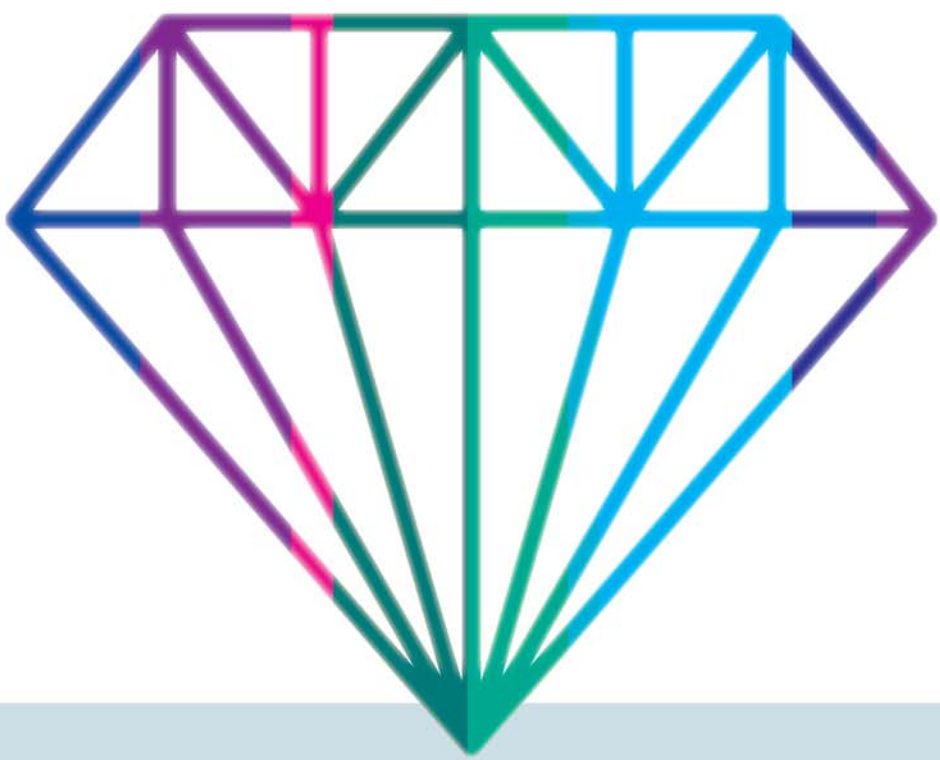
TOAGOSEI

Maximizing Efficiency, Driving Performance



Annual Report 2004

Expanding operations while upholding our standards of excellence

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The diamond design on the cover and the five small photos representing our business areas (above) were printed using ink made from our popular UV/EB-curable acrylic product *Aronix*.

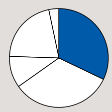
Toagosei's Business Domains

Business Segment | **Sales by Segment**

Commodity Chemicals

	Millions of yen		
	2004	2003	2002
Sales	¥46,271	¥44,536	¥44,072
Operating Income	3,319	3,015	2,697

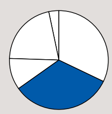
Sales
32.1%



Acrylic Products

	Millions of yen		
	2004	2003	2002
Sales	¥47,718	¥41,307	¥38,908
Operating Income (Loss)	3,230	375	(1,352)

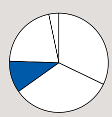
Sales
33.1%



Specialty Chemicals

	Millions of yen		
	2004	2003	2002
Sales	¥14,853	¥14,707	¥14,490
Operating Income	2,922	2,520	2,615

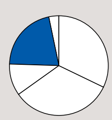
Sales
10.3%



Plastics

	Millions of yen		
	2004	2003	2002
Sales	¥30,656	¥27,373	¥29,256
Operating Income	3,897	2,609	2,689

Sales
21.2%

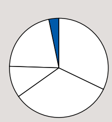


Other Businesses

(Life Science Product Businesses)

	Millions of yen		
	2004	2003	2002
Sales	¥4,784	¥4,530	¥4,363
Operating Loss	(758)	(568)	(1,065)

Sales
3.3%



Note: Segmentation in the above table is by product category. Segmentation shown on pages 8 to 17 is according to organizational structure.

Description	Main Products and Applications
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 and silicon based specialty gases for the semiconductor industry.	**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
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 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 **Special Monomers and Oligomers:** Raw material for paints, printing inks, coatings, and adhesives
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 waterproof coatings for exterior walls and the silver-based antimicrobial agent *Novaron*.	**Cyanoacrylate Instant Adhesives:** For bonding rubber, plastic, metal, and wood in industrial and consumer uses **Silver-based antimicrobial agents:** For kitchen and bathroom equipment, building materials, and textiles **Antifungal agents:** For kitchen equipment, home appliances, and paints **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 **Construction materials:** One-pack waterproof spray materials, decorative waterproof wall materials, permeable type water-absorption preventive agents, chemical grouts, and earth resistance reducing agents
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

We are putting effort into the development of products that help preserve the environment and maintain a harmonious relationship between the natural world and mankind's activities. Our successes thus far include *Kaligreen*, a potassium bicarbonate-based agricultural fungicide that is safe both for people and plants, and *Acaritouch*, an agent that kills dust mites.

Financial Highlights

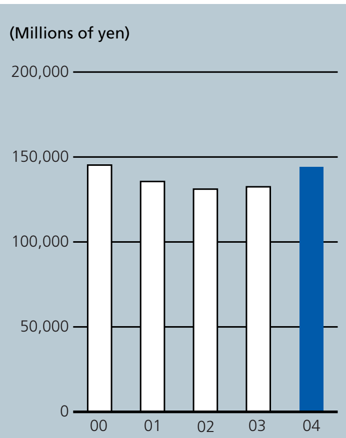
Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31, 2004, 2003 and 2002

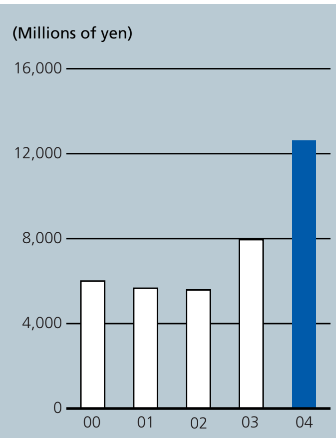
	Millions of yen			Thousands of U.S. dollars (Note 1)	04/03
	2004	2003	2002	2004	Change (%)
Net sales	¥144,283	¥132,455	¥131,092	$1,384,543	8.9
Operating income	12,611	7,951	5,584	121,017	58.6
Income before income taxes and minority interests	10,321	6,125	1,198	99,048	68.5
Net income (loss)	8,996	1,719	(2,195)	86,328	423.1
Per share of common stock (in yen and dollars):					
Net income (loss) (Note 2)	34.38	6.57	(8.37)	0.32	423.3
Cash dividends applicable to the year	6.00	3.00	3.00	0.57	100.0
Total assets	174,766	166,005	165,838	1,677,059	5.3
Shareholders' equity	83,513	74,476	71,648	801,396	12.1

Notes 1: U.S. dollar amounts are translated from yen, for convenience only, at the rate of ¥104.21 = $1.00.
2: Beginning with the term ended December 31, 2003, earnings per share is calculated based on the average number of ordinary shares outstanding during the term after deduction of the average number of shares in treasury in accordance with revised accounting standards. For the previous terms, relevant figures were calculated based on the average number of ordinary shares during the term in question.

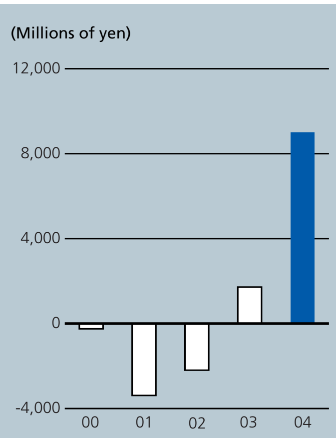
Net sales



Operating income



Net income (loss)



Interview with President Yamadera

Akihiko Yamadera
President

Aiming to raise our corporate profile further through creation of market-leading products

Several crucial management issues addressed over the last three years

Q

From fiscal 2002 (January 1 to December 31, 2002) to the end of fiscal 2004, Toagosei pursued its last three-year management plan, which was focused on the twin aims of growth and higher efficiency. Looking back over the past three years, how do your achievements measure up to your initial goals?

A Previously, the focus of our medium-term plan was the selection or rejection of business operations on the basis of profitability and assessed potential. Having attained those objectives, we moved on, under the three-year plan under review, to place the emphasis of our efforts on achieving growth and improving efficiency, and we have achieved steady progress toward both these targets.

Of our three principal goals, we have basically attained our objectives in terms of reducing costs and in integrating our management fully at the consolidated group level. For example, we succeeded in reducing payroll costs by ¥1,400 million, exceeding the targeted margin of ¥1,200 million. We were also successful in centralizing certain business operations, and in extending the common utilization of the R/3 computer system (produced by SAP) to most members of the Toagosei Group.

Other management issues successfully addressed included reducing our equity share in our PVC joint venture V-Tech Corp., and bringing Singapore Acrylic Ester Pte. Inc. into the black ink. With regard to the objective of improving operational efficiency, we reached our predetermined targets. However, with respect to our most important strategic objective – transforming Toagosei into a manufacturer of high-performance, high-profit products – we fell somewhat short of our goals, and certain problems remain to be solved. As will be explained later, 2005 is the first year of our new medium-term management plan, and we intend to learn from our mistakes over the past three years, so as to delineate more clearly the courses of action envisaged under the target of growth, and to facilitate the drafting and successful implementation of programs that will lead to the attainment of our goals.

Achieving growth in both revenue and earnings amid an improving business environment

Q

Fiscal 2004 was the final year of the three-year management plan that has just ended. Could you describe Toagosei's operating environment during those three years and the Company's business performance, and could you give the readers your evaluation of that performance?

A Over the past year, market demand for chemical products in East Asia has been very strong, particularly in China, and as a result, exports from Japan increased and market prices overseas also improved. Although we were not able to increase end-product prices sufficiently to pass on to the user the margin of increase in raw material and fuel prices, our business performance as a whole was favorable.

For the Toagosei Group as a whole, too, we enjoyed good growth in sales of Aronix, a resin product that hardens upon exposure to ultraviolet radiation, and which is expected to grow significantly in the future. Sales of Aronix in 2004 were double those in 2001.

In our acrylic ester business, too, sales grew significantly, and we were able to push through price increases on the domestic market. We made Singapore Acrylic Ester Pte. Ltd. into a wholly owned subsidiary. We also consolidated our production of acrylic polymer products. As a result of these measures, total sales on a consolidated basis posted a year-on-year gain of 8.9%, while operating income soared 58.6% over the previous year.

At the net income level, too, a dramatic improvement was seen, at approximately ¥9,000 million, or more than four times the year-before level. This was partly due to the posting of a negative figure for deferred income taxes attendant on our reduced equity stake in our PVC joint venture with Mitsubishi Chemical Corp. All in all, we can say that management of the consolidated group exhibited an effective and integrated performance, reflecting our firm commitment to the unification of all group members into one highly profitable enterprise.

New medium-term management plan

Q

In 2005, Toagosei starts operations under its new medium-term management plan. Could you please outline the new themes and basic strategies that constitute this new plan?

A I believe that by the completion of the management plan just ended, we had succeeded in building a foundation on which we can base our growth from here onward. The next step, needless to say, is to actually realize that growth. Everything will depend on how successful we are in turning the entire Toagosei Group into a high-earnings enterprise. For that reason, the focal theme of the new medium-term plan is raising efficiency to achieve excellent results. We have chosen "maximizing efficiency, driving performance" for the catchphrase of the plan. All our employees must pursue productive activities.

Our basic strategies include accelerating the growth and profitability of our priority operations, and reconstructing our existing operations. We must take another long, hard look at ourselves and clearly identify our areas of strength and weakness. On this basis, we can plan initiatives to achieve further sales growth in the products in which we are strong, and to attain higher profit levels from these operations. For example, we must make focused investments on a top-priority basis with the aim of achieving further expansion in applications, and increased sales, for our cash-cow products – UV-curable resins, adhesives, and high-purity inorganic chemical products.

Under the plan, we have also divided our existing operations into three categories: (1) those scheduled for accelerated expansion; (2) those whose earning potential must be more fully realized; and (3) those that require reconstruction, including those whose prospects are so poor as to require complete withdrawal.

To this end, we have redesigned our organizational structure and clearly delineated areas of responsibility for each member of management.

Q

What elements do you identify as vital to the effective execution of these plans? Also, I am sure your shareholders and other investors would appreciate it if you could conclude with a message to them.

A In the field of focal operations, we have already established the No. 3 position in the world in UV-curable resins, and from here on, we intend to separate these operations from our Acrylic Products Department and give them their own department. We believe that this will be the most effective way of nurturing the further growth of this business. This spring, our joint-venture company in China will begin operations, enabling us to increase total production volume.

In inorganic high-purity chemical products (such as caustic soda and liquefied hydrochloride), we are concentrating our marketing efforts overseas, particularly in East Asian countries. A vital supporting role in the growth of these products will be played by both R&D and our marketing staff, and we will be investing more management resources in both these areas. It will be especially important to develop products based on market research into the needs of particular customers in specific regions, and to do so at a faster pace than hitherto in order to keep pace with the rapid changes occurring in the market.

We will also be pressing forward with improvements in production technology and with initiatives to raise efficiency in all aspects of our business operations. We intend to place particular stress on reaching numerical targets in operating income. Our target for 2007 is a ratio of operating income to sales of 10.4%, or ¥17,000 million.

In the fields of fuel cells and holographic recording materials, both of which are expected to be strong growth areas over the long term, our investment stance will be aggressive.

For our fiscal 2005 business term, although it is unclear what direction demand will take on overseas markets, we nonetheless project another year of growth in both revenue and earnings.

I have previously likened the Toagosei Group to a small but brilliant diamond. From here onward, while retaining the unique high quality of the Group’s products and operations, we aim to grow our business scale and become a corporate group with an even higher profile in the world as a whole. I am sure that our efforts will not disappoint our shareholders, and I hope that market investors in general will follow our successful progress with growing interest.

Research & Development

Improving productivity and effectiveness of R&D through reorganization of system and strengthening of support

Hideki Kato, *Director and General Manager of Corporate R&D Department*

Three Basic Policies

Policy No. 1 – Developing Next-Generation Core Products

Q

Please describe the principal characteristics of the Corporate R&D Department.

A The Corporate R&D Department is divided into a number of corporate strategy groups – Electronics, Life Science, Research Assessment, and Intellectual Property – as well as the Corporate Research Laboratory.

We have set out three basic policies to be followed under the current medium-term management plan: 1) the development and commercialization of core next-generation products; 2) the acquisition of future core technologies; and 3) the creation of a more effective and practical R&D system.

Q

What issues are you tackling as priorities in the development of next-generation products, and what successes have you had?

A The Electronics Group is pushing ahead with development projects involving promising new materials for use in the semiconductor, flat panel display, and opto-electronics fields. Examples of successful development efforts from last year include a high-purity ethylene carbonate for removing resists in cleaning LCD substrates, which has been adopted in the production lines of major LCD makers and is scheduled to be used in next-generation production lines.

The Life Science Group is devoting its development efforts mainly to fuel cells, ecologically beneficial agrochemicals, and medical diagnostic agents.

The initial target for the lifespan of the fuel cell membranes – which was set at 6,000 hours – has already been easily exceeded, and in January of this year our prototype attracted tremendous interest at the first international fuel cell exhibition (FC Expo 2005) in Tokyo.

Among eco-friendly agrochemicals, Acaritouch, a leaf-mite control agent, was approved for use by the United States authorities. In the field of diagnostic agents, two of our diagnostic agents for diseases of the auto-immune system are now undergoing clinical trials. We are confident of being able to develop all these products into commercially profitable businesses at an early date.

Policy No. 2 – Acquiring Future Core Technologies

Q

Please explain your strategy for acquiring new technologies in a relatively short period.

A Our second basic policy is to assess and acquire the new technologies that will form the core of our future business operations. For this purpose, we are actively pursuing cooperation with outside research institutions and other companies. Last year, we achieved considerable progress with holographic data storage materials, with initiatives in collaboration with the Technology Research Association for Advanced Display Materials (TRADIM), and in the bioinformatics field.

Regarding holographic data storage materials, our research partner – Optware Corp. – is developing a holographic material for optical disks which has already reached a world-class memory storage level of 100 gigabytes, and they are aiming for 200 gigabytes within this year.

TRADIM's objective is to develop plastic substrates for use in LCDs that are flexible, and lighter than glass. Toagosei's role in the collaborative effort is to develop a suitable adhesive, and we will shortly be entering the commercialization stage.

In the field of bioinformatics, we discovered and acquired the patents for a number of highly activated anti-microbial peptide sequences. We plan to step up the pace of these efforts this year, making fuller use of collaboration with external research institutions.

Our efforts in the holographic material and plastic substrate fields are being pursued through dedicated project teams, while in bioinformatics, we have set up an in-house system of independent assessment groups whose responsibilities are clearly delineated, including teams specializing in photoreactive materials and natural substances. These groups are, in effect, functioning as in-house venture laboratories.

Policy No. 3 – Realizing More Effective R&D

Q

Could you explain the relationship between your third basic policy and your overall R&D vision?

A We are putting effort into strengthening our research and development support system on a Company-wide scale. We intend to raise the efficiency and practical effectiveness of all our research and development by investing further management resources in our long-established areas of competence, i.e. the assessment of material properties, and the investigation of new technologies and new materials. The fruits of our research are already being utilized in practical research into the creation of new chemical synthesis methods.

We also aim to create synergistic relationships among our laboratories, promoting cross-laboratory research to effectively utilize our findings. As part of this, to further strengthen our capabilities in material properties assessment, which has hitherto been conducted independently by each research laboratory, we have newly established the Material Properties Group, which we have positioned as one of the pivotal units in our overall system for improving the effectiveness of our R&D. By improving our R&D activities in terms of both quality and speed, we will facilitate R&D that pinpoints and appropriately addresses the actual needs of the market. In this way, we will help to realize the main theme of the current medium-term management plan, which is summed up in the catchphrase "Maximizing efficiency, driving performance." If successful, this is sure to make a major contribution to the further growth of the business operations of the entire Toagosei Group.

Notes:

1. **Holographic data storage material** is a generic term covering various materials now under development for the storage of massive volumes of digital data (in the terabyte range) on optical discs. Applying the same principle used in holograms, this method involves recording data within multiple-layered recording media.
2. **Bioinformatics** refers to the use of information technology in the field of biotechnology. Developed to enable scientists to handle the huge amount of data involved in genome analysis projects, bioinformatics is making it possible for researchers to discover the basic principles of life, and the knowledge thus gained will lead to the creation of new industries.

Commodity Chemicals

Laying the foundations of future growth

Kunio Sato, *Executive Officer*

Growth in high-purity inorganic chemical products and improved cost-competitiveness in the chloralkali business

Q

Could you first summarize Toagosei's achievements in the commodity chemicals field under its three-year medium-term management plan ended in 2004?

A Our efforts over the past three years have been principally focused on securing greater earnings stability in our chloralkali business, developing new high-purity inorganic chemical products, and strengthening industrial gases operations to raise profitability. In March 2003 we transferred the caustic potash production facilities at our Takaoka Plant in Toyama Prefecture to our Nagoya Plant, and thereby succeeded in raising the cost-competitiveness of these operations and in strengthening our production and marketing bases. We also increased sales of high-purity inorganic chemical products through Tsurumi Soda, a wholly-owned subsidiary. Despite these positive results, however, we fell short of our numerical targets under the previous medium-term management plan for commodity chemicals as a whole.

The main factors behind our failure to reach our targets were: 1) market prices fell as a result of increasingly fierce competition within the industry; 2) we have not yet been able to raise our sales prices sufficiently to pass on to our users the extra cost burden caused by the steep rise in raw materials and fuel; and 3) our hoped-for development of profitable new high-purity inorganic chemical products has fallen behind schedule.

Against this background, the chloralkali business environment turned for the better in the latter half of 2004, and we anticipate increases both in revenues and earnings in 2005. For the commodity chemicals business as a whole, we are confident of achieving the new targets described in the current medium-term business plan, taking into consideration the successful transformation of our caustic potash operations and the expansion of high-purity inorganic chemical products.

Household products including soap are made from caustic soda

The cost-competitiveness of Toagosei's electrolysis business has been greatly improved thanks to the transfer of all caustic potash production facilities from the Takaoka Plant to the Nagoya Plant.

Business performance reflects improvement in market

Q

Please describe results in the commodity chemicals business for 2004.

A Sales rose by a fairly satisfactory 3.9% year-on-year, to ¥46,271 million. Tsurumi Soda posted a substantial growth in sales centered on high-purity inorganic chemical products, principally to users in the information and communications technology (ICT) sector: these products thus became the most significant contributor for the whole segment. Shipment volume of inorganic chloride products such as caustic soda, liquid chlorine, and hydrochloric acid were strong, thanks to recovery of demand.

Sales of organic chlorinated solvents, and of sulfuric acid, both declined from the previous year owing to the withdrawal from or scaling-down of operations by major users.

Demand for gases for industrial use staged a recovery, and sales were firm.

Investment in strengthening competitiveness

Q

Could you describe your targets in commodity chemicals, and your operational strategy under the new medium-term management plan?

A As profit growth is a major aim, we will be focusing the prime thrust of our efforts on raising the competitiveness of our business operations.

Firstly, we plan to invest in expanding the scale of our high-purity chemicals operations, and in reinforcing the earnings bases of our longstanding business fields.

Secondly, we plan to improve our business portfolio management. In the chloralkali business, we will increase the production volume of chlorinated derivatives in response to growing demand. As part of our reorganization of this business, we will be looking closely into possibilities for alliances with other companies in the same industry, and we will unhesitatingly pull out of operational areas that we believe have no chance of becoming profitable.

Thirdly, we will invest resources in creating a platform for future growth. Our goal is to expand sales of products with good growth potential over the long term, such as high-purity inorganic chemical products and unique products that promise to differentiate us from our competitors. We will be stepping up the scale of our cooperation with Tsurumi Soda and are planning the construction of a second manufacturing plant for high-purity inorganic chemical products on the premises of our Tokushima Plant by the end of 2006. By integrating our operations even more tightly with Tsurumi Soda, which boasts a high level of technical expertise, we will lay the foundations for more aggressive business development. We will expand our lineup of unique, value-added products whose sales will be relatively unaffected by macroeconomic fluctuations.

Acrylic Products

Aggressively developing a full-scale acrylic product supply chain

Hisanori Abe, *Executive Officer*

Achieving our goals under the 2002-2004 management plan

Q

Did you attain the objectives set under your previous three-year management plan?

A Our operations were carried out by the parent company's Acrylic Products business, as well as by our Singapore subsidiary Toagosei Singapore Pte Ltd. and our Taiwan subsidiary Toa-Jet Chemical Co., Ltd. We were able to successfully expand sales, and sales targets set under the medium-term plan were reached. The downstream operations, which were a vital element in the plan, enjoyed expansion thanks to the popularity of the UV/EB curable acrylate Aronix. Another noteworthy achievement was the attainment of profitability in our acrylic polymer operations. Unfortunately, development work on the new uniform functional oligomer (UFO) additive fell behind schedule, and we were not able to attain the numerical target for the UFO operations under the plan.

The market prices for the products manufactured at our Singapore subsidiary have improved dramatically, allowing accounts to move into the black in the reporting period. Aronix production facilities at our Taiwanese factory operated according to schedule during the term, and production in China is scheduled to begin shortly.

As a result, Acrylic Products sales by the whole Toagosei Group for fiscal 2004, the final year of the three-year management plan, accounted for 33% of all Group sales and more than 25% of operating income. Issues still facing us include speeding up the process of development of new products capable of distancing us from our rivals, and ensuring the stable procurement of crude acrylic acid.

Toagosei aims to expand into the new fields of cosmetics and electronic materials through the focused application of the Company's unique technology.

Aron Tac adhesives have a wide range of applications, including adhesive tapes and labels.

Substantial growth thanks to improved market conditions

Q

Did business performance in 2004 go according to plan?

A Acrylic acid and acrylic esters were in strong demand on a global scale. Under these conditions, the Toagosei Group enjoyed improved business results during the reporting period, thanks to favorable sales on the Asian market, principally China and India, and recovering demand in Japan.

In the field of acrylic polymers, the Company's total revenues dipped owing to the closing down of operations in unprofitable areas. The profitability of this business fundamentally improved, thanks to the bolstering of the strategic products lineup in such areas as floor materials, cosmetics, and various environmentally friendly products.

Sales of Aronix rose sharply as a result of strong demand from manufacturers in the ICT sector. As we were generally unable to pass on the higher prices of raw materials to our customers, however, no improvement was enjoyed at the profit level.

As a result of the foregoing, total sales of this business segment came to ¥47,718 million, a year-on-year increase of 15.5%.

Expanding lineup of distinctive products, centered on polymer operations

Q

Could you tell your readers something about the Company's strategies and targets in the acrylic products field under your new three-year management plan?

A We plan to create a comprehensive and integrated acrylic "raw materials to end-products" supply chain, with the prime focus of effort on the expansion of our range of high-performance functional materials. Additionally, the entire Toagosei Group is involved in a process of carefully winnowing potentially profitable businesses from those with little promise, and focusing management resources on growth areas as well as on the development of the sort of new technologies from which we can expect distinctive products that will set us apart from our competitors.

In terms of product selection, items like Aronix, which have an appeal that transcends national and cultural borders, will be accorded the status of "core operations." With regard to miscellaneous, non-core products, we will consider the merits and demerits of discontinuing operations on a case-by-case basis.

Under the new medium-term plan, Aronix operations are being handled by the newly established Functional Materials Department from April of this year, while construction materials, previously classified under Specialty Chemicals, have been transferred to the Acrylic Products segment. From here on, we will be shifting the focus of our efforts to products with high-level value-added, principally in polymer operations, where we possess distinctive technological expertise in such areas as micro-molecule production and compounding technologies. We will also be seeking to expand our operations into new fields such as cosmetics and electronics materials.

Regarding our monomer operations, we plan to make more effective use of them as a base to give us a cost-competitive advantage in downstream derivative products.

Specialty Chemicals

Focusing on development of products to meet specific customers' unique requirements, and seeking new areas of application

Kunihiko Mizutani, *Executive Officer*

Industrial adhesives sell well, but products for the construction and civil engineering industries suffer slack sales

Q

Could you tell your readers about your achievements under the just-completed three-year management plan, and about any pending issues?

A As far as numerical targets are concerned, sales reached 89% of their targeted level, while operating income was at 88%. The performance of sales of this business was unfortunately worse than the average for the whole of Toagosei, but the Specialty Chemicals domain nonetheless made a valuable contribution to overall earnings.

In a breakdown by product category, industrial adhesives attained the sales target under the three-year plan, but earnings failed to reach the goal set. In consumer adhesives, revenue and earnings fell short of target due to slack demand in the Japanese market combined with slower-than-scheduled development of brand-new products.

From our recent experiences, we have drawn the conclusion that our priority task over the near future is to expand our markets through the launch of new products, as well as upgraded versions of existing products. Revenue from sales of products for the construction and civil engineering industries once again declined, owing to a slump in new construction starts and the reduction of public works budgets.

In the immediate future, we must put our full efforts into developing and bringing to market the sort of new products and materials that have the potential to spark a resurgence of demand.

Meanwhile, strong sales were racked up by other specialty chemical products such as *IXE* (inorganic ion exchanger) and *Novaron* (silver-based inorganic antimicrobial agents), as well as in-house-developed electronic materials, particularly electronic materials for digital consumer appliances, with both revenues and earnings reaching their targets under the medium-term plan.

PES hot melt adhesives are used for smart cards

Instant Krazy Glue is celebrating its 35th Year Anniversary by launching the most innovative formula available in instant glues. New Krazy Glue Color Change Formula! It's easy to see, so it's even easier to use!

Adhesives once again serve as main earner in fiscal 2004

Q

Could you give an overview of your results in 2004?

A Our Aron Alpha consumer-use instant adhesive (known as Krazy Glue in the U.S.) suffered a decline in sales on overseas markets, but overall sales registered a year-on-year increase thanks to our aggressive marketing initiatives targeting newly launched products on the Japanese market.

In industrial adhesives, sales were good to our main customers – makers of electrical materials and vehicles – and steady progress was made in the development of new products. As a result, sales recorded a strong year-on-year gain. In products for the construction and civil engineering industries, repairing materials for civil engineering work did well in the market, but not sufficiently to compensate for the falloff in sales of other products. Among other specialty chemical products, coating powder enjoyed good shipment volumes, and shipments of inorganic ion-exchange products were also firm. As a result, sales posted an increase over the previous year. Total sales of the Specialty Chemicals business were up 1.0% year-on-year, at ¥14,853 million. Operating income increased 16%.

Reinforcement of capabilities in marketing, R&D, and production technology

Q

Could you give your readers an outline of your goals and operational strategy under the current medium-term plan?

A In adhesives, firstly, we must base our product development projects on solving our customers' problems by our effective marketing as well as R&D, with a focus on exploiting the growing demand for adhesives in the electronic appliance and electrical equipment industries, as well as the automotive industry. Secondly, we have to speed up our global development, particularly in the major markets of the United States, Europe, and China. Thirdly, we need to strengthen our production technology to achieve higher production efficiency and enable us to get new products up and running on a commercial basis as quickly as possible.

In the field of construction and civil engineering materials, which have been struggling against a difficult business environment, we intend to focus on products for use in repairing external walls and roofs, which is a market where demand is growing. We hope to maintain our present operational scale while simultaneously laying the groundwork for our next growth takeoff.

To expand sales of inorganic high-performance products, such as the inorganic ion exchanger *IXE* and the antimicrobial agent *Novaron*, we will be devoting efforts to developing upgraded new versions of existing products, with more sophisticated or specialized functions, and will also be looking into new applications. Another focal point will be the early development of materials with new functions, and the expansion of our line-up of high value-added products.

Functional Materials

Targeting growth driven by core unique technologies

Masakazu Ishii, *Executive Officer*

Focusing on accelerated development of priority businesses

Q

The Functional Materials Department has just been established as an independent department with effect from April 2005. Could you tell us something about the background to this move, and the objectives of the new department?

A The new department was separated from the Acrylic Products Department and established as an independent entity to facilitate the pursuit of our goals under the new medium-term management plan, i.e. accelerating the growth of priority business operations and securely establishing the Company as a high-earnings enterprise on the basis of high-performance value-added products. The Functional Materials Department will handle the UV/EB-curable resins *Aronix* and *Oxetan*, the semiconductor sealant *IXE*, and the antimicrobial agent *Novaron*.

Aronix, the Department's No. 1 product, is a downstream product of the Company's acrylics operations chain. From its initial applications for paints and inks, the sphere of usage of *Aronix* has widened to encompass information and communications technology (ICT) applications such as LCDs, where sales are growing fast. By detaching it from our Acrylic Products business domain, we will be more easily able to specialize in the underlying core technology – the planning, evaluation, and production of UV/EB-curable materials (i.e. curable with ultraviolet radiation or electron beams) – leverage this expertise into the basis for profitable operations on a commercial scale, and expand its applications.

In the case of advanced, specialty inorganic materials such as *IXE* and *Novaron*, as these products are the fruit of development on the basis of Toagosei's unique technology, they are classic examples of high-performance value-added products, even though the scale of production at present is relatively small. We are looking forward to enjoying considerable synergy between these specialty inorganic products and UV/EB-curable materials regarding the further development and refinement of the underlying fund of technological expertise as well as new application development.

In addition to its mainstay field of application in printing inks, *Aronix* is also used as a coating agent in the manufacture of optical disks. *Novaron* is a high-performance antimicrobial agent employed in the molding of a wide range of plastic products for everyday use.

With the opening of a plant in China, Toagosei will have production bases in three countries

Q

The new department's sales breakdown will, presumably, be dominated by *Aronix*, but what plans do you have for future development?

A *Aronix* enjoys a roughly 50% share in the market for this type of product in Japan, and a share of approximately 15% in overseas markets. It is thus one of Toagosei's most powerful earnings drivers. We already have production facilities in Taiwan, but from this term we are scheduled also to start up production at a plant in China. Together with our Japanese plant, this will give us a production and supply network covering three countries in East Asia, allowing us to efficiently and reliably meet supply demand from new customers in the rapidly growing market.

Furthermore, to meet the increasingly higher levels of *Aronix* product quality demanded by our customers, we will reinforce our production technology and quality assurance systems and launch high-grade products. For *Aronix*, for instance, we have the M Series, which are used as raw materials for producing compound products, as well as the UV Series of finished compound products. To expand sales of the value-added UV Series, we are accelerating R&D initiatives in this area.

Expanding sales of unmatched products backed by proprietary technology

Q

Could you describe your goals under the new medium-term management plan?

A Our fundamental long-term goal is to become a high-profile company with a strong reputation for creating products that go on to become No. 1 in their respective markets. For its part, the Functional Materials Department is responsible for some of the products that will form the very heart of this strategy. Our UV/EB-curable materials already occupy the top position in the Japanese market, and from here onward we plan to further strengthen this business by expanding the scale of our production across the globe (the M Series) and by developing and commercializing highly profitable value-added products, leveraging our distinctive technologies (the UV Series).

In addition, we will continue to explore the possibilities of new applications (new markets) and to develop completely new materials. In this way, we have good prospects of firmly establishing the UV/EB-curable resin business on a long-term growth path. Specifically, we have joined the Technology Research Association for Advanced Display Materials (TRADIM), a joint research and development organization for LCD materials. We also plan to expand the business scale of our unique UV/EB-curable material *Oxetan*. In the field of high-performance inorganic materials, our priorities are placed on marketing and specialized function design, and we hope to expand our market through the introduction of higher grade products.

Plastics

Building a tough and resilient organization through development of value-added products and nurturing of new businesses

Masahiro Takai, *President of Aron Kasei Co., Ltd.*

Earnings reach targets, but revenues fall short

Q

Please describe the business environment in 2004, and your performance.

A As far as our performance is concerned, we fell short of the sales target of ¥35,000 million under the medium-term plan, reaching only ¥31,000 million. Sales fell short of target owing to our withdrawal from the business of producing vehicle mats as well as a decline in product prices caused by the overall deflationary trend, among other factors. At the profit level, however, we almost reached our target. In response to rising prices of raw materials, we decided to raise product prices, particularly in our core line of piping materials, and we were able to push through these price increases with our users. In product areas with good growth potential, such as nursing care products and elastomer compounds for use in plastic molding, sales registered expansion in line with our initial projections.

Consumer needs for nursing care products such as portable toilets are growing and diversifying in parallel with the graying of society, and Aron Kasei is constantly widening its lineup of products to address their needs.

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.

Successful cost-cutting initiatives and restructuring of production system

Q

Did you succeed in achieving your priority goals under the recently completed three-year management plan?

A In the development of new products, we attained our objectives in nursing care products and elastomers, but in other product areas we fell short.

From here on, we aim to speed up the entire process of development-to-market-launch by intensifying the collaboration between our development and marketing staff. To raise the efficiency of our operations, we are pushing through a raft of radical reforms.

Firstly, we have been focusing on a rigorous cost-reduction program, thanks to which we succeeded in cutting combined annual variable and fixed costs by approximately ¥2,000 million. We have reorganized our production system by centralizing compound materials production at a single plant in Nagoya, and by adjusting production volumes of piping products at our two plants in Hiroshima Prefecture and Ibaraki Prefecture to precisely match the levels of local demand.

Another important issue is getting each employee personally involved in his/her own goal management. I have played a part in this process myself by discussing goal management individually with our younger management staff. These talks have, I believe, succeeded in increasing staff awareness of this issue, and in energizing them to attain their own goals.

Regarding new business fields, we put effort into nurturing such imaginative products as our centralized sewerage and waste water drainage system for single-family houses, and our ecological business, such as a weather-resistant display board made from recycled plastic bottles, both of which have already established themselves on a commercial basis. I have strongly exhorted our staff to do their utmost to facilitate the rapid market penetration of these products.

Prime focus on developing new growth businesses

Q

Where do you see your operational strategy and objectives going in the next few years?

A Our primary aim is to reach the numerical targets set under the Company's medium-term management plan. This means attaining an annual sales level of ¥35,500 million by fiscal 2007, and to do this, we must develop new, value-added products in our already-competitive lineups of piping materials, particularly in couplings and drainage chambers. We must also match this by bolstering our sales efforts.

Another field on which we have placed emphasis is elastomer compounds, where we are having some success in extending the scope of application of our products. Over the short term, we intend to draw up specific action plans for each operational division corresponding to the themes set out for achievement under the present three-year management plan. We will adopt an uncompromising attitude toward the execution of these action plans.

Most vital of all is to foster and support new businesses. We will back up our unstinting investment of funds in promising new businesses concepts by pushing ahead with the reorganization of our production systems in line with strict cost-control criteria. The ultimate goal is to transform the whole company (Aron Kasei) into a tough and resilient organization that can easily shrug off the effects of such temporary phenomena as market price fluctuations.

Pursuing environment-friendly management through continuous improvement

The Toagosei Group follows a fundamental policy of making every effort to ensure that the Group's products – from development through use to final disposal – pose no safety concerns to human beings and impose as little burden on the natural environment as is reasonably possible. Thus, environmental considerations are an important part of our overall management stance.

The environment as a top-priority management issue

The Toagosei Group places the focus of its environment-related efforts on three points: (1) reducing the environmental load imposed by our business operations; (2) developing technologies and products that either do not harm the environment, or actually help to improve it; and (3) actively disclosing information relating to our environment-related activities.

Regarding environmental management, in 2000, all four of the Company's factories obtained the ISO 14001 certification of conformity with the international standard for environmental management systems, and we have since continued to work toward still further improvement in this aspect of our business. Follow-up inspections were recently held, from October 2004 through February 2005, with a view to the renewal of these certifications. During the whole of the inspection period, outside inspectors found only four cases where our systems fell slightly short of the requirements.

We introduced a system of environmental accounting in the year 2000, and this has resulted in various achievements ranging from energy conservation through measures to prevent pollution to improved operational efficiency (see the table on page 19). Currently, we are tackling, on a priority basis, the reduction of the amount of carbon dioxide emitted by our factories, and the reduction of the volume of liquid and solid industrial waste produced by our operations. We are also designing ways to raise the rate of recycling and reuse of our products.

Nagoya Plant receives METI award for resource reuse system

In March 2004 Toagosei's Nagoya Plant received an award from the Ministry of Economy, Trade and Industry for a system that its staff had developed and installed for the recovery and reuse of the ferric chloride used in etching. Hitherto, in the production of printed circuit boards utilizing copper circuit lines, the etching solvent used has been composed principally of ferric chloride, and large amounts have been required. After use, the solvent has undergone a neutralization process before being buried. With the newly developed award-winning system, however, almost all the copper dissolved within the used solvent is recovered. The remaining liquid is then combined with the chlorine produced by electrolysis of sodium chloride, creating pure ferric chloride once again. This system has been in operation since 1997.

Environmental Initiatives Pursued in 2004
(figures are year-on-year comparisons)

Energy consumption	Increase of 3,160 kl in crude oil equivalent
Carbon dioxide emissions	Reduction of 106 tons in carbon equivalent
Sulfur oxide emissions	Reduction of 7 tons
Nitrogen oxide emissions	Reduction of 124 tons
Total reduction in emission of environmentally harmful substances	53 tons

Corporate Social Responsibility and Compliance

Stepping up intensity of commitment

The Toagosei Group recognizes that compliance is a vital part of the management of any enterprise, and in order to strengthen and improve its efforts in this direction, in March 2004 we issued the Toagosei Group Code of Conduct and the Manual of Behavioral Standards for the Toagosei Group. These two documents set out the duties and responsibilities of the Group's employees at each level, including top management, with respect to the observance of legal statutes and generally accepted standards of ethical behavior, divided into ten categories. In addition, a Compliance Committee was established, composed of seven directors and an outside auditor. Aiming to pinpoint compliance-related problem areas as quickly as possible and examine a range of possible solutions, we have set up two whistle-blower "help lines,"one within the Company, and one outside it operated by a legal firm, to allow employees to report on suspected illegal or unethical behavior, or to seek advice regarding such questions.

With regard to employee rights, we fully recognize the need to respect the rights of all employees as individuals, encompassing such issues as fairness and equality of treatment in hiring, assignment, pay raises, bonuses, and all other forms of staff treatment. We have been conducting staff training seminars that fully address the important issues of sexual equality and the necessity of preventing sexual harassment.

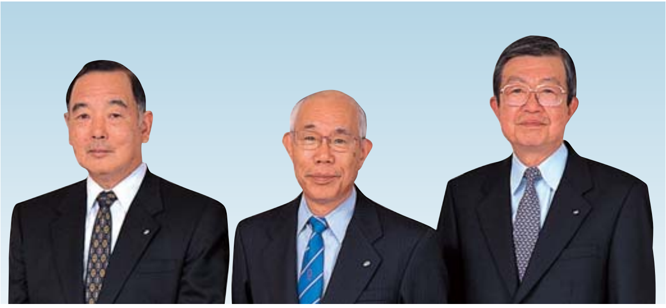
We have also laid down regulations regarding product safety to protect the consumer, covering everything from the initial design of products through our production processes. This is because ensuring the safety of our products lies at the very core of our duties as a responsible social citizen.

In addition to the above, we aim to realize a friendly and cooperative relationship with the local communities around our plants. To this end, we cultivate good relationships with local people by regularly throwing open our factories' gymnasiums and sports grounds to the public; by organizing conducted tours of our factories; and by encouraging our staff to become involved on a voluntary basis in local events and other social activities.

Board of Directors and Corporate Auditors

Bunshiro Fukuzawa Akihiko Yamadera

Katsutoshi Yamada Akio Arisawa Sakou Suzuki



Manabu Terao Hideki Kato Shigehisa Hibino

Chairman
Bunshiro Fukuzawa

President
Akihiko Yamadera

Directors
Sakou Suzuki
Manabu Terao
Akio Arisawa
Hideki Kato
Katsutoshi Yamada
Shigehisa Hibino

Senior Executive Officers
Yasushi Funaki
Yoshiaki Kawamoto
Toyohiko Kitano

Executive Officers
Kunihiko Mizutani
Yoshinobu Yamashita
Hisanori Abe
Akira Yada
Kunio Sato
Suemori Takashima
Yasutaro Yasuda
Futoshi Hashimoto
Shigeo Suzuki
Masaharu Matsubara
Masakazu Ishii
Shinichiro Otani
Kenji Sugishita
Norihiko Ono

Corporate Auditors
Hirotada Ito
(Standing)
Takeyoshi Ono
Shou Sato
Masao Numata

(As of March 31, 2005)

Seven-Year Selected Data

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen (except per-share data)						
	2004	2003	2002	2001	2000	1999	1998
For the fiscal year:							
Net sales	**¥144,283**	¥132,455	¥131,092	¥135,583	¥145,246	¥150,822	¥145,896
Income (loss) before income taxes and minority interests	**10,321**	6,125	1,198	(3,540)	2,927	5,552	2,690
Net income (loss)	**8,996**	1,719	(2,195)	(3,384)	(247)	2,069	254
Per-share data:							
Per share of common stock:							
Net income (loss)	**34.38**	6.57	(8.37)	(12.72)	(0.93)	7.75	0.95
Cash dividends applicable to the year	**6.00**	3.00	3.00	6.00	6.00	6.00	6.00
At year-end:							
Total assets	**174,766**	166,005	165,838	177,148	187,923	196,289	203,788
Shareholders' equity	**83,513**	74,476	71,648	75,175	80,268	81,731	80,664
Number of employees	**2,597**	2,735	2,792	2,872	3,097	3,341	3,387

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Management's Discussion & Analysis

Overview of Fiscal 2004

In the first six months of the reporting period, consumer spending showed signs of recovery, while companies reported large increases in earnings accompanying a rise in capital investment and growth in exports. However, the economy lost momentum toward the end of the year as a result of a fall-off in exports and decelerated growth in consumer spending, generating concern over its future direction.

In the chemical industry, against a backdrop of growing demand in Asia centering primarily on the Chinese market, exports increased, and product prices rose in overseas markets. Although our price hikes were not sufficient to fully compensate for the surge in raw material prices, the business environment remained generally favorable.

At the Company and its subsidiaries, we made utmost efforts to realize sales targets (on a volume basis), and to raise product prices to an appropriate level. In this way, the Toagosei Group worked to recover profitability and improve its earnings performance. Simultaneously, we undertook operational reforms and cut costs. In addition, Toagosei reduced its equity stake in V-Tech Corp., a joint venture with Mitsubishi Chemical Corporation, to 14.9%, and raised its equity stake in Singapore Acrylic Ester Pte. Ltd. to 100%. Nihon Junyaku Co., Ltd., a consolidated subsidiary engaging in the manufacture and sale of acrylic polymers, consolidated its production bases.

As a result, net sales on a consolidated basis totaled ¥144,283 million (US$1,385 million), up by ¥11,828 million, or 8.9%, from the previous year. Net income surged to ¥8,996 million (US$86 million), which is mainly attributable to an accompanying growth in sales. However, a decline in deferred income taxes is due to a decrease in the Company's equity stake in V-Tech Corp., which also contributed to a ¥7,276 million, or 423.1%, increase in net income over the previous year.

Sales by Segment

Commodity Chemicals

A recovery in demand for caustic soda, liquefied chlorine, sodium hydrochloride and other inorganic chlorides resulted in strong shipments. Consequently, sales exceeded the previous year's level.

Shipments of high-purity inorganic products increased sharply over the previous year as a result of strong shipments to the IT sector.

Shipments of organic chlorinated solvents decreased year-on-year, reflecting a decline in domestic shipments as a result of the withdrawal from operations by large-lot users.

Shipments of sulfuric acid declined despite aggressive sales efforts and the implementation of price hikes, which could not offset a decline in demand by large-lot users.

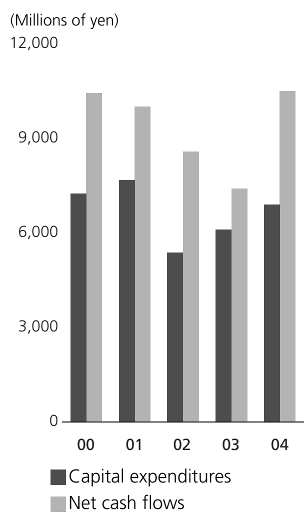
Shipments of industrial gas products rose in response to a recovery in demand.

As a result, total sales for the commodity chemicals segment came to ¥46,271 million, up by ¥1,734 million, or 3.9%, over the previous year.

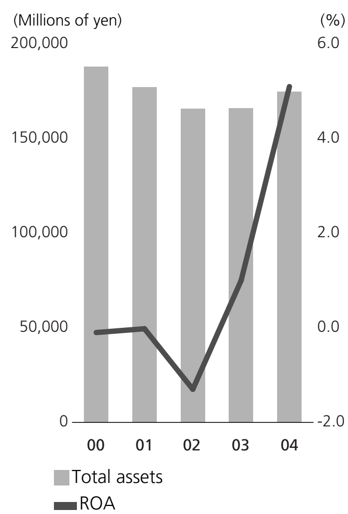
Acrylic Products

Although the prices of acrylic acid and acrylic esters have not been adjusted to account for the surge in raw material prices, we are expanding sales activities centering primarily on the Asian market, serving China and India from our base in Singapore. Shipments were also strong in the Japanese market due to tight supply. Consequently,

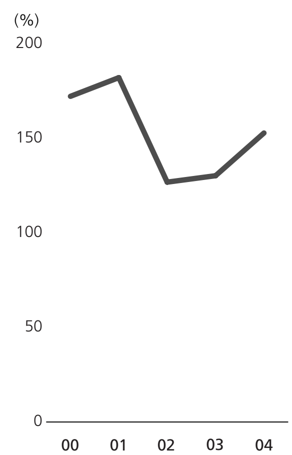
Capital expenditures & net cash flows



Total assets & ROA



Current ratio



sales showed a large increase over the previous year.

Regarding acrylic polymers, sales of commodity products have been sluggish. As profitability had not been satisfactory, we withdrew from the super-absorbent polymer business. In contrast, shipments of products for civil engineering and ceramics have been steady. As a result, sales showed a year-on-year rise.

Thanks to firm shipments of the acrylate oligomer Aronix, sales have increased substantially from the previous year.

Shipments of polymer flocculants to overseas markets — especially China and South Korea — were strong. Demand for the product was also strong in Japan. Consequently, sales far exceeded the previous year's level.

As a result, total sales of the acrylic products segment rose ¥6,411 million, or 15.5%, over the previous year, to ¥47,718 million.

Specialty Chemicals

Our instant adhesive for home-use, Aron Alpha (known as Krazy Glue in the U.S.) registered a decline in overseas sales. In Japan, however, we placed new products on the market, and thanks to aggressive sales promotion efforts, realized strong sales. As a result, sales exceeded the previous year level.

In products for the construction and civil engineering industries, repairing materials for civil engineering work did well in the market, but could not compensate for the fall-off in sales of other products. As a result, sales declined year-on-year.

Regarding other specialty chemicals, shipments of coating powders showed an upward trend, and shipments of inorganic ion-exchangers were also strong. Consequently, sales increased year-on-year.

As a result, total sales of the specialty chemicals segment came to ¥14,853 million, a year-on-year increase of ¥145 million, or 1.0%.

Plastics

Shipments of piping materials were firm, and we implemented price increases on the domestic market, prompted by rising prices of raw materials. As a result, sales substantially rose above the previous year's level.

In consumer products, shipments of general household-use products declined, but shipments of nursing care products were strong. Sales of consumer products a whole thus rose.

Shipments of raw material compounds for the production of molded plastics showed a large year-on-year rise, primarily on strong sales to Japan's food industry.

As a result, total sales of the plastics segment came to ¥30,656 million, up ¥3,282 million, or 12.0%, over the previous year.

Other Businesses

Transportation-related sales rose above the previous year's level, while sales from plant and equipment construction and repair declined.

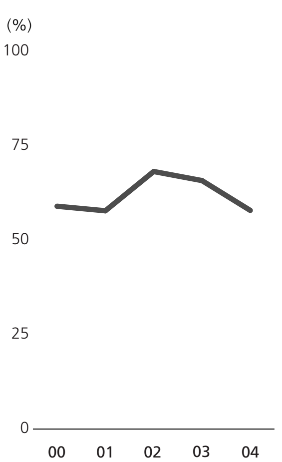
As a result, total sales of the other businesses segment increased ¥253 million, or 5.6%, to ¥4,784 million.

Cash Flows

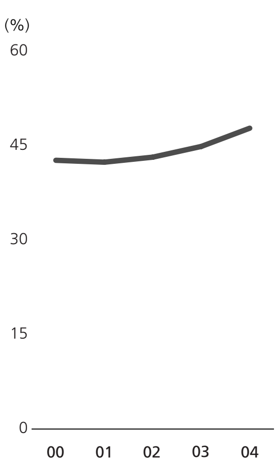
Net cash provided by operating activities rose by ¥3,001 million over the previous year, to ¥14,912 million (US$143 million) due to an increase in income before income taxes and minority interests, which more than offset increases in trade receivables, inventories and income taxes paid.

Net cash used in investing activities totaled ¥9,469 million (US$91

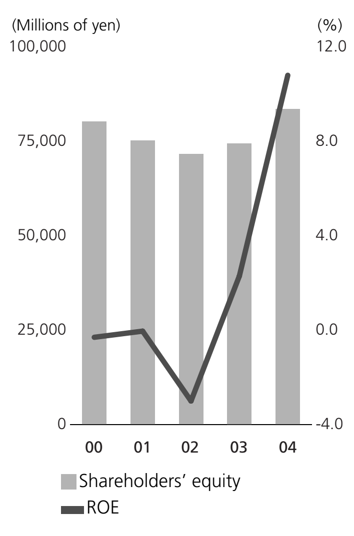
Ratio of property, plant & equipment to long-term capital



Ratio of shareholders' equity to total assets



Shareholders' equity & ROE



million), marking an increase of ¥1,757 million over the previous term. This is attributable to increased expenditures for equity investments and purchases of property, plant and equipment, which were partially offset by a decline in short-term loans.

Net cash used in financing activities decreased ¥3,105 million from the previous fiscal year, to ¥2,316 million (US$22 million). This decrease is largely attributable to a decline in repayments of interest-bearing debt.

Combined, the above resulted in a balance of cash and cash equivalents at the end of the term under review of ¥10,500 million (US$101 million), up ¥3,092 million from the previous term-end.

Forecasts for Fiscal 2005

Performance

We forecast net sales of ¥150,000 million, operating income of ¥14,200 million, and net income of ¥10,700 million on a consolidated basis.

Cash Flows

Net cash provided by operating activities is expected to rise by ¥2,000 million from the reporting term, to ¥17,000 million, as a result of an increase in income before income taxes and minority interests.

Net cash used in investing activities is forecast to total ¥12,000 million due to an estimated expenditure for the purchase of property, plant and equipment.

Net cash used in financing activities is forecast to total ¥3,000 million as a result of efforts to reduce our interest-bearing debt.

Material risks to which we are exposed

(1) Cost competition

In the case of many product categories, there is considerable difficulty for the Company and other Group members in creating products that differ substantially in nature and/or performance from those of our competitors. As a consequence, there is the possibility that we may become embroiled in fierce cost competition, and, despite vigorous efforts to revitalize our marketing activities and lower production costs, we may find our product prices undercut by rival manufacturers. In such situations, neither the Company nor its subsidiaries or affiliates may able to maintain their market shares in the face of the severe competition, leading to negative impacts on the business performance and financial position of Toagosei and other members of its corporate group.

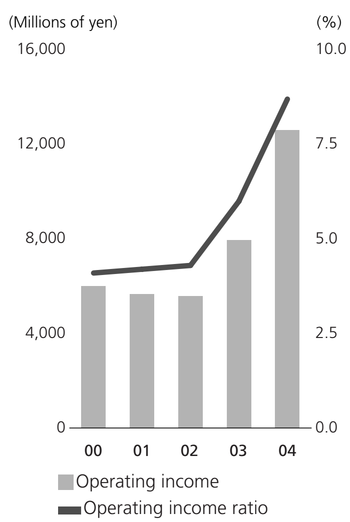
(2) Changes in the price of crude oil and naphtha

The average price of the principal raw materials purchased by Toagosei and other Group members is strongly and directly affected by changes in the market prices of crude oil and naphtha. In certain cases, the Company and its subsidiaries and affiliates may be unable to fully pass on to their customers the increased cost of production of their products resulting from such rises in the prices of the said raw materials, and such situations will naturally exert an adverse impact on the business performance and financial position of Toagosei and other Group members.

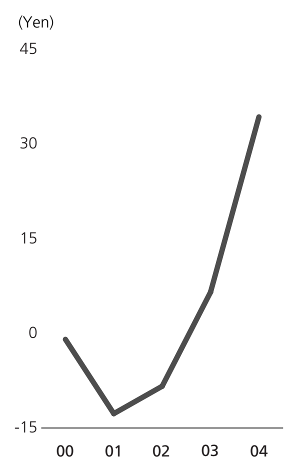
(3) Product liability

In spite of all our efforts to ensure a high level of product quality, there is always the possibility that, as a result of unforeseeable events or factors, a customer or a third party may suffer harm of some kind caused by the use of a product manufactured and sold by the Company

Operating income & ratio as a percentage of net sales



Net income (loss) per share



or one of its subsidiaries or affiliates. There is, further, the possibility that the resulting financial compensation for which the Company or other Group members may be liable will exceed the amount covered by the product liability insurance plans into which they pay. In such cases, the resulting additional extraordinary expenditure would have an adverse impact on the business performance and financial position of the Company and/or its subsidiaries and affiliates.

(4) Earthquakes and other natural disasters

Some of the production plants of the Company and other Group members are located mostly in the Tokai Region of Japan, and in the event of the occurrence of a major earthquake in that region, the Company and other Group members are liable to suffer damage including, but not limited to, the forced temporary suspension of production operations. Such an eventuality would, of course, have a significant adverse impact on the business performance and financial position of the Company and/or other Group members. The possibility cannot be ruled out that these plants may also suffer from other natural disasters such as typhoons.

(5) Major litigation

Although there are no lawsuits currently pending or in process, the possibility that the Company and/or other Group members may become involved in important litigation in the future as a result of their business activities cannot be dismissed, and such lawsuits could result in an adverse impact on the business performance and/or financial position of the Company and/or other Group members.

(6) Deferred tax assets

Deferred tax assets are recorded in the amount deemed realizable, based on the Company's estimate of future taxable income. In the event of a substantial difference being recognized between the estimate and the actual figure, unrealized deferred tax assets may have a negative effect on the business results and financial position of the Company and/or its subsidiaries.

(7) Changes in foreign currency exchange rates

For the reporting period, overseas sales by the Company and other Group members accounted for 13.2% of their total sales. Moreover, the Company possesses five overseas consolidated subsidiaries, and one overseas affiliate accounted for by the equity method. For these reasons, major changes in the exchange rate of the yen against the principal foreign currencies would have a significant effect — either positive or negative — upon the business performance and financial position of the Company and/or other Group members.

(8) Changes in interest rates

The Company and other Group members are working earnestly to reduce their interest-bearing debt burden so as to improve their financial balances, but a major change in interest rates would have an adverse effect on the business performances and financial positions of the Company and other Group members.

The management of Toagosei and the managements of the other companies of the Toagosei Group constantly perform their duties in full awareness of the above-listed risks and possibilities. Through appropriate risk management, they do their utmost to minimize any adverse impact that may occur on the business performance and financial position of Toagosei or other members of the Group.

Consolidated Balance Sheets

Toagosei Co., Ltd. and Consolidated Subsidiaries

December 31	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Assets			
Current assets:			
Cash and cash equivalents	**¥ 10,500**	¥ 7,407	**$ 100,761**
Securities (Notes 4 and 7)	**141**	214	**1,354**
Notes and accounts receivable	**45,926**	43,568	**440,710**
Inventories (Note 5)	**12,718**	12,327	**122,050**
Short-term loans receivable	**9,152**	—	**87,827**
Deferred tax assets (Note 9)	**564**	509	**5,412**
Other current assets	**1,346**	6,574	**12,920**
Allowance for doubtful receivables	**(4,105)**	(55)	**(39,395)**
Total current assets	**76,244**	70,545	**731,643**
Property, plant and equipment (Note 7):	**244,588**	244,398	**2,347,076**
Accumulated depreciation	**(172,287)**	(170,772)	**(1,653,272)**
Property, plant and equipment, net (Note 6)	**72,301**	73,625	**693,803**
Investments and other assets:			
Investment securities (Notes 4 and 7)	**18,746**	15,627	**179,888**
Long-term loans receivable	**381**	320	**3,661**
Intangible assets, net	**1,209**	1,299	**11,602**
Deferred tax assets (Note 9)	**1,651**	613	**15,847**
Other assets	**4,363**	4,133	**41,871**
Allowance for doubtful receivables	**(131)**	(160)	**(1,260)**
Total investments and other assets	**26,220**	21,833	**251,612**
Total	**¥174,766**	¥166,005	**$1,677,059**

See accompanying notes to consolidated financial statements.

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Liabilities and shareholders' equity			
Current liabilities:			
Notes and accounts payable	**¥ 18,897**	¥ 18,611	**$ 181,341**
Short-term bank loans (Note 7)	**3,930**	6,845	**37,712**
Current portion of long-term debt (Note 7)	**1,916**	11,946	**18,393**
Commercial paper	**15,000**	8,000	**143,940**
Deferred tax liabilities (Note 9)	**0**	0	**4**
Accrued income taxes (Note 9)	**1,489**	2,072	**14,290**
Reserve for losses from guarantees granted to the obligations of others	**1,021**	—	**9,804**
Other current liabilities	**7,618**	6,674	**73,107**
Total current liabilities	**49,874**	54,149	**478,595**
Long-term liabilities:			
Long-term debt (Note 7)	**23,567**	19,270	**226,149**
Deferred tax liabilities (Note 9)	**1,104**	1,910	**10,595**
Accrued retirement benefits for employees (Note 8)	**2,373**	2,986	**22,773**
Accrued retirement benefits for directors	**328**	343	**3,153**
Other long-term liabilities	**4,287**	4,875	**41,141**
Total long-term liabilities	**31,660**	29,386	**303,813**
Minority interests in consolidated subsidiaries	**9,718**	7,993	**93,254**
Shareholders' equity (Notes 10, 16 and 17):			
Common stock, without par value:			
Authorized – 480,000,000 shares			
Issued:			
2004 – 263,992,598 shares	**20,886**	—	**200,426**
2003 – 263,992,598 shares	**—**	20,886	**—**
Capital surplus	**15,031**	15,014	**144,245**
Retained earnings	**44,363**	36,804	**425,712**
Unrealized holding gain on securities	**4,326**	3,078	**41,521**
Translation adjustments	**(608)**	(865)	**(5,840)**
Less treasury stock, at cost: 2,787,166 shares in 2004 and 2,724,245 shares in 2003	**(486)**	(442)	**(4,667)**
	83,513	74,476	**801,396**
Commitments and contingencies (Note 14)			
Total	**¥174,766**	¥166,005	**$1,677,059**

Consolidated Statements of Income

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	**2004**
Net sales	**¥144,283**	¥132,455	**$1,384,543**
Cost of sales (Note 11)	**102,022**	95,392	**979,012**
Gross profit	**42,260**	37,062	**405,530**
Selling, general and administrative expenses (Note 11)	**29,649**	29,110	**284,513**
Operating income	**12,611**	7,951	**121,017**
Other income (expenses):			
Interest and dividend income	**304**	306	**2,919**
Interest expense	**(521)**	(741)	**(5,009)**
Gain on sales and disposal of property, plant and equipment	**—**	38	**—**
Equity in earnings (losses) of affiliates	**59**	(1,114)	**573**
Amortization of net retirement benefit obligation at transition	**(88)**	(353)	**(849)**
Provision of reserve for losses from guarantees granted to the obligations of others	**(1,021)**	—	**(9,804)**
Other, net	**(1,021)**	39	**(9,797)**
Income before income taxes and minority interests	**10,321**	6,125	**99,048**
Income taxes (Note 9):			
Current	**3,324**	3,458	**31,897**
Reversal of the prior year's income taxes	**(260)**	—	**(2,494)**
Additional taxes assessed	**—**	480	**—**
Deferred	**(2,737)**	186	**(26,267)**
	326	4,125	**3,134**
Minority interests in earnings of consolidated subsidiaries	**(998)**	(280)	**(9,586)**
Net income (Note 16)	**¥ 8,996**	¥ 1,719	**$ 86,328**

See accompanying notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Toagosei Co., Ltd. and Consolidated Subsidiaries

Years ended December 31

	Millions of yen		Thousands of U.S. dollars (Note 3)
	2004	2003	2004
Common stock			
Balance at beginning of year	¥20,886	¥20,886	$200,426
Balance at end of year	¥20,886	¥20,886	$200,426
Capital surplus			
Balance at beginning of year	¥15,014	¥15,011	$144,078
Gain on disposal of treasury stock	17	2	167
Balance at end of year	¥15,031	¥15,014	$144,245
Retained earnings			
Balance at beginning of year	¥36,804	¥35,834	$353,172
Cash dividends paid	(1,436)	(786)	(13,787)
Bonuses to directors	—	(1)	—
Adjustments related to consolidation of previously unconsolidated subsidiaries	—	37	—
Net income	8,996	1,719	86,328
Balance at end of year	¥44,363	¥36,804	$425,712
Net unrealized holding gain on securities			
Balance at beginning of year	¥ 3,078	¥ 785	$ 29,545
Net change during the year	1,248	2,293	11,976
Balance at end of year	¥ 4,326	¥ 3,078	$ 41,521
Translation adjustments			
Balance at beginning of year	¥ (865)	¥ (610)	$ (8,302)
Net change during the year	256	(254)	2,461
Balance at end of year	¥ (608)	¥ (865)	$ (5,840)
Treasury stock			
Balance at beginning of year	¥ (442)	¥ (259)	$ (4,245)
Acquisition during the year, net of sales	(43)	(183)	(421)
Balance at end of year	¥ (486)	¥ (442)	$ (4,667)

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)
	2004	2003	2004
Operating activities			
Income before income taxes and minority interests	¥10,321	¥ 6,125	$ 99,048
Depreciation and amortization	7,942	8,059	76,213
Decrease in provision for doubtful receivables	(66)	(92)	(641)
Increase in provision of reserve for losses from guarantees granted to the obligations of others	1,021	—	9,804
Reversal of provision for retirement benefits	(613)	(412)	(5,885)
Increase in other provisions	10	3	100
Interest and dividend income	(304)	(306)	(2,919)
Interest expense	521	741	5,009
Foreign currency exchange loss	224	196	2,149
Equity in (earnings) losses of affiliates	(59)	1,114	(568)
Gain on sales of property, plant and equipment	—	(38)	—
Gain on sales of investments in securities	(146)	(447)	(1,401)
Loss on disposal of property, plant and equipment	758	299	7,281
Unrealized loss on securities	194	20	1,865
Losses related to an accident	366	—	3,520
Receivables	(2,390)	(1,283)	(22,938)
Inventories	(405)	812	(3,888)
Payables	292	(174)	2,803
Other	1,499	824	14,392
Director's bonuses	—	(1)	—
	19,169	15,441	183,947
Interest and dividend received	307	304	2,953
Interest paid	(572)	(802)	(5,492)
Income taxes paid	(3,653)	(3,032)	(35,061)
Cost related to accident restoration paid	(338)	—	(3,245)
Net cash provided by operating activities	14,912	11,911	143,100
Investing activities			
Proceeds from sales of marketable securities	59	308	567
Purchases of investments in securities	(1,744)	(633)	(16,745)
Proceeds from sales of investments in securities	290	889	2,784
Purchases of property, plant and equipment	(7,460)	(6,281)	(71,587)
Proceeds from sales of property, plant and equipment	52	46	499
Increase in short-term loans	(424)	(1,700)	(4,075)
Long-term loans made	(15)	(185)	(145)
Collection of long-term loans	8	603	80
Other, net	(234)	(758)	(2,248)
Net cash used in investing activities	(9,469)	(7,711)	(90,871)
Financing activities			
Increase (decrease) in short-term bank loans	(1,750)	415	(16,800)
Increase in commercial paper	7,000	4,000	67,172
Proceeds from long-term loans	6,254	10,750	60,020
Repayment of long-term loans	(2,060)	(9,348)	(19,772)
Redemption of bonds	(10,000)	(10,000)	(95,960)
Repayment of lease obligation	(152)	(150)	(1,458)
Purchases of treasury stock	(81)	(194)	(784)
Proceeds from sales of treasury stock	55	12	530
Cash dividends to shareholders	(1,581)	(907)	(15,177)
Net cash used in financing activities	(2,316)	(5,422)	(22,230)
Effect of exchange rate changes on cash and cash equivalents	(33)	(102)	(318)
Net increase (decrease) in cash and cash equivalents	3,092	(1,325)	29,680
Cash and cash equivalents at beginning of the year	7,407	8,586	71,081
Increase due to inclusion in consolidation	—	146	—
Cash and cash equivalents at end of the year	¥10,500	¥ 7,407	$100,761

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Toagosei Co., Ltd. and Consolidated Subsidiaries
December 31, 2004

1. Basis of Preparation

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

The accompanying consolidated financial statements have been 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 Securities and Exchange Law of Japan.

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

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

(b) Foreign currency translation

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

(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 the quoted prices (or the 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 shareholders' equity. 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

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 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 residual value.

Until the year ended December 31, 2003, certain subsidiary calculated depreciation of property, plant and equipment by the straight-line method.

Effective the year ended December 31, 2004 this consolidated subsidiary changed its method of accounting for property, plant and equipment to determining their depreciation by the declining-balance method. This change was made to recover invested capital at an earlier stage and improve the financial structure. The effect of this change was immaterial.

(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 (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. The net retirement benefit obligation at transition was fully charged to income for the year ended December 31, 2001 except for that of one consolidated subsidiary which is being amortized over a period of 4 years by the straight-line method. Actuarial gain and loss of the Company are 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 employees (14 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 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.

At 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 incurred. Unrecognized prior year service cost is amortized by the straight-line method over a period (14 years) which is shorter than the average remaining years of service of the employees.

(k) Reserve for losses from guarantees granted to the obligations of others

Reserve for losses from guarantees granted to the obligations of others is established based on the estimate for the possible losses arising from the performance of obligations as a guarantor taking into account the credit conditions of guarantees involved.

(l) Derivative financial instruments

The Company has entered into various 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 operations, except for those which meet the criteria for the 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 each swap, 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 contacts.

(m) Appropriation of retained earnings

Under the Commercial 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 held subsequent to the close of such financial year. The accounts for that year do not, therefore, reflect such appropriations. See Note 17.

3. U.S. Dollar Amounts

The translation of yen amounts into U.S. dollar amounts is made, at the rate of ¥104.21 = $1.00, the approximate exchange rate at December 31, 2004 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, 2004 and 2003, information with respect to held-to-maturity securities for which market prices were available was summarized as follows:

	Millions of yen		
	December 31, 2004		
	Balance sheet amount	Market value	Unrecognized gain
Unrecognized gain items:			
Bonds:			
Corporate bonds	¥100	¥103	¥3
Unrecognized loss items	—	—	—
Total	¥100	¥103	¥3

	Thousands of U.S. dollars		
	December 31, 2004		
	Balance sheet amount	Market value	Unrecognized gain
Unrecognized gain items:			
Bonds:			
Corporate bonds	$959	$994	$34
Unrecognized loss items	—	—	—
Total	$959	$994	$34

	Millions of yen		
	December 31, 2003		
	Balance sheet amount	Market value	Unrecognized gain
Unrecognized gain items:			
Bonds:			
Other	¥ 14	¥ 14	¥0
Unrecognized loss items:			
Bonds:			
Corporate bonds	100	99	(0)
Total	¥114	¥114	¥0

(b) Information regarding marketable securities classified as other securities as of December 31, 2004 and 2003 is as follows:

	Millions of yen		
	December 31, 2004		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥7,149	¥14,486	¥7,337
Bonds:			
Government bonds	19	19	0
Corporate bonds	100	101	1
Others	51	71	20
Subtotal	7,320	14,679	7,358
Securities whose acquisition cost exceeds their carrying value:			
Stock	278	261	(17)
Bonds:			
Government bonds	20	20	(0)
Corporate bonds	—	—	—
Subtotal	298	281	(17)
Total	¥7,619	¥14,960	¥7,341

	Thousands of U.S. dollars		
	December 31, 2004		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	$68,602	$139,011	$70,408
Bonds:			
Government bonds	191	191	0
Corporate bonds	959	970	10
Others	490	687	196
Subtotal	70,244	140,860	70,616
Securities whose acquisition cost exceeds their carrying value:			
Stock	2,676	2,506	(169)
Bonds:			
Government bonds	192	191	(0)
Corporate bonds	—	—	—
Subtotal	2,868	2,698	(170)
Total	$73,112	$143,558	$70,446

	Millions of yen		
	December 31, 2003		
	Acquisition cost	Carrying value	Unrealized gain (loss)
Securities whose carrying value exceeds their acquisition cost:			
Stock	¥6,151	¥11,409	¥5,257
Bonds:			
Government bonds	119	120	0
Corporate bonds	199	202	2
Others	50	55	5
Subtotal	6,521	11,786	5,265
Securities whose acquisition cost exceeds their carrying value:			
Stock	570	509	(60)
Bonds:			
Government bonds	19	19	(0)
Corporate bonds	46	45	(0)
Subtotal	636	575	(61)
Total	¥7,158	¥12,362	¥5,204

(c) Sales of securities classified as other securities amounted to ¥268 million ($2,573 thousand) with gain of ¥146 million ($1,401 thousand) for the year ended December 31, 2004.

(d) Other securities without market value as of December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Investments in subsidiaries and affiliates:			
Unconsolidated subsidiaries	**¥2,204**	¥1,925	**$21,152**
Other securities:			
Unlisted securities (except for OTC securities)	**1,322**	1,140	**12,692**
Other	**302**	332	**2,899**

(e) The redemption schedule for securities with maturity dates classified as other securities is summarized as follows:

	Millions of yen		
	December 31, 2004		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥ 40	¥—	¥—
Corporate bonds	100	—	—
Total	¥140	¥—	¥—

	Thousands of U.S. dollars		
	December 31, 2004		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	$ 383	$—	$—
Corporate bonds	959	—	—
Total	$1,343	$—	$—

	Millions of yen		
	December 31, 2003		
	Due in one year or less	Due after one year through five years	Due after five years through ten years
Government bonds	¥100	¥ 40	¥—
Corporate bonds	100	100	—
Other debt securities	14	—	—
Total	¥214	¥140	¥—

5. Inventories

Inventories at December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Merchandise and finished products	**¥ 8,492**	¥ 8,219	**$ 81,498**
Semi-finished goods	**574**	810	**5,515**
Work in process	**449**	158	**4,315**
Raw materials and supplies	**3,201**	3,139	**30,721**
	¥12,718	¥12,327	**$122,050**

6. Property, Plant and Equipment

Property, plant and equipment at December 31, 2004 and 2003 is summarized as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Land	**¥18,197**	¥18,138	**$174,624**
Buildings and structures	**25,005**	25,571	**239,957**
Machinery, equipment and other	**26,382**	28,030	**253,169**
Construction in progress	**2,714**	1,884	**26,051**
	¥72,301	¥73,625	**$693,803**

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

Short-term bank loans, principally unsecured, were notes payable to banks bearing interest at 0.6 per cent. and 0.9 per cent. per annum at December 31, 2004 and 2003, respectively.

Long-term debt at December 31, 2004 and 2003 consisted of the following:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
2.25% yen bonds due 2004	**¥ —**	¥10,000	**$ —**
1.35% yen bonds due 2006	**5,000**	5,000	**47,980**
Loans with collateral from banks, insurance companies and others	**20,483**	16,216	**196,563**
	25,483	31,216	**244,543**
Less: current portion	**(1,916)**	(11,946)	**(18,393)**
	¥23,567	¥19,270	**$226,149**

Assets pledged as collateral for short-term bank loans and long-term debt at December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Property, plant and equipment, at net book value	**¥28,162**	¥36,665	**$270,251**
Marketable securities and investments in securities	**4,993**	4,615	**47,919**
	¥33,156	¥41,280	**$318,170**

The aggregate annual maturities of long-term debt subsequent to December 31, 2004 are summarized as follows:

For the year ending December 31,	Millions of yen	Thousands of U.S. dollars
2005	¥ 1,916	$ 18,393
2006	6,262	60,091
2007	9,844	94,468
2008	4,052	38,883
2009	1,918	18,413
2010 and thereafter	1,489	14,292
	¥25,483	$244,543

8. Retirement Benefit Plans

The Company and its domestic consolidated subsidiaries have defined benefit plans, i.e., 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, 2004 and 2003 for the Company's and the consolidated subsidiaries' defined benefit plans:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Retirement benefit obligation	**¥(17,842)**	¥(17,690)	**$(171,212)**
Plan assets at fair value	**13,448**	11,972	**129,054**
Unfunded retirement benefit obligation	**(4,393)**	(5,718)	**(42,157)**
Unrecognized net retirement benefit obligation at transition	**—**	88	**—**
Unrecognized actuarial gain or loss	**2,303**	2,643	**22,107**
Unrecognized prior service cost	**(283)**	—	**(2,723)**
Accrued retirement benefits	**¥ (2,373)**	¥ (2,986)	**$ (22,773)**

The components of retirement benefit expenses for the years ended December 31, 2004 and 2003 are outlined as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Service cost	**¥ 790**	¥ 769	**$ 7,588**
Interest cost	**391**	404	**3,753**
Expected return on plan assets	**(120)**	(154)	**(1,153)**
Amortization of net retirement benefit obligation at transition	**88**	353	**849**
Amortization of actuarial gain or loss	**241**	363	**2,316**
Amortization of unrecognized prior service cost	**(16)**	—	**(154)**
Total	**¥1,375**	¥1,737	**$13,199**

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

	December 31,	
	2004	2003
Discount rates	**Mainly 2.0%**	Mainly 2.5%
Expected return on plan assets	**Mainly 1.5%**	Mainly 2.5%

9. Income Taxes

The Company and its domestic consolidated subsidiaries are subject to a number of taxes based on earnings, i.e. corporation tax, inhabitants' taxes and enterprise tax, which, in the aggregate, resulted in statutory tax rate of approximately 41.9 per cent. and 41.9 per cent. for 2004 and 2003, respectively.

The effective tax rate reflected in the consolidated statement of income for the year ended December 31, 2004 differs from the statutory tax rate for the following reasons:

	2004
Statutory tax rate	41.9%
Effect of:	
Permanent difference – entertainment expense	1.7
Permanent difference – dividend income	(0.3)
Inhabitants' taxes per capita	0.8
Amortization of excess of cost over net assets acquired	(2.5)
Equity in losses of affiliates	(0.2)
Valuation allowance	7.8
Different tax rates applied to income of foreign consolidated subsidiaries	(7.5)
Cessation of equity method on certain investment	(33.1)
Other, net	(5.4)
Effective tax rate	3.2%

Significant components of the deferred tax assets and liabilities held by the Company and its consolidated subsidiaries as of December 31, 2004 and 2003 were as follows:

	Millions of yen		Thousands of U.S. dollars
	2004	2003	**2004**
Deferred tax assets:			
Valuation loss on securities	**¥ 2,608**	¥1,415	**$ 25,027**
Elimination of unrealized profit	**1,304**	1,428	**12,520**
Accrued severance indemnities	**2,858**	3,142	**27,428**
Accrued enterprise tax	**177**	223	**1,705**
Allowance for doubtful receivables	**1,674**	20	**16,068**
Reserve for losses on guaranteed liabilities	**414**	—	**3,974**
Accrued bonuses	**73**	73	**706**
Net operating loss carryforwards	**2,800**	2,283	**26,872**
Others	**456**	331	**4,376**
	12,367	8,917	**118,682**
Valuation allowance	**(4,458)**	(3,652)	**(42,783)**
Total deferred tax assets	**7,909**	5,265	**75,898**
Deferred tax liabilities:			
Reserve under Special Taxation Measures Law	**(2,406)**	(2,489)	**(23,095)**
Undistributed earnings of overseas partnerships	**(554)**	(591)	**(5,323)**
Gain on contribution of securities to retirement benefit trust	**(854)**	(869)	**(8,199)**
Valuation difference on other securities	**(2,981)**	(2,102)	**(28,607)**
Other	**(0)**	—	**(9)**
Total deferred tax liabilities	**(6,798)**	(6,052)	**(65,236)**
Net deferred tax assets	**¥ 1,111**	¥ (787)	**$ 10,662**

10. Capital Surplus and Retained Earnings

In accordance with the Code, the Company has provided a legal reserve, which was included in retained earnings. The Code provides that an amount equal to at least 10% of the amount to be disbursed as a distribution of earnings be appropriated to the legal reserve until the total of such reserve and the capital surplus account equals 25% of the common stock account. The legal reserve amounted to ¥3,990 million ($38,288 thousand) and ¥3,990 million as of December 31, 2004 and 2003, respectively.

The Code provides that neither capital surplus nor the legal reserve is available for dividends, but both may be used to reduce or eliminate a deficit by resolution of the shareholders or may be transferred to common stock by resolution of the Board of Directors. On October 1, 2001, an amendment (the "Amendment") to the Code became effective. The Amendment provides that if the total amount of capital surplus and the legal reserve exceeds 25% of the amount of common stock, the excess may be distributed to the shareholders either as a return of capital or as dividends subject to the approval of the shareholders. In addition, the Amendment eliminates the stated par value of the Company's outstanding shares, which resulted in all outstanding shares having no par value as of October 1, 2001. The Amendment also provides that all share issuances after September 30, 2001 will be of shares with no par value. Prior to the date on which the Amendment came into effect, the Company's shares had a par value of ¥50.

11. Research and Development Costs

Research and development costs included in selling, general and administrative expenses and manufacturing costs for the year ended December 31, 2004 and 2003 were ¥5,032 million ($48,292 thousand) and ¥5,259 million, respectively.

12. Leases

The following pro forma amounts represent the acquisition cost, accumulated depreciation and net book value of leased property as of December 31, 2004 and 2003, 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
	2004	2003	**2004**
Acquisition cost:			
Machinery and equipment ...	**¥1,543**	¥1,920	**$14,808**
	¥1,543	¥1,920	**$14,808**
Accumulated depreciation:			
Machinery and equipment ...	**¥1,109**	¥1,295	**$10,646**
	¥1,109	¥1,295	**$10,646**
Net book value:			
Machinery and equipment ...	**¥ 433**	¥ 624	**$ 4,162**
	¥ 433	¥ 624	**$ 4,162**

Lease payments relating to finance lease transactions accounted for as operating leases amounted to ¥317 million ($3,045 thousand) and ¥382 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, 2004 and 2003, respectively.

Future minimum lease payments (including the interest portion thereon) subsequent to December 31, 2004 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
2005	¥154	¥220	$1,478	$2,120
2006 and thereafter	135	212	1,299	2,041
Total	¥289	¥433	$2,778	$4,162

13. 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.

As of December 31, 2004 and 2003, the disclosure of fair value information for derivatives has been omitted since all derivatives have been accounted for as hedges.

14. Commitments and Contingencies

At December 31, 2004, the Company and consolidated subsidiaries had the following contingent liabilities:

	Millions of yen	Thousands of U.S. dollars
Guarantees of indebtedness	¥2,282	$21,900
	¥2,282	$21,900

15. Segment Information

The Company and its consolidated subsidiaries are primarily engaged in the manufacture and sales of products in the chemical industry segment in Japan. As net sales, operating income and total assets from the chemical business of the Company and its consolidated subsidiaries constituted more than 90% of the consolidated totals for both years ended December 31, 2004 and 2003, the disclosure of business segment information has been omitted.

Geographical Segments

Geographical segment information of the Company and its consolidated subsidiaries for the year ended December 31, 2004 is as follows:

	Millions of yen				
Year ended December 31, 2004	Japan	Other countries	Total	Eliminations or corporate	Consolidated
Sales:					
Sales to third parties...	¥132,163	¥12,120	¥144,283	¥ —	¥144,283
Intersegment sales...	1,227	2,031	3,259	(3,259)	—
Total sales.................	133,391	14,152	147,543	(3,259)	144,283
Operating costs and expenses..................	122,807	12,165	134,972	(3,300)	131,672
Operating income......	¥ 10,583	¥ 1,986	¥ 12,570	¥ 40	¥ 12,611
Assets.......................	¥175,493	¥ 8,610	¥184,104	¥(9,337)	¥174,766

	Thousands of U.S. dollars				
Year ended December 31, 2004	Japan	Other countries	Total	Eliminations or corporate	Consolidated
Sales:					
Sales to third parties...	$1,268,238	$116,304	$1,384,543	$ —	$1,384,543
Intersegment sales	11,782	19,498	31,281	(31,281)	—
Total sales.................	1,280,021	135,803	1,415,824	(31,281)	1,384,543
Operating costs and expenses..................	1,178,459	116,741	1,295,200	(31,674)	1,263,526
Operating income......	$ 101,562	$ 19,061	$ 120,624	$ 393	$ 121,017
Assets.......................	$1,684,038	$ 82,628	$1,766,666	$(89,607)	$1,677,059

	Millions of yen				
Year ended December 31, 2003	Japan	Other countries	Total	Eliminations or corporate	Consolidated
Sales:					
Sales to third parties...	¥123,591	¥ 8,863	¥132,455	¥ —	¥132,455
Intersegment sales...	1,132	2,222	3,355	(3,355)	—
Total sales.................	124,724	11,086	135,810	(3,355)	132,455
Operating costs and expenses..................	117,048	10,700	127,748	(3,245)	124,503
Operating income......	¥ 7,675	¥ 386	¥ 8,061	¥ (110)	¥ 7,951
Assets.......................	¥168,249	¥ 8,791	¥177,041	¥(11,036)	¥166,005

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, 2004 and 2003 are summarized as follows:

	Millions of yen				
Year ended December 31, 2004	Asia	North America	Europe	Other	Total
Overseas sales	¥14,126	¥2,856	¥1,378	¥633	¥ 18,994
Consolidated net sales					144,283
Ratio of overseas sales to consolidated net sales	9.8%	2.0%	1.0%	0.4%	13.2%

	Thousands of U.S. dollars				
Year ended December 31, 2004	Asia	North America	Europe	Other	Total
Overseas sales	$135,553	$27,408	$13,232	$6,079	$ 182,273
Consolidated net sales					1,384,543
Ratio of overseas sales to consolidated net sales	9.8%	2.0%	1.0%	0.4%	13.2%

	Millions of yen				
Year ended December 31, 2003	Asia	North America	Europe	Other	Total
Overseas sales	¥9,097	¥3,138	¥1,201	¥243	¥ 13,680
Consolidated net sales					132,455
Ratio of overseas sales to consolidated net sales	6.9%	2.4%	0.9%	0.2%	10.4%

16. Amounts Per Share

The following table sets forth the net income, cash dividends and net assets per share of common stock for the years ended December 31, 2004 and 2003.

	Yen		U.S. dollars
Year ended December 31,	**2004**	2003	**2004**
Net income:			
Basic	**¥ 34.38**	¥ 6.57	**$0.32**
Diluted	**34.38**	6.57	**0.32**
Cash dividends	**6.00**	3.00	**0.05**
Net assets	**319.66**	285.06	**3.06**

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.

17. Subsequent Event

The following appropriations of retained earnings of the Company, which have not been reflected in the accompanying consolidated financial statements for the year ended December 31, 2004, were approved at a shareholders' meeting held on March 30, 2005:

	Millions of yen	Thousands of U.S. dollars
Cash dividends – ¥3.50 ($0.033) per share	¥914	$8,772

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, 2004 and 2003, and the related consolidated statements of income, shareholders' equity, 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, 2004 and 2003, 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, 2004 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 30, 2005

Corporate Data

Organization (As of April 1, 2005)

- General Meeting of Shareholders
- Board of Directors
- Chairman
- President

Corporate Management

Corporate Strategy Department
- Planning Group
- Secretariat Group
- Internal Audit Section

Corporate Research and Development Department
- Lifescience Group
- Electronics Group
- Corporate Research Laboratory
- Intellectual Property Group
- Nagoya Research Institute
- Research Assessment Group
- Innovative Research Group
- HOG Project

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
- Customer Service Group
- SCM Center

Technology Administrative Department
- Technology Administrative Group
- Environment & Safety Group
- Quality Assurance Group
- Productive Technology Laboratory
- IT Project

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

Adhesives Department
- Consumer Adhesives Group
- Industrial Adhesives Group
- Adhesives Laboratory

Functional Materials Department
- UV-curable Resins Group
- Functional Materials Group
- Functional Materials Research Laboratory

Tokyo Sales Department
- Commodity Chemicals Group
- Acrylic Products Group
- Functional Materials Group
- Adhesives Group
- Sapporo Sales Office

Osaka Branch
- General Affairs Group
- Commodity Chemicals Group
- Acrylics & Functional Materials Group
- Adhesives Group
- Shikoku Sales Office
- Fukuoka Sales Office
- Hiroshima Sales Office

Nagoya Branch
- General Affairs Group
- Commodity Chemicals Group
- Acrylics, Functional Materials & Adhesives Group
- Hokuriku Sales Office

Nagoya Plant
- Administrative Department
- Manufacturing Department I
- Manufacturing Department II

Tokushima Plant
- Administrative Department
- Manufacturing Department
- Sakaide Plant

Takaoka Plant
- Administrative Department
- Manufacturing Department
- Productive Technology Group

Directory

Domestic Network

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Sakaide Plant
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Nagoya 455-0027
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Tsukuba Research Laboratory
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Tel: 029-865-2600 Fax: 029-865-2610

Principal Overseas Subsidiaries

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Kowloon, Hong Kong
Tel: 852-27631086 Fax: 852-27631798

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
1 Robinson Road, #21-02 AIA Tower
Singapore 048542
Tel: 65-64385411 Fax: 65-64385422

Principal Subsidiaries and Affiliates (As of December 31, 2004)

Name of Company	Line of Business	Our Share (%)	Capital (¥ in millions)
Tsurumi Soda Co., Ltd.	Manufacture & sale of chemical products	100.0	¥2,080
Aron Kasei Co., Ltd.	Manufacture & sale of synthetic resin molded products	61.1	¥4,220
Toagosei Asia Pte Ltd	Sale of chemical products	100.0	S$62,713,000
Aron Ever-Grip Ltd.	Manufacture & sale of adhesives	100.0	£223,000
Oita Chemical Co., Ltd.	Manufacture of chemical products	90.0	¥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	99.0	¥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 Estate Co., Ltd.	Real estate sales agency and real estate management	100.0	¥30
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	70.0	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
TG Support Co.	Outsourced provision of clerical work for other Group members	100.0	¥10
Chubu Ekisan Co., Ltd.(Note)	Manufacture & sale of industrial gases	30.0	¥480
Elmer’s & Toagosei Co.	Sale of adhesives	50.0	US$33,660,000

Note Equity-method affiliates

Investor Information

Established

March 1942

Common Stock

Authorized: 480,000,000 shares

Issued: 263,992,598 shares

Capital: ¥20,886 million

Number of shareholders: 29,373

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

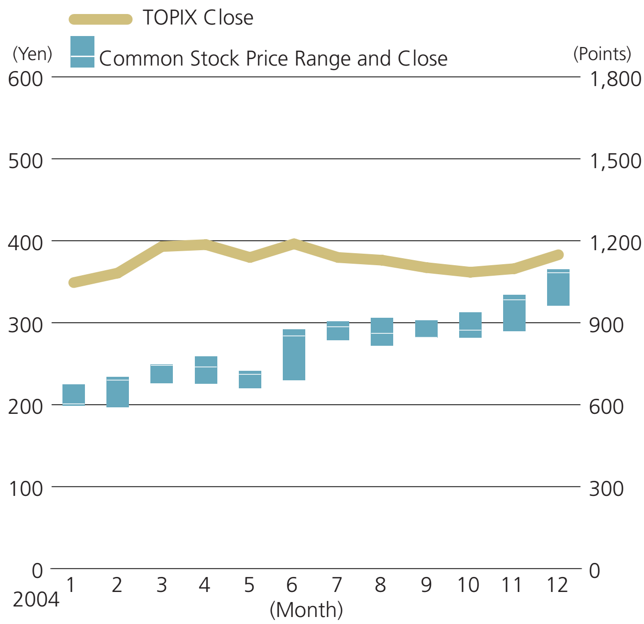
	(%)
The Master Trust Bank of Japan, Ltd. (Trust account)	6.99
Japan Trustee Services Bank, Ltd. (Trust account)	6.42
Sumitomo Mitsui Banking Corp.	4.55
UFJ Bank Ltd.	4.42
Employee Shareholders' Committee	2.74
Business Partner Shareholders' Committee	2.38
Aioi Insurance Co., Ltd.	2.17
Tokio Marine & Nichido Fire Insurance Co., Ltd.	2.07
The Norinchukin Bank	1.54
Mitsui Life Insurance Co. Ltd.	1.43

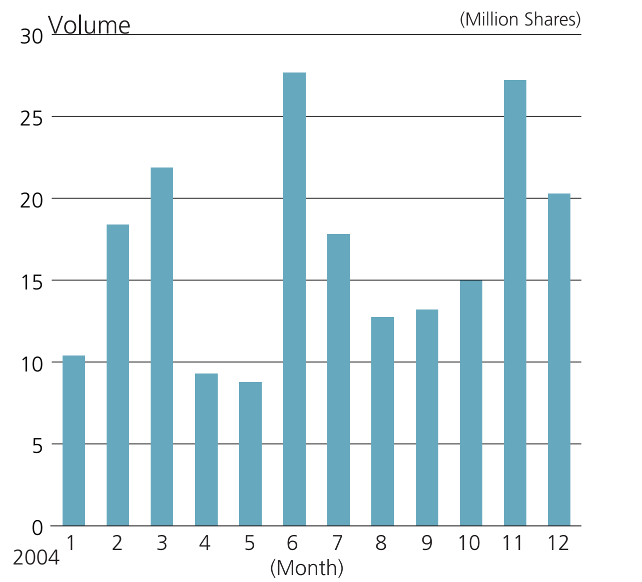
(As of December 31, 2004)

Stock Price Range & Trading Volume

(Tokyo Stock Exchange)

	2000	2001	2002	2003	2004
High	¥300	¥253	¥210	¥231	¥365
Low	¥153	¥160	¥121	¥133	¥197
TOPIX Close (Year-end)	1,283	1,032	843	1,043	1,149





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