TOAGOSEI

Annual Report 2007

Accelerating Growth

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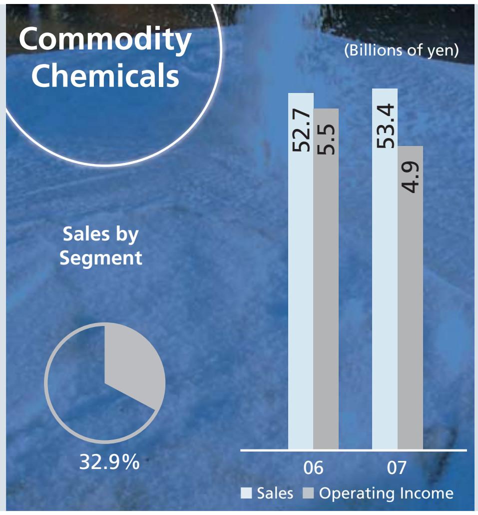
TOAGOSEI CO., LTD. 2007 Annual Report

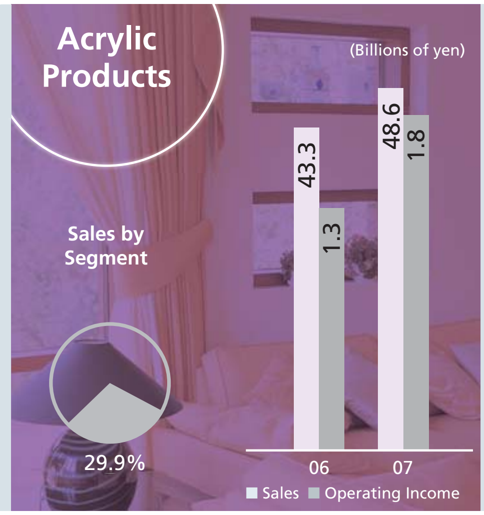
Contents

The catch phrase on the cover, "Accelerating Growth" expresses the core concept behind our new medium-term management plan for fiscal 2008-2010. It was printed using ink made from our popular UV/EB-curable acrylic product *Aronix.*

Toagosei's Business Domains

Business Segment





Description

Toagosei manufactures a wide variety of inorganic industrial chemicals, notably caustic soda, as well as fertilizers, metal degreasing and cleaning agents, and ultra-pure chemicals for the semiconductor industry.

The Toagosei Group produces the whole range of acrylic monomers, including acrylic esters, which we were the first to produce commercially in Japan, and their derivatives such as acrylic polymers. Acrylic polymer flocculants have proven effective in the purification of sewage and industrial wastewater. In the civil engineering and construction fields, acrylic polymer resins make ideal water-resistant coatings for roofs, external walls and so on. The Toagosei Group offers an integrated service from material production to on-site application.

Main Products and Application

Caustic soda:
Chemical fibers, pulp, dye, and pharmaceuticals

Oxygen:
Combustion enhancing gas for welding and cutting, combustion enhancing gas for steel making process, oxygen inhalation (and high pressure oxygen treatment) for medical use, oxygen aeration for wastewater treatment, oxygen-based pulp bleaching, and fermentation in biotechnology

Sulfuric acid:
Fertilizers, synthetic fibers, and inorganic chemicals

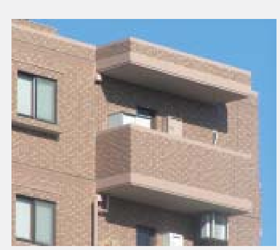
Trichloroethylene:
Metal degreasing and cleaning, solvents, and raw materials for hydrofluorocarbon

Acrylic esters:
Acrylic fibers, fiber processors, paints, pressure sensitive and other adhesives, leather processors, paper processors, and acrylic rubber

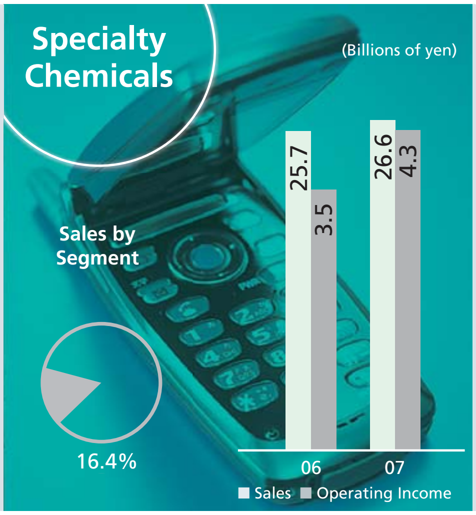
Acrylic acid:
Nonwoven cloth binders, flocculants, dispersants, paper processors, superabsorbent resin, and detergent builders

Polymer flocculants:
Treatment of various kinds of wastewater and dehydration of sludges

Construction materials:
One-pack waterproof spray materials, decorative waterproof wall materials, permeable type water-absorption preventive agents, chemical grouts, and earth resistance reducing agents



Specialty Chemicals



Toagosei has developed and commercialized a long list of unique and high-value-added products for both industrial and consumer use. These include the cyanoacrylate instant adhesive *Aron Alpha* (sold under the name *Krazy Glue* in the U.S.), as well as the silver-based antimicrobial agent *Novaron*. The UV-curable resin *Aronix* has become widely used in paints, inks, and as surface coatings for cell phones, compact discs and many other applications.

Cyanoacrylate Instant Adhesives:
For bonding rubber, plastic, metal, and wood in industrial and consumer uses

Heat-resistant adhesives:
For bonding metal and ceramics used in high-temperature environments

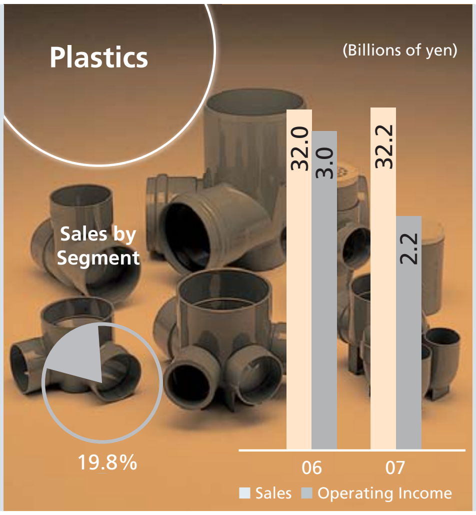
Hot melt adhesives:
For bonding plastics, metals, and textiles For bonding difficult-to-bond plastics like polyethylene, polypropylene polyester, and nylon

Special Monomers and Oligomers:
Raw material for paints, printing inks, coatings, and adhesives

Silver-based antimicrobial agents:
For kitchen and bathroom equipment, building materials, and textiles

Hexachlorodisilane (HCD):
For silicon nitride films used in semiconductors

Plastics



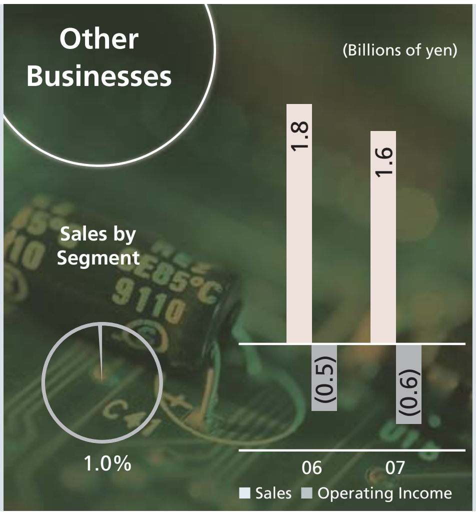
Our subsidiary, Aron Kasei is developing products in four principal areas:
1) pipes and couplings for water supply and for sewerage use, 2) protective casings for electric power and telecommunications lines, 3) garbage reduction and recycling systems to address environmental preservation needs, and 4) nursing care products.

Pipes & Couplings:
Rigid PVC pipes

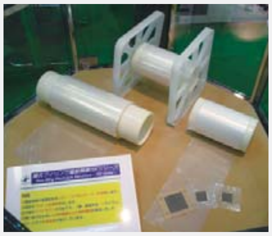
Environmental Products:
Trash receptacles

Nursing Care Products:
Portable toilets, nursing care bath products

Other Businesses



To make our dreams of the future come true, we are putting our efforts into developing products that facilitate harmony between human activities and the natural environment. At Toagosei, we will continue to develop products that meet user needs and are in tune with the times.



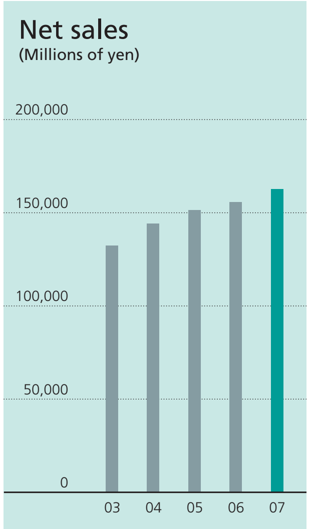
Financial Highlights

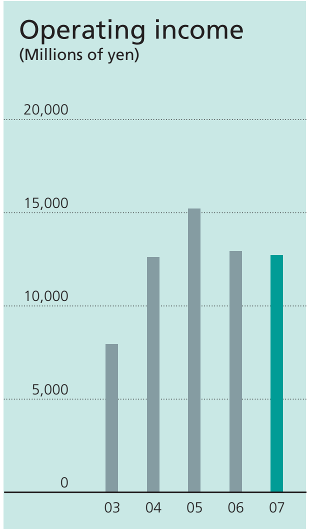
Toagosei Co., Ltd. and Consolidated Subsidiaries

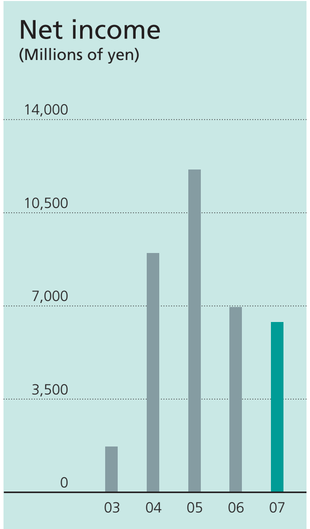
Years ended December 31, 2007, 2006 and 2005

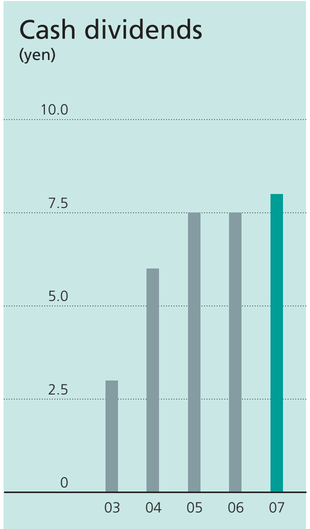
	Millions of yen			Thousands of U.S. dollars (Note 1)	07/06
	2007	2006	2005	**2007**	Change (%)
Net sales	**¥162,729**	¥155,804	¥151,443	**$1,425,577**	4.4
Operating income	**12,719**	12,950	15,236	**111,425**	(1.8)
Income before income taxes and minority interests	**13,295**	13,522	16,846	**116,475**	(1.7)
Net income	**6,403**	6,961	12,131	**56,098**	(8.0)
Total assets	**182,681**	195,607	186,521	**1,600,360**	(6.6)
Net worth (Note 2)	**105,339**	103,870	99,501	**922,815**	1.4
	yen			U.S. dollars (Note 1)	
Per share of common stock					
Net income	**¥24.52**	¥26.64	¥46.31	**$0.21**	(7.9)
Cash dividends applicable to the year	**8.00**	7.50	7.50	**0.07**	6.7
	%				
Ratio					
Return on equity (ROE)	**6.1**	6.8	13.3		(10.3)
Return on Total assets (ROA)	**3.4**	3.6	6.7		(8.3)
Net worth	**57.7**	53.1	53.3		8.7

Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥114.15 = $1.00.
2: Net worth refers to the amount of net assets after deduction of minority interests.









Message from the President

Q Could you give us your views on Toagosei's business performance for 2007, and on the Company's new medium-term management plan?

A Owing to the sharp rise in the prices of crude oil and naphtha, the operating environment in 2007 was extremely difficult for us. As a result, we registered a year-on-year decline in earnings despite an increase in revenues. It was also the final year of our three-year medium-term management plan, and although we essentially achieved our sales target under the plan, earnings unfortunately fell short of target.

Under previous plan, the Toagosei Group aimed to step up the pace of development of its priority businesses (UV-curable resins, adhesives, and high-purity inorganic chemicals) while restructuring its existing core businesses. Consequently, we were able to make substantial changes in our business model and earnings structure.

Looking ahead to further growth, the Toagosei Group will be taking on numerous challenges from a long-term perspective to build on the achievements of the previous medium-term management plan. We have a vision of the Company as we want it to be six years from now, in 2013. Our new medium-term management plan – "All TOA 2010" – covers the first three years of this management vision, during which we aim to harness the total capabilities of the Toagosei Group in laying the foundations for achievement of our targets in 2013. In 2008 we hope to break out of our current situation and make a fresh start toward our goal of rapid growth.

Q Could you tell the readers why you are targeting group sales of ¥300 billion? What sort of advantages do you see accruing from an increase in sales volume?

A The reason we have decided to make expansion of our business scale one of our goals is that we felt the need to set a major target to motivate all employees in the group, and to help instill in their hearts both hope for the future and pride in working for Toagosei. Our corporate social responsibility includes the duty to make a contribution to the society of which we are a part. To fulfill this duty even more positively than hitherto, we realized that the group must expand on a continuous basis. Up to now we have placed prime emphasis on raising efficiency and improving profitability, but by expanding the scale of our business we will be able to increase our enterprise value on a consolidated basis. In this way, we will rapidly step up to a higher level in terms of corporate profile as well as earnings, which will earn us the increased trust of society at large.

Other reasons for our adoption of this course include the fact that we are in the midst of a business environment that is changing very swiftly. In this kind of situation, for the Toagosei Group to ensure its own survival into the future we need to firmly establish our market presence by making it a long-term goal to double our sales to over ¥300 billion. As a slogan, "Toward a ¥300 Billion Group" has a ringing tone to it that makes Toagosei's management and employees more confident and more determined.

Q Please tell us something about your vision of becoming a value-creating, highly profitable corporate group by 2013.

A As stated in our management philosophy, the Toagosei Group is dedicated to making a contribution to society through the production of chemicals. We constantly seek to create new value, and have built up a body of unique proprietary know-how that other companies cannot rival. We engage in work on the development of new products and the nurturing of whole new markets. Our unique technological base is used to create businesses in which we are the undisputed leader, with the ultimate aim of becoming a highly profitable corporate group.

We plan to achieve this goal by meeting customer needs through the provision of value-added products and services. To make this reality, our efforts will encompass not only the directly-related fields of R&D, marketing, market development, raw materials procurement, production technology and product quality assurance, but also a wide range of indirect supporting fields, including human resources management, investment in cutting-edge information systems, finance and accounting, and investor relations.

Under this concept every employee of the Toagosei Group will constantly work to improve existing methods and realize innovation in all aspects, and will always seek to create new value. This is what we mean by a "value-creating, highly profitable corporate group."

Q To realize your management vision for 2013, what targets do you need to achieve in the current medium-term plan period of 2008-2010?

A Our vision of Toagosei in 2013 is founded on our goal of making it into a company that can consistently post sales of ¥300 billion or more on a consolidated basis. To do that, we will have to be capable of continuously creating new value-added chemical products with highly specialized functions. If all goes according to our plan, by 2013 we should be within reach of the ¥300 billion annual sales mark. To achieve this, however, it is essential that during the 2008-2010 period we fulfill the minimum conditions under our All TOA 2010 medium-term management plan. To this end, we must forge steadily ahead with our action plan in the form of All TOA 2010, and must aim to realize concrete results as speedily as possible. At the same time, we must be responsive to the changing market situation, and must always be on the lookout for promising new themes that were not included in the original plan.

We intend to implement a vigorous capital investment stance, but this does not indicate merely hurrying to invest in the construction of new facilities: we also need to focus on getting new production facilities fully on line as quickly as possible so that they can contribute to earnings at an early stage.

Of course, we must never forget that because Toagosei both operates chemical plants and produces chemical products, ensuring workplace safety as well as product safety is the keystone of all our operations.

Q In closing, do you have a message for investors?

A In the past three years we have succeeded in effecting significant changes to the Company's business structure. Over the next three years, under our All TOA 2010 medium-term management plan, we plan to aggressively expand our business operations, improve our earnings structure, and enthusiastically take up new challenges. I have every confidence in Toagosei's growth prospects, and hope that many of investors expect our performance.

New Medium-Term Management Plan (2008-2010)

ALL TOA 2010 – "Accelerating Growth"

The Toagosei Group has drafted its new medium-term management plan, "All TOA 2010" to further the advances made under its previous three-year management plan ended December 2007.

Under the previous plan, the Group aimed to step up the pace of development of its priority businesses (UV-curable resins, adhesives, and high-purity inorganic chemicals) while restructuring its existing businesses. Strongly affected by changes in demand, we have been forced to shift our primary focus from commodity chemicals to high-value-added products. We have been concentrating management resources on priority businesses while withdrawing from unprofitable businesses. Specifically, we have successfully launched distinctive downstream products in our acrylic polymer business, and transferred our flocculant operations to MT AquaPolymer, Inc., a joint venture with Mitsui Chemicals Inc., aiming to further expand our business scale. Consequently, we were able to make substantial changes in our earnings structure, and our priority businesses and the acrylic polymer business for downstream products accounted for close to 50% of our business portfolio in terms of operating income on a consolidated basis.

Looking ahead to further growth, the Toagosei Group plans to take on numerous challenges from a long-term perspective to build on the achievements of the previous medium-term management plan. We aim to further raise our presence in the chemical industry, and we are targeting sales on a scale of ¥300 billion on a consolidated basis. We have drafted our six-year management vision, to realize this ambitious target by 2013. Our new medium-term management plan "All TOA 2010," covers the first three years of this management vision.

The "All TOA 2010" plan calls for a further acceleration in the switchover to high-value added products commenced under the previous medium-term plan. We will also reinforce our existing core businesses while undertaking development of new products and creating new businesses. Through active capital investment to increase the scope of business operations and strengthen our business model, we will improve our capabilities for growth and profitability to rapidly enter a new stage.

Preparing for the next rapid growth phase

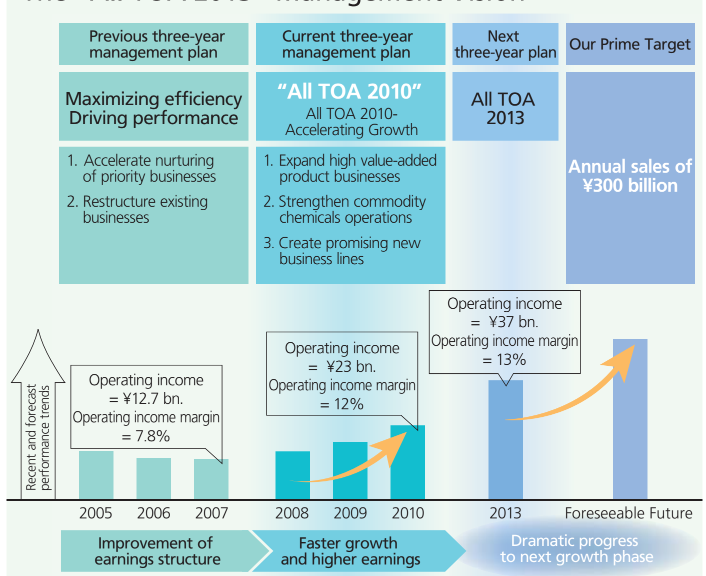
Aiming at ¥300 billion annual sales

Drafting of six-year "All TOA 2013" management vision

We are pursuing our current three-year management plan as the first half of the run-up to realizing our targets for 2013

"ALL TOA 2010"

The "All TOA 2013" Management Vision



1. Our All TOA 2013 Vision

(1) Corporate Vision

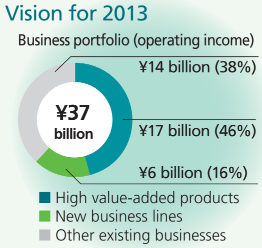
Leveraging our technological capabilities, we will continually develop distinctive high-performance products in each of our business fields of commodity chemicals, acrylic products, specialty chemicals, and plastics, and create new products and businesses to support our sustainable growth as a value-creating, highly profitable corporate group.

(2) Performance Vision

The "All TOA 2013" Management Vision

Our Consolidated Business Performance Vision for 2013

- The Sales: **¥270 billion**
- Operating income: **¥37 billion**
- Operating income margin (ratio of operating income to sales): **13%**
- Business portfolio (operating income basis) High value-added products plus new business lines = **60% or higher**



2. "All TOA 2010" Targets

The numerical targets for the fiscal year ending in December 2010 (that is to say the interim targets for our 2013 Management Vision) are as follows: Operating income of ¥23 billion, and an operating margin of 12%. To ensure our growth, we are planning capital investments of ¥26 billion over the three-year period, intended for construction and expansion of production capacity.

The amount allocated for capital investments in M&A activities is not included in this amount.

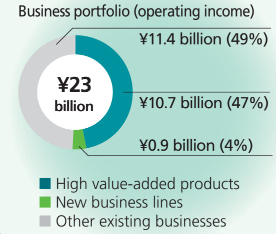
Business performance targets under "All TOA 2010"

Consolidated business performance targets for 2010

- Sales: ¥193 billion
- Operating income: ¥23 billion
- Operating income margin: 12%
- Net income: ¥12 billion
- EPS: ¥45
- Business portfolio (operating income basis)
  High value-added products plus new business lines = 51%

(The above targets are based on the assumption of an average exchange rate of $1/¥113 and an average naphtha price of ¥60,000 per kiloliter during the three-year plan period.)

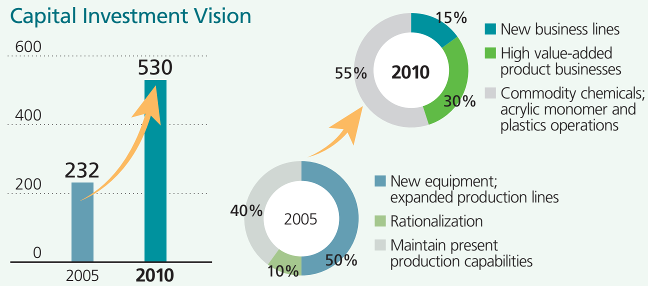
Business portfolio (operating income)



3. "All TOA 2010" Growth Strategies

Our Growth Strategy for "All TOA 2010"

Capital Investment Vision



(1) Expand businesses with high-value added products

To further expand our businesses featuring high-value added products, we can no longer rely on merely extending our existing strategies. Instead, we will widen the scope of our operations, which ranges from an upstream raw materials business to downstream operations. We will also pursue business acquisitions and the in-licensing of new technologies.

1. Establish a high-profit acrylic value chain

We will expand our downstream acrylic operations, with the aim of establishing a high-profit acrylic value chain, which would enable us to maximize profits of our whole acrylic operations. In addition to developing new products incorporating proprietary technologies, we will improve the competitiveness of existing products through renewed efforts to raise the efficiency of our production systems while simultaneously undertaking group-wide restructuring.

2. Expand our lineup of functional materials

Regarding our UV-curable resins, adhesives, and inorganic functional materials, we will work to achieve even higher levels of functionality, quality and differentiation. We will also strengthen cooperation between domestic and overseas production bases to expand our business scale and increase profitability.

(2) Reinforce our existing core businesses

We will work to expand our existing core businesses, namely our commodity chemicals business (centered around products made through the chloralkali process, sulfuric acid, and industrial gases), as well as our acryl monomer operations, and our plastics business, with the aim of continuously improving profitability.

(3) Create new businesses

To create new businesses and products in the electronics and environmental preservation fields, we will focus on research and development of new products in silicon chemicals and bioinformatics. To coincide with the reconstruction of the Nagoya Research and Development Institute, we will undertake expansion of research facilities, and also accelerate development efforts. Meanwhile, we will also actively acquire businesses and in-licensed technologies in existing and peripheral business areas, as well as form strategic alliances to actively expand and bolster our business operations.

4. "All TOA 2010" Management Initiatives

(1) Raise productivity

Undertake extensive reforms to improve operational efficiency, reduce costs, accelerate the speed of development and reinforce production technology to raise productivity.

(2) Train and effectively utilize human resources

Because employees are indispensable for the creation of value added products and services, we will reform our personnel policies to realize our goal of becoming a value-creating, highly profitable corporate group.

(3) Promote Corporate Social Responsibility (CSR)

- We will work to actively realize our motto, "Share more happiness with more people through the chemical business." To this end, the Toagosei Group will promote our CSR activities from a wide range of perspectives.
- Place priority on three core factors: social contribution, corporate ethics, and environmental preservation & workplace/product safety.

Research & Development

Focusing on silicon chemicals and bioinformatics, we create new products and businesses


Focusing efforts on silicon chemicals; collaboration with US company begun

In R&D of electronics materials at Toagosei, we have been making steady progress in work on two silicon chemical compounds – TRIES (triethoxysilane, which is used in making semiconductor resists), and HCD (hexachlorodisilane) used in the formation of silicon nitride membranes for semiconductor production.

Additionally, for several years we have been trying to find market applications for our SQ Series of silsesquioxane compounds, which are in-house developed silicon-based materials with several useful characteristics. Aiming at the development of products with even more advanced and specialized functions, we have entered into a business collaboration with the US company Mayaterials Inc.

As the first step in this collaboration, in February 2007 we acquired exclusive sales agent rights in the Asian market for Mayaterials' Q8 Series of octasilsesquioxane compounds (silicon-based hybrid materials), and began developing a market for them. The Q8 Series products have unique properties that are lacking in other materials we have used previously. The use of Q8 Series products allows the development of new nanocomposites with excellent heat-resistance and transparency, and we can thus look forward to growing market demand for new optical/electronics materials.

Toagosei has plans in the near future for developing new organic-inorganic hybrid materials with excellent characteristics by combining elements of the SQ Series with those of the Q8 Series. We believe there are good prospects for the development of this lineup of novel silicon compounds into a profitable new business.

Peptide-based Drug Creation Project jointly commenced with School of Medicine, Keio University

Our research project into neuron differentiation through peptides, carried out jointly with Yokohama City University, was chosen by the Japan Science and Technology Agency for its Research Program in Innovative Technology Development. The goal of this research program is to develop cures for intractable nerve diseases such as Parkinson's disease, retinal degeneration, and nerve conditions caused by injury to the spinal cord. The plan is to investigate technologies for differentiating a patient's own somatic stem cells (skin or marrow stem cells) to form nerve cells, which can then be transplanted into the patient to replace damaged nerve tissue. It is hoped that this research will make a valuable contribution to progress in regenerative medicine.

In June 2007, in a joint initiative with a team of researchers at the Department of Molecular Biology of Keio University, headed by Associate Professor Jun Kudo,

Toagosei's Advanced Science Research Laboratory at Tsukuba.

we participate in the GSP ("Genome Super Power") Center – a branch of the Keio Advanced Research Centers – on the premises of our Institute for Advanced Sciences in Tsukuba. Together with the Keio University team, Toagosei is pursuing the Peptide-based Drug Creation Project, involving research into new functional peptides which, it is hoped, will display "super powers" with respect to the treatments of various diseases.

In the future, we aim to develop business operations in new fields opened up through a combination of expertise accumulated in peptide engineering and our existing chemicals technologies. The project is also being assisted by Professor Emeritus Nobuyoshi Shimizu of Keio University.

Development of new products and new businesses

To facilitate collaboration with other research institutes and speed up R&D for our core businesses of adhesives and UV-curable resins, we have decided to reorganize the research structure, and to this end we have established the Functional Materials Laboratory. We have also divided the previous Corporate Research and Development Department into two organizations: the Corporate Research and Development Department, which engages in technology research from a medium- to long-term perspective, and the New Materials Development Department, which takes charge of research themes that are in the process of being translated into new commercial operations. Within the former organization, we have established the Base Technology Center, which specializes in the development of analytical technologies and molecular design of materials.

In the field of fuel cells, our hydrocarbon electrolyte membranes have begun to yield successful results with higher performance figures. In the field of adhesives, we are a member of the Technology Research Association for Advanced Display Materials (TRADIM) and are in charge of developing adhesives. The project with other companies has made steady progress and entered into the second phase.

To ensure that the aforementioned organizational restructuring leads to greater effectiveness in R&D, we plan to invest in expansion of the Nagoya Research Institute, our main R&D center. Under the Company's new medium-term management plan, which commenced this January, we are making a fresh start in our research efforts with the aim of translating R&D results quickly and efficiently into commercially profitable operations in the fields of environment-related products and electronics.

Commodity Chemicals

Bolstering business base by reorganizing existing businesses
Enhancing capabilities in high-purity inorganic chemicals

Increased revenues thanks to rise in sales volume and higher unit selling prices

Toagosei's Commodity Chemicals business posted firm sales for fiscal 2007 (Jan-Dec 2007) thanks to stable demand for most products. Although a decline in demand for chlorine for use in bleaching paper and for chlorinated organic solvents used in metal cleaning caused a decrease in sales of these products to slightly below the year-before level, steady shipments of all other products – such as sulfuric acid and industrial gases – raised total sales revenue.

In addition, we were able to push through price raises on our caustic soda, caustic potash, and sulfuric acid, which offset the increased prices of raw materials and fuel. Moreover, we aggressively expanded sales volumes of caustic potash and hydrochloric acid. Sales figures were also pushed up by higher market prices for chemical compounds incorporating copper.

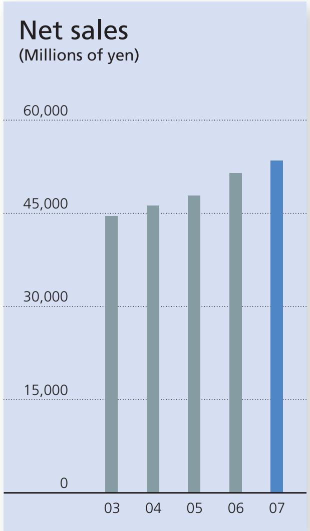
As a result, sales of commodity chemicals on a consolidated basis recorded a year-on-year rise of 2.9%, to ¥53.0 billion.

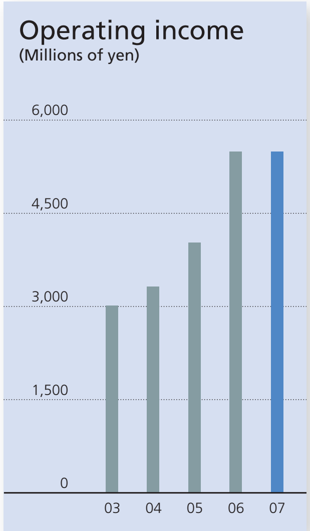
Restructuring existing businesses and enhancing capabilities in high-purity inorganic chemicals

We set out the restructuring of our existing businesses and the enhancing of our capabilities in high-purity inorganic chemicals as priority goals. This was part of an overall clarification of the status of each of our businesses, which were divided into two categories: 1) those to be nurtured and reinforced, and 2) those to be down-scaled, or from which we would even withdraw completely. In this way, we have made significant progress in radically overhauling our business portfolio.

We have restructured our existing businesses by halting production of methyl ammonium chloride and tertiary butyl chloride, and by reexamining our distribution system for caustic soda. On the positive side, we completed new facilities for the production of hydrochloric acid at our Nagoya Plant and for high-quality sodium hypochlorite for use in municipal water supply systems at our subsidiary Tsurumi Soda. These changes were largely in line with the progress envisaged under our 2005-2007 medium-term plan, and we succeeded in reaching our target figures under the plan for both revenues and earnings. However, there is an urgent need for a restructuring of our chlorinated organic solvent business, which has been suffering from a worse-than-anticipated decline in demand and a consequent gradual deterioration in profitability.

In the field of high-purity inorganic chemical products, which has a high priority, we are implementing programs to increase production capacity at existing plants and start up production lines for our new value-added products as soon as possible. These programs are being implemented at the following work sites.





- Our second production base for high-purity liquefied hydrogen chloride (Tsurumi Soda)
- High-purity caustic soda and caustic potash (Tsurumi Soda)
- Ultra-low sodium caustic potash (Nagoya Plant)

The completion and startup of these facilities will enable us to expand our sales volume of high-purity inorganic chemical products, improving the profitability of our commodity chemicals businesses and ensuring a steady inflow of earnings.

Strengthening our lineup in the field of high-purity, fine inorganic chemicals targeted at growth markets

In our 2008-2010 medium-term management plan we will be prioritizing efforts to expand sales of high-purity inorganic chemicals to customers in such high-growth industries as semiconductors, LCDs, and plasma displays.

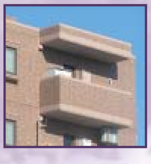
Specific plans include widening our sales scope in liquefied hydrogen chloride and high-purity chlorine from solely domestic customers at present to overseas markets, as well as aggressive marketing initiatives for high-purity chloralkali products. We will also be working to raise the proportion of value-added products in our overall commodity chemicals portfolio by actively pursuing the development of new products and the discovery of new fields of application, thus making optimum use of our know-how in high-purity chemicals and fine chemicals.


Caustic soda is used in papermaking.


Our plant for manufacturing high-purity chemicals.

Acrylic Products

Expanding the scale of downstream acrylic operations and realizing a high-earnings business structure



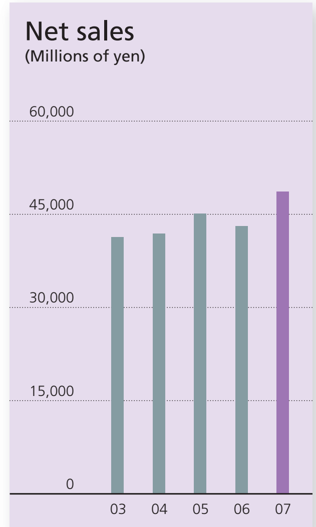
Year-on-Year Growth in Revenues and Earnings

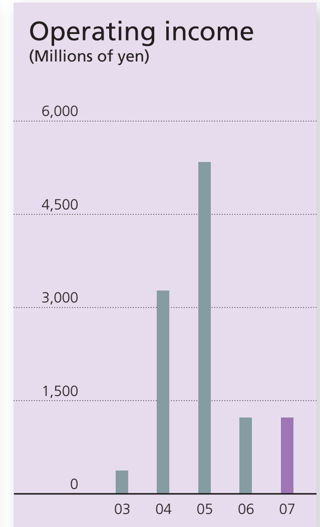
Shipments in Japan of acrylic esters in 2007 expanded thanks to firm demand for pressure-sensitive adhesives and other adhesives. Sales of high-value-added products such as the *Aron Powder* series (powder paints) and the *Arufon* series of non-solvent acrylic polymers (incorporating our uniform functional oligomer technology), were also brisk. In October 2006, our flocculant business were transferred to MT AquaPolymer, Inc., a joint venture with Mitsui Chemicals Inc. Since then, we have realized a substantial growth in revenue, leveraging the synergies afforded by this business integration.

Despite a delay in implementing an across-the-board upward revision in sales prices to offset the surge in raw materials prices, a rise in sales volume and a recovery in demand for acrylic esters in East Asian markets resulted in an improvement in profitability.

Creating a High-Earnings Business Structure

In line with our basic policy under the medium-term management plan of expanding the scale of operations in downstream derivative products, the reporting period saw further progress in the implementation of the various action plans adopted under the medium-term management plan. Our main challenge is the development of new products incorporating proprietary technologies to enhance our competitiveness. To this end, in the field of high-performance dispersants, weather-resistant sealants, and adhesive plasters, we have been launching new products and working to expand sales of existing products. We have also expanded sales of other products incorporating our proprietary technologies, such the acrylic monomer acrylamide tertiary butyl sulfonic acid (ATBS) and *Aron Powder*, and increased our production capability of specialty esters, all of which have come close to meeting our original targets.





Expanding the Scale of Our Downstream Operations

Fiscal 2008 is the first year of our new medium-term management plan. We aim to further strengthen our value chain for the acrylic business and will expand the scale of our acrylic operations through the introduction of downstream derivatives, thereby amassing a full range of products in our acrylic businesses encompassing not only the monomer and polymer businesses but also downstream derivatives. To this end, we will make active investments to increase production capability, simultaneously undertaking new product development.

We will undertake the restructuring of our monomer operations in Singapore, expand our flocculants business, and improve the productivity of our polymer businesses as a means of bolstering the competitiveness of the Group as a whole. With regard to polymer operations in particular, we intend to in-license technologies and increase sales by upgrading our existing products. In this way, we aim to actively expand the scale of our operations and increase operating income.

Acrylic ester is one of the raw materials used in the manufacture of adhesives.

Acrylic ester is also used as a raw material in the manufacture of paints.

Functional Materials

Aron Alpha, our highly popular gel-type instant adhesive, celebrated its 20th anniversary

We took further measures to open up a market for our industrial adhesives in the growth fields of vehicle components and electronics, and were rewarded with increased sales

Sales growth was recorded, thanks to progress in development for FPD use

With effect from fiscal 2007 we reorganized our management structure by amalgamating the former Adhesives Group and UV-curable Resins Group into the newly created Functional Resins Group. This move enabled the two organizational units to share technological know-how and customer databases in many areas, especially in the field of UV-curable resins, thus realizing greater speed in decision-making and order delivery, while enhancing customer service as a whole.

Adhesives

Steady progress was achieved in expanding our priority business of cyanoacrylate adhesives thanks to concentration on particularly promising products, fields of application, and industrial customers, as well as investment in strengthening our R&D capabilities in specific fields. These changes were made with an eye to realizing concrete commercial results as soon as possible.

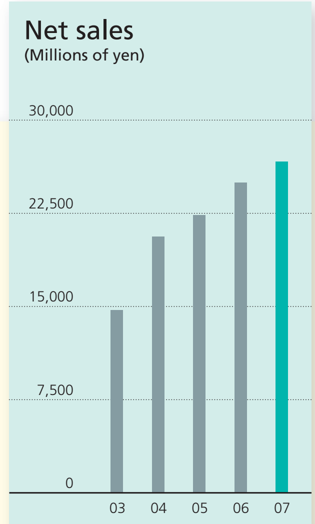
In Japan, the market for consumer-use adhesives has already become saturated, and our sales registered a year-on-year decrease. To raise our profile in this field, We held a sales promotion to mark the 20th anniversary of our launching of gel-type adhesive, and this proved popular with consumers. In the field of industrial-use adhesives, growth in sales of UV-curable adhesives to makers of vehicle components was largely as projected, and we enjoyed brisk sales of reaction adhesives used in the manufacture of electronic substrate materials.

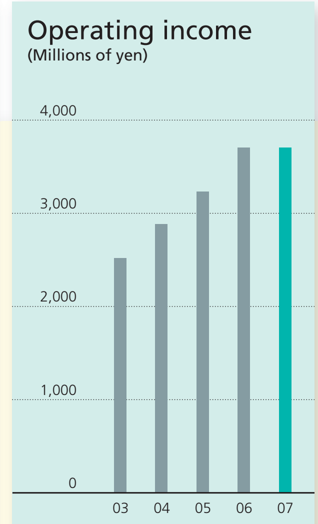
Overseas, in the field of consumer-use instant adhesives, we launched a new product in the *Krazy Glue* line in the United States to strengthen the brand as a whole. In industrial-use instant adhesives, we began shipping products directly to customers, rather than via sales agents as hitherto, to facilitate meeting customers' specific requirements.

As a result of these measures, shipment volumes to the United States were roughly as projected, and we recorded a slight increase in profits despite a year-on-year decrease in sales.

UV-Curable Resins

Regarding *Aronix*, our mainstay product in this category, we continued to focus on meeting needs for plastic coatings and the production of flat panel displays. Thanks to an expansion in these markets, plus the impact of our market launch of highly specialized products, sales on a consolidated basis posted an increase over the previous business term.





Tasks and Prospects

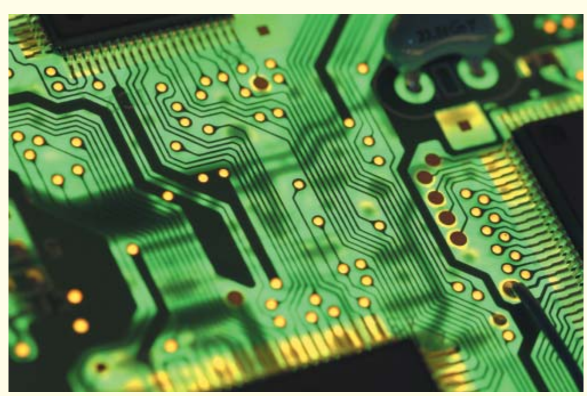
- Focus on marketing of cyanoacrylate adhesives to customers in the vehicle and electronic components industries

We took initiatives to further develop the market in Japan for consumer-use instant adhesives by launching new products, as well as by conducting a marketing campaign to raise the *Aron Alpha* brand profile.

In the field of industrial-use adhesives, we prioritized both UV-curable and reaction adhesives, and continued our efforts to develop the vehicle component and electronic component markets, which have good growth potential. We also whittled down our customer list, concentrating on those customers whose business was seen as more profitable, and took steps to speed up the new product development process by harnessing the synergy generated between our adhesives and UV-curable resin operations.

We have been making progress in developing our adhesive processing business, and hope to realize a profitable value-added business in the near future.

PES hot melt adhesives are used for smart cards.



Our adhesives are extensively used in the manufacture of flexible printed circuit boards.

• Realizing the advantages of production of UV-curable resins in Japan, Taiwan, and China

In response to the steady growth in demand for UV-curable resins in East Asia as a whole, we have been implementing measures to expand our customer base and raise earnings. We intend to make the most efficient use of our possession of three production bases – our Nagoya Plant in Japan, our subsidiary TOA-DIC Zhangjiagang Chemical in China, and TOA-JET Chemical Co., Ltd. in Taiwan – by optimizing product lineups that meet the particular needs of customers in each market. The joint use of three production plants will also enable us to assure our customers of a reliable supply anywhere in East Asia. At the same time, we will press forward with initiatives to rationalize our production system and optimize raw material procurement conditions, thereby readying the Company for the increasingly competitive environment that we foresee in the near future.

Regarding UV-curable resin applications in the electronics field, which are expanding, we are maintaining our principal focus on flat panel displays, which we expect to become the next main source of earnings for this business. Toagosei already holds the leading market share for UV-curable resins in East Asia, and we are currently examining plans for increasing our production capacity ahead of an anticipated expansion in demand.

Our UV-curable resin *Aronix* is used for cell-phone coatings.

Aronix is also used in the manufacture of DVDs.

New Materials Development

We set up the New Materials Development Department in 2007 to accelerate development in new materials for growth markets such as electronic devices and amenity goods

Inorganic Functional Materials

In inorganic functional materials, we have augmented our line-up of inorganic ion-exchanger *IXE* products for electronic materials applications by launching new environmentally friendly models in the "*New IXE Series.*" Our *Novaron* series of silver-based antimicrobial agents achieved strong sales in Japan, the US and the EU, owing largely to their reputation for superior performances. A steady growth in sales was also realized by the inorganic deodorizer *Kesmon*, which is used in air-quality improvement agents mainly for automobile and interior use to eliminate unpleasant odors such as those produced by volatile organic compounds (VOCs) and formaldehyde. We aim to achieve further sales growth through the development of new products in such fields as anti-allergen agents and low heat-expansion fillers for use in unleaded glass, thereby making inroads into new markets.

Electronics Group

In the electronic materials field, growth in sales was attributed to strong demand among manufacturers of semiconductors and LCDs. Triethoxysilane (TRIES), used as a raw material for silicon oxide film in semiconductor production, has been steadily increasing its market presence. There was also a dramatic rise in sales of hexachlorodisilane (HCD), a raw material for silicon nitride films used in semiconductors, thanks to its adoption by leading electronic device manufacturers. Steady sales of other newly developed products were also seen, thanks to a favorable reception by component manufacturers.

We will continue working on the development of new materials, making every effort to meet our customers' technological requirements in cutting-edge fields.

Novaron is a high-performance antimicrobial agent employed in the molding of a wide range of plastic products for everyday use.

TRIES is a raw material used in forming silicon oxide films in semiconductor/LCD production.

Plastics

Planning continued launch of new high-performance products
Laying a new growth path with the start of the 2008-2010 medium-term business plan

Business Performance

Amid an across-the-board rise in raw materials prices and a decline in demand from public works projects, our molded plastic products business continues to operate amid a very difficult environment. Sales of this business for our fiscal 2007 period (calendar 2007) edged up slightly by 0.4% from the previous year to ¥32,234 million, but operating income posted a year-on-year decrease. Sales of our mainstay pipes and couplings were hit by a falloff in new housing construction starts, which were adversely affected by the revision of the Building Standards Law. Conversely, the market for nursing care products appears to be emerging from the period of confusion following the enactment of amendments to the Nursing Care Insurance Act, and our sales of these products registered a year-on-year increase for the reporting period. Our elastomer compounds also enjoyed increased shipments and a rise in revenues, thanks to new applications developed in the medical treatment field.

At the profit level, negative factors included both a decreased sales volume in pipes and couplings, and price rises in raw materials amid a harsh market environment. As a result of difficulty in persuading customers to agree to price raises, the profitability of this segment deteriorated.

Our Current Medium-Term Management Plan

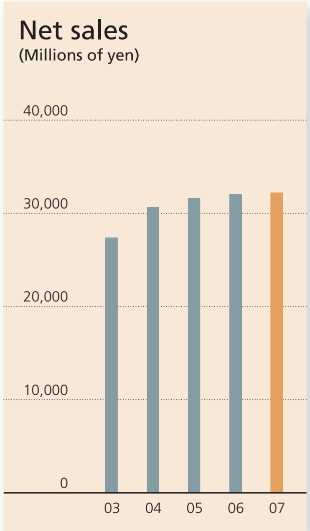
Our new medium-term management plan commenced in January of this year, and is intended to lay down a new growth path for the Company.

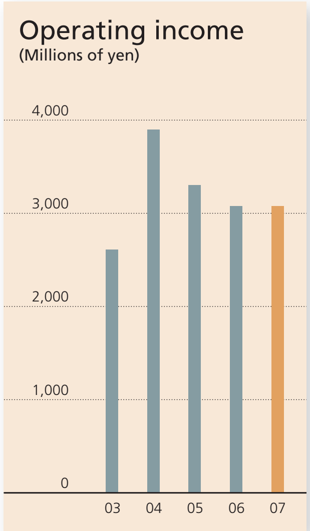
For the plastics business, the plan specifies four priority product fields in which efforts will be made to expand our scale of operations: 1) products for use in water supply systems and sewer systems; 2) nursing care products; 3) elastomers; and 4) products for use in environmental preservation systems.

In the water supply systems and sewer systems field, we intend to supplement products for use in sewer systems, which have been our main-earner line up to now, with pipes, couplings and other products for use in water supply, as well as other products for improving customers' home living environments. In the sewer products field, too, we will be examining various options for entering overseas markets.

In nursing care products, which is a fast-growing market, we plan to expand our overall lineup by developing new applications with the ultimate aim of becoming a comprehensive maker of care-related products. In elastomers, we intend to develop new products – as well as new applications for existing products – in such high performance requirement fields as medical treatment, IT, and motor vehicles.

As new business ventures, we are looking at expanding into such areas as the greenery business and the





production and sale of molded products using recycled plastic materials, and are ready to make the necessary investments to ensure that these ventures succeed.

Future Business Developments

Since the start of this year we have been focusing our efforts on the following points.

1. We are working to enforce still stricter quality management to fully realize the level of product quality our customers expect of us. To this end, we will focus on improving our production technology, creating and protecting intellectual property rights, and perfecting our quality assurance systems. In turn, to achieve these goals, we will need to hire and keep talented staff, and to negotiate agreements for the in-licensing of essential technologies.
2. We will work to improve operational efficiency across the board by eliminating wasteful and duplicated procedures, and will make the utmost efforts to strengthen our profitability through cost-reduction initiatives.
3. To raise our product competitiveness, we will always remain open to the possibilities of fruitful collaboration with other companies.
4. We have recently been placing a greater focus than previously on enhancing our capabilities in goods distribution and related logistics services, but now is the time for a radical overhaul of our whole logistics system to realize maximum customer satisfaction.
5. We will place high priority on internal controls and compliance, and will strive to raise employee awareness of the need to fulfill our social responsibilities.

We will tackle this set of issues wholeheartedly and uncompromisingly, enabling us to develop and expand our businesses with a primary focus on profitability.

Aron Kasei has developed a centralized drainage system for single-family houses in which wastewater from the kitchen, washbasin, and bath is channeled through one pipe under the floor of the house. This reduces labor costs associated with installation as well as maintenance, and improves the system’s efficiency.

We have launched a number of high-performance nursing care products on the market.

Corporate Social Responsibility

The Toagosei Group's policy on fulfilling its corporate social responsibility (CSR) is focused on commitments in three main areas

- **Contributions to Society**
- **Corporate Ethics**
- **Environmental Preservation and Safety**

The corporate ethical stance of the Toagosei Group is encapsulated in our motto: "share more happiness with more people through the chemical business." In line with the spirit of this motto, we carry out CSR activities on a comprehensive Group-wide basis. In these activities, which we call "TOA CSR," we place particular emphasis on: 1) contributions to society, 2) corporate ethics, and 3) environmental preservation and safety.

Contributions to Society

In addition to systematic efforts to contribute to the welfare and happiness of the wider society of which we are part, the Company also works through the social contribution committee drawing its members from across all management and employees categories, and collaborates with the labor unions. Employees at our Tokushima Plant are participating in the Takamaruyama Thousand-Year Forest tree-planting project being promoted by Tokushima Prefecture. This involves the planting of several hundred trees of 11 different types on the slopes of Mt. Takamaruyama in Kamikatsu Town, Katsuura-Gun, near our factory.

At our Sakaide Plant, under the slogan of "have fun helping society," plant staff are pursuing a cleanup campaign targeting the headwaters of local rivers.

At our Takaoka Plant, under the theme of "Happy & Active," staff are promoting the "Greet Everyone with a Smile" campaign. Selections of campaign posters have been displayed at a JR railway station, an elementary school, and other public facilities in the region.

The Toagosei Group's system for maintaining high ethical standards and fulfilling its corporate social responsibility

The "Greet Everyone with a Smile" campaign.


Cleanup campaign in the headwaters of the Yoshinogawa River.

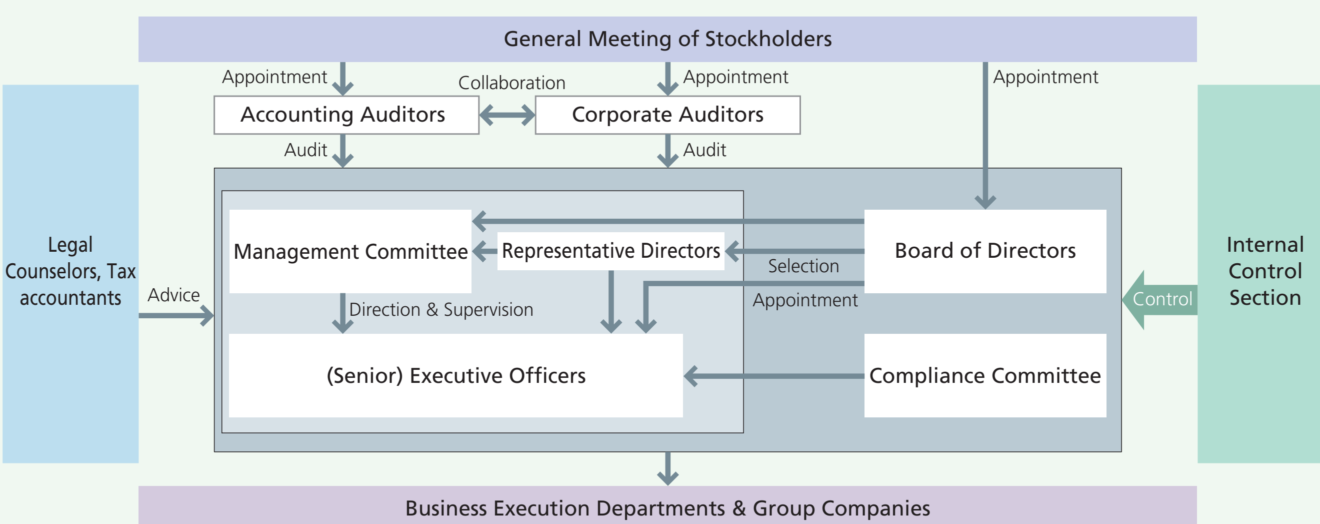
Afforestation activities by Toagosei staff.

Corporate Ethics

Corporate Governance

It is the basic goal of the Toagosei Group to be able to make fast and correct management decisions amid a constantly changing business environment, and to manage the Company and its Group in a fair and transparent manner. Toward this end, we have set up a corporate governance structure, including the introduction of an executive officer system with the aim of separating the supervisory and executive functions of management, enabling flexible and speedy decision-making, as well as more efficient execution of work processes, while simultaneously clarifying responsibilities. We have also appointed a director from outside the Company as part of our efforts to strengthen management's supervisory functions. Finally, we have set up a new Internal Control Section under the direct authority of the President of Toagosei.

Corporate Governance System



Compliance

We have established an in-house system to ensure a continued focus on compliance.

- Drawing up and promulgation of the Toagosei Group Code of Conduct and the Toagosei Group Manual of Behavioral Standards
- Establishment of the Compliance Committee
- Establishment of whistleblower hotlines for reporting suspected instances of illegal or unethical conduct
- Taking action to ensure the protection of confidential personal information

We have set up a system to oversee the appropriate handling of confidential personal information acquired in the course of collection of business information, as well as information on our employees, and have given this system the ability to take preventive and remedial measures. We have also clearly set down our specific methods of handling confidential private information in our "Personal Information Protection Policy."

Emergency Management

To facilitate swift and precise decision-making in the event of the discovery of the probable occurrence of a business crisis, or in the event of the actual occurrence of such a crisis, we have drawn up a Basic Contingency Management Manual which prescribes the organization to be set up to deal with any contingency, and the specific steps to be taken in the event of occurrence of particular categories of crisis.

- Contingency Response

In the event of a crisis, employees who are in possession of the facts regarding the crisis shall communicate the essential information to the rest of the Company via previously established emergency communication routes. On the basis of this information, the director or other high-ranking officer with direct authority over the workplace or work processes involved shall make an assessment of the crisis level, and shall put into motion the contingency response organization provided for that purpose, in accordance with the perceived degree of crisis level. Staff at the work site at which the crisis occurs shall keep in constant touch with the Company's Head Office, and the measures to be taken shall be determined through the collaboration of the staff at both ends.

Environmental Preservation & Safety

In addition to supplying its customers with useful products, the Toagosei Group also regards it as a matter of high management priority to conduct corporate activities that contribute to the realization of a more pleasant environment, on both a local and global scale.

The Toagosei Group operates a system that, insofar as is possible, ensures the minimization of load on the environment and guarantees the safety or its employees and customers throughout the entire lifecycle of its products, from the development of chemical substances through the manufacture, transport and distribution, use, and final disposal of finished products as waste. The entire management and staff of the Toagosei Group are working together to ensure that top priority is placed on respect for the environment during all the Group's business operations.

Responsible Care – the Fundamental Stance of the Toagosei Group

To maintain our reputation for trustworthiness, the Toagosei Group is committed to working to ensure the safety of its products, as well as workforce safety and hygiene, and to reducing the impact on the environment of these products and their manufacturing processes, at all stages from development through use to final disposal.

Environmentally Friendly Technology

The development of an electrolysis method using gas diffusion electrodes

Caustic soda production being a classic example of an energy-intensive industry, Toagosei is taking part in a joint project with other manufacturers who employ electrolysis to develop an electrolytic method using gas diffusion electrodes that could result in as much as a 40% saving in power consumed. When this technology is realized for practical use, it will play a valuable role in helping retard the global warming process.

Technological development work on a commercially feasible large-scale gas diffusion electrolysis system is currently proceeding at our Tokushima Plant.

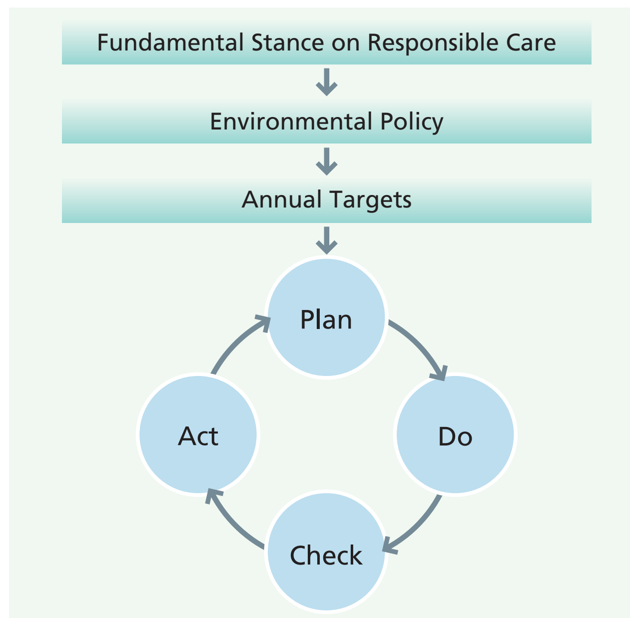
Environmental Preservation Activities

The priority goals of the Toagosei Group's environmental preservation activities are: 1) to help prevent global warming; 2) to reduce the volume of industrial waste generated by the Group's business operations and promote the reuse of resources; and 3) to reduce emissions of substances that cause environmental load. The Group sets specific numerical targets for these activities each business year, and all management and employees work to achieve those targets.

Thanks to the activities of the Group's environmental preservation system, the parent company and its subsidiaries have acquired the ISO14001 certification of conformity with international standards for environmental management systems. The system is being employed to realize even more efficient environmental preservation activities.

In 2000 Toagosei introduced the Environmental Accounting system. Since then other group companies have been successively adopting the system, which enables the quantitative measurement of the cost-effectiveness of environmental activities beginning with the reporting period. Analysis of these environmental accounting results enables us to redesign our system for greater efficiency. We make our environmental accounting data available to our shareholders, customers, and local residents as well as other stakeholders, thus promoting greater understanding and appreciation of the Group's environmental preservation efforts among society as a whole.

Other environment-related activities by the Group include the provision of education on environmental issues, the development of technologies for preserving environmental integrity, afforestation projects, and conducting cleanup campaigns as well as other contributions to the local communities in which we operate. The Toagosei Group is actively tackling environmental issues from a wide variety of angles.



State of Progress toward Three Priority Goals

1 Helping Prevent Global Warming	To help curtail carbon dioxide emissions, we aim to reduce energy intensity (the amount of energy used in the manufacture of one product unit) by 1% every year.
2 Reducing Industrial Waste	We are working to reduce the volume of industrial waste generated by our plants and increase the percentage of waste materials processed for reuse, thereby eventually reducing the amount of waste materials buried in landfill sites to as close to zero as possible.
3 Emissions of Environmental Load Substances	We are renovating our facilities to reduce emissions of substances that cause environmental load, and are simultaneously tightening our management of chemical substances so as to steadily reduce emissions of such substances each year.

Board of Directors and Corporate Auditors

Souichi Nomura | Shoji Kawamura | Katsutoshi Yamada | Bunshiro Fukuzawa | Akihiko Yamadera | Futoshi Hashimoto | Akio Arisawa | Kiyoshi Miyazaki | Kazuo Kiyota | Shigehisa Hibino

Chairman

Akihiko Yamadera

President

Futoshi Hashimoto

Directors

Bunshiro Fukuzawa
(Senior Advisor)
Akio Arisawa
Katsutoshi Yamada
Kiyoshi Miyazaki
Shoji Kawamura
Kazuo Kiyota
Souichi Nomura
Shigehisa Hibino

Senior Executive Officers

Hisanori Abe
Suemori Takashima
Yasutaro Yasuda

Executive Officers

Shigeo Suzuki
Shinichiro Otani
Norihiko Ono
Kazuaki Nakagawa
Akira Komine
Takao Takemoto
Akira Kuriyama
Noriyuki Masuda
Nobuhiro Ishikawa
Shinichi Sugiura

Corporate Auditors

Hiroo Taki
(Standing)
Takeyoshi Ono
Shou Sato
Fumihiro Hanada
Nobuo Hataya

(As of March 28, 2008)

Financial Section

Five-Year Selected Data

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen (except per-share data)				
	2007	2006	2005	2004	2003
For the fiscal year:					
Net sales	**¥162,729**	¥155,804	¥151,443	¥144,283	¥132,455
Income before income taxes and minority interests	**13,295**	13,522	16,846	10,321	6,125
Net income	**6,403**	6,961	12,131	8,996	1,719
Per-share data:					
Per share of common stock:					
Net income	**24.52**	26.64	46.31	34.38	6.57
Cash dividends applicable to the year	**8.00**	7.50	7.50	6.00	3.00
At year-end:					
Total assets	**182,681**	195,607	186,521	174,766	166,005
Net worth (Note)	**105,339**	103,870	99,501	83,513	74,476
Number of employees	**2,552**	2,573	2,523	2,597	2,735

Note: Net worth refers to the amount of net assets after deduction of minority interests.

Contents

Management's Discussion & Analysis

Overview of Fiscal 2007

Supported by a firm level of capital investment, the Japanese economy maintained its gradual expansion during the fiscal year under review, ended December 2007. In the latter half of the year, however, corporate earnings began to weaken and a decline became apparent in the employment situation. Additionally, the knock-on effect of the subprime mortgage loan crisis in the United States exacerbated the situation in Japan, leading to an economic slowdown. Business conditions were very difficult in the chemical industry against the background of a continued uptrend in oil and naphtha prices through the reported year.

In these circumstances, at the Toagosei Group we put still further effort into expanding sales of high value-added products, including the full-scale market launch of light-curable acrylic resin products, and we were rewarded with sales growth in high-function adhesives and acrylic oligomers such as *Aronix*. Additionally, the polymer flocculants business established as a joint venture with Mitsui Chemical generated synergy with the parent company, helping sharply raise the profitability of the business.

To secure steady earnings amid rising prices of raw materials and fuel, we undertook strict cost-cutting initiatives in production processes while pursuing greater efficiency in administrative work. These efforts, however, were not sufficient to fully offset the increased cost of production resulting from the sharp rise in raw materials and fuel prices, as we were not able to counterbalance the extra cost through product price raises.

Considerable management resources were invested in research and development into new value-added products based on our predictions of future demand. As part of this initiative, in June 2007 we established the GSP ("Genome Super Power") Center within our Advanced Science Research Center (formerly the Tsukuba Research Laboratory, renamed in April 2007). Research into new functional peptides at the GSP Center is carried out by researchers from Keio Advanced Research Centers (KARC) as part of the Peptidome Drug Project, a joint effort between the university and Toagosei.

The Group recorded sales on a consolidated basis for the reporting period in the amount of ¥162,729 million (US$1,425 million), an increase of 4.4% from the previous fiscal year. Operating income came to ¥12,719 million (US$111 million), down 1.8% year-on-year. Recurring profit was ¥13,462 million (US$117 million), down 1.0%, and net income was ¥6,403 million (US$56 million), down 8.0%.

Sales by Segment

Commodity Chemicals

Sales of caustic soda rose as a result of a generally steady shipment trend, as well as the fact that the Group succeeded in pushing through price raises on more products, a process that had commenced in the previous year.

In the field of inorganic chlorides, shipments of iron chloride solution were sluggish due to weak demand, but shipments of hydrochloric acid were in line with our projections. Shipments of high-purity hydrochloric acid to semiconductor manufacturers were favorable, and the total sales revenue of this product category rose over the previous year.

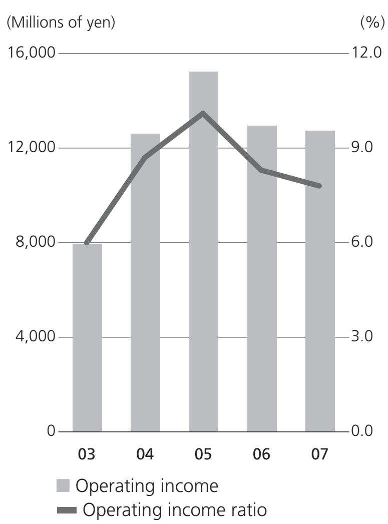
Sales of chlorinated organic solvents were down from the previous year owing to a decrease in shipments caused by slack demand. Sales of sulfuric acid increased thanks to a firm shipment trend, in addition to continuing success in pushing through price raises.

Sales of industrial gases rose year-on-year on the back of steady shipments, supported by strong demand from makers of vehicle components and advanced ceramic products in the Chubu Region.

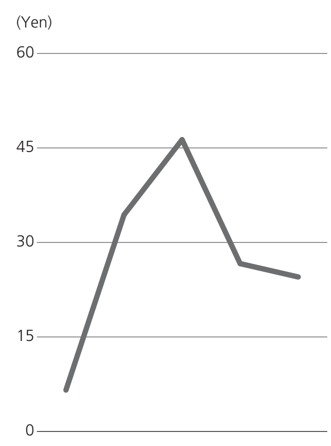
Increased demand was seen for copper related products for use in electronic materials, leading to brisk shipments and a steep rise in sales.

Total sales for the Commodity Chemicals segment came to ¥53,470 million, up 1.3% over the previous year.

Operating income & ratio as a percentage of net sales



Net income per share



Acrylic Products

Sales of acrylic esters posted a year-on-year increase. This was the result of increased demand on the Japanese market for pressure-sensitive and other adhesives, as well as continuing success in effecting price raises. Sales of these products on overseas markets as a whole registered year-on-year growth, thanks to improved market prices and favorable shipments to Asian users.

In the field of acrylic polymers, we succeeded in acquiring an increased number of users for value-added products such as *Arufon*, a series of acrylic polymer products created through solvent-free polymerization using SGO (solid grade oligomer). However, the termination of production of certain loss-making products caused overall sales to post a year-on-year decrease.

Sales of products for use in building construction and civil engineering posted a decrease owing to a falloff in public works investment and a decline in the number of private sector renovation projects.

Sales of polymer flocculants recorded a major year-on-year increase thanks to the emerging synergy provided by the operations of our joint-venture company MT Aqua Polymer, which was established in October 2006.

Total sales for the Acrylic Products segment rose 12.3% year-on-year, to ¥48,674 million.

Specialty Chemicals

The Group registered robust shipments of the acrylate oligomer *Aronix* for electronic applications such as the production of flat panel displays. In particular, strong sales from our production facilities in China were recorded from mid-year onward. During the reporting period we commenced full-scale shipments of our new product *Aronix UVT*, which is ideal for use in surface-protection coatings for cell phones, as well as being environmentally friendly. As a result, overall sales of the *Aronix* lineup posted major year-on-year increase.

In adhesives, shipments of products for ordinary household use were slack, leading to a decline in sales. In industrial-use adhesives, on the other hand, brisk shipments were registered by products for use by makers of smart cards and flexible printed circuit boards. As a result, total adhesives sales rose sharply.

With respect to products developed in-house, for which Toagosei holds full patent rights, in September 2007 the Japanese testing procedure used to establish the antibacterial efficacy of agent was approved as conforming to international standards. As an influence of this result, the recognition factor of our silver-based antimicrobial agent *Novaron* overseas has been improving notably, and shipments recorded a firm trend, leading to year-on-year sales growth. Increased demand was also seen for the Group's high-purity industrial silicon gases for the production of semiconductor chips, leading to brisk shipments and a sharp year-on-year increase in sales.

Total sales for the Specialty Chemicals segment posted a year-on-year gain of 3.6%, to ¥26,667 million. Electronics materials, which were previously included in the "Other Businesses" segment, are included in the Specialty Chemicals segment with effect from the reporting period, in line with a change in the organizational structure of the Company. To make comparisons possible, we have adjusted results for prior years to the new segmentation.

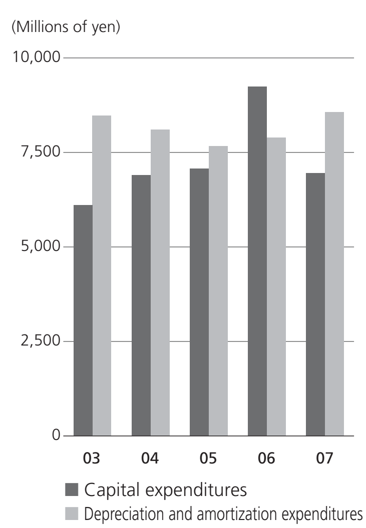
Plastics

Demand for piping materials declined due to a fall in housing construction starts and reduced public works investment, leading to slack shipments and a year-on-year decrease in sales.

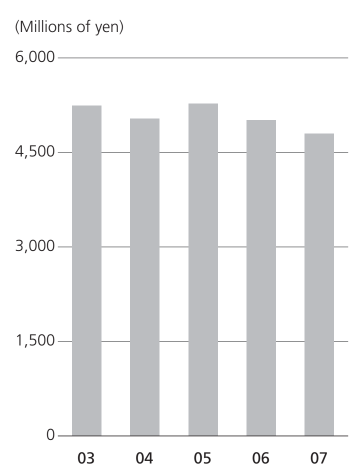
Growth in demand for plastic products used in nursing care led to robust shipments and increased sales.

Sales of raw material compounds and other molding materials staged a recovery thanks to a favorable trend in sales to makers of food containers and packaging, with a recovery in shipments to overseas customers. The Group also started shipments in the new field of compounds for makers of containers used in medical treatment. Sales of molding materials were up over the previous year.

Capital expenditures & depreciation and amortization expenditures



R&D expenditures



Total sales for the Plastics Segment edged up by 0.6% over the previous year, to ¥32,232 million.

Note: Aronkasei Co., Ltd., a consolidated subsidiary of Toagosei which engages in the manufacture and sale of plastic products, is under investigation by the Fair Trade Commission on suspicion of violating the Antimonopoly Law by bid-rigging in the marketing of pipes and couplings.

Other Businesses

Revenues from the construction or repair of plants and other facilities posted a year-on-year increase, but revenues from goods transportation services declined. Total revenues in the Other Businesses segment decreased by 11.0% to ¥1,684 million.

To more realistically present the Group's business performance, revenues from trading activities have been included in the figures for the chemicals businesses concerned. To make comparisons possible, we have adjusted results for prior years to conform to this new accounting method.

Cash Flows

Net cash provided by operating activities increased by ¥4,051 million year-on-year, to ¥15,651 million, due to declines in both working capital and income taxes paid, as well as the non-recurrence of the expenditures for the fulfillment of guarantees that were incurred in the previous year.

Net cash used in investing activities declined by ¥5,884 million year-on-year, to ¥4,209 million. This is attributable to increased revenues from the sale of investment securities, and a decrease in expenditures for the acquisition of property, plant and equipment.

Net cash used in financing activities amounted to ¥15,894 million, compared with a ¥583 million net inflow for the previous term, as a result of a decrease in cash inflow from the issuance of commercial paper, as well as an increase in the amount of repayment of long-term debt.

As a result of the above, cash and cash equivalents as of the reporting term-end came to ¥9,710 million, a decrease of ¥4,476 million from the previous term-end.

Business Performance Prospects for Fiscal 2008

For the current term, ending December 31, 2008, we forecast sales of ¥166,600 million, operating profit of ¥14,500 million, recurring profit of ¥14,800 million, and net income of ¥7,400 million on a consolidated basis.

Cash Flow Prospects for Fiscal 2008

As an increase in income before income taxes is expected to be offset by an increase in trade receivables, net cash provided by operating activities is forecast at roughly the level for the reporting period, or approximately ¥15,000 million.

Net cash used in investing activities is forecast to increase to ¥9,000 million, due to increased expenditures for the acquisition of property, plant and equipment and a year-on-year decline in revenues from the sale of investment securities.

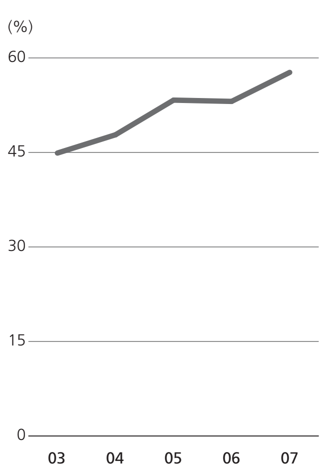
Net cash used in financing activities is forecast at ¥6,000 million, due mainly to the repayment of debt in line with the Group's policy of reducing its interest-bearing debt.

Business Risks

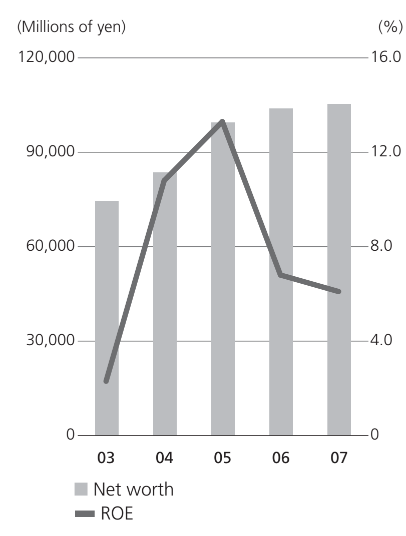
(1) Cost competition

The Group manufactures and sells many products that are difficult to differentiate from those of other companies in terms of their function and performance. Given the present trend of intensifying price competition, there is a possibility that the Group, despite its efforts to strengthen marketing activities and reduce costs, may not be able to maintain its competitive edge over rival companies that are able to sell products with the same qualities at lower prices. This could adversely affect the business performance and financial position of the Group.

Net worth ratio



Net worth & ROE



(2) Changes in the price of crude oil and naphtha
The purchase prices of the major raw materials of products manufactured and sold by the Group are affected by changes in crude oil and naphtha prices. Therefore, if the Group is unable to sufficiently raise its product prices, and/or if the Group is unable to rationalize its operations sufficiently to offset the rising prices of crude oil and naphtha, there is a possibility that the Group's business performance and financial position will be adversely affected.

(3) Product liability
In spite of our efforts to ensure a high level of product quality, there is a possibility that a customer or other party may experience financial losses or other forms of damage as a result of an unexpected defect in products manufactured and sold by the Group. As not all losses incurred will be covered by product liability insurance, this factor may adversely affect the business performance and financial position of the Group.

(4) Impact of natural disasters
The production plants of the Group are located mostly in the Tokai Region of Japan, which is said to be particularly at risk of the occurrence of a major earthquake. If such an earthquake were to occur, substantial losses — including the suspension of operations — could result, and this would adversely affect the business performance and financial position of the Group.

(5) Major litigation
In the event of a lawsuit being brought against the Group in the future, there is a possibility that this will adversely affect its business performance and financial position. There are no lawsuits currently pending or in process.

(6) Deferred tax assets
The deferred tax assets of the Group are based on an amount that is recorded after judging the potential for collection based on forecasts of future taxable income. If such forecasts deviate significantly from actual results, there is a possibility that this will adversely affect the business performance and financial position of the Group.

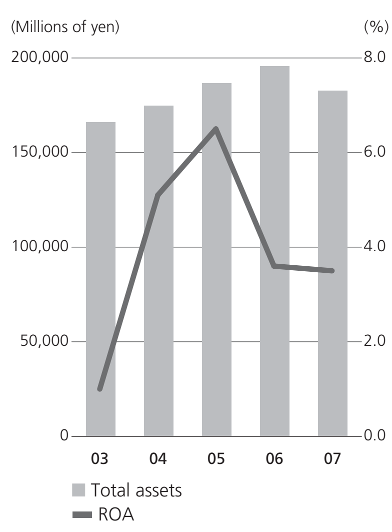
(7) Changes in foreign currency exchange rates
For the reporting period, overseas sales of the Group accounted for 15.1% of total sales. The Group includes seven overseas consolidated subsidiaries and one overseas affiliated company subject to the equity method. There is therefore a possibility of a change in exchange rates adversely affecting the business performance and financial position of the Group.

(8) Changes in interest rates
The Group committed to reducing the interest-bearing debt, and to improving the overall financial balance. However, there is a possibility that a change in interest rates will influence the business performance and financial position of the Group.

(9) Application of accounting for the impairment of long-lived assets
In line with changes to the law relating to accounting methods in Japan, the Group employs accounting for the impairment of long-lived assets. As a result, in the event of a significant future decline in market prices of land, and/or a deterioration in the Group's operating environment, there is a possibility of the posting of a substantial impairment loss, which would adversely affect the Group's business performance and financial position.

Estimates or projections included in this report are based on facts known to the Company's management as of the time of writing, and actual results may therefore differ substantially from such statements.

Total assets & ROA



Consolidated Balance Sheets

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Assets			
Current assets:			
Cash and cash equivalents	¥ 9,710	¥ 14,186	$ 85,064
Notes and accounts receivable	51,061	49,214	447,318
Inventories (Note 5)	17,379	17,333	152,254
Short-term loans receivable	—	9,315	—
Deferred tax assets (Note 10)	732	603	6,414
Other current assets	1,613	2,074	14,136
Allowance for doubtful receivables	(198)	(3,165)	(1,737)
Total current assets	80,298	89,563	703,450
Property, plant and equipment (Note 8):	244,159	247,325	2,138,932
Accumulated depreciation	(175,422)	(174,427)	(1,536,771)
Property, plant and equipment, net (Note 6)	68,736	72,897	602,160
Investments and other assets:			
Investment securities (Notes 4 and 8)	21,293	26,816	186,540
Long-term loans receivable	154	227	1,356
Intangible assets, net	2,294	2,230	20,098
Deferred tax assets (Note 10)	336	262	2,944
Overdue loans	8,562	—	75,006
Prepaid pension cost	476	—	4,172
Other assets	3,910	3,715	34,254
Allowance for doubtful receivables	(3,381)	(105)	(29,624)
Total investments and other assets	33,645	33,146	294,749
Total assets	¥182,681	¥195,607	$1,600,360

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Liabilities and net assets			
Current liabilities:			
Notes and accounts payable	**¥ 21,530**	¥ 21,204	**$ 188,619**
Short-term bank loans (Note 8)	**4,877**	4,793	**42,724**
Current portion of long-term debt (Note 8)	**3,725**	9,582	**32,632**
Commercial paper	**11,000**	15,000	**96,364**
Deferred tax liabilities (Note 10)	**—**	3	**—**
Accrued income taxes	**3,522**	1,837	**30,855**
Other current liabilities	**7,413**	8,225	**64,948**
Total current liabilities	**52,068**	60,646	**456,144**
Long-term liabilities:			
Long-term debt (Note 8)	**6,867**	10,657	**60,157**
Deferred tax liabilities (Note 10)	**1,320**	3,623	**11,572**
Accrued retirement benefits for employees (Note 9)	**723**	1,151	**6,335**
Accrued retirement benefits for directors	**148**	153	**1,299**
Other long-term liabilities	**2,614**	2,461	**22,900**
Total long-term liabilities	**11,673**	18,048	**102,261**
Commitments and contingencies (Note 17)			
Net assets:			
Shareholders' equity (Notes 11, 16 and 20):			
Common stock, without par value:			
Authorized – 500,000,000 shares			
Issued:			
2007 – 263,992,598 shares	**20,886**	—	**182,973**
2006 – 263,992,598 shares	**—**	20,886	**—**
Capital surplus	**15,073**	15,069	**132,048**
Retained earnings	**64,096**	59,717	**561,515**
Treasury stock (Note 15)	**(725)**	(624)	**(6,351)**
Total shareholders' equity	**99,331**	95,048	**870,185**
Valuation and translation adjustments:			
Unrealized holding gain on securities	**5,841**	8,418	**51,175**
Unrealized gain on hedging derivatives	**2**	8	**25**
Translation adjustments	**163**	395	**1,428**
Total valuation and translation adjustments	**6,007**	8,822	**52,629**
Minority interests	**13,599**	13,042	**119,139**
Total net assets	**118,939**	116,913	**1,041,954**
Total liabilities and net assets	**¥182,681**	¥195,607	**$1,600,360**

Consolidated Statements of Income

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Net sales	¥162,729	¥155,804	$1,425,577
Cost of sales	118,643	111,799	1,039,363
Gross profit	44,086	44,005	386,213
Selling, general and administrative expenses (Notes 9 and 12)	31,367	31,054	274,788
Operating income	12,719	12,950	111,425
Other income (expenses):			
Interest and dividend income	208	508	1,822
Interest expense	(442)	(363)	(3,878)
Equity in earnings of affiliates	523	583	4,585
Impairment loss on property, plant and equipment	(2,394)	(1,623)	(20,972)
Gain on change in equity ownership percentage	—	1,205	—
Gain on sales and disposal of property, plant and equipment	30	—	266
Gain on sales of investment securities	2,568	—	22,504
Other, net	82	262	722
Income before income taxes and minority interests	13,295	13,522	116,475
Income taxes (Note 10):			
Current	5,307	3,923	46,496
Prior year	920	—	8,059
Deferred	(247)	1,933	(2,164)
	5,980	5,857	52,392
Minority interests	(911)	(703)	(7,984)
Net income (Note 20)	¥ 6,403	¥ 6,961	$ 56,098

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

Year ended December 31, 2007	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2006	¥20,886	¥15,069	¥59,717	¥(624)	¥95,048
Cash dividends			(2,024)		(2,024)
Net income			6,403		6,403
Purchases of treasury stock				(105)	(105)
Gain on sales of treasury stock		3		5	9
Net changes in items other than shareholders' equity					
Balance at December 31, 2007	¥20,886	¥15,073	¥64,096	¥(725)	¥99,331

Year ended December 31, 2007	Millions of yen					
	Valuation and translation adjustments					
	Unrealized holding gain on securities	Unrealized gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2006	¥8,418	¥8	¥395	¥8,822	¥13,042	¥116,913
Cash dividends						(2,024)
Net income						6,403
Purchases of treasury stock						(105)
Gain on sales of treasury stock						9
Net changes in items other than shareholders' equity	(2,577)	(5)	(232)	(2,814)	557	(2,257)
Balance at December 31, 2007	¥5,841	¥2	¥163	¥6,007	¥13,599	¥118,939

Year ended December 31, 2007	Thousands of U.S. Dollars (Note 3)				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2006	$182,973	$132,013	$523,151	$(5,474)	$832,664
Cash dividends			(17,734)		(17,734)
Net income			56,098		56,098
Purchases of treasury stock				(921)	(921)
Gain on sales of treasury stock		34		43	78
Net changes in items other than shareholders' equity					
Balance at December 31, 2007	$182,973	$132,048	$561,515	$(6,351)	$870,185

Year ended December 31, 2007	Thousands of U.S. Dollars (Note 3)					
	Valuation and translation adjustments					
	Unrealized holding gain on securities	Unrealized gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2006	$73,752	$72	$3,462	$77,287	$114,254	$1,024,205
Cash dividends						(17,734)
Net income						56,098
Purchases of treasury stock						(921)
Gain on sales of treasury stock						78
Net changes in items other than shareholders' equity	(22,577)	(46)	(2,033)	(24,657)	4,884	(19,772)
Balance at December 31, 2007	$51,175	$25	$1,428	$52,629	$119,139	$1,041,954

See accompanying notes to consolidated financial statements.

Consolidated Statement of Changes in Net Assets

Toagosei Co., Ltd. and Consolidated Subsidiaries

Year ended December 31, 2006	Millions of yen				
	Shareholders' equity				
	Common stock	Capital surplus	Retained earnings	Treasury stock	Total shareholders' equity
Balance at December 31, 2005	¥20,886	¥15,063	¥54,644	¥(550)	¥90,044
Cash dividends			(2,025)		(2,025)
Bonuses to directors			(29)		(29)
Net income			6,961		6,961
Purchases of treasury stock				(98)	(98)
Gain on sales of treasury stock		6		23	30
Increase in consolidated subsidiaries			166		166
Net changes in items other than shareholders' equity					
Balance at December 31, 2006	¥20,886	¥15,069	¥59,717	¥(624)	¥95,048

Year ended December 31, 2006	Millions of yen					
	Valuation and translation adjustments					
	Unrealized holding gain on securities	Unrealized gain on hedging derivatives	Translation adjustments	Total valuation and translation adjustments	Minority interests	Total net assets
Balance at December 31, 2005	¥9,697	¥—	¥(239)	¥9,457	¥10,309	¥109,811
Cash dividends					(171)	(2,197)
Bonuses to directors					(3)	(32)
Net income					703	7,665
Purchases of treasury stock						(98)
Gain on sales of treasury stock						30
Increase in consolidated subsidiaries					2,148	2,315
Net changes in items other than shareholders' equity	(1,278)	8	635	(635)	54	(580)
Balance at December 31, 2006	¥8,418	¥ 8	¥ 395	¥8,822	¥13,042	¥116,913

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2007	2006	2007
Operating activities			
Income before income taxes and minority interests	¥13,295	¥13,522	$116,475
Adjustments to reconcile income before income taxes and minority interests to net cash provided by operating activities:			
Depreciation and amortization	9,002	7,908	78,867
Impairment loss on property, plant and equipment	2,394	1,623	20,972
Increase (decrease) in provision for doubtful receivables	309	(222)	2,712
Decrease in provision of reserve for loss on guarantees granted to the obligations of others	—	(1,085)	—
Reversal of provision for retirement benefits	(904)	(747)	(7,922)
Increase (decrease) in other provisions	(72)	4	(631)
Interest and dividend income	(743)	(508)	(6,509)
Interest expense	442	363	3,878
Foreign currency exchange loss (gain)	(63)	556	(560)
Equity in earnings of affiliates	(523)	(583)	(4,585)
Gain on change in equity ownership percentage	—	(1,205)	—
Gain from disposition of manufacturing license	(226)	—	(1,980)
Gain on sales of property, plant and equipment	(30)	—	(266)
Gain on sales of investments in securities	(2,568)	(617)	(22,504)
Subsidy income	(298)	—	(2,610)
Loss on disposal of property, plant and equipment	636	496	5,576
Loss on valuation of investment in securities	64	—	562
Decrease (increase) in receivables	(1,934)	651	(16,947)
Increase in inventories	(102)	(2,044)	(898)
(Decrease) increase in payables	397	(951)	3,479
Directors' bonuses paid	—	(32)	—
Other	(69)	357	(612)
Subtotal	19,005	17,485	166,495
Interest and dividends received	1,623	972	14,221
Interest paid	(438)	(370)	(3,838)
Income taxes paid	(4,538)	(5,310)	(39,761)
Payment for guarantees of obligation	—	(1,176)	—
Net cash provided by operating activities	15,651	11,600	137,117
Investing activities			
Purchases of time deposits	—	(1)	—
Purchases of investments in securities	(158)	(922)	(1,392)
Proceeds from sales of investments in securities	3,407	713	29,852
Purchases of property, plant and equipment	(7,559)	(9,225)	(66,225)
Proceeds from sales of property, plant and equipment	48	117	428
Proceeds from disposition of manufacturing license	226	—	1,980
Proceeds from subsidy income	298	—	2,610
(Increase) decrease in short-term loans	605	(332)	5,300
Long-term loans made	—	(27)	—
Collection of long-term loans	79	90	699
Proceeds from purchase of a newly consolidated subsidiary	—	272	—
Payment for investment in consolidated subsidiaries	(80)	—	(705)
Other, net	(1,076)	(779)	(9,427)
Net cash used in investing activities	(4,209)	(10,093)	(36,878)
Financing activities			
Increase in short-term bank loans	87	583	766
Increase (decrease) in commercial paper	(4,000)	6,000	(35,041)
Proceeds from long-term loans	—	3,300	—
Repayment of long-term loans	(9,623)	(1,892)	(84,309)
Redemption of bonds	—	(5,000)	—
Proceeds from sales of treasury stock	9	30	78
Purchases of treasury stock	(105)	(98)	(921)
Repayment of lease obligation	(1)	(146)	(12)
Cash dividends to shareholders	(2,260)	(2,192)	(19,806)
Net cash provided by (used in) financing activities	(15,894)	583	(139,245)
Effect of exchange rate changes on cash and cash equivalents	(23)	91	(204)
Net increase (decrease) in cash and cash equivalents	(4,476)	2,181	(39,211)
Cash and cash equivalents at beginning of the year	14,186	11,440	124,276
Cash and cash equivalents of a newly consolidated subsidiary	—	564	—
Cash and cash equivalents at end of the year	¥ 9,710	¥14,186	$ 85,064

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toagosei Co., Ltd. and Consolidated Subsidiaries
December 31, 2007

1. Basis of Preparation

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

The accompanying consolidated financial statements have been prepared on the basis of accounting principles generally accepted in Japan, which are different in certain respects as to the application and disclosure requirements of International Financial Reporting Standards, and have been compiled from the consolidated financial statements prepared by the Company as required by the Financial Instruments and Exchange Law of Japan.

As permitted by the Financial Instruments and Exchange Law of Japan, amounts of less than one million yen have been omitted. Consequently, the totals shown in the accompanying consolidated financial statements (both in yen and U.S. dollars) do not necessarily agree with the sum of the individual amounts.

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

2. Summary of Significant Accounting Policies

(a) Principles of consolidation and accounting for investments in unconsolidated subsidiaries and affiliates

The accompanying consolidated financial statements include the accounts of the Company and any significant subsidiaries controlled directly or indirectly by the Company. Affiliated companies over which the Company exercises significant influence in terms of their operating and financial policies have been included in the accompanying consolidated financial statements on an equity basis. All significant intercompany balances and transactions have been eliminated in consolidation.

Investments in subsidiaries and affiliates which are not consolidated or accounted for by the equity method are carried at cost or less. Where there has been a permanent decline in the value of such investments, the Company has written down the investments.

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

(b) Foreign currency translation

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

(c) Cash equivalents

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

(d) Securities and investment securities

Securities other than those of subsidiaries and affiliates are classified into three categories: trading, held-to-maturity or other securities. Trading securities are carried at fair value and held-to-maturity securities are carried at amortized cost. Marketable securities classified as other securities are carried at fair value determined based on the average of quoted prices (or their equivalent) in the one-month period prior to the balance sheet date with changes in unrealized holding gain or loss, net of the applicable income taxes, included directly in net assets. Non-marketable securities classified as other securities are carried at cost. Cost of securities sold is determined by the moving average method.

(e) Inventories

Inventories are stated at cost determined by the moving average method.

(f) Property, plant and equipment and depreciation

Property, plant and equipment of the Company and its consolidated subsidiaries are stated at cost less accumulated deprecation and impairment losses.

Depreciation of property, plant and equipment of the Company and its consolidated subsidiaries is calculated principally by the straight-line method based on the estimated useful lives of the respective assets and their residual value except for certain consolidated subsidiaries for which depreciation is calculated by the declining-balance method based on the estimated useful lives of the respective assets and their residual value.

Pursuant to amendment to the Corporate Tax Law, after having fully depreciated tangible fixed assets acquired on and before March 31, 2007, a subsidiary whose fiscal year ends March end, has depreciated the assets, using a straight-line method over 5 years. As a result, operating income and income before income taxes and minority interests decreased ¥204 million (U.S.$1,791 thousand), for the year ended December 31, 2007, compared with the corresponding amounts which would have been recorded under the previous method.

(g) Income taxes

Deferred tax assets and liabilities have been recognized in the consolidated financial statements determined with respect to the differences between financial reporting and the tax bases of 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.

(h) Research and development costs

Research and development costs are charged to income when incurred.

(i) Leases

Noncancelable lease transactions are primarily accounted for as operating leases (regardless of 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.

(j) Retirement benefits

Accrued retirement benefits for employees have been provided mainly at an amount calculated based on the retirement benefit obligation and the fair value of the pension plan assets as of the balance sheet date, as adjusted for the unrecognized net retirement benefit obligation at transition and unrecognized actuarial gain or loss. The retirement benefit obligation is attributed to each period by the straight-line method over the estimated years of service of the eligible employees. When pension plan assets exceed retirement benefit obligation as adjusted for the unrecognized actuarial gain or loss, the amount is booked as accrued retirement benefits and when pension plan assets are below retirement benefit obligation as adjusted for the unrecognized actuarial gain or loss, the amount is booked as prepaid pension cost. Actuarial gain or loss of the Company is amortized in the year following the year in which the gain or loss is recognized by the straight-line method over the average remaining years of service of the eligible employees (13 to 15 years). Actuarial gain and loss of two consolidated subsidiaries are amortized by the straight-line method over a period (5 years and 10 years, respectively) which is shorter than the average remaining years of service of the eligible employees.

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

On April 1, 2004, the Company changed its rules for tax-qualified pension plans and lump-sum payment plans. As a result, unrecognized prior year service cost to reduce the retirement benefit obligation was incurred. The unrecognized prior year service cost is being amortized by the straight-line method over a period (14 years) which is shorter than the average remaining years of service of the eligible employees.

On April 1, 2005, one consolidated subsidiary changed its rules for tax-qualified pension plans and lump-sum payment plans. As a result, unrecognized prior year service cost to reduce the retirement benefit obligation was incurred. The unrecognized prior year service cost is being amortized by the straight-line method over a period (5 years) which is shorter than the average remaining years of service of the eligible employees.

(k) Derivative financial instruments

The Company has entered into various contracts of derivative financial instruments in order to manage certain risks arising from adverse fluctuations in foreign currency exchange rates and interest rates. Derivative financial instruments are carried at fair value with any changes in unrealized gain or loss charged or credited to income, except for those which meet the criteria for special accounting treatment under which any differences paid or received on the interest rate swaps are recognized as adjustments to interest expense over the life of such swaps, thereby adjusting the effective interest rate on the hedged items, which are the underlying borrowings. Receivables and payables hedged by qualified forward foreign exchange contracts are translated at the rates of the corresponding foreign exchange contracts.

(l) Appropriation of retained earnings

Under the Company Code of Japan, the appropriation of retained earnings with respect to a given financial year is made by resolution of the shareholders at a general meeting to be held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Notes 20 and 21.

(m) Accounting for directors' bonuses

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Directors' Bonuses" (Accounting Standards Board of Japan Statement No. 4, November 29, 2005) effective the year ended December 31, 2006. As a result of this adoption, selling, general and administrative expenses increased by ¥26 million and operating income, ordinary income and income before income taxes and minority interests decreased by the same amount compared with the corresponding amounts which would have been recorded under the previous method.

The Company and its consolidated subsidiaries have no longer required to provide reserve for directors' bonuses under the revised directors' bonuses plan effective the year ended December 31, 2007.

(n) Presentation of net assets in balance sheet

Effective the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries have adopted a new accounting standard for the presentation of net assets in the balance sheet and the related implementation guidance. In addition, effective the year ended December 31, 2006, the Company and its domestic consolidated subsidiaries are required to prepare consolidated statements of changes in net assets instead of consolidated statements of shareholders' equity. In this connection, the previously reported consolidated balance sheet as of December 31, 2005 has been restated to conform to the presentation and disclosure of the consolidated financial statements for the year ended December 31, 2006. Total shareholders' equity under the previous method of presentation for the year ended December 31, 2006 amounted to ¥103,862 million.

(o) Accounting for business combinations and divestitures

The Company and its consolidated subsidiaries have adopted "Accounting Standard for Business Combinations" (Business Accounting Council, October 31, 2003), "Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Statement No. 7, December 27, 2005) and "Guidance on Accounting Standard for Business Combinations and Accounting Standard for Business Divestitures" (Accounting Standards Board of Japan Guidance No. 10, December 27, 2005) effective the year ended December 31, 2006.

(p) Overdue loans

A part of short-term loans receivable reported under current assets in 2006 has reclassified and presented as overdue loans under investments and other assets in 2007 since it is expected the short-term loans receivable in the amount of ¥8,562 million (U.S.$75,007 thousand) may not be collected within a year for the balance sheet date.

In line with this reclassification, allowance for doubtful receivables of ¥3,189 million (U.S.$27,501 thousand) under current assets corresponding to these overdue loans was reclassified to allowance for doubtful receivables under investments and other assets.

(q) Prior year income taxes

The Company was examined by the Tokyo Regional Taxation Bureau in 2007 and the Company expects that the tax examination is likely to be concluded in 2008. Based on the current status of the tax examination, it is highly likely that additional income taxes will be reassessed on transactions between the Company and an overseas subsidiary and accordingly the Company has recognized the expected additional income taxes of ¥920 million with respect to the transactions as prior year income taxes in the consolidated statement of income for the year ended December 31, 2007.

The Company however intends to disagrees with any potential tax assessment related to the transactions with the overseas subsidiary and to file an appeal to the Tokyo Regional Taxation Bureau to challenge the potential tax assessment or lodge an objection with the Tokyo National Tax Claim Court and to request a mutual agreement between Japan and United States of America under the applicable tax treaties for transfer pricing in order to obtain relief from double taxation.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is made at ¥114.15 = U.S.$1.00, the approximate exchange rate at December 31, 2007, and included solely for convenience. 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. Securities and Investment Securities

(a) At December 31, 2007 and 2006, held-to-maturity securities for which market prices were available are summarized as follows:

	Millions of yen		
December 31, 2007	Carrying value	Market value	Unrecognized gain
Unrecognized gain:			
Corporate bonds	**¥100**	**¥100**	**¥0**
Total	**¥100**	**¥100**	**¥0**

	Thousands of U.S. dollars		
December 31, 2007	Carrying value	Market value	Unrecognized gain
Unrecognized gain:			
Corporate bonds	**$876**	**$877**	**$1**
Total	**$876**	**$877**	**$1**

	Millions of yen		
December 31, 2006	Carrying value	Market value	Unrecognized gain
Unrecognized gain:			
Corporate bonds	¥100	¥101	¥1
Total	¥100	¥101	¥1

(b) Marketable securities classified as other securities as of December 31, 2007 and 2006 are summarized as follows:

	Millions of yen		
December 31, 2007	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**¥6,800**	**¥16,396**	**¥9,595**
Other	**—**	**—**	**—**
Subtotal	**6,800**	**16,396**	**9,595**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**973**	**802**	**(170)**
Total	**¥7,773**	**¥17,198**	**¥9,424**

	Thousands of U.S. dollars		
December 31, 2007	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	**$59,576**	**$143,636**	**$84,060**
Other	**—**	**—**	**—**
Subtotal	**59,576**	**143,636**	**84,060**
Securities whose acquisition cost exceeds their carrying value:			
Stock	**8,525**	**7,030**	**(1,495)**
Total	**$68,101**	**$150,667**	**$82,565**

	Millions of yen		
December 31, 2006	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥7,766	¥22,123	¥14,357
Other	51	120	69
Subtotal	7,817	22,243	14,426
Securities whose acquisition cost exceeds their carrying value:			
Stock	635	538	(97)
Total	¥8,453	¥22,782	14,328

(c) Sales of securities classified as other securities amounted to ¥3,407 million (U.S.$29,852 thousand) with a gain of ¥2,568 million (U.S.$22,504 thousand) for the year ended December 31, 2007.

(d) Other securities without market value as of December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Investments in subsidiaries and affiliates:			
Unconsolidated subsidiaries	**¥2,315**	¥2,186	**$20,280**
Other securities:			
Unlisted securities	**1,153**	1,177	**10,107**
Other	**526**	572	**4,609**

5. Inventories

Inventories at December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Merchandise and finished products	**¥10,816**	¥10,934	**$ 94,756**
Semi-finished goods	**1,824**	920	**15,984**
Work in process	**455**	648	**3,990**
Raw materials and supplies	**4,283**	4,830	**37,524**
	¥17,379	¥17,333	**$152,254**

6. Property, Plant and Equipment

Property, plant and equipment at December 31, 2007 and 2006 are summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Land	**¥18,180**	¥17,862	**$159,270**
Buildings and structures	**20,857**	23,401	**182,721**
Machinery, equipment and other	**28,148**	29,357	**246,591**
Construction in progress	**1,549**	2,276	**13,577**
	¥68,736	¥72,897	**$602,160**

7. Impairment Loss on Property, Plant and Equipment

The Company and its consolidated subsidiaries have recognized impairment losses on the following classes of assets for the years ended December 31, 2007 and 2006:

December 31, 2007

Location	Major use	Category	Millions of yen	Thousands of U.S. dollars
Takaoka city, Toyama	Idle	Buildings	¥1,073	$ 9,400
Mihara city, Hiroshima	Idle	Land and buildings	700	6,138
Singapore	Acrylic acid ethyl ester production facility	Machinery and equipment	620	5,434
Total			¥2,394	$20,972

December 31, 2006

Location	Major use	Category	Millions of yen
Tsukuba city, Ibaraki	Idle	Land and buildings	¥1,051
Nagoya city, Aichi	Idle	Machinery and equipment	572
Total			¥1,623

The Company and its consolidated subsidiaries have grouped business-use assets according to the minimum independent cash-flow-generating unit and have identified idle assets as one group for the purpose of accounting for impairment of property, plant and equipment on an individual basis.

When there is a decrease in the profitability, there is no specific plan for future use or the book value of such idle assets is less than their respective recoverable amounts, the book value of assets is written down to its recoverable amount. The assets listed in the above tables were written down to their respective recoverable amounts and ¥2,394 million (U.S.$20,972 thousand) and ¥1,623 million of impairment loss were recognized in the statements of income for the years ended December 31, 2007 and 2006, respectively. These losses were reported as other expenses.

The impairment loss consisted of ¥1,162 million (U.S.$10,179 thousand) for buildings, ¥386 million (U.S.$3,388 thousand) for structures, ¥474 million (U.S.$4,156 thousand) for machinery, ¥253 million (U.S.$2,216 thousand) for land, ¥117 million (U.S.$1,032 thousand) for other for the year ended December 31, 2007 and consisted of ¥584 million for buildings, ¥528 million for machinery, ¥473 million for land and ¥37 million for other for the year ended December 31, 2006.

The impairment loss for idle assets was measured based on the net sales prices of the idle assets as a basis for calculating their respective recoverable amounts. The net sales prices were determined based on a valuation of the assets in question using the valuation techniques of a real estate appraiser. The impairment loss for business-use assets was measured based on the value in use of business-use assets and discount rate used for computation of present value of future cash flows was 7.2%.

8. Short-Term Bank Loans and Long-Term Debt

Short-term bank loans, principally unsecured, consisted of notes payable to banks bearing annual interest rates of 1.74% and 1.34% at December 31, 2007 and 2006, respectively.

Long-term debt at December 31, 2007 and 2006 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Loans with collateral from banks, insurance companies and other, bearing annual interest rates of 1.47% and 1.65% for current portion of long-term debt and long-term debt less current portion at December 31, 2007, respectively	**¥10,592**	¥20,239	**$92,790**
	10,592	20,239	**92,790**
Less: current portion	**(3,725)**	(9,582)	**(32,632)**
	¥ 6,867	¥10,657	**$60,157**

Assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2007 and 2006 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	**2007**
Property, plant and equipment at net book value	**¥25,566**	¥25,343	**$223,971**

The aggregate annual maturities of long-term debt subsequent to December 31, 2007 are summarized as follows:

Year ending December 31,	Millions of yen	Thousands of U.S. dollars
2008	¥ 3,725	$32,632
2009	1,863	16,321
2010	354	3,106
2011	3,654	32,015
2012	354	3,106
2013 and thereafter	640	5,609
	¥10,592	$92,790

9. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, tax-qualified pension plans and lump-sum payment plans covering substantially all employees who are entitled to lump-sum or annuity payments, the amounts of which are determined by reference to their basic rates of pay, length of service, and the conditions under which termination occurs.

The following table sets forth the funded and accrued status of the plans, and the amounts recognized in the consolidated balance sheets as of December 31, 2007 and 2006 related to the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Projected benefit obligation	¥(17,098)	¥(17,654)	$(149,790)
Plan assets at fair value	16,228	17,568	142,166
Funded status	(870)	(86)	(7,623)
Unrecognized actuarial gain	852	(809)	7,469
Unrecognized prior service cost	(229)	(255)	(2,009)
Prepaid pension cost	476	—	4,172
Accrued retirement benefits	¥ (723)	¥ (1,151)	$ (6,335)

The components of net periodic retirement benefit expenses for the years ended December 31, 2007 and 2006 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Service cost	¥ 834	¥793	$7,310
Interest cost	332	334	2,914
Expected return on plan assets	(116)	(107)	(1,020)
Amortization of actuarial (gain) loss	(19)	(61)	(174)
Amortization of unrecognized prior service cost	(25)	(25)	(226)
Total	¥1,004	¥932	$8,804

The assumptions used in accounting for the above plans were as follows:

December 31,	2007	2006
Discount rate	Mainly 2.0%	Mainly 2.0%
Expected rate of return on plan assets	Mainly 0.75%	Mainly 0.75%

10. 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 a statutory tax rate of approximately 40.5 per cent for the years ended December 31, 2007 and 2006.

The effective tax rates reflected in the consolidated statement of income for the years ended December 31, 2007 and 2006 differ from the statutory tax rate for the following reasons:

	2007	2006
Statutory tax rate	40.5%	40.5%
Effect of:		
Permanent difference – entertainment expenses	0.7	1.3
Permanent difference – dividend income	(2.8)	(2.6)
Inhabitants' taxes per capital	0.6	0.6
Amortization of negative goodwill	(0.0)	(1.7)
Equity in loss of affiliates	(1.6)	(1.8)
Valuation allowance	(0.3)	5.2
Different tax rates applied to income of foreign consolidated subsidiaries	1.3	1.1
Tax deduction of experiment and research expenses	(3.5)	—
Prior year income taxes	6.9	—
Other, net	3.2	0.7
Effective tax rates	45.0%	43.3%

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

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Deferred tax assets:			
Valuation loss on securities	¥ 1,030	¥1,593	$12,592
Elimination of unrealized profit	1,437	1,468	9,024
Accrued retirement benefits	1,966	2,268	17,230
Accrued enterprise tax	296	202	2,594
Allowance for doubtful receivables	1,396	1,279	12,237
Accrued bonuses	75	85	660
Net operating loss carryforwards	1,880	1,540	16,474
Impairment loss on property, plant and equipment	1,251	—	10,962
Other	1,086	1,439	9,515
Gross deferred tax assets	10,420	9,877	91,291
Valuation allowance	(5,166)	(4,952)	(45,264)
Total deferred tax assets	5,253	4,924	46,026
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law	(478)	(399)	(4,192)
Undistributed earnings of overseas partnerships	(616)	(614)	(5,397)
Gain on contribution of securities to retirement benefit trust	(822)	(841)	(7,203)
Valuation difference on other securities	(3,586)	(5,819)	(31,416)
Other	(2)	(10)	(23)
Total deferred tax liabilities	(5,505)	(7,686)	(48,234)
Net deferred tax liabilities	¥ 252	¥2,761	$ 2,207

11. Capital Surplus and Retained Earnings

The new Corporation Law of Japan (the "Law"), which superseded most of the provisions of the Commercial Code of Japan, went into effect on May 1, 2006. The Law provides that an amount equal to 10% of the amount to be disbursed as distributions of capital surplus (other than the capital reserve) and retained earnings (other than the legal reserve) be transferred to the capital reserve and the legal reserve, respectively, until the sum of the capital reserve and the legal reserve equals 25% of the capital stock account. Such distributions can be made at any time when the resolution is made by the shareholders to do so, or by the Board of Directors if certain conditions are met. The legal reserve amounted to ¥3,990 million (U.S.$34,954 thousand) and ¥3,990 million as of December 31, 2007 and 2006, respectively.

12. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the years ended December 31, 2007 and 2006 were ¥4,794 million (U.S.$41,999 thousand) and ¥5,010 million, respectively.

13. Leases

The following *pro forma* amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of December 31, 2007 and 2006, 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
	2007	2006	2007
Acquisition cost:			
Machinery and equipment	¥898	¥1,044	$7,871
Other intangible assets	1	—	11
	¥900	¥1,044	$7,884
Accumulated depreciation:			
Machinery and equipment	¥456	¥ 598	$4,002
Other intangible assets	0	—	0
	¥456	¥ 598	$4,003
Net book value:			
Machinery and equipment	¥441	¥ 446	$3,869
Other intangible assets	1	—	11
	¥443	¥ 446	$3,881

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥159 million (U.S.$1,395 thousand) and ¥189 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, 2007 and 2006, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2007 for noncancelable operating leases and finance lease transactions accounted for as operating leases are summarized as follows:

	Millions of yen		Thousands of U.S. dollars	
Year ending December 31,	Operating leases	Finance leases	Operating leases	Finance leases
2008	¥144	¥173	$1,267	$1,519
2009 and thereafter	334	269	2,930	2,361
Total	¥479	¥443	$4,198	$3,881

14. 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. The disclosure of fair value information for derivatives as of December 31, 2007 and 2006 has been omitted since all derivatives have been accounted for as hedges.

15. Treasury Stock

Number of shares of treasury stock for the year ended December 31, 2007 and 2006 was as follows:

	Thousand of shares			
Year ended December 31, 2007	As of December 31, 2006	Increase during the year	Decrease during the year	As of December 31, 2007
Treasury stock:				
Common stock	**2,719**	**235**	**20**	**2,935**
Total	**2,719**	**235**	**20**	**2,935**

	Thousand of shares			
Year ended December 31, 2006	As of December 31, 2005	Increase during the year	Decrease during the year	As of December 31, 2006
Treasury stock:				
Common stock	2,628	203	112	2,719
Total	2,628	203	112	2,719

16. Cash Dividends

Dividends paid in the year ended December 31, 2007 and 2006 were as follows:

Year ended December 31, 2007

		Millions of yen	Thousands of U.S. dollars
Resolution	Type of shares	Gross amount	Gross amount
March 29, 2007 94th Annual Shareholders' Meeting	Common stock	**¥ 979**	**$8,583**
August 7, 2007 Board of Directors	Common stock	**¥1,044**	**$9,151**

Year ended December 31, 2007

	Yen	U.S. dollars		
Resolution	Per share	Per share	Record date	Effective date
March 29, 2007 94th Annual Shareholders' Meeting	**¥3.75**	**$0.033**	December 31, 2006	March 30, 2007
August 7, 2007 Board of Directors	**¥4.00**	**$0.035**	June 30, 2007	September 6, 2007

Year ended December 31, 2006

		Millions of yen
Resolution	Type of shares	Gross amount
March 30, 2006 93rd Annual Shareholders' Meeting	Common stock	¥1,045
August 4, 2006 Board of Directors	Common stock	¥ 980

Year ended December 31, 2006

	Yen		
Resolution	Per share	Record date	Effective date
March 30, 2006 93rd Annual Shareholders' Meeting	¥4.00	December 31, 2005	March 31, 2006
August 4, 2006 Board of Directors	¥3.75	June 30, 2006	September 6, 2006

Dividends made in line with the year ended December 31, 2007 but the effective date was in the year ending December 31, 2008 were as follows:

Year ended December 31, 2007

		Millions of yen	Thousands of U.S. dollars	
Resolution	Type of shares	Gross amount	Gross amount	Resource
March 28, 2008 95th Annual Shareholders' Meeting	Common stock	**¥1,044**	**$9,147**	Retained earnings

Year ended December 31, 2007				
	Yen	U.S. dollars		
Resolution	Per share	Per share	Record date	Effective date
March 28, 2008 95th Annual Shareholders' Meeting	¥4.00	$0.035	December 31, 2007	March 31, 2008

Dividends made in line with the year ended December 31, 2006 but the effective date was in the year ending December 31, 2007 were as follows:

Year ended December 31, 2006			
		Millions of yen	
Resolution	Type of shares	Gross amount	Resource
March 29, 2007 94th Annual Shareholders' Meeting	Common stock	¥979	Retained earnings

Year ended December 31, 2006			
	Yen		
Resolution	Per share	Record date	Effective date
March 29, 2007 94th Annual Shareholders' Meeting	¥3.75	December 31, 2006	March 30, 2007

17. Commitments and Contingencies

At December 31, 2007 and 2006, the Company and consolidated subsidiaries had the following contingent liabilities:

	Millions of yen		Thousands of U.S. dollars
	2007	2006	2007
Guarantees of indebtedness	¥421	¥822	$3,693
	¥421	¥822	$3,693

18. Business Combination

Purchase method

The Company has spun off its business of polymer flocculant to MT AquaPolymer, Inc. (MTAP) and the Company was allocated 51% of the shares of common stock of MTAP on October 1, 2006.

Because net assets of MTAP were lower than the fair value of MTAP, the Company recognized a difference of ¥1,620 million as goodwill. This goodwill is being amortized by the straight-line method over a period of five years.

Acquisition cost and the components of acquisition cost were as follows:

	Millions of yen
Assets of the polymer flocculant business of the Company	¥3,135
Liabilities of the polymer flocculant business of the Company	(655)
Costs directly incurred in acquiring shares of common stock	35
Acquisition cost of MTAP shares	¥2,514

Significant components of the assets acquired and liabilities assumed on October 1, 2006 were as follows:

	Millions of yen
Current assets	¥2,423
Fixed assets	783
Total assets	¥3,206
Current liabilities	¥1,501
Long-term liabilities	68
Total liabilities	¥1,570

A summary of the estimated effects of the business combination on the consolidated statement of income for the year ended December 31, 2006, which has not been audited, assuming the business combination was completed on the commencement date of the year ended December 31, 2006, is as follows:

	Millions of yen
Sales and income information:	(Unaudited)
Net sales	¥4,174
Operating income	528
Ordinary income	527
Income before income taxes and minority interests	598
Net income	175
Net income per share (in full yen or U.S. dollars)	0.67

The estimated effects of the business combination on the consolidated statement of income for the year ended December 31, 2006 were calculated on the assumption that the average monthly income of MTAP was included in the consolidated statement of income effective the commencement date of the year ended December 31, 2006.

19. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sale of products in the chemical industry segment in Japan. As net sales, operating income and total assets of the chemical business of the Company and its consolidated subsidiaries constituted more than 90% of the consolidated totals for both years ended December 31, 2007 and 2006, the disclosure of business segment information has been omitted.

Geographical Segments

Geographical segment information of the Company and its consolidated subsidiaries for the years ended December 31, 2007 and 2006 are summarized as follows:

	Millions of yen			
Year ended December 31, 2007	Japan	Other countries	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties	¥150,211	¥12,518	¥ —	¥162,729
Intersegment sales	2,050	4,507	(6,557)	—
Net sales	152,262	17,025	(6,557)	162,729
Operating costs and expenses	139,496	17,070	(6,556)	150,010
Operating income (loss)	¥ 12,765	¥ (45)	¥ 0	¥ 12,719
Total assets	¥175,707	¥10,332	¥(3,358)	¥182,681

	Thousands of U.S. dollars			
Year ended December 31, 2007	Japan	Other countries	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties	$1,315,913	$109,663	$ —	$1,425,577
Intersegment sales	17,962	39,483	(57,446)	—
Net sales	1,333,876	149,147	(57,446)	1,425,577
Operating costs and expenses	1,222,049	149,543	(54,440)	1,314,152
Operating income (loss)	$ 111,827	$ (395)	$ (6)	$ 111,425
Total assets	$1,539,265	$ 90,519	$(29,424)	$1,600,360

Year ended December 31, 2006	Millions of yen			
	Japan	Other countries	Eliminations or corporate	Consolidated
Sales:				
Sales to third parties	¥143,720	¥12,084	¥ —	¥155,804
Intersegment sales	2,468	4,009	(6,478)	—
Net sales	146,188	16,094	(6,478)	155,804
Operating costs and expenses	132,592	16,716	(6,455)	142,853
Operating income (loss)	¥ 13,595	¥ (621)	¥ (22)	¥ 12,950
Total assets	¥187,380	¥11,093	¥(2,866)	¥195,607

Overseas Sales

Overseas sales, which include export sales of the Company and its domestic consolidated subsidiaries and sales (other than exports to Japan) of its foreign consolidated subsidiaries, for the years ended December 31, 2007 and 2006 were summarized as follows:

Year ended December 31, 2007	Millions of yen				
	Asia	North America	Europe	Other	Total
Overseas sales	¥18,394	¥3,225	¥2,336	¥575	¥ 24,532
Consolidated net sales					162,729
Percentage of overseas sales to consolidated net sales	11.3%	2.0%	1.4%	0.4%	15.1%

Year ended December 31, 2007	Thousands of U.S. dollars				
	Asia	North America	Europe	Other	Total
Overseas sales	$161,143	$28,258	$20,470	$5,039	$ 214,911
Consolidated net sales					1,425,577
Percentage of overseas sales to consolidated net sales	11.3%	2.0%	1.4%	0.4%	15.1%

Year ended December 31, 2006	Millions of yen				
	Asia	North America	Europe	Other	Total
Overseas sales	¥13,519	¥3,627	¥2,469	¥2,053	¥ 21,669
Consolidated net sales					155,804
Percentage of overseas sales to consolidated net sales	8.7%	2.3%	1.6%	1.3%	13.9%

20. Amounts Per Share

The following table sets forth net income, cash dividends and net assets per share of common stock for the years ended December 31, 2007 and 2006:

Year ended December 31	Yen		U.S. dollars
	2007	2006	2007
Net income:			
Basic	¥ 24.52	¥ 26.64	$0.22
Diluted	—	26.63	—
Cash dividends	8.00	7.50	0.07
Net assets	403.51	397.56	3.54

Cash dividends per share represent the cash dividends proposed by the Board of Directors as applicable to the respective years together with the interim cash dividends paid.

21. Subsequent Event

Cash dividends

The following appropriation of retained earnings of the Company, which has not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2007, was approved at a shareholders' meeting held on March 28, 2008:

	Millions of yen	Thousands of U.S. dollars
Cash dividends - ¥4.00 (U.S.$0.035) per share	¥1,044	$9,147

Report of Independent Auditors

The Board of Directors
Toagosei Co., Ltd.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Toagosei Co., Ltd. and consolidated subsidiaries at December 31, 2007 and 2006, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in Japan.

The U.S. dollar amounts in the accompanying consolidated financial statements with respect to the year ended December 31, 2007 are presented solely for convenience. Our audit also included the translation of yen amounts into U.S. dollar amounts and, in our opinion, such translation has been made on the basis described in Note 3.

Ernst & Young ShinNihon

March 28, 2008

Corporate Data

Organization (As of April 1, 2008)

- General Meeting of Shareholders
  - Board of Directors
    - Chairman
      - President
        - Internal Control Section
          - Internal Auditing Group
        - Corporate Management
          - Corporate Strategy Department
            - Planning Group
            - Secretariat Group
          - Corporate Research and Development Department
            - New Technologies Development Group
            - Intellectual Property Group
            - Research Assessment Group
            - Nagoya Research Institute
            - Institute for Advanced Sciences
          - Administrative Department
            - Personnel & General Affairs Group
            - Investor Relations & Public Relations Section
            - Finance Group
            - Information System Group
          - Supply Chain Management Department
            - Purchasing Group
            - Logistics Group
            - Sales Administrative Group
            - SCM Group
            - Customer Service Group
          - Technology Administrative Department
            - Technology Administrative Group
            - Environment & Safety Group
            - Quality Assurance Group
            - Technical Training Center
        - Operations Management
          - Commodity Chemicals Department
            - Chlorine & Alkali Products Group
            - Sulfuric Acid & Agricultural Chemicals Group
            - Specialty Inorganic Products Group
            - Commodity Chemicals Laboratory
          - Acrylic Products Department
            - Acrylic Products Group
            - Construction Products Group
            - Macromolecular Material Research Laboratory
            - Kawasaki Plant
          - Functional Materials Department
            - Adhesives Group
            - UV Curable Resins Group
            - Functional Materials Laboratory
          - New Materials Development Department
            - Inorganic Functional Materials Group
            - Electronics Group
            - New Materials Laboratory
          - Tokyo Sales Department
            - Commodity Chemicals Group
            - Acrylic Products Group
            - Functional Materials Group
            - New Materials Development Group
            - Sapporo Sales Office
          - Osaka Branch
            - General Affairs Group
            - Commodity Chemicals Group
            - Acrylics & Functional Materials Group
            - Shikoku Sales Office
            - Fukuoka Sales Office
          - Nagoya Branch
            - General Affairs Group
            - Commodity Chemicals Group
            - Acrylics & Functional Materials Group
            - Hokuriku Sales Office
          - Nagoya Plant
            - Administrative Department
            - Productive Technology Department
            - Manufacturing Department I
            - Manufacturing Department II
          - Tokushima Plant
            - Administrative Department
            - Manufacturing Department
            - Sakaide Plant
          - Takaoka Plant
            - Quality Assurance Section
            - Environment & Safety Section
            - Office Management Group
            - Material Operation Group
            - Manufacturing Section I
            - Manufacturing Section II
            - Productive Technology Group

Directory

Domestic Network

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

Osaka Branch
Nakanoshima Mitsui Bldg. 11F, 3-3-3
Nakanoshima, Kita-ku, Osaka 530-0005
Tel: 06-6446-6551 Fax: 06-6446-6571

Nagoya Branch
Mitsui Life Nagoya Bldg. 6F, 1-4-6 Nishiki,
Naka-ku, Nagoya 460-0003
TEL: 052-209-8591 FAX: 052-209-8671

Hokuriku Sales Office
2-1-3 Fushiki, Takaoka, Toyama 933-0195
Tel: 0766-44-7451 Fax: 0766-44-7490

Shikoku Sales Office
2-4-1 Showacho, Sakaide, Kagawa 762-0004
Tel: 0877-46-3300 Fax: 0877-46-3200

Fukuoka Sales Office
2-14-2 Tenjin, Chuo-ku, Fukuoka 810-0001
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Nagoya Plant
17-23 Showacho, Minato-ku,
Nagoya 455-0026
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Tokushima Plant
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Tokushima 771-0188
Tel: 088-665-2111 Fax: 088-665-3867

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

Sakaide Plant
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Nagoya Research & Development Institute
1-1 Funamicho, Minato-ku, Nagoya 455-0027
Tel: 052-611-9901 Fax: 052-611-1693

Institute for Advanced Sciences
2 Okubo, Tsukuba, Ibaraki 300-2611
Tel: 029-865-2600 Fax: 029-865-2610

Principal Overseas Subsidiaries

Toagosei Hong Kong Ltd.
Room 905-8, 9/F., No.1 Hung To Road,
Kwun Tong, Kowloon, Hong Kong
Tel: 852-2763-1086 Fax: 852-2763-1798

Taiwan Toagosei Co., Ltd.
10F-1, No.189, Keelung Rd., Sec2, Taipei,
Taiwan, R.O.C.
Tel: 886-2-8732-3677 Fax: 886-2-2378-9036

Toagosei America Inc.
1450 West Main St., West Jefferson,
Ohio 43162, U.S.A.
Tel: 614-718-3855 Fax: 614-718-3866

Toagosei Singapore Pte Ltd.
460 Alexandra Road PSA Building #22-04
Singapore, 119963
Tel: 65-6273-0800 Fax: 65-6273-0500

TOA-DIC Zhangjiagang Chemical Co., Ltd.
20 Chanjiang Road, Jiangsu Yangtze River,
International, Chemical Industrial Park,
Zhangjiagang, Jiangsu Province, 215635 China
Tel: 86-512-5893-7320 Fax: 86-512-5893-7321

Toagosei (Zhuhai) Limited
3/F., No.2, Factory Bldg., Xiangzhou Ind.
Park of Science & Technology, Meihua
Road, Zhuhai, P. R. China
Tel: 86-756-850-8810 Fax: 86-756-850-8906

Principal Subsidiaries and Affiliates (As of December 31, 2007)

Name of Company	Lines of Business	Our Share (%)	Capital (¥ in millions)
Aron Kasei Co., Ltd.	Manufacture & sale of synthetic resin molded products	61.1	¥4,220
Tsurumi Soda Co., Ltd.	Manufacture & sale of chemical products	100.0	¥2,080
Aron Ever-Grip Ltd.	Manufacture & sale of adhesives	100.0	£223,000
Oita Chemical Co., Ltd.	Manufacture of chemical products	90.0	¥450
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	100.0	¥351
TG Corporation	Sale of chemical products	100.0	¥174
Toa Logistics Co., Ltd.	Product distribution	100.0	¥16
TOA Engineering Co., Ltd.	Construction & repair of chemical facilities	100.0	¥50
Toa Techno-Gas Co., Ltd.	Manufacture & sale of industrial gases	100.0	¥400
Toa Business Associe Co., Ltd.	Real estate management, brokerage & other services	100.0	¥40
Toa-Jet Chemical Co., Ltd.	Manufacture & sale of chemical products	51.0	NT$15,000,000
Toa Kogyo Co., Ltd.	Product distribution	100.0	¥25
Taiwan Toagosei Co., Ltd.	Sale of chemical products	100.0	NT$5,000,000
Aron Packaging Co., Ltd.	Filling and packaging of adhesives	100.0	¥10
Toagosei Singapore Pte Ltd.	Manufacture & sale of chemical products	100.0	S$60,571,000
Hokuriku Toa Logistics Co., Ltd.	Product distribution	90.0	¥10
Shikoku Toa Logistics Co., Ltd.	Product distribution	70.0	¥10
TOA-DIC Zhangjiagang Chemical Co.,Ltd.	Manufacture & sale of chemical products	60.0	US$5,600,000
Toagosei Hong Kong Limited	Sale of chemical products	100.0	HK$10,988,000
Toagosei (Zhuhai) Limited	Manufacture of adhesives	100.0	HK$9,188,000
MT AquaPolymer,Inc.	Manufacture & sale of chemical products	51.0	¥460
Chubu Ekisan Co., Ltd. (Note)	Manufacture & sale of industrial gases	30.0	¥480
Elmer’s & Toagosei Co. (Note)	Sale of adhesives	50.0	US$36,109,000

Note: Equity-method affiliates

Investor Information

Established

March 1942

Common Stock

Authorized: 550,000,000 shares

Issued: 263,992,598 shares

Capital: ¥20,886 million

Number of shareholders: 27,152

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

Transfer Agent for Common Stock

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

Certified Accountants

Shin Nihon & Co.
Hibiya Kokusai Bldg., 2-2-3, Uchisaiwai-cho
Chiyoda-ku, Tokyo 100-0011

Major Shareholders

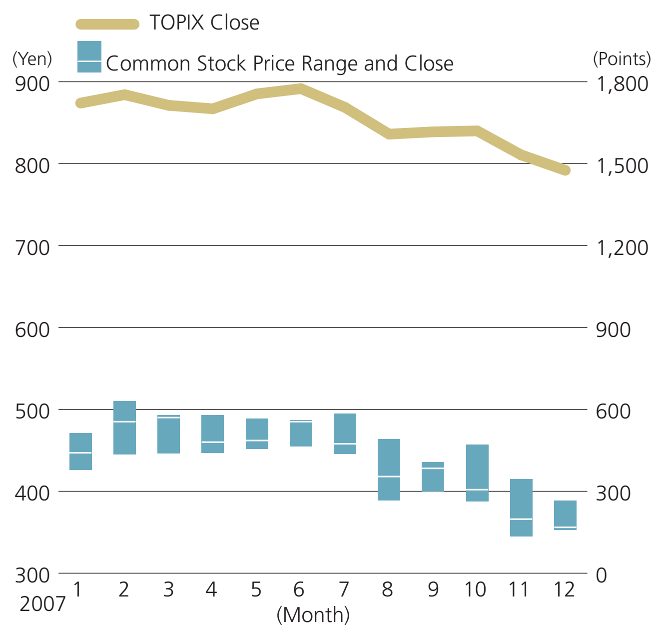
	(%)
Japan Trustee Services Bank, Ltd. (Trust account)	5.52
The Master Trust Bank of Japan, Ltd. (Trust account)	5.09
Sumitomo Mitsui Banking Corp.	4.40
Business Partner Shareholders' Committee	2.19
The Bank of Tokyo-Mitsubishi UFJ, Ltd.	2.13
Aioi Insurance Co., Ltd.	2.09
Employee Shareholders' Committee	2.03
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2.00
The Norinchukin Bank	1.49
Mitsui Life Insurance Co. Ltd.	1.38

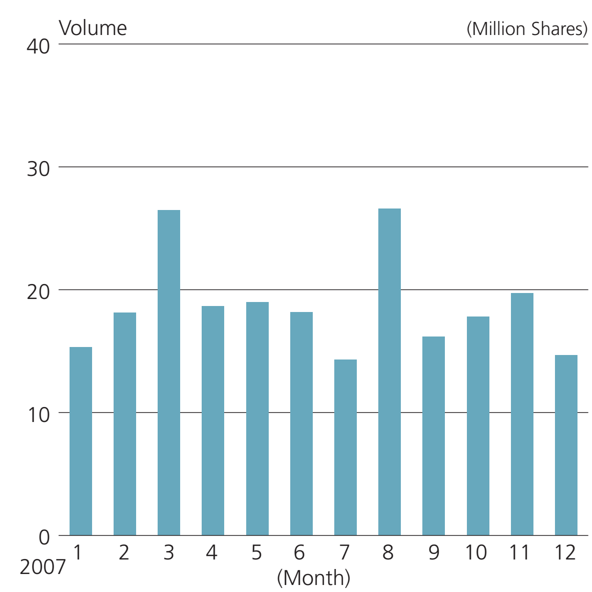
(As of December 31, 2007)

Stock Price Range & Trading Volume

(Tokyo Stock Exchange)

	2003	2004	2005	2006	2007
High	¥231	¥365	¥680	¥672	¥510
Low	¥133	¥197	¥344	¥406	¥345
TOPIX Close (Year-end)	1,043	1,149	1,649	1,681	1,475





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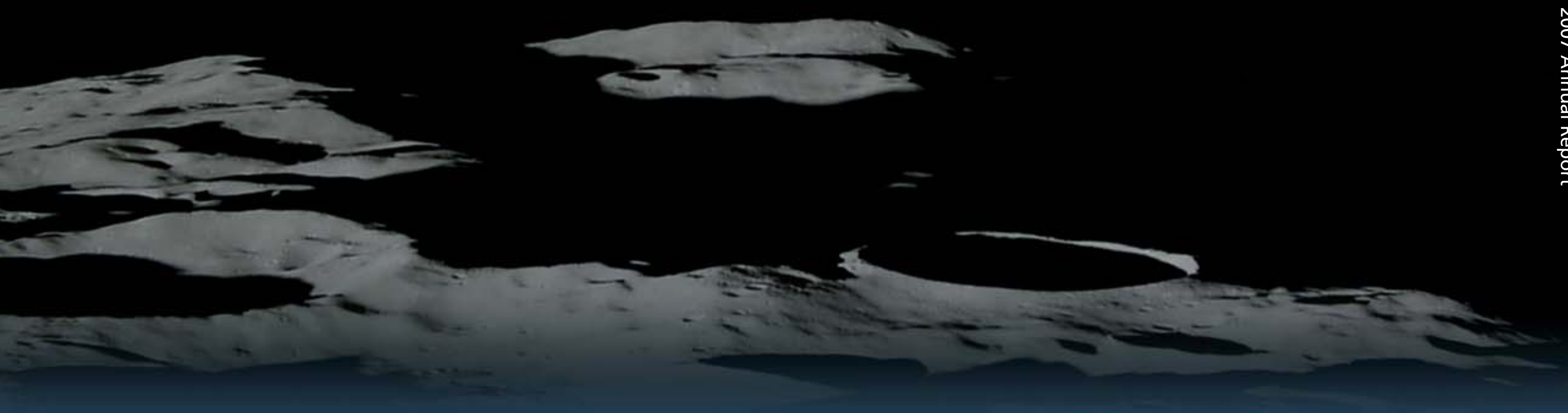

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