FINANCIAL STATEMENTS

Tosoh Corporation and consolidated subsidiaries
Fiscal year ended March 31, 2017

TOSOH CORPORATION

TOSOH

Management's Discussion and Analysis

Tosoh reported reduced sales but increased profit in fiscal 2017, ended March 31, 2017. Revenues declined from a year earlier because of lower prices for petrochemical products, the result of a drop in the price of naphtha and other feedstocks, and for exported products, whose pricing declines resulted from the yen's appreciation. Operating income increased over fiscal 2016 levels substantially because lower feedstock prices improved the company's terms of trade. Profit attributable to owners of the parent company consequently likewise increased.

The revenue decline was largely due to reduced sales by the Petrochemical Group. Sales by the Specialty Group and the Engineering Group rose but were insufficient to offset the drop in Petrochemical Group sales. Sales by the Chlor-alkali Group were largely unchanged from fiscal 2016. Operating income increased in all segments, led by a near doubling for the Petrochemical Group and a near trebling for the Chlor-alkali Group.

We achieved this performance amid a continued moderate recovery in Japan's economy prompted by government economic policies that contributed to ongoing improvements in employment and incomes. However, the outlook for the Japanese and the global economy became less certain as the year progressed. Concerns arose over the consequences of the United Kingdom's decision to leave the European Union, over the policy direction of a new US administration, and over heightened geopolitical risks in the Middle East and on the Korean peninsula.

Changes in Accounting Policies

Following a revision to Japan's Corporation Tax Act, the company and its domestic subsidiaries adopted "Practical Solution on a Change in Depreciation Method due to Tax Reform 2016" (ASBJ Practical Issues Task Force No. 32, June 17, 2016) from fiscal year 2017. They also changed their depreciation method for facilities attached to buildings and structures acquired on or after April 1, 2016, from the declining-balance method to the straight-line method. The effect on operating income, ordinary income, and income before income taxes for the year ended March 31, 2017, is immaterial.

The company and its domestic subsidiaries also adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, Guidance No. 26).

Changes in Presentation

"Subsidy income," which was presented separately in the previous fiscal year, is included in "Other, net" under "Other income (expenses)" from fiscal year 2017 because the item has decreased in importance. To reflect this change in reporting method, a reclassification of accounts has been made for the statements of income for the previous fiscal year.

The ¥90.0 million (US$0.8 million) in "Subsidy income" and the ¥1,013 million (US$9.0 million) in "Other, net" under "Other income (expenses)" in the previous year's statements of income have been reclassified as ¥1,103 million (US$9.8 million) in "Other, net" under "Other income (expenses)."

Net Sales

Consolidated net sales decreased 1.4% from fiscal 2016, to ¥743.0 billion (US$6.6 billion).

Operating Expenses and Operating Income

Cost of sales decreased 9.4%, to ¥527.7 billion (US$4.7 billion). And gross profit rose 25.8%, to ¥215.2 billion (US$1.9 billion), for a 22.7% increase in the gross margin, to 28.9%.

Selling, general and administrative expenses increased 2.3%, to ¥104.0 billion (US$928.0 million). Research and development expenses climbed 4.6%, to ¥14.3 billion (US$128.1 million).

Operating income rose 60.2%, to ¥111.2 billion (US$991.3 million). Other expenses were ¥683.0 million (US$0.6 million), compared with ¥7.5 billion a year earlier. The dramatic drop in other expenses was due to significantly lower foreign exchange and impairment losses and to lower interest expenses.

Income before income taxes rose 78.5%, to ¥110.5 billion (US$985.2 million).

Net Income

Profit (loss) attributable to non-controlling interests totaled a loss of ¥1.98 billion (US$18.0 million), compared with a loss of ¥2.2 billion a year earlier. Profit attributable to owners of the parent was thus ¥75.6 billion (US$674.4 million), an increase of 90.7% over fiscal 2016.

Forward-looking Statements: *Annual reports contain estimates, projections, and other forward-looking statements, which are subject to unforeseeable risks and uncertainties. Readers should understand that Tosoh's business and financial results could differ significantly from management's estimates and projections.*

For reference purposes only, US dollar amounts have been translated, unless otherwise indicated, from yen at the rate of ¥112.19 = US$1, the prevailing exchange rate at the end of the fiscal year under review.

Tosoh Corporation's 2017 fiscal year covers the period from April 1, 2015 to March 31, 2016.

Net income per share, primary, was ¥116.56 (US$1.04), up from ¥62.61 a year earlier. Tosoh increased its cash dividends per share by ¥10.0 from fiscal 2016, to ¥24.00 (US$0.21).

Performance by Geographic Region

Export sales and sales outside Japan by overseas subsidiaries were ¥340.1 billion (US$3.0 billion) in fiscal 2017. This represented 45.7% of consolidated net sales, up 1.0 percentage point over fiscal 2016. Sales in Asia, excluding Japan, were ¥236.8 billion (US$2.1 billion) and represented 31.8% of net sales, virtually unchanged from the previous year.

Dividend Policy

Tosoh aims to maintain a balance between internal reserves for R&D, capital expenditures to support consistently high growth, and shareholder returns. The company intends to deliver stable dividends, subject to business conditions.

In fiscal 2017, cash dividends per share were ¥24.00 (US$0.21). The consolidated payout ratio was 20.6%, compared with 22.4% in fiscal 2016. Tosoh will continue to invest its internal reserves in competitive product development and global business strategies in a bid to respond to anticipated changes in its business environment.

Financial Position and Liquidity

Fund Procurement and Liquidity Management

Tosoh raises working capital as necessary through short-term bank loans and other means. The company decides on the funding method for its long-term capital requirements, such as capital investment, after determining the investment recovery period and risk. In fiscal 2017, cash provided by operating activities was the prime source of funding for capital expenditures and R&D.

Assets, Liabilities, and Net Assets

Total current assets as of March 31, 2017, were up 7.8% from a year earlier, to ¥448.0 billion (US$4.0 billion). Cash and cash equivalents were up 14.1%, to ¥85.5 billion (US$761.7 million). Trade receivables rose 9.9%, to ¥199.5 billion (US$1.8 billion). Inventories rose 1.8%, to ¥127.4 billion (US$1.1 billion).

Current liabilities decreased 4.6%, to ¥247.9 billion (US$2.2 billion).

Working capital therefore totaled ¥200.1 billion (US$1.8 billion), compared with ¥155.8 billion a year earlier. The current ratio was 1.80 times, up from 1.60 times in fiscal 2016.

Property, plant and equipment increased 3.5%, to ¥234.8 billion (US$2.1 billion). Total assets therefore rose 6.5%, to ¥782.6 billion (US$7.0 billion). Interest-bearing debt was ¥139.8 billion (US$1.2 billion) as of March 31, 2017, down from ¥199.6 billion at the previous fiscal year-end. Long-term debt, less current maturities, continued to decrease, contracting 24.1%, to ¥57.5 billion (US$512.2 million).

The company invested ¥37.7 billion (US$336.5 million) in facilities and equipment during the year under review, principally on environmental upgrades. That figure includes investments in intangible assets. Tosoh spent ¥4.4 billion to add and upgrade capacity in the Petrochemical Group; ¥9.5 billion on the Chlor-alkali Group; ¥20.3 billion on the Specialty Group, including for the start of the construction of a manufacturing facility in Malaysia; ¥1.5 billion on the Engineering Group; ¥1.7 billion on other businesses; and ¥411 million on company-wide shared facilities.

Total shareholders' equity increased 19.8% year on year, to ¥401.3 billion (US$3.6 billion), mainly because of a 28.1% rise in retained earnings, to ¥301.8 billion (US$2.7 billion). Net unrealized gains on securities rose 86.4%, to ¥13.0 billion (US$116.0 million).

Total net assets climbed 20.0% year on year, to ¥448.3 billion (US$4.0 billion). Total equity per share was ¥636.43 (US$5.67), up from ¥524.23 a year earlier. Return on average total net assets was 9.7%, up from 5.4% a year earlier. The equity ratio was 52.8%, up from 46.3%.

Capital Expenditures and Depreciation

Cash Flows

Net cash provided by operating activities amounted to ¥115.7 billion (US$1.0 billion), up from ¥99.9 billion in fiscal 2016. The principal sources of cash were income before income taxes, depreciation and amortization, and an increase in trade payables. The major uses of cash were interest paid and a decrease in trade receivables.

Net cash used in investing activities was ¥34.7 billion (US$309.5 million), up from ¥27.9 billion in the previous fiscal year, largely because of increased payments for purchases of property, plant and equipment.

Free cash flow therefore rose from ¥72.0 billion in fiscal 2016 to ¥81.0 billion (US$722.0 million) in fiscal 2017.

Net cash used in financing activities was ¥68.8 billion (US$613.5 million), compared with ¥50.8 billion in the previous year. A reduced net decrease in short-term bank loans was offset by the absence of the previous year's proceeds from issuance of common shares. Cash and cash equivalents on March 31, 2017, were ¥85.5 billion (US$761.7 million), up 14.1% from a year earlier.

Projections for Fiscal 2018

We expect the Japanese economy to maintain its gradual recovery as employment and income conditions continue to improve. However, we have to be cautious given the potential for political and economic developments elsewhere in the world to pose numerous challenges.

The Tosoh Group pays close and constant attention to the various factors that affect its operations, including changes in overseas feedstock and product prices and economic conditions in emerging nations, particularly in Asia. We are determined to respond in a timely and flexible manner to any and all changes in our operating environment.

Our medium-term plan covering the three years to March 2019 is key to our ability to do this. By implementing the plan, we can build a business structure better capable of coping with changes in external conditions, of maintaining stable and safe operating environments, and of managing the Tosoh Group strategically and therefore effectively.

The medium-term plan targets net sales of ¥770 billion, operating income and ordinary income of ¥100 billion each, and net profit attributable to owners of the parent company of ¥68 billion in the year ending March 31, 2018. These objectives are based on a domestic naphtha price of ¥41,000 a kiloliter and an exchange rate of ¥110 to the US dollar.

TOSOH CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS	As of March 31, 2017 and 2016		
	2017	2016	2017
	Millions of Yen		Thousands of US Dollars (Note 1)
Current assets:			
Cash and cash equivalents (Notes 7 and 13)	¥ 85,460	¥ 74,869	$ 761,743
Trade receivables (Notes 7 and 13)	199,541	181,498	1,778,599
Lease investment assets (Note 13)	16,836	14,415	150,067
Inventories (Note 3)	127,359	125,156	1,135,208
Deferred tax assets (Note 14)	6,760	10,077	60,255
Other current assets	12,835	10,641	114,404
Allowance for doubtful accounts	(776)	(973)	(6,917)
Total current assets	448,015	415,683	3,993,359
Investments:			
Investment securities (Notes 5 and 13)	41,835	34,095	372,894
Investments in unconsolidated subsidiaries and affiliates (Note 13)	16,526	14,800	147,304
Long-term loans receivable (Note 13)	231	248	2,059
Assets for retirement benefit (Note 8)	20,211	17,210	180,150
Other	13,381	16,705	119,271
Allowance for doubtful accounts	(350)	(365)	(3,120)
Total investments	91,834	82,693	818,558
Property, plant and equipment—net (Notes 6 and 7)	234,850	226,837	2,093,324
Other assets:			
Deferred tax assets (Note 14)	4,393	5,167	39,157
Intangibles	3,532	4,390	31,482
Total other assets	7,925	9,557	70,639
Total assets	¥ 782,624	¥ 734,770	$6,975,880

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	As of March 31, 2017 and 2016		
	2017	2016	2017
	Millions of Yen		Thousands of US Dollars (Note 1)
Current liabilities:			
Short-term bank loans (Notes 7 and 13)	¥ 60,986	¥ 95,477	$543,595
Current maturities of long-term debt (Notes 7 and 13)	21,398	28,428	190,730
Trade payables (Note 13)	99,835	84,761	889,874
Income taxes payable	25,101	7,841	223,737
Other current liabilities (Note 13)	40,567	43,344	361,592
Total current liabilities	247,887	259,851	2,209,528
Long-term liabilities:			
Long-term debt, less current maturities (Notes 7 and 13)	57,460	75,669	512,167
Liabilities for retirement benefit (Note 8)	19,282	20,153	171,869
Provision for retirement benefits for directors and corporate audit & supervisory board members	374	350	3,334
Deferred tax liabilities (Note 14)	5,274	2,875	47,010
Provision for losses on dissolution of business	93	133	829
Other long-term liabilities (Note 13)	3,918	2,015	34,923
Total long-term liabilities	86,401	101,195	770,132
Total liabilities	334,288	361,046	2,979,660
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock:			
Authorized—1,800,000,000 shares;			
Issued—650,161,912 shares	55,173	55,173	491,782
Capital surplus	44,720	44,688	398,610
Retained earnings	301,820	235,530	2,690,257
Treasury stock, 894,885 shares in 2017 and 1,289,177 shares in 2016	(361)	(483)	(3,218)
Total shareholders' equity	401,352	334,908	3,577,431
Accumulated other comprehensive income :			
Net unrealized gains on securities	13,005	6,977	115,919
Deferred gains(losses) on hedges	(3)	(5)	(27)
Foreign currency translation adjustments	(2,465)	41	(21,972)
Accumulated adjustments for retirement benefit	1,321	(1,764)	11,775
Total accumulated other comprehensive income	11,858	5,249	105,695
Stock acquisition rights (Note 17)	270	305	2,407
Non-controlling interests	34,856	33,262	310,687
Total net assets	448,336	373,724	3,996,220
Total liabilities and net assets	¥ 782,624	¥ 734,770	$6,975,880

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years ended March 31, 2017 and 2016		
	2017	2016	2017
	Millions of Yen		Thousands of US Dollars (Note 1)
Net sales (Note 15)	¥ 743,028	¥ 753,736	$6,622,943
Cost of sales	527,743	582,578	4,704,011
Gross profit	215,285	171,158	1,918,932
Selling, general and administrative expenses (Note 10)	104,068	101,713	927,605
Operating income (Note 15)	111,217	69,445	991,327
Other income (expenses):			
Interest and dividend income	1,475	1,663	13,147
Foreign exchange losses, net	(2,048)	(5,876)	(18,255)
Interest expense	(1,504)	(2,344)	(13,406)
Equity in earnings of affiliates	2,351	2,036	20,956
Loss on disposal of property, plant and equipment	(1,876)	(882)	(16,722)
Impairment loss (Note 11)	(1,264)	(3,216)	(11,267)
Other, net	2,183	1,103	19,459
Subtotal	(683)	(7,516)	(6,088)
Income before income taxes	110,534	61,929	985,239
Income taxes (Note 14) :			
Current	29,663	11,247	264,400
Deferred	3,225	8,770	28,745
Subtotal	32,888	20,017	293,145
Net income	77,646	41,912	692,094
Profit attributable to non-controlling interests	(1,982)	(2,237)	(17,667)
Profit attributable to owners of parent	¥ 75,664	¥ 39,675	$ 674,427
Net income per share:	Yen		U.S. Dollars (Note 1)
Net income—primary	¥ 116.56	¥ 62.61	$ 1.04
Net income—diluted	116.41	62.51	1.04
Cash dividends per share	¥ 24.00	¥ 14.00	$ 0.21

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended March 31, 2017 and 2016		
	2017	2016	2017
	Millions of Yen		Thousands of US Dollars (Note 1)
Net income	¥ 77,646	¥ 41,912	$ 692,094
Other comprehensive income:			
Net unrealized gains on securities	6,074	(3,894)	54,140
Deferred gains (losses) on hedges	6	(11)	53
Foreign currency translation adjustments	(2,589)	(2,330)	(23,077)
Adjustments for retirement benefit	3,261	(3,265)	29,067
Share of other comprehensive income of affiliates applied for equity method	(134)	(647)	(1,194)
Total other comprehensive income (Note 4)	6,618	(10,147)	58,989
Comprehensive income	¥ 84,264	¥ 31,765	$ 751,083
Breakdown of comprehensive income:			
Comprehensive income attributable to shareholders of parent	¥ 82,273	¥ 30,148	$ 733,336
Comprehensive income attributable to non-controlling interests	1,991	1,617	17,747

TOSOH CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

Millions of Yen

	Shareholders' equity					Accumulated other comprehensive income								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on securities	Deferred gains (losses) on hedges	Land revaluation reserve	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
As of March 31, 2015	¥ 40,634	¥ 30,053	¥ 203,628	¥ (686)	¥ 273,629	¥ 10,977	¥ (1)	¥ 561	¥ 2,427	¥ 1,367	¥ 15,331	¥ 311	¥ 31,513	¥ 320,784
Issuance of new shares	14,539	14,539			29,078									29,078
Change in treasury shares of parent arising from transactions with non-controlling shareholders		96			96									96
Cash dividends			(7,542)		(7,542)									(7,542)
Profit attributable to owners of parent			39,675		39,675									39,675
Decrease in retained earnings due to exclusion of equity method companies			(205)		(205)									(205)
Purchase of treasury stock				(46)	(46)									(46)
Increase (decrease) of treasury stock due to changes in shareholding ratio				(0)	(0)									(0)
Disposal of treasury stock			(26)	97	71									71
Decrease due to decrease in affiliates accounted for by equity method-treasury stock				152	152									152
Other, net						(4,000)	(4)	(561)	(2,386)	(3,131)	(10,082)	(6)	1,749	(8,339)
As of March 31, 2016	¥55,173	¥44,688	¥ 235,530	¥ (483)	¥ 334,908	¥ 6,977	¥ (5)	—	¥ 41	¥ (1,764)	5,249	¥ 305	¥ 33,262	¥ 373,724
Change in treasury shares of parent arising from transactions with non-controlling shareholders		10			10									10
Increase by merger			79		79									79
Cash dividends			(9,413)		(9,413)									(9,413)
Profit attributable to owners of parent			75,664		75,664									75,664
Purchase of treasury stock				(40)	(40)									(40)
Disposal of treasury stock		22	(40)	162	144									144
Other, net						6,028	2		(2,506)	3,085	6,609	(35)	1,594	8,168
As of March 31, 2017	¥55,173	¥44,720	¥ 301,820	¥ (361)	¥ 401,352	¥ 13,005	¥ (3)	—	¥ (2,465)	¥ 1,321	11,858	¥270	¥ 34,856	¥ 448,336

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
(Continued)

	Thousands of U.S. Dollars (Note 1)													
	Shareholders' equity					Accumulated other comprehensive income								
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on securities	Deferred gains (losses) on hedges	Land revaluation reserve	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	Total net assets
As of March 31, 2016	$491,782	$ 398,324	$2,099,385	$ (4,305)	$2,985,186	$ 62,189	$ (45)	—	$ 365	$ (15,723)	$ 46,786	$ 2,719	$ 296,479	$ 3,331,170
Change in treasury shares of parent arising from transactions with non-controlling shareholders		89			89									89
Increase by merger			704		704									704
Cash dividends			(83,902)		(83,902)									(83,902)
Profit attributable to owners of parent			674,427		674,427									674,427
Purchase of treasury stock				(357)	(357)									(357)
Disposal of treasury stock		197	(357)	1,444	1,284									1,284
Other, net						53,730	18		(22,337)	27,498	58,909	(312)	14,208	72,805
As of March 31, 2017	$ 491,782	$ 398,610	$ 2,690,257	$ (3,218)	$ 3,577,431	$ 115,919	$ (27)	—	$ (21,972)	$ 11,775	$ 105,695	$2,407	$ 310,687	$3,996,220

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended March 31, 2017 and 2016		
	2017	2016	2017
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Cash flows from operating activities:			
Income before income taxes	¥ 110,534	¥ 61,929	$ 985,239
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	29,976	34,770	267,190
Impairment loss	1,264	3,216	11,267
Change in assets and liabilities for retirement benefit	840	(928)	7,487
Interest and dividend income	(1,475)	(1,663)	(13,147)
Interest expense	1,504	2,344	13,406
Equity in earnings of affiliates	(2,351)	(2,036)	(20,956)
Loss on disposal of property, plant and equipment	1,876	882	16,722
(Increase) decrease in trade receivables	(19,630)	18,822	(174,971)
(Increase) decrease in inventories	(3,827)	6,170	(34,112)
Increase (decrease) in trade payables	17,058	(16,447)	152,045
Other, net	(7,050)	(5,152)	(62,840)
Subtotal	128,719	101,907	1,147,330
Interest and dividends received	2,075	2,287	18,495
Interest paid	(1,630)	(2,395)	(14,529)
Income taxes paid	(13,448)	(1,915)	(119,867)
Net cash provided by operating activities	115,716	99,884	1,031,429
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(34,550)	(25,706)	(307,960)
Proceeds from sales and redemption of investment securities	720	1,876	6,417
Purchase of shares of subsidiaries resulting in change in scope of consolidation	—	(2,364)	—
Payments for advances of long-term loans receivable	(1,660)	(2,965)	(14,796)
Proceeds from collections of long-term loans receivable	1,663	3,081	14,823
Other, net	(897)	(1,839)	(7,995)
Net cash used in investing activities	(34,724)	(27,917)	(309,511)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(33,987)	(43,664)	(302,942)
Proceeds from long-term debt	3,725	8,649	33,203
Repayments of long-term debt	(28,719)	(37,000)	(255,985)
Proceeds from issuance of common shares	—	29,078	—
Cash dividends paid	(9,750)	(7,806)	(86,906)
Other, net	(98)	(84)	(874)
Net cash used in financing activities	(68,829)	(50,827)	(613,504)
Effect of exchange rate changes on cash and cash equivalents	(1,677)	(2,063)	(14,948)
Net increase in cash and cash equivalents	10,486	19,077	93,466
Cash and cash equivalents at beginning of year	74,869	55,740	667,341
Increase in cash and cash equivalents due to newly consolidated subsidiary	—	52	—
Increase in cash and cash equivalents resulting from merger of subsidiary and unconsolidated subsidiary	105	—	936
Cash and cash equivalents at end of year	¥ 85,460	¥ 74,869	$ 761,743

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

The accompanying consolidated financial statements of Tosoh Corporation (the "Company") and its consolidated domestic subsidiaries have been prepared in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements from International Financial Reporting Standards. The accounts of the Company's overseas subsidiaries and affiliates are prepared in accordance with either International Financial Reporting Standards or US generally accepted accounting principles or Japanese GAAP, with consolidation adjustments for the specified four items, which are described in "Practical Solution on Unification of Accounting Policies Applied to Foreign Subsidiaries for Consolidated Financial Statements (PITF No.18)" and "Practical Solution on Unification of Accounting Policies Applied to Associates Accounted for Using the Equity Method(PITF No.24)", as applicable.

The accompanying consolidated financial statements have been restructured and translated into English from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate local finance bureau of the Ministry of Finance as required by the Financial Instruments and Exchange Law of Japan. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into US dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2017, which was ¥112.19 to US$1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be, converted into US dollars at this or any other rate of exchange.

NOTE 2 — SUMMARY OF ACCOUNTING POLICIES

Consolidation and investments

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated in the consolidation.

Investments in affiliates are, with minor exceptions, accounted for by the equity method. Equity in earnings of affiliates has been calculated by excluding unrealized intercompany profits.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiary.

Translation of foreign currencies

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates, and the resulting translation adjustments are credited or charged to income.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates, except that shareholders' equity accounts are translated at historical rates.

Cash and cash equivalents

Cash on hand, readily available deposits and short-term highly liquid investments with maturities not exceeding three months at the time of purchase are considered to be cash and cash equivalents.

Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. Equity securities issued by subsidiaries and affiliates, which are not consolidated or accounted for using the equity method, are stated at cost as determined by the moving-average method. Available-for-sale securities with available fair values are stated at fair value. Unrealized gains and losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Other available-for-sale securities with no available fair values are stated at moving-average cost.

Significant declines in fair value or the net asset value of equity securities, not on the equity method, issued by unconsolidated subsidiaries and affiliates, and available-for-sale securities judged to be other than temporary are charged to expense.

Allowance for doubtful accounts

The Company and its consolidated subsidiaries (the "Companies") provide the allowance for doubtful trade receivables by individually estimating uncollectible amounts and for other receivables based on the Companies' historical experience of write-offs of such receivables.

Inventories

Inventories are principally valued at cost as determined by the average cost method. If the profitability of the inventories decreases, the book value is reduced accordingly.

Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost. Cumulative amounts of impairment losses recognized have been deducted from acquisition costs. Depreciation is principally computed over the estimated useful lives of the assets on the declining basis. However, the straight-line method is applied to buildings (other than facilities attached to buildings). Besides, depreciation of facilities attached to buildings and structures acquired since April 1, 2016 is also calculated by the straight-line method. Repairs, maintenance and minor renewals are charged to expenses as incurred.

Lease transactions

Assets acquired by lessees in finance lease transactions are recorded in the corresponding asset accounts. However, finance leases of which the ownership is considered to have been transferred to the lessee and whose commencement dates started prior to March 31, 2008, are accounted for in the same manner as operating leases.

Retirement and severance benefits

The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the benefit formula basis.

Prior service cost (credit) is recognized as expense (income) as incurred.

Actuarial difference is recognized as expense (income) using the straight-line method over 10 years commencing in the following period.

Income taxes

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.

Shareholders' equity

The Corporate Law of Japan (the "Law") requires that an amount equal to 10% of dividends must be appropriated as a legal reserve (a component of retained earnings) or as additional paid-in capital (a component of capital surplus), depending on the equity account charged upon payment of such dividends, until the aggregate amount of legal reserve and additional paid-in capital equals 25% of common stock. Under the Law, the aggregate amount of additional paid-in capital and legal reserve that exceeds 25% of common stock may be made available for dividends by resolution of the shareholders. Under the Law, the total amount of additional paid-in capital and legal reserve may be reversed without limitation of such threshold. The Law also provides that common stock, legal reserve, additional paid-in capital, other capital surplus and retained earnings can be transferred among the accounts under certain conditions upon resolution of the shareholders.

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Law.

Stock options

The Company has adopted an accounting standard for stock options. The standard requires companies to account for stock options granted to non-employees based on the fair value of the stock option. In the balance sheets, the stock option is presented as stock acquisition rights as a separate component of net assets until exercised.

Net income per share

Net income per share is computed based upon the weighted average number of shares of common stock outstanding during the period.

Diluted net income per share reflects the potential dilution that could occur if stock options were fully exercised.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

Change in accounting policies

Following the revision to the Corporation Tax Act, The Company and its domestic subsidiaries adopted "Practical Solution on a change in depreciation method due to Tax Reform 2016" (ASBJ Practical Issues Task Force No. 32, June 17, 2016) from the current fiscal year and changed the depreciation method for facilities attached to buildings and structures acquired since April 1, 2016 from the declining-balance method to the straight-line method. The effect on operating income, ordinary income and income before income taxes for the year ended March 31, 2017, is immaterial.

Changes in presentation

"Subsidy income", which was presented separately in the previous fiscal year, is included in "Other, net" under "Other income (expenses)" from the current fiscal year because the amount of the item has decreased in importance. To reflect this change in reporting method, the reclassification of accounts has been made for the statements of income for the previous fiscal year.
As a result, the ¥90 million in "Subsidy income", the ¥1,013 million in "Other, net" under "Other income (expenses)" in the previous statements of income has been reclassified into ¥1,103 million in "Other, net" under "Other income (expenses)".

Additional information

The Company and its domestic subsidiaries adopted "Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")) from the current fiscal year.

NOTE 3—INVENTORIES

Inventories as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Finished products	¥ 81,699	¥ 79,802	$ 728,220
Raw materials and supplies	37,679	35,154	335,850
Work in process	7,981	10,200	71,138
Total	¥ 127,359	¥ 125,156	$ 1,135,208

NOTE 4—COMPREHENSIVE INCOME

Amounts reclassified to net income (loss) in the current period that were recognized in other comprehensive income in the current or previous periods and tax effects for each component of other comprehensive income were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Net unrealized gains on securities			
Increase(decrease) during the year	¥ 8,412	¥ (5,974)	$ 74,980
Reclassification adjustments	(586)	7	(5,223)
Subtotal, before tax	7,826	(5,967)	69,757
Tax(expense) benefit	(1,752)	2,073	(15,617)
Subtotal, net of tax	¥6,074	¥ (3,894)	$54,140
Deferred gains(losses) on hedges			
Decrease during the year	¥(0)	¥ (12)	$ (0)
Reclassification adjustments	7	(3)	62
Subtotal, before tax	7	(15)	62
Tax(expense) benefit	(1)	4	(9)
Subtotal, net of tax	¥ 6	¥ (11)	$ 53
Foreign currency translation adjustments			
Decrease during the year	¥ (2,589)	¥ (2,330)	$ (23,077)
Subtotal, net of tax	¥ (2,589)	¥ (2,330)	$ (23,077)
Adjustments for retirement benefit			
Increase(decrease) during the year	¥3,291	¥ (4,906)	$ 29,334
Reclassification adjustments	1,411	177	12,577
Subtotal, before tax	4,702	(4,729)	41,911
Tax(expense) benefit	(1,441)	1,464	(12,844)
Subtotal, net of tax	¥ 3,261	¥ (3,265)	$29,067
Share of other comprehensive income of affiliates applied for equity method			
Decrease during the year	¥ (105)	¥ (194)	$ (936)
Reclassification adjustments	(29)	(453)	(258)
Subtotal, net of tax	¥ (134)	¥ (647)	$ (1,194)
Total other comprehensive income	¥ 6,618	¥ (10,147)	$58,989

NOTE 5 — FAIR VALUE INFORMATION OF SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2017 and 2016.

Available-for-sale securities:

	Millions of Yen					
	2017			2016		
	Acquisition Cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	¥ 18,708	¥36,407	¥ 17,699	¥ 14,437	¥25,069	¥ 10,632
Securities with book values not exceeding acquisition costs	2,230	1,965	(265)	5,650	4,629	(1,021)
Total	¥ 20,938	¥ 38,372	¥17,434	¥ 20,087	¥ 29,698	¥ 9,611

	Thousands of US Dollars (Note 1)		
	2017		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	$ 166,753	$ 324,512	$ 157,759
Securities with book values not exceeding acquisition costs	19,877	17,515	(2,362)
Total	$ 186,630	$ 342,027	$ 155,397

NOTE 6 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Land	¥ 73,684	¥ 74,122	$ 656,779
Buildings and structures	221,291	219,506	1,972,466
Machinery and equipment	801,809	809,031	7,146,885
Lease assets	373	177	3,325
Construction in progress	25,649	14,313	228,621
	1,122,806	1,117,149	10,008,076
Less accumulated depreciation	(887,956)	(890,312)	(7,914,752)
Net property, plant and equipment	¥ 234,850	¥ 226,837	$ 2,093,324

NOTE 7—SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 0.54% and 0.67% as of March 31, 2017 and 2016, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2017 and 2016 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Loans from banks and other financial institutions, 1.34%, maturing serially through 2024			
Secured	¥ 1,208	¥ 1,809	$ 10,767
Unsecured	77,650	102,288	692,130
	78,858	104,097	702,897
Less amounts due within 1 year	(21,398)	(28,428)	(190,730)
Total	¥ 57,460	¥ 75,669	$ 512,167

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Property, plant and equipment	¥ 13,565	¥ 13,484	$ 120,911
Other	189	138	1,685
Total	¥ 13,754	¥ 13,622	$ 122,596

The annual maturities of long-term debt as of March 31, 2017 and 2016 were as follows:

As of March 31, 2017	Millions of Yen	Thousands of US Dollars (Note 1)
2018	¥ 21,398	$ 190,730
2019	20,065	178,848
2020	15,212	135,591
2021	10,412	92,807
2022	6,705	59,765
2023 and thereafter	5,066	45,156
Total	¥ 78,858	$ 702,897

As of March 31, 2016	Millions of Yen
2017	¥ 28,428
2018	21,317
2019	19,552
2020	14,808
2021	9,908
2022 and thereafter	10,084
Total	¥ 104,097

NOTE 8—RETIREMENT AND SEVERANCE BENEFITS

The Company and its consolidated subsidiaries have defined benefit corporate pension plans and lump-sum payment plans, but certain of its consolidated subsidiaries have defined contribution pension plans.

The Company has instituted retirement benefit trusts. In some cases when employees retire, the Company and its consolidated subsidiaries provide for additional retirement benefits that are not related to the retirement benefit liabilities computed according to actuarial method in accordance with retirement benefit accounting.

Certain consolidated subsidiaries use the simplified method for the calculation of projected benefits obligation.

The amount in multiemployer pension plans is included in defined benefit plans.

(1)Defined benefit plans

Changes in the present value of the defined benefit obligation in the Company and its consolidated subsidiaries which have not adopted the simplified method were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Beginning of year	¥ 62,448	¥ 61,514	$ 556,627
Service cost	3,162	3,026	28,184
Interest cost	153	325	1,364
Actuarial differences	(658)	2,060	(5,865)
Benefits paid	(5,604)	(4,829)	(49,951)
Increase from change of scope of consolidation	—	379	—
Other	168	(27)	1,498
End of year	¥ 59,669	¥ 62,448	$ 531,857

Changes in the fair value of retirement plan assets in the Company and its consolidated subsidiaries which have not adopted the simplified method were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Beginning of year	¥ 63,810	¥ 66,799	$ 568,767
Expected return on plan assets	1,303	1,348	11,614
Actuarial differences	2,757	(2,839)	24,574
Contributions	1,140	1,946	10,161
Benefits paid	(4,286)	(3,695)	(38,203)
Increase from change of scope of consolidation	—	281	—
Other	(30)	(30)	(266)
End of year	¥ 64,694	¥ 63,810	$ 576,647

Changes in the present value of the liabilities for retirement benefit in the consolidated subsidiaries which have adopted the simplified method were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Beginning of year	¥ 4,305	¥ 4,351	$ 38,372
Retirement benefit cost	655	641	5,838
Benefits paid	(479)	(398)	(4,270)
Contributions	(259)	(254)	(2,309)
Other	(126)	(35)	(1,122)
End of year	¥ 4,096	¥ 4,305	$ 36,509

Reconciliations from ending balances of defined benefit obligation and retirement plan assets to assets and liabilities for retirement benefit on the balance sheet as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Defined benefit obligation in the Company and its consolidated subsidiaries which have funded retirement plans	¥ 51,199	¥ 53,570	$ 456,360
Retirement plan assets	(68,484)	(67,549)	(610,429)
	(17,285)	(13,979)	(154,069)
Defined benefit obligation in the consolidated subsidiaries which don't have funded retirement plans	16,356	16,922	145,788
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ (929)	¥ 2,943	$ (8,281)
Liabilities for retirement benefit	19,282	20,153	171,869
Assets for retirement benefit	(20,211)	(17,210)	(180,150)
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ (929)	¥ 2,943	$ (8,281)

Components of retirement benefit cost for the year ended March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Service cost	¥ 3,162	¥ 3,026	$ 28,184
Interest cost	153	325	1,364
Expected return on plan assets	(1,303)	(1,348)	(11,614)
Amortization of actuarial differences	1,411	177	12,577
Retirement benefit cost in the simplified method	655	641	5,838
Other	145	152	1,293
Total retirement benefit cost	¥ 4,223	¥ 2,973	$ 37,642

Adjustments for retirement benefit before tax effect as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Actuarial differences	¥ 4,702	¥ (4,729)	$ 41,911

Accumulated adjustments for retirement benefit before tax effect as of March 31, 2017 and 2016, were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Unrecognized actuarial differences	¥ (1,310)	¥ 3,393	$ (11,677)

The major categories of plan assets as a percentage of total assets as of March 31, 2017 and 2016, were as follows:

	2017	2016
Bonds	33.6%	36.6%
Shares of stock	40.4%	35.3%
Life insurance company general accounts	25.2%	26.5%
Other	0.8%	1.6%
Total	100%	100%

The assumptions and basis used in the actuarial calculation were mainly as follows:

	2017	2016
Discount rate	Mainly 0.3%	Mainly 0.2%
Long-term expected rate of return on plan assets	Mainly 2.5%	Mainly 2.5%

Note: In determining the long-term expected rate of return on plan assets, the Company and its consolidated subsidiaries consider the current and projected asset allocations, and the current and expected long-term rates of return of a wide variety of the plan assets.

(2)Defined contribution plans

The amounts contributed to defined contribution plan by certain consolidated subsidiaries were ¥287 million (US$2,558 thousand) and ¥285 million for the years ended March 31, 2017 and 2016, respectively.

NOTE 9—CONTINGENT LIABILITIES

Contingent liabilities primarily for loans from banks to affiliates, which are guaranteed by the Companies, for notes receivable discounted at banks with recourse, and for notes receivable endorsed as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Loans guaranteed	¥ 582	¥ 825	$ 5,188

NOTE 10—RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Research and development expenses:	¥ 14,370	¥ 13,743	$ 128,086

NOTE 11 — IMPAIRMENT LOSS

The companies group business assets based on business divisions or relevance of the production process. Major assets for which impairment losses were recognized were as follows:

			Millions of Yen	Thousands of US Dollars (Note 1)
			2017	2017
Location	Use	Assets category		
India	Other	Goodwill	¥ 1,001	$ 8,922

All of the unamortized balance of goodwill was reduced because it is no longer foreseen to generate revenue that was originally expected at the time of acquisition.

			Millions of Yen
			2016
Location	Use	Assets category	
Miyazaki, Japan	Production facilities ,etc	Buildings and structures, Machinery and equipment, others	¥ 3,121

Regarding production facilities, these were written down to the recoverable amount, its reduction is recorded as an "impairment loss" under "Other income (expenses)" due to decrease utilization. The amount of the impairment loss comprised ¥496 million for buildings, ¥2,620 million for machinery, ¥5 million for other assets.
The recoverable amount is based on the value in use. The book value was devalued to their memorandum value because their cash flow is not expected in the future.

NOTE 12 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedging accounting is not applied as of March 31, 2017 and 2016, were as follows:

	Millions of Yen			
	2017		2016	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Buying Indonesian Rupiahs	¥ 1,141	¥ 4	¥ 1,809	¥(132)
Total	¥ 1,141	¥ 4	¥ 1,809	¥ (132)

	Thousands of US Dollars (Note 1)	
	2017	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Buying Indonesian Rupiahs	$ 10,170	$ 36
Total	$ 10,170	$ 36

Derivative transactions to which hedging accounting is applied as of March 31, 2017 and 2016, were as follows:

	Millions of Yen			
	2017		2016	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Principle method				
Buying US Dollars	¥ 1	¥ (0)	¥ 114	¥ (7)
Buying British Pounds	—	—	6	(1)
Selling US Dollars	113	(8)	210	(5)
Allocation method				
Buying US Dollars	58	(＊1)	—	—
Buying Euros	1	(＊1)	1	(＊1)
Selling US Dollars	30	(＊1)	560	(＊1)
Total	¥203	¥ (8)	¥891	¥ (13)
Interest rate swaps				
Principle method				
Payment fixation and receipt change	¥ 1,200	¥ (2)	¥ 1,600	¥ (4)
Special method				
Payment fixation and receipt change	490	(＊2)	770	(＊2)
Total	¥ 1,690	¥ (2)	¥ 2,370	¥ (4)

	Thousands of US Dollars (Note 1)	
	2017	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Principle method		
Buying US Dollars	$ 9	$ (0)
Buying British Pounds	—	—
Selling US Dollars	1,007	(71)
Allocation method		
Buying US Dollars	517	(＊1)
Buying Euros	9	(＊1)
Selling US Dollars	267	(＊1)
Total	$ 1,809	$ (71)
Interest rate swaps		
Principle method		
Payment fixation and receipt change	$ 10,696	$ (18)
Special method		
Payment fixation and receipt change	4,368	(＊2)
Total	$ 15,064	$ (18)

(＊1) Because derivatives to which allocation method of forward exchange contracts are applied are processed with trade receivables and trade payables as a hedge object, the fair value is included in the fair value of trade receivables and trade payables.

(＊2) Because derivatives to which special method of interest swap are applied are processed with long-term debt as a hedge object, the fair value is included in the fair value of a long-term debt.

Fair values are based on the quotes provided by financial institutions.

NOTE 13 — FINANCIAL INSTRUMENTS

Matters relating to the conditions of financial instruments:

Policy on financial instruments

The Tosoh Group raises capital according to loans from banks to invest in core and growing businesses based on capital investment plans. Derivatives are used to mitigate risk, and speculative transactions are not undertaken.

Contents, risk, and risk management of financial instruments

Trade receivables are exposed to credit risks of customers. The Companies monitor the due dates and the balances of customers individually in accordance with credit control rules and strive to find doubtful debt at an early stage and to reduce the risks. Securities, which are mainly shares, are exposed to market risks. Regarding listed shares, the Companies check the market prices every quarter and revise their positions consistently, taking account of relations with companies who issue the shares.

Parts of trade payables are denominated in foreign currency and exposed to foreign currency risks. However, almost all those balances may be offset at any time by accounts receivables, which are also denominated in foreign currency. Loans payable are used as short-term working capital or long-term capital investment, part of which is exposed to interest rate risk. These risks are removed by entering into interest rate swaps.

Some consolidated subsidiaries use foreign currency forward exchange contracts to hedge against foreign currency risks associated with receivables and payables denominated in foreign currencies.

The Companies execute and control derivative transactions in accordance with internal control rules that provide authority and transaction limits and have transactions only with the highest-rated banks to reduce the credit risks.

Book values and fair values of financial instruments for which it is practical to estimate values as of March 31, 2017 and 2016, were as follows:

	Millions of Yen		
	March 31,2017		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 85,460	¥ 85,460	¥ —
Trade receivables	199,541	199,541	—
Lease investment assets	16,836	16,836	—
Securities			
Available-for-sale securities	38,372	38,372	—
Investments in affiliates	8,025	7,007	(1,018)
Long-term loans receivable	283	283	—
Trade payables	(99,835)	(99,835)	—
Short-term bank loans	(60,986)	(60,986)	—
Long-term debt	(78,858)	(79,627)	(769)
Derivative transactions	(6)	(6)	—

	Millions of Yen		
	March 31,2016		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 74,869	¥ 74,869	¥ —
Trade receivables	181,498	181,498	—
Lease investment assets	14,415	14,415	—
Securities			
Available-for-sale securities	29,698	29,698	—
Investments in affiliates	6,944	4,247	(2,697)
Long-term loans receivable	310	310	—
Trade payables	(84,761)	(84,761)	—
Short-term bank loans	(95,477)	(95,477)	—
Long-term debt	(104,097)	(105,324)	(1,227)
Derivative transactions	(149)	(149)	—

	Thousands of US Dollars (Note 1)		
	March 31,2017		
	Book value	Fair value	Difference
Cash and cash equivalents	$ 761,743	$ 761,743	$ —
Trade receivables	1,778,599	1,778,599	—
Lease investment assets	150,067	150,067	—
Securities			
Available-for-sale securities	342,027	342,027	—
Investments in affiliates	71,530	62,456	(9,074)
Long-term loans receivable	2,523	2,523	—
Trade payables	(889,874)	(889,874)	—
Short-term bank loans	(543,595)	(543,595)	—
Long-term debt	(702,897)	(709,751)	(6,854)
Derivative transactions	(53)	(53)	—

Calculation method of fair value of financial instruments:

Cash and cash equivalents, trade receivables, lease investment assets, trade payables and short-term bank loans:

The book values approximate the fair values because of the short-term nature of these instruments.

Securities:

Fair values of securities are estimated based on quoted market prices for these instruments.

Long-term loans receivable:

The fair values of long-term loans receivable are calculated by discounting future cash flows of the principal and interest using the current interest rate applicable to similar loans. However, as the fair values are approximate to the book values, the fair values are recorded at the book values.

Long-term debt:

The fair values of long-term debt are calculated by discounting future cash flows of the principal and interest using current interest rate applicable to similar debts.

Derivative transactions:

Refer to Note 12.

Financial instruments whose fair values are deemed to be extremely difficult to determine and which are not included in “Securities” in the fair value information of the financial instruments, were as follows:

	Book value		
	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Equity securities issued by unconsolidated subsidiaries and affiliates	¥ 6,249	¥ 5,901	$ 55,700
Non-listed equity securities	3,463	4,397	30,867

Redemption schedule of monetary claims and available-for-sale securities with maturity as of March 31, 2017 and 2016, was as follows:

	Millions of Yen			
	2017			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	¥ 85,460	¥ —	¥ —	¥ —
Trade receivables	199,541	—	—	—
Securities				
Available-for-sale securities	—	—	—	—
Long-term loans receivable	17	255	5	6
Total	¥ 285,018	¥ 255	¥ 5	¥ 6

	Millions of Yen			
	2016			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	¥ 74,869	¥ —	¥ —	¥ —
Trade receivables	181,498	—	—	—
Securities				
Available-for-sale securities	—	—	—	—
Long-term loans receivable	18	281	7	4
Total	¥ 256,385	¥ 281	¥ 7	¥ 4

	Thousands of US Dollars (Note 1)			
	2017			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	$ 761,743	$ —	$ —	$ —
Trade receivables	1,778,599	—	—	—
Securities				
Available-for-sale securities	—	—	—	—
Long-term loans receivable	152	2,273	45	53
Total	$ 2,540,494	$ 2,273	$ 45	$ 53

Refer to Note 7 for schedule of Long-term debt.

NOTE 14 — INCOME TAXES

Significant components of deferred tax assets and deferred tax liabilities as of March 31, 2017 and 2016 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2017	2016	2017
Deferred tax assets:			
Operating loss carryforwards	¥ 2,314	¥ 5,267	$ 20,626
Unrealized gains on intercompany transactions	6,933	7,105	61,797
Liabilities for retirement benefit	6,736	7,229	60,041
Impairment loss on fixed assets	1,849	2,011	16,481
Other	11,743	11,901	104,670
Total gross deferred tax assets	29,575	33,513	263,615
Valuation allowance	(5,410)	(5,708)	(48,221)
Total deferred tax assets	24,165	27,805	215,394
Deferred tax liabilities:			
Assets for retirement benefit	(6,164)	(5,247)	(54,943)
Reserve for replacement of property, plant and equipment	(1,842)	(2,030)	(16,419)
Net unrealized gains on securities	(4,622)	(2,872)	(41,198)
Other	(5,666)	(5,288)	(50,503)
Total deferred tax liabilities	(18,294)	(15,437)	(163,063)
Net deferred tax assets	¥ 5,871	¥ 12,368	$ 52,331

Note: "Net deferred tax assets" above can be classified in the accompanying consolidated balance sheets as of March 31, 2017 and 2016 as follows:

		Millions of Yen		Thousands of US Dollars (Note 1)
Balance sheet item		2017	2016	2017
Current assets	Deferred tax assets	¥ 6,760	¥ 10,077	$ 60,255
Current liabilities	Other current liabilities	(8)	(1)	(71)
Non-current assets	Deferred tax assets	4,393	5,167	39,157
Non-current liabilities	Deferred tax liabilities	(5,274)	(2,875)	(47,010)
		¥ 5,871	¥ 12,368	$ 52,331

NOTE 15 — SEGMENT INFORMATION

The operations of the Companies are classified into four business segments – Petrochemical, Chlor-alkali, Specialty, Engineering.

Operations of the Petrochemical segment include the manufacture and sale of olefins and polymers.

Operations of the Chlor-alkali segment include the manufacture and sale of caustic soda, vinyl chloride monomer, polyvinyl chloride, high-performance polyurethane and cement.

Operations of the Specialty segment include the manufacture and sale of fine chemicals, scientific and diagnostic instruments and systems, quartz, specialty materials and metals.

Operations of the Engineering segment include water treatment equipment and construction.

The accounting methods for each reported segment are mostly described in Note 2, "Summary of Accounting Policies."

Inter-segment sales and transfers are mainly based on market prices and manufacturing costs.

Business segment information for the years ended March 31, 2017 and 2016 was as follows:

	Millions of Yen							
	Year ended March 31, 2017							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	¥ 161,747	¥ 279,685	¥ 175,880	¥ 86,566	¥ 39,150	¥ 743,028	¥ —	¥ 743,028
Inter-segment	76,326	22,252	11,806	13,285	48,986	172,655	(172,655)	—
Total	¥ 238,073	¥ 301,937	¥ 187,686	¥ 99,851	¥ 88,136	¥ 915,683	¥ (172,655)	¥ 743,028
Segment income	¥ 20,073	¥ 47,926	¥ 35,383	¥ 5,146	¥ 2,689	¥ 111,217	¥ —	¥ 111,217
Segment assets	¥ 106,626	¥ 237,215	¥ 199,100	¥ 107,485	¥ 31,776	¥ 682,202	¥ 100,422	¥ 782,624
Depreciation and amortization	3,115	11,235	10,098	1,034	1,283	26,765	643	27,408
Amortization on goodwill	—	—	334	108	—	442	—	442
Capital expenditures	4,337	9,508	20,280	1,497	1,722	37,344	412	37,756
Investment for affiliates	879	7,626	4,074	2,167	1,250	15,996	—	15,996

	Millions of Yen							
	Year ended March 31, 2016							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	¥ 175,436	¥ 279,849	¥ 174,532	¥ 84,184	¥ 39,735	¥ 753,736	¥ —	¥ 753,736
Inter-segment	92,731	26,084	13,820	8,338	48,489	189,462	(189,462)	—
Total	¥ 268,167	¥ 305,933	¥ 188,352	¥ 92,522	¥ 88,224	¥ 943,198	¥ (189,462)	¥ 753,736
Segment income	¥ 11,609	¥ 17,988	¥ 32,701	¥ 4,577	¥ 2,570	¥ 69,445	¥ —	¥ 69,445
Segment assets	¥ 95,529	¥ 217,323	¥ 190,158	¥ 107,132	¥ 30,921	¥ 641,063	¥ 93,707	¥ 734,770
Depreciation and amortization	3,311	14,354	11,162	1,036	1,236	31,099	689	31,788
Amortization on goodwill	—	—	328	113	—	441	—	441
Capital expenditures	2,535	10,436	11,585	962	1,777	27,295	629	27,924
Investment for affiliates	802	6,428	3,696	2,046	1,114	14,086	—	14,086

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2017							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	$ 1,441,724	$ 2,492,957	$ 1,567,698	$ 771,602	$ 348,962	$ 6,622,943	$ —	$ 6,622,943
Inter-segment	680,328	198,343	105,232	118,415	436,634	1,538,952	(1,538,952)	—
Total	$ 2,122,052	$ 2,691,300	$ 1,672,930	$ 890,017	$ 785,596	$ 8,161,895	$ (1,538,952)	$ 6,622,943
Segment income	$ 178,920	$ 427,186	$ 315,385	$ 45,869	$ 23,967	$ 991,327	$ —	$ 991,327
Segment assets	$ 950,406	$ 2,114,404	$ 1,774,668	$ 958,062	$ 283,234	$ 6,080,774	$ 895,106	$ 6,975,880
Depreciation and amortization	27,765	100,142	90,008	9,217	11,436	238,568	5,732	244,300
Amortization on goodwill	—	—	2,977	963	—	3,940	—	3,940
Capital expenditures	38,658	84,749	180,765	13,343	15,349	332,864	3,672	336,536
Investment for affiliates	7,835	67,975	36,313	19,315	11,142	142,580	—	142,580

Notes: 1. “Other” is an additional category for service-related businesses, such as transportation and warehousing, inspection and analysis, and information processing.
2. Segment income (loss) is equal to operating income of consolidated statements of income.
3. Adjustments amount of ¥100,422 million (US$895,106 thousand) for segment assets included ¥21,136 million (US$188,395 thousand) in eliminations of inter-segment receivables and assets, and ¥121,558 million (US$1,083,501 thousand) of corporate assets unallocated to each reported segment. Corporate assets mainly consist of cash and deposits, investment securities and the assets related to administrative departments.
4. Adjustments amount of ¥643 million (US$5,732 thousand) for depreciation and amortization was mainly corporate costs unallocated to each reported segment.
5. Adjustments amount of ¥412 million (US$3,672 thousand) for capital expenditures was mainly made to corporate assets unallocated to each reported segment.

Related information

Geographic information

(1)Net sales

	Millions of Yen				
	Year ended March 31, 2017				
	Japan	China	Other Asian countries	Other	Total
Net sales	¥ 402,924	¥ 106,137	¥ 130,710	¥ 103,257	¥ 743,028

	Millions of Yen				
	Year ended March 31, 2016				
	Japan	China	Other Asian countries	Other	Total
Net sales	¥ 416,672	¥ 102,638	¥ 136,188	¥ 98,238	¥ 753,736

	Thousands of US Dollars (Note1)				
	Year ended March 31, 2017				
	Japan	China	Other Asian countries	Other	Total
Net sales	$ 3,591,443	$ 946,047	$ 1,165,077	$ 920,376	$ 6,622,943

Note: Net sales are classified by country or region based on the locations of customers.

(2) Property, plant and equipment

	Millions of Yen		
	Year ended March 31, 2017		
	Japan	Other	Total
Property, plant and equipment	¥ 206,251	¥ 28,599	¥ 234,850

	Millions of Yen		
	Year ended March 31, 2016		
	Japan	Other	Total
Property, plant and equipment	¥ 202,683	¥ 24,154	¥ 226,837

	Thousands of US Dollars (Note1)		
	Year ended March 31, 2017		
	Japan	Other	Total
Property, plant and equipment	$ 1,838,408	$ 254,916	$ 2,093,324

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Information about impairment loss of fixed assets by reported segments

	Millions of Yen							
	Year ended March 31, 2017							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	¥ 0	¥ 184	¥ 1,038	¥ 39	¥ 3	¥ 1,264	—	¥ 1,264

	Millions of Yen							
	Year ended March 31, 2016							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	¥ 3	¥ 18	¥ 3,175	¥ 4	¥ 0	¥ 3,200	¥ 16	¥ 3,216

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2017							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	$ 0	$ 1,640	$ 9,252	$ 348	$ 27	$ 11,267	—	$ 11,267

Information about unamortized balance of goodwill by reported segments

	Millions of Yen							
	Year ended March 31, 2017							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	¥ —	¥ —	¥ —	¥ 188	¥ —	¥ 188	¥ —	¥ 188

	Millions of Yen							
	Year ended March 31, 2016							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	¥ —	¥ —	¥ 1,311	¥ 306	¥ —	¥ 1,617	¥ —	¥ 1,617

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2017							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	$ —	$ —	$ —	$ 1,676	$ —	$ 1,676	$ —	$ 1,676

NOTE 16—RELATED PARTY TRANSACTIONS

There were no balances or transaction to be disclosed as of and for the year ended March 31, 2017 and 2016, respectively.

NOTE 17—STOCK OPTION PLANS

At March 31, 2017, the Company had the following stock option plans:

	2016 plan	2015 plan	2014 plan	2013 plan	2012 plan	2011 plan
Date of grant	July 16, 2016	July 18, 2015	July 12, 2014	July 13, 2013	July 14, 2012	July 16, 2011
Grantees	30 (including 6 directors)	29 (including 9 directors)	32 (including 12 directors)	33 (including 13 directors)	30 (including 11 directors)	31 (including 13 directors)
Type of stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	163,528	111,232	170,550	220,200	454,395	257,826
Exercise price (Yen)	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1	¥ 1
Exercise price (US Dollars) (Note 1)	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Exercisable period	July 17, 2016– July 16, 2041	July 19, 2015– July 18, 2040	July 13, 2014– July 12, 2039	July 14, 2013– July 13, 2038	July 15, 2012– July 14, 2037	July 17, 2011– July 16, 2036
Fair value at the date of grant (Yen)	¥ 431	¥ 599	¥ 425	¥ 338	¥ 164	¥ 313
Fair value (US Dollars) (Note 1)	$ 3.84	$ 5.32	$ 3.54	$ 3.28	$ 1.74	$ 3.81

	2010 plan	2009 plan	2008 plan	2007 plan
Date of grant	July 17, 2010	July 18, 2009	July 19, 2008	July 18, 2007
Grantees	29 (including 14 directors)	28(including 16 directors)	29 (including 16 directors)	29 (including 15 directors)
Type of stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	419,735	361,206	201,125	121,379
Exercise price (Yen)	¥ 1	¥ 1	¥ 1	¥ 1
Exercise price (US Dollars) (Note 1)	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Exercisable period	July 18, 2010– July 17, 2035	July 19, 2009– July 18, 2034	July 20, 2008- July 19, 2033	July 19, 2007– July 18, 2032
Fair value at the date of grant (Yen)	¥ 196	¥ 225	¥400	¥ 637
Fair value (US Dollars) (Note 1)	$ 2.36	$ 2.42	$ 4.07	$ 6.36

NOTE 18 – SUBSEQUENT EVENTS

At the meetings of the Company's board of directors held on May 10, 2017 and May 10, 2016, retained earnings of the Company as of March 31, 2017 and 2016, were appropriated as follows:

	March 31, 2017	
	Millions of Yen	Thousands of US Dollars (Note 1)
Year-end cash dividends (¥16.50 per share)	¥ 10,713	$ 95,490

	March 31, 2016
	Millions of Yen
Year-end cash dividends (¥7.00 per share)	¥ 4,542

Change in the number of shares constituting one trading unit and consolidation of shares

At the Board of Directors held on May 10, 2017, the Company decided to change the number of shares constituting one trading unit and partially amend the Articles of Incorporation of the Company. In relation to the changes, a consolidation of shares was proposed and approved at the 118th Ordinary General Meeting of Shareholders held on June 28, 2017 (the "General Meeting of Shareholders").

1. Change in the number of shares constituting one trading unit

(a) Reason for the change

The Company follows the decision made by all Japanese stock exchanges, including the Tokyo Stock Exchange, to unify the trading unit of domestic companies listed on Japanese stock exchanges at 100 shares by October 1, 2018.

(b) Detail of the change

The Company will change the number of shares constituting one trading unit from 1,000 shares to 100 shares as of October 1, 2017.

2. Consolidation of shares

(a) Reason for the consolidation of shares

As described in "1. Change in the number of shares constituting one trading unit" in changing the number of shares constituting one trading unit from 1,000 shares to 100 shares, the Company will consolidate 2 shares to 1share for the purpose of maintaining the standard investment unit considered optimal by the stock exchanges (50 thousand yen or more, less than 500 thousand yen) even after the change.

(b) Detail of the consolidation of shares

1) Type of shares to be consolidated:
Common shares

2) Ratio of the consolidation of shares:
As of October 1, 2017, the number of shares owned by shareholders recorded in the final register of shareholders on September 30, 2017 will be consolidated at the ratio of 2 shares to 1 share.

3) Decrease in number of shares through consolidation

Total number of issued shares prior to consolidation of shares (as of March 31, 2017)	650,161,912 shares
Decrease in number of shares through consolidation of shares	325,080,956 shares
Total number of issued shares after consolidation of shares	325,080,956 shares

Notes: Decrease in number of shares through consolidation of shares and Total number of issued shares after consolidation of shares are theoretical numbers calculated on the basis of the total number of issued shares prior to the consolidation and the ratio of the consolidation.

(c) Treatment of fractional shares
In the case that fractional shares occur as a result of the consolidation of shares, pursuant to the provisions under the Companies Act, such shares will be disposed in a bulk, and the proceeds will be distributed to shareholders holding such fractional shares in proportion to their respective fractions.

(d)Total number of shares authorized to be issued as of the effective date
In order to adjust the total number of shares authorized to be issued to an appropriate level in line with the decrease in the total number of outstanding shares due to the consolidation of shares, the Company will decrease the total number of shares authorized to be issued in proportion to the ratio (2 to 1) of the consolidation of shares, effective October 1, 2017.

Total number of shares authorized to be issued prior to the change	1,800,000,000 shares
Total number of shares authorized to be issued after the change (as of October 1, 2017)	900,000,000 shares

3. Effect on per share information
Net assets per share and earnings per share as of and for the years ended March 31,

2017 and 2016 assuming the consolidation of shares was executed at the beginning of the previous fiscal year:

	Years ended March 31, 2017 and 2016		
	2017	2016	2017
	Yen		US Dollars
Net assets per share	¥ 1,013.39	¥ 827.96	$ 9.03
Net income – primary	¥ 196.61	¥ 105.56	$ 1.75
Net income - diluted	¥ 196.37	¥ 105.39	$ 1.75

Independent Auditor's Report

To the Board of Directors of Tosoh Corporation:

We have audited the accompanying consolidated financial statements of Tosoh Corporation and its consolidated subsidiaries, which comprise the consolidated balance sheets as at March 31, 2017 and 2016, and the consolidated statements of income and comprehensive income, statements of changes in net assets and statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Tosoh Corporation and its consolidated subsidiaries as at March 31, 2017 and 2016, and their financial performance and cash flows for the years then ended in accordance with accounting principles generally accepted in Japan.

Convenience Translation

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2017 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA LLC

KPMG AZSA LLC

June 28, 2017
Tokyo, Japan