TOSOH

POSITIONED FOR GROWTH

Annual Report 2013

Tosoh Corporation and consolidated subsidiaries
Fiscal year ended March 31, 2013

TOSOH CORPORATION

Values based on monozukuri*—"a craftsman-like approach" to product detail and quality—have shaped Tosoh's destiny and growth for more than 75 years. We take pride in having established a resilient global enterprise whose products and services are woven into the fabric of modern life.*

Tosoh Corporation is a Japanese chemical company established in 1935 and listed on the First Section of the Tokyo Stock Exchange. It is the parent of the Tosoh Group, which comprises 132 companies worldwide and a multiethnic workforce of over 11,000 people and generated net sales of ¥668.5 billion in fiscal 2013, ended March 31, 2013.

TOSOH

We have been particularly focused on Asia, the region that is clearly going to be the driver of global economic growth in the short to medium term. As a result ... we believe that we've solidly positioned Tosoh for growth.

Kenichi Udagawa
President, Tosoh Corporation

POSITIONING OURSELVES FOR GROWTH

Fiscal 2013, ended March 31, 2013, was a year of transition from recovery to growth for Tosoh Corporation.

Coming off an extremely difficult previous year, we faced in fiscal 2013 generally weak economies around the world, a strong yen, and the continuing impact of an accident at our main manufacturing complex.

By the end of the fiscal year, though, things seemed to be turning in our favor again. A weakening yen bolstered exports, and an improvement in the global economy and in economic sentiment in Japan supported our better performance. At the same time, we had recovered much of our vinyl chloride monomer (VCM) supply capabilities. We also put the finishing touches on various expansion efforts to position Tosoh for growth.

The harsh business conditions throughout most of the fiscal year did take a toll on our consolidated net sales, which decreased 2.7% from a year earlier, to ¥668.5 billion (US$7.1 billion). But our operating income rose 3.1%, to ¥24.5 billion (US$260.1 million), and our net income surged 79.8%, to ¥16.9 billion (US$179.3 million).

YEAR IN REVIEW

Tosoh navigated swings in business and economic conditions in fiscal 2013. At the start of the fiscal year, we moved to resurrect VCM production at the Nanyo Complex and scheduled downtime for regular maintenance at the Yokkaichi Complex. We reaped the benefits of our efforts in the year's second quarter chiefly when the No. 1 and No. 3 VCM Plants came back onstream at the Nanyo Complex and when we introduced a price increase for caustic soda, a major product.

Conditions, however, took a bad turn in the third quarter of the year as the global economy slowed and as political friction flared between Japan and China, disrupting our operations in that nation. On a positive note, we implemented price increases for more of our core products, including ethyleneamines and polyethylene resins.

Better export conditions and foreign currency gains in the fourth quarter helped us significantly improve our performance in all but consolidated net sales. In fact, we easily surpassed the revised earnings forecasts that we'd released in November 2012, when conditions looked most bleak.

Also released publicly in fiscal 2013, just as the year was getting under way, in April 2012, was our *Nanyo Complex Accident Investigation Report*. That report represented the completion of our analysis of the accident at the Nanyo Complex's No. 2 VCM Plant in November 2011. It recommended safety reforms to prevent a repeat of such an incident, and we spent fiscal year 2013 implementing those reforms. We are pressing ahead with achieving the safety initiatives arising from this process. The ongoing pursuit of safe, accident-free workplaces and the rebuilding of trust with the communities surrounding our facilities remain top priorities throughout the Tosoh Group.

ESTABLISHING A POSITION FOR GROWTH

In recent years, Tosoh's strategies have revolved around two goals. That of building an organization that can earn a stable 5% profit margin on ordinary income under any business conditions, a margin achieved in fiscal 2013, and that of becoming a major global supplier. We have been particularly focused on Asia, the region that is clearly going to be the driver of global economic growth in the short to medium term. As a result of efforts aligned with those strategies, and outlined below, we believe that we've solidly positioned Tosoh for growth.

LEVERAGING THE STRENGTHS OF THE SPECIALTY GROUP

Tosoh has been reinforcing its profitability for many years through the dual commodities and specialties strategy outlined on page 6 of this report. That strategy emphasizes the Specialty Group's manufacture of primarily high-value-added products for the world's growth industries, including the semiconductor, consumer electronics, pharmaceutical, bioscience, automotive, and health care industries.

Boosting high profit margin sales would represent a significant rise in profitability.

The Specialty Group accounts for approximately 20% of Tosoh's consolidated net sales and for more than 36% of the company's operating income. Our strategic, medium-term aim is to increase the sales contribution of the Specialty Group to 30% or even 40%. Boosting high profit margin sales would represent a significant rise in profitability. It would also represent the most viable strategy for growth given the many challenges facing Tosoh's commodities business, characterized by the Chlor-alkali and Petrochemical Groups, in its domestic and export markets.

To achieve our objectives for the Specialty Group, we recently invested in expanding the production capacity of various of the group's products for high-demand growth markets. We highlight those products in the "Positioned for Growth" section of this report.

In fiscal 2013, we made further increases to our annual production capacities for zirconia and high-silica zeolites (HSZ) beyond the already substantial increases that we made in 2009. The additional zirconia capacity came onstream in January 2013, while the HSZ capacity increase became operational in March 2013.

Similarly, we took steps to ensure that we continue to capture a significant share of the automobile industry's growing demand for manganese oxide. Our subsidiary Tosoh Hyuga Corporation completed a 5,000-metric-ton chemical manganese oxide (CMO) plant in March 2013.

We also have sharply expanded the production capacities of several of the products of the Specialty Group's bioscience operations that are experiencing the fastest growth in demand. In fiscal 2013, we achieved a doubling of our production of Toyopearl, a separation media in high demand in the fast-growing global biopharmaceutical industry. In fiscal 2012, Tosoh expanded reagent production for its automated immunoassay (AIA) systems. We are a leader in AIA systems in Japan, and we are preparing to ride a wave of growth in demand for these systems in the massive global bioscience market.

STRENGTHENING OUR PROFITABILITY

Ensuring the profitability of the Tosoh Group's operations calls for ongoing cost-reduction programs, process engineering, efficiency enhancements, and other reforms. Our two most pressing tasks are restoring the profitability of our wholly owned subsidiary Nippon Polyurethane Industry Co., Ltd. (NPU), and of our ethyleneamine operations.

To achieve our objectives for the Specialty Group, we recently invested in expanding the production capacity of various of the group's products for high-demand growth markets.

NPU has made significant progress in reducing its losses over the past few years. We decided in fiscal 2013, however, that greater efficiencies could be achieved if NPU was fully integrated with the Tosoh Group. So we converted NPU to a wholly owned subsidiary in July 2012 by acquiring the remaining approximately 20% of its shares.

We expect integration to reduce NPU's fixed costs significantly over the next three to five years. We will amalgamate NPU's human and other resources for such functions as logistics and technical analysis into the service subsidiaries of the Tosoh Group. A cost-reduction program for NPU's variable costs, meanwhile, has already yielded substantial benefits and is expected to reduce variable costs a further ¥4.2 billion starting in fiscal 2014.

We took steps to ensure that we continue to capture a significant share of the automobile industry's growing demand for manganese oxide.

All of which leads us to believe that NPU will break even in fiscal 2014 and then move steadily into the black. Over the longer term, NPU's methylene diphenyl diisocyanate (MDI) operations are well positioned in the potentially high-growth polyurethane market in Asia.

The ethyleneamine market suffers from oversupply, particularly of bulk ethylenediamine (EDA). This and a strong yen; economic downturns, especially poor economic conditions in Europe; and our shift of product into the oversupplied Asian market have pushed our ethyleneamine operations into the red. In response, we have prioritized the development of markets for our high molecular weight amines.

So-called high amine product lines are more competitive and profitable than low amine products, such as EDA, because of their added-value content. With economic and currency rate conditions improving, we are confident that Tosoh will be able to reap the benefits of its recent strategic production capacity expansion for amines. We are a leading supplier of ethyleneamines in Asia, and we aim to become the leading global supplier of high amines.

REMAINING A MAJOR SUPPLIER TO ASIA

Our substantial capital investments in expanding and upgrading our operations extend beyond NPU and ethyleneamines. We also have invested heavily in such other of our operations as our chlor-alkali operations to position Tosoh as a comprehensive supplier to the high-growth markets of Asia. We likewise have strengthened our vinyl isocyanate chain, the largest of its kind in Asia, to enable us to provide an array of much-needed chemicals to Asian markets.

Our strategies for our core VCM and polyvinyl chloride (PVC) businesses were disrupted by the unfortunate VCM plant accident in 2011. But our decision to expand the production capacity of the No. 3 VCM Plant at our Nanyo Complex by 200,000 metric tons, bringing our total VCM capacity to 1.1 million metric tons, is facilitating a return to those strategies. We see light at the end of the tunnel.

When this additional VCM capacity comes onstream in October 2014, we will be able to supply VCM as a raw material to fulfill the complete needs of our overseas PVC subsidiaries and of our Asian customers. Our new capacity, moreover, will ensure the full utilization of our recent PVC production capacity expansion at our Indonesian subsidiary P.T. Standard Toyo Polymer and any other future expansions under review. The added capacity will allow us to take advantage of the tight demand-supply gap for PVC in Indonesia.

Other than its PVC manufacturing bases, Tosoh has not had a significant on-the-ground presence in Asia. We're changing that under our new objective of becoming a major supplier to Asia. As opportunities arise, we are establishing operations and generally expanding our networks throughout the region.

Our substantial capital investments in expanding and upgrading our operations extend beyond NPU and ethyleneamines.

Recent additions include Tosoh SMD Shanghai Co., Ltd., and Tosoh Bioscience Shanghai Co., Ltd. And our subsidiary Organo Corporation has established a sales subsidiary in Vietnam and an R&D center in China over the past few years and set up a base in Indonesia through a merger and acquisition (M&A).

FOCUSING CAPITAL INVESTMENT ON THE SPECIALTY GROUP

In the short to medium term, we will pursue our emphasis on building the profitability of Tosoh by expanding our Specialty Group operations. This strategy makes sense from the perspective of operational profitability. Capital investment in our vinyl isocyanate chain requires large sums compared with what it costs to invest in expanding our specialty operations.

In this vein, we chose early in fiscal 2014, the year under way, to expand our HSZ production capacity nearly 50% because the HSZ demand-supply gap has already tightened considerably. Our construction of expanded HSZ production facilities started in May 2013 and will be completed in September 2014.

Another avenue of growth that we are constantly exploring is M&A. We seek opportunities to utilize M&A as a tool for positioning our specialties operations in growth markets provided that the M&A doesn't strain our balance sheet.

EMERGING AS A TECHNOLOGICAL LEADER IN THE MARKETS OF THE FUTURE

An essential aspect of our strategy to expand our Specialty Group operations is our commitment through our R&D programs to constantly break technological ground in supporting the evolution of our customers. As highlighted elsewhere in this report, Tosoh is positioned in many leading markets in electronics, bioscience, the environment, and energy.

We are determined … to stay the course of our dual business strategy, as it grants us the flexibility to adjust quickly to movements in our markets.

We plan to ramp up our R&D efforts to provide opportunities for the Specialty Group and other of our business groups to expand into peripheral areas and to launch new operations. The potential for Tosoh to contribute as it has in so many ways in the past to new business fronts and to progress continues to motivate us in management.

PERSPECTIVES ON THE YEAR AHEAD

In fiscal 2014, we expect the Japanese economy to continue to benefit from the bullish sentiment awakened by aggressive monetary and other policies taken by the Japanese government to address the country's economic issues. Certainly, the weakening of the yen against other currencies and a recovery in the global economy have improved export conditions for Tosoh, and we do not discount the risk that these trends will not be sustained.

Overall, though, we are optimistic, albeit cautiously, about business conditions in fiscal 2014. In light of the clear risks, we have set our performance forecasts somewhat on the conservative side. We also intend to remain committed to ongoing cost cutting and to other measures to improve profitability.

We are determined, moreover, to stay the course of our dual business strategy, as it grants us the flexibility to adjust quickly to movements in our markets. We believe, meanwhile, that Tosoh is well positioned to take advantage of growth opportunities in Asia and around the world. This will further our mission of delivering on our promise of profitability and investor value through Tosoh quality and the chemistry of innovation.

We look forward to your continued and much appreciated support in fiscal 2014.

Kenichi Udagawa
President

TOSOH

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