances for each counterparty in accordance with the credit management rules and others, while making efforts to early identify and mitigate any concerns about collection arising from deterioration in the economic environment, their financial position, etc. Consolidated subsidiaries also conduct similar management as necessary, in conformity with the Company’s credit management rules and others.

In the use of derivative transactions, the Company conducts transactions only with financial institutions with high credit ratings to mitigate counterparty risk.

(b) Management of market risk (fluctuation risk of foreign exchange, interest rates, etc.)

The Company and certain consolidated subsidiaries use interest rate swap transactions to reduce fluctuation risk of interest rate payable on loans payable.

The Company periodically assesses the fair value of securities and investment securities as well as financial conditions of issuers (counterparty companies), etc., and continuously reviews the holding status in view of relationships with counterparty companies.

With regard to derivative transactions, the Board of Directors resolves authority over transactions, amount limit and other matters, while the Management Support Center conducts transactions, makes entries and collates the balances with contract partners, etc. For consolidated subsidiaries, the Management Support Center also manages derivative transactions by having them report the content of derivative transactions to the center when they conduct such transactions or by other means.

(c) Management of liquidity risk associated with financing (risk of inability to make a payment on due date)

The Company manages liquidity risk through timely preparation and updating of the cash flow management plan by the Management Support Center based on reports from each division and by maintaining liquidity on hand at a certain level and other means. While some of long-term loans payable contain financial covenants, the Management Support Center conducts management by regularly monitoring the possibility of any violation of financial covenants.

(iv) Supplemental remarks on fair values of financial instruments

Fair values of financial instruments comprise values based on market prices and reasonably determined values where market prices are unavailable. Since variable factors are incorporated in calculation of the fair value, the value may vary depending on different preconditions employed. In addition, the contract amounts of derivative transactions described in “(2) Fair values of financial instruments” should not be, in themselves, considered indicative of the market risk associated with derivative transactions.

(2) Fair values of financial instruments

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 determine are not given in the table below.

As of March 31, 2017

Fiscal year ended March 31, 2017

[2017]

	Millions of yen		
	Book value	**Fair value**	**Difference**
Cash and deposits	121,598	121,598	-
Notes and accounts receivable - trade	73,945	73,945	-
Securities and Investment securities			
Available-for-sale securities	11,355	11,355	-
Long-term loans receivable	2,833	2,833	-
Total assets	209,733	209,733	-
Notes and accounts payable - trade	37,035	37,035	-
Short-term loans payable	2,138	2,138	-
Bonds payable	34,400	33,185	(1,214)
Long-term loans payable *1	175,791	176,622	831
Total liabilities	249,364	248,981	(383)
Derivative financial instruments *2			
In which hedge accounting is applied	(390)	(1,427)	(1,037)
Total derivative financial instruments	(390)	(1,427)	(1,037)

[2017]

	Thousands of U.S. Dollars		
	Book value	**Fair value**	**Difference**
Cash and deposits	1,085,704	1,085,704	-
Notes and accounts receivable - trade	660,228	660,228	-
Securities and Investment securities			
Available-for-sale securities	101,391	101,391	-
Long-term loans receivable	25,296	25,296	-
Total assets	1,872,620	1,872,620	-
Notes and accounts payable - trade	330,670	330,670	-
Short-term loans payable	19,091	19,091	-
Bonds payable	307,142	296,300	(10,841)
Long-term loans payable *1	1,569,563	1,576,984	7,420
Total liabilities	2,226,467	2,223,046	(3,421)
Derivative financial instruments *2			
In which hedge accounting is applied	(3,482)	(12,745)	(9,263)
Total derivative financial instruments	(3,482)	(12,745)	(9,263)

(*1) The book value and fair value of long-term loans payable include current portion of long-term loans payable.

(*2) Receivables and payables arising from derivative transactions are presented on a net basis, and a value of a net payable after totaling receivables and payables is shown in parentheses.

As of March 31, 2016

[2016]	Millions of yen		
	Book value	**Fair value**	**Difference**
Cash and deposits	121,508	121,508	-
Notes and accounts receivable - trade	68,569	68,569	-
Securities and Investment securities			
Available-for-sale securities	9,478	9,478	-
Long-term loans receivable	3,094	3,094	-
Total assets	202,651	202,651	-
Notes and accounts payable - trade	35,388	35,388	-
Short-term loans payable	9,382	9,382	-
Bonds payable	44,400	40,676	(3,723)
Long-term loans payable *1	189,914	191,032	1,118
Total liabilities	279,084	276,480	(2,604)
Derivative financial instruments *2			
In which hedge accounting is applied	(834)	(2,333)	(1,499)
Total derivative financial instruments	(834)	(2,333)	(1,499)

(*1) The book value and fair value of long-term loans payable include current portion of long-term loans payable.
(*2) Receivables and payables arising from derivative transactions are presented on a net basis, and a value of a net payable after totaling receivables and payables is shown in parentheses.

(Note 1) Method for calculating the fair value of financial instruments, and matters regarding securities and derivative transactions
Assets
(i) Cash and deposits, (ii) Notes and accounts receivable – trade
Because these assets are mostly settled in a short period, their fair value is nearly equal to their book value. Therefore, their fair value is based on the book value.
(iii) Securities and investment securities
The fair value of available-for-sale securities is based on the price on the relevant exchange.
For matters to be noted on securities for each holding purpose, refer to the note "SECURITIES."
(iv) Long-term loans receivable
Because all long-term loans receivable bear floating interest rates and reflect market interest rates in a short period, and credit standing of borrowers has not changed significantly since the loans were extended, their fair value is based on the book value.

Liabilities
(i) Notes and accounts payable – trade, (ii) Short-term loans payable
Because these liabilities are settled in a short period, their fair value is nearly equal to their book value. Therefore, their fair value is based on the book value.
(iii) Bonds payable
The fair value of these liabilities is based on market price for those with market price, and determined as the present value, which is calculated by discounting the total of principal and interest using the interest rate that takes into account the remaining period and credit risk of the bond payable, for those with no market price.
(iv) Long-term loans payable
The fair value of these liabilities is determined as the present value, which is calculated by discounting the total of principal and interest using the interest rate that would be charged for a new similar loan.

Derivatives
Refer to the note “18. DERIVATIVES.”

(Note 2) Financial instruments whose fair value is extremely difficult to determine

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Unlisted shares	1,773	1,783	15,833
Shares of associates	5,954	4,503	53,164
Total	7,727	6,286	68,997

These financial instruments have no market price, and estimation of their future cash flows is expected to require excessive cost. Therefore, since it is considered extremely difficult to determine the fair value, they are not included in “Securities and investment securities.”

(Note 3) Redemption schedule for monetary receivables and securities with maturities after the consolidated balance sheet date
As of March 31, 2017

[2017] Millions of yen

	Within 1 year	**More than 1 year, within 5 years**	**More than 5 year, within 10 years**	**More than 10 years**
Cash and deposits	121,598	-	-	-
Notes and accounts receivable - trade	73,945	-	-	-
Long-term loans receivable	229	744	849	1,238
Total	195,774	744	849	1,238

[2017] Thousands of U.S. Dollars

	Within 1 year	**More than 1 year, within 5 years**	**More than 5 year, within 10 years**	**More than 10 years**
Cash and deposits	1,085,704	-	-	-
Notes and accounts receivable - trade	660,228	-	-	-
Long-term loans receivable	2,050	6,650	7,587	11,058
Total	1,747,983	6,650	7,587	11,058

As of March 31, 2016

[2016] Millions of yen

	Within 1 year	**More than 1 year, within 5 years**	**More than 5 year, within 10 years**	**More than 10 years**
Cash and deposits	121,508	-	-	-
Notes and accounts receivable - trade	68,569	-	-	-
Long-term loans receivable	235	1,000	855	1,238
Total	190,313	1,000	855	1,238

(Note 4) Repayment schedule by term for bonds payable, long-term loans payable, and other interest-bearing debt after the consolidated balance sheet date

As of March 31, 2017

[2017] Millions of yen

	Within 1 year	**More than 1 year, within 2 years**	**More than 2 year, within 3 years**	**More than 3 year, within 4 years**	**More than 4 year, within 5 years**	**More than 5 years**
Short-term loans payable	2,138	-	-	-	-	-
Bonds payable	-	-	10,000	15,000	9,400	-
Long-term loans payable	15,235	19,708	15,337	18,967	12,362	94,180
Total	17,373	19,708	25,337	33,967	21,762	94,180

[2017] Thousands of U.S. Dollars

	Within 1 year	**More than 1 year, within 2 years**	**More than 2 year, within 3 years**	**More than 3 year, within 4 years**	**More than 4 year, within 5 years**	**More than 5 years**
Short-term loans payable	19,091	-	-	-	-	-
Bonds payable	-	-	89,285	133,928	83,928	-
Long-term loans payable	136,029	175,972	136,938	169,352	110,375	840,895
Total	155,121	175,972	226,223	303,280	194,304	840,895

As of March 31, 2016

[2016] Millions of yen

	Within 1 year	**More than 1 year, within 2 years**	**More than 2 year, within 3 years**	**More than 3 year, within 4 years**	**More than 4 year, within 5 years**	**More than 5 years**
Short-term loans payable	9,382	-	-	-	-	-
Bonds payable	10,000	-	-	10,000	15,000	9,400
Long-term loans payable	17,036	15,260	19,157	14,733	18,318	105,408
Total	36,418	15,260	19,157	24,733	33,318	114,808

17. SECURITIES

(1) Trading securities

Not applicable.

(2) Held-to-maturity debt securities

Not applicable.

(3) Available-for-sale securities

As of March 31, 2017

[2017] Millions of yen

	Book value	**Acquisition cost**	**Unrealized gain**
Available-for-sale securities:			
Securities with book values exceeding acquisition costs	4,620	2,714	1,905
Securities with book values not exceeding acquisition costs	6,735	8,145	(1,409)
Total	11,355	10,859	496

[2017]

	Thousands of U.S. Dollars		
	Book value	**Acquisition cost**	**Unrealized gain**
Available-for-sale securities:			
Securities with book values exceeding acquisition costs	41,250	24,236	17,014
Securities with book values not exceeding acquisition costs	60,140	72,726	(12,586)
Total	101,391	96,962	4,428

As of March 31, 2016

[2016]

	Millions of yen		
	Book value	**Acquisition cost**	**Unrealized gain**
Available-for-sale securities:			
Securities with book values exceeding acquisition costs	2,610	1,511	1,099
Securities with book values not exceeding acquisition costs	6,868	9,386	(2,518)
Total	9,478	10,897	(1,418)

(4)Available-for-sale securities sold

As of March 31, 2017

[2017]

	Millions of yen		
	Proceeds	**Gain on sales**	**Loss on sales**
Available-for-sale securities sold during 2017 :			
Equity securities	4,632	1,936	0
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	4,632	1,936	0

[2017]

	Thousands of U.S. Dollars		
	Proceeds	**Gain on sales**	**Loss on sales**
Available-for-sale securities sold during 2017 :			
Equity securities	41,360	17,287	0
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	41,360	17,287	0

As of March 31, 2016

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

18. DERIVATIVES

(1) Derivative transactions to which hedge accounting is not applied
Not applicable.

(2) Derivative transactions to which hedge accounting is applied
(i)Currency-related derivatives
As of March 31, 2017

[2017]		Millions of yen		
	Main hedging targets	**Notional value**	**Maturing after one year**	**Fair value**
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
Euros	Forecast transaction in foreign currencies	90	-	(9)
Total		90	-	(9)

[2017]		Thousands of U.S. Dollars		
	Main hedging targets	**Notional value**	**Maturing after one year**	**Fair value**
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
Euros	Forecast transaction in foreign currencies	806	-	(80)
Total		806	-	(80)

(Note) Method for calculation of fair value
Fair values are calculated based on the price presented by counterparty financial institutions, etc.

As of March 31, 2016

[2016]

	Main hedging targets	Millions of yen Notional value	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign currencies	29	-	(0)
Euros	Forecast transaction in foreign currencies	1,445	90	(59)
Subtotal		1,474	90	(59)
Allocation method				
Forward exchange agreements				
Put				
U.S. dollars	Forecast transaction in foreign currencies	1,051	-	-
Subtotal		1,051	-	-
Total		2,525	90	(59)

(Note) Method for calculation of fair value

Fair values are calculated based on the price presented by counterparty financial institutions, etc.

(ii) Interest

As of March 31, 2017

[2017]

	Main hedging targets	Millions of yen Notional value	Maturing after one year	Fair value
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	60,792	60,792	(380)
Subtotal		60,792	60,792	(380)
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	38,967	33,321	(1,037)
Subtotal		38,967	33,321	(1,037)
Total		99,759	94,113	(1,418)

[2017]

	Main hedging targets	Notional value	Maturing after one year	Fair value
		Thousands of U.S. Dollars		
Hedge accounting method				
Principle-based accounting				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	542,785	542,785	(3,401)
Subtotal		542,785	542,785	(3,401)
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	347,925	297,515	(9,263)
Subtotal		347,925	297,515	(9,263)
Total		890,711	840,301	(12,664)

(Note) Method for calculation of fair value

Fair values are calculated based on the price presented by counterparty financial institutions, etc.

As of March 31, 2016

[2016]

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

(Note) Method for calculation of fair value

Fair values are calculated based on the price presented by counterparty financial institutions, etc.

19. RETIREMENT BENEFITS

(1) Outline of adopted retirement benefit plans

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.

(2) Defined benefit plans

(i) Reconciliation of beginning and ending balances of retirement benefit obligations

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance of defined benefit obligations at beginning of year	18,764	19,465	167,539
Service cost	917	931	8,188
Interest cost	140	153	1,255
Occurrence of actuarial gain and loss	(400)	(90)	(3,578)
Payments of retirement benefits	(2,135)	(1,702)	(19,063)
Other	-	7	-
Balance of defined benefit obligations at end of year	17,286	18,764	154,340

(Note) The consolidated domestic subsidiaries, except for two companies, have adopted the simplified accounting method in calculating retirement benefit obligations.

(ii) Reconciliation of beginning and ending balances of pension assets

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Balance of pension assets at beginning of year	25,467	27,075	227,387
Expected return on pension assets	576	602	5,148
Occurrence of actuarial gain and loss	141	(1,322)	1,262
Corporation's contributions	609	625	5,437
Payments of retirement benefits	(2,001)	(1,514)	(17,869)
Balance of pension assets at end of year	24,792	25,467	221,365

(iii) Reconciliation of ending balances of retirement benefit obligations and pension assets to net defined benefit liability and net defined benefit asset recorded in the consolidated balance sheets

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Funded defined benefit obligations	15,995	17,524	142,819
Pension assets	(24,792)	(25,467)	(221,365)
	(8,797)	(7,942)	(78,546)
Unfunded defined benefit obligations	1,290	1,239	11,521
Net amount shown on balance sheets	(7,506)	(6,702)	(67,024)
Net defined benefit liability	1,430	1,354	12,768
Net defined benefit asset	(8,936)	(8,057)	(79,793)
Net amount shown on balance sheets	(7,506)	(6,702)	(67,024)

(iv) Retirement benefit expenses and a breakdown of the retirement benefit expenses

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Service cost	917	931	8,188
Interest cost	140	153	1,255
Expected return on pension assets	576	602	5,148
Recognized actuarial gain and loss	106	(6)	950
Periodic benefit expenses of retirement benefit plan	1,740	1,680	15,542

(Note) Retirement benefit expenses of the consolidated domestic subsidiaries that have adopted the simplified accounting method are included in "Service cost."

(v) Adjustment of retirement benefit

A breakdown of items recorded in adjustment of retirement benefit (before deduction of tax effects) is as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Actuarial gain and loss	(648)	1,238	(5,791)
Total	(648)	1,238	(5,791)

(vi) Accumulated adjustment of retirement benefits

A breakdown of items recorded in accumulated adjustment of retirement benefit plans (before deduction of tax effects) is as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Unrecognized actuarial gain and loss	(4,178)	(3,529)	(37,306)
Total	(4,178)	(3,529)	(37,306)

(vii) Matters relating to pension assets

(a) Principal items of pension assets

The proportion of each principal category to the total of pension assets is as follows:

	%	
	2017	2016
Domestic stocks	5	15
Foreign stocks	6	7
Domestic bonds	32	27
Foreign bonds	12	3
Insurance product (General account)	15	27
Other	29	21
Total	100	100

(Note 1) Total of pension assets as of March 31, 2016 and March 31, 2017 included a retirement benefit trust, established for the Company's pension plans that represented 8% and 10% of the total of pension assets, respectively.

(Note 2) The principal factor of the increase in the proportion of "Other" is that the policy asset mix was reviewed at the time of actuarial revaluation in the fiscal year under review and some of pension assets were temporarily liquidated.

(b) Method for setting the expected long-term rate of return

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

(viii) Matters relating to the basis for calculation used in the actuarial calculation
Main basis for calculation used in the actuarial calculation (principally represented by the rate used)

	2017	2016
Discount rate	0.8%	0.8%
Expected long-term return on pension assets	2.5%	2.5%

(3) Defined contribution plans
The amount which the Company and its consolidated subsidiaries were required to contribute to the defined contribution plans was ¥538 million for the previous fiscal year and ¥529 million (US$4 million) for the fiscal year under review.

20. STOCK OPTION
Not applicable.

21. TAX EFFECT ACCOUNTING
(1) Major breakdown of deferred tax assets and liabilities

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Deferred tax assets：			
Deficits	28,961	3,272	258,583
Shares of subsidiaries and associates	8,538	86	76,234
Property, plant and equipment	3,901	4,496	34,838
Provision for repairs	1,345	1,313	12,009
Provision for bonuses	655	578	5,850
Accrued business taxes	-	899	-
Valuation difference on available-for-sale securities	-	528	-
Other	2,703	3,555	24,142
Subtotal	46,105	14,729	411,658
Less valuation allowance	(19,930)	(6,029)	(177,950)
Total deferred tax assets	26,175	8,700	233,708
Deferred tax liabilities：			
Prepaid pension cost	(2,602)	(2,180)	(23,236)
Reserve for reduction entry	(1,163)	(1,217)	(10,389)
Retained earnings of subsidiaries and affiliates	(530)	(751)	(4,740)
Other	(695)	(144)	(6,206)
Total deferred tax liabilities	(4,992)	(4,293)	(44,572)
Net deferred tax assets	21,183	4,406	189,135

(Note) Net deferred tax assets as of March 31, 2016 and March 31, 2017 are included in the items below of the consolidated balance sheets.

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Current assets - Deferred tax assets	1,627	4,256	14,532
Non-current assets - Deferred tax assets	19,824	610	177,003
Current liabilities - Deferred tax liabilities	-	(2)	-
Non-current liabilities - Deferred tax liabilities	(268)	(457)	(2,399)

(2) Reconciliation of significant difference between the statutory tax rate and the effective tax rate after applying tax effect accounting

	2017	2016
Statutory tax rate	30.7 %	This information is omitted, as the company posted a loss before income taxes during the period under review.
Increase (decrease) in income taxes resulting from :		
Change in valuation allowance allocated to income tax expenses	(55.9)	
Inter-company eliminations of allowance for doubtful accounts	(14.4)	
Dividend and other items excluded permanently from taxable income	(2.3)	
Retained earnings of subsidiaries and affiliates	(1.9)	
Inter-company eliminations of allowance for investment loss	(1.6)	
Inter-company eliminations of dividends income	2.1	
Other	4.7	
Effective income tax rate	(38.6) %	

22. BUSINESS COMBINATION
Information is omitted because of immateriality.

23. ASSET RETIREMENT OBLIGATIONS
(1) Asset retirement obligations included in the consolidated balance sheets
The Group has obligations to restore site to its original state at the time of leaving or termination of the business and after termination of mining for branches, etc. that use an office under an real estate lease agreement or certain business offices that use a plant or site for sales facilities, as well as mines. Of these obligations, for certain obligations to restore site to its original state at the time of leaving a rental building under a building lease agreement for which the timing of performance and amount can be reasonably estimated at the present moment based on past records, asset retirement obligations have been recorded. The note on the content of asset retirement obligations is omitted because of immateriality.

(2) Asset retirement obligations not included in the consolidated balance sheets
Because past records, other than those stated in (1) above, are poor, the period of use of the leased asset related to the obligations is uncertain, and there is no plan for relocation, etc. or mine closure at the present moment, it is difficult to reasonably estimate the timing and scope of performance and probability for the obligations. Therefore, asset retirement obligations corresponding to the obligations have not been recorded.

24. INVESTMENT AND RENTAL PROPERTIES
Information is omitted because of immateriality of the total amount of investment and rental properties.

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

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

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

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

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

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

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

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

(2) Calculation of sales, income (loss), assets and other financial items by reportable segment
The accounting treatment methods applied to reportable segments are identical to those stated in “3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES.”

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

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

(Application of Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016)
Following the revision to the Corporation Tax Act, the Company has applied the “Practical Solution on a Change in Depreciation Method Due to Tax Reform 2016” (ASBJ PITF No. 32, June 17, 2016) from the fiscal year under review, and changed the depreciation method for structures acquired on or after April 1, 2016 from the declining-balance method to the straight-line method. As a result of this change, the impact on segment information is immaterial.

(3) Information on net sales, profit (loss), assets and other items by reportable segment

Fiscal year ended March 31, 2017

[2017]

	Millions of yen							
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others (Note 1)**	**Total**	**Adjustment (Note 2)**	**Consolidated (Note 3)**
Sales								
Sales to customers	82,432	56,792	82,873	48,612	28,396	299,106	-	299,106
Inter-segment sales/transfer	913	10,934	121	2,139	23,728	37,836	(37,836)	-
Total sales	83,346	67,726	82,995	50,751	52,124	336,943	(37,836)	299,106
Segment profit	13,183	9,649	7,878	5,632	5,965	42,309	(2,589)	39,720
Segment assets	47,663	65,555	53,511	53,631	42,696	263,057	161,375	424,433
Other items								
Depreciation and amortization (Note 4)	2,276	2,679	3,194	1,824	3,286	13,261	953	14,215
Increase in tangible and intangible fixed assets (Note 5)	2,410	1,474	3,907	6,425	2,473	16,692	898	17,591

[2017]

	Chemicals	Specialty Products	Cement	Life & Amenity	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Thousands of U.S. Dollars							
Sales								
Sales to customers	736,001	507,073	739,945	434,035	253,536	2,670,594	-	2,670,594
Inter-segment sales/transfer	8,160	97,628	1,085	19,098	211,857	337,830	(337,830)	-
Total sales	744,161	604,702	741,030	453,134	465,394	3,008,424	(337,830)	2,670,594
Segment profit	117,706	86,157	70,342	50,292	53,265	377,765	(23,122)	354,643
Segment assets	425,563	585,313	477,778	478,853	381,220	2,348,730	1,440,854	3,789,584
Other items								
Depreciation and amortization (Note 4)	20,327	23,925	28,521	16,288	29,346	118,409	8,510	126,920
Increase in tangible and intangible fixed assets (Note 5)	21,524	13,166	34,891	57,367	22,089	149,040	8,022	157,062

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

(Note 2) Adjustments are as follows:

(i) The segment profit adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment.

(ii) The segment assets adjustment amount includes corporate assets that are not allocated to a specific reportable segment (¥194,566 million / US$1,737 million).

(Note 3) Segment profit is adjusted for operating profit in the consolidated financial statements.

(Note 4) Depreciation includes amortization of long-term prepaid expenses.

(Note 5) Increase in property, plant and equipment and intangible assets includes the amount of increase in long-term prepaid expenses.

Fiscal year ended March 31, 2016

[2016]

	Chemicals	Specialty Products	Cement	Life & Amenity	Others (Note 1)	Total	Adjustment (Note 2)	Consolidated (Note 3)
	Millions of yen							
Sales								
Sales to customers	87,042	47,664	85,320	55,679	31,408	307,115	-	307,115
Inter-segment sales/transfer	759	13,237	148	1,998	22,275	38,420	(38,420)	-
Total sales	87,801	60,902	85,469	57,677	53,684	345,535	(38,420)	307,115
Segment profit (loss)	8,900	(1,157)	5,832	6,598	5,668	25,842	(2,771)	23,071
Segment assets	46,381	66,287	55,952	56,649	43,825	269,097	132,244	401,342
Other items								
Depreciation and amortization (Note 4)	2,517	5,956	3,211	2,132	3,565	17,384	2,700	20,084
Increase in tangible and intangible fixed assets (Note5)	2,000	4,588	2,437	3,111	1,595	13,733	585	14,319

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

(Note 2)Adjustments are as follows:

(i) The segment profit (loss) adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment.

(ii) The segment assets adjustment amount includes corporate assets that are not allocated to a specific reportable segment (¥174,924 million).

(Note 3) Segment profit (loss) is adjusted for operating profit in the consolidated financial statements.

(Note4) Depreciation includes amortization of long-term prepaid expenses.

(Note5) Increase in property, plant and equipment and intangible assets includes the amount of increase in long-term prepaid expenses.

[Related information]

Fiscal year ended March 31, 2017

(1) Information by product and service

Information is omitted as identical information is disclosed in segment information.

(2) Information by region
(i) Net sales

	Millions of yen	Thousands of U.S. Dollars
	2017	**2017**
Japan	237,832	2,123,500
Asia	50,979	455,173
Others	10,295	91,920
Total	299,106	2,670,594

(Note) Net sales are categorized into countries or regions based on the location of customers.

(ii) Property, plant and equipment

	Millions of yen	Thousands of U.S. Dollars
	2017	**2017**
Japan	101,133	902,976
Asia	17,021	151,982
Others	1,078	9,627
Total	119,233	1,064,586

(3) Information by major customer
Information is omitted because no external customer accounts for 10% or more of net sales in the consolidated statements of income.

Fiscal year ended March 31, 2017

(1) Information by product and service
Information is omitted as identical information is disclosed in segment information.

(2) Information by region
(i) Net sales

	Millions of yen
	2016
Japan	239,143
Asia	54,714
Others	13,257
Total	307,115

(Note) Net sales are categorized into countries or regions based on the location of customers.

(ii) Property, plant and equipment

	Millions of yen
	2016
Japan	98,199
Asia	20,415
Others	1,149
Total	119,764

(3) Information by major customer
Information is omitted because no external customer accounts for 10% or more of net sales in the consolidated statements of income.

[Information on impairment loss of non-current assets by reportable segment]
Fiscal year ended March 31, 2017

[2017] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Impairment loss	128	31	-	1,490	-	33	1,683

[2017] Thousands of U.S. Dollars

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Impairment loss	1,143	280	-	13,305	-	297	15,028

(Note) The amount of "Adjustment" is impairment loss related to corporate assets that are not attributable to any segment.

Fiscal year ended March 31, 2016

[2016] Millions of yen

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

(Note) The amount of "Adjustment" is impairment loss related to corporate assets that are not attributable to any segment.

[Information on amortization of goodwill and unamortized balance by reportable segment]
Fiscal year ended March 31, 2017

[2017] Millions of yen

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	7	1,246	-	-	-	1,253
Unamortized balance	-	24	2,343	-	-	-	2,367

[2017] Thousands of U.S. Dollars

	Chemicals	Specialty Products	Cement	Life & Amenity	Others	Adjustment	Total
Amortization of goodwill	-	62	11,133	-	-	-	11,196
Unamortized balance	-	218	20,919	-	-	-	21,138

There is neither amortization of negative goodwill nor unamortized balance arising from business combinations conducted on and before April 1, 2010.

Fiscal year ended March 31, 2016

[2016] Millions of yen

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

There is neither amortization of negative goodwill nor unamortized balance arising from business combinations conducted on and before April 1, 2010.

[Information on gain on bargain purchase by reportable segment]

Fiscal year ended March 31, 2017
Not applicable.

Fiscal year ended March 31, 2016
Not applicable.

26. INFORMATION ON RELATED PARTIES
Fiscal years ended March 31, 2017 and 2016
Not applicable.

27. PER SHARE INFORMATION

	yen		Dollars
	2017	2016	**2017**
Net assets per share	305.49	147.98	2.73
Earnings (loss) per share	147.78	(289.10)	1.32
Diluted earnings per share	119.93	-	1.07

(Note 1)Diluted earnings per share for the fiscal year ended March 31, 2016 are not presented because basic loss per share was posted and there were no dilutive shares.

(Note 2) The basis for calculation of net assets per share is as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Total net assets on Balance Sheets	135,976	60,205	1,214,075
Net assets related to common shares	106,254	51,473	948,697
Major breakdown of difference			
Net assets pertaining to class A shares	20,761	-	185,371
Non-controling interests	8,960	8,732	80,005

	Thousand shares	
	2017	2016
Number of shares outstanding of common shares	349,671	349,671
Number of treasury shares of common shares	1,850	1,832
Number of common shares used to calculate net assets per share	347,821	347,839

(Note 3) The basis for calculation of basic earnings (loss) per share is as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Profit (loss) attributable to owners of parent	52,165	(100,563)	465,763
Amount not attributable to common shareholders	761	-	6,800
Profit (loss) related to common shares attributable to owners of parent	51,403	(100,563)	458,963

	Thousand shares	
	2017	2016
Average number of common shares during the period	347,830	347,852

(Note 4) The basis for calculation of diluted earnings per share is as follows:

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Adjustment amount of profit attributable to owners of parent	761	-	6,800
Preferred Dividend	761	-	6,800

	Thousand shares	
	2017	2016
Increase in number of common shares	87,132	-

28. SIGNIFICANT SUBSEQUENT EVENTS

1. Acquisition and cancellation of the Class A shares

The Board of Directors of the Company, at its meeting held on April 28, 2017, made a resolution to acquire all of the Class A shares issued by the Company (total paid-in amount: 20 billion yen) in exchange for cash in accordance with the provisions of Article 6-2, paragraph 5 of the Company's Articles of Incorporation (call options, the consideration for which is cash) and cancel the shares on condition of the acquisition thereof in accordance with the provisions of Article 178 of the Companies Act, and the Company acquired and canceled the Class A shares on June 14, 2017.

(1) Reason for Acquisition and Cancellation

We aimed to expand the polysilicon business at Tokuyama Malaysia Sdn. Bhd., our consolidated subsidiary, (hereinafter referred to as "Tokuyama Malaysia"). However, due to the failure to ensure the stabilization of the quality and productivity of semiconductor-grade polysilicon and a worsening business environment caused by a slump in the market of solar-grade polysilicon, we posted large impairment losses for the manufacturing facilities for both grades as a result of considering investment collectability. As a result, consolidated net assets decreased significantly. Hence, to quickly restore the trust of our stakeholders, including business partners with whom we have had close transactions for a long time, it is imperative for us to reinforce the deteriorated shareholders' equity and strengthen the financial platform. Accordingly, the Company issued a total of 20 billion yen of Class A shares to Japan Industrial Solutions Fund I (hereinafter referred to as "JIS") on June 27, 2016.

Then, the medium-term management plan beginning in FY2016 started with its highest-ever operating profit recorded, largely thanks to lower prices of raw materials in addition to implementation of operational measures in line with the positioning of each business, execution of cross-business measures for strengthening the competitiveness of the Tokuyama Factory, promotion of cost reduction and others. Consolidated profit attributable to owners of parent amounted to 52.1 billion yen, and is expected to be 13.0 billion yen for FY2017. Moreover, the Company now has the prospect of selling Tokuyama Malaysia, and expects to accordingly recover and enhance consolidated net assets that were decreased, by further promoting the medium-term management plan and steadily generating revenue.

Based on the above, the Company has judged that acquisition and cancellation of all of Class A shares have now come into sight.

With this acquisition and cancellation of Class A shares, the Company can avoid increases in the future financial burden associated with dividend payment on Class A shares and in the amount of redemption caused by a rise in the redemption coefficient.

(2) Contents of Acquisition

(i) Class of shares to be acquired Class A shares
(ii) Counterparty to the acquisition (shareholder) JIS
(iii) Total number of shares to be acquired 20,000 shares
(iv) Acquisition price of shares 1,081,301.4 yen per share

(Note) The above acquisition price is the amount determined by adding the Class A daily prorated unpaid dividends (11,301.4 yen) to the amount that is calculated by multiplying the amount equivalent to the paid-in amount per Class A share (1,000,000 yen) by the redemption coefficient of 1.07. This amount has been calculated on the assumption that there is no amount equivalent to Class A accumulated unpaid dividends, since preferred dividends for Class A for the fiscal year ended March 31, 2017 (38,082.2 yen per Class A share) will be resolved at the Company's Ordinary General Meeting of Shareholders scheduled to be held in June 2017 and paid.

(v) Total amount of acquisition price of shares 21,626,028,000 yen
(vi) Date of notification to the shareholder April 28, 2017
(vii) Acquisition date June 14, 2017

(3) Details of Cancellation

(i) Class of shares to be cancelled Class A shares
(ii) Total number of shares to be cancelled 20,000 shares
(iii) Effective date of cancellation June 14, 2017

This cancellation is subject to the condition that the Company acquires the Class A shares in accordance with 2. above.

2. Transfer of Consolidated Subsidiary by Third-Party Allotment of the New Shares and Transfer of the Shares

The Board of Directors of the Company, at its meeting held on September 28, 2016, made a resolution that the Company's consolidated subsidiary in Malaysia, Tokuyama Malaysia Sdn. Bhd. (hereinafter referred to as "Tokuyama Malaysia") would issue new shares to OCI Company Ltd. in Korea (hereinafter referred to as "OCI") as a third-party allotment and the Company would transfer all shares of Tokuyama Malaysia to OCI.

The second third-party allotment of the new shares and the transfer of the shares of Tokuyama Malaysia were completed as of May 31, 2017. As a consequence of the transactions, Tokuyama Malaysia had been excluded from the consolidation of the Company on May 31, 2017.

(1) Reason for the Transfer of Shares

Tokuyama Malaysia was established in August 2009 to expand the semiconductor-grade and solar-grade polycrystalline silicon business. Due to the technological issues of manufacturing facilities and deteriorating market condition of solar-grade polycrystalline silicon, two huge impairment losses in connection with plants were posted. To continue Tokuyama Malaysia's business, the efforts to improve the manufacturing facilities and the productivity were taken, and certain level of productivity has been achieved. In addition, to further strengthen Tokuyama Malaysia's business structure, the Company has been evaluating every option including Tokuyama Malaysia's alliance with other company.

As a result, the Company has reached to the conclusion that transferring the business of Tokuyama Malaysia to OCI, a global player of solar power business including the production of polycrystalline silicon, will be the best choice for parties, and finally the Company reached an agreement with OCI about the third-party allotment of new share and transfer of shares of Tokuyama Malaysia to OCI.

(2) Party of the Third-Party Allotment and the Share Transfer

OCI Company Ltd.

(3) Outline of the Consolidated Subsidiary whose Shares are to be transferred

Name:	Tokuyama Malaysia Sdn. Bhd.
Business:	Production and sale of polycrystalline silicon
Contents of Transaction:	Sale of products to the consolidated subsidiary

(4) Outline of Third-Party Allotment of the New Shares of Consolidated Subsidiary

The number of shares issued	1st 50 million shares 2nd 210 million shares	(Ownership share after issue : 83.5%) (Ownership share after issue : 49.3%)
Total Issuance	1st 24 million U.S. Dollars 2nd 78 million U.S. Dollars	
Allotment	OCI Company Ltd.	
Due date of the payment	1st October 7, 2016 2nd May 31, 2017	

(5) Number of Shares to be transferred, Transfer Price, the Status of Shares before and after the Transfer, and loss on Transfer

The number of shares owned before change	252,356,839 shares	(Ration of voting rights after the 2nd third-party allotment of the New Shares : 49.3%)
The number of shares to be transferred	252,356,839 shares	
Transfer price Assigned value	98 million U.S. Dollars	
The number of shares owned after change	0 share	(Ration of voting rights : 0.0%)

(6) Impact on Profit and Loss of the Company

Impact on profit and loss of the Company caused by the completion of the transaction of share transfer is now under evaluation.

(7) Timetable

Date of resolution by the Board of Directors of the Company on share transfer	September 28, 2016
Date of concluding the share transfer agreement	September 29, 2016
1st payment due date of third-party allotment of the New Shares by OCI Company Ltd.	October 7, 2016
2nd payment due date of third-party allocation of shares by OCI Company Ltd.	May 31, 2017
Date of executing share transfer	May 31, 2017

3. Period-end Cash Dividend for the Fiscal Year Ended March 31, 2017

The decision not to pay a period-end cash dividend for the fiscal year ended March 31, 2017 was approved at the Company's Ordinary General Meeting of Shareholders held on June 23, 2017.

29. ANNEXED CONSOLIDATED DETAILED SCHEDULES

(1) Schedule of bonds payable

						Millions of yen		Thousands of U.S. Dollars
Company	**Issue**	**Date of Issuance**	**Interest rate**	**collateral**	**the term of redemption**	**2017**	2016	**2017**
Tokuyama	20th unsecured bonds without collateral	March 10, 2010	1.760%	No	March 10, 2020	10,000	10,000	89,285
Tokuyama	22nd unsecured bonds without collateral	September 9, 2010	1.478%	No	September 9, 2020	15,000	15,000	133,928
Tokuyama	23rd unsecured bonds without collateral	September 8, 2011	0.575%	No	September 8, 2016	-	10,000	-
					The amounts to be redeemed within 1 year	-	10,000	-
Tokuyama	24th unsecured bonds without collateral	September 8, 2011	1.371%	No	September 8, 2021	9,400	9,400	83,928
Total		―	―	―	―	34,400	44,400	307,142
The amounts to be redeemed within 1 year						-	10,000	-

(Note) Amounts of redemption within five years after the consolidated balance sheet date are as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2018	-	-
2019	-	-
2020	10,000	89,285
2021	15,000	133,928
2022	9,400	83,928
Thereafter	-	-
Total	34,400	307,142

(2) Schedule of loans payable

	Millions of yen		Thousands of U.S. Dollars
	2017	2016	**2017**
Short-term loans payable (1.78%)	2,138	9,382	19,091
Current portion of long-term loans payable (0.67%)	15,235	17,036	136,029
Current portion of lease obligations	577	356	5,156
Long-term loans payable, due in 2018-2074 (1.77%)	160,555	172,877	1,433,533
Lease obligations, due in 2018-2023	1,787	931	15,957
Total	180,294	200,583	1,609,768

(Note 1) "Average interest rate" shows the weighted average interest rate on the ending balance of loans payable, etc.

(Note 2)The average interest rate on lease obligations is not presented because lease obligations are recorded at the amount before deduction of the amount equivalent to interest included in total lease payments, in the consolidated balance sheets.

(Note 3)The amounts of long-term loans payable and lease obligations (excluding current portion of them) to be repaid within five years after the consolidated balance sheet date are as follows:

Long-term loans payable	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2019	19,708	175,972
2020	15,337	136,938
2021	18,967	169,352
2022	12,362	110,375
Total	66,375	592,638

Lease liabilities	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2019	555	4,962
2020	470	4,204
2021	348	3,113
2022	257	2,297
Total	1,632	14,578

(3) Schedule of asset retirement obligations

Information is omitted since the amounts of asset retirement obligations at the beginning and end of the fiscal year under review are 1% or less of the total of liabilities and net assets at the beginning and end of the fiscal year under review.

(4) Others

Quarterly information for the fiscal year ended March 31, 2017

【Millions of yen】

Accumulated period	**1Q**	**2Q**	**3Q**	**Current consolidated fiscal year**
Net sales (Millions of yen)	73,163	142,593	218,100	299,106
Profit before income taxes (Millions of yen)	8,900	20,414	29,730	38,525
Profit attributable to owners of parent (Millions of yen)	5,545	18,449	24,866	52,165
Net income per share (yen)	15.91	52.28	70.01	147.78

Accumulated period	**1Q**	**2Q**	**3Q**	**4Q**
Net income per share (yen)	15.91	36.37	17.73	77.78

【Thousands of U.S. Dollars】

Accumulated period	**1Q**	**2Q**	**3Q**	**Current consolidated fiscal year**
Net sales (Thousands of U.S. Dollars)	653,245	1,273,157	1,947,330	2,670,594
Profit before income taxes (Thousands of U.S. Dollars)	79,467	182,274	265,454	343,980
Profit attributable to owners of parent (Thousands of U.S. Dollars)	49,512	164,724	222,024	465,763
Net income per share (Dollars)	0.14	0.47	0.63	1.32

Accumulated period	**1Q**	**2Q**	**3Q**	**4Q**
Net income per share (Dollars)	0.14	0.32	0.16	0.69

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INDEPENDENT AUDITOR'S REPORT

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To the Board of Directors of
Tokuyama Corporation

We have audited the accompanying consolidated financial statements of Tokuayma Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheet as at March 31, 2017, and the consolidated statements of operations, 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 accordance 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 misstatement, 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 accordance with auditing standards generally accepted in Japan. Those standards require that we comply with ethical requirements and 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, we consider 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, while the objective of the financial statement audit is 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 its consolidated subsidiaries as at March 31, 2017, and their consolidated financial performance and their cash flows for the year then ended in accordance with accounting principles generally accepted in Japan.

Grant Thornton Taiyo LLC

Emphasis of Matters

We draw attention to Note 28 to the consolidated financial statements, which states that, the Board of Directors of the Company, at its meeting held on September 28, 2016, made a resolution to transfer to OCI Company Ltd. all shares of the Company's consolidated subsidiary in Malaysia, Tokuyama Malaysia Sdn. Bhd. (hereinafter referred to as "Tokuyama Malaysia") and the transfer of the shares of Tokuyama Malaysia were completed as of May 31, 2017.
Our opinion is not qualified in respect of this matter.

Other Matter

The consolidated financial statements of Tokuyama Corporation for the year ended March 31, 2016 were audited by another auditor who expressed an unmodified opinion on those statements on June 15, 2016.

Convenience Translation

The United States dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for the convenience. Our audit also included the translation of Japanese yen amounts into United States dollar amounts and, in our opinion, such translation has been made on the basis described in Note 2 to the consolidated financial statements.

Grant Thornton Taiyo LLC

July 11, 2017
Osaka, Japan

Member of Grant Thornton International Ltd

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Major Subsidiaries and Affiliates

(As of March 31, 2017)

Company	Capital (millions of yen)	Ownership (%)	Scope
Chemicals			
Shin Dai-ichi Vinyl Corporation	2,000	71.0	Production and sale of polyvinyl chloride
Tokuyama & Central Soda Inc.	10	65.0	Sale of soda ash and calcium chloride
Sun Arrow Kasei Co., Ltd.	98	100	Production and sale of polyvinyl chloride compounds
Tokuyama Siltech Co., Ltd.	200	100	Production and sale of layered sodium silicate
Category also includes another 4 affiliates			
Specialty Products			
Tokuyama Chemicals (Zhejiang) Co., Ltd.	CNY 377 million	100	Production and sale of fumed silica
Tokuyama-Dowa Power Materials Co., Ltd.	250	65.0	Production and sale of aluminum nitride
Tokuyama Electronic Chemicals Pte. Ltd.	SGD 11,000 thousand	100	Production and sale of high purity chemicals for electronics manufacturing
Taiwan Tokuyama Corporation	TWD 200 million	100	Production and sale of high purity chemicals for electronics manufacturing
Tokuyama Malaysia Sdn. Bhd.	7,818	83.5	Production and sale of polycrystalline silicon
*Hantok Chemicals Co., Ltd.	KRW 4,500 million	50.0	Production and sale of photoresist developer
Category also includes another 1 consolidated subsidiary			
Cement			
Tokyo Tokuyama Concrete Co., Ltd.	80	99.9	Production and sale of ready-mixed concrete and concrete products
Hiroshima Ready Mixed Concrete Co., Ltd	100	67.2	Production and sale of ready-mixed concrete
Seibu Tokuyama Ready Mixed Concrete Co., Ltd.	100	100	Production and sale of ready-mixed concrete
Kawasaki Tokuyama Ready Mixed Concrete Co., Ltd.	40	100	Production and sale of ready-mixed concrete
Kyushu Tokuyama Ready Mixed Concrete Co., Ltd.	50	100	Production and sale of ready-mixed concrete
Chugoku Ready Mixed Concrete Co., Ltd.	80	52.3	Production and sale of ready-mixed concrete
Notsuharu Co., Ltd	3	100	Production and sale of ready-mixed concrete
Tokuyama Tsusho Trading Co., Ltd.	95	100	Sale of cement and ready-mixed concrete
Kansai Tokuyama Trading Co., Ltd.	80	100	Sale of cement and ready-mixed concrete
Tokusho Co., Ltd.	40	100	Sale of cement and ready-mixed concrete
Tokushin Co., Ltd.	40	100	Sale of cement and ready-mixed concrete
Tokuyama Mtech Corporation	50	100	Processing and sale of building materials
Tokuyama Nouvelle Calédonie S.A.	XPF 210 million	75.3	Production and sale of cement
*Yamaguchi Eco-tech Corporation	90	50.0	Recycling business of incinerated ash of wastes
Category also includes another 4 consolidated subsidiaries, 4 equity method affiliates and 13 affiliates			
Life & Amenity			
Shanghai Tokuyama Plastics Co., Ltd.	CNY 85 million	100	Production and sale of microporous film
Tianjin Tokuyama Plastics Co., Ltd.	CNY 129 million	100	Production and sale of microporous film
Sun•Tox Co., Ltd.	300	80.0	Production and sale of polyolefin films

Company	Capital (millions of yen)	Ownership (%)	Scope
A&T Corporation	577	40.2	Production and sale of diagnostic reagents, analyzers and systems
Tokuyama Dental Corporation	100	100	Production and sale of dental and medical materials
ASTOM Corporation	450	55.0	Production, sale and maintenance of ion-exchange membranes and related equipment
Excel Shanon Corporation	495	100	Production and sale of plastic window sashes
Tohoku Shanon Co., Ltd.	300	72.0	Production of plastic window sashes
* Figaro Engineering Inc.	99	33.4	Production and sale of sensor devices
Category also includes another 3 consolidated subsidiary			
Other			
Tokuyama Asia Pacific Pte. Ltd.	SGD 800 thousand	100	Sale of Tokuyama's products
Tokuyama Europe GmbH	EUR 255 thousand	100	Sale of Tokuyama's products
Tokuyama Trading (Shanghai) Co., Ltd.	CNY 5 million	100	Sale of Tokuyama's products
Tokuyama (Shanghai) Co., Ltd.	CNY 12 million	100	Management company to provide services for other group companies in China
Tomitec Co., Ltd.	100	60.0	Production and sale of plastic molded products
Shunan System Sangyo Co., Ltd.	100	100	Real estate, civil engineering, construction
Shunan Swimming Club Corporation	50	100	Swimming and other sports training, health maintenance / promotion
Tokuyama Logistics Corporation	100	100	Transportation and warehousing
Tokuyama Information Service Corporation	20	100	Information processing services
Shunan Bulk Terminal Co., Ltd.	150	72.2	Warehouse operations for bulk cargoes of coal etc.
* CoorsTek Tokuyama Corporation	100	30.0	Production and sale of ceramics and electrochemical products
* Tokuyama Polypropylene Co., Ltd.	100	50.0	Production and sale of polypropylene
* Nishinihon Resicoat Co., Ltd.	50	50.0	Production of metal parts and anti-rust surface coating materials
Category also includes another 3 consolidated subsidiaries and 1 affiliates			

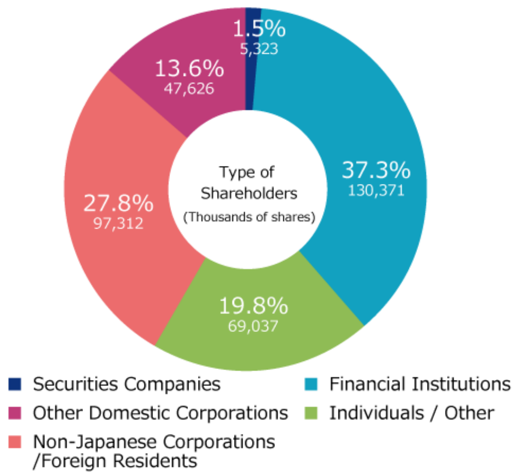
*Equity method affiliates

Corporate Data and Stock Information

(As of March 31, 2017)

Company Name:	Tokuyama Corporation
Established:	February 16, 1918
Capital:	¥10,000 million
Employees:	5,406 (Consolidated)
Fiscal Year:	From April 1 to March 31
General Meeting of Shareholders:	June
Stock Listing:	Tokyo
Minimum Number of Shares per Trade:	1,000 shares
Stock:	4043

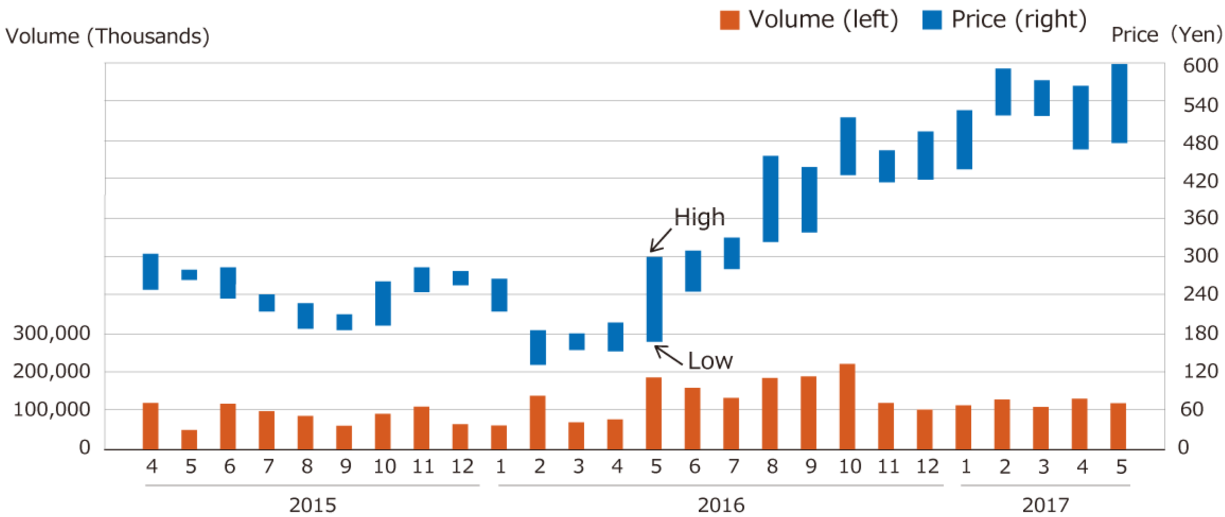
Composition of Shareholders



Major Shareholders

Name	Number of Shares Held (Thousands)	Percentage of Total Shares
The Master Trust Bank of Japan, Ltd. (trust account)	31,695	9.06
Japan Trustee Services Bank, Ltd. (trust account)	15,608	4.46
Nippon Life Insurance Company	10,874	3.10
The Yamaguchi Bank, Ltd.	8,246	2.35
Meiji Yasuda Life Insurance Company	7,442	2.12
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	2.02
Sojitsu Corporation	6,484	1.85
Japan Trustee Services Bank, Ltd. (trust account 5)	5,985	1.71
Sumitomo Metal Mining Co., Ltd.	5,904	1.68
Mitsubishi UFJ Trust and Banking Corporation	5,852	1.67

Stock Chart



Our Vision

Mission

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

Aspirations

Shift from a focus on quantity to quality

<FY2025>

Global leader in advanced materials

Leader in its traditional businesses in Japan

Values

Customer satisfaction is the source of profits

A higher and broader perspective

Personnel who consistently surpass their predecessors

Integrity, perseverance, and a sense of fun

Tokuyama Corporation

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