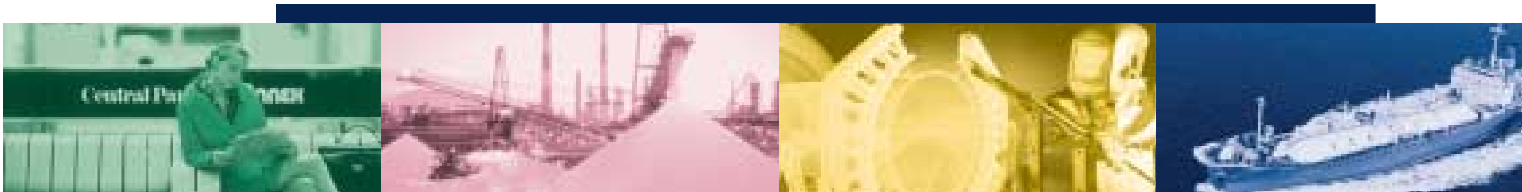
TOSOH



ANNUAL REPORT 2001

Tosoh Corporation and Its Consolidated Subsidiaries
Year ended March 31, 2001

TOSOH CORPORATION
www.tosoh.com

PROFILE

Tosoh Corporation is a diversified global chemical company with a strong reputation in basic chemicals, petrochemicals, and specialty products. Today, Tosoh employs over 8,000 people in 14 countries and generates sales of approximately US$3.5 billion annually. Headquartered in Tokyo, the company has initiated consistent and formidable growth since its founding in 1935.

A major producer of caustic soda, vinyl chloride monomer (VCM), and polyvinyl chloride (PVC), the company holds a strong position in the Asian region and is a leading supplier of polyvinyl chloride resins, chloroprene rubber, PVC paste, and ethylene amines. Building on these chlor-alkali-based strengths, Tosoh has expanded its global presence into high-growth businesses, carving out niches in world markets. Tosoh also has the world's largest production capacity in specialty products such as high-purity zirconia powders and electrolytic manganese dioxide. It is also a top global producer of quartz, sputtering targets, and highly sophisticated diagnostic systems.

Tosoh Group, with a total of 125 affiliates worldwide, supplies a diverse number of industries supporting virtually all aspects of daily life. Playing a role in everything from cosmetics, flavors, and fragrances, to products used in agriculture, engineering, and food packaging, is the Petrochemical Group. From water purification products to the cement that builds the infrastructures of our cities and transportation systems, stands the Basic Group. The rapidly expanding Specialty Group supplies the pharmaceutical, medical, semiconductor, and food industries.

Tosoh Corporation is a world provider that is also a Responsible Care® (RC) company, with all manufacturing sites having been awarded ISO 14001 certification for environmental management.

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FINANCIAL HIGHLIGHTS

Tosoh Corporation and Its Consolidated Subsidiaries
Years ended March 31

	Millions of yen						Thousands of U.S. dollars (Note 1)
	2001*	2000	1999	1998	1997	1996	2001
Summary of operations:							
Net sales	¥426,174	¥374,182	¥340,229	¥396,475	¥387,343	¥349,311	$3,439,661
Operating income	27,565	27,330	7,438	25,103	23,653	23,763	222,478
Net income	9,392	6,019	533	6,581	6,066	10,429	75,803
Basic net income per share (Note 2)	¥15.62	¥10.02	¥0.89	¥10.96	¥10.10	¥17.36	$0.13
Financial position at year-end:							
Total assets	¥534,605	¥527,989	¥527,176	¥524,361	¥512,124	¥506,263	$4,314,810
Short-term bank loans and long-term debt	325,774	333,180	355,141	340,891	326,547	338,975	2,629,330
Total shareholders' equity	91,195	91,886	89,283	85,283	77,478	68,968	736,037
General:							
Capital expenditures	¥ 18,700	¥ 27,600	¥ 34,851	¥ 34,338	¥ 37,284	¥ 19,723	$ 150,928
Depreciation and amortization	24,772	24,854	22,613	23,034	23,157	23,240	199,935
Cash dividends per share (Note 2)	5.00	5.00	3.00	5.00	–	–	0.04
Number of employees	8,097	7,914	8,080	8,370	7,330	7,460	–
Common stock prices (Note 2):							
High	650	531	280	420	470	514	5.25
Low	265	210	148	199	321	312	2.14
Year-end close	305	501	219	259	330	479	2.46

Notes: 1. For reference purposes, U.S dollar amounts are translated from yen, at the rate of ¥123.90=US$1, the exchange rate in effect on March 31, 2001.
2. Per share figures and common stock prices are in yen and U.S. dollars.

* Tosoh Corporation's fiscal year runs from April 1 to March 31 of the following year. Throughout this report, reference to "fiscal year 2001" and "fiscal 2001" specifies the period from April 1, 2000 to March 31, 2001.

SALES BREAKDOWN 2001

Petrochemical Group
31.5%

Basic Group
34.8%

Specialty Group
22.8%

Service Group
10.9%

Under mixed operating conditions in fiscal year 2001 (April 1, 2000 – March 31, 2001), Tosoh posted the highest consolidated net sales (¥426.2 billion) and operating income (¥27.6 billion) in our sixty-six year history. This was the result of our group-wide efforts to improve profitability even under harsh conditions.

Operating Environment and Performance

In the fiscal year that ended March 31, 2001 (fiscal year 2001), business conditions remained challenging for Tosoh and our industry. Although capital investments in IT-related fields increased, the Japanese economy showed little improvement due to the weak stock market, issues on non-performing loans of financial institutions, and lackluster in consumer spending. Overseas, ripples from the slowdown in the U.S. economy started to affect other countries from around the middle of 2000. The Japanese chemical industry, however, saw some minor increases in domestic shipments and the stabilizing of overseas market prices for vinyl chloride monomer (VCM) and caustic soda. Unfortunately, a steep rise in the price of crude oil had an unfavorable influence on the industry's profitability. Under these mixed operating conditions, Tosoh posted the highest consolidated net sales (¥426.2 billion) and operating income (¥27.6 billion) in our sixty-six year history. This was the result of our group efforts to improve our profitability even under harsh conditions. Short-term bank loans and long-term debt on a consolidated basis were reduced by ¥7.4 billion this year, bringing reductions over the past two years to ¥29.4 billion. Fixed costs continued to be reduced at the parent company from ¥107.3 billion in 1991 to ¥80.9 billion for fiscal year 2001 (April 1, 2000 – March 31, 2001). However, an extraordinary loss, due to a change in accounting for retirement benefits, amounted to ¥11.2 billion, bringing consolidated net income to ¥9.4 billion, still a ¥3.4 billion increase over fiscal 2000 (April 1, 1999 – March 31, 2000). Although these results are satisfactory, economic uncertainty in the near future makes it even more vital that we continue with our structural improvement plan. Besides this, we will increasingly focus on the broader Tosoh Group that now includes 125 companies in 14 countries.

Achieving Stable Growth and Profitability

I would first like to take a look at specifically how we executed our objectives this year. We worked hard to bolster core Vinyl Chain operations and expand the Specialty Group. This was done through further restructuring efforts, plant expansion measures, and a number of acquisitions.

In the Petrochemical Group, Tosoh Corporation and Hodogaya Chemical Co., Ltd. acquired the remaining 25% stake in Nippon Polyurethane Industry Co., Ltd. As a result, Tosoh and our affiliate, Hodogaya Chemical, now retain full ownership of this leading manufacturer and supplier of isocyanates to polyurethane industries in Japan and Asian countries. The market for polyurethanes is strong in the Asian region where total annual demand is expected to grow by almost 10%.

In the Basic Group, which includes the Vinyl Chain operations, we increased our shareholdings in Taiyo Vinyl Corporation, the largest PVC producer in Japan, and assumed management responsibility of the joint venture. We also increased our equity stake in Mabuhay Vinyl Corporation and Philippine Resins Industries, Inc. (PRII). This enabled us to consolidate our position in the vinyl chloride business in the Philippines. In response to greater demand, PRII increased PVC capacity through debottlenecking from

Madoka Tashiro (left)
Chairman and CEO

Takashi Tsuchiya
President and COO

Effective June 28, 2001, Takashi Tsuchiya assumed his new post as president of Tosoh Corporation, and Madoka Tashiro, former president, became chairman of the Board of Directors.

70,000 to 90,000 tons and further expansion plans call for 160,000 tons in 2003.

In the Specialty Group, we continued to strengthen our organic chemicals, scientific instruments, specialty materials, and quartz businesses in order to increase our non-cyclical or less-cyclical activities and offset market fluctuations in the vinyl chain operations.

In our efforts to strengthen the organic chemicals business, we acquired the remaining 50% interest in Tosoh Akzo Corporation and renamed it TOSOH Finechem Corporation. Additionally, we increased and optimized the interaction among the three Tosoh Group companies: TOSOH Organic Chemical Co., Ltd., TOSOH Finechem Corporation, and F-TECH, Inc. Each possessing unique technology, the companies are focused on manufacturing and supplying high value-added organic intermediates for use in pharmaceuticals, agrochemicals, and specialty materials.

Pushing forward with increasing our presence in the scientific instruments market in the field of chromatographic separation technology, Tosoh acquired Rohm and Haas' interest in the TosoHaas Partnership in October 2000. The newly named company, TOSOH Biosep LLC, is now a wholly owned Tosoh subsidiary. Furthermore, to support group integration, we consolidated the chromatographic separation gel production facilities at the Nanyo Complex that resulted in a 50% boost in capacity.

In Specialty Materials we continued to strengthen the business through selected expansion measures and acquisitions. We first initiated an expansion project at Tosoh's Nanyo Complex to maintain and strengthen our dominant share of the world market for yttria-stabilized zirconia powder mainly for the IT industry. Zirconia is used in fiber optic connectors and other high performance products. This will increase the capacity of zirconia powder production to 1,300 tons per year by the autumn of 2001. We also decided to expand operations at Nippon Silica Industrial Co., Ltd. (NSI), a subsidiary of Tosoh Corporation, and thereby commissioned a plant specializing in the production of silica (white carbon) for fuel-efficient tires. The remaining equity in Semiconductor Equipment Technology, Inc., was acquired and the new wholly owned subsidiary was renamed, TOSOH SET, Inc. The company specializes in cleaning services for shielding used in Physical Vapor Deposition (PVD), Chemical Vapor Deposition (CVD) and Etching. The shielding devices are essential for protection of high purity thin film deposition materials used in electronics. In sputtering target-related operations, we now generate annual sales of around ¥15 billion and command over a 20% share of the world market.

All subsidiaries in the Quartz Group were further integrated to enhance our worldwide quartz business line. In January 2001, all affiliated quartz fabrication companies throughout the world were unified under the name "TOSOH Quartz," and all silica glass material companies under the name "TOSOH SGM." We believe that Group integration will bring about a higher sense of brand recognition and contribute towards building the Tosoh corporate identity and presence. On June 14, we officially opened a new quartz fabrication plant in Taiwan. We now have a network in North America, Europe, and Asia to supply quartzware products and services to the semiconductor industry.

Driven by the increased use of portable electronic devices, Tosoh continues to be the leading global producer of electrolytic manganese dioxide (EMD) which is used in alkaline dry batteries. We now occupy 20% of the world market at an annual production capacity of 52,000 tons.

These are just some of the many events this year that reflect Tosoh's commitment to becoming a truly competitive and profitable corporation through genuine restructuring.

Dedicated to the Environment

In striving to maintain high standards, we continue to increase environmental activities. Environmental initiatives are not an isolated aim of one country, but have become a global endeavor. We ensure that all of our operations conform to international environmental management best practice, as embodied in ISO 14001 standards. Tosoh has achieved ISO 14001 certification at all manufacturing facilities in Japan and group members continue to make efforts towards certification worldwide. As part of our Guiding Environmental Principles, we are proud to place a high priority on the improvement of environmental and safety control systems in support of group-wide certification. This is accomplished through conducting regular environmental, health, and safety audits and fostering understanding both within the corporate group and local communities. On June 17, 2001, TOSOH Quartz Corporation was awarded ISO 14001 certification for its Environmental Management System (EMS).

Through making efficient use of resources and recycling wastes into new materials wherever possible, we are contributing to the realization of a recycling-oriented society. In our recycling program, the company accepts approximately 390,000 tons of waste materials from external sources, such as used tires and refuse-derived fuel (RDF), for which our portland cement plant plays an important role. RDF is generated from local municipal facilities and used to power our cement plant. In this way we contribute to disposal of municipal waste. Our Eco-Business offers analytical scientific instruments for environmental monitoring operations. In addition, the company makes environmental catalysts such as amine-based chelating agents. Applications include stabilizing agents for heavy metals contained in fly ash and wastewater.

Environmental initiatives are indeed a top priority for us all. Tosoh's aggregate capital expenditures for environmental, health, and safety projects since fiscal 1996 are now in excess of ¥15 billion.

Effective Management

After serving for nine years as President and CEO of Tosoh, it is now time for change. When I assumed the presidency in 1992, Tosoh was indeed facing some extremely difficult times. As the "bubble" economy burst in 1990, we saw a serious deterioration of profitability and financial resources, leading to crisis management. First, rigorous restructuring and a drastic reduction in costs were implemented. Second, all business lines were reviewed carefully before making decisions on the direction in which to guide the company. It has been a long and hard struggle to gain our present position. Therefore it is not without pride that I look back over this year's results, especially considering the domestic environment during that period.

On June 28, I assumed the position of Chairman and CEO, while Mr. Takashi Tsuchiya was appointed as President and COO. Mr. Tsuchiya has been a strong driving force in Tosoh's business restructuring, particularly since joining Corporate Strategy and Planning in 1991. I look forward to working with Mr. Tsuchiya along with other management team members.

As Chairman of the Board and CEO, I will continue to be actively involved in building out the Tosoh Group worldwide while Mr. Tsuchiya will focus on the operations of Tosoh. In this regard, Mr. Tsuchiya and I will work as a team to further develop the integration of the Tosoh Group. Solidarity is indispensable as we embark upon further global expansion. This year will be very challenging and I believe that Mr. Tsuchiya will be a key to leading Tosoh through the rough waters of the near future.

Future

The continued unpredictability of the Japanese economy, signs of recession in the United States, Europe and Asia, a downturn in the IT industry, and the high cost of crude oil, all forecast a most demanding year ahead. The global chemical industry and Tosoh are also dealing with numerous issues concerning our public image, the regulatory climate, and the environment.

We will join with the members of our group to successfully take on the challenges of this year. I believe that Tosoh will continue to become an even better corporation. It is our duty to learn from the past, effectively cope with the present, and create a strong Tosoh Group for the future.

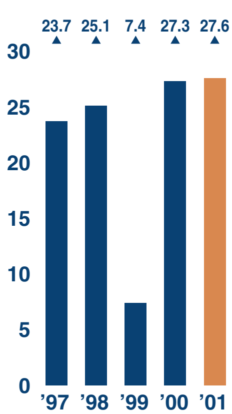
We would sincerely like to thank our shareholders, customers, and business partners for their cooperation and look forward to their continued support.

August 1, 2001

Madoka Tashiro
Chairman and Chief Executive Officer

The goal of Tosoh is to be a competitive and profitable manufacturer of chemical and specialty products in the global arena. Maintaining this position will require the ability to continually adapt to dynamic changes in the industry, economy, and society. To achieve this goal, the company is vigorously pursuing simultaneous business expansion on two fronts: (1) bolstering the business foundation of its core Vinyl Chain operations, and (2) expanding its profitable Specialty Group while making full use of proprietary business resources.

Operating Income
(billion ¥)



Would you please outline the progress made in the Vinyl Chain operations last year?

Significant progress was made in these operations. Taiyo Vinyl Corporation, which was transformed into a majority-owned subsidiary in April 2000, achieved profitability in the second half of fiscal 2001 (April 2000 – March 2001). We will keep a close eye on the realignment of the domestic PVC business, while actively identifying new opportunities to develop our own Vinyl Chain. The Vinyl Chain refers to a series of production processes that begin with imported salt. Through the electrolysis of salt, the basic raw materials, namely caustic soda and chlorine are produced. From chlorine in conjunction with ethylene, production progresses to compounds such as ethylene dichloride (EDC), vinyl chloride monomer (VCM), and polyvinyl chloride (PVC). We handle each and every process from beginning to end, including our own power generation required for brine electrolysis. Manufacturing facilities are fully integrated and our production capabilities make us the number one producer of caustic soda, VCM, and PVC in Japan.

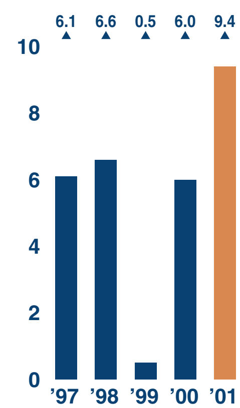
A joint venture formed in the Philippines in 1998, Philippine Resins Industries, Inc. (PRII), served as the basis to further develop production of PVC operations overseas. Annual production capacity of PVC resins began at 70,000 tons at PRII and was boosted an additional 20,000 tons in February, 2001. Furthermore, PRII plans to increase production capacity to 160,000 tons in 2003. PRII has positioned itself as the dominant local PVC producer in the Philippines. Overseas PVC facilities also include P.T. Standard Toyo Polymer (annual capacity – 86,000 tons) and P.T. Satomo Indovyl Polymer (70,000 tons) in Indonesia. We increased our interest in P.T. Standard Toyo Polymer to 60% in September of 1999. Presently, Tosoh Group's total annual capacity for PVC resins is approximately one million tons.

Tosoh seems determined to build out its Specialty Group even further. Please elaborate in more detail on Tosoh's business strategy.

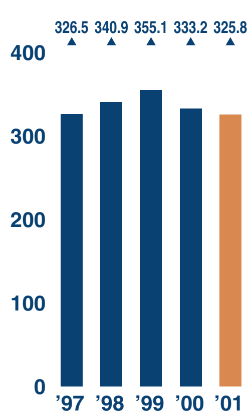
In order to ensure steady growth in earnings, Tosoh must further develop its Specialty Group so that it becomes a core pillar of Tosoh besides the Vinyl Chain. In Vinyl Chain operations, we have established a competitive and solid business foundation. Various expansion projects completed in 1999 have continued to accelerate growth of the Specialty Group.

In specialty businesses, Tosoh is making significant strides in the development of proprietary technologies pertaining to quartz, sputtering targets, battery materials, engineering ceramics—zirconia, ethylene amines, and zeolites. In order to achieve the maximum result through efficient use of limited resources, Tosoh is targeting the following strategic fields of business: inorganic specialty materials, organic chemicals, scientific instruments, and environmental products. Management

Net Income
(billion ¥)



Short-term Bank Loans and Long-term Debt
(billion ¥)



resources will be selectively channeled into these areas to boost profitability.

What are Tosoh's restructuring goals and what kind of progress has been made so far?

Tosoh aims to establish a business structure that is not unduly affected by severe market conditions. To this end, the company is improving its financial structure, implementing permanent reductions in fixed costs, strengthening management at the consolidated level, and spinning off selected service functions.

Tosoh aims to cut short-term bank loans and long-term debt on a consolidated basis from ¥355.1 billion in March of 1999 to ¥310.0 billion by the end of fiscal 2002 (April, 2001 – March, 2002). During fiscal 2001 (April, 2000 – March, 2001), short-term bank loans and long-term debt were reduced by ¥7.4 billion, bringing reductions over the past two years to ¥29.4 billion. To further improve the Service Group, construction and maintenance operations at the Nanyo Complex and the Yokkaichi Complex were transferred to Tosoh Plant Service Corporation. Additional spin-offs took place in 2000 with the establishment of three new companies focusing on analytical chemistry, information technology services, and general support-service functions. These measures have resulted in both improved quality and cost performance of service functions.

Despite the severe operating environment in fiscal 2001 (April, 2000 – March, 2001), when the cost of crude oil and other feedstock continued to surge, Tosoh achieved the highest net sales and operating income in its entire history. This was attributable to the improvement in profitability brought about by reforms in business structure. Nevertheless, business conditions next year are expected to become more challenging. Tosoh is all the more committed to expediting structural reforms and improving profitability.

"Global Focus" appears to be a reoccurring theme in the business strategy of Tosoh. Could you give us an overview of where Tosoh is positioned from an international perspective?

Yes, Tosoh is an international corporation with over 8,000 employees worldwide in 14 countries. The wide variety of group companies and employees located overseas provide Tosoh with a broad base of resources to draw from. As we continue to increase products and services worldwide, it is essential that we act and manage from a global perspective. Over 25% of our sales are abroad and that figure will continue to increase. Presently we manage strong global networks that service the electronic, medical, scientific, and specialty material markets. The international quartz, silica glass materials, shielding, and sputtering target operations located throughout the United States, Europe, and Asia, supply the IT industry. Tosoh Group companies such as Eurogenetics, TOSOH Belgium, and Tosoh Medics, promote life-science technologies for the medical market throughout the world. Responding to some of society's more crucial needs, TOSOH Biosep LLC and TOSOH Biosep GmbH supply the scientific and bioscientific markets with high-performance liquid chromatography (HPLC) and chromatographic separation media. In specialty material markets, Tosoh is a world leader in the production of yttria-stabilized zirconia powders and electrolytic maganese dioxide (EMD). Tosoh possesses a solid international position for future growth and that is why it is in our best interest to act, manage, and operate from a global perspective.

The chemical industry is currently being buffeted by a new wave of consolidation, and global competition is expected to intensify. How do you view the situation?

Consolidation and competition are definitely two key forces in the chemical industry today. The Japanese chemical industry has seen an increase in mergers and business alliances to integrate operations over the last decade. At present, rather than mergers, Tosoh views joint efforts with other companies as a viable option. Successful management today demands that we constantly seek the most effective strategies to strengthen core operations and ways to implement those strategies. Regardless of which option one chooses, it is already clear that a partnership among weak players is meaningless. Before considering any alliance, a company needs to strengthen itself.

As the chairman of the Vinyl Environmental Council (VEC), how do you view the environmental concerns raised by the public?

VEC is an industry association of PVC resin producers and has been making substantial efforts to objectively inform the public concerning environmental issues. Unfortunately, the PVC industry is facing adverse conditions worldwide. Additionally, major concerns are shifting from dioxin, which is primarily an environmental issue, to product safety. Recently, chlorine and chlorine derivatives including PVC have become the focus of attacks by "green" activists who spread misleading information that harm the entire chemical industry. I am extremely concerned that such unconfirmed information has lead to anxiety with regard to chemicals and PVC products. In addition to the general consumer, some corporate end-users are using such information to justify the de-selection of PVC products in their environmental policy.

In order to change the trend towards a "Chemical Panic" and PVC de-selection, it is vital that we promote the benefits and facts concerning chemicals and PVC. The general public should be made aware of the facts based on risk assessment research and scientific data. The anti-PVC movement represents a broader issue that is not only limited to the PVC industry, and therefore the chemical industry must respond accordingly.

In June 2001, VEC established a "Strategic Plan." Mr. Tsuchiya, our President and COO, spearheaded this action as Chairman of the VEC strategic task-force group. The plan consists of the following activities entitled: (1) Vinyl Charter, (2) Benefit and Advantage of Vinyl, (3) Risk Management Policy of Vinyl, and (4) Recycling Policy. In addition, VEC will continue with cooperation in worldwide activities and reinforcing our active units. In accordance with this plan, we continue to make efforts to gain a deeper understanding of the advantages of PVC and to remove concerns related to PVC and the environment.

Is there anything in particular you would like to stress to stockholders and other investors?

In my view, there are two vital questions. To what extent can Tosoh sustain growth in earnings under the severest business conditions conceivable? And how effectively and quickly can Tosoh adapt to unpredictable changes in the marketplace? To address these issues, Tosoh is pressing ahead with structural reforms to become capable of generating high earnings as well as stable growth. In doing so, we are committed to transforming ourselves into a company that is truly competitive on a global scale.

I believe we must command a strong presence to survive and excel in the Japanese chemical industry. At the same time, Tosoh must not rely on competing on the basis of economies of scale alone. We are committed to evolving into a distinctive chemical company with a strong groupwide identity.

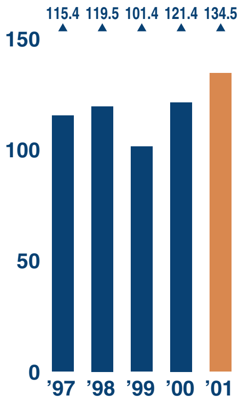
Petrochemical Group

The Petrochemical Group comprises two divisions: the Olefins and the Polymers Division. A wide variety of products are provided for manifold end-use applications.

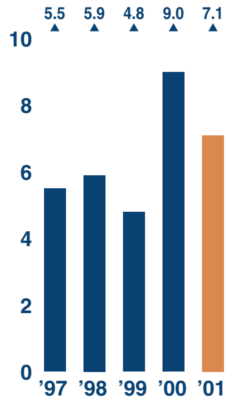
The Olefins Division, a fully integrated manufacturer of olefin products and derivatives, provides a variety of hydrocarbon-based products and derivatives such as ethylene, propylene, C4 fraction, cumene, and a host of downstream products. As globalization advances, the Olefins Division is building a sturdy foundation—focused on achieving the highest standards of efficiency and quality—from which to develop globally competitive products. In striving to achieve new roles in the industry, the Olefins Division is continually exploring potential areas for development.

The Polymers Division offers a wide range of value-added polyethylene products. These include EVA copolymer resins (Nipoflex®), low-density polyethylene (Nipolon®), linear low-density polyethylene (Nipolon®-series and LUMITAC®), high-density polyethylene (Nipolon® Hard) and adhesive polymers (Melthene®-series). The Polymers Division aims to develop distinctive businesses that leverage the unique characteristics of high-performance polymers such as synthetic rubber, PVC paste, and polyphenylene sulfide (PPS) resins.

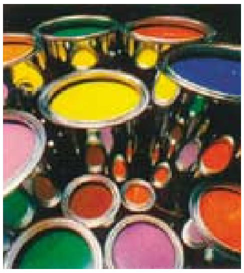
Net Sales
(billion ¥)



Operating Income
(billion ¥)



↑Tosoh Corporation and Hodogaya Chemical Co., Ltd. acquired the remaining 25% stake in Nippon Polyurethane Industry Co., Ltd.



← Olefins are an essential part of our everyday life and used in a wide variety of end-use applications such as electronic products, cosmetics, and rubber goods. Tosoh is a fully integrated manufacturer of olefin products and derivatives.

Playing a role in everything from cosmetics, flavors, and fragrances, to products used in agriculture, engineering, and food packaging, is the Petrochemical Group.

■ 2001 Review

Olefins Division

Shipments of olefin products generated satisfactory growth overall. Tosoh raised domestic sales prices in line with sharp rises in raw material prices for commodities such as naphtha and heavy crude oil fractions. In overseas markets, prices remained at high levels.

Polymers Division

Domestic shipments of polyethylene products increased on the back of a recovery in demand. While the price rises implemented in the autumn of 1999 helped to boost sales revenues, the subsequent hike in the price of naphtha could not be fully passed on to customers. Despite favorable market conditions, export shipments fell.

Although Petrochemical Group net sales increased by 10.8% to ¥134,549 million, operating income fell 21.7% to ¥7,084 million.

■ Strategy

Having doubled in the past two years, the prices of crude oil and naphtha are forecast to remain at high levels. It is expected that the current situation—in which it is not possible to fully reflect the higher costs of raw material commodities in the prices of petrochemical derivatives—will persist for some time. Moreover, although demand for petrochemicals is on the rise across Asia, there are a number of factors that could have a serious impact on the operating levels at petrochemical derivatives and cracker facilities. First, as a number of large-scale plants come on stream in Asia and the Middle East as scheduled, this will put downward pressure on the prices of petrochemical derivatives. Second, amid growing future uncertainty, the economic slowdown in the United States is likely to hit US-bound exports from China and other parts of Asia, which would cause a knock-on deterioration in the regional supply-demand balance. Such an operating environment is expected to accelerate moves towards the further reorganization of the oil and petrochemical industries, including mergers and acquisitions, joint ventures, business tie-ups, spin-offs and other attempts at local and regional consolidation.

In the olefins business, Tosoh plans to diversify its procurement sources for naphtha while seeking competitive sources for ethylene and aromatic raw materials. The Olefins Division will seek to maximize earnings by running its ethylene plant at full capacity, while at the same time seeking to achieve a balanced procurement of crude oil fractions and maintain earnings at those operations that are not involved in the sales of such products. Tosoh also plans to respond to accelerated industry realignment, in part by developing additional infrastructure at the Yokkaichi Complex that will increase the company's competitiveness.

In polyethylenes, although its plants are smaller than those of newer facilities, particularly those located overseas, the Polymers Division produces a greater proportion of high-quality products, such as low-density polyethylene (LDPE) and ethyl vinyl acetate (EVA). This has enabled it to maintain a relatively stable market share. Fully integrated production processes and self-sufficiency in raw material provides Tosoh with advantages over competitors.

The division plans to raise its competitiveness through faster development of high-quality grades that can command higher margins, while simultaneously reducing costs to boost profitability. In addition, Tosoh will strengthen cooperation with a Tosoh Group polyolefin film manufacturer.

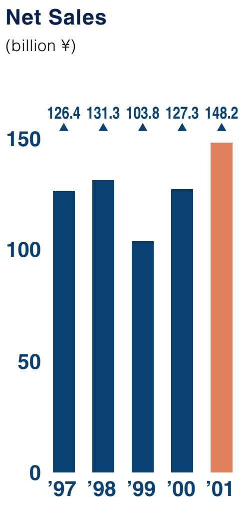
In high-performance polymers such as synthetic rubber, PVC paste, and polyphenylene sulfide (PPS) resins, the division plans to pursue a strategy of sales volume growth while developing a range of high-quality, differentiated products. New products are scheduled to be launched in the coming year. In addition to progressing with the development of higher-grade lines, expanding production capacity for these products is also being considered.

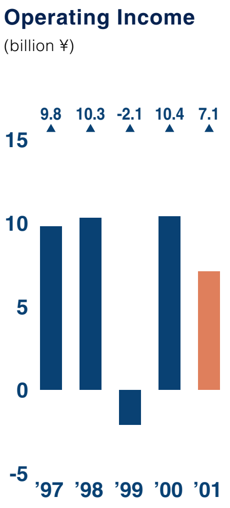
Basic Group

The Basic Group consists of the Chlor-Alkali and Cement divisions. The Chlor-Alkali Division manufactures materials vital to Tosoh's Vinyl Chain operations such as caustic soda, chlorine, and VCM. Vinyl Chain operations have a distinct competitive advantage for Tosoh. The company is expanding its chlor-alkali business through efficient utilization of their fully integrated Vinyl Chain while leveraging technologies and economies of scale. Tosoh holds the largest domestic share in the market for these products, and is also a major supplier to the growing Asian region. Tosoh manufactures and sells various PVC resins through its PVC business, which includes Taiyo Vinyl Corporation, a joint venture specializing in resins. The company is the largest supplier of PVC in Japan.

Tosoh's Cement Division enjoys a solid reputation for delivering quality products while minimizing emissions, waste, and energy use.

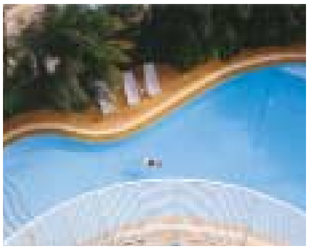
The Basic Group is responsible for Tosoh's core businesses, accounting for approximately 35% of net sales. Ever since its establishment, the Basic Group has served as the foundation for Tosoh's technologies and business expansion.





↑Equity increases in Mabuhay Vinyl Corporation and Philippine Resins Industries, Inc., strategically enables Tosoh to exercise more influence over the chlor-alkali business in the Philippines, and strengthens their position in the South East Asian PVC market.

↓Niclon®, one of Tosoh's high quality chlor-alkali products, is used for sterilizing drinking water, disinfecting swimming pools, and is utilized in sewage treatment systems.



From water purification products to the cement that builds the infrastructures of our cities and transportation systems, stands the Basic Group.

2001 Review

Chlor-Alkali Division

Shipments of vinyl chloride monomer (VCM) and caustic soda both rose on the back of increases in production capacity that came on stream in July 1999. Markets for VCM were strong both in Japan and overseas, and overseas markets for caustic soda improved substantially during the second half of the year. After it became a consolidated Tosoh subsidiary, PVC resin manufacturer and sales company Taiyo Vinyl Corporation produced a higher sales contribution. On the profits side, however, harsh conditions prevailed until price rises were implemented in the second half of 2000 to compensate for the sharp rise in the cost of naphtha.

Cement Division

Constrained growth in cement shipment volumes resulted from two factors: a decline in public-works projects, and stagnancy with regard to the private-sector and export demand. The result was lower sales revenues.

Although Basic Group net sales rose 16.4% to ¥148,203 million, operating income declined 31.6% to ¥7,136 million.

Strategy

Tosoh's Vinyl Chain operations have a total annual production capacity of 1.08 million tons for caustic soda, 0.53 million tons for ethylene, 1.05 million tons for VCM, and 0.96 million tons for PVC resins (including domestic and overseas affiliates). Tosoh is Japan's largest producer of caustic soda, with a domestic share of approximately 20%. Tosoh is also Asia's largest producer of VCM after Formosa Plastics. The Nanyo Complex, which has a VCM production capacity of 810,000 tons per year, is the largest single plant of its kind in Asia. In July 1999, Tosoh completed a major program of capital investment in its Basic Group operations. This included on-site power generation facilities and structural improvements. Taiyo Vinyl Corporation, which had been an unprofitable concern, became a consolidated Tosoh subsidiary in April 2000. As a result of various reconstruction efforts, it returned to profit in the second half of fiscal 2001.

Tosoh has positioned itself as a major Asian supplier with global strengths in the markets for various PVC-based materials used to manufacture infrastructure items such as pipes, electric cables, and construction materials. Demand for such products is expected to expand over time within the region. The Nanyo Complex is highly competitive with an advanced infrastructure that includes a large-scale electrolysis facility for caustic soda and chlorine production, an on-site power plant, and integrated port facilities. Through combining chlor-alkali and petrochemical manufacturing operations, the Yokkaichi Complex also enjoys unique competitive advantages. Using the well-located Nanyo Complex as its main base, Tosoh is developing its VCM operations as an international commodity business, with the Asian region as the prime focus of business development efforts. In PVC resins, Tosoh's strategy is to establish smaller-scale manufacturing bases in Asian markets such as Indonesia and the Philippines to supply local demand.

Over the past four years, the number of domestic PVC suppliers in the Japanese market has fallen, and total production capacity has dropped. Since industry consolidation will inevitably have an impact on Tosoh's VCM operations, the company recognizes the need to bolster its PVC resins business to raise earnings. Tosoh will also review production processes and supply system logistics while implementing cost reductions through a greater focus on certain product grades. The company plans to boost the development of new products with improved physical, finishing and performance characteristics, and work to differentiate its products through a more competitive production system and technical advances.

Overseas, Tosoh maintains a selective focus on certain Asian markets, notably the Philippines. Philippine Resins Industries, Inc., a joint venture with Mitsubishi Corporation, began production of PVC resins in 1998, with a capacity of 70,000 tons per year. The capacity at the PRII plant was increased to 90,000 tons per year in February 2001, and plans call for further expansion, to 160,000 tons per year, in 2003.

Specialty Group

Tosoh's Specialty Group consists of four divisions: Organic Chemicals, Scientific Instruments, Specialty Materials, and Quartz. Products meet the highest standards of quality and are recognized in terms of market share and performance. They are used worldwide in a variety of niche applications and deliver high value that customers can rely on.

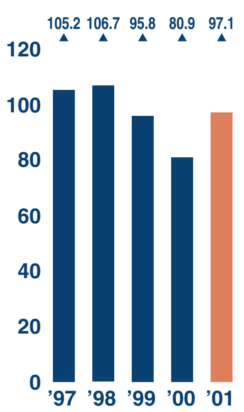
Tosoh has developed proprietary expertise and has gained the technical knowledge required to pursue further growth in these specialty divisions. Our key objectives are to strive for superior product innovation and develop even more efficient methods to create products that advance our market leadership and give us the edge needed to continue our success.

Tosoh's innovative and creative spirit has been the driving force in developing new, efficient products and materials for our customers. R&D expenditures of ¥9.6 billion, the majority of which was allocated to Specialty Group-related initiatives, form the basis of extending our range of high-end products.

The Specialty Group is committed to the pursuit of technical innovation. The hallmarks of this drive are strategic marketing, distinctive R&D, and the synthesis and creation of new applications for proprietary technologies. Tosoh enjoys an international reputation for the development of a host of quality products, including organic chemical products, specialty materials, quartz products, scientific instruments, and diagnostic reagents.

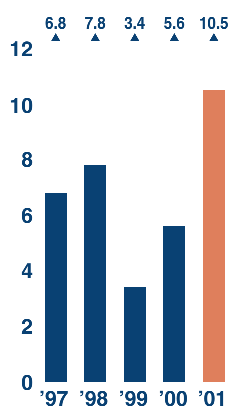
Net Sales

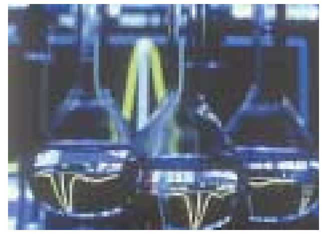
(billion ¥)



Operating Income

(billion ¥)





↑Tosoh commands the largest share in the Asian market for ethylene amines and their derivatives and is a leading domestic producer of bromine and flame retardant.

↓Tosoh acquired US-based Semiconductor Equipment Technology, Inc., a manufacturer and marketer of superior quality shielding for use in sputtering and chemical vapor deposition devices.

Committed to the pursuit of technical innovation and high quality, the rapidly expanding Specialty Group supplies the semiconductor, pharmaceutical, medical, and food industries.

■ 2001 Review

Strong demand from IT-related industries helped boost sales of sputtering targets, quartzware products, and zirconia ceramics both in Japan and overseas. In June 2000, Tosoh acquired the remaining 50% stake in TOSOH Akzo Corporation, which was subsequently renamed TOSOH Finechem Corporation. This company also made an increased contribution to sales. However, growth in shipments of bromine, related products, and MO disks proved lackluster.

Specialty Group net sales rose 19.9% to ¥97,055 million, while operating income soared 88.0% to ¥10,455 million.

■ Strategy

Unlike the company's core Vinyl Chain operations, Tosoh's Specialty Group businesses do not tend to suffer from the effects of volatile market conditions or exchange rate fluctuations. Largely independent of economic cycles, these businesses are expected to generate consistent sales expansion and stable earnings growth into the future. Tosoh is therefore taking steps to accelerate the development of these operations in four areas: organic chemicals, scientific instruments, specialty materials, and eco-businesses. The company's approach is to build on its range of core technical expertise to develop high value-added products.

Organic Chemicals

In this division, organic intermediates, bromine, and ethylene amines are Tosoh's mainstay products.

In the field of organic intermediates, Tosoh is collaborating with three group companies to create synergies in organic synthesis technology, aimed at bolstering its position in the high-growth markets for pharmaceuticals and specialty products geared to electronic materials. The three group companies include TOSOH Finechem Corporation, which possesses a low-temperature reaction technology using organometallic synthesis; TOSOH Organic Chemical Co., Ltd., which possesses specialized technologies used in halogenation, especially in bromination and chlorination; and F-TECH, Inc., which has developed a special fluorination technology.

In response to stiff price competition in the bromine market worldwide, Tosoh intends to pare costs by cutting fixed expenses and to develop businesses in fields other than bromine-based flame-retardants. For instance, Tosoh is now manufacturing magnesium hydroxide-based products to meet the growing demand for halogen-free materials.

In the field of ethylene amines, two key factors have positioned Tosoh to compete effectively worldwide. First, reinforcement of production facilities at the Nanyo Complex in 1998, and second, the group company, Delamine, Inc., a 50-50 joint venture with Akzo Nobel N.V. Tosoh will maintain the present global marketing and sales network which is fine-tuned to regional needs in Asia, Europe, and the U.S. The company will also vigorously expand the derivative product business by developing polyurethane catalysts tailored to customer needs, expanding sales of chelating agents, and extending the development and sale of new amine derivatives.

Scientific Instruments

Advances in gene modification technology are fueling rapid growth in demand for chromatographic separation and purification gels used in industrial manufacturing processes, particularly in the pharmaceutical sector. Markets in Europe and the United States for these products are anticipated to notch up double-digit growth over the next few years. Tosoh is bolstering its position in this area by centralizing the management of various operations. In October 2000, it transformed US-based sales affiliate TosoHaas Partnership into a wholly owned subsidiary and renamed the company TOSOH Biosep LLC. In the following month, the Bioseparation Group was created within the company to focus on chromatographic separation gels. In April 2001, to boost production capacity and increase manufacturing efficiency, separation gel production facilities for these lines were integrated into a single unit at the Nanyo Complex (previously, production had been split between this site and the Toyama Plant) with a 50% increase in production capacity. Since this business is projected to enjoy strong growth over the medium and long term, Tosoh plans to further develop strategic bases in each of the three major markets of Japan, Europe, and the United States.

Specialty Materials

Sputtering Targets

Tosoh aims to maintain steady growth in sputtering targets and related areas. The company has operating bases in Japan, the United States, South Korea, Singapore, and Taiwan. With a global market share of approximately

↑Tosoh's ion-exchange HPLC is the gold standard for HbA1c measurement. The latest model of the Glycohemoglobin Analyzer is the HLC-723 G7.

↓TOSOH Quartz Co., Ltd. launched operations to cope with the rapid growth of the semiconductor industry in Asian markets. The new manufacturing plant in Taiwan will focus production on 300mm next-generation quartz products.

25%, Tosoh is the world's leading producer of such materials. Strong projected growth in demand in the Asian region is expected to help the company maintain its lead in the sector.

In related areas, Tosoh made TOSOH SET, Inc. into a wholly owned subsidiary in June 2000. The company retains a formidable reputation as a manufacturer and marketer of superior quality shielding for use in sputtering and chemical vapor deposition devices. TOSOH SET is also in the cleaning and maintenance business for semiconductor production equipment (SPE) shields. This venture is expected to generate strong revenue growth in addition to the Tosoh Group's existing sputtering target manufacturing business. Combined sales of maintenance and manufacturing operations are expected to increase by 50% within two years from their current level of around ¥15 billion. Tosoh has also made considerable progress in strengthening its business base to ensure consistent growth that will help to counteract the cyclical nature of the semiconductor industry.

Electrolytic Manganese Dioxide (EMD)

Steady growth in worldwide demand for EMD, which is used in alkaline dry batteries, is being driven by the widespread use of portable electronic devices such as digital cameras. With an annual production capacity of 52,000 tons and approximately 20% of the world market, Tosoh is the leading global producer of EMD. The company plans to increase capacity as required to maintain this position. In view of the ongoing need to improve the performance of alkaline dry batteries to power future generations of portable electronic devices, it is also continuing R&D in this area to develop materials with enhanced performance compared with EMD.

Zirconia Powders

Used in parts for fiber-optic connectors and other applications, zirconia ceramics are in increasing demand worldwide as a result of the rapid expansion of telecommunications and other advanced IT areas driven by explosive Internet growth. With a commanding 60% share of the global market, Tosoh is the world's leading producer of these products in terms of manufacturing capacity and product quality. While maintaining its technical lead and expanding sales in new markets, Tosoh plans to respond to the global supply shortage for zirconia ceramics with the completion of a new manufacturing plant. Due to come on stream in the autumn of 2001, this will raise annual production capacity from 620 tons to 1,300 tons.

Zeolites

The Zeolite Department continues to develop and deliver high-value products as a comprehensive zeolite manufacturer. The superior qualities of Tosoh zeolites make them ideal for use as molecular sieves in moisture removal, gas purification, and catalyst production, and as high-ion exchange chemicals for manufacturing detergents among other applications. The HSZ®-series zeolite for catalysts, used in petrochemicals, refining, and the related application of solid-state acidic catalysts, expect to see increasing demand from environmental applications such as vehicular catalytic converters and VOC purifying/cleansing adhesives.

Quartz

TOSOH Quartz Group is focused on further expansion in the global market, through the fortification of its silica glass material business and the strengthening of its fabricated quartzware business worldwide.

In October 2000, the production and business operations of silica glass materials were transferred from TOSOH Quartz Corporation (formerly Nippon Silica Glass Co., Ltd.) to TOSOH SGM Corporation (formerly Yamaguchi NSG Co., Ltd.), while the associated material sales operations were absorbed by the Quartz Division of Tosoh Corporation. These changes, together with the renaming of the material sales company in the United States to "TOSOH SGM USA, Inc." on January 1, 2001, unified Tosoh silica glass material companies under the "TOSOH SGM" brand name.

At the same time, the expansion of the fabricated quartzware business is accelerating on a global scale. In January 2001, four quartz fabrication subsidiaries located in the United States were merged, forming TOSOH Quartz, Inc., while a new name "TOSOH Quartz Ltd." was also adopted for the European subsidiary.

To cope with the rapid growth of the semiconductor industry in Asian markets, manufacturing operations were launched by TOSOH Quartz Co., Ltd. in June 2001. This new manufacturing plant inside the Tainan Science-based Industrial Park in Southern Taiwan will focus production on 300mm next-generation quartz products.

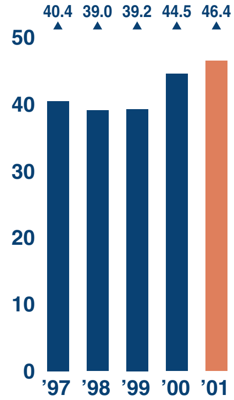
In regard to research and development activities, the full support of Tosoh's own research and development team can be relied upon for speedy advancements in new product development and timely enhancements in technological innovations.

Utilizing the solid business bases established in the four key regional markets of Japan, the United States, Europe, and Asia, TOSOH Quartz Group will continue to expand and develop its businesses under the unified brand names of "TOSOH Quartz" and "TOSOH SGM."

Eco-Business

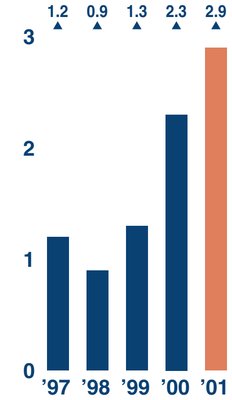
Tosoh provides a variety of scientific instruments, such as analytical equipment for environmental monitoring operations. Additionally, the company produces amine-based chelating agents that serve in applications such as stabilizing agents for heavy metals contained in fly ash and wastewater. In 1996, Tosoh established Eco-Techno Corporation, a 50-50 joint venture with affiliate Organo Corporation. This company seeks to combine Tosoh's expertise in both organic and inorganic chemicals with Organo's water treatment processing technology. This cooperation has now laid the basis for an environmental monitoring and engineering business that continues to thrive.

Net Sales
(billion ¥)



Service Group

Operating Income
(billion ¥)



Tosoh is dedicated to providing its customers with the most effective and reliable products and services in the industry. The Service Group is an alliance of subsidiaries and affiliates that provides the crucial support that Tosoh depends upon to operate cost-efficiently and deliver comprehensive service.

To achieve its greater objectives, in 2000, the Tosoh Group's analytical chemistry, information technology (IT), and general administrative operations were spun off into three independent operating companies positioned within the Service Group. Tosoh Analysis & Research Center Co., Ltd. (TARC) provides comprehensive services in the fields of materials analysis, specializing in organic, inorganic, polymer, and electronic materials. Tosoh Information Systems Co., Ltd. (TOSIS) is responsible for system consultation; business systems development, operation and maintenance; LAN and WAN design, implementation and maintenance; and the provision of Internet services and IT training. Tosoh Sogo (General) Services Co., Ltd. (TSS) provides security, disaster prevention, payroll, facility maintenance, and other services.

2001 Review

Higher revenues posted by trading and construction-related companies within the Service Group helped increase net sales by 4.1% to ¥46,367 million. Operating income rose by 26.1% to ¥2,890 million.

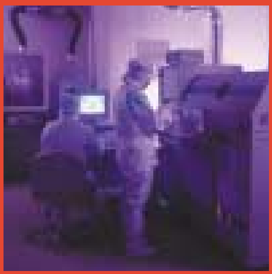
Strategy

In April 2000, Tosoh spun off information processing, analytical chemistry, and customer support operations into three separate companies in a move to improve consolidated performance. The three companies are Tosoh Information Systems Co., Ltd., Tosoh Analysis & Research Center Co., Ltd., and Tosoh Sogo (General) Services Co., Ltd.

Tosoh Information Systems will assist in upgrading and integrating accounting systems at group companies. The aim is to enable management to quickly and easily assess performance throughout the entire Tosoh Group. Tosoh Analysis & Research Center will provide sophisticated services involving the analysis of inorganic, organic, electronic materials, and polymers. Tosoh Sogo (General) Services will work to enhance personnel management, employee benefits, and training activities at group companies. We are also working to enhance the efficiency of logistics operations at group companies, focusing in particular on Tosoh Logistics Corporation. Tosoh aims to raise the efficiency of each of these operations. In this way, by fostering a higher degree of specialization, Tosoh is working to bolster the profit structure of the entire group.

Research & Development

Research & Development at Tosoh seeks to maintain a balance between the company's development and its contribution to society at large.



↑Tosoh achieves quick and effective R&D through maximizing its core strengths and by maintaining close relationships among R&D, sales, and production functions.

↑Tosoh's R&D creates products and services that cause minimal environmental impact.

Reinforcing R&D Through Specialty Fields

Research and development has been the driving force for growth at Tosoh throughout its sixty-six year history. Following the completion in June 1999 of a large-scale capital investment program to build up its Vinyl Chain operations, Tosoh designated its specialty businesses—organic chemicals, scientific instruments, specialty materials, and quartz—as its prime strategic focus for the future. Market conditions and exchange rates heavily influence profits from core commodity chemical operations and therefore, development of specialty businesses is particularly important in the

stabilization of company earnings. Tosoh invested a total of ¥9.6 billion in R&D activities in fiscal 2001. Setting R&D themes to develop products that will prove competitive in global markets, Tosoh works to make the maximum use of in-house technologies while seeking to maintain a balance between the company's development and its contribution to society at large.

Faster and More Effective R&D

As demand rises for increasingly advanced and diverse products in the specialty fields, R&D must be quick and effective if timely product launches are to be achieved. Tosoh strives to attain this goal by maximizing its core technological strengths, and by maintaining close relations among R&D, sales, and production functions. Tosoh's R&D achievements have consistently met market needs. To raise the probability of success while optimizing the use of limited resources, besides maintaining close contacts among its four research laboratories, Tosoh has systematized various internal R&D-related processes. At one end, this involves seeking ideas for R&D themes from across the company and holding special planning meetings to study possible corporate themes. Once technical projects are established, they are inspected regularly to ensure that progress is on track. The company will pursue progressive research by participating in joint research with end-users, other companies, and Japanese national research projects.

Strengthening Quartz Business

To maximize its profitability, Tosoh is placing considerable emphasis on the development of its specialty business. In particular, it has centralized research and improved its R&D system in line with the recent strengthening of the silica glass material business and Tosoh's operating structure. This will quicken the development of next-generation silica glass materials, with applications targeted for the semiconductor and telecommunications industries.

Boosting the Development of Organic Intermediates

Tosoh's organic intermediates business is growing through collaboration with three Tosoh Group companies, TOSOH Organic Chemical Co., Ltd., TOSOH Finechem Corporation, and F-TECH, Inc. Through the pooling of the best proprietary technologies from each company, the acceleration of operations can be seen in not only the joint development of organic intermediates for pharmaceuticals, electronic materials, and other products, but also in collaboration that provides custom synthesis. The collaboration has already achieved significant results. Through utilization of an organometallic reaction, Tosoh, along with TOSOH Organic Chemical Co., Ltd. and TOSOH Finechem Corporation, has successfully commercialized and marketed the base monomer for the production of semiconductor resistors using krypton fluoride lasers.

Development of Anode Materials for Secondary Lithium-Ion Batteries

Tosoh is actively engaged in the development of lithium manganate, a material used in the positive electrodes of high-performance lithium-ion batteries, which are increasingly being used as power sources in both electric vehicles (EVs) and hybrid electric vehicles (HEVs). Tosoh also commands the leading share (20%) of the global market for electrolytic manganese dioxide (EMD), which is used as a material in the positive electrodes of alkaline dry batteries. During fiscal 2000, Tosoh conducted a successful pilot plant scale-up for the production of lithium manganate, via an integrated process, from raw materials.

R&D Development of Environmentally Sound Products

Tosoh's R&D encompasses a wide variety of products and services designed to cause minimal environmental impact. Through these efforts, we have already developed two products with practical environmental applications. One is a heavy-metal processing agent that renders insoluble any heavy metals contained in fly ash generated at municipal refuse incinerators. The other is a water-based adhesive that does not use organic solvents. Tosoh is also conducting further research into manganate positive-electrode materials for use in HEV batteries and exhaust detoxifiers designed to remove harmful substances from car exhaust emissions.

Environmental Initiatives

↑ Tosoh Corporation has acquired ISO 14001 certification at all sites. Aggregate capital expenditures targeted for environmental, health, and safety projects since fiscal 1996 are now in excess of ¥15 billion.

Waste Reduction
(Fiscal year 2001)

Recycled Resources
570,000 tons
(520,000 tons)

The remaining 12% (4%) is used for on-site disposal, off-site disposal and off-site land reclamation purposes.

12% (4%)
70,000 tons
(20,000 tons)

Sludge
190,000 tons
(190,000 tons)

Incinerated Residue
180,000 tons
(180,000 tons)

Waste Acid and Alkali, Waste Oil, Other
200,000 tons
(150,000 tons)

→

Recycling Rate
88%
(96%)
500,000 tons
(500,000 tons)

* Tosoh Corporation figures are indicated with parentheses, while all other figures are for the Tosoh Group.

Tosoh regards environmental initiatives, safety, and health as key management issues throughout its entire operations.

The Japanese Ministry of Economy, Trade and Industry, as well as the Ministry of the Environment has specified twelve substances as harmful air pollutants that require voluntary reduction efforts. Production processes at the Tosoh Group's manufacturing complexes generate the emission of five of these substances, including benzene, chloroform, vinyl chloride monomer, 1-2-dichloroethane, and 1-3-butadiene. The Tosoh Group has striven to reduce the emission of these substances. In fiscal 2001, the total quantity of emissions (including substances discharged into water), were 935 tons compared with 1,057 tons in fiscal 2000, representing a reduction of 38% from the 1995-1996*[1] level of 1,465 tons. The target for fiscal 2003 is to reduce the total quantity of emissions to 128 tons, a 91% reduction from the 1995 level. Tosoh is also continuing its efforts to reduce emissions of PRTR*[2] substances. Of the 354 PRTR substances specified by the PRTR Law, the Tosoh Group is producing or using 31 substances that are being emitted at a rate of more than 0.1 ton per year. Total emissions of PRTR substances were 3,113 tons in fiscal 1995. Under its current emissions reduction plan, the Tosoh Group aims to reduce PRTR emissions to 939 tons in fiscal 2002 and to 268 tons in fiscal 2003, representing a 91% cut in emissions from the 1995-1996 level.

Tosoh has also ensured that all of its domestic operations conform to international environmental management best practice, as embodied in ISO 14001 standards. With certification of the Yokkaichi Complex in January 2000, Tosoh acquired ISO 14001 certification at all sites. Similar efforts are now ongoing at all Tosoh Group subsidiaries and affiliates. TOSOH Quartz Corporation and Tosoh Specialty Materials Corporation were awarded ISO 14001 certification in June and July, 2001, respectively. Tosoh is providing affiliates with its full support in the testing and certification processes.

As its contribution to the realization of a recycling-oriented society, the Tosoh Group strives to make efficient use of resources and reduce wastes: recycling wastes into new materials wherever possible. The Tosoh Group is actively involved in material and thermal recycling initiatives. Primarily, these programs use sludge, acids, alkalis, oils, and other waste materials. The recycling rate achieved internally during fiscal 2001 was 88% for the Group and 96% for Tosoh Corporation. The company also accepts around 390,000 tons of waste materials from external sources in its recycling programs. Another recycling-oriented initiative in which Tosoh is involved is a refuse-derived fuel (RDF) plant owned and operated by Shin-Nanyo City, and located just outside the company's Nanyo Complex.

Proof of Tosoh's commitment to environmental initiatives lies in the fact that its aggregate capital expenditures targeted at environmental or health, and safety projects since fiscal 1996 are now in excess of ¥15 billion. During fiscal 2001, capital expenditures in this field were around ¥3.3 billion. The majority of this investment was used for the establishment of self-regulated systems to manage and reduce emissions of officially designated atmospheric pollutants. As Japan's leading producer of vinyl chloride monomer, Tosoh is stepping up its efforts to reduce harmful emissions.

Management of Tosoh's RC (Responsible Care) activities involves regular RC audits supervised by the director with responsibility for environmental and safety issues. The company also has RC activities audited and evaluated by external organizations. Improvements to the systems and results are formulated following a review by the president. Audits are also undertaken on a regular basis, again by external organizations, to examine the company's maintenance of its environmental management and other systems to ISO 14001 and ISO 9000-series standards. Tosoh has received independent validation of the quality of its record on environmental, safety, and health issues. Following one such validation in February 2000 by the Japan Responsible Care Association, the company made a number of changes to respond to various suggestions for improvement.

*[1] Figures are based on the Japanese fiscal year that runs from April 1 to March 31 of the following year. A reference to "fiscal year 2001" specifies the period from April 1, 2000 to March 31, 2001. "The 1995-1996 level" refers to the figures based on the fiscal year 1996 (April 1, 1995 – March 31, 1996).

*[2] PRTR (Pollutants Release and Transfer Registers) is a register of quantities of selected chemical substances released into the environment. The register is being promoted internationally as an effective means for reducing and controlling impediments to environmental protection caused by chemical substances.

April, 2000

- **Taiyo Vinyl Corporation Becomes a Subsidiary** with Tosoh taking over management responsibility of the joint venture and achieving profitability in the second half of fiscal 2001.
- **Tosoh Acquires Full Ownership of Japan-based Nippon Silica Glass Co., Ltd.,** a fully integrated manufacturer of quartz materials and fabricated quartzware.

May, 2000

- **Tosoh Joint Venture TMG Corporation Completes a ¥4 Billion High-Performance Magnesium Hydroxide Plant** on site at the Nanyo Complex.

June, 2000

- **PRII Announces Capacity Increase for PVC Resins Production —** Capacity is scheduled to more than double to 160,000 tons per year in 2003.
- **Tosoh Acquires Remaining 50% Stake in TOSOH Akzo Corporation,** manufacturer and marketers of dicalcium phosphate dihydrate, polymerization catalysts, and organic intermediates.
- **Tosoh Expands Target Operations with SET Acquisition —** Tosoh acquires remaining 75% of US-based Semiconductor Equipment Technology, Inc., a manufacturer and marketer of superior quality shielding for use in sputtering and chemical vapor deposition devices. The company is renamed TOSOH SET Inc.
- **Tosoh Introduces the Next Line of 4th Generation Chrome Sputtering Targets —** Tosoh begins to produce the world's largest mass-produced chrome sputtering targets for liquid crystal display applications.

August, 2000

- **Tosoh Increases Equity in Mabuhay Vinyl Corporation —** Allows Tosoh to exercise more influence over the chlor-alkali business in the Philippines.

October, 2000

- **Tosoh Group Creates Synergies for Organic Intermediates —** TOSOH Organic Chemical Co., Ltd., TOSOH Finechem Corporation, and F-TECH, Inc., combine expertise to develop and promote organic intermediates operations.
- **Tosoh Acquires Rohm and Haas' Interest in TosoHaas Partnership and Creates TOSOH Biosep LLC,** a wholly owned Tosoh subsidiary which specializes in the sales and marketing of chromatographic separation and purification gels for mainly pharmaceutical and biochemical purposes.

January, 2001

- **The Birth of a Global Brand Name "TOSOH Quartz" —** All affiliated quartz fabrication companies throughout the world are unified under the name "TOSOH Quartz."

February, 2001

- **Tosoh Doubles Zirconia Production Capacity —** Expansion project at Tosoh's Nanyo complex will increase Zirconia powder production capacity to 1,300 tons per year by the autumn of 2001.

March, 2001

- **Tosoh Corporation and Hodogaya Chemical Acquire the Remaining 25% Interest in Nippon Polyurethane Industry Co., Ltd. —** Hodogaya Chemical Co., Ltd., came to own 73.3% of Nippon Polyurethane Industry Co., Ltd., while Tosoh retained a 26.7% share.
- **Tosoh Increases Equity in Philippine Resins Industries, Inc. (PRII).** This share increase strategically enables Tosoh to exercise more influence over the PVC business in the Philippines and will strengthen Tosoh's position in the South East Asian PVC market.

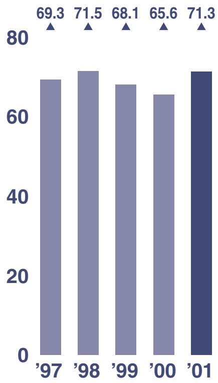
April, 2001

- **Silica Plant for Fuel-Efficient Tires Comes on Stream —** Plant expansion measures at Nippon Silica Industrial Co., Ltd. (NSI), a subsidiary of Tosoh Corporation, saw the completion of a plant specializing in the production of silica (white carbon) for fuel-efficient tires.
- **Boost in Production Capacity of 50% for Separation Gels —** Consolidation of production facilities at Nanyo Complex results in increased manufacturing efficiency.

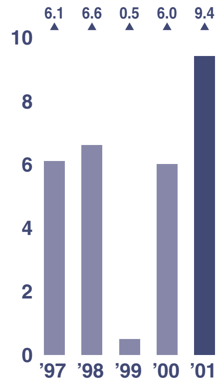
July, 2001

- **TOSOH Quartz Group Officially Opens Processing Plant** in Taiwan
- **Tosoh Group Advances in ISO 14001 Certification —** TOSOH Quartz Corporation and Tosoh Specialty Materials Corporation are awarded ISO 14001 certification for their Environmental Management System (EMS).

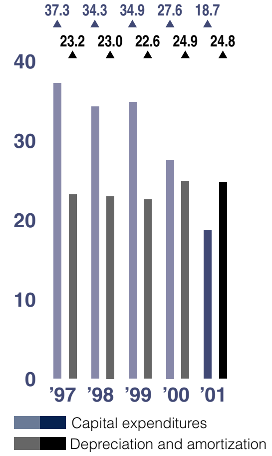
SG & A Expenses
(billion ¥)



Net Income
(billion ¥)



Capital Expenditures and Depreciation and Amortization
(billion ¥)



Overview

In the year ended March 31, 2001, the Japanese economy showed little improvement. Although capital investments in IT-related fields increased, economic recovery was held back by a weak stock market, issues on non-performing loans of financial institutions, and lackluster consumer spending. The Cabinet Office stated in its March 2001 report that the Japanese economy was experiencing slight deflationary pressures, having indicated that a recession had become imminent. Overseas, ripples from the slowdown in the U.S. economy started to affect other countries from around the middle of 2000.

The Japanese chemical industry saw domestic shipments increase as demand rebounded, and overseas markets for such products as vinyl chloride monomer (VCM) and caustic soda remained firm. Despite these, the steep rise in the price of crude oil and the subsequent upswing in the cost of feedstock and fuel had an unfavorable influence on the industry's profitability.

In order to overcome this challenging operating environment, Tosoh worked toward expanding sales volumes and sustaining sales prices. In addition, efforts were made to reduce fixed and distribution expenses and to improve the balance sheets. Such efforts were in line with Tosoh's structural improvement plan devised in May 1999.

As a result of the foregoing, consolidated net sales climbed ¥52.0 billion (13.9%) over the previous fiscal year to ¥426.2 billion. Cost of sales amounted to ¥327.3 billion and selling, general and administrative (SG&A) expenses were ¥71.3 billion. Consequently, operating income increased ¥0.2 billion (0.9%) to ¥27.6 billion. The ratio of operating income to net sales was 6.5%, compared with 7.3% in the previous fiscal year.

Net Sales

By business group, Petrochemical Group sales rose ¥13.1 billion (10.8%) to ¥134.5 billion, Basic Group sales increased ¥20.9 billion (16.4%) to ¥148.2 billion, Specialty Group sales jumped ¥16.1 billion (19.9%) to ¥97.1 billion, and Service Group sales increased ¥1.8 billion (4.1%) to ¥46.4 billion.

The increase in net sales was primarily attributable to the consolidation of Taiyo Vinyl Corporation and TOSOH Finechem Corporation. In addition, the growth reflected higher sales prices of olefin products in line with the rise in naphtha prices in the petrochemical business and largely increased shipments of sputtering targets, quartz products, and ceramics in the specialty materials business.

Overseas sales increased ¥21.0 billion (22.7%) to ¥113.4 billion. Asian markets saw growth of ¥13.0 billion (21.2%) to ¥74.6 billion. Sales in other overseas markets increased ¥7.9 billion (25.6%) to ¥38.9 billion.

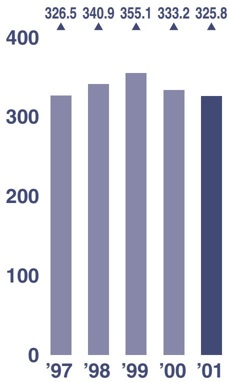
Costs & Expenses

Cost of sales increased ¥46.1 billion (16.4%) to ¥327.3 billion and the cost of sales ratio worsened from 75.2% to 76.8%. SG&A expenses rose ¥5.7 billion (8.7%) to ¥71.3 billion. The SG&A ratio declined from 17.5% to 16.7%.

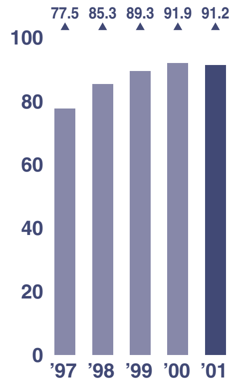
Among other expense items, interest expenses decreased ¥0.7 billion (8.3%) to ¥7.5 billion. As a result, net financial expenses declined ¥0.9 billion (12.2%) to ¥6.6 billion. In addition, Tosoh recorded a loss due to a change in accounting standards for retirement and severance benefits, a gain on the sale of stock in subsidiaries, and a foreign exchange gain.

Overall, net income surged ¥3.4 billion (56.0%) to ¥9.4 billion. Net income per share rose from ¥10.02 to ¥15.62, and ROE improved from 6.6% to 10.3%.

Short-term Bank Loans and Long-term Debt
(billion ¥)



Total Shareholders’ Equity
(billion ¥)



Financial Position

Total assets as of March 31, 2001 stood at ¥534.6 billion, up by ¥6.6 billion (1.3%) from the previous fiscal year. Current assets increased ¥2.7 billion (1.3%) to ¥205.4 billion. This reflected an increase of ¥17.3 billion (17.4%) in trade receivables, less allowance for doubtful accounts, due mainly to Taiyo Vinyl Corporation, a newly consolidated subsidiary, and a ¥4.9 billion (9.4%) increase in inventories because of the consolidation of TOSOH Finechem Corporation and the increased cost of feedstock and fuel. Offsetting these increases somewhat was a ¥16.9 billion (96.6%) decrease in marketable securities due primarily to the reclassification to investment securities. Such a reclassification is in accordance with new accounting standards for financial instruments.

Total non-current assets, excluding foreign currency translation adjustments, increased ¥14.3 billion (4.5%) to ¥329.2 billion. This mainly reflected an increase in investment securities owing to the aforementioned reclassification.

Current liabilities rose ¥36.5 billion (16.4%) to ¥259.2 billion. An increase of ¥11.7 billion (28.1%) in trade payables was largely attributable to the consolidation of Taiyo Vinyl Corporation, and short-term bank loans and current maturities of long-term debt increased ¥26.2 billion (18.0%) due mainly to the reclassification of a current portion of long-term debt to current liabilities.

Total liabilities amounted to ¥438.1 billion, an increase of ¥8.8 billion (2.1%) from the previous fiscal year. Short-term bank loans and long-term debt decreased ¥7.4 billion (2.2%) to ¥325.8 billion. The decrease reflected Tosoh’s efforts to reduce these liabilities and accompanying interest expenses.

Although interest-bearing liabilities decreased ¥16.1 billion on an unconsolidated basis, the inclusion of Taiyo Vinyl Corporation and TOSOH Finechem Corporation in the consolidated financial statements limited the decrease in these liabilities on a consolidated basis.

Total shareholders’ equity was ¥91.2 billion, largely unchanged from the previous fiscal year. On the positive side, consolidated retained earnings increased ¥6.5 billion (29.8%). The increase, however, was offset by foreign currency translation adjustments of ¥6.6 billion. This item, which was recorded under assets in the previous fiscal year, was included in shareholders’ equity due to a revision to financial statement presentation standards. As a result of the above, the shareholders’ equity ratio decreased from 17.4% to 17.1%.

Cash Flows

Cash and cash equivalents at the end of the year totaled ¥17.5 billion, ¥0.2 billion (0.9%) less than at the end of the previous fiscal year. Cash flows from operating activities were ¥32.4 billion, down by ¥1.6 billion (4.7%) from the previous fiscal year. This primarily reflected an increase in income taxes paid, which was offset by an increase in income before income taxes.

Investing activities used net cash of ¥19.4 billion, which was less than the previous fiscal year by ¥5.2 billion (21.2%). The decline was due mainly to lower capital expenditures.

Financing activities used net cash of ¥13.4 billion, down by ¥7.3 billion (35.2%) due to a reduction in repayments of interest-bearing liabilities.

Free cash flows were ¥13.0 billion, which was an increase of ¥3.6 billion (39.0%) from the previous fiscal year.

Disclaimer on Forward-Looking Statements

This Annual Report contains statements that address such key issues as Tosoh Corporation’s current expectations based on reasonable assumptions. Current plans, estimates, beliefs, and other statements that are not historical facts are forward-looking statements. Such statements should be carefully considered and it should be understood that many factors could cause forecasts and actual results to differ from these statements. These factors may include, but are not limited to, price fluctuations, currency fluctuations, development and personnel costs, physical and environmental risks, changes in the business climate, and legislative, fiscal, and other regulatory measures.

CONSOLIDATED STATEMENTS OF INCOME

Tosoh Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Revenues:			
Net sales (Note 13)	**¥426,174**	¥374,182	**$3,439,661**
Interest and dividend income	**910**	679	**7,345**
Foreign exchange gain	**1,310**	–	**10,573**
Gain on sales of property, plant and equipment	**829**	3,001	**6,691**
Gain on sales of affiliated company	**3,252**	–	**26,247**
Equity in earnings of unconsolidated subsidiaries and affiliates	**1,782**	2,882	**14,382**
Gains on securities contributed to the employee retirement benefit trust	**2,689**	–	**21,703**
Other income	**3,272**	3,853	**26,408**
Total	**440,218**	384,597	**3,553,010**
Cost and expenses:			
Cost of sales (Note 13)	**327,296**	281,236	**2,641,614**
Selling, general and administrative expenses (Note 13)	**71,313**	65,616	**575,569**
Interest expense	**7,480**	8,160	**60,371**
Write-down of marketable and investment securities	**622**	2,056	**5,020**
Effect of change in or adopting new accounting standard for retirement and severance benefits	**11,156**	9,938	**90,040**
Other expenses	**6,150**	8,078	**49,637**
Total	**424,017**	375,084	**3,422,251**
Income before income taxes	**16,201**	9,513	**130,759**
Income taxes			
Current	**8,635**	5,872	**69,693**
Deferred (Note 12)	**(1,878)**	(2,351)	**(15,157)**
Minority interests	**(52)**	27	**(420)**
Net income	**¥ 9,392**	¥ 6,019	**$ 75,803**

	Yen		U.S. dollars (Note 1)
Per share of common stock:			
Net income per share	**¥ 15.62**	¥ 10.02	**$ 0.13**
Cash dividends, applicable to the year	**5.00**	5.00	**0.04**

The accompanying notes are an integral part of these statements.

CONSOLIDATED BALANCE SHEETS

Tosoh Corporation and Its Consolidated Subsidiaries
March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
ASSETS	**2001**	2000	**2001**
Current assets:			
Cash and cash equivalents	**¥ 17,534**	¥ 17,701	**$ 141,517**
Marketable securities (Notes 6 and 8)	**587**	17,504	**4,738**
Trade receivables, less allowance for doubtful accounts (Note 4)	**117,114**	99,795	**945,230**
Inventories (Note 5)	**57,518**	52,598	**464,229**
Deferred tax assets (Note 12)	**3,198**	3,084	**25,811**
Other current assets	**9,429**	11,989	**76,102**
Total current assets	**205,380**	202,671	**1,657,627**
Investments:			
Investment securities (Note 6)	**18,141**	8,861	**146,416**
Investments in and advances to unconsolidated subsidiaries and affiliates (Note 8)	**34,650**	34,825	**279,661**
Long-term loans receivable	**1,775**	1,981	**14,326**
Other	**9,908**	6,424	**79,968**
Total investments	**64,474**	52,091	**520,371**
Property, plant and equipment, less accumulated depreciation (Note 7)	**247,363**	255,290	**1,996,473**
Deferred tax assets (Note 12)	**9,719**	4,099	**78,442**
Intangible and other assets	**7,669**	3,446	**61,897**
Foreign currency translation adjustments	**–**	10,392	**–**
	¥534,605	¥527,989	**$4,314,810**

The accompanying notes are an integral part of these statements.

LIABILITIES AND SHAREHOLDERS' EQUITY	Millions of yen 2001	2000	Thousands of U.S. dollars (Note 1) 2001
Current liabilities:			
Short-term bank loans (Note 8)	**¥101,067**	¥ 90,256	**$ 815,714**
Current maturities of long-term debt (Note 8)	**70,672**	55,297	**570,395**
Trade payables	**53,395**	41,682	**430,952**
Income taxes payable	**5,428**	4,228	**43,810**
Deferred tax liabilities (Note 12)	**176**	34	**1,421**
Other current liabilities	**28,507**	31,278	**230,081**
Total current liabilities	**259,245**	222,775	**2,092,373**
Long-term debt, less current maturities (Note 8)	**154,035**	187,627	**1,243,220**
Retirement and severance benefits (Note 9)	**20,950**	17,193	**169,088**
Deferred tax liabilities (Note 12)	**1,075**	587	**8,676**
Other liabilities	**2,835**	1,114	**22,882**
Minority interests	**5,270**	6,807	**42,534**
Contingent liabilities (Note 10)			
Shareholders' equity:			
Common stock, ¥50 par value:			
Authorized — ¥1,200,000,000 shares;			
Issued — ¥601,161,912 shares in 2001			
— ¥600,665,239 shares in 2000	**40,634**	40,609	**327,958**
Additional paid-in capital	**29,637**	29,495	**239,201**
Retained earnings	**28,277**	21,784	**228,224**
Net unrealized holding gains on securities	**(755)**	–	**(6,094)**
Foreign currency translation adjustments	**(6,597)**	–	**(53,244)**
Treasury stock, at cost, 3,654 shares in 2001 and 6,006 shares in 2000	**(1)**	(2)	**(8)**
Total shareholders' equity	**91,195**	91,886	**736,037**
	¥534,605	¥527,989	**$4,314,810**

CONSOLIDATED STATEMENTS OF CASH FLOWS

Tosoh Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Cash flows from operating activities:			
Income before income taxes	**¥ 16,201**	¥ 9,513	**$ 130,759**
Adjustments to reconcile income before income taxes to net cash provided by operating activities:			
Depreciation and amortization	**25,419**	25,495	**205,157**
Gains for securities contributed to the employee retirement benefit trust	**3,770**	–	**30,428**
Increase in retirement and severance benefits	**3,757**	9,792	**30,323**
Interest and dividend income	**(910)**	(679)	**(7,345)**
Interest expense	**7,480**	8,160	**60,371**
Equity in earnings of unconsolidated subsidiaries and affiliates	**(1,782)**	(2,882)	**(14,382)**
Gain on sales of investments in subsidiaries and affiliates	**(3,241)**	–	**(26,158)**
Increase in trade receivables	**(15,068)**	(10,309)	**(121,614)**
(Increase) decrease in inventories	**(2,827)**	1,246	**(22,817)**
Increase in trade payables	**11,190**	1,144	**90,315**
Other, net	**2,187**	2,420	**17,651**
	46,176	43,900	**372,688**
Interest and dividends received	**1,202**	1,110	**9,701**
Interest paid	**(7,362)**	(8,355)	**(59,419)**
Income taxes paid	**(7,599)**	(2,648)	**(61,332)**
Net cash provided by operating activities	**32,417**	34,007	**261,638**
Cash flows from investing activities:			
Payments for purchase of property, plant and equipment	**(18,935)**	(30,190)	**(152,825)**
Proceeds from sale of property, plant and equipment	**1,679**	2,928	**13,551**
Purchases of investment securities	**(3,033)**	(1,605)	**(24,479)**
Purchases of additional shares of newly consolidated subsidiaries (Note 3)	**(6,927)**	(508)	**(55,908)**
Proceeds from sales of marketable and investment securities	**7,943**	5,102	**64,109**
Other, net	**(150)**	(386)	**(1,211)**
Net cash used in investing activities	**(19,423)**	(24,659)	**(156,763)**
Cash flows from financing activities:			
Net increase in short-term bank loans	**8,671**	3,056	**69,984**
Proceeds from long-term debt	**37,236**	39,010	**300,533**
Repayments of long-term debt	**(56,508)**	(62,849)	**(456,078)**
Cash dividends paid	**(3,028)**	(1,841)	**(24,439)**
Proceeds from issuance of common stock to minority shareholders	**229**	1,914	**1,848**
Other, net	**(32)**	(8)	**(258)**
Net cash used in financing activities	**(13,432)**	(20,718)	**(108,410)**
Effect of exchange rate changes on cash and cash equivalents	**229**	(302)	**1,848**
Net decrease in cash and cash equivalents	**(209)**	(11,672)	**(1,687)**
Cash and cash equivalents at beginning of year	**17,700**	29,105	**142,857**
Increase in cash and cash equivalents due to newly consolidated subsidiaries	**43**	268	**347**
Cash and cash equivalents at end of year	**¥ 17,534**	¥ 17,701	**$ 141,517**

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Tosoh Corporation and Its Consolidated Subsidiaries
Years ended March 31, 2001 and 2000

	Millions of yen					
	Common stock					
	Shares (Thousands)	Amount	Additional paid-in capital	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments
Balance at March 31, 1999	600,665	¥40,609	¥29,495	¥19,191	¥ –	¥ –
Net income for the year	–	–	–	6,019	–	–
Cash dividends paid at ¥ 3.00 per share	–	–	–	(1,802)	–	–
Bonuses paid to directors and statutory auditors	–	–	–	(16)	–	–
Decrease due to change in consolidation of subsidiaries	–	–	–	(176)	–	–
Decrease due to change in investments accounted for by the equity method	–	–	–	(1,432)	–	–
Balance at March 31, 2000	600,665	¥40,609	¥29,495	¥21,784	¥ –	¥ –
Net income for the year	–	–	–	9,392	–	–
Shares issued in exchange of stocks	497	25	142	–	–	–
Foreign currency translation adjustments	–	–	–	–	–	(6,597)
Net unrealized holding losses on securities	–	–	–	–	(755)	–
Cash dividends paid at ¥5.00 per share	–	–	–	(3,003)	–	–
Bonuses paid to directors and statutory auditors	–	–	–	(86)	–	–
Increase due to revaluation of land of overseas affiliates	–	–	–	185	–	–
Increase due to the merger of affiliates accounted for by the equity method	–	–	–	54	–	–
Increase due to increase in investments accounted for by the equity method	–	–	–	58	–	–
Decrease due to increase in consolidated subsidiaries	–	–	–	(107)	–	–
Balance at March 31, 2001	**601,162**	**¥40,634**	**¥29,637**	**¥28,277**	**¥(755)**	**¥(6,597)**

	Thousands of U.S. dollars (Note 1)				
	Common stock	Additional paid-in capital	Retained earnings	Net unrealized holding gains (losses) on securities	Foreign currency translation adjustments
Balance at March 31, 2000	$327,756	$238,055	$175,819	$ –	$ –
Net income for the year	–	–	75,803	–	–
Shares issued in exchange of stocks	202	1,146	–	–	–
Foreign currency translation adjustments	–	–	–	–	(53,244)
Net unrealized holding losses on securities	–	–	–	(6,094)	–
Cash dividends paid at ¥ 5.00 per share	–	–	(24,237)	–	–
Bonuses paid to directors and statutory auditors	–	–	(694)	–	–
Increase due to revaluation of land of overseas affiliates	–	–	1,493	–	–
Increase due to the merger of affiliates accounted for by the equity method	–	–	436	–	–
Increase due to increase in investments accounted for by the equity method	–	–	468	–	–
Decrease due to increase in consolidation of subsidiaries	–	–	(864)	–	–
Balance at March 31, 2001	**$327,958**	**$239,201**	**$228,224**	**$(6,094)**	**$(53,244)**

The accompanying notes are an integral part of these statements.

1. BASIS OF PRESENTING FINANCIAL STATEMENTS
Tosoh Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Japanese Commercial Code and the Securities and Exchange Law and in conformity with accounting principles and practices generally accepted in Japan ("Japanese GAAP"), which are different from the accounting and disclosure requirements of International Accounting Standards. The accounts of consolidated overseas subsidiaries are based on their accounting records maintained in conformity with generally accepted accounting principles and practices prevailing in the respective countries of domicile.

The accompanying consolidated financial statements are a translation of the audited consolidated financial statements of the Company which were prepared in accordance with Japanese GAAP from the accounts and records maintained by the Company and its consolidated subsidiaries and were filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law.

In preparing the accompanying consolidated financial statements, certain reclassifications have been made in the consolidated financial statements issued domestically in order to present them in a form which is more familiar to readers outside Japan.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2001, which was ¥123.90 to U.S. $1.00. The convenience 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 U.S. dollars at this or any other rate of exchange.

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 unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for by the equity method. Equity in earnings of unconsolidated subsidiaries and 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 subsidiaries.

Translation of foreign currencies
Short-term receivables and payables are translated into Japanese yen at the year-end rates. Prior to April 1, 2000, long-term receivables and payables denominated in foreign currencies were translated at historical rates.

Effective April 1, 2000, the Company and its consolidated subsidiaries (the "Companies") adopted the revised accounting standard for foreign currency translation. Under the revised accounting standard, long-term receivables and payables denominated in foreign currencies are also translated into Japanese yen at the year-end rate. There was no effect on the consolidated income statement of adopting the revised accounting standard.

Due to the adoption of the revised accounting standard, the Companies report foreign currency translation adjustments in the shareholders' equity. The prior year's amount, which was included in assets, has not been reclassified.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rate, except that shareholders' equity accounts are translated at historical rates and income statement items resulting from transactions with the Company at the rates used by the Company.

Cash and cash equivalents
Cash, readily-available deposits and short-term highly liquid investments with original maturities of three months or less are considered cash and cash equivalents.

Securities
Prior to April 1, 2000, listed securities were valued at the lower of cost or market value. All other investments were stated at average cost adjusted for any substantial and non-recoverable decline in value. And the Company recorded recoveries of write-downs of securities.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments and have changed their method of valuation of securities.

Under the new accounting standard for financial instruments, 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. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of shareholders' equity. Other available-for-sale securities with no available fair market values are stated at moving-average cost.

Declines in fair market value or the net asset value of held-to-maturity debt securities, equity securities, not on the equity method, issued by unconsolidated subsidiaries and affiliated companies, and available-for-sale securities, judged to be other than temporary, are charged to income.

As a result of adopting the new accounting standard for financial instruments, income before income taxes increased by ¥1,972 million ($15,908 thousand). Also, based on the examination of the intent of holding each security upon application of the new accounting standard on April 1, 2000, held-to-maturity debt securities and available-for-sale securities maturing within one year from the balance sheet date are included in current assets, and other securities are included in investments and other assets. As a result, at April 1, 2000, securities in current assets decreased by ¥17,439 million ($140,751 thousands) and investment securities increased by the same amount compared with what would have been reported under the previous accounting policy.

Allowance for doubtful accounts

The Companies provide the allowance for doubtful trade receivables by individually estimating uncollectible amounts and for normal receivables based on the Companies' historical experience of write-offs of such receivables.

Inventories

Inventories are principally valued at cost as determined by the weighted average method.

Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost. Depreciation is principally computed over the estimated useful lives of the assets on the straight-line basis. Repairs, maintenance and minor renewals are charged to expense as incurred.

Lease transactions

Finance leases, except those leases for which the ownership is considered to be transferred to the lessee, are accounted for as operating leases.

Retirement and severance benefits

The Companies provide two types of post-employment benefit plans, unfunded lump-sum payment plans and funded contributory pension plans, under which all eligible employees are entitled to benefits based on the level of wages and salaries at the time of retirement or termination, length of service, and certain other factors.

Effective April 1, 1999, the Companies changed provisions for lump-sum retirement and severance payments from 40% to 100% of the amount required had all eligible employees voluntarily terminated their employment at the balance sheet date in order to more adequately provide for future retirement benefits. As a result, prior service cost of ¥9,938 million was charged to income and reported in the consolidated statements of income. Prior to April 1, 2000, the Companies recognized pension expense when, and to the extent, payments were made to the pension plans.

Effective April 1, 2000, the Companies adopted the new Japanese accounting standard for retirement and severance benefits. Under the new accounting standard, the Companies provided for employees' retirement and severance benefits at March 31, 2001 based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets at that date. The difference of ¥11,156 million ($90,040 thousand) from the adoption of new accounting standard for retirement benefits was charged to income and reported in the consolidated statements of income.

The adoption of the new accounting standard resulted in the increase in retirement benefit expenses by ¥9,554 million ($77,111 thousand) and decrease in income before income taxes by ¥7,037 million ($56,796 thousand) considering the gain on securities contributed to the employee retirement benefit trust of ¥2,689 million ($21,703 thousand) compared with what would have been recorded under the previous accounting standard.

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 maximum amount that the Company can distribute as dividends is calculated based on the unconsolidated financial statements of the Company in accordance with the Code.

Bonuses to directors and statutory auditors

Bonuses to directors and statutory auditors are subject to approval by the shareholders and are accounted for by an appropriation of retained earnings.

Amounts per share

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

Reclassifications

Certain reclassifications have been made in the 2000 financial statements to conform to the 2001 presentation.

3. CONSOLIDATED STATEMENTS OF CASH FLOWS

For the year ended March 31, 2001 and 2000, at the time of acquiring additional shares of newly consolidated subsidiaries, their assets and liabilities, the cost for the share acquisition, and the net expenditures to acquire the shares were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Current assets	**¥ 4,681**	¥ 1,337	**$ 37,780**
Non-current assets	**5,424**	3,079	**43,777**
Consolidation difference	**3,386**	75	**27,328**
Current liabilities	**(3,176)**	(1,485)	**(25,633)**
Non-current liabilities	**(1,158)**	(182)	**(9,346)**
Minority interest	**–**	(1,099)	**–**
Parent's interest at beginning of year	**(1,982)**	(748)	**(15,996)**
Cost for share acquisition	**7,175**	977	**57,710**
Cash and cash equivalents	**(248)**	(468)	**(2,002)**
Expenditure to acquire the shares of newly consolidated subsidiaries	**¥ 6,927**	¥ 508	**$ 55,908**

4. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade receivables have been reduced by allowances for doubtful accounts of ¥553 million ($4,463 thousand) and ¥707 million, as of March 31, 2001 and 2000, respectively.

5. INVENTORIES

Inventories as of March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Finished products	**¥36,462**	¥34,485	**$294,286**
Raw materials and supplies	**17,192**	14,568	**138,757**
Work-in-process	**3,864**	3,545	**31,186**
Total	**¥57,518**	¥52,598	**$464,229**

6. MARKET VALUE INFORMATION OF SECURITIES

As explained in Note 2, effective April 1, 2000, the Companies adopted the new Japanese accounting standard for financial instruments.

1. The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2001.

(1) Held-to-maturity debt securities:

	Millions of yen			Thousands of U.S. dollars		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Debt securities	**¥197**	**¥197**	**¥ –**	**$1,590**	**$1,590**	**$ –**

(2) Available-for-sale securities:

	Millions of yen			Thousands of U.S. dollars		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs	**¥ 3,706**	**¥ 4,573**	**¥ 867**	**$ 29,911**	**$ 36,909**	**$ 6,998**
Securities with book values not exceeding acquisition costs	**12,517**	**10,447**	**(2,070)**	**101,025**	**84,318**	**(16,707)**
Total	**¥16,223**	**¥15,020**	**¥(1,203)**	**$130,936**	**$121,227**	**$ (9,709)**

2. Information on market values of securities at March 31, 2000 is as follows:

	Millions of yen		
	Book value	Market value	Unrealized gain (loss)
Marketable securities	¥17,437	¥19,836	¥ 2,399
Investment securities	1,622	1,999	377
Investments in unconsolidated subsidiaries and affiliates	15,136	14,065	(1,071)
Total	¥34,195	¥35,900	¥ 1,705

7. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Land	**¥ 67,316**	¥ 63,073	**$ 543,309**
Buildings and structures	**139,287**	134,483	**1,124,189**
Machinery and equipment	**492,058**	477,668	**3,971,412**
Construction in progress	**4,466**	9,934	**36,046**
	703,127	685,158	**5,674,956**
Less accumulated depreciation	**(455,764)**	(429,868)	**(3,678,483)**
Net property, plant and equipment	**¥ 247,363**	¥ 255,290	**$ 1,996,473**

8. SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 1.79% and 1.51% as of March 31, 2001 and 2000, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2001 and 2000 consisted of the following:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Loans from banks and other financial institutions, 2.33% maturing serially through 2022:			
Secured	**¥ 37,045**	¥ 41,171	**$ 298,991**
Unsecured	**187,662**	201,753	**1,514,624**
	224,707	242,924	**1,813,615**
Less current maturities	**(70,672)**	(55,297)	**(570,395)**
Total	**¥154,035**	¥187,627	**$1,243,220**

Assets pledged as collateral to secure short-term bank loans and long-term debt as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
	2001	2000	**2001**
Property, plant and equipment	**¥167,354**	¥100,465	**$1,350,718**
Marketable securities and investments in unconsolidated subsidiaries and affiliates	**1,284**	2,863	**10,363**
Other	**535**	258	**4,318**
Total	**¥169,173**	¥103,586	**$1,365,399**

The annual maturities of long-term debt as of March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
2002	¥ 70,672	$ 570,395
2003	44,609	360,040
2004	48,684	392,930
2005	25,483	205,672
2006 and thereafter	35,259	284,576
Total	¥224,707	$1,813,615

9. RETIREMENT AND SEVERANCE BENEFITS

The liability for retirement and severance benefits at March 31, 2001 was as follows:

	Millions of yen	Thousands of U.S. dollars
Projected benefit obligation	**¥ 90,374**	**$ 729,411**
Fair value of pension assets	**(46,719)**	**(377,070)**
Unfunded benefit obligation	**43,655**	**352,341**
Unrecognized net transition obligation	**16,978**	**137,030**
Unrecognized actuarial difference	**5,727**	**46,223**
Retirement and severance benefits	**¥ 20,950**	**$ 169,088**

Retirement benefit costs for the year ended March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars
Service costs	**¥ 2,790**	**$ 22,518**
Interest costs on projected benefit obligation	**2,762**	**22,293**
Expected return on pension assets	**(1,378)**	**(11,122)**
Amortization of net transition obligation	**11,156**	**90,040**
Retirement and severance benefit costs	**¥15,330**	**$123,729**

Notes: 1. Actuarial gains and losses are recognized as expenses using the straight-line method over ten years commencing in the following period.
2. Net transition obligation is recognized as expenses using the straight-line method primarily over five years commencing with the year ended March 31, 2001.
3. The amount of “Amortization of net transition obligation” includes market value of investment securities contributed to the employee retirement benefit trust ¥6,459 million.
4. The discount rate and the rate of expected return on pension assets used by the Companies are 3.5% and 3.5%, respectively.
5. The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

10. CONTINGENT LIABILITIES

Contingent liabilities primarily for loans from banks to unconsolidated subsidiaries and affiliates which are guaranteed by the Company and for notes receivable discounted at banks with recourse as of March 31, 2001 were as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Loans guaranteed	**¥16,606**	**$134,027**
Notes receivable discounted	**675**	**5,448**
Total	**¥17,281**	**$139,475**

11. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

The Companies use interest rate swaps only for the purpose of mitigating future risks of interest rate fluctuations with respect to borrowings.

Effective April 1, 2000, the Companies have applied hedge accounting according to the adoption of the new accounting standard for financial instruments.

12. INCOME TAXES

The Company and its domestic consolidated subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory rates in Japan of approximately 41.7% for the years ended March 31, 2001 and 2000.

Since the difference between the statutory tax rate and the Companies' effective tax rate for the year ended March 31, 2001 is less than 5%, the information for 2001 is not presented.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the year ended March 31, 2000.

March 31,	2000
Statutory tax rate	41.7 %
Increase (reduction) in taxes resulting from:	
Non-taxable dividend income	(3.3)
Non-deductible expenses	2.9
Carryforward losses not offset against future taxable income	4.1
Equity in earnings of unconsolidated subsidiaries and affiliates	(12.6)
Other	4.2
Effective tax rate	37.0 %

Significant components of deferred tax assets and liabilities as of March 31, 2001 and 2000 were as follows:

	Millions of yen		Thousands of U.S. dollars (Note 1)
March 31,	**2001**	2000	**2001**
Deferred tax assets			
Operating loss carryforwards	**¥ 2,221**	¥ 2,728	**$ 17,925**
Unrealized gains	**6,826**	6,530	**55,093**
Retirement and severance benefits	**9,221**	4,792	**74,423**
Other	**4,085**	3,204	**32,970**
Total deferred tax assets	**22,353**	17,254	**180,411**
Valuation allowance	**(1,665)**	(2,867)	**(13,438)**
Net deferred tax assets	**20,688**	14,387	**166,973**
Deferred tax liabilities:			
Reserve for replacement of property, plant and equipment	**(4,542)**	(4,449)	**(36,659)**
Reserve for special depreciation of fixed assets	**(1,820)**	(2,007)	**(14,689)**
Other	**(2,660)**	(1,369)	**(21,469)**
Total deferred tax liabilities	**(9,022)**	(7,852)	**(72,817)**
Net deferred tax assets	**¥11,666**	¥ 6,562	**$ 94,156**

13. SEGMENT INFORMATION

The operations of the Companies are classified into four business segments – Petrochemical Group, Basic Group, Specialty Group and Service Group.

Operations of the Petrochemical Group include the manufacture and sale of olefins and polyolefins.

Operations of the Basic Group include the manufacture and sale of caustic soda, vinyl chloride monomer and cement.

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

Operations of the Service Group include transportation, warehousing and construction.

"Operating expenses" used in the following segment information include cost of sales and selling, general and administrative expenses.

The Company reclassified its business segments by characteristic of its products for more effective operations. Prior year information on business segments has been reclassified in order to conform to the 2001 presentation.

Business segment information was as follows:

	Millions of yen						
Year ended March 31, 2001	Petrochemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	**¥134,549**	**¥148,203**	**¥ 97,055**	**¥46,367**	**¥426,174**	**¥ –**	**¥426,174**
Inter-segment	**40,474**	**9,841**	**4,773**	**46,944**	**102,032**	**(102,032)**	**–**
Operating expenses	**167,939**	**150,908**	**91,373**	**90,421**	**500,641**	**(102,032)**	**398,609**
Operating income	**¥ 7,084**	**¥ 7,136**	**¥ 10,455**	**¥ 2,890**	**¥ 27,565**	**¥ –**	**¥ 27,565**
Identifiable assets	**¥112,299**	**¥161,358**	**¥145,254**	**¥52,317**	**¥471,228**	**¥ 63,377**	**¥534,605**
Depreciation and amortization	**¥ 4,990**	**¥ 10,233**	**¥ 7,183**	**¥ 1,382**	**¥ 23,788**	**¥ 984**	**¥ 24,772**
Capital expenditures	**¥ 2,758**	**¥ 4,787**	**¥ 7,931**	**¥ 1,157**	**¥ 16,633**	**¥ 2,067**	**¥ 18,700**

	Millions of yen						
Year ended March 31, 2000	Petrochemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	¥121,410	¥127,312	¥ 80,924	¥44,536	¥374,182	¥ –	¥374,182
Inter-segment	31,265	7,896	2,876	37,394	79,431	(79,431)	–
Operating expenses	143,627	124,778	78,239	79,639	426,283	(79,431)	346,852
Operating income	¥ 9,048	¥ 10,430	¥ 5,561	¥ 2,291	¥ 27,330	¥ –	¥ 27,330
Identifiable assets	¥106,824	¥159,018	¥131,833	¥53,389	¥451,064	¥ 76,925	¥527,989
Depreciation and amortization	¥ 5,535	¥ 9,917	¥ 6,809	¥ 1,371	¥ 23,632	¥ 1,222	¥ 24,854
Capital expenditures	¥ 2,951	¥ 15,806	¥ 5,605	¥ 1,001	¥ 25,363	¥ 2,237	¥ 27,600

	Thousands of U.S. Dollars (Note 1)						
Year ended March 31, 2001	Petrochemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	**$1,085,948**	**$1,196,150**	**$ 783,334**	**$374,229**	**$3,439,661**	**$ –**	**$3,439,661**
Inter-segment	**326,667**	**79,427**	**38,523**	**378,886**	**823,503**	**(823,503)**	**–**
Operating expenses	**1,355,440**	**1,217,982**	**737,474**	**729,790**	**4,040,686**	**(823,503)**	**3,217,183**
Operating income	**$ 57,175**	**$ 57,595**	**$ 84,383**	**$ 23,325**	**$ 222,478**	**$ –**	**$ 222,478**
Identifiable assets	**$ 906,368**	**$1,302,324**	**$1,172,349**	**$422,252**	**$3,803,293**	**$ 511,517**	**$4,314,810**
Depreciation and amortization	**$ 40,274**	**$ 82,591**	**$ 57,974**	**$ 11,154**	**$ 191,993**	**$ 7,942**	**$ 199,935**
Capital expenditures	**$ 22,260**	**$ 38,636**	**$ 64,011**	**$ 9,338**	**$ 134,245**	**$ 16,683**	**$ 150,928**

Export sales and sales outside of Japan made by overseas subsidiaries were ¥113,415 million ($915,375 thousand), and ¥92,465 million for the years ended March 31, 2001 and 2000 respectively, representing 26.6% and 24.7% of consolidated net sales. For the years ended March 31, 2001 and 2000, such sales in Asia were ¥74,556 million ($601,743 thousand) and ¥61,515 million, representing 17.5% and 16.4%, respectively, of consolidated net sales.

The "Elimination and Corporate" column of "Identifiable assets" in the above schedules includes corporate assets of ¥82,939 million ($669,403 thousand) and ¥95,517 million for the years ended March 31, 2001 and 2000, respectively, which mainly consist of cash, time deposits, investment in securities and assets of administrative departments.

Since the amounts of sales and assets in Japan were more than 90% of total consolidated sales and assets, information on geographic segments for prior year is not presented.

Geographic information for the year ended March 31, 2001 was as follows:

	Millions of yen				
	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	**¥384,766**	**¥41,408**	**¥426,174**	**¥ –**	**¥426,174**
Inter-segment	**11,346**	**3,291**	**14,637**	**(14,637)**	**0**
Operating expenses	**371,330**	**41,916**	**413,246**	**(14,637)**	**398,609**
Operating income	**¥ 24,782**	**¥ 2,783**	**¥ 27,565**	**¥ –**	**¥ 27,565**
Identifiable assets	**¥515,287**	**¥43,914**	**¥559,201**	**¥(24,596)**	**¥534,605**

	Thousands of U.S. dollars (Note 1)				
	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	$3,105,456	$334,205	$3,439,661	$ –	$3,439,661
Inter-segment	91,574	26,562	118,136	(118,136)	–
Operating expenses	2,997,014	338,305	3,335,319	(118,136)	3,218,183
Operating income	$ 200,016	$ 22,462	$ 222,478	$ –	$ 222,478
Identifiable assets	$4,158,894	$354,431	$4,513,325	$(198,515)	$4,314,810

14. SUBSEQUENT EVENTS

At the general shareholders' meeting of the Company held on June 28, 2001, retained earnings of the Company as of March 31, 2001 were appropriated as follows:

	Millions of yen	Thousands of U.S. dollars (Note 1)
Year-end cash dividends (¥5.00 per share)	**¥3,006**	**$24,262**
Payment of bonuses to directors	**¥ 68**	**$ 549**

To the Shareholders and the Board of Directors of Tosoh Corporation:

We have audited the accompanying consolidated balance sheets of Tosoh Corporation (a Japanese corporation) and its consolidated subsidiaries as of March 31, 2001 and 2000, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, expressed in Japanese yen. Our audits were made in accordance with generally accepted auditing standards in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the consolidated financial statements referred to above present fairly the consolidated financial position of Tosoh Corporation and its consolidated subsidiaries as of March 31, 2001 and 2000, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan applied on a consistent basis during the years, except for the new accounting policies and changes in accounting policy with which we concur, as noted in the following paragraphs.

As explained in Note 2 in the year ended March 31, 2001, Tosoh Corporation and its consolidated subsidiaries propectively adopted new Japanese accounting standards for retirement benefits, financial instruments and foreign currency transactions. Also, Tosoh Corporation and its consolidated subsidiaries changed their method of disclosing segment information referred in Note 13.

As explained in Note 2 in the year ended March 31, 2001, Tosoh Corporation and its consolidated domestic subsidiaries changed their method of accounting for retirement and severance benefits, for employees, effective April 1, 1999 as referred in Note 2.

Also, in our opinion, the U.S. dollar amounts in the accompanying consolidated financial statements have been translated from Japanese yen on the basis set forth in Note 1.

Osaka, Japan
June 28, 2001

Asahi & Co.

(Member Firm of Andersen Worldwide SC)

Statement on Accounting Principles and Auditing Standards

This statement is to remind users that accounting principles and auditing standards and their application in practice may vary among nations and therefore could affect, possibly materially, the reported financial position and results of operations. The accompanying consolidated financial statements are prepared based on accounting principles generally accepted in Japan, and the auditing standards and their application in practice are those generally accepted in Japan. Accordingly, the accompanying financial statements and the auditors' report presented above are for users familiar with Japanese accounting principles, auditing standards and their application in practice.

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Fax: +44-1207-524-409
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Stuttgart, Germany
Tel: +49-711-132570
Fax: +49-711-1325789
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Asia

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Tel: +62-21-3903132/ 3903135
Fax: +62-21-3903301

P.T. Satomo Indovyl Polymer
Wisma Unggul Indah Corporation (UIC),
UIC Building, 4th Floor, JL. Jend.
Gatot Subroto Kav. 6-7,
Jakarta 12930, Indonesia
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TOSOH Quartz Co., Ltd. Nippon Silica Glass Taiwan Co., Ltd.
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(As of August 2001)

Chairman & CEO

Madoka Tashiro

President & COO

Takashi Tsuchiya

Corporate Service

- Corporate Strategy & Planning
- Corporate Control & Accounting
- Finance
- General Affairs
- Purchasing & Logistics
- Legal & Patents
- Human Resources
- Corporate Communications
- Corporate Secretariat
- Auditing
- Environment, Safety & Quality Control

Corporate R&D

- Tokyo Research Laboratory
- Nanyo Technology Center
- Nanyo Research Laboratory
- Yokkaichi Research Laboratory

Manufacturing

- Nanyo Complex
- Yokkaichi Complex
- Toyama Plant

Sales Branches

- Osaka Branch
- Nagoya Branch
- Fukuoka Branch
- Sendai Branch
- Yamaguchi Branch

Business Groups

Olefins Division

- Sales & Marketing

Polymers Division

- Planning & Coordination
- Polyethylenes
- High Performance Polymers

Chlor-Alkali Division

- Planning & Coordination
- Chlor-Alkali Sales & Marketing
- Fertilizer Sales & Marketing

Cement Division

Organic Chemicals Division

- Planning & Business Development
- Amines
- Bromine & Organic Intermediates

Scientific Instruments Division

- Planning & Business Development
- Sales & Marketing
- Research & Development
- Gels Production

Specialty Materials Division

- Planning & Business Development
- Electronic Materials
- Battery Manganese Materials
- Zeolites

Quartz Division

(As of June 28, 2001)

Board of Directors

Chairman & CEO
Madoka Tashiro

President & COO
Takashi Tsuchiya

Senior Managing Directors
Kiyoshi Hino
Yukihiro Tsutsumi

Managing Directors
Ichiro Hiraki
Yasuo Kato
Keiichi Ohtagaki
Hiroo Sasaki
Hiroshige Wagatsuma

Directors
Kiyoshi Hashimoto
Nobuhiro Kawasaki
Hideo Yamasaki
Teruhiro Setoguchi
Takuhei Sakurai
Kazuya Hoshi
Osamu Kuchiishi
Shinji Kurata
Yuzo Arima
Masatoshi Inai

Corporate Auditors
Yoshinobu Kashida
Katsuhiko Kawamura
Akifumi Tada
Momoto Obara

(As of June 28, 2001)

Investor Information

Date of Incorporation
February 11, 1935

Paid-in Capital
¥41 billion

Common Stock
Authorized: 1,200,000,000 shares
Issued: 601,161,912 shares

Number of Shareholders
67,706

Stock Exchange Listings
Tokyo, Osaka, Nagoya, Fukuoka
TSE Ticker Symbol: 4042

Transfer Agent for Shares
The Chuo Trust & Banking Co., Ltd.
7-1, Kyobashi 1-chome
Chuo-ku, Tokyo 104-8345, Japan

Independent Auditors
Asahi & Co.

Number of Employees
8,097

(As of March 31, 2001)

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Printed in Japan on recycled paper.