TOSOH

FINANCIAL STATEMENTS

Tosoh Corporation and consolidated subsidiaries
Fiscal year ended March 31, 2016

TOSOH CORPORATION

TOSOH

Management's Discussion and Analysis

Tosoh experienced mixed results in fiscal 2016, ended March 31, 2016. Revenues declined amid lower petrochemical product prices in Japan and overseas, offsetting gains in sales of vinyl chloride resin from expanded vinyl chloride monomer (VCM) production. Operating income surged as a result of reduced raw materials and fuel costs, but profit attributable to owners of the parent company declined because of the impact of deferred tax assets related to a carryforward loss from a merger the previous fiscal year.

The majority of Tosoh's business segments posted revenue decreases. But most saw a boost to their operating income on increased sales volumes and improved trade conditions.

The Japanese economy benefited from the economic and fiscal policies of the Japanese government and the Bank of Japan. Entering calendar 2016, however, downward pressure on the global economy weakened domestic stock prices and strengthened the yen. That and a resulting lack of business confidence amid increasingly negative consumer sentiment slowed Japan's economic recovery.

Changes in Accounting Standards

Beginning in fiscal 2016, Tosoh and its domestic subsidiaries adopted the Accounting Standards Board of Japan (ASJB)'s "Revised Accounting Standard for Business Combinations" (ASBJ Statement No. 21, September 13, 2013 [hereinafter, Statement No. 21]); "Revised Accounting Standard for Consolidated Financial Statements" (ASBJ Statement No. 22, September 13, 2013 [hereinafter, Statement No. 22]); and "Revised Accounting Standard for Business Divestitures" (ASBJ Statement No. 7, September 13, 2013 [hereinafter, Statement No. 7]). Together, these are referred to as the "Business Combination Accounting Standards."

As a result, the company changed its accounting policies to recognize in capital surplus the differences arising from the changes in its ownership interest of subsidiaries over which it maintains control and to record acquisition-related costs as expenses in the fiscal year in which the costs are incurred. In addition, the company changed its accounting policy for the reallocation of acquisition costs due to the completion of an acquisition following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business acquisition took place. Tosoh also changed its presentation of net income and now uses the term "non-controlling interests" in place of "minority interests." The company subsequently reclassified certain amounts in the prior year comparative information to have them conform to its changed fiscal 2016 presentation.

In the consolidated statements of cash flows, cash flows from the acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from financing activities," and cash flows from acquisition-related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to the acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in "Cash flows from operating activities."

With regard to the application of the Business Combination Accounting Standards, Tosoh followed the provisional treatments in article 58-2 (4) of Statement No. 21, article 44-5 (4) of Statement No. 22, and article 57-4 (4) of Statement No. 7 from the beginning of fiscal 2016.

In the consolidated statement of cash flows, in accordance with the transitional treatment stipulated in article 26-4 of the "Practical Guideline for Preparation of the Consolidated Statement of Cash Flows," comparative information was not reclassified.

The impact on operating income and income before income taxes in fiscal 2016 was immaterial.

Changes in Presentation

"Insurance income," which was presented separately in the previous fiscal year, was included in "Other, net" under "Other income (expenses)" for fiscal year 2016 because the amount of the item decreased in importance. To reflect this change in reporting method, the reclassification of accounts has been made for the consolidated statements of income for fiscal year 2015.

"Proceeds from sales and redemption of investment securities," which was included in "Other, net" under "Cash flows from investing activities" in the previous fiscal year, is presented separately beginning in fiscal year 2016 because the amount of the item increased in importance.

To reflect these changes in reporting method, a reclassification of accounts has been made for the consolidated statements of cash flows for fiscal year 2015.

Net Sales

Consolidated net sales decreased 6.9% from fiscal 2015, to ¥753.7 billion (US$6.7 billion).

Operating Expenses and Operating Income

Cost of sales decreased 11.5%, to ¥582.6 billion (US$5.2 billion). Gross profit rose 13.1%, to ¥171.2 billion (US$1.5 billion). The gross margin was 22.7%, up from 18.7% a year earlier.

Selling, general and administrative expenses increased 1.7%, to ¥101.7 billion (US$902.7 million). Research and development expenses climbed 6.7%, to ¥13.7 billion (US$122.0 million).

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 ¥112.68 = US$1, the prevailing exchange rate at the end of the fiscal year under review.

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

Operating income rose 35.1%, to ¥69.4 billion (US$616.3 million). Other expenses were ¥7.5 billion (US$66.7 million), down substantially from ¥7.6 billion in other income a year earlier. This reflected significant foreign exchange and impairment losses.

Income before income taxes advanced 5.0%, to ¥61.9 billion (US$549.6 million).

Net Income

Profit attributable to non-controlling interests totaled -¥2.2 billion (US$19.9 million), compared with -¥1.0 billion a year earlier. Profit attributable to owners of the parent was thus ¥39.7 billion (US$352.1 million), down 36.3% from fiscal 2015. The main factors in that decline were higher current income taxes and deferred income taxes relating to a carryforward loss from Tosoh's merger with Nippon Polyurethane Industry Co., Ltd., in fiscal year 2015.

Net income per share, primary, was ¥62.61 (US$0.56), a decline from ¥103.97 a year earlier. Tosoh raised cash dividends per share by ¥4.0 from fiscal 2015, to ¥14.00 (US$0.12).

Performance by Geographic Region

Export sales and sales outside Japan by overseas subsidiaries were ¥337.1 billion (US$3.0 billion) in fiscal 2016. This represented 44.7% of consolidated net sales, up 2.1 percentage points over fiscal 2015. Sales in Asia, excluding Japan, were ¥238.8 billion (US$2.1 billion) and represented 31.7% of net sales, an increase of 0.8 percentage points.

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 2016, cash dividends per share were ¥14.00 (US$0.12). The consolidated payout ratio for the year under review was 22.4%, compared with 9.6% in fiscal 2015. 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 2016, 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, 2016, were down 3.4% from a year earlier, at ¥415.7 billion (US$3.7 billion). Cash and cash equivalents jumped 34.3%, to ¥74.9 billion (US$664.4 million). Trade receivables decreased 9.5%, to ¥181.5 billion (US$1.6 billion). Inventories were down 4.8%, to ¥125.2 billion (US$1.1 billion).

Current liabilities fell 18.3%, to ¥259.9 billion (US$2.3 billion).

Working capital therefore totaled ¥155.8 billion (US$1.4 billion), compared with ¥112.1 billion a year earlier. The current ratio was 1.60 times, up from 1.35 times in fiscal 2015.

Property, plant and equipment decreased 2.9%, to ¥226.8 billion (US$2.0 billion). Total assets thus declined 3.9%, to ¥734.8 billion (US$6.5 billion). Interest-bearing debt was ¥199.6 billion (US$1.8 billion) as of March 31, 2015, down from ¥271.5 billion at the previous fiscal year-end. Long-term debt, less current maturities, continued falling, contracting 21.9%, to ¥75.7 billion (US$671.5 million).

Total shareholders' equity increased 22.4% year on year, to ¥334.9 billion (US$3.0 billion), mainly because of a 15.7% rise in retained earnings, to ¥235.5 billion (US$2.1 billion). Net unrealized gains on securities fell 36.4%, to ¥7.0 billion (US$61.9 million).

Total net assets climbed 16.5% year on year, to ¥373.7 billion (US$3.3 billion). Total equity per share was ¥524.23 (US$4.65), up from ¥482.25 a year earlier. Return on average total net assets was 11.4%, a drop from 21.8% a year earlier. The equity ratio was 46.3%, up from 37.8% in fiscal 2015.

Capital Expenditures and Depreciation

Cash Flows

Net cash provided by operating activities amounted to ¥99.9 billion (US$886.4 million), up from ¥54.1 billion in fiscal 2015. The principal sources of cash were income before income taxes, depreciation and amortization, and a decrease in trade receivables. The major uses of cash were interest paid and income taxes paid.

Net cash used in investing activities was ¥27.9 billion (US$247.7 million), down from ¥34.1 billion in the previous fiscal year, largely because of lower payments for purchases of property, plant and equipment.

Free cash flow thus rose from ¥20.0 billion in fiscal 2015 to ¥72.0 billion (US$638.7 million).

Net cash used in financing activities was ¥50.8 billion (US$451.1 million), compared with ¥20.7 billion in the previous year. The main reason for the rise was a greater net decrease in short-term bank loans. Cash and cash equivalents on March 31, 2016, were ¥74.9 billion (US$664.4 million), up 34.3% from a year earlier.

Projections for Fiscal 2017

Japan’s economy should steadily recover in fiscal 2017 as personal income and the employment situation continue to improve. That said, business downturns in China and in other Asian developing nations and in countries that provide raw materials make it difficult to be certain about trends in the global economy and financial markets.

Tosoh will therefore endeavor to raise profitability by expanding sales, maintaining an optimum pricing structure, and reducing costs. The company projects net sales of ¥720 billion, operating income of ¥72 billion, and profit attributable to owners of the parent company of ¥47 billion. These forecasts are based on a domestic standard price for naphtha of ¥40,000 per kiloliter and on an exchange rate of ¥110.00 to the US dollar.

TOSOH CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS	As of March 31, 2016 and 2015		
	2016	2015	2016
	Millions of Yen		Thousands of US Dollars (Note 1)
Current assets:			
Cash and cash equivalents (Notes 7 and 14)	¥ 74,869	¥ 55,740	$ 664,439
Trade receivables (Notes 7 and 14)	181,498	200,578	1,610,738
Lease investment assets (Note 14)	14,415	8,606	127,929
Inventories (Note 3)	125,156	131,452	1,110,721
Deferred tax assets (Note 15)	10,077	18,408	89,430
Other current assets	10,641	16,458	94,436
Allowance for doubtful accounts	(973)	(967)	(8,635)
Total current assets	415,683	430,275	3,689,058
Investments:			
Investment securities (Notes 5 and 14)	34,095	39,153	302,583
Investments in unconsolidated subsidiaries and affiliates (Note 14)	14,800	18,629	131,345
Long-term loans receivable (Note 14)	248	288	2,201
Assets for retirement benefit (Note 8)	17,210	20,366	152,734
Other	16,705	15,012	148,251
Allowance for doubtful accounts	(365)	(422)	(3,239)
Total investments	82,693	93,026	733,875
Property, plant and equipment—net (Notes 6 and 7)	226,837	233,617	2,013,108
Other assets:			
Deferred tax assets (Note 15)	5,167	4,326	45,856
Intangibles	4,390	2,962	38,959
Total other assets	9,557	7,288	84,815
Total assets	¥ 734,770	¥ 764,206	$ 6,520,856

The accompanying notes are an integral part of these statements.

LIABILITIES AND NET ASSETS	As of March 31, 2016 and 2015		
	2016	2015	2016
	Millions of Yen		Thousands of US Dollars (Note 1)
Current liabilities:			
Short-term bank loans (Notes 7 and 14)	¥ 95,477	¥ 138,558	$ 847,329
Current maturities of long-term debt (Notes 7 and 14)	28,428	36,121	252,290
Trade payables (Note 14)	84,761	102,049	752,228
Income taxes payable	7,841	3,334	69,586
Other current liabilities (Note 14)	43,344	38,109	384,664
Total current liabilities	259,851	318,171	2,306,097
Long-term liabilities:			
Long-term debt, less current maturities (Notes 7 and 14)	75,669	96,849	671,539
Liabilities for retirement benefit (Note 8)	20,153	19,433	178,852
Provision for retirement benefits for directors and corporate audit & supervisory board members	350	322	3,106
Deferred tax liabilities (Note 15)	2,875	5,132	25,515
Provision for losses on dissolution of business	133	327	1,180
Other long-term liabilities (Note 14)	2,015	3,188	17,882
Total long-term liabilities	101,195	125,251	898,074
Total liabilities	361,046	443,422	3,204,171
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock (Note 12) : Authorized—1,800,000,000 shares; Issued—650,161,912 shares	55,173	40,634	489,643
Capital surplus	44,688	30,053	396,592
Retained earnings	235,530	203,628	2,090,255
Treasury stock, 1,289,177 shares in 2016 and 1,971,350 shares in 2015	(483)	(686)	(4,286)
Total shareholders' equity	334,908	273,629	2,972,204
Accumulated other comprehensive income :			
Net unrealized gains on securities	6,977	10,977	61,919
Deferred gains(losses) on hedges	(5)	(1)	(44)
Land revaluation reserve	—	561	—
Foreign currency translation adjustments	41	2,427	364
Accumulated adjustments for retirement benefit	(1,764)	1,367	(15,655)
Total accumulated other comprehensive income	5,249	15,331	46,584
Stock acquisition rights (Note 18)	305	311	2,707
Non-controlling interests	33,262	31,513	295,190
Total net assets	373,724	320,784	3,316,685
Total liabilities and net assets	¥ 734,770	¥ 764,206	$ 6,520,856

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years ended March 31, 2016 and 2015		
	2016	2015	2016
	Millions of Yen		Thousands of US Dollars (Note 1)
Net sales (Note 16)	¥ 753,736	¥ 809,684	$ 6,689,173
Cost of sales	582,578	658,305	5,170,199
Gross profit	171,158	151,379	1,518,974
Selling, general and administrative expenses (Note 10)	101,713	99,982	902,671
Operating income (Note 16)	69,445	51,397	616,303
Other income (expenses):			
Interest and dividend income	1,663	1,213	14,759
Foreign exchange gains(losses), net	(5,876)	6,945	(52,148)
Interest expense	(2,344)	(2,956)	(20,802)
Equity in earnings of affiliates	2,036	1,372	18,069
Subsidy income	90	1,457	799
Gain on reversal of foreign currency transaction adjustment due to liquidation of foreign subsidiary	—	1,069	—
Loss on disposal of property, plant and equipment	(882)	(925)	(7,827)
Impairment loss (Note 11)	(3,216)	(1,079)	(28,541)
Other, net	1,013	505	8,989
Subtotal	(7,516)	7,601	(66,702)
Income before income taxes	61,929	58,998	549,601
Income taxes (Note 15) :			
Current	11,247	7,790	99,814
Deferred	8,770	(12,091)	77,831
Subtotal	20,017	(4,301)	177,645
Net income	41,912	63,299	371,956
Profit attributable to non-controlling interests	(2,237)	(1,002)	(19,853)
Profit attributable to owners of parent	¥ 39,675	¥ 62,297	$ 352,103
Net income per share:	Yen		U.S. Dollars (Note 1)
Net income—primary	¥ 62.61	¥ 103.97	$ 0.56
Net income—diluted	62.51	103.77	0.55
Cash dividends per share	¥ 14.00	¥ 10.00	$ 0.12

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended March 31, 2016 and 2015		
	2016	2015	2016
	Millions of Yen		Thousands of US Dollars (Note 1)
Net income	¥ 41,912	¥ 63,299	$ 371,956
Other comprehensive income:			
Net unrealized gains on securities	(3,894)	4,632	(34,558)
Deferred gains (losses) on hedges	(11)	(7)	(98)
Foreign currency translation adjustments	(2,330)	3,533	(20,678)
Adjustments for retirement benefit	(3,265)	4,398	(28,976)
Share of other comprehensive income of affiliates applied for equity method	(647)	577	(5,742)
Total other comprehensive income (Note 4)	(10,147)	13,133	(90,052)
Comprehensive income	¥ 31,765	¥ 76,432	$ 281,904
Breakdown of comprehensive income:			
Comprehensive income attributable to shareholders of parent	¥ 30,148	¥ 74,864	$ 267,554
Comprehensive income attributable to non-controlling interests	1,617	1,568	14,350

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, 2014	¥ 40,634	¥ 30,053	¥ 146,438	¥ (693)	¥ 216,432	¥ 6,166	¥ 2	¥ 533	¥ (889)	¥ (3,049)	¥ 2,763	¥ 267	¥ 30,335	¥ 249,797
Cumulative effect of change in accounting policy			(303)		(303)									(303)
Beginning of year reflecting change in accounting policy	40,634	30,053	146,135	(693)	216,129	6,166	2	533	(889)	(3,049)	2,763	267	30,335	249,494
Increase by merger			10		10									10
Cash dividends			(4,799)		(4,799)									(4,799)
Profit attributable to owners of parent			62,297		62,297									62,297
Purchase of treasury stock				(37)	(37)									(37)
Disposal of treasury stock			(15)	44	29									29
Other, net						4,811	(3)	28	3,316	4,416	12,568	44	1,178	13,790
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

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, 2015	$ 360,614	$ 266,711	$ 1,807,135	$ (6,088)	$ 2,428,372	$ 97,417	$ (9)	$ 4,979	$21,539	$ 12,132	$ 136,058	$ 2,760	$ 279,668	$ 2,846,858
Issuance of new shares	129,029	129,029			258,058									258,058
Change in treasury shares of parent arising from transactions with non-controlling shareholders		852			852									852
Cash dividends			(66,933)		(66,933)									(66,933)
Profit attributable to owners of parent			352,103		352,103									352,103
Decrease in retained earnings due to exclusion of equity method companies			(1,819)		(1,819)									(1,819)
Purchase of treasury stock				(408)	(408)									(408)
Increase (decrease) of treasury stock due to changes in shareholding ratio				(0)	(0)									(0)
Disposal of treasury stock			(231)	861	630									630
Decrease due to decrease in affiliates accounted for by equity method-treasury stock				1,349	1,349									1,349
Other, net						(35,498)	(35)	(4,979)	(21,175)	(27,787)	(89,474)	(53)	15,522	(74,005)
As of March 31, 2016	$ 489,643	$ 396,592	$ 2,090,255	$ (4,286)	$ 2,972,204	$ 61,919	$ (44)	—	$ 364	$ (15,655)	$ 46,584	$ 2,707	$ 295,190	$3,316,685

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended March 31, 2016 and 2015		
	2016	2015	2016
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
Cash flows from operating activities:			
Income before income taxes	¥ 61,929	¥ 58,998	$ 549,601
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	34,770	35,650	308,573
Impairment loss	3,216	1,079	28,541
Change in assets and liabilities for retirement benefit	(928)	882	(8,236)
Interest and dividend income	(1,663)	(1,213)	(14,759)
Interest expense	2,344	2,956	20,802
Equity in earnings of affiliates	(2,036)	(1,372)	(18,069)
Loss on disposal of property, plant and equipment	882	925	7,827
Gain on reversal of foreign currency transaction adjustment due to liquidation of foreign subsidiary	—	(1,069)	—
(Increase) decrease in trade receivables	18,822	(9,569)	167,039
Decrease in inventories	6,170	53	54,757
Decrease in trade payables	(16,447)	(5,214)	(145,962)
Other, net	(5,152)	(5,067)	(45,722)
Subtotal	101,907	77,039	904,392
Interest and dividends received	2,287	1,379	20,296
Interest paid	(2,395)	(3,037)	(21,255)
Income taxes paid	(1,915)	(21,274)	(16,995)
Net cash provided by operating activities	99,884	54,107	886,438
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(25,706)	(34,134)	(228,133)
Proceeds from sales and redemption of investment securities	1,876	55	16,649
Purchase of shares of subsidiaries resulting in change in scope of consolidation	(2,364)	—	(20,980)
Payments for advances of long-term loans receivable	(2,965)	(3,473)	(26,313)
Proceeds from collections of long-term loans receivable	3,081	3,446	27,343
Other, net	(1,839)	(9)	(16,321)
Net cash used in investing activities	(27,917)	(34,115)	(247,755)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(43,664)	(7,029)	(387,504)
Proceeds from long-term debt	8,649	29,765	76,757
Repayments of long-term debt	(37,000)	(38,295)	(328,364)
Proceeds from issuance of common shares	29,078	—	258,058
Cash dividends paid	(7,806)	(5,065)	(69,276)
Other, net	(84)	(95)	(745)
Net cash used in financing activities	(50,827)	(20,719)	(451,074)
Effect of exchange rate changes on cash and cash equivalents	(2,063)	1,295	(18,307)
Net increase (decrease) in cash and cash equivalents	19,077	568	169,302
Cash and cash equivalents at beginning of year	55,740	55,127	494,675
Increase in cash and cash equivalents due to newly consolidated subsidiary	52	—	461
Increase in cash and cash equivalents resulting from merger of subsidiary and unconsolidated subsidiary	—	45	—
Cash and cash equivalents at end of year	¥ 74,869	¥ 55,740	$ 664,439

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 five 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, 2016, which was ¥112.68 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 basis is applied to buildings. 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.

Changes in accounting policies

The Company and its domestic subsidiaries adopted “Revised Accounting Standard for Business Combinations” (ASBJ Statement No.21, September 13, 2013 (hereinafter, “Statement No.21”)), “Revised Accounting Standard for Consolidated Financial Statements” (ASBJ Statement No.22, September 13, 2013 (hereinafter, “Statement No.22”)) and “Revised Accounting Standard for Business Divestitures” (ASBJ Statement No.7, September 13, 2013 (hereinafter, “Statement No.7”)) (together, the “Business Combination Accounting Standards”), from the current fiscal year. As a result, the Company changed its accounting policies to recognize in capital surplus the differences arising from the changes in the Company’s ownership interest of subsidiaries over which the Company continues to maintain control and to record acquisition related costs as expenses in the fiscal year in which the costs are incurred. In addition, the Company changed its accounting policy for the reallocation of acquisition costs due to the completion following provisional accounting to reflect such reallocation in the consolidated financial statements for the fiscal year in which the business combination took place. The Company also changed the presentation of net income and the term “non-controlling interests” is used instead of “minority interests”. Certain amounts in the prior year comparative information were reclassified to conform to such changes in the current year presentation.
In the consolidated statement of cash flows, cash flows from acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from financing activities” and cash flows from acquisition related costs for shares of subsidiaries with changes in the scope of consolidation or costs related to acquisition or disposal of shares of subsidiaries with no changes in the scope of consolidation are included in “Cash flows from operating activities”.
With regard to the application of the Business Combination Accounting Standards, the Company followed the provisional treatments in article 58-2 (4) of Statement No.21, article 44-5 (4) of Statement No.22 and article 57-4 (4) of Statement No.7 with application from the beginning of the current fiscal year prospectively.

In the consolidated statement of cash flows, in accordance with the transitional treatment stipulated in article 26-4 of the "Practical Guideline for preparation of the consolidated statement of cash flows", comparative information was not reclassified.
The effect on operating income, ordinary income and income before income taxes for the year ended March 31, 2016, is immaterial.

Accounting standards issued but not yet effective

"Revised Implementation Guidance on Recoverability of Deferred Tax Assets" (ASBJ Guidance No. 26, March 28, 2016 (hereinafter, "Guidance No.26")
(1) Overview
Following the framework in Auditing Committee Report No. 66 "Audit Treatment regarding the Judgment of Recoverability of Deferred Tax Assets", which prescribes estimation of deferred tax assets according to the classification of the entity by one of five types, the following treatments were changed as necessary:

1. Treatment for an entity that does not meet any of the criteria in types 1 to 5;
2. Criteria for types 2 and 3;
3. Treatment for deductible temporary differences which an entity classified as type 2 is unable to schedule;
4. Treatment for the period which an entity classified as type 3 is able to reasonably estimate with respect to future taxable income before consideration of taxable or deductible temporary differences that exist at the end of the current fiscal year; and
5. Treatment when an entity classified as type 4 also meets the criteria for types 2 or 3.

(2) Effective date
Effective from the beginning of the fiscal year ending March 31, 2017
(3) Effects of application of the Guidance
At present, the Company is in the process of evaluating the impact on the consolidated financial statements from the adoption of the revised accounting standards.

Changes in presentation

"Insurance 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 ¥137 million (US$1,216 thousand) in "Insurance income", the ¥368 million (US$3,266 thousand) in "Other, net" under "Other income (expenses)" in the previous statements of income has been reclassified into ¥505 million (US$4,482 thousand) in "Other, net" under "Other income (expenses)".
"Proceeds from sales of property, plant and equipment" and "Purchases of investment securities", which were presented separately in the previous fiscal year, are included in "Other, net" under "Cash flows from investing activities:" from the current fiscal year because the amounts of the items have decreased in importance.

“Proceeds from sales and redemption of investment securities”, which was included in “Other, net” under “Cash flows from investing activities:” in the previous fiscal year, is presented separately from the current fiscal year because the amount of the item has increased in importance.

To reflect these changes in reporting method, the reclassification of accounts has been made for the statements of cash flows for the previous fiscal year.

As a result, the ¥714 million (US$6,337 thousand) in “Proceeds from sales of property, plant and equipment”, the ¥(126) million (US$(1,118) thousand) in “Purchases of investment securities” and the ¥(542) million (US$(4,810) thousand) in “Other, net” under “Cash flows from investing activities:” in the previous statements of cash flows has been reclassified into ¥55 million (US$488 thousand) in “Proceeds from sales and redemption of investment securities” and ¥(9) million (US$(80) thousand) in “Other, net” under “Cash flows from investing activities:”.

NOTE 3—INVENTORIES

Inventories as of March 31, 2016 and 2015 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016	2015	2016
Finished products	¥ 79,802	¥ 85,744	$ 708,218
Raw materials and supplies	35,154	36,099	311,981
Work in process	10,200	9,609	90,522
Total	¥ 125,156	¥ 131,452	$ 1,110,721

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)
	2016	2015	2016
Unrealized gains on securities			
Increase(decrease) during the year	¥ (5,974)	¥ 6,119	$ (53,017)
Reclassification adjustments	7	86	62
Subtotal, before tax	(5,967)	6,205	(52,955)
Tax(expense) or benefit	2,073	(1,573)	18,397
Subtotal, net of tax	¥ (3,894)	¥ 4,632	$ (34,558)
Deferred gains(losses) on hedges			
Increase during the year	¥ (12)	¥ (10)	$ (106)
Reclassification adjustments	(3)	—	(27)
Subtotal, before tax	(15)	(10)	(133)
Tax(expense) or benefit	4	3	35
Subtotal, net of tax	¥ (11)	¥ (7)	$ (98)
Foreign currency translation adjustments			
Increase(decrease) during the year	¥ (2,330)	¥ 4,198	$ (20,678)
Reclassification adjustments	—	(1,069)	—
Subtotal, before tax	(2,330)	3,129	(20,678)
Tax(expense) or benefit	—	404	—
Subtotal, net of tax	¥ (2,330)	¥ 3,533	$ (20,678)
Adjustments for retirement benefit			
Increase(decrease) during the year	¥ (4,906)	¥ 5,621	$ (43,539)
Reclassification adjustments	177	825	1,571
Subtotal, before tax	(4,729)	6,446	(41,968)
Tax(expense) or benefit	1,464	(2,048)	12,992
Subtotal, net of tax	¥ (3,265)	¥ 4,398	$ (28,976)
Share of other comprehensive income of associates accounted for using equity method			
Increase(decrease) during the year	¥ (194)	¥ 584	$ (1,722)
Reclassification adjustments	(453)	(7)	(4,020)
Subtotal, net of tax	¥ (647)	¥ 577	$ (5,742)
Total other comprehensive income	¥ (10,147)	¥ 13,133	$ (90,052)

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, 2016 and 2015.

Available-for-sale securities:

	Millions of Yen					
	2016			2015		
	Acquisition Cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	¥ 14,437	¥25,069	¥ 10,632	¥ 15,213	¥ 31,653	¥ 16,440
Securities with book values not exceeding acquisition costs	5,650	4,629	(1,021)	3,456	3,079	(377)
Total	¥ 20,087	¥ 29,698	¥ 9,611	¥ 18,669	¥ 34,732	¥ 16,063

	Thousands of US Dollars (Note 1)		
	2016		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	$ 128,124	$ 222,480	$ 94,356
Securities with book values not exceeding acquisition costs	50,142	41,081	(9,061)
Total	$ 178,266	$ 263,561	$ 85,295

NOTE 6 — PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2016 and 2015 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016	2015	2016
Land	¥ 74,122	¥ 73,284	$ 657,810
Buildings and structures	219,506	218,346	1,948,048
Machinery and equipment	809,031	800,421	7,179,899
Lease assets	177	155	1,570
Construction in progress	14,313	3,820	127,023
	1,117,149	1,096,026	9,914,350
Less accumulated depreciation	(890,312)	(862,409)	(7,901,242)
Net property, plant and equipment	¥ 226,837	¥ 233,617	$ 2,013,108

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

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 0.67% and 0.68% as of March 31, 2016 and 2015, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2016 and 2015 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016	2015	2016
Loans from banks and other financial institutions, 1.19%, maturing serially through 2024			
Secured	¥ 1,809	¥ 2,015	$ 16,055
Unsecured	102,288	130,955	907,774
	104,097	132,970	923,829
Less amounts due within 1 year	(28,428)	(36,121)	(252,290)
Total	¥ 75,669	¥ 96,849	$ 671,539

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016	2015	2016
Property, plant and equipment	¥ 13,484	¥ 13,411	$ 119,666
Other	138	259	1,225
Total	¥ 13,622	¥ 13,670	$ 120,891

The annual maturities of long-term debt as of March 31, 2016 and 2015 were as follows:

As of March 31, 2016	Millions of Yen	Thousands of US Dollars (Note 1)
2017	¥ 28,428	$ 252,290
2018	21,317	189,182
2019	19,552	173,519
2020	14,808	131,416
2021	9,908	87,930
2022 and thereafter	10,084	89,492
Total	¥ 104,097	$ 923,829

As of March 31, 2015	Millions of Yen
2016	¥ 36,121
2017	28,064
2018	20,338
2019	18,397
2020	13,247
2021 and thereafter	16,803
Total	¥ 132,970

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 (Note1)
	2016	2015	2016
Beginning of year	¥ 61,514	¥ 60,132	$ 545,918
Cumulative effect of change in accounting policy	—	343	—
Beginning of year reflecting change in accounting policy	61,514	60,475	545,918
Service cost	3,026	2,914	26,855
Interest cost	325	451	2,884
Actuarial differences	2,060	661	18,282
Benefits paid	(4,829)	(4,364)	(42,856)
Increase due to change from simplified method to principle method	—	1,264	—
Increase from change of scope of consolidation	379	—	3,364
Other	(27)	113	(240)
End of year	¥ 62,448	¥ 61,514	$ 554,207

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 (Note1)
	2016	2015	2016
Beginning of year	¥ 66,799	¥ 60,239	$ 592,820
Expected return on plan assets	1,348	1,348	11,963
Actuarial differences	(2,839)	6,286	(25,195)
Contributions	1,946	1,895	17,270
Benefits paid	(3,695)	(3,373)	(32,792)
Increase due to change from simplified method to principle method	—	285	—
Increase from change of scope of consolidation	281	—	2,494
Other	(30)	119	(266)
End of year	¥ 63,810	¥ 66,799	$ 566,294

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 (Note1)
	2016	2015	2016
Beginning of year	¥ 4,351	¥ 4,734	$ 38,614
Retirement benefit cost	641	551	5,689
Benefits paid	(398)	(258)	(3,532)
Contributions	(254)	(266)	(2,254)
Decrease due to change from simplified method to principle method	—	(447)	—
Other	(35)	37	(311)
End of year	¥ 4,305	¥ 4,351	$ 38,206

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, 2016 and 2015, were as follows:

	Millions of yen		Thousands of US Dollars (Note1)
	2016	2015	2016
Defined benefit obligation in the Company and its consolidated subsidiaries which have funded retirement plans	¥ 53,570	¥ 53,032	$ 475,417
Retirement plan assets	(67,549)	(70,406)	(599,476)
	(13,979)	(17,374)	(124,059)
Defined benefit obligation in the consolidated subsidiaries which don't have funded retirement plans	16,922	16,441	150,177
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ 2,943	¥ (933)	$ 26,118
Liabilities for retirement benefit	20,153	19,433	178,852
Assets for retirement benefit	(17,210)	(20,366)	(152,734)
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ 2,943	¥ (933)	$ 26,118

Components of retirement benefit cost for the year ended March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of US Dollars (Note1)
	2016	2015	2016
Service cost	¥ 3,026	¥ 2,914	$ 26,855
Interest cost	325	451	2,884
Expected return on plan assets	(1,348)	(1,348)	(11,963)
Amortization of actuarial differences	177	825	1,571
Retirement benefit cost in the simplified method	641	551	5,689
Amortization due to change from simplified method to principle method	—	482	—
Other	152	136	1,348
Total retirement benefit cost	¥ 2,973	¥ 4,011	$ 26,384

Adjustments for retirement benefit before tax effect as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of US Dollars (Note1)
	2016	2015	2016
Actuarial differences	¥ (4,729)	¥ 6,446	$ (41,968)

Accumulated adjustments for retirement benefit before tax effect as of March 31, 2016 and 2015, were as follows:

	Millions of yen		Thousands of US Dollars (Note1)
	2016	2015	2016
Unrecognized actuarial differences	¥ 3,393	¥ (1,358)	$ 30,112

The major categories of plan assets as a percentage of total assets as of March 31, 2016 and 2015, were as follows:

	2016	2015
Bonds	36.6%	34.0%
Shares of stock	35.3%	38.9%
Life insurance company general accounts	26.5%	26.1%
Other	1.6%	1.0%
Total	100%	100%

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

	2016	2015
Discount rate	Mainly 0.2%	Mainly 0.5%
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 ¥285 million (US$2,529 thousand) and ¥280 million for the years ended March 31, 2016 and 2015, 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, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016	2015	2016
Loans guaranteed	¥ 825	¥ 876	$ 7,322

NOTE10—RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016	2015	2016
Research and development expenses:	¥ 13,743	¥ 12,877	$ 121,965

NOTE 11 — IMPAIRMENT LOSS

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

			Millions of Yen	Thousands of US Dollars (Note 1)
			2016	2016
Location	Use	Assets category		
Miyazaki, Japan	Production facilities ,etc	Buildings and structures, Machinery and equipment, others	¥ 3,121	$ 27,698

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 (US$4,402 thousand) for buildings, ¥2,620 million (US$23,252 thousand) for machinery, ¥5 million (US$44 thousand) 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 — COMMON STOCK

Total amount of common stock authorized as of March 31, 2016 and 2015 is 1,800,000,000 shares. The Company issued 42,700,000 shares on July 21, 2015 by way of public offering, and 6,300,000 shares on July 29, 2015 by way of third-party. Consequently, the total amount of common stock issued as of March 31, 2016 and 2015 is 650,161,912 shares and 601,161,912 shares, respectively.

NOTE 13 — DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedging accounting is not applied as of March 31, 2016 and 2015, were as follows:

	Millions of Yen			
	2016		2015	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Buying Indonesian Rupiahs	¥ 1,809	¥ (132)	¥ —	¥ —
Total	¥ 1,809	¥ (132)	¥ —	¥ —

	Thousands of US Dollars (Note 1)	
	2016	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Buying Indonesian Rupiahs	$ 16,054	$ (1,171)
Total	$ 16,054	$ (1,171)

Derivative transactions to which hedging accounting is applied as of March 31, 2016 and 2015, were as follows:

	Millions of Yen			
	2016		2015	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Principle method				
Buying US Dollars	¥ 114	¥ (7)	¥ 254	¥ 5
Buying Euros	—	—	14	(2)
Buying British Pounds	6	(1)	—	—
Selling US Dollars	210	(5)	2	(1)
Allocation method				
Buying US Dollars	—	—	47	(＊1)
Buying Euros	1	(＊1)	—	—
Selling US Dollars	560	(＊1)	115	(＊1)
Total	¥891	¥ (13)	¥432	¥ 2
Interest rate swaps				
Principle method				
Payment fixation and receipt change	¥ 1,600	¥ (4)	¥ 2,000	¥ (5)
Special method				
Payment fixation and receipt change	770	(＊2)	280	(＊2)
Total	¥ 2,370	¥ (4)	¥ 2,280	¥ (5)

	Thousands of US Dollars (Note 1)	
	2016	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Principle method		
Buying US Dollars	$ 1,012	$ (62)
Buying Euros	—	—
Buying British Pounds	53	(9)
Selling US Dollars	1,864	(44)
Allocation method		
Buying US Dollars	—	—
Buying Euros	8	(＊1)
Selling US Dollars	4,970	(＊1)
Total	$ 7,907	$ (115)
Interest rate swaps		
Principle method		
Payment fixation and receipt change	$ 14,200	$ (35)
Special method		
Payment fixation and receipt change	6,833	(＊2)
Total	$ 21,033	$ (35)

(＊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 (Note 14).
(＊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 (Note 14).

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

NOTE 14 — 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, 2016 and 2015, were as follows:

	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)	—

	Millions of Yen		
	March 31,2015		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 55,740	¥ 55,740	¥ —
Trade receivables	200,578	200,578	—
Lease investment assets	8,606	8,606	—
Securities			
Available-for-sale securities	34,732	34,732	—
Investments in affiliates	11,636	10,211	(1,425)
Long-term loans receivable	368	368	—
Trade payables	(102,049)	(102,049)	—
Short-term bank loans	(138,558)	(138,558)	—
Long-term debt	(132,970)	(134,135)	(1,165)
Derivative transactions	(3)	(3)	—

	Thousands of US Dollars (Note 1)		
	March 31,2016		
	Book value	Fair value	Difference
Cash and cash equivalents	$ 664,439	$ 664,439	$ —
Trade receivables	1,610,738	1,610,738	—
Lease investment assets	127,929	127,929	—
Securities			
Available-for-sale securities	263,561	263,561	—
Investments in affiliates	61,626	37,691	(23,935)
Long-term loans receivable	2,751	2,751	—
Trade payables	(752,228)	(752,228)	—
Short-term bank loans	(847,329)	(847,329)	—
Long-term debt	(923,829)	(934,718)	(10,889)
Derivative transactions	(1,322)	(1,322)	—

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. For the book values approximate the fair 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 13.

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)
	2016	2015	2016
Equity securities issued by unconsolidated subsidiaries and affiliates	¥ 5,901	¥ 5,204	$ 52,370
Non-listed equity securities	4,397	4,421	39,022

Redemption schedule of monetary claims and available-for-sale securities with maturity as of March 31, 2016 and 2015, was as follows:

	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

	Millions of Yen			
	2015			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	¥ 55,740	¥ —	¥ —	¥ —
Trade receivables	200,578	—	—	—
Securities				
Available-for-sale securities	—	—	—	—
Long-term loans receivable	21	330	12	5
Total	¥ 256,339	¥ 330	¥ 12	¥ 5

	Thousands of US Dollars (Note 1)			
	2016			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	$ 664,439	$ —	$ —	$ —
Trade receivables	1,610,738	—	—	—
Securities				
Available-for-sale securities	—	—	—	—
Long-term loans receivable	160	2,494	62	35
Total	$ 2,275,337	$ 2,494	$ 62	$ 35

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

NOTE 15 — INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, indicated a statutory income tax rate in Japan of approximately 32.8% and 35.4% for the year ended March 31, 2016 and 2015, respectively.

The following table summarizes the significant difference between the statutory income tax rate and the Companies' actual income tax rate for the year ended March 31, 2015.

The note is omitted for the year ended March 31, 2016, because the difference between the statutory income tax rate and the Companies' actual income tax rate after adoption of tax-effect accounting is less than 5% of the statutory tax rate.

	March 31, 2015
Statutory income tax rate	35.4 %
Increase(decrease) in taxes resulting from:	
Equity in earnings of affiliates	(1.1)
Change of valuation allowance	1.5
Effect of subsidiary merger	(44.5)
Other	1.4
Actual income tax rate	(7.3) %

Significant components of deferred tax assets and deferred tax liabilities as of March 31, 2016 and 2015 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2016	2015	2016
Deferred tax assets:			
Operating loss carryforwards	¥ 5,267	¥ 17,407	$ 46,743
Unrealized gains on intercompany transactions	7,105	7,069	63,055
Liabilities for retirement benefit	7,229	7,243	64,155
Impairment loss on fixed assets	2,011	1,296	17,847
Other	11,901	8,949	105,617
Total gross deferred tax assets	33,513	41,964	297,417
Valuation allowance	(5,708)	(5,269)	(50,656)
Total deferred tax assets	27,805	36,695	246,761
Deferred tax liabilities:			
Assets for retirement benefit	(5,247)	(6,380)	(46,565)
Reserve for replacement of property, plant and equipment	(2,030)	(2,354)	(18,016)
Net unrealized gains on securities	(2,872)	(4,941)	(25,488)
Other	(5,288)	(5,425)	(46,930)
Total deferred tax liabilities	(15,437)	(19,100)	(136,999)
Net deferred tax assets	¥ 12,368	¥ 17,595	$ 109,762

Note: "Net deferred tax assets" above can be classified in the accompanying consolidated balance sheets as of March 31, 2016 and 2015 as follows:

		Millions of Yen		Thousands of US Dollars (Note 1)
Balance sheet item		2016	2015	2016
Current assets	Deferred tax assets	¥ 10,077	¥ 18,408	$ 89,430
Current liabilities	Other current liabilities	(1)	(7)	(9)
Non-current assets	Deferred tax assets	5,167	4,326	45,856
Non-current liabilities	Deferred tax liabilities	(2,875)	(5,132)	(25,515)
		¥ 12,368	¥ 17,595	$ 109,762

Adjustment of deferred tax assets and liabilities for enacted change in tax law and rate

On March 29, 2016, amendments to the Japanese tax regulations were enacted into law. Based on the amendments, the statutory income tax rates utilized for the measurement of deferred tax assets and liabilities expected to be settled or realized from April 1, 2016 to March 31, 2018 and on or after April 1, 2018 are changed from 32.1% for the fiscal year ended March 31, 2016 to 30.7% and 30.5%, respectively, as of March 31, 2016. These changes in statutory income tax rates were to decrease net deferred tax assets (after deducting deferred tax liabilities) by ¥272 million (US$2,414 thousand), and to increase income taxes-deferred recognized for the year ended March 31, 2016 by ¥366 million (US$3,248 thousand), net unrealized gains on securities by ¥149 million (US$1,322 thousand) and decrease accumulated adjustments for retirement benefit by ¥55 million (US$488 thousand), respectively.

NOTE 16—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, 2016 and 2015 was as follows:

	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

	Millions of Yen							
	Year ended March 31, 2015							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	¥ 223,746	¥ 294,333	¥ 174,856	¥ 75,746	¥ 41,003	¥ 809,684	¥ —	¥ 809,684
Inter-segment	108,053	28,556	11,740	11,015	48,015	207,379	(207,379)	—
Total	¥ 331,799	¥ 322,889	¥ 186,596	¥ 86,761	¥ 89,018	¥ 1,017,063	¥ (207,379)	¥ 809,684
Segment income	¥ 6,921	¥ 8,321	¥ 29,981	¥ 3,330	¥ 2,844	¥ 51,397	¥ —	¥ 51,397
Segment assets	¥ 117,396	¥ 247,793	¥ 180,678	¥ 95,426	¥ 30,493	¥ 671,786	¥ 92,420	¥ 764,206
Depreciation and amortization	3,592	15,704	10,675	1,089	1,180	32,240	549	32,789
Amortization on goodwill	—	(29)	—	98	(5)	64	—	64
Capital expenditures	3,204	10,186	17,519	585	1,090	32,584	565	33,149
Investment for affiliates	803	6,979	7,324	1,974	991	18,071	—	18,071

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2016							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	$ 1,556,940	$ 2,483,573	$ 1,548,917	$ 747,107	$ 352,636	$ 6,689,173	$ —	$ 6,689,173
Inter-segment	822,959	231,487	122,648	73,997	430,325	1,681,416	(1,681,416)	—
Total	$ 2,379,899	$ 2,715,060	$ 1,671,565	$ 821,104	$ 782,961	$ 8,370,589	$ (1,681,416)	$ 6,689,173
Segment income	$ 103,026	$ 159,638	$ 290,211	$ 40,619	$ 22,808	$ 616,303	$ —	$ 616,303
Segment assets	$ 847,790	$ 1,928,674	$ 1,687,593	$ 950,763	$ 274,415	$ 5,689,235	$ 831,621	$ 6,520,856
Depreciation and amortization	29,384	127,387	99,059	9,194	10,970	275,994	6,115	282,109
Amortization on goodwill	—	—	2,911	1,003	—	3,914	—	3,914
Capital expenditures	22,497	92,616	102,813	8,537	15,772	242,235	5,582	247,817
Investment for affiliates	7,118	57,047	32,801	18,158	9,885	125,009	—	125,009

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 ¥93,707 million (US$831,621 thousand) for segment assets included ¥22,586 million (US$200,443 thousand) in eliminations of inter-segment receivables and assets, and ¥116,293 million (US$1,032,064 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 ¥689 million (US$6,115 thousand) for depreciation and amortization was mainly corporate costs unallocated to each reported segment.
5. Adjustments amount of ¥629 million (US$5,582 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, 2016				
	Japan	China	Other Asian countries	Other	Total
Net sales	¥ 416,672	¥ 102,638	¥ 136,188	¥ 98,238	¥ 753,736

	Millions of Yen				
	Year ended March 31, 2015				
	Japan	China	Other Asian countries	Other	Total
Net sales	¥ 464,796	¥ 119,341	¥ 130,930	¥ 94,617	¥ 809,684

	Thousands of US Dollars (Note1)				
	Year ended March 31, 2016				
	Japan	China	Other Asian countries	Other	Total
Net sales	$ 3,697,835	$ 910,880	$ 1,208,626	$ 871,832	$ 6,689,173

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, 2016		
	Japan	Other	Total
Property, plant and equipment	¥ 202,683	¥ 24,154	¥ 226,837

Note: Geographic information of property, plant and equipment was omitted as of March 31, 2015, because property, plant and equipment in Japan exceeded 90% of those stated in the consolidated balance sheets.

	Thousands of US Dollars (Note1)		
	Year ended March 31, 2016		
	Japan	Other	Total
Property, plant and equipment	$ 1,798,749	$ 214,359	$ 2,013,108

Information about impairment loss of fixed assets by reported segments

	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

	Millions of Yen							
	Year ended March 31, 2015							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	¥ 35	¥ 848	¥ 52	¥ 143	¥ 1	¥ 1,079	¥ —	¥ 1,079

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2016							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	$ 27	$ 160	$ 28,177	$ 35	$ 0	$ 28,399	$ 142	$ 28,541

Information about unamortized balance of goodwill by reported segments

	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

	Millions of Yen							
	Year ended March 31, 2015							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	¥ —	¥ —	¥ —	¥ 325	¥ —	¥ 325	¥ —	¥ 325

	Thousands of US Dollars (Note1)							
	Year ended March 31, 2016							
	Petro-Chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	$ —	$ —	$ 11,635	$ 2,715	$ —	$ 14,350	$ —	$ 14,350

NOTE 17—RELATED PARTY TRANSACTIONS

There were no balances or transaction to be disclosed as of and for the year ended March 31, 2016 and 2015, respectively.

NOTE 18—STOCK OPTION PLANS

At March 31, 2016, the Company had the following stock option plans:

	2015 plan	2014 plan	2013 plan	2012 plan	2011 plan	2010 plan
Date of grant	July 18, 2015	July 12, 2014	July 13, 2013	July 14, 2012	July 16, 2011	July 17, 2010
Grantees	29 (including 9 directors)	32 (including 12 directors)	33 (including 13 directors)	30 (including 11 directors)	31 (including 13 directors)	29 (including 14 directors)
Type of stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	111,232	170,550	220,200	454,395	257,826	419,735
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 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	July 18, 2010– July 17, 2035
Fair value at the date of grant (yen)	¥ 599	¥ 425	¥ 338	¥ 164	¥ 313	¥ 196
Fair value (US dollars) (Note 1)	$ 5.32	$ 3.54	$ 3.28	$ 1.74	$ 3.81	$ 2.36

	2009 plan	2008 plan	2007 plan	2006 plan
Date of grant	July 18, 2009	July 19, 2008	July 18, 2007	September 27, 2006
Grantees	28(including 16 directors)	29 (including 16 directors)	29 (including 15 directors)	25 (including 15 directors)
Type of stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	361,206	201,125	121,379	181,463
Exercise price (yen)	¥ 1	¥ 1	¥ 1	¥ 1
Exercise price (US dollars) (Note 1)	$ 0.01	$ 0.01	$ 0.01	$ 0.01
Exercisable period	July 19, 2009– July 18, 2034	July 20, 2008- July 19, 2033	July 19, 2007– July 18, 2032	September 28, 2006– September 27, 2031
Fair value at the date of grant (yen)	¥ 225	¥400	¥ 637	¥ 414
Fair value (US dollars) (Note 1)	$ 2.42	$ 4.07	$ 6.36	$ 3.51

NOTE 19 — SUBSEQUENT EVENTS

At the meetings of the Company's board of directors held on May 10, 2016 and May 11, 2015, retained earnings of the Company as of March 31, 2016 and 2015, were appropriated as follows:

	March 31, 2016	
	Millions of Yen	Thousands of US Dollars (Note 1)
Year-end cash dividends (¥7.00 per share)	¥4,542	$40,309

	March 31, 2015
	Millions of Yen
Year-end cash dividends (¥5.00 per share)	¥ 2,999

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, 2016 and 2015, 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, 2016 and 2015, 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, 2016 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 29, 2016
Tokyo, Japan