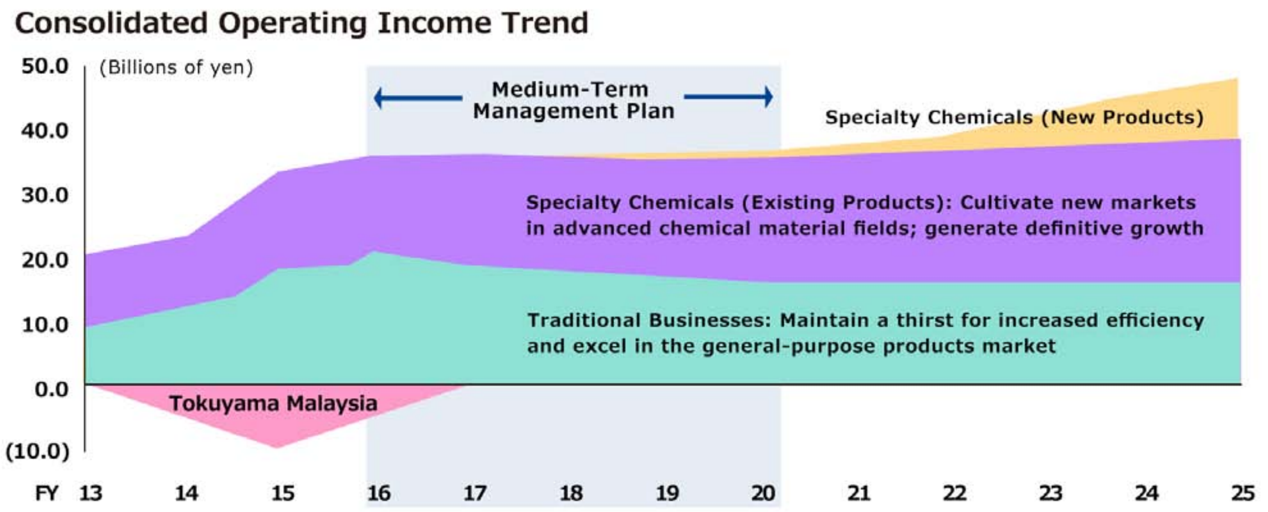
Medium-Term Management Plan

Outline

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



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

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

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

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

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

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

1. Change its organizational climate

Recognizing the need to promote an environment in which key positions take the initiative to foster a vibrant corporate culture that encourages independent thinking and rapid business execution among employees, we adopted a new performance-based personnel system for management and employees over the age of 60. Looking ahead, we plan to expand this system to all employees. In order to incorporate fresh perspectives in the Group's business promotion activities, we will also actively recruit outside personnel with specialized skills and a wealth of experience as a part of our human resources development system.

2. Rebuild its business strategies

In order to realize the aspirations of becoming a leader in its traditional businesses in Japan and a global leader in advanced materials identified under its Medium-Term Management Plan, Tokuyama will strengthen the competitiveness of each business utilizing ICT and accelerate the pace of overseas business development.

In addition, steps will be taken to introduce a new business evaluation system that focuses on capital efficiency and to optimize the business portfolio.

As far as research and development is concerned, we will rebuild our R&D structure so that it is more in tune with customers' needs and cultivate new business domains by implementing open innovation with other companies.

3. Strengthen Group management
In order to fully capitalize on synergies within the Tokuyama Group, every effort was made to accelerate the pace of sales strategies with strong support for a human resource perspective and management decision-making based on flexible capital policies. As a result, reform of the Group as a whole will also gather pace. In addition to applying the new business evaluation system to consolidated subsidiaries and clarifying the degree of contribution to enhancing corporate value, we will work to reinforce internal control at Group companies.

4. Improve its financial structure
Steps were taken to execute an unsecured bond trust-type debt assumption agreement, undertake the repayment in advance of loan agreements with financial covenants, and reduce interest-bearing debt in order to quickly stabilize the Company's financial position. Moving forward, Tokuyama will continue to reduce interest-bearing debt while working to enhance its shareholders' equity by building up profits for the period.

Progress

		FY2015	FY2017	FY2020 Target	Progress evaluation
Net sales		¥307.1 billion	¥308.0 billion	¥335.0 billion	On track
Operating profit		¥23.0 billion	¥41.2 billion	¥36.0 billion	Target achieved, continued
ROA		5.7%	10.5 %	10%	On track
	Operating margin	7.5%	13.4 %	10%	
	Total asset turnover	0.77 times	0.78 times	1.0 times	
Financial indicators	CCC	69 days	62 days	55 days	On track
	D/E ratio	4.7	1.1	1.0	On track
Exchange rate (¥/US$)		120	111	110	
Domestic naphtha price (¥/kl)		42,800	41,900	58,000	

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

ROA (operating profit/total assets) came in at 10.5%, surpassing the numerical target of 10% set under the Medium-Term Management Plan. In addition to the increase in operating profit, this improvement in the Company's ROA largely reflected the contraction in total assets as a result of such factors as the decrease in cash and deposits following the execution of an unsecured bond debt assumption agreement and the repayment of long-term loans payable. The Company's cash conversion cycle (CCC) improved six days compared with the previous fiscal year, to 62 days. This was largely attributable to the contraction in inventory and changes in the trading terms and conditions of certain purchased products. Tokuyama's D/E ratio also came in at 1.11, an improvement of 0.57 compared with the previous fiscal year. This was mainly due to the accumulation of profits and cutbacks in interest-bearing debt.