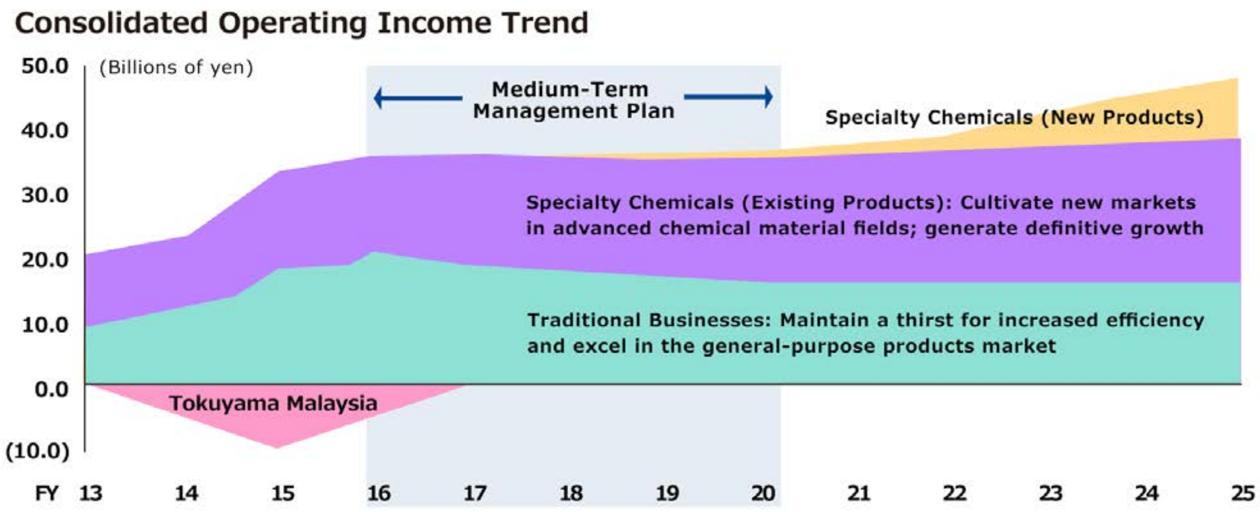
Medium-Term Management Plan

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.

As the current fiscal year is the middle year of the Medium-Term Management Plan, we have taken stock of the Plan based on the progress made and the management environment. With a view to realizing its fiscal 2025 aspirations of becoming "a global leader in growth businesses" and "a leader in Japan in traditional businesses," the Company will formulate clear management strategies while accelerating efforts to prioritize issues to change to a corporate structure capable of regrowth.

Contributing to sustainable development goals (SDGs) is also essential to enable the Group to aim for sustainable growth over the long term. Accurately identifying the environmental and social issues, the Company would like to aim to realize both improvements in the corporate value of the entire Group and a sustainable society.

1. Change the Group's organizational culture and structure

Based on the recognition that changing the organizational climate is of the utmost importance in achieving the Medium-Term Management Plan, the Company is reforming its personnel systems while focusing on human resource development. Following on from the revision of the personnel evaluation system for managers and employees over the age of 60, we will revise the general personnel systems for union members and aim for the introduction of the new system in fiscal 2020. The Company expects that the training of human resources and in-house revitalization will be brought about by the appointment of talented employees at an early stage.

By holding roundtable discussions between the president and some employees and through direct dialog with top management, the Company will instill its management philosophy while promoting changes in its organizational culture and structure.

2. Rebuild the Group's business strategies
To strengthen its presence in ICT-related fields, which are its growth businesses, the Company decided to increase production plant for photoresist developer and high-purity aluminum nitride powder. By further expanding the supply system, the Company will aim for more stable supply and promote the development of a wide range of applications.
The Company also established a research laboratory in Taiwan as a new overseas base to expand and improve the competitiveness of its semiconductor-related products business. As a result of miniaturized and highly integrate semiconductors, this laboratory will operate as an information gathering and marketing base for new product creation in order to respond to the demand for high purification of chemical and materials received from semiconductor manufacturers. this laboratory will also play a role as a development base that will conduct joint development with semiconductor manufacturers and research institutes.

3. Strengthen Group management
Having acquired all its shares, the Company made Tokuyama Kairiku Unso K.K. , which handles general logistics, a wholly owned subsidiary. Through this move, the company will cooperate with an existing Group company, Tokuyama Logistics Co., Ltd., to expand the logistics network, and it is expected that the stable supply of products to customers across the Group will be realized.

4. Improve the Company's financial position
Having made progress in reducing its interest-bearing debt, the Company achieved a D/E ratio of 1.0 times or less, one of the goals of the Medium-Term Management Plan, two years ahead of schedule. Subordinated loan refinancing was conducted with the objective of enhancing the flexibility of the Company's financial strategy by further diversifying refinancing methods and reducing financial expenses.
To achieve its financial targets, the Company will promote management efficiency and the reduction of its interest-bearing debt, while continue its efforts to build a sound financial position.

5. Initiatives toward SDGs
To realize a sustainable society, we extracted the social issues relevant to the Tokuyama Group and identified them as materiality (important issues to be addressed). Addressing these important issues is linked to the Company's mission of "Centered on the field of chemistry, the Tokuyama Group will continue to create value that enhances people's lives."
Based on this mission, the Company will contribute to the improvement of society and the Group's value and to sustainable development by resolving materiality.

Progress

		FY2015	FY2018	FY2020 Target	Progress evaluation
Net sales		¥307.1 billion	¥324.6 billion	¥335.0 billion	On track
Operating profit		¥23.0 billion	¥35.2 billion	¥36.0 billion	Unable to absorb the rise in raw material and fuel costs, profit decreased, target not achieved
ROA		5.7%	9.5 %	10%	Although total asset turnover was improved, operating margin decreased due to the increase of input cost and target of ROA was not achieved.
	Operating margin	7.5%	10.9 %	10%	
	Total asset turnover	0.77 times	0.88 times	1.0 times	
Financial indicators	CCC	69 days	60 days	55 days	On track
	D/E ratio	4.7	0.8	1.0	Target achieved, continued
Exchange rate (¥/US$)		120	111	110	
Domestic naphtha price (¥/kl)		42,800	49,500	58,000	

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

Compared with the previous fiscal year ROA deteriorated by 0.99 of a percentage point to 9.5% due to the decrease in operating profit brought about by increased manufacturing costs, including the prices of raw materials, the inclusion of a subsidiary in the Company's scope of consolidation, the recording of a claim for damages under current assets, other, and increased total assets due to an increase in deferred tax assets. Despite an increase in inventories, cash conversion cycle (CCC) improved by two days compared with the previous fiscal year to 60 days, due to changes in the transaction conditions of partially purchased items. The D/E ratio was 0.84 times, an improvement of 0.27 compared with the previous fiscal year, due to the accumulation of profit, the reduction of interest-bearing debt and other factors, and thus the Company was able to achieve the Medium-Term Management Plan target value of 1.0 times or less ahead of time.