

TOSOH Corporation
Consolidated Financial Results for Fiscal Year 2005 (April 1, 2005 – March 31, 2006)

I. Summary

1. Consolidated Results

	Net Sales		Operating Income		Ordinary Income*	
	JPY millions	%**	JPY millions	%	JPY millions	%
FY 2005	648,810	10.3	47,459	(16.6)	49,731	(10.8)
FY 2004	588,331	21.5	56,898	89.3	55,757	119.8

* Based on standard accounting practices in Japan, "Ordinary Income" represents income before extraordinary items and taxes. Extraordinary items include, for example, gain (loss) on the sale of fixed assets and gain (loss) on the sale of stock.

** Net Sales, Operating Income, Ordinary Income, and Net Income percentages indicate increases over the previous fiscal year.

	Net Income		Net Income Per Share
	JPY millions	%	JPY
FY 2005	27,532	(6.8)	45.74
FY 2004	29,533	304.8	49.09

Notes: 1. Equity income: FY 2005: JPY 2,365 million
 FY 2004: JPY 776 million
 2. Average number of shares issued: FY 2005: 597,949,307 shares
 FY 2004: 597,997,873 shares
 3. Changes in accounting methods: Present

2. Consolidated Financial Position

	Total Assets	Shareholders' Equity	Ratio of Shareholders' Equity to Total Assets	Shareholders' Equity Per Share
	JPY millions	JPY millions	%	JPY
FY 2005	637,476	159,111	25.0	265.75
FY 2004	603,208	127,992	21.2	213.79

Note: Consolidated outstanding shares at end of FY2005: 598,031,513; at end of FY2004: 597,867,102

3. Consolidated Cash Flows

	Cash Flow from Operating Activities	Cash Flow from Investing Activities	Cash Flow from Financing Activities	Cash & Cash Equivalents at End of Year
	JPY millions	JPY millions	JPY millions	JPY millions
FY 2005	33,685	(33,617)	(699)	18,408
FY 2004	44,779	(36,093)	(7,192)	18,572

4. Scope of consolidation

Consolidated subsidiaries: 90
 Unconsolidated subsidiaries with equity method applied: 2
 Affiliates with equity method applied: 24

5. Forecast for Fiscal Year 2006 (April 1, 2006 - March 31, 2007)

	Net Sales	Operating Income	Ordinary Income	Net Income
	JPY millions	JPY millions	JPY millions	JPY millions
Mid-year	370,000	20,500	19,000	9,000
Year-end	770,000	53,000	50,000	24,000

TOSOH CORPORATION

Consolidated Results for Fiscal Year 2005

This summary of business and financial results abides by a presentation format employed by publicly listed corporations in Japan for financial reporting. Tosoh has modified the phrasing in translation and added commentary for the benefit of readers outside Japan. Management has prepared the U.S. dollar translations solely for the convenience of readers at the rate of \$1 = ¥117.47 (US dollar to Japanese yen), the exchange rate at fiscal year-end (March 31, 2006). These translations do not imply that the yen amounts have been or could have been converted into dollars at that rate or at any other rate.

II. Management Policy

A. Management Principles

Based on a medium-to-long-term perspective, the Tosoh Group is working toward a corporate structure that can achieve stable and high income, supporting its goal of being a truly international competitor. The corporate image that the Group is striving for can be described by the following three statements:

- evolving to react effectively to a dynamic operating environment,
- exhibiting broad earning power,
- employees realizing their full potential in contributing to operations.

B. Issues and Strategy

The Tosoh Group implemented various measures during fiscal 2005 to firm up the business bases of its petrochemical and basic operations by expanding scope and improving competitiveness. Among measures to strengthen its vinyl isocyanate chain, Tosoh completed a capacity expansion of production facilities for aniline in March and for vinyl chloride monomer (VCM) in November 2005. Additionally, the Company has decided to move forward with expansions for aniline and carbon monoxide to be completed by next winter, and for chlorine in the summer of 2008. These expansions will further support and strengthen affiliate Nippon Polyurethane Industry Co., Ltd. (NPU) with the production of methylene diphenyl diisocyanate (MDI), a raw material for urethane. In winter of 2006, the Company plans to begin the manufacture and sales of PVC resin at Tosoh (Guangzhou) Chemical Industries, Inc., Guangzhou, China.

In the Specialty Group, Tosoh's efforts during the fiscal year were aimed at building technological capabilities and developing product lines that are leaders in global or Asian markets. Specifically, in November of 2005, Tosoh completed expansion of its ethylene amine and diagnostic reagent production capacities. NPU plans to complete expansions for the production of MDI by the winter of next year. In April 2006, Tosoh raised its stake NPU, thus making it a consolidated subsidiary.

The Group will continue its efforts to develop and strengthen its high-value added product lines based on its basic technologies in organic and inorganic chemistry.

Guided by its basic environment, safety, and health principles, the Tosoh Group undertakes a variety of environmental activities aimed at contributing to the communities through careful consideration of environment and safety as a member of a recycling-oriented society.

C. Dividends

In determining dividend levels, Tosoh's management considers the overall picture, including their commitment to returning profits to shareholders, profitability trends, financial position, and capital needs for future business development. They also believe in retaining a sufficient portion of earnings to fortify the company's financial position and to fund investment in core businesses. A sound balance between dividend payouts and retained earnings will help maximize aggregate shareholder value over the long term.

III. Business Results and Financial Position

A. Business Results and Outlook

1. Results in the fiscal year from April 1, 2005 to March 31, 2006

The Japanese economy during this period benefited from strong corporate earnings and robust domestic demand, with rising personal consumption in the wake of increased plant and equipment investment and an improving employment environment. It is fair to say that the Japanese economy is now on the path to recovery.

In the chemicals industry the operating environment was characterized by a spike in crude-oil prices and rapidly rising prices of naphtha and other raw material prices. Meanwhile, overseas markets for our key products such as polyvinyl chloride resins weakened because of expanded supply capabilities in China. However, our Specialty Group continued to enjoy strong overall shipments.

Under this operating environment, the Tosoh Group was committed to expanding its core business areas, namely the vinyl-isocyanate chain business and Specialty Group business. During the fiscal year, the Company adjusted product prices, bolstered earning capacity, and streamlined operations.

As a result of these efforts, the Company posted net sales of ¥648.8 billion (US\$5,523.2 million), which is up ¥60.5 billion on the previous period. However, with the increase in the price of naphtha and other raw materials, ordinary income was down ¥6.0 billion from the previous year to ¥49.7 billion (US\$423.4 million), also leaving net income down ¥2.0 billion down from last year at ¥27.5 billion (US\$234.4 million).

Business segment

• **Petrochemical Group**

Net sales this period were up 12.9% (¥23.1 billion) from the previous year to ¥202.3 billion (US\$1,722.5 million), with operating income also up 19.7% (¥2.1 billion) from last year to ¥12.8 billion (US\$109.2 million).

Olefin products faced high prices across the board for raw materials and naphtha. Under these conditions, Tosoh pushed forward by implementing domestic price increases for ethylene, propylene, and cumene, while initiating cost cutting through the diversification of raw materials. Although domestic shipments of propylene fell, an increase in domestic prices was accomplished in response to the rising cost of naphtha. Overseas market prices for chloroprene rubber were also higher. Tosoh boosted domestic shipments of polyvinyl chloride (PVC) paste, and increased prices, with overseas market prices also being revised upwards.

• **Basic Group**

Basic Group sales increased 16.2% (¥27.7 billion) compared to the previous year to ¥199.4 billion (US\$1,697.8 million), while operating income was down 72.6% (¥14.8 billion) to ¥5.6 billion (US\$47.7 million), as a result of higher raw material prices triggered by high crude oil prices.

Caustic soda exports were strong, and throughout the year under review, Tosoh expanded its VCM capacity and also boosted exports. Shipments of polyvinyl chloride (PVC) resins increased both at home and abroad. A new aniline plant also came on-stream, and contributed to results. In terms of market conditions, domestic price increases for caustic soda were the most successful, while overseas prices increased, particularly shipments to alumina producers in Australia. Domestic prices of PVC resin and VCM also tended to rise, while the market overseas became more challenging given expanding supply capabilities in China. The volume of cement exported rose, while domestic shipments were also strong, bolstered by post-disaster reconstruction and public demand.

• **Specialty Group**

Sales of the Specialty Group increased 4.7% (¥8.9 billion) to ¥200.7 billion (US\$1,708.4 million), while operating income advanced 17.3% (¥3.9 billion) to ¥26.6 billion (US\$226.9 million).

Shipments as well as prices for ethyleneamines increased both domestically and overseas. Tosoh also moved to implement price adjustments for bromines and bromine-based flame retardants. In bioscience-

related products, overseas sales of liquid chromatography columns and packing materials grew. Among diagnostic systems, shipments of in vitro diagnostics increased both at home and abroad, while shipments of fully automated glycohemoglobin analyzers was also impressive. Zirconia product shipments rose in Japan and other markets. Exports of zeolite for automobile exhaust systems and other applications grew, as did shipments for adsorbent applications both within Japan and overseas. In contrast, despite robust domestic shipments of electrolytic manganese dioxide (EMD), overseas sales in Asia and Europe fell.

Demand for silica glass was weaker within Japan, but remained strong in overseas markets. Still, shipments of sputtering targets were up both domestically and overseas, reflecting the growth of the LCD panel market. Sales of water treatment plants and chemicals were down, given falling plant and equipment investment in the electronics industry.

• Service Group

Sales of the Service Group increased 1.6% (¥714 million) from the previous year to ¥46.3 billion (US\$394.5 million), and operating income decreased 21.0% (¥633 million), to ¥2.4 billion (US\$20.3 million). Trading company results were strong, where as construction related subsidiaries growth remained flat.

Geographical Segment

Sales in Japan of the parent company and Japanese subsidiaries rose 9.4% (¥49,632 billion) compared to the same time last year to ¥578,453 billion, whereas operating income fell by 17.9% (¥9,349 billion) to ¥42,760 billion.

In Japan, although olefin product prices were raised in response to the high costs of naphtha and other raw materials, prices in overseas markets collapsed. Prices of polyethylene resins increased both in Japan and overseas. Tosoh benefited in Japan from the more widespread application of price increases for PVC resin and VCM, along with rising shipment volumes. Overseas, however, demand lost steam in the face of increased supply made available through new plant and equipment investment in China.

Sales outside of Japan were up 18.2% (¥10,846 million) from the previous year, to ¥70,357 million.¹ In contrast, operating income slipped 1.9% (¥90 million), to ¥4,700 million.

Despite a decrease in sales in Asia, overall, non-Japanese subsidiaries grew due to the depreciation of the yen and an increase in yen-denominated sales in the United States and Europe.

In Europe, shipments of zirconia, scientific instruments, and diagnostic products were strong, and while shipments of sputtering targets and silica glass were robust in Asia and North America, polyvinyl chloride resin shipments were down in Asia.

2. Outlook for the fiscal year to March 31, 2007

Tosoh's projections for the fiscal year ending March 31, 2007 call for net sales of ¥770 billion (US\$6,554.9 million), operating income of ¥53 billion (US\$451.2 million), ordinary income of ¥50 billion (US\$425.6 million), and net income of ¥24 billion (US\$204.3 million). Moreover, the Company plans to pay interim and full-year dividends of ¥3 per share, bringing total dividends for the year to ¥6 per share.

The future outlook is brightened by expectations that the global and Japanese economies are both set to continue along an expansionary track. Still, there are concerns about the impact on the Japanese and international economies from inflationary pressure and rising interest rates resulting from high crude oil and resource prices. Looking at the Group's operating environment, concerns persist over increases in the prices of naphtha and raw materials prompted by soaring crude oil prices. In making the forecasts, the company has used the following assumptions: naphtha prices in Japan, ¥50,000 per kiloliter and a currency exchange rate of ¥115 to the U.S. dollar.

¹ Actual sales recorded by non-Japanese subsidiaries on an unconsolidated basis were higher, however through elimination of inter-company transactions during the consolidated accounting process results in sales being recorded as ¥70,357 million (US\$599 million).

B. Financial Position

Current assets as of March 31, 2006 increased 8.6% from a year earlier to ¥295.7 billion (US\$2,517 million), primarily reflecting increases in receivables and inventories as a result of higher sales. Current liabilities increased 1.5% from a year earlier to ¥288.0 billion (US\$2,451 million). Working capital therefore totaled ¥7.7 billion (US\$66 million), compared to a deficit of ¥11.4 billion a year earlier.

Total assets increased 5.7% from a year earlier to ¥637.5 billion (US\$5,427 million), while return on average total assets was 4.4%, compared to 5.1% for the previous fiscal year.

Shareholders' equity increased 24.3% from a year earlier to ¥159.1 billion (US\$1,354 million).

Cash Flows

Net cash provided by operating activities decreased 24.8% year-on-year to ¥33.7 billion (US\$287 million), primarily because of the timing of tax payments on a cash basis. Net cash used in investing activities decreased 6.9% year-on-year to ¥33.6 billion (US\$286 million). The Tosoh Group continued to invest in growth opportunities, especially in the vinyl isocyanate chain. Payments for purchases of property, plant and equipment totaled ¥38.0 billion (US\$323 million), compared to ¥38.8 billion for the previous fiscal year. Net proceeds from sale of investment securities totaled ¥6.5 billion (US\$55 million), compared to net purchases of investment securities totaling ¥0.3 billion in the previous fiscal year. Net cash used in financing activities totaled ¥0.7 billion (US\$6 million), compared to ¥7.2 billion in the previous fiscal year. Net proceeds from long-term debt totaled ¥1.9 billion (US\$16 million), compared to net repayment of long-term debt totaling ¥8.3 billion in the previous fiscal year. Consequently, cash and cash equivalents at the end of the year totaled ¥18.4 billion (US\$157 million), about the same level as at the previous fiscal year-end.

Cash Flow Indices

	FY2001	FY2002	FY2003	FY2004	FY2005
Equity ratio	15.8%	17.0%	18.1%	21.2%	25.0%
Market value equity ratio	40.5%	26.5%	45.2%	52.5%	55.2%
Average debt repayment period	8.4 years	6.7 years	8.5 years	6.4 years	8.6 years
Interest coverage ratio	5.7 times	7.8 times	7.2 times	10.6 times	8.6 times

Note: Equity ratio: shareholders' equity/total assets
Market value equity ratio: total market capitalization/total assets
Average debt repayment period: interest-bearing debt/operating cash flow
Interest coverage ratio: operating cash flow/interest payments

C. Risk Factors

The items discussed below are the major business and accounting factors that management has deemed to have a potential impact on the investment decisions of investors. However, these business risks are only those recognized as of the end of the fiscal year under review and do not represent complete coverage of all business risks.

Fluctuation in global markets for products and raw materials

The performance of the Tosoh Group, particularly the petrochemical and basic businesses, could be significantly affected by fluctuations in global prices for crude oil, naphtha, petrochemical products, and others.

Others

Among the other factors that might have an impact on the business performance or financial condition of the Tosoh Group are economic conditions in Japan and overseas, changes in demand, quality issues, environmental regulations, accidents, disasters, interest rate movements, and procurement of raw materials.