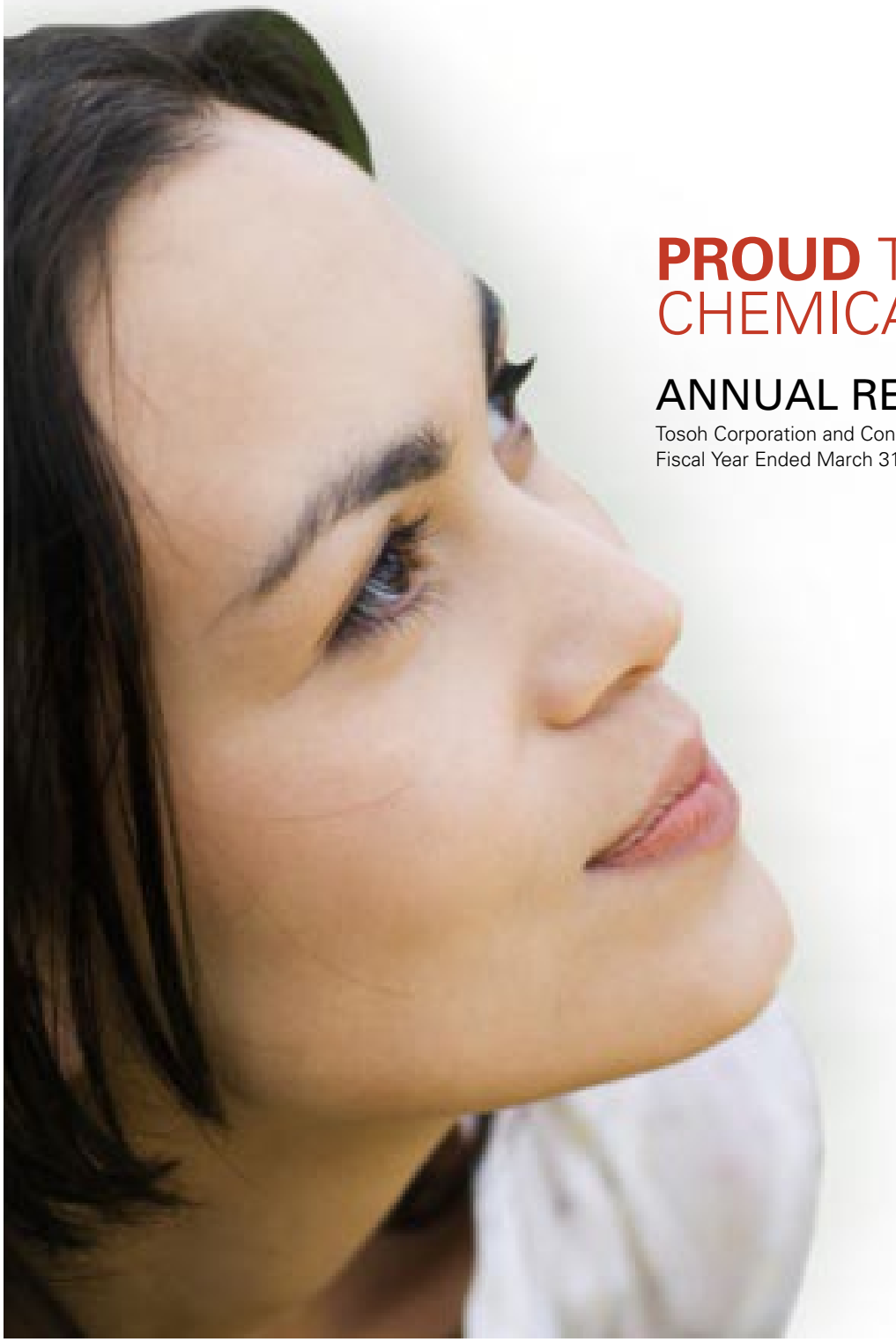
TOSOH



PROUD TO BE A CHEMICAL COMPANY

ANNUAL REPORT 2007

Tosoh Corporation and Consolidated Subsidaries
Fiscal Year Ended March 31, 2007

TOSOH CORPORATION

TOSOH CORPORATION ANNUAL REPORT 2007

CHEMISTRY
BIOTECHNOLOGY
MATERIALS
COMMODITIES
WATER TREATMENT

SOME COMPANIES **DREAM** OF...
TURNING **SALT** INTO AFFORDABLE **PLASTICS**,
SUPPLYING **SEMICONDUCTOR FABS** WORLDWIDE,
PREVENTING OUTBREAKS OF EPIDEMICS,
MAKING **ECOLOGICAL IMPROVEMENTS** IN BUSINESS
AND REACHING SALES OF OVER
A BILLION DOLLARS IN CHINA.

AT TOSOH WE ARE ACHIEVING THIS **NOW.**

CONTENTS

This annual report contains statements that address such key issues as Tosoh Corporation's expectations based on reasonable assumptions. 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, fluctuations in prices and currencies; increases or decreases in development and personnel costs; rises or falls in physical and environmental risks; changes in business climate; and the introduction of legislative, fiscal, and other regulatory measures.

WHO WE ARE

Tosoh Corporation is a Japanese Chemical Company established in 1935 and listed on the first section of the Tokyo Stock Exchange. It is the core of the Tosoh Group which now comprises 146 companies worldwide, employs a multi-ethnic workforce of over 10,000 people, and generates sales of ¥781 billion (US$6.6 billion) annually.

WHAT WE DO

Tosoh is one of the largest manufacturers in Asia of plastic resins using the raw material salt. The Company's petrochemical operations supply ethylene, polymers, and polyethylene, while the electronic materials business serves the global semiconductor and flat-panel display industries. Tosoh has also pioneered sophisticated bioscience systems that are used to provide rapid diagnosis of life-threatening diseases such as diabetes, certain cancers and prevent epidemics by identifying pathogenic microbes. Tosoh creates products and provides services that are used to purify water and monitor the environment as part of a commitment to a sustainable future.*

** Tosoh's fully integrated sequence of manufacturing operations produce several key vinyl-related chemicals from the raw materials salt and naphtha.*

WHO WE DO IT FOR

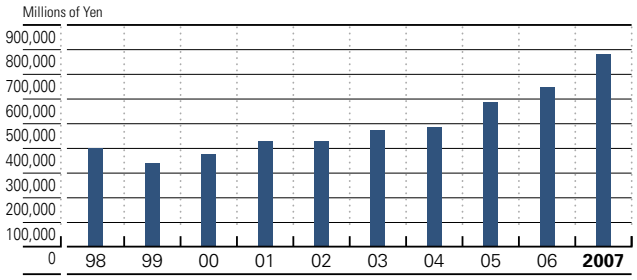
Tosoh is dedicated to employees, customers, shareholders, the local communities in which we operate, and the environment. Here we invite you to take a closer look at that dedication and the performance of the Tosoh Group for fiscal 2006.

10-YEAR FINANCIAL HISTORY

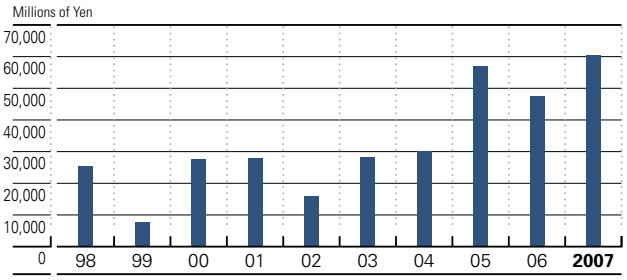
	1998	1999	2000	2001	2002	2003	2004	2005	2006	**2007****
	Millions of Yen									
Net Sales	396,475	340,229	374,182	426,174	427,487	471,921	484,389	588,332	648,810	**781,347**
Operating Income	25,103	7,438	27,330	27,565	15,631	28,048	30,055	56,899	47,460	**60,279**
Net Income	6,581	533	6,019	9,392	459	4,809	7,297	29,533	27,533	**28,488**
Current Assets	217,638	205,796	202,671	205,380	235,919	225,908	235,227	272,278	295,664	**370,198**
Fixed Assets	306,723*	321,380*	325,318*	329,225	336,227	319,789	313,986	330,931	341,813	**418,320**
Current Liabilities	234,277	218,166	222,775	259,245	253,626	273,701	262,541	283,691	287,968	**357,674**
Long term debt	190,545	206,535	187,627	154,035	176,562	125,797	140,419	137,740	133,722	**169,965**
Other long-term liabilities	11,926	9,589	18,894	24,860	30,881	33,032	25,714	29,337	30,585	**33,110**
Equity	85,283	89,283	91,886	91,195	90,557	92,795	99,238	127,993	159,112	**184,974***
	Yen									
Earnings Per Share (EPS)	10.96	0.89	10.02	15.62	0.77	7.87	11.96	49.09	45.74	**47.60**
Book Value Per Share (BPS)	141.99	148.65	152.97	151.70	151.76	154.93	165.67	213.79	265.75	**308.81**
Dividend per share	5	3	5	5	5	5	5	6	6	**8**
	Percent (%)									
Operating profit margin	6.3%	2.2%	7.3%	6.5%	3.7%	5.9%	6.2%	9.7%	7.3%	**7.7%**
Net profit margin	1.7%	0.2%	1.6%	2.2%	0.1%	1.0%	1.5%	5.0%	4.2%	**3.6%**
Return on equity	7.7%	0.6%	6.6%	10.3%	0.5%	5.2%	7.6%	26.0%	19.2%	**16.6%**
	Percent / Times									
Equity ratio	16.3%	16.9%	17.4%	17.1%	15.8%	17.0%	18.1%	21.2%	25.0%	**23.5%**
Interest coverage ratio	2.8	1.0	3.4	3.8	2.4	5.1	6.6	13.9	12.4	**12.4**
	Times									
Fixed assets turnover	1.3	1.1	1.2	1.3	1.3	1.5	1.5	1.8	1.9	**1.9**
Inventory turnover	7.1	6.4	7.1	7.4	6.2	7.4	7.0	7.1	7.1	**6.8**
Collection period (days)	98	96	98	101	104	96	101	95	92	**97**

* Indicates a change in accounting treatment.
** Fiscal years in this report refer to the years ended March 31.
Fiscal 2006 is from April 1, 2006 to March 31, 2007.

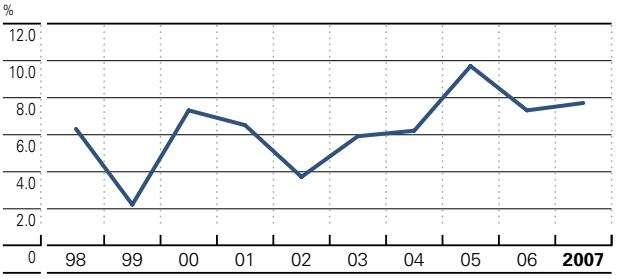
Net Sales



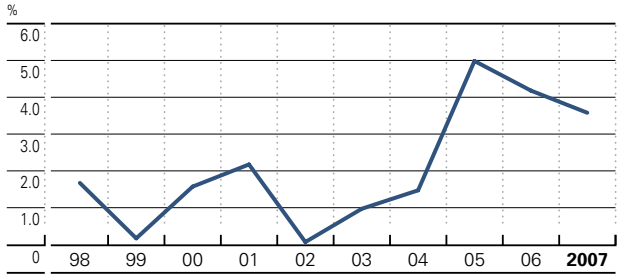
Operating Income



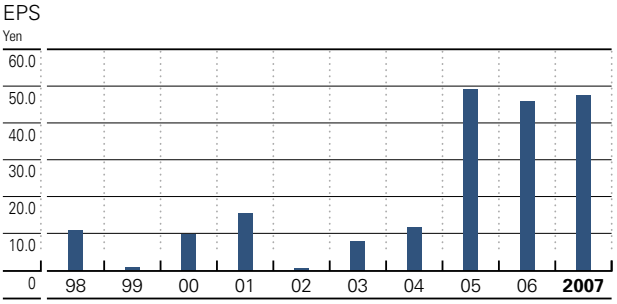
Operating Profit Margin



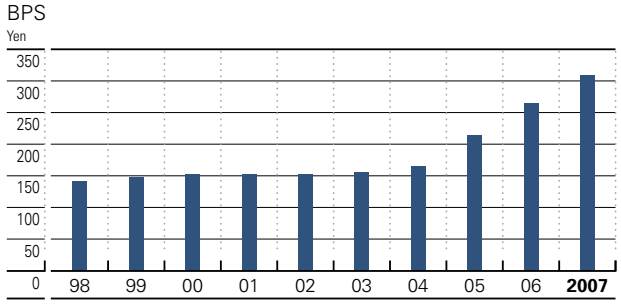
Net Profit Margin



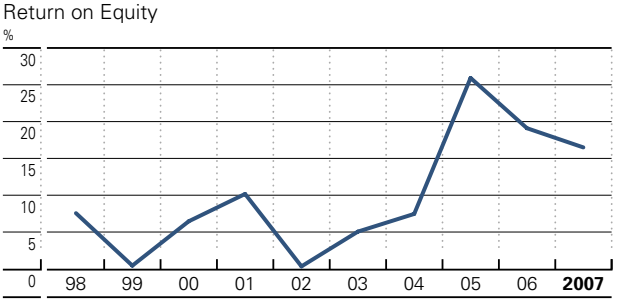
EPS



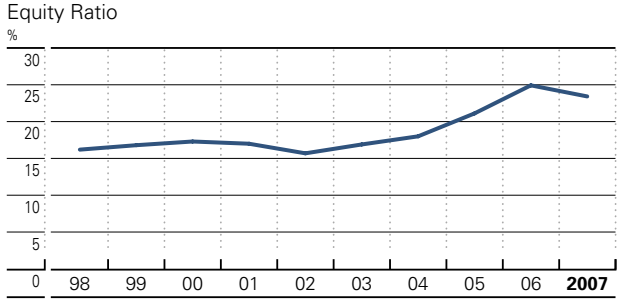
BPS



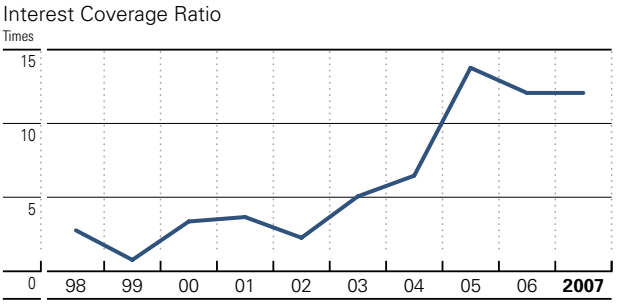
Return on Equity



Equity Ratio



Interest Coverage Ratio



HEALTHY GROWTH IN A CHALLENGING YEAR

Faced with spiralling raw materials costs and unstable markets, Tosoh pulled out all of the stops to report another year of record sales and earnings.

L: Takashi Tsuchiya, President
R: Madoka Tashiro, Chairman and CEO

These are hectic times in the chemical industry. The onslaught of changes include upward-spiraling raw materials costs, a rapidly growing Chinese market, the European Union's recent enforcement of the REACH* Regulation, the emergence of major new players in the Middle East, Russia and China, and an aggressive reshuffling of established players in the developed countries.

We consider growth, profitability and sustainability as the keys to strengthening Tosoh's fundamentals and securing an expanded position for the Company in this challenging environment. It is consequently with considerable pride that I am able to confirm that we are on track to achieving these objectives, and to report that we have succeeded in almost doubling our sales over the past five years to ¥780 billion (US$6.6 billion) and tripling our profits to ¥60 billion (US$511 million)**.

In fiscal 2006, we committed ourselves to over US$1 billion in capital investments to expand our operations in scope, scale and profitability. Our primary objective remains to build up our integrated vinyl isocyanate chain in an optimal balance with selected specialty businesses to ensure non-cyclical profitability.

Fiscal 2006

Perspectives on a year of healthy growth

During the first half, growth in demand from China, especially, exerted a positive impact on our business, and rising oil prices required us to implement price increases for commodity products. These factors were offset by some regularly scheduled plant stoppages for maintenance purposes and by some additional investments that increased our depreciation burden. A downturn in the cost of naptha from ¥54,100 per kL to ¥49,724 per kL provided some relief in the second half.

Our specialty business, meanwhile, fulfilled its role of maintaining growth and contributing to increased profits. Specialty sales for FY2006 as a whole were approximately ¥299.4 billion on a consolidated basis, accounting for 40% of our total net sales and 62% of our operating income. These results confirm that our strategies are bearing fruit. We are achieving healthy growth and making progress toward becoming a more resilient organization.

Commodities

Building a production powerhouse on the doorstep of Asia

As pleased as we are with the performance of our specialties business in recent years, the importance of our commodities operations has not changed, and our commitment to constructing the largest vinyl isocyanate chain in Asia remains. This led us to add new layers to these fully integrated operations during the year under review.

We began by increasing our stake in Nippon Polyurethane Industry Co., Ltd. (NPU), one of Asia's leading suppliers of isocyanates with a specialization in MDI***, to a majority position of 51.7%. Since NPU's plant is adjacent to Tosoh's main Nanyo complex and since the isocyanate chain connects directly to our vinyl chain, the synergies are optimal. We have recently added plants for aniline (150k tons per year) and carbon monoxide (8,000 Nm^3/H), two key raw materials in MDI production, to supply NPU's total requirement for the existing MDI plant (200k tons per year). Another symbiotic aspect of

* Regulation concerning the Registration, Evaluation, Authorization and Restriction of Chemicals

** Profits refers to Operating Income. Tosoh has prepared U.S. dollar translations solely for the convenience of readers at the rate of $1 = ¥118.05 (U.S. dollar to Japanese yen), the exchange rate at fiscal year-end (March 31, 2007).

*** MDI (methylene diphenyl diisocyanate)

the tie-up is that hydrogen chloride, a by-product of the MDI production process, is used as a raw material in the Tosoh vinyl isocyanate chain, and all the hydrogen chloride produced by NPU's operations can be absorbed by our vinyl chloride monomer (VCM) plant.

Considering the rapid expansion of the MDI market, particularly in Asia, and intent on enhancing NPU's cost competitiveness, we initiated investments aimed at doubling production across the chain. These efforts will include expanding our in-house power generation and chlor-alkali capacities from the latter half of this year to the spring of 2008. Upon completion of this project, the Tosoh Group will have a 400k tons per year MDI plant in operation with all its primary feedstock and utility needs fully supported.

Tosoh weathered turmoil in the oil markets and posted stellar growth in its specialties business.

MDI has considerable significance for both our commodity operations and our specialty operations. It is a fine chemical with a wide variety of applications and marketing synergies for our current product lines, including organic synthesis, polyurethane catalysts, and specialty polymers. This is clearly a dynamic investment that is helping us to expand our product portfolio with MDI and create a powerful new MDI infrastructure to meet demand in Asia, where projections show demand growing at a 10% annual rate.

Despite the intensifying competition, we are creating the largest fully integrated vinyl isocyanate chain of its kind in Asia, and have confidence that we can remain cost competitive. Forging the MDI business into a strong pillar of profitability for the Tosoh Group is one of our key strategic objectives.

Another key component of our vinyl chain strategy involves enhancing our supply relationships in the Asian region by expanding our production capacity for key products to drive economies of scale. We took another step toward securing our presence in China, the world's highest growth market, by adding a 220,000 metric tons per year PVC resin plant at Tosoh Guangzhou Chemical Industries, Inc. during the year under review. We provide an in-depth look into the expansion and potential of our vinyl chain operations in the special feature section of this report.

Specialties

Global niche markets providing a source of profitability

The specialties business, which has achieved average annual growth in sales and operating income of 25% and 60%, respectively, over the past five years, maintained its momentum during fiscal 2006 by recording growth of 50% in sales and 40% in operating income. We expect sales of bioscience and electronic materials to double in the coming years and to accompany this with solid growth in organic chemicals and specialty materials. Our consolidated Group companies NPU and Organo are both expected to top ¥100 billion in sales over the medium term, raising the total contribution of our specialties portfolio to approximately ¥450 billion.

The roadmap for accomplishing these goals shows two main routes to consistent earnings growth. The first is to increase profitability through product innovations, top line revenue increases and cost reductions. The second is to streamline operations in selected fields and create synergetic platforms among Group companies that manufacture products with common characteristics and customer bases. We have already succeeded in establishing platforms of this type in our electronics, bioscience and fine chemical operations, and they are showing positive results.

The Specialties businesses have achieved compound growth of 25% and 60% in sales and operating income over the last five years.

Our electronics business is a highly reputed supplier to the world's leading semiconductor fabricators and most of the major flat panel display manufacturers as well as to key equipment makers for both industries. In the bioscience field, meanwhile, we are drawing on our global reputation for quality to expand our operations in Asia. We have also broadened the scope of our fine chemicals business with the introduction of new products for developing such applications as solar cells and OLED displays.

Social Responsibility

A firm commitment to sustainability

We recognize the necessity of sustainable growth, not only for the Tosoh Group but for the future of the planet itself, and we are pursuing our business objectives with this in mind. This means maintaining a strong commitment to preserving the environment and meeting our responsibility to society.

Our belief that financial and social responsibility are fundamentally intertwined led to the decision to combine our financial and sustainability reports in this single volume.*

Tosoh is pro-active in nurturing eco-friendly businesses and has embraced the Responsible Care (RC) standard since 1995.

The activities described herein reveal both our progress and the areas that will require further efforts. We hope it will give you a fuller understanding of our role in society.

I am proud to report that Tosoh is taking action and nurturing eco-friendly businesses that meet real environmental needs. Companies in the Tosoh Group are engaged in wastewater treatment and in applying sophisticated proprietary technologies to clean the environment. Tosoh Bioscience immunoassay AIA® analyzers are employed in testing for environmental contaminants, for example, and our zeolite products are helping to reduce automobile exhaust emissions.

In addition to these efforts, we have implemented the Responsible Care® (RC) program as our main platform for environmental, safety and health initiatives since 1995. The RC program provides a comprehensive set of standards, procedures and monitoring methods encompassing the full product lifecycle.

In fiscal 2006, we continued to pursue our environmental targets for reducing emissions of classified substances under Japan's Pollutant Release and Transfer Register (PRTR) Law and for final waste disposal. We are also contributing to the battle against global warming through efforts to reduce our per-unit energy consumption. We are fully aware that continued growth will present difficulties, but we remain dedicated to leveraging new technologies to improve our efficiencies and achieve our goals.

* Tosoh will first publish this report electronically and then update with Responsible Care® results as made available.

Outlook for growth & challenges

The year ahead holds many challenges, both old and new, in an operating environment where the only constant is change. Foremost among these is the need to proceed with caution, instructed by history that development in China, for example, seldom follows predictable paths. At the same time, the emergence of new competitors, fuel sources and geopolitical factors is challenging conventional wisdom. This rapid evolution of factors over which we have no control can clearly only be handled by an organization that is structured to cope with change.

Our Company has a history of overcoming challenges, and of venturing into new businesses with a pioneering spirit. We have recorded resounding successes in the face of seemingly insurmountable odds, learning many valuable lessons along the way. We believe that our determination to take our Group to the next level and assemble a stronghold in the growth centers of this century will provide the basis for our future.

Achieving this will not be easy, since success on the global playing field will require responding to rapid fluctuations in markets, crude oil prices and exchange rates. I am confident of our ability to respond appropriately and aggressively to these challenges. In fact, our forward-looking strategy is already paying off. Our vinyl chain operations are among the largest in Asia, and they are positioned for benefit from increasing demand. Many of our organic chemicals are enjoying robust sales, and our electronic materials, bioscience and specialty products are carving out substantial global niches and showing promise of formidable growth. At the same time, we continue to strengthen our R&D, the driving force behind the expansion that will lift the Group to the next level.

In fiscal 2006 we took another large step toward making Tosoh a trillion yen enterprise and propelled the Company into a new era.

In fiscal 2006 we took another large step toward making Tosoh a trillion yen enterprise and propelled the Company into a new era. Going forward, we will continue to create a rewarding corporate culture that provides stable returns on our shareholders' investment while assuring our stakeholders sustainability far into the future.

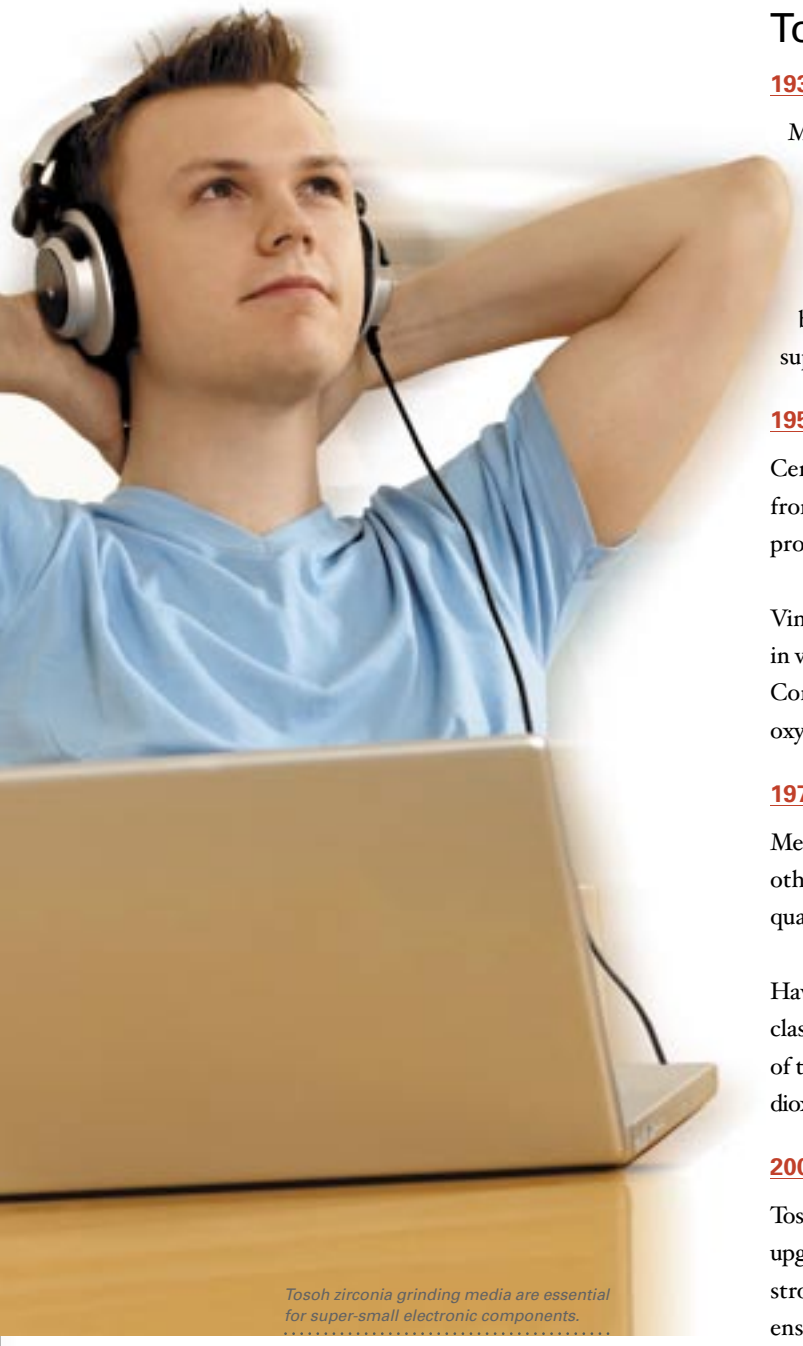
June 2007

Madoka Tashiro
Chairman and CEO

04

PAST, PRESENT
& **FUTURE**

TOSOH IS 72 YEARS OLD **AND STILL GOING STRONG**



Tosoh zirconia grinding media are essential for super-small electronic components.

Tosoh's history

1935 – THE BEGINNINGS

Managing Director Tokusaburo Iwase and 33 others leave Tokuyama Soda Co., Ltd., to found Toyo Soda Manufacturing Co., Ltd., the predecessor of Tosoh Corporation.

Construction of Japan's first factory for extracting bromine from seawater and an electrolysis plant to supply chlorine completed.

1955 – EARLY DEVELOPMENT

Cement operations making efficient use of waste products from Tosoh's ammonia-method soda and electrolysis production processes initiated.

Vinyl chain operations effectively launched with an increase in vinyl chloride monomer (VCM) production at the Nanyo Complex and the establishment of 100,000 tons per year oxychlorination facilities (1968).

1975 – ACCELERATING GROWTH

Merger completed with Tekkosha Co., Ltd., bringing scale and other advantages to the Company's polyvinyl chloride (PVC), quartz glass and sputtering target businesses.

Having built a solid international reputation for providing world-class products, Tosoh's Specialty Group is well known by the end of the century for its advanced ceramics, electrolytic manganese dioxide, zeolites, bioscience systems, sputtering targets and quartz.

2000 – FUTURE

Tosoh's continuous streamlining of its corporate structure, timely upgrades to reinforce its chlor-alkali operations and increasingly strong specialty businesses combine to create synergies that ensure ongoing competitiveness and profitability.

Past Year - Highlights

APRIL 2006

Additional shares of Nippon Polyurethane Industry Co., Ltd. (NPU), an affiliated manufacturing and sales company for polyurethane raw materials and derivative products, acquired with NPU becoming a consolidated subsidiary.
(35.00% - 51.67%)

APRIL 2006

Third-party allocation of shares purchased from Hodogaya Chemical Co., Ltd., a manufacturer and seller of inorganic and organic industrial and pharmaceutical products, dyestuffs, agricultural chemicals and other chemical products.
(24.29% - 33.34%)

JUNE 2006

All remaining outstanding shares of Rinkagaku Kogyo Co., Ltd., a manufacturer and seller of high-purity phosphoric acid, phosphate products and other chemical products, acquired, and Rinkagaku Kogyo made into a wholly-owned subsidiary.
(60.00% - 100.00%)

APRIL 2007

Production initiated at Tosoh (Guangzhou) Chemical Industries, Inc., Tosoh's vinyl chloride resin manufacturing and sales company in Guangzhou, China.
(220,000 tons per year)

Future

JULY 2007

Chloroprene rubber production capacity to be expanded
(30,000 - 34,000 tons per year)

WINTER 2007

MDI production capacity at NPU to be doubled
(200,000 - 400,000 tons per year)

WINTER 2007

Production capacity for aniline, a raw material for MDI, to be doubled
(150,000 - 300,000 tons per year)

WINTER 2007

Expansion of production capacity for carbon monoxide, a raw material for MDI, at NPU
(8,000 - 16,000 Nm^3/HR)

SPRING 2008

Increase in in-house electric power-generation capacity
(815,000 KW - 1,035,000 KW)

SPRING 2008

Cumene production capacity to be expanded
(230,000 - 300,000 tons per year)

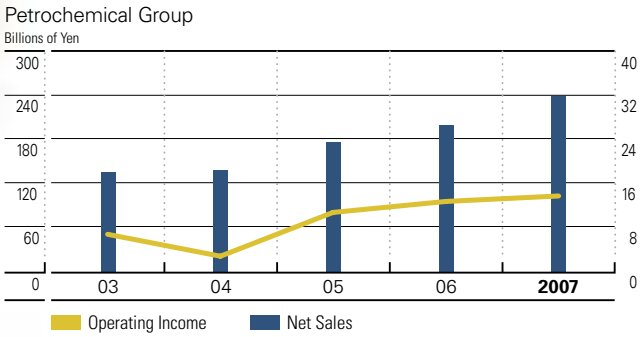
SUMMER 2008

Caustic soda production capacity to be expanded
(1,205,000 - 1,355,000 tons per year)

PETROCHEMICAL GROUP: ESSENTIALS FOR DAILY LIFE

The products of the **Petrochemical Group** advance today's leading-edge technologies, supplying everyday essentials such as medicines, clothing, automobile parts, building materials, and paints.

Tosoh PPS resins are unique engineering plastics that combine many of the best properties of plastics and metals for the automotive industry.



Group Defined

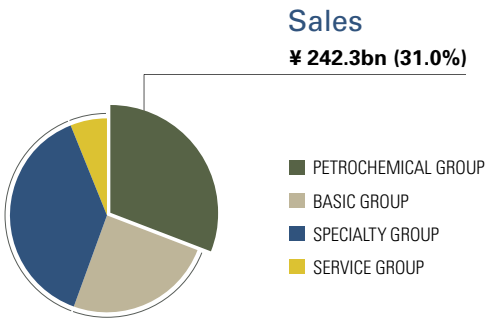
The Petrochemical Group encompasses olefins and polymers, and is central to Tosoh's competitiveness because it supplies a large proportion of the ethylene Tosoh requires for its vinyl isocyanate chain and polyethylene operations.

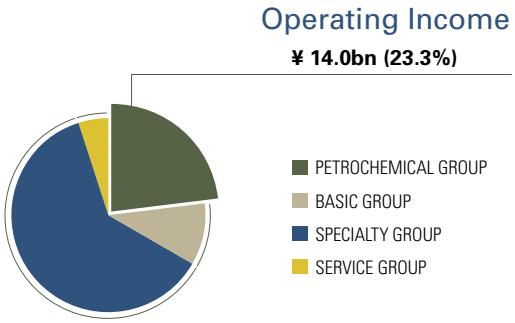
Overview of Divisions

OLEFINS

Tosoh is a fully integrated manufacturer of hydrocarbon-based products and derivatives, including ethylene, propylene, cumene and other upstream and downstream products.

Global competition in the olefins business, already intense, is expected to become more so as new, highly competitive large-scale ethane-based crackers and ethylene derivative plants begin coming on stream in the Middle East in 2008. Tosoh owes its ability to compete successfully in this severe environment in part to its position as a major consumer and producer of ethylene. The naphtha cracker at the Yokkaichi Complex has an annual ethylene production capacity of





approximately 500,000 metric tons, sufficient to meet roughly half of the Company's ethylene requirements and, thus, to help it control costs and reduce operating risks.

Tosoh is currently reinforcing its ability to cope effectively with an operating environment characterized by rapid shifts in fraction's prices by responding more quickly to market trends and emerging customer needs. Selectively concentrating its resources to maximize earnings, it is implementing a feedstock diversification strategy to offset increases in naphtha prices. The Company's strategies for reducing production costs include employing heavier naphtha grades, for example, improving recovery efficiency for spent C_4 and C_5 fractions and shifting to butane and propane to enhance the flexibility of its feedstock selection.

Since Tosoh's olefin operations are integrated with its vinyl isocyanate chain, it can take advantage of synergies across a wide range of products at its Nanyo Complex. Increased aniline production at the complex is increasing internal demand for benzene and creating opportunities for the Olefins Division to play a larger role and take on greater responsibility. During the year under review, Tosoh conducted ethylene production at full capacity to meet increased demand for vinyl chloride monomer (VCM) as well as benzene.

POLYMERS

The Company's polymer operations encompass two main product categories, polyethylene and functional polymers. The polymer operations focus primarily on derivative petrochemical products, with a special emphasis on high-polymerization products such as plastics and rubber.

The polyethylene lineup includes a high proportion of specialty products, including ethylene vinyl acetate (EVA) and low-density polyethylene (LDPE), for which market demand is high. Other products such as linear low-density polyethylene (LLDPE) and high-density polyethylene (HDPE) are rapidly losing their competitiveness, as large-scale overseas plants come online.

In the area of functional polymers, on the other hand, the Company targets stable niche markets with a limited number of suppliers. Nevertheless, despite its diverse product portfolio, it is not yet satisfied with its cross-market development of products in related markets.

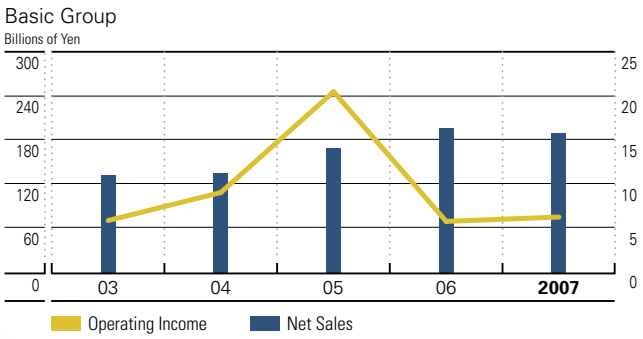
Faced with a mature general-purpose polymer market characterized by overcapacity, declining domestic demand and low-priced bulk product imports, Tosoh is implementing various strategies to improve its competitiveness. These include all the following: reducing fixed costs to enhance cost-competitiveness; developing higher-margin grades and improving product quality to command better prices and enhance profitability; restructuring or eliminating unprofitable product lines; and inventing novel polymers that can open up new markets.

The Company is augmenting these strategies by developing niche markets for functional polymers with strong growth potential and a limited number of producers worldwide for which it is the market leader. Representative examples include chloroprene rubber, EVA copolymer resins with 30% or more vinyl acetate, its Melthene® adhesive polymer and PPS (polyphenylene sulfide) engineering plastic resin. It is strategically differentiating these higher value-added functional polymers from competitors' products by reinforcing related applications.

Although sales are expected to remain flat or to rise only slightly in some markets, Tosoh is strongly positioned to benefit from growth in the Asian markets in the current environment of robust demand for adhesives, housing materials and industrial products.

BASIC GROUP: PROVIDING THE BASICS FOR INDUSTRY

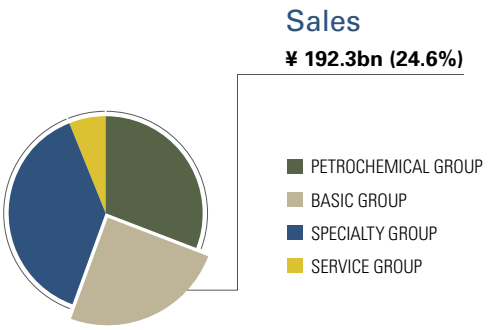
The **Basic Group** contributes to contemporary life by supplying major industries with key feedstocks for such essential materials as plastics, glass, pulp and paper, aluminum, soaps and detergents. It also manufactures cement for the construction industry.

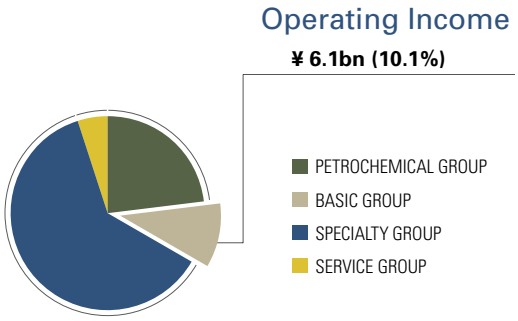


Group Defined

The group's operations, which encompass chlor-alkali and cement, are centered in Tosoh's core vinyl isocyanate chain. The vinyl chain refers to an integrated sequence of manufacturing operations that produces several key vinyl-related chemicals from two basic commodities, salt and ethylene. After electrolyzing salt to obtain chlorine and caustic soda, Tosoh supplies these basic materials to customers and employs them in the manufacture of such value-added products as VCM, PVC and ethyleneamines. The Company's strengths in the processing of chlor-alkali products give it a competitive advantage for expanding operations in the vinyl isocyanate chain, which includes urethane and related products. Its ability to make use of waste and various by-products produced in the cement production process complements the logistical strengths derived from its integrated cement manufacturing capabilities.

Tosoh's Niclon is used for sterilizing and disinfecting swimming pools and drinking water.





Overview of Divisions

CHLOR-ALKALI

The Tosoh Group accounts for 42% and 25%, respectively, of Japan's total VCM and PVC production, and it is moving to increase its share of the VCM and PVC markets in other Asian countries as well. To ensure its ability to maintain a strong position in these growing markets over the long term, the Company is moving to fortify the synergistic relationships among its conventional chlor-alkali operations, which include caustic soda, vinyl chloride monomer (VCM) and polyvinyl chloride (PVC), and reinforcing the infrastructure it requires to supply Asia's largest MDI isocyanate production facilities.

In the past, Tosoh expanded its vinyl chain by supplying chlorine and other raw materials to Nippon Polyurethane Industries, Co., Ltd. (NPU) for the production of isocyanate, an important raw material in the manufacture of polyurethane derivatives and related intermediates for which demand in Asia is expected to grow. In the fiscal year under review, however, Tosoh strategically increased its stake in NPU, Japan's leading supplier of isocyanates, to 51.7%, making it a fully consolidated subsidiary. This has positioned Tosoh to take full advantage of the symbiosis between its vinyl chain and NPU's isocyanate operations. NPU is doubling its MDI production capacity while Tosoh is building infrastructure to support this development by expanding its in-house power generation and electrolysis operations and doubling its production lines for aniline and carbon monoxide, two key raw materials for MDI.

Building Asia's largest vinyl isocyanate chain represents a total investment of 150 billion yen. The project, centered in the 3.7 million square meter Nanyo Complex with its laboratories, technology development centers and other facilities, will transform the complex into a production hub for the whole Asian region. When it is completed, Tosoh will command the formidable annual production capacities of 1.35 million tons of caustic soda, 1.65 million tons of VCM, 1.18 million tons of PVC (700,000 tons in Japan, 220,000 tons in China, 170,000 tons in the Philippines and 86,000 tons in Indonesia), together with 400,000 tons of MDI.

Tosoh's main competitive advantages include its integrated vinyl chain operations at the Nanyo Complex, its economies of scale, the cost advantages stemming from its position as Japan's largest purchaser of ethylene, its key vinyl feedstock and its constant attention to enhancing cost-competitiveness.

CEMENT

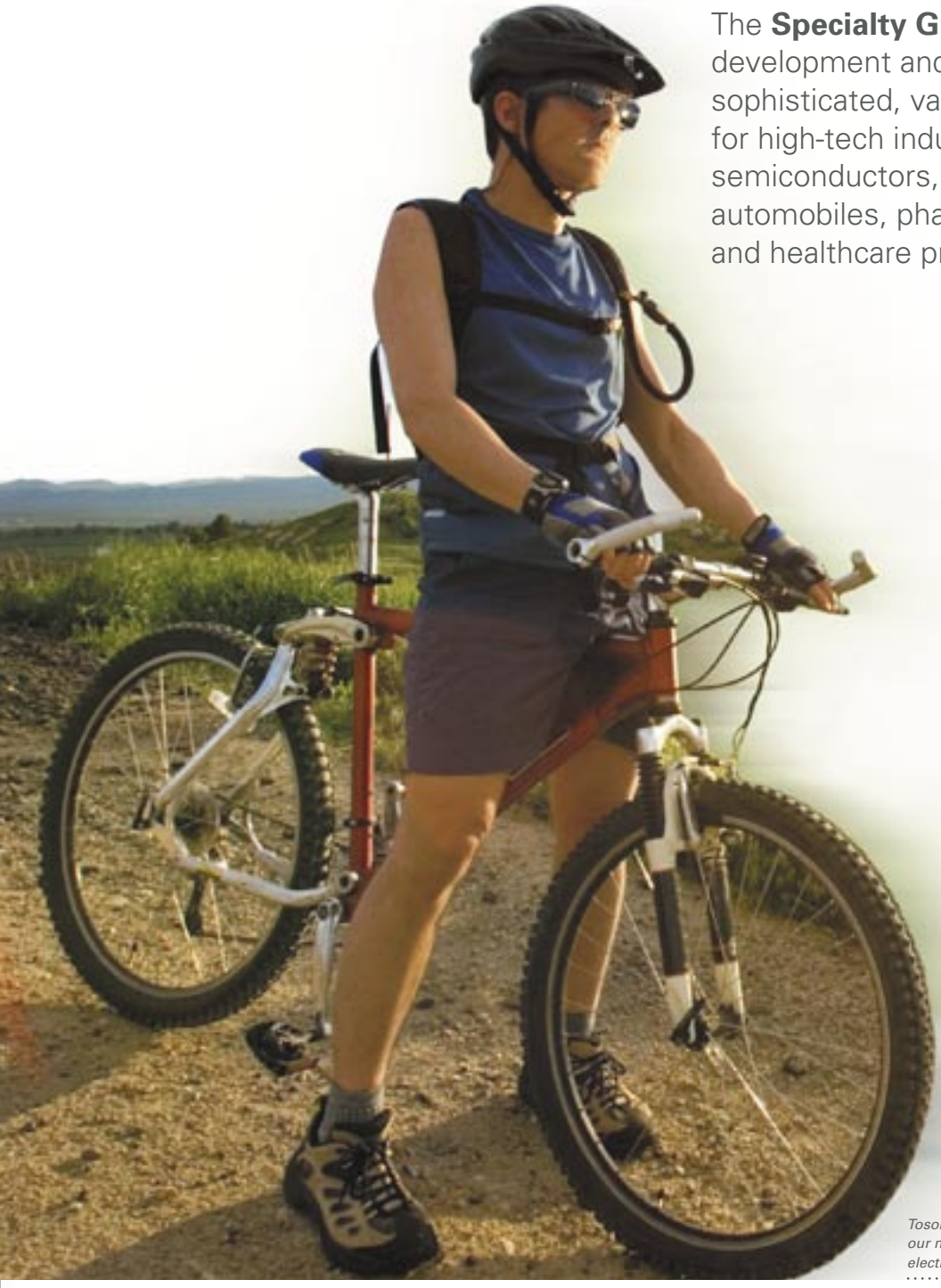
Tosoh initiated its cement production operations in 1953, inspired by an awareness of the logic and economic advantages of producing cement at a soda production plant using an ammonia soda process. This again exemplifies the Company's rational, efficient use of raw materials.

The competitiveness of the Nanyo Complex's cement operations stems from its advantages in terms of available resources. The complex boasts a natural deepwater port and an on-site source of relatively inexpensive power. It also has access to an ample supply of waste products, including the 170,000 tons of coal ash produced annually by its power plant boilers and unneutralized gypsum, slag, sludge and scrap tires from external sources. Its facilities also consume approximately 14 tons a day of refuse-derived fuel (RDF), a solid fuel produced at a nearby municipal RDF plant. The Company is working to reduce coal consumption by the power plant that supplies electricity for the cement operations and developing ways to use the phosphate and gypsum produced as by-products of the cement manufacturing process.

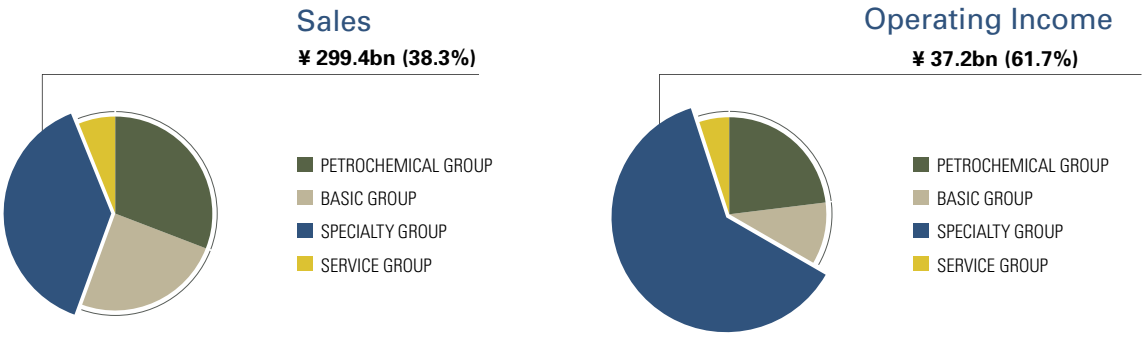
Tosoh, which has a cement production capacity of 2.9 million metric tons per year, sells the entire volume of its product to Taiheiyo Cement Corporation under consignment.

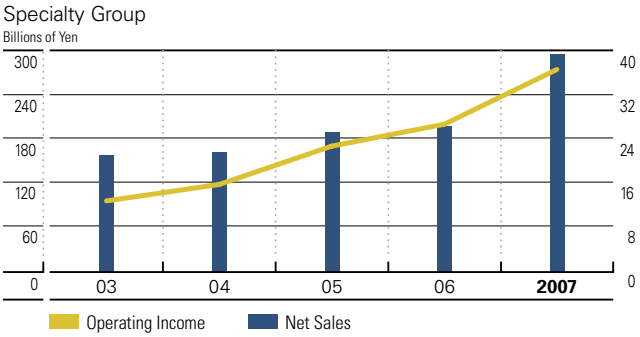
SPECIALTY GROUP: VALUE-ADDED PRODUCTS IN GROWTH MARKETS

The **Specialty Group** focuses on development and manufacturing of sophisticated, value-added products for high-tech industries, including semiconductors, consumer electronics, automobiles, pharmaceuticals and healthcare products.



Tosoh is an invisible contributor to the marvels our modern age; supplying the semiconductor, electronics, pharmaceutical, and medical industries.





Group Defined

The products of the four divisions comprising the Specialty Group — Organic Chemicals, Specialty Materials, Electronic Materials and Bioscience — have become an increasingly important component of the Group's growth. In fiscal 2006, these divisions accounted for 62% of Tosoh's total operating income on a consolidated basis. Strategically, the Company has realigned and consolidated the Group companies to accelerate expansion and achieve efficiencies as their niche offerings mature into core product lines. While enhancing the individual strengths of these Group companies, Tosoh will continue to encourage synergistic sharing of technologies among them to support the development and manufacture of high-value-added products. Tosoh has employed a dual strategy of organic growth and carefully targeted acquisitions to build the Specialty Group into a solid global business. The Group is focusing on research and development with close links to actual market and customer needs to sustain its profitable growth.

Overview of Divisions

ORGANIC CHEMICALS

Tosoh Organic Chemicals supplies a broad range of products for various applications, including pharmaceuticals, agrochemicals, electronics, organo-metallic catalysts, urethane polymers and specialty coatings. Tosoh commands the largest share of the Asian market for ethyleneamines as well as a large share of Japan's market for bromine, flame retardants and industrial cleaning solvents.

Ethyleneamines and their derivatives, such as epoxy hardeners, strength resins for paper, chelates and pharmaceutical and agrochemical intermediates, find applications in a wide variety of fields. In Japan, the Organic Chemicals Division is the industry's leading supplier of heavy metal chelates, which are currently in high demand for both their environmental properties and their strong cost competitiveness. The division is enhancing its profitability by increasing its production efficiency, reducing costs and establishing positions in new high-margin segments.

Ethyleneamines and Derivatives

Tosoh is Asia's only manufacturer of ethyleneamines and it also produces derivatives. Operations conducted with Delamine B.V., a 50-50 joint venture established with Akzo Nobel of the Netherlands, have made the Company a leading provider of ethyleneamines worldwide. It is meeting evolving demand with aggressive moves to develop markets for its polyurethane catalysts, heavy metal chelates and new amine

The variety of applications for ethyleneamines is absolutely incredible and Tosoh is Asia's only manufacturer.

Significant volumes of world trade in agriculture goods depend on the use of bromine compounds to ensure compliance with mandatory rules on quarantine.

derivatives. Tosoh has also responded to growing concern over amine emissions from polyurethane foam, especially in Europe and the United States, by marketing emission-free reactive amine catalysts to replace the amine-based catalysts used by the automobile and other industries. Tosoh's strength in the ethyleneamines business stems from a combination of technological expertise and the cost competitiveness it achieves by producing the caustic soda and chlorine raw materials at its Nanyo Complex. TEDA and TOYOCAT®, for example, a pair of catalysts developed by Tosoh for use in polyurethane foam production, and the Company's heavy metal treatment agents provide customers with cost advantages stemming from Tosoh's use of its own ethyleneamines as raw materials in their manufacture.

Tosoh is nurturing eco-friendly businesses that meet real environmental needs.

Bromine and Brominated Derivatives

Japan's only bromine producer, Tosoh is strengthening its position in Asia for bromine and related compounds as well. Its bromine business manufactures a wide range of products, including organic intermediates. The Company's bromine-based flame retardants employ a process that recycles the seawater used as coolant by its power-generation facilities. Tosoh has also installed wastewater treatment facilities at its Nanyo Complex to conduct bromine recycling.

Eco-Business

Tosoh established the Eco-Business Department under the auspices of the Organic Chemicals Division in 2005 to produce chelating agents and hydrocarbon-based cleaning solvents. Solvents meet a variety of cleaning needs, while chelating agents remove heavy metals from the environment. TS-275, for example, sharply reduces the volume of carbon disulfide generated during the removal of heavy metals from fly and combustion ash produced in the garbage incineration process. Other agents are effective in removing lead and cadmium from soil or precipitating heavy metal ions in wastewater.

Organic Intermediates

Among the Tosoh Group companies in the organic intermediates business, Tosoh Organic Chemical Co., Ltd. specializes in bromination and chlorination, Tosoh Finechem Corporation in organometallic reactions and low-temperature reactions, and Tosoh F-Tech, Inc. in fluorination. The Group is working to enhance the individual strengths of each of these companies, while at the same time encouraging synergistic sharing of organic synthesis technologies among them. The result is an ability to manufacture high-value-added products for various markets, including contract production, advanced organic intermediates and sophisticated specialty chemicals. All wholly owned subsidiaries, these Group members give Tosoh a technological edge in the development and production of halogenated compounds.

SPECIALTY MATERIALS

The Specialty Materials Division is a leading global supplier of advanced materials for consumer electronics and various industrial and high-tech products. Tosoh enjoys an enviable reputation and substantial market share in the supply of zirconia powders, electrolytic manganese dioxide and zeolites. The Specialty Materials Division is deploying a strategy of leveraging its advanced technologies to expand sales in growth markets. Its strategies also include concentrating on markets in which it has a clear competitive edge.

Tosoh's synthetic zeolite products include both its HSZ (high-silica zeolite) series and Zeolum® (zeolite molecular sieves). The HSZ® series is a core catalyst product line that has helped Tosoh to expand its position in the global marketplace. The Company's overall strategy for its zeolite lineup is to develop products that meet all its customers' adsorption, separation and catalyst requirements. It not only offers high-quality zeolite grades that are clearly differentiated from its competitors' products by their high durability and heat-resistant properties, but it backs up its high-quality Zeolum® with superior technical support to solve customers' challenges.

Tosoh is also the leading global supplier of zirconia, an yttria-stabilized ceramic that eliminates the brittleness associated with conventional ceramics and combines their most attractive properties with metal-like qualities. Nicknamed "ceramic steel," zirconia has earned a place as a standard material for fiber-optic connectors. Tosoh's focus on R&D and market development has enabled it to launch a succession of new products and to expand both the applications and the customer base for zirconia. It is finding new uses as a structural material and new applications as a material for use in fuel cell components, automobile oxygen sensors, dental applications and various other products. By working closely with customers to develop new applications for zirconia, Tosoh has been able to expand its product lineup for this versatile ceramic to include powdered grades (as well as colored grades), compounds and machined components.

Tosoh boasts one of the largest battery-grade EMD capacities in the world and a global supply network centered on manufacturing facilities in Japan and Greece.

Tosoh also participates in the battery industry as a major supplier of electrolytic manganese dioxide (EMD). Its objectives with respect to EMD are to provide materials that set the standard for primary batteries of all kinds. Currently supplying customers with EMD from its plants in Japan and Greece, the Company is pursuing technological exchanges aimed at reinforcing its global operations.

ELECTRONIC MATERIALS

With its operations in the quartz, fabricated quartzware, sputtering target and industry services fields, Tosoh's electronic materials division is enabling the technologies of the future by developing new products and solutions for the worlds' high-

Tosoh offers a broad lineup of electronic materials essential to the manufacture and development of state-of-the-art products in the semiconductor and FPD markets.

A global leader in the GHb market, Tosoh is focusing on building its customer base for its recently released HLC®-723G8 instrument and the requisite consumables.

tech, high-growth semiconductor, flat-panel display (FPD) and materials markets. Its integrated quartz (silica glass) business is a supplier to all the world's major semiconductor and optical markets, regardless of geographical location, while its thin-film materials business, centered on sputtering targets, includes a wide range of materials and services for use by semiconductor fabrication facilities in their production and refurbishment operations.

Tosoh is Japan's market leader for TSK-GEL HPLC packing materials and packed columns, and these Tosoh products have also earned an excellent reputation worldwide.

The division's core businesses center on the supply of quartz and thin-film materials for the world's semiconductor and FPD markets. It offers a wide-ranging lineup of electronics materials essential to the manufacture and development of state-of-the-art products in both. Its integrated supply chain employs a global organization comprising manufacturing and marketing bases in Japan, Taiwan, South Korea, Singapore, China, the EU and the United States to meet the needs of a truly global customer base. It is consequently well-positioned to maintain and strengthen its close relationships with the world's leading semiconductor and FPD makers around the globe.

Today, the division is pursuing an aggressive program of investment in high-growth fields. It is expanding its business based on the development of technologies for such next-generation products as 65- and 45-nano-level IC chips and large FPD's, while focusing simultaneously on fields such as space optics, energy conservation and quartz microchips for biomedical applications that are unaffected by the semiconductor cycle. Investments conducted to create new products include development of an oversized quartz ingot for ultra-large LCD's, commercialization of ruthenium and indium complexes for semiconductor applications and development of zinc oxide target materials for use in transparent electrodes for LCD's.

BIOSCIENCE

A leader in the global marketplace for high-performance liquid chromatography (HPLC) systems and packing materials, Tosoh also provides sophisticated diagnostic systems with advanced immunoassay technologies that enable them to diagnose life-threatening diseases such as diabetes, certain cancers and microbial infections quickly and accurately. Tosoh's systems integrate all the essential hardware and software and provide uncompromising value through global customer support and consumable availability.

Tosoh has established a strong market position through a combination of internal growth, acquisitions and strategic alliances to form a global network and provide access to cutting-edge technologies in fields such as genetic diagnostics. In vitro diagnostic systems that are faster, smaller and easier to use are core themes for future development.

Tosoh's bioscience division serves four global markets: separation materials, diagnostic high-performance liquid chromatography (HPLC) systems, immuno-diagnostics and molecular testing. Tosoh is one of the few companies conducting development, manufacture and sales of instruments, columns and reagents and providing customer support and maintenance services for these products. The Tosoh Bioscience network, which already encompasses Japan, Europe and the United States, is expanding its global market coverage by extending operations into China and other Asian markets.

Tosoh is Japan's market leader for TSK-GEL® HPLC packing materials and packed columns, and these Tosoh products have also earned an excellent reputation worldwide. The division continues to build its position in the competitive domestic market for gel permeation chromatography (GPC) and ion chromatography (IC) products, and it is expanding sales of GPC products in overseas markets as well. Strong global demand has driven growth in sales of TOYOPEARL® packing materials, which are popular with major biopharmaceutical companies in the United States and Europe. Tosoh (Shanghai) Co., Ltd. is also expanding its separation materials business in China. In the division's automated immunoassay (AIA®) analyzer business, meanwhile, Tosoh's proprietary freeze-drying technology has enabled it to produce sophisticated, fast, easy to-use systems with unexcelled sensitivity and result reproducibility.

In Japan, over half of Tosoh's AIA® products are used by university hospitals, and the division is currently stepping up its joint research activities with these institutions. A global leader in the GHb market, Tosoh is focusing on building its customer base for its recently released HLC®-723G8 instrument and the requisite consumables. The division entered the nucleic acid-amplification testing (NAT) reagent and device market with the launch of the fast, easy-to-use, compact TRCRapid-160 real-time fluorescence monitoring system and transcription reverse transcription concerted reaction (TRC) reagent. It has also launched a product that tests for food poisoning and a reagent to test for the bacteria that cause tuberculosis.

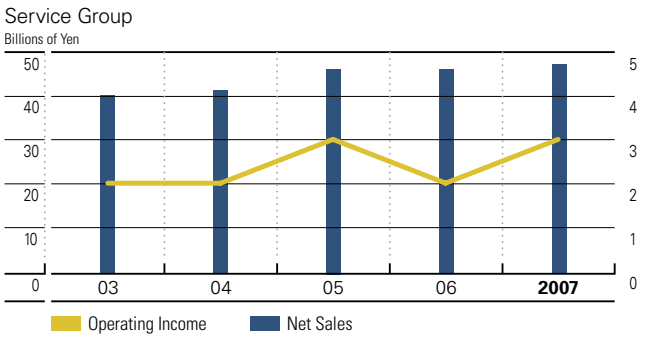
Tosoh is currently laying the groundwork for a full-scale launch of all its major products, including columns, the TOYOPEARL® lineup and products in the GPC and IC categories, in the Chinese market.

The division continues to develop new, improved models of its core GPC and IC systems. It is developing new processes and planning additional expansion of its production capacity to encourage further growth in sales of Tosoh's popular packing materials for separation columns. In its AIA® business, the division is promoting sales through the addition of BNP (B-type natriuretic peptide) and other cardiac markers, new testing categories and reagents with improved functionality as well as by introducing large, mid-sized and compact analyzers. Its efforts in the NAT (nucleic-acid amplification testing) market are focused on developing more automated monitoring systems, and on positioning Tosoh as a leading authority in this new field. Tosoh is currently laying the groundwork for a full-scale launch of all its major products, including columns, the TOYOPEARL® lineup and products in the GPC and IC categories, in the Chinese market.

SERVICE GROUP: SERVICING OUR OPERATIONS

Tosoh is committed to providing customers with the most effective, reliable products and services available. The companies in the **Service Group** play a vital role in achieving this goal.

The Service Group is the backbone of Tosoh Group operations.

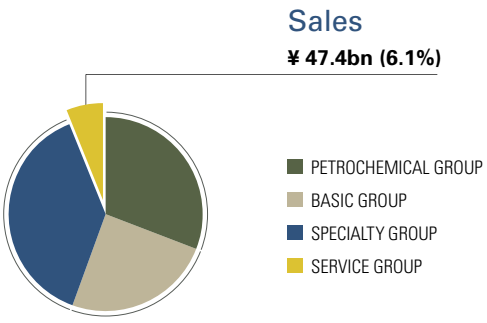


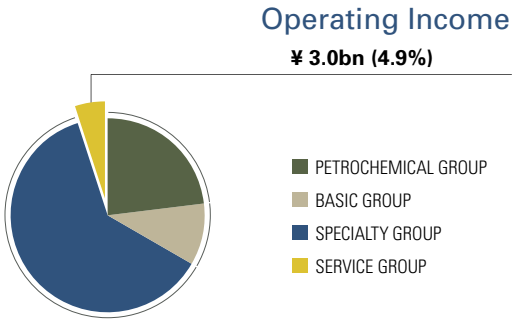
Group Defined

Comprising an alliance of Tosoh subsidiaries and affiliates, the Service Group supports the Company's overall operations with logistics, construction and engineering services. These services provide the critical support Tosoh requires to operate cost-effectively and to ensure timely delivery of its products.

Overview

Today, the companies in the Service Group are evolving from cost-control centers to profit centers in their own right. They are accomplishing this by engaging in more commercial operations. Price-setting according to market rates, for example, enables them to compete head-to-head with external suppliers. The shift to this strategy was implemented as a means to achieving further enhanced cost performance.





The same strategic thinking has led to the spin-off of Tosoh's analytical chemistry, information technology and general administrative operations to create independent companies in order to provide the most efficient support for the rest of the Company's operations. The Service Group companies introduced here represent just a small sampling of the many that are constantly working to improve the quality of their offerings, and thus of Tosoh's overall operations.

TOSOH ANALYSIS & RESEARCH CENTER CO., LTD.

Tosoh Analysis & Research Center specializes in organic, inorganic and polymer chemistry as well as in electronic materials, providing the Tosoh Group and companies worldwide with a range of sophisticated analytical services.

TOSOH INFORMATION SYSTEMS CORPORATION

Tosoh Information Systems assists the Tosoh Group and other client companies in developing IT solutions. Its initiatives include the introduction and development of a new ERP system that enables management to assess the performance of any and all members of the worldwide Tosoh Group quickly and easily.

TOSOH GENERAL SERVICES CO., LTD.

While Tosoh manages its own financial services in Japan, these functions are fulfilled in other markets by regional service platforms. Tosoh General Services provides support for personnel management, employee benefit administration and training activities. It maintains a particular focus on developing new social services to provide support for employees.

TOSOH LOGISTICS CORPORATION

Tosoh Logistics is responsible for ensuring that supplies and products reach their destinations intact and on time. It has received ISO 9001 certification for all the quality control systems at its 13 sites in Japan, and it has recently initiated operations in China as well to support Tosoh's growing network in Asian markets.

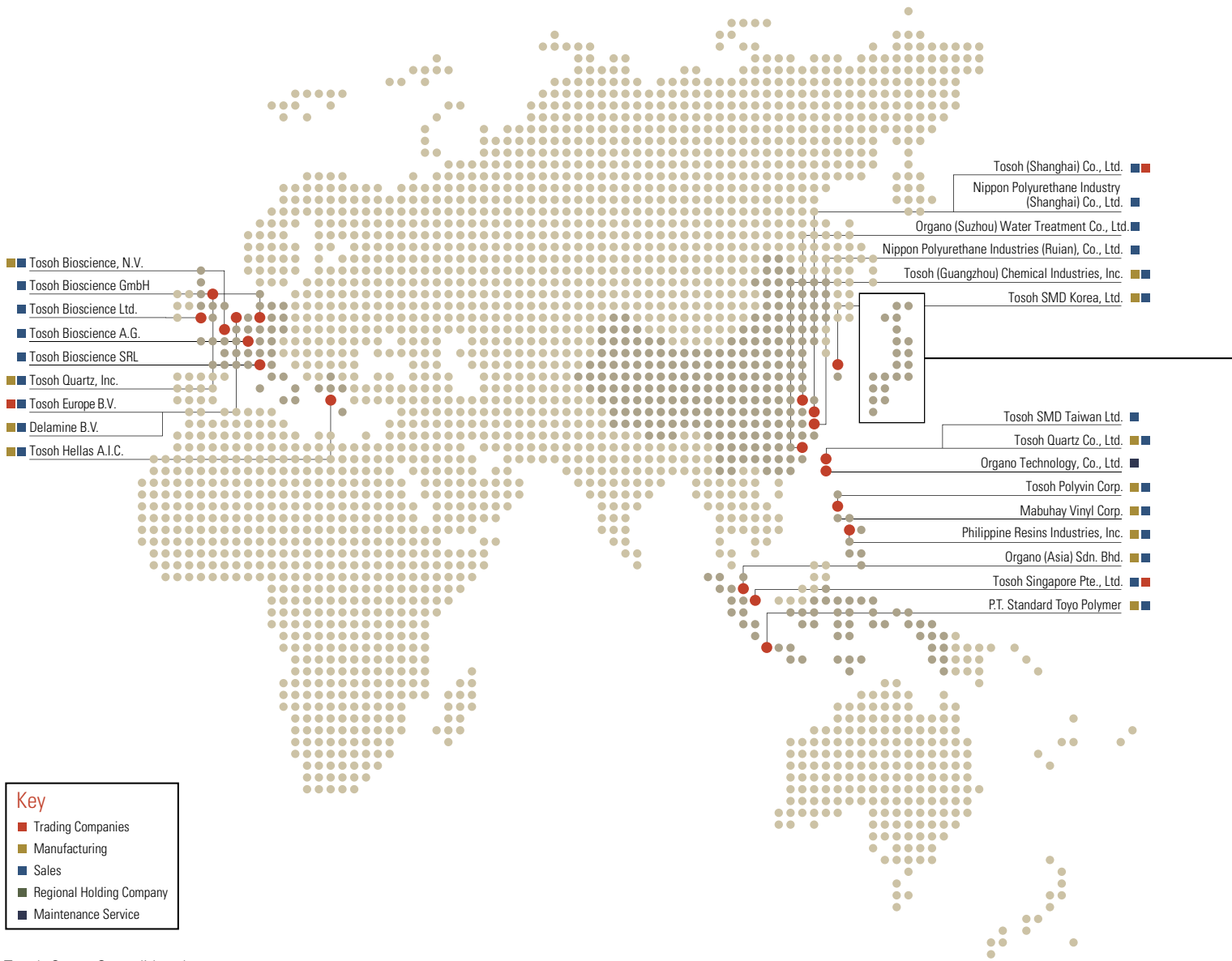
TOSOH PLANT SERVICES CORPORATION

Tosoh Plant Services Corporation provides comprehensive expertise that goes to the heart of Tosoh operations with construction, management and maintenance for manufacturing facilities. The role of this affiliate has become crucial with the increasingly rapid expansion of the Tosoh Group's vinyl chain construction. Tosoh Plant Services Corporation has earned the Group's reliance through the safe, successful launch of various construction projects.

Tosoh Plant Services Corporation has become even more crucial with the increasingly rapid expansion of the Tosoh Group's vinyl chain construction.

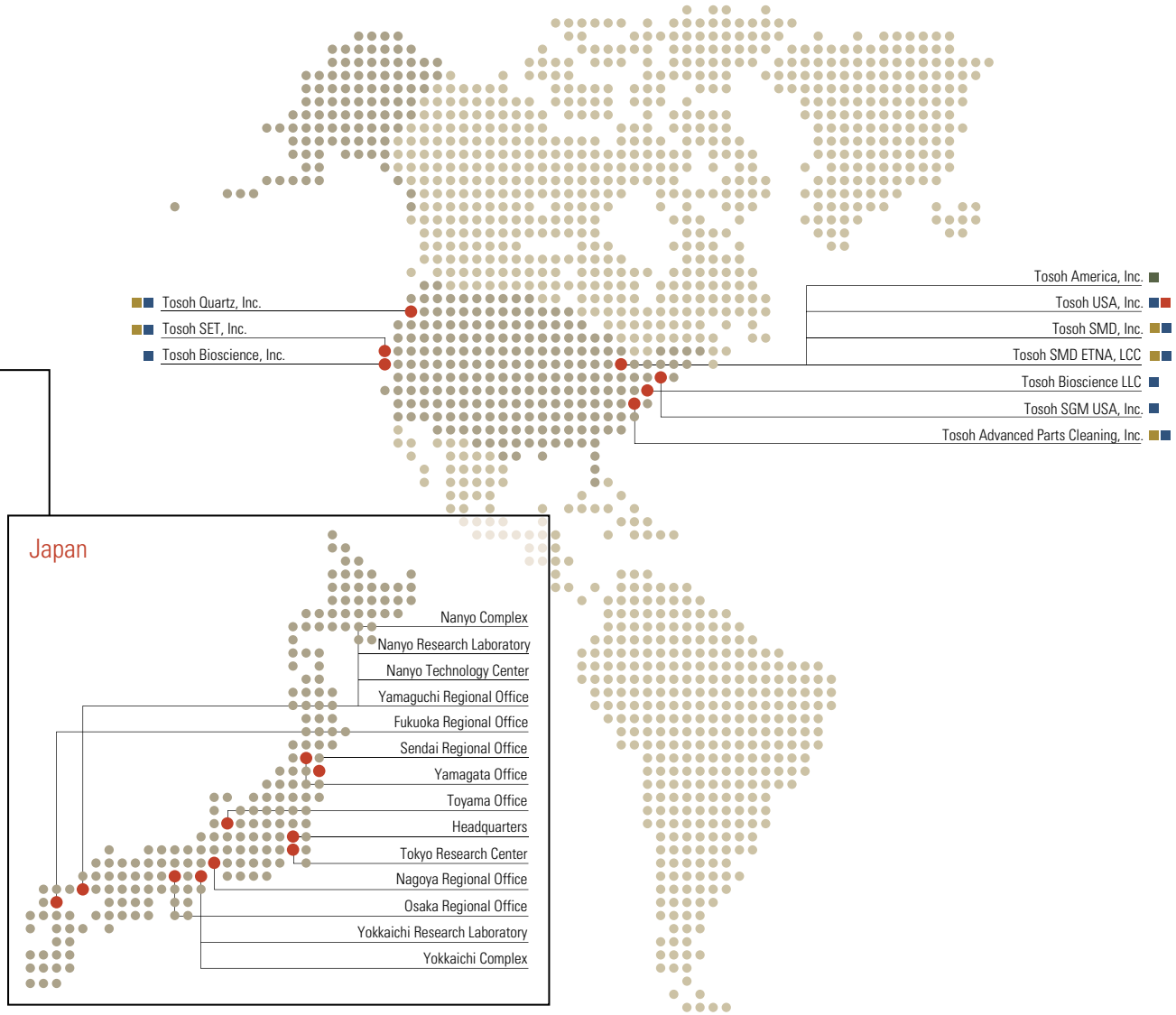
06
LOCATIONS

TOSOH OPERATES **GLOBALLY**



Tosoh Group Consolidated Companies, Fiscal 2006

Tosoh Group consists of a total of 146 companies with 119 subsidiaries and 27 affiliates.


Tosoh America, Inc.
Tosoh USA, Inc.
Tosoh SMD, Inc.
Tosoh SMD ETNA, LCC
Tosoh Bioscience LLC
Tosoh SGM USA, Inc.
Tosoh Advanced Parts Cleaning, Inc.
Tosoh Quartz, Inc.
Tosoh SET, Inc.
Tosoh Bioscience, Inc.
Japan
Nanyo Complex
Nanyo Research Laboratory
Nanyo Technology Center
Yamaguchi Regional Office
Fukuoka Regional Office
Sendai Regional Office
Yamagata Office
Toyama Office
Headquarters
Tokyo Research Center
Nagoya Regional Office
Osaka Regional Office
Yokkaichi Research Laboratory
Yokkaichi Complex

07
RESEARCH &
DEVELOPMENT

R&D: HIGHWAY TO TOMORROW

At Tosoh, we recognize that ongoing, strategically directed, superior research and development is vital to our future. Our focus as a Group on building strong positions in niche markets for leading-edge technologies, especially in the materials markets, makes it all the more important. These business strategies require uncompromising strength in both basic and applied research.

As the table on right shows, we currently operate four major research facilities. Three of these concentrate on our major business fields, while the Nanyo Technology Center takes responsibility for the process evolution of our production and engineering technologies. Nor are these research facilities sequestered in ivory towers producing the ideas of the future; they are integrated into the very fabric of the Tosoh Group. Three of the facilities are located on the sites of our Nanyo and Yokkaichi chemical complexes, pursuing their activities in close proximity to many of the processes concerned. The research staff work closely with our business divisions, and the constant flow of personnel between our research facilities and business offices builds bridges for close cooperation and a sharing of ideas between them.

Our R&D organization's staff of 800 accounts for approximately 8% of our total employees. Sharing of knowledge between our business and research operations is not only essential to the R&D process, but it is also invaluable for the managers who make crucial decisions concerning the allocation of our R&D resources—the historical key to our many successes. We have, in fact, organized research theme commercialization planning committees comprising representatives of our business units, laboratories and corporate-level strategic planning divisions to determine the most promising strategies for our businesses and to assure that full consideration is given to the Group's social responsibilities and environmental policies. The need to apply our annual R&D budget of over ¥12 billion efficiently and effectively requires the strictest focus on real-world opportunities.

Tosoh R&D is breaking new ground and improving consumer lifestyles.

Collaboration is the key to maximizing our resources and creating synergies among the various components of our large organization. One recent example comes from the fast-moving biotechnology field, in which our Tokyo Research Center and Nanyo Technology Center have joined forces to make our TOYOPEARL® line of separation media for bio-pharmaceutical purification even better. The expanding use of biotechnology to synthesize pharmaceuticals has created a need for methods of extracting and refining the active ingredients quickly and inexpensively. The collaborative efforts of these two research facilities have produced a technology that employs microreactors to create homogenously sized particles in the separation gel and achieves an extremely high recovery rate for a variety of compounds compared with other separation methods. Improvements like this have helped TOYOPEARL® maintain its position as one of the leading bio-separation gels in the global marketplace.

The Nanyo Technology Center is consistently called upon to assist the Group in launching new products by developing scaled-up technologies and industrial manufacturing technologies as well as by providing solutions to challenges involving practical implementation, such as environmental technologies to deal with issues related to gas emissions or wastewater. Among its many notable recent successes, Tosoh has developed a manufacturing technology for high-quality, fault-free quartzware to be used as a lens substrate in ArF steppers designed for the most advanced semiconductor devices. Tosoh has also improved its production technologies for indium tin oxide (ITO) and aluminum-doped zinc oxide (ZAO) targets in order to reduce costs and boost their market competitiveness.

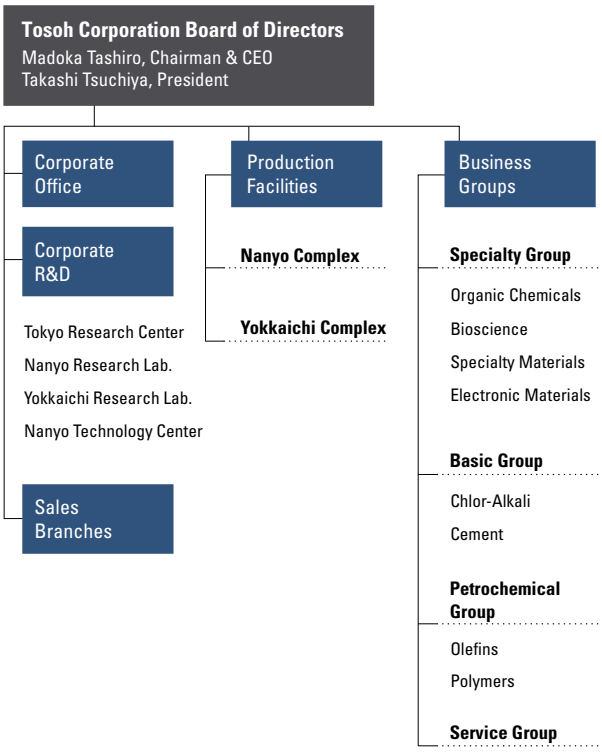
Strategically Focused Product Development

Our research pipeline is filled with projects with high potential that are nearing commercialization as well as with projects initiated to explore avenues to the further growth and evolution of our Group. The following are a few selected examples of major projects we are pursuing for current and future application in the markets of our major customers.

Electronics Industry

In an environment of ongoing miniaturization of elemental devices for semiconductors, highly specialized functional materials are in great demand. Assuring accuracy on the nano level requires us to supply industry with materials designed on the molecular level. When it comes to depositing films on semiconductors, for instance, chemical vapor deposition (CVD) is gaining popularity as an alternative to the conventional sputtering target method. We have responded by developing techniques for designing and synthesizing organic compounds and evaluating thin films to make organic compounds containing metals such as ruthenium, titanium, tantalum, iridium, hafnium, zirconium and aluminum into the CVD materials required to fabricate 45nm node semiconductors. We expect this to give us a significant share of the thin-film materials market for CVD, which appears likely to expand into

HOW WE ARE ORGANIZED



a ¥15 billion annual market over the next few years. We are committed to remaining on the leading edge of this technology and to developing it into another core thin-film market.

On another front, Tosoh has already made a significant contribution to the evolution of organic electroluminescent (OEL) displays, to which the world is rapidly shifting. We have developed a patented technology for the production of tertiary aryl amines using Pd-alkylphosphine catalysts and deployed it to achieve ground-breaking development of high-efficiency electron hole transport materials.

In the general flat panel display (FPD) market, we have led the way in development of optical materials for retardation and brightness-enhancing films, plastic substrate materials for the long-awaited flexible displays that have now reached the commercialization stage and low-molecular-weight organic transistor materials. FPDs promise to remain a strong growth market for many years to come for companies that remain on the technological forefront. Our recently introduced retardation film materials are already earning high praise from electronics manufacturers.

With demand for bigger and better LCD and plasma televisions continuing to rise, consumption of indium tin oxide (ITO) is soaring as well. Manufacturers are having difficulty obtaining ITO, a transparent conducting material used in these displays, because demand exceeds supply. Tosoh researchers have found an answer with the successful development of zinc aluminum oxide (ZAO), a highly functional material that can serve as a substitute for ITO. It has received excellent ratings from LCD makers, who have given us the green light for application development. We expect Tosoh to capture a 50% share of the ZAO market, which projections suggest will grow into an approximately ¥5 billion annual market in the future.

Another consequence of the demand for larger flat-screen TVs is a need for larger quartz photomask substrates, production of which posed a significant technological challenge until recently. A leader in the fabricated quartzware market for the electronics industry, we successfully developed a manufacturing technology to create the high-purity, large quartz ingots and the processing technologies these large screens require.

Automobile Industry

Based on its high-silica zeolites, Tosoh has been making a name for itself in the automotive catalytic converter market. We are currently developing a new material for use in diesel engine exhaust systems—a huge potential market—that will provide the basis for the next stage of growth in our high-silica zeolite business.

Other materials developed for the automobile industry include materials for use in the electric power systems of today's new hybrid cars that add adhesive characteristics to polyphenylene sulfide (PPS) resins, one of our engineering plastics. We have also developed super-smooth materials to replace the metal and unsaturated polyester currently used in headlight reflectors that will contribute significantly to resources conservation. We are pursuing ongoing development efforts in the area of high-performance adhesives for binding plastics and metals and heat-conducting materials specifically for the automobile industry. And we have recently added a new, improved grade of carbon fiber reinforced plastics to our lineup of products for use in automobiles.

Medical Industry

Tosoh's research for the medical industry centers on diagnostic systems, including immunoassay and genetic diagnostic systems and analytical and purification systems employing technologies such as liquid chromatography. We continue to develop improved systems and materials to increase efficiency, speed and yields. During the past financial year, we commercialized a new packing material for high-performance liquid chromatography (HPLC) with improved capture capabilities and speed for antibody refining processes.

Tosoh's polyethylene applications provide solutions for the semiconductor, pharmaceutical, food packaging and protective film markets.

Petrochemical Industry

Tosoh has developed a polyurethane foam bridging material suitable for water-based foaming processes. Its high initial reaction rate and improved heat resistance enable the production of low-density foam. Combined with our other foam catalysts, bridging materials such as this can be expected to strengthen our position in the polyurethane foam market further and provide a key technology for the foaming system under development by our MDI business.

Packaging Industry

Japan's packaging and protective materials market is a highly advanced market extending across the full width of the manufacturing industry. Our contributions to this market include a wide range of polyethylene applications for the semiconductor, pharmaceutical, food packaging and protective film markets. We have recently applied our advanced catalyst technology to create a new type of polyethylene featuring a processing ease and durability not offered by conventional polyethylene that will have applications in foamed plastics and heat-resistant laminated plastics.

TOSOH'S R&D CENTERS

Yokkaichi Research Laboratory
The Yokkaichi Research Laboratory conducts advanced R&D in the petrochemical field with a focus on basic research on catalysts, polymerization, material design and polymer.

Achievements and products:
New polyethylene grades (medical high-purity plastics, laminates), hot melt adhesives (embossed carrier tape for IC chips, food packaging containers), polyphenylene sulfide (PPS) resins (automotive parts specially for hybrids)

Tokyo Research Center
Operating on the leading edge of technological and product development, the Tokyo Research Center is creating the products of the future in the electronics, new ceramics and biotechnology fields.

Achievements and products:
Sputtering targets, fabricated ceramics, silica glass, analytical and diagnostic systems, in vitro diagnostic agents

Nanyo Research Laboratory
The Nanyo Research Laboratory with its primary focus on specialty materials engages in R&D centered on products and technologies for the environmental and energy fields as well as on inorganic, organic and elastomeric materials.

Achievements and products:
Synthetic zeolites, zirconia powders, energy saving cathodes for NaCl electrolysis, heavy metal chelating agents, environmental catalysts, polyurethane foaming amine catalysts, chlorosulphonated polyethylene, low TVOC polyvinyl chloride paste, chromatographic resins for antibody purification, functional polymers and intermediates for CCD's

Nanyo Technology Center
The production technology and engineering base for the Tosoh Group as a whole, the Nanyo Technology Center improves existing processes, provides engineering expertise for new plants and transforms ideas from other Tosoh laboratories into commercial technologies and products.

•*Areas in which significant results have been achieved:*
Vinyl-isocyanate chain (products employing electrolysis of salt, vinyl chloride monomer, polyvinyl chloride resins, carbon monoxide, aniline and others), engineering for ethyleneamines, industrial and technological improvements for specialty products such as sputtering targets, silica glass, ethyleneamines, silica, and others, plant maintenance system development

08

THE VINYL
ISOCYANATE CHAIN

THE V. I. C.: INTEGRATED PROCESSES YIELD A COMPETITIVE EDGE

Over the years Tosoh has built a synergistic network of chemical manufacturing processes that we call the vinyl isocyanate chain.

The vinyl chain feeds off our most basic manufacturing processes, the electrolysis of salt and naphtha cracking, to produce ethylene and propylene while the isocyanate chain interlocks with the vinyl chain to produce isocyanate and urethane products. At the same time, other by-products are fed back into the vinyl chain. In combination, the vinyl isocyanate chain produces an array of vinyl- and isocyanate-related chemicals as can be seen in the diagrams on page 36 and 37. As basic chemicals essential to many industrial chemical processes, these products are in high demand around the world, but particularly in Asia.

Tosoh vinyl chain is providing the basic building blocks of modern life.

Vinyl Chloride Monomer (VCM)

The basic building block for Polyvinyl Chloride (PVC), VCM is a colorless gas produced by Tosoh using a unique proprietary oxychlorination process. As the largest producer of VCM in Japan, and a major supplier to Asia, Tosoh stands to gain substantially from the growth in world PVC market, which is advancing at the rate of 12% per year.

Nearly 98% of VCM is converted into PVC, one of the most versatile of thermoplastics. The construction industry accounts for a very large percentage of PVC use, typically in pipes and sheeting and as insulation for electrical wiring.

Ethylene Dichloride (EDC)

The major application of EDC is in the production of VCM, but it does find use as an intermediate in various organic compounds, such as ethyleneamines, and as a degreaser or paint remover.

Caustic Soda

Tosoh is Japan's largest producer of caustic soda or sodium hydroxide, which is used in producing various sodium compounds, such as hypochlorite, as well as in the manufacture of rayon, pulp and paper, aluminum, soaps and detergents, textiles and vegetable oils.

Aniline and Carbon Monoxide

Along with carbon monoxide, aniline is a key ingredient in the synthesis of MDI. The majority of aniline goes to the production of MDI, but it also has application in rubber processing chemicals, herbicides, dyes and pigments. Carbon monoxide is an important reducing agent in many industrial processes and is used widely as a fuel in industrial operations.

Polyvinyl chloride is one of the world's most popular thermoplastics, with a wider range of uses than any other plastic material.

Methylene Diphenyl Diisocyanate (MDI)

MDI is an essential raw material for producing polyurethane, which is an omnipresent material in our daily lives. Most often used as foam, polyurethane is a popular filler and construction material found in furniture, automobiles, and insulation materials; a touch-abrasion resistance plastic for parts; and an adhesive and construction sealant. The Tosoh Group is a leading supplier of MDI in Japan as well as in Asia. The Asian market for MDI is growing at about 10% per annum and expected to continue well into the future.

Commodity Chemicals

Among other products, the vinyl isocyanate chain produces chlorine, hydrogen, and hydrochloric acid, which are important basic chemicals used in the synthesis of organic and inorganic chemicals. The uses of these chemicals in other segments of the vinyl isocyanate chain are an important synergistic effect that contributes to cost savings, greater efficiency, and conservation of resources.

08

THE VINYL
ISOCYANATE CHAIN

Tosoh is moving to fortify traditional chlor-alkali operations and bolstering infrastructure that will supply the largest MDI isocyanate production facilities in Asia.

Building a Production Powerhouse for Asia

Once the backbone of Tosoh's operations in Japan as well as being the source of its competitiveness in many petrochemical and basic chemical markets, our vinyl isocyanate chain is poised to become the core of Tosoh's expansion plans for Asia. Over the past few years, Tosoh has committed close to ¥100 billion to power up its supply of PVC, VCM, and MDI to the Asian market. We are setting up the largest integrated production capacity in Asia for vinyl products to allow us to reliably supply customers in Asia with PVC products, unaffected by availability fluctuations in the international market for their precursor materials. The resulting control over product prices will support stable earnings.

Now in the second phase of our expansion, the key components of this drive are the doubling of production capacity for MDI to immediately support our leading market position in the growing Asian market, the boosting of our in-house electric power generating capacity in Japan to make operations less sensitive to the rising costs of energy and keep us competitive, and the further addition of VCM and PVC capacity.

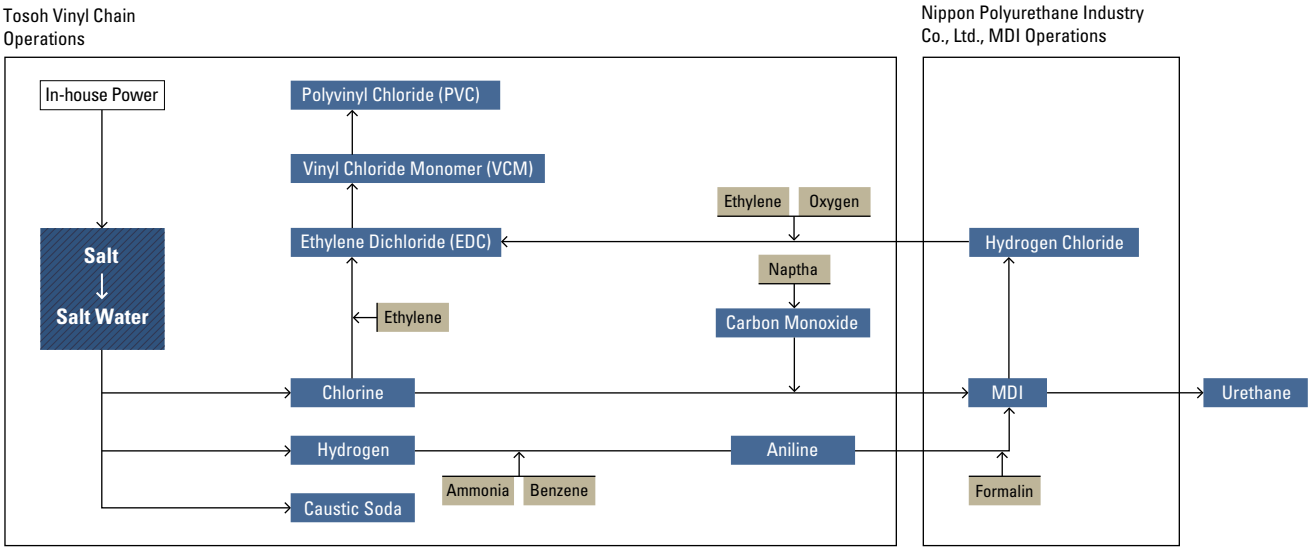
With the completion of the PVC resin plant at Tosoh (Guangzhou) Chemical Industries, Inc., we are now well positioned in China, the driving force in the global PVC market and a major consumer of MDI.

Currently, the Tosoh Group's VCM market share is 42% and the PVC market share is 25% in Japan. MDI capacity (market) share is over 50% in Japan and 23% in Asia. We have high expectations that our integrated production system will enable us to compete effectively and capture a larger share of the growing Asian markets in all these product areas.

MAJOR INDUSTRIES THAT PVC SERVES

Building and Construction
Floor Coverings
Packaging
Wire and Cable
Medical Products
Toys and Other Children's Products
Gloves
Footwear
Automotive Applications
Coatings, Paints and Coated Substrates

VINYL ISOCYANATE CHAIN



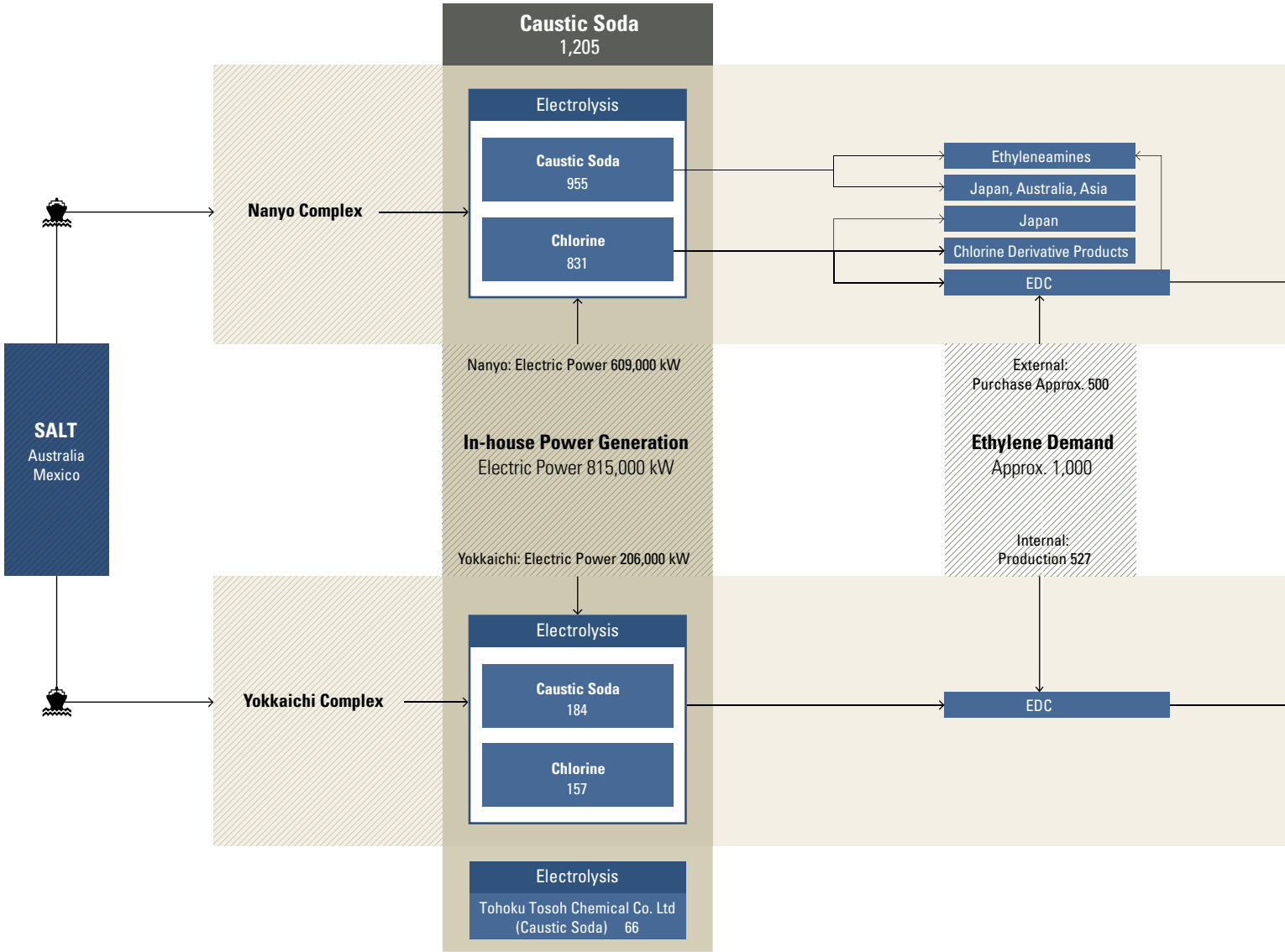
2nd Phase Expansion of Vinyl Isocyanate Chain Capacity

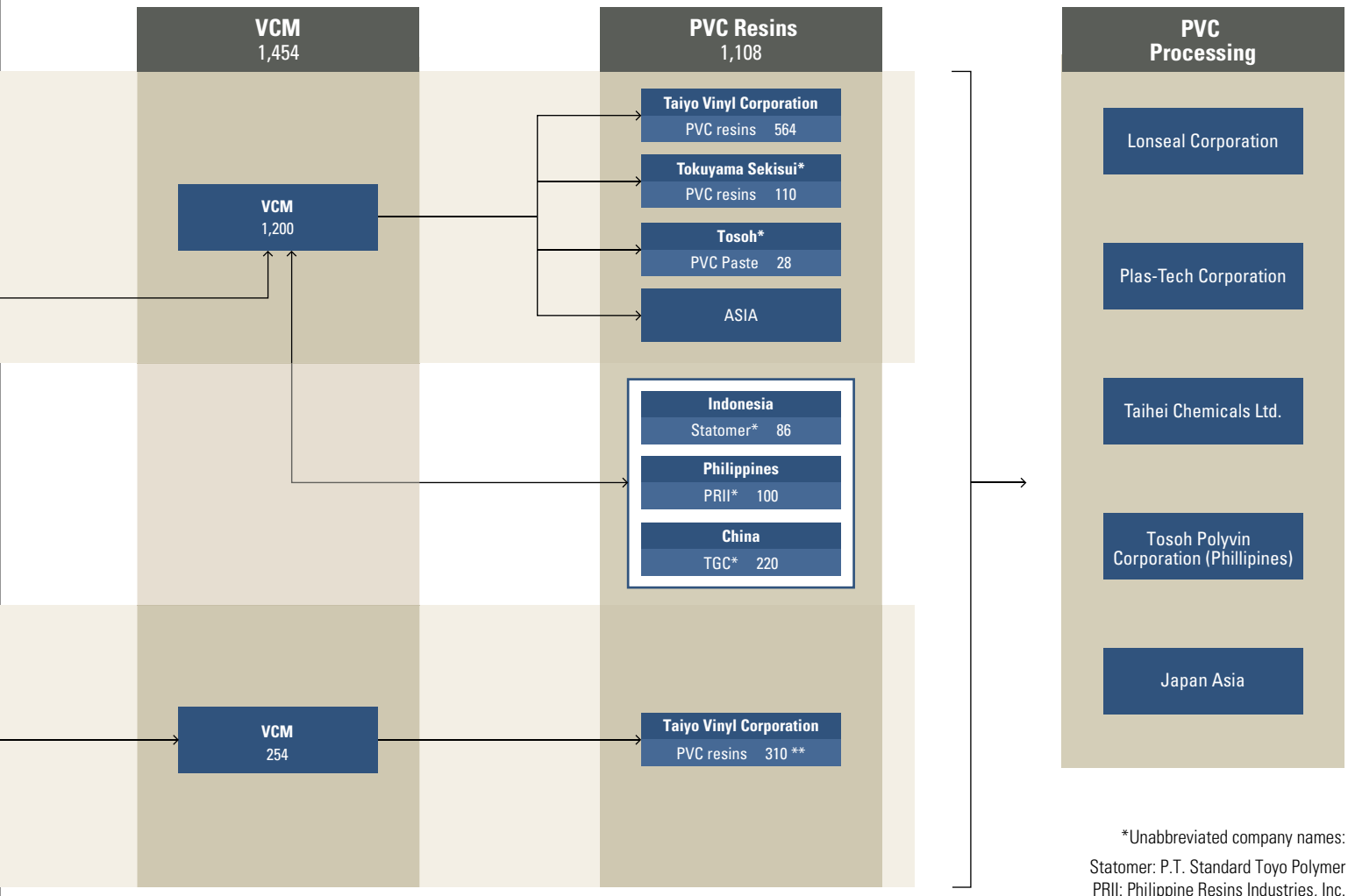
	Capacity increase	Capital investment (¥)	Completion	Total capacity
In-house electrical power	220,000 Kw	27.0 billion	Apr-08	1,035,000 kW
Caustic soda	150,000 MTY	6.5 billion	3Q FY 2008	1,355,000 MTY
VCM	200,000 MTY	n/a	n/a	1,651,000 MTY
PVC	70,000 MTY	n/a	n/a	1,178,000 MTY
Carbon monoxide	8,000 Nm^3/H	8.0 billion	4Q FY 2007	16,000 Nm^3/H
Aniline	150,000 MTY	16.0 billion	4Q FY 2007	300,000 MTY
Nanyo infrastructure		4.0 billion		
MDI	200,000 MTY	30.0 billion	Oct-07	400,000 MTY

MTY: Metric Tons per Year

TOSOH CORPORATION
FULLY INTEGRATED VINYL CHAIN

Diagram Units: 1,000 tons





**Included in the total capacity for Taiyo Vinyl Corporation (564) indicated at the top of this column.

*Unabbreviated company names:

Statomer: P.T. Standard Toyo Polymer
PRII: Philippine Resins Industries, Inc.
TGC: Tosoh (Guangzhou) Chemical Industries, Inc.
Tokuyama Sekisui: Tokuyama Sekisui Co., Ltd.
Tosoh: Tosoh Corporation

09
CONSOLIDATION
FOCUS

AS PART OF THE TOSOH GROUP, **NPU CAN THRIVE!**

Nippon Polyurethane Industry Co., Ltd. (NPU) is a leading supplier of feedstock to the polyurethane industry in Japan and Asia and maintains the largest production capacities within the Asia Pacific region for several key products in the isocyanate chain, including MDI, toluene diisocyanate (TDI), and hexamethylene diisocyanate (HDI).

Polyurethanes are one of the most versatile materials available today.

Nippon Polyurethane Industry

NPU has enjoyed good growth in Japan and began entering the global market in 1990, establishing a presence in the United States and China. Development of the Chinese market began in earnest at the start of the new millennium, and NPU now has a solid network in the region covering production, R&D, and sales.

Tosoh has had a long relationship with NPU, going right back to its establishment in 1960. NPU's plant is adjacent to Tosoh's Nanyo Complex and Tosoh affiliate Hodogaya Chemical and Tosoh have been major shareholders for years. Because of the similar natures of their businesses and their close proximity, the relationship has been definitely symbiotic. Tosoh supplies essential raw materials, such as aniline, carbon monoxide, and chlorine to NPU, while NPU reciprocates by providing hydrogen chloride for Tosoh's production of VCM. Because of the potential synergies between the vinyl and isocyanate chains, it was only natural for Tosoh to strengthen these ties over the years. Tosoh and Hodogaya Chemical became the sole shareholders of NPU in 2001. Since then, Tosoh has increased its stake in stages, the most recent share acquisition making NPU a consolidated subsidiary. Tosoh took this important step in conjunction with the massive expansion of its vinyl-isocyanate chain, one component of which was a doubling of NPU's MDI production capacity. By tightening the collaboration between the two companies, Tosoh plans to give a further boost to the competitiveness of its vinyl-isocyanate chain, with an eye on the booming Asian market.

NPU's markets have taken off in Asia. MDI in particular is expected to achieve 10% growth rates over the long term. With so many aspects of their operations in common—processes, strategies, and markets—it was high time that Tosoh welcome NPU and its annual net sales of ¥81.7 billion into the fold. Through the vinyl-isocyanate expansion program, NPU expects to raise its consolidated net sales to reach the ¥130 billion mark in the next several years.

POLYURETHANES

Polyurethanes derivatives are used as raw materials in a wide range of coatings, adhesives, sealants, and elastomers (CASE) applications as well as in foams and synthetic leather applications. Because of their many superior properties both in liquid and rigid foam, polyurethanes have extensive application in major growth industries, including electronics, automotive, medical, and construction as well as in clothing, sportswear, and sports equipment, paints and coatings.

With their high biocompatibility, polyurethanes are used in water purification units and in artificial dialysis cylinders. Due to their heat insulating and noise and vibration dampening qualities, they also have vast application in the automobile industry. Thanks to their superior adhesion and electric insulation features, we can enjoy many of the lifestyle advances brought to us by the electronics and wiring industry. And we shouldn't forget the construction industry, where most of the polyurethane produced goes. Because of their insulation properties and superior weatherability, polyurethanes are used in walls, ceilings, flooring, coatings, and adhesives.

NPU Production Capacity

Metric tons

	FY 2006/4Q	FY 2007/4Q
MDI*	200	400
TDI*	25	25
Isocyanate derivatives	50	50
Polyester polyols	12	12
HDI*	23	43

* MDI, TDI and HDI are di-isocyanates that serve as the raw material for the production of polyurethanes.

10
CORPORATE
GOVERNANCE

CONTINUING TO **GROW IN IMPORTANCE**

Operating in an environment of expanding global markets and cross-border business operations, Tosoh recognizes a growing need for a formal structure to ensure that its Group's business practices are compliant with local and international laws and regulations and global standards.

Tosoh is continuously engaged in enhancing the efficiency and effectiveness of its corporate governance structure.

Overview

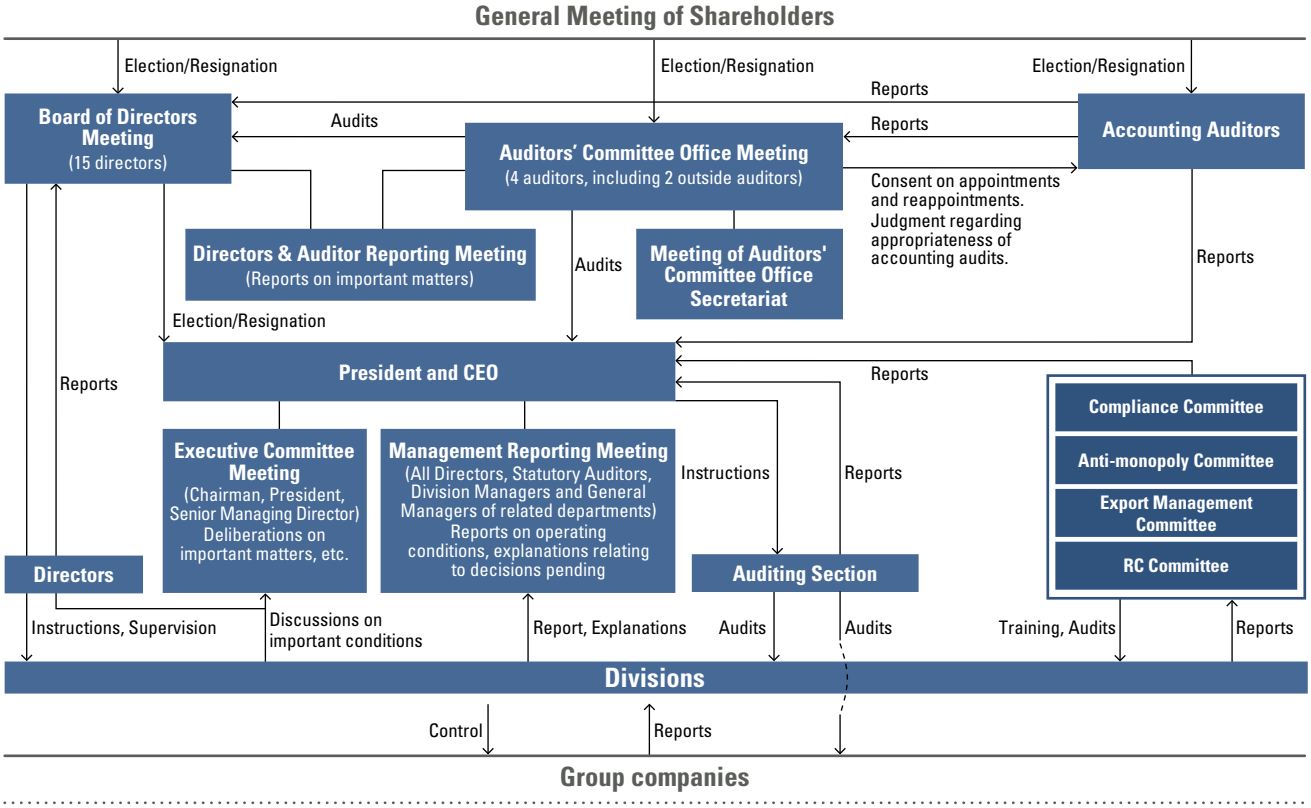
While we have long maintained an informal structure for the purpose of corporate governance, we have determined it to be insufficient for managing the risks to which the Company is exposed by possible improper conduct, and have consequently replaced it with a structure assuring greater reliability.

Tosoh is continuously engaged in enhancing the efficiency and effectiveness of its corporate governance structure to ensure its ability to respond quickly to changes in the business environment. Sound operations, fair business practices and a high degree of transparency are central to our approach.

The Board of Directors meets, in principle, at least once a month to make decisions on important matters concerning corporate operations. The Board also oversees the business activities of the directors responsible for operations. Our Executive Committee meets once a week to make prompt decisions on important business proposals.

The Company employs a corporate auditor system under which four corporate auditors — two of whom are from outside the Company — monitor the directors' business activities. Neither of Tosoh's external auditors has any vested interest in the Company. An Auditors' Committee Office was established in fiscal 2003, to reinforce the work of the Auditors' Committee. In addition, each Group member company has a corporate auditing department that conducts business audits of the company concerned. Tosoh has also organized an

CORPORATE GOVERNANCE ORGANIZATION CHART



Tosoh provides its employees with an Antitrust Compliance Manual to serve as a guide to ensure that their actions are in accordance with laws and regulations.

Anti-monopoly Committee, Export Management Committee, and Compliance Committee, and prepared a regulation manual for employees to ensure full compliance with all relevant laws and regulations.

Transparent disclosure of corporate information to investors is indispensable to proper functioning of the securities markets. Legislation enacted in June 2006 established an Internal Control Financial Reporting System in Japan, and Tosoh responded by creating an Internal Control Steering Committee and an accompanying project team to assure that all the financial reporting requirements of this system are met. Publicly listed corporations will be required to comply with the standards to be enforced under the new system beginning in fiscal 2008.

Tosoh works together as a team to establish a system that allows each employee to better achieve real compliance and correct conduct.

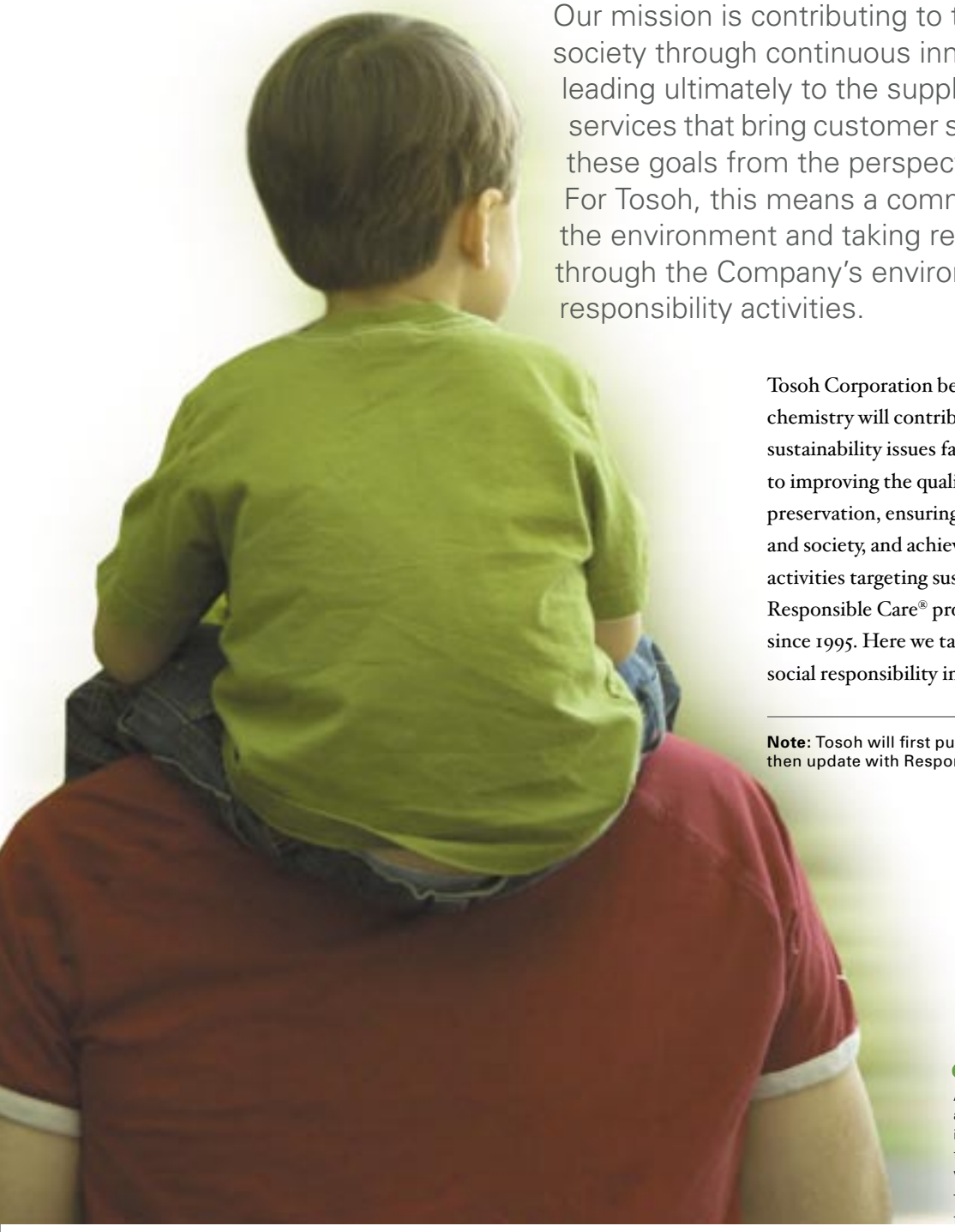
The Compliance Committee, a key component of our corporate governance organization, is responsible for creating and improving the compliance system, establishing principles of conduct and monitoring the system's operation. Since awareness is essential for preventing infractions, the Compliance Committee has identified the Company's primary areas of concern, outlined the laws and external and internal regulations to be followed, provided guidance manuals wherever possible and allocated clearly defined responsibility for maintaining compliance with specific laws, regulations and business practices.

Fair business practices with respect to purchasing and selling are elucidated by both the Anti-Trust Law of Japan and by Tosoh's internal Anti-Trust Compliance, Purchasing and Sales Management and Quality Control regulations. Tosoh has prepared an Anti-Trust Compliance Manual to provide guidance to employees. Finally, the Anti-Trust Compliance Committee, the Legal and Patent Department and the Environment, Safety and Quality Control Department are assigned responsibility for overseeing compliance with fair business practices.

Appropriate responses to the need for environmental preservation are codified by a number of conservation and anti-pollution laws as well as by regulations established internally by the Responsible Care® Council. They are further defined by the Company's quality control system, with additional oversight by both the Environment, Safety and Quality Control Department and the Group's corporate strategy and planning departments.

11
RESPONSIBLE
CARE

COMMITMENT TO A **SUSTAINABLE FUTURE**



Our mission is contributing to the advancement of society through continuous innovation in chemistry, leading ultimately to the supply of products and services that bring customer satisfaction. We approach these goals from the perspective of sustainability. For Tosoh, this means a commitment to preserving the environment and taking responsibility for society through the Company's environmental and social responsibility activities.

Tosoh Corporation believes strongly that innovation in chemistry will contribute significantly to resolving the sustainability issues faced by our world. We are committed to improving the quality of life through environmental preservation, ensuring the safety and health of our employees and society, and achieving economic progress. Our principle activities targeting sustainability are organized around our Responsible Care® program, which has been in place officially since 1995. Here we take a deeper look at Tosoh's corporate social responsibility initiatives and the results.

Note: Tosoh will first publish this report electronically and then update with Responsible Care® results as made available.

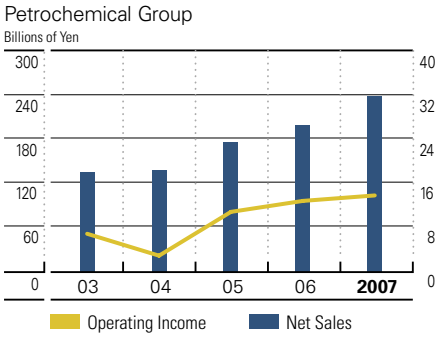
As a small step to conserve resources and because our activities continue to grow year by year, we decided to increase our online publishing. The symbol throughout this report indicates additional information is available at www.tosoh.com

The Responsible Care Report 2007 covers activities for fiscal 2006, the period from April 1, 2006 to March 31, 2007.

REVIEW OF THE YEAR TO MARCH, 2007

Petrochemical Group

Net sales expanded by ¥39,946 million during the term under review to ¥242,291 million (US$2,052.4 million), a 19.7% improvement over the previous fiscal year. Operating income also rose by ¥1,222 million to ¥14,046 million (US$119.0 million), up 9.5% year on year.



OLEFINS

Olefins are a fundamental product Tosoh uses throughout its petrochemical operations. They are basic chemical building blocks used in the manufacture of electronics products, plastics and rubber goods. We will continue working to strengthen competitiveness throughout the Company by maintaining a stable supply of high-quality, cost-competitive olefins and derivative products.

OLEFINS

PRODUCTS	CAPACITY (MTY)	MARKETS SERVED	
ETHYLENE	493,000		Ethylene is the basic feedstock for a vast array of petrochemical products, and Tosoh is a major ethylene user and producer. Leading-edge automated production technology helps Tosoh maintain its competitiveness in world markets.
PROPYLENE	288,000		Propylene is an essential ingredient in the production of polypropylene, cumene, and OXO process alcohol.
C4 FRACTION			Tosoh extracts a wide variety of C_4 hydrocarbons, such as butylenes, and butane, from C_4 fraction. The Company also uses the fraction to produce tertiary butyl alcohol and Skyprene, a premium-quality polychloroprene rubber.
TERTIARY-BUTYL ALCOHOL	70,000		Through a strategy to optimize yields by increasing its naphtha cracker output, Tosoh has begun producing tertiary-butyl alcohol (t-BA). Tosoh uses t-BA solely for the production of methyl methacrylate (MMA).
CUMENE	230,000		Cumene, a benzene and propylene derivative, is used in the production of phenol, a key ingredient for the manufacture of phenolic resins, polycarbonate resins, and epoxy resins.
AROMATIC COMPOUNDS	154,000* 65,000** 32,000***		Tosoh is a significant producer of benzene, toluene, and xylene (BTX). These aromatic compounds are important raw materials for the production of the organic compounds used in a wide variety of industrial and consumer products.

* Benzene **Toulene ***Xylene MTY: Metric Tons per Year

Tosoh's olefin operations faced high raw materials prices across the board, with the naphtha price peaking as high as ¥54,100 per kL in the third quarter, up steeply from ¥39,100 per kL in the same period of the previous year.

The Company responded to the resulting higher production costs by implementing domestic price increases for ethylene, propylene and cumene, while at the same time pursuing such cost-cutting strategies as diversification of raw materials. It also raised export prices for cumene and styrene monomer.

Management made the decision to invest ¥3 billion in order to expand the Company's cumene production capacity by upgrading its production facilities to take advantage of high-performance catalysts. This conversion will result in a 30% capacity expansion for cumene, boosting annual production from 230,000 MT at present to 300,000 MT. The investment will consequently enhance Tosoh's ability to satisfy bourgeoning demand for phenol, which currently accounts for more than 90% of Asia's cumene requirements. Construction, to be conducted at the Yokkaichi Complex, is scheduled for completion in May 2008.

Tosoh responded appropriately to price fluctuations during the term under review by maximizing flexibility and making use of less costly grades of naphtha. Plans call for the use of non-naphtha alternatives to reduce the costs of cracker raw materials. The Company is also preparing to use LNG as a cost-effective fuel, thus creating a higher value-added structure while freeing up hydrogen, C4 and C5 for sale to customers. Increasing use of FCC propylene is expected to result in the production of more competitive cumene products beginning in the fourth quarter of 2008.

Tosoh has begun operating facilities for hydrogenating the C5 fraction, a move that has reduced raw material costs and enhanced efficiency in its use of C5 products. Olefins are a key product employed throughout the Company's petrochemical operations, and will continue to increase competitiveness by maintaining a stable supply of cost-competitive olefins and derivative products.

POLYMERS

Tosoh polymer products are used in a wide array of industries ranging from food packaging to agriculture, engineering and distribution. Customers appreciate the quality of Tosoh polyethylene, and we are expanding our share of the markets for functional polymers including synthetic rubber and adhesive polymers.

Sales and profits improved significantly in fiscal year 2006, with Low Density Polyethylene (LDPE) and Chloroprene rubber leading the growth of the Tosoh product line-up. Despite its challenging operating environment, Tosoh succeeded in raising polyethylene (PE) prices eight times during the term. To maintain profitability, the Company continued its shift towards specialization in the IT, medical, and food industries among others. New IT applications for PE and ethylene vinyl acetate (EVA) include masking films and membranes for solar cells as well as even more sophisticated laminate products, a field in which Tosoh holds a major share of Japan's market. The Company is expanding its chloroprene rubber production capacity, to meet growing demand for this material and directing resources into the development of new latex grades and additional automotive applications.

Melthene also experienced growth in sales accompanied by the opening up of new markets. The division achieved progress in the development of a sealant for paper and of PE and carrier tape applications which are expected to generate higher sales. At the same time, however, the introduction of all-in-one cap liners has increased pressure on its Melthene operations to develop more applications. Tosoh maintains a major market share as a supplier of LDPE, LLDPE and EVA raw materials, and this business registered further progress in growth in sales and profitability. Although the PE market is expected to soften in 2008, the division anticipates continued advances in the LLDPE market. There were no large fluctuations in demand for CSM, and this product line contributed successfully to the division's

overall gains. Despite its slow recovery from the losses incurred during the IT downturn that ended in 2002, the PPS market continues to grow, and projections show demand for PPS recording high growth in the range of 8% in fiscal 2007. Sales of C9 and C5 petrocarbon resins were solid, with the division's new-grade C5 hydrocarbon resin registering a dramatic increase of 80% from the previous fiscal year, boosted by its use in automobile tires.

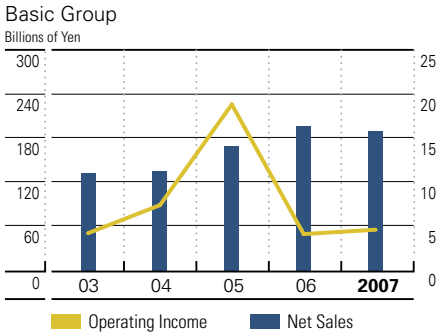
Despite the opening of several major new plants for general-purpose polymers in Asia in 2006, most of the polymer product lines turned in strong results, advancing their business further and lifting the division well into the black.

POLYMERS

PRODUCTS *Brand Names*	MARKETS SERVED	
ETHYLENE VINYL ACETATE COPOLYMER *Nipoflex®*		This Tosoh EVA copolymer has applications in foaming for shoe soles, blown film, stretch and agricultural film and lamination, sheet extrusion, hot-melt adhesives, and injection molding. It combines clarity, gloss, and weather resistance with flexibility. Nipoflex retains its elasticity even amid low temperatures yet remains resistant to flex and environmental stress cracking.
LOW-DENSITY POLYETHYLENE *Nipolon®, Nipolon-L®, Nipolon-Z®, LUMITAC®*		Nipolon (LDPE), Nipolon-L (LLDPE), Nipolon-Z (LLDPE), and Lumitac (ULDPE) are low-density polyethylenes available in a range of resins noted for their superior elasticity, transparency, shock resistance, and processing. End uses include heavy-duty bags and agricultural film; extrusion coating and laminating for a variety of materials; and in injection molding.
HIGH-DENSITY POLYETHYLENE *Nipolon® Hard*		Nipolon Hard is a high-density polyethylene (HDPE) with great tensile strength and hardness and excellent processing characteristics. It includes a specialized grade for the chemical containers used in semiconductor production. Other applications include blow molding and blown film for containers, bags, and packages; extruded pipe; injection molding; and fishing net filament.
ADHESIVE POLYMER *Melthene®-M, Melthene®-H, Melthene®-G*		Tosoh adhesive polymers ensure superior properties that are available for a variety of materials substrates. Utilizing standard pressing techniques, Melthene-M provides solid adhesion for plastic containers, paper, and wood materials. In working with metals, glass, and cloth, Melthene-H is an EVA-related product that is weather resistant and displays excellent adhesion and solvency properties. Melthene-G's adhesive properties are best put to use with glass, polyethylene terephthalate (PET), and polycarbonate in applications such as inter-layer glass and plasma display panel (PDP) filters.
CHLOROPRENE RUBBER *SKYPRENE®*		Tosoh's chloroprene rubber boasts superior cold, heat, abrasion, ozone, oil, and chemical resistance at competitive prices. Skyprene is available in a variety of grades to suit diverse applications in wire and cable jackets, industrial and automotive parts, construction materials, extruded products, adhesives, and even wet suits.
CHLOROSULPHONATED POLYETHYLENE *TOSO-CSM®*		Toso-CSM is a superior coating material resistant to ozone, weather, oil, and chemicals and available in brilliant colors. Toso-CSM is used in automobile- and industrial-use hoses, coatings, and linings for electrical and mechanical products and in consumer products, such as raincoats.
HIGH-PERFORMANCE CSM *extos®*		Extos boasts extended low-temperature and dynamic properties and is used in the manufacture of automobile belts and in other similar applications.
POLYVINYL CHLORIDE PASTE *Ryuron®*		Ryuron is designed to improve processing and to provide superior finished products. Unlike commodity polyvinyl chloride (PVC) resins that require heat, Ryuron, with the addition of a plasticizer, can be processed at room temperature, resulting in facility cost and energy savings. Primary applications for Ryuron include wall paper, flooring materials, artificial leather, toys, and gloves.
POLYPHENYLENE SULFIDE RESINS		Polyphenylene sulfide (PPS) resins are unique engineering plastics that combine many of the best properties of plastics and metals. They feature excellent resistance to temperature, chemical, and flame and outstanding electrical properties, precision moldability, and dimensional stability. PPS resins have a UL94V-0 rating and are environmentally preferable to many other engineering plastics. PPS is used in electrical and electronic parts, appliance components, and automotive applications.
C9 HYDROCARBON RESINS *Petcoal®*		Petcoal is a C9 hydrocarbon resin that exhibits excellent solvency as well as good thermal stability and weathering properties. Aromatic hydrocarbon resins of this caliber are compatible with a vast range of synthetic resins and rubbers. Applications include paints, printing inks, adhesive tape, hot-melt adhesives, and rubber agents.

Basic Group

Net sales slipped by ¥7,104 million to ¥192,334 million (US$1,629.3 million), a 3.6% decline from the previous fiscal year. Operating income nevertheless registered healthy growth of ¥505 million to ¥6,108 million (US$51.7 million), up 9.0% from the year before.



CHLOR-ALKALI

Chlor-alkali operations focus on the basic commodities of salt and ethylene. Tosoh electrolyzes salt to obtain chlorine and caustic soda, and also employs these basic materials in the manufacture of value-added products including VCM, PVC and ethyleneamines. Tosoh is using its strength in chlor-alkali products as a competitive advantage in expanding operations in the vinyl isocyanate chain, including urethane and related products.

Tosoh began fiscal 2006 by increasing its stake in Nippon Polyurethane Industry Co., Ltd. (NPU) to 51.7% through acquisition of the NPU shares held by an affiliate, Hodogaya Chemical Co., Ltd., and making NPU a consolidated subsidiary. The elimination of sales to this company due to the consolidation resulted in lower net sales for the Basic Group without damaging operating profits, which improved by 9.0%. The consolidation accelerates Tosoh's vinyl isocyanate strategy and strengthens ties within the Group as it positions itself to assume a more competitive presence in the Asian polyurethane industry, which is undergoing a rapid expansion centered on China.

CHLOR-ALKALI

PRODUCTS *Brand Names*	CAPACITY (MTY)	MARKETS SERVED	
CAUSTIC SODA	1,205,000		Tosoh is Japan's largest producer of caustic soda, or sodium hydroxide, which is used in producing sodium compounds such as sodium bicarbonate (baking soda). It also finds application in the manufacture of rayon, pulp and paper, alumina, soaps and detergents, textiles, and vegetable oils. Tosoh uses advanced proprietary BiTAC® ion exchange membrane technology to supply this vital basic chemical competitively to the global market.
VINYL CHLORIDE MONOMER	1,454,000		The basic building block for PVC, VCM is a colorless gas that the Basic Group produces. Tosoh is the largest producer of VCM in Japan and a major supplier to Asia.
CALCIUM HYPOCHLORITE *Niclon®*	10,080		Niclon is a product used for sterilizing and disinfecting swimming pools and drinking water. It also finds use in sewage treatment systems.
SODIUM BICARBONATE			Sodium bicarbonate (baking soda) is widely used in food products, animal feeds, bath additives, and pharmaceuticals.
OTHERS			Tosoh's other chlor-alkali products include liquid chloride, hydrochloric acid, poly-aluminum chloride, sodium hypochlorite, calcium chloride, sodium sulfate, and phosphoric acid.

MTY: Metric Tons per Year

Shipments of caustic soda decreased from the previous year due to such factors as plant shutdowns for regularly scheduled servicing, but this decline was offset by higher selling prices in Japan, as Tosoh implemented price increases to meet higher raw materials and fuel costs. Tosoh commands an approximately one-quarter share of Japan's caustic soda capacity.

The Company increased its vinyl chloride monomer (VCM) export volume, a result made possible primarily by a capacity expansion accomplished during the previous term, combined with higher demand in its overseas markets. Exports of polyvinyl chloride (PVC) resins also grew, as overseas demand for this product increased as well, and Tosoh again benefited from higher selling prices in Japan after implementing adjustments in response to increased raw materials and fuel costs.

Projections show the market for PVC resins growing at a pace of 8% in Asia as a whole and by 12% in China. Tosoh prepared to meet this growth as fiscal 2007 got underway by completing a 220,000 metric ton expansion of its PVC production capacity in China, where the PVC resin market had been destabilized by unexpectedly rapid construction of small plants that employ the acetylene carbide method to produce PVC. This alternative production method uses acetylene as an extremely cost-competitive feedstock, since acetylene produced in China is less expensive than imported oil, significantly reducing the cost of PVC production. The acetylene carbide production method should become less competitive in the future, however, due to rising raw materials costs and additional expenses required to reduce the environmental burden.

Tosoh is positioning itself to meet increasing demand for VCM and PVC by expanding its production capacity for both. The Company plans to maximize earnings growth by maintaining its comprehensive capabilities in electrolysis and in producing and marketing VCM. The growing demand in Asia presents an outstanding business opportunity, and Tosoh is moving to enhance its position throughout the vinyl isocyanate chain.

The polyurethane market was strong in Asia, where annual demand is expected to continue growing at an annual rate of nearly 10%. NPU is doubling its MDI production capacity from 200,000 to 400,000 tons per year to maintain its market share while meeting the expanding demand, and Tosoh is cooperating by doubling its production capacities for the raw materials with which it supplies NPU. As part of these efforts to support the increase in NPU's MDI production capacity, Tosoh is constructing facilities to boost aniline production to 300,000 tons per year and carbon monoxide production to 16,000 Nm^3/Hr, with completion scheduled for winter 2007. The Company will also raise its in-house power generation capacity to 1,035,000 KW in spring 2008 and expand its production of caustic soda from 1,205,000 to 1,355,000 tons per year in summer of that year.

CEMENT

Tosoh's ability to utilize waste and by-products from various operations in cement production complements its logistical strength resulting from integrated cement manufacturing capabilities. We are working to reduce the amount of coal required at the power plant that supplies electricity to our cement operations, while finding ways to use the phosphate and gypsum produced as by-products for the cement manufacturing process. Tosoh sells its entire cement production to Taiheiyo Cement Corporation under consignment, and will work to maintain and strengthen this mutually beneficial relationship.

Demand for cement received strong support from the private sector, as domestic shipments increased despite lagging sales for public works. Domestic cement prices turned up slightly, helping to cover profit erosion resulting from rising prices for coal. Exports of cement remained flat, although prices increased.

Fiscal 2007 is expected to see a slight downturn in overall domestic demand for cement. The phase of demand stemming from public-sector disaster recovery efforts has come to an end, and the Japanese government has committed itself to reducing public works investment by 3% a year, a decision that will impact the cement business. Current estimates show a projected contraction of demand from the public sector by 1.5 million tons to a total of 28 million tons. Brisk capital investment is expected to boost demand from the private sector by 500 thousand tons to the 30 million ton level. Rising production and freight costs and increasing competition from other countries will combine to make competition more severe in the Company's export markets. Tosoh is responding with a medium-to-long-term strategy of implementing further cost reductions in its cement operations and intensifying its industrial waste-recycling efforts.

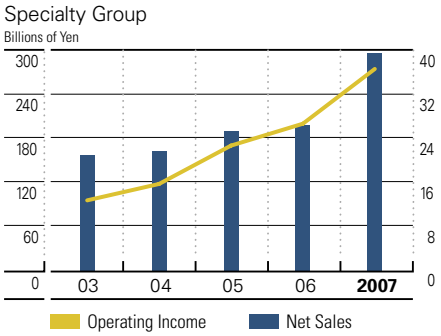
CEMENT

PRODUCTS	CAPACITY (MTY)	MARKETS SERVED	
CEMENT	2,900,000		Tosoh cement products span ordinary portland cement, portland fly ash cement, and portland blast furnace slag cement.

MTY: Metric Tons per Year

Specialty Group

The Specialty Group achieved growth in net sales of ¥98,664 million from the previous fiscal year level to ¥299,352 million (US$2,535.8 million) for a year-on-year improvement of 49.2%, with accompanying growth in operating income of ¥10,511 million, or 39.4%, to ¥37,159 million (US$314.8 million).



ORGANIC CHEMICALS

The Organic Chemicals Division focuses on the development of value-added fine chemicals. Tosoh supplies a broad range of products for numerous applications including pharmaceuticals, agrochemicals, electronics, organo-metallic catalysts, urethane polymers, and specialty coatings. Tosoh's Organic Chemicals business commands the largest share in the Asian market for ethyleneamines and is a leading domestic producer of bromine, flame retardants, and industrial cleaning solvents.

ORGANIC CHEMICALS

PRODUCTS *Brand Names*	CAPACITY (MTY)	
ETHYLENEAMINES	53,000	Impressive product quality and reliability are Tosoh's calling cards in the specialized market for ethyleneamines. As part of a European manufacturing joint venture, Delamine B.V., the Company has established a global supply network and can produce polyamines.
POLYURETHANE CATALYSTS *TEDA, TOYOCAT®*		TEDA and TOYOCAT, which Tosoh produces entirely in-house, are highly cost-competitive ethyleneamine derivatives. TEDA (triethylenediamine) is used extensively as a catalyst in the production of flexible, semirigid, and rigid polyurethane foams and in elastomers. TOYOCAT, a specialty tertiary amine catalyst for polyurethane foams, is available in a broad range of standard and customized grades, including conventional catalysts, reactive catalysts, acid-blocked catalysts, and trimerization catalysts.
BROMINE	24,000	Tosoh is Japan's sole manufacturer of bromine, an indispensable raw material for inorganic pharmaceuticals, photosensitive materials, dyes, and medicines.
HYDROBROMIC ACID		Hydrobromic acid features high reactivity and unique physical properties. It is used extensively in the production of organic intermediates, inorganic pharmaceuticals, photosensitive materials, dyes, and medicines. Additional applications include lithium bromide and the catalyst for producing terephthalic acid.
FLAME RETARDANTS *FLAMECUT®, 110R®, 120G®*		FLAMECUT 110R and 120G are flame-retardant additives that transform regular plastics into thermo- and flame-resistant plastics.
CHELATING AGENTS *TS-275, TX-10*		TS-275 is a high-performance heavy metal treatment agent for fly and combustion ash. Superior heavy metal trapping properties allow TS-275 to surpass conventional fly ash treatment methods by sharply reducing the volume of the carbon disulfide generated during treatment. TX-10 precipitates heavy metals in wastewater, contributing to its purification.
SOLVENTS		A variety of hydrocarbon (HC)-based solvents are available for the wide range of cleaning requirements in metal processing, electronics, and electrical machinery.
HIGH-PURITY ETHYLENE DICHLORIDE		High-purity ethylene dichloride (EDC) is a chlorine-based organic solvent and is also utilized as an intermediate in the manufacture of medicines and agricultural chemicals.

MTY: Metric Tons per Year

Ethyleneamines and Derivatives / MDI

The Specialty Group added urethane raw materials to its product lineup during the year under review with the conversion of Nippon Polyurethane Industry Co., Ltd. (NPU) and its subsidiary companies into consolidated subsidiaries. Sales by NPU accounted for an increase in net sales of ¥81.7 billion in fiscal 2006.

An expansion of production capacity implemented during the previous fiscal year enabled Tosoh to increase exports of ethyleneamines. Higher amines recorded a significant increase in sales in excess of 20% from the previous year, while upward price adjustments to meet higher raw materials costs were realized both in Japan and abroad. With global demand growing at 13,000 tons per year, the Company has expanded the production capacity of its Nanyo Complex several times to meet pressing market needs in China and Southeast Asian countries. Another capacity increase completed in November 2005 brought Tosoh's total capacity to 53,000 metric tons per year, and construction of a third plant is currently under consideration. Price erosion for TEDA, combined with an upturn in raw materials costs, exerted a negative impact on profits. TOYOCAT® saw overall profitability improve, meanwhile, as new product mixes were favorably received and TOYOCAT®-DT for electronic materials applications made strides on the new business development front.

Bromine and Brominated Derivatives

Tosoh's bromine business enjoyed steady growth in both domestic and overseas shipments of bromine and bromine-based flame retardants, which also attracted higher prices. Overall demand for bromine is expected to grow at an annual pace of 2 to 3%, with bromine-based flame retardants climbing by 4 to 5% and PTA catalysts by 7%. The increased demand will be absorbed by capacity increases planned by foreign producers, while demand in Japan is expected to remain flat. Flamecut 120G® (TBBPA) shows particular promise among bromine-based retardants, with projections showing annual growth of at least 5%. Tosoh eliminated many of the bottlenecks from its TBBPA operations in fiscal 2006, increasing capacity as a result. Further optimization of operations and capacity expansions are under consideration to enable the Company to leverage its strong position with respect to Asia's growth markets. These factors, combined with stable supply capabilities and consistent quality, have contributed to high factory operating rates and successful sales of the Company's full production quantities.

Eco-Business

Despite the recent shrinkage of the market for heavy metal treatment agents, the prospects for piperazine–based agents are more promising. Growing numbers of manufactures are changing to piperazine-based agents for environmental reasons, and they will need to rely on the expertise of chemical manufacturers to make the transition. With market prices stagnating during the term, higher raw materials costs put further pressure on profits. Tosoh made adept use of production consignment agreements to more than double its sales volume in fiscal 2006, and the Company is currently projecting growth in sales and profitability over the medium term. Efforts to increase market share will include promoting the superior characteristics of Tosoh's piperazine–based products, forging and strengthening collaborative relationships with plant makers and developing newer technologies. The Company also plans to embark on a strategy formulated to make better use of its existing patents. In the market for hydrocarbons, the decision to ban or phase out all hydrofluorocarbon solvents offers growth potential for Tosoh in the high-precision cleaning markets. The Company is consequently allocating more resources to development and sales activities targeting fluorocarbon users as potential customers.

Organic Intermediates

Tosoh reorganized the Organic Chemicals Division during fiscal 2006 to promote further synergies and collaboration among its Group companies in the organic intermediates business, including Tosoh Organic Chemical Co., Ltd., (bromination and chlorination), Tosoh Finechem Corporation (organometallic reactions and low-temperature reactions) and

Tosoh F-Tech, Inc. (fluorination). As part of this initiative, the organic intermediates business was spun-off to Tosoh Organic Chemical in mid-year. The Organic Chemicals Division consequently reported sales of organic intermediates for only the first half of fiscal 2006.

The products lines marketed by Tosoh Organic Chemical now include sodium styrenesulfonate (SPINOMAR® NaSS), bromine derivatives and specialty chemicals. Sales of SPINOMAR® NaSS improved slightly in fiscal 2006, while specialty chemicals registered more substantial increases. Bromine derivatives lost ground, on the other hand, and reported lower sales. These factors resulted in a slight overall contraction of both sales and profits with respect to the same period a year earlier. The Company's mid-term projections show growth for all of its products following a decrease in the specialty chemicals market in fiscal 2007. The Company is moving to develop new markets for SPINOMAR® NaSS in the United States and Europe, directing more resources into creating new bromine derivatives products, especially for electronic and pharmaceutical applications, through efficient use of its superior technologies and expanding sales of specialty chemicals for electroluminescent (EL) materials and resist monomers for electronic devices.

SPECIALTY MATERIALS

The Specialty Materials Division is a leading global supplier of advanced materials and electronics products for consumer, industrial and high-technology products. A core Tosoh strength is the ability to help customers differentiate their end products with sophisticated products and materials, such as electrolytic manganese dioxide (EMD), ceramics and zeolite. Moving to stay at the forefront of technological progress, the Specialty Materials Division is aggressively investing in R&D to develop new products while reducing operating costs for more mature product lines.

Zeolites

Increased sales of high-silica zeolites were driven by strong demand for petrochemical-related applications and for purification catalysts for automobile exhaust emission systems. Stricter emission standards, particularly for diesel engines, are expected to generate growth in this market. Diesel vehicles currently represent more than 50% of new light-duty vehicle registrations in Europe, and this figure is expected to increase. Zeolum® also achieved gains due to demand for gas separation and removal applications. With demand expected to remain strong over the medium term, Tosoh is considering further expansion. Following its withdrawal from the zeolite builder market in March of 2006, the Company is funneling resources into research and development, while gearing up its technical services to provide added value for zeolite applications with an emphasis on the automotive and petrochemical industries.

Zirconia

Strong demand in most markets during the year under review boosted zirconia shipments in Japan, as in other producer countries, with sales for dental and grinding media applications particularly robust. New applications for grinding media are being introduced for medical as well as for pigment applications. Tosoh, which maintains a dominant world market share for yttria-stabilized zirconia, is considering expanding capacity to meet increasing demand. The Company has also intensified its research and development efforts with the aim of supplying customers with zirconia that offers greater strength and other characteristics that provide added value for grinding media.

Electrolytic manganese dioxide (EMD)

Global EMD demand continued to fluctuate in 2006, expanding in China but falling below expectations in other markets. In the United States, especially, the falloff in the number of hurricanes striking the mainland resulted in lower demand in fiscal 2006.

Tosoh concentrated on maintaining stable supplies to customers, strengthening its long-term relationships with key customers in the process. The Company's ongoing research and development efforts can be expected to promote its customer relations further. The Company is developing high-

performance battery materials to support the growth of the consumer electronics market in response to the digitalization of society as a whole.

Another Japanese supplier was forced to cease EMD production during 2006 due to pressure from foreign imports. While competitors from overseas continue to compete fiercely for market share in Japan, the authorities are currently examining whether any fair trade practices have been violated. The drastic increase in foreign imports in recent years has been accompanied by a decline in imported EMD prices.

ELECTRONIC MATERIALS

The Electronic Materials Division is a leading global provider of innovative products and solutions for international high-technology customers. Its integrated silica glass business covers all major geographical markets for semiconductors, flat-panel displays and optics. The thin-film materials business encompasses sputtering targets and includes development, manufacture and sale of high-purity etching materials, physical vapor deposition (PVD), chemical vapor deposition (CVD) and chemical mechanical planarization (CMP) materials.

SPECIALTY MATERIALS

PRODUCTS *Brand Names*	CAPACITY (MTY)	MARKETS SERVED	
YTTRIA-STABILIZED ZIRCONIA POWDERS			Tosoh has a global reputation for its high-quality yttria-stabilized zirconia (YSZ) powders. Because of zirconia's superior mechanical properties, high fracture strength, resistance to abrasion, and smooth finish, manufacturers are using it in an increasingly wider range of applications, including machine parts, electronic parts and tools, optical fiber connector parts, and watch cases.
ZIRCONIA COMPOUNDS FOR INJECTION MOLDING			Tosoh supplies optical fiber connector ferrule blanks and various injection molded components produced by Tosoh Ceramics Co., Ltd. The base material for the production of these products is Tosoh's zirconia compounds, which are based on Tosoh's YSZ powders. In addition to powder production, Tosoh is an injection molding compound manufacturer with extensive experience in the mass production of sintered bodies. This know-how ensures that Tosoh's zirconia compounds exhibit high quality, provide easy sintering, and possess superior handling features.
GRINDING MEDIA *YTZ®*			In cooperation with Nikkato Corporation, Tosoh markets a top-of-the-line yttria-stabilized zirconia grinding media that offers ultrahigh grinding efficiency without product contamination. Applications include piezoelectric and dielectric materials, ceramics and minerals, pigments and paints, magnetic materials, and pharmaceuticals.
ELECTROLYTIC MANGANESE DIOXIDE	52,000		Electrolytic manganese dioxide (EMD) is used in the production of dry cell batteries and soft ferrites. Tosoh boasts one of the largest battery-grade EMD capacities in the world and a global supply network centered on manufacturing facilities in Japan and Greece and is thus able to meet the most-demanding requirements of its customers for high-performance primary alkaline batteries and lithium manganese batteries.
MANGANOUS MANGANIC OXIDE *Brownox®*			Brownox is widely regarded for its consistent purity and particle size. Such highly purified reactive manganous manganic oxide compounds are in growing demand for ferrite and thermistor applications.
ZEOLITE MOLECULAR SIEVES *Zeolum®*			Zeolum displays strong selective adsorption properties that make it suitable for drying, purifying, and separating a wider variety of feeds than any other adsorbent. Common uses include the separation of nitrogen and oxygen from air, pressure swing adsorption (PSA) systems, the removal of carbon dioxide and moisture from air, and the drying of naphtha-cracked gas and organic solutions.
ZEOLITE FOR CATALYSTS *HSZ® Series*			HSZ Series high-silica zeolites have higher SiO_2/Al_2O_3 mol ratios than zeolite molecular sieves. Their high thermal and acid stability make them useful for a range of catalyst and adsorbent applications, including as petroleum-refining catalysts for hydrocracking, isomerization, and dewaxing; as petrochemical catalysts for alkylation and isomerization; as removers of volatile organic compounds (VOCs) and as cleaners of hydrocarbons in automobile exhaust.

MTY: Metric Tons per Year

The popularity of digital home appliances and mobile devices continued to support solid growth in demand from the semiconductor industry in fiscal 2006, lifting the division's sales. The industry is expected to achieve strong growth averaging 10% or above through 2008. Smaller, thinner TV models and increased digitalization are expected to sustain growth over the mid-term for the flat-panel display (FPD) market as well. Despite this positive demand, the FPD market was characterized by oversupply and intense competition, which drove down prices and led to market deterioration for the division's thin-film materials.

Although falling prices for Flash, DRAM and other memory products exerted downward pressure on prices for semiconductor-related sputtering targets, the market for established products remained brisk, and targets and shielding products registered gains as a result. In the FPD markets, a change in materials led to a substantial decline in shipments of Cr targets. The requirement for chrome for the growing TFT and CF large-scale panel production fell off as a result, leading to overall market contraction. Despite increases recorded by target sales to customers in the semiconductor-related sector, overall shipments of FPD-related sputtering targets turned downward.

Quartz materials benefited from the strength in semiconductors as well, with shipments increasing both domestically and overseas and fused silica and molds registering particularly pronounced gains. At the same time, the oversupply in the FPD markets depressed demand for machined and fabricated quartzware products.

Tosoh SET, Inc., which engages in process kit management (PVD, CVD, etch and CMP)* reported only a slight increase in sales from the previous fiscal year, but growth in the CVD and etch markets led to an upturn in net income. Tosoh also introduced cleaning services for semiconductor customers in May 2006

* Tosoh SET Inc. specializes in physical vapor deposition (PVD), chemical vapor deposition (CVD), etch and chemical mechanical planarization (CMP) kit refurbishment for the semi-conductor industry.

ELECTRONIC MATERIALS

PRODUCTS *Brand Names*	MARKETS SERVED	
SILICA GLASS MATERIALS		Tosoh's silica glass materials excel in quality and value, reflecting Tosoh's advanced technology and more than 70 years of experience in the field. The Company is among the few suppliers with a lineup that includes transparent and opaque, natural and synthetic, and flame and electrically fused silica glass materials.
FABRICATED QUARTZWARE		Through its global network of quartz fabrication facilities, Tosoh provides customers in the semiconductor, LCD, and optical markets with a uniformly high-quality supply of products. Customers can take advantage of Tosoh's cutting-edge technology, stringent quality control, and engineering support to achieve their required specifications with the highest precision possible.
MACHINED QUARTZWARE		Tosoh's integrated domestic and international network of machining facilities and access to stable material supplies enables it to assure customers of a reliable, high-volume supply of high-precision machined quartzware. Tosoh utilizes state-of-the-art machining centers and an understanding of materials and fabrication to offer optimized machining.
SPUTTERING TARGETS		Tosoh's sputtering targets are produced at its operating bases in Japan, the United States, South Korea and at its bonding facilities in Taiwan. They are available in a variety of high-purity metals, metal alloys, and ceramic compositions. Tosoh can make its sputtering targets in all shapes and sizes and to all purity levels to meet design specifications for thin film deposition in semiconductor, flat-panel display, and electronic component manufacturing processes.
PROCESS KIT MANAGEMENT *Process Kit Management™*		Tosoh's wholly owned subsidiary, Tosoh SET Inc., specializes in physical vapor deposition (PVD), chemical vapor deposition (CVD), etch, and chemical mechanical planarization (CMP) kit refurbishment for the semi-conductor industry. The Process Kit Management™ program combines parts cleaning with mechanical inspection, advanced surface treatment, and parts replacement. Assembling all the components into one kit box significantly reduces material management requirements for customers around the world.

with the establishment of Tosoh Advanced Parts Cleaning, Inc. on the U.S. East Coast. This company, which currently serves regional customers in the United States, plans to expand globally within the next two years.

The Electronic Materials Division is currently embarking on a strategy aimed at laying the foundations to double sales. The strategy involves focused M&A, new facility investment in Asia, particularly Korea, Taiwan and China, and the launching of new technologies and products in conjunction with aggressive regional business development teams. The division consequently anticipates continued advances in its performance in fiscal 2007. Growth in demand for final products such as flat-screen televisions and digital home appliances that support growth, appears to be a long-term trend.

BIOSCIENCE INSTRUMENTS

Tosoh is a leader in global markets for high-performance liquid chromatography (HPLC) systems and packing materials, and also provides sophisticated diagnostic systems. Based

BIOSCIENCE

PRODUCTS *Brand Names*	MARKETS SERVED	
FULLY AUTOMATED RANDOM-ACCESS ENZYME IMMUNOASSAY SYSTEM *AIA®-1800*		The AIA-1800 provides continuous random access, full automation, full STAT capability, high throughput, operational simplicity, and an unprecedented degree of flexibility as a complete, full-featured platform. Designed under Open-LA21 standardization, the AIA-1800 is compatible for highly integrated laboratory automation systems.
RANDOM-ACCESS ENZYME IMMUNOASSAY SYSTEM *AIA®-600 II, AIA®-360*		The AIA-600 II is equipped with such advanced functions as STAT assay results, primary tube sampling, and automated sample dilution and pretreatment. It also offers all the automation, power, and performance of a large system in a compact, benchtop design. The AIA-360, which is a slim 16 x 16 x 21 inches is ideal for small-volume hospital labs and physicians' offices and for cardiac and specialty testing. The system boasts a throughput of 36 tests per hour and results in under 20 minutes, bar-coded primary tube sampling, reagent level sensing, clot detection, and positive cup ID.
REAGENT SYSTEMS *AIA-PACK®, ST AIA-PACK*		The AIA-PACK test cup technology contributes significantly to lab efficiency and productivity. Pre-measured, prepackaged, and labeled test cups eliminate human error, minimize waste, and save operator time, while quality reagents and automated procedures provide consistent and fast performance. The ST AIA-PACK has a quicker, 10-minute reaction time.
AUTOMATED GLYCOHEMOGLOBIN ANALYZER *HLC®-723G7, HLC®-723G8*		Glycohemoglobin measurements are widely utilized as a diabetic screening test index and as a therapeutic index for the long-term blood glucose control of diabetes mellitus. Tosoh's HLC-723GHbV achieved the first complete separation of labile A1c from stable A1c on the chromatogram and minimized interference from variant hemoglobin within three minutes of its Variant Analysis Mode. The HLC-723G7 features reduced this time even further to 2.2 minutes and the new HLC-723G8 features promise even higher resolution and faster result reporting capabilities.
REAL-TIME FLUORESCENCE MONITORING SYSTEM *TRCRapid®-160*		The TRCRapid-160 is easy to use and enables early detection of infectious and other diseases by looking for genes through specific proteins that are indicative of disease mechanisms.
HIGH PERFORMANCE LIQUID CHROMATOGRAPHY COLUMNS *TSK-GEL®*		Dependable and perfect for a variety of chromatographic applications, TSK-GEL columns are used extensively in laboratories worldwide. TSK-GEL covers the full HPLC range and offers high-resolution even at high flow rates, excellent reproducibility, and long column life. TSK-GEL, moreover, makes scaling up from analytical to preparative columns simple and easy. Tosoh's G3000SWXL column is now one of the top-selling columns in the world.
SEPARATION MEDIA FOR BIO-PHARMACEUTICAL PURIFICATION *TOYOPEARL®*		Toyopearl resins are hydrophilic, macroporous, bulk bioprocess media manufactured primarily for large-scale chromatographic applications, which assures superior pressure/flow characteristics.
OTHERS		Products available in Japan include the IC-2001 ion chromatography system, the HLC-8320 EcoSEC gel permeation chromatography (GPC) system, the HLC-8121GPC/HT high-temperature GPC system and the 8020 series featuring Tosoh's computer controlled pump system for high-performance liquid chromatography.

on advanced immunoassay technologies, Tosoh systems are able to quickly diagnose life-threatening diseases, such as diabetes, certain cancers, and microbial infections. Systems that integrate all hardware and software with global customer support capabilities provide optimal value and availability of consumables. Tosoh has built its position through internal growth, acquisitions, and strategic alliances that provide a global network and access to cutting-edge technologies in areas such as genetic diagnostics. In vitro systems that are faster, smaller and easier to use are core themes for future development.

Bioscience

The Bioscience Division posted favorable results in fiscal 2006, with sales increasing for its four main product lines: separation materials, diagnostic high-performance liquid chromatography (HPLC) systems, immuno-diagnostics and molecular testing. With the exception of TRC, which was launched in 2004, each product line contributes approximately one-third to total sales.

In the market for separation materials, domestic and overseas sales of columns and packing materials for high-performance liquid chromatography (HPLC) systems registered steady expansion. The Japanese market for gel permeation chromatography (GPC) systems was driven by demand from the electronic materials and LCD industries. The ion chromatography (IC) market in Japan was relatively flat in an environment of stiffer price competition.

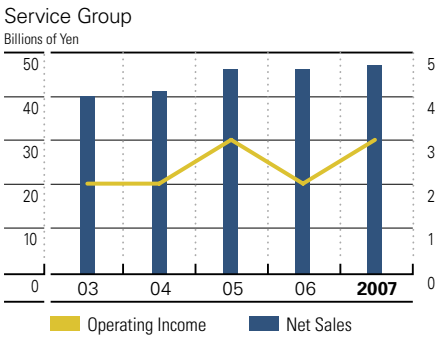
Shipments of automated immunoassay (AIA®) analyzers edged slightly downward in the diagnostics market, but Tosoh shipped larger quantities of in vitro diagnostic reagents to customers both in Japan and overseas. The division expanded the customer base for its 1800, 600 II and 360 analyzer models and expanded its reagent sales volume.

Shipments of the Company's automated glycohemoglobin (GHb) analyzer and the relevant reagents for diagnosing diabetes also registered solid growth. Tosoh laid the groundwork in 2006 for the overseas launch of the HLC®-723G8 automated glycohemoglobin (GHb) analyzer it brought to market in Japan in November 2005. The product has met with a highly favorable customer reception in Japan, contributing to Tosoh's ability to maintain a 42% domestic market share and the number two position worldwide. Automated glycohemoglobin analyzers are used to screen for and monitor diabetes mellitus, and the number of patients undergoing analysis is expected to increase from 1.9 million today to 3.3 million by 2025.

Tosoh (Shanghai) Co., Ltd., established a Technical Service Center in China to support the launch of Tosoh's bioscience products in the Asian marketplace. The Bioscience Division anticipates continued improvement in its performance in fiscal 2007 as it begins implementing a strategy to double sales by 2010.

Service Group

The Service Group's sales rose by ¥1,031 million to ¥47,370 million (US$401.3 million) during the term under review, an upturn of 2.2% from the previous fiscal year, while operating income surged by ¥581 million to ¥2,965 million (US$25.1 million), an increase of 24.4%.



SERVICE

Composed primarily of logistics, construction, engineering support and related services, the Service Group's operations are organized under an autonomous group that provides support for the rest of Tosoh's business groups to ensure a cost-efficient concentration of resources and expertise. The Service Group also operates financial services in Japan, a function undertaken by regional service platforms in other regions. During the term under review, the group's trading company and logistics subsidiary operations expanded slightly, while earnings improved significantly.

Tosoh Logistics Corporation's improvement in sales and profits reflected the ongoing growth of Tosoh Corporation as a whole and the increase in services the company provides for the Tosoh Group. Projections show this growth in sales continuing in fiscal 2007, as Tosoh's logistical needs are enlarged by its increased capacity and market expansion. Tosoh Logistics has prepared for future growth in Asia by establishing operations in China to provide logistical support for Tosoh Guangzhou Chemical Industries, Inc.

Tosoh Analysis & Research Center (TARC) provides the Tosoh Group and companies worldwide with a range of sophisticated analytical services. TARC recorded slightly increased sales for the year under review along with substantial growth in profits. TARC's services to Tosoh and the Tosoh Group companies remain brisk, and further growth in profits and sales is projected for the coming years.

Tosoh Information Systems Corporation assists Tosoh Group members and various other companies with IT solutions. Although sales declined somewhat in fiscal 2006, profits remained stable. The company is introducing a new ERP system as well as various other systems to upgrade operations at Tosoh Group companies.

Tosoh General Services, which provides support for personnel management, employee benefit administration and training activities, also recorded higher sales and profits in fiscal 2006, but this growth is expected to level off in fiscal 2007 and 2008.

Financial Review

NET SALES

The Tosoh Group's consolidated net sales grew by 20.4% to ¥781.3 billion (US$6,619 million) in fiscal 2006, ended March 31, 2007. This sharp upturn can be attributed to strong market demand for its products, the growing impact of price increases in many product categories in response to the worldwide surge in oil and raw materials costs, and the addition to the Group of Nippon Polyurethane Industry Co., Ltd., and its subsidiaries as consolidated subsidiaries. Although the yen weakened somewhat against the U.S. dollar over the course of the year, the negative effect of this change on the translation of overseas sales into yen had a minimal impact on results as compared with other factors.

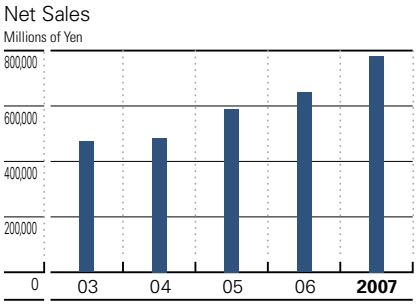
Net sales by segment were as follows:

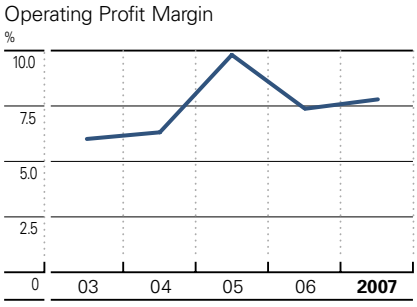
	Millions of yen		% change
Years ended March 31	2007	2006	2007/2006
Petrochemical Group	¥ 242,291	¥ 202,345	19.7
Basic Group	192,334	199,438	(3.6)
Specialty Group	299,352	200,688	49.2
Service Group	47,370	46,339	2.2

Overseas sales, including export sales and sales outside Japan by overseas subsidiaries, grew by 35.8% to ¥265.7 billion (US$2,251 million), increasing to 34.0% as a proportion of consolidated net sales from 30.1% in the previous fiscal year. Among these, sales in Asia expanded by 39.7% compared with the previous year to ¥197.7 billion (US$1,675 million), a figure representing 25.3% of consolidated net sales as compared to 21.8% in the previous term. Asia remains Tosoh's strategic growth region, and the Company continues to invest in building up its manufacturing and sales presence in Asia, particularly in China.

OPERATING EXPENSES AND OPERATING INCOME

Cost of sales rose by 20.5% year on year to ¥620.0 billion (US$5,252 million), amounting to 79.4% of net sales as compared with 79.3% in the year before. The growth in the cost of sales was thus approximately on a par with that of net sales, despite the upward trend in raw material costs. This can be attributed to our success in implementing price increases and our continued efforts to reduce costs. The average price of naphtha, which exerts a pronounced impact on the Tosoh Group's costs, rose to ¥50,000 per kL from ¥42,000 in the previous year. This was coupled with a depreciation of the yen relative to the U.S. dollar to an average rate of ¥116.97 as compared with ¥113.32 a year earlier. Depreciation of the yen generally results in a higher cost of sales for the Tosoh Group, because petroleum derivatives are typically denominated in U.S. dollars. Gross profit nevertheless increased by 20.0%





year-on-year to ¥161.3 billion (US$1,367 million), representing 20.6% of net sales compared to 20.7% in the year before.

Selling, general and administrative (SG&A) expenses grew by 16.2% from the year before to ¥101.1 billion (US$856 million), primarily due to the consolidation of Nippon Polyurethane Industry Co., Ltd. This rate of increase was held to well below the growth in net sales, however, of which it represented 12.9% compared to 13.4% in the previous year. Among these SG&A expenses, R&D expenditures represented a total of ¥12.7 billion (US$108 million), up from ¥11.1 billion in the preceding year.

Operating income increased by 27.0% year-on-year to ¥60.3 billion (US$511 million), accounting for 7.7% of net sales compared to 7.3% in fiscal 2005.

Operating income by segment was as follows:

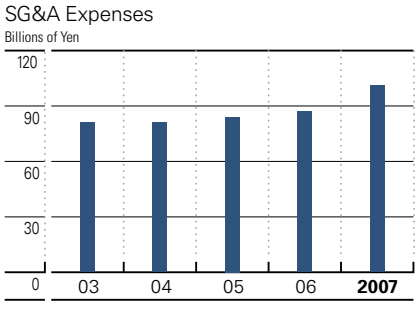
	Millions of yen		% change
Years ended March 31	2007	2006	2007/2006
Petrochemical Group	¥ 14,047	¥ 12,824	9.5
Basic Group	6,108	5,603	9.0
Specialty Group	37,159	26,649	39.4
Service Group	2,965	2,384	24.4

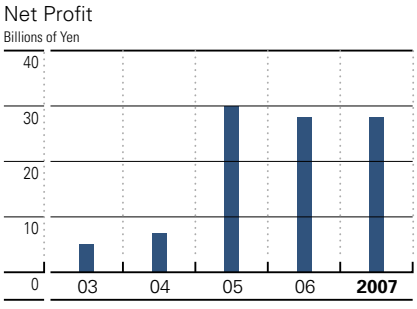
OTHER INCOME AND EXPENSES

Interest and dividend income rose by 27.8% year-on-year to ¥1.2 billion (US$10 million), a result that essentially reflected growth in dividends from investments generated by Japan's ongoing economic recovery. Foreign exchange gains recorded a net decrease of 43.9% to ¥0.8 billion (US$7 million), primarily due to the effects of the yen's weakness with respect to the U.S. dollar on the earnings of overseas Group companies when translated into yen. Interest expenses increased by 26.8% to ¥5.0 billion (US$42 million). The interest coverage ratio, defined as the sum of operating income and interest and dividend income divided by interest expenses, was 12.4 times, unchanged from the previous fiscal year. Impairment losses on fixed assets totaled ¥0.4 billion (US$3 million) as compared with ¥2.8 billion a year earlier. Losses on the disposal of property, plant and equipment grew by 37.0% to ¥1.4 billion (US$12 million). As a result, the Company recorded a net deficit of ¥4.8 billion (US$41 million) as compared with a net surplus of ¥2.0 billion in the previous fiscal year. Despite this reversal in other income, income before income taxes and minority interests expanded by 12.2% year-on-year to ¥55.5 billion (US$470 million).

NET INCOME

Income taxes net of deferrals expanded by 14.9% to ¥23.8 billion (US$202 million). Net income increased by 3.5% year-on-year to ¥28.5 billion (US$241 million), and net income per share rose to ¥47.60 (US$0.40) from ¥45.74 in the year before. The Company paid cash dividends of ¥8.0 (US$0.07) per share.





LIQUIDITY AND CAPITAL RESOURCES

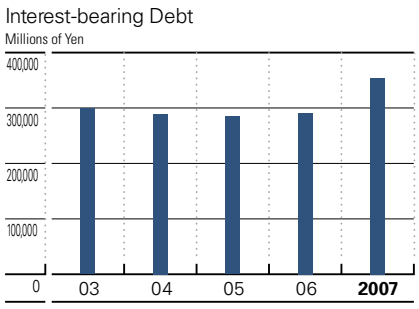
Current assets as of March 31, 2007 grew by 25.2% from the preceding year to ¥370.2 billion (US$3,136 million), primarily due to increases in receivables and inventories resulting from higher sales. Current liabilities increased by 24.2% year-on-year to ¥357.7 billion (US$3,030 million). Working capital consequently totaled ¥12.5 billion (US$106 million) as compared with ¥7.7 billion at the previous year-end. The current ratio was 1.04 time.

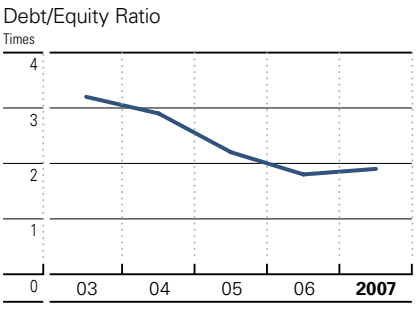
Property, plant and equipment turned upward by 24.0% to ¥314.7 billion (US$2,666 million) with the consolidation of Nippon Polyurethane Industry and additional capital investments in an MDI manufacturing plant operated by Nippon Polyurethane Industry and in an aniline production facility and electric power plant at the Company's Nanyo Complex. Total assets expanded by 23.7% from a year earlier to ¥788.5 billion (US$6,680 million), primarily due to these same factors. Return on average total assets was 4.0%, down slightly from the 4.4% recorded in the previous year.

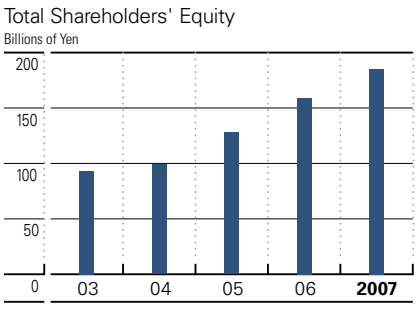
Interest-bearing debt increased to ¥354.5 billion (US$3,003 million) as of March 31, 2007, up from ¥291.2 billion at the previous year-end. The increase stemmed primarily from short-term bank loans incurred to fund normal working capital requirements. Tosoh supplemented internal capital resources with the net proceeds from the long-term debt noted below, moreover, to fund investment in several projects, primarily the capacity expansions discussed above.

Effective from the year under review, the Company and its domestic consolidated subsidiaries adopted a new accounting standard under which the Shareholders' Equity section presented on the balance sheets is integrated into a new Net Assets section, which includes unrealized gains (losses) on hedges, stock acquisitions rights and minority interests. In essence, the new section combines the previous total shareholders' equity with minority interests. While the adoption of the new accounting standard has no impact on the consolidated statement of income, it does affect the figures for total shareholders' equity, which have been adjusted for prior fiscal years as well to reflect the new presentation. This reclassification does not represent any actual change in shareholders' asset ownership.

Total shareholders' equity grew by 16.9% year-on-year to ¥174.5 billion (US$1,478 million) under the new accounting standard. This compares with growth of 16.3% to ¥185.0 billion (US$1,567 million) during the same period when measured according to the old standard. Retained earnings expanded by ¥24.6 billion (US$209 million) from a year earlier to ¥104.4 billion (US$884 million). Net unrealized gains on securities held fell by 13.8% to ¥11.2 billion (US$95 million). Foreign currency translation adjustments, primarily representing







the effects of exchange rates on the net assets of overseas Group companies, resulted in a contraction of net assets by ¥1.6 billion (US$13 million) as compared to ¥3.2 billion at the previous year-end. Total net assets expanded by 23.0% year-on-year to ¥227.8 billion (US$1,929 million). Net assets per share finished the year at ¥308.81 (US$2.62) as compared to ¥265.75 a year earlier. The return on average total net assets was 13.8%. The net assets ratio was 28.9%, down slightly from 29.1% the year before.

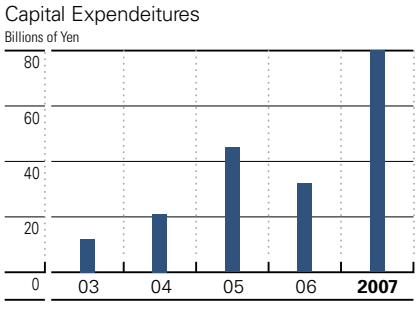
CASH FLOWS

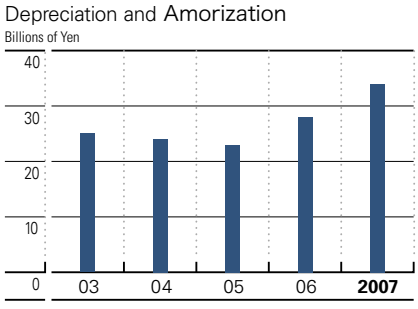
Net cash provided by operating activities increased by 51.8% year-on-year to ¥51.1 billion (US$433 million) due primarily to the increase in income before income taxes and minority interests and higher depreciation and amortization expenses.

Net cash used in investing activities climbed by 153.5% year-on-year to ¥85.2 billion (US$722 million). As mentioned earlier, the Tosoh Group continued to invest in growth opportunities, especially in the vinyl isocyanate chain. Expenditures for purchases of property, plant and equipment totaled ¥79.4 billion (US$673 million), more than double the ¥38.0 billion spent in the previous fiscal year. Purchases of investment securities amounted to ¥7.6 billion (US$65 million) as compared to ¥1.1 billion in the previous fiscal year. Payments for advances on long-term loans receivable totaled ¥4.8 billion (US$41 million).

Net cash provided by financing activities totaled ¥42.3 billion (US$359 million) for the year, as compared with net cash used of ¥0.7 billion in the previous year. Net proceeds from long-term debt rose by ¥28.1 billion (US$238 million), up sharply from ¥1.9 billion in the preceding year. Tosoh's long-term debt consists primarily of loans from banks and other financial institutions.

The Group consequently had a total of ¥26.9 billion (US$228 million) in cash and cash equivalents at fiscal 2006 year-end, an increase of ¥8.5 billion (US$72 million) from the end of the preceding year.





TOSOH CORPORATION
CONSOLIDATED BALANCE SHEETS

Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
ASSETS			
Current assets:			
Cash and cash equivalents (Note 8)	**¥ 26,911**	¥ 18,409	**$ 227,963**
Marketable securities (Note 5)	**52**	550	**441**
Trade receivables, less allowance for doubtful accounts (Notes 3 and 8)	**205,938**	1 63,468	**1,744,498**
Inventories (Note 4)	**114,228**	91,969	**967,624**
Deferred tax assets (Note 12)	**6,885**	7,068	**58,323**
Other current assets	**16,184**	14,200	**137,094**
Total current assets	**370,198**	295,664	**3,135,943**
Investments:			
Investment securities (Notes 5 and 8)	**40,116**	40,898	**339,822**
Investments in affiliates (Note 5)	**24,457**	22,149	**207,175**
Long-term loans receivable	**775**	679	**6,565**
Other	**16,251**	9,069	**137,662**
Total investments	**81,599**	72,795	**691,224**
Property, plant and equipment – net (Notes 6, 7 and 8)	**314,706**	253,745	**2,665,870**
Other assets:			
Deferred tax assets (Note 12)	**8,678**	8,711	**73,511**
Intangibles	**13,337**	6,562	**112,978**
Total other assets	**22,015**	15,273	**186,489**
Total assets	**¥ 788,518**	¥ 637,477	**$ 6,679,526**

The accompanying notes are an integral part of these statements.

Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Note 8)	**¥ 138,022**	¥114,163	**$ 1,169,183**
Current maturities of long-term debt (Note 8)	**46,479**	43,336	**393,723**
Trade payables	**117,316**	87,738	**993,782**
Income taxes payable	**15,791**	10,161	**133,765**
Deferred tax liabilities (Note 12)	**4**	—	**34**
Other current liabilities	**40,062**	32,570	**339,365**
Total current liabilities	**357,674**	287,968	**3,029,852**
Long-term liabilities:			
Long-term debt, less current maturities (Note 8)	**169,965**	133,722	**1,439,771**
Retirement and severance benefits (Note 9)	**20,934**	19,817	**177,332**
Retirement benefits for directors and corporate auditors	**740**	1,448	**6,269**
Deferred tax liabilities (Note 12)	**7,281**	7,259	**61,677**
Other long-term liabilities	**4,155**	2,061	**35,197**
Total long-term liabilities	**203,075**	164,307	**1,720,246**
Total liabilities	**560,749**	452,275	**4,750,098**
Contingent liabilities (Note 10)			
Shareholders' Equity:			
Common stock:			
Authorized – 1,800,000,000 shares in 2007 and 1,200,000,000 shares in 2006; Issued – 601,161,912 shares	**40,634**	40,634	**344,210**
Capital surplus	**30,285**	29,971	**256,544**
Retained earnings	**104,409**	79,765	**884,447**
Treasury stock, 2,167,270 shares in 2007 and 3,130,399 shares in 2006	**(792)**	(1,026)	**(6,709)**
Total shareholders' equity	**174,536**	149,344	**1,478,492**
Valuation and translation adjustments:			
Net unrealized holding gains on securities	**11,190**	12,982	**94,790**
Deferred gains (losses) on hedges	**6**	—	**51**
Land revaluation reserve	**817**	—	**6,921**
Foreign currency translation adjustments	**(1,575)**	(3,214)	**(13,342)**
Total valuation and translation adjustments	**10,438**	9,768	**88,420**
Stock acquisition rights (Note 15)	**75**	—	**635**
Minority interests	**42,720**	26,090	**361,881**
Total net assets	**227,769**	185,202	**1,929,428**
Total liabilities and net assets	**¥ 788,518**	¥ 637,477	**$ 6,679,526**

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Net sales (Note 13)	**¥ 781,347**	¥ 648,810	**$ 6,618,780**
Cost of sales	**619,999**	514,398	**5,252,003**
Gross profit	**161,348**	134,412	**1,366,777**
Selling, general and administrative expenses	**101,069**	86,952	**856,154**
Operating income (Note 13)	**60,279**	47,460	**510,623**
Other income (expenses):			
Interest and dividend income	**1,237**	968	**10,479**
Foreign exchange gains, net	**781**	1,393	**6,616**
Gain on sales of investment securities	**291**	3,261	**2,465**
Interest expense	**(4,970)**	(3,919)	**(42,101)**
Equity in earnings (losses) of affiliates	**(553)**	2,366	**(4,685)**
Impairment loss on fixed assets (Notes 7 and 13)	**(367)**	(2,820)	**(3,109)**
Loss on disposal of property, plant and equipment	**(1,372)**	(1,002)	**(11,622)**
Other, net	**155**	1,752	**1,313**
Income before income taxes and minority interests	**55,481**	49,459	**469,979**
Income taxes:			
Current	**21,776**	20,180	**184,464**
Deferred (Note 12)	**2,023**	529	**17,137**
Minority interests	**(3,194)**	(1,217)	**(27,057)**
Net income	**¥ 28,488**	¥ 27,533	**$ 241,321**
Per share of common stock:	Yen		U.S. Dollars (Note 1)
Net income -primary	**¥ 47.60**	¥ 45.74	**$ 0.40**
Net income -diluted	**47.59**	—	**0.40**
Cash dividends applicable to the year	**¥ 8.00**	¥ 6.00	**$ 0.07**

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS

	Millions of Yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at March 31,2005	¥ 40,634	¥ 29,865	¥ 57,808	¥ (1,021)	¥ 127,286
Net income			27,533		27,533
Cash dividends			(5,402)		(5,402)
Bonuses paid to directors and corporate auditors			(152)		(152)
Decrease due to increase in consolidated subsidiaries			(18)		(18)
Change in subsidiaries' year-ends			(4)		(4)
Purchase of treasury stock				(131)	(131)
Disposal of treasury stock		106		127	233
Other, net				(1)	(1)
Balance at March 31,2006	40,634	29,971	79,765	(1,026)	149,344
Net income			28,488		28,488
Cash dividends			(3,600)		(3,600)
Bonuses paid to directors and corporate auditors			(167)		(167)
Increase due to increase in consolidated subsidiaries			49		49
Decrease due to changes in shareholding ratio			(126)		(126)
Purchase of treasury stock				(120)	(120)
Increase of treasury stock due to changes in shareholding ratio				(70)	(70)
Disposal of treasury stock		314		424	738
Other, net					
Balance at March 31,2007	¥ 40,634	¥ 30,285	¥ 104,409	¥ (792)	¥ 174,536

	Thousands of U.S. Dollars (Note 1)				
Balance at March 31,2006	$ 344,210	$ 253,884	$ 675,688	$ (8,691)	$ 1,265,091
Net income			241,321		241,321
Cash dividends			(30,495)		(30,495)
Bonuses paid to directors and corporate auditors			(1,415)		(1,415)
Increase due to increase in consolidated subsidiaries			415		415
Decrease due to changes in shareholding ratio			(1,067)		(1,067)
Purchase of treasury stock				(1,017)	(1,017)
Increase of treasury stock due to changes in shareholding ratio				(593)	(593)
Disposal of treasury stock		2,660		3,592	6,252
Other, net					
Balance at March 31,2007	$ 344,210	$ 256,544	$ 884,447	$ (6,709)	$ 1,478,492

The accompanying notes are an integral part of these statements.

Millions of Yen

Valuation and translation adjustments							
Net unrealized holding gains on securities	Deferred gains (losses) on hedges	Land revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
¥ 5,743	¥ —	¥ —	¥ (5,036)	¥ 707	¥ —	¥ 24,448	¥ 152,441
							27,533
							(5,402)
							(152)
							(18)
							(4)
							(131)
							233
7,239			1,822	9,061		1,642	10,702
12,982	—	—	(3,214)	9,768	—	26,090	185,202
							28,488
							(3,600)
							(167)
							49
							(126)
							(120)
							(70)
							738
(1,792)	6	817	1,639	670	75	16,630	17,375
¥ 11,190	¥ 6	¥ 817	¥ (1,575)	¥ 10,438	¥ 75	¥ 42,720	¥ 227,769

Thousands of U.S. Dollars (Note 1)

$ 109,970	$ —	$ —	$ (27,225)	$ 82,745	$ —	$ 221,008	$ 1,568,844
							241,321
							(30,495)
							(1,415)
							415
							(1,067)
							(1,017)
							(593)
							6,252
(15,180)	51	6,921	13,883	5,675	635	140,873	147,183
$ 94,790	$ 51	$ 6,921	$ (13,342)	$ 88,420	$ 635	$ 361,881	$ 1,929,428

TOSOH CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2007 and 2006

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 55,481**	¥ 49,459	**$ 469,979**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**35,373**	29,173	**299,644**
Impairment loss on fixed assets	**367**	2,820	**3,109**
Decrease in retirement and severance benefits	**(4,158)**	(2,579)	**(35,222)**
Interest and dividend income	**(1,237)**	(968)	**(10,479)**
Interest expense	**4,970**	3,919	**42,101**
Equity in (earnings) losses of affiliates	**553**	(2,366)	**4,684**
Net gain on sales of investment securities	**(291)**	(3,256)	**(2,465)**
Loss on disposal of property, plant and equipment	**1,372**	1,002	**11,622**
Increase in trade receivables	**(35,270)**	(9,581)	**(298,772)**
Increase in inventories	**(12,485)**	(8,382)	**(105,760)**
Increase in trade payables	**20,714**	1,155	**175,468**
Other, net	**5,218**	(1,841)	**44,202**
Subtotal	**70,607**	58,555	**598,111**
Interest and dividends received	**2,028**	2,115	**17,179**
Interest paid	**(4,768)**	(3,935)	**(40,390)**
Income taxes paid	**(16,740)**	(23,050)	**(141,804)**
Net cash provided by operating activities	**51,127**	33,685	**433,096**
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	**(79,428)**	(37,962)	**(672,834)**
Purchases of investment securities	**(7,636)**	(1,081)	**(64,684)**
Proceeds from sales of investment securities	**1,993**	7,554	**16,883**
Proceeds from acquisition of consolidated subsidiaries-net	**3,566**	—	**30,208**
Payments for advances of long-term loans receivable	**(4,834)**	(1,738)	**(40,949)**
Proceeds from collections of long-term loans receivable	**3,254**	256	**27,565**
Other, net	**(2,146)**	(647)	**(18,179)**
Net cash used in investing activities	**(85,231)**	(33,618)	**(721,990)**
Cash flows from financing activities:			
Net increase in short-term bank loans	**13,158**	3,179	**111,461**
Proceeds from long-term debt	**74,702**	39,308	**632,800**
Repayments of long-term debt	**(46,635)**	(37,374)	**(395,044)**
Cash dividends paid	**(4,579)**	(5,685)	**(38,789)**
Contribution from minority shareholders	**4,833**	—	**40,940**
Other, net	**869**	(128)	**7,361**
Net cash used in financing activities	**42,348**	(700)	**358,729**
Effect of exchange rate changes on cash and cash equivalents	**131**	441	**1,110**
Net increase (decrease) in cash and cash equivalents	**8,375**	(192)	**70,945**
Cash and cash equivalents at beginning of year	**18,409**	18,573	**155,942**
Increase in cash and cash equivalents resulting from changes in number of consolidated subsidiaries	**127**	41	**1,076**
Decrease in cash and cash equivalents due to change in subsidiaries' year-ends	**—**	(13)	**—**
Cash and cash equivalents at end of year	**¥ 26,911**	¥ 18,409	**$ 227,963**

The accompanying notes are an integral part of these statements.

TOSOH CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – BASIS OF PRESENTING CONSOLIDATED 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 Securities and Exchange Law and its related accounting regulations and in conformity with accounting principles generally accepted in Japan ("Japanese GAAP"), which are different in certain respects as to application and disclosure requirements of International Financial Reporting 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 have been restructured and translated into English (with some expanded descriptions and the inclusion of consolidated statements of shareholders' equity) from the consolidated financial statements of the Company prepared in accordance with Japanese GAAP and filed with the appropriate Local Finance Bureau of the Ministry of Finance as required by the Securities and Exchange Law. Some supplementary information included in the statutory Japanese language consolidated financial statements, but not required for fair presentation, is not presented in the accompanying consolidated financial statements.

The translations of the Japanese yen amounts into U.S. dollars are included solely for the convenience of readers outside Japan, using the prevailing exchange rate at March 31, 2007, which was ¥118.05 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

NOTE 2 – SUMMARY OF ACCOUNTING POLICIES

Consolidation and investments

The consolidated financial statements include the accounts of the Company and its significant subsidiaries. All significant intercompany transactions and accounts have been eliminated in the consolidation.

Investments in 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

Receivables and payables denominated in foreign currencies are translated into Japanese yen at the year-end rates.

Financial statements of consolidated overseas subsidiaries are translated into Japanese yen at the year-end rates, except that shareholders' equity accounts are translated at historical rates.

Cash and cash equivalents

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

Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. 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 net assets. Other available-for-sale securities with no available fair market values are stated at moving-average cost.

Significant 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.

Allowance for doubtful accounts

The Company and its consolidated subsidiaries (the "Companies") provide the allowance for doubtful trade receivables by individually estimating uncollectible amounts and for 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. Cumulative amounts of impairment losses recognized have been deducted from acquisition costs. Depreciation is principally computed over the estimated useful lives of the assets on the declining basis. However the straight-line basis is applied to buildings. Repairs, maintenance and minor renewals are charged to expense as incurred.

Effective from April 1, 2005, the Company changed the accounting method for depreciation of property, plant and equipment except for buildings from the straight-line basis to the declining basis.

Capital investment has been actively developed in recent years to expand and strengthen the vinyl isocyanate chain operations which are one of the core operations of the Company.

This change was made in order to attain early recovery of invested capital, and much more improvement of the financial structure, considering the change of price in overseas markets of these operations has been fluctuating to a large degree.

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.

The Companies provide allowance for employees' retirement and severance benefits based on the estimated amounts of projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets.

Prior service cost (credit) is recognized as expense (income) as incurred.

Actuarial loss (gain) is recognized as expense (income) using the straight-line method over 10 years commencing in the following period.

Retirement benefits for directors and corporate auditors

In order to provide for retirement benefits for directors and corporate auditors, the Companies provide the allowance of the amount based on internal regulations.

The Company abolished the retirement benefits for directors and corporate auditors at a general shareholders' meeting on June 29, 2006. The Company included the relevant allowance in the other long-term liabilities.

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 non-consolidated financial statements of the Company in accordance with the Japanese Corporate Law.

Bonuses to directors and corporate auditors

Bonuses to directors and corporate auditors were accounted for by an appropriation of retained earnings.

Effective the year ended March 31, 2007, the Company and domestic consolidated subsidiaries adopted a new accounting standard.

That requires directors' bonuses to be accounted for as an expense on an accrual basis.

Stock options

Effective from the year ended March 31, 2007, the Company adopted a new accounting standard for stock options.

The standard requires companies to account for stock options granted to non-employees based on the fair value of the stock option. In the balance sheet, the stock option is presented as stock acquisition rights as a separate component of net assets until exercised.

The effect of this adoption was to decrease operating income and income before income taxes and minority interests by ¥75 million ($635 thousand), respectively.

See note 13 for the effect of this change on segment information.

Amounts per share

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

Diluted net income per share reflects the potential dilution that could occur if stock options were fully exercised.

Accounting standard for presentation of net assets in the balance sheet

Effective from the year ended March 31, 2007, the Company and domestic consolidated subsidiaries adopted a new accounting standard.

This standard required that balance sheets be presented as follows;

1. The balance sheet is divided into "Assets," "Liabilities," and "Net assets" sections. "Net assets" is divided into "Shareholders' equity," "Valuation and translation adjustments," "Stock acquisition rights" and "Minority interests."

2. "Shareholders' equity" is divided into "Common stock," "Capital surplus," "Retained earnings" and "Treasury stock."

3. "Valuation and translation adjustments" is divided into "Net unrealized holding gains on securities," "Deferred gains (losses) on hedges," "Land revaluation reserve" and "Foreign currency translation adjustments."

Under the new accounting standard, the following items are presented differently compared to the previous presentation. The net assets section includes unrealized gains (losses) on hedges. Stock acquisition rights and minority interests are required to be included in the net assets section.

The adoption of the new accounting standard had no impact on the consolidated statements of income for the years ended March 31, 2007 and 2006.

Accounting Standard for Statement of Changes in Net Assets

Effective from the year ended March 31, 2007, the Company and its consolidated subsidiaries adopted the new accounting standard.

Previously, consolidated statements of shareholders' equity were prepared for the purpose of inclusion in the consolidated financial statements although such statements were not required under Japanese GAAP.

Reclassifications and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation. Also the consolidated balance sheet for 2006 has been adapted to conform to new presentation rules of 2007.

These reclassifications had no impact on previously reported results of operations or retained earnings.

NOTE 3 – ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade receivables have been reduced by allowances for doubtful accounts of ¥652 million ($5,523 thousand) and ¥442 million, as of March 31, 2007 and 2006, respectively.

NOTE 4 – INVENTORIES

Inventories as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Finished products	**¥ 64,602**	¥ 52,442	**$ 547,243**
Raw materials and supplies	**37,947**	30,610	**321,448**
Work-in-process	**11,679**	8,917	**98,933**
Total	**¥ 114,228**	¥ 91,969	**$ 967,624**

NOTE 5 – MARKET VALUE INFORMATION OF SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2007 and 2006.

(1) Held-to-maturity debt securities:

	Millions of Yen					
	2007			2006		
	Book value	Fair value	Difference	Book value	Fair value	Difference
Total	¥ 36	¥ 36	¥ (0)	¥ 55	¥ 54	¥ (1)

	Thousands of U.S. Dollars(Note 1)		
	2007		
	Book value	Fair value	Difference
Total	$ 305	$ 305	$ (0)

(2) Available-for-sale securities:

	Millions of Yen					
	2007			2006		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs	¥ 10,102	¥ 29,489	¥ 19,387	¥ 10,170	¥ 31,979	¥ 21,809
Securities with book values not exceeding acquisition costs	193	178	(15)	537	532	(5)
Total	¥ 10,295	¥ 29,667	¥ 19,372	¥ 10,707	¥ 32,511	¥ 21,804

	Thousands of U.S. Dollars (Note 1)		
	2007		
	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs	$ 85,574	$ 249,801	$ 164,227
Securities with book values not exceeding acquisition costs	1,635	1,508	(127)
Total	$ 87,209	$ 251,309	$ 164,100

The following tables summarize book values of securities with no available fair values as of March 31, 2007 and 2006.

	Book Value		
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Held-to-maturity debt securities	**¥ —**	¥ 1	**$ —**
Equity securities issued by unconsolidated subsidiaries and affiliated companies	**21,224**	21,117	**179,788**
Available-for-sale securities	**11,665**	8,881	**98,814**

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Land	**¥ 76,257**	¥ 69,411	**$ 645,972**
Buildings and structures	**175,093**	162,493	**1,483,210**
Machinery and equipment	**615,056**	559,304	**5,210,131**
Construction in progress	**66,239**	11,815	**561,110**
	932,645	803,023	**7,900,423**
Less accumulated depreciation	**(617,939)**	(549,278)	**(5,234,553)**
Net property, plant and equipment	**¥ 314,706**	¥ 253,745	**$ 2,665,870**

NOTE 7 – IMPAIRMENT LOSS ON FIXED ASSETS

As of the year ended March 31, 2006, the group of the Company divides fixed assets into groups by the relevance of a business category and a manufacturing process, and recognized impairment loss on the following groups.

	Millions of Yen
	2006
Production facilities and others (*1):	
Land	¥ 23
Buildings and structures	346
Machinery and equipment	579
Construction in progress	152
Intangibles	1
	1,101
Rental properties and others (*2):	
Land	453
Buildings and structures	31
	484
Total	¥ 1,585

(*1) The reason for recognizing impairment loss is that the Company decided to stop manufacturing using these production facilities and others. The recoverable amounts were measured by these values in use net of estimated disposal expense.

(*2) The reason for recognizing impairment loss is that the fair value for these rental properties and others has decreased. The recoverable amounts were principally measured at estimated selling prices.

Other than the above, since the latest achievements were less than the plan of Tosoh SET, Inc. which is a consolidated subsidiary in the U.S., the Company recognized impairment loss on intangibles (goodwill) by ¥1,235 million, based on the Financial Accounting Standards of the U.S. (FAS142).

NOTE 8 – SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 1.30% and 0.75% as of March 31, 2007 and 2006, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2007 and 2006 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Loans from banks and other financial institutions, 1.66 % maturing serially through 2022:			
Secured	**¥ 18,567**	¥ 13,079	**$ 157,281**
Unsecured	**197,877**	163,979	**1,676,213**
	216,444	177,058	**1,833,494**
Less current maturities	**(46,479)**	(43,336)	**(393,723)**
Total	**¥ 169,965**	¥ 133,722	**$ 1,439,771**

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Property, plant and equipment	**¥ 104,815**	¥ 109,213	**$ 887,886**
Investment securities	**207**	255	**1,754**
Other	**294**	475	**2,490**
Total	**¥ 105,316**	¥ 109,943	**$ 892,130**

The annual maturities of long-term debt as of March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Years ending March 31,		
2008	¥ 46,479	**$ 393,723**
2009	52,482	**444,574**
2010	31,928	**270,462**
2011	25,606	**216,908**
2012	21,212	**179,686**
2013 and thereafter	38,737	**328,141**
Total	¥ 216,444	**$ 1,833,494**

NOTE 9 – RETIREMENT AND SEVERANCE BENEFITS

The liabilities for retirement and severance benefits at March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Projected benefit obligation	**¥ 80,953**	¥ 75,107	**$ 685,752**
Fair value of pension assets	**(66,634)**	(57,072)	**(564,456)**
Unfunded benefit obligation	**14,319**	18,035	**121,296**
Unrecognized actuarial gain (loss)	**421**	(1,220)	**3,567**
Net benefit obligation	**14,740**	16,815	**124,863**
Prepaid pension cost	**6,194**	3,002	**52,469**
Retirement and severance benefits	**¥ 20,934**	¥ 19,817	**$ 177,332**

Retirement benefit costs for the year ended March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Service costs	**¥ 3,154**	¥ 2,759	**$ 26,717**
Interest costs on projected benefit obligation	**1,696**	1,559	**14,367**
Expected return on pension assets	**(1,288)**	(861)	**(10,911)**
Amortization of actuarial loss	**664**	1,201	**5,625**
Recognized prior service credit	**10**	—	**85**
Other	**230**	—	**1,948**
Retirement and severance benefit costs	**¥ 4,466**	¥ 4,658	**$ 37,831**

Notes: 1. Both of the discount rate and the rate of expected return on pension assets used by the Companies are 2.5% for the year ended March 31, 2007 and 2006.

2. 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.

NOTE 10 – CONTINGENT LIABILITIES

Contingent liabilities primarily for loans from banks to unconsolidated subsidiaries and affiliates, which are guaranteed by the Companies, and for notes receivable discounted at banks with recourse as of March 31, 2007 were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Loans guaranteed	¥ 8,272	**$ 70,072**
Notes receivable discounted	187	**1,584**
Notes receivable endorsed	199	**1,686**
Total	¥ 8,658	**$ 73,342**

NOTE 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.

The Companies use foreign currency forward exchange contracts only for the purpose of mitigating future risks of exchange rate fluctuations with respect to foreign currency denominated forecasted transactions.

The Companies also use currency swap contracts only for the purpose of mitigating future risks of exchange rate fluctuations.

All of the derivative transactions utilized by the Companies are accounted for as hedges.

NOTE 12 – INCOME TAXES

The Company and its consolidated domestic subsidiaries are subject to a number of income taxes, which, in the aggregate, indicate a statutory rate in Japan of approximately 40.4% for the years ended March 31, 2007 and 2006.

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, 2007.

	March 31, 2007
Statutory tax rate	40.4%
Increase (reduction) in taxes resulting from:	
Non-deductible expenses	0.8
Amortization of goodwill	0.9
Tax credit for research and development expenses	(1.6)
Valuation allowance	1.0
Other	1.4
Effective tax rate	42.9%

The differences between the statutory tax rate and the effective tax rate reflected in the accompanying consolidated statement of operations for the year ended March 31, 2006 was less than 5% of the statutory tax rate and, therefore, has not been disclosed.

Significant components of deferred tax assets and liabilities as of March 31, 2007 and 2006 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2007	2006	**2007**
Deferred tax assets:			
Operating loss carryforwards	**¥ 1,881**	¥ 1,908	**$ 15,934**
Unrealized gains on intercompany Transactions	**5,799**	5,798	**49,123**
Retirement and severance benefits	**10,024**	9,255	**84,913**
Impairment loss on fixed assets	**2,003**	1,694	**16,968**
Other	**9,094**	8,292	**77,035**
Total gross deferred tax assets	**28,801**	26,947	**243,973**
Less valuation allowance	**(3,200)**	(2,811)	**(27,107)**
Total deferred tax assets	**25,601**	24,136	**216,866**
Deferred tax liabilities:			
Reserve for replacement of property, plant and equipment	**(2,969)**	(3,186)	**(25,151)**
Net unrealized holding gains on securities	**(7,848)**	(8,825)	**(66,480)**
Other	**(6,506)**	(3,605)	**(55,112)**
Total deferred tax liabilities	**(17,323)**	(15,616)	**(146,743)**
Net deferred tax assets	**¥ 8,278**	¥ 8,520	**$ 70,123**

NOTE 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 polymers.

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

Operations of the Specialty Group include the manufacture and sale of fine chemicals, scientific and diagnostic instruments and systems, high performance polyurethane, water treatment equipment, quartz, specialty materials and metals.

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.

Business segment information was as follows:

	Millions of Yen						
	Year ended March 31, 2007						
	Petro-Chemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	¥ 242,291	¥ 192,334	¥ 299,352	¥ 47,370	¥ 781,347	¥ —	¥ 781,347
Inter-segment	95,203	66,848	5,770	62,204	230,025	(230,025)	—
Operating expenses	323,447	253,074	267,963	106,609	951,093	(230,025)	721,068
Operating income	¥ 14,047	¥ 6,108	¥ 37,159	¥ 2,965	¥ 60,279	¥ —	¥ 60,279
Identifiable assets	¥ 132,706	¥ 229,181	¥ 338,070	¥ 44,816	¥ 744,773	¥ 43,745	¥ 788,518
Depreciation and amortization	3,874	15,513	12,373	1,435	33,195	884	34,079
Capital expenditures	4,618	35,739	33,729	1,532	75,618	4,630	80,248

	Millions of Yen						
	Year ended March 31, 2006						
	Petro-Chemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	¥ 202,345	¥ 199,438	¥ 200,688	¥ 46,339	¥ 648,810	¥ —	¥ 648,810
Inter-segment	77,395	21,179	4,620	56,167	159,361	(159,361)	—
Operating expenses	266,916	215,014	178,659	100,122	760,711	(159,361)	601,350
Operating income	¥ 12,824	¥ 5,603	¥ 26,649	¥ 2,384	¥ 47,460	¥ —	¥ 47,460
Identifiable assets	¥ 128,168	¥ 192,395	¥ 224,824	¥ 39,933	¥ 585,320	¥ 52,157	¥ 637,477
Depreciation and amortization	3,692	13,272	8,976	1,401	27,341	688	28,029
Impairment loss on fixed assets	134	195	2,168	—	2,497	323	2,820
Capital expenditures	2,876	15,406	10,608	1,244	30,134	2,214	32,348

	Thousands of U.S. Dollars (Note 1)						
	Year ended March 31, 2007						
	Petro-Chemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	$ 2,052,444	$ 1,629,259	$ 2,535,806	$ 401,271	$ 6,618,780	$ —	$ 6,618,780
Inter-segment	806,463	566,269	48,878	526,929	1,948,539	(1,948,539)	—
Operating expenses	2,739,915	2,143,787	2,269,910	903,084	8,056,696	(1,948,539)	6,108,157
Operating income	$ 118,992	$ 51,741	$ 314,774	$ 25,116	$ 510,623	$ —	$ 510,623
Identifiable assets	$ 1,124,151	$ 1,941,389	$ 2,863,786	$ 379,636	$ 6,308,962	$ 370,564	$ 6,679,526
Depreciation and amortization	32,817	131,410	104,811	12,156	281,194	7,489	288,683
Capital expenditures	39,119	302,745	285,717	12,978	640,559	39,221	679,780

The "Elimination and Corporate" column of "Identifiable assets" in the above schedules includes corporate assets of ¥81,677 million ($691,885 thousand) and ¥69,156 million for the years ended March 31, 2007 and 2006, respectively, which mainly consist of cash, time deposits, investment securities and assets of administrative departments.

As given in Note 2, from April 1, 2006, the Company adopted a new accounting standard for stock options. The effect of this adoption was immaterial on the operating income of each segment.

As given in Note 2, from April 1, 2005, the Company changed accounting method for depreciation of property, plant and equipment except for buildings from the straight-line basis to the declining basis.

Geographic information for the years ended March 31, 2007 and 2006 was as follows:

	Millions of Yen				
	Year ended March 31, 2007				
	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	¥ 694,891	¥ 86,456	¥ 781,347	¥ —	¥ 781,347
Inter-segment	39,175	4,153	43,328	(43,328)	—
Operating expenses	679,182	85,214	764,396	(43,328)	721,068
Operating income	¥ 54,884	¥ 5,395	¥ 60,279	¥ —	¥ 60,279
Identifiable assets	¥ 675,769	¥ 66,264	¥ 742,033	¥ 46,485	¥ 788,518

	Millions of Yen				
	Year ended March 31, 2006				
	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	¥ 578,453	¥ 70,357	¥ 648,810	¥ —	¥ 648,810
Inter-segment	30,909	2,904	33,813	(33,813)	—
Operating expenses	566,602	68,561	635,163	(33,813)	601,350
Operating income	¥ 42,760	¥ 4,700	¥ 47,460	¥ —	¥ 47,460
Identifiable assets	¥ 538,378	¥ 54,355	¥ 592,733	¥ 44,744	¥ 637,477

	Thousands of U.S. Dollars (Note 1)				
	Year ended March 31, 2007				
	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	$ 5,886,413	$ 732,367	$ 6,618,780	$ —	$ 6,618,780
Inter-segment	331,851	35,180	367,031	(367,031)	—
Operating expenses	5,753,342	721,846	6,475,188	(367,031)	6,108,157
Operating income	$ 464,922	$ 45,701	$ 510,623	$ —	$ 510,623
Identifiable assets	$ 5,724,430	$ 561,322	$ 6,285,752	$ 393,774	$ 6,679,526

As given in Note 2, from April 1, 2006, the Company adopted a new accounting standard for stock options. The effect of this adoption was immaterial on the operating income of each segment.

As given in Note 2, from April 1, 2005, the Company changed accounting method for depreciation of property, plant and equipment except for buildings from the straight-line basis to the declining basis.

Export sales and sales made outside Japan by overseas subsidiaries were ¥265,705 million ($2,250,784 thousand) and ¥195,590 million for the years ended March 31, 2007 and 2006, respectively, representing 34.0% and 30.1% of consolidated net sales. For the years ended March 31, 2007 and 2006, such sales in Asia were ¥197,742 million ($1,675,070 thousand) and ¥141,558 million, representing 25.3% and 21.8%, respectively, of consolidated net sales.

NOTE 14 – RELATED PARTY TRANSACTIONS

The Company owns 34.8% of outstanding shares of Hodogaya Chemical Co., Ltd., which manufactures and sells inorganic and organic industrial chemicals, dyestuffs, agrochemical intermediates, and other chemical products. The transactions with Hodogaya Chemical Co., Ltd., as of March 31, 2007 was as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Shares acquisition of Nippon Polyurethane Industry Co., Ltd. which was a subsidiary of Hodogaya Chemical Co., Ltd.	¥ 8,000	$ 67,768
Underwriting for allocation of new shares to a third party	¥ 6,231	$ 52,783

The Company owns 35% of outstanding shares of Nippon Polyurethane Industry Co., Ltd. (NPU), which manufactures and sells the materials of polyurethane and its derivative. The transactions and account balance with NPU as of March 31, 2006 was as follows:

	Millions of Yen
Net sales	¥ 25,075
Trade receivables, less allowance for doubtful accounts	¥ 10,648

NOTE 15 – STOCK OPTION PLANS

At March 31, 2007, the Company had the following stock option plans:

Date of grant	September 27, 2006
Grantees	25 (including 15 directors)
Type of stock	Common stock
Number of shares granted	181,463
Exercise price (yen)	¥ 1
Exercise price (U.S. Dollars) (Note1)	$ 0.01
Exercisable period	September 28, 2006 - September 27, 2031
Fair value (yen)	¥ 414
Fair value (U.S. Dollars) (Note1)	$ 3.51

NOTE 16 – SUBSEQUENT EVENTS

At the meeting of the Company's board of directors held on May 10, 2007, retained earnings of the Company as of March 31, 2007 were appropriated as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Year-end cash dividends (¥5.00 per share)	¥ 2,999	$ 25,404

INDEPENDENT AUDITORS' REPORT

To the Shareholders and Board of Directors of Tosoh Corporation:

We have audited the accompanying consolidated balance sheets of Tosoh Corporation and consolidated subsidiaries as of March 31, 2007 and 2006, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in Japan. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tosoh Corporation and subsidiaries as of March 31, 2007 and 2006, 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.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note1 to the consolidated financial statements.

Osaka, Japan
June 28, 2007

KPMG AZSA & Co.

KPMG AZSA & Co.

TOSOH GROUP COMPANY DIRECTORY

BASIC CHEMICALS / CHLOR-ALKALI

Tohoku Tosoh Chemical Co., Ltd
Chlorinated chemicals
Japan

Nihon Kaisuikako Co., Ltd.
Magnesium oxide
Japan
www.kaisui.tosoh.gr.jp

Minami Kyushu Chemical Industry Co., Ltd
Fertilizers
Japan

Rinkagaku Kogyo Co., Ltd.
Phosphorous compounds
Japan
www.rinka.co.jp

Mabuhay Vinyl Corporation
Caustic soda, chlorine derivatives
Philippines
www.mvc.com.ph

PVC RELATED COMPANIES

Taiyo Vinyl Corporation
PVC resins
Japan

Lonseal Corporation
PVC sheet
Japan
www.lonseal.co.jp

Plas-Tech Corporation
PVC compounds
Japan
www.plas-tech.co.jp

Taihei Chemicals Limited
PVC films and sheets, nitro-cellulose
Japan
www.taihei-chemicals.com/

Tokuyama Sekisui Co., Ltd.
PVC resins
Japan
www.tokuyamasekisui.co.jp

Toei Co., Ltd.
PVC films and sheets
Japan

P. T. Standard Toyo Polymer
PVC resins
Indonesia

Philippine Resins Industries, Inc.
PVC resins
The Philippines
www.prii.com.ph

Tosoh Polyvin Corporation
PVC compounds
The Philippines

Tosoh (Guangzhou) Chemical Industries, Inc.
PVC resins
China
www.tosoh-guangzhou.com

PETROCHEMICAL

Hokuetsu Kasei Co., Ltd.
Synthetic resins
Japan

Rensol Co., Ltd.
Synthetic resins
Japan

Toyo Polymer Co., Ltd.
Synthetic resins
Japan

Sankyo Kasei Industry Corporation
Synthetic resins
Japan

Ace Pack Co., Ltd.
Synthetic resins
Japan

Shinomura Chemical Industry Corporation
Paper, synthetic resins
Japan

Nippon Styrene Monomer Co., Ltd.
Styrene monomer
Japan

Note: All sites may not appear in English.

ORGANIC CHEMICALS

Nippon Polyurethane Industry Co., Ltd.
MDI, TDI, HDI, polyurethane derivatives
Japan
www.npu.co.jp

Tosoh Finechem Corporation
Dicalcium phosphate, titanium trichloride, and alkyl aluminum
Japan
www.tosoh-finechem.com

Tosoh F-TECH, Inc.
Fluorinated organic compounds and derivatives
Japan
www.f-techinc.co.jp

Tosoh Organic Chemical Co., Ltd.
Organic intermediates
Japan

Delamine B.V.
Ethyleneamines
The Netherlands
www.delamine.com

Hodogaya Chemical Co., Ltd.
Dyes, agrochemicals, and fine chemicals
Japan
www.hodogaya.co.jp

SPECIALTY MATERIALS

Tosoh Hyuga Corporation
Electrolytic manganese dioxide
Japan

Tosoh Ceramics Co., Ltd.
Zirconia ceramic products
Japan

Tosoh Zeolum, Inc.
Zeolites
Japan

Tosoh Silica Corporation
Rubber and plastic silica filler
Japan
www.n-silica.co.jp

Mobil Catalysts Corporation of Japan
Zeolites
Japan

Tosoh Hellas A.I.C.
Electrolytic manganese dioxide
Greece
www.tosoh-hellas.gr

ELECTRONIC MATERIALS

Tosoh Speciality Materials Corporation
Thin film deposition materials
Japan

Tosoh Quartz Corporation
Fabricated quartzware
Japan

Tosoh SGM Corporation
Silica glass materials
Japan

Tosoh SMD, Inc.
Thin film deposition materials
USA
www.tsmd.com

Tosoh SMD ETNA, LLC
Thin film deposition materials
www.tsmd.com

Tosoh SMD KOREA, LTD.
Thin film deposition materials
Korea
www.tsmd.com

Tosoh SMD TAIWAN, LTD.
Taiwan
www.tsmd.com

Tosoh SET, Inc.
Physical vapor deposion and chemical vapor deposition process kit management
USA
www.tosohset.com

Tosoh SGM USA, Inc.
Silica glass materials
USA

Tosoh Quartz, Inc.
Fabricated quartzware
USA
www.tosohquartz.com

Tosoh Quartz, Inc.
Fabricated quartzware
UK
www.tosohquartz.com

Tosoh Quartz Co., Ltd.
Fabricated quartzware
Taiwan

Tosoh Advanced Parts Cleaning, Inc.
Semiconductor parts cleaning
USA

BIOSCIENCE

Tosoh Techno-System, Inc.
Analytical instrument maintenance
Japan

Tosoh Hi-Tec, Inc.
Diagnostic and chromatography products and systems
Japan

Tosoh AIA, Inc.
Diagnostic reagents
Japan

Tosoh Bioscience LLC
Packed columns for high-performance liquid chromatography and separation media
USA
www.separations.us.tosohbioscience.com

Tosoh Bioscience GmbH
Packed columns for high-performance liquid chromatography and separation media
Germany
www.separations.eu.tosohbioscience.com

Tosoh Bioscience, Inc.
Clinical diagnostic systems and reagents
USA
www.diagnostics.us.tosohbioscience.com

Tosoh Bioscience N.V.
Clinical diagnostic systems and reagents
Belgium
www.diagnostics.eu.tosohbioscience.com

Tosoh Bioscience SRL
Clinical diagnostic systems and reagents
Italy
www.diagnostics.eu.tosohbioscience.com

Tosoh Bioscience Ltd.
Clinical diagnostic systems and reagents
UK
www.diagnostics.eu.tosohbioscience.com

Tosoh Bioscience, A.G.
Clinical diagnostic systems and reagents
Switzerland
www.diagnostics.eu.tosohbioscience.com

ECO-BUSINESS

Organo Corporation
Water treatment systems
Japan
www.organo.co.jp

Eco-Techno Corporation
Land survey, recalmation, and technological consulting services
Japan
www.eco-techno.co.jp

REGIONAL HOLDING AND TRADING

Tosoh America, Inc.
US subsidiary holding company and regional headquarters
USA

Tosoh USA, Inc.
U.S. sales, marketing, and business development center
USA
www.tosohusa.com

Tosoh Europe B.V.
European sales, marketing, and business development center
The Netherlands
www.tosoh-europe.com

Tosoh Singapore Pte. Ltd.
Regional sales, marketing, and business development center
Singapore

Tosoh (Shanghai) Co., Ltd.
China sales, marketing, and business development center
China

Tosoh Nikkemi Corporation
Plastics and related materials
Japan
www.nikkemi.co.jp

SERVICE : OTHER

Tosoh Logistics Corporation
Transportation, warehousing, and related services
Japan
www.tosoh-logi.co.jp

Tosoh Plant Service Corporation
Instrumentation, plant engineering and maintenance
Japan

Tohoku Denki Tekko Co.,Ltd.
Instrumentation, plant engineering, and maintenance
Japan

Yorin Construction Co., Ltd.
Engineering and construction
Japan

Sanwa Construction Co., Ltd.
Construction
Japan

Izumi Sangyo Co., Ltd.
Civil engineering
Japan

Toho Acetylene Co., Ltd.
Industrial gases
Japan
www.toho-ace.co.jp

Kasumi Kyodo Jigyo Co., Ltd.
Maintenance and control of common facilities
Japan

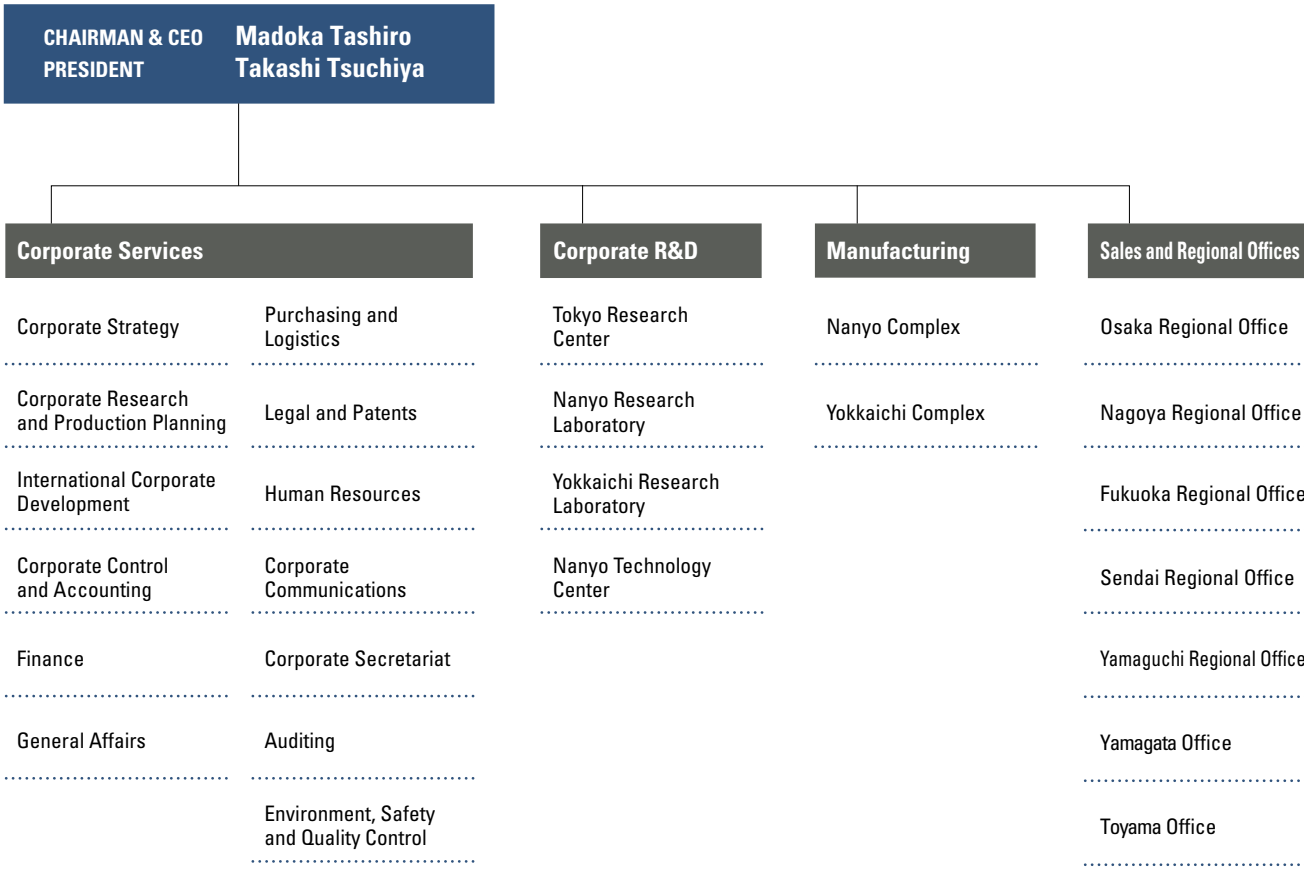
Yokkaichi Oxyton Co., Ltd.
Industrial gases
Japan

Tosoh Analysis and Research Center Co., Ltd.
Analytical services
Japan
www.tosoh-arc.co.jp

Tosoh Information Systems Corporation
Information technology services
Japan
www.tosis.co.jp

Tosoh General Service Co., Ltd.
Administration and security services
Japan

ORGANIZATION CHART



BUSINESS DIVISIONS

Olefins	Sales and Marketing
Polymer	Planning and Coordination, Strategy and Planning, Polyethylenes, High Performance Polymers
Chlor-Alkali	Planning and Coordination, Chlor-Akali Sales and Marketing, Fertilizer Sales and Marketing
Cement	
Organic Chemicals	Planning and Business Development, Amines, Bromine and Flame Retardants, Eco-Business
Bioscience Instruments	Planning and Business Development, Sales and Marketing, Research and Development, Gels Production, Customer Service, Separation Media Production
Speciality Materials	Planning and Business Development, Battery Manganese Materials, Advanced Ceramics and Zeolites
Electronic Materials	Planning and Business Development, Electronic Materials

CORPORATE DATA

HEAD OFFICE

Tosoh Corporation
3-8-2, Shiba
Minato-ku, Tokyo 105-8623
Japan

For further information, please contact
International Public Relations
Tel: +81-3-5427-5118
Fax: +81-3-5427-5198

E-mail: info@tosoh.com
URL: www.tosoh.com

DATE OF INCORPORATION

February 11, 1935

PAID-IN CAPITAL

¥41 billion

NUMBER OF EMPLOYEES

10,514

COMMON STOCK

Authorized: 1,800,000,000 shares
Issued: 601,161,912 shares

NUMBER OF SHAREHOLDERS

50,428

STOCK EXCHANGE LISTING

Tokyo Stock Exchange
Ticker Symbol: 4042

TRANSFER AGENT FOR SHARES

The Chuo Mitsui Trust
and Banking Co., Ltd.
3-33-1, Shiba, Minato-ku,
Tokyo 105-8574
Japan

INDEPENDENT AUDITORS

KPMG AZSA & Co.

STOCK HELD BY INVESTOR TYPE

MAJOR SHAREHOLDERS

Japan Trustee Services Bank, Ltd. (Trust Account)	38,109*	6.33**
The Master Trust Bank of Japan, Ltd. (Trust Account)	33,922	5.64
Mizuho Corporate Bank, Ltd.	21,757	3.61
Mitsui Sumitomo Insurance Co., Ltd.	20,699	3.44
The Master Trust Bank of Japan, Ltd. (Retirement Benefits Trust Cosmo Oil Account)	17,975	2.99
Nippon Life Insurance Company	14,851	2.47
The Norinchukin Bank	12,985	2.15
Aioi Insurance Co., Ltd.	11,020	1.83
The Sumitomo Trust and Banking Co., Ltd.	10,004	1.66
The Yamaguchi Bank, Ltd.	9,944	1.65
Total	**191,268**	**31.81**

* Number of Shares Held (thousands)
** Percentage of Total Shares Outstanding

TOSOH CORPORATION