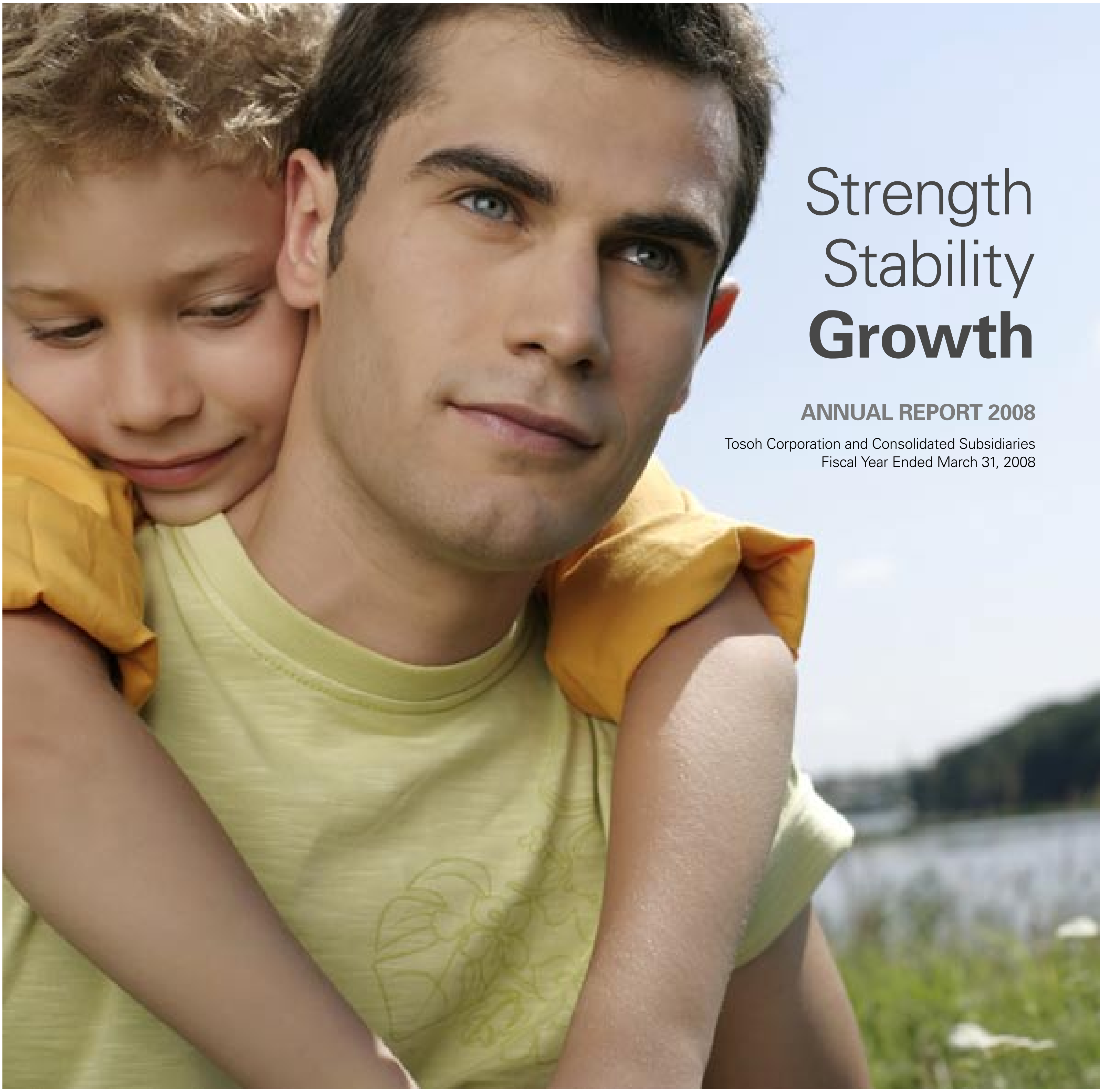
TOSOH



Strength
Stability
Growth

ANNUAL REPORT 2008

Tosoh Corporation and Consolidated Subsidiaries
Fiscal Year Ended March 31, 2008

TOSOH CORPORATION

Introduction to Tosoh

Growing in scope, scale, and profitability, Tosoh is on track to become a trillion yen enterprise.

Tosoh bioscience systems facilitate the quick and accurate diagnosis of life-threatening diseases.

'05
¥588 Billion (US$5.9 Billion)

'06
¥649 Billion (US$6.5 Billion)

'07
¥781 Billion (US$7.8 Billion)

'08
¥827 Billion (US$8.3 Billion)

'09
¥900 Billion (US$9.0 Billion) Targeted

'10
¥1 Trillion (US$10.0 Billion) Targeted

Yen amounts here and elsewhere in this annual report have been translated, for convenience only, at ¥100.19 to US$1, the rate prevailing at Tosoh's fiscal 2007 year-end on March 31, 2008.

Year references are to March 31 fiscal year-ends.

MDI[a] (Specialty Group)
▲122%*
180,000 metric tons in 2005 to 400,000 metric tons in 2008

Zirconia (Specialty Group)
▲50%†
2005 to 2009

Cumene (Petrochemical Group)
▲30%*
230,000 metric tons in 2005 to 300,000 metric tons in 2008

Ethyleneamines (Specialty Group)
▲23%*
43,000 metric tons in 2005 to 53,000 metric tons in 2008

Zeolites (Specialty Group)
▲100%†
2005 to 2009

VCM[b] (Basic Group)
▲35%*
1,075,000 metric tons in 2005 to 1,454,000 metric tons in 2008

*Actual production increase
†Targeted production increase
[a] methylene diphenyl diisocyanate
[b] vinyl chloride monomer

The Chemistry of Tosoh

Strength. *Our vinyl chain is unparalleled in Japan and among the best in its class in Asia. Scale and integration put us in the forefront of the competition.*

Stability. *In management, production, and strategy, we maintain a stability that shows in the consistency of our performance.*

Growth. *Compared with six years earlier, our net sales in fiscal 2007 have nearly doubled, to ¥827.4 billion (US$8.3 billion), and our operating income has almost quadrupled, to ¥59.1 billion (US$590 million).*

Contents

Our 2008 annual report highlights our achievements for fiscal year 2007, which began April 1, 2007, and ended March 31, 2008. The financial reporting half of this report was first made available on our corporate Web site, www.tosoh.com, in August of 2008. A year earlier, for our 2007 annual report, we decided for the first time to merge our financial reporting (annual report) and social responsibility reporting (responsible care report) into one publication. We are repeating that process in 2008. The combined publication provides a comprehensive picture of our business activities and of our environmental initiatives, investments, and results. Our social responsibility figures, however, are not finalized until late July, so the financial reporting section of our 2008 annual report has been published alone, in digital format. The complete annual report 2008 is expected to be printed and published in October of 2008.

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.

Company Overview

Who We Are

Tosoh Corporation is a **Japanese chemical company** established in 1935 and listed on the First Section of the Tokyo Stock Exchange. It is the parent company of the Tosoh Group, which comprises **140 companies** worldwide and a multiethnic workforce of over **11,000 people** and generated **net sales of ¥827.4 billion** (US$8.3 billion) in fiscal 2007, ended March 31, 2008.

What We Do

Tosoh is one of Asia's largest manufacturers of **plastic resins** and produces several important vinyl-related chemicals from fully integrated operations known as the **vinyl chain**. Tosoh's petrochemical operations, meanwhile, supply **ethylene**, **polymers**, and **polyethylene**, and its electronic materials business serves the global **semiconductor**, **flat-panel display**, and **photovoltaic industries**. Tosoh has also pioneered sophisticated diagnostic systems that are used in the **rapid detection of life-threatening diseases**, such as diabetes and some cancers, and in the identification of pathogenic microbes that cause epidemics. In addition, Tosoh develops and offers products and services that are used to **purify water** and to monitor the **environment** as part of its commitment to a **sustainable future**.

Who We Do It For

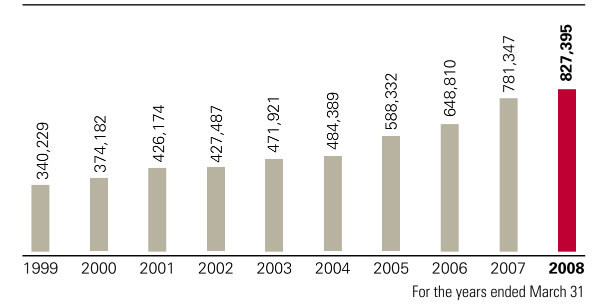
Tosoh is dedicated to its **employees**, **customers**, and **shareholders**; **to the local communities** in which it operates; and to the **environment**. Through the pages that follow, we invite you to take a closer look at that dedication and at the performance of the Tosoh Group for fiscal 2007.

Ten-Year Financial History

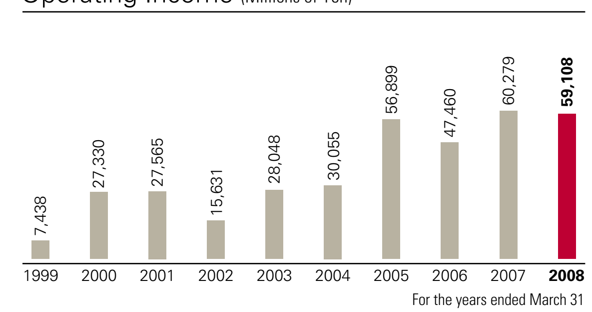
For the years ended March 31,	1999	2000	2001	2002	2003	2004	2005	2006	2007	**2008**
					Millions of Yen					
Net sales	340,229	374,182	426,174	427,487	471,921	484,389	588,332	648,810	781,347	**827,395**
Operating income	7,438	27,330	27,565	15,631	28,048	30,055	56,899	47,460	60,279	**59,108**
Net income	533	6,019	9,392	459	4,809	7,297	29,533	27,533	28,488	**25,183**
Current assets	205,796	202,671	205,380	235,919	225,908	235,227	272,278	295,664	370,198	**377,465**
Fixed assets	321,380*	325,318*	329,225	336,227	319,789	313,986	330,931	341,813	418,320	**439,529**
Current liabilities	218,166	222,775	259,245	253,626	273,701	262,541	283,691	287,968	357,674	**373,551**
Long-term debt	206,535	187,627	154,035	176,562	125,797	140,419	137,740	133,722	169,965	**170,010**
Other long-term liabilities	9,589	18,894	24,860	30,881	33,032	25,714	29,337	30,585	33,110	**31,071**
Equity	89,283	91,886	91,195	90,557	92,795	99,238	127,993	159,112	184,974*	**198,607***
					Yen					
Earnings per share	0.89	10.02	15.62	0.77	7.87	11.96	49.09	45.74	47.60	**42.05**
Book value per share	148.65	152.97	151.70	151.76	154.93	165.67	213.79	265.75	308.81	**331.69**
Dividends per share	3.00	5.00	5.00	5.00	5.00	5.00	6.00	6.00	8.00	**8.00**
					Percent					
Operating profit margin	2.2	7.3	6.5	3.7	5.9	6.2	9.7	7.3	7.7	**7.1**
Net profit margin	0.2	1.6	2.2	0.1	1.0	1.5	5.0	4.2	3.6	**3.0**
Return on equity	0.6	6.6	10.3	0.5	5.2	7.6	26.0	19.2	16.6	**13.1**
					Percent/Times					
Equity ratio (percent)	16.9	17.4	17.1	15.8	17.0	18.1	21.2	25.0	23.5	**24.3**
Interest coverage ratio (times)	1.0	3.4	3.8	2.4	5.1	6.6	13.9	12.4	12.4	**9.8**
					Times					
Fixed assets turnover	1.1	1.2	1.3	1.3	1.5	1.5	1.8	1.9	1.9	**1.9**
Inventory turnover	6.4	7.1	7.4	6.2	7.4	7.0	7.1	7.1	6.8	**6.4**
Collection period (days)	96	98	101	104	96	101	95	92	97	**87**

*Indicates a change in accounting treatment.

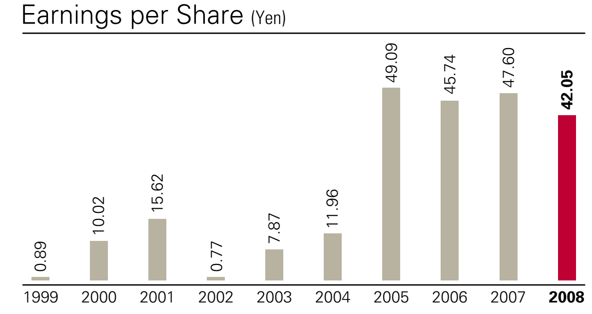
Net Sales (Millions of Yen)



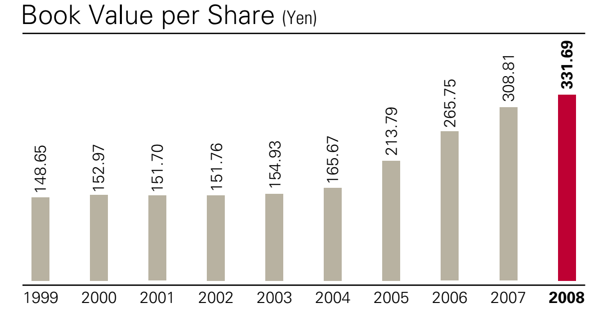
Operating Income (Millions of Yen)



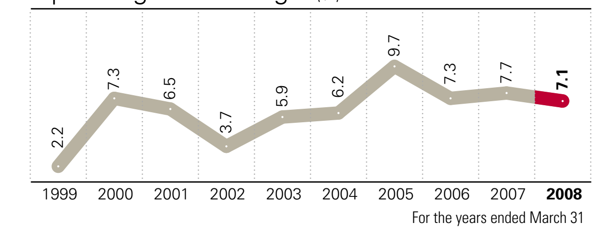
Earnings per Share (Yen)



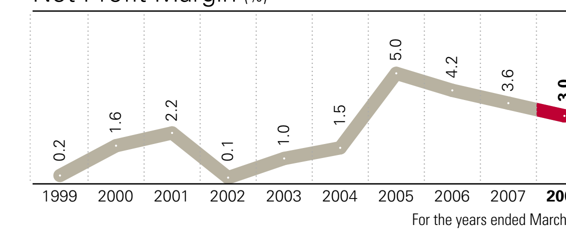
Book Value per Share (Yen)



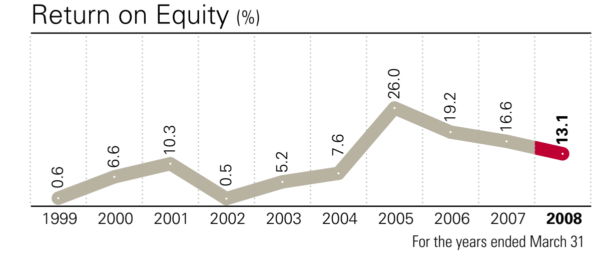
Operating Profit Margin (%)



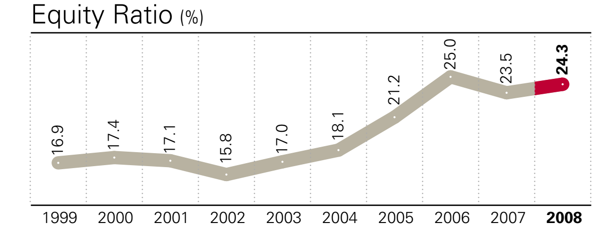
Net Profit Margin (%)



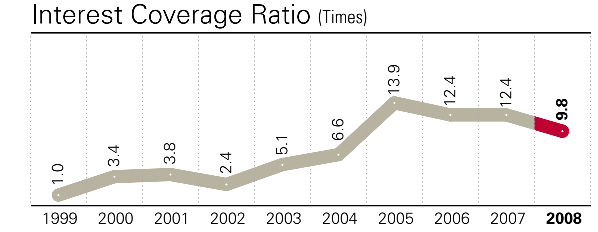
Return on Equity (%)



Equity Ratio (%)



Interest Coverage Ratio (Times)



Message from Management

From left: Madoka Tashiro, Chairman and Chief Executive Officer, and Takashi Tsuchiya, President

As fiscal 2007—begun April 1, 2007, and ended March 31, 2008—disappears over the Tosoh horizon, we look back on an exciting year of transformation and growth. We can be proud of achieving so much to position Tosoh strongly for the future amid relentless challenges in the chemical industry.

Our profitability faced great pressure in fiscal 2007, especially in the fourth quarter of the year. Among the factors responsible were the price of crude oil, which topped US$111 a barrel, a fivefold increase from 2001; the appreciation of the yen, to a 12-year low of ¥98 to the US dollar; and Japan's downward-spiraling stocks. So harsh were conditions during the year under review that projections for Japanese domestic economic growth were lowered to between 1.4% and 1.7%.

Our objective is to continue to build our integrated vinyl isocyanate chain in optimal balance with selected specialty businesses to ensure noncyclical profitability.

At Tosoh, we also confronted dramatic cost increases in raw materials and energy. Our aggressive capital investments in fiscal 2006, moreover, which were directed at greater growth, resulted in a large jump in our burden of depreciation. That, in turn, had a negative impact on our fixed costs.

The year under review, however, was not without positives. We were able, for example, to achieve our targets for the first three quarters of fiscal 2007. The high cost of raw materials, such as naphtha, which averaged ¥61,450 a kiloliter, justified our two price increases for polyvinyl chloride (PVC) resin and three for polyethylene during the year.

All things considered, we are pleased to report that Tosoh remains on track to become a trillion yen enterprise. We have succeeded over the past six years in almost doubling our net sales, to ¥827.4 billion (US$8.3 billion), and in nearly quadrupling our operating income, to ¥59.1 billion (US$590 million). This indicates that our efforts are bearing fruit.

We are, meanwhile, engaged with more than US$1 billion in capital investments to expand our operations in scope, scale, and profitability. Our objective is to continue to build our integrated vinyl isocyanate chain in optimal balance with selected specialty businesses to ensure noncyclical profitability. The more-even support that our operations are realizing from commodities and specialties products is significantly boosting our overall stability.

We continue to make great strides in our commodities operations and especially in constructing the largest vinyl isocyanate chain in Asia.

Constructing the Largest Manufacturing Supply Hub for Asia

We continue to make great strides in our commodities operations and especially in constructing the largest vinyl isocyanate chain in Asia. Nippon Polyurethane Industry Co., Ltd. (NPU), is one of Asia's leading suppliers of isocyanates and specializes in methylene diphenyl diisocyanate (MDI). In fiscal 2006, we heightened our stake in NPU to a majority position of 51.7%. And we recently furthered our position in NPU to an equity participation of 80.3%. NPU's plant is adjacent to our main production facility, the Nanyo Complex, and its isocyanate chain connects directly to our vinyl chain, so the synergies between NPU and Tosoh are optimal.

The rapid expansion of the MDI market, particularly in Asia, and our desire to enhance NPU's cost-competitiveness have compelled us to invest in doubling production across the vinyl isocyanate chain from 200,000 metric tons to 400,000 metric tons per year. These efforts have included doubling capacity for aniline, to 300,000 metric tons per year, and for carbon monoxide, to 16,000 normal cubic meters per hour. In addition to raising the production of these two key raw materials in MDI production, we've expanded our in-house power generation and chlor-alkali production capacities. The Tosoh Group now has an MDI plant in operation whose primary feedstock and utility needs are fully supported.

MDI is vital for both our commodity and our specialty operations. It is a functional chemical with a wide variety of applications and marketing synergies for our product lines, including organic synthesis, polyurethane catalysts, and specialty polymers. So any investment in our vinyl isocyanate chain is leading to a new dynamic in an enhanced MDI infrastructure and expanded MDI product portfolio to meet demand in Asia, which is growing 10% annually. Based on our doubling of capacity, we expect almost 40% growth in our sales of MDI in fiscal 2008.

Also key to our vinyl chain strategy is enhancing our supply relationships throughout Asia and expanding our production capacity for principal products to drive economies of scale. We moved to secure our presence in China, the world's fastest-growing market, with the launch there of Tosoh (Guangzhou) Chemical Industries, Inc. (TGC)'s 220,000-metric-ton-a-year PVC resin plant. As a major player in vinyl chain operations, TGC has enabled us to increase our presence throughout Asia.

Driving Stable Profitability with Specialty Operations

Our specialty operations comprise biosciences, organic chemicals, inorganic specialty materials, electronic materials, eco-business, and isocyanates. During the year under review, these operations maintained their growth overall and thus contributed to Tosoh Group profitability. Specialty operations achieved consolidated net sales for fiscal 2007 of ¥311.5 billion (US$3.1 billion), accounting for 37.6% of corporate net sales and, with operating income of ¥38.0 billion (US$380 million), for 64.4% of corporate operating income.

In the fiscal year ahead, we are looking at substantial growth for our specialty materials and specifically for our environmental and isocyanate products. Two Tosoh Group companies intimately involved with these specialties, Organo Corporation and NPU, are expected to top ¥80 billion and ¥140 billion, respectively, in consolidated net sales in fiscal 2008. Their business alone will significantly raise the contribution of the specialties portfolio to Tosoh Group business as a whole.

In electronic materials, we are a highly reputed supplier to the world's leading semiconductor fabricators, to most of the world's major flat-panel display manufacturers, and to the world's main equipment makers for both of those industries. We continue, meanwhile, to expand and to better our bioscience operations in Asia. The opening of the Tosoh (Shanghai) Technical Service Center in 2007, for example, will improve the local quality of our bioscience operations in China. We have also broadened the scope of our organic chemicals business in fine chemicals with the introduction of new products for use in organic light-emitting diode (OLED) displays.

Many of our specialty production facilities ran at near capacity in fiscal 2007 to meet demand for our specialties product lineup. To maintain our growth momentum, to increase our market presence, and to assure our customers of stable supply, we have launched a number of projects, estimated at ¥32 billion, to raise specialty production capacity.

Our specialty materials, for example, will see a doubling of zeolite production and a 50% increase in zirconia powder production. Beyond their traditional applications, zeolites offer potential for

The Tosoh Group now has a 400,000-metric-ton MDI plant in operation whose primary feedstock and utility needs are fully supported.

environmental preservation. Zirconia likewise is finding new applications—in fuel cell components, automobile oxygen sensors, dental applications, and elsewhere.

As a leading global supplier of organic chemicals and the only manufacturer of ethyleneamines in Asia, our organic chemicals production was stretched in fiscal 2007. To meet heightened demand, organic chemicals production will undergo a two-stage boost in ethyleneamine capacity over the next four years, to 89,000 metric tons. In addition, we are constructing a third production line for our popular bioscience automated immunoassay (AIA) analyzers.

Our specialty products continue to come into their own, transforming Tosoh from chiefly a commodities player to a more-dynamic provider of value-added niche items in increasingly diverse global markets. This strategy is balancing commodities and specialties to create a hybrid business structure that emphasizes profitability as well as growth. As such, Tosoh will continue to dedicate R&D and other resources to cultivating new specialty products for greater profitability.

Our specialty products continue to come into their own, transforming Tosoh from chiefly a commodities player to a more-dynamic provider of value-added niche items.

Providing Sustainable Solutions

Tosoh's eco-friendly businesses continue to thrive and to meet real environmental needs. Companies in the Tosoh Group are engaged in wastewater treatment and in applying sophisticated proprietary technologies to clean the environment in myriad ways. Tosoh Bioscience's AIA analyzers, for instance, are employed in testing for environmental contaminants. Our zeolite products are helping to reduce automobile exhaust emissions, while our electronic materials are used to manufacture photovoltaic power generation systems.

During fiscal 2007, we again pursued our targets for reducing the emission of classified substances under Japan's Pollutant Release and Transfer Register (PRTR) Law and for final waste disposal. We are also dedicated to the battle against global warming through efforts to reduce our energy consumption. Our ongoing growth will present various difficulties in meeting our environmental obligations, but we are determined to leverage technology to improve our efficiencies and achieve our goals.

Raising standards to achieve sustainable growth is a continuous process. It requires that we be committed to preserving the environment and to thereby meeting our responsibility to society. Our activities in this respect are described in the Responsible Care section of this report and reveal our progress and the areas in need of further effort.

Our strategy has always been to establish a structure that can remain profitable under the severest conditions.

Preparing for New Challenges on the Horizon

A number of factors have us preparing for a challenging year ahead. Mainly, the prices of energy and of the raw materials that are the foundation of our operations—naphtha, coal, salt, and various ores—are skyrocketing, with no end in sight. We have been able in recent years to pass on our cost increases to the downstream users of our products. But the weakening global economy and the turmoil in financial markets worldwide are starting to exert pressure on profits all around, such that the ability of downstream users to absorb rising costs is reaching its limit. The appreciation of the yen, too, is having an impact on the competitiveness of those of our products dependent on foreign markets.

And these challenges are compounded for Tosoh as it incurs heavy expenses related to launching the second phase of the largest vinyl isocyante chain in Asia. Additionally, increasing discussion over carbon dioxide emissions and ensuing potential changes in political policy could sway the destiny of the Japanese chemical industry.

Simply stated, our operating environment warrants genuine concern. We at Tosoh nevertheless are confident that we can continue to perform well because of our ongoing transformation from primarily a commodities-driven company to a more-balanced hybrid firm with strong specialties. Tosoh will stay focused on growth while building a more-resilient organization capable of coping effectively with any operational challenge.

Our strategy has always been to establish a structure that can remain profitable under the severest conditions. Perhaps the year ahead will pit us face to face with such conditions, and we will learn to what degree we have been successful in putting in place such a structure. As we search the horizon for what challenges lie ahead and for the products of the 21st century, we are as determined as ever to maintain in our various businesses the quality that has served us so well through seven decades.

Tosoh and the chemical industry in general provide solutions to humanity's most pressing needs in health care, the environment, communications, and more. We therefore remain proud to be a chemical company and dedicated to ever-greater achievements.

On behalf of Tosoh Corporation and the Tosoh Group, we thank our shareholders for their continued support.

June 2008

Madoka Tashiro
Chairman and CEO

Corporate Governance

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

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

The Company employs a corporate auditor system, under which four corporate auditors—two from outside the Company—form an Auditors' Committee that monitors directors' business activities. Neither of Tosoh's external auditors has any vested interest in the Company. An Auditors' Committee Office was established in fiscal 2003 to reinforce the work of the Auditors' Committee. In addition, each Group member company has a corporate auditing department. Tosoh has also organized Antimonopoly, Export Management, and Compliance committees and has prepared a manual to ensure employee compliance with all relevant laws and regulations.

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

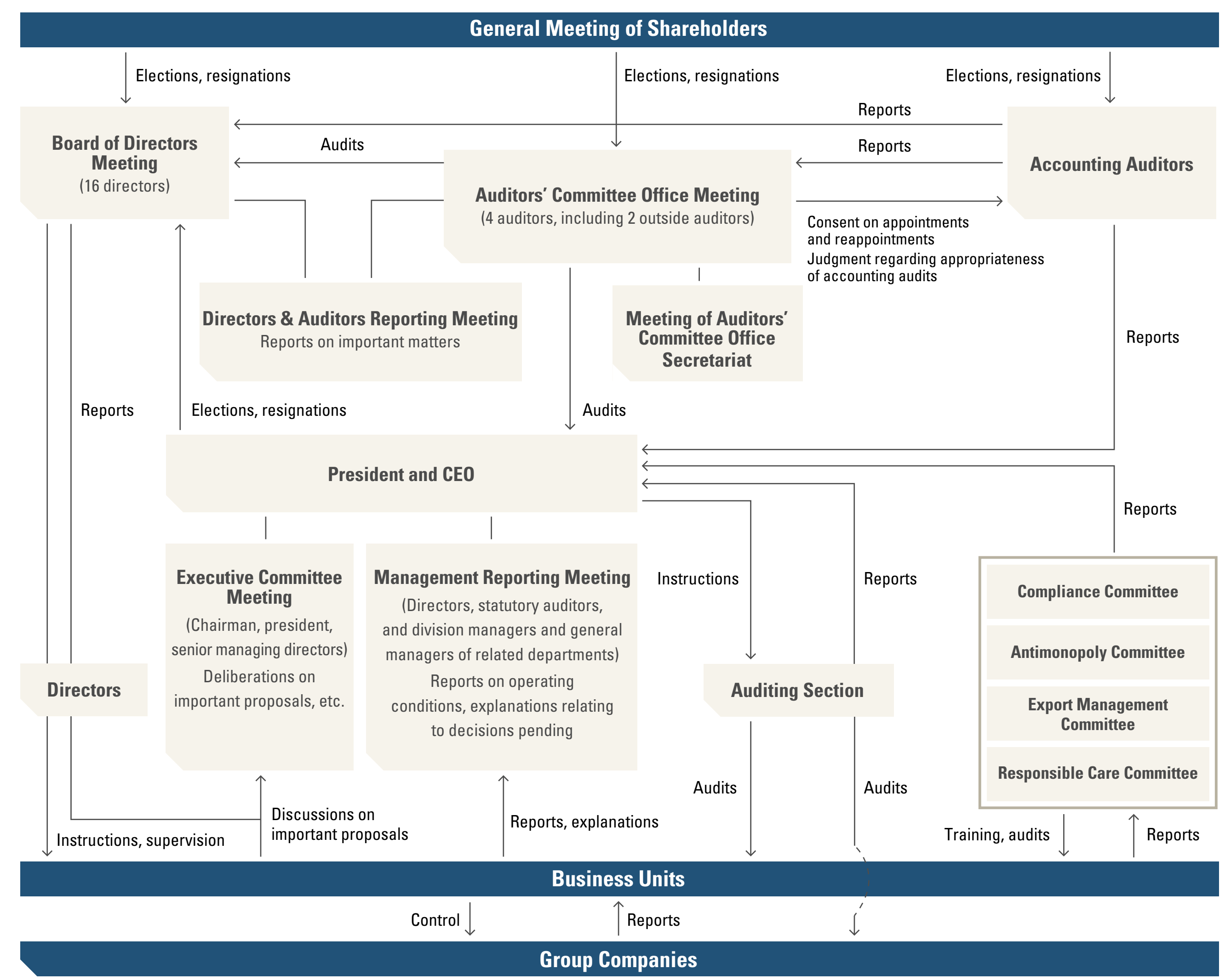
Our Compliance Committee, meanwhile, is central to our corporate governance. It is responsible for establishing, monitoring, and improving our compliance system, including defining the principles by which we are to conduct business under that system. Awareness is essential for preventing infractions. Therefore, the Compliance Committee has identified the Company's primary concerns; outlined the laws and the external and internal regulations to be followed; provided guidance manuals wherever possible; and allocated clearly defined responsibility for maintaining compliance with specific laws, regulations, and business practices.

Fair business practices with respect to purchasing and selling are elucidated by both the Antitrust Law of Japan and by Tosoh's internal antitrust compliance, purchasing and sales management, and quality control regulations. Tosoh has prepared an *Antitrust Compliance Manual* to provide guidance to employees.

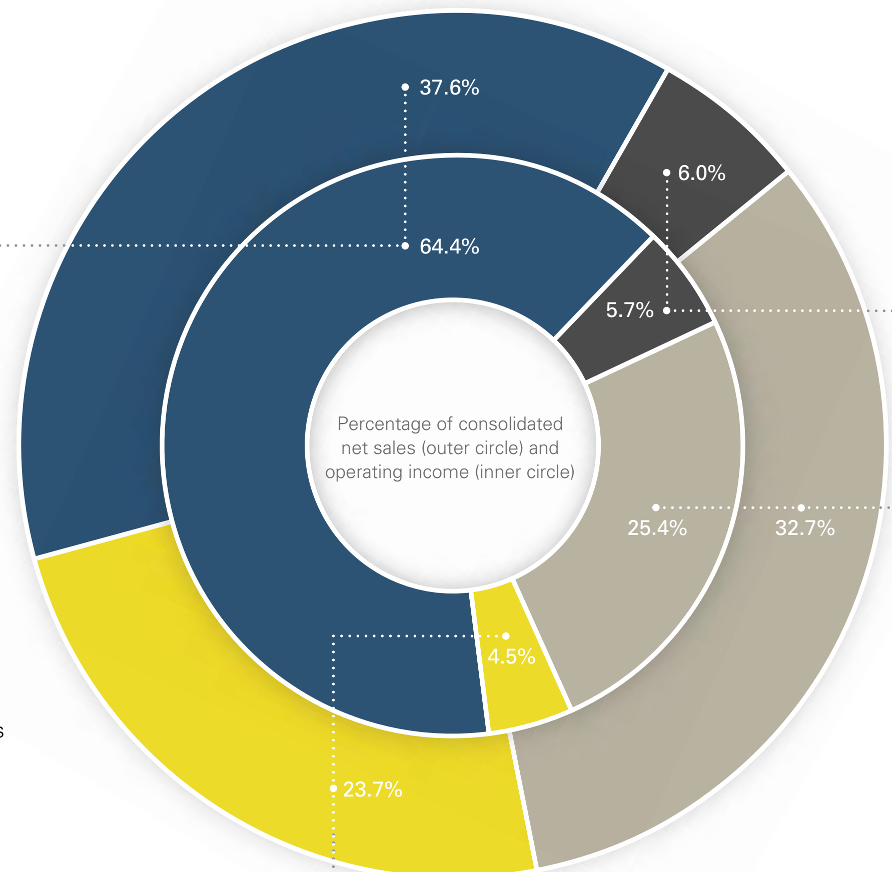
Overall the Company's Antitrust Compliance Committee; Legal and Patent Department; and Environment, Safety, and Quality Control Department are responsible for overseeing compliance with fair business practices.

Tosoh's responses to environmental preservation are codified in a number of government-mandated conservation and antipollution laws and in internal regulations established by the Company's Responsible Care Committee and under the Company's quality control system. Overseeing those responses are the Company's Environment, Safety, and Quality Control Department and various planning-related departments.

CORPORATE GOVERNANCE ORGANIZATION CHART



At a Glance



Specialty Group

Organic Chemicals

- Methylene diphenyl diisocyanate
- Ethyleneamines
- Polyurethane catalysts (Teda, Toyocat®)
- Bromine
- Hydrobromic acid
- Flame retardants (110R®, 120R®, Flamecut®)
- Chelating agents (TS-275, TX-10)
- Solvents
- High-purity ethylene dichloride

Specialty Materials

- Yttria-stabilized zirconia powders and compounds
- YTZ® grinding media
- Electrolytic manganese dioxide
- Zeolite molecular sieves (Zeolum®)
- Zeolite for catalysts (HSZ® series)

Bioscience

- Fully automated random-access enzyme immunoassay system (AIA®-1800)
- Random-access enzyme immunoassay system (AIA®-600 II, AIA®-360)
- Reagent system (AIA-Pack®, ST AIA-Pack®)
- Automated glycohemoglobin analyzers (HLC®-723G7, HLC®-723G8)
- Real-time fluorescence monitoring system (TRCRapid®-160)
- High-performance liquid chromatography columns (TSK-Gel®)
- Separation media for biopharmaceutical purification (Toyopearl®)
- High-performance GPC system (HLC-8320GPC EcoSEC®)
- Others

Electronic Materials

- Silica glass materials
- Fabricated quartzware
- Machined quartzware
- Sputtering targets
- Process kit management

Basic Group

Chlor-alkali

- Caustic soda
- Vinyl chloride monomer
- Polyvinyl chloride
- Calcium hypochlorite (Niclon®)
- Sodium bicarbonate

Cement

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

Petrochemical Group

Olefins

- Ethylene
- Propylene
- C4 fraction
- Tertiary butyl alcohol
- Cumene
- Aromatic compounds

Polymers

- High-density polyethylene (Nipolon Hard®)
- Low-density polyethylene (Nipolon®)
- Linear low-density polyethylene (Nipolon®-L, Nipolon®-Z, Lumitac®)
- Ethylene vinyl acetate copolymer (Nipoflex®)
- Adhesive polymer (Melthene® series)
- Polyvinyl chloride paste (Ryuron®)
- Polychloroprene rubber (Skyprene®)
- Chlorosulphonated polyethylene (Toso-CSM®)
- Alkylated chlorosulphonated polyethylene (extos®)
- Polyphenylene sulfide resins
- C9 hydrocarbon resins (Petcoal®)

Service Group

- Analytical services
- Administration
- Security
- Transportation
- Warehousing and related
- Information
- Instrumentation
- Plant engineering and maintenance services

Specialty Group

MDI
Zirconia
Ethyleneamines
Quartz
Toyopearl

In the Park: A Part of Your Daily Life

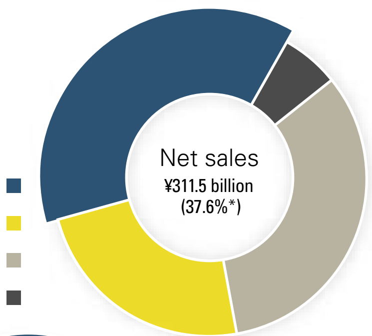
Tosoh provides cutting-edge technologies to the semiconductor, consumer electronics, pharmaceuticals, and medical industries. Our MDI goes into the flexible fiber that puts the bounce in sportswear, our zirconia enhances smiles, our ethyleneamines soften clothes, and our quartz is used in the manufacturing of ubiquitous electronic devices.

Specialty Group

"Mergers and acquisitions have joined our other growth strategies in building a portfolio with substantial profitability. The next step involves forging synergies among our niche market players to take us to the next level."

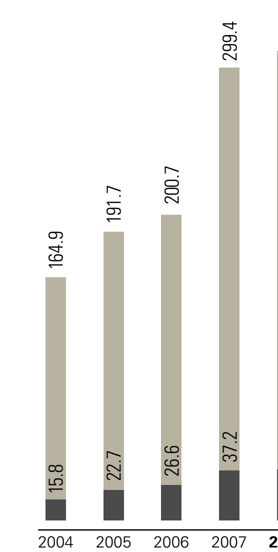
Hiroyuki Uchida
Managing Director

Senior General Manager
Bioscience Division



*Percentage of consolidated net sales
*Percentage of consolidated operating income

The Specialty Group focuses on the development and manufacture of sophisticated, value-added products for high-tech industries. Those industries include the semiconductor, consumer electronics, automobile, pharmaceuticals, and health care industries.



In fiscal 2007, the four divisions of the Specialty Group—Organic Chemicals, Specialty Materials, Electronic Materials, and Bioscience—accounted for 64.4% of Tosoh's operating income on a consolidated basis. Tosoh has consequently realigned and consolidated Tosoh Group companies engaged in specialty-related businesses to accelerate the expansion of and to achieve greater efficiencies in the niche product offerings of the Specialty Group's divisions as those offerings mature into core product lines.

The Company will continue to enhance the individual strengths of those Tosoh Group companies but will also encourage their sharing of technologies to support the development and manufacture of high-value-added, specialty products. Tosoh employs a dual strategy of organic growth and carefully targeted acquisitions to build the Specialty Group into a solid global business. For its part, the Specialty Group is focusing on research and development closely linked to market and customer needs to sustain its profitable growth.

Organic Chemicals Division

The Organic Chemicals Division supplies a broad range of products for various applications: pharmaceuticals, agrochemicals, electronics, organometallic catalysts, urethane polymers, and specialty coatings. Its ethyleneamines command the largest share of the Asian market, and its bromine, flame retardants, and industrial cleaning solvents hold a large share of Japan's market.

Ethyleneamines and their derivatives, such as epoxy hardeners, wet-strength resins for paper, chelates, and pharmaceutical and agrochemical intermediates, have diverse applications. In Japan, the Organic Chemicals Division is the industry's leading supplier of heavy metal chelates, which are in demand for their environmental properties and their cost-competitiveness. Overall, the division is increasing its profitability by improving its production efficiency and reducing its costs and by establishing positions in new, high-margin segments.

Ethyleneamines and Derivatives

Tosoh has manufactured ethyleneamines since 1967. Ethyleneamines are produced from ethylene dichloride (EDC), ammonia, and caustic soda. So it's only natural that Tosoh, as Japan's largest producer of caustic soda and EDC, has become a leading supplier of ethyleneamines, with a strong position in Asia. The Tosoh Group, in fact, is one of the largest producers of ethyleneamines in the world. We bolster our global production of ethyleneamines through Delamine B.V., a joint venture that we established with Akzo Nobel in 1976 in the Netherlands. And we boast sales offices for ethyleneamines and their derivatives in the United States, China, and Singapore.

The Tosoh Group is meeting evolving demand with aggressive moves to develop 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 emission-free reactive amine catalysts to replace the amine-based catalysts used by the automobile and other industries.

Tosoh's strength in ethyleneamines stems from a combination of technological expertise and the cost-competitiveness it achieves by producing the caustic soda and chlorine raw materials at its Nanyo Complex. The ethyleneamines produced from those raw materials become, in turn, the raw materials in the manufacture of Tosoh products, yielding a decided cost advantage for customers. Examples include the Teda and Toyocat catalysts developed for use in polyurethane foam production and the Company's heavy metal treatment agents.

Bromine and Brominated Derivatives

Tosoh is Japan's only bromine producer. And the Company is strengthening its position in Asia for bromine and related compounds. Among its wide range of products are organic intermediates. In making its bromine-based flame retardants, moreover, Tosoh reuses the seawater it uses to cool the Nanyo Complex's power generation facilities. Tosoh has also installed wastewater treatment facilities at its Nanyo Complex to recycle bromine.

Eco-business

Tosoh established its Eco-business Department under the auspices of the Organic Chemicals Division to produce chelating agents and hydrocarbon-based cleaning solvents. Solvents meet a variety of cleaning needs, while chelating agents remove heavy metals from the environment. The chelating agent TS-275, for example, sharply reduces the volume of lead, cadmium, mercury, and copper generated during the removal of heavy metals from fly and combustion ash produced in the trash incineration process. Other of the department's agents are effective in removing volatile organic compounds from soil and wastewater.

Organic Intermediates

Several Tosoh Group companies feature prominently in the organic intermediates business. Tosoh Organic Chemical Co., Ltd., specializes in bromination and chlorination, Tosoh Finechem Corporation excels in organometallic and low-temperature reactions, and Tosoh F-Tech, Inc., focuses on fluorination. The Specialty Group is working to enhance further the strengths of each of these companies. At the same time, it is encouraging them to share their respective organic synthesis technologies for heightened synergies. This results in an ability to manufacture, including through contract production, such high-value-added products for various markets as advanced organic intermediates and sophisticated specialty chemicals. The Tosoh Group companies engaged in organic intermediates are wholly owned subsidiaries. They give Tosoh a technological edge in the development and production of halogenated compounds.

Specialty Materials Division

The Specialty Materials Division is a leading global supplier of advanced materials for consumer electronics and an array of industrial and high-tech products. As a result of the division's work, Tosoh enjoys an enviable reputation and substantial market share in the supply of zirconia powders, zeolites, and electrolytic manganese dioxide (EMD). The division is leveraging its advanced technologies to expand its sales in growth markets. Its strategies see it concentrate on markets where it has a clear competitive edge.

Advanced Ceramics and Zeolites

Tosoh's synthetic zeolite products include its HSZ (high-silica zeolite) series and Zeolum zeolite molecular sieves. The HSZ series is a core catalyst product line that has helped Tosoh to expand its position in specialty materials in the global marketplace. The Company's strategy for its zeolite lineup is to develop products that meet all of its customers' adsorption, separation, and catalyst requirements. It offers high-quality zeolite grades differentiated from its competitors' products by their durability and heat resistance. It also backs up its high-quality Zeolum with superior technical support to solve customers' challenges.

Tosoh is the leading global supplier of zirconia, a yttria-stabilized ceramic without the brittleness of conventional ceramics that combines the attractive properties of ceramics with metal-like qualities. Nicknamed "ceramic steel," zirconia has earned a place as a standard material for fiber-optic connectors.

Zirconia is finding new uses as a structural material and as a material for use in fuel cell components, automobile oxygen sensors, dental applications, and other products.

The Specialty Materials Division's focus on R&D and market development has enabled it to launch a succession of zirconia products and to expand the applications and the customer base for zirconia. Zirconia is finding new uses as a structural material and as a material for use in fuel cell components, automobile oxygen sensors, dental applications, and other products. By working closely with customers to develop applications for zirconia, the division has expanded its lineup for this versatile ceramic to include powdered and even colored grades, compounds, and machined components.

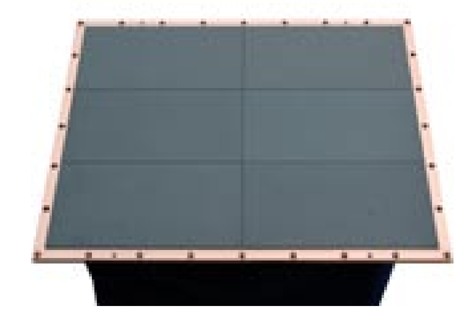
Battery Manganese Materials

The Specialty Materials Division also participates in the battery industry as a major supplier of electrolytic manganese dioxide. Tosoh's objectives with respect to EMD are to provide materials that set the standard for primary batteries of all kinds. The Company supplies customers with EMD from its plants in Japan and Greece and is pursuing technological exchanges to reinforce its EMD operations worldwide.

Electronic Materials Division

Tosoh's Electronic Materials Division boasts operations in quartz, fabricated quartzware, sputtering targets, and industry services. As such, the division is enabling the technologies of the future by developing new products and solutions for the world's high-tech, high-growth semiconductor, flat-panel display (FPD), and materials markets. Its integrated quartz, or silica glass, business is a supplier to all the world's major semiconductor and optical markets. And its thin film materials business, centered on sputtering targets, includes a wide range of materials and services for use by semiconductor fabrication and FPD facilities in their production and refurbishment operations.

The Electronic Materials Division's core business is the supply of quartz and thin film materials to the world's semiconductor and FPD markets. It offers an extensive lineup of electronic materials for the development and manufacture of state-of-the-art products. The division's integrated supply chain encompasses manufacturing and marketing bases in Japan, Taiwan, South Korea, Singapore, China, the countries of the European Union, and the United States to meet the needs of customers globally. Therefore, the division is well positioned to maintain



Zinc oxide target materials, such as this aluminum-doped zinc oxide (ZAO) target, are used in photovoltaic power generation systems.

and strengthen its ties with the world's leading semiconductor and FPD makers.

The division is aggressively investing in high-growth fields. It is developing technologies for such next-generation products as 65- and 45-nano-level integrated circuit chips and large FPDs. And it is focusing on products for space optics, energy conservation, and quartz microchips for biomedical applications that are unaffected by the semiconductor cycle. Investments for new products involve the development of an oversized quartz ingot for ultralarge liquid crystal displays (LCDs), the commercialization of chemical vapor deposition products for semiconductor applications, and the development of zinc oxide target materials for use in transparent electrodes for LCDs and of photovoltaic power generation systems that supply the rapidly expanding solar energy markets.

The division is well positioned to maintain and strengthen its ties with the world's leading semiconductor and FPD makers.

Bioscience Division

The Bioscience Division at Tosoh is in the forefront of the global marketplace for high-performance liquid chromatography (HPLC) systems and separation media. It also furnishes Tosoh with sophisticated diagnostic systems. The latter feature advanced immunoassay technologies that facilitate the quick and accurate diagnosis of life-threatening diseases, such as diabetes, certain cancers, and microbial infections.

Systems from the Bioscience Division integrate all their essential hardware and software and provide uncompromising value through global customer support and the ready availability of their consumable items. Tosoh has established a strong market position for the division's systems through internal growth, acquisitions, and strategic alliances that form a global network and provide access to cutting-edge technologies in fields such as genetic diagnostics. In vitro diagnostic systems that are faster, smaller, and easier to use are a core divisional competence for future development.

The Bioscience Division serves four global markets: separation media, clinical HPLC systems, immunoassay systems, and molecular testing. Tosoh is thus one of the few companies developing, manufacturing, and selling instruments, analytical columns, and diagnostic reagents and providing customer support and maintenance services for these products. And the Company's bioscience network spans Japan, Europe, and the United States and is expanding into China and other Asian markets.

Tosoh is Japan's market leader for TSK-Gel HPLC analytical columns, which have also earned an excellent reputation worldwide. The Bioscience Division has succeeded in building Tosoh's position in the competitive domestic market for gel permeation chromatography (GPC) and ion chromatography (IC) products, and the Company is extending the sale of GPC products overseas. Strong global demand has driven growth in the sales of the Bioscience Division's Toyopearl separation media, whose use is widespread among major biopharmaceutical companies in the United States and Europe. Tosoh (Shanghai) Co., Ltd., is expanding Tosoh's separation media business in China.

TSK-Gel HPLC analytical columns are extensively used in laboratories worldwide for the development of pharmaceuticals.

Tosoh's proprietary freeze-drying technology, meanwhile, has enabled the Bioscience Division to produce sophisticated, fast, easy-to-use automated immunoassay (AIA) analyzers that offer high sensitivity and good precision. In Japan, over half of Tosoh's AIA products are used by university hospitals, and the division is stepping up its joint research activities with universities and their hospitals.

Tosoh is laying the groundwork for a full-scale launch of all of the division's major products in the Chinese market.

The division's work has made Tosoh a global leader in the automated glycol-hemoglobin (GHb) analyzer market. And the Company is focusing on building its customer base for the division's latest HLC-723G8 GHb analyzer and its requisite consumables.

The Bioscience Division also has helped Tosoh enter the nucleic-acid amplification testing (NAT) market. The division has launched its fast, easy-to-use, and compact TRCRapid-160 real-time fluorescence monitoring system and transcription reverse transcription concerted reaction (TRC) reagent. In addition, the division has introduced products that test for food poisoning and a reagent to test for bacteria that cause tuberculosis.

The division continues to develop improved models of its core GPC and IC systems. It is devising new processes and planning for the expansion of its production capacity in anticipation of the heightened sales of its well-recognized TSK-Gel analytical columns. It also is promoting AIA sales through the addition of B-type natriuretic peptide and other cardiac markers and of new testing categories and reagents with improved functionality and by introducing large, midsize, and compact analyzers. NAT work within the Bioscience Division focuses on developing increasingly automated monitoring systems and on positioning Tosoh as a leading authority in this new field.

Tosoh is laying the groundwork for a full-scale launch of all of the division's major products in the Chinese market. The launch will include analytical columns, the Toyopearl lineup, and products in the GPC and IC categories.

More product information is available online at www.tosoh.com.

Basic Group

PVC
Caustic soda
Niclon

In the Kitchen: A Part of Your Daily Life

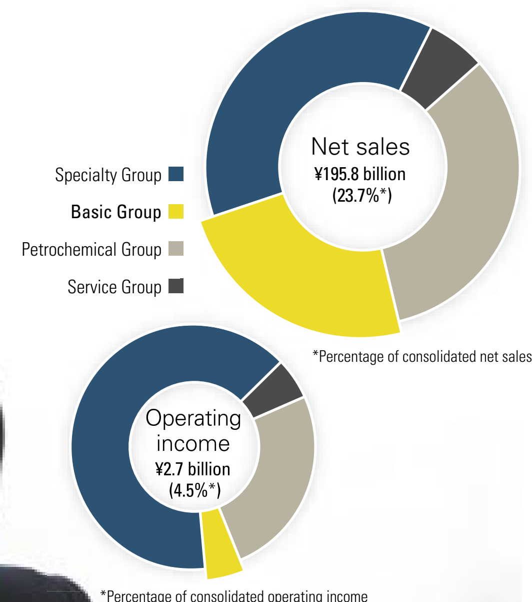
Tosoh supplies essential products that go into plastics, glass, pulp and paper, aluminum, and soaps and detergents. Our resins are used in everything from refrigerators to mixing bowls and utensils, our caustic soda keeps clothes clean, and our Niclon calcium hypochlorite makes drinking water safe.

Basic Group

“In fiscal 2007, with the completion of the largest fully integrated facilities of their kind in Asia, we have established a production hub for regional growth markets and positioned Tosoh for further expansion.”

Yuzou Arima
Managing Director

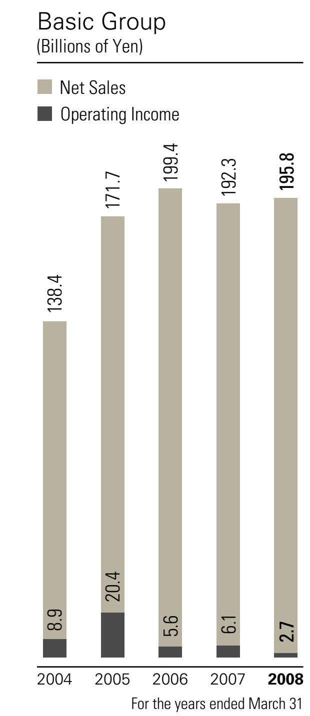
Senior General Manager
Corporate Strategy, Finance, Purchasing and Logistics



*Percentage of consolidated net sales

*Percentage of consolidated operating income

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



The Basic Group’s operations encompass chlor-alkali and cement and are founded on Tosoh’s vinyl isocyanate chain. The vinyl isocyanate chain refers to an integrated sequence of manufacturing operations that produces several principal vinyl-related chemicals from two basic commodities: salt and ethylene. Tosoh electrolyzes salt to obtain chlorine and caustic soda and supplies these basic materials to customers and employs them in the manufacture of such value-added products as vinyl chloride monomer (VCM), polyvinyl chloride (PVC), and ethyleneamines.

The group’s strengths in chlor-alkali operations are the result of economies of scale derived from a tightly integrated manufacturing infrastructure and efficient in-house power generation. This provides the Company with a competitive advantage in processing chlor-alkali products and has translated into the greater synergies required in expanding its vinyl isocyanate chain to include urethane and related products. In addition, the Basic Group’s ability to make use of waste and various by-products at its on-site cement production facilities further reduces costs while making better use of resources.

Chlor-alkali Division

The Tosoh Group accounts for 42.0% and 25.0%, respectively, of Japan’s total VCM and PVC production, and it is moving to increase its share of the VCM and PVC markets in other Asian countries. To ensure its ability to maintain a strong position in growing markets over the long term, the Company is moving to fortify the synergies among the Basic Group’s conventional chlor-alkali, caustic soda, VCM, and PVC operations. It also is reinforcing the Basic Group’s infrastructure for supplying Asia’s largest methylene diphenyl diisocyanate (MDI) production facilities.

Initially, Tosoh expanded its vinyl chain by supplying chlorine and other raw materials to Nippon Polyurethane Industry Co., Ltd. (NPU), in which Tosoh had a small stake, for the production of isocyanate. Isocyanate is an important raw material in the manufacture of polyurethane derivatives and related intermediates for which demand in Asia is expected to grow. Tosoh then strategically increased its stake in NPU, Japan’s leading supplier of isocyanates, to 51.7% in fiscal 2006, making NPU a consolidated subsidiary, and raised that stake to 80.3% in May 2008. This has positioned Tosoh to take advantage of the symbiosis between its vinyl chain and NPU's isocyanate operations. NPU doubled its MDI production capacity in January 2008, and Tosoh built raw materials infrastructure to support that increase. Tosoh expanded its in-house power production and electrolysis operations and doubled its production lines for aniline and carbon monoxide, two key raw materials for MDI.

Building Asia's largest vinyl isocyanate chain represents a total investment of ¥150 billion.

In total, building Asia's largest vinyl isocyanate chain represents a total investment of ¥150 billion. Centered at the three million-square-meter Nanyo Complex alongside laboratories, technology development centers, and other facilities, the vinyl isocyanate chain is transforming that complex into a production hub for Asia. Tosoh commands formidable annual production capacities of 1.37 million metric tons of caustic soda; 1.45 million metric tons of VCM; 1.17 million metric tons of PVC (700,000 metric tons in Japan, 220,000 metric tons in China, 100,000 metric tons in the Philippines, and 80,000 metric tons in Indonesia); and 400,000 metric tons of MDI.

Tosoh's integrated vinyl isocyanate chain operations at the Nanyo Complex thus are a main competitive advantage. Among the Company's further points of differentiation are its economies of scale; its cost advantages stemming from its position as Japan's largest purchaser of ethylene, its key vinyl feedstock; and its constant attention to enhancing its cost-competitiveness.

Cement Division

Tosoh initiated cement production in 1953 based on an awareness of the logic and the economic benefits of producing cement at a soda production plant using an ammonia soda process. Tosoh's cement business, therefore, again exemplifies the Company's rational and efficient use of raw materials.

The competitiveness of the Company's cement operations stems from the Nanyo Complex's resource advantages. The complex boasts a natural deepwater port and an on-site source of inexpensive power relative to external supply. It also has access to ample waste products for use in making cement, including the 200,000 metric tons of coal ash produced annually by its power plant boilers and slag, sludge, scrap tires, and unneutralized gypsum from outside sources.

The Nanyo Complex's cement production also consumes approximately 14 metric tons per day of refuse-derived fuel (RDF), a solid fuel produced at a nearby municipal RDF plant. Additionally, in June 2007 Tosoh installed a chlor-bypass system and facilities to process 15,000 metric tons of plastic a year. The Nanyo Complex is thus able to process waste plastics that contain PVC resins for use in the manufacture of cement.

The Company is working to reduce coal consumption by the power plant that supplies electricity for its cement operations. It also is developing ways to use by-products from other operations in the cement manufacturing process.

Tosoh has a cement production capacity of 2.9 million metric tons a year. And it sells its entire volume of cement to Taiheiyo Cement Corporation under consignment.

More product information is available online at www.tosoh.com.

Tosoh's International Competitiveness Gains from Integration

What we at Tosoh call the vinyl isocyanate chain is a series of basic chemical manufacturing processes that we've integrated over our years in business.

Through the synergy of those processes, the vinyl isocyanate chain yields a greater number of products than the sum of its parts. Now, after nearly a ¥100 billion second-phase investment to strengthen the chain and increase its PVC, VCM, and MDI capacities, Tosoh is poised to serve as the production hub for Asia. Here we take a closer look at the vinyl isocyanate chain that represents a key component of our strategy for building brands and enhancing supply relationships.

EXPANDING THE CAPACITY OF THE VINYL ISOCYANATE CHAIN

	Capacity increase	Capital investment	Completion	Total capacity
In-house electrical power	220,000 kW[a]	¥27.0 bil.	April 2008	1,035,000 kW
Caustic soda	150,000 MT/yr[b]	¥6.5 bil.	April 2008	1,375,000 MT/yr
Carbon monoxide	8,000 Nm³/h[c]	¥8.0 bil.	December 2007	16,000 Nm³/h
Aniline	150,000 MT/yr	¥16.0 bil.	February 2008	300,000 MT/yr
MDI[d]	200,000 MT/yr	¥30.0 bil.	January 2008	400,000 MT/yr

[a]Kilowatts
[b]Metric tons per year
[c]Normal cubic meters per hour
[d]Diisocyanate raw materials for the production of polyurethane

The Vinyl Isocyanate Chain's Chemical Manufacturing Processes

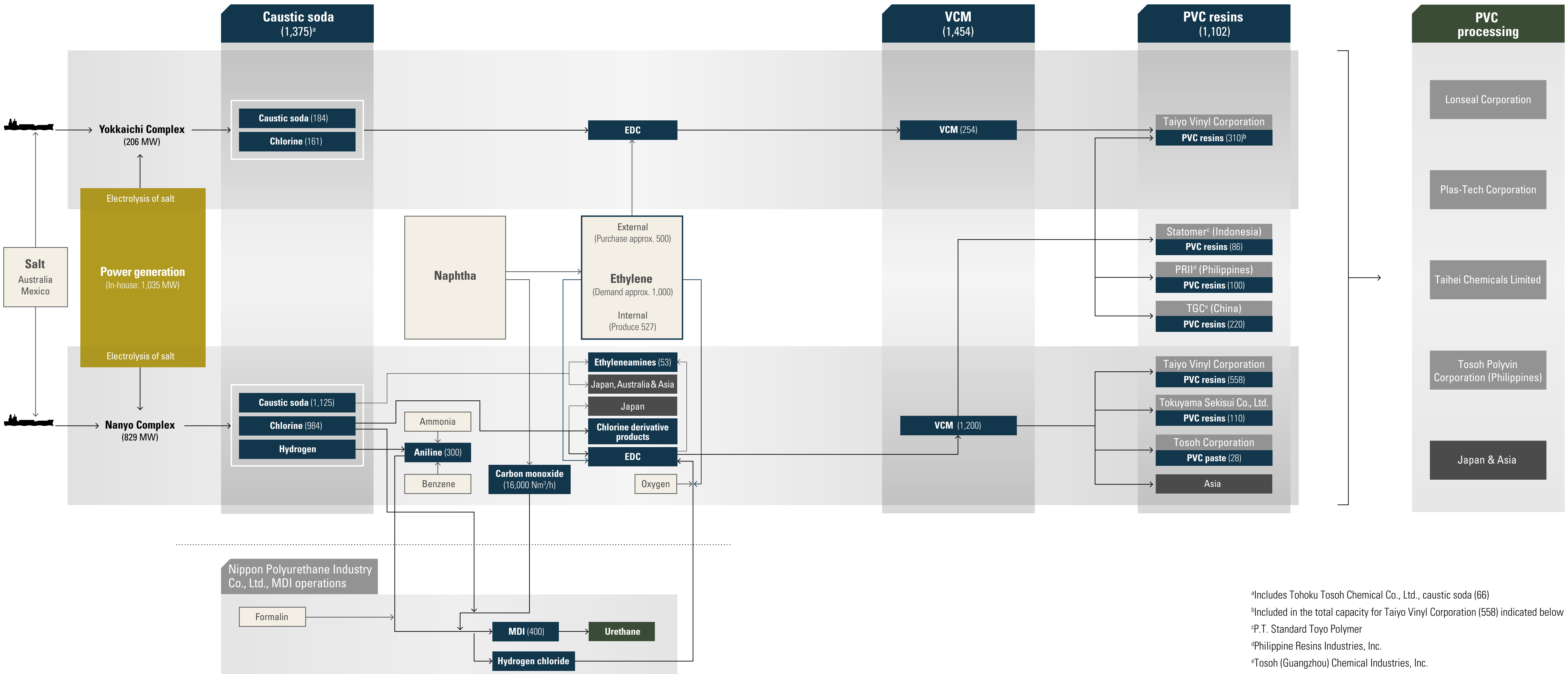
Our vinyl chain feeds off the electrolysis of salt and naphtha cracking—our most basic manufacturing processes—to produce ethylene and propylene. And the isocyanate chain links with the vinyl chain to produce isocyanate and urethane products, the by-products of which it feeds into the vinyl chain. Collectively, the vinyl isocyanate chain yields an array of vinyl- and isocyanate-related chemicals, as illustrated by the schematic on pages 30 and 31.

At the beginning of the vinyl chain, salt is electrolyzed to yield chlorine and caustic soda. Ethylene is then introduced to some of the chlorine, and the reaction produces ethylene dichloride (EDC). The remaining chlorine is used to manufacture additional chlorine derivatives. The EDC, meanwhile, is combined with caustic soda to produce ethyleneamines, a major Tosoh product, and is also converted to VCM, which, in turn, is converted into various PVC resins.

Tosoh has expanded its vinyl chain to include the isocyanate chain by supplying chlorine and other raw materials to NPU for the production of isocyanates. NPU's downstream processes subsequently generate hydrogen chloride, and NPU pumps that by-product of isocyanate production back to Tosoh for processing into EDC.

TOSOH FULLY INTEGRATED VINYL ISOCYANATE CHAIN

As of July 2008
Units: 1,000 metric tons



[a] Includes Tohoku Tosoh Chemical Co., Ltd., caustic soda (66)
[b] Included in the total capacity for Taiyo Vinyl Corporation (558) indicated below
[c] P.T. Standard Toyo Polymer
[d] Philippine Resins Industries, Inc.
[e] Tosoh (Guangzhou) Chemical Industries, Inc.

Petrochemical Group

Synthetic rubber
Polyphenylene sulfide (PPS) resins
Adhesive polymer (Melthene-M)
PVC paste (Ryuron)

On the Road: A Part of Your Daily Life

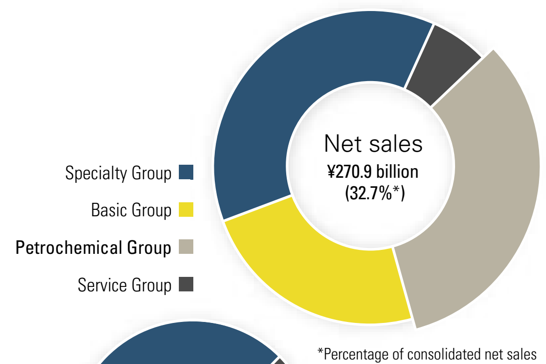
Tosoh furnishes an array of materials that underpin the electronics, automobile, and plastics industries. Our synthetic rubber helps wetsuits insulate wearers from the cold, our superplastic PPS strengthens car engine parts, our Melthene polyolefin resin fastens the easy-to-peel lids on yogurt and other food containers, and our Ryuron PVC paste puts that soft stretch in rubber gloves.

Petrochemical Group

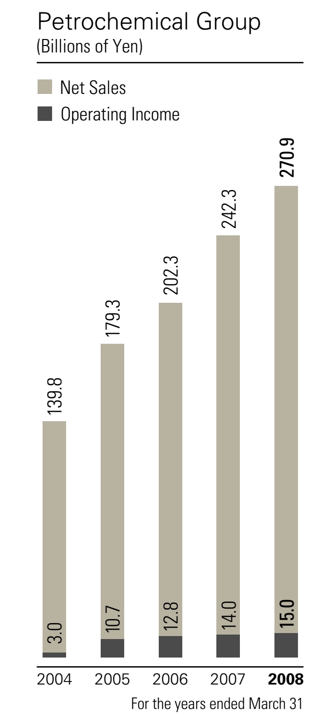
“In response to the incredible challenges that the Japanese petrochemical industry faces, we are transforming our operations from commodity to higher-value functional polymers. Based on decades of expertise, we are emerging with new automotive, electronic, and environmental products that are serving society while boosting our profitability.”

Keiichi Ohtagaki
Senior Managing Director

Senior General Manager
Polymer Division



The products of the Petrochemical Group center on olefins and polymers, which play vital roles in leading-edge industrial technologies. Olefins and polymers help to produce such everyday essentials as medicines, clothing, television and radio components, automobile parts, building materials, and paints, to name just a few.



Olefins Division

Through its Olefins Division, Tosoh is an integrated manufacturer of hydrocarbon-based products and their derivatives, including ethylene, propylene, cumene, and myriad other upstream and downstream products. The division’s products find applications in a complete array of electronic, plastics, and rubber goods produced in Japan and elsewhere in Asia.

The already intense global competition in olefins is expected to rise as new, highly competitive, and large-scale ethane-based crackers and ethylene derivative plants begin coming onstream in the Middle East in 2008. Tosoh owes its ability to compete in olefins in part to its position as a major consumer and producer of ethylene. The naphtha cracker at the Company’s Yokkaichi Complex has an annual ethylene production capacity of approximately 500,000 metric tons. A portion of this volume is used to meet Tosoh’s ethylene requirements and therefore helps the Company control its costs and reduce its operating risks.

Tosoh is reinforcing its ability to cope with an operating environment characterized by rapid shifts in the prices of fractions by responding more quickly to market trends and emerging customer needs. By selectively concentrating its resources to maximize earnings, the Company is implementing a feedstock diversification strategy to offset increases in naphtha prices. The Company’s strategies for reducing production costs include employing heavier naphtha grades, improving the recovery efficiency for spent C4 and C5 fractions, and shifting to butane and propane to enhance the flexibility of its feedstock selection.

By selectively concentrating its resources to maximize earnings, the Company is implementing a feedstock diversification strategy to offset increases in naphtha prices.

Since Tosoh’s olefin operations are integrated with its vinyl isocyanate chain, moreover, the Company can exploit synergies across a wide range of products at its Nanyo Complex. Increased aniline production at the complex is raising internal demand for benzene, for example, creating opportunities for the Olefins Division to play a larger role and to take on greater responsibility. During the year under review, Tosoh conducted ethylene production at full capacity to meet increased demand for VCM and for benzene.

Polymers Division

The division's polyethylene lineup includes a high proportion of specialty products, including ethylene vinyl acetate (EVA) and low-density polyethylene (LDPE), for which market demand is high.

The Company's polymer operations encompass two chief product categories: polyethylene and functional polymers. The Polymer Division focuses primarily on derivative petrochemical products, with an emphasis on high-polymerization products, such as plastics and rubber.

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

In functional polymers, on the other hand, the Company targets stable niche markets with a limited number of suppliers worldwide. Despite its diverse product portfolio, Tosoh is not yet satisfied with its cross-market development of products.

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

The Company is augmenting these strategies by developing niche markets for functional polymers with strong growth potential and a limited number of producers worldwide, among which it is the market leader. Representative examples include chloroprene rubber, EVA copolymer resins with 30% or more vinyl acetate, its Melthene adhesive polymer, and PPS engineering plastic resin. Tosoh is strategically differentiating these higher-value-added functional polymers from competitors' products by developing new products for adhesive-related applications. Although sales of polymers are expected to remain flat or to rise only slightly in some markets, Tosoh is strongly positioned to benefit from growth in Asian markets amid robust demand for adhesives, housing materials, and industrial products.

More product information is available online at www.tosoh.com.

Ethylene Operations

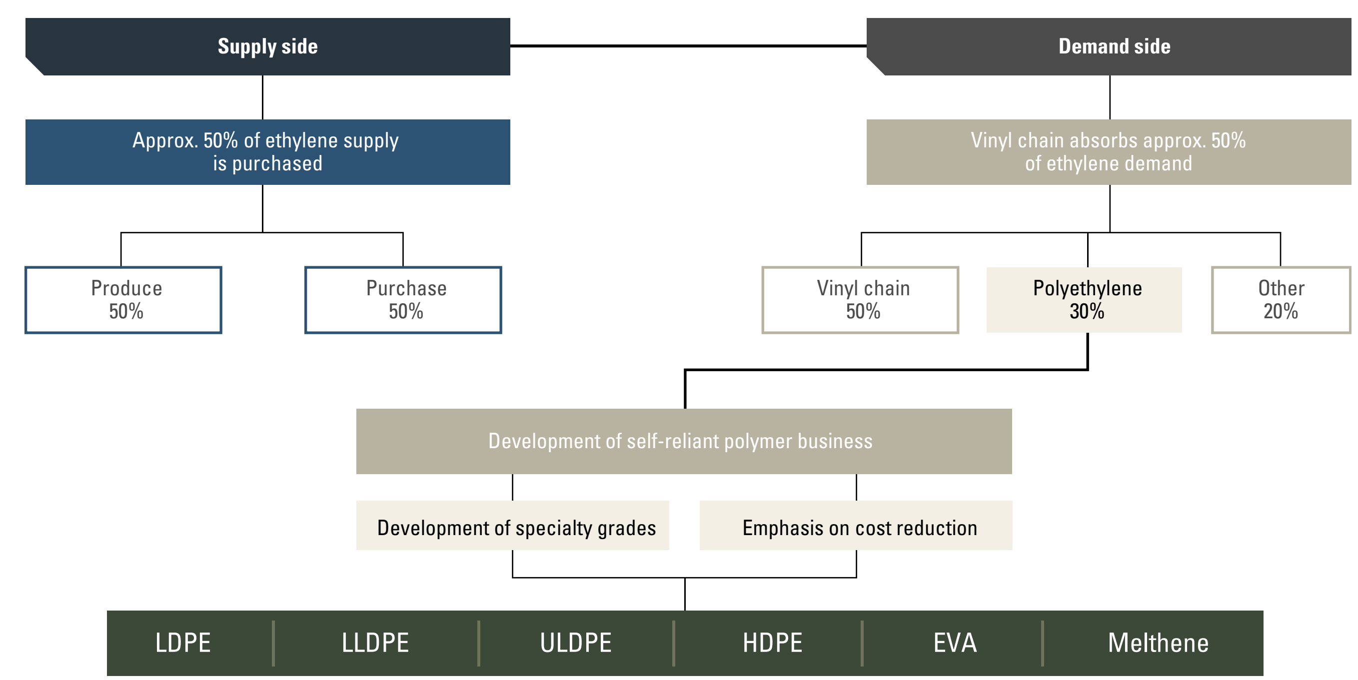
Controlling Costs and Reducing Risks through Internal Supply Capabilities

Tosoh's manufacturing efficiencies are the source of its competitiveness. Central to those efficiencies is the symbiotic relationship between our petrochemical and vinyl chain operations. Tosoh's integration of those operations, in fact, makes it unique within the Japanese chemical industry.

The petrochemical process begins with the naphtha cracker at our Yokkaichi Complex, which has an annual ethylene capacity of approximately 500,000 metric tons. That complex supplies most of its basic feedstocks to the nearby petrochemical operations of many other companies and to our Nanyo Complex for downstream processing, which is highly cost-effective.

The Yokkaichi Complex's naphtha cracker supplies our vinyl chain and polymer operations with the essential feedstock ethylene. We use nearly one million metric tons of ethylene yearly, of which we produce about half and purchase the remainder. This dual role, as a supplier and a purchaser, greatly reduces our operating risks. We allocate about 50% of the ethylene for our vinyl chain operations and use 30% in our self-reliant polymer business. The diagram below provides an overview of Tosoh's ethylene operations.

ETHYLENE OPERATIONS



Service Group

Analytical services
Information technology (IT) services
Personnel management
Logistics

In the Office: A Part of Your Daily Life

Tosoh boasts a host of subsidiaries and affiliates whose diverse services and products are the backbone of Tosoh quality.

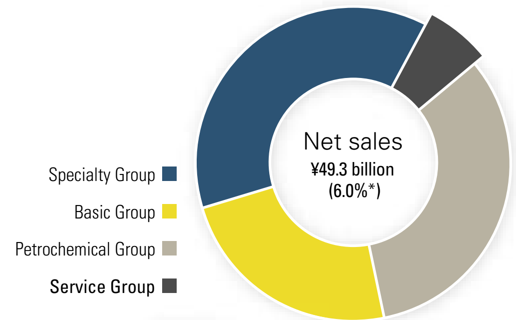
Service Group

“The Tosoh Group has just successfully implemented a new enterprise resource planning system that will streamline its communications and automate its workflow processes while strengthening its internal control initiatives. The new system encompasses supply chain management, finance, accounting, and human resource capital management, as well as payroll and other business transactions.”

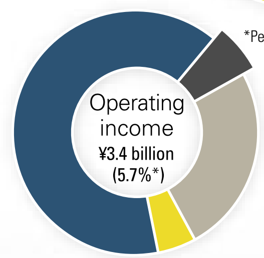
Katsumi Ishikawa
Director

Senior General Manager
Corporate Control and Accounting

Oversight
IT Strategy and Planning

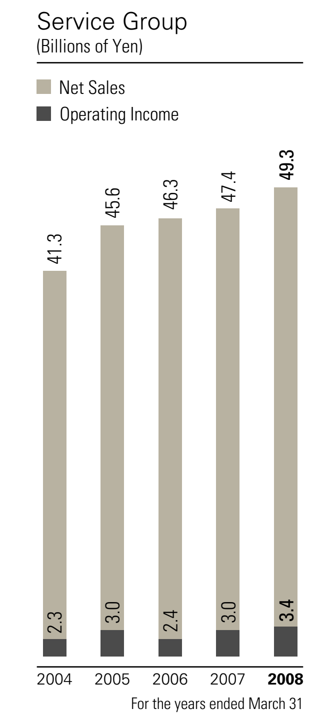


*Percentage of consolidated net sales



*Percentage of consolidated operating income

Comprising an alliance of Tosoh subsidiaries and affiliates, the Service Group supports the Company’s operations with logistical, construction, and engineering services. This critical support enables Tosoh to operate effectively and efficiently, ensuring cost advantages and the timely delivery of products.



The companies in the Service Group are evolving from cost-control centers to profit centers by engaging in commercial operations. Price setting according to market rates, for example, enables the companies to compete head to head with external suppliers. This shift was implemented to further enhance corporate cost performance. The same strategic thinking has led to the spin off of Tosoh’s analytical chemistry, information technology, and general administrative operations into independent companies that provide superior support for Tosoh’s operations overall. The Service Group companies introduced here represent a sampling of the many firms constantly at work to improve the quality of their offerings and, as a result, of Tosoh’s operations.

Tosoh Analysis and Research Center Co., Ltd.

Tosoh Analysis and Research Center specializes in organic, inorganic, and polymer chemistry and in electronic materials. It provides Tosoh Group companies worldwide with a range of sophisticated analytical services in those areas.

Tosoh Information Systems Corporation

Tosoh Information Systems assists the Tosoh Group and other client companies in developing IT solutions. The company introduced and developed a new enterprise resource planning system that allows management to assess the performance of Tosoh Group members quickly and easily.

Tosoh General Service Co., Ltd.

Tosoh General Service provides, for example, personnel management, employee benefit administration, and human resources training activities. It focuses in particular on developing social services in support of employees.

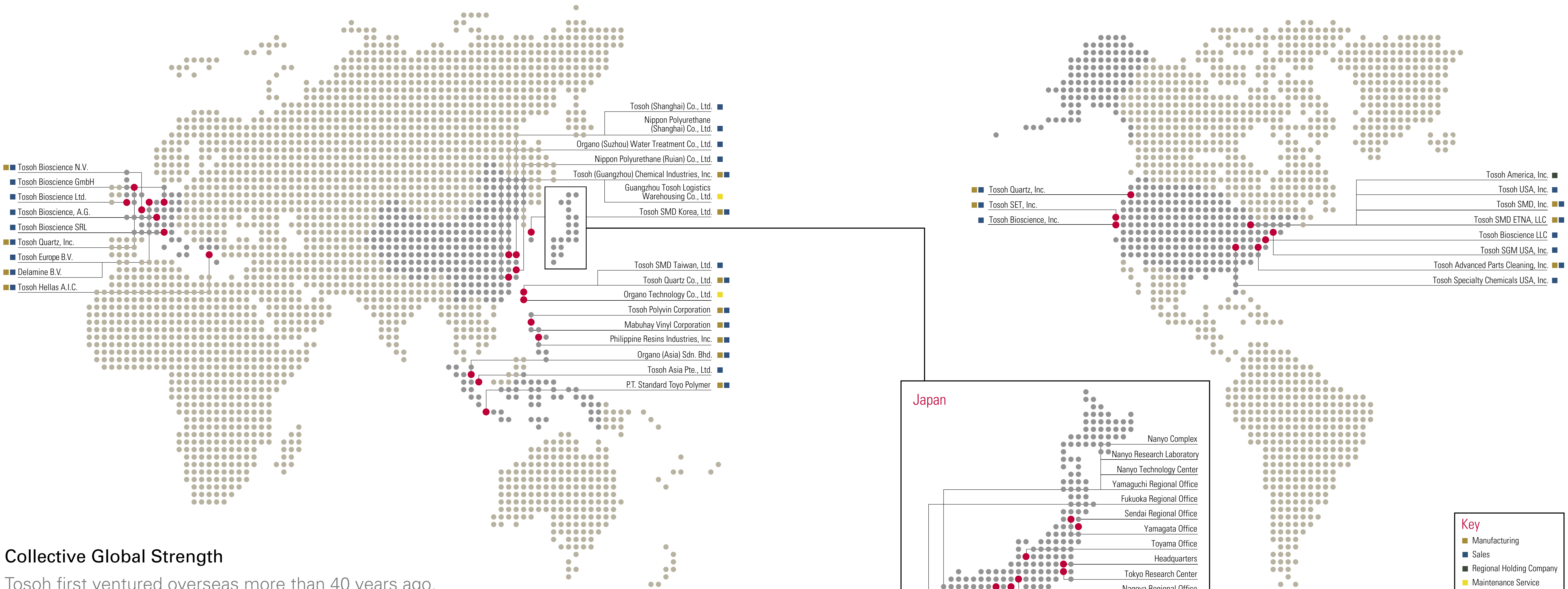
Tosoh Logistics Corporation

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

Tosoh Plant Service Corporation

Tosoh Plant Service furnishes comprehensive expertise that goes to the heart of Tosoh’s operations. That expertise spans construction, management, and maintenance for manufacturing facilities. This affiliate’s services have become especially crucial in light of Tosoh’s increasingly rapid expansion of its vinyl isocyanate chain. Tosoh Plant Service has earned the Tosoh Group’s reliance through its safe and successful handling of numerous construction projects.

Tosoh Worldwide



Tosoh Group Consolidated Companies, Fiscal 2007

The Tosoh Group consists of 140 companies with 117 subsidiaries and 23 affiliates.

Collective Global Strength

Tosoh first ventured overseas more than 40 years ago, establishing a presence in the United States in the early 1960s. Today, the Tosoh Group boasts a global network that generates 33.7% of Tosoh's sales outside Japan.

Research and Development

Tosoh continues to explore frontiers in search of breakthroughs toward innovative products that increase its profitability and that better serve society.

Amid rapid and dramatic industrial change and technological innovation, the Tosoh Group is strengthening and expanding its core businesses and enhancing its ability to create the products of tomorrow for use today. Our research and development activities are driven by our four main R&D facilities and by the R&D centers of our subsidiary companies Organo Corporation and Nippon Polyurethane Industry Co., Ltd. (NPU).

Fully three of Tosoh's four main R&D facilities are involved in research: the Tokyo Research Center, the Yokkaichi Research Laboratory, and the Nanyo Research Laboratory. The Tokyo Research Center focuses on our specialty materials, the Yokkaichi Research Laboratory emphasizes petrochemicals and specialty polymers, and the Nanyo Research Laboratory concentrates on basic chemicals and on the various businesses of our Specialty Group. Our specialty operations also gain from the dedicated support of the R&D centers at Organo and at NPU. In addition, we have specialized development and technology departments whose work underpins the expansion of our bioscience operations.

The Company is pursuing an aggressive program of joint research at external research facilities, including at universities and other educational institutions and at public research laboratories.

The fourth facility, the Nanyo Technology Center, provides engineering expertise to transform ideas from our research facilities into production technologies and is responsible for designing the production facilities for those technologies.

Tosoh, moreover, is endeavoring to strengthen its research capabilities and to accelerate the pace of its technological development. The Company is pursuing an aggressive program of joint research at external research facilities, including at universities and other educational institutions and at public research laboratories.

Many of the diverse facilities involved in Tosoh Group research and development are striving for the commercialization of a wide variety of products. And collaboration is the key to maximizing their resources and to generating synergies among the various components of our large organization. Our research staff of 900 works closely with our business groups and divisions, and the constant flow of personnel between our research facilities and our operations ensures close cooperation and idea sharing.

We have, in fact, established committees purposed with planning the commercialization of research themes. These committees comprise representatives from our business units, laboratories, and strategy divisions. Decisions from these committees are based on knowing that applying our annual R&D budget of over ¥13 billion efficiently and effectively requires the strictest focus on real-world opportunities.

Petrochemicals

In petrochemicals, we focus on improving our polymer products and related technologies and on developing new polymers. Polyethylene development and improvement for a broader array of applications includes better laminate grades, masking grades, and medical grades and has contributed to expanding our sales. Our bringing to market of EVA sealing film for solar cells has also had a positive impact on our bottom line.

Our advancements, moreover, in the development of specialty polyethylenes with high melt strength and elasticity sees some users adopting high-density grades. Tosoh, though, is also going forward with a strong program to develop low-density grades. In addition, we are devising innovative polymer grades, such as petroleum resins and our adhesive polymer Melthene, that are a blend of rubber and other resins.

Tosoh also is establishing new technology for the synthesis of chloroprene rubber (CR) latex. Compared with other products, CR latex offers superior contact properties and water resistance, and we are developing the market for this product. We are likewise moving ahead with the development of polymer materials for new applications, such as our retardation films for LCDs.

Basic Chemicals

Our business in basic chemicals sees us continuing our program of constant innovation in manufacturing technology to solidify the strength of the vinyl isocyanate chain that is the core of this business. Specifically, in fiscal 2007 Tosoh completed its development of a new type of activated cathode for its electrolysis operations. Along with our implementation of this new technology, we are also pushing ahead with the development of higher-efficiency electrodes.

Specialty Operations

Tosoh is investing many of its resources in R&D on functional materials that further the evolution of its specialty operations. In everything from electronics and information technology to medical and environmental applications, Tosoh is creating the materials of the future for today's applications.

The production of semiconductors has an ever-increasing need for more-functional materials. Tosoh has responded by developing techniques for designing and synthesizing organometallic compounds that are deposited as thin films in the fabrication of semiconductors. Our organometallic compounds contain the metals ruthenium, titanium, tantalum, iridium, hafnium, zirconium, and aluminum and are capable of being formed into ultrathin layers through processes such as chemical vapor deposition (CVD). We have also gone forward with user evaluations and are at the mass-production prototyping stage of using our organometallic compounds in CVD processes that will produce next-generation wiring for semiconductors.

We are likewise contributing to the further development of flat-panel displays (FPDs). Tosoh is involved in the development of new, high-efficiency electron hole transport materials for organic electroluminescent displays. Users are making their final evaluations of these materials, which are expected to find widespread use in electronics and IT-related applications. Our aluminum-doped zinc oxide (ZAO) materials have already received high praise from electronics manufacturers and will soon be commercialized.

On the medical front, controlling infectious diseases in developing countries and aging-related diseases in developed countries is critical. It is vital, therefore, that we continue to design highly accurate yet simple medical diagnostic systems that include methods of determining whether a disease is infectious or genetic. Our Tokyo Research Center designs diagnostic and particularly genetic testing tools based on genetic analysis and genetic modification technologies. Those tools then are refined by our technology departments and by our Bioscience Division to fit the needs of hospitals and reference laboratories.

Our R&D people apply feedback from the medical personnel who use our testing tools in producing diagnostic systems and their consumables of heightened efficiency, speed, and yield. Tosoh, for example, has employed information gathered at its after-sales call center to commercialize a new packing material for high-performance liquid chromatography (HPLC) that improves the capture capabilities and the speed of the antibody refining processes.

In line with Tosoh's dedication to a more-sustainable future, the Company's R&D personnel are working on solutions in the realm of environmental conservation. They have developed materials that will greatly improve the performance of primary batteries. And in their work on eco-products they continue to develop materials that improve our heavy metal chelating and soil-remediation agents.

Ultimately, our R&D challenges involve accessing global resources to bring innovative technologies to market. Our responses to those challenges yield products for use in a complete array of disciplines, including in medical science, chemistry, physics, molecular biology, and mechanical engineering.

In everything from electronics and information technology to medical and environmental applications, Tosoh is creating the materials of the future for today's applications.

R&D FACILITIES

Yokkaichi Research Laboratory

The Yokkaichi Research Laboratory conducts advanced R&D in the petrochemical field. Its focus is on basic research into catalysts, polymerization, material design, and polymers.

Achievements and products

New polyethylene grades (pharmaceutical packages, laminates); hot-melt adhesives (embossed carrier tape for IC chips, food packaging containers); polyphenylene sulfide resins (automotive parts, especially for hybrids)

Tokyo Research Center

The Tokyo Research Center operates on the leading edge of technological and product development. It develops the products of the future in electronics, new ceramics, and biotechnology.

Achievements and products

Sputtering targets (LCDs, photovoltaic cells); fabricated ceramics; plasma-sprayed coating products; silica glass; analytical and diagnostic systems; immuno-chemical test reagents; nucleic acid amplification test reagents

Nanyo Research Laboratory

The Nanyo Research Laboratory focuses primarily on specialty materials. Its R&D concentrates, more specifically, on products and technologies for the environmental and energy fields and on inorganic, organic, and elastomeric materials.

Achievements and products

High-performance synthetic zeolites, zirconia powders, electrolytic manganese dioxide, energy-saving cathodes for the electrolysis of an aqueous sodium chloride solution, heavy metal chelating agents, environmental catalysis, polyurethane foaming amine catalysts, chloroprene rubber and latex, chlorosulphonated polyethylene, polyvinyl chloride paste, chromatographic resins for antibody purification, and materials for liquid crystal displays and organic light-emitting diodes

Nanyo Technology Center

The Nanyo Technology Center is the production technology and engineering base for the Tosoh Group. It improves processes, provides engineering expertise for new plants, and transforms ideas from other Tosoh R&D facilities into commercial technologies and products.

Areas in which significant results have been achieved

Enhancing the vinyl isocyanate chain by providing expertise for products such as vinyl chloride monomer, polyvinyl chloride resins, carbon monoxide, aniline, and others; providing engineering for ethyleneamines for various applications; improving specialty products for industrial and technological applications, such as sputtering targets, silica glass, ethyleneamines, silica, and others; developing plant maintenance systems

Responsible Care Report 2008

Providing Sustainable Solutions

Tosoh believes strongly that innovation will contribute significantly to resolving the sustainability issues faced worldwide. We are dedicated to improving the quality of life through environmental preservation, to ensuring the safety and health of our employees and society, and to achieving economic progress. Our principal activities regarding sustainability are organized around our Responsible Care program, which has been in place officially since 1995. We invite you to take a close look at Tosoh's corporate social responsibility initiatives and their results when published in October of 2008.

www.tosoh.com

As a small step toward conserving resources, and because our operations continue to expand year by year, we have decided to release a larger proportion of our corporate information on the Internet. The symbol at left, found throughout this report, indicates that additional information is available at www.tosoh.com.

Responsible Care Report 2008 covers activities for fiscal 2007, the period from April 1, 2007, to March 31, 2008.

Consolidated Financial Section

Specialty Group

The Specialty Group achieved growth in net sales of ¥12,100 million from the previous fiscal year's level, to ¥311,452 million (US$3,108.6 million), for a year-on-year improvement of 4.0%. This was accompanied by an increase in operating income of ¥866 million, or 2.3%, to ¥38,025 million (US$379.5 million).

Organic Chemicals

The Specialty Group's Organic Chemicals Division focuses on the development of value-added fine chemicals with numerous applications in, for example, pharmaceuticals, agrochemicals, electronics, organometallic catalysts, urethane polymers, and specialty coatings. The division commands the largest share of the Asian market for ethyleneamines and is a leading domestic producer of bromine, flame retardants, and industrial cleaning solvents.

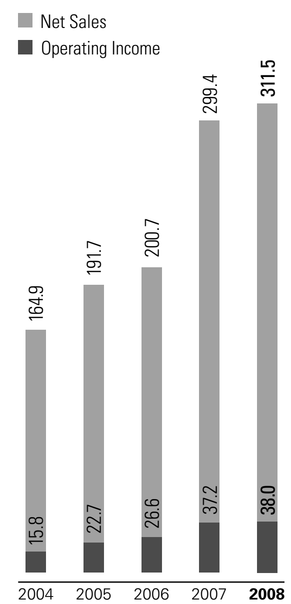
A reorganization of the Specialty Group in fiscal 2006 included adding urethane raw materials to the product lineup of the Organic Chemicals Division. This addition resulted from the conversion of Nippon Polyurethane Industry Co., Ltd. (NPU), and its subsidiary companies into consolidated subsidiaries of Tosoh Corporation. And it accounts for the drastic increase in net sales for the division in the previous fiscal year compared with fiscal 2007.

The reorganization also focused on further synergies among Specialty Group companies in the organic intermediates business, including Tosoh Organic Chemical Co., Ltd. (bromination and chlorination); Tosoh Finechem Corporation (organometallic reactions and low-temperature reactions); and Tosoh F-Tech, Inc. (fluorination). As part of this initiative, the organic intermediates business was spun off to Tosoh Organic Chemical.

Methylene Diphenyl Diisocyanate

Sales of MDI urethane raw materials increased in fiscal 2007 as a result of successful price adjustments in Japan and rising prices in foreign markets. And shipments of MDI rose as a result of an increase in production capacity. In fiscal 2007, NPU completed a 200,000-metric-ton expansion of its MDI manufacturing capacity that positions NPU to supply growing demand from Asian markets.

Specialty Group
(Billions of Yen)



For the years ended March 31

NPU's contribution to consolidated net sales in fiscal 2007 reached ¥86.5 billion. NPU anticipates that the doubling of its MDI production capacity from 200,000 metric tons to 400,000 metric tons will cause its net sales to jump 40% in the fiscal year ahead, to approximately ¥140 billion. Following the close of the year under review, in May 2008 Tosoh announced that it was upping its equity participation in NPU to 80.3%.

Ethyleneamines and Derivatives

During the year under review, we adjusted our prices for ethyleneamines in Japan and abroad to meet the higher cost of their raw materials. This and full-capacity operations resulted in greater profitability over the previous fiscal year. We also implemented price adjustments for the ethyleneamine derivatives Teda and Toyocat. Toyocat-DT, which is for electronic materials applications, continues to make strides as a developing new business.

With global demand for ethyleneamines growing at 3% annually and at between 3% and 5% in Asia, Tosoh is investing ¥23 billion in substantially increasing its yearly ethyleneamine manufacturing capacity by 36,000 metric tons. The expansion of the Company's ethyleneamine operations, based at the Nanyo Complex in Yamaguchi, Japan, will boost Tosoh's ethyleneamine capacity to 89,000 metric tons a year and further consolidate its position among the ranks of the world's top ethyleneamine manufacturers. Tosoh's annual sales of ethyleneamines are projected to exceed ¥30 billion following the expansion.

Bromine and Brominated Derivatives

Overseas and domestic shipments were strong for bromines and bromine-based flame retardants, and we successfully implemented price increases for those products domestically and abroad. Demand for bromine abroad is expected to grow at an annual pace of from 2% to 3%, and demand for bromine-based flame retardants should climb 4% to 5%. And we foresee overseas demand for purified terephthalic acid (PTA) catalysts rising 7%. Demand for these products in Japan, though, is expected to remain flat. Outside Japan, planned production capacity increases by foreign producers should absorb heightened demand.

Tosoh's Flamecut 120G, or tetrabromobisphenol A (TBBPA), shows promise among the Company's bromine-based retardants, with projections showing annual sales growth for this product. We are considering the further optimization of our operations in and the expansion of our production capacity for bromine-related retardants to leverage our strong positioning for these products in Asia's growth markets. Combined with our stable supply capabilities and the consistent quality of our products, this will contribute to our already high factory operating rates and the sale of our full production quantities.

Eco-business

Although higher raw materials costs put further pressure on our profits during the term under review, we did raise prices for our heavy metal treatment agents in fiscal 2007. Contrasted, however, with the recent shrinkage of the market for heavy metal treatment agents, the prospects for piperazine-based agents are promising. Rising numbers of manufacturers seek to change to piperazine-based agents for environmental reasons, and they will need to rely on the expertise of chemical manufacturers to make the transition.

Tosoh is projecting growth in the sales and profitability of its eco-business over the medium term. Our efforts to increase market share will include promoting the superior characteristics of our piperazine-based products, forging and strengthening collaborative relationships with companies involved in the construction of plants, and developing new technologies. The Company also plans to embark on a strategy to make better use of its patents. And in the market for hydrocarbons, the decision to ban or phase out hydrofluorocarbon solvents offers growth potential for Tosoh in high-precision cleaning markets. The Company is allocating resources to development and sales activities targeting hydrofluorocarbon users as potential customers.

Specialty Materials

The Specialty Group's Specialty Materials Division manufactures advanced materials and electronics products. It supplies those products to producers of consumer, industrial, and high-technology goods. Electrolytic manganese dioxide (EMD), ceramics, and zeolite—the core products of the division—are essential components of many electronics and high-tech products and industrial and environmentally related processes.

Zeolites

The Specialty Materials Division's fiscal 2007 sales of high-silica zeolites were driven by strong demand for petrochemical-related applications and for purification catalysts for automobile exhaust emission systems. Stricter emission standards, particularly for diesel engines, are expected to generate further growth in this market. Diesel vehicles represent more than 50% of new light-duty vehicle registrations in Europe, and this figure is expected to increase.

Sales of the division's Zeolum zeolite molecular sieves gained momentum in fiscal 2007 based on heightened demand for their gas separation and removal applications. And with demand for zeolite products overall expected to remain strong over the medium term, Tosoh announced the construction of new zeolite manufacturing facilities at its Yokkaichi Complex in Mie, Japan. The additional facilities, the construction of which will be completed in December 2008, will double the Company's zeolite production.

The Company also continues to funnel resources into zeolite R&D. The Specialty Materials Division, in turn, is gearing up its technical services to add value to zeolite applications, especially for the automotive and petrochemical industries.

Zirconia

Strong demand for zirconia in most markets during the year under review boosted shipments of this product in Japan and in other producer countries. Zirconia's use in structural materials and dental applications in particular is gaining momentum. Zirconia is also used as a raw material in manufacturing optical fiber connectors for communications networks worldwide. Meanwhile, Zirconia grinding media are finding new uses in medical and pigment fields. Tosoh, which already holds a dominant share of the world market for yttria-stabilized zirconia, has decided to expand its production capacity 50% to meet increasing demand for the product. And the Specialty Materials Division is intensifying its R&D with the aim of supplying customers with zirconia of improved strength and other characteristics.

Electrolytic Manganese Dioxide

EMD is a basic raw material for the manufacture of primary batteries, and Tosoh boasts the largest EMD production capacity in the world. Tosoh's EMD business, however, faced conditions in fiscal 2007 where cost increases for oil and for raw materials continued to have a negative impact on profitability. At the same time, markets for EMD in developed countries have matured, leading to declining demand. Demand for EMD in developing countries, though, is rising. And Tosoh expects this trend to continue for the next few years.

During the year under review, the Specialty Materials Division concentrated on maintaining stable supplies of EMD to its customers, improving the quality of its EMD, and strengthening its long-term relationships with its key EMD customers. Ongoing R&D is expected to further consolidate the division's customer relations. In particular, the division's development of high-performance battery materials is anticipated to sustain the growth of the consumer electronics market.

In Europe, where Tosoh Group company and EMD manufacturer Tosoh Hellas A.I.C. is located, an antidumping investigation was carried out by the European Union (EU) Commission. Japanese authorities, too, are examining whether any fair trade practices have been violated. The EU investigation is based on World Trade Organization (WTO) rules, and a definitive determination is expected before the end of calendar year 2008.

Electronic Materials

The Electronic Materials Division of the Specialty Group is a leading global provider of innovative, high-technology products and solutions. Its integrated silica glass business covers all the world's major geographical markets for semiconductors and optical devices. The division's thin film materials business is likewise as international and encompasses sputtering targets that are used in physical vapor deposition (PVD) and chemical vapor deposition (CVD) manufacturing processes for the semiconductor and flat-panel display (FPD) industries.

The semiconductor industry, which is among the Electronic Materials Division's main markets, is expected to achieve continued growth because of the increasing popularity of digital home appliances and mobile devices. In the year under review, however, prices for DRAM, Flash, and other memory products suffered from supply-demand imbalances. And as a result of overcapacity, declining prices for these products had a negative impact on the Electronic Materials Division's sales. These conditions are expected to persist through the first half of fiscal 2008. Consequently, decreases in the semiconductor equipment market are expected in fiscal 2008. Since many of Tosoh's products from the Electronic Materials Division work as an integral part of semiconductor manufacturing equipment, the decrease in this market will have a negative impact on the Company's net sales.

Conversely, thinner television models and heightened digitization are expected to sustain growth in the FPD market over the medium term. In fiscal 2007, though, the FPD market was characterized by oversupply and intense competition. Solid demand for our FPD products notwithstanding, these factors drove prices down and led to market deterioration. And this, too, helped to restrain the Electronic Materials Division's sales in 2007.

The market for the division's more-established products remained brisk. But the sputtering targets that the division furnishes for semiconductor applications fell prey to downward price pressure, exerted by the falling prices for memory products. In addition, a change in the FPD market away from metal sputtering targets led to a substantial decline in the division's shipments. So even though the division recorded increased sales of sputtering targets in general to customers in the semiconductor industry, its shipments of FPD-related sputtering targets dropped. And prices for the raw materials for metal sputtering targets are on the rise. The Electronic Materials Division has nevertheless secured multiple sources of those raw materials to ensure a stable supply should the FPD market rebound.

The division's shipments of silica glass materials and of fabricated, or machined, quartz to the semiconductor industry rose domestically and overseas during the first half of fiscal 2007. A downturn, however, was experienced in the second half of 2007. In addition, the oversupply of optical quartz products to the FPD market resulted in lower demand for those products during the year.

Through Tosoh Group member Tosoh SET, Inc., the Electronic Materials Division also provides refurbishment services for semiconductor manufacturing equipment. Formerly, these services involved subcontracting specialized cleaning. But in fiscal 2006, Tosoh decided to bring these outsourced services in-house and established Tosoh Advanced Parts Cleaning, Inc., for that purpose. Tosoh Advanced Parts Cleaning is located on the US East Coast and provides customers with semiconductor refurbishment and cleaning services.

The Electronic Materials Division is embarking on a strategy aimed at doubling its sales. The strategy involves mergers and acquisitions; investments in new facilities in Asia, particularly in Korea, Taiwan, and China; and the launch of new technologies and products in conjunction with aggressive regional business development teams. The division consequently anticipates continued advances in its performance, not least because growth in demand for flat-screen televisions and digital home appliances appears to be a long-term trend.

Bioscience

Tosoh's Bioscience Division is a leader in global markets for high-performance liquid chromatography (HPLC) systems and analytical columns. The division's diagnostics systems also are increasingly popular. Advanced immunoassay technologies underpin those systems to facilitate the quick diagnoses of such life-threatening diseases as diabetes, certain cancers, and microbial infections.

The Bioscience Division's integration of its systems' hardware and software with Tosoh's global customer support capabilities heightens the availability of the consumables used by and optimizes the value of those systems. The division's rising prominence in diagnostics is the result of internal growth, acquisitions, and strategic alliances that provide an international network and access to cutting-edge technologies in such new areas as genetic diagnostics. In vitro diagnostic systems that are faster, smaller, and easier to use are the theme for future development.

The Bioscience Division posted favorable results in fiscal 2007. Sales rose for all four of the division's main product lines: separation media, clinical HPLC systems, immuno diagnostics, and molecular testing. With the exception of molecular testing, each product line contributes approximately one-third to corporate net sales.

In the market for separation media, the domestic and overseas sales of analytical columns for HPLC systems registered steady expansion. The Japanese market for gel permeation chromatography (GPC) systems was driven by demand from the electronic materials and LCD industries. The ion chromatography (IC) market in Japan, by contrast, was relatively flat amid stiff price competition.

Although the worldwide automated immunoassay (AIA) analyzer market edged slightly downward, the Bioscience Division shipped large quantities of in vitro diagnostic reagents to customers in Japan and overseas. The division expanded its reagent sales volume and the customer base for its AIA-1800, AIA-600 II, and AIA-360 analyzer models. And to improve its ability to supply demand, the division increased the production capacity for AIA diagnostic reagents at its Toyama plant almost 50% in fiscal 2007.

The division's shipments of its automated glycohemoglobin (GHb) analyzer and of reagents for diagnosing diabetes also registered solid growth in fiscal 2007. Tosoh's automated GHb analyzer has met with a highly favorable customer reception in Japan, contributing to the Company's ability to maintain a 52% domestic market share and the number two position worldwide in automated GHb analyzers. These devices are used to screen for and to monitor diabetes mellitus, and the number of GHb tests in Japan is anticipated to jump substantially with the start of metabolic syndrome testing from April 2008. The Japanese government has launched a campaign to alert the public to this syndrome.

Tosoh, moreover, is broadening its bioscience activities outside Japan. In the year under review, Tosoh (Shanghai) Co., Ltd., established a technical service center in China to support the launch of Tosoh's bioscience products in that nation and to provide customer support for those products.

The Bioscience Division foresees continued improvement in its performance. In fiscal 2008, in fact, the division will further implement a strategy to double its sales by 2010.

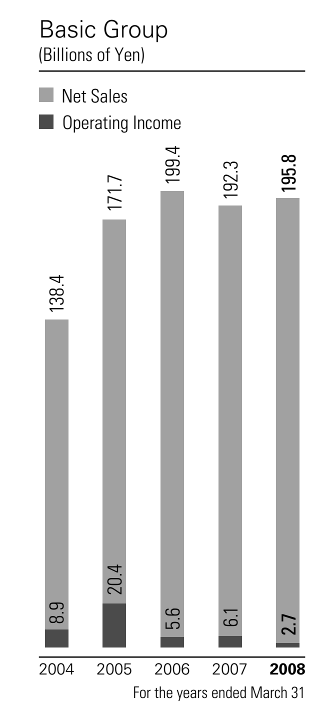
Basic Group

Net sales for the Basic Group were up 1.8%, or ¥3,454 million, over fiscal 2006, to ¥195,788 million (US$1,954.2 million). As a result of a price increase for feedstocks and a higher depreciation burden, the group's operating income decreased 56.1%, or ¥3,428 million, to ¥2,680 million (US$26.7 million).

Chlor-alkali

The Basic Group's Chlor-alkali Division manufactures value-added products, including VCM, PVC, and ethyleneamines. The division's strength in chlor-alkali products is a competitive advantage for Tosoh in expanding the product range of the Company's vinyl isocyanate chain to include, for example, urethane and urethane-related products.

Since fiscal 2006, Tosoh has invested in furthering its relationship with Nippon Polyurethane Industry Co., Ltd. Tosoh made NPU a consolidated subsidiary with its acquisition of a 51.7% stake in NPU in fiscal 2006 and raised that stake to 80.3% in May 2008. The ever-closer relationship is accelerating Tosoh's vinyl isocyanate strategy and is helping to strengthen NPU's ties with the Basic Group and, specifically, with its Chlor-alkali Division just as the Company positions itself for a more-competitive presence in Asia's polyurethane industry.



In fiscal 2007, a power failure at the Nanyo Complex, Tosoh's main production hub, had a negative impact on the Chlor-alkali Division's caustic soda production. Fortunately, robust demand and the division's subsequent expansion of its production capacity and increased export shipment volumes offset problems caused by the power failure. Overseas markets showed especially strong growth in demand for caustic soda. And in Japan, where Tosoh commands an approximately one-quarter share of caustic soda production capacity, rising costs for raw materials allowed the division's implementation of price adjustments for caustic soda.

The power failure at the Nanyo Complex, however, did result in a decrease in shipment volumes for VCM, market growth abroad notwithstanding. Export shipments of PVC resins, though, increased. But Japanese domestic shipments of PVC declined amid stagnant demand.

Rising fuel costs drove up prices for PVC resins in Japan and elsewhere in the world. Projections show that the market for PVC resins is nonetheless growing at a pace of 8% in Asia as a whole and of 12% in China. To supply rising demand, Tosoh constructed and launched a 220,000-metric-ton PVC plant in China in fiscal 2007.

The Chlor-alkali Division, in the meantime, is intent on maximizing its earnings by maintaining its comprehensive capabilities in electrolysis and in producing and marketing VCM. Rising demand for VCM in Asia presents an outstanding business opportunity, and the division is moving to enhance its position throughout Tosoh's vinyl isocyanate chain.

Among the division's other operations is its supply of the raw materials for NPU's production of MDI, the raw material for polyurethanes. NPU has doubled its MDI production capacity from 200,000 metric tons to 400,000 metric tons a year, and the Chlor-alkali Division has followed suit by doubling its production capacities for the MDI raw materials that it supplies to NPU.

Tosoh supported these capacity increases by constructing facilities to boost aniline production to 300,000 metric tons annually and to increase carbon monoxide production to 16,000 normal cubic meters per hour (Nm3/h). In addition, the Company bolstered its in-house power generation infrastructure in April 2008, raising capacity to 1,035,000 kilowatts. This, in turn, assisted the Chlor-alkali Division's expansion of its caustic soda production capacity from 1,205,000 metric tons to 1,375,000 metric tons a year.

Cement

The ability of the Cement Division to utilize waste and by-products from various operations in cement production complements its logistical strength in integrating its cement manufacturing capabilities with Tosoh's other operations.

Japan's implementation of the Revised Building Standard Law adversely affected private-sector domestic demand for cement during the year under review. The Cement Division's difficulties were compounded by the continuing decline in public works projects, which likewise resulted in a decrease in cement shipments.

On the brighter side, the Cement Division did apply domestic cement price increases to help cover profit erosion resulting from the steep rise in the price of coal. So although exports of cement remained flat, cement prices rose.

Looking forward to fiscal 2008, the downward trend for public demand is expected to continue because of the Japanese government's commitment to reduce public works investment.

Although the Revised Building Standard Law will continue to exert pressure on private-sector market growth, a recovery in the housing markets is expected to result in a slight increase for domestic demand. The Cement Division will continue to implement a cement price structure domestically that better reflects the rising cost of coal.

Demand for cement is expected to remain robust abroad. But rising production and freight costs and increasing competition from cement makers in other countries will make competition more severe in the Company's export markets. Heightened competition also means that price increases for exports will be difficult to implement.

The Cement Division is responding to its harsh business conditions with a medium- to long-term strategy. That plan incorporates further cost reductions in cement operations and intensified industrial waste recycling efforts.

Petrochemical Group

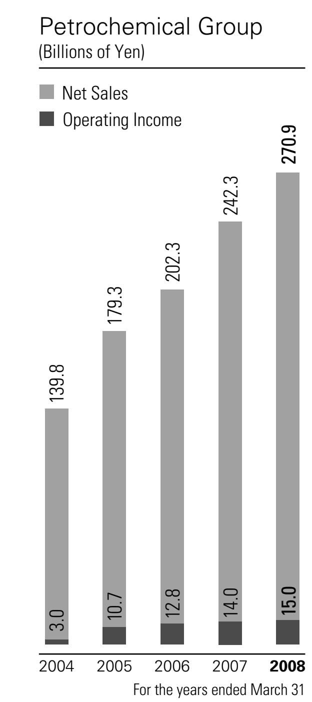
Petrochemical Group net sales increased 11.8%, or ¥28,590 million, compared with the previous fiscal year, to ¥270,881 million (US$2,703.7 million). Operating income likewise increased, 6.9%, or ¥966 million, to ¥15,013 million (US$149.8 million).

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. And the Olefins Division of the Petrochemical Group works ceaselessly to strengthen competitiveness throughout the Company by maintaining a stable supply of high-quality, cost-competitive olefins and their derivatives.

Tosoh's olefin operations again faced high raw materials prices in fiscal 2007. Naphtha reached as high as ¥66,700 a kiloliter in the fourth quarter, up steeply from ¥48,800 a kiloliter in the same period the previous year.

The Olefins Division responded to the resulting higher production costs by implementing domestic price increases for ethylene, propylene, and aromatic compounds. At the same time, it cut costs by, among other strategies, diversifying its raw materials. Markets abroad, meanwhile, grew for cumene and styrene monomer.



In the year under review, Tosoh completed a ¥3 billion investment to expand the division's cumene production capacity. It also upgraded production facilities to take advantage of high-performance catalysts. These initiatives resulted in a 30% production capacity expansion for cumene, from 230,000 metric tons to 300,000 metric tons annually. The decision to expand was made to enhance Tosoh's ability to supply the burgeoning calls for phenol, which accounts for more than 90% of Asia's cumene requirements.

The Olefins Division responded to price fluctuations in fiscal 2007 by maximizing its flexibility in making use of less-costly grades of naphtha and by using non-naphtha alternatives. The latter especially is reducing the costs of cracker raw materials. The division also began using liquid natural gas (LNG) in September 2007 as a cost-effective fuel, establishing a higher-value-added structure and freeing up hydrogen, C4, and C5 for sale to customers. In addition, the division has begun operating facilities for hydrogenating the C5 fraction, and this has further lowered raw materials costs and enhanced divisional efficiency. An increase in fluid catalytic cracking (FCC) propylene is expected to result in the production of more-competitive cumene products beginning in the fourth quarter of fiscal 2008.

Polymers

The products of the Petrochemical Group's Polymers Division are used in a vast array of industries, ranging from food packaging to agriculture, engineering, and distribution. Customers appreciate the quality of Tosoh's polyethylene, and the division is ensuring that the Company garners an enlarged share of the markets for functional polymers, including synthetic rubber and adhesives.

Spikes in raw materials prices and rapid fluctuations in exchange rates presented challenging operating conditions for the Polymers Division in fiscal 2007. The high cost of naphtha, however, did allow for the implementation of price adjustments. Polyethylene, a main product of the division, witnessed an increase in shipments in Japan but a drop off in shipments overseas.

Chloroprene rubber's heightened demand overseas saw that product lead the growth of the Tosoh product lineup in the Polymers Division. The Company thus expanded the Polymers Division's chloroprene rubber production capacity from 30,000 metric tons to 34,000 metric tons during the year under review. In addition to meeting growing demand for this material, the division is directing resources into developing new latex grades and additional automotive applications.

The division also achieved progress in developing a sealant for paper and for polyethylene (PE) and carrier tape applications that is expected to generate sales. Tosoh holds major market shares as a supplier of low-density polyethylene (LDPE); linear low-density polyethylene (LLDPE); and ethylene vinyl acetate copolymer (EVA) raw materials. This business registered further gains in fiscal 2007. The division's shipments of PE were especially strong. The PE market, however, is expected to soften in fiscal 2008.

Melthene, another of the division's products, also experienced growth in sales and the opening of new markets. The introduction, though, of all-in-one cap liners is pressuring the division to develop more applications for Melthene.

Demand abroad for chlorosulphonated polyethylene Toso-CSM resulted in increased sales of this product line. And Toso-CSM demand is expected to rise over the medium term. Despite its slow recovery from the losses incurred during the IT downturn that ended in 2002, the polyphenylene sulfide resins (PPS) market likewise is growing. Projections show demand for PPS hitting a global average of 6%. The Polymers Division is therefore putting resources into developing specialty PPS grades to increase the Company's competitiveness in this product.

Divisional performances in C9 and C5 petro-carbon resins were on target during fiscal 2007, with substantial gains in profitability. Polyvinyl chloride (PVC) paste also made great strides in profitability despite facing decreasing demand in Japan, a steep increase in raw materials prices, and high fixed costs. The division was able to expand its domestic PVC shipments, the downturn in demand notwithstanding, and to introduce a price increase for PVC paste.

During the year under review, the division witnessed the opening of several major new plants for general-purpose polymers in Asia and the emergence onstream of large polymer facilities in various locations in the Middle East. As a result, it continues to shift toward specialization in the IT, medical, and food industries, among others. New IT applications for PE and EVA include masking films and membranes for solar cells and even more-sophisticated laminate products, a field in which Tosoh holds a major share of Japan's market.

Service Group

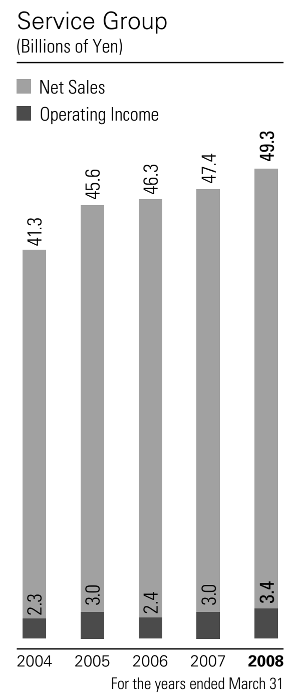
Net sales by the Service Group increased 4.0%, or ¥1,904 million, over a year earlier, to ¥49,274 million (US$491.8 million), with both trading and logistics companies posting sales gains. The group's operating income also increased, 14.3%, or ¥425 million, to ¥3,390 million (US$33.8 million).

The Service Group comprises primarily logistics, construction, engineering support, and related services. It is an autonomous group whose role is to support Tosoh's other business groups to ensure a cost-efficient concentration of resources and expertise. The Service Group also offers financial services in Japan, a function undertaken by regional service platforms elsewhere.

Tosoh's operational growth hinges largely on the efforts of Tosoh Logistics Corporation. To meet the logistical demands of Tosoh's expansion, Tosoh Logistics has moved into China in support of Tosoh (Guangzhou) Chemical Industries, Inc. In fiscal 2007, the sales and profits of Tosoh Logistics reflected the growth of the Tosoh Group. The Tosoh Group expanded its basic chemical operations during the year under review, and with that growth comes, naturally, a dramatic increase in the services the company provides to the members of the Tosoh Group. Projections show this growth in sales and profits continuing in fiscal 2008.

Tosoh Analysis and Research Center Co., Ltd. (TARC), recorded slightly increased sales for the year under review but a substantial rise in profits. TARC provides the Tosoh Group and companies worldwide with a range of sophisticated analytical services. And TARC's business with the Tosoh Group remains brisk, with further growth in its profits and sales projected for the years ahead.

Tosoh Information Systems Corporation assists Tosoh Group members and various other companies with IT solutions. Its sales were brisk in fiscal 2007, but a drop in development as a result of completing the Tosoh Group's new enterprise resource planning (ERP) system will cause a decline in this company's sales and profits for fiscal 2008. The company nevertheless will introduce various IT systems to strengthen the infrastructure and improve the efficiency of operations at Tosoh Group companies.



Tosoh General Service Co., Ltd., which provides support for personnel management, employee benefit administration, and training activities, also recorded slightly higher sales and profits in fiscal 2007. That growth, however, is expected to level off in fiscal 2008.

Financial Review

Net Sales

During fiscal year 2007, ended March 31, 2008, Tosoh Corporation's consolidated net sales increased 5.9%, to ¥827.4 billion (US$8,258 million). The increase can be mainly attributed to strong demand abroad and the growing impact of price increases in many product categories in response to the worldwide surge in oil and raw materials costs.

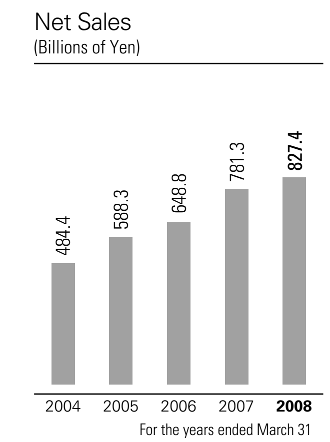
Growth in our consolidated net sales of core products, such as polyvinyl chloride resins and urethane materials, was strong abroad. And domestically we implemented price adjustments for these products to better reflect the high cost of naphtha. Our expansion of our specialty operations also supported the rise in sales.

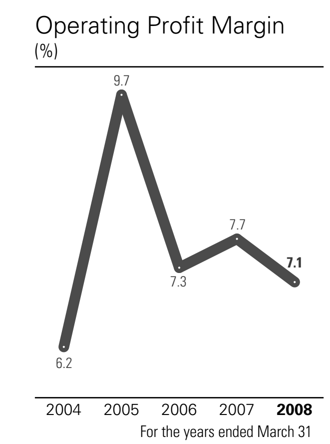
The yen, meanwhile, appreciated substantially against the US dollar during the year under review. But the effect on the translation of overseas sales into yen was minor compared with other factors.

Sales by business segment were as follows:

	Millions of Yen		% Change
Years ended March 31,	**2008**	2007	2008 / 2007
Specialty Group	**¥ 311,452**	¥ 299,352	4.0
Basic Group	**195,788**	192,334	1.8
Petrochemical Group	**270,881**	242,291	11.8
Service Group	**49,274**	47,370	4.0

Overseas sales, defined as export sales and sales outside Japan by overseas subsidiaries, increased 5.0%, to ¥279.0 billion (US$2,784 million). As a proportion of consolidated net sales, overseas sales decreased to 33.7%, from 34.0% in the previous fiscal year. Sales in Asia increased 0.6% year on year, to ¥198.9 billion (US$1,985 million), and represented 24.0% of consolidated net sales, compared with 25.3% in the previous fiscal year. Asia remains a strategic growth region for Tosoh, and the Company continues to invest in building its manufacturing and sales presence in Asia, especially in China.





Operating Expenses and Operating Income

Cost of sales increased 6.8% over the amount for fiscal year 2006, to ¥662.1 billion (US$6,608 million), and represented 80.0% of net sales, compared with 79.4% for the previous fiscal year. Despite continued increases in raw materials costs, growth in the cost of sales was approximately the same as that of net sales because of price increases and continued cost-reduction efforts. The average price of naphtha, which has a pronounced effect on the costs of the Tosoh Group, rose to ¥61,450 per kiloliter, from ¥49,950 per kiloliter for fiscal year 2006.

The yen's appreciation, however, relative to the US dollar in fiscal 2007 lowered Tosoh's cost of sales because petroleum derivatives are typically denominated in US dollars. The average exchange rate during the year was ¥114.44, compared with ¥116.97 for the year before.

Gross profit increased 2.5% year on year, to ¥165.3 billion (US$1,650 million). This represented 20.0% of net sales, compared with 20.6% for the previous fiscal year.

Selling, general and administrative (SG&A) expenses increased 5.1% over the figure for fiscal 2006, to ¥106.2 billion (US$1,060 million). SG&A expenses represented 12.8% of net sales. Among SG&A expenses, R&D expenditures totaled ¥13.6 billion (US$136 million), up from ¥12.7 billion for the previous fiscal year.

Operating income decreased slightly, to ¥59.1 billion (US$590 million). This constituted 7.1% of net sales, compared with 7.7% in fiscal 2006.

Operating income by business segment was as follows:

	Millions of Yen		% Change
Years ended March 31,	**2008**	2007	2008 / 2007
Specialty Group	**¥ 38,025**	¥ 37,159	2.3
Basic Group	**2,680**	6,108	(56.1)
Petrochemical Group	**15,013**	14,047	6.9
Service Group	**3,390**	2,965	14.3

Other Income and Expenses

Interest and dividend income increased slightly year on year, to ¥1.3 billion (US$13 million). The lack of growth in dividends from investments reflected the waning economic recovery in Japan. Foreign exchange gains, meanwhile, recorded a net loss of ¥3,579 billion (US$36 million), which primarily reflects the effect of the appreciation in the value of the yen when the US dollar earnings of overseas Group companies were translated into yen.

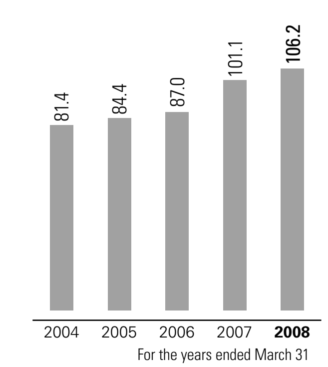
Interest expense increased 23.8%, to ¥6.2 billion (US$61 million). The interest coverage ratio, defined as the sum of operating income and interest and dividend income divided by interest expense, was 9.8 times, compared with 12.4 times in the previous fiscal year.

Our loss on disposal of property, plant and equipment increased 17.4%, to ¥1.6 billion (US$16 million). As a result, the Company recorded a net deficit for other expenses of ¥11.9 billion (US$118 million), compared with ¥4.8 billion in fiscal 2006. Income before income taxes and minority interests decreased 14.8% year on year, to ¥47.3 billion (US$472 million).

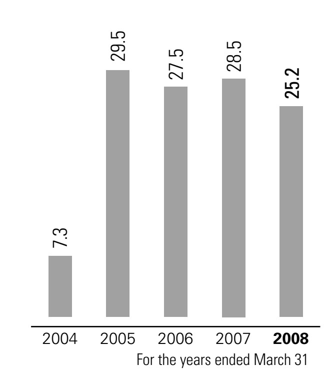
Net Income

Income taxes net of deferrals decreased 14.9%, to ¥20.2 billion (US$202 million). Net income decreased 11.6% year on year, to ¥25.2 billion (US$251 million), and net income per share moved down, to ¥42.05 (US$0.42), from ¥47.60 for the previous fiscal year. The Company paid cash dividends of ¥8.00 (US$0.08) per share.

SG&A Expenses
(Billions of Yen)



Net Income
(Billions of Yen)



Liquidity and Capital Resources

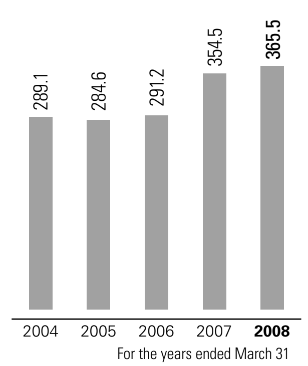
Current assets as of March 31, 2008, increased 2.0% from a year earlier, to ¥377.5 billion (US$3,767 million). This gain primarily reflected growth in cash and cash equivalents, an increase in inventories, and deferred tax assets. Current liabilities increased 4.4% over the previous fiscal year, to ¥373.6 billion (US$3,728 million). Working capital, therefore, totaled ¥3.9 billion (US$39 million), compared with ¥12.5 billion a year earlier. The current ratio was 1.01 times.

Property, plant and equipment increased 8.5%, to ¥341.5 billion (US$3,408 million), on account of our ongoing consolidation of NPU and our increased capital investment in an MDI manufacturing plant at NPU and in an aniline production facility and electric power plant at the Nanyo Complex. Total assets increased 3.6% from a year earlier, to ¥817.0 billion (US$8,154 million), primarily because of the factors discussed above. Return on average total assets was 3.1%, compared with 4.0% for the previous fiscal year.

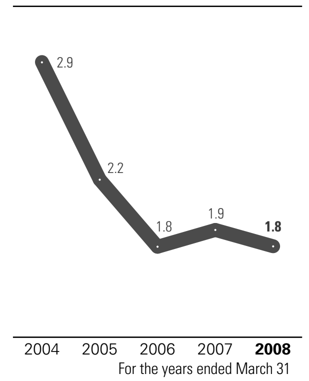
Interest-bearing debt increased to ¥365.5 billion (US$3,648 million) as of March 31, 2008, from ¥354.5 billion at the previous fiscal year-end. The increase was primarily because of short-term bank loans to fund normal working capital requirements. In addition, Tosoh supplemented internal capital resources with the net proceeds from long-term debt to fund investment in several projects, primarily the capacity expansions discussed earlier.

Total shareholders' equity increased 11.2% year on year, to ¥194.1 billion (US$1,937 million). Retained earnings increased ¥19.7 billion from a year earlier, to ¥124.1 billion (US$1,239 million). Net unrealized holding gains on securities decreased 56.9%, to ¥4.8 billion (US$48 million). Foreign currency translation adjustments, primarily representing the effect of exchange rates on the net assets of overseas Group companies, reduced net assets ¥1.1 billion (US$11 million), compared with ¥1.6 billion a year earlier. Total net assets increased 6.4% year on year, to ¥242.4 billion (US$2,419 million). Net assets per share totaled ¥331.69 (US$3.31), compared with ¥308.81 a year earlier. Return on average total net assets was 10.7%. And the net assets ratio was 29.7%, compared with 28.9% in fiscal 2006.

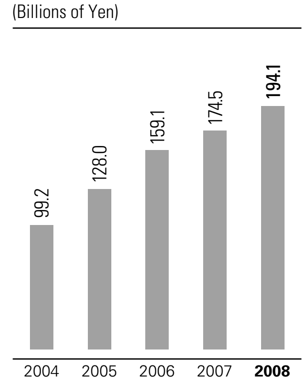
Interest-Bearing Debt
(Billions of Yen)



Debt-to-Equity Ratio
(Times)



Total Shareholders' Equity
(Billions of Yen)



Cash Flows

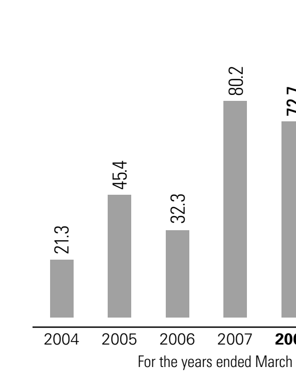
Net cash provided by operating activities increased 21.6%, to ¥62.2 billion (US$620 million). This was attributed to an increase in depreciation and amortization and a decrease in trade receivables.

Net cash used in investing activities decreased 22.0% year on year, to ¥66.5 billion (US$664 million). The Tosoh Group continued to invest in growth opportunities, especially in its vinyl isocyanate chain. Payments for purchases of property, plant and equipment totaled ¥66.2 billion (US$660 million), compared with ¥79.4 billion for the previous fiscal year. Purchases of investment securities amounted to ¥2.5 billion (US$25 million), a drop from ¥7.6 billion a year before. Payments for advances of long-term loans receivable totaled ¥4.4 billion (US$44 million).

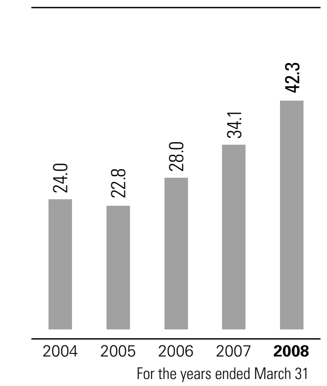
Net cash used in financing activities totaled ¥5.3 billion (US$53 million), compared with ¥42.3 billion in the previous fiscal year. Net proceeds from long-term debt totaled ¥11.4 billion (US$114 million), down from ¥28.1 billion in fiscal 2006. Tosoh's long-term debt consists primarily of loans from banks and other financial institutions.

Cash and cash equivalents at the end of the year totaled ¥27.3 billion (US$272 million). This was up ¥376 million from the previous fiscal year-end.

Capital Expenditures
(Billions of Yen)



Depreciation and Amortization
(Billions of Yen)



Tosoh Corporation
Consolidated Balance Sheets

Years ended March 31, 2008 and 2007

	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
ASSETS			
Current assets:			
Cash and cash equivalents (Note 7)	¥ 27,287	¥ 26,911	$ 272,353
Marketable securities (Note 5)	8	52	80
Trade receivables, less allowance for doubtful accounts (Notes 3 and 7)	196,880	205,938	1,965,066
Inventories (Note 4)	129,683	114,228	1,294,371
Deferred tax assets (Note 11)	8,223	6,885	82,074
Other current assets	15,384	16,184	153,548
Total current assets	377,465	370,198	3,767,492
Investments:			
Investment securities (Notes 5 and 7)	30,892	40,116	308,334
Investments in affiliates (Note 5)	22,823	24,457	227,797
Long-term loans receivable	728	775	7,266
Other	19,793	16,251	197,555
Total investments	74,236	81,599	740,952
Property, plant and equipment—net (Notes 6 and 7)	341,481	314,706	3,408,334
Other assets:			
Deferred tax assets (Note 11)	9,502	8,678	94,840
Intangibles	14,310	13,337	142,829
Total other assets	23,812	22,015	237,669
Total assets	¥ 816,994	¥ 788,518	$ 8,154,447

The accompanying notes are an integral part of these statements.

	Millions of Yen 2008	Millions of Yen 2007	Thousands of U.S. Dollars (Note 1) 2008
LIABILITIES AND NET ASSETS			
Current liabilities:			
Short-term bank loans (Note 7)	¥ 137,739	¥ 138,022	$ 1,374,778
Current maturities of long-term debt (Note 7)	57,743	46,479	576,335
Trade payables	121,466	117,316	1,212,357
Income taxes payable	9,912	15,791	98,932
Deferred tax liabilities (Note 11)	1	4	10
Other current liabilities	46,690	40,062	466,014
Total current liabilities	373,551	357,674	3,728,426
Long-term liabilities:			
Long-term debt, less current maturities (Note 7)	170,010	169,965	1,696,876
Retirement and severance benefits (Note 8)	18,893	20,934	188,572
Retirement benefits for directors and corporate auditors	629	740	6,278
Deferred tax liabilities (Note 11)	5,575	7,281	55,644
Provision for losses on dissolution of business	3,570	—	35,632
Other long-term liabilities	2,404	4,155	23,995
Total long-term liabilities	201,081	203,075	2,006,997
Total liabilities	574,632	560,749	5,735,423
Contingent liabilities (Note 9)			
Shareholders' equity:			
Common stock: Authorized—1,800,000,000 shares; Issued—601,161,912 shares	40,634	40,634	405,569
Capital surplus	30,290	30,285	302,326
Retained earnings	124,125	104,409	1,238,896
Treasury stock, 2,395,205 shares in 2008 and 2,167,270 shares in 2007	(951)	(792)	(9,492)
Total shareholders' equity	194,098	174,536	1,937,299
Valuation and translation adjustments:			
Net unrealized holding gains on securities	4,827	11,190	48,179
Deferred gains (losses) on hedges	(14)	6	(140)
Land revaluation reserve	816	817	8,145
Foreign currency translation adjustments	(1,120)	(1,575)	(11,179)
Total valuation and translation adjustments	4,509	10,438	45,005
Stock acquisition rights (Note 14)	144	75	1,437
Minority interests	43,611	42,720	435,283
Total net assets	242,362	227,769	2,419,024
Total liabilities and net assets	¥ 816,994	¥ 788,518	$ 8,154,447

Tosoh Corporation
Consolidated Statements of Income

Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Net sales (Note 12)	¥ 827,395	¥ 781,347	$ 8,258,259
Cost of sales	662,073	619,999	6,608,174
Gross profit	165,322	161,348	1,650,085
Selling, general and administrative expenses	106,214	101,069	1,060,126
Operating income (Note 12)	59,108	60,279	589,959
Other income (expenses):			
Interest and dividend income	1,333	1,237	13,305
Foreign exchange gains (losses), net	(3,579)	781	(35,722)
Reversal of allowance for retirement and severance benefits (Note 8)	1,024	—	10,221
Interest expense	(6,152)	(4,970)	(61,403)
Equity in losses of affiliates	(469)	(553)	(4,681)
Loss on disposal of property, plant and equipment	(1,611)	(1,372)	(16,080)
Provision for losses on dissolution of business	(3,570)	—	(35,632)
Surcharge	(781)	—	(7,795)
Other, net	1,951	79	19,472
Income before income taxes and minority interests	47,254	55,481	471,644
Income taxes:			
Current	19,797	21,776	197,595
Deferred (Note 11)	446	2,023	4,452
Minority interests	(1,828)	(3,194)	(18,245)
Net income	¥ 25,183	¥ 28,488	$ 251,352

Per share of common stock:	Yen		U.S. Dollars (Note 1)
Net income—primary	¥ 42.05	¥ 47.60	$ 0.42
Net income—diluted	42.03	47.59	0.42
Cash dividends applicable to the year	¥ 8.00	¥ 8.00	$ 0.08

The accompanying notes are an integral part of these statements.

Tosoh Corporation
Consolidated Statements of Changes in Net Assets

Millions of Yen

	Shareholders' equity					Valuation and translation adjustments							
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Deferred gains (losses) on hedges	Land revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2006	¥ 40,634	¥ 29,971	¥ 79,765	¥ (1,026)	¥ 149,344	¥ 12,982	¥ —	¥ —	¥ (3,214)	¥ 9,768	¥ —	¥ 26,090	¥ 185,202
Net income			28,488		28,488								28,488
Cash dividends			(3,600)		(3,600)								(3,600)
Bonuses paid to directors and corporate auditors			(167)		(167)								(167)
Increase due to increase in consolidated subsidiaries			49		49								49
Decrease due to changes in shareholding ratio			(126)		(126)								(126)
Purchase of treasury stock				(120)	(120)								(120)
Increase of treasury stock due to changes in shareholding ratio				(70)	(70)								(70)
Disposal of treasury stock		314		424	738								738
Other, net						(1,792)	6	817	1,639	670	75	16,630	17,375
Balance at March 31, 2007	40,634	30,285	104,409	(792)	174,536	11,190	6	817	(1,575)	10,438	75	42,720	227,769
Net income			25,183		25,183								25,183
Cash dividends			(5,397)		(5,397)								(5,397)
Decrease due to changes in shareholding ratio			(70)		(70)								(70)
Purchase of treasury stock				(209)	(209)								(209)
Increase of treasury stock due to changes in shareholding ratio				(6)	(6)								(6)
Disposal of treasury stock		5		56	61								61
Other, net						(6,363)	(20)	(1)	455	(5,929)	69	891	(4,969)
Balance at March 31, 2008	¥ 40,634	¥ 30,290	¥ 124,125	¥ (951)	¥ 194,098	¥ 4,827	¥ (14)	¥ 816	¥ (1,120)	¥ 4,509	¥ 144	¥ 43,611	¥ 242,362

Thousands of U.S. Dollars (Note 1)

	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity	Net unrealized holding gains on securities	Deferred gains (losses) on hedges	Land revaluation reserve	Foreign currency translation adjustments	Total valuation and translation adjustments	Stock acquisition rights	Minority interests	Total net assets
Balance at March 31, 2007	$ 405,569	$ 302,276	$ 1,042,110	$ (7,905)	$ 1,742,050	$ 111,688	$ 60	$ 8,155	$ (15,720)	$ 104,183	$ 749	$ 426,390	$ 2,273,372
Net income			251,352		251,352								251,352
Cash dividends			(53,867)		(53,867)								(53,867)
Decrease due to changes in shareholding ratio			(699)		(699)								(699)
Purchase of treasury stock				(2,086)	(2,086)								(2,086)
Increase of treasury stock due to changes in shareholding ratio				(60)	(60)								(60)
Disposal of treasury stock		50		559	609								609
Other, net						(63,509)	(200)	(10)	4,541	(59,178)	688	8,893	(49,597)
Balance at March 31, 2008	$ 405,569	$ 302,326	$ 1,238,896	$ (9,492)	$ 1,937,299	$ 48,179	$ (140)	$ 8,145	$ (11,179)	$ 45,005	$ 1,437	$ 435,283	$ 2,419,024

The accompanying notes are an integral part of these statements.

Tosoh Corporation
Consolidated Statements of Cash Flows

Years ended March 31, 2008 and 2007

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Cash flows from operating activities:			
Income before income taxes and minority interests	**¥ 47,254**	¥ 55,481	**$ 471,644**
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	**43,622**	35,373	**435,393**
Decrease in retirement and severance benefits	**(5,187)**	(4,158)	**(51,772)**
Interest and dividend income	**(1,333)**	(1,237)	**(13,305)**
Interest expense	**6,152**	4,970	**61,403**
Equity in losses of affiliates	**469**	553	**4,681**
Loss on disposal of property, plant and equipment	**1,611**	1,372	**16,080**
(Increase) decrease in trade receivables	**9,008**	(35,270)	**89,909**
Increase in inventories	**(15,616)**	(12,485)	**(155,864)**
Increase in trade payables	**3,955**	20,714	**39,475**
Other, net	**1,610**	5,294	**16,070**
Subtotal	**91,545**	70,607	**913,714**
Interest and dividends received	**2,257**	2,028	**22,527**
Interest paid	**(5,988)**	(4,768)	**(59,766)**
Income taxes paid	**(25,648)**	(16,740)	**(255,994)**
Net cash provided by operating activities	**62,166**	51,127	**620,481**
Cash flows from investing activities:			
Payments for purchases of property, plant and equipment	**(66,153)**	(79,428)	**(660,276)**
Purchases of investment securities	**(2,523)**	(7,636)	**(25,182)**
Proceeds from sales of investment securities	**1,648**	1,993	**16,449**
Proceeds from acquisition of consolidated subsidiaries—net	**—**	3,566	**—**
Payments for advances of long-term loans receivable	**(4,368)**	(4,834)	**(43,597)**
Proceeds from collections of long-term loans receivable	**3,906**	3,254	**38,986**
Other, net	**1,009**	(2,146)	**10,071**
Net cash used in investing activities	**(66,481)**	(85,231)	**(663,549)**
Cash flows from financing activities:			
Net increase in short-term bank loans	**55**	13,158	**549**
Proceeds from long-term debt	**59,301**	74,702	**591,885**
Repayments of long-term debt	**(47,905)**	(46,635)	**(478,142)**
Cash dividends paid	**(6,094)**	(4,579)	**(60,824)**
Contribution from minority shareholders	**100**	4,833	**998**
Other, net	**(146)**	869	**(1,457)**
Net cash used in financing activities	**5,311**	42,348	**53,009**
Effect of exchange rate changes on cash and cash equivalents	**(620)**	131	**(6,188)**
Net increase in cash and cash equivalents	**376**	8,375	**3,753**
Cash and cash equivalents at beginning of year	**26,911**	18,409	**268,600**
Increase in cash and cash equivalents resulting from changes in number of consolidated subsidiaries	**—**	127	**—**
Cash and cash equivalents at end of year	**¥ 27,287**	¥ 26,911	**$ 272,353**

The accompanying notes are an integral part of these statements.

Tosoh Corporation
Notes to Consolidated Financial Statements

NOTE 1—BASIS OF PRESENTING CONSOLIDATED FINANCIAL STATEMENTS

Tosoh Corporation (the "Company") and its consolidated domestic subsidiaries maintain their accounts and records in accordance with the provisions set forth in the Financial Instruments and Exchange Law of Japan 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 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 Financial Instruments and Exchange Law of Japan. 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, 2008, which was ¥100.19 to U.S. $1.00. The translations should not be construed as representations that the Japanese yen amounts have been, could have been, or could in the future be converted into U.S. dollars at this or any other rate of exchange.

NOTE 2—SUMMARY OF ACCOUNTING POLICIES

Consolidation and investments

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

Investments in unconsolidated subsidiaries and affiliates are, with minor exceptions, accounted for by the equity method. Equity in earnings of unconsolidated subsidiaries and affiliates has been calculated by excluding unrealized intercompany profits.

In the elimination of investments in subsidiaries, the assets and liabilities of the subsidiaries, including the portion attributable to minority shareholders, are evaluated using the fair value at the time the Company acquired control of the respective subsidiaries.

Translation of foreign currencies

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

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

Cash and cash equivalents

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

Securities

Securities are classified into one of the following categories based on the intent of holding, resulting in the different measurement and accounting for the changes in fair value. Held-to-maturity debt securities are stated at amortized cost. Equity securities issued by subsidiaries and affiliated companies, which are not consolidated or accounted for using the equity method, are stated at moving-average cost. Available-for-sale securities with available fair market values are stated at fair market value. Unrealized gains and unrealized losses on these securities are reported, net of applicable income taxes, as a separate component of net assets. Other available-for-sale securities with no available fair market values are stated at moving-average cost.

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

Allowance for doubtful accounts

The Company and its consolidated subsidiaries (the "Companies") provide the allowance for doubtful trade receivables by individually estimating uncollectible amounts and for normal receivables based on the Companies' historical experience of write-offs of such receivables.

Inventories

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

Property, plant and equipment, and depreciation

Property, plant and equipment are stated at cost. Cumulative amounts of impairment losses recognized have been deducted from acquisition costs. Depreciation is principally computed over the estimated useful lives of the assets on the declining basis. However the straight-line basis is applied to buildings. Repairs, maintenance and minor renewals are charged to expense as incurred.

In accordance with the taxation reform for the fiscal year 2007, property, plant and equipment acquired on and after April 1, 2007 are depreciated using a method under the revised Corporate Tax Law of Japan.

The effect of this change was to decrease operating income and income before income taxes and minority interests by ¥1,516 million ($15,131 thousand), respectively.

Regarding property, plant and equipment acquired on and before March 31, 2007, the difference between 5% of the acquiring cost and the memorandum value of those assets has begun to be depreciated over 5 years using the straight-line method.

The effect of this change was to decrease operating income by ¥3,390 million ($33,836 thousand) and income taxes and minority interests by ¥3,402 million ($33,955 thousand), respectively.

See Note 12 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 the projected benefit obligation, actuarially calculated using certain assumptions, and the fair value of the plan assets.

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

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

Retirement benefits for directors and corporate auditors

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

The Company abolished the retirement benefits for directors and corporate auditors at the general shareholders' meeting on June 29, 2006.

The Company included the relevant allowance in the other long-term liabilities.

Income taxes

The asset and liability approach is used to recognize deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Shareholders' equity

The maximum amount that the Company can distribute as dividends is calculated based on the non-consolidated financial statements of the Company in accordance with the Corporate Law of Japan.

Bonuses to directors and corporate auditors

The Companies account for the bonuses to directors and corporate auditors as an expense on an accrual basis.

Effective the year ended March 31, 2007, the Company and domestic consolidated subsidiaries adopted a new accounting standard which requires directors' bonuses to be accounted for as an expense on an accrual basis.

Stock options

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

Amounts per share

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

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

Reclassifications and restatement

Certain prior year amounts have been reclassified to conform to the current year presentation.

NOTE 3—ALLOWANCE FOR DOUBTFUL ACCOUNTS

Trade receivables have been reduced by allowances for doubtful accounts of ¥758 million ($7,566 thousand) and ¥652 million as of March 31, 2008 and 2007, respectively.

NOTE 4—INVENTORIES

Inventories as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Finished products	**¥ 84,156**	¥ 64,602	**$ 839,965**
Raw materials and supplies	**35,097**	37,947	**350,304**
Work-in-process	**10,430**	11,679	**104,102**
Total	**¥ 129,683**	¥ 114,228	**$ 1,294,371**

NOTE 5—MARKET VALUE INFORMATION OF SECURITIES

The following tables summarize acquisition costs, book values and fair values of securities with available fair values as of March 31, 2008 and 2007.

(1) Held-to-maturity debt securities:

	Millions of Yen					
	2008			2007		
	Book value	**Fair value**	**Difference**	Book value	Fair value	Difference
Total	**¥ 8**	**¥ 8**	**¥ (0)**	¥ 36	¥ 36	¥ (0)

	Thousands of U.S. Dollars (Note 1)		
	2008		
	Book value	**Fair value**	**Difference**
Total	**$ 80**	**$ 80**	**$ (0)**

(2) Available-for-sale securities:

	Millions of Yen					
	2008			2007		
	Acquisition cost	**Book (fair) value**	**Difference**	Acquisition cost	Book (fair) value	Difference
Securities with book values exceeding acquisition costs	**¥ 8,709**	**¥ 18,047**	**¥ 9,338**	¥ 10,102	¥ 29,489	¥ 19,387
Securities with book values not exceeding acquisition costs	**4,078**	**3,405**	**(673)**	193	178	(15)
Total	**¥ 12,787**	**¥ 21,452**	**¥ 8,665**	¥ 10,295	¥ 29,667	¥ 19,372

	Thousands of U.S. Dollars (Note 1)		
	2008		
	Acquisition cost	**Book (fair) value**	**Difference**
Securities with book values exceeding acquisition costs	**$ 86,925**	**$ 180,128**	**$ 93,203**
Securities with book values not exceeding acquisition costs	**40,703**	**33,985**	**(6,718)**
Total	**$ 127,628**	**$ 214,113**	**$ 86,485**

The following table summarizes book values of securities with no available fair values as of March 31, 2008 and 2007.

	Book Value		
	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Equity securities issued by unconsolidated subsidiaries and affiliated companies	**¥ 19,114**	¥ 21,224	**$ 190,778**
Available-for-sale securities	**9,439**	11,665	**94,211**

NOTE 6—PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Land	¥ 76,512	¥ 76,257	$ 763,669
Buildings and structures	189,714	175,093	1,893,542
Machinery and equipment	683,891	615,056	6,825,940
Construction in progress	39,410	66,239	393,353
	989,527	932,645	9,876,504
Less accumulated depreciation	(648,046)	(617,939)	(6,468,170)
Net property, plant and equipment	¥ 341,481	¥ 314,706	$ 3,408,334

NOTE 7—SHORT-TERM BANK LOANS AND LONG-TERM DEBT

Short-term bank loans (partially secured) bore interest at weighted average annual rates of 1.55% and 1.30% as of March 31, 2008 and 2007, respectively. Such loans are generally renewable at maturity.

Long-term debt as of March 31, 2008 and 2007 consisted of the following:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Loans from banks and other financial institutions, 1.72%, maturing serially through 2023:			
Secured	¥ 14,137	¥ 18,567	$ 141,102
Unsecured	213,616	197,877	2,132,109
	227,753	216,444	2,273,211
Less current maturities	(57,743)	(46,479)	(576,335)
Total	¥ 170,010	¥ 169,965	$ 1,696,876

Assets pledged as collateral to secure primarily short-term bank loans and long-term debt as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Property, plant and equipment	¥ 95,392	¥ 104,815	$ 952,111
Investment securities	—	207	—
Other	266	294	2,655
Total	¥ 95,658	¥ 105,316	$ 954,766

The annual maturities of long-term debt as of March 31, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Years ending March 31,		
2009	¥ 57,743	$ 576,335
2010	42,346	422,657
2011	32,383	323,216
2012	29,342	292,864
2013	22,091	220,491
2014 and thereafter	43,848	437,648
Total	¥ 227,753	$ 2,273,211

NOTE 8—RETIREMENT AND SEVERANCE BENEFITS

The liabilities for retirement and severance benefits at March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Projected benefit obligation	¥ 78,364	¥ 80,953	$ 782,154
Fair value of pension assets	(62,383)	(66,634)	(622,647)
Unfunded benefit obligation	15,981	14,319	159,507
Unrecognized actuarial gain (loss)	(6,642)	421	(66,294)
Net benefit obligation	9,339	14,740	93,213
Prepaid pension cost	9,554	6,194	95,359
Retirement and severance benefits	¥ 18,893	¥ 20,934	$ 188,572

Retirement benefit costs for the years ended March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	2008
Service costs	¥ 3,229	¥ 3,154	$ 32,229
Interest costs on projected benefit obligation	1,679	1,696	16,758
Expected return on pension assets	(1,569)	(1,288)	(15,660)
Amortization of actuarial loss	558	664	5,569
Recognized prior service credit	(1,028)	10	(10,261)
Other	269	230	2,685
Retirement and severance benefit costs	¥ 3,138	¥ 4,466	$ 31,320

Notes: 1. Both of the discount rate and the rate of expected return on pension assets used by the Companies are 2.5% for the years ended March 31, 2008 and 2007.

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

3. In the year ended March 31, 2008, a certain consolidated subsidiary revised the post-employment benefits plan. As a result of the revision, prior service credit arose and ¥1,024 million ($10,221 thousand) was credited to income as reversal of allowance for retirement and severance benefits.

NOTE 9—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, 2008 were as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Loans guaranteed	¥ 5,996	$ 59,847
Notes receivable discounted	88	878
Notes receivable endorsed	185	1,846
Total	¥ 6,269	$ 62,571

NOTE 10—DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING TRANSACTIONS

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

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

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

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

NOTE 11—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, 2008 and 2007.

The following table summarizes the significant differences between the statutory tax rate and the Companies' effective tax rate for financial statement purposes for the years ended March 31, 2008 and 2007.

	March 31, 2008	March 31, 2007
Statutory tax rate	**40.4%**	40.4%
Increase (reduction) in taxes resulting from:		
Non-deductible expenses	**0.8**	0.8
Amortization of goodwill	**0.8**	0.9
Tax credit for research and development expenses	**(2.0)**	(1.6)
Valuation allowance	**2.2**	1.0
Other	**0.6**	1.4
Effective tax rate	**42.8%**	42.9%

Significant components of deferred tax assets and liabilities as of March 31, 2008 and 2007 were as follows:

	Millions of Yen		Thousands of U.S. Dollars (Note 1)
	2008	2007	**2008**
Deferred tax assets:			
Operating loss carryforwards	**¥ 2,161**	¥ 1,881	**$ 21,569**
Unrealized gains on intercompany transactions	**5,066**	5,799	**50,564**
Retirement and severance benefits	**9,224**	10,024	**92,065**
Impairment loss on fixed assets	**1,728**	2,003	**17,247**
Other	**12,184**	9,094	**121,609**
Total gross deferred tax assets	**30,363**	28,801	**303,054**
Less valuation allowance	**(4,201)**	(3,200)	**(41,930)**
Total deferred tax assets	**26,162**	25,601	**261,124**
Deferred tax liabilities:			
Reserve for replacement of property, plant and equipment	**(2,633)**	(2,969)	**(26,280)**
Net unrealized holding gains on securities	**(3,513)**	(7,848)	**(35,063)**
Other	**(7,867)**	(6,506)	**(78,521)**
Total deferred tax liabilities	**(14,013)**	(17,323)	**(139,864)**
Net deferred tax assets	**¥ 12,149**	¥ 8,278	**$ 121,260**

NOTE 12—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, metals and high-performance polyurethane.

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, 2008						
	Petrochemical Group	**Basic Group**	**Specialty Group**	**Service Group**	**Total**	**Elimination and corporate**	**Consolidated**
Net sales:							
Outside customers	**¥ 270,881**	**¥ 195,788**	**¥ 311,452**	**¥ 49,274**	**¥ 827,395**	**¥ —**	**¥ 827,395**
Inter-segment	**111,183**	**74,052**	**11,912**	**64,899**	**262,046**	**(262,046)**	**—**
Operating expenses	**367,051**	**267,160**	**285,339**	**110,783**	**1,030,333**	**(262,046)**	**768,287**
Operating income	**¥ 15,013**	**¥ 2,680**	**¥ 38,025**	**¥ 3,390**	**¥ 59,108**	**¥ —**	**¥ 59,108**
Identifiable assets	**¥ 138,614**	**¥ 245,897**	**¥ 346,250**	**¥ 42,670**	**¥ 773,431**	**¥ 43,563**	**¥ 816,994**
Depreciation and amortization	**4,893**	**18,066**	**15,912**	**1,550**	**40,421**	**1,842**	**42,263**
Capital expenditures	**5,234**	**26,655**	**36,561**	**2,339**	**70,789**	**1,900**	**72,689**

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

	Thousands of U.S. Dollars (Note 1)						
	Year ended March 31, 2008						
	Petrochemical Group	**Basic Group**	**Specialty Group**	**Service Group**	**Total**	**Elimination and corporate**	**Consolidated**
Net sales:							
Outside customers	**$ 2,703,673**	**$ 1,954,167**	**$ 3,108,613**	**$ 491,806**	**$ 8,258,259**	**$ —**	**$ 8,258,259**
Inter-segment	**1,109,722**	**739,116**	**118,894**	**647,759**	**2,615,491**	**(2,615,491)**	**—**
Operating expenses	**3,663,549**	**2,666,534**	**2,847,978**	**1,105,730**	**10,283,791**	**(2,615,491)**	**7,668,300**
Operating income	**$ 149,846**	**$ 26,749**	**$ 379,529**	**$ 33,835**	**$ 589,959**	**$ —**	**$ 589,959**
Identifiable assets	**$ 1,383,511**	**$ 2,454,307**	**$ 3,455,934**	**$ 425,891**	**$ 7,719,643**	**$ 434,804**	**$ 8,154,447**
Depreciation and amortization	**48,837**	**180,317**	**158,818**	**15,471**	**403,443**	**18,386**	**421,829**
Capital expenditures	**52,241**	**266,045**	**364,916**	**23,346**	**706,548**	**18,964**	**725,512**

The "Elimination and corporate" column of "Identifiable assets" in the above schedules includes corporate assets of ¥86,343 million ($861,792 thousand) and ¥81,677 million for the years ended March 31, 2008 and 2007, respectively, which mainly consist of cash, time deposits, investment securities and assets of administrative departments.

As given in Note 2, in accordance with the taxation reform for the fiscal year 2007, property, plant and equipment acquired on and after April 1, 2007 are depreciated using a method under the revised Corporate Tax Law of Japan. The effect of this change was to decrease the operating income of "Petrochemical Group" by ¥98 million ($978 thousand), of "Basic Group" by ¥671 million ($6,697 thousand), of "Specialty Group" by ¥730 million ($7,286 thousand) and of "Service Group" by ¥17 million ($170 thousand) of the year ended March 31, 2008, respectively.

Regarding property, plant and equipment acquired on and before March 31, 2007, the difference between 5% of acquiring cost and memorandum value of those assets has begun to be depreciated over 5 years using the straight-line method. The effect of this change was to decrease the operating income of "Petrochemical Group" by ¥1,127 million ($11,249 thousand), of "Basic Group" by ¥1,400 million ($13,974 thousand), of "Specialty Group" by ¥781 million ($7,795 thousand) and of "Service Group" by ¥82 million ($818 thousand) of the year ended March 31, 2008, respectively.

Geographic information for the years ended March 31, 2008 and 2007 was as follows:

	Millions of Yen				
	Year ended March 31, 2008				
	Japan	Other	Total	Elimination and corporate	Consolidated
Net sales:					
Outside customers	¥ 726,375	¥ 101,020	¥ 827,395	¥ —	¥ 827,395
Inter-segment	57,705	4,279	61,984	(61,984)	—
Operating expenses	730,059	100,212	830,271	(61,984)	768,287
Operating income	¥ 54,021	¥ 5,087	¥ 59,108	¥ —	¥ 59,108
Identifiable assets	¥ 692,349	¥ 74,369	¥ 766,718	¥ 50,276	¥ 816,994

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

	Thousands of U.S. Dollars (Note 1)				
	Year ended March 31, 2008				
	Japan	Other	Total	Elimination and corporate	Consolidated
Net sales:					
Outside customers	$ 7,249,975	$ 1,008,284	$ 8,258,259	$ —	$ 8,258,259
Inter-segment	575,956	42,709	618,665	(618,665)	—
Operating expenses	7,286,745	1,000,220	8,286,965	(618,665)	7,668,300
Operating income	$ 539,186	$ 50,773	$ 589,959	$ —	$ 589,959
Identifiable assets	$ 6,910,360	$ 742,280	$ 7,652,640	$ 501,807	$ 8,154,447

As given in Note 2, in accordance with the taxation reform for the fiscal year 2007, property, plant and equipment acquired on and after April 1, 2007 are depreciated using a method under the revised Corporate Tax Law of Japan. The effect of this change was to decrease the operating income of “Japan” by ¥1,516 million ($15,131 thousand) of the year ended March 31, 2008.

Regarding property, plant and equipment acquired on and before March 31, 2007, the difference between 5% of acquiring cost and memorandum value of those assets has begun to be depreciated over 5 years using the straight-line method. The effect of this change was to decrease the operating income of “Japan” by ¥3,390 million ($33,836 thousand) of the year ended March 31, 2008.

Export sales and sales made outside Japan by overseas subsidiaries were ¥278,951 million ($2,784,220 thousand) and ¥265,705 million for the years ended March 31, 2008 and 2007, respectively, representing 33.7% and 34.0% of consolidated net sales. For the years ended March 31, 2008 and 2007, such sales in Asia were ¥198,894 million ($1,985,168 thousand) and ¥197,742 million, representing 24.0% and 25.3%, respectively, of consolidated net sales.

NOTE 13—RELATED PARTY TRANSACTIONS

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

	Millions of Yen
Shares acquisition of Nippon Polyurethane Industry Co., Ltd., which was a subsidiary of Hodogaya Chemical Co., Ltd.	¥ 8,000
Underwriting for allocation of new shares to a third party	¥ 6,231

NOTE 14—STOCK OPTION PLANS

At March 31, 2008 and 2007, the Company had the following stock option plans:

	2007 plan	2006 plan
Date of grant	July 18, 2007	September 27, 2006
Grantees	29 (including 15 directors)	25 (including 15 directors)
Type of stock	Common stock	Common stock
Number of shares granted	121,379	181,463
Exercise price (yen)	¥1	¥1
Exercise price (U.S. dollars) (Note 1)	$0.01	$0.01
Exercisable period	July 19, 2007– July 18, 2032	September 28, 2006– September 27, 2031
Fair value (yen)	¥637	¥414
Fair value (U.S. dollars) (Note 1)	$6.36	$3.51

NOTE 15—SUBSEQUENT EVENTS

At the Board meeting held on May 9, 2008, it was decided that the Company should raise its stake in Nippon Polyurethane Industry Co., Ltd. (NPU), to 80.3%, from 51.7%, by acquiring NPU shares from Hodogaya Chemical Co., Ltd., on May 21, 2008, by the amount of ¥9,785 million ($97,664 thousand). The Company made NPU a consolidated subsidiary in April 2006, and they have been cooperating with each other to strengthen the Company's vinyl isocyanate chain operations. The move to acquire additional shares further accelerates the Company's vinyl isocyanate strategy and strengthens its ties with NPU as the Company positions itself to establish a more-competitive presence in the rapidly expanding polyurethane market in Asia and China.

At the meeting of the Company's board of directors held on May 19, 2008, retained earnings of the Company as of March 31, 2008 were appropriated as follows:

	Millions of Yen	Thousands of U.S. Dollars (Note 1)
Year-end cash dividends (¥4.00 per share)	¥ 2,398	$ 23,935

Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of Tosoh Corporation and consolidated subsidiaries as of March 31, 2008 and 2007, and the related consolidated statements of income, changes in net assets and cash flows for the years then ended, expressed in Japanese yen. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to independently express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Tosoh Corporation and subsidiaries as of March 31, 2008 and 2007, and the consolidated results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended March 31, 2008 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.

Osaka, Japan
June 27, 2008

KPMG AZSA & Co.

KPMG AZSA & Co.

Organization

As of March 31, 2008

TOSOH CORPORATION

CHAIRMAN & CEO **Madoka Tashiro**
PRESIDENT **Takashi Tsuchiya**

Corporate Services

- Corporate Strategy
- Corporate Research and Production Planning
- International Corporate Development
- Corporate Control and Accounting
- Finance
- General Affairs
- Purchasing and Logistics
- Legal and Patents
- Human Resources
- Corporate Communications
- Corporate Secretariat
- Auditing
- Environment, Safety and Quality Control
- IT Strategy and Planning

Corporate R&D

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

Manufacturing

- Nanyo Complex
- Yokkaichi Complex

Sales and Regional Offices

- Osaka Regional Office
- Nagoya Regional Office
- Fukuoka Regional Office
- Sendai Regional Office
- Yamaguchi Regional Office
- Yamagata Office
- Toyama Office

BUSINESS DIVISIONS

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

Corporate Data

As of March 31, 2008

HEAD OFFICE

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

For further information, please contact
International Corporate Development
Tel: +81 (3) 5427 5118
Fax: +81 (3) 5427 5198
info@tosoh.com www.tosoh.com

DATE OF INCORPORATION

February 11, 1935

PAID-IN CAPITAL

¥41 billion

NUMBER OF EMPLOYEES

11,088

COMMON STOCK

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

NUMBER OF SHAREHOLDERS

48,403

STOCK EXCHANGE LISTING

Tokyo Stock Exchange
Ticker Symbol: 4042

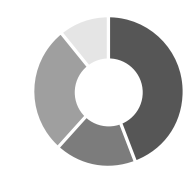
TRANSFER AGENT FOR SHARES

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

INDEPENDENT AUDITORS

KPMG AZSA & Co.

STOCK HELD BY INVESTOR TYPE



MAJOR SHAREHOLDERS

Japan Trustee Services Bank, Ltd. (Trust Account)	35,155*	5.84†
The Master Trust Bank of Japan, Ltd. (Trust Account)	29,567	4.91
Mizuho Corporate Bank, Ltd.	21,757	3.61
Mitsui Sumitomo Insurance Co., Ltd.	20,699	3.44
Nippon Life Insurance Company	14,851	2.47
The Norinchukin Bank	12,985	2.15
State Street Bank and Trust Company	11,406	1.89
Aioi Insurance Co., Ltd.	11,020	1.83
The Sumitomo Trust and Banking Co., Ltd.	10,004	1.66
The Yamaguchi Bank, Ltd.	9,944	1.65
Total	**177,390**	**29.50**

* Number of shares held (thousands)
† Percentage of total shares outstanding

TOSOH

TOSOH CORPORATION

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Printed in Japan