

*Meeting the Challenge of Reform*

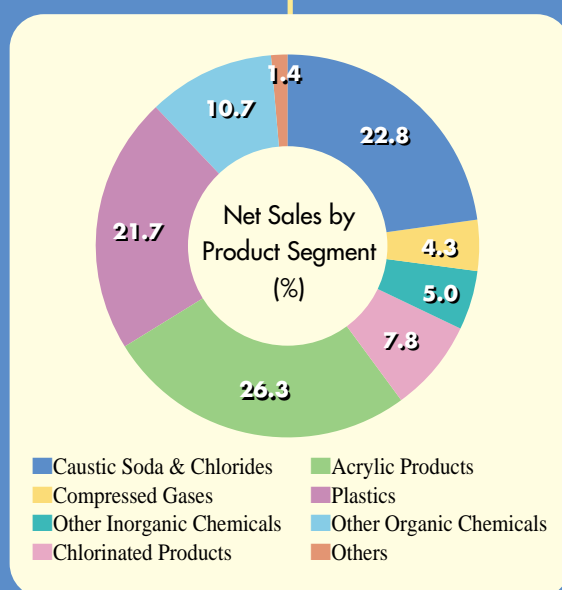


# Profile

## Creating the Future

Toagosei's corporate philosophy is to contribute through its chemical business to the lives and welfare of as many people as possible. The Company's operations concentrate on the creation of high-value-added products in its three areas of core competence — chloralkali, acrylics, and adhesives. In addition, Toagosei is developing a range of promising new businesses based on innovative technologies. At the same time, Toagosei and its group companies are

committed to the unending search for ways to mitigate environmental degradation and improve people's living standards as a means of realizing the dream of a society underpinned by recycling and the use of renewable resources. Our goal is to make the name of Toagosei widely known as a trustworthy, value-creating enterprise that makes a vital contribution to the well-being of society as a whole.



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# Financial Highlights

Toagosei Co., Ltd. and Consolidated Subsidiaries Years ended December 31, 2000, 1999 and 1998

| Consolidated Basis   | Millions of yen |          |          | Thousands of<br>U.S. dollars<br>(Note 1) | 00/99      |
|--|-----------------|----------|----------|--|------------|
|  | 2000            | 1999     | 1998     | 2000                                     | Change (%) |
| Net sales .....  | ¥145,246        | ¥150,822 | ¥145,896 | \$1,265,760                              | -3.7       |
| Operating income .....                                     | 6,001           | 5,738    | 5,617    | 52,296                                   | +4.6       |
| Income before income taxes and<br>minority interests ..... | 2,927           | 5,552    | 2,690    | 25,508                                   | -47.3      |
| Net (loss) income .....                                    | (247)           | 2,069    | 254      | (2,153)                                  | N.A.       |
| Per share of common stock (in yen and dollars):            |                 |          |          |  |            |
| Net (loss) income (Note 2).....                            | (0.93)          | 7.75     | 0.95     | (0.01)                                   | N.A.       |
| Cash dividends applicable to the year .....                | 6.00            | 6.00     | 6.00     | 0.05                                     | N.A.       |
| Total assets .....   | 187,923         | 196,289  | 203,788  | 1,637,673                                | -4.3       |
| Shareholders' equity .....                                 | 80,268          | 81,731   | 80,664   | 699,503                                  | -1.8       |

Toagosei Co., Ltd. Years ended December 31, 2000, 1999 and 1998

| Non-Consolidated Basis                          | Millions of yen |          |          | Thousands of<br>U.S. dollars<br>(Note 1) | 00/99      |
|---|-----------------|----------|----------|--|------------|
|   | 2000            | 1999     | 1998     | 2000                                     | Change (%) |
| Net sales .....                                 | ¥ 84,841        | ¥ 94,614 | ¥ 96,933 | \$ 739,355                               | -10.3      |
| Operating income .....                          | 3,180           | 2,764    | 1,983    | 27,712                                   | +15.1      |
| Income before income taxes .....                | 3,040           | 3,064    | 1,160    | 26,492                                   | -0.8       |
| Net income .....                                | 1,853           | 1,824    | 740      | 16,148                                   | +1.6       |
| Per share of common stock (in yen and dollars): |                 |          |          |  |            |
| Net income (Note 2).....                        | 6.93            | 6.82     | 2.77     | 0.06                                     | +1.6       |
| Cash dividends applicable to the year .....     | 6.00            | 6.00     | 6.00     | 0.05                                     | N.A.       |
| Total assets .....                              | 137,575         | 141,138  | 147,197  | 1,198,911                                | -2.5       |
| Shareholders' equity .....                      | 67,253          | 68,363   | 67,365   | 586,083                                  | -1.6       |

Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥114.75=\$1.00.

2: Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

## Interview with President Fukuzawa



Bunshiro Fukuzawa, *President and Representative Director*

**Q1** Could you outline Toagosei's business performance in the term under review?

**A** Total consolidated sales declined 3.7% from the previous term, to ¥145.2 billion (US\$1,265 million), due mainly to the transfer of PVC operations to a joint venture set up with Mitsubishi Chemical.

As for earnings, although we were unable to pass on the increase in the price of crude oil to our users, operating income rose 4.6% year-on-year, to ¥6,001 million (US\$52 million), thanks to reductions in both variable and fixed costs resulting from thorough streamlining measures. The Company recorded a net loss for the term of ¥247 million (US\$2 million), owing to a reduction in gains from the sale of fixed assets and a loss on the sale of unprofitable businesses, but I believe that we succeeded in substantially strengthening our earnings structure.

With the objective of focusing on its areas of core competency, Toagosei is pushing forward with an uncompromising program of reform in management methods and business operations. Hereunder, President Fukuzawa explains the Company's performance during the term under review and discusses his vision of sales and earnings in the future.

**Q2** Could you provide an overview of your core businesses — chloralkali, acrylics, and adhesives — and their future prospects?

**A** The key points in the success of our chloralkali business are the development of markets close to production sites, and the attainment of higher purity levels. The development of local markets requires a flexible system of response to user needs, enabling us to supply products tailor-made to suit individual customers' requirements. We place priority on the utilization of a high-efficiency sales approach that allows us to lock in the appropriate level of earnings. For users engaged in high-tech businesses, we aim to offer high-purity products that enable the user to realize maximum production potential.

In the acrylics business, we are putting efforts into the development of downstream products. We boast a lineup of high-value-added products that our rivals will find it difficult to emulate, including environmentally friendly polymers whose processing does not require the use of organic solvents that cause environmental degradation.

In the adhesives business, we have divided development activities into the consumer-use field and the industrial-use field. As Toagosei already enjoys a major share of both the Japanese and US markets for consumer-use cyanoacrylate adhesives, we cannot hope for strong growth in these markets in the near future. We have thus been stepping up marketing efforts in China since 2000.



### Focus Points

Thorough streamlining, improved efficiency for a stronger earnings structure



### Focus Points

Closer integration of both the financial and operational aspects of consolidated group management by appointing executive officers as the presidents of principal unlisted subsidiaries

In the field of industrial-use adhesives, the synergy between our own know-how in environmentally friendly non-solvent-type adhesives and the customer-tailored marketing strength of our subsidiary Aron Ever-Grip Ltd., which we acquired in 1998, is displaying its full worth.

### Q3

Could you tell us something about your handling of the management of the Toagosei Group, and any plans you may have for your subsidiaries?

### A

I believe that the integration of the consolidated group management will become an even more important issue for us in the future. From the financial viewpoint, we have from an early stage been keeping the needs of group management foremost in our minds in the conduct of our business. The results of this stance can be seen in the total asset turnover rate, where the consolidated figure exceeds that of the parent company.

From April 2001, executive officers of Toagosei were appointed as the presidents of our principal unlisted subsidiaries. Most Toagosei Group companies have already achieved considerable success in lowering costs, notably the sharp reduction in transportation and packaging costs by Toa Logistics Co., Ltd. This year, rather than simply looking at the financial indicators, we plan to focus even greater effort on more closely integrating group operations.

### Q4

Please give some details of your medium-term management plan, particularly regarding progress in management reform.

### A

The year 2000 constituted the preparation period in terms of the Company's management system and organization, and we put the newly devised organization fully into place this April. The new management structure reaches across the Company's various divisions. Moreover, by clarifying the responsibilities and scope of authority of each member of staff and introducing a performance evaluation scheme, we aim to create a management system that will speed up decision-making and allow us to respond promptly to changes in the business environment.

Specifically, an executive officer system has been introduced whereby policy-making and executive functions are clearly separated. The system under which each managing director is in sole charge of a particular divisions of the Company has been abolished, and the number of directors on the Company's board reduced from 15 to 7. The principal goal of these reforms is to improve the efficiency of support divisions while strengthening customer service. For this reason, we have set up three new organizational units within the newly constituted Corporate Division. Administrative work for the whole Company will be handled by the Business Support Center; all orders from corporate customers will be handled by the Supply Chain Management Center; and the procurement of all raw materials and equipment, as well as the sale and distribution of products, will be the responsibility of the Supply Chain Management



**ff Focus Points**

Reducing support division staff by 30% through reform of administrative methods, and reallocating these human resources to strengthen our core business operations and new business ventures

Department. This reorganization will enable us to reduce personnel in support divisions by 30%, and the human resources thus liberated will be reallocated to the strengthening of our core businesses and the further development of new businesses.

**Q5** Toagosei has announced its withdrawal from the humanized antibody development project it had been pursuing with Protein Design Labs, Inc. of the United States. Could you tell us the reasons for this decision, and any future plans you may have in this field?

**A** The main reason for our decision was that Phase 1 clinical testing took too long. Because of this, we were unable to catch up with competitors who had a head start in development of similar drugs. After weighing the expected increase in the costs of further clinical testing against the projected future efficacy of the drug, and conducting a comprehensive examination of the likely earnings return to shareholders, we decided that the best course was to terminate the development project.

Nevertheless, this does not mean that Toagosei has withdrawn completely from the pharmaceuticals field. From here on, we will avoid drugs requiring clinical testing, as this involves excessive time and costs, and will search for effective means of involvement in the pharmaceuticals field that prioritize return on investment, such as development and manufacture of promising materials for pharmaceuticals.

**ff Focus Points**

Adopting a basic policy of focusing on products that help conserve resources and energy, save labor, and maintain environmental integrity

**Q6** What action are you taking to assist in the preservation of the environment?

**A** Chemical manufacturers bear a particularly crucial social responsibility to take measures to preserve the natural environment, and we at Toagosei are fully aware of the serious nature of this matter. We took steps at an early stage to obtain ISO14001 environmental management systems certification, and we submit to follow-up audits twice a year by an ISO accreditation organization. We are also adopting an active stance toward reducing emissions of greenhouse gases, notably CO<sub>2</sub>, and toward the establishment of an environmental accounting system. In addition to the environment, we also pay serious attention to matters of safety in the workplace in the course of our business activities.

We give great consideration to the manufacture of products that have no adverse impact on health and the environment, notably organic-solvents-free products. Our basic policy also includes the development of products that contribute to the conservation of energy and resources, labor saving, and environmental preservation. We are planning to publish an environmental report, and from here onward we intend to continue tackling environmental issues in a comprehensive and proactive manner.

**Q7** How are you responding to the introduction of the new standards for pension accounting, and what progress are you making in the strategic application of information technology to management methods?

**A** We tidied up most of the loose ends relating to the new accounting standards during the reporting period, and we plan to implement the lump-sum amortization of the shortfall in the provision for employees' prior

service obligations in the term ending December 2001 as a result of the introduction of pension accounting. For this reason, our current projections put net income for the current term, ending December 2001, at zero on a non-consolidated basis and ¥700 million on a consolidated basis. However, we hope to record increased earnings on the back of an improved business performance. Regarding the balance sheets, the Group's consolidated figures surpass those of the parent company alone, and with respect to the income statements, we intend from here on to concentrate our efforts on maximizing earnings on a consolidated basis.

Turning to the field of information technology, we have been actively pursuing a series of measures aimed at linking the use of IT with management reforms to create an "IT-driven management control system." This year, the Company will introduce a BPR (business process reengineering) system, followed from January 2002 by an ERP (enterprise resource planning) system. In this way, we are seeking to create an even more efficient management structure that will enable us to achieve our long-term strategic objectives. We also plan to make effective use of e-commerce. In 2003, these measures will be applied to group member companies too, leading to a significant improvement in group-wide productivity.



#### Focus Points

Achieving major gains in group productivity through active use of IT and centralization of support division functions



#### Focus Points

Achieving growth in sales and profits by raising Toagosei's corporate value as a maker of unique chemical products



In closing, could you sketch Toagosei's near-term goals, and clarify the company's policy regarding its shareholders?



As I have said, our main objectives are to develop local markets and higher-purity products in the chloralkali business, to put more effort into the development of downstream products in the acrylics business, and to expand our scale of operations in China and other Asian countries in the adhesives business. I believe that the attainment of these three objectives will inevitably lead to improved business performance. Moreover, through management reforms aimed at raising efficiency, coupled with work force downsizing, we are confident of being able to improve productivity and expand earnings.

To Toagosei's shareholders, I would like to emphasize my full awareness of the fact that it is they who are the owners of the Company, and assure them that this awareness constantly informs my actions. The management reforms I have described were conceived with the aim of creating a company that would realize an even better earnings return to its shareholders. While there will continue to be little cause for optimism regarding the business environment for some time to come, I and the other members of the management of Toagosei pledge to work to meet our shareholders' expectations by raising the corporate value of the Company as a chemicals maker with unique characteristics, and thus achieve increased earnings.

*Bunshiro Fukuzawa*

Bunshiro Fukuzawa,  
President and Representative Director

## Chloralkali Products

### Increasing earnings power through strict cost-reduction programs and high-value-added products

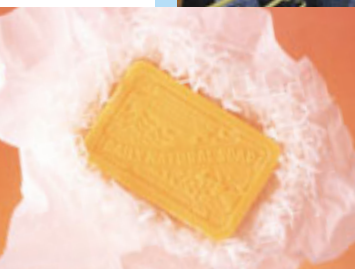
Toagosei's chloralkali business — as the core of its basic chemicals operations — supplies caustic soda and caustic potash produced by the industry's top-level technologies to the market, as well as the by-products chlorine and chlorides.

Toagosei has manufacturing plants in Nagoya and Tokushima. By concentrating marketing efforts on the regions where these plants are located, we are trying to slash transportation costs and improve profitability. At the Nagoya Plant, we minimize electricity costs by using an optimal combination of inexpensive nighttime electric power and private power generation. The plant's logistics, including in-factory physical distribution, are totally controlled by Toagosei's 100%-owned and locally based subsidiary Toa Logistics Co., Ltd., successfully lowering the plant's distribution costs.

The issue of restructuring the polyvinyl chloride (PVC) business was resolved when we placed the business under the control of V-Tech Corp., a joint venture established in April 2000 with Mitsubishi Chemical. This restructuring has helped streamline the PVC business, and the addition of V-Tech's Mizushima plant for caustic soda production has provided the added benefit of a collaboration with the Nagoya and Tokushima plants for flexible, low-cost distribution.

Tsurumi Soda Co., Ltd., a consolidated subsidiary, is performing well in its production and sales of high-value-added chlorine derivatives, such as ferric chloride, for high-tech applications. We will continue to focus on expansion of these high-value-added products, while increasing productivity of the electrolysis business, to achieve higher profitability.

We are vigorously pursuing cost reductions, particularly at our Nagoya Plant.



Soap is one of the many daily necessities made from caustic soda.

#### Fiscal 2000 Achievements

- ▶ Placed the control of the unprofitable polyvinyl chloride business under V-Tech, a joint venture with Mitsubishi Chemical

#### Fiscal 2001 Challenges

- ▶ To continue reducing costs in production, logistics and other operations
- ▶ To increase sales of lucrative products, such as high-purity and high-value-added products





## ● Acrylic Products

### Acrylic business sees remarkable global expansion

As one of its core businesses, Toagosei's acrylic business has been extending its global reach, with a focus on acrylic esters, which it commercialized for the first time in Japan. The recent expansion drive has been especially remarkable.

In December 1999, a new plant for producing acrylic monomers began operations in Singapore, a location favorably situated to procure raw materials in the Asian market and promote exports into neighboring countries. Combined with the Nagoya Plant, the new plant enables optimum production of acrylic monomers on a global basis.

During 2000, we also established Toa-Jet Chemical Co., Ltd., and Toagosei Taiwan Ltd. joint ventures, respectively, for manufacturing and sales of *Aronix*, acrylic UV-curable resins, for which demand is growing in Taiwan. Production will start in the summer of 2001 for the Japanese, Asian and European markets.

Meanwhile, a major development in our acrylic polymer business was the completion of a new plant at the Nagoya site with annual production capacity of 10,000 tons for UFO polymers. The plant began full-scale operations in May 2001. The strategically important UFO polymer is a low-molecular polymer using the polymerization technique of U.S.-based Johnson Polymer. This polymer enables the slashing of manufacturing costs and is less harmful to the environment because it is manufactured without the use of organic solvents. With no forerunners, the market for low-molecular polymers is expected to grow considerably for applications such as weather-resistant paints and construction materials.

#### Fiscal 2000 Achievements

- ▶ Established joint ventures in Taiwan for the manufacture and sale of *Aronix*, an acrylic UV-curable resin

#### Fiscal 2001 Challenges

- ▶ The production and sale in Taiwan of *Aronix* will begin in the summer through the joint ventures.
- ▶ The Nagoya site's plant for strategic UFO polymer products began full-scale operations in May.



We manufacture acrylic monomers and oligomers, which are sold under the *Aronix* brand name. These materials are used in UV-curable paints, mainly employed by the electronic device industry.

We have high hopes for our Singapore acrylic monomer plant as our base for operations in Southeast Asia.



## ● Adhesives



### Focus on the development of new materials and new markets

With its long-selling instant consumer-use adhesive *Aron Alpha* (sold under the names of *Krazy Glue* in the United States and *Cyanolit* in Europe), Toagosei has established itself as a major player in the world adhesives market. The Company also addresses a wide range of industrial adhesive requirements by supplying the industrial *Aron Alpha* line of products, as well as hot melt, light curing, epoxy, acrylic, nylon, urethane, inorganic heat-resistant and other adhesives.

The Company continues to stimulate potential demand for adhesives among consumers by adding innovative products to the *Aron Alpha* line and developing new applications. Meanwhile, it has adhesive filling plants in the United States and China to extend sales in surrounding regions. Recently, the Company has strengthened its emphasis on China as the next most promising market after the industrialized nations.

For the industrial adhesive market, Toagosei has steadily extended its market reach due to customer-oriented marketing efforts and the synergy effects made possible by the 1998 acquisition of all shares of Aron Ever-Grip Ltd., an industrial adhesives manufacturer. The marketing focus is on housing and furniture materials, automobile interiors, and electric and electronic parts. The new hot-melt molding adhesives for electric and electronic applications launched during fiscal 2000 have gained attention for their instant sealing capability. The Company will continue to accelerate the development of new materials and applications with a greater focus on environment-friendly products manufactured without organic solvents.

### Fiscal 2000 Achievements

- ▶ Expanded the lineup of adhesive products with additional features and for new applications
- ▶ In collaboration with Aron Ever-Grip, targeted marketing for housing, automobile, electric and electronic applications

### Fiscal 2001 Challenges

- ▶ For consumer adhesives, to intensify the emphasis on the Chinese market
- ▶ For industrial adhesives, to put greater focus on the development and marketing of environmentally friendly products manufactured without organic solvents

The “Petit Pen” is an easy-to-use pen-shaped adhesive applicator.



The long-selling Aron Alpha is particularly popular in the United States, where it is sold under the brand name “Krazy Glue.”



## New Businesses

### Expanding overseas sales of silver-based antimicrobial agent Novaron

Whether inorganic or organic, Toagosei has exploited its advanced technologies to develop high-performance products with differentiated features. The Company's growing range of such products includes *Novaron*, silver-based antimicrobial agent that enjoys remarkable sales growth for textile and plastic applications due to a growing interest in antibacterial products; *Kesumon*, a deodorizer; *Cavinon*, an antifungal agent; *IXE*, an IC sealing material; and *Aron Powder*, a powdered paint with excellent corrosion resistance and weatherability used for automobile wiper blades.

With *Aron Powder*, the Company has targeted marketing efforts solely at automobile applications, which has made the business highly profitable. *Novaron*, which already commands high acclaim in the Japanese market, has made its entry into the US market after receiving approvals from the Food and Drug Administration in March 2000 and the Environmental Protection Agency in May 2000. The Company expects considerable growth in sales of *Novaron* in the coming fiscal year thanks to its marketing partnership with U.S. Milliken, which is strong in the distribution of plastic additives in the US market. *Novaron's* target applications will include food packaging films and containers, and extra marketing efforts will be directed at European regions where interest in antibacterial products is relatively high, as well as Taiwan and South Korea.

Subsequent to the success of *Novaron*, Toagosei will promote another promising product, *Kesumon*, a deodorizer, by exploring possible applications in the nursing care business.

Toagosei's silver-based antimicrobial agent *Novaron* is in wide demand for textile and plastic applications.



#### Fiscal 2000 Achievements

- ▶ Acquired FDA and EPA approval for *Novaron*, an antibacterial agent, and initiated distribution in the US market

#### Fiscal 2001 Challenges

- ▶ Following entry into the US market, to continue extending the reach of *Novaron* in Europe and Asia
- ▶ To enhance promotional efforts for the deodorizer *Kesumon*, which is positioned as another growth product

## Caustic Soda & Chlorides



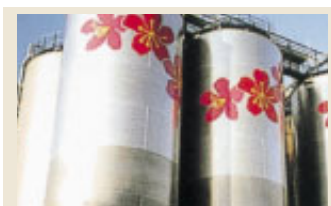
## Compressed Gases



## Other Inorganic Chemicals



## Chlorinated Products



## Acrylic Products



## Plastics



## Other Organic Chemicals



### Business Review

Caustic soda sales decreased year-on-year due to declining prices caused by a softening in demand and intensifying competition, although steady demand for chlorine through the first half of the year brought high-level production.

Inorganic chloride sales showed a moderate decline over the previous

business term, reflecting weak shipments of ferric chloride, despite the favorable performance of liquid chlorine and sodium hypochlorite.

Total sales of caustic soda and chlorides decreased ¥73 million, or 0.2% year on year, to ¥33,150 million.

Compressed gas sales increased 0.2%, or ¥11 million, over the previous year to ¥6,300 million, reflecting steady shipments caused by a gradual recovery in demand among customers in the automotive and steel-related industries.

Sulfuric acid sales increased slightly from the previous year due to favorable shipments caused by more robust demand, whereas weaker demand for other inorganic chemicals caused a fall in sales.

Total sales of other inorganic chemicals decreased ¥258 million, or 3.5%, to ¥7,109 million. As a result, total sales of

inorganic chemicals came to ¥46,560 million, a decline of 0.7%, or ¥320 million, from the previous year.

Sales of vinyl chloride products showed a considerable year-on-year decline following the transfer of the business to V-Tech Corp. on April 1, 2000.

Chlorine organic solvents enjoyed brisk shipments, supported by increased demand domestically and internationally, resulting in a moderate increase in sales

over the previous year.

Total sales of chlorinated products fell 39.8%, or ¥7,485 million, to ¥11,300 million.

Sales of acrylic acids and acrylic esters increased slightly from the previous year due to favorable domestic shipments and better pricing conditions, combined with brisk shipments from overseas subsidiaries.

Sales of acrylic polymer products showed a slight year-on-year decline due to an overall fall in prices and decreased

shipments of acrylic polymers and water-resistant coatings for the construction industry, despite favorable shipments of polymer flocculants and continued steady sales of acrylic oligomers.

Total sales of acrylic products rose 3.6%, or ¥1,342 million, from the previous year to ¥38,164 million.

Sales of plumbing products increased, powered by strong shipments of sewer products, including small-diameter joints and manholes, despite stagnant shipments of products for the power and telecommunications industries because of unexpected ordering delays.

In the consumer products sector, total sales increased thanks to the launch of new nursing care products and amid growing demand

following the April 2000 introduction of the nursing care insurance system, although slackened consumer spending as well as intensifying competition and the resultant price declines caused a fall in sales of automobile mats and some household products.

Total sales of plastics increased 1.5%, or ¥464 million, from the previous year to ¥31,467 million.

Sales of adhesives increased from the previous year, as weak domestic shipments of consumer adhesives were more than offset by brisk demand for industrial adhesives and healthy shipments to the United States.

Sales of other products showed some increase from a year earlier, reflecting favorable shipments of silver-based

antibacterial agents and ion exchangers for the semiconductor industry, despite the withdrawal of unprofitable products.

Sales of other organic chemicals increased 3.4%, or ¥513 million, to ¥15,704 million. As a result, total sales of organic chemicals came to ¥96,636 million, a year-on-year decline of 5.1%, or ¥5,166 million.

| Main Products                             | Applications  |
|---|---|
| Caustic soda                              | • Chemical fiber, pulp, dye, and pharmaceuticals  |
| Liquid chlorine                           | • Bleaching and sterilizing   |
| Synthetic hydrochloric acid               | • Seasoning, dye, and pharmaceuticals   |
| Sodium hypochlorite                       | • Bleaching and sterilizing   |
| Sodium hypochlorite with low salt content | • Bleaching and sterilizing   |
| Caustic potash                            | • Alkali cells, dye, and pharmaceuticals  |
| Oxygen                                    | • Combustion enhancing gas of welding and cutting, Combustion enhancing gas of steel making process, Oxygen inhalation (and high pressure oxygen treatment) for medical use, Oxygen aeration for wastewater treatment, Oxygen based pulp bleaching, and Fermentation of biotechnology |
| Nitrogen                                  | • Quick freezing of foods, Atmospheric and purge gas for manufacture of semiconductors, Atmospheric gas of a furnace for heat treatment, Security of petrochemical plants, Leak test of plant maintenance, and Sperm freezing and preservation  |
| Dry Ice                                   | • Preservation of frozen foods and low-temperature treatment of metal   |
| Sulfuric acid                             | • Fertilizer, synthetic fiber, and inorganic chemicals  |
| Ammonium sulfate                          | • Fertilizer  |
| Potassium bicarbonate fertilizer          | • Fertilizer  |
| Ammonium sulfate with Magnesium sulfate   | • Fertilizer  |
| BT Wettable Powder                        | • Fungicide for lepidoptera (butterflies and moths)   |
| Trichloroethylene                         | • Metal degreasing and cleaning, solvent, and raw material for Hydrofluorocarbon  |
| 1,1,1-trichloroethane                     | • Raw material for Hydrochlorofluorocarbon  |
| Tetrachloroethylene                       | • Dry cleaning, metal degreasing and cleaning, solvent  |
| Methylene chloride                        | • Metal degreasing and cleaning, solvent  |
| Cyclohexanone                             | • Solvent   |
| Cyclohexanol                              | • Solvent and raw material for synthesis  |
| Acrylic esters                            | • Acrylic fibers, fiber processors, paints, pressure sensitive adhesives/adhesives, leather processors, paper processors, and acrylic rubber  |
| Acrylic acid                              | • Nonwoven cloth binders, flocculants, dispersants, paper processors, superabsorbent resin, and detergent builders  |
| Polymer flocculants                       | • Treatment of various kinds of wastewater and dehydration of sludges   |
| Special Monomers and Oligomers            | • Raw material for paints, printing inks, coatings, and adhesives   |
| Pipes & Couplings                         | • Rigid PVC pipes   |
| Environmental Products                    | • Trash receptacles   |
| Nursing Care Products                     | • Portable toilets, nursing care bath products  |
| Cyanoacrylate Instant Adhesives           | • For bonding rubber, plastic, metal, and wood in industry and consumer   |
| Silver-based antimicrobial agents         | • Kitchen and bathroom equipment, building materials, and textile   |
| Antifungal agent                          | • Kitchen equipment, home appliances, and paints  |
| Heat-resistant adhesives                  | • For bonding metal and ceramics used under elevated temperatures   |
| Hot melt adhesives                        | • For bonding plastics, metals, and textiles<br>• For bonding difficult to bond plastic like polyethylene, polypropylene polyester, nylon   |

# Environmental Activities

As one of its management principles, Toagosei stresses the importance of sustaining corporate growth in harmony with the environment by proactive involvement in environmental preservation. In addition to ensuring compliance with regulations, the Company promotes the company-wide Responsible Care initiative according to its own goals and principles. Toagosei's ongoing efforts under the Guidelines for Safety and Environmental Protection are as follows.



Toagosei has acquired ISO14001 environmental management systems certification and ISO9000 series quality management systems certifications for all its plants.

### 1. Basic Safety and Environmental Protection Policy

Toagosei is committed to ensuring the environmental soundness of all its operations from product development to disposal.

### 2. Setting Environmental Protection Goals

- For environmental protection, the Company sets forth three points of focus: saving energy, reducing waste and promoting recycling, and voluntary curbs on the use environmentally unfriendly materials.

- For safety, the Company addresses five points of focus, notably strict measures to prevent disasters and accidents, and the establishment of a safety culture among its employees.

- Detailed annual goals are set for each year. During fiscal 2000, the Company made concentrated efforts to ensure compliance with new regulations, establish an environmental accounting system and prevent accidents.

### 3. Strengthening monitoring capabilities

Toagosei is working to strengthen its monitoring of these environmental initiatives by examining the results of Responsible Care programs under the leadership of top management, and also by enforcing external, internal and management reviews of ISO 14001 performance at all plants.

In line with this pursuit of environmental excellence, Toagosei has been working to develop a number of innovative environmentally sound products, as shown on page 13. In the same vein, the Company values community relations and therefore publicizes the results of its Responsible Care activities, organizes tours of its factories, and makes its welfare facilities accessible to the community.

## Environment maintenance control system

The company is promoting the Responsible Care (RC) with the following organizations:



### Environment and Safety Maintenance Conference

#### Environment and Safety Maintenance Promotion Conference

Review of the environment and safety maintenance in RC

#### Conference Specializing in Disaster Prevention

Review of environment and Safety maintenance and disaster prevention in the commercialization of new products and the changes in production system

#### Safety Promotion Conference

Review of Safety and health items in RC

We are implementing environmental preservation and employee safety assurance programs at our mainstay Nagoya Plant and all our other work sites.



### ARON FLOC

An acrylic polymer flocculant that prevents pollution by absorbing the water from liquid waste, leaving a solid residue behind. It is used to keep the living environment clean by purifying sewage and liquid household waste.



### AQUIRIE

Manufactured using Toagosei's special acrylic polymer production technology, Aquirie is a new type of anti-corrosion, waterproof lining material for use in water supply facilities. Its production does not involve the use of any solvents, and no raw materials containing endocrine disruptors are employed, making Aquirie environmentally friendly.

### NOVARON

A silver-based antimicrobial agent combining an inorganic ion exchanger and silver ions with strong sterilization properties. It can be used for fibers, plastic moldings, and paints because its anti-microbial effect works on a wide range of microorganisms and moulds over a prolonged period.



### TOARO WETTABLE POWDER CT

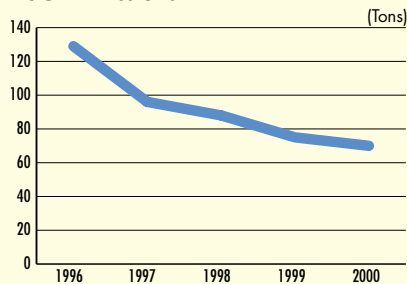
A non-hazardous bio-agricultural fungicide that employs a protein produced by microorganisms as an active component. It is quite unique in its efficacy only against insects, and is harmless to humans or livestock.

### KALIGREEN

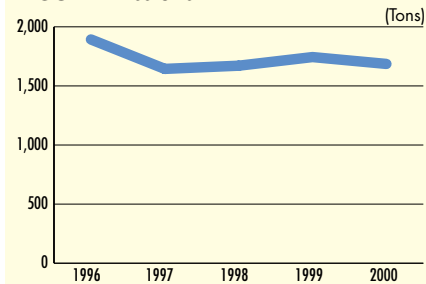
A non-hazardous, environmentally friendly agricultural fungicide, Kaligreen utilizes powdered potassium bicarbonate (a substance that is also contained in foodstuffs) coated with a special membrane. It is effective not only in the control of powdery mildew, but also as a nutritional agent for plants, supplying them with needed potassium.



SOx Emissions



COD Emissions



### Developing chemical business that create new value

Toagosei strives to create new business categories and innovative technologies for the chemical industry, using the expertise accumulated through its R&D hubs – the Nagoya Research & Development Institute and the Tsukuba Research Laboratory. In particular, the Company makes active efforts to increase the range of its specialty chemicals in pursuit of originality.

Toagosei's R&D efforts for the 21st century are focused on the polymer and bioscience fields. The Company's latest achievements include the development of a new acrylic polymer using the uniform functional oligomer (UFO) technology, which derives from the U.S.-based Johnson Polymer's process for producing solid-grade oligomer. The UFO technology almost eliminates the use of polymeric solvents, polymerization initiators and chain transfer agents, enabling efficient production of polymers without impurities, which is helpful in addressing environment and resource depletion issues. Under the trade name *Arufon*, the Company offers various UFO-based acrylic polymers for a wide range of applications.

In the bioscience sector, Toagosei's successful R&D achievements include *Kaligreen*, a fungicide that kills powdery mildew and also works as a fertilizer for vegetables, and an external cancer diagnostic for women. The Company will be tapping into the field of pharmaceuticals, trying to identify new potential substances for medicine and apply its expertise on diagnosis and chemical synthesis of nucleic acids in the medical research and development field.

Toagosei is constantly developing high-performance specialty products, including *Arufon* acrylic polymers, at its Nagoya Research & Development Institute. The Tsukuba Research Laboratory is engaged development of biochemical products.





### Seeking innovative production technologies and highly efficient production systems

Toagosei's production network extends across Japan, including the core Nagoya Plant and three others in Takaoka, Tokushima and Sakaide, as well as the plants of its affiliated companies Oita Chemical Co., Ltd. and Kawasaki Organic Chemical Co., Ltd. The mainstay Nagoya Plant boasts world-class production capacity in acrylic esters, and also produces various acrylic polymers and oligomers and high-performance materials. The best-selling *Aron Alpha* and other adhesives are mainly produced at the Takaoka Plant. Overseas, the Company started operations at new acrylic plants in Taiwan and Singapore in April 2001, and also has adhesive filling plants in the United States and China.

Toagosei optimizes its production performance by organizing operations at these plants according to demand, location and products manufactured, and each plant operates on the principles of environmental preservation and workplace safety on a continual basis. In addition, the Productive Technology Laboratory, established in 1999, is devoted to research into technologies for enhancing productivity on a company-wide scale. Comprehensive attempts are underway to improve the efficiency of all the Company's business operations by introducing strategic information systems, such as supply chain management (SCM) in April 2001 and enterprise resource planning (ERP) in 2002.



## Board of Directors and Auditors



*Left to right: Katsutoshi Yamada, Takeo Nakajima, Akio Arisawa, Bunshiro Fukuzawa, Akihiko Yamadera, Sakou Suzuki, and Hideki Kato*

### *President and Representative Director*

Bunshiro Fukuzawa

### *Vice President and Representative Director*

Sakou Suzuki

### *Directors*

Takeo Nakajima  
Akihiko Yamadera  
Akio Arisawa  
Hideki Kato  
Katsutoshi Yamada

### *Auditors*

Motoyuki Kitajima  
Manabu Terao  
Takeyoshi Ono  
Takero Kagao

(As of March 31, 2001)

## Six-Year Selected Data

Toagosei Co., Ltd. and Consolidated Subsidiaries Years ended December 31

| Consolidated Basis   | Millions of yen (except per-share data) |          |          |          |          |          |
|--|---|----------|----------|----------|----------|----------|
|  | 2000                                    | 1999     | 1998     | 1997     | 1996     | 1995     |
| <b>For the fiscal year:</b>                                |   |          |          |          |          |          |
| Net sales .....  | ¥145,246                                | ¥150,822 | ¥145,896 | ¥159,396 | ¥157,666 | ¥153,124 |
| Income before income taxes and<br>minority interests ..... | 2,927                                   | 5,552    | 2,690    | 5,790    | 9,230    | 12,927   |
| Net (loss) income .....                                    | (247)                                   | 2,069    | 254      | 1,824    | 3,220    | 3,399    |
| <b>Per-share data:</b>                                     |   |          |          |          |          |          |
| Per share of common stock:                                 |   |          |          |          |          |          |
| Net (loss) income .....                                    | (0.93)                                  | 7.75     | 0.95     | 6.67     | 11.87    | 13.27    |
| Cash dividends applicable to the year.....                 | 6.00                                    | 6.00     | 6.00     | 6.00     | 6.00     | 6.00     |
| <b>At year-end:</b>  |   |          |          |          |          |          |
| Total assets.....  | 187,923                                 | 196,289  | 203,788  | 190,782  | 188,248  | 198,869  |
| Shareholders' equity .....                                 | 80,268                                  | 81,731   | 80,664   | 80,999   | 85,857   | 72,274   |
| Number of employees .....                                  | 3,097                                   | 3,341    | 3,387    | 3,050    | 3,164    | 3,206    |

Toagosei Co., Ltd. Years ended December 31

| Non-Consolidated Basis                     | Millions of yen (except per-share data) |          |          |          |          |          |
|--|---|----------|----------|----------|----------|----------|
|  | 2000                                    | 1999     | 1998     | 1997     | 1996     | 1995     |
| <b>For the fiscal year:</b>                |   |          |          |          |          |          |
| Net sales .....                            | ¥ 84,841                                | ¥ 94,614 | ¥ 96,933 | ¥107,647 | ¥105,143 | ¥105,892 |
| Income before income taxes .....           | 3,040                                   | 3,064    | 1,160    | 2,226    | 5,045    | 10,748   |
| Net income .....                           | 1,853                                   | 1,824    | 740      | 1,346    | 2,760    | 4,778    |
| <b>Per-share data:</b>                     |   |          |          |          |          |          |
| Per share of common stock:                 |   |          |          |          |          |          |
| Net income .....                           | 6.93                                    | 6.82     | 2.77     | 4.93     | 10.17    | 18.65    |
| Cash dividends applicable to the year..... | 6.00                                    | 6.00     | 6.00     | 6.00     | 6.00     | 6.00     |
| <b>At year-end:</b>                        |   |          |          |          |          |          |
| Total assets.....                          | 137,575                                 | 141,138  | 147,197  | 137,675  | 136,407  | 147,808  |
| Shareholders' equity .....                 | 67,253                                  | 68,363   | 67,365   | 68,253   | 73,614   | 60,530   |
| Number of employees .....                  | 1,438                                   | 1,518    | 1,612    | 1,647    | 1,705    | 1,782    |

Note: Net income per share is computed based on the weighted average number of shares of common stock outstanding during each year.

# Management's Discussion and Analysis

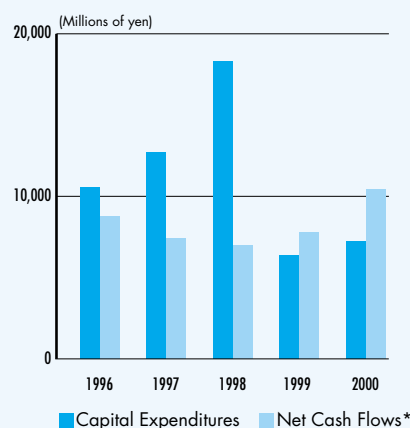
## Operating Environment

During the term under review, ended December 31, 2000, the Japanese economy once again failed to show clear signs of a recovery. Although public and housing investments underpinned the economy, consumer spending and capital expenditure were generally sluggish. Despite firm demand for some products, the chemical industry overall was severely affected by the economic stagnation. Moreover, crude oil prices rose, and chemical companies were unable to pass on the increased cost to their users.

## Financial Strategy

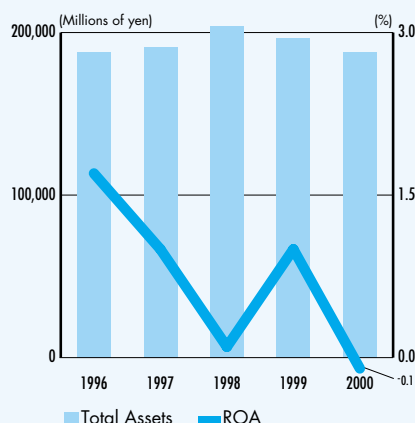
Against this backdrop, the Company established a strategic financial policy — including standards for capital expenditure — under which capital expenditure, in principle, will not exceed the amount of free cash flows. The Company has been taking measures to shorten the time required for cash recovery, mainly for notes and accounts receivable. The Company has also strengthened fund management, laying down the funding term standards to be applied to subsidiaries with the aim of reducing the burden on the parent company.

## Capital Expenditures & Net Cash Flows

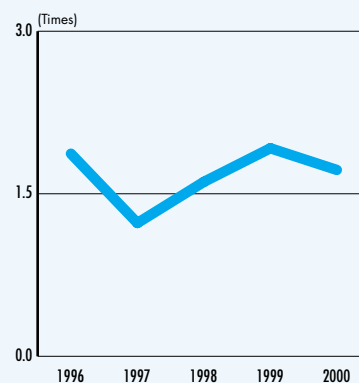


\*Net cash flow figures of from 1996 to 1999 are on a non-consolidated basis.

## Total Assets & ROA



## Current Ratio



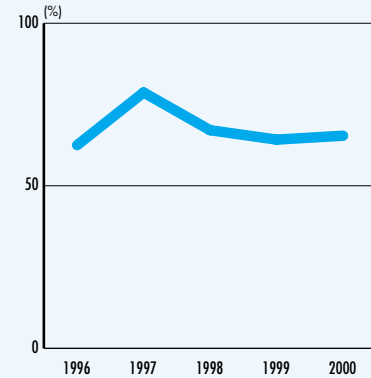
## Liquidity and Capital Resources

During the term, total assets decreased ¥8,365 million to ¥187,923 million (US\$1,637 million) on a consolidated basis. This decrease was mainly attributable to a decline in property, plant and equipment for the PVC business, which was transferred to a newly-established company. Total liabilities also declined, principally due to the repayment of short-and long-term loans with the goal of reducing the interest burden.

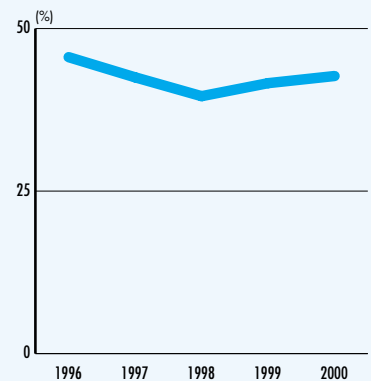
The current ratio declined from 192.3% to 171.3%. This was caused by an increase of ¥5,590 million in current liabilities as a result of a rise in the current portion of long-term debt. Meanwhile, current assets remained virtually unchanged. The ratio of property, plant and equipment to long-term capital also deteriorated slightly, from 64.2% to 65.4%, affected by the said increase in the current portion of long-term debt.

Shareholders' equity decreased by ¥1,462 million to ¥80,268 million (US\$699 million) due to a ¥247 million net loss. Shareholders' equity ratio, however, improved by 1.1 percentage points to 42.7%, thanks to a reduction in total assets.

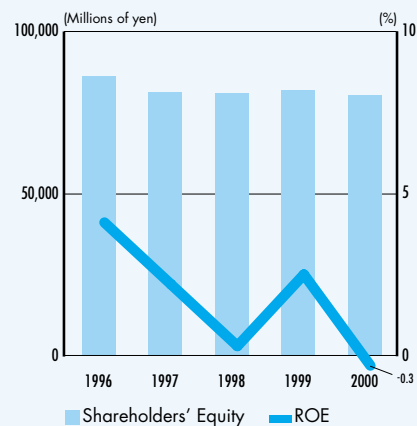
Ratio of Property, Plant and Equipment to Long-Term Capital



Ratio of Shareholders' Equity



Shareholders' Equity & ROE



## Cash Flows

Net cash provided by operating activities amounted to ¥12,598 million (US\$109 million), to which the decline in notes and accounts receivable contributed in addition to ordinary operating revenues.

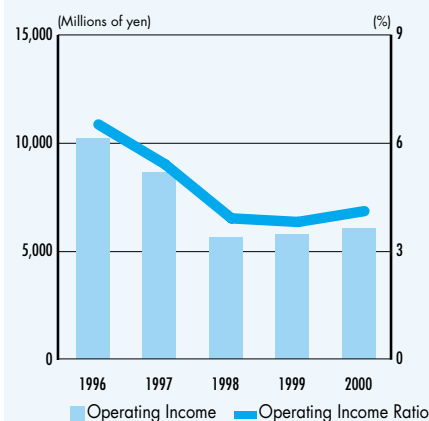
Net cash used in financing activities came to ¥5,707 million (US\$49 million). This result was a combination of proceeds from the transfer of plant and equipment for the PVC business, and investments in and advances to the affiliated company to which the Company transferred the business. Net cash used in financing activities came to ¥8,040 million (US\$70 million) due to repayment of short-and long-term loans as scheduled. As a result, cash and cash equivalents decreased ¥741 million to ¥10,442 million (US\$90 million) during the term.

## Results of operations

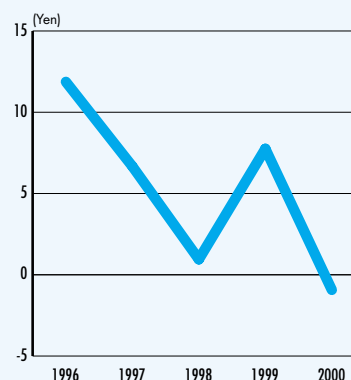
Consolidated net sales decreased ¥5,575 million to ¥145,246 million (US\$1,265 million), mainly due to decline in sales of PVC products as a result of business transfer. A decline in sales volume of ethylene dichloride also contributed to the lower overall sales figure. Operating income, however, increased 4.6% to ¥6,001 million (US\$52 million) thanks to restructuring measures including the separation of the unprofitable PVC business and other rationalization measures. As a result, the ratio of operating income to net sales improved from 3.8% for the previous term to 4.1%. Other expenses (net) increased by ¥2,889 million year-on-year to ¥3,074 million (US\$26 million). This was attributable to a fall in gains on sale of property and plant, the posting of a loss on business transfer, and asset valuation loss.

As a result, net loss amounted to ¥247 million (US\$2 million), compared with a net income of ¥2,069 million for the previous term. For the current term ending December 31, 2001, the Company forecasts net income of ¥700 million, mainly on the basis of an expected business improvement by equity-method subsidiaries.

## Operating Income & Ratio as a Percentage of Net Sales



## Net Income per Share



### Forward-Looking statements:

Various forward-looking statements have been included within this Report based on current forecasting and in accordance with anticipated business and corporate expectations, and actual results could potentially differ because of presently unforeseen circumstances.

# Consolidated Statements of Operations and Retained Earnings

Toagosei Co., Ltd. and Consolidated Subsidiaries Years ended December 31, 2000 and 1999

|  | Millions of yen |          | Thousands of<br>U.S. dollars (Note 3) |
|--|-----------------|----------|---------------------------------------|
|  | 2000            | 1999     | 2000                                  |
| Net sales.....   | ¥145,246        | ¥150,822 | \$1,265,760                           |
| Cost of sales.....   | 105,590         | 110,616  | 920,174                               |
| Gross profit.....  | 39,656          | 40,206   | 345,586                               |
| Selling, general and administrative expenses.....                    | 33,655          | 34,468   | 293,290                               |
| Operating income.....  | 6,001           | 5,738    | 52,296                                |
| Other income (expenses):   |                 |          |                                       |
| Interest and dividend income.....                                    | 512             | 561      | 4,462                                 |
| Interest expense.....  | (1,429)         | (1,447)  | (12,453)                              |
| Gain on sales and disposal of property, plant and equipment.....     | 1,079           | 2,935    | 9,403                                 |
| Equity in losses of affiliates.....                                  | (712)           | (1,036)  | (6,205)                               |
| Other, net.....  | (2,524)         | (1,199)  | (21,995)                              |
| Income before income taxes and minority interests.....               | 2,927           | 5,552    | 25,508                                |
| Income taxes (Note 7):   |                 |          |                                       |
| Current.....   | 2,879           | 3,328    | 25,089                                |
| Deferred.....  | 65              | —        | 567                                   |
|  | 2,944           | 3,328    | 25,656                                |
| Minority interests in earnings of consolidated subsidiaries.....     | (230)           | (155)    | (2,005)                               |
| Net (loss) income.....   | (247)           | 2,069    | (2,153)                               |
| Retained earnings at beginning of the year.....                      | 45,222          | 44,155   | 394,092                               |
| Cumulative effect of adoption of tax-effect accounting.....          | 526             | —        | 4,584                                 |
| Adjustments to retained earnings for inclusion in consolidation..... | —               | (131)    | —                                     |
| Cash dividends paid.....   | (1,603)         | (801)    | (13,970)                              |
| Directors' bonuses.....  | (41)            | (70)     | (357)                                 |
| Retained earnings at end of the year.....                            | ¥ 43,857        | ¥ 45,222 | \$ 382,196                            |
|  |                 | Yen      | U.S. dollars<br>(Note 3)              |
| Amounts per share:   |                 |          |                                       |
| Net (loss) income.....   | ¥(0.93)         | ¥7.75    | \$(0.01)                              |
| Cash dividends.....  | 6.00            | 6.00     | 0.05                                  |

See accompanying notes to consolidated financial statements.

# Consolidated Balance Sheets

Toagosei Co., Ltd. and Consolidated Subsidiaries December 31, 2000 and 1999

|   | Millions of yen |                 | Thousands of<br>U.S. dollars (Note 3) |
|---|-----------------|-----------------|---------------------------------------|
|   | 2000            | 1999            | 2000                                  |
| <b>Assets</b>   |                 |                 |                                       |
| <b>Current assets:</b>  |                 |                 |                                       |
| Cash and cash equivalents .....   | ¥ 10,442        | ¥ 11,183        | \$ 90,998                             |
| Time deposits and marketable securities (Notes 4 and 6) .....                             | 11,256          | 12,040          | 98,091                                |
| Receivables:  |                 |                 |                                       |
| Notes and accounts receivable:  |                 |                 |                                       |
| Unconsolidated subsidiaries and affiliates .....  | 1,175           | 1,505           | 10,240                                |
| Trade .....   | 48,174          | 48,707          | 419,817                               |
| Deferred tax assets (Note 7) .....  | 464             | —               | 4,043                                 |
| Advances to and loans receivable from unconsolidated<br>subsidiaries and affiliates ..... | 5,981           | 579             | 52,122                                |
|   | 55,794          | 50,791          | 486,222                               |
| Allowance for doubtful receivables .....  | (226)           | (248)           | (1,969)                               |
|   | 55,568          | 50,543          | 484,253                               |
| Inventories (Note 5) .....  | 13,393          | 14,941          | 116,715                               |
| Other current assets .....  | 1,602           | 3,500           | 13,960                                |
| <b>Total current assets</b> .....   | <b>92,261</b>   | <b>92,207</b>   | <b>804,017</b>                        |
| <br>  |                 |                 |                                       |
| <b>Property, plant and equipment</b> (Note 6): .....                                      | <b>236,798</b>  | <b>245,680</b>  | <b>2,063,599</b>                      |
| Accumulated depreciation .....  | (157,579)       | (158,790)       | (1,373,237)                           |
|   | 79,219          | 86,890          | 690,362                               |
| <br>  |                 |                 |                                       |
| <b>Investments and other assets:</b>  |                 |                 |                                       |
| Investments in and advances to unconsolidated subsidiaries and affiliates .....           | 7,634           | 4,053           | 66,527                                |
| Investments in securities (Notes 4 and 6) .....   | 2,380           | 2,701           | 20,741                                |
| Deferred tax assets (Note 7) .....  | 834             | —               | 7,268                                 |
| Other assets .....  | 4,493           | 8,682           | 39,155                                |
|   | 15,341          | 15,436          | 133,691                               |
| <br>  |                 |                 |                                       |
| <b>Translation adjustments</b> .....  | <b>1,102</b>    | <b>1,756</b>    | <b>9,603</b>                          |
| <b>Total</b> .....  | <b>¥187,923</b> | <b>¥196,289</b> | <b>\$1,637,673</b>                    |

See accompanying notes to consolidated financial statements.



|  | Millions of yen |                 | Thousands of<br>U.S. dollars (Note 3) |
|--|-----------------|-----------------|---------------------------------------|
|  | 2000            | 1999            | 2000                                  |
| <b>Liabilities, minority interests and shareholders' equity</b>      |                 |                 |                                       |
| <b>Current liabilities:</b>  |                 |                 |                                       |
| Short-term bank loans (Note 6) .....                                 | ¥ 4,705         | ¥ 8,045         | \$ 41,002                             |
| Current portion of long-term debt (Note 6) .....                     | 12,450          | 2,993           | 108,497                               |
| Commercial paper.....  | 4,000           | 2,500           | 34,858                                |
| Payables:  |                 |                 |                                       |
| Unconsolidated subsidiaries and affiliates .....                     | 438             | 285             | 3,817                                 |
| Trade.....   | 21,047          | 22,643          | 183,416                               |
| Notes payable for acquisition of property, plant and equipment ..... | 578             | 1,139           | 5,037                                 |
| Other .....  | 5,436           | 5,076           | 47,373                                |
|  | <u>27,499</u>   | <u>29,143</u>   | <u>239,643</u>                        |
| Accrued expenses .....   | 2,254           | 2,344           | 19,643                                |
| Accrued income taxes (Note 7) .....                                  | 1,428           | 1,926           | 12,444                                |
| Other current liabilities .....                                      | 1,208           | 1,004           | 10,527                                |
| <b>Total current liabilities</b> .....                               | <b>53,544</b>   | <b>47,955</b>   | <b>466,614</b>                        |
| <b>Long-term liabilities:</b>  |                 |                 |                                       |
| Long-term debt (Note 6) .....  | 35,436          | 48,919          | 308,810                               |
| Deferred tax liabilities (Note 7) .....                              | 1,218           | —               | 10,614                                |
| Retirement allowances .....  | 2,430           | 2,452           | 21,177                                |
| Other long-term liabilities.....                                     | 1,721           | 2,309           | 14,998                                |
|  | <u>40,805</u>   | <u>53,680</u>   | <u>355,599</u>                        |
| <b>Minority interests in consolidated subsidiaries</b> .....         | <b>13,306</b>   | <b>12,923</b>   | <b>115,957</b>                        |
| <b>Shareholders' equity (Notes 8 and 14):</b>                        |                 |                 |                                       |
| Common stock, ¥50 par value:   |                 |                 |                                       |
| Authorized – 467,650,000 shares                                      |                 |                 |                                       |
| Issued:  |                 |                 |                                       |
| 2000 – 267,129,768 shares .....                                      | 20,886          | —               | 182,013                               |
| 1999 – 267,129,768 shares .....                                      | —               | 20,886          | —                                     |
| Capital surplus .....  | 15,623          | 15,623          | 136,148                               |
| Retained earnings.....   | 43,857          | 45,222          | 382,196                               |
| Unrealized holding gains on securities .....                         | 32              | —               | 279                                   |
| Less treasury stock, at cost .....                                   | (130)           | (0)             | (1,133)                               |
|  | <u>80,268</u>   | <u>81,731</u>   | <u>699,503</u>                        |
| <b>Contingent liabilities (Note 9)</b>                               |                 |                 |                                       |
| <b>Total</b> .....   | <b>¥187,923</b> | <b>¥196,289</b> | <b>\$1,637,673</b>                    |

# Consolidated Statement of Cash Flows

Toagosei Co., Ltd. and Consolidated Subsidiaries Year ended December 31, 2000

|   | Millions of yen       | Thousands of<br>U.S. dollars (Note 3) |
|---|-----------------------|---------------------------------------|
|   | 2000                  | 2000                                  |
| <b>Operating activities:</b>  |                       |                                       |
| Income before income taxes and minority interests .....                   | ¥ 2,927               | \$ 25,508                             |
| Depreciation and amortization .....                                       | 10,551                | 91,948                                |
| Decrease in provision for doubtful receivables .....                      | 157                   | 1,368                                 |
| Decrease in other provisions .....  | (264)                 | (2,301)                               |
| Interest and dividend income .....  | (512)                 | (4,462)                               |
| Interest expense .....  | 1,429                 | 12,453                                |
| Foreign currency exchange loss .....                                      | 74                    | 645                                   |
| Gain on sales of marketable securities .....                              | (76)                  | (662)                                 |
| Equity in losses of affiliates .....                                      | 712                   | 6,205                                 |
| Gain on sales of property, plant and equipment .....                      | (434)                 | (3,782)                               |
| Gain on sales of investments in securities .....                          | (684)                 | (5,961)                               |
| Loss on disposal of property, plant and equipment .....                   | 607                   | 5,290                                 |
| Unrealized loss on securities .....                                       | 112                   | 976                                   |
| Loss on devaluation of memberships at golf clubs .....                    | 329                   | 2,867                                 |
| Receivables .....   | 1,071                 | 9,333                                 |
| Inventories .....   | 1,567                 | 13,656                                |
| Payables .....  | (1,665)               | (14,510)                              |
| Other .....   | 417                   | 3,634                                 |
| Director's bonuses .....  | (60)                  | (523)                                 |
|   | <u>16,258</u>         | <u>141,682</u>                        |
| Interest and dividend received .....                                      | 512                   | 4,462                                 |
| Interest paid .....   | (1,399)               | (12,192)                              |
| Income taxes paid .....   | (2,773)               | (24,165)                              |
| <b>Net cash provided by operating activities .....</b>                    | <b>12,598</b>         | <b>109,787</b>                        |
| <b>Investing activities:</b>  |                       |                                       |
| Acquisitions of time deposits .....                                       | 255                   | 2,222                                 |
| Withdrawal of time deposits .....   | (249)                 | (2,170)                               |
| Purchases of marketable securities .....                                  | (249)                 | (2,170)                               |
| Proceeds from sales of marketable securities .....                        | 615                   | 5,360                                 |
| Purchases of investments in securities .....                              | (3,141)               | (27,373)                              |
| Proceeds from sales of investments in securities .....                    | 1,065                 | 9,281                                 |
| Acquisition of shares of consolidated subsidiaries .....                  | (200)                 | (1,743)                               |
| Purchases of property, plant and equipment .....                          | (7,163)               | (62,423)                              |
| Proceeds from sales of property, plant and equipment .....                | 7,396                 | 64,453                                |
| Increase in short-term loans .....  | (5,322)               | (46,379)                              |
| Long-term loans made .....  | (13)                  | (113)                                 |
| Collection of long-term loans .....                                       | 647                   | 5,639                                 |
| Other, net .....  | 651                   | 5,673                                 |
| <b>Net cash used in investing activities .....</b>                        | <b>(5,708)</b>        | <b>(49,743)</b>                       |
| <b>Financing activities:</b>  |                       |                                       |
| Decrease in short-term bank loans .....                                   | (1,948)               | (16,976)                              |
| Proceeds from long-term loans .....                                       | 800                   | 6,972                                 |
| Repayment of long-term loans .....  | (5,162)               | (44,985)                              |
| Proceeds from issuance of shares to minority shareholders .....           | 203                   | 1,769                                 |
| Purchases of treasury common stock .....                                  | (129)                 | (1,124)                               |
| Cash dividends to shareholders .....                                      | (1,804)               | (15,721)                              |
| <b>Net cash used in financing activities .....</b>                        | <b>(8,040)</b>        | <b>(70,065)</b>                       |
| <b>Effect of exchange rate changes on cash and cash equivalents .....</b> | <b>409</b>            | <b>3,564</b>                          |
| <b>Net decrease in cash and cash equivalents .....</b>                    | <b>(741)</b>          | <b>(6,457)</b>                        |
| <b>Cash and cash equivalents at beginning of the year .....</b>           | <b>11,183</b>         | <b>97,455</b>                         |
| <b>Cash and cash equivalents at end of the year .....</b>                 | <b><u>¥10,442</u></b> | <b><u>\$ 90,998</u></b>               |

See accompanying notes to consolidated financial statements.

# Notes to Consolidated Financial Statements

Toagosei Co., Ltd. and Consolidated Subsidiaries December 31, 2000

## 1. Basis of Preparation

Toagosei Co., Ltd. (the "Company") and its domestic subsidiaries maintain their books of account in conformity with the financial accounting standards of Japan, and its foreign subsidiaries maintain their books of account in conformity with those of the countries of their domicile.

The accompanying consolidated financial statements have been compiled from the consolidated financial statements prepared by the Company as required under the Securities and Exchange Law of Japan and, have been prepared in accordance with accounting principles and practices generally accepted in Japan, which may differ in certain material respects from accounting principles and practices generally accepted in countries and jurisdictions other than Japan.

Effective the year ended December 31, 2000, the Company was required to prepare a consolidated statement of cash flows as part of its consolidated financial statements for the first time under the Securities and Exchange Law of Japan. Accordingly, the Company prepared a 2000 consolidated statement of cash flows in accordance with "Accounting Standards for Statements of Cash Flows."

Certain amounts in the prior years' consolidated financial statements have been reclassified to conform to the current year's presentation.

## 2. Summary of Significant Accounting Policies

### Principles of Consolidation and Accounting for Investments in Unconsolidated Subsidiaries and Affiliates

Until the year ended December 31, 1999, the consolidated financial statements included the accounts of the Company and its significant subsidiaries, and investments in certain unconsolidated subsidiaries and significant affiliates (owned 20% to 50%) were accounted for by the equity method.

In accordance with a recently revised accounting standard for consolidation, the accompanying consolidated financial statements for the year ended December 31, 2000 include the accounts of the Company and significant companies controlled directly or indirectly by the Company. Significant companies over which the Company exercises substantial influence in terms of their operating and financial policies have been included in the consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

The difference at the dates of acquisition between the cost and the underlying net equity of investments in consolidated subsidiaries and companies accounted for by the equity method is being amortized by the straight-line method over a period of five years.

### Foreign Currency Translation

Revenue and expense accounts of three foreign consolidated subsidiaries are translated at the rate of exchange in effect at the balance sheet date, and, except for the components of shareholders' equity, the balance sheet accounts are also translated into yen at the same exchange rate. The components of shareholders' equity are translated at the historical exchange rates.

Translation differences are presented as "Translation adjustments" in the accompanying consolidated financial statements.

### Cash Equivalents

All highly liquid investments with a maturity of three months or less when purchased are considered cash equivalents.

### Marketable Securities and Investments in Securities

Listed securities are stated at the lower of cost (determined by the moving average method) or market. Securities other than listed securities are stated at cost determined by the moving average method.

### Inventories

Inventories are stated at cost determined by the average method.

### Property, Plant and Equipment

Depreciation of property, plant and equipment is computed principally by the straight-line method over the estimated useful lives of the respective assets, except for five consolidated subsidiaries for which depreciation is computed by the declining-balance method over the estimated useful lives of the respective assets.

### Income Taxes

In accordance with a new accounting standard for income taxes, deferred tax assets and liabilities have been initially recognized in the consolidated financial statements for the year ended December 31, 2000 with respect to the differences between financial reporting and the tax bases of the assets and liabilities, and were measured using the enacted tax rates and laws which will be in effect when the differences are expected to reverse. Until the year ended December 31, 1999, tax-effect accounting had not been adopted by the Company.

The effect of this change was to increase net loss by ¥64 million (\$558 thousand) and retained earnings by ¥460 million (\$4,009 thousand) for the year ended December 31, 2000.

### Research and Development Expenses

Research and development expenses are charged to income as incurred.

A new accounting standard for research and development costs become effective the fiscal year ended December 31, 2000. However, the adoption of this new standard had no effect on the consolidated statement of operations and retained earnings for the year ended December 31, 2000.

### Leases

Noncancelable lease transactions are accounted for as operating leases (whether such leases are classified as operating or finance leases) except that lease agreements which stipulate the transfer of ownership of the leased assets to the lessee are accounted for as finance leases.

### Retirement Allowances and Pension Plans

The Company and six consolidated subsidiaries have non-contributory funded pension plans covering substantially all employees which have replaced the prior employee retirement allowances plans. The liability for retirement allowances of one of these consolidated subsidiaries represents the unamortized balance of the previously accrued liability at the inception of the non-contributory pension plan. The liability for retirement allowances of the three consolidated subsidiaries is principally stated at the maximum amount allowable for income tax purposes, which is 40% of the amount which would be required to be paid if all eligible employees terminated their employment voluntarily at the balance sheet date. Three other consolidated subsidiaries record 100% of their liability, less the fund balance of their non-contributory funded pension plan.

In addition, directors and statutory auditors of the Company and certain consolidated subsidiaries are customarily entitled to lump-sum payments under the unfunded retirement plans. The provision for retirement allowances for these officers has been made at estimated amounts.

### Appropriation of Retained Earnings

Under the Commercial Code of Japan (the "Code"), the appropriation of retained earnings with respect to a given financial period is made by resolution of the shareholders at a general meeting held subsequent to the close of such financial period. The accounts for that period do not, therefore, reflect such appropriations. See Note 14.

### Amounts Per Share

The computation of net income per share is based on the weighted average number of shares of common stock outstanding during each year.

Cash dividends per share represent the cash dividends declared as applicable to the respective years together with the interim cash dividends paid.

### 3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is included solely for convenience, as a matter of arithmetic computation only, at the rate of ¥114.75 = \$1.00, the approximate exchange rate at December 31, 2000. The translation should not be construed as a representation that yen have been, could have been, or could in the future be, converted into U.S. dollars at the above or any other rate.

### 4. Marketable and Investment Securities

The book values and related aggregate market values at December 31, 2000 of current and noncurrent marketable securities included in marketable securities and investments in securities are summarized as follows:

|                                | Millions of yen |              | Thousands of U.S. dollars |              |
|--------------------------------|-----------------|--------------|---------------------------|--------------|
|                                | Book value      | Market value | Book value                | Market value |
| Marketable securities.....     | ¥11,124         | ¥18,260      | \$96,941                  | \$159,129    |
| Investments in securities..... | ¥ 1,228         | ¥ 2,755      | \$10,702                  | \$ 24,009    |

### 5. Inventories

Inventories at December 31, 2000 and 1999 consisted of the following:

|  | Millions of yen |                | Thousands of U.S. dollars |
|--|-----------------|----------------|---------------------------|
|  | 2000            | 1999           | 2000                      |
| Merchandise and finished products..... | ¥ 9,078         | ¥10,245        | \$ 79,111                 |
| Semi-finished goods.....               | 675             | 559            | 5,883                     |
| Goods in transit.....                  | 14              | 38             | 122                       |
| Work in process.....                   | 347             | 493            | 3,024                     |
| Raw materials and supplies.....        | 3,279           | 3,606          | 28,575                    |
|  | <u>¥13,393</u>  | <u>¥14,941</u> | <u>\$116,715</u>          |

### 6. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans, principally unsecured, were notes payable to banks bearing interest at 1.5 per cent. and 0.9 per cent. per annum at December 31, 2000 and 1999, respectively.

Long-term debt at December 31, 2000 and 1999 is summarized as follows:

|   | Millions of yen |                | Thousands of U.S. dollars |
|---|-----------------|----------------|---------------------------|
|   | 2000            | 1999           | 2000                      |
| 2.45% yen bonds due 2001.....   | ¥10,000         | ¥10,000        | \$ 87,146                 |
| 1.90% yen bonds due 2003.....   | 10,000          | 10,000         | 87,146                    |
| 2.25% yen bonds due 2004.....   | 10,000          | 10,000         | 87,146                    |
| Loans with collateral from banks, insurance companies and others..... | 17,886          | 21,912         | 155,869                   |
|   | <u>47,886</u>   | <u>51,912</u>  | <u>417,307</u>            |
| Less: current portion.....  | (12,450)        | (2,993)        | (108,497)                 |
|   | <u>¥35,436</u>  | <u>¥48,919</u> | <u>\$308,810</u>          |

Assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2000 and 1999 were as follows:

|  | Millions of yen |                | Thousands of<br>U.S. dollars |
|--|-----------------|----------------|------------------------------|
|  | 2000            | 1999           | 2000                         |
| Property, plant and equipment, at net book value .....   | <u>¥42,157</u>  | ¥50,238        | <u>\$367,381</u>             |
| Marketable securities and investments in securities..... | <u>5,845</u>    | <u>6,247</u>   | <u>50,937</u>                |
|  | <u>¥48,002</u>  | <u>¥56,485</u> | <u>\$418,318</u>             |

The aggregate annual maturities of long-term debt subsequent to December 31, 2000 are summarized as follows:

| For the year ending December 31, | Millions of yen | Thousands of<br>U.S. dollars |
|----------------------------------|-----------------|------------------------------|
| 2001 .....                       | ¥12,450         | \$108,497                    |
| 2002 .....                       | 2,082           | 18,144                       |
| 2003 .....                       | 18,939          | 165,046                      |
| 2004 .....                       | 11,829          | 103,085                      |
| 2005 .....                       | 1,193           | 10,396                       |
| 2006 and thereafter .....        | <u>1,393</u>    | <u>12,139</u>                |
|                                  | <u>¥47,886</u>  | <u>\$417,307</u>             |

## 7. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rates of approximately 41.7 per cent. and 47.4 per cent. for 2000 and 1999, respectively. The effective tax rate reflected in the accompanying consolidated statement of operations and retained earnings for the year ended December 31, 1999 differs from the statutory tax rate primarily due to the effect of timing differences in the recognition of certain income and expenses for tax and financial reporting purposes and the effect of permanent non-deductible expenses.

The effective tax rate reflected in the consolidated statement of operations and retained earnings for the year ended December 31, 2000 differs from the statutory tax rate for the following reasons:

|  |               |
|--|---------------|
| Statutory tax rate .....   | 41.7%         |
| Effect of:   |               |
| Permanent difference – entertainment expense.....                                | 8.5           |
| Permanent difference – dividend income.....                                      | (3.0)         |
| Inhabitants' taxes per capita.....   | 2.8           |
| Amortization of excess of cost over net assets acquired.....                     | 4.0           |
| Equity in losses of affiliates .....   | 14.6          |
| Valuation allowance.....   | 24.2          |
| Different tax rates applied to income of foreign consolidated subsidiaries ..... | 9.7           |
| Other, net.....  | (1.9)         |
| Effective tax rate.....  | <u>100.6%</u> |

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries as of December 31, 2000 were as follows:

|   | Millions of yen | Thousands of<br>U.S. dollars |
|---|-----------------|------------------------------|
| Deferred tax assets:                                  |                 |                              |
| Valuation loss on securities.....                     | ¥1,080          | \$ 9,412                     |
| Elimination of unrealized profit.....                 | 1,291           | 11,250                       |
| Accrued severance indemnities.....                    | 736             | 6,414                        |
| Accrued enterprise tax .....                          | 156             | 1,359                        |
| Allowance for doubtful receivables .....              | 129             | 1,124                        |
| Accrued bonuses .....                                 | 113             | 985                          |
| Net operating loss carry-forwards.....                | 2,327           | 20,279                       |
| Others .....  | <u>309</u>      | <u>2,693</u>                 |
|   | 6,141           | 53,516                       |
| Valuation allowance.....                              | <u>(2,959)</u>  | <u>(25,786)</u>              |
| Total deferred tax assets.....                        | 3,182           | 27,730                       |
| Deferred tax liabilities:                             |                 |                              |
| Reserve under special Taxation Measures Law .....     | (2,328)         | 20,288                       |
| Undistributed earnings of overseas partnerships ..... | (719)           | 6,266                        |
| Other.....  | <u>(55)</u>     | <u>479</u>                   |
| Total deferred tax liabilities .....                  | <u>(3,102)</u>  | <u>27,033</u>                |
| Net deferred tax assets.....                          | <u>¥ 80</u>     | <u>\$ 697</u>                |

**8. Capital Surplus and Retained Earnings** In accordance with the Commercial Code of Japan, the Company has provided a legal reserve, which is included in retained earnings. The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors.

**9. Contingent Liabilities** At December 31, 2000, the Company and consolidated subsidiaries had the following contingent liabilities:

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Trade notes receivable and export bills discounted ..... | ¥ 194           | \$ 1,690                  |
| Guarantees of indebtedness .....                         | 5,621           | 48,985                    |
|  | <u>¥5,815</u>   | <u>\$50,675</u>           |

**10. Research and Development Expenses** Research and development expenses included in selling, general and administrative expenses and manufacturing costs for the year ended December 31, 2000 were ¥6,036 million (\$52,601 thousand).

**11. Leases** The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of December 31, 2000 and 1999, which would have been reflected in the consolidated balance sheets if finance lease accounting had been applied to the finance lease transactions currently accounted for as operating leases:

|                               | Millions of yen |               | Thousands of U.S. dollars |
|-------------------------------|-----------------|---------------|---------------------------|
|                               | 2000            | 1999          | 2000                      |
| Acquisition cost:             |                 |               |                           |
| Machinery and equipment ..... | <u>¥2,161</u>   | <u>¥1,599</u> | <u>\$18,832</u>           |
| Accumulated depreciation:     |                 |               |                           |
| Machinery and equipment ..... | <u>¥1,271</u>   | <u>¥ 929</u>  | <u>\$11,076</u>           |
| Net book value:               |                 |               |                           |
| Machinery and equipment ..... | <u>¥ 890</u>    | <u>¥ 670</u>  | <u>\$ 7,756</u>           |

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥420 million (\$3,660 thousand) and ¥363 million, which were equal to the depreciation expense of the leased assets computed by the straight-line method over the respective lease terms for the years ended December 31, 2000 and 1999, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2000 for noncancelable operating leases and finance lease transactions accounted for as operating leases are summarized as follows:

| Year ending December 31,  | Millions of yen  |                | Thousands of U.S. dollars |                |
|---------------------------|------------------|----------------|---------------------------|----------------|
|                           | Operating leases | Finance leases | Operating leases          | Finance leases |
| 2001 .....                | ¥ 8              | ¥353           | \$ 70                     | \$3,076        |
| 2002 and thereafter ..... | 34               | 537            | 296                       | 4,680          |
| Total.....                | <u>¥42</u>       | <u>¥890</u>    | <u>\$366</u>              | <u>\$7,756</u> |

## 12. Derivative Transactions

The Company utilizes derivative financial instruments for the purpose of hedging its exposure to adverse fluctuations in foreign currency exchange rates and interest rates, but does not enter into such transactions for speculation or trading purposes.

The Company is exposed to credit loss in the event of nonperformance by the counterparties to the derivative financial instruments, but any such loss would not be material because the Company enters into transactions only with financial institutions with high credit ratings. The notional amounts of the derivative financial instruments do not necessarily represent the amounts exchanged by the parties and, therefore, are not a direct measure of the Company's risk exposure in connection with derivative financial instruments.

Summarized below are the notional amounts and the estimated fair value of the derivative transactions outstanding at March 31, 2000:

### (1) Currency related transactions

|                          | Millions of yen |            |                        | Thousands of U.S. dollars |              |                        |
|--------------------------|-----------------|------------|------------------------|---------------------------|--------------|------------------------|
|                          | Notional amount | Fair value | Unrealized gain (loss) | Notional amount           | Fair value   | Unrealized gain (loss) |
| <b>Options</b>           |                 |            |                        |                           |              |                        |
| Call options, purchased: |                 |            |                        |                           |              |                        |
| US\$ .....               | ¥288            | ¥14        | ¥17                    | \$2,510                   | \$122        | \$148                  |
| (Premium) .....          | —               | (—)        | —                      | —                         | (—)          | —                      |
| Total .....              | <u>¥288</u>     | <u>¥14</u> | <u>¥17</u>             | <u>\$2,510</u>            | <u>\$122</u> | <u>\$148</u>           |

### (2) Interest related transactions

|                                      | Millions of yen |              |                        | Thousands of U.S. dollars |                |                        |
|--------------------------------------|-----------------|--------------|------------------------|---------------------------|----------------|------------------------|
|                                      | Notional amount | Fair value   | Unrealized gain (loss) | Notional amount           | Fair value     | Unrealized gain (loss) |
| <b>Interest rate swaps:</b>          |                 |              |                        |                           |                |                        |
| Receive/fixed and pay/floating ..... | ¥ 300           | ¥ 13         | ¥ 13                   | \$ 2,614                  | \$ 113         | \$ 113                 |
| Receive/floating and pay/fixed ..... | 2,950           | (51)         | (51)                   | 25,708                    | (444)          | (444)                  |
| Total .....                          | <u>¥3,250</u>   | <u>¥(37)</u> | <u>¥(37)</u>           | <u>\$28,322</u>           | <u>\$(322)</u> | <u>\$(322)</u>         |

## 13. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the chemical industry segment in Japan. As net sales, operating income and total assets from the chemical business of the Company and its consolidated subsidiaries constituted more than 90% of the consolidated totals for both the years ended December 31, 2000 and 1999, the disclosure of business segment information has been omitted.

The disclosure of geographical segment information has also been omitted as net sales and total assets of the foreign operations constituted less than 10% of the consolidated totals for both the years ended December 31, 2000 and 1999.

Overseas sales of the Company and its consolidated subsidiaries constituted less than 10% of the consolidated net sales for both the years ended December 31, 2000 and 1999.

## 14. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2000, were approved at a shareholders' meeting held on March 29, 2001:

|  | Millions of yen | Thousands of U.S. dollars |
|--|-----------------|---------------------------|
| Cash dividends – ¥6.00 (\$0.052) per share ..... | <u>¥1,598</u>   | <u>\$13,926</u>           |

## **Century Ota Showa & Co.**

**Certified Public Accountants**  
Hibiya Kokusai Bldg.  
2-2-3, Uchisaiwai-cho  
Chiyoda-ku, Tokyo 100-0011  
C.P.O. Box 1196, Tokyo 100-8641

Phone: 03 3503-1100  
Fax: 03 3503-1197

The Board of Directors  
Toagosei Co., Ltd.

We have examined the consolidated balance sheets of Toagosei Co., Ltd. and consolidated subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations and retained earnings for the years then ended and cash flows for the year ended December 31, 2000, all expressed in yen. Our examinations were made in accordance with auditing standards, procedures and practices generally accepted and applied in Japan and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated financial statements, expressed in yen, present fairly the financial position of Toagosei Co., Ltd. and consolidated subsidiaries at December 31, 2000 and 1999, and the results of their operations for the years then ended and their cash flows for the year ended December 31, 2000 in conformity with accounting principles and practices generally accepted in Japan applied on a consistent basis.

As described in Note 2 to the consolidated financial statements, Toagosei Co., Ltd. and consolidated subsidiaries have adopted new accounting standards for consolidation, research and development expenses and tax-effect accounting in the preparation of their consolidated financial statements for the year ended December 31, 2000.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2000 are presented solely for convenience. Our examination 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 3 to the consolidated financial statements.

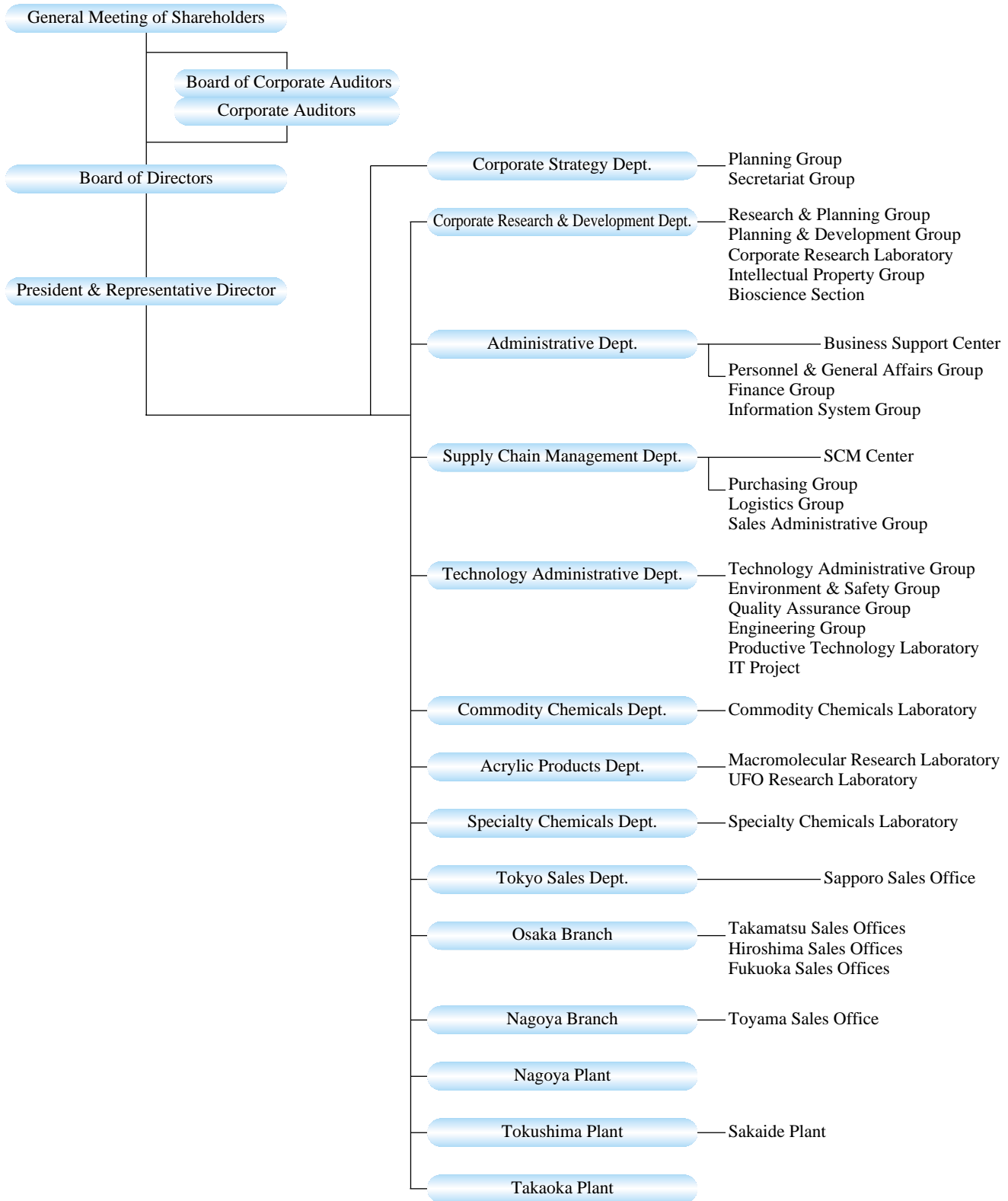
*Century Ota Showa & Co.*

March 29, 2001

*See Note 1 to the consolidated financial statements which explains the basis of preparing the consolidated financial statements of Toagosei Co., Ltd. and consolidated subsidiaries under Japanese accounting principles and practices.*



## Organization (As of April 1, 2001)



## Directory

### Domestic Network

#### Head Office

1-14-1, Nishi-Shimbashi, Minato-ku, Tokyo  
105- 8419, Japan  
Tel: 03-3597-7215 Fax: 03-3597-7217

#### Osaka Branch

3-6-2, Hirano-machi, Chuo-ku, Osaka  
541-0046, Japan  
Tel: 06-6203-3171 Fax: 06-6203-6870

#### Nagoya Branch

1-16-30, Meieki-minami, Nakamura-ku,  
Nagoya 450-0003, Japan  
Tel: 052-541-1181 Fax: 052-581-1817

#### Toyama Sales Office

5-13, Sakurabashi-dori, Toyama 930-0004,  
Japan  
Tel: 0764-42-2311 Fax: 0764-41-3690

#### Takamatsu Sales Office

3, Kajiyamachi, Takamatsu, Kagawa 760-  
0028, Japan  
Tel: 087-825-2671 Fax: 087-822-1276

#### Fukuoka Sales Office

2-14-2, Tenjin, Chuo-ku, Fukuoka 810-0001,  
Japan  
Tel: 092-721-1902 Fax: 092-721-1914

#### Hiroshima Sales Office

11-10, Motomachi, Naka-ku, Hiroshima  
730-0011, Japan  
Tel: 082-228-5430 Fax: 082-227-6737

#### Nagoya Plant

17-23, Showacho, Minato-ku, Nagoya  
455-0026, Japan  
Tel: 052-611-9804 Fax: 052-612-5733

#### Tokushima Plant

575-1, Nakashima, Kawauchicho, Tokushima  
771-0188, Japan  
Tel: 088-665-2111 Fax: 088-665-3867

#### Takaoka Plant

2-1-3, Fushiki, Takaoka, Toyama 933-0195,  
Japan  
Tel: 0766-44-7401 Fax: 0766-44-7410

#### Sakaide Plant

2-4-1, Showacho, Sakaide, Kagawa 762-0004,  
Japan  
Tel: 0877-46-3161 Fax: 0877-45-4727

#### Nagoya Research & Development Institute

1-1, Funamicho, Minato-ku, Nagoya  
455-0027, Japan  
Tel: 052-611-9901 Fax: 052-611-1693

#### Tsukuba Research Laboratory

2, Okubo, Tsukuba, Ibaraki 300-2611, Japan  
Tel: 0298-65-2600 Fax: 0298-65-2610

### Overseas Subsidiaries

#### Toagosei Hong Kong Ltd.

Room 1111 11/FL, Kwong Sang Hong  
Centre, 151-153 Hoi Bun Road Kwun Tong,  
Kowloon, Hong Kong  
Tel: 852-27631086 Fax: 852-27631798

#### Toagosei America Inc.

650 Shawan Falls Drive, Suite 205, Dublin,  
OH 43017, USA  
Tel: 614-718-3855 Fax: 614-718-3866

#### Toagosei Asia Pte Ltd

1 Robinson Road, #21-02 AIA Tower  
Singapore 048542  
Tel: 65-4385411 Fax: 65-4385422

## Principal Subsidiaries and Affiliates (As of December 31, 2000)

| Name of Company                          | Line of Business  | Our Share (%) | Capital (¥ in millions) |
|--|---|---------------|-------------------------|
| Tsurumi Soda Co., Ltd.                   | Manufacture & sale of chemical products                         | 61.5          | ¥2,080                  |
| Aron Kasei Co., Ltd.                     | Manufacture & sale of synthetic resin molded products           | 61.1          | ¥4,220                  |
| Toagosei Asia Pte Ltd                    | Sale of chemical products                                       | 100.0         | S\$62,713,000           |
| Aron Ever-Grip Ltd.                      | Manufacture & sale of adhesives                                 | 100.0         | £223,000                |
| Oita Chemical Co., Ltd.                  | Manufacture of chemical products                                | 90.0          | ¥1,500                  |
| Toagosei America Inc.                    | Manufacture & sale of chemical products; technological research | 100.0         | US\$6,100,000           |
| Nihon Junyaku Co., Ltd.                  | Manufacture & sale of chemical products                         | 97.6          | ¥351                    |
| Kyoei Co., Ltd.                          | Sale of chemical products                                       | 100.0         | ¥100                    |
| Toa Logistics Co., Ltd.                  | Product distribution  | 100.0         | ¥16                     |
| Toa Kakoki Co., Ltd.                     | Construction & repair of chemical facilities                    | 100.0         | ¥50                     |
| Toa Techno-Gas Co., Ltd.                 | Manufacture & sale of industrial gases                          | 100.0         | ¥40                     |
| Toa Estate Co., Ltd.                     | Real estate sales agency and real estate management             | 100.0         | ¥30                     |
| Toa Kogyo Co., Ltd.                      | Product distribution  | 100.0         | ¥25                     |
| Kawasaki Organic Chemical Co., Ltd.      | Manufacture of chemical products                                | 100.0         | ¥10                     |
| Aron Packaging Co., Ltd.                 | Filling and packaging of adhesives                              | 100.0         | ¥10                     |
| Singapore Acrylic Ester Pte Ltd          | Manufacture of chemical products                                | 75.0          | S\$60,571,000           |
| Sansei Shoji Co., Ltd.                   | Sale of chemical products                                       | 61.5          | ¥20                     |
| V-Tech Corp.* <sup>1</sup>               | Manufacture & sale of chloralkali products                      | 40.0          | ¥6,000                  |
| D.S.T. Micronics Co., Ltd.* <sup>1</sup> | Manufacture & sale of precision components for CRTs             | 30.0          | ¥7,000                  |
| Chubu Ekisan Co., Ltd.* <sup>1</sup>     | Manufacture & sale of industrial gases                          | 30.0          | ¥480                    |
| Borden-Toagosei Co.* <sup>2</sup>        | Sale of adhesives   | 50.0          | US\$33,660,000          |

\*<sup>1</sup> Equity-method affiliates

\*<sup>2</sup> Joint-venture company with Borden Inc.

## Investor Information

### Corporate Headquarters

1-14-1, Nishi-Shimbashi, Minato-ku, Tokyo 105-8419

Tel: 03-3597-7215

Fax: 03-3597-7217

Internet: <http://www.toagosei.co.jp/>

### Established

March 1942

### Common Stock

Authorized: 467,650,000 shares

Issued: 267,129,768 shares

Capital: ¥20,886 million

Number of shareholders: 37,190

Listings: Common stock listed on the exchanges in Tokyo, Osaka, Nagoya and Fukuoka

### Transfer Agent of Common Stock

The Chuo Mitsui Trust and Banking Co., Ltd.

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

### Certified Accountants

Century Ota Showa & Co.

Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho

Chiyoda-ku, Tokyo 100-0011

### Major Shareholders

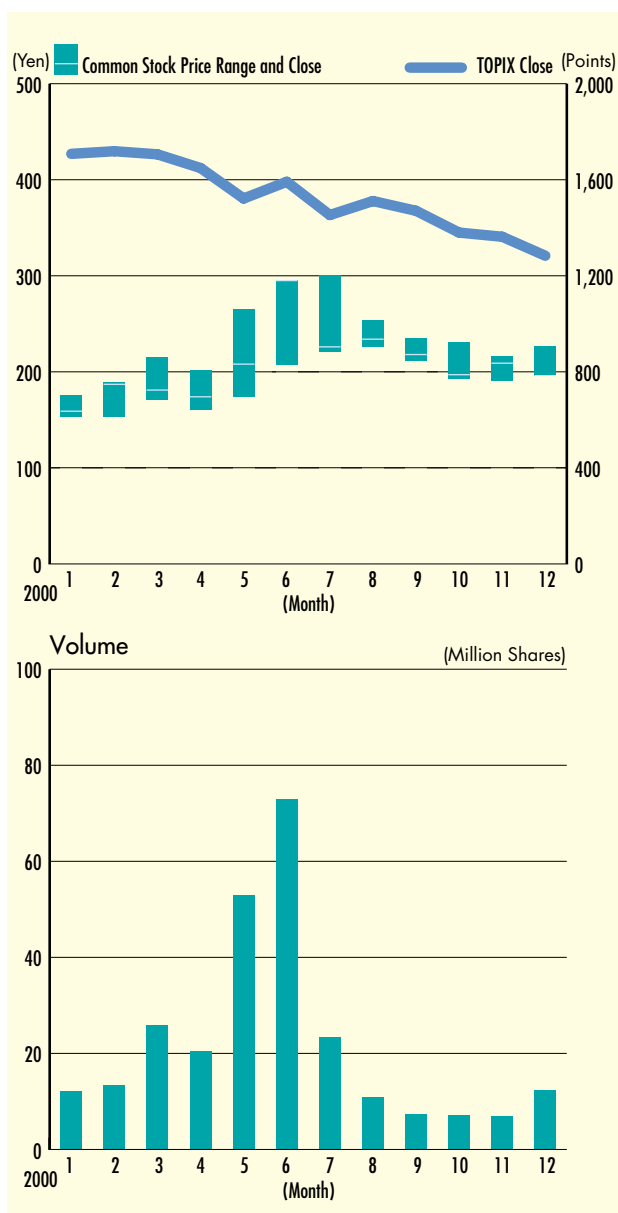
|  | (%)  |
|--|------|
| The Sakura Bank, Limited                             | 4.25 |
| The Tokai Bank, Limited                              | 4.22 |
| The Industrial Bank of Japan, Limited                | 3.78 |
| Japan Trustee Services Bank, Ltd.(Trust account)     | 2.72 |
| Mitsui Mutual Life Insurance Company                 | 2.66 |
| The Chuo Mitsui Trust & Banking Co., Ltd.            | 2.41 |
| The Tokio Marine and Fire Insurance Company, Limited | 2.13 |
| Chiyoda Fire & Marine Insurance Company, Limited     | 2.07 |
| Employee Shareholders' Committee                     | 2.03 |
| Mitsui & Co., Ltd                                    | 1.70 |

(As of December 31, 2000)

### Stock Price Range & Trading Volume

(Tokyo Stock Exchange)

|                          | 1996  | 1997  | 1998  | 1999  | 2000  |
|--------------------------|-------|-------|-------|-------|-------|
| High                     | ¥611  | ¥496  | ¥290  | ¥283  | ¥300  |
| Low                      | ¥400  | ¥161  | ¥160  | ¥156  | ¥153  |
| TOPIX Close<br>(Dec. 31) | 1,470 | 1,203 | 1,086 | 1,722 | 1,283 |





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Tokyo 105-8419, Japan

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