Chemistry with a heart

TOKUYAMA CORPORATION

Annual Report 2015

Year ended March 31, 2015

Contents

CAUTIONARY NOTES:

FORWARD-LOOKING STATEMENTS

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

DISCLAIMER

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

Profile

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

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

Tokuyama's 100th anniversary is February 16, 2018. Centered on the field of chemistry, we, the Tokuyama Group, will strive to help realize a prosperous society by creating value that enhances people's lives.

Company History

1918～1944 Establishment and specialization in soda production

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

The Factory as it was established

1945～1960 Further expansion of inorganic chemicals business

March 1952	Commenced electrolytic chlor-alkali business

1961～1974 Entry into petrochemicals business

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

1960's Cement kiln (length: 185m)

1975～1989 Entry into specialty and processing business

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

Tokuyama Factory (Current)

1990～2004 Strengthening and restructuring of business

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

2005～ Aiming toward raising corporate value

August 2009	Established Tokuyama Malaysia Sdn. Bhd. in Malaysia as a manufacturing and sales company of polycrystalline silicon
June 2013	Started operation of Tokuyama Chiyoda Gypsum Co., Ltd as a joint venture for developing a waste gypsum board recycling business

Consolidated Financial Highlights

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31

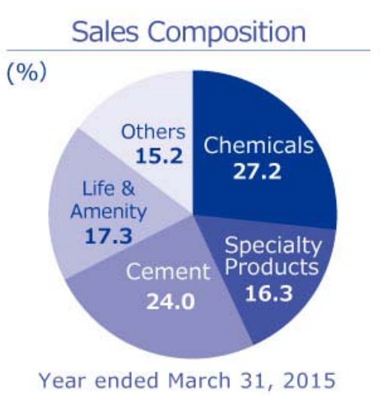
	Millions of yen				
	2006	2007	2008	2009	2010
Net sales	263,373	292,764	307,453	300,999	273,154
Operating income	24,311	34,737	35,325	22,738	16,483
Net income (loss)	13,964	18,460	18,888	(5,597)	7,458
Per share amounts (in yen)					
Net income (loss)	52.61	67.24	68.85	(20.42)	23.52
Cash dividends	6.00	6.00	9.00	6.00	6.00
Net assets	651.64	699.69	725.37	669.80	682.03
Total assets	361,103	373,745	383,264	403,613	452,893
Net assets	179,024	197,811	206,135	189,757	243,606
Cash flows from operating activities	25,748	34,225	47,698	42,480	29,380
Cash flows from investing activities	(22,758)	(22,531)	(25,664)	(56,506)	(36,468)
Cash flows from financing activities	13,155	(13,836)	(10,176)	29,246	46,990
Cash and cash equivalents at end of the year	30,998	29,222	41,057	55,365	95,945
Capital expenditures	20,969	22,656	37,001	52,550	26,557
Depreciation and amortization (Note 1)	18,132	18,144	21,451	22,986	37,688
R&D expenses	9,396	10,756	11,161	11,872	11,817
Shareholders' equity ratio (%)	49.6	51.4	51.9	45.5	52.4
Return on equity (%)	8.9	10.0	9.7	(2.9)	3.5
Number of employees	4,630	4,852	5,057	5,295	5,444
Consolidated subsidiaries	43	44	47	46	49

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

	Millions of yen					Thousands of U.S. dollars (Note2)
	2011	2012	2013	2014	**2015**	**2015**
Net sales	289,786	282,381	258,632	287,330	302,085	2,517,377
Operating income	20,144	13,720	6,772	20,270	19,530	162,754
Net income (loss)	9,765	9,351	(37,916)	10,218	(65,349)	(544,576)
Per share amounts (in yen, dollars)						
Net income (loss)	28.06	26.87	(108.98)	29.37	(187.85)	(1.565)
Cash dividends	6.00	6.00	3.00	6.00	-	-
Net assets	693.18	716.39	625.29	660.18	467.36	3.894
Total assets	474,708	501,181	518,251	576,315	554,527	4,621,064
Net assets	247,656	255,460	223,871	236,453	169,445	1,412,045
Cash flows from operating activities	37,043	27,060	17,071	34,105	30,772	256,437
Cash flows from investing activities	(88,508)	(57,666)	(60,673)	(64,402)	(25,519)	(212,664)
Cash flows from financing activities	23,994	20,791	36,465	45,939	40,502	337,519
Cash and cash equivalents at end of the year	68,624	58,476	52,431	69,973	116,122	967,684
Capital expenditures	35,807	77,602	97,549	61,051	25,345	211,212
Depreciation and amortization (Note 1)	31,476	28,492	23,242	16,770	18,845	157,042
R&D expenses	11,469	11,704	10,076	8,709	10,156	84,638
Shareholders' equity ratio (%)	50.8	49.7	42.0	39.9	29.3	-
Return on equity (%)	4.1	3.8	(16.2)	4.6	(33.3)	-
Number of employees	5,493	5,506	5,651	5,756	5,852	-
Consolidated subsidiaries	50	48	49	53	54	-

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

Note 2: U.S. dollar amounts above and elsewhere in this annual report are converted from Japanese yen, for convenience only, at the rate of ¥120=US$1.



Segment Information

CHEMICALS

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

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

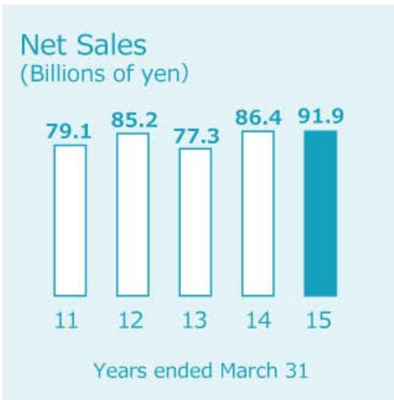
Business Unit	Major Products
Soda Ash and Calcium Chloride	Soda ash, Calcium chloride, Sodium silicate and Sodium bicarbonate
Chlor-Alkali and Vinyl Chloride	Caustic soda, Vinyl chloride monomer, Propylene oxide and Methylene chloride
New Organic Chemicals	Isopropyl alcohol (IPA)
Group Companies	Polyvinyl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

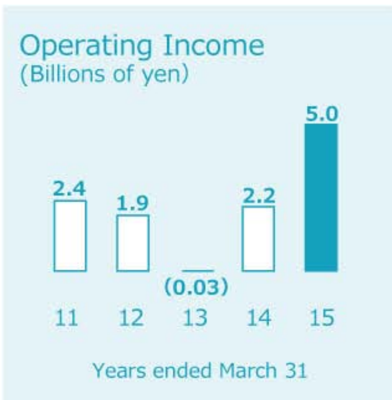
Operating Results for the Fiscal Year ended March 31, 2015

With regard to caustic soda, sales increased compared with the previous fiscal year. In addition to steady domestic sales, this was attributable to our efforts to revise selling prices in order to absorb a rise in raw materials prices.

Vinyl chloride monomers (VCM) sales were essentially unchanged from the previous fiscal year. While domestic sales volumes declined, this was offset by an increase in the volume of exports where selling prices continued to hover at a high level due mainly to the impact of the weak yen.

Sales of vinyl chloride resin declined. Despite efforts to revise selling prices to account for the rise in raw material prices, this decline was largely attributable to market corrections following the rush in demand in the lead up to the consumption tax rate hike and the downturn in sales volume resulting from such factors as the slump in housing starts.





With regard to soda ash and calcium chloride, sales increased compared with the previous fiscal year. This was attributable to the commencement of the operation of TOKUYAMA & CENTRAL SODA Inc.

As a result of the above, segment net sales increased 6.3% compared with the previous fiscal year, to ¥91,927 million and operating income increased 126.1% to ¥5,056 million. The segment reported higher earnings on higher sales.

Strategies going forward

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

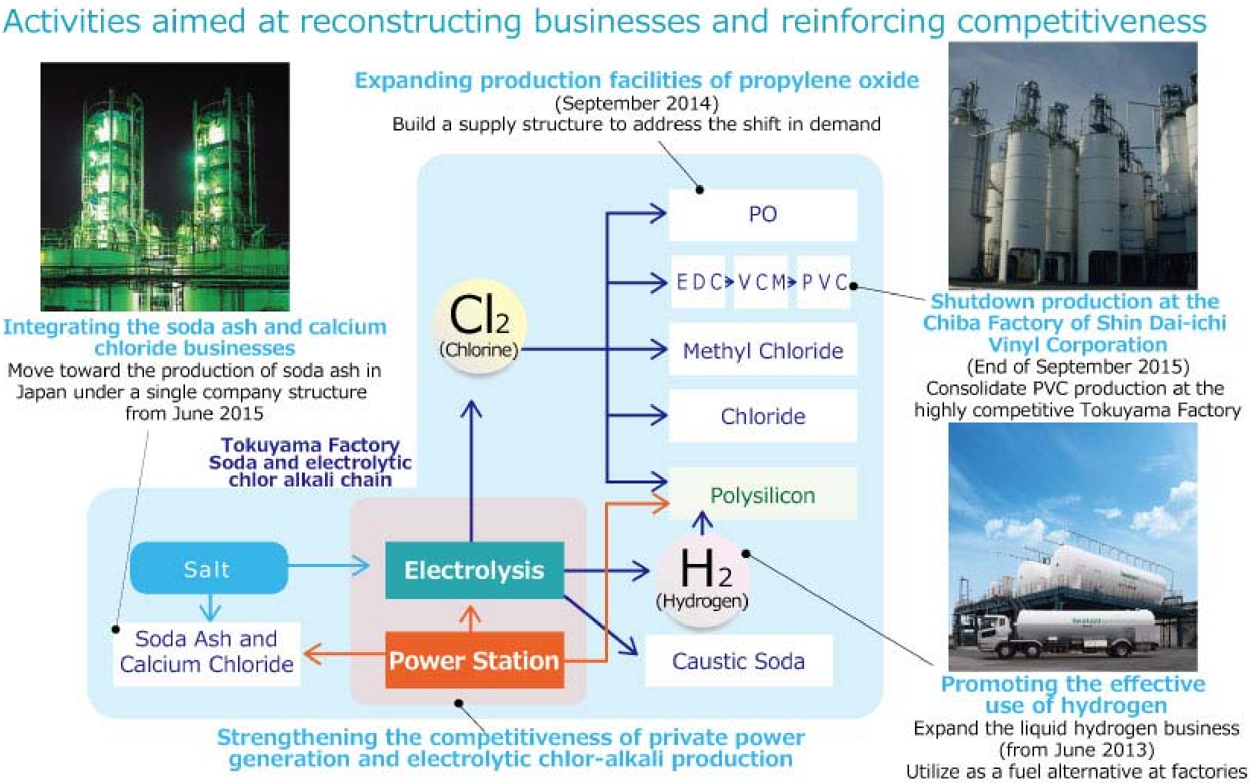
■Soda Ash and Calcium Chloride Business

Tokuyama reached an agreement with Central Glass Co., Ltd. to transfer and consolidate marketing activities in connection with the sales of soda ash and calcium chloride. As a part of this agreement, a joint-venture business, TOKUYAMA & CENTRAL SODA Inc. was established in March 2014. With this initiative, the production of soda ash in Japan from June 2015 has been consolidated under Tokuyama as a single company structure. Looking ahead, every effort will be made to build a stable sales platform and to improve business profitability.

■Chlor-Alkali and Vinyl Chloride Business

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

Shin Dai-ichi Vinyl Corporation has decided to close its Chiba factory, which manufactures vinyl chloride, at the end of September 2015. At the same time, Shin Dai-ichi Vinyl will endeavor to rebuild a production and shipment structure that entails the consolidation of production at the more competitive Tokuyama factory. These initiatives are consistent with efforts to undertake a drastic reform its vinyl chloride business profit structures.



SPECIALTY PRODUCTS

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

The Specialty Products segment will continue to build on its advanced chemical technologies to create unique products that are useful to society.

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

Operating Results for the Fiscal Year ended March 31, 2015

With regard to semiconductor-grade polycrystalline silicon, sales volume increased owing mainly to strong demand for mobile terminals including smartphones. On the other hand, with regard to solar cell-grade polycrystalline silicon, the Company’s consolidated subsidiary Tokuyama Malaysia Sdn. Bhd. commenced shipments of solar cell-grade polycrystalline silicon under circumstances where demand for solar panels continued to expand. As a result of the above, sales of polycrystalline silicon increased compared with the the previous fiscal year.

With regard to fumed silica, sales were steady, mainly of its application as a polishing material for semiconductors. As a result of this, sales increased compared with the previous fiscal year.

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

With regard to high-purity chemicals for electronics manufacturing, sales increased compared with the previous fiscal year, owing to strong sales of such applications as semiconductor and liquid crystal production.

As a result of the above, segment net sales increased 5.7% compared with the previous fiscal year, to ¥55,450 million, while operating income decreased 32.3% to ¥4,122 million. The segment reported lower earnings on higher sales.

Strategies going forward

We will promote a sales strategy that fully addresses changes in the operating environment including customer needs and market conditions and build and optimal production structure.

■Electronic Materials Business (Polycrystalline Silicon)

In the semiconductor-grade Polycrystalline Silicon Business, demand for higher levels of quality is increasing each year in line with higher levels of semiconductor performance (miniaturization). Steps will be taken to further strengthen relationships with customers and to expand transactions by establishing an optimal production structure that addresses this demand and the need to further enhance quality at Tokuyama Factory, which manufactures semiconductor-grade polycrystalline silicon.

While Tokuyama Malaysia has continued with efforts to establish a second production plant for the manufacture of semiconductor-grade polycrystalline silicon, an amount totaling ¥85.7 billion in impairment losses and related expenses was posted as an extraordinary loss for the fiscal year ended March 31, 2015 in connection with Tokuyama Malaysia PS-1, which failed to secure the initially anticipated quality and production stability. Looking ahead, energies will be channeled toward finding alternative uses for the plant including the shift to solar-grade polycrystalline silicon production.

The manufacture and sale of solar-grade polycrystalline silicon began at Tokuyama Malaysia PS-2 in October 2014. At the time of periodic maintenance planned for fall of 2015, improvements were made to correct defects. Plans are now in place to secure full-fledged operations in fiscal 2016 and profitability in fiscal 2017.

■Fumed Silica Business

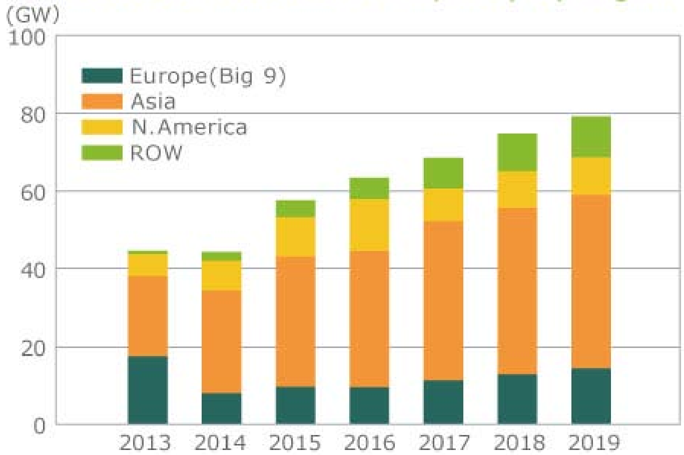
We will work toward optimizing business operations of fumed silica, a co-product with polycrystalline silicon, at the two bases of Tokuyama Factory and Tokuyama Chemicals (Zhejiang) Co., Ltd. A portion of the annual production of 2,000 tons of surface treatment-grade fumed silica, which is exhibiting notable growth in the Asian market and particularly in China, undertaken at Tokuyama Factory was transferred to Tokuyama Chemicals (Zhejiang) Co., Ltd. operations commenced from June 2015.

Steps will be taken to pursue increased highly functional product lineup differentiation at Tokuyama Factory targeting the CMP, toner, and electronics materials fields, and to strengthen the earnings structure.

■Shapal Business (Aluminum Nitride)

In order to address robust demand in the power device, LED, and semiconductor equipment fields, successful efforts were made to expand aluminum nitride powder manufacturing facilities (annual production from 320 tons to 480 tons) and to start production from March 2015. In the future, we will upgrade and expand our filler application and other product lineups targeting the heat sink market, which is expected to enjoy continuous demand growth, and promote the establishment of a structure that is capable of providing optimal heat sink materials.

Forecasts of installed PV capacity by region



(Note) Tokuyama estimate based on IHS Market Tracker (PV Integrated) Q1 2015

CEMENT

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

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

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

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

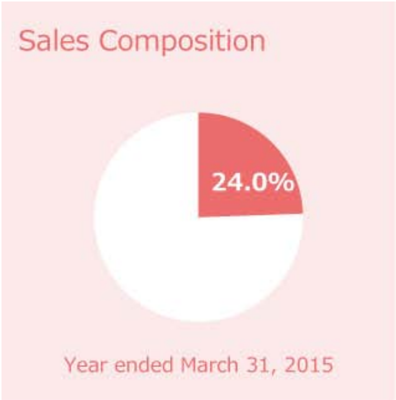
Operating Results for the Fiscal Year ended March 31, 2015

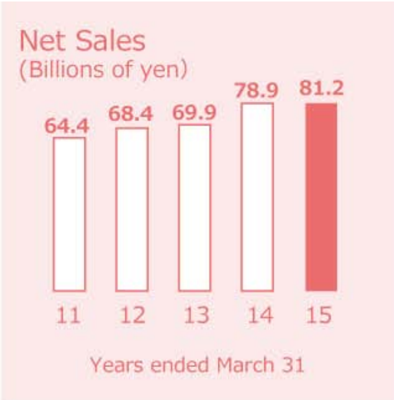
In the cement business, total sales volumes declined slightly year on year. Despite an increase in exports mainly to Asia, which is exhibiting firm demand, this downturn was primarily due to labor shortages in the construction industry in Japan and delays in construction work caused by unseasonably bad weather. On the cost front, distribution costs increased due largely to the construction of new cement tankers.

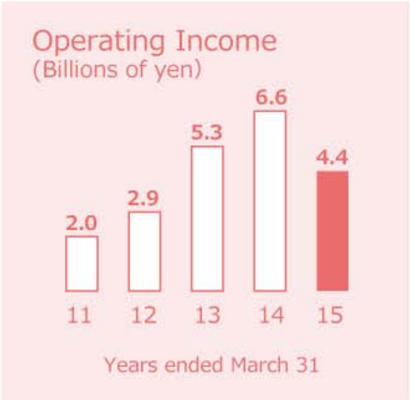
In the recycling and environment-related business, the Company accepted a lower volume of waste owing mainly to a drop in the volume of clinker ash production.

With regard to consolidated subsidiaries, sales increased compared with the previous fiscal year, mainly because Hiroshima Tokuyama Ready Mixed Concrete Co., Ltd. launched its operations.

As a result of the above, segment net sales increased 2.8% compared with the previous fiscal year, to ¥81,219 million, while operating income decreased 33.5% to ¥4,446 million. The segment reported lower earnings on higher sales.







Strategies going forward

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

■Cement Business

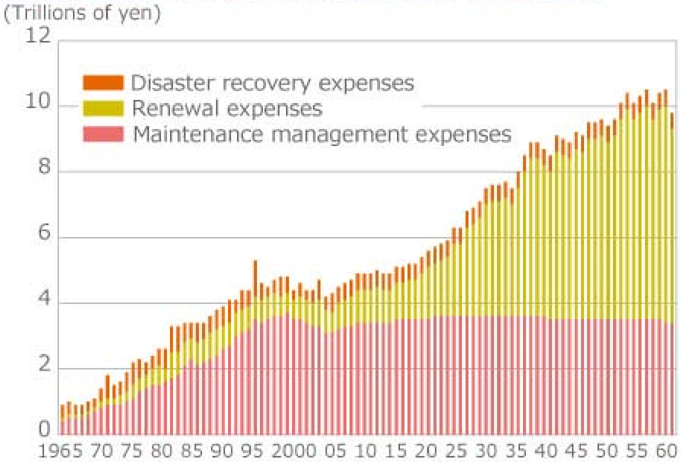
From a production perspective, we will cutback costs by focusing on efforts aimed at reducing the use of burning coal and increasing the use and intake of combustible waste. In our overseas business, we will establish a clinker export structure and expand the volume of exports with an eye on also recommencing operations at idle kilns.

Tokuyama Mtech Corp., which is engaged in the infrastructure maintenance and reinforcement business, established the Metropolitan Cement Building Materials Development Center in Sodegaura City, Chiba Prefecture and commenced operations from January 2015 in order to put in place a product development structure that works in close collaboration with users. We will work to expand business in the infrastructure maintenance field, which is projected to experience demand growth.

■Recycling and Environment-related Business

Building on its Yokkaichi factory, which came online in 2013, Tokuyama Chiyoda Gypsum Co., Ltd., which is active in the recycling of waste gypsum boards, commenced construction of a Kanto factory in Sodegaura City, Chiba Prefecture. Operations are scheduled to begin in May 2016. For the most part, the growing volume of waste gypsum board is subject to landfill disposal. As a result, recycling is a major issue. In addition to solving a major social issue, this initiative is also expected to provide gypsum board makers with a valuable source of supply of raw material gypsum. Plans are in place to expand the business on a nationwide basis going forward.

Long-Term Projections for Infrastructure Maintenance Management and Renewal Expenses



(Note) Prepared by the Company from the "WHITE PAPER ON LAND, INFRASTRUCTURE, TRANSPORT AND TOURISM IN JAPAN, 2012 issued by Japan's Ministry of Land, Infrastructure, Transport and Tourism

LIFE & AMENITY

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

In the fine chemicals business, utilizing our organic synthetic technology to advantage, we are expanding this business with eyeglass lens materials, active pharmaceutical ingredients for generic 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	Plastic lens-related materials, Active pharmaceutical ingredients and intermediates
NF	Microporous film
Group Companies	Polyolefin film [Sun • Tox Co., Ltd.] Plastic window sashes [Excel Shanon Corp.] Medical diagnosis systems [A&T Corp.] Dental materials/equipment [Tokuyama Dental Corp.] Gas sensors [Figaro Engineering Inc.] Ion exchange membranes [ASTOM Corp.]

Operating Results for the Fiscal Year ended March 31, 2015

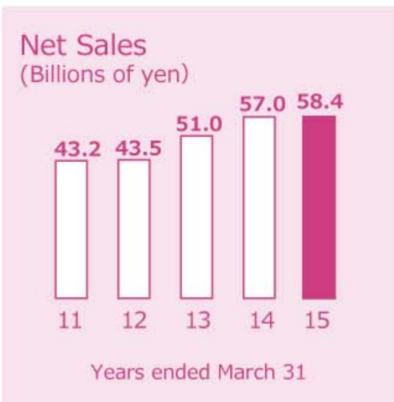
Sales of active pharmaceutical ingredients grew owing to increased sales volumes of generic pharmaceuticals and other applications. As a result of this, sales increased compared with the previous fiscal year.

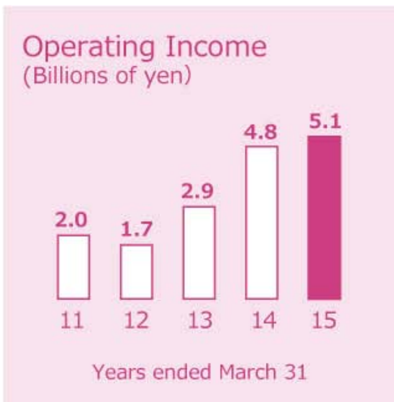
With regard to plastic lens-related materials, sales volumes of photochromic dye materials increased. As a result of this, sales increased compared with the previous fiscal year.

With regard to microporous film, the manufacturing facilities of Tianjin Tokuyama Plastics Co., Ltd. commenced operations, and due to this, sales volumes of such applications as sanitary articles including disposable diapers increased. As a result of this, sales increased compared with the previous fiscal year.

With regard to polyolefin film, in addition to steady sales mainly of its application as packaging material for everyday items at convenience stores, we revised selling prices to absorb a rise in raw material prices. As a result of the above, sales increased compared with the previous fiscal year.

With regard to plastic window sashes, sales decreased compared with the previous fiscal year. This was attributable to a decrease in sales volume arising from reaction to the rush demand before the consumption tax increase.





With regard to medical diagnosis systems, profitability rose compared with the previous fiscal year. In addition to steady sales of products for blood testing, this was attributable to our cost reduction efforts including in-house production.

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

As a result of the above, segment net sales increased 2.5% compared with the previous fiscal year, to ¥58,457 million and operating income increased 6.1% to ¥5,159 million. The segment reported higher earnings on higher sales.

Strategies going forward

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

■Fine Chemicals Business
We will increase the number of ingredient items for generic pharmaceuticals and promote the development of a production structure. In this manner, we will work to stabilize earnings. We will also expand our market share in photochromic dye materials for use in eyeglass lenses by capturing new orders.

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

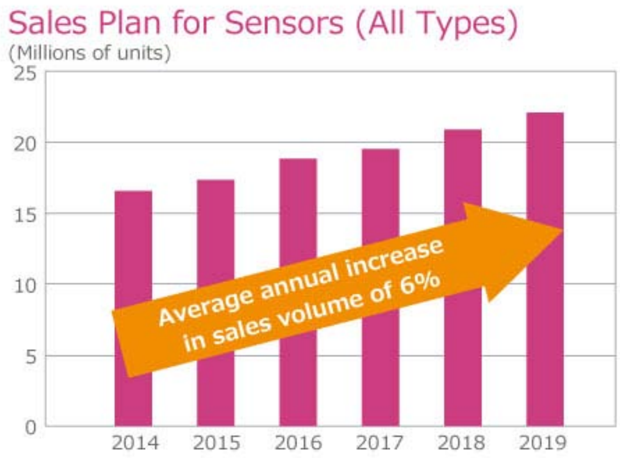
■Polyolefin Film Business (Sun ・ Tox Co., Ltd.)
We will increase profits by developing and expanding sales of new grades while reducing costs.

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

■Medical Diagnosis System Business (A&T Corporation)
Harnessing the strengths of blood test sensor technologies accumulated since foundation, we will increase sales by strengthening collaboration with existing OEM partners while at the same time cultivating new relationships. We will also work to establish a global sales network in order to secure further growth.

■Dental Materials/Equipment Business (Tokuyama Dental Corporation)
Steps will be taken to accelerate the pace of development and overseas rollout of new products focusing mainly on composite resins (restorative materials), in which we hold a leading market share in Japan and overseas.

■Gas Sensors Business (Figaro Engineering Inc.)
We will promote the development and commercial release of the world's smallest micro electro mechanical system type gas sensors that are projected to enjoy growing application in power devices, smartphones, and wearable terminals.



Medium-Term Management Plan

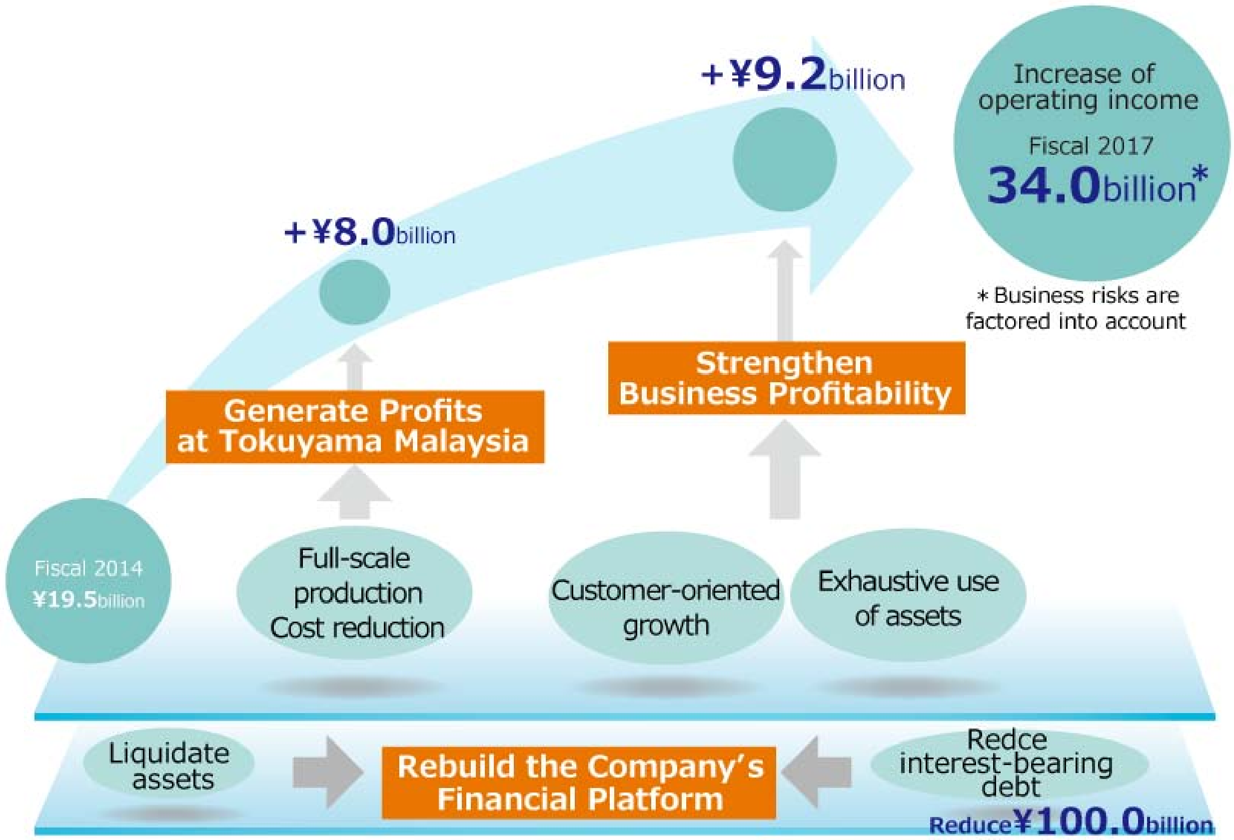
Outline of the plan

Based on the key words "accelerating our growth strategies," Tokuyama put in place a three-year plan in May 2012. Over the period of this plan, the Company has taken steps to establish a structure that is capable of accelerating the pace of growth, and to address pending issues. Despite promoting a variety of growth-oriented strategies including efforts to expand the polycrystalline silicon business at Tokuyama Malaysia Sdn. Bhd., as a principal component of the overarching goal to strengthen strategically growing businesses, and to create new businesses, the results of these endeavors have fallen short of expectations.

Under these circumstances, the new management has returned to its existing businesses and taken steps to reevaluate the latent competitive advantage and potential of those businesses. As a part of this endeavor, the Company has put in place the new three-year Medium-Term Management Plan 2017, which covers the period from fiscal 2015 to fiscal 2017 and identifies the key issues of strengthening business profitability, generating profits at Tokuyama Malaysia Sdn. Bhd., and rebuilding the Company's financial platform.

By steadfastly addressing the issues, we will revitalize the foundation of the Tokuyama Group and restore the trust of all stakeholders over the three-year period of the plan.

[Medium-Term Management Plan 2017]



Issues of the utmost priority and relevant countermeasures

Strengthen business profitability

In addition to increasing productivity and reducing costs through the exhaustive use of assets, we will also steadfastly promote customer-oriented growth while strengthening business profitability. Through each of these initiatives, we plan to achieve an increase in operating income of ¥9.2 billion compared with the fiscal year ended March 31, 2015 in the final year of the plan.

Working to exhaustively use assets, we will push forward a variety of measures including efforts to utilize port infrastructure, optimize distribution, and bolster plant engineering technology in order to strengthen competitiveness at Tokuyama Factory. In addition, we will work to exhaustively use and reinforce those business assets in which the Company maintains its strength. This will include increasing production of polycrystalline silicon for semiconductor and restarting cement kiln operations. Moreover, we will consolidate the vinyl chloride resin business and promote integration effects of the soda ash and calcium chloride businesses while pursuing other measures in order to rationalize and rebuild operations to extend our strengths. Together with efforts to strengthen Factory competitiveness, we will streamline head office functions and promote relocation to Tokuyama Factory. Energies will also be channeled toward transforming our corporate development stance to research and development strategy that is committed to business.

Turning to customer-oriented growth, we will build on the proprietary inorganic and organic core technologies that we have nurtured over many years and position energy-saving, the environment, and health care as priority fields. Against this backdrop, we will engage in product development that match customer needs and differentiated technologies. Looking ahead, we will actively pursue alliances that bolster our business and business expansion based on marketing.

Generate profits at Tokuyama Malaysia Sdn. Bhd.

After posting an impairment loss on the Tokuyama Malaysia PS-1 Plant during the fiscal year ended March 31, 2015, we are considering various measures that will allow effective use including the transition to solar-grade polycrystalline silicon production.

We will also look to secure optimal production at the PS-2 Plant, which manufactures solar-grade polycrystalline silicon, through repairs conducted in line with periodic maintenance from October 2015 while improving defective areas. Plans are therefore in place to establish a full-scale production structure. On top of this, we will step up efforts to reduce costs through to the fiscal year ending March 31, 2017. The goals are to achieve profitable operation for the full period in the final year of the plan and to secure an increase in operating income of ¥8.0 billion compared with the fiscal year ended March 31, 2015.

Rebuild the Company’s financial platform

As a part of efforts to rebuild the Company’s financial platform, which underpins business growth, we will work to increase business profits by strengthening profitability at existing businesses and cutback fixed expenses. We will also strive to bring about a quick recovery in net assets by liquidating assets. The profits generated from these initiatives will then be used to repay interest-bearing debt in advance with the aim of reducing interest-bearing debt by more than ¥100 billion over the three years of the plan.

Targets for the final year of the plan

Net Sales ¥335.0 billion
Operating Income ¥34.0 billion
Operating Margin 10%
Interest-Bearing Debt Reduce of ¥100.0 billions.

Message from the President

“Tokuyama will foster the management culture that enables us securing stable earnings. Recognizing rebuilding our financial platform as the top priority, we will work diligently to reinvigorate Tokuyama.”

Hiroshi Yokota, President

I would first like to express my sincerest apologies to all shareholders for the Company’s decision to forego the payment of an interim and year-end dividend for fiscal 2014, the fiscal year ended March 31, 2015. This decision is by no means taken lightly and is based on the significant impairment loss incurred on the polycrystalline silicon manufacturing facilities of Tokuyama Malaysia Sdn. Bhd. together with related expenses totaling ¥85.7 billion that have in turn resulted in a substantial deterioration in our performance for the fiscal year under review.

Against this backdrop, we have positioned year 2015 as the year in which we will adopt an unwavering stance toward management reform. Rebuilding the financial foundation has our top priority and we are committed to taking renewed steps to reinvigorate the Company. We will take all conceivable actions including a through cost reduction, improving the profitability of existing businesses, review of our research and development structure, and undertake every possible measure in the effort to foster the management culture that enables us securing stable earnings.

With this in mind, I attach the utmost importance to promoting dialogue with the market. Business growth can only be achieved by ascertaining and consistently meeting the genuine needs of customers. It is therefore vital that we refrain from adopting an inward-looking approach and evolve into an outward-looking company that focuses upon providing customer-oriented solutions. Particularly at this time when operating conditions are extremely harsh, each and every employee must direct their attention and mindset outward to pursue the Company’s growth.

Business Results for Fiscal 2014

As a result of posting the aforementioned extraordinary loss of ¥85.7 billion, our net loss for the fiscal year under review came to ¥65.3 billion. This in turn drove down the Company’s shareholders’ equity to ¥162.5 billion. We view these figures most seriously and with an acute sense of crisis.

We recognize that business conditions remain difficult in the solar-grade polycrystalline silicon market due to prolonged excess supply and that the Company is yet to recoup investments in the Tokuyama Malaysia second plant (PS-2 Plant).

On a positive note, the steps we have taken to reconstruct and streamline the operations in our existing businesses including Chemicals, Cement and Life & Amenity coupled with favorable operating conditions including the weaker yen and the recovery in demand have helped us to improve our performance and generate the operating income of ¥19.5 billion on the net sales of ¥302.0 billion for the fiscal year under review.

Management Policies Onward

Tokuyama identifies rebuilding the financial platform, reconstructing the polycrystalline silicon business at Tokuyama Malaysia and further enhancing the earnings of existing businesses as its three most pressing issues.

(1) Rebuild the Company's financial platform

Our top priority is to rebuild our financial platform. We will look to bring shareholders' equity and interest-bearing debt close to parity by restoring the shareholders' equity ratio, which has deteriorated substantially, and reducing interest-bearing debt.

In order to bolster our shareholders' equity, we will aim at enhancing the earnings of existing businesses with efforts to cut back fixed costs and more effective utilization of assets. Working to cut back fixed costs, we will curtail personnel expenses by reducing executive and employee salaries and lump-sum payments. Moreover, we will adopt emergency measures aimed at controlling investments and overhead expenses while streamlining back-office divisions, which will include the rationalization of personnel and bases in Tokyo and Osaka. Turning to the effective utilization of assets, we will promote the sale of securities and unused real estate. Earnings generated by these initiatives will be applied to the early repayment of interest-bearing debt.

While acknowledging that these goals represent significant hurdles, we will endeavor to achieve each target over the three-year period of our new medium-term management plan, which begins in fiscal 2015, as we work toward our 100th anniversary in 2018.

(2) Reconstruct the Tokuyama Malaysia polycrystalline silicon business

We will look to increase productivity and optimize production through the repairs and improvement of PS-2 Plant, where we produce solar-grade polycrystalline silicon, conducted in line with the periodic maintenance this fall. We aim securing the full-scale production in fiscal year 2016 and our goal is to achieve profitable operations in fiscal year 2017.

We will consider every possible option with the PS-1 Plant, on which an impairment loss was posted, including the conversion from producing semiconductor-grade to solar-grade polycrystalline silicon while researching in other effective utilization.

(3) Enhancing the earnings of existing businesses

To enhance the earnings of existing businesses, we plan to pursue a variety of complementary measures. In addition to engaging in customer oriented approaches, we will reduce production costs, reinforce our marketing capabilities, and review R&D themes and systems to accelerate the growth.

Fortunately, current operating conditions are favorable thanks largely to the weaker yen and positive domestic demand. A variety of factors including investment activities in the lead-up to the Tokyo Olympics in 2020 and the "National Resilience" project, plans by the government to build a robust and resilient nation , are helping to drive up demand for cement. At the same time, the drop in the prices of such raw materials and fuel as naphtha and coal are contributing to a downturn in manufacturing costs. The electronics field, smartphones in particular, is also exhibiting a considerable vitality and the demand for polycrystalline silicon, fumed silica and other semiconductor-related products continues the firm trend.

Turning to the direction of research and development, we will look to raise the level of existing businesses by shifting our focus away from corporate development centered on basic research to R&D activities that enhances the Company's existing strengths. For example, we will address the new needs of customers in the heat sink materials field focusing mainly on aluminum nitride by developing composites with other materials as well as new heat sink materials. In other fields, we will promote higher qualities to the polycrystalline silicon and focus increasingly on developing specialized products that reflect the requirements of customers including photochromic lens materials and active pharmaceutical ingredients (API).

In Closing

My mission is to rebuild and reinvigorate Tokuyama by resolving current high-priority issues for the Company. My goal is to quickly resume the payment of dividends and to regain the trust of stakeholders including shareholders at the earliest possible opportunity. As we work to achieve our established goals, we kindly request your continued support and understanding.

Hiroshi Yokota

Hiroshi Yokota
President
June 2015

Research and Development

Research and Development Principles and Policies

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

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

Research and Development Bases

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

Corporate Development Dept. (Tsukuba Research Laboratory)

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

Tsukuba Research Laboratory

Tokuyama Research Laboratory

Analytical Science Dept. (Tokuyama Research Laboratory)

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

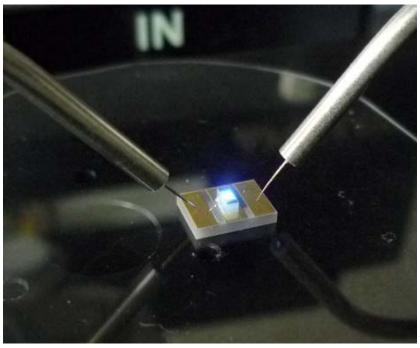
R&D Activities in Fiscal 2014

Positioning chemicals as the cornerstone to further expand business, the Tokuyama Group has continued to engage in research and development in each of the key business fields, such as ‘information and electronics’, ‘the environment and energy’, and ‘life and healthcare’

In April 2014, Tokuyama integrated the corporate research and development function with the new business development responsibilities undertaken by the Technology Strategy Department and the Business Promotion Department all under the umbrella of the newly established Management of Technology Division. Working through a dual structure that is comprised of the aforementioned Companywide Management of Technology Division and the development groups of each business segment, the Tokuyama Group is looking to contribute to society through a continuous stream of results while enhancing the mobility and efficacy of its R&D activities.

The Management of Technology Division has positioned the environment, health, and longevity as its next-generation business domain. In an effort to create new businesses, the Division is engaging a wide range of activity from the search for new development themes through basic research to the development of technologies. In addition to that, the Division is endeavoring to develop the basic technologies based on the requirements of the development groups of each business segment. Then the development group of each business segment undertakes final processing and completion.

Turning to the Group's efforts to create new businesses, considerable energies have been expended on uncovering new research themes and developing neutron-detection scintillators as well as deep ultraviolet LEDs. With respect to efforts aimed at uncovering new themes, the Group is selectively narrowing the number of promising projects while pursuing basic studies. As far as neutron-detection scintillators are concerned, the Group is undertaking the trial manufacture of radioactive material detectors. At the same time, performance assessments are underway. Turning to deep ultraviolet LEDs, the Group has achieved high-power operations through emission wavelengths with a high bactericidal effect suing a nano-optic structure. Moves are now being made toward mass production.



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

Fluoride single crystal for scintillators

In fiscal year ended March 31, 2015, the Tokuyama Group's R&D spending totaled ¥10,156 million, including ¥4,599 million for basic research expenditures that are not allocable to a specific segment.

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

Chemicals Segment

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

R&D expenditures totaled ¥540 million in the Chemicals segment.

Specialty Products Segment

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

R&D expenditures came to ¥1,298 million in the Specialty Products segment.

Cement Segment

Tokuyama has continued to aggressively pursue R&D in the use of various wastes as raw materials and fuels for the production of cement. On this front, the Company concentrated on the development of technologies for recycling waste gypsum boards and coal ash. The Tokuyama Group also conducts basic research into cement and concrete. Ongoing study is being given to the reduction of cement clinker firing temperatures from an energy conservation and efficiency perspective. In addition, Tokuyama improved and developed various grades of cement-related products, such as soil solidifiers, grout materials, and self-leveling materials. Moreover, the Company focused on the development and improvement of various products for repairing and reinforcing concrete structures, such as cross section repairing materials.

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

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

Life & Amenity Segment

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

R&D expenditures totaled ¥3,050 million in the Life & Amenity segment.

CSR Initiatives

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

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

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

Involvement in the Environment

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

Tokuyama's Environmental Performance for Fiscal 2014

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 2014, Tokuyama achieved its goals for soot, water pollutant reductions (COD, nitrogen, and phosphorus), PRTR, recycling, and zero emissions from among the Company's targets for reducing environmental impact. Turning to unit energy consumption, Tokuyama is making steady progress toward meeting its newly established target of a 3% improvement compared with the level recorded in fiscal 2005 by fiscal 2020.

Flow of Materials in Business Activities

*Result for Fiscal 2014 (Non-consolidated)

Involvement in Society

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

Social Contribution Activities

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

Tokuyama Factory Responsible Care Community Dialogue

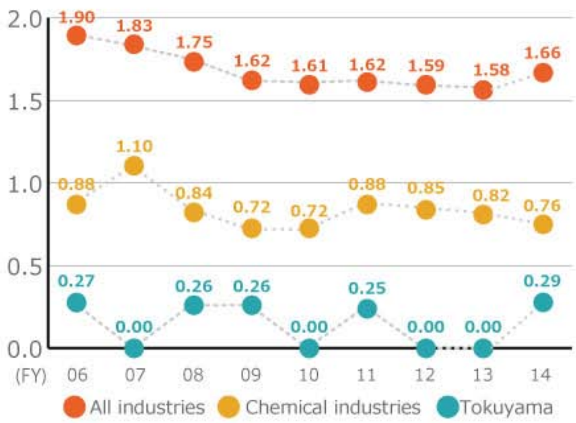
Since fiscal 2004, Tokuyama Factory has held and conducted an annual responsible care community dialogue. The purpose of this event is to provide the neighboring residents' association with a deeper understanding of Tokuyama Factory's process safety, disaster prevention, and environmental protection activities. In fiscal 2014, the event was held on September 19, with the dialogue comprising three parts: a presentation meeting; tour of the facility; and a roundtable discussion to exchange information. Representing the 11th annual community dialogue meeting, 39 members of the residents' association, four representatives from Shunan City, and 16 employees from Tokuyama Factory including the general manager took part in discussions on the principal topic of earthquakes and tsunamis.

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

Process Safety, Disaster Prevention and Occupational Health and Safety

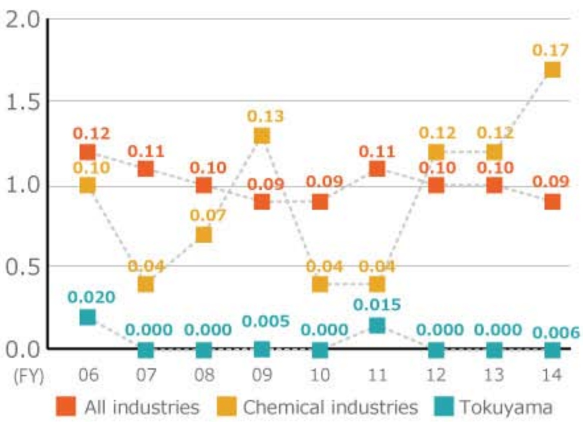
Tokuyama believes that safety is an essential part of business activities and that ensuring safety is the first step in achieving coexistence with society. In taking this stance on safety, Tokuyama thoroughly conducts process safety and disaster prevention activities as well as occupational health and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

Trend in the Accident Frequency Rate*1



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

Trend in the Accident Severity Rate*2



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

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

Corporate Governance

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

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

Corporate Governance Structure

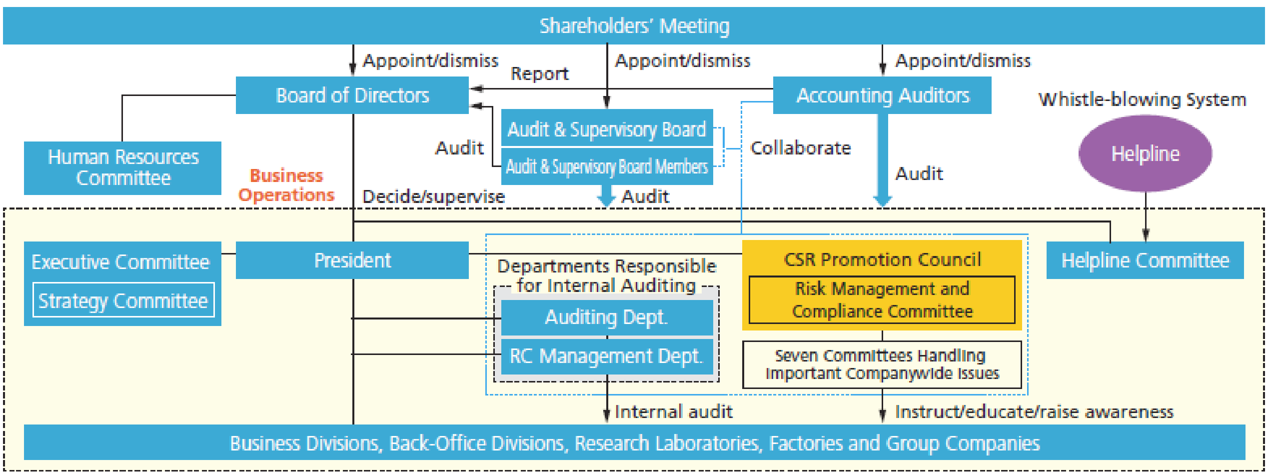
Tokuyama is a company with a board of corporate auditors (audit & supervisory board). In order to bolster the supervisory function of the Board of Directors, Tokuyama appointed an external director in June 2011. The number of external appointments to the Company's Board of Directors was subsequently increased to two and then three in June 2013 and June 2015, respectively.

Working to reinforce the audit function of the Audit & Supervisory Board, Tokuyama appointed an additional member from outside the Company in June 2015. The Audit & Supervisory Board is accordingly comprised of two internal auditors and three external auditors.

Meanwhile, Tokuyama adopted an executive officer system in April 2011 for the purpose of separating the supervisory and business execution functions.

Through these means and the selection of the aforementioned structure and systems, the Company is making every effort to maintain sound management by ensuring the transparency and fairness of its corporate management.

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



Board of Directors and Executive Officer System

In addition to deliberating and making resolutions on important matters relating to the activities of the Company, the Board of Directors supervises business operations. During fiscal 2014, the Board of Directors met on 18 occasions

As of June 24, 2015, Tokuyama's Board of Directors comprised eight members. On the same day, the Company appointed three external directors thereby bolstering the supervisory function of the Board of Directors. Meanwhile, the term of office of directors is set at one year in order to ensure clear accountability as well as the ability to swiftly address changes in the operating environment.

Tokuyama adopted an executive officer systems in April 2011 with the aim of separating the supervisory and executive functions for business operations. As of April 1, 2015, the Company had 16 executive officers.

Based on a resolution of the Board of Directors, executive officers are empowered with the delegated authority to carry out business operations.

Audit & Supervisory Board

Members of the Audit & Supervisory Board attend meetings of the Board of Directors and various other key meetings to listen carefully to reports on the status of business execution. Audit & Supervisory Board members also audit the execution of duties by directors. In fiscal 2014, the Audit & Supervisory Board met on 15 occasions to report on, discuss and make resolutions on important matters. As of June 24, 2015, the Company's Audit & Supervisory Board consisted of five members, three of whom were appointed from outside the Company.

Human Resources Committee

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

Executive Committee

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

Strategy Committee

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

CSR Promotion Council

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

Risk Management and Compliance Committee

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

Helpline Committee

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

Departments Responsible for Internal Auditing

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

Compensation Paid to Directors and Corporate Auditors

In fiscal 2014, a total of ¥172 million, ¥42 million and ¥48 million was paid to eight directors, two corporate auditors (Audit & Supervisory Board members) and four external officers, respectively.

In addition to the aforementioned compensation, an amount of ¥44 million was paid as salaries to four employees, who hold the concurrent position of director.

Anti-takeover Measures

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

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

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

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

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

Business and Other Risks

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

The matters listed are those regarded as relevant as at June 25, 2015.

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

(10) Financing Arrangements

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

Corporate Officers

(As of June 24, 2015)

Directors

(From the left of the back row)

Takeru Ishibashi
External Director

Akihiro Hamada
Director
Managing Executive Officer

Akio Fujiwara
External Director

Toshihide Mizuno
External Director

(From the left of the front row)

Takeshi Nakahara
Director
Managing Executive Officer

Masao Kusunoki
Chairman
Representative Director

Hiroshi Yokota
President
Representative Director

Hideki Adachi
Director
Managing Executive Officer

Audit & Supervisory Board

Masaki Akutagawa
Standing Auditor

Youji Miyamoto
Audit & Supervisory Board Member

Ryuji Hori
External Auditor

Shin Kato
External Auditor

Yoshikazu Tsuda
External Auditor

Executive Officers

Chairman and Executive Officer	Masao Kusunoki	
President and Executive Officer	Hiroshi Yokota	
Managing Executive Officer	Hisashi Yasui	General Manager of Chemicals Business Div.
	Hideyoshi Koya	General Manager of Cement Business Div.
	Takeshi Nakahara	General Manager of Research & Development Div.
	Takeo Suzuki	President of Tokuyama Malaysia Sdn. Bhd.
	Hideki Adachi	General Manager of Tokuyama Factory
	Akihiro Hamada	General Manager of Corporate Administration Div.
Executive Officer	Masao Fukuoka	General Manager of General & Personnel Affairs Div.
	Hiroshi Terao	General Manager of Manufacturing Technology Div.
	Fuminori Sekiguchi	Tokuyama Logistics Corporation
	Hiroya Yamashita	General Manager of Corporate Development Dept.
	Ryo Sugiyama	General Manager of Life & Amenity Business Div.
	Toshihiko Annaka	General Manager of Corporate Social Responsibility Div., Legal & Credit Management Dept.
	Hiroshi Nomura	General Manager of Specialty Products Business Div.
	Hideo Sugimura	General Manager of Corporate Planning Div.

Financial Section

Financial Review

Income Analysis

In the fiscal year ended March 31, 2015 (April 1, 2014 to March 31, 2015), uncertainty clouded the future of the global economy as a whole. Despite firm trends in the United States on the back of high levels of personal consumption and a recovery in employment conditions, this uncertainty was largely attributable to a slowdown in the rate of economic growth in China and a growing sense of stagnation in Europe. Moreover, feelings of instability toward economic activity were exacerbated by the sudden drop in crude oil prices in the second half of the fiscal year under review.

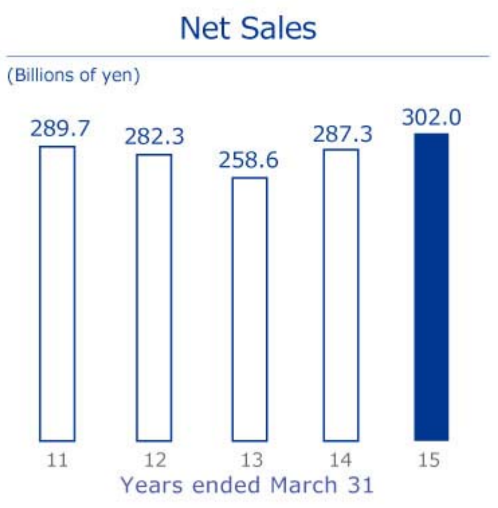
Turning to the Japanese economy, conditions were supported by expectations toward the economic policy measures of the government and the Bank of Japan. Despite these expectations, however, the overall economy remained sluggish due mainly to the impact of the consumption tax rate hike on personal consumption.

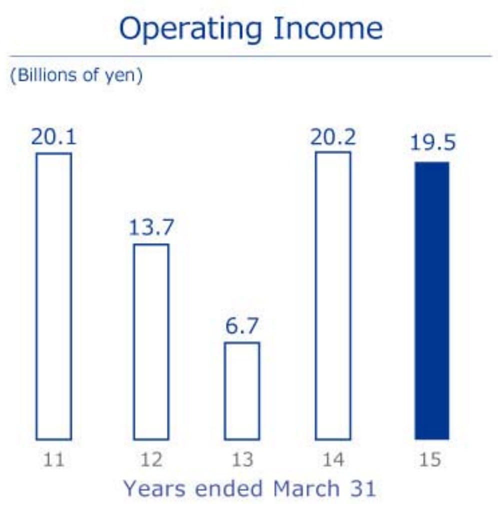
Under these circumstances, Tokuyama Group continued to reconstruct the polycrystalline silicon business, improve profits in existing and new businesses, and improve Companywide profitability. As a result, while net sales increased, the Company reported a decline in operating income and ordinary income due to such factors as the increase in depreciation expenses in line with the commencement of operations at consolidated subsidiary Tokuyama Malaysia Sdn. Bhd. Moreover, net income deteriorated substantially owing to the extraordinary loss of ¥85,792 million recorded by Tokuyama Malaysia Sdn. Bhd.

Consolidated net sales increased 5.1%, or ¥14,755 million compared with the previous fiscal year, to ¥302,085 million (US$2,517million). In addition to increased sales volumes of polycrystalline silicon and high-purity chemicals for electronics manufacturing and selling price revisions of caustic soda, this was largely attributable to strong sales mainly of active pharmaceutical ingredients and the commencement of the operation of the newly added consolidated subsidiaries.

Despite a downturn in manufacturing costs as a result of the drop in the prices of such raw materials and fuel as coal and domestic naphtha, an increase in sales volumes of polycrystalline silicon attributable to the commencement of operations at Tokuyama Malaysia Sdn. Bhd. and other factors served to boost the cost of sales 5.8%, or ¥11,928 million compared with the previous fiscal year, to ¥218,917 million (US$1,824 million).

SG&A expenses increased 5.9%, or ¥3,567 million compared with the previous fiscal year, to ¥63,636 million (US$530 million), due mainly to higher distribution costs resulting from increased sales volumes and increases in R&D expenses and amortization of goodwill.





Operating income decreased 3.7%, or ¥740 million compared with the previous fiscal year to ¥19,530 million (US$162 million). Despite such positive factors as improvement in the profitability of petrochemicals, this decrease was mainly due to the increase in depreciation expenses in line with the commencement of operations at Tokuyama Malaysia Sdn. Bhd. The operating margin (the ratio of operating income to net sales) was 6.5%, a decrease of 0.6 percentage points compared with the figure of 7.1% recorded in the previous fiscal year.

Non-operating income/expenses deteriorated by ¥1,303 million year on year. While non-operating activities benefited from a decrease in cost of idle operations and the absence of borrowing-related costs which arose from the procurement of funds through a subordinated loan recorded in the previous fiscal year, this deterioration was mainly due to the increase in interest expenses and the posting of trial production expenses at Tokuyama Malaysia Sdn. Bhd. As a result, ordinary income decreased 13.7%, or ¥2,044 million compared with the previous fiscal year, to ¥12,920 million (US$107 million).

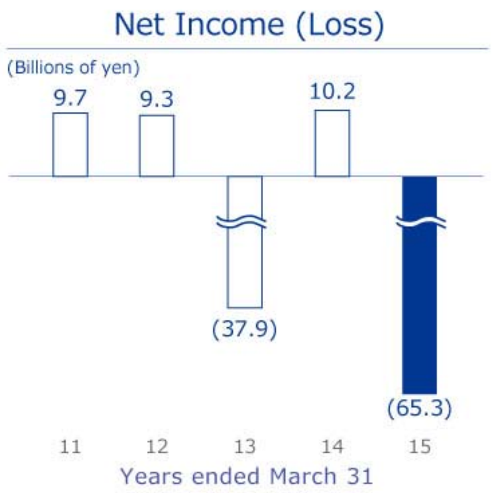
In extraordinary income and losses, the Company recorded a gain on sales of investment securities. However, this was more than offset by such factors as the impairment loss on the polycrystalline silicon manufacturing facilities of Tokuyama Malaysia Sdn. Bhd. As a result, extraordinary income/losses deteriorated by ¥75,882 million compared with the previous fiscal year.

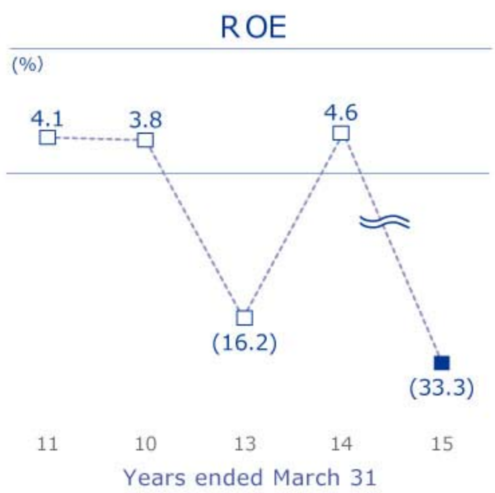
As a result of the above, income/loss before income taxes and minority interests deteriorated by ¥77,926 million compared with the previous fiscal year, to a loss of ¥64,986 million (US$541 million).

Income/loss before minority interests deteriorated by ¥75,821 million compared with the previous fiscal year, to a loss of ¥65,327 million (US$544 million). After deducting minority interests, the Company recorded a net loss of ¥65,349 million (US$544 million). Consequently, net income/loss deteriorated by ¥75,567 million compared with the previous fiscal year.

Net loss per share was ¥187.85 (US$1.565), down from net income per share of ¥29.37 in the previous fiscal year. Dividends per share were ¥0.00 (US$0.000).

Return on equity (ROE) and return on assets (ROA) were -33.3% and -11.8%, respectively, compared with 4.6% and 1.8% in the previous fiscal year.





Segment Information

Tokuyama Group is composed of the parent company, Tokuyama Corporation ("the Company"), 55 subsidiaries and 30 affiliated companies. The Group's operations are divided into the four business segments of Chemicals, Specialty Products, Cement, and Life & Amenity. For accounting purposes, 54 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.

With regard to caustic soda, sales increased compared with the previous fiscal year. In addition to steady domestic sales, this was attributable to our efforts to revise selling prices in order to absorb a rise in raw materials prices.

Vinyl chloride monomers (VCM) sales were essentially unchanged from the previous fiscal year. While domestic sales volumes declined, this was offset by an increase in the volume of exports where selling prices continued to hover at a high level due mainly to the impact of the weak yen.

Sales of vinyl chloride resin declined. Despite efforts to revise selling prices to account for the rise in raw material prices, this decline was largely attributable to market corrections following the rush in demand in the lead up to the consumption tax rate hike and the downturn in sales volume resulting from such factors as the slump in housing starts.

With regard to soda ash and calcium chloride, sales increased compared with the previous fiscal year. This was attributable to the commencement of the operation of TOKUYAMA & CENTRAL SODA Inc.

As a result of the above, segment net sales increased 6.3% compared with the previous fiscal year, to ¥91,927 million (US$766 million) and operating income increased 126.1% to ¥5,056 million (US$42 million). The segment reported higher earnings on higher sales.

Specialty Products

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

With regard to semiconductor-grade polycrystalline silicon, sales volume increased owing mainly to strong demand for mobile terminals including smartphones. On the other hand, with regard to solar cell-grade polycrystalline silicon, the Company's consolidated subsidiary Tokuyama Malaysia Sdn. Bhd. commenced shipments of solar cell-grade polycrystalline silicon under circumstances where demand for solar panels continued to expand. As a result of the above, sales of polycrystalline silicon increased compared with the previous fiscal year.

With regard to fumed silica, sales were steady, mainly of its application as a polishing material for semiconductors. As a result of this, sales increased compared with the previous fiscal year.

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

With regard to high-purity chemicals for electronics manufacturing, sales increased compared with the previous fiscal year, owing to strong sales of such applications as semiconductor and liquid crystal production.

As a result of the above, segment net sales increased 5.7% compared with the previous fiscal year, to ¥55,450 million (US$462 million), while operating income decreased 32.3% to ¥4,122 million (US$34 million). The segment reported lower earnings on higher sales.

Cement
The Cement segment comprises the operations of the Company, 18 consolidated subsidiaries and four equity-method affiliates.

In the cement business, total sales volumes declined slightly year on year. Despite an increase in exports mainly to Asia, which is exhibiting firm demand, this downturn was primarily due to labor shortages in the construction industry in Japan and delays in construction work caused by unseasonably bad weather. On the cost front, distribution costs increased due largely to the construction of new cement tankers.

In the recycling and environment-related business, the Company accepted a lower volume of waste owing mainly to a drop in the volume of clinker ash production.

With regard to consolidated subsidiaries, sales increased compared with the previous fiscal year, mainly because Hiroshima Tokuyama Ready Mixed Concrete Co., Ltd. launched its operations.

As a result of the above, segment net sales increased 2.8% compared with the previous fiscal year, to ¥81,219 million (US$676 million), while operating income decreased 33.5% to ¥4,446 million (US$37 million). The segment reported lower earnings on higher sales.

Life & Amenity
The Life & Amenity segment includes the operations of the Company, 14 consolidated subsidiaries and two equity-method affiliates.

Sales of active pharmaceutical ingredients grew owing to increased sales volumes of generic pharmaceuticals and other applications. As a result of this, sales increased compared with the previous fiscal year.

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

With regard to microporous film, the manufacturing facilities of Tianjin Tokuyama Plastics Co., Ltd. commenced operations, and due to this, sales volumes of such applications as sanitary articles including disposable diapers increased. As a result of this, sales increased compared with the previous fiscal year.

With regard to polyolefin film, in addition to steady sales mainly of its application as packaging material for everyday items at convenience stores, we revised selling prices to absorb a rise in raw material prices. As a result of the above, sales increased compared with the previous fiscal year.

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

With regard to medical diagnosis systems, profitability rose compared with the previous fiscal year. In addition to steady sales of products for blood testing, this was attributable to our cost reduction efforts including in-house production.

With regard to plastic window sashes, sales decreased compared with the previous fiscal year. This was attributable to a decrease in sales volume arising from reaction to the rush demand before the consumption tax increase.

As a result of the above, segment net sales increased 2.5% compared with the previous fiscal year, to ¥58,457 million (US$487 million) and operating income increased 6.1% to ¥5,159 million (US$42million). The segment reported higher earnings on higher sales.

Financial Position and Liquidity

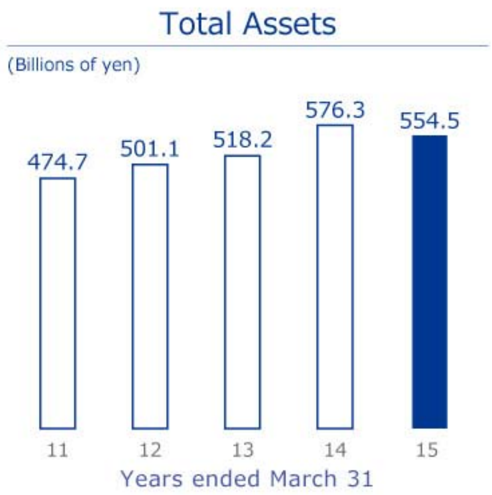
As of March 31, 2015, total assets amounted to ¥554,527 million (US$4,621 million), a decrease of ¥21,787 million from the figure of ¥576,315 million as of the previous fiscal year-end.

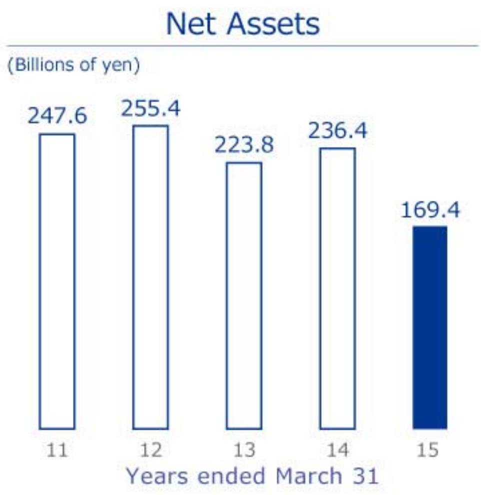
Current assets increased 27.3% compared with the previous fiscal year-end to ¥243,975 million (US$2,033 million). This was due primarily to an increase in cash and deposits. Current liabilities increased 18.1% to ¥117,298 million (US$977 million). This mainly reflected an increase in current portion of long-term loans payable. As a result, the current ratio was up to 2.08 times, from 1.93 times as of the previous fiscal year-end.

Property, plant and equipment decreased 21.6% in comparison with the previous fiscal year-end to ¥253,331 million (US$2,111 million). This was largely attributable to a decrease in property, plant and equipment resulting from the posting of a loss on the impairment of polycrystalline silicon manufacturing facilities of Tokuyama Malaysia Sdn. Bhd. Intangible assets and investments and other assets dropped 7.1% over the previous fiscal year-end to ¥57,220 million (US$476 million). This was primarily due to a decrease in investment securities.

As of March 31, 2015, total liabilities amounted to ¥385,082 million (US$3,209 million), an increase of 13.3% compared with the previous fiscal year-end figure of ¥339,862 million. The main contributory factor was an increase in long-term loans payable. Interest-bearing debt increased 17.6% from ¥240,767 million as of the previous fiscal year-end to ¥283,196 million (US$2,359 million).

Minority interests increased 1.2% from ¥6,785 million as of the previous fiscal year-end to ¥6,868 million (US$57 million). Net assets decreased 28.3% compared with the previous fiscal year-end, from ¥236,453 million to ¥169,445 million (US$1,412 million). This was due chiefly to a decrease in retained earnings. The ratio of shareholders' equity to total assets was 29.3%, down from 39.9% as of the previous fiscal year-end. The amount of net assets per share was ¥467.36 (US$3.895), down from ¥660.18 as of the previous fiscal year-end.





Capital Expenditures
Capital expenditures totaled ¥25,345 million (US$211 million), a decrease of 58.8% compared with the previous fiscal year's figure of ¥61,503 million.

Cash Flows
Net cash provided by operating activities totaled ¥30,772 million (US$256 million). Principal items included depreciation expenses of ¥18,845 million (US$157 million), up from ¥16,642 million in the previous fiscal year.

Net cash used in investing activities totaled ¥25,519 million (US$212 million). Major contributory factors were purchase of property, plant and equipment, from ¥29,907 million in the previous fiscal year to ¥32,470 million (US$270 million), and proceeds from sales of investment securities of ¥16,746 million (US$139 million) (¥984 million in the previous fiscal year).

Net cash provided by financing activities came to ¥40,502 million (US$337 million). This was primarily attributable to proceeds from long-term loans payable of ¥84,311 million (US$702 million), up from ¥68,829 million in the previous fiscal year, and repayments of long-term loans payable of ¥41,286 million (US$344 million) (¥22,623 million in the previous fiscal year).

As a result of the above, cash and cash equivalents increased by ¥46,148 million (US$384 million) compared with the previous fiscal year-end, to ¥116,122 million (US$967 million).

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Assets :			
Current assets :			
Cash and deposits (Note 5)	61,364	27,605	511,368
Notes and accounts receivable - trade (Note 5)	69,371	67,495	578,099
Lease receivables	30	-	257
Securities (Note 5, Note 15)	55,053	43,050	458,779
Merchandise and finished goods	15,456	14,131	128,802
Work in process	11,606	9,896	96,723
Raw materials and supplies	18,026	17,878	150,217
Deferred tax assets (Note 6)	4,772	1,068	39,770
Other	8,396	10,635	69,968
Allowance for doubtful accounts	(103)	(138)	(858)
Total current assets	243,975	191,623	2,033,128
Noncurrent assets :			
Property, plant and equipment :			
Buildings and structures (Note 5)	137,347	102,709	1,144,564
Accumulated depreciation	(74,090)	(71,685)	(617,419)
Buildings and structures, net	63,257	31,024	527,144
Machinery, equipment and vehicles (Note 5)	546,388	441,874	4,553,236
Accumulated depreciation	(401,461)	(392,062)	(3,345,509)
Machinery, equipment and vehicles, net	144,927	49,812	1,207,727
Tools, furniture and fixtures	23,261	23,002	193,842
Accumulated depreciation	(20,974)	(21,360)	(174,785)
Tools, furniture and fixtures, net	2,286	1,642	19,057
Land (Note 5)	33,149	32,667	276,244
Lease assets	2,135	2,156	17,796
Accumulated depreciation	(936)	(895)	(7,800)
Lease assets, net	1,199	1,261	9,996
Construction in progress	8,511	206,692	70,926
Total property, plant and equipment	253,331	323,100	2,111,096
Intangible assets			
Goodwill	5,097	3,608	42,482
Lease assets	44	29	370
Other	4,641	6,493	38,681
Total intangible assets	9,784	10,131	81,535
Investments and other assets			
Investment securities (Note 4 , Note 5)	31,062	33,334	258,854
Long-term loans receivable	3,248	3,473	27,073
Deferred tax assets (Note 6)	669	839	5,581
Net defined benefit asset (Note 7)	8,765	7,804	73,046
Other	4,015	6,264	33,465
Allowance for investment loss	(22)	(21)	(191)
Allowance for doubtful accounts	(303)	(233)	(2,526)
Total investments and other assets	47,436	51,460	395,303
Total noncurrent assets	310,552	384,692	2,587,935
Total assets	554,527	576,315	4,621,064

See notes to consolidated financial statements

Consolidated Balance Sheets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Liabilities :			
Current liabilities :			
Notes and accounts payable - trade	40,567	40,089	338,064
Short-term loans payable (Note 5)	12,212	12,347	101,770
Commercial papers (Note 5)	3,000	4,000	25,000
Current portion of long-term loans payable (Note 5)	25,110	8,811	209,256
Current portion of bonds	5,000	-	41,666
Lease obligations (Note 5)	340	376	2,833
Income taxes payable (Note 6)	1,318	1,865	10,989
Deferred tax liabilities (Note 6)	-	1	-
Provision for bonuses	1,911	2,056	15,930
Provision for repairs	1,284	1,429	10,703
Provision for product warranties	132	132	1,106
Provision for loss on compensation for damage	50	-	416
Provision for restructuring	-	13	-
Provision for loss on purchase contract	3,183	-	26,525
Other	23,186	28,173	193,223
Total current liabilities	117,298	99,297	977,488
Noncurrent liabilities :			
Bonds payable (Note 5)	45,000	50,000	375,000
Long-term loans payable (Note 5)	191,552	164,278	1,596,270
Lease obligations (Note 5)	981	953	8,176
Deferred tax liabilities (Note 6)	6,409	7,338	53,409
Provision for directors' retirement benefits	226	207	1,890
Provision for repairs	3,458	2,747	28,818
Allowance for loss on compensation for building materials	574	842	4,784
Provision for environmental measures	91	131	763
Provision for loss on purchase contract	6,250	-	52,086
Net defined benefit liability (Note 7)	1,162	1,112	9,687
Asset retirement obligations	5	5	48
Other	12,071	12,946	100,595
Total noncurrent liabilities	267,783	240,565	2,231,530
Total liabilities	385,082	339,862	3,209,019
Contingent liabilities (Note 17)			
Net assets :			
Shareholders' equity (Note 12) :			
Capital stock			
Authorized : 700,000,000 shares			
Issued : 349,671,876 shares	53,458	53,458	445,491
Capital surplus	57,670	57,670	480,584
Retained earnings	39,286	107,155	327,386
Treasury stock			
2014 : 1,782,644 shares			
2015 : 1,805,814 shares	(1,434)	(1,428)	(11,953)
Total shareholders' equity	148,981	216,856	1,241,509
Accumulated other comprehensive income :			
Valuation difference on available-for-sale securities	5,829	8,369	48,578
Deferred gains or losses on hedges	330	749	2,753
Foreign currency translation adjustment	4,196	2,710	34,973
Remeasurements of defined benefit plans	3,239	982	26,995
Total accumulated other comprehensive income	13,596	12,811	113,301
Minority interests	6,868	6,785	57,234
Total net assets	169,445	236,453	1,412,045
Total liabilities and net assets	554,527	576,315	4,621,064

See notes to consolidated financial statements

Consolidated Statements of Income

Tokuyama Corporation and Consolidated Subsidiaries   Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Net sales	302,085	287,330	2,517,377
Cost of sales (Note 10)	218,917	206,989	1,824,316
Gross profit	83,167	80,340	693,061
Selling, general and administrative expenses (Note 9) :			
Selling expenses	36,566	35,275	304,719
General and administrative expenses (Note 10)	27,070	24,794	225,587
Total selling, general and administrative expenses	63,636	60,069	530,306
Operating income	19,530	20,270	162,754
Non-operating income :			
Interest income	110	45	917
Dividends income	629	552	5,247
Equity in earnings of affiliates	684	519	5,702
Technical support fee	312	373	2,600
Foreign exchange gains	-	432	-
Other	1,153	1,143	9,613
Total non-operating income	2,889	3,067	24,081
Non-operating expenses :			
Interest expenses	4,756	2,755	39,638
Trial production expenses	1,577	-	13,144
Other	3,165	5,617	26,378
Total non-operating expenses	9,499	8,372	79,161
Ordinary income	12,920	14,965	107,674
Extraordinary income :			
Gain on sales of noncurrent assets	73	212	611
Gain on bargain purchase	5	-	41
Gain on sales of investment securities	10,442	379	87,018
Gain on sales of subsidiaries and affiliates' stocks	20	-	174
State subsidy	24	3	203
Other	-	96	-
Total extraordinary income	10,566	692	88,050
Extraordinary loss :			
Loss on sales of noncurrent assets	8	84	70
Impairment loss (Note 11)	76,010	374	633,418
Loss on disaster	383	120	3,195
Loss on reduction of noncurrent assets	27	1	226
Loss on disposal of noncurrent assets	420	1,671	3,501
Loss on sales of investment securities	-	1	-
Loss on sales of shares of subsidiaries and associates	8	78	74
Provision for loss on purchase contract	9,433	-	78,612
Loss on purchase contract	1,489	-	12,408
Cost of compensation for building materials	-	336	-
Other	692	49	5,770
Total extraordinary losses	88,473	2,717	737,278
Income (loss) before income taxes and minority interests	(64,986)	12,939	(541,554)
Income taxes (Note 6) :			
Current	3,747	2,870	31,228
Deferred	(3,405)	(423)	(28,383)
Total income taxes	341	2,446	2,844
Income (loss) before minority interests	(65,327)	10,493	(544,399)
Minority interests in income	21	274	177
Net income (loss)	(65,349)	10,218	(544,576)

	Yen		U.S. dollars (Note 2)
	2015	2014	**2015**
Per share amounts :			
Net income (loss)	(187.85)	29.37	(1.565)
Cash dividends	-	6.00	-

See notes to consolidated financial statements

Consolidated Statements of Comprehensive Income

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Income (loss) before minority interests	(65,327)	10,493	(544,399)
Other comprehensive income			
Valuation difference on available-for-sale securities	(2,535)	816	(21,130)
Deferred gains or losses on hedges	(419)	(1,488)	(3,492)
Foreign currency translation adjustment	1,299	3,540	10,827
Remeasurements of defined benefit plans, net of tax	2,257	-	18,810
Share of other comprehensive income of entities accounted for using equity	189	392	1,581
Total other comprehensive income	791	3,261	6,596
Total comprehensive income	(64,536)	13,754	(537,802)
Attributable to:			
Owners of parent	(64,564)	13,265	(538,037)
Minority interests	28	488	235

See notes to consolidated financial statements

Consolidated Statements of Changes in Net Assets

Tokuyama Corporation and Consolidated Subsidiaries Years ended March 31, 2015 and 2014

[2015]

	Millions of yen											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total	Minority interests	Total net assets
Balance at beginning of year	53,458	57,670	107,155	(1,428)	216,856	8,369	749	2,710	982	12,811	6,785	236,453
Cumulative effects of changes in accounting policies			(1,842)		(1,842)							(1,842)
Restated balance	53,458	57,670	105,313	(1,428)	215,013	8,369	749	2,710	982	12,811	6,785	234,610
Changes during the fiscal year												
Cash dividends			(1,043)		(1,043)							(1,043)
Net income (loss)			(65,349)		(65,349)							(65,349)
Purchase of treasury stock				(7)	(7)							(7)
Disposal of treasury stock			(1)	2	0							0
Effect of changes in fiscal year of consolidated subsidiaries			356		356							356
Change of scope of consolidation			10		10							10
Net changes of items other than shareholders' equity						(2,539)	(419)	1,486	2,257	784	82	867
Total changes of items during the period	-	-	(66,026)	(5)	(66,032)	(2,539)	(419)	1,486	2,257	784	82	(65,165)
Balance at end of year	53,458	57,670	39,286	(1,434)	148,981	5,829	330	4,196	3,239	13,596	6,868	169,445

[2014]

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

[2015]

	Thousands of U.S. dollars (Note 2)											
	Shareholders' equity					Accumulated other comprehensive income						
	Capital stock	Capital surplus	Retained earnings	Treasury stock	Total	Valuation difference on available-for-sale securities	Deferred gains or losses on hedges	Foreign currency translation adjustment	Remeasure-ments of defined benefit plans	Total	Minority interests	Total net assets
Balance at beginning of year	445,491	480,584	892,964	(11,904)	1,807,136	69,743	6,246	22,587	8,185	106,762	56,545	1,970,444
Cumulative effects of changes in accounting policies			(15,353)		(15,353)							(15,353)
Restated balance	445,491	480,584	877,610	(11,904)	1,791,782	69,743	6,246	22,587	8,185	106,762	56,545	1,955,090
Changes during the fiscal year												
Cash dividends			(8,697)		(8,697)							(8,697)
Net income (loss)			(544,576)		(544,576)							(544,576)
Purchase of treasury stock				(66)	(66)							(66)
Disposal of treasury stock			(10)	17	6							6
Effect of changes in fiscal year of consolidated subsidiaries			2,973		2,973							2,973
Change of scope of consolidation			86		86							86
Net changes of items other than shareholders' equity						(21,164)	(3,492)	12,386	18,810	6,539	688	7,227
Total changes of items during the period	-	-	(550,223)	(49)	(550,273)	(21,164)	(3,492)	12,386	18,810	6,539	688	(543,045)
Balance at end of year	445,491	480,584	327,386	(11,953)	1,241,509	48,578	2,753	34,973	26,995	113,301	57,234	1,412,045

See notes to consolidated financial statements

Consolidated Statements of Cash Flows

Tokuyama Corporation and Consolidated Subsidiaries　　Years ended March 31, 2015 and 2014

	Millions of yen		Thousands of U.S. dollars (Note 2)
	2015	2014	**2015**
Net cash provided by (used in) operating activities			
Income (loss) before income taxes and minority interests	(64,986)	12,939	(541,554)
Depreciation and amortization	18,845	16,642	157,042
Increase (decrease) in allowance for loss on compensation for building materials	(268)	(433)	(2,239)
Increase (decrease) in provision for loss on purchase contract	9,433	-	78,612
Increase (decrease) in other provision	450	(260)	3,750
Increase(decrease) in net defined benefit liability	79	118	662
Increase(decrease) in net defined benefit asset	442	629	3,688
Interest and dividends income	(739)	(598)	(6,165)
Foreign exchange losses (gains)	1,070	(78)	8,923
Gain on bargain purchase	(5)	-	(41)
Loss (gain) on sales of property, plant and equipment	(64)	(128)	(541)
Loss (gain) on sales of investment securities	(10,442)	(378)	(87,018)
Loss (gain) on sales of shares of subsidiaries and associates	(12)	78	(100)
Equity in (earnings) losses of affiliates	(684)	(519)	(5,702)
Subsidy income	(24)	(3)	(203)
Interest expenses	4,756	2,755	39,638
Loss on reduction of noncurrent assets	27	1	226
Impairment loss	76,010	374	633,418
Loss (gain) on disposal of noncurrent assets	420	1,671	3,501
Decrease (increase) in notes and accounts receivable - trade	(2,520)	(484)	(21,006)
Decrease (increase) in inventories	1,136	9,485	9,470
Decrease (increase) in other current assets	681	(1,619)	5,676
Increase (decrease) in notes and accounts payable - trade	1,443	710	12,031
Increase (decrease) in other current liabilities	808	(1,290)	6,740
Other, net	2,689	(1,510)	22,413
Subtotal	38,546	38,100	321,224
Interest and dividends income received	1,189	498	9,916
Interest expenses paid	(4,732)	(2,153)	(39,434)
Income taxes paid	(4,232)	(2,340)	(35,268)
Net cash provided by (used in) operating activities	30,772	34,105	256,437
Net cash provided by (used in) investing activities			
Payments into time deposits	(34)	(37)	(283)
Proceeds from withdrawal of time deposits	429	211	3,576
Purchase of property, plant and equipment	(32,470)	(29,907)	(270,583)
Proceeds from sales of property, plant and equipment	109	520	915
Purchase of investment securities	(7,967)	(812)	(66,399)
Proceeds from sales of investment securities	16,746	984	139,556
Purchase of shares of subsidiaries resulting in change in scope of consolidation	-	(4,115)	-
Payments for sales of shares of subsidiaries resulting in change in scope of consolidation	(633)	-	(5,275)
Additional purchase of investments in consolidated subsidiaries	(23)	-	(197)
Payments of long-term loans receivable	(20)	(15)	(171)
Collection of long-term loans receivable	244	257	2,037
Purchase of money held in trust	-	(34,300)	-
Proceeds from cancellation of money held in trust	-	3,492	-
Proceeds from subsidy income	2,659	3	22,164
Payments for transfer of business	(3,750)	-	(31,250)
Other, net	(810)	(682)	(6,754)
Net cash provided by (used in) investing activities	(25,519)	(64,402)	(212,664)
Net cash provided by (used in) financing activities			
Increase (decrease) in short-term loans payable	(5)	2,668	(47)
Increase (decrease) in commercial papers	(1,000)	-	(8,333)
Proceeds of long-term loans payable	84,311	68,829	702,592
Repayment of long-term loans payable	(41,286)	(22,623)	(344,056)
Cash dividends paid	(1,043)	(2,080)	(8,699)
Cash dividends paid to minority shareholders	(437)	(397)	(3,642)
Decrease (increase) in treasury stock	(75)	(97)	(627)
Other, net	40	(359)	333
Net cash provided by (used in) financing activities	40,502	45,939	337,519
Effect of exchange rate change on cash and cash equivalents	392	1,485	3,266
Net increase (decrease) in cash and cash equivalents	46,147	17,127	384,558
Cash and cash equivalents at beginning of period	69,973	52,431	583,114
Increase (decrease) in cash and cash equivalents resulting from change of scope of consolidation	10	414	83
Increase (decrease) in cash and cash equivalents resulting from change in fiscal period of consolidated subsidiaries	(8)	-	(72)
Cash and cash equivalents at end of period	116,122	69,973	967,684

See notes to consolidated financial statements

1. BASIS OF FINANCIAL STATEMENTS

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

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

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

2. U.S. DOLLAR AMOUNTS

The U.S. dollar amounts included in the consolidated financial statements and notes represent the arithmetic results of translating Japanese yen to U.S. dollars at the rate of ¥120=US$1, the approximate exchange rate on March 31, 2015. The U.S. dollar amounts are included solely for the convenience of readers outside Japan, and are not intended to imply that the assets and liabilities that originated in yen have been or could be readily converted, realized, or settled in U.S. dollars at this or at any other rate.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

CONSOLIDATION:

The consolidated financial statements include the accounts of the Company and its 54 significant subsidiaries (53 in 2014). Significant intercompany transactions and accounts have been eliminated in consolidation.

A&T Corporation is consolidated on the basis of their original fiscal years ended at December 31. Material differences in intercompany transactions and accounts arising from the use of the different fiscal year-end are appropriately adjusted in consolidation.

Investments in 10 affiliates (9 in 2014) are accounted for by the equity method. Investments in unconsolidated subsidiaries and affiliates not accounted for by the equity method are carried at cost.

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

FOREIGN CURRENCY TRANSACTIONS:

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

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

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

CASH AND CASH EQUIVALENTS:

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

MARKETABLE AND INVESTMENT SECURITIES:

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

INVENTORIES:

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

PROPERTY, PLANT AND EQUIPMENT:

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

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

RESEARCH AND DEVELOPMENT EXPENSES:

Research and development expenses are charged to income as incurred.

DERIVATIVES AND HEDGE ACCOUNTING:

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

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

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

LEASES:

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

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

ALLOWANCE FOR DOUBTFUL ACCOUNTS:

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

INCOME TAXES:

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

RETIREMENT BENEFITS:

(i) Employees

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

Prior service costs are charged to income as incurred.

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

(ii) Directors and corporate auditors

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

ACCOUNTING FOR CONSUMPTION TAX:

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

NET INCOME PER SHARE:

Net income per share is computed by dividing net income available to common stockholders by the weighted average number of common shares outstanding during each fiscal year. Diluted net income per share is calculated based on the assumption that all diluted convertible bonds were converted at the beginning of the fiscal year. Diluted net income per share for the fiscal years ended March 31, 2015, 2014 and 2013 was not presented because there was no dilutive effect on any assumed conversion of convertible bonds for the fiscal years ended March 31, 2015, 2014 and 2013.

ADOPTION OF THE ACCOUNTING STANDARD FOR RETIREMENT BENEFITS:

Effective from the fiscal year under review, the Company has adopted the provisions set forth under Article 35 of the "Accounting Standard for Retirement Benefits" (Accounting Standards Board of Japan ("ASBJ") Statement No. 26 issued on May 17, 2012) and the provisions set forth under Article 67 of the "Guidance on Accounting Standard for Retirement Benefits" (ASBJ Guidance No. 25 issued on March 26, 2015). Accordingly, we have revised the method for calculating the amount of retirement benefit obligations and service costs. The method for attributing retirement benefit obligations to each period has been changed from the straight-line method to a method for calculating the amount of retirement obligations for each period. The method for determining the discount rate used in the calculation has also been changed from one in which the number of years approximately equal the average remaining service period of employees is used as the basis for calculating the discount rate to one in which a single weighted average discount rate is used that reflects each forecasted period of payment of retirement benefit and the amount of benefit payment for each estimated period.

In accordance with the interim measures stipulated under Article 37 of the Accounting Standard for Retirement Benefits, the effect of the change in the calculation methods for the amount of retirement benefit obligations and service costs is reflected in retained earnings as of the beginning of the fiscal year under review.

As a result, net defined benefit asset, net defined benefit liability, and retained earnings decreased by ¥1,850 million (US$15 million), ¥31 million (US$0.2 million), and ¥1,842 million (US$15 million), respectively. The effect on operating income, ordinary income, and loss before income taxes and minority interests in the fiscal year under review is immaterial.

While net assets per share declined by ¥5.30 (US$0.044) in the fiscal year under review, the effect on net loss per share is immaterial. There was no impact on the amount of diluted net income per share because the Company reported a net loss per share and there were no shares with a dilutive effect in the fiscal year under review.

4. SECURITIES

Held-to-maturity debt securities at March 31, 2015 were as follows:

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

	Thousands of U.S. Dollars		
	Book value	**Fair value**	**Unrealized gain**
Held-to-maturity debt securities :			
Government and municipal bonds	29	29	-
Corporate bonds	-	-	-
Other	-	-	-
Total	29	29	-

Available-for-sale securities at March 31, 2015 were as follows:

	Millions of yen		
	Book value	**Acquisition cost**	**Unrealized gain**
Available-for-sale securities:			
Equity securities	15,636	24,206	8,570
Total	15,636	24,206	8,570

	Thousands of U.S. Dollars		
	Book value	**Acquisition cost**	**Unrealized gain**
Available-for-sale securities:			
Equity securities	130,300	201,718	71,418
Total	130,300	201,718	71,418

The sales amount of available-for-sale securities for the fiscal year ended March 31, 2015 was as follows:

	Millions of yen		
	Proceeds	**Gain on sales**	**Loss on sales**
Available-for-sale securities sold during 2015 :			
Equity securities	16,701	10,442	-
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	16,701	10,442	-

	Thousands of U.S. Dollars		
	Proceeds	**Gain on sales**	**Loss on sales**
Available-for-sale securities sold during 2015 :			
Equity securities	139,178	87,018	-
Debt securities			
Government and municipal bonds	-	-	-
Corporate bonds	-	-	-
Other	-	-	-
Other	-	-	-
Total	139,178	87,018	-

5. BORROWINGS

Bonds payable at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
0.537% unsecured bonds in yen due September 9, 2015	5,000	5,000	41,666
0.575% unsecured bonds in yen due September 8, 2016	10,000	10,000	83,333
1.760% unsecured bonds in yen due March 10, 2020	10,000	10,000	83,333
1.478% unsecured bonds in yen due September 9, 2020	15,000	15,000	125,000
1.371% unsecured bonds in yen due September 8, 2021	10,000	10,000	83,333
Total	50,000	50,000	416,666

The aggregate annual maturities at March 31, 2015 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2016	5,000	41,666
2017	10,000	83,333
2018	-	-
2019	-	-
2020	10,000	83,333
Thereafter	25,000	208,333
Total	50,000	416,666

Loans payable at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Short-term loans payable (1.35%)	12,212	12,347	101,770
Current portion of long-term loans payable (1.25%)	25,110	8,811	209,256
Current portion of lease obligations	340	376	2,833
Long-term loans payable, due in 2016-2074 (1.67%)	191,552	164,278	1,596,270
Lease obligations, due in 2016-2021	981	953	8,176
Commercial papers (0.13%)	3,000	4,000	25,000
Total	233,196	190,767	1,943,307

The aggregate annual maturities of long-term loans payable at March 31, 2015 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2016	25,110	209,256
2017	16,956	141,307
2018	14,916	124,307
2019	18,101	150,847
2020	14,048	117,073
Thereafter	127,528	1,062,733
Total	216,663	1,805,526

The aggregate annual maturities of lease obligations at March 31, 2015 are summarized as follows:

	Millions of yen	Thousands of U.S. Dollars
Year ending March 31		
2016	340	2,833
2017	302	2,524
2018	245	2,041
2019	224	1,870
2020	146	1,217
Thereafter	62	522
Total	1,321	11,010

Assets pledged as collateral for certain loans and other liabilities at March 31, 2015 and 2014 are summarized as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Pledged Assets			
Cash and deposits	270	228	2,254
Notes and accounts receivable - trade	80	18	672
Buildings and structures	2,225	2,245	18,546
Machinery, equipment and vehicles	2,118	2,332	17,650
Land	785	785	6,544
Investment securities	3	3	29
Total	5,483	5,613	45,698

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

The balance of unexecuted loans under this agreement at March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Lines of credit	15,000	15,000	125,000
Credit used	-	-	-
Available credit	15,000	15,000	125,000

6. INCOME TAXES

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

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

	2015	2014
Statutory tax rate	This information is omitted, as the company posted a loss before income taxes during the period under review.	37.8 %
Increase (decrease) in income taxes resulting from：		
Change in valuation allowance allocated to income tax expenses		(34.9)
Inter-company eliminations of allowance for investment loss		(7.2)
Permanent difference		(6.1)
Equity in earnings of affiliates		(1.4)
Effect of tax credits		(1.4)
Amortization of goodwill		1.1
Inter-company eliminations of provision for loss on business of subsidiaries and affiliates		1.1
Retained earnings of subsidiaries and affiliates		1.2
Difference tax rate of recovery special tax		2.1
Unrealized intercompany profits		3.1
Lower tax rates of overseas consolidated subsidiaries		5.1
Inter-company eliminations of allowance for doubtful accounts		7.1
Inter-company eliminations of dividends income		8.1
Other		3.3
Effective income tax rate		18.9 %

Significant components of deferred tax assets and liabilities at March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Deferred tax assets：			
Property, plant and equipment	6,109	8,618	50,916
Deficits	3,984	9,122	33,200
Provision for repairs	1,224	1,313	10,207
Provision for bonuses	636	735	5,304
Other	844	947	7,040
Subtotal	12,800	20,738	106,669
Less valuation allowance	(8,309)	(18,389)	(69,249)
Total deferred tax assets	4,490	2,348	37,420
Deferred tax liabilities：			
Valuation difference of available-for-sale securities	(2,748)	(4,554)	(22,907)
Appropriations for advanced depreciation	(1,422)	(1,581)	(11,850)
Retained earnings of subsidiaries and affiliates	(839)	(776)	(6,996)
Other	(446)	(867)	(3,722)
Total deferred tax liabilities	(5,457)	(7,780)	(45,477)
Net deferred tax assets/(liabilities)	(966)	(5,431)	(8,057)

7. RETIREMENT AND SEVERANCE PLAN

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

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

The Company has a retirement benefit trust.

The reconciliation of beginning and ending balances of benefit obligations for the fiscal year ended March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Balance of defined benefit obligations at beginning of year	18,301	18,832	152,512
Cumulative effects of changes in accounting policies	1,837	-	15,313
Restated balance	20,139	18,832	167,826
Service cost	960	860	8,007
Interest cost	158	358	1,319
Occurrence of actuarial loss	(205)	(190)	(1,713)
Payments of retirement benefits	(1,553)	(1,609)	(12,946)
Occurrence of prior service cost	-	6	-
Other	(33)	42	(280)
Balance of defined benefit obligations at end of year	19,465	18,301	162,212

The reconciliation of beginning and ending balances of plan assets for the fiscal year ended March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Balance of plan assets at beginning of year	24,992	23,203	208,273
Expected return on plan assets	0	3	1
Occurrence of actuarial loss	2,870	2,533	23,924
Corporation's contributions	632	699	5,272
Payments of retirement benefits	(1,420)	(1,447)	(11,840)
Balance of plan assets at end of year	27,075	24,992	225,631

The reconciliation of the defined benefit obligations and plan assets to the liabilities and assets on retirement benefits recognized in the consolidated balance sheet as of March 31, 2015 and 2014 was as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Funded defined benefit obligations	18,355	17,283	152,962
Plan assets	(27,075)	(24,992)	(225,631)
	(8,720)	(7,709)	(72,669)
Unfunded defined benefit obligations	1,117	1,018	9,310
Net amount shown on balance sheets	(7,603)	(6,691)	(63,358)
Net defined benefit liability	1,162	1,112	9,687
Net defined benefit asset	(8,765)	(7,804)	(73,046)
Net amount shown on balance sheets	(7,603)	(6,691)	(63,358)

Benefit costs and a breakdown of the benefit costs for the fiscal year ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Service cost	960	860	8,007
Interest cost	158	358	1,319
Expected return on plan assets	0	(3)	1
Recognized actuarial loss	178	350	1,489
Amortization of prior service cost	-	6	-
Other	-	53	-
Periodic benefit costs of retirement benefit plan	1,298	1,626	10,818

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

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Actuarial loss	(3,248)	-	(27,067)
Total	(3,248)	-	(27,067)

The remeasurements of defined benefit plans for the fiscal year ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Unrecognized actuarial loss	(4,768)	(1,519)	(39,733)
Total	(4,768)	(1,519)	(39,733)

Principal items of plan assets for the fiscal year ended March 31, 2015 and 2014 were as follows:

	%	
	2015	2014
Domestic stocks	19	31
Foreign stocks	10	19
Domestic bonds	42	17
Foreign bonds	4	7
Insurance product (General account)	16	23
Other	9	3
Total	100	100

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

Method for setting the expected long-term rate of return

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

Items regarding the basis for calculation used in the actuarial calculation for the fiscal year ended March 31, 2015 and 2014 were as follows:

	2015	2014
Discount rate	Mainly 0.8%	Mainly 2.0%
Expected long-term return on plan assets	Mainly 0.0%	Mainly 0.0%

Defined contribution scheme

The amount which the Company and its consolidated subsidiaries were required to contribute to the defined contribution scheme was ¥536million (US$4 million).

8. LEASES

(1)Lessee

(i) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2015 and 2014 were as follows.

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Due within one year	503	491	4,191
Due beyond one year	200	689	1,669
Total	703	1,180	5,861

(2) Lessor

(i) Operating lease

The future lease payments on noncancellable operating lease transactions at March 31, 2015 and 2014 were as follows.

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Due within one year	9	9	80
Due beyond one year	131	141	1,093
Total	140	151	1,173

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling expenses for the fiscal years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Selling expenses :			
Freight-out expenses	20,330	19,413	169,423
Salaries and bonuses	5,260	4,947	43,838
Shipping charges	4,618	4,739	38,485
Provision for bonuses	261	264	2,182
Retirement benefit expenses	137	165	1,147
Provision of allowance for doubtful accounts	122	22	1,022
Provision for repairs	-	0	-

General and administrative expenses for the fiscal years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
General and administrative expenses :			
Technical research expenses	9,235	7,816	76,959
Salaries and bonuses	4,950	5,146	41,250
Provision for bonuses	220	291	1,840
Retirement benefit expenses	178	231	1,483
Provision for directors' retirement benefits	59	59	499

10. RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the fiscal years ended March 31, 2015 and 2014 were as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Research and development expenses	10,156	8,709	84,638

11. IMPAIRMENT LOSS

The Company's Group groups its assets mainly according to the smallest units independently generating cash flows based on business categories. During the fiscal year ended March 31, 2015, the Group recorded impairment losses for the following asset groups.

			Millions of yen	Thousands of U.S. Dollars
Use	**Location**	**Asset category**	**2015**	**2015**
Manufacturing facilities for polyvinyl chloride resin	Ichihara-shi, Chiba	Buildings and structures	884	7,371
		Machinery, equipment and vehicles	208	1,734
		Tools, furniture and fixtures	0	2
		Intangible assets-other	3	27
		Construction in progress	5	44
		Total	1,101	9,180

Shin Dai-ichi Vinyl Corporation wrote down the carrying amount of a certain asset group to the recoverable amount and posted this write-down amount to extraordinary losses as an impairment loss. This reflects the decision to close the Chiba Factory in line with the restructuring of business.
Meanwhile, the recoverable value of the asset group is measured using the value in use up to the closure.

			Millions of yen	Thousands of U.S. Dollars
Use	**Location**	**Asset category**	**2015**	**2015**
Manufacturing facilities for polycrystalline silicon	Sarawak, Malaysia	Buildings and structures	3,387	28,232
		Machinery, equipment and vehicles	1,743	14,527
		Tools, furniture and fixtures	271	2,259
		Intangible assets-other	335	2,795
		Construction in progress	69,132	576,105
		Total	74,870	623,920

The manufacturing facilities of the Group's Tokuyama Malaysia PS-1 Plant are designated mainly for the manufacture and sale of semiconductor-grade polycrystalline silicon. To date, the Group has completed construction and undertaken trial operations. Due to recent issues relating to deposition equipment, the decision was made that the shipment of samples for customer certification was virtually impossible even after resolving outstanding technological issues. Taking into consideration the inability to put forward a business plan that allows for projected future cash flows at this time, the Company has written down the carrying amount to the recoverable amount (residual value) and posted this write-down amount to extraordinary losses as an impairment loss.

			Millions of yen	Thousands of U.S. Dollars
Use	**Location**	**Asset category**	**2015**	**2015**
Idle fixed assets	Kamisu-shi, Ibaraki	Land	17	147
	Shunan-shi, Yamaguchi	Land	14	122
	Hofu-shi, Yamaguchi	Land	5	46
		Total	38	317

With regard to land described above, because there was a significant difference between the book value and the market value due to a drop in the price of land, the book value of this asset was written down to the recoverable value, and the amount of the write-downs was accounted for as an impairment loss in the extraordinary loss. The recoverable value was measured based on the net selling value. The net selling value was valued based on the appraisal evaluated by a real estate appraiser.

12. SHAREHOLDERS' EQUITY

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

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

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

13. ASSET RETIREMENT OBLIGATIONS

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

14. SEGMENT INFORMATION

BUSINESS SEGMENT INFORMATION

(1) Summary of reportable segments

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

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

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

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

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

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

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

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

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

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

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

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

[2015] Millions of yen

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

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

(Note 2) The segment income adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment. Included in the segment assets adjustment amount are corporate assets that are not allocated to a specific reportable segment (¥190,190million).

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

(Note 4) Long-term prepaid expenses are included.

[2014] Millions of yen

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

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

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

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

[2015]

	Thousands of U.S. Dollars							
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others*1**	**Total**	**Adjustment*2**	**Consolidated*3**
Sales								
Sales to customers	759,353	364,892	675,836	472,362	244,932	2,517,377	-	2,517,377
Inter-segment sales/transfer	6,710	97,194	988	14,785	183,972	303,651	(303,651)	-
Total sales	766,064	462,086	676,825	487,148	428,904	2,821,029	(303,651)	2,517,377
Segment income	42,136	34,350	37,057	42,999	50,196	206,740	(43,985)	162,754
Segment assets	464,877	1,623,906	506,417	427,938	235,507	3,258,647	1,362,417	4,621,064
Other items								
Depreciation and amortization	22,556	35,953	23,677	19,508	12,060	113,756	43,285	157,042
Increase in tangible and intangible fixed assets	17,120	145,466	31,117	14,109	9,044	216,858	1,994	218,852

(Note 1) The “Others” segment comprises businesses other than those of the reportable segments. Concretely, the segment includes overseas sales companies, a distribution company, a real estate business, etc.
(Note 2) The segment income adjustment amount consists mainly of basic R&D expenses that are not allocable to a specific reportable segment. Included in the segment assets adjustment amount are corporate assets that are not allocated to a specific reportable segment (US$1,584 million).
(Note 3) With regard to segment income, operating income in the consolidated financial statements has been calculated by making an adjustment to the sum total of the reportable segments’ income and the “Others” segment’s income.
(Note 4) Long-term prepaid expenses are included.

RELATED INFORMATION

Information by Region

(1) Sales

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Japan	240,932	233,557	2,007,771
Asia	47,099	40,176	392,499
Others	14,052	13,596	117,106
Total	302,085	287,330	2,517,377

(2) Property, plant and equipment

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Japan	104,791	107,398	873,262
Malaysia	133,584	201,256	1,113,207
Others	14,955	14,445	124,626
Total	253,331	323,100	2,111,096

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

[2015]

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

[2014]

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

[2015]

	Thousands of U.S. Dollars						
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others**	**Adjustment**	**Total**
Impairment loss	9,180	623,920	46	-	-	270	633,418

INFORMATION ON AMORTIZATION OF GOODWILL AND UNAMORTIZED BALANCE BY REPORTABLE SEGMENT

[2015]

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

[2014]

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

[2015]

	Thousands of U.S. Dollars						
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others**	**Adjustment**	**Total**
Amortization of goodwill	-	-	10,103	-	-	-	10,103
Unamortized balance	-	-	42,482	-	-	-	42,482

[2015]

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

[2014]

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

[2015]

	Thousands of U.S. Dollars						
	Chemicals	**Specialty Products**	**Cement**	**Life & Amenity**	**Others**	**Adjustment**	**Total**
Amortization of negative goodwill	-	-	121	-	-	-	121
Unamortized balance	-	-	-	-	-	-	-

15. FINANCIAL INSTRUMENTS

(1) Management policy on financial instruments

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

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

(2)Fair value of financial instruments

As at March 31, 2015, the book value of financial instruments, their fair value, and the differences between the two were as follows. The financial instruments whose fair value is extremely difficult to estimate are not given in the table below.

Millions of yen

	Book value	Fair value	Difference
Cash and deposits	61,364	61,364	-
Notes and accounts receivable - trade	69,371	69,371	-
Securities and Investment securities			
Securities	55,050	55,050	-
Held-to-maturity debt securities	3	3	-
The other securities	24,206	24,206	-
Long-term loans receivable	3,248	3,248	-
Total assets	213,244	213,244	-

Notes and accounts payable - trade	40,567	40,567	-
Short-term loans payable	12,212	12,212	-
Commercial papers	3,000	3,000	-
Bonds payable	50,000	49,933	(66)
Long-term loans payable	216,663	216,850	186
Total liabilities	322,443	322,563	120

Derivative financial instruments			
In which hedge accounting is not applied	-	-	-
In which hedge accounting is applied	141	(1,055)	(1,197)
Total derivative financial instruments	141	(1,055)	(1,197)

	Thousands of U.S. Dollars		
	Book value	**Fair value**	**Difference**
Cash and deposits	511,368	511,368	-
Notes and accounts receivable - trade	578,099	578,099	-
Securities and Investment securities			
Securities	458,750	458,750	-
Held-to-maturity debt securities	29	29	-
The other securities	201,718	201,718	-
Long-term loans receivable	27,073	27,073	-
Total assets	1,777,039	1,777,039	-
Notes and accounts payable - trade	338,064	338,064	-
Short-term loans payable	101,770	101,770	-
Commercial papers	25,000	25,000	-
Bonds payable	416,666	416,112	(554)
Long-term loans payable	1,805,526	1,807,083	1,556
Total liabilities	2,687,028	2,688,031	1,002
Derivative financial instruments			
In which hedge accounting is not applied	-	-	-
In which hedge accounting is applied	1,180	(8,796)	(9,977)
Total derivative financial instruments	1,180	(8,796)	(9,977)

16. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative transactions to which hedge accounting is not applied

(1) Currency-related derivatives

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

(2) Interest-related derivatives

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

Derivative transactions to which hedge accounting is applied

(1) Currency-related derivatives

		Millions of yen		
	Main hedging targets	**Notional value**	**Maturing after one year**	**Fair value**
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign currencies	1,289	-	147
Euros	Forecast transaction in foreign currencies	113	-	(5)
Subtotal		1,402	-	141
Allocation method				
Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign currencies	1,963	-	(0)
Subtotal		1,963	-	(0)
Total		3,365	-	141

	Main hedging targets	Notional value	Maturing after one year	Fair value
		Thousands of U.S. Dollars		
Hedge accounting method				
Principle-based accounting				
Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign currencies	10,744	-	1,228
Euros	Forecast transaction in foreign currencies	943	-	(48)
Subtotal		11,688	-	1,180
Allocation method				
Forward exchange agreements				
Call				
U.S. dollars	Forecast transaction in foreign currencies	16,359	-	(0)
Subtotal		16,359	-	(0)
Total		28,047	-	1,180

(2) Interest-related derivatives

	Main hedging targets	Notional value	Maturing after one year	Fair value
		Millions of yen		
Hedge accounting method				
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	53,654	47,763	(1,197)
Total		53,654	47,763	(1,197)

	Main hedging targets	Notional value	Maturing after one year	Fair value
		Thousands of U.S. Dollars		
Hedge accounting method				
Special accounting procedures for interest rate swaps				
Interest rate swaps				
Pay fixed rate, receive floating rate	Long-term loans payable	447,121	398,030	(9,977)
Total		447,121	398,030	(9,977)

17. CONTINGENT LIABILITIES

As at March 31, 2015 and 2014, the Company and its consolidated subsidiaries were contingently liable as follows:

	Millions of yen		Thousands of U.S. Dollars
	2015	2014	**2015**
Notes discounted or endorsed	331	204	2,761
Loans guaranteed	165	164	1,377
Commitments to guarantee	32	96	266

18. FINANCIAL COVENANTS

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

(1) The amount of total net assets on the borrower's consolidated balance sheet at the end of each fiscal year, less any amounts of subscription rights to shares, minority interests, deferred gains or losses on hedges, foreign currency translation adjustment, or valuation difference on available-for-sale securities, must not fall below 75% of the larger of either (i) the identically calculated amount as of the end of the preceding fiscal year or (ii) the identically calculated amount as of the end of the second quarter of the fiscal year ending March 31, 2015 (however, (ii) shall only apply as the base for the account settlement period at the close of the fiscal year ending March 31, 2015).

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

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

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

(1) The borrower promises to not let the amount of total net assets on its consolidated balance sheet at the end of each fiscal year, less any amounts of subscription rights to shares, minority interests, deferred gains or losses on hedges, foreign currency translation adjustment, or valuation difference on available-for-sale securities, fall below 75% of the larger of either the identically calculated amount as of the end of the preceding fiscal year or the identically calculated amount as of September 30, 2014 (however, the first half account settlement period ended September 30, 2014 shall only apply as the base for the account settlement period at the close of the fiscal year ending March 31, 2015).

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

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

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

19. SUBSEQUENT EVENTS

The decision not to pay a period-end cash dividend for the fiscal year ended March 31, 2015 was approved at the Company's Ordinary General Meeting of Shareholders held on June 24, 2015.

Independent Auditor's Report

TO THE BOARD OF DIRECTORS OF TOKUYAMA CORPORATION

We have audited the accompanying consolidated balance sheet of Tokuyama Corporation and consolidated subsidiaries as of March 31, 2015, and the related consolidated statements of income, comprehensive income, changes in net assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information, all expressed in Japanese yen.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tokuyama Corporation and consolidated subsidiaries as of March 31, 2015, and the consolidated results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in Japan.

Convenience Translation

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

Yamaguchi Audit Corporation

YAMAGUCHI Audit Corporation
Shunan, Japan
June 15, 2015

Business Locations

JAPAN

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Major Subsidiaries and Affiliates

(As of March 31, 2015)

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.	113,169	100	Production and sale of polycrystalline silicon
*Hantok Chemicals Co., Ltd.	KRW 4,500 million	50.0	Production of photoresist developer
Cement			
Tokyo Tokuyama Concrete Co., Ltd.	80	99.9	Production and sale of ready-mixed concrete and concrete products
Hiroshima Ready Mixed Concrete Co., Ltd	900	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
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	74.6	Production and sale of cement
*Yamaguchi Eco-tech Corporation	90	50.0	Recycling business of incinerated ash of wastes
Category also includes another 6 consolidated subsidiaries, 3 equity method affiliates and 12 affiliates			
Life & Amenity			
Shanghai Tokuyama Plastics Co., Ltd.	CNY 85 million	100	Production and sale of microporous film
Tianjin Tokuyama Plastics Co., Ltd.	CNY 78 million	100	Production and sale of microporous film
Sun•Tox Co., Ltd.	1,600	100	Production and sale of polyolefin films
A&T Corporation	577	40.2	Production and sale of diagnostic reagents, analyzers and systems
Figaro Engineering Inc.	99	100	Production and sale of sensor devices
Tianjin Figaro Electronic Co., Ltd.	CNY 23 million	55.7	Production and sale of sensor devices

Company	Capital (millions of yen)	Ownership (%)	Scope
Figaro USA, Inc.	USD 200 thousand	100	Production and sale of sensor devices
Tokuyama Dental Corporation	100	100	Production and sale of dental and medical materials
ASTOM Corporation	450	55.0	Production and sale of ion-exchange membranes and related equipment
Excel Shanon Corporation	495	100	Production and sale of plastic window sashes
Tohoku Shanon Co., Ltd.	300	72.0	Production of plastic window sashes
*Neusoft A&T Diagnostics Co., Ltd.	CNY 60 million	49.0	Production and sale of diagnostic reagents, analyzers and systems
Category also includes another 3 consolidated subsidiaries, 1 unconsolidated subsidiary, 1 equity method affiliates and 2 affiliates			

Other

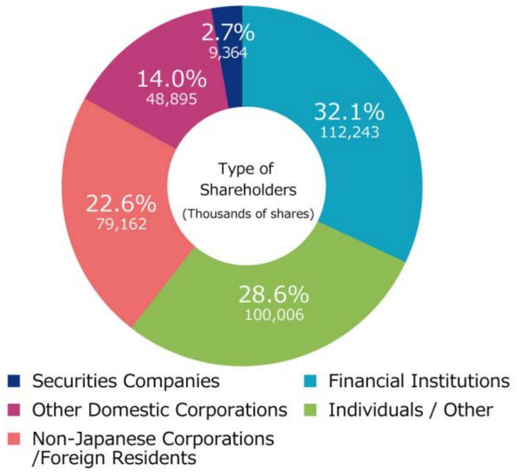
Company	Capital (millions of yen)	Ownership (%)	Scope
Tokuyama Asia Pacific Pte. Ltd.	SGD 800 thousand	100	Sale of Tokuyama's products
Tokuyama Europe GmbH	EUR 255 thousand	100	Sale of Tokuyama's products
Tokuyama Trading (Shanghai) Co., Ltd.	CNY 5 million	100	Sale of Tokuyama's products
Tokuyama (Shanghai) Co., Ltd.	CNY 12 million	100	Management company to provide services for other group companies in China
Tomitec Co., Ltd.	100	60.0	Production and sale of plastic molded products
Shunan System Sangyo Co., Ltd.	151	100	Real estate, civil engineering, construction
Shunan Swimming Club Corporation	50	100	Swimming and other sports training, health maintenance / promotion
Tokuyama Logistics Corporation	100	100	Transportation and warehousing
Tokuyama Information Service Corporation	20	100	Information processing services
Shunan Bulk Terminal Co., Ltd.	150	72.2	Warehouse operations for bulk cargoes of coal etc.
* Covalent Materials Tokuyama Corporation	100	30.0	Production and sale of ceramics and electrochemical products
* Tokuyama Polypropylene Co., Ltd.	500	50.0	Production and sale of polypropylene
* Nishinihon Resicoat Co., Ltd.	50	50.0	Production of metal parts and anti-rust surface coating materials
Category also includes another 3 consolidated subsidiaries and 2 affiliates			

Corporate Data and Stock Information

(As of March 31, 2015)

Company Name:	Tokuyama Corporation
Established:	February 16, 1918
Capital:	¥53,458 million
Employees:	5,852 (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

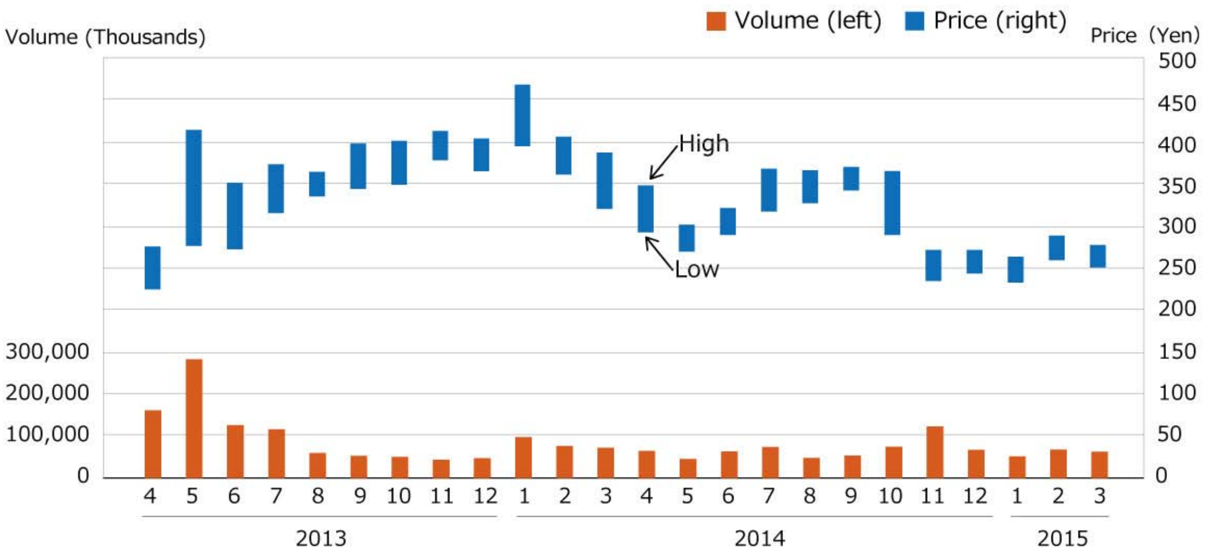
Composition of Shareholders



Major Shareholders

Name	Number of Shares Held (Thousands)	Percentage of Total Shares
The Master Trust Bank of Japan, Ltd. (trust account)	20,011	5.72
Nippon Life Insurance Company	10,874	3.11
Japan Trustee Services Bank, Ltd. (trust account)	10,784	3.08
CBNY DFA INTL SMALL CAP VALUE PORTFOLIO	9,778	2.80
The Yamaguchi Bank, Ltd.	8,246	2.36
STATE STREET BANK AND TRUST COMPANY 505041	7,500	2.14
Meiji Yasuda Life Insurance Company	7,442	2.13
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	7,095	2.03
Sojitsu Corporation	6,484	1.85
CHASE MANHATTAN BANK GTS CLIENTS ACCOUNT ESCROW	6,322	1.81

Stock Chart



Tokuyama Corporation

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