



ANNUAL REPORT 2018

Tosoh Corporation and consolidated subsidiaries
Fiscal year ended March 31, 2018

TOSOH CORPORATION

TOSOH CORPORATION
CONSOLIDATED BALANCE SHEETS

ASSETS	As of March 31, 2018 and 2017		
	2018	2017	2018
	Millions of Yen		Thousands of US Dollars (Note 1)
Current assets:			
Cash and cash equivalents (Notes 7 and 13)	¥ 106,179	¥ 85,460	\$ 999,426
Trade receivables (Notes 7 and 13)	219,676	199,541	2,067,733
Lease investment assets (Note 13)	15,241	16,836	143,458
Inventories (Note 3)	141,783	127,359	1,334,554
Deferred tax assets (Note 14)	9,029	6,760	84,987
Other current assets	9,345	12,835	87,961
Allowance for doubtful accounts	(633)	(776)	(5,958)
Total current assets	500,620	448,015	4,712,161
Investments:			
Investment securities (Notes 5 and 13)	46,838	41,835	440,870
Investments in unconsolidated subsidiaries and affiliates (Note 13)	18,514	16,526	174,266
Long-term loans receivable (Note 13)	223	231	2,099
Assets for retirement benefit (Note 8)	23,481	20,211	221,018
Other	11,163	13,381	105,073
Allowance for doubtful accounts	(474)	(350)	(4,462)
Total investments	99,745	91,834	938,864
Property, plant and equipment—net (Notes 6 and 7)	243,447	234,850	2,291,482
Other assets:			
Deferred tax assets (Note 14)	4,625	4,393	43,534
Intangibles	4,366	3,532	41,096
Total other assets	8,991	7,925	84,630
Total assets	¥ 852,803	¥ 782,624	\$ 8,027,137

The accompanying notes are an integral part of these statements.

LIABILITIES
AND NET ASSETS

	As of March 31, 2018 and 2017		
	2018	2017	2018
	Millions of Yen		Thousands of US Dollars (Note 1)
Current liabilities:			
Short-term bank loans (Notes 7 and 13)	¥ 49,145	¥ 60,986	\$ 462,585
Current maturities of long-term debt (Notes 7 and 13)	20,400	21,398	192,018
Trade payables (Note 13)	104,070	99,835	979,575
Income taxes payable	27,347	25,101	257,408
Other current liabilities (Note 14)	53,590	40,567	504,424
Total current liabilities	254,552	247,887	2,396,010
Long-term liabilities:			
Long-term debt, less current maturities (Notes 7 and 13)	38,295	57,460	360,457
Liabilities for retirement benefit (Note 8)	19,620	19,282	184,676
Provision for retirement benefits for directors and corporate audit and supervisory board members	410	374	3,859
Deferred tax liabilities (Note 14)	8,457	5,274	79,603
Provision for losses on dissolution of business	96	93	904
Other long-term liabilities	3,306	3,918	31,118
Total long-term liabilities	70,184	86,401	660,617
Total liabilities	324,736	334,288	3,056,627
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock:			
Authorized—900,000,000 shares;			
Issued—325,080,956 shares	55,173	55,173	519,324
Capital surplus	44,891	44,720	422,544
Retained earnings	372,085	301,820	3,502,306
Treasury stock, 394,937 shares in 2018 and 447,442 shares in 2017	(370)	(361)	(3,483)
Total shareholders' equity	471,779	401,352	4,440,691
Accumulated other comprehensive income:			
Net unrealized gains on securities	16,755	13,005	157,709
Deferred gains (losses) on hedges	(0)	(3)	(0)
Foreign currency translation adjustments	(1,753)	(2,465)	(16,500)
Accumulated adjustments for retirement benefit	4,044	1,321	38,064
Total accumulated other comprehensive income	19,046	11,858	179,273
Stock acquisition rights (Note 17)	282	270	2,654
Non-controlling interests	36,960	34,856	347,892
Total net assets	528,067	448,336	4,970,510
Total liabilities and net assets	¥ 852,803	¥ 782,624	\$ 8,027,137

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

	Years ended March 31, 2018 and 2017		
	2018	2017	2018
	Millions of Yen		Thousands of US Dollars (Note 1)
Net sales (Note 15)	¥ 822,858	¥ 743,028	\$ 7,745,275
Cost of sales	581,812	527,743	5,476,393
Gross profit	241,046	215,285	2,268,882
Selling, general and administrative expenses (Note 10)	110,465	104,068	1,039,769
Operating income (Note 15)	130,581	111,217	1,229,113
Other income (expenses):			
Interest and dividend income	1,904	1,475	17,922
Foreign exchange losses, net	(2,057)	(2,048)	(19,362)
Interest expense	(1,287)	(1,504)	(12,114)
Equity in earnings of affiliates	1,900	2,351	17,884
Loss on disposal of property, plant and equipment	(1,400)	(1,876)	(13,178)
Impairment loss (Note 11)	(866)	(1,264)	(8,151)
Other, net	1,575	2,183	14,825
Subtotal	(231)	(683)	(2,174)
Income before income taxes	130,350	110,534	1,226,939
Income taxes (Note 14) :			
Current	41,751	29,663	392,988
Deferred	(2,649)	3,225	(24,934)
Subtotal	39,102	32,888	368,054
Net income	91,248	77,646	858,885
Profit (loss) attributable to non-controlling interests	(2,453)	(1,982)	(23,089)
Profit attributable to owners of parent	¥ 88,795	¥ 75,664	\$ 835,796
Net income per share (Note 2)	Yen		U.S. Dollars (Note 1)
Net income—primary	¥ 273.49	¥ 233.12	\$ 2.57
Net income—diluted	273.20	232.82	2.57
Cash dividends per share	¥ 44.00	¥ 24.00	\$ 0.41

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years ended March 31, 2018 and 2017		
	2018	2017	2018
	Millions of Yen		Thousands of US Dollars (Note 1)
Net income	¥ 91,248	¥ 77,646	\$ 858,885
Other comprehensive income:			
Net unrealized gains on securities	3,666	6,074	34,507
Deferred gains (losses) on hedges	6	6	56
Foreign currency translation adjustments	606	(2,589)	5,704
Adjustments for retirement benefit	2,862	3,261	26,939
Share of other comprehensive income of affiliates applied for equity method	341	(134)	3,210
Total other comprehensive income (Note 4)	<u>7,481</u>	<u>6,618</u>	<u>70,416</u>
Comprehensive income	<u>¥ 98,729</u>	<u>¥ 84,264</u>	<u>\$ 929,301</u>
Breakdown of comprehensive income:			
Comprehensive income attributable to shareholders of parent	¥ 95,982	¥ 82,273	\$ 903,444
Comprehensive income attributable to non-controlling interests	2,747	1,991	25,857

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	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	¥ 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
Change in treasury shares of parent arising from transactions with non-controlling shareholders		171			171								171
Cash dividends			(18,507)		(18,507)								(18,507)
Profit attributable to owners of parent			88,795		88,795								88,795
Purchase of treasury stock				(92)	(92)								(92)
Disposal of treasury stock			(23)	83	60								60
Other, net						3,750	3	712	2,723	7,188	12	2,104	9,304
As of March 31, 2018	¥ 55,173	¥ 44,891	¥ 372,085	¥ (370)	¥ 471,779	¥ 16,755	¥ (0)	¥ (1,753)	¥ 4,044	¥ 19,046	¥ 282	¥ 36,960	¥ 528,067

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

Thousands of US Dollars (Note 1)

	Shareholders' equity					Accumulated other comprehensive income							Total net assets
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized gains on securities	Deferred gains (losses) on hedges	Foreign currency translation adjustments	Accumulated adjustments for retirement benefit	Total accumulated other comprehensive income	Stock acquisition rights	Non-controlling interests	
As of March 31, 2017	\$ 519,324	\$ 420,934	\$ 2,840,926	\$ (3,398)	\$ 3,777,786	\$ 122,412	\$ (28)	\$ (23,202)	\$ 12,433	\$ 111,615	\$ 2,541	\$ 328,087	\$ 4,220,029
Change in treasury shares of parent arising from transactions with non-controlling shareholders		1,610			1,610								1,610
Cash dividends			(174,200)		(174,200)								(174,200)
Profit attributable to owners of parent			835,796		835,796								835,796
Purchase of treasury stock				(866)	(866)								(866)
Disposal of treasury stock			(216)	781	565								565
Other, net						35,297	28	6,702	25,631	67,658	113	19,805	87,576
As of March 31, 2018	\$ 519,324	\$ 422,544	\$ 3,502,306	\$ (3,483)	\$ 4,440,691	\$ 157,709	\$ (0)	\$ (16,500)	\$ 38,064	\$ 179,273	\$ 2,654	\$ 347,892	\$ 4,970,510

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years ended March 31, 2018 and 2017		
	2018	2017	2018
	Millions of Yen		Thousands of US Dollars (Note 1)
Cash flows from operating activities:			
Income before income taxes	¥ 130,350	¥ 110,534	\$ 1,226,939
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	32,618	29,976	307,022
Impairment loss	866	1,264	8,151
Change in assets and liabilities for retirement benefit	1,167	840	10,985
Interest and dividend income	(1,904)	(1,475)	(17,922)
Interest expense	1,287	1,504	12,114
Equity in earnings of affiliates	(1,900)	(2,351)	(17,884)
Loss on disposal of property, plant and equipment	1,400	1,876	13,178
Decrease (increase) in trade receivables	(19,242)	(19,630)	(181,118)
Decrease (increase) in inventories	(14,375)	(3,827)	(135,307)
Increase (decrease) in trade payables	3,096	17,058	29,142
Other, net	19,973	(7,050)	187,998
Subtotal	153,336	128,719	1,443,298
Interest and dividends received	2,642	2,075	24,868
Interest paid	(1,278)	(1,630)	(12,029)
Income taxes paid	(39,270)	(13,448)	(369,635)
Net cash provided by operating activities	115,430	115,716	1,086,502
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(41,837)	(34,550)	(393,797)
Proceeds from sales and redemption of investment securities	920	720	8,660
Payments for advances of long-term loans receivable	(318)	(1,660)	(2,993)
Proceeds from collections of long-term loans receivable	248	1,663	2,334
Other, net	(2,142)	(897)	(20,162)
Net cash used in investing activities	(43,129)	(34,724)	(405,958)
Cash flows from financing activities:			
Net decrease in short-term bank loans	(12,060)	(33,987)	(113,517)
Proceeds from long-term debt	861	3,725	8,104
Repayments of long-term debt	(21,467)	(28,719)	(202,061)
Cash dividends paid	(18,870)	(9,750)	(177,617)
Other, net	(209)	(98)	(1,967)
Net cash used in financing activities	(51,745)	(68,829)	(487,058)
Effect of exchange rate changes on cash and cash equivalents	163	(1,677)	1,535
Net increase in cash and cash equivalents	20,719	10,486	195,021
Cash and cash equivalents at beginning of year	85,460	74,869	804,405
Increase in cash and cash equivalents resulting from merger of subsidiary and unconsolidated subsidiary	—	105	—
Cash and cash equivalents at end of year	¥ 106,179	¥ 85,460	\$ 999,426

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, 2018, which was ¥106.24 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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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 rate for assets and liabilities, at historical rates for the other balance sheet accounts exclusive of the current year's net income, and at the average annual rate for revenue and expense accounts and net income.

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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Per share information

The Company implemented the consolidation of shares of common stock by a factor of 2 to 1, with October 1, 2017, as the effective date. Net income per share is calculated based on the assumption that the consolidation had been implemented at the beginning of the fiscal year ended March 31, 2017.

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.

Cash dividends per share presented in the accompanying consolidated statement of income are dividends applicable to the respective years, including dividends to be paid after the end of the year.

Cash dividends per share applicable to the period for the fiscal year ended March 31, 2018, comprise interim dividends of ¥12.00 (before the consolidation) and year-end dividends of ¥32.00 (after the consolidation).

Reclassifications

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

Standards and guidance not yet adopted

The following standard and guidance were issued but not yet adopted.

- Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 30, 2018)
- Implementation Guidance on Accounting Standard for Revenue Recognition (ASBJ Guidance No. 30, March 30, 2018)

(1) Overview

The above standard and guidance provide comprehensive principles for revenue recognition. Under the standard and guidance, revenue is recognized by applying the following 5 steps:

Step 1: Identify contracts with customers.

Step 2: Identify the performance obligations in the contract.

Step 3: Determine the transaction price.

Step 4: Allocate the transaction price to the performance obligation in the contract.

Step 5: Recognize revenue when or as the entity satisfies a performance obligation.

(2) Effective date

Effective from the beginning of the fiscal year ending March 31, 2022.

(3) Effects of the application of the standards

The Company and its consolidated domestic subsidiaries are currently in the process of determining the effects of these new standards on the consolidated financial statements.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 3 – INVENTORIES

Inventories as of March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Finished products	¥ 91,725	¥ 81,699	\$ 863,375
Raw materials and supplies	41,215	37,679	387,943
Work in process	8,843	7,981	83,236
Total	¥ 141,783	¥ 127,359	\$ 1,334,554

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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)
	2018	2017	2018
Net unrealized gains on securities			
Increase during the year	¥ 5,764	¥ 8,412	\$ 54,255
Reclassification adjustments	(321)	(586)	(3,022)
Subtotal, before tax	5,443	7,826	51,233
Tax effect	(1,777)	(1,752)	(16,726)
Subtotal, net of tax	¥ 3,666	¥ 6,074	\$ 34,507
Deferred gains (losses) on hedges			
Increase (decrease) during the year	¥ 9	¥ (0)	\$ 85
Reclassification adjustments	0	7	0
Subtotal, before tax	9	7	85
Tax effect	(3)	(1)	(29)
Subtotal, net of tax	¥ 6	¥ 6	\$ 56
Foreign currency translation adjustments			
Increase (decrease) during the year	¥ 606	¥ (2,589)	\$ 5,704
Subtotal, net of tax	¥ 606	¥ (2,589)	\$ 5,704
Adjustments for retirement benefit			
Increase during the year	¥ 2,930	¥ 3,291	\$ 27,579
Reclassification adjustments	1,190	1,411	11,201
Subtotal, before tax	4,120	4,702	38,780
Tax effect	(1,258)	(1,441)	(11,841)
Subtotal, net of tax	¥ 2,862	¥ 3,261	\$ 26,939
Share of other comprehensive income of affiliates applied for equity method			
Increase (decrease) during the year	¥ 337	¥ (105)	\$ 3,172
Reclassification adjustments	4	(29)	38
Subtotal, net of tax	¥ 341	¥ (134)	\$ 3,210
Total other comprehensive income	¥ 7,481	¥ 6,618	\$ 70,416

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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, 2018 and 2017.

Available-for-sale securities:

	Millions of Yen					
	2018			2017		
	Acquisition cost	Book value	Difference	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	¥ 19,675	¥ 42,625	¥ 22,950	¥ 18,708	¥ 36,407	¥ 17,699
Securities with book values not exceeding acquisition costs	684	616	(68)	2,230	1,965	(265)
Total	¥ 20,359	¥ 43,241	¥ 22,882	¥ 20,938	¥ 38,372	¥ 17,434

	Thousands of US Dollars (Note 1)		
	2018		
	Acquisition cost	Book value	Difference
Securities with book values exceeding acquisition costs	\$ 185,194	\$ 401,214	\$ 216,020
Securities with book values not exceeding acquisition costs	6,438	5,798	(640)
Total	\$ 191,632	\$ 407,012	\$ 215,380

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Land	¥ 72,753	¥ 73,684	\$ 684,799
Buildings and structures	226,818	221,291	2,134,959
Machinery and equipment	820,226	801,809	7,720,500
Lease assets	799	373	7,521
Construction in progress	29,050	25,649	273,438
	<u>1,149,646</u>	<u>1,122,806</u>	<u>10,821,217</u>
Less accumulated depreciation	<u>(906,199)</u>	<u>(887,956)</u>	<u>(8,529,735)</u>
Net property, plant and equipment	<u>¥ 243,447</u>	<u>¥ 234,850</u>	<u>\$ 2,291,482</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 0.65% and 0.54% as of March 31, 2018 and 2017, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2018 and 2017 consisted of the following:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Loans from banks and other financial institutions, 1.42%, maturing serially through 2025			
Secured	¥ 721	¥ 1,208	\$ 6,786
Unsecured	57,974	77,650	545,689
	<u>58,695</u>	<u>78,858</u>	<u>552,475</u>
Less amounts due within 1 year	<u>(20,400)</u>	<u>(21,398)</u>	<u>(192,018)</u>
Total	<u>¥ 38,295</u>	<u>¥ 57,460</u>	<u>\$ 360,457</u>

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Property, plant and equipment	¥ 12,218	¥ 13,565	\$ 115,004
Cash and cash equivalents	122	33	1,148
Trade receivables	312	156	2,937
Total	<u>¥ 12,652</u>	<u>¥ 13,754</u>	<u>\$ 119,089</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The annual maturities of long-term debt as of March 31, 2018 and 2017 were as follows:

	Millions of Yen	Thousands of US Dollars (Note 1)
<u>As of March 31, 2018</u>		
2019	¥ 20,400	\$ 192,018
2020	15,513	146,018
2021	10,541	99,219
2022	6,864	64,608
2023	3,462	32,587
2024 and thereafter	1,915	18,025
	¥ 58,695	\$ 552,475
	Millions of Yen	
<u>As of March 31, 2017</u>		
2018	¥ 21,398	
2019	20,065	
2020	15,212	
2021	10,412	
2022	6,705	
2023 and thereafter	5,066	
	¥ 78,858	

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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)
	2018	2017	2018
Beginning of year	¥ 59,669	¥ 62,448	\$ 561,643
Service cost	3,087	3,162	29,057
Interest cost	201	153	1,892
Actuarial differences	1	(658)	9
Benefits paid	(3,075)	(5,604)	(28,944)
Other	(5)	168	(46)
End of year	¥ 59,878	¥ 59,669	\$ 563,611

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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)
	2018	2017	2018
Beginning of year	¥ 64,694	¥ 63,810	\$ 608,942
Expected return on plan assets	1,283	1,303	12,076
Actuarial differences	2,911	2,757	27,400
Contributions	1,654	1,140	15,569
Benefits paid	(2,466)	(4,286)	(23,212)
Other	(2)	(30)	(18)
End of year	¥ 68,074	¥ 64,694	\$ 640,757

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)
	2018	2017	2018
Beginning of year	¥ 4,096	¥ 4,305	\$ 38,554
Retirement benefit cost	665	655	6,259
Benefits paid	(223)	(479)	(2,099)
Contributions	(253)	(259)	(2,381)
Other	50	(126)	471
End of year	¥ 4,335	¥ 4,096	\$ 40,804

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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, 2018 and 2017 were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Defined benefit obligation in the Company and its consolidated subsidiaries which have funded retirement plans	¥ 51,203	¥ 51,199	\$ 481,956
Retirement plan assets	(71,966)	(68,484)	(677,391)
	(20,763)	(17,285)	(195,435)
Defined benefit obligation in the consolidated subsidiaries which don't have funded retirement plans	16,902	16,356	159,093
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ (3,861)	¥ (929)	\$ (36,342)
Liabilities for retirement benefit	19,620	19,282	184,676
Assets for retirement benefit	(23,481)	(20,211)	(221,018)
Net amount of liabilities and assets for retirement benefit on the balance sheet	¥ (3,861)	¥ (929)	\$ (36,342)

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Components of retirement benefit cost for the year ended March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Service cost	¥ 3,087	¥ 3,162	\$ 29,057
Interest cost	201	153	1,892
Expected return on plan assets	(1,283)	(1,303)	(12,076)
Amortization of actuarial differences	1,190	1,411	11,201
Retirement benefit cost in the simplified method	665	655	6,259
Other	88	145	828
Total retirement benefit cost	<u>¥ 3,948</u>	<u>¥ 4,223</u>	<u>\$ 37,161</u>

Adjustments for retirement benefit before tax effect as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Actuarial differences	<u>¥ 4,120</u>	<u>¥ 4,702</u>	<u>\$ 38,780</u>

Accumulated adjustments for retirement benefit before tax effect as of March 31, 2018 and 2017 were as follows:

	Millions of yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Unrecognized actuarial differences	<u>¥ (5,430)</u>	<u>¥ (1,310)</u>	<u>\$ (51,111)</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The major categories of plan assets as a percentage of total assets as of March 31, 2018 and 2017 were as follows:

	2018	2017
Bonds	36.1%	33.6%
Shares of stock	39.3%	40.4%
Life insurance company general accounts	24.0%	25.2%
Other	0.6%	0.8%
Total	100%	100%

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

	2018	2017
Discount rate	Mainly 0.3%	Mainly 0.3%
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 the defined contribution plan by certain consolidated subsidiaries were ¥336 million (US\$3,163 thousand) and ¥287 million for the years ended March 31, 2018 and 2017, respectively

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 9 – CONTINGENT LIABILITIES

Contingent liabilities, primarily for loans from banks to affiliates, which are guaranteed by the Companies as of March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Loans guaranteed	¥ 173	¥ 582	\$ 1,628

NOTE 10 – RESEARCH AND DEVELOPMENT EXPENSES

Research and development expenses for the years ended March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Research and development expenses:	¥ 15,502	¥ 14,370	\$ 145,915

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 11 – IMPAIRMENT LOSS

The Companies group business assets based on business divisions or relevance of the production process. Information of major assets for which impairment losses were recognized for the year ended March 31, 2018 is not disclosed in this note, as the amount is immaterial. Major assets for which impairment losses were recognized for the year ended March 31, 2017 were as follows:

			Millions of Yen
Location	Use	Assets category	2017
India	Other	Goodwill	¥ 1,001

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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 12 – DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

Derivative transactions to which hedging accounting is not applied as of March 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018		2017	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Buying Indonesian rupiahs	¥ 478	¥ (3)	¥ 1,141	¥ 4
Total	¥ 478	¥ (3)	¥ 1,141	¥ 4

	Thousands of US Dollars	
	(Note 1)	
	2018	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Buying Indonesian rupiahs	\$ 4,499	\$ (28)
Total	\$ 4,499	\$ (28)

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Derivative transactions to which hedging accounting is applied as of March 31, 2018 and 2017 were as follows:

	Millions of Yen			
	2018		2017	
	Contract amount	Fair value	Contract amount	Fair value
Foreign currency forward exchange contracts				
Principle method				
Buying US dollars	¥ —	¥ —	¥ 1	¥ (0)
Selling US dollars	—	—	113	(8)
Allocation method				
Buying US dollars	28	(* 1)	58	(* 1)
Buying euros	0	(* 1)	1	(* 1)
Selling US dollars	6	(* 1)	30	(* 1)
Total	<u>¥ 34</u>	<u>¥ —</u>	<u>¥ 203</u>	<u>¥ (8)</u>
Interest rate swaps				
Principle method				
Payment fixation and receipt change	¥ 800	¥ (1)	¥ 1,200	¥ (2)
Special method				
Payment fixation and receipt change	350	(* 2)	490	(* 2)
Total	<u>¥ 1,150</u>	<u>¥ (1)</u>	<u>¥ 1,690</u>	<u>¥ (2)</u>

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars (Note 1)	
	2018	
	Contract amount	Fair value
Foreign currency forward exchange contracts		
Principle method		
Buying US dollars	\$ —	\$ —
Selling US dollars	—	—
Allocation method		
Buying US dollars	264	(* 1)
Buying euros	0	(* 1)
Selling US dollars	56	(* 1)
Total	\$ 320	\$ —
Interest rate swaps		
Principle method		
Payment fixation and receipt change	\$ 7,530	\$ (9)
Special method		
Payment fixation and receipt change	3,295	(* 2)
Total	\$ 10,825	\$ (9)

(* 1) Because derivatives to which the allocation method of forward exchange contracts is 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 the special method of interest swap is 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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Book values and fair values of financial instruments for which it is practical to estimate values as of March 31, 2018 and 2017 were as follows:

	Millions of Yen		
	March 31, 2018		
	Book value	Fair value	Difference
Cash and cash equivalents	¥ 106,179	¥ 106,179	¥ —
Trade receivables	219,676	219,676	—
Lease investment assets	15,241	15,241	—
Securities			
Available-for-sale securities	43,241	43,241	—
Investments in affiliates	8,860	7,514	(1,346)
Long-term loans receivable	562	562	—
Trade payables	(104,070)	(104,070)	—
Short-term bank loans	(49,145)	(49,145)	—
Long-term debt	(58,695)	(59,314)	(619)
Derivative transactions	(4)	(4)	—

	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)	—

	Thousands of US Dollars (Note 1)		
	March 31, 2018		
	Book value	Fair value	Difference
Cash and cash equivalents	\$ 999,426	\$ 999,426	\$ —
Trade receivables	2,067,733	2,067,733	—
Lease investment assets	143,458	143,458	—
Securities			
Available-for-sale securities	407,012	407,012	—
Investments in affiliates	83,396	70,727	(12,669)
Long-term loans receivable	5,290	5,290	—
Trade payables	(979,575)	(979,575)	—
Short-term bank loans	(462,585)	(462,585)	—
Long-term debt	(552,475)	(558,301)	(5,826)

Derivative transactions

(38) (38) —

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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.

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)
	2018	2017	2018
Equity securities issued by unconsolidated subsidiaries and affiliates	¥ 6,682	¥ 6,249	\$ 62,895
Non-listed equity securities	3,597	3,463	33,858

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

The redemption schedule of monetary claims and available-for-sale securities with maturity as of March 31, 2018 and 2017 was as follows:

	Millions of Yen			
	2018			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	¥ 106,179	¥ —	¥ —	¥ —
Trade receivables	219,676	—	—	—
Long-term loans receivable	14	540	3	5
Total	¥ 325,869	¥ 540	¥ 3	¥ 5

	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	—	—	—
Long-term loans receivable	17	255	5	6
Total	¥ 285,018	¥ 255	¥ 5	¥ 6

	Thousands of US Dollars (Note 1)			
	2018			
	Within 1 year	Over 1 year, within 5 years	Over 5 years, within 10 years	Over 10 years
Cash and cash equivalents	\$ 999,426	\$ —	\$ —	\$ —
Trade receivables	2,067,733	—	—	—
Long-term loans receivable	132	5,083	28	47
Total	\$ 3,067,291	\$ 5,083	\$ 28	\$ 47

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

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 14 – INCOME TAXES

Significant components of deferred tax assets and deferred tax liabilities as of March 31, 2018 and 2017 were as follows:

	Millions of Yen		Thousands of US Dollars (Note 1)
	2018	2017	2018
Deferred tax assets:			
Operating loss carryforwards	¥ 2,074	¥ 2,314	\$ 19,522
Unrealized gains on intercompany transactions	7,679	6,933	72,280
Liabilities for retirement benefit	6,840	6,736	64,383
Impairment loss on fixed assets	1,773	1,849	16,689
Other	15,309	11,743	144,097
Total gross deferred tax assets	33,675	29,575	316,971
Valuation allowance	(7,170)	(5,410)	(67,489)
Total deferred tax assets	26,505	24,165	249,482
Deferred tax liabilities:			
Assets for retirement benefit	(7,160)	(6,164)	(67,395)
Reserve for replacement of property, plant and equipment	(1,679)	(1,842)	(15,804)
Net unrealized gains on securities	(6,394)	(4,622)	(60,184)
Other	(6,082)	(5,666)	(57,247)
Total deferred tax liabilities	(21,315)	(18,294)	(200,630)
Net deferred tax assets	¥ 5,190	¥ 5,871	\$ 48,852

Note: “Net deferred tax assets” above can be classified in the accompanying consolidated balance sheets as of March 31, 2018 and 2017 as follows:

Balance sheet item	Millions of Yen		Thousands of US Dollars (Note 1)	
	2018	2017	2018	
Current assets	Deferred tax assets	¥ 9,029	¥ 6,760	\$ 84,987
Current liabilities	Other current liabilities	(7)	(8)	(66)
Non-current assets	Deferred tax assets	4,625	4,393	43,534
Non-current liabilities	Deferred tax liabilities	(8,457)	(5,274)	(79,603)
		¥ 5,190	¥ 5,871	\$ 48,852

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

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.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Business segment information for the years ended March 31, 2018 and 2017 was as follows:

	Millions of Yen							
	Year ended March 31, 2018							
	Petro-chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	¥ 174,769	¥ 335,024	¥ 187,117	¥ 84,824	¥ 41,124	¥ 822,858	¥ —	¥ 822,858
Inter-segment	86,825	26,561	11,956	10,413	52,147	187,902	(187,902)	—
Total	¥ 261,594	¥ 361,585	¥ 199,073	¥ 95,237	¥ 93,271	¥ 1,010,760	¥ (187,902)	¥ 822,858
Segment income	¥ 22,522	¥ 66,620	¥ 33,899	¥ 4,869	¥ 2,671	¥ 130,581	¥ —	¥ 130,581
Segment assets	¥ 114,360	¥ 266,523	¥ 212,771	¥ 108,890	¥ 34,522	¥ 737,066	¥ 115,737	¥ 852,803
Depreciation and amortization	3,003	10,772	12,853	1,022	1,392	29,042	714	29,756
Amortization on goodwill	—	—	—	107	—	107	—	107
Capital expenditures	5,446	15,493	14,914	1,428	1,514	38,795	699	39,494
Investment for affiliates	960	8,542	4,489	2,316	1,352	17,659	—	17,659

	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

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

	Thousands of US Dollars (Note 1)							
	Year ended March 31, 2018							
	Petro-chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Net sales:								
External customers	\$ 1,645,040	\$ 3,153,463	\$ 1,761,267	\$ 798,419	\$ 387,086	\$ 7,745,275	\$ —	\$ 7,745,275
Inter-segment	817,253	250,010	112,538	98,014	490,841	1,768,656	(1,768,656)	—
Total	\$ 2,462,293	\$ 3,403,473	\$ 1,873,805	\$ 896,433	\$ 877,927	\$ 9,513,931	\$ (1,768,656)	\$ 7,745,275
Segment income	\$ 211,992	\$ 627,071	\$ 319,079	\$ 45,830	\$ 25,141	\$ 1,229,113	\$ —	\$ 1,229,113
Segment assets	\$ 1,076,431	\$ 2,508,688	\$ 2,002,739	\$ 1,024,943	\$ 324,944	\$ 6,937,745	\$ 1,089,392	\$ 8,027,137
Depreciation and amortization	28,266	101,393	120,981	9,620	13,102	273,362	6,721	280,083
Amortization on goodwill	—	—	—	1,007	—	1,007	—	1,007
Capital expenditures	51,261	145,830	140,380	13,442	14,251	365,164	6,579	371,743
Investment for affiliates	9,036	80,403	42,253	21,800	12,726	166,218	—	166,218

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 is equal to operating income of consolidated statements of income.

3. Adjustment amounts of ¥115,737 million (US\$1,089,392 thousand) and ¥100,422 million for segment assets as of March 31, 2018 and 2017 included ¥25,624 million (US\$241,190 thousand) and ¥21,136 million of eliminations of inter-segment receivables and assets and ¥141,361 million (US\$1,330,582 thousand) and ¥121,558 million of corporate assets unallocated to each reported segment as of March 31, 2018 and 2017, respectively.

4. Adjustment amounts of ¥714 million (US\$6,721 thousand) and ¥643 million for depreciation and amortization for the years ended March 31, 2018 and 2017 were mainly corporate costs unallocated to each reported segment.

5. Adjustment amounts of ¥699 million (US\$6,579 thousand) and ¥412 million for capital expenditures for the years ended March 31, 2018 and 2017 were mainly made to corporate assets unallocated to each reported segment.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Related information

Geographic information

(1) Net sales

	Millions of Yen				
	Year ended March 31, 2018				
	Japan	China	Other Asian countries	Other	Total
Net sales	¥ 437,305	¥ 130,025	¥ 144,975	¥ 110,553	¥ 822,858

	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

	Thousands of US Dollars (Note 1)				
	Year ended March 31, 2018				
	Japan	China	Other Asian countries	Other	Total
Net sales	\$ 4,116,199	\$ 1,223,880	\$ 1,364,599	\$ 1,040,597	\$ 7,745,275

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

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

(2) Property, plant and equipment

Millions of Yen		
Year ended March 31, 2018		
Japan	Other	Total
¥ 212,393	¥ 31,054	¥ 243,447

Property, plant and equipment

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

Property, plant and equipment

Thousands of US Dollars (Note 1)		
Year ended March 31, 2018		
Japan	Other	Total
\$ 1,999,182	\$ 292,300	\$ 2,291,482

Property, plant and equipment

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

Information about impairment loss of fixed assets by reported segments

Millions of Yen								
Year ended March 31, 2018								
	Petro-chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	¥ 127	¥ 247	¥ 68	¥ 1	¥ 423	¥ 866	¥ —	¥ 866

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

Thousands of US Dollars (Note 1)								
Year ended March 31, 2018								
	Petro-chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Impairment loss	\$ 1,195	\$ 2,325	\$ 640	\$ 9	\$ 3,982	\$ 8,151	¥ —	\$ 8,151

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

Information about unamortized balance of goodwill by reported segments

	Millions of Yen							
	Year ended March 31, 2018							
	Petro-chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	¥—	¥—	¥—	¥ 78	¥—	¥ 78	¥—	¥ 78

	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

	Thousands of US Dollars (Note 1)							
	Year ended March 31, 2018							
	Petro-chemical	Chlor-alkali	Specialty	Engineering	Other	Total	Adjustments	Consolidated
Unamortized balance of goodwill	\$—	\$—	\$—	\$ 734	\$—	\$ 734	\$—	\$ 734

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

NOTE 16—RELATED PARTY TRANSACTIONS

There were no balances or transaction to be disclosed as of and for the years ended March 31, 2018 and 2017, respectively.

NOTE 17—STOCK OPTION PLANS

At March 31, 2018, the Company had the following stock option plans:

	2017 plan	2016 plan	2015 plan	2014 plan	2013 plan	2012 plan
Date of grant	July 15, 2017	July 16, 2016	July 18, 2015	July 12, 2014	July 13, 2013	July 14, 2012
Grantees	31 (including 8 directors)	30 (including 6 directors)	29 (including 9 directors)	32 (including 12 directors)	33 (including 13 directors)	30 (including 11 directors)
Type of stock	Common stock	Common stock	Common stock	Common stock	Common stock	Common stock
Number of shares granted	30,986	81,764	55,611	85,265	110,094	227,185
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 16, 2017- July 15, 2042	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
Fair value at the date of grant (Yen)	¥ 2,277	¥ 863	¥ 1,199	¥ 851	¥ 677	¥ 329
Fair value (US dollars) (Note 1)	\$ 21.43	\$ 8.12	\$ 11.29	\$ 8.01	\$ 6.37	\$ 3.10
	2011 plan	2010 plan	2009 plan	2008 plan	2007 plan	
Date of grant	July 16, 2011	July 17, 2010	July 18, 2009	July 19, 2008	July 18, 2007	
Grantees	31 (including 13 directors)	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	Common stock	
Number of shares granted	128,901	209,856	180,594	100,549	60,686	
Exercise price (Yen)	¥1	¥1	¥1	¥1	¥1	
Exercise price (US dollars) (Note 1)	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	\$ 0.01	
Exercisable period	July 17, 2011- July 16, 2036	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)	¥ 627	¥ 393	¥ 451	¥ 801	¥ 1,275	
Fair value (US dollars) (Note 1)	\$ 5.90	\$ 3.70	\$ 4.25	\$ 7.54	\$ 12.00	

Note: "Number of shares granted" means total shares to be issued upon exercise of subscription rights to shares and is adjusted for the reverse stock split (two-to-one share) executed on October 1, 2017.

TOSOH CORPORATION

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Continued)

NOTE 18 – SUBSEQUENT EVENTS

At the meetings of the Company's board of directors held on May 9, 2018 and May 10, 2017 retained earnings of the Company as of March 31, 2018 and 2017, were appropriated as follows:

	March 31, 2018	
	Millions of Yen	Thousands of US Dollars
Year-end cash dividends (¥32.00 per share)	¥ 10,391	(Note 1) \$ 97,807
	March 31, 2017	
	Millions of Yen	
Year-end cash dividends (¥16.50 per share)	¥ 10,713	

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, 2018 and 2017, 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, 2018 and 2017, 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, 2018 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 27, 2018
Tokyo, Japan