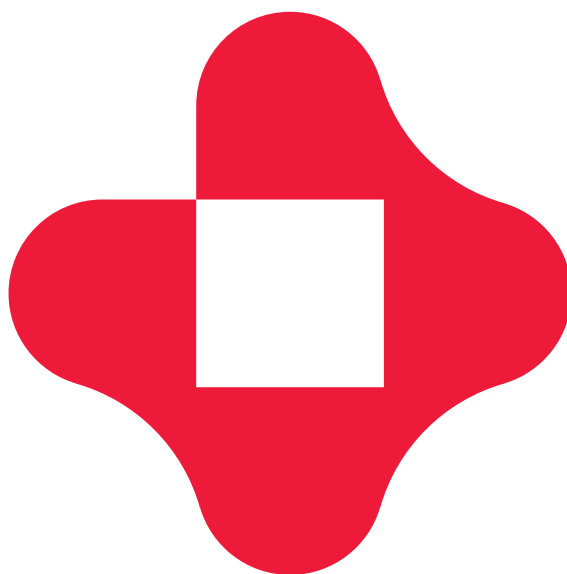




TOSOH



EFFICIENT INNOVATION

Our commitment to innovating products, processes and management
benefits both Tosoh and its stakeholders.

ANNUAL REPORT 2006

Tosoh Corporation and Consolidated Subsidiaries
Fiscal Year Ended March 31, 2006

TOSOH CORPORATION

Tosoh Corporation is a global supplier of inorganic chemicals, petrochemicals, and specialty materials to customers in the semiconductor, pharmaceutical, health care and many other key industries that produce items used in daily life. Ongoing, efficient innovation of products, processes, and management and a high degree of integration are core Tosoh attributes. While taking advantage of the growth in global demand for its bulk materials, especially in Asia, Tosoh is also deploying its strengths in specialty products to develop promising global niche markets into substantial businesses.

The Tosoh Group comprises more than 130 companies, some 50 of them located outside Japan. Collectively, those companies employ a multiethnic workforce of over 9,000 people and generate net sales of ¥649 billion (US\$5.5 billion). We invite you to take a look at Tosoh and learn how our efficient innovation is creating better products and increasing profitability while serving our stakeholders and society.

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1935

INNOVATIVE BEGINNINGS

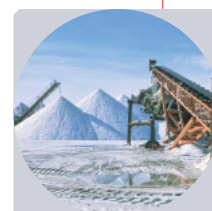
- Managing Director Tokusaburo Iwase and 33 others leave Tokuyama Soda Co., Ltd., to found Toyo Soda Manufacturing Co., Ltd., Tosoh Corporation's predecessor.
- Builds first factory in Japan for extracting bromine from seawater and an electrolysis plant to supply chlorine.



1953

INNOVATIVE DEVELOPMENT

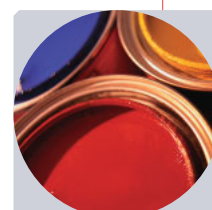
- Starts cement operations that efficiently use waste products of its ammonia-method soda and electrolysis production processes.
- Effectively launches vinyl chain operations in 1968 with an increase in vinyl chloride monomer (VCM) production at the Nanyo Complex and 100,000-ton oxychlorination facilities.



1975

INNOVATIVE GROWTH

- Merges with Tekkosha Co., Ltd., bringing scale and other advantages to the Company's polyvinyl chloride (PVC), silica glass, and sputtering target businesses.
- In search of profitable growth, the Company immerses itself in promising advanced technology fields and becomes well-known for its scientific and diagnostic instruments, sputtering targets, quartz products, and zirconia advanced ceramics.



2006

INNOVATIVE PRODUCTS

- Tosoh's constant streamlining of its corporate structure, timely upgrades to reinforce its chlor-alkali operations, and stronger specialty businesses have coalesced to forge a company that continues to be profitable and competitive. The Company's current lineup includes a wide range of technologically sophisticated, high-value-added products that supply the semiconductor, consumer electronics, pharmaceutical, medical and other industries on the frontiers of progress.



FINANCIAL HIGHLIGHTS

Tosoh Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005 and 2004

	Millions of Yen			Thousands of U.S. Dollars ¹
	2006	2005	2004	2006
Summary of Operations:				
Net sales	¥648,810	¥588,332	¥484,389	\$5,523,197
Operating income	47,460	56,898	30,055	404,018
Net income	27,533	29,533	7,297	234,383
Net income per share ²	45.74	49.09	11.96	0.39
Financial Position at Year-End:				
Total assets	¥637,477	¥603,209	¥549,213	\$5,426,722
Interest-bearing debt	291,221	284,572	289,097	2,479,109
Total shareholders' equity	159,112	127,993	99,238	1,354,491
General:				
Capital expenditures	¥ 32,348	¥ 45,379	¥ 21,305	\$ 275,372
Depreciation and amortization	28,029	22,822	23,968	238,606
Cash dividends per share ²	6.00	6.00	5.00	0.05
Common stock prices ²				
High	717	570	424	6.10
Low	413	341	238	3.52
Year-end close	588	530	415	5.01
Number of employees	9,373	9,148	9,196	

Notes: 1. For reference purposes, U.S. dollar amounts are translated from yen at the rate of ¥117.47 = US\$1, the exchange rate in effect on March 31, 2006.
2. Per share figures and common stock prices are in yen and U.S. dollars.

Businesses and Strengths



Strengths

- Internal supply of ethylene required for vinyl isocyanate chain* and polyethylene operations controls costs and risks to improve competitiveness.

Share of Sales

31.2%



▶ See page 16



- An integrated manufacturing infrastructure and efficient in-house power generation underpin economies of scale throughout the vinyl isocyanate chain.

30.8%



▶ See page 18



- Shared organic synthesis technology is used to develop high-value-added niche products that can mature into core product lines.

30.9%

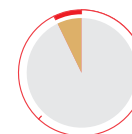


▶ See page 20



- Companies operate on a commercial basis to further increase cost performance as they evolve from cost centers to profit centers.

7.1%



▶ See page 25

* The vinyl chain and its expansion into the vinyl isocyanate chain refers to an integrated sequence of manufacturing operations that produce several key vinyl-related chemicals from the basic commodities chlorine and ethylene. For a more detailed explanation, please see pages 10, 11 and 18.

Note: Fiscal years in this report refer to the year ended March 31 of the following years. Fiscal 2005 is from April 1, 2005 to March 31, 2006.

Disclaimer on Forward-Looking Statements

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.

Innovation and a focus on creating value are the cornerstones of Tosoh's strategies for sustainable growth. Making evolution part of our corporate culture supports solid profitability by keeping us at the forefront of change, encouraging dynamism, and giving our people the opportunity to realize their potential.



Madoka Tashiro, Chairman and CEO, and Takashi Tsuchiya, President

Solid Performance in Fiscal 2005

During fiscal 2005, the year ended March 31, 2006, moderate recovery continued in Japan with 3.0% economic growth supported by higher corporate earnings, increased capital investment and growing consumer demand. In the chemical industry, the rising cost of crude oil resulted in sharply higher prices for naphtha and related feedstock. The annual average per kiloliter price of naphtha, the basic feedstock for petrochemicals, rose from approximately ¥32,000 to ¥42,000. This represents a year-on-year cost increase of ¥16 billion for Tosoh. We are addressing this challenge not merely by adjusting prices, but also by establishing as early as possible an entirely new pricing structure to maintain

profits for products such as polyvinyl chloride (PVC), polyethylene, and caustic soda. On top of these conditions, profits for basic chemical operations including our most important core products, vinyl chloride monomer (VCM) and PVC, were hit hard. Although demand remains strong in China, growing local capacity for VCM that utilizes a cheaper production process (carbide acetylene process) put pressure on Asian market prices and also resulted in a decrease of import volume.

Even with these stormy market fluctuations for our main commodities, our evolution into a hybrid company with growth in our specialty products is keeping the Tosoh ship on a profitable course. Tosoh's specialty operations consist



Even with stormy market fluctuations for our main commodities, our evolution into a hybrid company with growth in our specialty products is keeping the Tosoh ship on a profitable course.

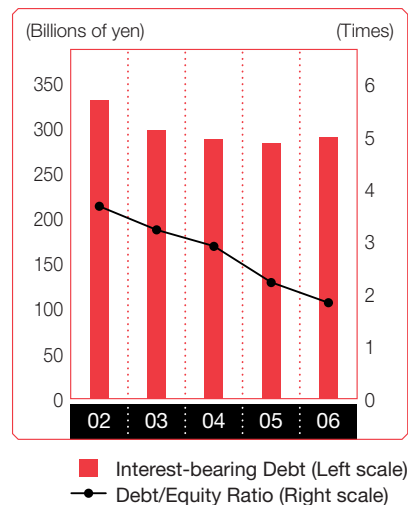
of four divisions: Bioscience*, Organic Chemicals, Specialty Materials, and Electronic Materials. During the year under review this group accounted for 31% of total sales and 56% of operating income on a consolidated basis. We expect specialties to further counter-balance the cyclical nature of commodity markets with a jump to 40% of total sales and 66% of operating income in fiscal 2006.

In more specific terms, the specialties saw higher sales volume in most segments and increased prices. In the Bioscience Division, sales of liquid chromatography systems and bioseparation packing materials expanded, while the Organic Chemicals Division reported increases for ethyleneamines as well as for bromine and its derivatives. In the Specialty Materials Division, zirconia export volume increased, and shipments of high-silica zeolite for automobile exhaust systems and other applications also grew. The Electronic Materials Division's performance drew strength from higher sales of sputtering targets and silica glass because of factors including expansion in the markets for liquid crystal display (LCD) panels as well as semiconductor and optical related products.

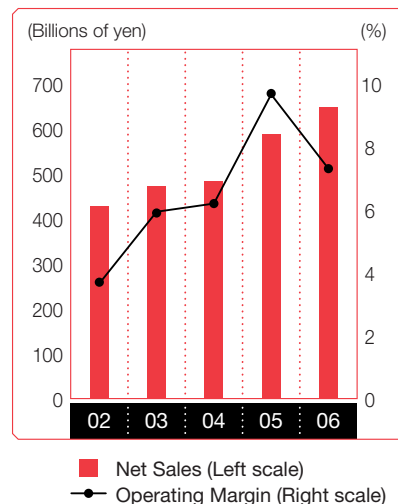
In our petrochemical operations, the Olefins Division achieved a strong enough performance to help cover the drop in profits for basic chemicals. Although the rising cost of crude oil blunted overall demand for derivative products, conditions in many of Tosoh's markets were favorable, with solid demand supporting price increases to reflect the rising cost of raw materials. In the Polymers Division, even though we increased polyethylene prices six separate times during the year under review, and chloroprene rubber markets

An Improved Financial Structure

Interest-bearing Debt and Debt/Equity Ratio (DER)



Net Sales and Operating Margin



were solid overseas, the operating environment remained challenging.

Under these mixed conditions, our consolidated net sales increased 10.3% year-on-year to ¥648.8 billion (US\$5,523 million), while operating income decreased 16.6% to ¥47.5 billion (US\$404.0 million). Net income decreased 6.8% to ¥27.5 billion (US\$234.4 million) and net income per share

* The "Scientific Instruments Division" changed its name to the "Bioscience Division" on June 29, 2006.

decreased ¥49.09 to ¥45.74 (US\$0.39). Cash dividends totaled ¥6.00 (US\$0.05) per share.

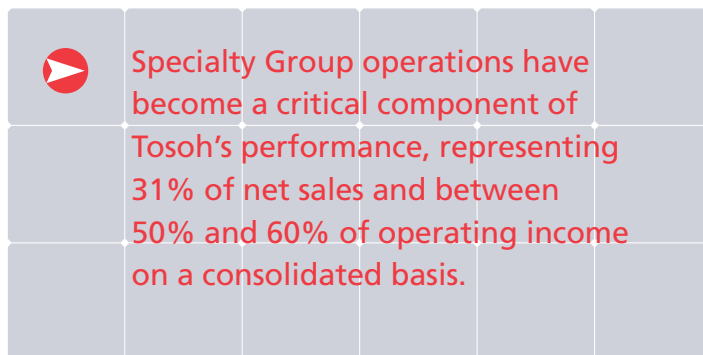
Specialty Operations Drive Growth

As indicated above, specialty operations have become a critical component of Tosoh's performance, representing 30% to 40% of sales revenue and between 50% and 60% of operating income on a consolidated basis. Specialty products exemplify our commitment to efficient innovation — ten years ago, most of the specialty products driving earnings today were unprofitable. However, many of these products are maturing and therefore we are implementing two primary strategies in specialty operations to continue our emphasis on efficient innovation that supports consistent earnings growth.

The first part of our strategic focus is to generate strong returns on capital. One way Tosoh is accomplishing this is through capacity expansions for specialty products that have achieved a substantial presence.

Increasing our stake in affiliate Nippon Polyurethane Industry Co., Ltd. (NPU) to 51.7% to make it a fully consolidated subsidiary has great significance for not only our basic operations and bolstering the vinyl isocyanate chain, but also our specialty operations. Presently, NPU retains a leading market position in Asia for methyl diphenyl diisocyanate (MDI), the raw material for polyurethane. We see significant potential for MDI in our specialty operations as a fine chemical with a wide variety of applications and marketing synergies for our present product lines, such as organic synthesis, polyurethane catalysts, and specialty polymers. Asian demand for MDI is projected to grow 10% per year. Tosoh is strategically dedicated to maintaining that share with a nearly ¥100 billion investment in infrastructure and MDI expansion between 2007 and 2008.

Following that same line of rationale to maintain our presence in our primary markets, we invested to expand ethyleneamine production from 41,000 to 53,000 metric tons per year aiming at the growing Asian market, and we are also planning a third plant. Tosoh is the only producer of ethyleneamines in Asia, where it has a market share of approximately 50%. Moreover, Tosoh is one of the recog-



nized leaders in global markets for sputtering target and quartz products. Tosoh SMD, Inc. was selected for Supplier of the Year awards from several major semiconductor-related manufacturers, while Tosoh Quartz, Inc. has achieved a leading global market share for both hot and cold quartz fabrication. In bioseparation and diagnostics fields, we continue to reorganize, build new regional logistic centers, and expand production to take better advantage of high-growth bioscience-related markets. We also decided to bring Japan operations under the Tosoh Bioscience brand and as such set the stage for the development of a single global presence as we launch operations into Asia.

The other thrust of our specialty strategy is building synergies and efficiencies among Group companies that manufacture products with common characteristics and customer bases. We are forming a more cohesive structure around these companies and their product groups with an effective shared vision for the future. Under this strategy we have brought together our electronics-related subsidiaries into the Electronic Materials Division. Each of these Group companies began as an entrepreneurial entity developing specific specialty offerings into viable product lines. While the scale of their operations increased because of their success, they served essentially the same customer base. Bringing them together to enhance marketing capabilities and increase efficiency was therefore the next logical step. Similarly, we are also integrating the organic intermediate operations of Tosoh Finechem Corporation, Tosoh F-Tech, Inc. and Tosoh Organic Chemical Co., Ltd. under a single administrative umbrella. Bringing these companies closer together has

enabled Tosoh to develop a custom synthesis business for pharmaceutical and medical fields. At the same time, it supports the development of advanced organic intermediates and specialty fine chemicals for high-growth fields such as electronic materials.

The Vinyl Isocyanate Chain: Opportunities to Strengthen Profitability

Our vinyl operations serve as a core for the Tosoh Group, including NPU's isocyanate business. It is therefore one of our basic policies to make this business stronger. For this reason we are constructing a 220,000 metric ton/year PVC resin plant at Tosoh (Guangzhou) Chemical Industries, Inc. to secure our presence in China, the world center of the growth market. The Nanyo Complex in Japan will supply VCM to the new plant, supported by a 400,000 metric ton/year expansion in VCM production capacity that we completed in November 2005. This brings Tosoh's total VCM capacity, including both the Nanyo and Yokkaichi Complexes, to 1.48 million metric tons/year.

As introduced above, we have now begun a new phase of expansion along the vinyl isocyanate chain by making NPU a fully consolidated subsidiary. Tosoh has been supplying essential raw materials including aniline, carbon monoxide, chlorine, caustic soda, and hydrogen, as well as utilities to NPU. While at the same time, Tosoh utilizes the by-product hydrogen chloride from NPU's isocyanate production at its VCM plant. The increased stake in NPU heightens our ability to manage vinyl isocyanate chain business operations more efficiently. Along with internalizing the MDI supply chain we will be expanding MDI production at our Nanyo Complex by 200,000 metric tons per year. This project is scheduled for completion in late 2007 and we will support this expansion by doubling our present production capacity for aniline and carbon monoxide, which are key components of MDI. This will ensure a fully integrated MDI production system at the Nanyo Complex and bring the total capacity to 300,000 metric tons for aniline and 16,000 Nm³/h (normal cubic meters per hour) for carbon monoxide. As a means of controlling costs, Tosoh also operates its own power plants to supply all of the power required at the Nanyo Complex,

and plans to add 220,000 kW of generating capacity to support increased demand. This will increase Tosoh's total power generation capacity at the Nanyo Complex to 900,000 kW. These moves will therefore give Tosoh the scale and capacity to generate value from leadership in its chosen markets.

Supporting the Products of Today and Tomorrow

While we have successfully promoted global branding and customer service, we remain acutely aware that innovative new products have been the key to our achievements. We therefore remain tightly focused on creating the new products of the future. This is a critical task as we move to counter maturity in some of our specialty product lines. Tosoh invested approximately ¥11 billion in research and development during



fiscal 2005, with emphasis on counter-cyclical areas including electronics and information technology (IT), health care, and environmental protection. While working with universities and external research institutions to develop new seed technologies, our research organization maintains a high level of efficiency through a rigorous process of setting goals and monitoring progress. The Research Commercialization Planning Meetings are representative of the structural innovation we employ to ensure tight linkage between R&D and emerging customer needs. The committees involved in this process constantly gather and analyze information about needs and technologies, and use the data to manage research targets and the relevancy of R&D to Tosoh's management strategy. The result has been greater productivity.

Sustainable Development

Tosoh views corporate social responsibility as a high-priority commitment that is essential to the long-term sustainability of our business and our environment. In 1995, we became one of the first members of the Japan Responsible Care® Council, the local chapter of the chemical industry's voluntary environmental action movement. Since then, our participation in this organization has helped shape our own internal environmental plan and our efforts to meet and exceed industry and national standards for environmental protection, health, and safety. Tosoh Group companies that carry out environmental business include, for example, Organo Corporation, which is involved in water treatment, and Eco-Techno Corporation, which applies sophisticated, proprietary groundwater and soil remediation technologies. Moreover, Tosoh is using the automated immunoassay analyzer technology of our Bioscience Division to develop a rapid detection system that determines the concentration of contaminants in fresh and seawater. At the same time, we work closely with the communities in which we operate to raise awareness, and are helping to resolve environmental issues with our growing eco-businesses. Resulting products that answer environmental needs include a chelating agent that removes heavy metal from fly ash produced by garbage incineration and the zeolite products we provide to reduce automobile exhaust emissions. We also provide consulting services to help customers obtain the optimal cleaning efficiency from our eco-products.

Stakeholder-oriented Management

Quality, value-added products and high standards of environmental responsibility satisfy customers and society, and we are linking efficient innovation to shareholder satisfaction. Over the past several years, we have worked to develop new products and reorganize the Tosoh Group by aligning companies for regional and functional synergies. We have deployed the resulting higher earnings both to increase dividends and to make solid progress in reducing debt. Looking forward, we have set a target of raising the ratio of equity to total assets to 30% over the near term and 40% over a longer horizon. We are also working to increase

return on capital invested. These efforts entail not only lowering costs while improving technological capabilities so that we can produce more with fewer assets, but also decisions to sell under-performing assets and exit businesses that do not meet profit standards. As part of this approach to sustainable growth, we intend to maintain discipline in making capital investments to ensure that Tosoh generates strong returns.

Our operating environment in fiscal 2006 will remain challenging. The issues we must deal with include restructuring our polyethylene operations and the difficulty we are experiencing in procuring some raw materials due to demand in regions such as China and the changing strategies of suppliers. Crude oil prices are not likely to decrease, so we must continue to raise our operating efficiency while working to ensure that our prices are in line with market realities.

Despite these challenges, Tosoh is well positioned to generate profitable growth. Our productive assets are concentrated in strong businesses, and we have established positions in markets worldwide. We also expect increased sales from our portfolio of high-technology products.

Tosoh is at a turning point because of its success at generating profitable growth. Our challenge now is to take results to a new, and higher, level. As we do so, we will continuously work to earn the trust and support of our stakeholders.

June 2006



Madoka Tashiro
Chairman and CEO



EFFICIENT INNOVATION

A primary source of Tosoh's growth over more than seven decades has been its concept of itself as a constantly evolving corporation. From a middle-market chemical company in the 1970s, Tosoh has become a global corporation that is a leading competitor in its chosen markets. The key to this evolution has been a commitment to efficient innovation. This innovation has extended from highly competitive products such as zirconia and advanced medical equipment to core manufacturing processes, while innovation in management ensures that Tosoh will continue to evolve in the future.

PRODUCT INNOVATION

Competitive advantage at the beginning of the Industrial Revolution was a function of producing more goods at lower cost. Today, it lies in innovating more rapidly, effectively and efficiently with emphasis on quality over quantity. Tosoh Corporation is generating sustainable, profitable growth by deploying its deep knowledge and experience with basic materials to develop innovative, high-technology products that meet precise needs and allow customers to differentiate their own products. We are also creating value-added finished products in growth fields including health care that leverage our strengths in researching and analyzing materials and their properties.

For some seven decades, Tosoh has innovatively manufactured and delivered the basic materials that a multitude of industries use to create the things that make up the modern world. The products Tosoh makes support virtually all aspects of daily life — semiconductors, flat-panel displays, pharmaceuticals, agricultural products, food packaging materials, ingredients for cosmetics, fragrances and flavors, paints, adhesives, life-jackets, and more.

Here we spotlight two of Tosoh's innovative products: zirconia and the TRCRapid-160, a recent addition to our ↗

A Superior Material Creates New Markets

Applications for Tosoh's high-purity zirconia powders continue to expand.



Shigeo Suzuki
General Manager, Ceramics & Zeolites Department
Specialty Materials Division



Zirconia grinding media are essential for creating micro-particle materials for super-small electronic components required for mobile phones and flat-screen TVs.

Adding Value to Zirconia

Zirconia exemplifies Tosoh's success at methodically expanding applications and customer segments for new products in order to maximize return on innovation to support profitable sales growth. Since Tosoh succeeded in commercializing zirconia, the first company in the world to do so, zirconia has been used in various cutting-edge fields. From the late 1990s onward, as key parts that support fiber-optic networks, connectors made from zirconia (ferrule and sleeve) have been indispensable for the infrastructure of our society. In addition, zirconia grinding media are essential for creating microparticle materials for super-small electronic components required for mobile phones and flat-screen TVs. Recently, zirconia, which has high strength and replicates the natural look and feel of real teeth, has been in demand as a new dental material. Both customers and shareholders have benefited from Tosoh's ability to quickly and efficiently succeed at product innovation that answers market needs.

bioscience lineup of scientific instruments. Zirconia is an example of our success at product innovation in our material product lines. Described as “ceramic steel,” zirconia stabilized with yttria (yttrium oxide) is a high-strength ceramic material that features wear resistance and fracture toughness instead of the brittleness typical of ceramics. As a pioneer of yttria stabilized zirconia, Tosoh will continue to emphasize efficient innovation and high quality in developing zirconia markets.

Scientific instruments are a field in which Tosoh has deployed its expertise in analytical chemistry and material properties to offer value-added finished products. While developing products for diagnostic high-performance liquid chromatography, separation materials, immunoassay diagnostics and gene testing, Tosoh has also executed a strategy of enhancing synergies among Group companies and supporting them with acquisitions. As a result, Tosoh is one of the few companies that develops, manufactures and sells instruments, columns and reagents, and also provides service for its products. This integrated approach to creating high-technology products and brands has created a growing and profitable global business with strong potential for future expansion.

Extending a Product Line to Meet Related Needs

Molecular testing for early detection of a widening range of diseases

With the launch of the TRCRapid-160 real-time fluorescence monitoring system, Tosoh's product line now includes transcription reverse-transcription concerted reaction (TRC) gene test reagents and devices.



Hiroyuki Uchida
Director
Senior General Manager of the Bioscience Division*

Better Health through Tosoh Bioscience

Once we have created a successful new product line, we apply efficient innovation to learn related needs and expand the product line to meet them. Tosoh extended its scientific product line to include transcription reverse-transcription concerted reaction (TRC) gene test reagents and devices with the launch of the TRCRapid-160 real-time fluorescence monitoring system with the TRC reagent. Our TRC system allows molecular testing to diagnose and screen for infectious diseases and cancer. For example, it can identify the RNA produced by such pathogenic microbes as enteritis vibrio bacteria, salmonella bacteria, norovirus and enterohemorrhagic E. coli, all commonly associated with potentially fatal food poisoning. This addition to our line of scientific instruments demonstrated its value after the massive Niigata Chuetsu Earthquake in October 2004 in Japan. It was used to diagnose patients exposed to pathogenic microbes, which accelerated treatment and saved lives. Moreover, Tosoh has enhanced its own internal technologies through a cross-licensing agreement with Gen-Probe Incorporated of the United States that provides non-exclusive rights to Gen-Probe's proprietary transcription-mediated amplification and ribosomal RNA technologies.

* The "Scientific Instruments Division" changed its name to the "Bioscience Division" on June 29, 2006.

PROCESS INNOVATION

Tight integration among production processes is essential to remaining cost competitive. Tosoh has employed efficient innovation to build synergy among its vinyl chain operations in Japan, and is now moving to integrate operations in Japan and elsewhere in Asia. We are setting up the largest integrated production capacity in Asia for vinyl products, encompassing electric power, electrolysis, ethylene dichloride (EDC), vinyl chloride monomer (VCM) and polyvinyl chloride (PVC) plants. This will 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.

Inexpensive electricity and steam generated by our own advanced power plants allow us to cost-effectively produce chlorine at our electrolysis facility, which also produces sodium hydroxide and hydrogen. Chlorine is the main ingredient we use in the vinyl chain, and is also one of the main ingredients of methylene diphenyl diisocyanate (MDI), a key component of polyurethane and central to expansion along the vinyl isocyanate chain. ↗

Benefiting from Integrated Operations

Tosoh's innovation throughout the vinyl isocyanate chain supports sustainable growth.



Yukihiro Tsutsumi
Senior Managing Director*
Senior Managing Director, Nanyo Complex*



The new VCM plant at the Nanyo Complex will meet growing demand for use in PVC production in China.

Japan: Shift in Focus to the Vinyl Isocyanate Chain

The Nanyo Complex in Japan, once the focus of vinyl chain expansion, is now at the center of Tosoh's drive to innovate throughout the vinyl isocyanate chain to profitably build market share in Asia.

In order to better manage assets and expand throughout the vinyl isocyanate chain, Tosoh has acquired a controlling interest in former affiliate Nippon Polyurethane Industry Co., Ltd. (NPU), which is investing in doubling its MDI production capacity to 400,000 metric tons per year. Moreover, to support this expansion, Tosoh will increase annual production capacity of important MDI precursors aniline and carbon monoxide to 300,000 metric tons and 16,000 Nm³/H, respectively. These investments will therefore provide Tosoh with internal control of the supply of value-added vinyl isocyanate materials. NPU is located within the Nanyo Complex, and we expect tight integration to support earnings growth from sales of value-added polyurethane products. Our strategy of enhancing synergy and maximizing efficiency is therefore supporting sustainable growth in earnings in all sales channels supplied by vinyl isocyanate chain operations.

* Yukihiro Tsutsumi served in this position throughout fiscal 2005 and up until June 29, 2006.

MDI production creates hydrogen chloride as a by-product, which we use in producing VCM in Japan, making both our VCM and MDI significantly more cost competitive. We also employ the low-cost hydrogen we produce at our electrolysis facility to manufacture aniline, another important material in the manufacture of MDI. Here again, an innovative approach to internal supply capabilities allows us to make our MDI even more cost competitive.

As a result, we are one of the largest producers of both VCM and MDI in Asia, and we will be able to supply VCM to our new PVC plant in China, the Asian nation with the greatest demand for this polymer. In Japan, the Tosoh Group's production of VCM and PVC accounts for 42% and 25% of Japan's total capacity, respectively. In Asia, Tosoh has a 9% share of the VCM market and a 6% share of the PVC market. Tosoh's efficient process innovations will help it compete effectively to capture a larger share of the growing Asian PVC market.

Building Overseas Infrastructure for Growth

Tight integration with operations in China underpins competitiveness in PVC operations.

The new PVC resin plant at Tosoh (Guangzhou) Chemical Industries, Inc. in China will be fully integrated with Tosoh's vinyl chain.



Susumu Kadowaki
Associate Director
President, Tosoh (Guangzhou) Chemical Industries, Inc.

China: Competing in a Core PVC Market

PVC is a cost-effective, versatile resin used in industries ranging from food and housing to autos and clothing. Although demand is strong in China because of its rapidly developing economy, PVC resin prices are under pressure even as raw material prices spike.

As a major producer of PVC and related raw materials for Asia, Tosoh has moved to ensure competitiveness with in-market production in China. At the end of 2006, we will complete an ¥8 billion, 220,000 metric ton/year PVC resin plant at Tosoh (Guangzhou) Chemical Industries, Inc. in Guangzhou, China. This new facility will be fully integrated with our vinyl chain as it will manufacture PVC resin using low-cost VCM from the Nanyo Complex in Japan. It therefore represents a key component of our strategy for building brands and enhancing supply relationships globally: expansion in production capacity for key products to drive economies of scale and achievement of efficiencies through innovative regional synergies.

MANAGEMENT INNOVATION

Over more than seven decades of operations, Tosoh has remained a flexible, entrepreneurial organization that has relied on management innovation to achieve profitable growth. We continue to evolve as a corporation, and have identified global operations and research and development as two areas with the greatest potential for return on management resources.

The structure of management that supports Tosoh's global presence will be critical to sustainable growth. We are proud of our multiethnic, multicultural organization, and are moving forward with aggressive programs to place managers with detailed knowledge of their regional and national markets in positions of authority. We are employing a shared services model for global operations that concentrates indirect services and administration in efficient nodes that serve broad constituents in managing profit centers. Moreover, we are implementing a matrix organization with vertical lines of authority within divisions supported by horizontal planning structures to efficiently coordinate on a geographical and global basis. Clear goals drive an operating structure based on management by objective. ↗

Central Planning for Overseas Expansion

A cross-divisional approach to continued global growth



Jan Top

General Manager, International Corporate Development
Vice President, Tosoh America, Inc.



International Corporate Development pools resources and knowledge of all managers worldwide and focuses on innovation for the entire Tosoh Group.

Continuous Improvement in Global Management

Five years ago, Tosoh moved to support continuous improvement of global management by creating a dedicated task group consisting of mainly non-Japanese to oversee its international activities and expansion. This group has played an important role in helping Tosoh operations around the world improve efficiency by serving as a driver for intra-company, cross-divisional cooperation and optimization. Unlike a division that primarily focuses on one specific product group of the corporation, International Corporate Development within Corporate Strategy and Planning pools the resources and knowledge of all managers worldwide and focuses on innovation for the entire Tosoh Group. International Corporate Development helps to strengthen existing businesses and develop new ones, either organically or through mergers and acquisitions. The group's duties also include strengthening consolidated management while providing specialized services throughout the company. By consolidating experience in a single group, knowledge can be applied more efficiently to the same challenges no matter where they arise in the future. Creating an environment that is conducive to growth while maintaining a system that readily pinpoints problem areas in the early stages is a high priority.

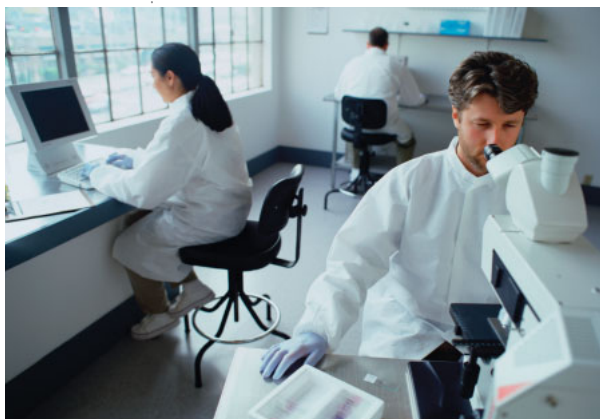
Because R&D innovation is vital to our future success, it is essential that our R&D management is completely integrated with overall strategic goals and in sync with business divisions worldwide. R&D can transform the ideas of today into the profitable products of tomorrow only if Tosoh is able to balance the freedom to create with a disciplined approach that links R&D to emerging market needs.

Another management priority over the coming 15 years will be looking at a wide variety of technologies and bringing them to market successfully. Examples include medical-diagnostic technology for prevention and early detection of diseases, testing technology to ensure food safety, semiconductor technology for dealing with large amounts of information, display technology to produce clearer, more accurate images, production technologies that minimize environmental burdens, and efficient energy conversion technologies that minimize resource consumption. Work in these and other areas will play a key role in keeping our global specialty product offerings profitably in step with our capabilities and market needs. We believe the sort of ongoing management innovations we spotlight here will be the key to success.

Keeping Research on the Right Track

Ensuring that R&D themes fit Tosoh's overall corporate strategies

It is essential that Tosoh's R&D management is completely integrated with overall goals and in sync with business divisions worldwide.



Yasuyuki Koie

Associate Director
General Manager, Specialty Materials Division, Tokyo Research Center

R&D Structured for Creativity and Efficiency

Tosoh Research Center has occasionally encountered a situation its researchers call “the sea of Darwin” or “the valley of death,” which is when one of their basic research ideas fails to mature into a commercial application. There are many possible causes: the people involved with R&D are out of touch with changing customer demands or societal needs; the technology developed by the laboratory cannot be applied in the field; or the product idea does not fit the company's area of expertise. To deal with these problems, we have established a Research Commercialization Planning Committee consisting of representatives from each business group and laboratory, and from the Corporate Strategy and Planning Division. This committee collects information about needs and technologies, then plans and reconsiders research targets to evaluate whether they fit the company's management strategy. From the beginning of the research and development process, a Theme Evaluation Committee, which includes individuals from departments dealing with intellectual property rights and from top management, oversees the process to ensure that it proceeds in accord with Tosoh's principles, general goals and commitments.

TOSOH AT A GLANCE

General Applications

Major Products and Services

PETROCHEMICAL GROUP



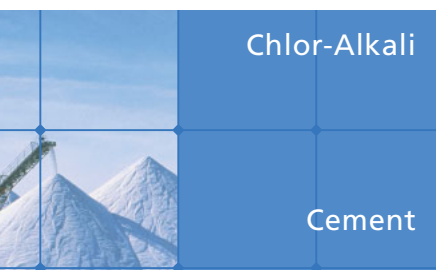
Electronics products; cosmetics; rubber goods

Ethylene; propylene; C4 fraction; tertiary-butyl alcohol; cumene; aromatic compounds

Food packaging; agriculture; engineering; fishing; distribution; and other industries

Ethylene vinyl acetate (EVA) copolymers; polyethylene grades (HDPE, LDPE, LLDPE, ULDPE); adhesive polymers; polyphenylene sulfide (PPS) resins; polyvinyl chloride (PVC) paste; synthetic rubber; chloro-sulphonated polyethylene; C9 hydrocarbon resins

BASIC GROUP



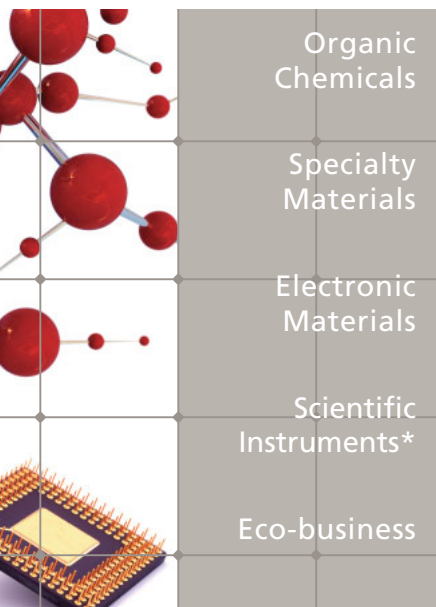
Chemical processes; plastics; glass; pulp and paper

Caustic soda; VCM; PVC resins; calcium hypochlorite; sodium bicarbonate; chlorine; inorganic chemicals

Construction

Ordinary portland cement; portland fly ash cement; portland blast-furnace slag cement

SPECIALTY GROUP



Pharmaceuticals; agrochemicals; electronics; organometallic catalysts; fragrances and flavors; urethane polymers; specialty coatings

Ethyleneamines and derivatives; organic intermediates; flame retardants; bromine; solvents, fluorinated and brominated compounds; polyurethane catalysts; dye improving additives; hydrobromic acid; chelating agents

Consumer; industrial; and high-technology products

Zirconia products (powders, ceramics, grinding media); electrolytic manganese dioxide (EMD), manganous manganic oxide; zeolites (adsorption agents, molecular sieves)

Semiconductors; consumer electronics; high-technology products

Silica glass materials, including natural, synthetic, fused, machined, and fabricated quartzware; thin film deposition materials; process kit management

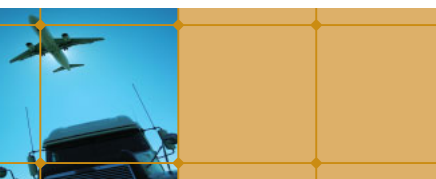
Scientific instruments; diagnostic devices; reagents; pharmaceutical and medical products

High-performance liquid chromatography (HPLC) systems and packing materials; ion chromatography systems; glycohemoglobin analyzers; enzyme immunoassay systems; reagent systems; nucleic acid testing systems

Environmental products and technologies

Water purification and treatment system engineering; land survey; reclamation; and technological consulting services

SERVICE GROUP



Logistics; R&D; and administrative and maintenance services

Research and development; administration; security; transportation; warehousing and related; information; instrumentation; and plant engineering and maintenance services

* The "Scientific Instruments Division" changed its name to the "Bioscience Division" on June 29, 2006.

Domestic Subsidiaries and Affiliates

Nippon Styrene Monomer Co., Ltd.

Ace Pack Co., Ltd.; Hokuetsu Kasei Co., Ltd.; Rensol Co., Ltd.; Sankyo Kasei Industry Corporation; Toyo Polymer Co., Ltd. (manufacture and sale of synthetic resins); Shinomura Chemical Industry Corporation; Toei Co., Ltd. (PVC films and sheets)

Lonsel Corporation (plastic products); Minami Kyushu Chemical Industry Co., Ltd. (fertilizers); Plas-Tech Corporation (PVC compounds); Rinkagaku Kogyo Co., Ltd. (phosphorous compounds); Taihei Chemicals Ltd. (PVC films and sheets, nitro-cellulose); Taiyo Vinyl Corporation (PVC resins); Tohoku Tosoh Chemical Co., Ltd. (chlorinated chemicals); Tokuyama Sekisui Co., Ltd. (PVC resins); Toho Acetylene Co., Ltd. (industrial gases)

Tosoh Finechem Corporation (fine chemicals, custom synthesis); Tosoh F-Tech, Inc. (fluorochemicals); Tosoh Organic Chemical Co., Ltd. (organic intermediates); Hodogaya Chemical Co., Ltd. (fine chemicals, agrochemicals, dyes); Nippon Polyurethane Industry Co., Ltd. (urethane products)

Tosoh Silica Corporation (rubber and plastic silica filler); Tosoh Ceramics Co., Ltd. (zirconia ceramic products); Tosoh Hyuga Corporation (EMD); Tosoh Zeolum, Inc. (zeolites)

Tosoh Quartz Corporation (fabricated quartzware); Tosoh SGM Corporation (silica glass materials); Tosoh Speciality Materials Corporation (thin film deposition materials)

Tosoh AIA, Inc. (diagnostic reagents); Tosoh Hi-Tec, Inc. (diagnostic and chromatography products and systems); Tosoh Techno-System, Inc. (analytical instrument maintenance)

Organo Corporation (water purification and treatment system engineering); Eco-Techno Corporation (land survey, reclamation, and technological consulting services)

Tosoh Analysis and Research Center Co., Ltd. (research and development); Tosoh General Services Co., Ltd. (administration and security services); Tosoh Logistics Corporation (transportation, warehousing, and related services); Tosoh Information Systems Corporation (information services); Tosoh Plant Services Corporation (instrumentation, plant engineering and maintenance)

International Subsidiaries and Affiliates

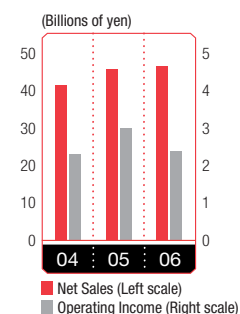
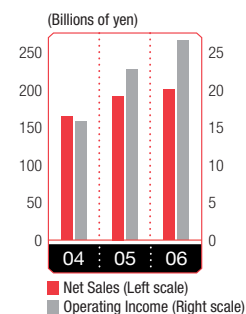
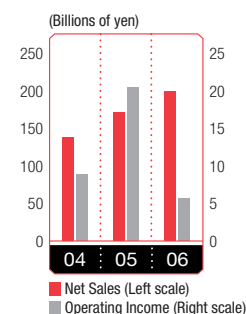
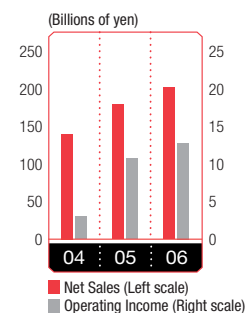
Mabuhay Vinyl Corporation (Philippines: caustic soda, chlorine derivatives); Philippine Resins Industries, Inc. (Philippines: PVC resins); P.T. Standard Toyo Polymer (Indonesia: PVC resins); Tosoh Polyvin Corporation (Philippines: PVC compounds); Tosoh (Guangzhou) Chemical Industries, Inc. (China: PVC resins)

Delamine B.V. (Netherlands: ethylene amines, fine chemicals); Holland Sweetener Company (Netherlands, U.S.: aspartame)

Tosoh Hellas A.I.C. (Greece: EMD)

Tosoh Quartz (U.S., Taiwan: fabricated quartzware); Tosoh SET, Inc. (U.S.: physical vapor deposition [PVD] and chemical vapor deposition [CVD] process kit management); Tosoh SMD (U.S., Taiwan, South Korea: thin film deposition materials); Tosoh SGM USA, Inc. (U.S.: silica glass)

Tosoh Bioscience (U.S., Germany: packed columns for high-performance liquid chromatography and separation media; U.S., Belgium, Italy, Switzerland, U.K.: clinical diagnostic systems and reagents)



PETROCHEMICAL GROUP

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. The naphtha cracker at Tosoh's Yokkaichi Complex has an annual ethylene production capacity of approximately 500,000 metric tons, and supplies roughly half of Tosoh's demand. This internal supply capability allows Tosoh to control costs and reduce operating risk. We are working to transform changes in the Petrochemical Group's operating environment into opportunities by enhancing our ability to respond quickly to shifts in market trends and customer needs. This has involved wide-ranging restructuring in areas from research and production to sales and management. Moreover, we have accelerated our program of selectively concentrating resources to maximize earnings. In addition, Tosoh is raising cost competitiveness by removing bottlenecks and reducing energy and labor inputs. Higher prices for raw materials such as crude oil and naphtha are sources of concern. We are countering the higher price of naphtha by enhancing our ability to use heavier grades, improving recovery efficiency for spent C4 and C5 fractions, and shifting to other raw materials to increase our flexibility in selecting feedstock in order to reduce production costs.



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.

Products	Capacity (mt/y)	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 C4 hydrocarbons, such as butadiene, butylenes, and butane, from C4 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). t-BA is used as a solvent for pharmaceuticals, as a dehydrating agent, and in the manufacture of methyl methacrylate (MMA). It is also used as a denaturant for ethanol in the manufacturing of floatation agents, flavors, perfumes, and as an octane booster in gasoline.
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*		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

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.

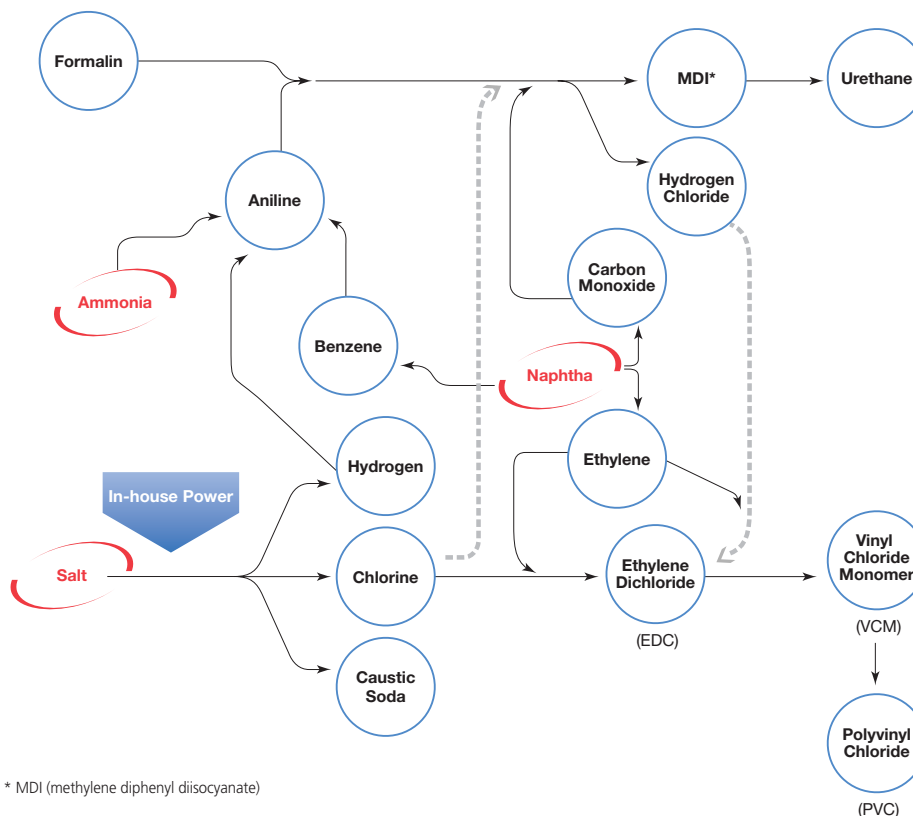
Products / Brand Names	Markets Served	
<p>Ethylene vinyl acetate copolymer <i>Nipoflex®</i></p>		<p>This Tosoh EVA copolymer has applications in foaming for shoe soles, blown film, stretch and agricultural film and lamination, sheet extrusion, hot-melt adhesives, and injection molding. It combines clarity, gloss, and weather resistance with flexibility. Nipoflex retains its elasticity even amid low temperatures yet remains resistant to flex and environmental stress cracking.</p>
<p>Low-density polyethylene <i>Nipolon®, Nipolon-L®, Nipolon-Z®, LUMITAC®</i></p>		<p>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.</p>
<p>High-density polyethylene <i>Nipolon® Hard</i></p>		<p>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.</p>
<p>Adhesive polymer <i>Melthene®-M, Melthene®-H, Melthene®-G</i></p>		<p>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.</p>
<p>Chloroprene rubber <i>SKYPRENE®</i></p>		<p>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.</p>
<p>Chlorosulphonated polyethylene <i>TOSO-CSM®</i></p>		<p>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.</p>
<p>High-performance CSM <i>extos®</i></p>		<p>Extos boasts extended low-temperature and dynamic properties and is used in the manufacture of automobile belts and in other similar applications.</p>
<p>Polyvinyl chloride paste <i>Ryuron®</i></p>		<p>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.</p>
<p>Polyphenylene sulfide resins</p>		<p>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.</p>
<p>C9 hydrocarbon resins <i>Petcoal®</i></p>		<p>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.</p>



BASIC GROUP






The Basic Group centers on Tosoh's core vinyl isocyanate chain operations. Supported by the highly competitive infrastructure of the Nanyo Complex, Tosoh Group companies in Japan and Asia work together to maintain and enhance leadership throughout the vinyl isocyanate chain. Tosoh's success in this area of operations is the result of economies of scale derived from a tightly integrated manufacturing infrastructure and efficient in-house power generation that provide a clear competitive advantage. Vinyl chloride monomer (VCM) is a growth business in Asia, particularly in China. Tosoh has built outward from its base in Japan, steadily expanding the scale of its operations in Asia and Oceania to meet demand in growth markets. Moreover, demand for polyvinyl chloride (PVC) and caustic soda is growing steadily in Asia, again centered in China. Tosoh is expanding its PVC production capacity, and is therefore well positioned to meet increasing demand. Our objective is to steadily expand earnings by enhancing our strengths throughout the vinyl isocyanate chain. Working to raise both productivity and capacity, the Tosoh Group completed capacity expansion for aniline in April 2005, methylene diphenyl diisocyanate (MDI) in June 2005, and VCM in November 2005. In addition, we plan to complete an expansion in PVC production capacity in China at the end of 2006, and a 200,000 metric ton/year expansion in MDI production capacity in 2007.

Tosoh Vinyl Isocyanate Chain Operations




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.

Products / Brand Names	Capacity (mt/y)	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	1,480,000		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 <i>Niclon®</i>	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.

CEMENT

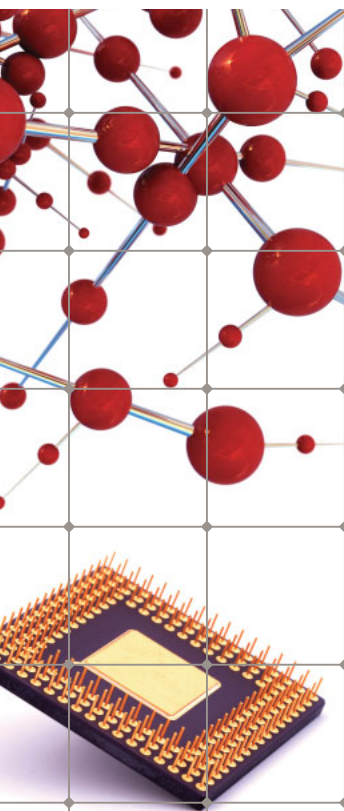
Tosoh's ability to utilize waste and by-products from various operations in cement production complements its logistical strength resulting from integrated cement manufacturing capabilities. We are working to reduce the amount of coal required at the power plant that supplies electricity to our cement 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.

Product	Capacity (mt/y)	Markets Served	
Cement	2,900,000		Tosoh cement products span ordinary portland cement, portland fly ash cement, and portland blast furnace slag cement.

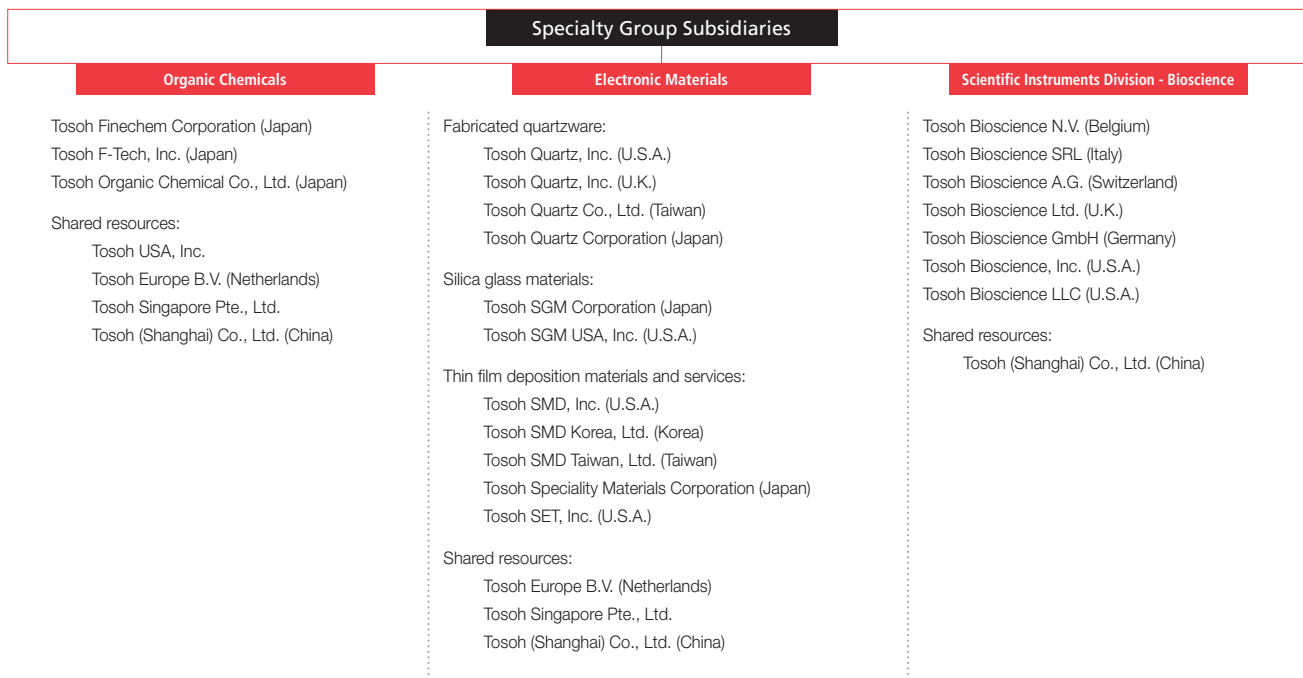


SPECIALTY GROUP

The Specialty Group focuses on technologically sophisticated, value-added products for high-technology industries including semiconductors, consumer electronics, pharmaceuticals and health care. Specialty Group products have become an increasingly important component of sales and earnings growth at Tosoh, and the Company typically consolidates and realigns 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 also encourages synergistic sharing of technology to support the development and manufacture of high-value-added products. Tosoh has built the Specialty Group into a solid global business through both organic growth and carefully targeted acquisitions. Intelligently organized research and development, strongly linked to actual market and customer needs, supports the efficient innovation required for sustained profitable growth.



Building Global Brands and Creating Synergies among the Specialty Group



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, agro-chemicals, 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.

Products / Brand Names

Capacity (mt/y) Markets Served

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 foam 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.

Organic intermediates



As Japan's only bromine manufacturer, Tosoh produces halogenated intermediates, particularly bromine compounds, that are important intermediate materials for diverse chemicals used in the pharmaceutical and electronics industries. Tosoh combines expertise in organometallic synthesis, halogenation, and fluorination technologies to serve the high-growth markets for pharmaceuticals and specialty products geared to electronic materials. Its products include mono bromo alkanes, dibromo and bromochloro alkanes, halo aromatics, mono chloro alkanes, halo carboxylic acids and esters, halo alkyl amines, p-tert-butoxystyrene as a resist monomer for electronic devices, piperazine derivatives, and benzaldehydes and their derivatives.

Sodium styrenesulfonate

SPINOMAR® NaSS



Spinomar NaSS is an additive widely used in dye-improving agents for acrylic and polyester fibers; in reactive emulsifiers for water-borne coatings; and in antistatic agents for textiles, plastics, and paper.

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.



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.

Products / Brand Names	Capacity (mt/y)	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 ₂ O 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.



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.

Products / Brand Names	Markets Served	
Silica glass materials		<p>Tosoh's silica glass materials excel in quality and value, reflecting Tosoh's advanced technology and more than 60 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.</p>
Fabricated quartzware		<p>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.</p>
Machined quartzware		<p>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.</p>
Sputtering targets		<p>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.</p>
Process Kit Management <i>Process Kit Management™</i>		<p>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.</p>



SCIENTIFIC INSTRUMENTS* (BIOSCIENCE)

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

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 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-8220GPC 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.

* The "Scientific Instruments Division" changed its name to the "Bioscience Division" on June 29, 2006.

SERVICE GROUP

Tosoh is dedicated to providing its customers with the most effective and reliable products and services in the industry. The companies in the Service Group play a vital role in achieving that goal. Made up of an alliance of Tosoh subsidiaries and affiliates, the Service Group provides the critical support Tosoh relies on to operate cost-efficiently and to deliver its products in a timely manner. It supports overall operations with logistics, construction and engineering services.

Additionally, companies in the Service Group are evolving from cost-centers to profit centers. This is accomplished by operating on a more commercial basis. Prices are determined by market rates, allowing for competition with external suppliers. This shift was implemented as a means to further increase cost performance.

In line with this strategy, Tosoh's analytical chemistry, information technology and general administrative operations have also been spun off into independent operating companies to provide the most efficient support to the rest of the Company's operations.

Tosoh Analysis & Research Center Co., Ltd.

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

Tosoh Information Systems Corporation

Tosoh Information Systems assists the Tosoh Group and other outside companies in IT solutions. Initiatives include the introduction and development of a new ERP system to enable management to quickly and easily assess performance throughout the Tosoh Group worldwide.

Tosoh General Services Co., Ltd.

Tosoh operates financial services in Japan, while for other regions these functions are undertaken by regional service platforms. Tosoh General Services provides support for personnel management, employee benefit administration and training activities. The company is particularly focused on developing new social services that support employees.

Tosoh Logistics Corporation

Tosoh Logistics is responsible for keeping supplies and products moving. It has received ISO 9001 certification for all its quality control systems at 13 sites in Japan and has moved into China to support Tosoh's growing network in Asia.

Service Group companies are constantly working to improve the quality of their operations.

INTERNATIONAL OPERATIONS

Underlying our strategies to bolster our profitability is our commitment to increase our global presence. This entails the expansion of our core competency, our vinyl chain operations in Asia, and the reorganization and strengthening of our specialty businesses.

Tosoh took its first step to becoming a global corporation with the establishment of a representative office in New York in 1964. A strategy to develop potential markets for Tosoh's rapidly growing array of products led to acquisition of advanced technologies and companies in various fields. Later Tosoh understood that to be globally competitive and truly international, a presence based on actual on-the-ground operational networks and true localization was essential. Today, newly established service platforms in North America and Europe support our regional networks.

Tosoh has become a multinational corporation with the 133 companies of the Tosoh Group employing more than 9,000 people worldwide. Approximately 30% of our sales are from outside Japan, a figure that we expect to significantly increase over the medium term.

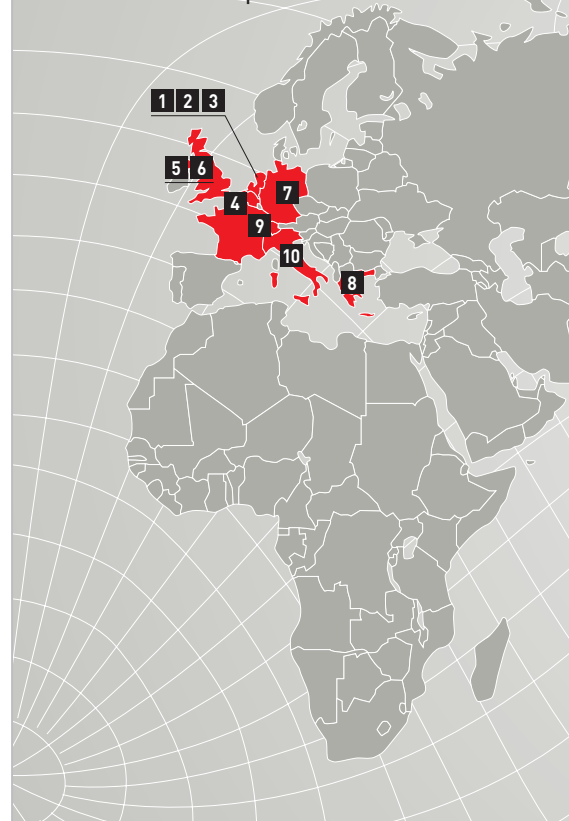
China is now the most active part of our growing network, with India and Russia on the horizon. Tosoh decided to make a full-scale entrance into the Chinese market in 2004. We established a trading company, Tosoh (Shanghai) Co., Ltd., to support our growth strategies in China, and joined Tosoh Logistics Corporation, Nippon Polyurethane Industry Co., Ltd. (NPU), Lonseal Corporation, and Hodogaya Chemical Co., Ltd. in the same building in Shanghai to begin developing the Tosoh China network.

Most recent developments in China involve our basic chemicals operations to include polyurethane and increase the cost-competitiveness of the vinyl isocyanate chain. To establish a more competitive presence in the rapidly expanding polyurethane industry of Asia and especially China, Tosoh decided to raise its stake in NPU, thus making it a subsidiary. Additionally, our first manufacturing plant in China, Tosoh

(Guangzhou) Chemical Industries, Inc. (TGC), is slated for completion in late 2006. Along with our other PVC manufacturing joint ventures in the region, TGC will position Tosoh to take further advantage of the strong economic growth in China and throughout Asia.

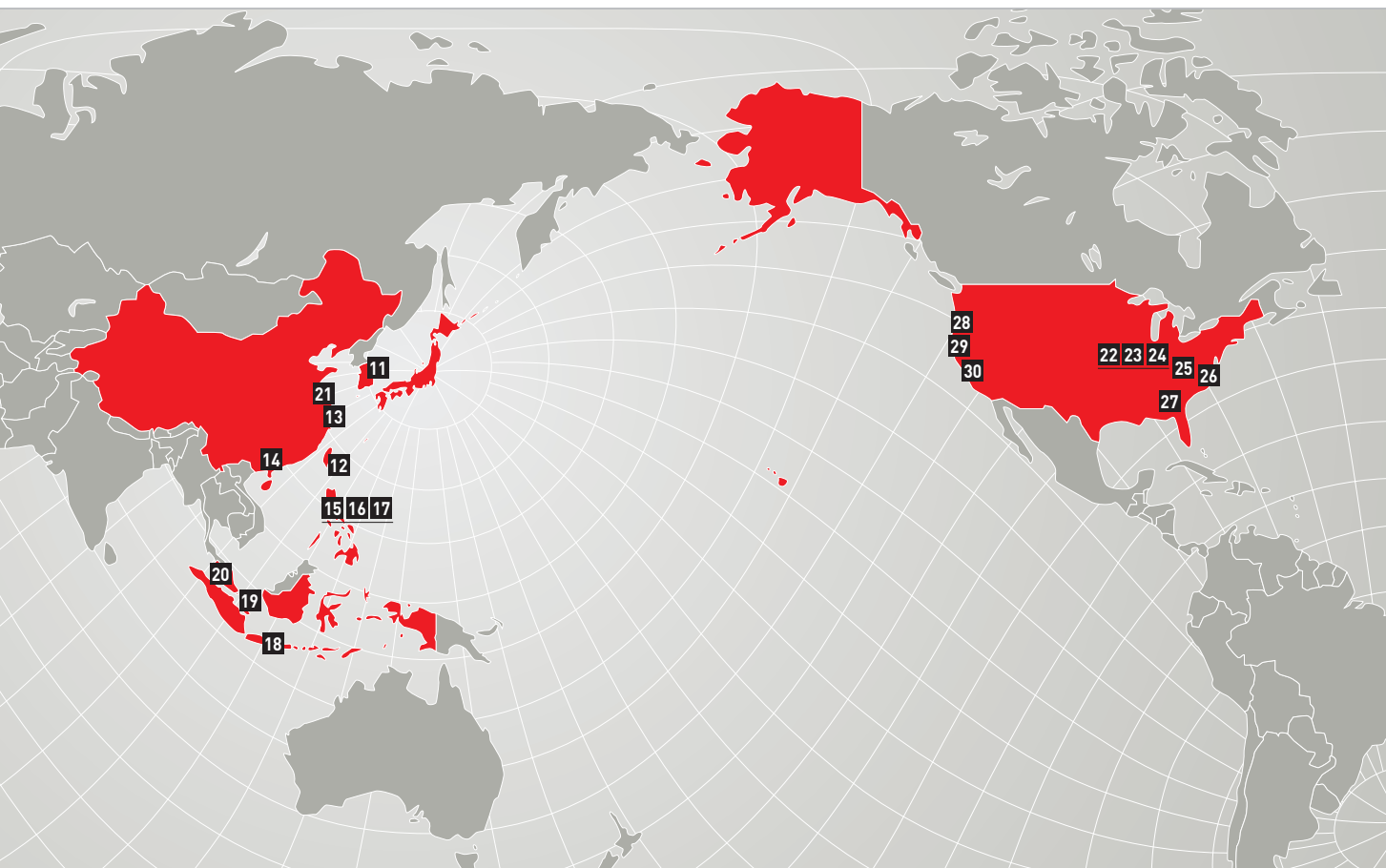
Our Specialty Group has evolved over the years in a multitude of directions as we moved rapidly to take advantage of emerging opportunities for our technologies. Now we are

Fiscal 2005 Tosoh Group Consolidated Companies



EUROPE

- 1 Tosoh Europe B.V.
- 2 Delamine B.V.
- 3 Holland Sweetener Company V.O.F.
- 4 Tosoh Bioscience N.V.
- 5 Tosoh Quartz Inc.
- 6 Tosoh Bioscience Ltd.
- 7 Tosoh Bioscience GmbH
- 8 Tosoh Hellas A.I.C.
- 9 Tosoh Bioscience A.G.
- 10 Tosoh Bioscience SRL



ASIA

- 11 Tosoh SMD Korea, Ltd.
- 12 Tosoh Quartz Co., Ltd.
- 13 Tosoh (Shanghai) Co., Ltd.
- 14 Tosoh (Guangzhou) Chemical Industries, Inc.
- 15 Philippine Resins Industries, Inc.
- 16 Tosoh Polyvin Corp.
- 17 Mabuhay Vinyl Corp.
- 18 P.T. Standard Toyo Polymer
- 19 Tosoh Singapore Pte., Ltd.
- 20 Organo (Asia) Sdn. Bhd.
- 21 Organo (Suzhou) Water Treatment Co., Ltd.

AMERICA

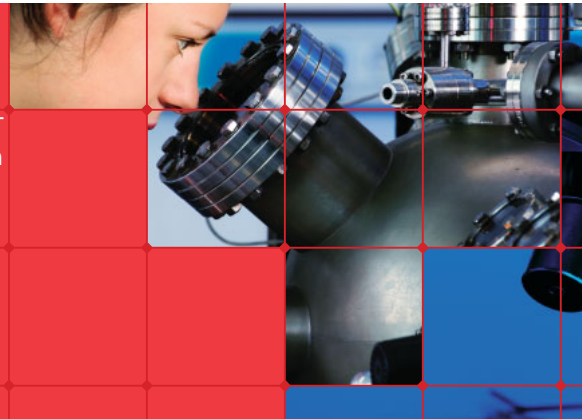
- 22 Tosoh America, Inc.
- 23 Tosoh USA, Inc.
- 24 Tosoh SMD, Inc.
- 25 Tosoh Bioscience LLC
- 26 Tosoh SGM USA, Inc.
- 27 Holland Sweetener North America, Inc.
- 28 Tosoh Quartz, Inc.
- 29 Tosoh SET, Inc.
- 30 Tosoh Bioscience, Inc.

forming a more cohesive group and a solid vision for the future. We have unified our affiliated scientific and diagnostic system-related companies under the name Tosoh Bioscience and recently brought all Japan operations as well under that brand. Further integration of our businesses aligned under the Electronic Materials Division is progressing. In the United States, Tosoh acquired a state-of-the-art manufacturing facility to complement its existing sputtering target production base.

Tosoh views the global market as its main source of growth opportunities. Therefore, mergers and acquisitions join other strategies in helping us build product lines that serve the world. Moreover, Tosoh is dedicated to and proud of the multi-ethnic, multicultural group we have become. Our diversity brings vitality and creativity to all aspects of our business and supports our strategy of innovation.

RESEARCH AND DEVELOPMENT ACTIVITIES

By 2020 we hope to see a society in which more people will have safe and sufficient sources of food and a better quality of life, even though the population will be greater. Tosoh understands that to realize this goal research and development are essential. The mission of our approximately 800 researchers is therefore based on effective use of various forms of information, collaboration, and processes that preserve both the environment and sufficient energy resources for future generations. During fiscal 2005, the Tosoh Group invested more than ¥11 billion in R&D.



Structured for Creativity and Efficiency

Tosoh has three corporate laboratories involved in creative basic research: the Tokyo Research Center, the Yokkaichi Research Laboratory, and the Nanyo Research Laboratory. The Nanyo Technology Center provides the engineering to transform the ideas produced by these corporate laboratories into production technologies, and is responsible for designing production facilities. Additionally, specialized departments for development and technology support expansion of scientific instrument-related products and operations.

Collaboration for Success

Interdisciplinary cooperation among manufacturing, sales, research, and Group company planning departments further enhances Tosoh's efficiency in commercializing new ideas. Our electronic materials are one example. Information is gathered from various points, including the main business unit that oversees global operations, Tosoh Speciality Materials Corporation, which is the center of Tosoh Group manufacturing within Japan; and Tosoh SMD, Inc., which is the group's manufacturing arm within the United States.

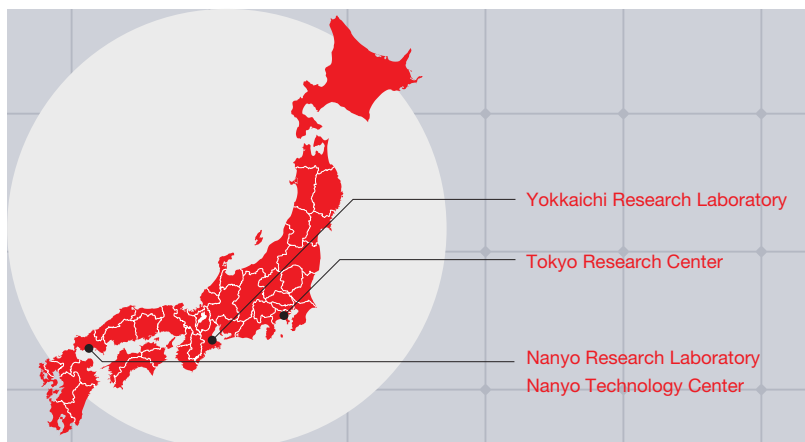
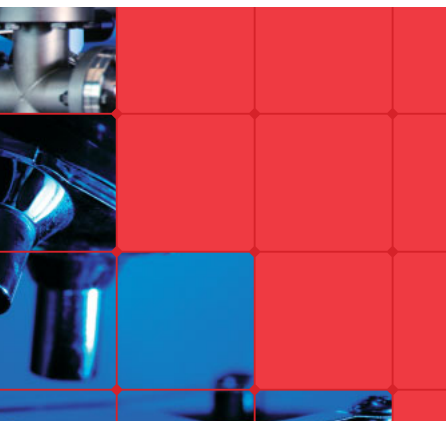
In silica glass products, which are essential to the IT industry, we have established a single uninterrupted line of manufacturing processes starting from production of the materials, and continuing to the final crafting of complicated equipment for the manufacture of semiconductors. R&D relating to this process also has a structure appropriate for our way of doing business. The Tokyo Research Center is responsible for creating materials with new functions and for developing technologies to form these materials and to finish their surfaces, while the Nanyo Technology Center has the task of determining how to make these technologies commercially competitive. Various companies throughout the Tosoh Group implement these technologies worldwide.

Systems Critical to Human Life

In developing countries it is critical to control infectious diseases, while in developed countries it is important to prevent the increase of diseases related to aging populations. It is therefore necessary to further develop highly accurate and simple medical diagnostic systems. In this regard, the Tokyo Research Center creates diagnostic tools based on biotechnologies. The development and technology departments of the Scientific Instrument Division further develop these systems to fit the needs of hospital doctors and medical testing centers, and then apply them in actual equipment that can be used by these facilities. Since these are critical diagnostic systems which relate to human lives, Tosoh's Call Center is directly connected to the testing and diagnosis facilities and gathers information while providing technical support.

Designing Materials at the Molecular Level

Due to the increasing miniaturization of elemental devices for semiconductors, there is greater demand for more highly specialized functional materials. Now that the thickness of the films to be layered is measured in nano units, the materials used to fabricate them need to be designed at the molecular level. The Tokyo Research Center is using techniques for designing and synthesizing organic compounds and for evaluating thin films to make organic compounds containing metals such as ruthenium, titanium, tantalum, iridium, hafnium, zirconium, and aluminum into the CVD materials necessary for fabricating 45nm node semiconductors. In collaboration with semiconductor manufacturers, we are striving to further improve these materials, which will be used by the high-quality semiconductors soon to appear on the market.



Bringing New Products to Market

Both the size of and the demand for liquid crystal and plasma televisions are increasing rapidly. As a result, the consumption of ITO (Indium Tin Oxide), which is the transparent conducting material used by these displays, is also quickly growing. However, production of Indium is not keeping up with demand, and in the near future it may become difficult to obtain sufficient ITO. After searching for a transparent conducting substance that does not use Indium, Tosoh researchers have successfully developed the highly functional material ZAO (Zinc Aluminum Oxide). Manufacturers of liquid crystal displays are starting to give ZAO excellent ratings, and in the future we can expect the appearance of LCD displays which do not use ITO.

Exploring Frontiers in Search of Breakthroughs

Ultimately our R&D challenges involve successfully accessing global resources to bring innovative new technologies to market. As they work to achieve Tosoh's vision for an improved society, our researchers continue to develop the necessary techniques to achieve this goal. The science required by these technologies includes research into subjects ranging in size from the scale of ordinary sense objects down through the micro, nano, molecular, and atomic levels. With regard to medical diagnosis and testing technologies, this means doing biological research at the genome level. For semiconductor and display technologies, this implies designing materials at the molecular level. And finally for environmental and energy conservation technologies, this requires material analysis at the atomic level. The disciplines that will be used for these developments include medical science, chemistry, physics, molecular biology, and mechanical engineering. Now and into the future, Tosoh continues to explore frontiers in search of breakthroughs that innovate our products, increase profitability, and serve society.

Yokkaichi Research Laboratory

Focused on basic research for catalysts, polymerization, characteristic control, and fabrication of polymers, the Yokkaichi Research Laboratory provides research and development in petrochemical fields.

• Achievements and products:

New polyethylene grades (medical high-purity plastics, laminates), hot melt adhesives (plasma display adhesives), polyphenylene sulfide (PPS) resins (hybrid specialty automotive parts)

Tokyo Research Center

On the leading edge of technology and product development, the Tokyo Research Center creates the products of the future in 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

Primarily focused on specialty materials, the Nanyo Research Laboratory is engaged in R&D for products and technologies in the environmental and energy related fields.

• Achievements and products:

Synthetic zeolites, zirconia powders, heavy metal chelating agents, environmental catalysts, urethane catalysts, chlorosulphonated polyethylene, low TVOC polyvinyl chloride paste, functional polymers and chiral compounds.

Nanyo Technology Center

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

• Areas where significant results have been achieved:

Vinyl chain (products that utilize the electrolysis of salt: vinyl chloride monomer, polyvinyl chloride resins and others), engineering for ethyleneamines, industrial and technological improvements for specialty products: silica glass, ethyleneamines, silica, aspartame, and others.

Responsible Care® (RC) entails conducting voluntary activities and management to ensure environmental protection, safety and health throughout the entire life cycle of chemical products, from development to sales, use and final disposal. Through its RC activities, Tosoh is making meaningful progress toward stringent targets while benefiting from reduction in its use of resources through recycling. We see the effective application of our creativity and business acumen to environmental issues as a key to sustainable growth that satisfies our stakeholders.



A Meaningful Commitment to Responsible Care

In 1995, we became a founding member of the Japan Responsible Care® Council (JRCC) to help further systematize our efforts in the areas of environmental protection, safety and health. We took our concern for our surroundings to the next level by issuing our Basic Principles of the Environment, Safety and Health and Implementation Guidelines in 1992 and revising them in 1999, and by signing the Responsible Care Global Charter* in 2006.

Our RC activities follow a plan-do-check-act (PDCA) cycle that results in continuous improvement. The state of implementation of the activities plan formulated each year by the RC Committee is checked in RC audits. Action is then taken to improve activities by reflecting the results of the audit in the following year's activity plan at company-wide meetings in which the heads of the environment, safety and quality control units participate.

In addition, the ISO certification program serves as an external check of our quality assurance and environmental management. Since 1999, all our manufacturing complexes in Japan have been certified under ISO 9001 quality assurance and ISO 14001 environmental management standards. Moreover, Tosoh Group companies have also made progress toward ISO certification.

Tosoh understands that communication is essential to good corporate citizenship. We communicate our environmental preservation concerns and activities to the communities in which we operate and make every effort to take part in community environmental preservation activities. We provide tours of our production facilities; hold regional RC meetings with government officials, educators, and community members; and participate in regional volunteer cleanup activities. Sharing information leads to greater commitment on both sides to contribute to environmental preservation.

Environmental Goals and Handling Procedures

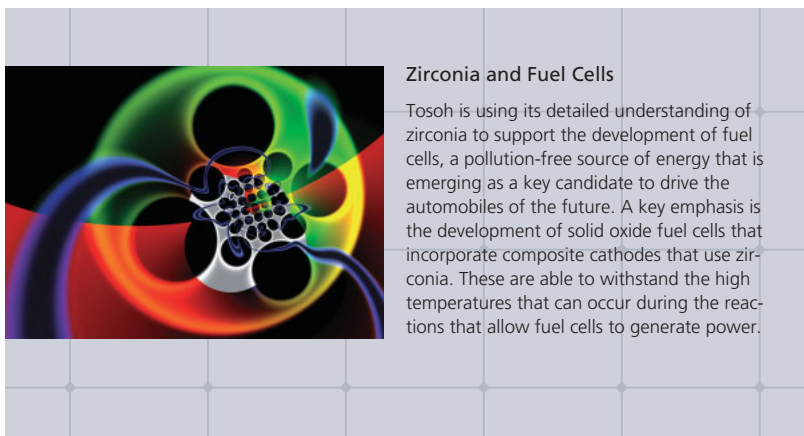
Tosoh's concrete goals and timelines for its pollution-control programs are comprehensive, covering issues including emissions into the air, land and water as well as disposal of industrial waste. Our target for substances subject to notification under the Pollutants Release and Transfer Register (PRTR) Law is a 75% decrease in emissions compared with 1995 figures by March 2007. We are also cutting our emissions of benzene and several other chemicals designated for voluntary control by the Japan Chemical Industry Association. For industrial waste, our target is an 80% reduction in our disposal volume by 2010 compared with 1990.

The safe handling and use of our products is another important concern, and we provide users with tools such as Material Safety Data Sheets (MSDS) for this purpose. For the transport of hazardous materials, we prepare emergency contact information cards, known as Yellow Cards, that provide essential information to enable a prompt response should an accident occur.

Environmentally Sound Businesses Support Sustainable Growth

Efficient innovation has generated business opportunities from our commitment to RC that includes sustainable development. Tosoh has applied the same ability to innovate in managing its own environmental concerns to creating products and services that help our customers manage theirs. These are part of Tosoh's comprehensive ability to make environmental protection a win-win proposition.

Tosoh has demonstrated strong leadership in recycling. We have made consistent progress in recycling by-products of our manufacturing operations to make other products, thus reduc-



Zirconia and Fuel Cells

Tosoh is using its detailed understanding of zirconia to support the development of fuel cells, a pollution-free source of energy that is emerging as a key candidate to drive the automobiles of the future. A key emphasis is the development of solid oxide fuel cells that incorporate composite cathodes that use zirconia. These are able to withstand the high temperatures that can occur during the reactions that allow fuel cells to generate power.

ing waste while adding to our product portfolio. The cement plant at our Nanyo Complex recycles the coal ash from Tosoh operations, the sludge from petroleum refineries and electronic materials manufacturers, and the slag from steel manufacturers. Tosoh also works with Shunan City in Yamaguchi Prefecture, Japan, in using all of the refuse-derived fuel (RDF) produced at the city's Phoenix fuel production facility as fuel for its Nanyo Complex cement plant. RDF is produced by solidifying waste generated by households. We have established a dedicated halogen recycling facility for recycling waste liquids generated internally and collected from pharmaceutical, agricultural and other manufacturers to recover chlorine and bromine. Hydrogen chloride and hydrogen bromide are then used as raw materials for vinyl chloride monomer, flame retardants and other products, and the heat released is used to generate steam. Tosoh has also developed an original process that removes organic impurities from salt produced as a by-product of ethyleneamine production to achieve a high level of purity for use in electrolysis. Since the process was introduced in 2004, the Nanyo Complex recycles approximately 100,000 metric tons of salt annually while substantially reducing emissions of organic substances in the electrolysis process.

Environmentally Friendly Products and Technology

Construction Industry

The range of applications for vinyl (polyvinyl chloride) varies from building materials to daily-use products such as detergent bottles, and medical equipment. It not only plays an important role in daily life, but also conserves resources, helps prevent global warming, and contributes to recycling. Vinyl uses approximately 60% less petroleum than other plastics, has low CO₂

emissions in manufacture, and approximately 50% of vinyl sheet for greenhouses is recycled in Japan.

Electronics Industry

Tosoh is working on minimizing the environmental impact of the new organic electroluminescent (OEL) displays to which the world is rapidly shifting. The triaryl amines used for hole transport in OEL displays, which are the next generation of flat-panel displays, required large volumes of copper for synthesis. By developing an organometallic complex catalyst with higher activity and selectivity, we have succeeded in significantly reducing the required amount of copper, thereby conserving resources and generating less waste.

Automobile Industry

For the automobile industry, we have produced a variety of environmentally friendly amine catalysts that, unlike previous catalysts, do not use organic tin or other heavy metal compounds. Amine catalysts are essential to the manufacture of polyurethane, which is used extensively in automobile interiors.

For additional information on Tosoh's environmental protection, safety, and health activities, access our latest Responsible Care Report 2005 on the web at www.tosoh.com.

*The Responsible Care Global Charter goes beyond the original elements of Responsible Care and also focuses on sustainable development and product stewardship.



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Corporate Governance Structure and Policies

Today's expanding global markets and cross-border transactions increasingly demand a vigorous approach to corporate governance with clear accountability and appropriate checks and balances. Tosoh is continuously improving the efficient corporate governance structure it has established so that the Company can quickly respond to changes in the business environment. Sound operations, fair business practices and a high degree of transparency are central to Tosoh's approach.

The Board of Directors meets, in principle, at least once a month to make decisions on important matters concerning corporate operations. In addition, the Board oversees the business activities of directors in charge of operations. Moreover, the Executive Committee meets, in principle, once a week to swiftly decide 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 business activities of directors. Furthermore, an Auditors' Committee Office was established in fiscal 2003 to strengthen the Auditors' Committee. Each of the companies in the Group also conducts business audits through its own corporate auditing department. Neither of the Company's external auditors has a vested interest in Tosoh.

Tosoh has Anti-monopoly, Export Management, and Compliance committees and a guidance manual to ensure compliance with legal regulations. The Company also consults with its legal advisors as necessary. To enhance transparency, Tosoh also emphasizes proactive, timely disclosure through initiatives such as earlier announcement of performance results.



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Management Team (June 29, 2005 — June 28, 2006)

Chairman & CEO

Madoka Tashiro (5)

President

Takashi Tsuchiya (6)

Senior Managing Directors

Yukihiro Tsutsumi (4)

Keiichi Ohtagaki (7)

Managing Directors

Ichiro Hiraki (3)

Hiroshige Wagatsuma (2)

Hideo Yamasaki (8)

Kazuya Hoshi (9)

Shinji Kurata (10)

Yuzo Arima (1)

Directors

Hiroyuki Uchida (15)

Koji Fujii (14)

Katsumi Ishikawa (11)

Kenichi Udagawa (12)

Kazuo Higuchi (13)

Corporate Auditors

Atsushi Minakawa (16)

Osami Matsuura (17)

Akio Fujita (18)

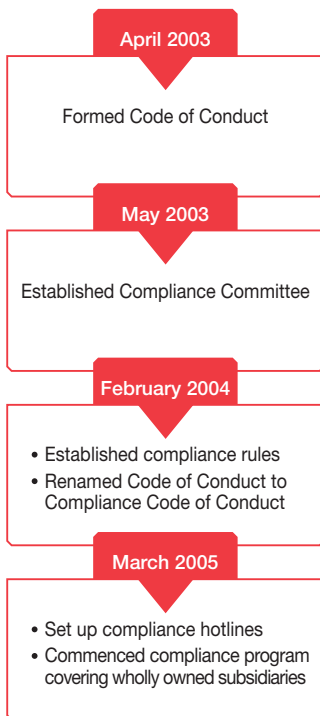
Yoshio Shibata (19)

Corporate Compliance

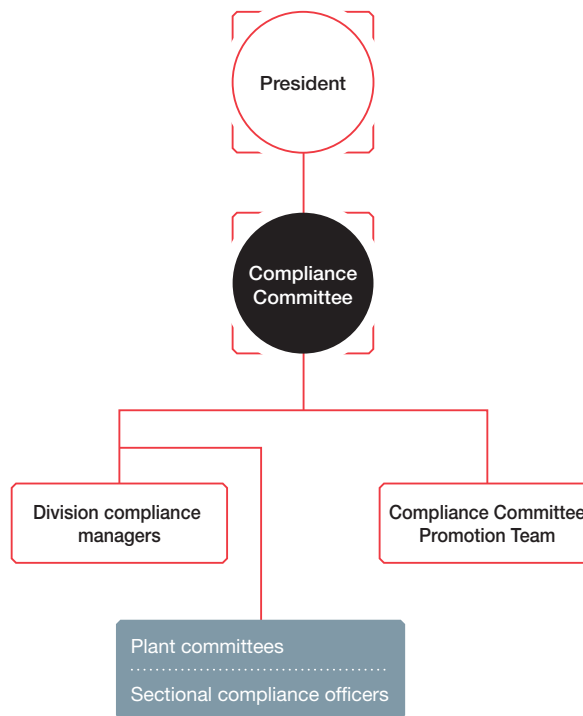
The Tosoh Group has established a proactive and systematic structure to ensure compliance with local, national, and international laws and standards and regulations for business practices throughout its increasingly global organization. Our efforts to raise our level of corporate compliance to match heightened international expectations involve the employees of the parent company, Tosoh Corporation, and 22 wholly owned subsidiaries.

The Compliance Committee oversees Tosoh's corporate compliance organization, and is responsible for devising and improving the system, for establishing the system's principles of conduct, and for monitoring the application of the system. The Compliance Committee Promotion Team provides feedback regarding the Compliance Committee's work and acts on the committee's instructions. Meanwhile, compli-

Compliance Organization History



Compliance Organization



ance officers in each division, department, and facility of the Tosoh Group further monitor and enforce compliance with expected standards worldwide. Fair business practices regarding purchasing and selling, for example, fall under the Antitrust Law of Japan and under Tosoh's antitrust compliance, purchase and sale management, and quality control regulations. Tosoh provides its employees with its Antitrust Compliance Manual to guide their actions in meeting the law and the regulations. The Company also maintains compliance hotlines that employees can freely access with questions or concerns. Moreover, the Tosoh Group's Antitrust Compliance Committee; Legal and Patent Department; and Environment, Safety, and Quality Control Department are charged with overseeing compliance on fair business issues.

Environmental compliance is a central management task. The Environment, Safety, and Quality Control Department

and the Corporate Strategy & Planning Department oversee compliance with conservation and antipollution laws and with the regulations set internally by the Group's Responsible Care Council and under the Group's quality control system.

During fiscal 2005, Tosoh conducted companywide surveys to assess both its corporate compliance and its employees' consciousness of corporate compliance. The results have been communicated throughout the Company, from senior management to rank-and-file employees. Assessment of the survey results will be a strategic component of ongoing improvements to employee education that will enhance areas in which understanding is strong and raise awareness where needed.

FINANCIAL SECTION

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SIX-YEAR SUMMARY OF SELECTED FINANCIAL DATA

Tosoh Corporation and Consolidated Subsidiaries
Years ended March 31, 2006, 2005, 2004, 2003, 2002 and 2001

Years ended March 31,	Millions of Yen						Thousands of U.S. Dollars ¹
	2006	2005	2004	2003	2002	2001	2006
Summary of Operations:							
Net sales	¥648,810	¥588,332	¥484,389	¥471,921	¥427,487	¥426,174	\$5,523,197
Operating income	47,460	56,898	30,055	28,048	15,631	27,565	404,018
Net income	27,533	29,533	7,297	4,809	459	9,392	234,383
Net income per share ²	45.74	49.09	11.96	7.87	0.77	15.62	0.39
Financial Position at Year-End:							
Total assets	¥637,477	¥603,209	¥549,213	¥545,697	¥572,146	¥534,605	\$5,426,722
Interest-bearing debt	291,221	284,572	289,097	298,886	332,120	325,774	2,479,109
Total shareholders' equity	159,112	127,993	99,238	92,795	90,557	91,195	1,354,491
General:							
Capital expenditures	¥ 32,348	¥ 45,379	¥ 21,305	¥ 12,127	¥ 16,820	¥ 18,700	\$ 275,372
Depreciation and amortization	28,029	22,822	23,968	25,255	25,392	24,772	238,606
Cash dividends per share ²	6.00	6.00	5.00	5.00	5.00	5.00	0.05
Common stock prices ²							
High	717	570	424	425	400	650	6.10
Low	413	341	238	211	195	265	3.52
Year-end close	588	530	415	242	387	305	5.01
Number of employees	9,373	9,148	9,196	9,167	9,404	8,097	

Notes: 1. For reference purposes, U.S. dollar amounts are translated from yen at the rate of ¥117.47 = US\$1, the exchange rate in effect on March 31, 2006.
2. Per share figures and common stock prices are in yen and U.S. dollars.

Review of Operations

PETROCHEMICAL GROUP

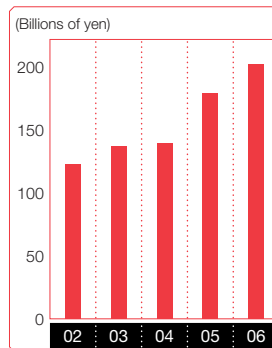
In fiscal 2005, Petrochemical Group sales increased 12.9% to ¥202.3 billion. Operating income increased 19.7% to ¥12.8 billion. Both major product categories, olefins and polymers, contributed to sales growth.

Olefins

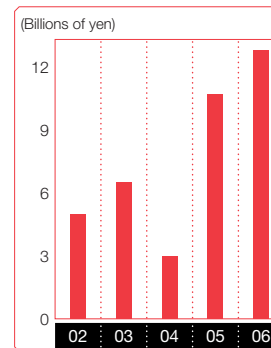
The operating environment was challenging during fiscal 2005. Production costs rose because of higher prices for naphtha, a key raw material used at Tosoh's naphtha cracker at the Yokkaichi Complex. At the same time, demand in olefin-related product segments was unchanged from the previous fiscal year. Olefins are a bulk chemical, which requires Tosoh to continuously work to maintain and improve the competitiveness of its olefin products. Tosoh's strategy entails sharing production with neighboring petrochemical operations in the Yokkaichi area to maximize resources, minimize distribution costs, and reduce operating risks. During fiscal 2005, Tosoh also implemented initiatives to make better use of heavier, less costly grades of naphtha. We compensated for the reduced ethylene and propylene yield that resulted from using heavier grades of naphtha by increasing cracking capabilities. In addition, in October 2005, facilities for hydrogenating the C5 fraction began operating, which reduced raw material costs and raised the effectiveness with which we use C5 products.

Olefins are a fundamental product Tosoh uses throughout its petrochemical operations. We will continue working to strengthen competitiveness throughout the Company by maintaining a stable supply of olefins and derivative prod-

Net Sales



Operating Income



Note: All figures in graphs in the Management's Discussion and Analysis are for fiscal years ended March 31. As defined on page 1, fiscal 2005 ended on March 31, 2006.

ucts that are cost competitive. While global competition in the olefins business is intense, Tosoh's position as a major consumer and producer of ethylene provides a solid advantage. The Company can adjust its usage of ethylene in response to market trends. In addition, Tosoh's olefin operations are part of its vinyl isocyanate chain operations, which allows the Company to take advantage of synergies across a wide range of products within its Nanyo Complex. For example, increased production of aniline at the Nanyo Complex is increasing internal demand for benzene, which is providing an opportunity for a larger role and greater responsibility for the Olefins Division. Tosoh is expanding production volume of ethylene due to increased demand for vinyl chloride monomer (VCM) as well as benzene, and supply increased substantially as a result.

Polymers

Sales improved significantly year-on-year despite a challenging operating environment. Tosoh increased polyethylene prices six times during the past fiscal year, and the Company also benefited from comprehensive production and marketing operations for rubber products including chloroprene rubber and chlorosulphonated polyethylene. Overseas markets for chloroprene rubber were solid. Domestic

shipments of polyethylene decreased, while domestic and overseas shipments of PVC pastes rose.

Tosoh's polymer products fall into the two major product categories of polyethylene and functional polymers. Sales performance varies among the different grades of polyethylene. Competition is less intense in the markets for specialty grades such as ethylene vinyl acetate (EVA) and low-density polyethylene (LDPE) than in the market for commodity grades including linear low-density polyethylene (LLDPE) and high-density polyethylene (HDPE). Overall, the Company's functional polymers performed well because of Tosoh's focus on stable niche markets served by a limited number of competitors globally.

Tosoh is implementing several strategies to counter competition in the markets for its general-purpose polymers. While reducing expenses to boost cost-competitiveness, Tosoh is developing higher-margin, higher-quality general-purpose polymers, restructuring or eliminating unprofitable product lines, and inventing new polymers. Moreover, Tosoh

is emphasizing growing functional polymer segments.

Products such as Skyprene chloroprene rubber, EVA copolymer resins with 30% or more vinyl acetate, our adhesive polymer Melthene, and our superengineering plastic PPS resin have wide application in a variety of fields. Few producers compete in these segments, and Tosoh holds top market share in them worldwide. Tosoh plans to continue committing resources to its adhesive-related business.

Tosoh is working to turn operating environment changes into opportunities by enhancing its ability to respond quickly. We have accelerated our program of selectively concentrating resources to maximize earnings while also quickly establishing new businesses. In addition, we are raising cost competitiveness by improving our ability to remove bottlenecks and reducing energy and labor inputs. We are also restructuring our system of production, sales, research and management to ensure that we can respond rapidly to changing market trends and customer needs.

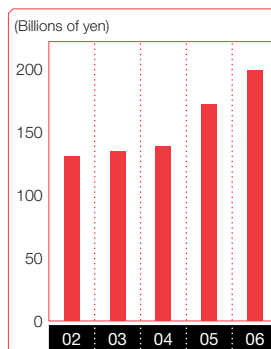
BASIC GROUP

In fiscal 2005, Basic Group sales increased 16.2% to ¥199.4 billion. However, operating income decreased 72.6% to ¥5.6 billion as a result of the increase in the price of crude oil and derivatives used as raw materials in the Basic Group.

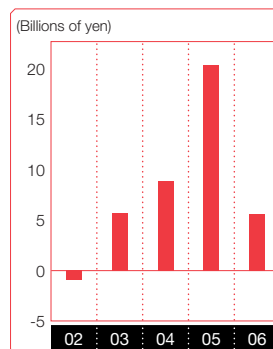
Chlor-Alkali

Caustic soda operations benefited from capacity expansion in the previous fiscal year, and exports increased. Tosoh successfully implemented price increases for caustic soda,

Net Sales



Operating Income (Loss)



and conditions in overseas markets improved, including the alumina production market in Australia. Exports of vinyl chloride monomer (VCM) increased, supported by a new plant that began operating during the fiscal year. Shipments

of polyvinyl chloride (PVC) resin increased both in Japan and overseas. The Company raised prices for VCM and PVC in Japan, but conditions in overseas markets were impacted by increased domestic capacity and lower prices. Tosoh also began operating a new plant for aniline and other products.

Demand for VCM and PVC is growing steadily in Asia, with demand centered in China. Tosoh is expanding production capacity for both of these products, and will therefore be well positioned to meet increasing demand. Our goal is to maximize earnings growth by maintaining comprehensive capabilities in electrolysis and in producing and marketing VCM. Growing demand in Asia presents an outstanding business opportunity, and we are moving to enhance our position throughout the vinyl isocyanate chain. We completed capacity expansion for aniline in April 2005, methylene diphenyl diisocyanate (MDI) in June 2005, and VCM in November 2005. In addition, we plan to complete an expansion in PVC production capacity in China at the end of 2006, and a 200,000 metric ton expansion in MDI production capacity in 2007. Our objective is to steadily expand earnings by enhancing our strengths throughout the vinyl isocyanate chain.

Shortly after the close of fiscal 2005, Tosoh increased its stake in Nippon Polyurethane Industry Co., Ltd. (NPU) to 51.7% by acquiring NPU shares held by an affiliate, Hodogaya Chemical Co., Ltd., thus making NPU a consolidated subsidiary. The move accelerates Tosoh's vinyl isocyanate strategy and strengthens intragroup ties as the Company positions itself for a more competitive presence in the rapidly expanding polyurethane industry of Asia and especially China.

Polyurethane markets are strong in Asia, where total annual demand is expected to grow by almost 10%. NPU is a leading supplier of feedstock to the polyurethane industry in Japan and Asia, and maintains one of the largest production capacities within the Asia Pacific region for several key products, such as MDI and isocyanate derivatives. NPU is also the leading domestic supplier of isocyanate, an important raw material in the manufacture of polyurethane derivatives and related intermediates for which demand in Asia is expected to grow steadily.

Tosoh supplies essential raw materials such as aniline,

carbon monoxide, and chlorine to NPU, and in turn receives hydrogen chloride to supply the production of vinyl chloride monomer (VCM). This exchange increases Tosoh's overall competitiveness throughout its vinyl isocyanate chain operations. NPU is constructing a 200,000 metric ton/year MDI plant at the Nanyo Complex, with completion scheduled in late 2007. Tosoh plans to support this expansion by increasing its annual production capacity of important MDI precursors such as aniline and carbon monoxide.

Cement

Demand for cement increased for the first time in five years during fiscal 2005, supported by public-sector demand resulting from disaster recovery efforts in Japan and solid investment in building construction in the private sector. However, domestic cement prices did not increase despite the rising price of coal. Exports of cement remained firm, and prices increased.

Continued strength in demand from the private sector will support cement sales, and we expect solid demand to support cement exports. However, demand resulting from public-sector disaster recovery efforts has abated, and the Japanese government has already committed to plans to reduce public works investment by 3% annually, which will also impact the cement business.

Tosoh's cement operations are integral to the competitiveness and the efficiency of the Nanyo Complex. They also use as raw materials the 170,000 metric tons of coal ash produced yearly by the Nanyo Complex's power plant boilers and un-neutralized gypsum, slag, sludge, and scrap tires from external sources. In addition, each day Tosoh's cement operations consume almost 14 metric tons of refuse-derived fuel (RDF), a solid fuel produced at a nearby municipal RDF plant.

Looking forward, Tosoh will continue to reduce cement production costs further. Tosoh sells its entire cement production to Taiheiyo Cement Corporation, and will work to maintain and strengthen this mutually beneficial relationship. While working to contribute to an environmentally responsible society by making use of waste and by-products, Tosoh intends to develop technologies for recycling general and industrial waste.

SPECIALTY GROUP

In fiscal 2005, Specialty Group sales increased 4.7% to ¥200.7 billion. Operating income increased 17.3% to ¥26.6 billion. Solid performance in most product categories in the Specialty Group supported increased sales and earnings.

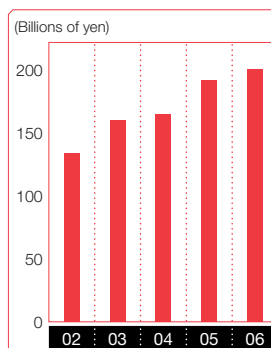
Organic Chemicals

Continued growth in demand in Asia, and especially in China, is supporting the performance of the Organic Chemicals Division. Ethyleneamines and their derivatives, such as epoxy hardeners, paper strength resin, chelates, and pharmaceutical and agricultural chemical intermediates, have applications in an array of fields. In Japan, the division holds the leading share of the market for its heavy metal chelates, which are in high demand because of rising environmental awareness and because of their strong cost competitiveness. The division has also been consistently successful at expanding applications for organic intermediates to include pharmaceuticals, agricultural chemicals, electronic materials, and other sectors. The Organic Chemicals Division is enhancing profitability by increasing its production efficiency, reducing costs and building positions in new high-margin segments.

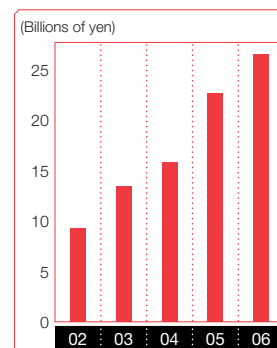
Ethyleneamines and Derivatives

Tosoh is Asia's only manufacturer of ethyleneamines and also produces derivatives. During fiscal 2005, shipments of ethyleneamines increased both in Japan and overseas. The Company has increased production capacity several times in recent years at its Nanyo Complex to meet growing demand

Net Sales



Operating Income



from China and Southeast Asian countries. An additional capacity increase was completed in November 2005, bringing Tosoh's total capacity to 53,000 metric tons per year.

Working with Delamine B.V., the Company's 50-50 joint venture with Akzo Nobel of the Netherlands, Tosoh has become a leading provider of ethyleneamines worldwide. Responding to evolving demand, it is aggressively developing markets for its polyurethane catalysts, heavy metal chelates, and new amine derivatives. Tosoh has also responded to growing concern over amine emissions from polyurethane foam, especially in Europe and the United States, by marketing reactive amine catalysts for the amine-based catalysts used by the automobile and other industries. The Company also has developed a tin-free catalyst as a substitute in the manufacture of elastomers and other products.

Tosoh's strength in the ethyleneamines business is based on technological expertise and cost-competitiveness in producing the raw materials caustic soda and chlorine at the Nanyo Complex. For example, Teda and Toyocat, which are catalysts used in polyurethane foam production, and Tosoh's heavy metal treatment agents offer customers a cost advantage because of the Company's use of its ethyleneamine as a raw material in manufacturing these products. The Company also deploys its well-developed technical expertise

in product and application development that enables Tosoh to serve specific customer needs.

Bromine and Brominated Derivatives

Tosoh is the only bromine producer in Japan, and is building its position in Asia for bromine and related compounds. In the bromine business, Tosoh manufactures a broad range of products including organic intermediates. In addition, its bromine-based flame retardants employ a process that reuses the seawater employed as coolant in Tosoh's power generation facilities. Tosoh has also installed wastewater treatment facilities at the Nanyo Complex to support bromine recycling.

Organic Intermediates

In the organic intermediates business, Tosoh Organic Chemical Co., Ltd. specializes in bromination and chlorination; Tosoh Finechem Corporation specializes in organometallic reactions and low-temperature reactions; and Tosoh F-Tech, Inc. specializes in fluorination. While enhancing the individual strengths of these Group companies, Tosoh is also encouraging synergistic sharing of organic synthesis technology among them. This enables the manufacture of high-value-added products in markets including contract production, advanced organic intermediates and sophisticated specialty chemicals.

Specialty Materials

The strategy of the Specialty Group's Specialty Materials Division entails using original technology to expand sales in growth markets. The division also follows a strategy of concentration and selection in focusing on markets in which it has a clear competitive advantage.

The HSZ zeolite series for catalysts is a core product line, and Tosoh has been expanding its position in markets worldwide. The HSZ series has earned a reputation worldwide for high quality and effective technical support. The Company offers high-quality zeolite grades that are clearly differentiated from those available from competitors, including binderless, highly durable and highly heat-resistant grades. Tosoh

backs its high-quality Zeolum zeolite molecular sieves with outstanding technical support to solve customers' production issues. Overall, Tosoh's strategy for its zeolite lineup is to develop products that meet customers' every adsorption, separation, and catalyst requirement. The division will also consolidate zeolite operations at Tosoh Zeolum, Inc. and develop new products to generate additional growth.

Tosoh is also the leading global supplier of zirconia, a yttria-stabilized ceramic that combines the best properties of ceramics, without their usual brittleness, with metal-like qualities. Nicknamed "ceramic steel," zirconia is known as a standard material in fiber-optic connectors. A focus on R&D and market development has allowed Tosoh to consistently launch new products and expand applications and the customer base for zirconia. Use is increasing as a structural material and in the components of fuel cells, automobile oxygen sensors, and other products in the environmental field. Tosoh works closely with customers to develop new applications for zirconia, and has expanded its product lineup to include powdered grades, compounds, machined components and colored grades.

In the battery industry, Tosoh is a major supplier of electrolytic manganese dioxide (EMD). Sales decreased in China and Southeast Asia during fiscal 2005, and competition is intensifying. In the EMD business, Tosoh's objective is to provide the materials that set the standard for the high-performance alkaline batteries used in advanced digital electronic devices. The Company supplies EMD to customers worldwide from its plants in Japan and Greece and has a solid reputation for reliability as a supplier. Tosoh is also encouraging its two EMD plants to share more technology to strengthen its global operations. Tosoh is concentrating on ensuring its ability to stably supply customers worldwide while reinforcing sales at the high end of the EMD market in order to counter competition from emerging producers in China.

The Specialty Materials Division constantly seeks to reduce its costs, to optimize its use of its production facilities and resources, and to develop markets for high-margin products in order to enhance competitiveness and generate

profitable growth. The division has also deployed its technology and development strengths to broaden applications for its products. New and growing applications include zirconia ceramics for use in fuel cells and biomedical applications, high-silica zeolites for automobile exhaust systems, and higher-performance lithium manganese for battery materials.

Sales by the Specialty Materials Division are expected to remain robust in fiscal 2006. Demand is anticipated to be strong for the HSZ series of zeolites for their catalyst applications in the petroleum refining and petrochemical fields and for their adsorbent applications in the environmental field, including for VOC removal and the reduction of harmful automobile emissions. In the increasingly oligopsonistic battery market, the Specialty Materials Division will maintain a strong position by concentrating on being able to supply high-performance EMD from its manufacturing plants in Japan and Greece. In addition, growing awareness of the superior properties of zirconia should lead to solid demand for that product from new markets.

Electronic Materials

The Electronic Materials Division was formed in June 2003 through a combination of Tosoh's quartz, fabricated quartzware, sputtering target, and industry service operations. Its core businesses are supplying quartz and thin-film materials for the global semiconductor and flat-panel display (FPD) markets.

During fiscal 2005, the popularity of flat-screen televisions and digital home appliances continued to support profitable growth. Sales of the division's sputtering targets for semiconductors and FPDs of its process kit management (PVD, CVD, etch, and CMP); and of its CVD and low-k materials were favorable. Demand also was strong for its quartz materials, including fused silica, synthetic quartz, and ultra-high-purity materials. Manufacturers of 300-millimeter wafers, large masks for LCDs, and optical-related products were primary customers for the division's machined and fabricated quartzware.

The Electronic Materials Division has a powerful supply chain that is integrated from raw materials to customer ser-

vice and support. It has the global organization required to serve the needs of its international customer base. The division has manufacturing and/or marketing bases in Japan, Taiwan, South Korea, Singapore, China, nations in Europe, and the United States. It is therefore well positioned to maintain and strengthen its close relationships with the world's leading semiconductor, FPD, and equipment companies in Asia, Europe, and North America. The division 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. Its concentration on growth areas and cutting-edge technologies is supported by full access to the Tosoh Group's entire range of inorganic, organic, and other technologies.

The division plans to aggressively invest in high-growth fields. It also intends to expand its business based on the development of technologies for such next-generation products as 65- and 45-nano-level IC chips and large FPDs. Moreover, the division is focusing on fields that are counter-cyclical to semiconductors. These include space optics, energy conservation and quartz microchips for biomedical applications.

The Electronic Materials Division anticipates continued performance gains in fiscal 2006. Growing demand for end products that support division growth, such as flat-screen televisions and digital home appliances, appears to be a long-term trend. The division plans to further strengthen its technological and manufacturing capabilities and expand its product lineup while implementing cost reduction programs and enhancing global marketing capabilities. The division will also consider complementing internal growth with intelligent acquisitions to accelerate expansion.

Scientific Instruments*

The Scientific Instruments 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 that develops, manufactures, and sells instruments, columns, and reagents and that provides customer support and main-

* The "Scientific Instruments Division" changed its name to the "Bioscience Division" on June 29, 2006.

tenance services for them. The Company serves global markets through its Tosoh Bioscience network that covers Japan, most nations in Europe, and the United States, and is expanding into China and other Asian markets.

The division posted favorable results in fiscal 2005. Sales of columns and packing materials for HPLC increased in markets outside Japan. In addition, shipments of in vitro diagnostic (IVD) products expanded both in Japan and overseas. Shipments of automated glycohemoglobin analyzers used in screening for and monitoring diabetes mellitus also increased solidly.

Tosoh is the market leader in Japan for TSK-GEL HPLC packing materials and packed columns, and these products also have an excellent reputation worldwide. The division continues to build its position in the competitive domestic market for gel permeation chromatography (GPC) columns and ion chromatography (IC) products, and is expanding sales of GPC products in overseas markets as well. Strong domestic and overseas demand is driving 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 increasing business in China.

In the division's automated immunoassay (AIA) analyzer business, Tosoh's proprietary freeze-drying technology has enabled the Company to produce sophisticated, fast, easy-to-use systems with top-class sensitivity and result reproducibility. During fiscal 2005, the division expanded its customer base for its 1800, 600 II and 360 models, and sales of reagents increased. The division will launch these products in the Chinese market in fiscal 2006. In Japan, over half of Tosoh's AIA products are in use at university hospitals, and the division is stepping up joint research with these institutions.

Tosoh launched the automated glycohemoglobin (GHb) analyzer HLC-723G8 in Japan during November 2005 to meet growing demand for fast, compact HPLC products that are easy to use. Customer response has been strongly favorable. Tosoh is a global leader in the GHb market, and will launch the HLC-723G8 in markets outside Japan during fis-

cal 2006. A key objective is quickly expanding the customer base for this instrument and its related consumables.

In January 2004, Tosoh completed its full-scale entrance to the nucleic acid-amplification testing (NAT) reagent and device market with the launch of its easy-to-use TRCRapid-160 real-time fluorescence monitoring system and transcription reverse transcription concerted reaction (TRC) reagent. This real-time monitoring system is fast, simple to use, and compact. By utilizing a homogenous amplification and fluorescence monitoring technique, the system requires only 10 to 30 minutes to test a pretreated sample. The division launched a product to test for food poisoning in 2004, and in fiscal 2005 launched a test reagent for the bacteria that causes tuberculosis. This was the division's first IVD product.

Tosoh has consistently demonstrated its ability to identify markets in which demand is strongest and then develop products that successfully meet demand. The division continues to develop new and improved models of its core GPC columns and IC systems. To foster additional growth in sales of Tosoh's popular packing materials for separation columns, the division is developing new processes and planning a further expansion of production capacity. In its AIA business, the division is promoting sales through the addition of BNP and other cardiac markers, new testing categories, and reagents with improved functionality and by introducing large, midsize, and compact analyzers. Its efforts in the new NAT market focus on the development of more-automated monitoring systems and on positioning Tosoh as a leading authority in the market. Tosoh is now preparing the organization required for the full-scale launch of all of its major products in China, including columns, the Toyopearl lineup, and products in the GPC, IC and AIA categories.

SERVICE GROUP

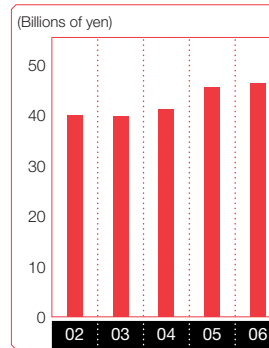
In fiscal 2005, Service Group sales increased 1.6% to ¥46.3 billion. Operating income, however, decreased 21.0% to ¥2.4 billion. Solid performance at Tosoh's trading subsidiary supported the growth in sales, but performance at the construction subsidiaries was down year-on-year.

Service Group operations primarily comprise logistics, construction, engineering support, and related services. These services have been set up under an autonomous group that supports the rest of Tosoh's business groups to ensure the cost-efficient concentration of resources and expertise.

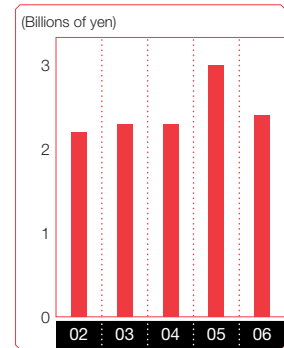
Tosoh has also structured its analytical chemistry, information technology, and general administrative operations as independent operating companies to provide the most efficient support to the rest of the Company's operations. Tosoh Analysis and Research Center specializes in organic, inorganic, polymer chemistry, and electronic materials and provides a range of sophisticated analytical services to Tosoh Group members and other outside companies. Tosoh Information Systems assists Tosoh Group companies and other outside companies with IT solutions, including the introduction and development of a new enterprise resource planning (ERP) system. Tosoh General Services provides support for personnel management, employee benefit administration, and training activities. A core focus is developing social services that support employees. The Service Group is also involved in financial services in Japan. In other regions, this function is undertaken by regional service platforms.

Service Group companies are constantly working to

Net Sales



Operating Income



improve the quality of their operations. Tosoh Logistics received ISO 9001 certification for all its quality control systems at 13 sites in Japan, as did Tosoh Analysis and Research Center for its 3 sites in Japan. In addition, most Service Group companies are evolving from cost centers to profit centers by operating on a more commercial basis. Prices are determined by market rates, allowing for competition with external suppliers. This shift is being implemented as a means to further increase overall Tosoh Group cost performance.

Financial Review

PERFORMANCE

Net Sales

During fiscal 2005 (the year ended March 31, 2006), Tosoh Group consolidated net sales increased 10.3% to ¥648.8 billion (US\$5,523 million). The increase in net sales resulted mainly from higher prices during the fiscal year in each of the Company's operating segments. The lower value of the yen relative to the U.S. dollar as of March 31, 2006 compared to the previous fiscal year-end also had the effect of increasing overseas sales when translated into yen. Sales by segment were as follows:

(Years ended March 31)	(Millions of yen)		
	2006	2005	% change 2006/2005
Petrochemical Group	¥202,345	¥179,273	12.9
Basic Group	199,438	171,690	16.2
Specialty Group	200,688	191,744	4.7
Service Group	46,339	45,625	1.6

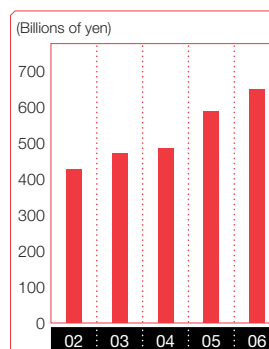
Overseas sales, defined as export sales and sales outside Japan by overseas subsidiaries, increased 16.7% to ¥195.6 billion (US\$1,665 million). As a proportion of consolidated net sales, overseas sales increased to 30.1% from 28.5% in the previous fiscal year. Sales in Asia increased 15.7% year-on-year to ¥141.6 billion (US\$1,205 million), and represented 21.8% of consolidated net sales, compared to 20.8% in the previous fiscal year. Tosoh continues to emphasize Asia in expanding outside Japan, and has invested substantially in building its manufacturing and sales presence in China.

Operating Expenses and Operating Income

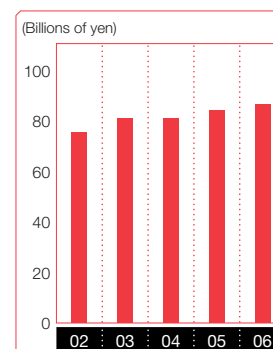
Cost of sales increased 15.1% year-on-year to ¥514.4 billion (US\$4,379 million), and represented 79.3% of net sales compared to 76.0% for the previous fiscal year. Growth in cost of sales exceeded the rate of increase in net sales primarily as a result of higher raw material prices during the fiscal year, particularly for crude oil and naphtha. The average price of naphtha, which exerts a pronounced impact on the costs of the Tosoh Group, rose to ¥42,000 per kiloliter from ¥32,000

per kiloliter for the previous fiscal year. The yen depreciated relative to the U.S. dollar, with an average exchange rate of ¥113.32 compared to ¥107.55 for the previous fiscal year. In general, depreciation of the yen versus the U.S. dollar results in higher cost of sales for the Tosoh Group because petroleum derivatives are typically denominated in U.S. dollars. Gross profit decreased 4.9% year-on-year to ¥134.4 billion (US\$1,144 million), and represented 20.7% of net sales compared to 24.0% for the previous fiscal year.

Net Sales



SG&A Expenses



Selling, general and administrative (SG&A) expenses increased 3.0% year-on-year to ¥87.0 billion (US\$740 million), a rate of increase well below that of net sales, and represented 13.4% of net sales compared to 14.4% for the previous fiscal year. R&D expenditures, which are included in SG&A expenses, totaled ¥11.1 billion (US\$94 million), compared to ¥10.2 billion for the previous fiscal year.

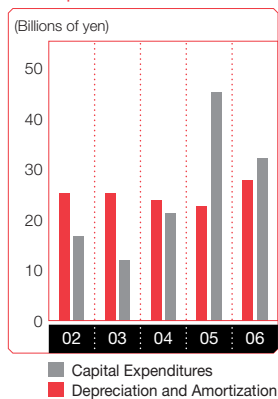
The Tosoh Group succeeded in limiting the impact of higher raw material prices on operating income to a 16.6% year-on-year decrease to ¥47.5 billion (US\$404 million). The year-on-year decrease was almost entirely the result of the impact of lower earnings due to higher raw material prices in the Basic Group. The Tosoh Group's other main operating groups generated double-digit year-on-year earnings growth. Tosoh changed its accounting method for depreciation of property, plant and equipment other than buildings

from the straight-line basis to the declining basis. As a result, Tosoh accelerated depreciation of certain assets mainly associated with the vinyl isocyanate chain to support balance sheet integrity, which had the effect of reducing operating income by ¥2.9 billion (US\$25 million). Operating income represented 7.3% of net sales, compared to 9.7% for the previous fiscal year.

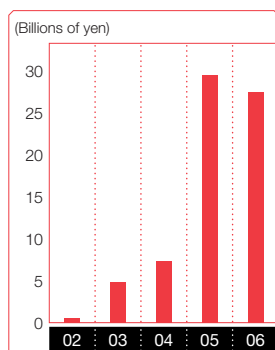
Operating income by segment was as follows:

(Years ended March 31)	(Millions of yen)		
	2006	2005	% change 2006/2005
Petrochemical Group	¥12,824	¥10,713	19.7
Basic Group	5,603	20,440	(72.6)
Specialty Group	26,649	22,728	17.3
Service Group	2,384	3,017	(21.0)

Capital Expenditures and Depreciation and Amortization



Net Income



Other Income and Expenses

Interest and dividend income increased 38.6% year-on-year to ¥1.0 billion (US\$8 million), primarily reflecting growth in dividends from investees as a result of economic recovery in Japan. Foreign exchange gains, net increased by nearly four times to ¥1.4 billion (US\$12 million), which primarily reflects the effect of changes in the value of the yen versus the U.S. dollar on the earnings of overseas Group companies when translated into yen. Equity in earnings of affiliates more than tripled to ¥2.4 billion (US\$20 million).

Interest expense decreased 5.2% to ¥3.9 billion (US\$33 million). The interest coverage ratio, defined as the sum of operating income and interest and dividend income divided by interest expense, was 12.4 times compared to 13.9 times for the previous fiscal year. Impairment loss on fixed assets totaled ¥2.8 billion (US\$24 million), compared to ¥1.5 billion for the previous fiscal year. However, the loss on investments in affiliates totaling ¥1.6 billion and provision for retirement benefits for directors and corporate auditors totaling ¥1.0 billion in the previous fiscal year did not recur, and loss on disposal of property, plant and equipment was substantially lower than in the previous fiscal year.

As a result, other income, net totaled ¥2.0 billion (US\$17 million). In the previous fiscal year, other expenses, net totaled ¥5.0 billion. This improvement restrained the impact of lower operating income on income before income taxes and minority interests, which decreased 4.6% year-on-year to ¥49.5 billion (US\$421 million).

Net Income

Income taxes net of deferrals increased 4.1% to ¥20.7 billion (US\$176 million). Net income decreased 6.8% year-on-year to ¥27.5 billion (US\$234 million), and net income per share decreased to ¥45.74 (US\$0.39) from ¥49.09 for the previous fiscal year. Cash dividends totaled ¥6.00 (US\$0.05) per share.

FINANCIAL POSITION

Liquidity and Capital Resources

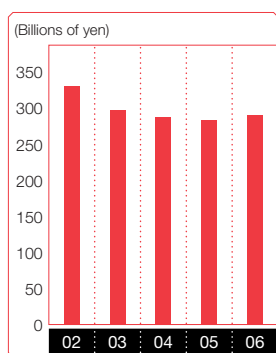
Current assets as of March 31, 2006 increased 8.6% from a year earlier to ¥295.7 billion (US\$2,517 million), primarily reflecting increases in receivables and inventories as a result of higher sales. Current liabilities increased 1.5% from a year earlier to ¥288.0 billion (US\$2,451 million). Working capital therefore totaled ¥7.7 billion (US\$66 million), compared to a deficit of ¥11.4 billion a year earlier. The current ratio was 1.03 times.

Property, plant and equipment increased marginally to

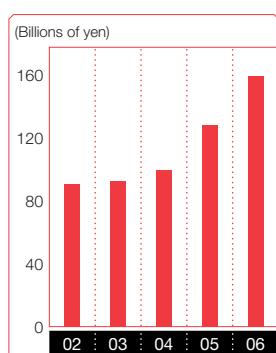
¥253.7 billion (US\$2,160 million), as depreciation offset the growth in assets resulting from capital investment during the year. Total assets increased 5.7% from a year earlier to ¥637.5 billion (US\$5,427 million), primarily because of the increase in working capital discussed above. Return on average total assets was 4.4%, compared to 5.1% for the previous fiscal year.

net assets of overseas group companies, reduced shareholders' equity by ¥3.2 billion (US\$27 million), compared to ¥5.0 billion a year earlier. Net assets per share totaled ¥265.8 (US\$2.26), compared to ¥213.8 a year earlier. Return on average total shareholders' equity was 19.2%, compared to 26.0% for the previous fiscal year. The shareholders' equity ratio was 25.0%, compared to 21.2% for the previous fiscal year.

Interest-bearing Debt



Total Shareholders' Equity



Interest-bearing debt increased to ¥291.2 billion (US\$2,479 million) as of March 31, 2006 from ¥284.6 billion at the previous fiscal year-end. The increase was primarily because of the timing of short-term bank loans to fund normal working capital requirements. In addition, Tosoh supplemented internal capital resources with the net proceeds from long-term debt noted below to fund investment in several projects, primarily the capacity expansions discussed earlier.

Shareholders' equity increased 24.3% from a year earlier to ¥159.1 billion (US\$1,354 million). Retained earnings increased ¥22.0 billion (US\$187 million) from a year earlier to ¥79.8 billion (US\$679 million), reflecting near-record net income for the fiscal year. Recovery in financial asset values in Japan resulted in a ¥7.2 billion (US\$62 million) increase in net unrealized holding gains on securities to ¥13.0 billion (US\$111 million). Foreign currency translation adjustments, primarily representing the effect of exchange rates on the

Cash Flows

Net cash provided by operating activities decreased 24.8% year-on-year to ¥33.7 billion (US\$287 million), primarily because of the timing of tax payments on a cash basis.

Net cash used in investing activities decreased 6.9% year-on-year to ¥33.6 billion (US\$286 million). The Tosoh Group continued to invest in growth opportunities, especially in the vinyl isocyanate chain. Payments for purchases of property, plant and equipment totaled ¥38.0 billion (US\$323 million), compared to ¥38.8 billion for the previous fiscal year. Net proceeds from sale of investment securities totaled ¥6.5 billion (US\$55 million), compared to net purchases of investment securities totaling ¥0.3 billion in the previous fiscal year.

Net cash used in financing activities totaled ¥0.7 billion (US\$6 million), compared to ¥7.2 billion in the previous fiscal year. Net proceeds from long-term debt totaled ¥1.9 billion (US\$16 million), compared to net repayment of long-term debt totaling ¥8.3 billion in the previous fiscal year.

Consequently, cash and cash equivalents at the end of the year totaled ¥18.4 billion (US\$157 million), about the same level as at the previous fiscal year-end.

CONSOLIDATED BALANCE SHEETS

As of March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
ASSETS			
Current assets:			
Cash and cash equivalents (Note 8)	¥ 18,409	¥ 18,573	\$ 156,712
Marketable securities (Note 5)	550	105	4,682
Trade receivables, less allowance for doubtful accounts (Notes 3 and 8)	163,468	152,698	1,391,572
Inventories (Note 4)	91,969	82,575	782,915
Deferred tax assets (Note 12)	7,068	6,126	60,169
Other current assets (Note 8)	14,200	12,201	120,882
Total current assets	295,664	272,278	2,516,932
Investments:			
Investment securities (Notes 5 and 8)	40,898	28,612	348,157
Investments in affiliates (Note 5)	22,149	24,537	188,550
Long-term loans receivable	679	702	5,780
Other	9,069	6,402	77,204
Total investments	72,795	60,253	619,691
Property, plant and equipment—net (Notes 6, 7 and 8)	253,745	252,691	2,160,083
Other assets:			
Deferred tax assets (Note 12)	8,711	11,443	74,155
Intangibles	6,562	6,544	55,861
Total other assets	15,273	17,987	130,016
Total assets	¥637,477	¥603,209	\$5,426,722

The accompanying notes are an integral part of these statements.

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Short-term bank loans (Note 8)	¥114,163	¥ 109,868	\$ 971,848
Current maturities of long-term debt (Note 8)	43,336	36,964	368,911
Trade payables	87,738	86,010	746,897
Income taxes payable	10,161	12,996	86,499
Other current liabilities	32,570	37,853	277,262
Total current liabilities	287,968	283,691	2,451,417
Long-term liabilities:			
Long-term debt, less current maturities (Note 8)	133,722	137,740	1,138,350
Retirement and severance benefits (Note 9)	19,817	20,333	168,698
Retirement benefits for directors and corporate auditors	1,448	1,358	12,327
Deferred tax liabilities (Note 12)	7,259	3,514	61,795
Other liabilities	2,061	4,132	17,545
Total long-term liabilities	164,307	167,077	1,398,715
Total liabilities	452,275	450,768	3,850,132
Minority interests	26,090	24,448	222,099
Contingent liabilities (Note 10)			
Shareholders' equity:			
Common stock:			
Authorized—1,200,000,000 shares;			
Issued—601,161,912 shares	40,634	40,634	345,910
Capital surplus	29,971	29,865	255,137
Retained earnings	79,765	57,808	679,024
Net unrealized holding gains on securities	12,982	5,743	110,513
Foreign currency translation adjustments	(3,214)	(5,036)	(27,359)
Treasury stock, 3,130,399 shares in 2006 and 3,294,810 shares in 2005	(1,026)	(1,021)	(8,734)
Total shareholders' equity	159,112	127,993	1,354,491
Total liabilities and shareholders' equity	¥637,477	¥ 603,209	\$5,426,722

CONSOLIDATED STATEMENTS OF INCOME

Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Net sales (Note 13)	¥648,810	¥ 588,332	\$5,523,197
Cost of sales	514,398	446,997	4,378,973
Gross profit	134,412	141,335	1,144,224
Selling, general and administrative expenses	86,952	84,437	740,206
Operating income (Note 13)	47,460	56,898	404,018
Other income (expenses):			
Interest and dividend income	968	698	8,241
Foreign exchange gains, net	1,393	359	11,858
Equity in earnings of affiliates	2,366	777	20,141
Gain on sales of property, plant and equipment	747	1,900	6,359
Gain on sales of investment securities	3,261	465	27,760
Interest expense	(3,919)	(4,136)	(33,362)
Impairment loss on fixed assets (Notes 7 and 13)	(2,820)	(1,459)	(24,006)
Loss on disposal of property, plant and equipment	(1,002)	(1,443)	(8,530)
Loss on investments in affiliates	—	(1,628)	—
Provision for retirement benefits for directors and corporate auditors	—	(950)	—
Other, net	1,005	383	8,556
Income before income taxes and minority interests	49,459	51,864	421,035
Income taxes:			
Current	20,180	16,620	171,789
Deferred (Note 12)	529	3,283	4,503
Minority interests	(1,217)	(2,428)	(10,360)
Net income	¥ 27,533	¥ 29,533	\$ 234,383
		Yen	U.S. Dollars (Note 1)
Per share of common stock:			
Net income per share	¥45.74	¥49.09	\$0.39
Cash dividends applicable to the year	¥ 6.00	¥ 6.00	\$0.05

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Common stock:			
Balance at beginning of period	¥40,634	¥ 40,634	\$345,910
Balance at end of period	40,634	40,634	345,910
Capital surplus:			
Balance at beginning of period	29,865	29,726	254,235
Increase due to revaluation of land of affiliates accounted for by the equity method	—	137	—
Gain on disposal of treasury stock	106	2	902
Balance at end of period	29,971	29,865	255,137
Retained earnings:			
Balance at beginning of period	57,808	31,775	492,109
Net income for the year	27,533	29,533	234,383
Change in subsidiaries' year-ends	(4)	49	(34)
Cash dividends	(5,402)	(3,002)	(45,987)
Bonuses paid to directors and corporate auditors	(152)	(127)	(1,294)
Decrease due to increase in consolidated subsidiaries	(18)	—	(153)
Decrease due to changes in shareholding ratio	—	(420)	—
Balance at end of period	79,765	57,808	679,024
Net unrealized holding gains on securities:			
Balance at beginning of period	5,743	3,729	48,889
Net increase	7,239	2,014	61,624
Balance at end of period	12,982	5,743	110,513
Foreign currency translation adjustments:			
Balance at beginning of period	(5,036)	(5,721)	(42,871)
Net increase	1,822	685	15,512
Balance at end of period	(3,214)	(5,036)	(27,359)
Treasury stock:			
Balance at beginning of period	(1,021)	(905)	(8,692)
Disposal of treasury stock	127	7	1,081
Purchase of treasury stock	(131)	(118)	(1,114)
Other	(1)	(5)	(9)
Balance at end of period	¥ (1,026)	¥ (1,021)	\$ (8,734)

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years ended March 31, 2006 and 2005

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Cash flows from operating activities:			
Income before income taxes and minority interests	¥ 49,459	¥ 51,864	\$ 421,035
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	29,173	23,594	248,344
Impairment loss on fixed assets	2,820	1,459	24,006
Decrease in retirement and severance benefits	(2,579)	(2,580)	(21,955)
Interest and dividend income	(968)	(698)	(8,240)
Interest expense	3,919	4,136	33,362
Equity in earnings of affiliates	(2,366)	(777)	(20,141)
Net gain on sales of property, plant and equipment	(663)	(1,854)	(5,644)
Net gain on sales of investment securities	(3,256)	(465)	(27,718)
Loss on disposal of property, plant and equipment	1,002	1,443	8,530
Increase in trade receivables	(9,581)	(19,239)	(81,561)
Increase in inventories	(8,382)	(13,634)	(71,354)
Increase in trade payables	1,155	13,124	9,832
Other, net	(1,178)	3,241	(10,028)
Subtotal	58,555	59,614	498,468
Interest and dividends received	2,115	1,424	18,005
Interest paid	(3,935)	(4,241)	(33,499)
Income taxes paid	(23,050)	(12,018)	(196,220)
Net cash provided by operating activities	33,685	44,779	286,754
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	(37,962)	(38,792)	(323,164)
Proceeds from sales of property, plant and equipment	1,203	4,825	10,241
Purchases of investment securities	(1,081)	(1,766)	(9,202)
Proceeds from sales of investment securities	7,554	1,458	64,306
Advances of long-term loans receivable	(1,738)	(763)	(14,795)
Other, net	(1,594)	(1,055)	(13,569)
Net cash used in investing activities	(33,618)	(36,093)	(286,183)
Cash flows from financing activities:			
Net increase in short-term bank loans	3,179	4,000	27,062
Proceeds from long-term debt	39,308	39,684	334,622
Repayments of long-term debt	(37,374)	(48,032)	(318,158)
Cash dividends paid	(5,685)	(3,447)	(48,395)
Other, net	(128)	603	(1,090)
Net cash used in financing activities	(700)	(7,192)	(5,959)
Effect of exchange rate changes on cash and cash equivalents	441	153	3,754
Net increase (decrease) in cash and cash equivalents	(192)	1,647	(1,634)
Cash and cash equivalents at beginning of year	18,573	16,950	158,108
Increase in cash and cash equivalents resulting from changes in number of consolidated subsidiaries	41	—	349
Decrease in cash and cash equivalents due to change in subsidiaries' year-ends	(13)	(24)	(111)
Cash and cash equivalents at end of year	¥ 18,409	¥ 18,573	\$ 156,712

The accompanying notes are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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, 2006, which was ¥117.47 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.

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 shareholders' equity. 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 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.

The effect of this change was to increase depreciation expense by ¥3,287 million (\$27,982 thousand), to decrease operating income by ¥2,914 million (\$24,806 thousand), and income before income taxes and minority interests by ¥2,923 million (\$24,883 thousand), respectively.

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

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

Effective from the year ended March 31, 2005, the Company and some of its consolidated domestic subsidiaries changed their

accounting method for retirement benefits for directors and corporate auditors from expensing when paid to an accrual basis in order to reflect period income and expenses more appropriately and to harmonize their group accounting methods.

The effect of this change was to increase operating income by ¥9 million and to decrease income before income taxes by ¥941 million.

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

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 Commercial Code.

Bonuses to directors and corporate auditors

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

Amounts per share

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

Reclassifications

Certain reclassifications have been made in the 2005 financial statements to conform to the 2006 presentation.

3. ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade receivables have been reduced by allowances for doubtful accounts of ¥442 million (\$3,763 thousand) and ¥514 million, as of March 31, 2006 and 2005, respectively.

4. INVENTORIES

Inventories as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Finished products	¥52,442	¥46,388	\$446,429
Raw materials and supplies	30,610	22,234	260,577
Work-in-process	8,917	13,953	75,909
Total	¥91,969	¥82,575	\$782,915

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, 2006 and 2005.

(1) Held-to-maturity debt securities:

	Millions of Yen						Thousands of U.S. Dollars (Note 1)		
	2006			2005			2006		
	Book value	Fair value	Difference	Book value	Fair value	Difference	Book value	Fair value	Difference
Total	¥55	¥54	¥(1)	¥60	¥60	¥(0)	\$468	\$460	\$(8)

(2) Available-for-sale securities:

	Millions of Yen						Thousands of U.S. Dollars (Note 1)		
	2006			2005			2006		
	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs	¥10,170	¥31,979	¥21,809	¥10,449	¥20,159	¥9,710	\$86,575	\$272,231	\$185,656
Securities with book values not exceeding acquisition costs	537	532	(5)	102	93	(9)	4,572	4,529	(43)
Total	¥10,707	¥32,511	¥21,804	¥10,551	¥20,252	¥9,701	\$91,147	\$276,760	\$185,613

The following table summarizes book values of securities with no available fair values as of March 31, 2006 and 2005.

	Book Value		
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Held-to-maturity debt securities	¥ 1	¥ 1	\$ 9
Equity securities issued by unconsolidated subsidiaries and affiliated companies	21,117	23,443	179,765
Available-for-sale securities	8,881	8,404	75,602

6. PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
	Land	¥ 69,411	¥ 69,884
Buildings and structures	162,493	157,095	1,383,272
Machinery and equipment	559,304	522,717	4,761,250
Construction in progress	11,815	29,526	100,579
	803,023	779,222	6,835,984
Less accumulated depreciation	(549,278)	(526,531)	(4,675,901)
Net property, plant and equipment	¥ 253,745	¥ 252,691	\$ 2,160,083

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	Thousands of U.S. Dollars (Note 1)
Production facilities and others ¹ :		
Land	¥ 23	\$ 196
Buildings and structures	346	2,945
Machinery and equipment	579	4,929
Construction in progress	152	1,294
Intangibles	1	9
	1,101	9,373
Rental properties and others ² :		
Land	453	3,856
Buildings and structures	31	264
	484	4,120
Total	¥1,585	\$13,493

Notes:

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 (\$10,513 thousand), based on the Financial Accounting Standards of the U.S. (FAS142).

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

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 0.75% and 0.91% as of March 31, 2006 and 2005, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2006 and 2005 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Loans from banks and other financial institutions, 1.50% maturing serially through 2022:			
Secured	¥ 13,079	¥ 15,962	\$ 111,339
Unsecured	163,979	158,742	1,395,922
	177,058	174,704	1,507,261
Less current maturities	(43,336)	(36,964)	(368,911)
Total	¥133,722	¥137,740	\$1,138,350

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Property, plant and equipment	¥109,213	¥116,688	\$929,710
Investment securities	255	254	2,171
Other	475	714	4,043
Total	¥109,943	¥117,656	\$935,924

The annual maturities of long-term debt as of March 31, 2006 were as follows:

Years ending March 31,	Millions of Yen	Thousands of U.S. Dollars (Note 1)
2007	¥ 43,336	\$ 368,911
2008	39,656	337,584
2009	42,010	357,623
2010	18,286	155,665
2011	13,841	117,826
2012 and thereafter	19,929	169,652
Total	¥177,058	\$1,507,261

9. RETIREMENT AND SEVERANCE BENEFITS

The liabilities for retirement and severance benefits at March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Projected benefit obligation	¥ 75,107	¥ 73,411	\$ 639,372
Fair value of pension assets	(57,072)	(45,898)	(485,843)
Unfunded benefit obligation	18,035	27,513	153,529
Unrecognized actuarial loss	(1,220)	(8,114)	(10,386)
Net benefit obligation	16,815	19,399	143,143
Prepaid pension cost	3,002	934	25,555
Retirement and severance benefits	¥ 19,817	¥ 20,333	\$ 168,698

Retirement benefit costs for the year ended March 31, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Service costs	¥2,759	¥2,797	\$23,487
Interest costs on projected benefit obligation	1,559	1,547	13,271
Expected return on pension assets	(861)	(765)	(7,330)
Amortization of actuarial loss	1,201	1,188	10,225
Retirement and severance benefit costs	¥4,658	¥4,767	\$39,653

Notes:

- 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, 2006 and 2005.
- The estimated amount of all retirement benefits to be paid at the future retirement dates is allocated equally to each service year using the estimated number of total service years.

10. CONTINGENT LIABILITIES

Contingent liabilities primarily for loans from banks to unconsolidated subsidiaries and affiliates, which are guaranteed by the Companies, and for notes receivable discounted at banks with recourse as of March 31, 2006 were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Loans guaranteed	¥7,443	\$63,361
Notes receivable discounted	94	800
Notes receivable endorsed	202	1,720
Total	¥7,739	\$65,881

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.

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, 2006 and 2005.

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, 2005.

	March 31, 2005
Statutory tax rate	40.4%
Increase (reduction) in taxes resulting from:	
Non-deductible expenses	0.7
Amortization of consolidation difference	0.9
Equity in earnings of affiliates	(1.5)
Tax credit for research and development expenses	(1.6)
Valuation allowance	(1.5)
Other	1.0
Effective tax rate	38.4%

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, 2006 and 2005 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2006	2005	2006
Deferred tax assets:			
Operating loss carryforwards	¥ 1,908	¥ 1,522	\$ 16,242
Unrealized gains on intercompany transactions	5,798	5,993	49,357
Retirement and severance benefits	9,255	9,840	78,786
Impairment loss on fixed assets	1,694	1,506	14,421
Other	8,292	9,877	70,589
Total gross deferred tax assets	26,947	28,738	229,395
Less valuation allowance	(2,811)	(2,709)	(23,930)
Total deferred tax assets	24,136	26,029	205,465
Deferred tax liabilities:			
Reserve for replacement of property, plant and equipment	(3,186)	(3,206)	(27,122)
Net unrealized holding gains on securities	(8,825)	(3,909)	(75,126)
Other	(3,605)	(4,859)	(30,688)
Total deferred tax liabilities	(15,616)	(11,974)	(132,936)
Net deferred tax assets	¥ 8,520	¥ 14,055	\$ 72,529

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, 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, 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

Millions of Yen							
Year ended March 31, 2005	Petro-Chemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	¥179,273	¥171,690	¥191,744	¥45,625	¥588,332	¥ —	¥588,332
Inter-segment	53,435	13,516	4,283	56,544	127,778	(127,778)	—
Operating expenses	221,995	164,766	173,299	99,152	659,212	(127,778)	531,434
Operating income	¥ 10,713	¥ 20,440	¥ 22,728	¥ 3,017	¥ 56,898	¥ —	¥ 56,898
Identifiable assets	¥111,206	¥183,301	¥220,443	¥43,914	¥558,864	¥ 44,345	¥603,209
Depreciation and amortization	3,568	9,128	8,138	1,336	22,170	652	22,822
Capital expenditures	3,544	31,153	9,230	1,177	45,104	275	45,379

Thousands of U.S. Dollars (Note 1)							
Year ended March 31, 2006	Petro-Chemical Group	Basic Group	Specialty Group	Service Group	Total	Elimination and Corporate	Consolidated
Net sales:							
Outside customers	\$1,722,525	\$1,697,778	\$1,708,419	\$394,475	\$5,523,197	\$ —	\$5,523,197
Inter-segment	658,849	180,293	39,330	478,139	1,356,611	(1,356,611)	—
Operating expenses	2,272,206	1,830,374	1,520,890	852,320	6,475,790	(1,356,611)	5,119,179
Operating income	\$ 109,168	\$ 47,697	\$ 226,859	\$ 20,294	\$ 404,018	\$ —	\$ 404,018
Identifiable assets	\$1,091,070	\$1,637,822	\$1,913,885	\$339,942	\$4,982,719	\$ 444,003	\$5,426,722
Depreciation and amortization	31,429	112,982	76,412	11,926	232,749	5,857	238,606
Impairment loss on fixed assets	1,141	1,660	18,455	—	21,256	2,750	24,006
Capital expenditures	24,483	131,148	90,304	10,590	256,525	18,847	275,372

The "Elimination and Corporate" column of "Identifiable assets" in the above schedules includes corporate assets of ¥69,156 million (\$588,712 thousand) and ¥61,391 million for the years ended March 31, 2006 and 2005, respectively, which mainly consist of cash, time deposits, investment securities and assets of administrative departments.

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. The effect of this change was to decrease the operating income of "Petrochemical Group" by ¥310 million (\$2,639 thousand), of "Basic Group" by ¥2,165 million (\$18,430 thousand), and of "Specialty Group" by ¥439 million (\$3,737 thousand) of the year ended March 31, 2006, respectively.

Geographic information for the years ended March 31, 2006 and 2005 was as follows :

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

Millions of Yen					
Year ended March 31, 2005	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	¥528,822	¥59,510	¥588,332	¥ —	¥588,332
Inter-segment	24,861	2,004	26,865	(26,865)	—
Operating expenses	501,575	56,724	558,299	(26,865)	531,434
Operating income	¥ 52,108	¥ 4,790	¥ 56,898	¥ —	¥ 56,898
Identifiable assets	¥521,093	¥51,307	¥572,400	¥ 30,809	¥603,209

Thousands of U.S. Dollars (Note 1)					
Year ended March 31, 2006	Japan	Other	Total	Elimination and Corporate	Consolidated
Net sales:					
Outside customers	\$4,924,262	\$598,935	\$5,523,197	\$ —	\$5,523,197
Inter-segment	263,122	24,722	287,844	(287,844)	—
Operating expenses	4,823,376	583,647	5,407,023	(287,844)	5,119,179
Operating income	\$ 364,008	\$ 40,010	\$ 404,018	\$ —	\$ 404,018
Identifiable assets	\$4,583,111	\$462,713	\$5,045,824	\$ 380,898	\$5,426,722

Export sales and sales made outside Japan by overseas subsidiaries were ¥195,590 million (\$1,665,021 thousand) and ¥167,614 million for the years ended March 31, 2006 and 2005, respectively, representing 30.1% and 28.5% of consolidated net sales. For the years ended March 31, 2006 and 2005, such sales in Asia were ¥141,558 million (\$1,205,057 thousand) and ¥122,314 million, representing 21.8% and 20.8%, respectively, of consolidated net sales.

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. The effect of this change was to decrease the operating income of "Japan" by ¥2,914 million (\$24,806 thousand) of the year ended March 31, 2006.

14. RELATED PARTY TRANSACTIONS

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 balances with NPU as of March 31, 2006 was as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Net sales	¥25,075	\$213,459
Trade receivables, less allowance for doubtful accounts	¥10,648	\$ 90,644

15. SUBSEQUENT EVENTS

The board meeting held on April 3, 2006, decided that the company raise its stake in Nippon Polyurethane Industry Co., Ltd. (NPU) to 51.7% from current 35%, by acquiring NPU shares from Hodogaya Chemical Co., Ltd. on April 14, 2006, by the amount of ¥8,000 million (\$68,102 thousand). As a result of this acquisition, NPU became a consolidated subsidiary of the Company. The move further accelerates its vinyl isocyanate strategy and strengthens ties with NPU as the Company positions to establish a more competitive presence in the rapidly expanding polyurethane market in Asia.

The amounts of net sales, common stock and total assets of NPU for the year ended March 31, 2006 were ¥72,599 million (\$618,022 thousand), ¥1,500 million (\$12,769 thousand), and ¥58,311 million (\$496,391 thousand), respectively.

In addition to the above, the Company underwrote ordinary shares of 310,000, which NPU issued on June 15, 2006 to the existing shareholders, by the amount of ¥5,167 million (\$43,986 thousand).

This capital enhancement of NPU was to prepare for new investment in plant and equipment and to improve its financial structure.

The board meeting held on April 3, 2006, decided that the Company strengthen ties with Hodogaya Chemical Co., Ltd. which is an affiliate of the Company, through underwriting the allocation of new shares to a third party. The Company underwrote the allocation by the amount of ¥6,231 million (\$53,043 thousand) on April 19, 2006, consequently, the total holding share of the company to Hodogaya Chemical Co., Ltd. increased from 24.3% to 33.3%.

At the general shareholders' meeting of the Company held on June 29, 2006, retained earnings of the Company as of March 31, 2006 were appropriated as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Year-end cash dividends (¥3.00 per share)	¥1,800	\$15,323
Bonuses to directors	¥ 111	\$ 945

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 subsidiaries as of March 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity and cash flows for the years then ended, all 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, 2006 and 2005, 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.

Without qualifying our opinion, we draw attention to the following:

- (1) As discussed in Note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2005, Tosoh Corporation and some of its consolidated domestic subsidiaries changed their accounting method for retirement benefits for directors and corporate auditors.
- (2) As discussed in Note 2 to the consolidated financial statements, effective from the fiscal year ended March 31, 2006, Tosoh Corporation changed its accounting method for depreciation.
- (3) As discussed in Note 15 to the consolidated financial statements, Tosoh Corporation acquired Nippon Polyurethane Industry Co., Ltd. (NPU) shares on April 14, 2006, consequently, NPU became a consolidated subsidiary of Tosoh Corporation.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2006 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 1 to the consolidated financial statements.

KPMG AZSA & Co.

KPMG AZSA & Co.
Osaka, Japan
June 29, 2006

CORPORATE DATA

As of March 31, 2006

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International Public Relations

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E-mail: info@tosoh.co.jp

URL: http://www.tosoh.com

Date of Incorporation

February 11, 1935

Paid-in Capital

¥41 billion

Number of Employees

9,373

Common Stock

Authorized: 1,200,000,000 shares

Issued: 601,161,912 shares

Number of Shareholders

52,701

Stock Exchange Listing

Tokyo Stock Exchange

Ticker Symbol: 4042

Transfer Agent for Shares

The Chuo Mitsui Trust and Banking Co., Ltd.

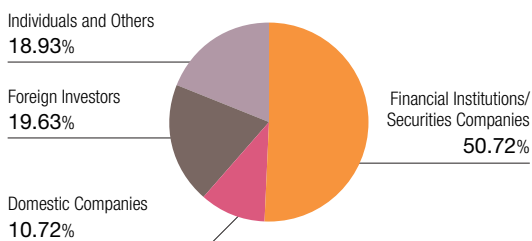
3-33-1, Shiba, Minato-ku, Tokyo 105-8574

Japan

Independent Auditors

KPMG AZSA & Co.

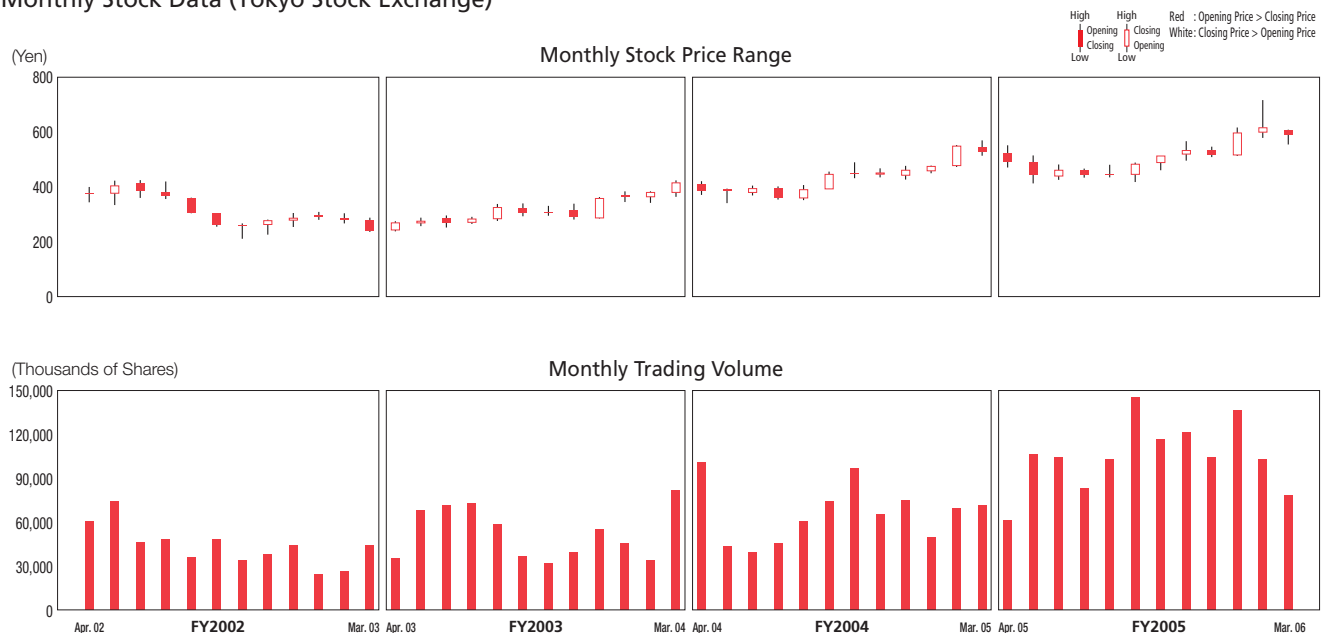
Distribution of Shareholders



Major Shareholders

	Number of Shares Held (thousands)	Percentage of Total Shares Outstanding
Japan Trustee Services Bank, Ltd. (Trust Account)	47,510	7.90
The Master Trust Bank of Japan, Ltd. (Trust Account)	41,816	6.95
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)	18,975	3.15
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

Monthly Stock Data (Tokyo Stock Exchange)





Committed to innovation in technology
and business for a sustainable future

TOSOH CORPORATION



TOSOH

TOSOH CORPORATION

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